

CITY OF GALVESTON, TEXAS

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2003



**Prepared by
Finance Department**

CITY OF GALVESTON, TEXAS
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City of Galveston



P. O. Box 779 / Galveston, Texas 77553

January 26, 2004

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

State law requires that all general purpose local governments publish within 120 days of the close of each fiscal year a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the comprehensive annual financial report of the City of Galveston, Texas for the fiscal year ended September 30, 2003.

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

The City of Galveston's financial statements have been audited by Null-Lairson, PC, 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, 2003 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, 2003 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.

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

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

Profile of the Government

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

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

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

- The Industrial Development Corporation which provides street repairs, beach re-nourishment and sewer improvements
- The City of Galveston Employee’s Retirement Plan for City employees, the Firemen’s Relief and Retirement Fund, and the City of Galveston Employee’s Retirement Plan for Police
- Two Tax Reinvestment Zones which provide funds for development and improvement projects within specific geographic areas of the City
- The Park Board which provides improvements and maintenance to City waterfront parks and beaches
- The Galveston Housing Finance Corporation which provides home mortgages and loans to lending institutions for the purpose of making home mortgages
- The City of Galveston Property Finance Authority, Inc. which was created by State Statute for the purpose of acquiring, owning, holding, leasing, and selling real or personal property to or for the benefit of the City for the furtherance of its public purposes
- The Board of Trustees of the Galveston Wharves which manages, controls, and maintains the wharves of Galveston

The annual budget serves as the foundation for the City of Galveston's financial planning and control. All departments of the City are requested to submit requests for appropriation to the government's manager around the middle of June each year. The City Manager uses these requests as the starting point for developing a proposed budget. The government's manager then presents this proposed budget to the council for review the first week of August. The council is required to hold public hearings on the proposed budget and to adopt a final budget by no later than seven days before September 30, the close of the City's fiscal year. The appropriated budget is prepared by fund, function (e.g., public safety), and department (e.g., police). Department heads may make transfers of appropriations within a department with the Finance Director's and City Manager's approval. Transfers of appropriations between departments, however, require the special approval of the governing council. Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. For the general fund and Island Transit Fund, this comparison is presented on page 97 as part of the Required Supplementary Information. For governmental funds, other than the general fund and Island Transit Fund, with appropriated annual budgets, this comparison is presented in the governmental fund subsection for each governmental fund for which a budget has been adopted.

Factors Affecting Financial Condition

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

Galveston Economic Climate Overview: Galveston Island is currently realizing an economic renaissance that has not been experienced in decades. The investment and growth is diversified and comprehensive. Evidence of this renaissance can be seen by the recent designation of Galveston Island being named the 2003 Economic Development Community of the Year by the Texas Economic Development Council.

Based on the latest update from the Galveston Economic Development Partnership, development is planned and/or occurring at the following levels:

- Over \$950 million in capital investments
- Over 1,500 jobs being created or retained
- Over 3 million square feet of new-remodeled commercial space
- Over 2,300 new housing units in planned developments

Galveston's sales tax collections reflect consumer spending at a rate that exceeds the averages throughout the rest of the State of Texas.

Galveston's commercial and retail markets are continuing to see expansions and locations at an accelerated pace. A large new retail center and with major retail anchors is in the midst of opening. Galveston has three or four new chain store outlets. Other major developments include the recent groundbreaking of a 60,000 square foot retail plaza with adjoining condo tower, a new \$8 million facility for an auto dealer, several new office complexes, and major food store. The impact of these projects is reinforced by renovations along the Strand and accelerated investment along three major corridors in the City. These activities indicate a positive economy and a major shift from recent years where Galveston was not economically positioned for these types of retail and commercial developments.

A growing tourism industry means direct economic impact that is positive for Galveston. National rankings in the cruise industry (#6 port in the country and the #18 port in the world for cruise line passenger volume), new multi-million dollar convention center, hotel expansions and development, and the announcement of a major water park and resort highlight the developments on Galveston Island.

Evidence of a diversified renaissance is illustrated on Galveston Island by a renewed enthusiasm for industrial projects. Developments that are leading the way include support services for offshore oil & gas, redevelopments at the Port of Galveston and nearby, and international prominence in the nation's effort against bio-terrorism. Strategic steps have been taken to ensure that these developments are synergistic with Galveston's quality of life and future development. The active participation and support of Galvestonians in these endeavors illustrate the comprehensive strength of these developments and their long-term compatibility for Galveston Island.

The real estate market on Galveston Island has never looked so promising. Projects have been identified for both ends of the island, major transportation corridors and all points in between. Developments include projects that range from single family, high-end multi-family, mixed-use residential and commercial, public and institutional, and mixed-use commercial and industrial.

The City of Galveston has an employed labor force of approximately 124,000 which has grown almost 2% during the past year. The economic climate of Galveston's industrial, business, and residential base is strong and poised for even greater opportunities in the year ahead.

Long-term financial planning: Following the close of the fiscal year, the City agreed to issue two combination tax and revenue certificates of obligation totaling \$19.3 million in conjunction with the Galveston Wharves, a separate utility of the City created pursuant to the City Charter. The Wharves is operating and existing pursuant to Chapter 54 of the Texas Transportation Code. Proceeds of the CO's are to be used for the renovation and construction of new wharf and terminal facilities, channel dredging, construction, acquisition and installation of certain levee improvements, and construction of a parking facility and acquisition of land related thereto. The CO's were rated Aaa by Moody's and AAA by Standard & Poor's Rating Services. It is fully anticipated that debt service on these two CO's will be paid from certain revenues of the Wharves. There is a junior and subordinate lien on such revenues. The primary obligation for payment rests upon the advalorem tax levied by the City.

In the area of streets and traffic, through a savings initiative program partially funded through the State of Texas (\$10 million) and other borrowing (\$4.1million), all signal lights will be re-lamped and refurbished during the next 18 months. Additionally, using approximately \$7 million authorized but un-issued funds from a 2001 general obligation bond issue, \$3.6 million of street improvements and \$3.4 million for park improvements are planned.

As phase two of a sewer fund project that began during fiscal year 2003, an estimated \$12 million sewer revenue bond issue is planned to provide sewer infrastructure services from Sea Isle to Terramar Beach and also provide Bay Harbor sewer improvements. These areas are in west Galveston Island.

Sometime in fiscal year 2005, an approximate \$12 million dollar water revenue bond issue is planned for the purposes of building a pump station in Galveston, a new water tower and pump station at Jamaica Beach, an additional pump station at Sunbird Beach east of Sea Isle, a new eastern supply line to Pelican Island, and a new parallel water line from 13 mile road to Jamaica Beach.

Cash management policies and practices. The City of Galveston invests its available funds in securities authorized by Texas statute and in accordance with an Investment Policy reviewed and adopted annually by the City Council of the City of Galveston. Both state law and the City's investment policy are subject to change. Patterson & Associates, a professional management company, manages the City's investments. Daily, funds are swept from the City's demand account and invested in various authorized investments, including federal and state obligations, money market mutual funds, and state local government pools. As of September 30, 2003, weighted average maturities of the investments ranged from one day to 73 days. Yields ranged from .82% to 1.168%. Much liquidity has been maintained in the portfolio so that anticipated increased yields may be taken advantage of in the future.

Risk management: During the year, the City's risk management department improved upon several control techniques in the area of workers compensation. These activities included the fostering of monthly department safety meetings and utilizing accident review boards. Administratively, additional resources were set aside to administer and monitor injuries to employees. Having a full time safety officer monitor the daily activities of workers in the field helped in determining which departments or activities caused the most accidents to be reported. From this information, the City has been able to tailor safety training programs and enable line departments to change work characteristics or methodologies where necessary. Financially, the workers compensation program continues to be self-funded. The City provides for adequate funding, by department, for anticipated yearly losses. Specific and aggregate stop-loss insurance has been secured to limit the City's overall exposure. Utilizing a third party administrator ["TPA"] has enabled the City to gain appropriate management controls and receive meaningful reports. Most importantly, the TPA has provided expertise in financial and management areas that are not commonly found within a city staff structure.

In the health insurance area, the City is also self-insured and has established specific and aggregate stop loss insurance levels commensurate with the risk exposure. In a manner similar to the workers compensation area discussed above, the City has made major changes to provide increased financial and management control over the employee health plan. With the assistance of the health insurance TPA, the plan benefits were changed to more accurately correspond to the contributions received from the City and participant employees. The TPA has also provided more timely and appropriate reports which give a better picture of the benefit activities and claims paid.

The City has started an in-depth review of property and vehicle insurance to make sure that the fixed and mobile capital assets are properly recorded and assigned appropriate valuation coverage. The coverage is handled both through the Texas Municipal League Risk Pool and private carriers.

Pension and other post-employment benefits The City of Galveston, Texas sponsors a single-employer defined benefit pension plan for its non civil service employees. Each year, an independent actuary engaged by the pension plan calculates the amount of the annual contribution that the City must make to the pension plan to ensure that the plan will be able to fully meet its obligations to retired employees on a timely basis. As a matter of policy, the City fully funds each year's annual required contribution to the pension plan as determined by the actuary. As of January 1, 2003, the plan had a funding ratio of 96.3% of the actuarial value of the assets to the actuarial present value of accumulated plan benefits. The City will meet the minimum recommended contribution for calendar year 2003.

The City also provides pension benefits for its civil service employees, including policemen and firefighters. The City makes contributions to the plans based on contracts with the respective unions. At the most recent actuarial valuation date (January 1, 2003 for the Retirement Plan for Police and January 1, 2002 for the Galveston Firemen's Relief and Retirement Fund), the plans were 66.5% (Police) and 81.2% (Firefighters) actuarially funded.

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

Awards and Acknowledgements

A Certificate of Achievement is a prestigious award presented by the Government Finance Officers Association (GFOA) to governmental entities who publish an easily readable and efficiently organized comprehensive annual financial report (CAFR). The award is valid for a period of one year only. We believe that our current CAFR will meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for a certificate.

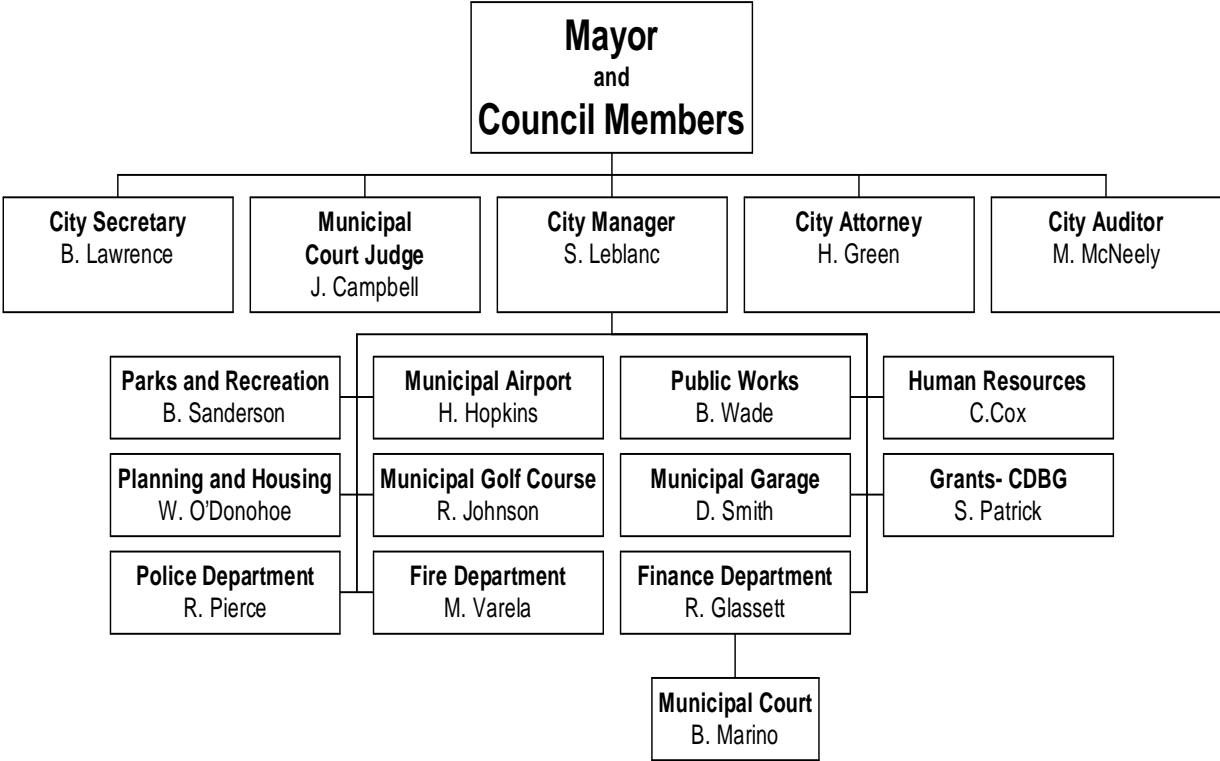
The preparation of this report would not have been possible without the efficient and dedicated services of the entire staff of the finance department. We would like to express our appreciation to all members of the department who assisted and contributed to the preparation of this report. Credit also must be given to the Mayor and the governing Council for their unfailing support for maintaining the highest standards of professionalism in the management of the City of Galveston's finances.

Respectfully submitted,

Steve LeBlanc
City Manager

Rick Glassett, CPA
Finance Director

CITY OF GALVESTON, TEXAS
ORGANIZATIONAL CHART



City of Galveston, Texas

Incorporated March 1939

Charter Adopted April 19, 1960

Council – Manager Form of Government

City Council		City Council Appointees	
Mayor	Roger “Bo” Quiroga	City Manager	Steven J. LeBlanc
Mayor Pro Tem	Cornelia Harris Banks	City Secretary	Barbara S. Lawrence
Councilman	Joe Jaworski	City Attorney	Harriet S. Green
Councilman	Booker T. Price, Sr.	Court Judge	John Campbell
Councilman	Dianna D. Puccetti	Tax Collector	Trish Gibbons
Councilman	Johnny Smecca		
Councilman	Lyda Ann Thomas		

Departmental Directors (City Manager Appointees)

Airport
Emergency Management
Finance
Fire
Grants
Municipal Court
Municipal Garage
Municipal Golf Course
Parks and Recreation
Personnel
Planning and Housing
Police
Public Works

Hud N. Hopkins
Eliot A. Jennings
Rick Glassett
Mike Varela, Interim
Sterling W. Patrick
Beckie A. Marino
David A. Smith
Roger D. Johnson
Barbara E. Sanderson
Carolyn R. Cox
Wendy O’Donohoe
Robert V. Pierce
Brandon E. Wade

FINANCIAL SECTION



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Independent Auditors' Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Galveston, Texas (the City), as of and for the year ended September 30, 2003, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion 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, a discretely presented component unit of the City, of which, reflects 99% of total assets and total revenues of the discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for that discretely presented component units is based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Galveston, Texas, as of September 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the City has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments: Omnibus an amendment of GASB Statements No. 21 and No. 34*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, as of October 1, 2002.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 21, 2004, on our consideration of the City’s internal control over financial reporting and on our tests of its compliance with certain provisions or laws, regulations, contracts, and grants. That report, which has been issued separately from this document, is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management’s Discussion and Analysis on pages 13 through 24, budgetary comparison information on pages 96 through 99 and Required Pension System Supplementary Information on page 100 through 101 are not required parts of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

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



January 21, 2004
Houston, Texas

Management's Discussion and Analysis

As management of the City, 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, 2003. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages 1-6 of this report. 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 \$95.6 million (net assets). Of this amount, \$14.4 million (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.

Total assets, excluding component units, were \$247 million; total liabilities, excluding component units, were \$151 million.

The ratio of total assets to total liabilities for governmental activities was 1.37 times; for business type activities the ratio was 1.90 times.

The Fund balance of the General Fund increased from \$5.9 million to \$6.7 million, a 12.5% increase. The ending balance represents 21.5% of the \$30.9 million in expenditures. Total undesignated and unreserved fund balance was \$4.7 million, or 15.3% of expenditures.

The City's total debt increased by \$ 7.6 million (5.8%) during the current fiscal year. The key factor in this increase was the issuance of \$ 11 million in revenue bonds.

Overview of the Financial Statements

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

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

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

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are

intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, highways and streets, planning, inspection and zoning, and parks and recreation. The business-type activities of the City include waterworks services, sewer services, sanitation, drainage, an airport, and a golf course.

The government-wide financial statements include not only the City itself (known as the primary government), but also a legally separate Park Board, two separate Tax Incentive 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 26-29 of this report.

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

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

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

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

The basic governmental fund financial statements can be found on pages 30-37 of this report.

Proprietary funds. The City maintains six different types of proprietary, or enterprise funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its waterworks services, sewer services, sanitation services, drainage services, airport operations, and golf course activities. Internal

service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its fleet of vehicles, management information systems, central building services, print shop activities, mailroom and insurance. Because all of these services predominantly benefit governmental rather than business-type functions, the largest portion of the amounts have 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 sewer services, both of which are considered to be major funds of the City. Data from the other four proprietary funds are combined into a single aggregated presentation. The portion of the internal service funds activities that relate to the proprietary activities are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements elsewhere in this report.

The basic proprietary fund financial statements can be found on pages 38-45 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 basic fiduciary fund financial statements can be found on pages 46-47 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 48-93 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 96. Budget to actual comparison for major governmental funds are presented followed by information concerning the City's progress in funding its obligation to provide pension benefits to its employees.

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

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$95.6 million at the close of the most recent fiscal year.

A significant portion of the City's net assets (58.0%) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment) less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of Galveston, Texas
Net Assets (in thousands)
September 30, 2003

TABLE A-1

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Current and other assets	\$ 54,494	\$ 43,032	\$ 97,526
Capital assets	51,743	97,408	149,152
Total assets	<u>106,237</u>	<u>140,440</u>	<u>246,678</u>
Current liabilities	8,665	6,752	15,417
Long term liabilities outstanding	68,506	67,141	135,646
Total liabilities	<u>77,170</u>	<u>73,893</u>	<u>151,063</u>
Net assets:			
Invested in capital assets, net of related debt	14,956	40,480	55,436
Restricted	4,944	20,834	25,778
Unrestricted	9,168	5,233	14,401
Total net assets	<u>\$ 29,067</u>	<u>\$ 66,548</u>	<u>\$ 95,615</u>

An additional portion of the City's net assets (27.0%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$14.4 million) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

The City has sufficient funds to meet requirements for cash outlays in the next fiscal year as well as the financial capacity to meet its long-term obligations, without any reduction in fund balances or net assets.

Of the business-type activities, the waterworks system and the sewer system are by far the largest operation at the City with total combined assets of \$131.2 million, comprising 93.4% of all business-type activities total assets at year end. The waterworks system's and sewer system's net assets were \$23.8 million and \$36.1 million, respectively, which is 90.5% of total net assets. The combined unrestricted business-type net assets of the water system and the sewer system is comprises essentially 100% of the total business-type unrestricted net assets.

Governmental activities. As shown in Table A-2, revenues were split between governmental activities and business-type activities at 67.7% and 32.3% respectively. Expenses were split 68.3% and 31.7% respectively. Net assets increased \$2.9 million, or 11.1% from the prior period for governmental activities and \$2.2 million or 3.4% for business-type activities, and 5.7% overall. Further development of prior period relationships will be provided in the September 30, 2004, MD&A with the second year of GASB 34 implementation for the City.

City of Galveston, Texas

Changes in Net Assets (in thousands)

TABLE A-2

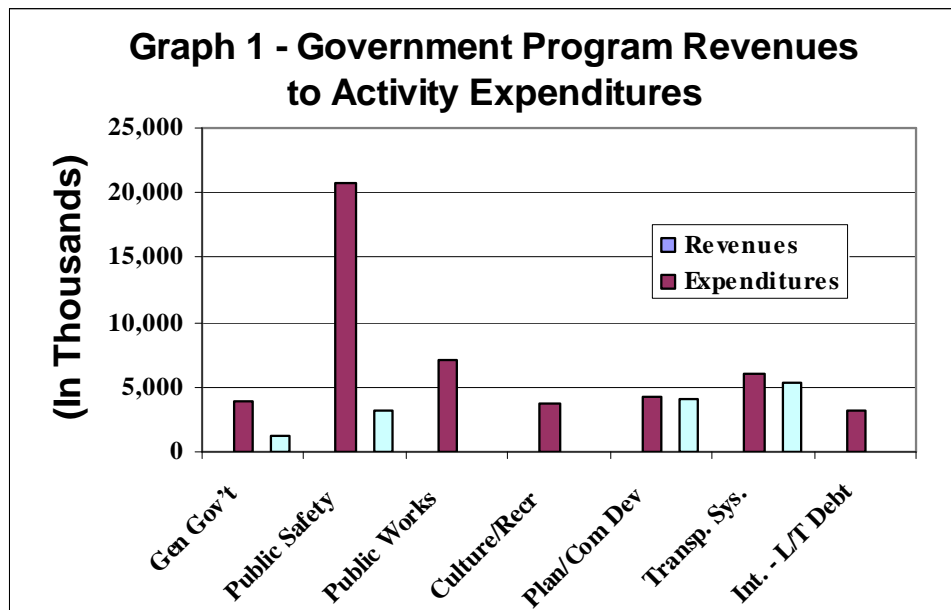
For the Fiscal Year Ended September 30, 2003

	Governmental Activities	Business-type Activities	Total
Revenues:			
Program Revenues:			
Charges for services	\$ 5,629	\$ 23,218	\$ 28,848
Operating grants and contributions	6,294		6,294
Capital grants and contributions	1,928	1,362	3,290
General revenues:			
Property taxes	12,061		12,061
Sales taxes	13,340		13,340
Hotel occupancy taxes	4,980		4,980
Franchise fees	4,824		4,824
Payments in lieu of taxes	1,155		1,155
Other	1,929	293	2,222
Total revenues	52,141	24,873	77,015
Expenses:			
General Government	3,961		3,961
Public Safety	20,712		20,712
Public Works	7,113		7,113
Culture and Recreation	3,800		3,800
Planning and Community Dev	4,202		4,202
Transportation system	6,052		6,052
Interest on Long-term debt	3,236		3,236
Waterworks		9,654	9,654
Sewer system		7,445	7,445
Sanitation		2,988	2,988
Golf Course		1,130	1,130
Drainage		761	761
Airport		843	843
Total Expenses	49,078	22,821	71,898
Transfer in (out)	(150)	150	
Change in net assets	2,914	2,203	5,117
Net Assets September 30, 2002	26,153	64,345	90,498
Net Assets September 30, 2003	\$ 29,067	\$ 66,548	\$ 95,615

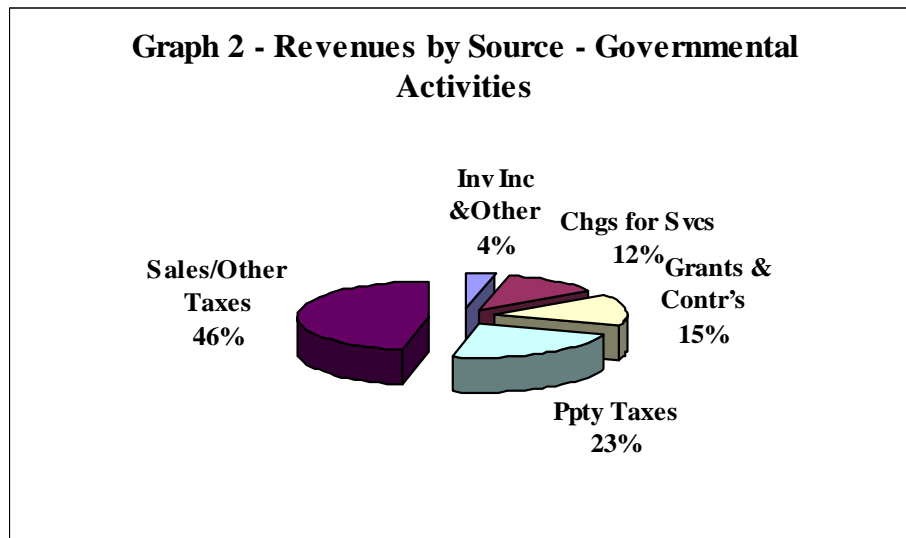
Table A-2 above reflects that:

- The cost of all governmental activities for the fiscal year was 49.1 million.
- However, the amount that taxpayers paid for these services through City property taxes, sales taxes, hotel occupancy taxes, franchise fees, and payments in lieu of taxes was \$36.4 million. Some of the total cost was paid by those who benefited from the programs (\$5.6 million) or other governments and organizations that subsidized certain programs with grants and contributions (\$8.2 million).
- Charges for services comprised 10.8% of governmental activities and 93.3% of business-type activities.
- Taxes and franchise fees contributed 69.7% of governmental activities revenues. Investment earnings, with interest rates at historic lows, plus other miscellaneous revenues, generated 3.7% and 1.2% of revenues for governmental activities and business-type activities, respectively.
- Public safety (including Police, Fire, Emergency Management and Special Events) expenses accounted for 42.2% of governmental activities and 14.5% of the expenses were for Public Works (streets and traffic).
- General government expenses comprised 8.0% of all governmental activities' expenses.

Graph 1 below presents the cost of each of the City's major governmental functions, as well as the associated program revenues. Total expenditures were \$49.1 million. Program revenues provided \$13.9 million, for a net cost of services of \$35.5 million. The net cost of providing public safety was \$17.6 million, or 49.4% of the net cost of governmental activities. As expected in governmental activities, the subsidy required from taxpayers provides the majority support to these core services.



Graph 2 below presents the sources of revenue for governmental activities. Sales taxes (25.6%), hotel taxes (9.6%), franchise fees (9.3%), and payments in lieu of taxes received from business-type activities (2.2%) comprise a total 46.7% of the total revenues. Property taxes account for 23.1% of the revenues.



Business-type activities. Business-type activities increased the City's net assets by \$2.2 million, or 3.4% from the prior year. Business-type net assets account for almost 70% of the City's total net assets.

City of Galveston, Texas

*Expenses, Program Revenues, and Net Cost of Services -
Business Type Activities (in thousands)
For the Fiscal Year Ended September 30, 2003*

TABLE A-3

Program:	<u>Expenses</u>	<u>Program Revenues</u>	<u>Net Cost of Services</u>
Waterworks	\$ 9,654	\$ 9,693	\$ 39
Sewer system	7,445	8,179	734
Sanitation	2,988	3,552	565
Golf Course	1,130	946	(184)
Drainage	761	749	(12)
Airport	843	1,462	618
	<u>\$ 22,821</u>	<u>\$ 24,580</u>	<u>\$ 1,759</u>

As indicated in Table A-3 above, expenses of the public utility related funds (Waterworks, Sewer system, Sanitation and Drainage) totaled \$20.8 million, or 91.4% of all the expenses of business-type activities. Related revenues of those funds totaled \$22.2 million, or 90.2% of all business-type revenues. Public utility related fund operating revenues for the prior year were \$21.3 million, and expenses were \$19.7 million.

The net excess of program revenues over expenses for the four public utility related funds was \$1.3 million, while total enterprise fund excess revenues over expenses was \$1.8 million.

Table A-4 shows business-type activities revenues by source. Charges for services account for 93.4% of the total, with capital grants and contributions accounting for 5.5%.

City of Galveston, Texas
Revenues by Source- Business Type Activities
(in thousands)
For the Fiscal Year Ended September 30, 2003

TABLE A-4

	<u>Dollars</u>	<u>Percentage</u>
Charges for services	\$ 23,218	93%
Capital grants and contributions	1,362	5%
Other	293	1%
	<u>\$ 24,873</u>	<u>100%</u>

Financial Analysis of the Government's Funds

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

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

The following is of note relating to governmental funds:

- Total assets of the General Fund grew from \$8.3 million to \$9.4 million. Cash and temporary investments increased \$2.4 million largely because the amount due from a special revenue fund (Island Transit) decreased significantly.
- Total liabilities of the General Fund increased from \$2.3 million to \$2.7 million. The ratio of total assets to total liabilities of the General Fund decreased slightly from 3.5 at the end of 2002 to 3.4 at the end of 2003.
- The General Fund unreserved, designated-for-emergency fund balance increased from \$1.1 million in 2002 to \$1.3 million in 2003
- General Fund revenues were \$131 less than the budgeted amount.
- General Fund expenditures were \$325 less than the budgeted amount.
- The General Fund's unreserved, undesignated fund balance increased \$55
- The Special Revenue Island Transit Fund balance increased by \$194.
- The Convention Center (currently under construction) Capital Projects Fund has \$18.8 million in cash and investments, comprising 34.6% of the total assets of governmental funds.
- Other governmental non major funds (16 separate funds) have cash and investments totaling \$20.9 million, comprising 38.4 % of the total assets of all governmental funds.
- The fund balance of the Debt Service Fund decreased by \$86,838 to \$2.7 million at the end of 2003. This decrease was planned in the adopted budget, wherein the Debt Service Fund's fund balance is structured to accommodate no more than required cash flow needs for debt service payments.

- As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$44.2 million. Of this amount, \$8.6 million constitutes unreserved fund balance, which is available for spending at the government's discretion. Of this amount, \$2.3 million is unreserved in special revenue funds. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed 1) to liquidate contracts and purchase orders of the prior period (\$495), 2) to pay prepaid expenses (\$54), 3) to pay debt service (\$5,087), or 4) for a variety of other restricted purposes (\$44). There is unreserved fund balance reported in capital project funds of \$29.9 million, which includes \$17.1 million for construction of the new convention center.

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 \$131.7 million, which comprises 93.3% of the total assets of all proprietary funds. Unrestricted net assets of those two funds are \$4.7 million and \$351 respectively.

General Fund Budgetary Highlights

There were no differences between the original budget and the final amended budget, except for two transfers, approved by Council, which included:

- \$100 transferred from the City Manager's contingency fund to the special events budget to cover a week-end event activity; such transfer was within the General Government category.
- \$182 transferred from the fire department to the police department for the purchase of vehicles; such transfer was within the Public Safety category

During the year, total revenues were slightly less (\$131) than budgetary estimates. Sales taxes and licenses and permits exceeded budget by \$211 and \$213 respectively, while franchise fees were \$661 below budget. The total of all other categories of revenue items exceeded budget by \$106.

Offsetting the negative revenues compared to budget, total expenditures were positive to budgetary estimates by \$325; consequently there was no need to draw upon existing fund balance.

The Island Transit Special Revenue Fund had positive net revenue over expenditures compared to budget of \$218. The budgeted net increase was \$30, so the total increase was \$248 for the year.

Capital Asset and Debt Administration

City of Galveston, Texas

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

TABLE A-5

September 30, 2003

	Governmental Activities	Business Type Activities	Total
Land	\$ 1,673	\$ 1,916	\$ 3,589
Infrastructure	24,920	41,546	66,466
Buildings	2,959	15,481	18,440
Equipment and furniture	7,409	2,713	10,121
Construction in progress	14,782	15,994	30,776
	<u>\$ 51,743</u>	<u>\$ 77,650</u>	<u>\$ 129,393</u>

As shown in Table A-5, at the end of 2003, the City had invested \$ 129.4 million in a broad range of capital assets, including utility system infrastructure, contractual rights to the City's water supply, streets, airport structures and runways, several buildings, police and fire equipment, park facilities, and other equipment and furniture. Governmental funds hold \$51.7 million in capital assets, while business-type activities have invested in \$ 77.7 million of capital assets.

Total infrastructure assets comprise 51.4% of the total assets. Approximately half of the construction in progress is the new convention center.

Additional information on the City's capital assets can be found in note 7 on pages 63 through 65 of this report.

Long-term debt. At the end of the current fiscal year, the City had total bonded debt outstanding of \$83,153. Of this amount, \$17,984 comprises debt backed by the full faith and credit of the government and \$42,075 is 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 (\$23,094) represents bonds secured solely by specified revenue sources (\$22,094) and certificates of obligation (\$1,000).

City of Galveston, Texas

Outstanding Debt (in thousands)

TABLE A-6

September 30, 2003

	Governmental Activities	Business Type Activities	Total
General Obligation Bonds	\$ 17,984	\$	\$ 17,984
Special Obligation Bonds	42,075		42,075
Revenue Bonds		22,094	22,094
Contracts payable		45,471	45,471
Cetificates of obligation		1,000	1,000
Capital lease obligations	2,449	364	2,813
	<u>\$ 62,508</u>	<u>\$ 68,929</u>	<u>\$ 131,436</u>

The City's total debt increased by \$7,257 (6%) during the current fiscal year. The key factor in this increase was an \$11 million revenue bond issuance for the City's waterworks and sewer systems. The City also issued a \$1 million combination tax and revenue certificate of obligation to purchase equipment to be used by the Sanitation department.

The City maintains an "A-" rating from Standard & Poor's and an "A3" rating from Moody's for general obligation debt.

Additional information on the City's long-term debt can be found in note 8 on pages 66-75 of this report.

Economic Factors and Next Year's Budgets and Rates

Sales tax comprises about one third of the City's general fund revenues. The City's collection rate for fiscal year 2003 was up almost 5% compared to statewide sales tax collections being up 3%. The City anticipates the continuation of increased sales tax collections, and has budgeted for an approximate 4% increase for fiscal year ending September 30, 2004.

Property appraisals for ad valorem tax purposes increased almost 9% for the year. Property tax revenues also comprise about one third of the City's General Fund revenues.

New businesses and construction new to the Island for calendar year 2003 total approximately one hundred million dollars, and produced about 700 new jobs. Total City workforce increased about 1.7% to approximately 124,000.

Projects in development (ground not broken) total approximately \$350 million.

However, the unemployment rate for the City is currently 8.6%, which is an increase from a rate of 8.0% a year ago. This compares unfavorably to the state's average unemployment rate of about 6.5% and the national average rate of about 6.4%.

Inflationary trends in the region compare favorably to state and national indices.

All of these factors were considered in preparing the City's budget for the 2004 fiscal year.

The budgeted waterworks fund service rates and budgeted drainage fund service rates were increased for the 2004 budget year. The water rates were increased by an average of 3 percent for all customers, while the actual increase in the drainage rate will not be determined until around April 2004. The water rates affected both residential and industrial consumers by approximately the same percentage, but the drainage rate increase, mandated by the State to be a "fair and equitable" rate for all, will affect the industrial and commercial customers more than it will affect residential customers.

Requests for Information

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

BASIC FINANCIAL STATEMENTS

CITY OF GALVESTON, TEXAS
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2003

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and temporary investments	\$ 43,940,847	\$ 16,473,100	\$ 60,413,947
Receivables (net of allowance for uncollectibles)	6,206,644	3,945,245	10,151,889
Due from other governments	3,814,574	241,976	4,056,550
Inventories	320,750	168,803	489,553
Prepaid expenses	211,347	426,760	638,107
Restricted assets:			
Cash and temporary investments		7,267,837	7,267,837
Other assets with trustee		12,338,607	12,338,607
Net investment in direct financing and capital leases			
Deferred charges		2,169,541	2,169,541
Contractual rights to water supply		19,758,713	19,758,713
Capital Assets (net of accumulated depreciation where applicable):			
Land	1,673,302	1,915,875	3,589,177
Infrastructure	24,920,458	41,545,675	66,466,133
Buildings	2,958,775	15,481,237	18,440,012
Equipment and furniture	7,408,635	2,712,687	10,121,322
Construction in progress	14,782,148	15,994,185	30,776,333
Total Capital Assets	<u>51,743,318</u>	<u>77,649,659</u>	<u>129,392,977</u>
Total Assets	<u>106,237,480</u>	<u>140,440,241</u>	<u>246,677,721</u>
LIABILITIES			
Accounts payable and other current liabilities	5,518,192	1,215,444	6,733,636
Deferred Revenues	2,480,164	23,840	2,504,004
Advances payable	51,877		51,877
Accrued interest	614,598	709,694	1,324,292
Customer deposits		2,007,459	2,007,459
Current liabilities due from restricted assets		2,795,477	2,795,477
Noncurrent liabilities:			
Due within one year	2,561,977	62,354	2,624,331
Due in more than one year	65,943,626	67,078,459	133,022,085
Total liabilities	<u>77,170,434</u>	<u>73,892,727</u>	<u>151,063,161</u>
NET ASSETS			
Invested in capital assets, net of related debt	14,955,808	40,479,762	55,435,570
Restricted for:			
Capital projects			
Debt Service	4,943,539	8,495,736	13,439,275
Other projects		12,338,607	12,338,607
Unrestricted	9,167,699	5,233,409	14,401,108
Total net assets	<u>\$ 29,067,046</u>	<u>\$ 66,547,514</u>	<u>\$ 95,614,560</u>

See Notes to Financial Statements

Exhibit I

Component Units	
Governmental Activities	Business Type Activities
\$ 2,642,981	\$ 10,474,052
1,459,393	2,937,064
	238,028
7,412	
36,611	564,732
621,986	4,482,759
	25,826,494
15,347	2,255,956
278,598,743	9,470,804
	38,485,385
	714,029
241,128	3,080,958
<u>278,839,871</u>	<u>51,751,176</u>
<u>283,623,601</u>	<u>98,530,261</u>
798,967	2,153,953
241,128	
	50,292
	1,886,413
509,290	2,615,000
2,630,169	42,300,515
<u>4,179,554</u>	<u>49,006,173</u>
278,594,050	29,474,707
574,765	
	58,797
331,679	4,655,809
(56,447)	15,334,775
<u>\$ 279,444,047</u>	<u>\$ 49,524,088</u>

CITY OF GALVESTON, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2003

Functions/Programs	Expenses	Program Revenue		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government				
Governmental Activities				
General Government	\$ 3,961,298	\$ 1,254,438	\$	\$
Public Safety	20,711,789	2,548,336	588,715	
Public Works	7,113,207	44,297		
Culture and Recreation	3,800,062	5,326	38,318	
Planning and Community Dev	4,202,456	1,147,082	2,983,749	
Transportation system	6,052,419	629,998	2,683,668	1,928,318
Interest on Long-term debt	3,236,332			
Total governmental activities	<u>49,077,563</u>	<u>5,629,477</u>	<u>6,294,450</u>	<u>1,928,318</u>
Business-type activities				
Waterworks	9,653,918	9,692,615		
Sewer system	7,444,842	7,446,747		731,755
Sanitation	2,987,519	3,552,205		
Drainage	760,870	748,821		
Airport	843,172	831,666		630,000
Golf Course	1,130,419	946,211		
Total business-type activities	<u>22,820,740</u>	<u>23,218,265</u>		<u>1,361,755</u>
Total primary government	<u>\$ 71,898,303</u>	<u>\$ 28,847,742</u>	<u>\$ 6,294,450</u>	<u>\$ 3,290,073</u>
Component Units				
Governmental Activities	\$ 23,370,723	\$ 4,789,903	\$ 305,248	\$
Business-type activities	13,505,252	15,150,071	368,277	
Total component units	<u>\$ 36,875,975</u>	<u>\$ 19,939,974</u>	<u>\$ 673,525</u>	<u>\$</u>

General revenues:

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

See Notes to Financial Statements

Net (Expense) Revenue and Changes in Net Assets

Primary Government			Component Units	
Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities
\$ (2,706,860)	\$	\$ (2,706,860)		
(17,574,738)		(17,574,738)		
(7,068,910)		(7,068,910)		
(3,756,418)		(3,756,418)		
(71,625)		(71,625)		
(810,435)		(810,435)		
(3,236,332)		(3,236,332)		
<u>(35,225,318)</u>		<u>(35,225,318)</u>		
	38,697	38,697		
	733,660	733,660		
	564,686	564,686		
	(12,049)	(12,049)		
	618,494	618,494		
	<u>(184,208)</u>	<u>(184,208)</u>		
	1,759,280	1,759,280		
<u>(35,225,318)</u>	<u>1,759,280</u>	<u>(33,466,038)</u>		
			\$ (18,275,572)	\$
				2,013,096
			<u>\$ (18,275,572)</u>	<u>\$ 2,013,096</u>
12,061,238		12,061,238	176,273	
13,339,761		13,339,761	799,916	
4,979,530		4,979,530	4,144,513	
4,824,484		4,824,484		
1,155,303		1,155,303		
732,648	350,234	1,082,882	40,993	354,258
1,196,276	(56,921)	1,139,355	4,059	23,255
			73,707,280	
<u>(150,000)</u>	<u>150,000</u>			
<u>38,139,240</u>	<u>443,313</u>	<u>38,582,553</u>	<u>78,873,034</u>	<u>377,513</u>
2,913,922	2,202,593	5,116,515	60,597,462	2,390,609
26,153,124	64,344,921	90,498,045	218,846,585	47,133,479
<u>\$ 29,067,046</u>	<u>\$ 66,547,514</u>	<u>\$ 95,614,560</u>	<u>\$ 279,444,047</u>	<u>\$ 49,524,088</u>

CITY OF GALVESTON, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2003

	<u>General Fund</u>	<u>Island Transit</u>	<u>Convention Center Capital Projects</u>
ASSETS			
Cash and temporary investments	\$ 3,566,619	\$	\$ 18,831,966
Receivables, net of allowance for uncollectible accounts:			
Taxes	2,917,554		
Municipal court fines	414,010		
Accounts	1,565,785	65,027	
Investment earnings	309		
Notes			
Due from other funds	857,068		
Due from other governments	17,000	600,972	
Inventories		190,854	
Prepaid expenses	53,929	4,170	
Total assets	<u>\$ 9,392,274</u>	<u>\$ 861,023</u>	<u>\$ 18,831,966</u>
 LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Salaries and benefits payable	\$ 659,232	\$ 48,853	\$
Accrued compensated absences			
Accounts payable	517,226	55,657	1,716,643
Due to other funds		558,768	
Due to other governments	246,020		
Deferred revenue	1,312,530	3,408	
Advances payable			
Total liabilities	<u>2,735,008</u>	<u>666,686</u>	<u>1,716,643</u>
 FUND BALANCES:			
Reserved for:			
Inventories			
Encumbrances	494,680		
Prepaid expenses	53,929		
Debt service			
Other purposes	43,914		
Unreserved	6,064,743	194,337	
Unreserved, reported in non-major:			
Special revenue funds			
Capital project funds			17,115,323
Total fund balances	<u>6,657,266</u>	<u>194,337</u>	<u>17,115,323</u>
Total liabilities and fund balances	<u>\$ 9,392,274</u>	<u>\$ 861,023</u>	<u>\$ 18,831,966</u>

See Notes to Financial Statements

Exhibit 3

Other Governmental Funds	Total Governmental Funds
\$ 20,858,702	\$ 43,257,287
205,607	3,123,161
	414,010
818,247	2,449,059
11,337	11,646
44,345	44,345
	857,068
3,196,602	3,814,574
	190,854
	58,099
\$ 25,134,840	\$ 54,220,103
\$ 23,823	\$ 731,908
3,966	3,966
1,311,137	3,600,663
298,300	857,068
599,345	845,365
2,653,503	3,969,441
51,877	51,877
4,941,951	10,060,288
	494,680
	53,929
5,087,345	5,087,345
	43,914
	6,259,080
2,337,869	2,337,869
12,767,675	29,882,998
20,192,889	44,159,815
\$ 25,134,840	\$ 54,220,103



CITY OF GALVESTON, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2003

Exhibit 4

Total fund balance, governmental funds	\$ 44,159,815
--	---------------

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Assets.	50,926,104
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Certain other long-term assets are not available to pay current period expenditures and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Assets. These are as follows:

Property taxes receivable	1,362,215
Municipal court receivables	127,924

The assets and liabilities of certain internal service funds are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Assets.	996,077
--	---------

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

Bonds payable	(60,058,514)
Capital lease obligations	(2,368,486)
Compensated absences	(5,264,967)
Accrued interest	(614,598)
Claims and judgments	(198,524)

Net Assets of Governmental Activities in the Statement of Net Assets	\$ 29,067,046
--	---------------

See Notes to Financial Statements

CITY OF GALVESTON, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2003

	<u>General Fund</u>	<u>Island Transit</u>	<u>Convention Center Capital Projects</u>
REVENUES			
Property taxes	\$ 9,720,585	\$	\$
Sales taxes	10,090,984		
Hotel occupancy taxes			2,887,636
Franchise fees	4,824,484		
Fees and fines	1,658,962		
Licenses and permits	882,048		
Intergovernmental	79,260	2,577,429	
Charges for services	1,995,951	561,688	
Payments in lieu of taxes	1,155,303		
Investment earnings	72,089		360,917
Miscellaneous	1,115,422	63,778	
Total revenues	<u>31,595,088</u>	<u>3,202,895</u>	<u>3,248,553</u>
EXPENDITURES			
Current:			
General government	3,904,898		
Public Safety	19,344,126		
Public Works	2,807,218		
Culture and recreation	1,165,962		
Planning and community development	1,305,788		
Transportation	603,075	3,009,394	
Debt Service:			
Principal	879,704		
Interest and other charges	141,087		
Capital Outlay:			
General government	17,372		
Public Safety	533,838		
Public Works	10,289		
Culture and recreation	41,920		14,796,717
Planning and community development			
Transportation	146,882		
Total expenditures	<u>30,902,159</u>	<u>3,009,394</u>	<u>14,796,717</u>
Revenues over (under) expenditures	692,929	193,501	(11,548,164)
OTHER FINANCING SOURCES (USES)			
Proceeds from capital leases	195,785		
Transfers out	(150,000)		
Total other financing sources and (uses)	<u>45,785</u>		
Net change in fund balances	738,714	193,501	(11,548,164)
Fund balances at beginning of year	5,918,552	836	28,663,487
Fund balances at end of year	<u>\$ 6,657,266</u>	<u>\$ 194,337</u>	<u>\$ 17,115,323</u>

See Notes to Financial Statements

Exhibit 5

Other Governmental Funds	Total Governmental Funds
\$ 2,426,609	\$ 12,147,194
3,248,777	13,339,761
2,091,894	4,979,530
	4,824,484
176,938	1,835,900
	882,048
5,556,004	8,212,693
134,379	2,692,018
	1,155,303
283,781	716,787
119,604	1,298,804
14,037,986	52,084,522
83,283	3,988,181
440,809	19,784,935
	2,807,218
1,936,492	3,102,454
3,047,598	4,353,386
258,293	3,870,762
1,454,624	2,334,328
3,093,562	3,234,649
85	17,457
	533,838
3,151,917	3,162,206
498,922	15,337,559
26,236	26,236
1,782,098	1,928,980
15,773,919	64,482,189
(1,735,933)	(12,397,667)
	195,785
	(150,000)
	45,785
(1,735,933)	(12,351,882)
21,928,822	56,511,697
\$ 20,192,889	\$ 44,159,815



CITY OF GALVESTON, TEXAS

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2003**

Exhibit 6

Net change in fund balances - total governmental funds: \$ (12,351,882)

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

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

This is the amount by which capital outlays of \$15,379,856 exceeded depreciation of \$3,197,891 in the current period. 12,181,965

Governmental funds do not present revenues that are not available to pay current obligations. In contrast, such revenues are reported in the Statement of Activities when earned.

Property tax revenue (85,956)
Municipal Court revenue 127,062

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

Principal repayments 2,334,328
Proceeds from capital lease (195,785)
Deferred interest charges on capital leases 11,766

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:

Change in accrued interest (6,815)
Change in accrued compensated absences (153,715)
Change in workers compensation reserve 320,434

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. 732,520

Change in net assets of governmental activities \$ 2,913,922

See Notes to Financial Statements

CITY OF GALVESTON, TEXAS
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2003

	Business-type Activities-Enterprise Funds		
	Waterworks System	Sewer System	Other Enterprise Funds
Assets			
Current Assets			
Cash and cash equivalents	\$ 189,941	\$ 10,456,529	\$ 584,734
Receivables, net of allowance for estimated uncollectibles:			
Accounts	1,746,493	1,360,623	828,331
Investment earnings	4,496	4,549	753
Due from other funds	1,012,026		
Due from other governments	241,128		848
Inventories	128,916		39,887
Prepaid Expenses	214,130	3,750	208,880
Total current assets	3,537,130	11,825,451	1,663,433
Noncurrent assets:			
Restricted assets:			
Cash and cash equivalents	2,893,513	8,195,855	1,114,480
Other assets with trustee	12,338,607		
Total restricted assets	15,232,120	8,195,855	1,114,480
Deferred charges	1,938,769	209,086	21,686
Contractual rights to water supply	19,758,713		
Capital Assets, net of depreciation where applicable	33,938,848	37,058,018	6,652,793
Total noncurrent assets	70,868,450	45,462,959	7,788,959
Total assets	74,405,580	57,288,410	9,452,392
Liabilities			
Current Liabilities:			
Salaries payable	30,542	70,424	57,377
Accounts payable and other current liabilities	571,423	223,800	261,878
Due to other funds			1,012,026
Deferred revenue			23,840
Current portion of long term liabilities	5,553	5,554	5,050
Total current liabilities	607,518	299,778	1,360,171
Current liabilities payable from restricted assets	2,521,248	2,890,660	146,919
Non-current portion of long term liabilities	47,474,720	17,976,754	1,626,985
Total liabilities	50,603,486	21,167,192	3,134,075
NET ASSETS			
Invested in capital assets, net of related debt	5,242,079	28,947,519	6,290,164
Restricted for debt service	1,560,080	6,822,857	112,799
Restricted for other purposes	12,338,607		
Unrestricted	4,661,328	350,842	(84,646)
Total net assets	\$ 23,802,094	\$ 36,121,218	\$ 6,318,317

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

Total net assets per Government-Wide financial statements

See Notes to Financial Statements.

Exhibit 7

Total	Governmental Activities Internal Service Funds
\$ 11,231,204	\$ 989,445
3,935,447	155,557
9,798	33
1,012,026	
241,976	8,833
168,803	129,896
426,760	153,248
17,026,014	1,437,012
12,203,848	
12,338,607	
24,542,455	
2,169,541	
19,758,713	
77,649,659	817,214
124,120,368	817,214
141,146,382	2,254,226
158,343	31,810
1,057,101	308,446
1,012,026	
23,840	
16,157	
2,267,467	401,560
5,558,827	
67,078,459	550,689
74,904,753	952,249
40,479,762	736,430
8,495,736	
12,338,607	
4,927,524	565,547
\$ 66,241,629	\$ 1,301,977
305,885	
\$ 66,547,514	

CITY OF GALVESTON, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2003

	Business-type Activities		
	Waterworks System	Sewer System	Other Enterprise Funds
REVENUES			
Charges for services	\$ 9,617,286	\$ 7,425,573	\$ 6,054,647
Miscellaneous	75,329	21,174	24,256
Total operating revenues	<u>9,692,615</u>	<u>7,446,747</u>	<u>6,078,903</u>
OPERATING EXPENSES			
Personal services	1,286,960	2,904,034	2,585,344
Materials and supplies	423,074	948,780	364,301
Contractual services	654,621	917,817	1,566,791
Other Charges	166,467	200,417	196,693
Surface water contract	5,155,941		
Payment in lieu of taxes	200,000	200,000	200,000
Administrative service charge	420,900	386,600	270,000
Depreciation and amortization	1,107,251	1,263,319	638,558
Total Operating Expenses	<u>9,415,214</u>	<u>6,820,967</u>	<u>5,821,687</u>
Operating income (loss)	<u>277,401</u>	<u>625,780</u>	<u>257,216</u>
NON-OPERATING REVENUES (EXPENSES)			
Interest and investment revenue	204,753	131,742	13,739
Interest expense	(182,673)	(689,012)	(39,170)
Gain (Loss) on retirement of capital asset		(56,921)	
Amortization of bond issuance costs	(118,429)	(39,473)	
Total non-operating revenue (expenses)	<u>(96,349)</u>	<u>(653,664)</u>	<u>(25,431)</u>
Income (loss) before contributions and transfers	181,052	(27,884)	231,785
Capital contributions		731,755	630,000
Transfers in			150,000
Change in net assets	<u>181,052</u>	<u>703,871</u>	<u>1,011,785</u>
Net assets at beginning of year	23,621,042	35,417,347	5,306,532
NET ASSETS at End of Year	<u>\$ 23,802,094</u>	<u>\$ 36,121,218</u>	<u>\$ 6,318,317</u>

Change in net assets, per above

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

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

See Notes to Financial Statements.

Exhibit 8

Total	Governmental Activities Internal Service Funds
\$ 23,097,506	\$ 9,700,837
120,759	330,498
23,218,265	10,031,335
6,776,338	1,399,126
1,736,155	1,383,087
3,139,229	5,859,343
563,577	275,271
5,155,941	
600,000	
1,077,500	
3,009,128	104,852
22,057,868	9,021,679
1,160,397	1,009,656
350,234	15,859
(910,855)	(6,640)
(56,921)	19,530
(157,902)	
(775,444)	28,749
384,953	1,038,405
1,361,755	
150,000	
1,896,708	1,038,405
64,344,921	263,572
\$ 66,241,629	\$ 1,301,977
1,896,708	
305,885	
\$ 2,202,593	

CITY OF GALVESTON
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended September 30, 2003

Business Type Activities - Enterprise Funds

	Waterworks System	Sewer System	Other Enterprise Funds
Cash flows from operating activities:			
Cash received from customers	\$ 9,476,797	\$ 7,282,081	\$ 5,961,118
Cash payments to suppliers for goods and services	(4,675,455)	(2,190,600)	(2,265,392)
Cash payments to employees	(1,512,973)	(2,782,773)	(2,583,774)
Payment in lieu of taxes	(200,000)	(200,000)	(200,000)
Administrative service charge	(420,900)	(386,600)	(270,000)
Other operating revenues	75,329	21,174	24,856
Net cash provided by operating activities	<u>2,742,798</u>	<u>1,743,282</u>	<u>666,808</u>
Cash flows from noncapital and related financing activities:			
Due from other funds	(148,744)		(450,951)
Interfund transfers			150,000
Net cash used for noncapital and related financing activities	<u>(148,744)</u>		<u>(300,951)</u>
Cash flows from capital and related financing activities:			
Proceeds from issuance of contractual obligations		11,000,000	1,000,000
Payments for capital acquisitions	(1,079,182)	(3,917,449)	(65,383)
Principal paid on revenue bonds	(428,820)	(1,082,917)	
Principal payments on long term contracts	(1,028,121)		
Principal paid on capital leases			(285,823)
Interest paid on revenue bonds	(272,346)	(562,836)	(786)
Interest paid of capital leases			(27,612)
Proceeds from sale of equipment			
Bond issuance costs	(119,893)	(100,623)	(22,434)
Premium on bond		2,576	
Contributed capital			
Net cash provided by (used for) capital and related financing activities	<u>(2,928,362)</u>	<u>5,338,751</u>	<u>597,962</u>
Cash flows from investing activities:			
Interest on investments	<u>204,500</u>	<u>131,742</u>	<u>13,739</u>
Net increase (decrease) in equity in pooled cash and investments	(129,808)	7,213,775	977,558
Cash and temporary investments, beginning of year	<u>3,213,262</u>	<u>11,438,609</u>	<u>721,656</u>
Cash and temporary investments, end of year	<u>\$ 3,083,454</u>	<u>\$ 18,652,384</u>	<u>\$ 1,699,214</u>
Cash and temporary investments per balance sheet			
Unrestricted	\$ 189,941	\$ 10,456,529	\$ 584,734
Restricted	<u>2,893,513</u>	<u>8,195,855</u>	<u>1,114,480</u>
Cash and temporary investments, end of year	<u>\$ 3,083,454</u>	<u>\$ 18,652,384</u>	<u>\$ 1,699,214</u>

See Notes to Financial Statements.

Exhibit 9
Page 1 of 2

Totals	Governmental Activities Internal Service Funds
\$ 22,719,996 (9,131,447) (6,879,520) (600,000) (1,077,500) 121,359 <u>5,152,888</u>	\$ 9,705,909 (7,237,167) (2,083,067) 330,498 <u>716,173</u>
(599,695) 150,000 <u>(449,695)</u>	
12,000,000 (5,062,014) (1,511,737) (1,028,121) (285,823) (835,968) (27,612) (242,950) 2,576 <u>3,008,351</u>	(243,564) (53,006) (6,640) 19,530 <u>(283,680)</u>
349,981 <u>349,981</u>	10,893 <u>10,893</u>
8,061,525 15,373,527 <u>\$ 23,435,052</u>	443,386 546,059 <u>\$ 989,445</u>
\$ 11,231,204 12,203,848 <u>\$ 23,435,052</u>	\$ 989,445 <u>\$ 989,445</u>

CITY OF GALVESTON
STATEMENT OF CASH FLOWS - Continued
PROPRIETARY FUNDS
For the Year Ended September 30, 2003

Business Type Activities - Enterprise Funds

	Waterworks System	Sewer System	Other Enterprise Funds
Reconciliation of Operating Income to Net Cash Provided by Operating Activities			
Operating income	\$ 277,401	\$ 625,780	\$ 257,217
Adjustments to reconcile operating income to net cash provided by operating activities:			
Amortization and depreciation expense	1,107,251	1,263,319	638,558
(Increase) decrease in accounts receivable	566,597	(163,925)	(101,883)
Decrease in assets held with trustee	1,656,641		
(Increase) decrease in deferred charges			(155)
(Increase) decrease in inventory and prepaid	94,376	365	(197,569)
Increase (decrease) in salaries and benefits payable	(20,547)	14,976	(6,607)
Increase (decrease) in accounts payable	(742,384)	(123,952)	23,526
Increase (decrease) in interfund payable			36,588
Increase (decrease) in in customer deposits	8,930	20,432	8,960
Increase (decrease) in estimated liability claims	(18,616)	(9,909)	(31,097)
Increase (decrease) in compensated absences payable	(186,851)	116,196	39,270
Total adjustments	<u>2,465,397</u>	<u>1,117,502</u>	<u>409,591</u>
Net cash provided by operating activities	<u>\$ 2,742,798</u>	<u>\$ 1,743,282</u>	<u>\$ 666,808</u>

See Notes to Financial Statements.

Exhibit 9
Page 2 of 2

Totals	Governmental Activities Internal Service Funds
\$ 1,160,398	\$ 1,009,656
3,009,128	104,852
300,789	5,072
1,656,641	
(155)	
(102,828)	(57,245)
(12,178)	1,128
(842,810)	(90,870)
36,588	
38,322	81,513
(59,622)	(321,659)
(31,385)	(16,274)
3,992,490	(293,483)
\$ 5,152,888	\$ 716,173

CITY OF GALVESTON, TEXAS
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
Years ended September 30, 2003

Exhibit 10

	<u>Pension Trust Funds *</u>	<u>Agency Fund</u>
ASSETS		
Cash and temporary investments	\$ 5,177,373	\$ 283,247
Investments, at fair value	66,100,211	
Receivables:		
Interest and Dividends	284,295	
Loans to participants	112,198	
Contributions		
Due from other governments	55,041	
Prepaid benefits	358,227	
Total assets	<u>72,087,345</u>	<u>283,247</u>
LIABILITIES		
Accounts payable	73,098	27,624
Refunds payable and others		255,623
Total liabilities	<u>73,098</u>	<u>283,247</u>
NET ASSETS		
Held in trust for benefits and other purposes	<u>\$ 72,014,247</u>	<u>\$ -</u>

* as of December 31, 2002

See Notes to Financial Statements.

CITY OF GALVESTON, TEXAS
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Year Ended September 30, 2003

Exhibit 11

	Pension Trust Funds *
	<u> </u>
ADDITIONS	
Contributions:	
Employer	\$ 1,670,563
Plan Members	1,931,529
Total contributions	<u>3,602,092</u>
Investment earnings:	
Net depreciation of investments	(16,316,185)
Interest	1,679,746
Dividends	627,487
Investment activity expense	(550,540)
Total net investment earnings	<u>(14,559,492)</u>
Total additions	<u>(10,957,400)</u>
 DEDUCTIONS	
Benefits	5,297,161
Refunds of contributions	102,855
Administrative	209,188
Total deductions	<u>5,609,204</u>
Change in net assets	(16,566,604)
Net assets - beginning	88,580,851
Net assets - ending	<u>\$ 72,014,247</u>

*for the year ended December 31, 2002

See Notes to Financial Statements.

1 REPORTING ENTITY AND BASIS OF PRESENTATION

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

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

A. Reporting Entity

As required by GAAP, these financial statements present the City and its component units. The component units are included in the reporting entity because of the City's financial accountability over their operations. Blended component units, although legally separate entities are, in substance, part of the City's operations and so data from these units are combined with data of the primary government.

Blended Component Units

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

Industrial Development Corporation

The Industrial Development Corporation (the IDC) was formed in 1993 to provide for street repairs, beach re-nourishment and sewer improvements. The IDC Board of Directors is appointed by City Council. Its Board of Directors is substantially the same as the City Council. Its activities are funded by a special local sales tax. The City manages the fiscal affairs of the IDC. The IDC operations are devoted to providing services for the City. The IDC fund is included in the City's non-major governmental funds as of September 30, 2003.

Pension Funds

The City of Galveston Employee's Retirement Plan for City Employees, Firemen's Relief and Retirement Fund, and the City of Galveston Employee's Retirement Plan for Police (the Pension funds) were created in accordance with State Statutes to provide benefits to non-civil service, firemen, police, and City employees. The responsibility for administration and operation of the plan rests with each plan's board. Each pension plan is funded by a contribution mix from employees and the City. The Pension funds are included in the City's pension trust funds as of December 31, 2002.

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. The following discretely presented component units are reported:

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

The Park Board of Trustees of the City of Galveston (the Park Board) was created by the State Statute to provide improvements and maintenance to City waterfront parks and beaches. The Park Board, funded primarily by Hotel Occupancy Tax and beach parking receipts, is legally separate from the City. The Park Board, which is appointed by the City Council, has a seven-member board responsible for operations. The Park Board financial records are the Board's responsibility.

Complete financial statements for the Park Board may be obtained at the following address:

Park Board of Trustees of the City of Galveston
2504 Church
Galveston, Texas 77550

Tax Reinvestment Zones Ten and Twelve (the Tax Zones) were established from 1980 through 1983 to provide funds for development and improvement projects within specific geographic areas of the City. Property tax receipts over undeveloped assessments (base value) provide funding for the projects. The City appoints the Board members who operate and account for the Tax Zone activity consistent with the State Statute for the economic benefit of the City. The City accounts for the Tax Zones and separate audited reports are not available. The Tax Zones are reported as non-major governmental type discretely presented component units.

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

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

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

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

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

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

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

Related Organizations and Jointly Governed Organizations

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

B. Financial statement presentation

These financial statements include implementation of Governmental Accounting Standards Board (GASB) Statement No. 34 – Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments.

Significant changes in the statement include, for the first time, the following:

A Management's Discussion and Analysis (MD&A) section providing an analysis of the City's overall financial position and changes in financial position.

Government-wide financial statements prepared using the accrual basis of accounting for all of the City's governmental and business type activities.

Fund financial statements focusing on the major funds.

Statement No. 34 established standards for external financial reporting for all state and local governmental entities, which includes a statement of net assets and a statement of activities. It requires the reclassification of net assets into three components-invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

Invested in capital assets, net of related debt – This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted – This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulation of other governments or constraints imposed by law through contractual provisions or enabling legislation.

Unrestricted net assets – This component of net assets consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

C. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information about the City as a whole. These statements include all nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund 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.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

In September 1993, the Governmental Accounting Standards Board issued Statement No. 29, “Accounting and Financial Reporting for Proprietary funds and Other Governmental Entities That Use Proprietary Fund Accounting” which are effective for the City’s financial statements for the year ending September 30, 2003. This statement provides guidance on accounting and financial reporting for business type and enterprise fund activities. The City has elected alternative number one (1) from those provided by this standard. This alternative method elects to apply all GASB pronouncements as well as FASB pronouncements that were issued after November 30, 1989.

D. Measurement focus and basis of accounting

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

The government reports the following major governmental funds:

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

The Island Transit fund accounts for the receipt and expenditure of Federal, State and Local revenues designated for Transit and Livable Communities projects.

The Convention Center Capital Projects fund accounts for capital outlay financed by Series 2002, Hotel Occupancy Tax Revenue Bonds.

The government reports the following major proprietary funds:

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

The Sewer System Fund accounts for the provision of a sewer system to the residents of Galveston, including but not limited to administration, operations, maintenance, financing and related debt services, and billing and collections.

Additionally, the government reports the following fund types:

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

The pension trust funds account for the activities of the City Employees Retirement Plan, the Firemen's Relief and Retirement Fund, and the Police Retirement Fund.

The Agency funds are used to account for assets held by the City as an agent for individuals, private organizations, and other governments and/or other funds. This fund is custodial in nature and does not involve measurement of results of operations.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do no conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the governments water, sewer, sanitation, golf course, and Airport and various other functions. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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 nonoperating 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 nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed

E. Assets, liabilities, and net assets or equity

i. 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, and Texas Local Government Investment Pool ("Texpool"). All investments are recorded at fair value. Texpool is an external investment pool established by an interlocal contract under state law.

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

ii. 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 29% of total property taxes including the related penalty and interest accrual as of September 30, 2003. The allowance for enterprise fund charges for services is 20% of total outstanding charges as of September 30, 2003.

iii. Inventories

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

iv. Prepaid Items

Payments made to vendors for services that will benefit periods beyond September 30, 2003, are recorded as prepaid items.

v.Restricted Assets

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

vi.Capital Assets

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

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

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

Property or equipment type	Estimated Useful lives
Buildings	20 – 50 years
Improvements	10 – 50 years
Equipment	3 – 10 years
Sewer Plants	20 – 50 years
Sewer Lines	50 years
Water Plants, Lines, Wells, and Hydrants	75 years
Water Tanks, and Valves	50 years
Water Meters	25 years

vii.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.

viii. 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 general long-term debt account group. Long-term liabilities expected to be paid from proprietary fund operations are accounted for in those funds.

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

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

ix. Fund Equity

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

x. Inter-fund Transactions

Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it 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, except quasi-external transactions and reimbursements, are reported as transfers. Nonrecurring or non-routine permanent transfers of equity are reported as residual equity transfers. All other inter-fund transfers are reported as operating transfers.

xi. Comparative data/reclassifications

Comparative data for prior years has not been presented due to the implementation of Governmental Accounting Standards Board Statement No. 34 – Basic Financial Statements-and Management’s Discussion and Analysis-for State and Local Governments. Prior years’ data has not been restated.

2 EQUITY IN POOLED CASH AND INVESTMENTS

The City utilizes GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investments Pools*, and reports all investments that have a remaining maturity at time of purchase of more than one year, as provided in the statement, at fair market value, as defined in the statement. Investments, which do not have an established market value, are reported at estimated fair value. All assets at September 30, 2003 and 2002 had established market values and no estimated values had to be applied to any investment at September 30, 2003 and 2002. Investments that have a remaining maturity at the time of purchase of one year or less are reported at amortized cost as provided in GASB Statement No. 31.

A. Deposits

The City’s deposits are categorized to give an indication of the level of risk assumed by the City at year-end as follows:

- Category 1 Insured or collateralized with securities held by the City or by its agent in the City’s name.
- Category 2 Collateralized with securities held by the pledging financial institution’s trust department or agent in the City’s name.
- Category 3 Un-collateralized or collateralized with securities held by the pledging financial institution or its trust department or agent, but not in the City’s name.

At September 30, 2003, the City’s deposits categorized by level of risk are (in thousands):

	Category			Total
	1	2	3	
Primary Government	\$ 15,258	\$	\$	\$ 15,258
Agency Fund	283			283
Pension funds (1)	5,177			5,177
Discretely presented Component Units (1)	1,667	3,273	38	4,978
	<u>\$ 22,386</u>	<u>\$ 3,273</u>	<u>\$ 38</u>	<u>\$ 25,696</u>

(1) Reported as of December 31, 2002.

B. Investments

The City's investments are categorized to give an indication of the level of risk assumed by the City at year-end as follows:

- Category 1 Investments that are insured or registered or for which the securities are held by the City's agent in the City's name.
- Category 2 Uninsured and unregistered investments for which the securities are held by the dealer banks' trust department or agent in the City's name.
- Category 3 Uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent, but not in the City's name.

A summary of investments by risk category as of September 30, 2003 follows (in thousands):

Type of Investment	Category		
	1	Not Categorized	Total
<i>Primary Government</i>			
<i>City of Galveston</i>			
US Government and Agency Securities	\$ 33,892	\$	\$ 33,892
Texpool		18,531	18,531
Total Primary Government	<u>\$ 33,892</u>	<u>\$ 18,531</u>	<u>\$ 52,424</u>
<i>Pension Trust Funds</i>			
Government and Corporate Bonds	\$ 23,685	\$	\$ 23,685
Common Stock	38,828		38,828
Mutual Funds	3,587		3,587
Total Pension Trust Funds	<u>\$ 66,100</u>	<u>\$</u>	<u>\$ 66,100</u>
<i>Discretely presented</i>			
<i>Component Units</i>			
US Government and Agency Securities	\$ 4,311	\$	\$ 4,311
Certificate of Deposit	8,750		8,750
Guaranteed Investment Contract	183		183
Total discretely presented Component Units	<u>\$ 13,244</u>	<u>\$</u>	<u>\$ 13,244</u>

C. Reconciliation of Deposits And Investments To Statement of Net Assets (in thousands)

<i>Primary Government</i>	
Cash and temporary investments	\$ 60,414
Restricted cash and temporary investments	7,268
	<hr/>
Total Primary Government as reported on the Statement of Net Assets	<u>\$ 67,682</u>
Deposits	\$ 15,258
Investments	52,424
	<hr/>
Total Primary Government as classified above	<u>\$ 67,682</u>
<i>Component Units</i>	
<i>Governmental Activities</i>	
Cash and temporary investments	\$ 2,643
Restricted cash and component units	622
<i>Business Type Activities</i>	
Cash and temporary investments	10,474
Restricted cash and component units	4,483
	<hr/>
Total Component Units as reported on the Statement of Net Assets	<u>\$ 18,222</u>
Deposits	\$ 4,978
Investments	13,244
	<hr/>
Total Component Units as classified above	<u>\$ 18,222</u>

3 PROPERTY TAX

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 September 30 are also recognized as receivables.

The City may levy taxes up to \$2.50 per \$100.00 of assessed value under state law, however, by amendment to the City Charter resulting from an election held January 20, 1979, the following limits on taxes were placed in effect:

- A. A maximum tax rate of 70 cents per \$100 of assessed valuation less Debt service and Rosenberg Library for general operating expenses, before any adjustments for sales tax (see Note 4).
- B. A limit on the annual increase in advalorem taxes on any property to 5% over the prior year's taxes, except for increases due to increases in market value and improvements made.

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

Within these guidelines, the maximum tax rate per \$100 of assessed valuation for the year ended September 30, 2003 was 55.49 cents. The tax rate to finance general governmental services was set at 44.21 cents, and the tax rate for all other purposes, including debt service, was set at 11.28 cents per \$100 of assessed valuation.

4 SALES TAX

The City's sales tax rate is 2 cents for the year ended September 30, 2003. A City Charter amendment was passed by the voters on January 21, 1989, whereby the City is required to offset advalorem taxes each year with the amount of additional (½ cent) sales tax collected in the prior year. The ½ cent offset was calculated using a calendar year formula provided by the State of Texas, resulting in advalorem taxes offset by actual sales tax revenue of \$3,138,136 in fiscal year 2003. The total maximum allowable tax rate of 70 cents was thus limited to 55.49 cents for the current fiscal year. It is the City Attorney's opinion that this amendment does not create a new tax cap and it would not restrict the City's ability to meet bond obligations.

Of the 2 cents tax, 1.5 cents is allocated to the General Fund and ½ cent is for Industrial Development Corporation (IDC) Projects. Of the IDC ½ cent, 1/8 cent is for the purpose of beach re-nourishment, 1/8 cent is for street drainage and improvement projects and ¼ cent is for sanitary sewer projects.

5 RECEIVABLES

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

	General	Island Transit	Water	Sewer	Non-major and Other Funds	Total
Receivables:						
Taxes	\$ 3,385,135	\$ -	\$ -	\$ -	\$ 294,012	\$ 3,679,147
Accounts	2,945,820	65,027	1,952,518	1,633,847	2,188,125	8,785,337
Interest	309	-	4,496	4,549	12,090	21,444
Gross receivables	6,331,264	65,027	1,957,014	1,638,396	2,482,137	12,485,928
Less: allowance for uncollectibles	(1,433,606)	-	(206,025)	(273,224)	(629,952)	(2,542,807)
Net total receivables	\$ 4,897,658	\$ 65,027	\$ 1,750,989	\$ 1,365,172	\$ 1,852,185	\$ 9,943,121

Notes and interest receivable balances for the primary government are as follows:

<u>Description</u>	<u>Effective Date</u>	<u>Life (years)</u>	<u>Original Loan Amount</u>	<u>Monthly Installment</u>	<u>Balance at September 30, 2003</u>	
					<u>Current</u>	<u>Total</u>
Parking Garage – George P. Mitchell & U. S. National Bank	4/15/1985	20	\$ 275,970	\$ 2,663	\$ 28,819	\$ 44,345
TOTALS					<u>\$ 28,819</u>	<u>\$ 44,345</u>

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

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

The mortgage loans have a fixed interest rate of 10%. Certain designated loan servicers service the loans, which have estimated remaining maturities of 10 years. These loan servicers are responsible for collecting the loan payments from the borrowers and remitting these payments to the Trustee. The loan servicers are compensated monthly from collections in an amount equal to 1/12 of 1/6 of 1% of the unpaid principal balance on each mortgage loan. The Administrator supervises the purchase of the mortgage loans and the monthly collection of principal and interest.

Most individual mortgage loans are insured by primary mortgage insurance, FHA insurance, or VA guarantees. At December 31, 2002 the remaining aggregate coverage available under the mortgage pool insurance was approximately \$2 million.

As of December 31, 2002 approximately \$134,148 of the mortgage loans outstanding were one or more months delinquent. Additionally, at December 31, 2002 there were loans of \$18,730 in foreclosure. For any loans that have been foreclosed, the Corporation holds the collateralized property for sale and applies the proceeds of such sales to the remaining principal balance of the foreclosed accounts.

At December 31, 2002, an allowance of \$30,000 for anticipated losses not recoverable from mortgage loan insurance and possible uninsured losses on mortgage-related assets was recorded.

6 INTERFUND ACTIVITIES

The following is a detail of interfund receivables / payables for the City of Galveston at September 30, 2003:

Payable Funds: Due From	Receivable Funds: Due to		Totals
	General Fund	Waterworks System Fund	
Governmental Funds			
Island Transit Fund	\$ 558,768	\$	\$ 558,768
Rosenberg Library Fund	2,143		2,143
Grants and Government Contracts Fund	108,858		108,858
Island Transit Capital Projects Fund	187,299		187,299
	<u>857,068</u>		<u>857,068</u>
Enterprise Funds			
Golf Course Fund		832,457	832,457
Drainage Fund		57,446	57,446
Sanitation Fund		122,123	122,123
		<u>1,012,026</u>	<u>1,012,026</u>
Totals	<u>\$ 857,068</u>	<u>\$ 1,012,026</u>	<u>\$ 1,869,094</u>

Operating transfers for the year ended September 30, 2003 are as follows for the primary government:

Transfer In Fund	Transfer Out Fund		Totals
	Industrial Development Corporation	General Fund	
Debt Service	\$ 1,320,080	\$	\$ 1,320,080
Capital Projects Fund:			
Drainage and Street Improvement	350,533		350,533
Sewer Improvements	617,265		617,265
Golf Course Fund		150,000	150,000
Totals	<u>\$ 2,287,878</u>	<u>\$ 150,000</u>	<u>\$ 2,437,878</u>

7 CAPITAL ASSETS

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated				
Land	\$ 1,673,302	\$	\$	\$ 1,673,302
Construction in progress	446,915	14,782,148	(446,915)	14,782,148
Total capital assets, not being depreciated	<u>2,120,217</u>	<u>14,782,148</u>	<u>(446,915)</u>	<u>16,455,450</u>
Capital assets, being depreciated:				
Buildings	8,925,653	47,229		8,972,882
Improvements other than buildings	3,434,641	362,959		3,797,600
Machinery and equipment	4,818,784	336,915		5,155,699
Licensed vehicles	13,117,242	451,601	(139,656)	13,429,187
Infrastructure	66,420,856			66,420,856
Total capital assets being depreciated	<u>96,717,176</u>	<u>1,198,704</u>	<u>(139,656)</u>	<u>97,776,224</u>
Less accumulated depreciation for:				
Buildings	(5,839,743)	(174,364)		(6,014,107)
Improvements other than buildings	(2,361,383)	(159,809)		(2,521,192)
Machinery and equipment	(1,339,247)	(763,839)		(2,103,086)
Licensed vehicles	(6,759,857)	(1,071,924)	116,715	(7,715,066)
Infrastructure	(42,885,383)	(1,249,522)		(44,134,905)
Total accumulated depreciation	<u>(59,185,613)</u>	<u>(3,419,458)</u>	<u>116,715</u>	<u>(62,488,356)</u>
Total capital assets, being depreciated, net	<u>37,531,563</u>	<u>(2,220,754)</u>	<u>(22,941)</u>	<u>35,287,868</u>
Governmental activities capital assets, net	<u>\$ 39,651,780</u>	<u>\$ 12,561,394</u>	<u>\$ (469,856)</u>	<u>\$ 51,743,318</u>

CITY OF GALVESTON, TEXAS
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SEPTEMBER 30, 2003

Exhibit 12

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
Capital assets, not being depreciated				
Land	\$ 1,915,875	\$	\$	\$ 1,915,875
Construction in progress	11,984,930	6,976,014	(2,966,762)	15,994,185
Total capital assets, not being depreciated	<u>13,900,805</u>	<u>6,976,014</u>	<u>(2,966,762)</u>	<u>17,910,060</u>
Capital assets, being depreciated				
Buildings and system	26,752,565	11,000	(84,540)	26,679,025
Improvements other than buildings	66,501,542	3,742,141		70,243,684
Machinery and equipment	9,605,621	182,628	(152,555)	9,635,695
Total capital assets, being depreciated	<u>102,859,728</u>	<u>3,935,769</u>	<u>(237,095)</u>	<u>106,558,404</u>
Less accumulated depreciation for:				
Buildings and system	(10,712,724)	(523,394)	38,330	(11,197,788)
Improvements other than buildings	(27,179,560)	(1,518,450)		(28,698,009)
Machinery and equipment	(6,094,282)	(967,284)	138,560	(6,923,008)
Total accumulated depreciation	<u>(43,986,566)</u>	<u>(3,009,128)</u>	<u>176,890</u>	<u>(46,818,805)</u>
Total capital assets, being depreciated, net	<u>58,873,162</u>	<u>926,641</u>	<u>(60,205)</u>	<u>59,739,599</u>
Business-type activities capital assets, net	<u>\$ 72,773,967</u>	<u>\$ 7,902,655</u>	<u>\$ (3,026,967)</u>	<u>\$ 77,649,659</u>

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

Governmental activities:		
General government		\$ 243,896
Public safety		859,558
Public Works		1,354,990
Culture and recreation		203,837
Planning and community development		53,502
Transit operations		598,823
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets		<u>104,852</u>
Total depreciation expense - governmental activities		<u>\$ 3,419,458</u>
Business-type activities:		
Water		\$ 1,107,251
Sewer		1,263,319
Sanitation		364,385
Airport		205,061
Golf		69,112
Total depreciation expense - business-type activities		<u>\$ 3,009,128</u>

Governmental Activities

<u>Construction in Progress</u>	<u>Project Authorization</u>	<u>Project Cost to date</u>	<u>Remaining Commitment</u>
Convention center	\$ 31,000,000	\$ 14,782,148	\$ 16,217,852

Business-Type Activities

<u>Construction in Progress</u>	<u>Project Authorization</u>	<u>Project Cost to date</u>	<u>Remaining Commitment</u>
<i>Waterworks System Fund Projects</i>			
GCWA Water Plant Facility (1997 Bond)	\$ 8,254,640	\$ 8,254,640	\$
GCWA Water Lines at Jamaica Beach, Pelican Island, etc (2002 Bond)	10,450,243	1,582,111	8,868,132
Various other	802,739	512,314	290,425
<i>Sewer System Fund Projects</i>			
Various sewer projects	9,585,184	5,251,580	4,333,604
<i>Drainage Fund Projects</i>			
Various drainage projects	702,507	327,504	375,003
<i>Sanitation Fund Projects</i>			
Various sanitation projects	56,284	56,284	
<i>Airport Fund Projects</i>			
	9,752	9,752	
Totals	<u>\$ 29,851,597</u>	<u>\$ 15,994,185</u>	<u>\$ 13,867,164</u>

Discretely Presented Governmental Type Component Units

<u>Component Unit</u>	<u>Balance 9/30/2002</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 9/30/2003</u>
Park Board of Trustees	\$ 216,670,921	\$ 61,927,823	\$	\$ 278,598,744
	<u>\$ 216,670,921</u>	<u>\$ 61,927,823</u>	<u>\$ -</u>	<u>\$ 278,598,744</u>

Discretely Presented Business Type Component Units

<u>Component Unit</u>	<u>Balance 12/31/01</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 12/31/02</u>
Galveston Property Finance Authority, Inc. (1)	\$ 590,331	\$ 4,202,188	\$ (3,367,674)	\$ 1,424,845
Board of Trustees of the Galveston Wharves (1)	49,317,909	1,008,422		50,326,331
Total Fixed Assets (net)	<u>\$ 49,908,240</u>	<u>\$ 5,210,610</u>	<u>\$ (3,367,674)</u>	<u>\$ 51,751,176</u>

(1) Presented for calendar year 2002

8 LONG-TERM DEBT

Governmental Activities long-term liability activity for the year ended September 30, 2003, was as follows:

Governmental Activities	Balance at			Balance at
Description	9/30/02	Additions	Retirements	9/30/03
General Obligation				
Bonds	\$ 18,334,425	\$	\$ (350,911)	\$ 17,983,514
Special Obligation				
Bonds	43,170,000		(1,095,000)	42,075,000
Capital Lease	3,206,680	572,740	(1,330,150)	2,449,270
Contracts Payable	71,210		(71,210)	
Accrued Compensated Absences	5,773,216	2,662,212	(2,985,225)	5,450,203
Workers compensation claims reserve	533,304	492,699	(825,413)	200,590
Health Claims - incurred but not reported	637,611	2,046,942	(2,337,527)	347,026
	<u>\$ 71,726,446</u>	<u>\$ 5,774,593</u>	<u>\$ (8,995,436)</u>	<u>\$ 68,505,603</u>
		Reconciliation to Statement of Net Assets		
			Due within one year	\$ 2,561,977
			Due in more than one year	65,943,626
				<u>\$ 68,505,603</u>

Compensated absences and workers compensation claims are liquidated by the funds based on the department personnel to which the claims relate. In prior years, this has typically been the General Fund. Health claims are liquidated by the internal service fund – health insurance fund which is reported as a governmental activity.

Following are descriptions of the Governmental Activities long term obligations:

General Obligation Debt Bonds

\$3,741,630 1990 Public Improvements Bonds due in annual installments of \$322,781 to \$399,690 through May 1, 2009; interest at 7.38% to 7.44%. Includes interest accretion of \$2,738,546.	\$ 4,362,864
\$13,275,102 2001 Obligation and Refunding Bonds due in annual installments of \$568,993 to \$710,000 May 1, 2010 through May 1, 2023; interest at 4.8% to 5.25%. Includes interest accretion of \$345,548.	<u>13,620,650</u>
Total General Obligation Bonds	<u>\$ 17,983,514</u>

Special Obligation Bonds

\$4,560,000 1994 Industrial Development Corporation (IDC) Sales Tax Revenue Bonds due in annual installments of \$310,000 to \$325,000 through March 1, 2004; interest at 5.1% to 5.5% (this debt is being serviced, principal and interest, by Industrial Development Corporation)	\$ 325,000
\$10,900,000 1995 Industrial Development Corporation (IDC) Sales Tax Revenue Bonds due in annual installments of \$460,000 to \$875,000 through September 1, 2015; interest at 5.0% to 5.75% (this debt is being serviced, principal and interest, by Industrial Development Corporation)	985,000
\$1,925,000 2001A Industrial Development Corporation Refunding Bonds due in annual installments of \$350,000 to \$410,000 through March 1, 2009; interest at 3.75% to 4.0% (this debt is being serviced, principal and interest, by Industrial Development Corporation)	1,900,000
\$7,455,000 2001B Industrial Development Corporation Refunding Bonds due in annual installments of \$55,000 to \$865,000 through September 1, 2015; interest at 4.0% to 5.0% (this debt is being serviced, principal and interest, by Industrial Development Corporation)	7,285,000
\$16,150,000 2002A Hotel Occupancy Tax Bonds due in annual installments of \$120,000 to \$1,165,000 through September 1, 2034; interest at 3.0% to 5.0%.	16,030,000
\$15,700,000 2002B Hotel Occupancy Tax Bonds due in annual installments of \$150,000 to \$1,165,000 through September 1, 2032; interest at 3.0% to 5.0%.	<u>15,550,000</u>
Total Special Obligation Bonds	<u>\$ 42,075,000</u>

CITY OF GALVESTON, TEXAS
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Exhibit 12

Capital Leases

\$372,067 1999 Capital Lease purchase due in annual installments of \$84,937 through October 15, 2003; interest at 5.58%.	\$ 80,710
\$1,200,276 1999 Capital Lease purchase due in annual installments of \$264,908 through February 1, 2004; interest at 5.37%.	262,429
\$231,455 2000 Capital Lease purchase due in annual installments of \$54,767 through January 25, 2005; interest at 5%.	100,374
\$900,000 2000 Capital Lease purchase due in semi-annual installments of \$107,387 through October 1, 2005; interest at 6.695%.	395,873
\$157,837 2001 Capital lease purchase due in semi-annual installments of \$17,816 through September 17,2006; interest at 4.53%.	98,908
\$434,316 2002 Capital lease purchase due in semi-annual installments of \$48,941 through August 20, 2006; interest at 4.465%.	272,001
\$720,000 2002 Capital lease purchase due in annual installments of \$158,993 through November 28, 2006; interest at 3.395%.	585,451
\$572,740 2003 Capital lease purchase due in semi-annual installments of \$198,322 through August 6, 2006; interest at 2.3%.	<u>572,740</u>
Total Capital Leases	<u>\$ 2,368,486</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2003, were as follows:

<u>Fiscal year ending September 30</u>	<u>Governmental Activities</u>
2004	\$ 1,181,509
2005	785,223
2006	490,829
2007	<u>158,992</u>
2008	
Later years	
Total minimum payments	2,616,553
Less: Interest	<u>(167,283)</u>
Present value of minimum lease payments	2,449,270
Current Portion	<u>1,083,654</u>
Long Term Portion	<u>\$ 1,365,616</u>

CITY OF GALVESTON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2003

Exhibit 12

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

Fiscal Year ending 9/30	General Obligation Bonds		Special Obligation Bonds	
	Principal	Interest	Principal	Interest
2004	\$ 308,322	\$ 1,080,478	\$ 1,165,000	\$ 1,964,337
2005	284,573	1,104,227	1,240,000	1,913,006
2006	264,454	1,124,346	1,310,000	1,860,296
2007	252,912	1,160,888	1,375,000	1,811,096
2008	234,896	1,178,904	1,450,000	1,758,646
2009	279,162	1,379,638	1,525,000	1,703,459
2010	568,993	829,807	1,175,000	1,650,329
2011	552,612	871,188	1,240,000	1,614,129
2012	536,391	917,409	1,305,000	1,559,091
2013	503,351	950,449	1,380,000	1,506,069
2014	471,829	981,971	1,465,000	1,443,019
2015	441,927	1,011,873	1,550,000	1,375,413
2016	915,000	538,800	740,000	1,303,050
2017	960,000	493,050	795,000	1,270,675
2018	1,010,000	445,050	860,000	1,226,950
2019	1,065,000	389,500	930,000	1,179,650
2020	1,120,000	330,925	1,005,000	1,128,500
2021	3,745,000	269,325	1,085,000	1,078,250
2022	675,000	72,713	1,160,000	1,024,000
2023	710,000	37,275	1,245,000	966,000
2024			1,335,000	903,750
2025			1,425,000	837,000
2026			1,525,000	765,750
2027			1,630,000	689,500
2028			1,735,000	608,000
2029			1,850,000	521,250
2030			1,975,000	425,750
2031			2,105,000	330,000
2032			2,220,000	224,750
2033			1,110,000	113,750
2034			1,165,000	58,250
	<u>\$ 14,899,422</u>	<u>\$ 15,167,816</u>	<u>\$ 42,075,000</u>	<u>\$ 34,813,715</u>
Accreted interest	3,084,092			
Total Payable	<u>\$ 17,983,514</u>			

CITY OF GALVESTON, TEXAS
NOTES TO FINANCIAL STATEMENTS
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Exhibit 12

Business-type Activities long-term liability activity for the year ended September 30, 2003, was as follows:

<u>Description</u>	<u>Balance at 9/30/02</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance at 9/30/03</u>
Contracts (Gulf Coast Water Authority)	\$ 46,499,110	\$	\$ (1,028,121)	\$ 45,470,989
Certificate of Obligation Revenue Bonds Unamortized Bond Discount	12,587,207	1,000,000 11,000,000	(1,493,121)	1,000,000 22,094,086
Capital Lease	(18,616)		211	(18,405)
Accrued Compensated Absences	648,453		(284,918)	363,535
Workers compensation claims reserve	220,142	36,431	(69,981)	821,088 186,592
TOTAL	<u>\$ 59,067,701</u>	<u>\$ 12,000,000</u>	<u>\$ (2,521,031)</u>	<u>\$ 69,917,885</u>
			Reconciliation to Statement of Net Assets	62,354
			Due within one year	67,078,459
			Due in more than one year	2,795,477
			Unamortized bond discount	(18,405)
				<u>\$ 69,917,885</u>

Following are descriptions of the Business-type Activities long term obligations:

Contracts Payable – Enterprise Funds

\$2,934,618 Gulf Coast Water Authority Contract Revenue and Refunding Bonds, Series 1981 and 1985, due in monthly installments of \$39,963 to \$41,254 through July 2009; interest at 5.6% to 5.65%	\$ 2,344,337
\$11,000,000 Gulf Coast Water Authority Contract Revenue Bonds, Series 1997, due in annual installments of \$325,000 to \$925,000 through August 15, 2017; interest at 4.1% to 5.1%.	9,660,000
\$24,640,000 Gulf Coast Water Authority Contract Revenue Bonds, Series 1998A, due in annual installments of \$1,950,000 to \$2,595,00 through August 15, 2022; interest at 4.15% to 5%. (Liability represents the City's 98.693% share of the remaining balance due on these bonds)	22,151,644
\$11,315,000 Gulf Coast Water Authority Contract Revenue Bonds, Series 2002, due in annual installments of \$425,000 to \$595,000 through August 15, 2013; interest at 4.0% to 4.5%.	<u>11,315,000</u>
Total Contracts Payable – Enterprise Funds	<u>\$ 45,470,981</u>

Certificate of Obligations - Enterprise Funds

\$1,000,000 2003 Sanitation Certificate due in annual installments of \$90,000 to \$115,000 through May 1, 2013; interest at 2.85% to 3.75%. \$ 1,000,000

Revenue Bonds – Enterprise Funds

\$1,486,683 1989A Sewer System Revenue Refunding Bonds due in annual installments of \$31,124 to \$58,032 through May 1, 2005; interest at 7.8%. \$ 79,086

\$6,155,000 1993 Sewer System Revenue Refunding Bonds due in annual installments of \$785,000 to \$945,000 through May 1, 2005; interest at 4.4% to 5%. 1,805,000

\$9,995,000 2000 Waterworks and Sewer System Revenue Bonds due in annual installments of \$290,000 to \$810,000 through May 1, 2020; interest at 5.3% to 3.3%. 9,210,000

\$11,000,000 2003 Waterworks and Sewer System Revenue Bonds due in annual installments of \$390,000 to \$795,000 through May 1, 2023; interest at 3.5% to 4.38%. 11,000,000

Total Revenue Bonds, Face Value 22,094,086

Less: Un-amortized Discount (18,405)

Total Revenue Bonds – Enterprise Funds, Net \$ 22,075,681

CITY OF GALVESTON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2003

Exhibit 12

Business-type Activity

Fiscal Year Ending 9/30	Revenue Bonds		Contracts		Sanitation Certificate of Obligation	
	Principal	Interest	Principal	Interest	Principal	Interest
2004	\$ 1,622,962	\$ 1,148,180	\$ 1,082,516	\$ 2,235,791	\$ 90,000	\$ 33,521
2005	1,736,124	1,059,188	1,558,431	2,181,429	90,000	31,503
2006	785,000	898,587	1,634,877	2,105,924	95,000	28,128
2007	820,000	857,640	1,714,186	2,026,410	95,000	24,565
2008	855,000	814,692	1,796,965	1,941,906	95,000	21,003
2009	900,000	769,745	2,354,262	1,845,420	100,000	17,440
2010	940,000	723,620	1,954,675	1,728,192	105,000	14,590
2011	980,000	678,630	2,054,152	1,633,036	105,000	11,309
2012	1,025,000	631,730	2,153,629	1,534,285	110,000	7,765
2013	1,070,000	583,840	2,253,106	1,430,347	115,000	4,025
2014	1,120,000	535,845	2,362,518	1,319,913		
2015	1,170,000	484,995	2,481,865	1,204,083		
2016	1,230,000	430,943	2,601,211	1,081,618		
2017	1,290,000	373,153	3,692,749	939,800		
2018	1,355,000	310,422	2,857,096	755,864		
2019	1,425,000	244,259	2,995,723	613,030		
2020	1,500,000	173,429	3,149,220	463,206		
2021	720,000	97,469	3,302,717	305,781		
2022	755,000	66,869	3,471,083	139,545		
2023	795,000	34,781				
Totals	\$ 22,094,086	\$ 10,918,017	\$ 45,470,981	\$ 25,485,580	\$ 1,000,000	\$ 193,849

The future minimum lease obligations and the net present value of minimum lease payments on Business-type activity capital leases as of September 30, 2003, were as follows:

	Business-type Activities
Fiscal year ending September 30	Municipal Airport
2004	\$ 70,631
2005	70,631
2006	70,631
2007	70,631
2008	70,631
Later years	100,060
Total minimum payments	453,215
Less: Interest	(90,585)
Present value of minimum lease payments	362,630
Current Portion	46,197
Long Term Portion	<u>\$ 316,433</u>

Discretely Presented Component Units

Governmental Activities

Park Board of Trustees - Special Obligation Bonds

\$4,500,000 Industrial Development Corporation Bonds, Series 1999 due in annual installments of \$415,000 to \$545,000; average interest 4.3%. \$ 2,940,000

Business-type Activities

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

\$13,700 Single Family Mortgage Revenue Bonds, Series 1991A due in annual installments of \$100,000 to \$355,000; interest at 8.5%. 1,775,000

Board of Trustees of the Galveston Wharves

\$8,500,000 City of Galveston, Texas Wharves and Terminal Revenue Bonds, Series 1977 due in annual installments; interest at 6.75%. 8,500,000

\$5,235,000 City of Galveston, Texas Wharves and Terminal Revenue Refunding Bonds, Series 1998A due in annual installments; interest at 3.20% to 4.30%. 5,060,000

\$14,685,000 City of Galveston, Texas Wharves and Terminal Revenue Refunding Bonds, Series 1998B due in annual installments; interest at 5.33% to 5.87%. 10,375,000

\$8,500,000 City of Galveston, Texas Wharves and Terminal Special Contract Revenue Refunding Bonds, Series 1998 due in annual installments; interest at 5.50%. 8,500,000

\$4,895,000 City of Galveston, Texas Wharves and Terminal Revenue Bonds, Series 1999 due in annual installments; interest at 4.35% to 5.50%. 4,265,000

Total Revenue Bonds, Face Value 36,700,000

Less: Un-amortized Discount (87,543)

Total Revenue Bonds, Net \$ 36,612,457

F. Long Term Contracts - Waterworks System

On April 15, 2002, the City entered into a contract with Gulf Coast Water Authority (“GCWA”) whereby GCWA issued \$11,315,000 of Water System Contract Revenue Bonds, Series 2002 to be used to build and improve facilities for potable water transportation to and within the City. The bonds will be repaid with pledged revenues from the City’s Waterworks Fund. The interest rate for the bonds ranges from 4.00% to 5.13%. Interest is payable February 15 and August 15 each year. The bonds mature between August 15, 2005 and August 15, 2022.

On May 1, 1998, the City signed a new contract with GCWA that would allow Galveston to begin receiving treated water from the Texas City plant upon completion of its expansion, which took place in August 2001. Terms of the contract included issuance of \$24,640,000 in GCWA Series 1998A revenue bonds dated July 1, 1998. The City pledged Waterworks Fund receipts to repay the bonds. The interest rate for the bonds ranges from 4.15% to 5.00%. Interest is payable February 15 and August 15 of each year. The bonds mature between August 15, 2002 and August 15, 2022. Until the delivery date, the City will pay only its share of the interest on these bonds. After delivery

date, the City will pay its prorated share of interest and principal, as well as its share of raw water and operating costs of the Texas City plant. The City will also continue to pay a prorated share of interest and principal on series 1981a and Series 1991 Mainland project Bonds used to finance earlier improvements at the Texas City plant.

On July 15, 1997, the City entered into a contract with GCWA whereby GCWA issued \$11,000,000 of Water System Contract Revenue Bonds, Series 1997 to be used on Galveston's behalf to build a new two mile pipeline to transport water across Galveston Bay to the City, to repair an 80 year old pipeline already being used for that purpose, and to build a pipeline between Galveston Island and Pelican Island or to do certain improvements in other waterlines on the Island. The bonds will be repaid with pledged revenues from the City's Waterworks Fund. The interest rate for the bonds ranges from 4.10% to 5.10%. Interest is payable February 15 and August 15 each year. The bonds mature between August 15, 2000 and August 15, 2017.

The City has three prior agreements with GCWA that pledge the City's waterworks revenues for payment of long term bonds. All payments to GCWA under these contracts are designated maintenance and operating expense.

On July 10, 1987, GCWA issued bonds in the amount of \$25.8 million to design and construct the Ellington Plant, which was completed and placed in operation September 1990. The City's percentage share of the total debt is 76.08% with League City's share being the remainder 23.92%. Until July 10, 2012, the City's annual debt service payment, which includes interest, is approximately \$1.7 million. The interest rate on the bonds varies from 5.95% to 7.0%. By amendment to the 1971 contract, on July 10, 1987, the City received from GCWA an ownership interest in water production facilities.

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

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

F. Capital Leases

Municipal Airport

The City of Galveston entered into a 20 year equipment lease-purchase agreement with Security Pacific National Bank-Security Pacific Equipment Leasing, Inc. on March 7, 1988, to cover the cost of constructing 21 new re-locatable airport hangars and an administration building. On May 1, 1990, the agreement was transferred and reassigned to General Electric Capital Public Finance Company through a refinancing agreement. Net of depreciation, the carrying value of the building is \$369,123 at September 30, 2003.

Central Services

On February 9, 2000, the City entered into a lease agreement, which includes the Fujitsu F9600 PBX Business Communications Systems for \$256,793. This system will be for telephone communications for the City Hall, Traffic, Garage, Island Transit and the 53rd Street Police Subdivision. The lease will be paid at rate of \$59,646 per year for five years until February 28, 2005. Net of depreciation, the carrying value of the new Fujitsu equipment as of September 30, 2003 is \$68,478.

General Long Term Debt Group

On January 6, 1999, the City of Galveston entered into a \$1,200,276 five-year lease purchase agreement to purchase communication equipment for Emergency Management with Motorola. The lease is paid in annual payment of \$264,908. Net of depreciation, the carrying value of the equipment at September 30, 2003 is \$488,306.

On February 17, 1999, the City of Galveston entered into a \$372,067 five-year lease purchase agreement with Kansas State Bank to purchase two pumpers for the Fire Department. The lease is paid in annual payment of \$84,937. Net of depreciation, the carrying value of the pumpers is \$371,903 at September 30, 2003.

On February 25, 2000, the City entered into a \$231,455 five year lease with option to purchase agreement with Kansas State Bank of Manhattan for the purchase of one fire pumper. The lease payment is being paid once a year at \$54,767. Net of depreciation, the carrying value of the pumpers at September 30, 2003 is \$210,272.

On October 1, 2001 the City entered into a \$900,000 five-year lease agreement with Government Capital Corporation to purchase a computer system for the Police Department. The lease payment is being paid semi-annually at \$107,367. The carrying value, net of depreciation, of the computer system is \$562,962 at September 30, 2003.

On September 14, 2001, the city entered into a \$157,837 five-year lease purchase agreement with Banc One Leasing Corporation to purchase a gradall. The lease payments are being paid semi-annually at \$17,816. Net of depreciation, the carrying value of the gradall at September 30, 2003 is \$149,996.

On October 5, 2001, the City entered into a \$434,316 five-year lease purchase agreement with Suntrust Bank to purchase various equipment items. The lease payment is being paid semi-annually at \$279,441. The carrying value, net of depreciation, of the equipment is \$272,001 at September 30, 2003.

On November 28, 2001, the City entered into a \$720,000 five-year lease purchase agreement with Suntrust Bank to purchase a ladder truck. The lease payment is being made annually at \$158,993. Net of depreciation, the carrying value of the equipment at September 30, 2003 is \$683,799.

On July 11, 2003, the City entered into a \$572,740 three-year lease purchase agreement with Bank One to purchase park and display meters. The lease payment is being paid semi-annually at \$99,161. At September 30, 2003 the carrying value, net of depreciation, of the equipment is \$572,740.

E. Prior Year Refunding of Debt

In prior years, the City defeased certain public improvement bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the respective trust account assets and the liability for the defeased bonds are not included in the City's financial statements. At September 30, 2003, approximately \$1 million previously refunded Series 1990 Public Improvement Bonds outstanding are considered defeased.

F. Segment information

The City issued revenue bonds to finance its sanitation fund. The sanitation fund accounts for the activities of the City's sanitation department and is reported within the other enterprise funds. Summary financial information for the sanitation fund is presented below:

CONDENSED STATEMENT OF NET ASSETS

Assets:	
Current assets	\$ 641
Restricted assets	1,114
Noncurrent assets	22
Capital assets	1,247
Total assets	<u>3,025</u>
Liabilities:	
Current liabilities	497
Noncurrent liabilities	1,077
Total liabilities	<u>1,574</u>
Net assets:	
Invested in capital assets, net of related debt	1,247
Restricted for debt service	113
Unrestricted	91
Total net assets	<u>\$ 1,451</u>

CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Operating revenue	\$ 3,552
Depreciation expense	(364)
Other operating expense	(2,670)
Operating income	<u>517</u>
Nonoperating revenues (expenses):	
Investment earnings	6
Interest expense	(12)
Change in net assets	511
Beginning net assets	939
Ending net assets	<u>\$ 1,451</u>

CONDENSED STATEMENT OF CASH FLOWS

Net cash provided (used) by:	
Operating activities	\$ 841
Noncapital financing activities	(441)
Capital and related financing activities	710
Investing activities	5
Net increase (decrease)	<u>1,114</u>
Beginning cash and cash equivalents	
Ending cash and cash equivalents	<u><u>\$ 1,114</u></u>

9 FUND EQUITY

A. Reservations and Designations

Governmental Fund Types balances were revised for the following as of September 30, 2003:

	<u>General</u>	<u>Convention Center Capital Projects Fund</u>	<u>Non Major Governmental Fund Types</u>
Fund Balance			
Reserved for:			
Encumbrances	\$ 494,680	\$	\$
Prepaid items	53,929		
Flagship hotel	43,914		
Retirement of long term debt			5,087,345
	<u>592,523</u>		<u>5,087,345</u>
Unreserved			
Designated for			
Emergencies *	1,326,310		
Specific Projects		17,115,323	
	<u>1,326,310</u>	<u>17,115,323</u>	
Undesignated	4,738,433		15,105,544
	<u>\$ 6,657,266</u>	<u>\$ 17,115,323</u>	<u>\$ 20,192,889</u>

* City Ordinance established the reserve for emergencies in the General Fund in fiscal year 1997.

B. Deficit Fund Balance

The following special revenue funds were in a deficit fund balance position as of September 30, 2003:

Non-major governmental fund types:	<u>Deficit Balance</u>
Special Revenue Funds:	
Rosenberg Library	\$ (7,979)
Grants and government contracts	\$ (59,653)

10 CONTINGENT LIABILITIES

Grants:

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures, which may be disallowed by the grantor, cannot be determined at this time, although the City expects that any such amounts will be immaterial.

Litigation:

The City is a defendant in various lawsuits and tort claims involving general liability, auto liability, civil rights actions, contractual and other matters. Insurance coverage appears adequate to provide for potential losses. While insurance coverage will be adequate to provide for some potential losses, some litigation does not fall under insurance coverage. It is the opinion of City management that the outcome of any other pending litigation will no have a material effect on the City's financial position or operation

Arbitrage:

The City's arbitrage rebate liabilities as of the latest computation periods were negative with a minimal probability of accruing any arbitrage rebate liabilities over the next fiscal year. The primary government owed no arbitrage as of September 30, 2003.

Environmental Liability:

The City is aware of various sites contaminated by hazardous materials. The City purchased land in April 1995, which contained property that had been a City landfill at one time and other land adjacent to it that has been determined by the U.S. Environmental Protection Agency to be contaminated. The City is presently negotiating with the Texas Natural Resources Conservation Commission to determine the potential cost of cleaning up this property. Ultimately, the cost will depend on the use made of the property and estimates of liability for clean up could range from \$100,000 to several million dollars. The City is negotiating to use the land for a parking lot, in which case the liability should be approximately \$100,000. No amounts have been accrued for this potential liability as of September 30, 2003.

The City is under a U.S. Environmental Protection Agency mandate to repair or replace all substandard waste water system lines. The City has implemented a sanitary sewer over-flow management program to achieve the goals of the mandate.

The City also participates in the Texas Natural Resources Underground Storage Tank registration program and has each site insured for pollution liability.

11 RISK MANAGEMENT

The City is exposed to various risks of loss related to torts, thefts, damage and destruction of assets, errors and omissions, injuries to employees' and natural disasters. The City has commercial insurance policies for liability and property insurance. The major insurance policies have deductibles of \$5,000 per occurrence except for Law Enforcement and Public Officials policies, which have \$25,000 deductibles 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 four years.

The Internal Service Fund is used to account for the accumulation of assets charged to other funds of the City for health care and all other liabilities.

Workers Compensation

The City is self-insured for workers compensation. A commercial policy issued by Midwest Employees Casualty Insurance Company pays for excess claims over \$500,000 per individual and \$1,800,000 aggregate retention.

All funds of the City participate in the program and make payments to the 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, 2003, and is based on requirements of Governmental Accounting Standards Board, Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of loss can be reasonably estimated. The liability in the Insurance Fund is for the City's health plan.

Current liability amounts are recorded in all funds having incurred charges. The estimates of liability are based on current claims outstanding and the estimate of reserves based on industry experience.

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

<u>Fiscal Year</u>	<u>Beginning of Year Accrual</u>	<u>Current Year Estimates</u>	<u>Claim Payments</u>	<u>End of Year Accrual</u>
2002	\$ 1,593,659	\$ (404,968)	\$ (435,245)	\$ 753,446
2003	753,446	529,130	(895,394)	387,182

Employee Health Insurance

Effective November 1, 2001 the City established a limited risk management program for Health Insurance by setting up an Internal Service Fund to account for its insured and self-insured risk of loss. The Internal Service Insurance Fund is principally supported by contributions from the City and the employees. The city makes contributions to cover the employees and the employees are required to make contributions to cover their dependents. The Internal Service Fund charges the various funds premiums for the city's contribution. The city has obtained excess loss insurance that limits the city's claims paid to \$125,000 for individual and \$2,800,000 in aggregate claims on an annual basis from Standard Security Insurance Co.

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

<u>Fiscal Year</u>	<u>Beginning of Year Accrual</u>	<u>Current Year Estimates</u>	<u>Claim Payments</u>	<u>End of Year Accrual</u>
2002	\$	\$ 3,627,766	\$ (2,990,155)	\$ 637,611
2003	637,611	2,046,942	(2,337,527)	347,026

Board of Trustees of the Galveston Wharves

The Galveston Wharves is exposed to various risks of loss related to torts: theft of; damage to and destruction of assets; errors and omissions; and natural disasters, for which the Galveston Wharves carries commercial insurance. The Galveston Wharves is also exposed to the risk of loss resulting from operation of equipment, general, professional and law enforcement liability and workers' liability for which it carries commercial insurance. For the amounts deductible from the loss coverage amounts, the Galveston Wharves is self-insured. The Galveston Wharves has not significantly reduced insurance coverage for the past two years or had settlements that exceeded coverage amounts for the past three fiscal years.

The Galveston Wharves also provides for losses ranging for \$1.0 to 100.0 million by carrying excess/umbrella liability insurance coverage.

12 MAJOR CONTRACTS AND COMMITMENTS

As of September 30, 2003, the City has the following major contracts and commitments in force. The following is a summary of these commitments.

GENERAL FUND:

Emergency Medical Services Contract:

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

Flagship Pier and Hotel Lease:

On January 18, 1990, the City Council agreed to an assignment of the lease with the current lessee to Daniel Yeh d/b/a Evergreen Lodging, Inc. On July 2, 1990, the City received an election from Evergreen Lodging, Inc. to renew and extend the terms of the Flagship Hotel lease for another five-year period (1996-2001). Lessee is entitled to additional options to extend the lease term to the year 2003.

Other pertinent terms of this lease are summarized as follows:

- A.** A minimum rental payment of \$200,000 per year shall be paid to the City as lessor, in equal monthly installments.
- B.** A percentage rental of 15% of total rental revenues received from the lodgings for hire is payable to the lessor, except that the lessee may retain the percentage rental in excess of \$200,000 for so long as is required in order to be reimbursed for expenses incurred under contract for repairs of the pier.
- C.** The lessee is required to maintain the hotel and the lessor shall maintain the pier. As additional rental for the lessor cost of pier repairs will be paid to the lessor in the amount of \$20,000 annually, beginning January 15, 1991. Such payments must be kept in an escrow account to be used solely for pier repairs. Funds used for repairs from the escrow account shall be replaced by the lessee, however, not to exceed payments of \$20,000 annually or \$200,000 in total.

The City conveyed the property to Willie G's Post Oak, Inc., on November 14, 2003, subject to the leasehold.

DISCRETELY PRESENTED COMPONENT UNITS:

Park Board of Trustees

Operating Leases

The Park Board is obligated under certain leases accounted for as operating leases. Operating leases do not give rise to property rights or lease obligations, and therefore the results of the lease agreements are not reflected in the Park Board's account groups.

The following is a schedule by years of future minimum rental payments required under operating leases that have remaining non-cancelable lease terms in excess of one year as of September 30, 2003.

Year Ending September 30	2504 Church	25th & Seawall	21st & Strand	Total
2004	\$ 87,600	\$ 36,000	\$ 38,750	\$ 162,350
2005	87,600	9,000	41,250	137,850
2006	87,600		48,750	136,350
2007	87,600		12,500	100,100
Later years	175,200			175,200
	<u>\$ 525,600</u>	<u>\$ 45,000</u>	<u>\$ 141,250</u>	<u>\$ 711,850</u>

Settlement of Concessionaire Dispute

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

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

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

Year Ended	Concession Contract	Advertising and Promotion	Total
September 30, 2003	\$ 70,000	\$ 60,000	\$ 130,000
September 30, 2004	70,000	60,000	130,000
September 30, 2005	70,000	60,000	130,000
Totals	<u>\$ 210,000</u>	<u>\$ 180,000</u>	<u>\$ 390,000</u>

Board of Trustees of the Galveston Wharves

Direct Financing Lease – Dockside Elevator

The Galveston Wharves acquired a dockside elevator in 1977 for \$36,085,730. The acquisition was financed by the issuance of \$26 million special revenue bonds and \$10,085,730 advanced 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 Revenue Refunding Bonds in the amount of \$8.5 million on April 15, 1998, the Galveston Wharves entered into an amended lease agreement, with its present lessee to amend the terms of the lease extending the initial lease period to November 1, 2015 (17 years) with options to extend the lease for four additional successive terms of three years each.

The Galveston Wharves accounts for the amended lease as a direct financing lease and reflects the following accounts:

Minimum Lease rental payments receivable		
Due within one year	\$	1,458,687
Due after one year		34,838,882
		<u>36,297,569</u>
Unearned income, direct financing lease		
Due within one year		1,327,925
Due after one year		12,944,764
		<u>12,944,764</u>
Net investment in direct financing lease	\$	<u>22,024,880</u>

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

Combination Lease – Sales-Type/Operating

The Galveston Wharves leased its Container Terminal for an initial term of twenty years beginning July 21, 1997 and subject to certain conditions, the tenant has a right to extend the term of the lease for four additional consecutive renewal terms of five years each. Subject to certain lease conditions, the tenant has a right to purchase equipment specified in the lease at any time after the last day of the third lease year and before the last day of the fifteenth lease year.

The Galveston Wharves in accounting for the sales – type lease reflects the following accounts as of December 31, 2002:

Lease payments receivable, current	\$ 673,854
Lease payments receivable, long-term	4,062,752
Total	<u>4,736,606</u>
Unrealized income	<u>(934,992)</u>
Net investment in sales-type lease	<u>\$ 3,801,614</u>

Future Minimum Lease Payments Receivable

<u>Fiscal Year</u>	<u>Future Minimum Lease Payments</u>
2003	\$ 673,854.0
2004	647,631
2005	598,737
2006	542,920
2007	488,081
2008	423,564
2009	404,576
2010	385,580
2011	366,588
2012	205,075
	<u>\$ 4,736,606</u>

Railroad Facilities

In 1987, the Galveston wharves contracted with a separate independent entity to provide all railroad services. In 1997, an amendment to the lease agreement extended the lease period to October 2027, increased the annual basic rental from \$79,112 to \$88,359 and increased the lessee's minimum gross volume required to obligate the lessee to pay the annual lease payment from \$2,250,000 to \$2,512, 987. For each year that the payment is suspended, the term of the lease is extended one year. Additionally, the lease amendment required the lessee to perform specific repairs and replacement to defined tracks and related facilities within thirty-six months of the effective date of the amendment.

Advance Facilities 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, 2002 the amount deferred to future years was approximately \$5.1 million. These amounts are presented as deferred revenues and rentals on the face of the financial statements.

Operating Leases

The Galveston Wharves leases to other certain land and improvements. These leases are classified as operating leases. As of December 31, 2002, minimum lease payments under these operating leases that have non-cancelable lease terms in excess of one year are as follows:

Fiscal Year	Future Lease Payments
2003	\$ 2,539,959
2004	2,566,260
2005	2,599,244
2006	2,564,305
2007	2,360,478
After 2007	19,276,588
Total	<u>\$ 31,906,834</u>

13 EMPLOYEE RETIREMENT BENEFITS

A. Plan Descriptions

The City sponsors three single-employer defined benefit pension plans. The City Employees' Retirement Plan (CERF) covers 525 employees, Firemen's Relief and Retirement Fund (FRRF) covers 104 employees, and City Employees' Retirement Plan for Police (PERF) covers 143 employees. The City Employees' Retirement Plan for City Employees and the City Employees' Retirement Plan for Police were created by ordinances dated 1949, and 1981, respectively. Subsequent ordinances assign the authority to establish and amend benefit provisions to the Board of Trustees of each plan.

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

The benefit and contribution provisions of the Firemen's Relief and Retirement Fund are authorized by Texas Local Fire Fighter's Retirement Act (Article 624e Vernon's Texas Civil Statutes).

All plans provide retirement, disability and death benefits to members and beneficiaries. Cost-of-living adjustments (COLA) are provided at the discretion of the Board of Trustees for each plan respectively.

Financial reports that include financial statements and required supplementary information, including the ten-year trend information, for each retirement plan are publicly available. Complete financial statements for each of the plans units may be obtained at the following administrative offices:

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

The Firemen's Relief and Retirement Fund
8610 Seawall Boulevard
Galveston, Texas 77554

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

B. 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. All plans adopted GASB No. 25.

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

	Employees' Retirement Plan	Firemen's Retirement Plan	Police Retirement Plan
Contribution Rates:			
City	6.00%	13.50%	6.00%
Plan Members	6.00%	12.00%	10.00%
Annual Pension Costs (thousands)	\$1,028	\$616	\$362
Contributions made (thousands)	\$1,028	\$616	\$362
Actuarial valuation date	01/01/03	01/01/02	01/01/02
Actuarial cost method	Entry Age	Entry Age	Entry Age
Amortization method	Level dollar amount	Level percentage of projected payroll, open	Level dollar amount
Remaining amortization period	30	30	30
Amortization period	Closed	open	open
Asset valuation method	Smoothed market value with a five year averaging period	Smoothed market value with a five year averaging period	Market Value
Actuarial assumptions:			
Investment rate of return	8.00%	8.00%	7.50%
Projected salary increase	5.25%	4.50%	Per the 1998 contract between the Police Association and the City
Inflation rate	3.25%	3.25%	3.25%

C. Board of Trustees of the Galveston Wharves

Plan Description

The Galveston Wharves Pension Plan (“The Plan”) is a single-employer defined benefit pension plan administered by an administrative committee appointed by the board of Trustees of the Galveston Wharves. The Plan provides retirement, death, and disability benefits for all regular, full-time employees and employees surviving spouses, except those employees covered by a collective bargaining agreement, of the Galveston Wharves. The authority under which obligation to contribute to The Plan and any plan amendments is vested in the Board of Trustees of the Galveston Wharves by Article 12 of the Charter of the City of Galveston, Texas. The Galveston Wharves does not issue a financial report that includes financial statements and supplementary information for The Plan.

Funding Policy

Eligible employees are not permitted to make contribution to The Plan. When necessary to meet funding requirements of The Plan, the Galveston Wharves is required to contribute to The Plan at an actuarially determined rate. Due to the funding excess at January 1, 2000, funding considerations were unnecessary.

Annual Pension Cost

The Galveston Wharves has no annual pension cost and net pension obligation to the Galveston Wharves Pension Plan. Valuation elements at for the three preceding years are:

	January 1, 2002	January 1, 2001	January 1, 2000
Actuarial value of plan assets	\$ 7,114,778	\$ 7,793,714	\$ 7,739,768
Actuarial accrued liability	<u>7,087,542</u>	<u>5,543,445</u>	<u>5,270,816</u>
Total funding excess	<u>\$ 27,236</u>	<u>\$ 2,250,269</u>	<u>\$ 2,468,952</u>
Annual covered payroll	<u>\$ 2,258,320</u>	<u>\$ 2,562,341</u>	<u>\$ 2,402,305</u>
Ratio-over (under) funded to covered payroll	<u>1%</u>	<u>88%</u>	<u>103%</u>

Annual required contributions for years requiring contributions are determined as part of the year’s end actuarial valuation using the entry age actuarial cost method. The actuarial assumptions include a seven percent per annum investment rate of return after administrative expenses and projected salary increases averaging 3.0 percent per year. The assumptions did not include post-retirement benefit increases. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of investments over a four-year period. At December 31, 2001, The Plan had no unfunded actuarial liability.

Defined Contribution Plan

Park Board of Trustees

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

During the year the Galveston Park Board's required and actual contributions amounted to \$66,508, which was five percent (5%) of \$1,321,700, its current-year covered payroll. Employees' required and actual contributions amounted to \$44,712. Total current year payroll was \$2,739,834.

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

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

Deferred Compensation Plan

City of Galveston

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

Park Board of Trustees

The Park Board offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan is available to all employees to contribute a portion of their salary, before federal taxes, to a retirement account. The Park Board's aim in establishing this tax-favored plan 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 amendments to Section 457 of the Internal Revenue Code effective January 15, 1997, The Plan assets are protected by a trust arrangement from claims on the employer and from any use by the employer other than paying benefits to employees and their beneficiaries in accordance with The Plan. Consequently, pursuant to Government Accounting Standards Board Statement No. 32, The Plan assets are no longer reflected as assets of the Park Board.

Investments for Park Board employees are managed by Public Employee Benefit Services Corporation (PEBSCO) or ICMA Retirement Trust. The participants make a choice of several investment options or a combination thereof.

14 Major Discretely Presented Component Units

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

CITY OF GALVESTON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2003

Exhibit 12

Net Assets

Discretely Presented Component Units
September 30, 2003
(in thousands)

	<i>Governmental Activity Type</i>		
	<i>Park Board</i>	<i>Non-major component units</i>	<i>Total</i>
ASSETS			
Cash and temporary investments	\$ 3,299	\$ (34)	\$ 3,265
Receivables (net of allowance for uncollectibles)	1,459	-	1,459
Other assets	59	-	59
Capital Assets (net of accumulated depreciation):	278,599	241	278,840
Total Assets	283,416	207	283,624
LIABILITIES			
Accounts payable and other current liabilities	799	241	1,040
Due within one year	509	-	509
Due in more than one year	2,630	-	2,630
Total liabilities	3,938	241	4,180
NET ASSETS			
Invested in capital assets, net of related debt	278,594	-	278,594
Restricted for:			-
Capital projects	575	-	575
Other projects	332	-	332
Unrestricted	(23)	(34)	(56)
Total net assets	\$ 279,478	\$ (34)	\$ 279,444

	<i>Business Activity Type</i>		
	<i>Board of Trustees of the Galveston Wharves</i>	<i>Non-major component units</i>	<i>Total</i>
ASSETS			
Cash and temporary investments	\$ 14,348	\$ 609	\$ 14,957
Receivables (net of allowance for uncollectibles)	1,774	1,401	3,175
Other assets	2,821	-	2,821
Net investment in direct financing and capital leases	25,826	1,425	27,251
Capital Assets (net of accumulated depreciation):	50,326		50,326
Total Assets	95,096	3,434	98,530
LIABILITIES			
Noncurrent liabilities:	1,919	285	2,204
Due within one year	2,615	0	2,615
Due in more than one year	42,412	1,775	44,187
Total liabilities	46,946	2,060	49,006
NET ASSETS			
Invested in capital assets, net of related debt	29,475	-	29,475
Restricted for:			-
Debt Service	-	59	59
Other projects	4,656	-	4,656
Unrestricted	14,019	1,315	15,335
Total net assets	\$ 48,150	\$ 1,374	\$ 49,524

Discretely Presented Component Units - Government Type

Statement of Activities
For the Year Ended September 30, 2003

Functions/Programs	Expenses	Program Revenue		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Component Unit				
Park Board of Trustees	\$ 23,161	\$ 4,790	\$ 305	
Non Major Component Units	210			
Total primary government	<u>\$ 23,371</u>	<u>\$ 4,790</u>	<u>\$ 305</u>	

General revenues:
Taxes:
 Property tax
 Sales tax
 Hotel tax
Unrestricted investment earnings
Miscellaneous
Capital asset contributions
 Total general revenues, special items, and transfers
Change in net assets
Net assets - beginning
Net assets - ending

Discretely Presented Component Units - Business Type

Statement of Activities
For the Year Ended December 31, 2002

Functions/Programs	Expenses	Program Revenue		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Component Unit				
Board of Trustees of the Galveston Wharv	\$ 13,208	\$ 14,827	\$ 368	
Non-major component units	297	323		
Total Component units	<u>\$ 13,505</u>	<u>\$ 15,150</u>	<u>\$ 368</u>	

General revenues:
Unrestricted investment earnings
Miscellaneous
 Total general revenues
Change in net assets
Net assets - beginning
Net assets - ending

CITY OF GALVESTON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2003

Exhibit 12

Net (Expense) Revenue and Changes in Net Assets

Park Board of Trustees	Non Major Component Units	Totals
\$ (18,066)	\$	\$ (18,066)
	(210)	(210)
<u>(18,066)</u>	<u>(210)</u>	<u>(18,276)</u>
	176	176
800		800
4,145		4,145
41		41
4		4
<u>73,707</u>		<u>73,707</u>
<u>78,697</u>	<u>176</u>	<u>78,873</u>
60,631	(34)	60,597
218,847		218,847
<u>\$ 279,478</u>	<u>\$ (34)</u>	<u>\$ 279,444</u>

Net (Expense) Revenue and Changes in Net
Assets

Board of Trustees of the Galveston Wharves	Non-major Component Units	Total
\$ 1,987	\$	\$ 1,987
	26	26
<u>1,987</u>	<u>26</u>	<u>2,013</u>
	31	354
324	23	23
<u>324</u>	<u>54</u>	<u>378</u>
2,311	80	2,391
45,839	1,294	47,133
<u>\$ 48,150</u>	<u>\$ 1,374</u>	<u>\$ 49,524</u>



REQUIRED SUPPLEMENTARY INFORMATION

CITY OF GALVESTON, TEXAS
COMBINED SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (BUDGETARY BASIS)
MAJOR GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2003

	General Fund			
	Budgeted Amounts		Actual (Budgetary Basis) Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Property taxes	\$ 9,875,494	\$ 9,875,494	\$ 9,720,585	\$ (154,909)
Sales and use taxes	9,880,000	9,880,000	10,090,984	210,984
Franchise fees	5,485,000	5,485,000	4,824,484	(660,516)
Licenses and permits	669,250	669,250	882,048	212,798
Intergovernmental			79,260	79,260
Charges for services	2,034,500	2,034,500	1,995,951	(38,549)
Payments in lieu of taxes	1,129,500	1,129,500	1,155,303	25,803
Fines and forfeitures	1,785,000	1,785,000	1,658,962	(126,038)
Earnings on investments	110,000	110,000	72,089	(37,911)
Other	756,900	756,900	1,115,422	358,522
Total revenues	<u>31,725,644</u>	<u>31,725,644</u>	<u>31,595,088</u>	<u>(130,556)</u>
Expenditures:				
Current:				
General government	4,172,856	4,072,856	3,932,270	140,586
Public safety	20,803,561	20,903,561	20,993,651	(90,090)
Public works and streets	2,982,378	2,982,378	2,867,018	115,360
Culture and recreation	1,388,478	1,388,478	1,318,663	69,815
Planning and community development	1,428,371	1,428,371	1,339,395	88,976
Transportation system	750,000	750,000	749,957	43
Total expenditures	<u>31,525,644</u>	<u>31,525,644</u>	<u>31,200,954</u>	<u>324,690</u>
Revenues over (under) expenditures	200,000	200,000	394,134	194,134
Fund balances at beginning of year	<u>5,918,552</u>	<u>5,918,552</u>	<u>5,918,552</u>	
Fund balances at end of year	<u>\$ 6,118,552</u>	<u>\$ 6,118,552</u>	<u>\$ 6,312,686</u>	<u>\$ 194,134</u>

See Notes to Financial Statements.

Exhibit 13

Island Transit Fund			
Budgeted Amounts		Actual (Budgetary Basis) Amounts	Variance with Final Budget - Positive (Negative)
Original	Final		
\$	\$	\$	\$
2,371,000	2,371,000	2,356,434	(14,566)
530,000	530,000	561,688	31,688
<u>75,000</u>	<u>75,000</u>	<u>63,778</u>	<u>(11,222)</u>
<u>2,976,000</u>	<u>2,976,000</u>	<u>2,981,900</u>	<u>5,900</u>
<u>2,946,800</u>	<u>2,946,800</u>	<u>2,734,929</u>	<u>211,871</u>
<u>2,946,800</u>	<u>2,946,800</u>	<u>2,734,929</u>	<u>211,871</u>
29,200	29,200	246,971	217,771
<u>836</u>	<u>836</u>	<u>836</u>	
<u>\$ 30,036</u>	<u>\$ 30,036</u>	<u>\$ 247,807</u>	<u>\$ 217,771</u>

A. Legal Compliance – Budgets

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

1. 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.
2. At least seven days prior to the beginning of the fiscal year, the budget is legally enacted by formal approval of the City Council.
3. Prior to October 1, the budget is legally enacted by formal approval of the City Council.
4. The City Charter requires that no funds shall be expended nor shall any obligation for the expenditure of money be incurred unless an appropriation exists in the duly adopted budget. Annual appropriations style budgets are adopted for the General Fund, the Island Transit and the Rosenberg Library Special Revenue Funds, the Debt Service Fund, and all Enterprise Funds.
5. Formal budgetary integration is employed as a management control device during the year for the General Fund, Special Revenue Funds, Capital Projects Funds, Debt Service Fund and Enterprise Funds.
6. Budgets are adopted and accounted for on a basis consistent with generally accepted accounting principles (GAAP), with the following exceptions:
 - a. Initial proceeds and capital outlay amounts related to capital lease purchases are not presented for budgeting purposes. Subsequent lease payments are included in the budgetary process.
 - b. 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.
 - c. Capital and planning grant activities in the Island Transit Special Revenue Fund are not budgeted on an annual basis and are controlled in a manner similar to the grant project funds noted above.
7. Budgeted amounts are reported herein as amended through out the year. There were two budget amendments during FY 2003.
8. Appropriation balances lapse at yearend and may be re-appropriated by City Council. Obligations outstanding at yearend through purchase orders, contracts and other commitments are re-appropriated in the subsequent year.
9. During the fiscal year the City Council may transfer any unencumbered appropriation balance or portion thereof from one department to another at any time. The City Manager shall have authority, without Council approval, to transfer appropriation balances from one expenditure account to another, inclusive within a single office, department or agency of the City. Expenditures may not exceed appropriations at the department category level, as established by policy of the City Council. The legal level of control is at the department category level. Details of expenditures exceeding appropriations follow:

B. Excess of expenditures over appropriations

General Fund

The Emergency Medical Services Department was over budget by \$701 due to phone charges. The Emergency Management Department was over budget by \$207,068 due to tropical storm Claudette. The Emergency Medical Services Department was over budget by \$47,419 due to garage charges and other operational issues.

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

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

	General Fund			
	<u>Budgetary Basis</u>	<u>Encumbrances</u>	<u>Unbudgeted Activities</u>	
Revenues	\$ 31,595,088	\$	\$	\$ 31,595,088
Expenditures	31,200,954	(494,680)	195,785	30,902,059
Revenues over (under) expenditures	394,134	494,680	(195,785)	693,029
Other financing sources (uses)			45,785	45,785
Revenues and other financing sources over (under) expenditures and other financing (uses)	394,134	494,680	(150,000)	738,814
Fund balance at beginning of year	5,918,552			5,918,552
Fund balance at end of year	<u>\$ 6,312,686</u>	<u>\$ 494,680</u>	<u>\$ (150,000)</u>	<u>\$ 6,657,366</u>

	Major Governmental Fund - Island Transit Fund		
	<u>Budgetary Basis</u>	<u>Unbudgeted Activities</u>	<u>GAAP Basis</u>
Revenues	\$ 2,981,900	\$ 220,995	\$ 3,202,895
Expenditures	2,734,929	274,465	3,009,394
Revenues over (under) expenditures	246,971	(53,470)	193,501
Fund balance at beginning of year	836		836
Fund balance at end of year	<u>\$ 247,807</u>	<u>\$ (53,470)</u>	<u>\$ 194,337</u>

CITY OF GALVESTON, TEXAS

REQUIRED PENSION SYSTEM SUPPLEMENTARY INFORMATION

December 31, 2002*

Unaudited

Exhibit 15

Page 1 of 2

SCHEDULES OF FUNDING PROGRESS						
(dollar amounts in thousands)						
City Employees' Retirement Plan (Unaudited)						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Fund Ratio (%) (a/b)	Covered Payroll (c)	UAAL as % of Covered Payroll ((b-a)/c)
1/1/2001	\$ 42,474	\$ 35,342	\$ (7,132)	120.2%	\$ 11,350	62.8%
1/1/2002	\$ 44,687	\$ 38,132	\$ (6,555)	117.2%	\$ 12,258	53.5%
1/1/2003	\$ 33,118	\$ 35,037	\$ 1,919	94.5%	\$ 13,474	14.2%

SCHEDULES OF FUNDING PROGRESS						
(dollar amounts in thousands)						
Firefighter's Retirement Plan (Unaudited)						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Fund Ratio (%) (a/b)	Covered Payroll (c)	UAAL as % of Covered Payroll ((b-a)/c)
1/1/1998	\$ 21,843	\$ 24,050	\$ 2,207	90.8%	\$ 3,743	59.0%
1/1/2000	\$ 24,590	\$ 27,011	\$ 2,421	91.0%	\$ 4,181	57.9%
1/1/2002	\$ 26,400	\$ 32,527	\$ 6,127	81.2%	\$ 4,388	139.6%

SCHEDULES OF FUNDING PROGRESS						
(dollar amounts in thousands)						
Police Retirement Plan (Unaudited)						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Fund Ratio (%) (a/b)	Covered Payroll (c)	UAAL as % of Covered Payroll ((b-a)/c)
1/1/2000	\$ 24,557	\$ 24,818	\$ 261	98.9%	\$ 6,233	4.2%
1/1/2001	\$ 25,427	\$ 27,024	\$ 1,597	94.1%	\$ 6,009	26.6%
1/1/2002	\$ 24,469	\$ 29,763	\$ 5,294	82.2%	\$ 6,484	81.6%

CITY OF GALVESTON, TEXAS

REQUIRED PENSION SYSTEM SUPPLEMENTARY INFORMATION

December 31, 2002

Unaudited

Exhibit 15

Page 2 of 2

THREE YEAR TREND INFORMATION				
(dollar amounts in thousands)				

Retirement Plan	Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
Employees' Retirement Plan	12/31/2000	\$ 594	100%	\$ -
	12/31/2001	\$ 721	100%	\$ -
	12/31/2002	\$ 718	100%	\$ -
Firemen's Retirement Plan	12/31/2000	\$ 514	100%	\$ -
	12/31/2001	\$ 577	100%	\$ -
	12/31/2002	\$ 616	100%	\$ -
Police Retirement Plan	12/31/2000	\$ 324	100%	\$ -
	12/31/2001	\$ 326	100%	\$ -
	12/31/2002	\$ 362	100%	\$ -



GENERAL FUND



CITY OF GALVESTON, TEXAS
GENERAL FUND
COMPARATIVE BALANCE SHEETS
SEPTEMBER 30, 2003 AND 2002

Exhibit A-1

	<u>2003</u>	<u>2002</u>
ASSETS		
Cash and temporary investments	\$ 3,566,619	\$ 1,164,635
Receivables, net of allowance for uncollectible accounts:		
Taxes		
Property, including penalty and interest	1,156,608	1,227,704
Sales	1,760,946	1,622,510
Municipal court fines	414,010	286,948
Accounts	1,565,785	1,356,658
Investment earnings	309	10,895
Due from other funds	857,068	2,377,525
Due from other governments	17,000	203,507
Prepaid expenses	53,929	8,952
Total assets	<u>\$ 9,392,274</u>	<u>\$ 8,259,334</u>
 LIABILITIES AND FUND BALANCES		
LIABILITIES:		
Salaries and benefits payable	\$ 659,232	\$ 624,016
Accounts payable	517,226	262,194
Payable to other governments	246,020	211,278
Deferred revenue	1,312,530	1,243,294
Total liabilities	<u>2,735,008</u>	<u>2,340,782</u>
 FUND BALANCES:		
Reserved for:		
Encumbrances	494,680	55,546
Prepaid expenses	53,929	8,952
Flagship hotel repairs	43,914	43,914
Unreserved		
Designated for emergencies	1,326,310	1,126,310
Undesignated	4,738,433	4,683,830
Total fund balances	<u>6,657,266</u>	<u>5,918,552</u>
Total liabilities and fund balances	<u>\$ 9,392,274</u>	<u>\$ 8,259,334</u>

CITY OF GALVESTON, TEXAS
GENERAL FUND
SCHEDULE OF EXPENDITURES, BUDGET
AND ACTUAL ON BUDGETARY BASIS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2003

Exhibit A-2
Page 1 of 4

WITH COMPARATIVE ACTUAL AMOUNTS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2002

	2003			2002
	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget- Positive (Negative)	Actual (Budgetary Basis)
General government:				
Legislative:				
Personal services	\$ 154,647	\$ 143,592	\$ 11,055	\$ 146,148
Materials and supplies	9,285	8,893	392	8,522
Contractual services	117,406	120,738	(3,332)	151,293
Other charges	11,500	11,032	468	29,859
	<u>292,838</u>	<u>284,255</u>	<u>8,583</u>	<u>335,822</u>
Judicial:				
Personal services	415,311	384,972	30,339	386,878
Materials and supplies	13,782	12,913	869	9,847
Contractual services	90,183	85,260	4,923	215,518
Other charges		100	(100)	2,281
Capital outlay				5,024
	<u>519,276</u>	<u>483,245</u>	<u>36,031</u>	<u>619,548</u>
Executive:				
Personal services	264,022	264,027	(5)	205,800
Materials and supplies	19,416	12,207	7,209	6,912
Contractual services	142,449	142,847	(398)	17,950
Other charges	575,300	560,779	14,521	566,065
Capital outlay	17,500	17,372	128	
	<u>1,018,687</u>	<u>997,232</u>	<u>21,455</u>	<u>796,727</u>
City Auditor:				
Personal services	35,542	22,914	12,628	24,183
Materials and supplies	600		600	11
Contractual services	4,225	3,137	1,088	791
	<u>40,367</u>	<u>26,051</u>	<u>14,316</u>	<u>24,985</u>
Finance:				
Personal services	819,106	810,400	8,706	581,826
Materials and supplies	15,121	13,687	1,434	22,637
Contractual services	236,225	234,659	1,566	366,727
Other charges	(40,126)	(31,457)	(8,669)	(1,658)
	<u>1,030,326</u>	<u>1,027,289</u>	<u>3,037</u>	<u>969,533</u>

CITY OF GALVESTON, TEXAS

GENERAL FUND

SCHEDULE OF EXPENDITURES, BUDGET

AND ACTUAL ON BUDGETARY BASIS - Continued

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2003

WITH COMPARATIVE ACTUAL AMOUNTS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2002

Exhibit A-2

Page 2 of 4

	2003			2002
	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget- Positive (Negative)	Actual (Budgetary Basis)
Legal:				
Personal services	\$ 235,143	\$ 228,075	\$ 7,068	\$ 215,380
Materials and supplies	29,172	16,592	12,580	13,790
Contractual services	37,700	27,121	10,579	69,082
Other charges				8
	302,015	271,788	30,227	298,260
Personnel:				
Personal services	139,592	139,587	5	143,131
Materials and supplies	12,500	12,489	11	11,716
Contractual services	47,761	39,984	7,777	32,899
Other charges	546,994	546,064	930	618,919
	746,847	738,124	8,723	806,665
Taxation:				
Tax collections				
Central Appraisal District	122,500	104,286	18,214	135,077
	122,500	104,286	18,214	135,077
Total general government	4,072,856	3,932,270	140,586	3,986,618
Public Safety:				
Police:				
Personal services	10,459,393	10,638,426	(179,033)	9,752,161
Materials and supplies	223,832	179,619	44,213	123,261
Contractual services	1,390,382	1,206,958	183,424	1,265,339
Other charges	16,950	39,787	(22,837)	4,829
Capital outlay	808,335	805,466	2,869	522,625
	12,898,892	12,870,256	28,636	11,668,216
Special Events - Mardi Gras:				
Personal services				327,411
Materials and supplies				23,316
Contractual services				342,422
				693,148

CITY OF GALVESTON, TEXAS

GENERAL FUND

SCHEDULE OF EXPENDITURES, BUDGET

AND ACTUAL ON BUDGETARY BASIS - Continued

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2003

WITH COMPARATIVE ACTUAL AMOUNTS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2002

Exhibit A-2

Page 3 of 4

	2003			2002
	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget- Positive (Negative)	Actual (Budgetary Basis)
Special Events - Beach Party:				
Personal services	\$	\$	\$	\$ 177,351
Materials and supplies		-		50,725
Contractual services	325,000	323,666	1,334	142,693
Other charges		-		20
	<u>325,000</u>	<u>323,666</u>	<u>1,334</u>	<u>370,789</u>
Fire:				
Personal services	6,268,824	6,212,223	56,601	5,907,982
Materials and supplies	148,288	143,579	4,709	74,678
Contractual services	350,192	289,823	60,369	250,717
Other charges	24,700	738	23,962	112,530
Capital outlay	419,691	431,175	(11,484)	139,704
	<u>7,211,695</u>	<u>7,077,538</u>	<u>134,157</u>	<u>6,485,612</u>
Emergency medical service:				
Contractual services	115,000	162,149	(47,149)	150,000
	<u>115,000</u>	<u>162,149</u>	<u>(47,149)</u>	<u>150,000</u>
Emergency management:				
Personal services	64,781	63,071	1,710	61,828
Materials and supplies	2,000	1,943	57	4,774
Contractual services	27,636	211,772	(184,136)	18,054
Other Charges	(18,000)	6,699	(24,699)	636
Capital outlay	276,557	276,557		276,556
	<u>352,974</u>	<u>560,042</u>	<u>(207,068)</u>	<u>361,848</u>
Total public safety	<u>20,903,561</u>	<u>20,993,651</u>	<u>(90,090)</u>	<u>19,729,613</u>
Public works and streets:				
Personal services	1,509,716	1,317,541	192,175	952,355
Materials and supplies	1,101,991	925,562	176,429	809,971
Contractual services	359,506	329,364	30,142	366,370
Other charges	165	244,703	(244,538)	18,252
Capital outlay	11,000	49,848	(38,848)	578,272
Total public works and streets	<u>2,982,378</u>	<u>2,867,018</u>	<u>115,360</u>	<u>2,725,219</u>

CITY OF GALVESTON, TEXAS

GENERAL FUND

SCHEDULE OF EXPENDITURES, BUDGET

AND ACTUAL ON BUDGETARY BASIS - Continued

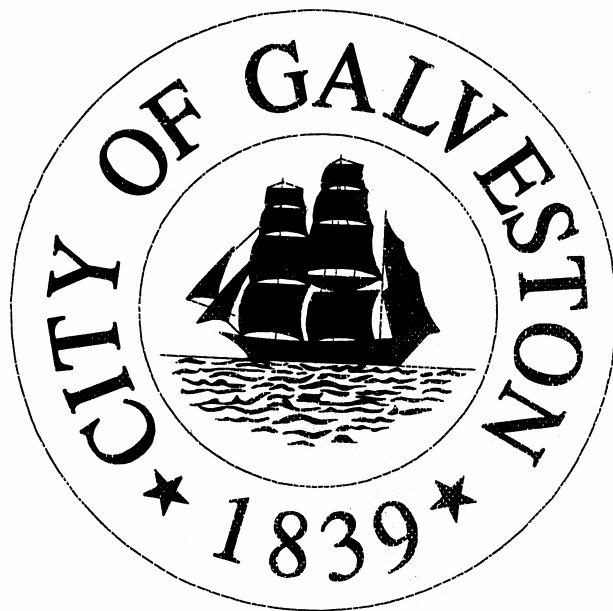
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2003

WITH COMPARATIVE ACTUAL AMOUNTS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2002

Exhibit A-2

Page 4 of 4

	2003			2002
	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget- Positive (Negative)	Actual (Budgetary Basis)
Parks and Recreation				
Personal services	\$ 897,860	\$ 846,187	\$ 51,673	\$ 862,949
Materials and supplies	147,860	127,901	19,959	120,481
Contractual services	180,726	180,179	547	166,460
Other	250	11,695	(11,445)	1,865
Capital outlay	161,782	152,701	9,081	119,500
Total culture and recreation	<u>1,388,478</u>	<u>1,318,663</u>	<u>69,815</u>	<u>1,271,255</u>
Planning and community development				
Personal services	855,864	789,729	66,135	706,572
Materials and supplies	31,660	26,808	4,852	15,659
Contractual services	528,118	490,686	37,432	280,154
Other Charges	(18,141)	1,306	(19,447)	13,121
Capital outlay	30,870	30,866	4	21
Total planning and community development	<u>1,428,371</u>	<u>1,339,395</u>	<u>88,976</u>	<u>1,015,528</u>
Transportation system				
Materials and supplies				3,279
Contractual services	592,500	603,075	(10,575)	550,000
Capital outlay	157,500	146,882	10,618	96,721
Total transportation system	<u>750,000</u>	<u>749,957</u>	<u>43</u>	<u>650,000</u>
Total expenditures	<u>\$ 31,525,644</u>	<u>\$ 31,200,954</u>	<u>\$ 324,690</u>	<u>\$ 29,378,233</u>



NON-MAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

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

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

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

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

Moody Civic Center – to account for receipt and expenditures designated for special projects.

Street Improvements – to account for receipts and expenditures for street resurfacing projects.

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

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

CAPITAL PROJECTS FUNDS

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

Public Improvements – to account for capital outlay for general governmental purposes.

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

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

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

General Fund Capital Projects – to account for capital outlay for planning and community enrichment projects.

Bond 2001 Capital Projects – to account for capital outlay financed by the proceeds from the General Obligation and Refunding Bonds, Series 2001.

Convention Center Capital Projects . to account for capital outlay financed by Series 2002, Hotel Occupancy Tax Revenue Bonds.

DEBT SERVICE FUND

Debt Service Fund - To account for the accumulation of resources for and payment of general long-term debt principal, interest and related costs.

Hotel Occupancy Tax Debt Service Fund - To account for the accumulation of resources for and payment of Hotel Occupancy Bonds principal, interest and related costs.

CITY OF GALVESTON, TEXAS
COMBINING BALANCE SHEET
NON MAJOR GOVERNMENTAL FUNDS - Continued
September 30, 2003

	<i>Special Revenue Funds</i>			
	Rosenberg Library	Industrial Development Corporation	Parks and Recreation Improvement	Moody Civic Center
ASSETS				
Cash and temporary investments	\$	\$ 953,404	\$ 205,553	\$ 13,731
Receivables, net of allowance for uncollectible accounts:				
Taxes	87,836			
Accounts				
Investment earnings		45	13	
Notes				
Due from other governments		590,315		
Total assets	<u>\$ 87,836</u>	<u>\$ 1,543,764</u>	<u>\$ 205,566</u>	<u>\$ 13,731</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Salaries and benefits payable	\$	\$	\$	\$
Accrued compensated absences				
Accounts payable	3,871	150,021	94	
Due to other funds	2,143			
Due to other governments	1,965			
Deferred revenue	87,836			
Advances payable				
Total liabilities	<u>95,815</u>	<u>150,021</u>	<u>94</u>	
FUND BALANCES:				
Reserved for:				
Debt service		261,578		
Industrial Development Corporation Bonds				
Hotel Occupany Tax Bonds				
Other bonded debt				
Unreserved	(7,979)	1,132,165	205,472	13,731
Total fund balances	<u>(7,979)</u>	<u>1,393,743</u>	<u>205,472</u>	<u>13,731</u>
Total liabilities and fund balances	<u>\$ 87,836</u>	<u>\$ 1,543,764</u>	<u>\$ 205,566</u>	<u>\$ 13,731</u>

Debt Service Funds

<u>Street Improvements</u>	<u>Grants and Government Contract Programs</u>	<u>Project Specific Programs</u>	<u>Debt Service Fund</u>	<u>Hotel Occupancy Tax Debt Service Fund</u>
\$ 18,947	\$	\$ 1,562,131	\$ 2,742,374	\$ 2,088,307
	811,906	3,842	117,771	
	8,342	101	178	
	44,345			
	<u>1,441,011</u>	<u>594,912</u>		
<u>\$ 18,947</u>	<u>\$ 2,305,604</u>	<u>\$ 2,160,986</u>	<u>\$ 2,860,323</u>	<u>\$ 2,088,307</u>
\$	\$ 22,065	\$	\$	\$
	181,408	185,375	2,623	
	108,858			
		594,912	2,468	
	2,001,049	345,513	117,772	
	<u>51,877</u>			
	<u>2,365,257</u>	<u>1,125,800</u>	<u>122,863</u>	
			1,219,000	
				2,088,307
			1,518,460	
<u>18,947</u>	<u>(59,653)</u>	<u>1,035,186</u>		
<u>18,947</u>	<u>(59,653)</u>	<u>1,035,186</u>	<u>2,737,460</u>	<u>2,088,307</u>
<u>\$ 18,947</u>	<u>\$ 2,305,604</u>	<u>\$ 2,160,986</u>	<u>\$ 2,860,323</u>	<u>\$ 2,088,307</u>

CITY OF GALVESTON, TEXAS
COMBINING BALANCE SHEET
NON MAJOR GOVERNMENTAL FUNDS - Continued
September 30, 2003

Capital Projects Funds

	Public Improvements	Public Safety Improvements	Drainage and Street Improvements	Sewer Improvements
ASSETS				
Cash and temporary investments	\$ 1,000	\$ 14,232	\$ 487,958	\$ 3,849,855
Receivables, net of allowance for uncollectible accounts:				
Taxes				
Accounts				
Investment earnings			32	249
Notes				
Due from other governments				
Total assets	<u>\$ 1,000</u>	<u>\$ 14,232</u>	<u>\$ 487,990</u>	<u>\$ 3,850,104</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Salaries and benefits payable	\$	\$	\$	\$
Accrued compensated absences				
Accounts payable			111,647	149,969
Due to other funds				
Due to other governments				
Deferred revenue				
Advances payable				
Total liabilities			<u>111,647</u>	<u>149,969</u>
FUND BALANCES:				
Reserved for:				
Debt service				
Industrial Development				
Corporation Bonds				
Hotel Occupany Tax Bonds				
Other bonded debt				
Unreserved	1,000	14,232	376,343	3,700,135
Total fund balances	<u>1,000</u>	<u>14,232</u>	<u>376,343</u>	<u>3,700,135</u>
Total liabilities and fund balances	<u>\$ 1,000</u>	<u>\$ 14,232</u>	<u>\$ 487,990</u>	<u>\$ 3,850,104</u>

<u>General Fund Capital Projects</u>	<u>Bond 2001 Capital Projects</u>	<u>Island Transit Capital Projects</u>	<u>Total Non-major Governmental Funds</u>
\$ 66,511	\$ 8,854,699	\$	\$ 20,858,702
			205,607
		2,499	818,247
	2,377		11,337
			44,345
	<u>60,567</u>	<u>509,797</u>	<u>3,196,602</u>
<u>\$ 66,511</u>	<u>\$ 8,917,643</u>	<u>\$ 512,296</u>	<u>\$ 25,134,840</u>
\$	\$ 1,758	\$	\$ 23,823
	3,966		3,966
30	306,968	219,131	1,311,137
		187,299	298,300
			599,345
		101,333	2,653,503
			51,877
<u>30</u>	<u>312,692</u>	<u>507,763</u>	<u>4,941,951</u>
			261,578
			1,219,000
			2,088,307
			1,518,460
<u>66,481</u>	<u>8,604,951</u>	<u>4,533</u>	<u>15,105,544</u>
<u>66,481</u>	<u>8,604,951</u>	<u>4,533</u>	<u>20,192,889</u>
<u>\$ 66,511</u>	<u>\$ 8,917,643</u>	<u>\$ 512,296</u>	<u>\$ 25,134,840</u>

CITY OF GALVESTON, TEXAS
COMBINING STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND
BALANCES

NON MAJOR GOVERNMENTAL FUNDS - Continued
For the Year Ended September 30, 2003

	<i>Special Revenue Funds</i>			
	Rosenberg Library	Industrial Development Corporation	Parks and Recreation Improvement	Moody Civic Center
REVENUES				
Property Taxes	\$ 1,072,443	\$	\$	\$
Sales tax		3,248,777		
Hotel occupancy taxes				
Fees and fines				
Intergovernmental				
Charges for services				
Investment earnings	862	12,036	2,667	168
Miscellaneous				
Total revenues	<u>1,073,305</u>	<u>3,260,813</u>	<u>2,667</u>	<u>168</u>
EXPENDITURES				
Current:				
General government				
Public Safety				
Culture and recreation	1,085,155	813,551	6,800	
Planning and community development				
Transportation system				
Debt Service:				
Principal				
Interest and other charges				
Capital Outlay:				
General government				
Public Works				
Culture and recreation				
Planning and community development				
Transportation system				
Total Expenditures	<u>1,085,155</u>	<u>813,551</u>	<u>6,800</u>	<u></u>
Revenues Over (Under) Expenditures	<u>(11,850)</u>	<u>2,447,262</u>	<u>(4,133)</u>	<u>168</u>
OTHER FINANCING SOURCES (USES)				
Transfers in				
Transfers out		(2,287,878)		
Total other financing sources and uses		<u>(2,287,878)</u>		
Net change in fund balances	(11,850)	159,384	(4,133)	168
Fund balances at beginning of year	3,871	1,234,359	209,605	13,563
Fund Balances at Year End	<u>\$ (7,979)</u>	<u>\$ 1,393,743</u>	<u>\$ 205,472</u>	<u>\$ 13,731</u>

<i>Debt Service Funds</i>				
Street Improvements	Grants and Government Contract Programs	Project Specific Programs	Debt Service Fund	Hotel Occupancy Tax Debt Service Fund
\$	\$	\$	\$ 1,354,166	\$
				2,091,894
		176,938		
	3,373,149	148,298		
	90,082	44,297		
213	336	10,574	56,380	17,305
		35,218	79,854	
213	3,463,567	415,325	1,490,400	2,109,199
		83,283		
	358,656	82,153		
	30,986			
	3,047,598			
		258,293		
			1,154,500	270,000
			1,569,142	1,518,912
	26,236			
	3,463,476	423,729	2,723,642	1,788,912
213	91	(8,404)	(1,233,242)	320,287
			1,320,080	
			1,320,080	
213	91	(8,404)	86,838	320,287
18,734	(59,744)	1,043,590	2,650,622	1,768,020
\$ 18,947	\$ (59,653)	\$ 1,035,186	\$ 2,737,460	\$ 2,088,307

CITY OF GALVESTON, TEXAS
COMBINING STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND
BALANCES

NON MAJOR GOVERNMENTAL FUNDS - Continued
For the Year Ended September 30, 2003

	<i>Capital Projects Funds</i>		
	<u>Public Improvements</u>	<u>Public Safety Improvements</u>	<u>Drainage and Street Improvements</u>
REVENUES			
Property Taxes	\$	\$	\$
Sales tax			
Hotel occupancy taxes			
Fees and fines			
Intergovernmental			
Charges for services			
Investment earnings		151	8,033
Miscellaneous			
Total revenues	<u> </u>	<u> 151</u>	<u> 8,033</u>
EXPENDITURES			
Current:			
General government			
Public Safety			
Culture and recreation			
Planning and community development			
Transportation system			
Debt Service:			
Principal			30,124
Interest and other charges			5,508
Capital Outlay:			
General government			
Public Works			477,290
Culture and recreation			
Planning and community development			
Transportation system			
Total Expenditures	<u> </u>	<u> </u>	<u> 512,922</u>
Revenues Over (Under) Expenditures	<u> </u>	<u> 151</u>	<u> (504,889)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in			350,533
Transfers out			
Total other financing sources and uses	<u> </u>	<u> </u>	<u> 350,533</u>
Net change in fund balances		151	(154,356)
Fund balances at beginning of year	1,000	14,081	530,699
Fund Balances at Year End	<u>\$ 1,000</u>	<u>\$ 14,232</u>	<u>\$ 376,343</u>

<u>Sewer Improvements</u>	<u>General Fund Capital Projects</u>	<u>Bond 2001 Capital Projects</u>	<u>Island Transit Capital Projects</u>	<u>Total Non-major Governmental Funds</u>
\$	\$	\$	\$	\$ 2,426,609
				3,248,777
				2,091,894
				176,938
			2,034,557	5,556,004
				134,379
43,631	826	130,307	292	283,781
			4,532	119,604
<u>43,631</u>	<u>826</u>	<u>130,307</u>	<u>2,039,381</u>	<u>14,037,986</u>
				83,283
				440,809
				1,936,492
				3,047,598
				258,293
				1,454,624
				3,093,562
	85			85
462,280		2,212,347		3,151,917
		498,922		498,922
		(252,750)	2,034,848	1,782,098
<u>462,280</u>	<u>85</u>	<u>2,458,519</u>	<u>2,034,848</u>	<u>15,773,919</u>
<u>(418,649)</u>	<u>741</u>	<u>(2,328,212)</u>	<u>4,533</u>	<u>(1,735,933)</u>
617,265				2,287,878
<u>617,265</u>				<u>(2,287,878)</u>
198,616	741	(2,328,212)	4,533	(1,735,933)
3,501,519	65,740	10,933,163		21,928,822
<u>\$ 3,700,135</u>	<u>\$ 66,481</u>	<u>\$ 8,604,951</u>	<u>\$ 4,533</u>	<u>\$ 20,192,889</u>

CITY OF GALVESTON, TEXAS

SPECIAL REVENUE FUNDS

Exhibit B-3

ISLAND TRANSIT FUND

**STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL (BUDGETARY BASIS)**

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2003

	<u>Final Budget</u>	<u>Budgetary Basis Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
Revenues			
Intergovernmental-Federal	\$ 1,460,000	\$ 1,457,959	\$ (2,041)
Intergovernmental-State	361,000	348,475	(12,525)
Intergovernmental-Local	550,000	550,000	
Fare box revenues	230,000	220,625	(9,375)
Charges for services	300,000	341,063	41,063
Other	75,000	63,778	(11,222)
Total operating revenues	<u>2,976,000</u>	<u>2,981,900</u>	<u>5,900</u>
Expenditures			
Current			
Transportation system:			
Transit system:			
Personal services	1,321,154	1,190,351	130,803
Materials and supplies	217,000	216,909	91
Contractual services	43,810	43,795	15
Other charges	52,500	52,500	
Total transit system expenditures	<u>1,634,464</u>	<u>1,503,555</u>	<u>130,909</u>
Maintenance:			
Personal services	662,636	665,460	(2,824)
Materials and supplies	222,159	180,096	42,063
Contractual services	25,874	24,799	1,075
Other charges		(15,795)	15,795
Total maintenance expenditures	<u>910,669</u>	<u>854,560</u>	<u>56,109</u>
Administration:			
Personal services	246,560	223,398	23,162
Materials and supplies	42,300	42,281	19
Contractual services	87,191	87,301	(110)
Other charges	25,616	23,834	1,782
Total administration expenditures	<u>401,667</u>	<u>376,814</u>	<u>24,853</u>
Total transportation system	<u>2,946,800</u>	<u>2,734,929</u>	<u>211,871</u>
Revenues and other sources over (under) expenditures	29,200	246,971	217,771
Fund balance (deficit) at beginning of year	836	836	
Fund balance (deficit) at end of year	<u>\$ 30,036</u>	<u>\$ 247,807</u>	<u>\$ 217,771</u>

CITY OF GALVESTON, TEXAS

SPECIAL REVENUE FUNDS

Exhibit B-4

ROSENBERG LIBRARY FUND

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL**

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2003

WITH COMPARATIVE TOTALS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2002

	<u>2003</u>		<u>2002</u>	
	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>	<u>Actual</u>
Revenues:				
Property taxes - current	\$ 1,081,284	\$ 1,061,783	\$ (19,501)	\$ 1,002,904
Property taxes - MUD #29 contract		(23,295)	(23,295)	(18,894)
Property taxes - delinquent		33,955	33,955	37,416
Interest income		862	862	
Total revenues	<u>1,081,284</u>	<u>1,073,305</u>	<u>(7,979)</u>	<u>1,021,426</u>
Expenditures:				
Current:				
Culture and recreation				
Payments to Rosenberg Library	<u>1,081,284</u>	<u>1,085,155</u>	<u>(3,871)</u>	<u>1,017,555</u>
Revenues and other sources over (under) expenditures		(11,850)	(11,850)	3,871
Fund balance (deficit) at beginning of year	<u>3,871</u>	<u>3,871</u>		
Fund balance (deficit) at end of year	<u>\$ 3,871</u>	<u>\$ (7,979)</u>	<u>\$ (11,850)</u>	<u>\$ 3,871</u>

CITY OF GALVESTON, TEXAS

DEBT SERVICE FUND

Exhibit B-5

**STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE-BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2003**

WITH COMPARATIVE ACTUAL TOTALS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2002

	2003		Variance with Final Budget - Positive (Negative)	2002
	Final Budget	Actual		Actual
Revenues:				
Property taxes	\$ 1,358,092	\$ 1,354,166	\$ (3,926)	\$ 1,548,969
Earnings on investments	72,100	56,380	(15,720)	69,894
Other revenues		79,854	79,854	101
Total revenues	<u>1,430,192</u>	<u>1,490,400</u>	<u>60,208</u>	<u>1,618,964</u>
Expenditures:				
Principal retirement	1,154,501	1,154,500	1	1,415,252
Interest and fiscal agent fees	<u>1,603,379</u>	<u>1,569,142</u>	<u>34,237</u>	<u>1,158,490</u>
Total expenditures	<u>2,757,880</u>	<u>2,723,642</u>	<u>34,238</u>	<u>2,573,742</u>
Revenues over (under) expenditures	(1,327,688)	(1,233,242)	94,446	(954,778)
Other financing sources:				
Operating transfers in:				
Industrial Development Corporation	1,354,080	1,320,080	(34,000)	1,373,409
Proceeds from issuance of debt				10,531,378
Payment to refunded bonds escrow agent				<u>(9,610,618)</u>
Total other financing sources (uses)	<u>1,354,080</u>	<u>1,320,080</u>	<u>(34,000)</u>	<u>2,294,169</u>
Revenues and other financing sources over (under) expenditures and other financing (uses)	26,392	86,838	60,446	1,339,391
Fund balances at beginning of year	<u>2,650,622</u>	<u>2,650,622</u>		<u>3,079,251</u>
Fund balance at end of year	<u>\$ 2,677,014</u>	<u>\$ 2,737,460</u>	<u>\$ 60,446</u>	<u>\$ 4,418,642</u>

OTHER ENTERPRISE FUNDS

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

Sanitation Services – to account for the provision of a sanitation system to the residents of Galveston, including but not limited to administration, operations, maintenance, financing and related debt services, and billing and collections.

Drainage Utility – to account for the provision of a utility drainage system to the residents of Galveston, including but not limited to administration, operations, maintenance, financing and related debt services, and billing and collections.

Airport – to account for the provision of a municipal airport including but not limited to administration, operations, maintenance, financing and related debt services, and billing and collections.

Golf Course – to account for the provision of a municipal golf course including but not limited to administration, operations, maintenance, financing and related debt services.

CITY OF GALVESTON, TEXAS
COMBINING STATEMENT OF NET ASSETS
NON-MAJOR ENTERPRISE FUNDS
SEPTEMBER 30, 2003

	<u>Sanitation</u>	<u>Drainage</u>	<u>Airport</u>
ASSETS			
Current assets:			
Cash and cash equivalents	\$	\$	\$ 584,734
Receivables, net of allowance for estimated uncollectibles:			
Accounts	640,562	140,194	47,575
Investment earnings	715		38
Due from other governments			
Inventories			
Prepaid Expenses			208,880
Total current assets	<u>641,277</u>	<u>140,194</u>	<u>841,227</u>
Non-current assets:			
Restricted assets:			
Cash and cash equivalents	1,114,480		
Deferred charges	21,686		
Capital Assets, net of depreciation where applicable	<u>1,247,184</u>	<u>327,504</u>	<u>2,673,879</u>
Total noncurrent assets	<u>2,383,350</u>	<u>327,504</u>	<u>2,673,879</u>
Total assets	<u>3,024,627</u>	<u>467,698</u>	<u>3,515,106</u>
LIABILITIES			
Current Liabilities:			
Salaries payable	24,627	12,468	6,467
Accounts payable and other current liabilities	232,722	1,932	8,271
Due to other funds	122,123	57,446	
Deferred revenue	11,970		11,870
Compensated absences	5,050		
Accrued interest	10,722		
Bonds, notes and loans payable	<u>90,000</u>		<u>46,197</u>
Total current liabilities	<u>497,214</u>	<u>71,846</u>	<u>72,805</u>
Non-current liabilities:			
Contracts, bonds, and capital leases payable	910,000		316,432
Compensated absences	117,077	53,499	34,746
Claims and judgments	<u>49,743</u>		<u>24,758</u>
Total non-current liabilities	<u>1,076,820</u>	<u>53,499</u>	<u>375,936</u>
Total liabilities	<u>1,574,034</u>	<u>125,345</u>	<u>448,741</u>
NET ASSETS			
Invested in capital assets, net of related debt	1,247,184	327,504	2,311,250
Restricted for debt service	112,799		
Unrestricted	<u>90,610</u>	<u>14,849</u>	<u>755,115</u>
Total net assets	<u>\$ 1,450,593</u>	<u>\$ 342,353</u>	<u>\$ 3,066,365</u>

Exhibit C-1

<u>Golf Course</u>	<u>Total</u>
\$	\$ 584,734
	828,331
	753
848	848
39,887	39,887
	208,880
<u>40,735</u>	<u>1,663,433</u>
	1,114,480
	21,686
<u>2,404,226</u>	<u>6,652,793</u>
<u>2,404,226</u>	<u>7,788,959</u>
<u>2,444,961</u>	<u>9,452,392</u>
13,815	57,377
18,953	261,878
832,457	1,012,026
	23,840
	5,050
	10,722
	136,197
<u>865,225</u>	<u>1,507,090</u>
	1,226,432
114,343	319,665
6,387	80,888
<u>120,730</u>	<u>1,626,985</u>
<u>985,955</u>	<u>3,134,075</u>
2,404,226	6,290,164
	112,799
(945,220)	(84,646)
<u>\$ 1,459,006</u>	<u>\$ 6,318,317</u>

CITY OF GALVESTON, TEXAS

**COMBINING STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN
NET ASSETS - NON-MAJOR ENTERPRISE FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2003**

	<u>Sanitation</u>	<u>Drainage</u>	<u>Airport</u>
REVENUES			
Charges for services	\$ 3,549,914	\$ 733,659	\$ 826,533
Other	2,291	15,162	5,133
Total operating revenues	<u>3,552,205</u>	<u>748,821</u>	<u>831,666</u>
OPERATING EXPENSES			
Personal services	1,151,341	514,599	324,571
Materials and supplies	30,234	15,693	84,203
Contractual services	1,033,903	207,644	90,774
Other charges	54,972	6,206	113,479
Payments in lieu of taxes	200,000		
Administrative service charge	200,000	35,000	35,000
Depreciation	364,385		205,061
Total Operating Expenses	<u>3,034,835</u>	<u>779,142</u>	<u>853,088</u>
Operating income (loss)	<u>517,370</u>	<u>(30,321)</u>	<u>(21,422)</u>
NON-OPERATING REVENUES (EXPENSES)			
Interest and investment revenue	5,656	197	7,886
Interest expense	(11,558)		(27,612)
Total non-operating revenue (expenses)	<u>(5,902)</u>	<u>197</u>	<u>(19,726)</u>
Income (loss) before contributions and transfers	511,468	(30,124)	(41,148)
Capital contributions			630,000
Transfers in			
Change in net assets	<u>511,468</u>	<u>(30,124)</u>	<u>588,852</u>
Net assets at beginning of year	<u>939,125</u>	<u>372,477</u>	<u>2,477,513</u>
Net assets at end of year	<u>\$ 1,450,593</u>	<u>\$ 342,353</u>	<u>\$ 3,066,365</u>

Exhibit C-2

<u>Golf Course</u>	<u>Total</u>
\$ 944,541	\$ 6,054,647
1,670	24,256
<u>946,211</u>	<u>6,078,903</u>
594,833	2,585,344
234,171	364,301
234,470	1,566,791
22,036	196,693
	200,000
	270,000
69,112	638,558
<u>1,154,622</u>	<u>5,821,687</u>
<u>(208,411)</u>	<u>257,216</u>
	13,739
	<u>(39,170)</u>
	<u>(25,431)</u>
<u>(208,411)</u>	<u>231,785</u>
	630,000
<u>150,000</u>	<u>150,000</u>
<u>(58,411)</u>	<u>1,011,785</u>
<u>1,517,417</u>	<u>5,306,532</u>
<u>\$ 1,459,006</u>	<u>\$ 6,318,317</u>

CITY OF GALVESTON, TEXAS
COMBINING STATEMENT OF CASH FLOWS
NON-MAJOR ENTERPRISE FUNDS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2003

	<u>Sanitation Services</u>	<u>Drainage Utility</u>	<u>Municipal Airport</u>
Cash flows from operating activities:			
Cash received from customers	\$ 3,512,139	\$ 721,384	\$ 795,228
Cash payments to suppliers for goods and services	(1,084,299)	(191,942)	(510,779)
Cash payments to employees	(1,189,440)	(506,879)	(299,411)
Payment in lieu of taxes	(200,000)		
Administrative service charge	(200,000)	(35,000)	(35,000)
Other operating revenues	2,291	15,762	5,133
Net cash provided by operating activities	<u>840,691</u>	<u>3,325</u>	<u>(44,829)</u>
Cash flows from noncapital and related financing activities:			
Due from other funds	(440,984)		
Interfund transfers			
Net cash provided by (used for) noncapital and related financing activities	<u>(440,984)</u>		
Cash flows from capital and related financing activities:			
Proceeds from issuance of contractual obligations	1,000,000		
Payments for capital acquisitions	(24,144)	(3,522)	(30,063)
Principal paid on revenue bonds			
Principal payments on long term contracts			
Principal paid on capital leases	(242,804)		(43,019)
Interest paid on revenue bonds	(786)		
Interest paid of capital leases			(27,612)
Interest paid on interfund loan payable			
Bond issuance costs	(22,434)		
Contributed capital			
Net cash provided by (used for) capital and related financing activities	<u>709,832</u>	<u>(3,522)</u>	<u>(100,694)</u>
Cash flows from investing activities:			
Interest on investments	4,941	197	8,601
Net increase (decrease) in equity in pooled cash and investments	1,114,480		(136,922)
Cash and temporary investments, beginning of year			721,656
Cash and temporary investments, end of year	<u>\$ 1,114,480</u>	<u>\$</u>	<u>\$ 584,734</u>
Cash and temporary investments per balance sheet			
Unrestricted	\$	\$	\$ 584,734
Restricted	1,114,480		
Cash and temporary investments, end of year	<u>\$ 1,114,480</u>	<u>\$</u>	<u>\$ 584,734</u>

Exhibit C-3
Page 1 of 2

<u>Golf Course</u>	<u>Totals</u>
\$ 932,367	\$ 5,961,118
(478,372)	(2,265,392)
(588,044)	(2,583,774)
	(200,000)
	(270,000)
1,670	24,856
(132,379)	666,808
(9,967)	(450,951)
150,000	150,000
140,033	(300,951)
	1,000,000
(7,654)	(65,383)
	(285,823)
	(786)
	(27,612)
	(22,434)
(7,654)	597,962
	13,739
	977,558
	721,656
\$	\$ 1,699,214
\$	\$ 584,734
	1,114,480
\$	\$ 1,699,214

COMBINING STATEMENT OF CASH FLOWS - Continued
NON-MAJOR ENTERPRISE FUNDS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2003

	<u>Sanitation Services</u>	<u>Drainage Utility</u>	<u>Municipal Airport</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities			
Operating income (loss)	\$ 517,370	\$ (30,320)	\$ (21,422)
Adjustments to reconcile operating income to net cash provided by operating activities:			
Amortization and depreciation expense	364,385		205,061
(Increase) decrease in accounts receivable	(37,775)	(11,674)	(40,264)
Decrease in interfund receivable			
(Increase) decrease in deferred charges	(155)		
(Increase) decrease in inventory and prepaid	1,000		(208,880)
Increase (decrease) in salaries and benefits payable	476	11,920	(3,411)
Increase (decrease) in accounts payable	33,967	1,009	(13,443)
Increase (decrease) in interfund payable		36,588	
Increase (decrease) in in customer deposits			8,960
Increase (decrease) in estimated liability claims	(31,794)	(4,198)	7,319
Increase (decrease) in compensated absences payable	(6,783)		21,251
Total adjustments	<u>323,321</u>	<u>33,645</u>	<u>(23,407)</u>
Net cash provided by operating activities	<u><u>840,691</u></u>	<u><u>\$ 3,325</u></u>	<u><u>\$ (44,829)</u></u>

Exhibit C-3
Page 2 of 2

<u>Golf Course</u>	<u>Totals</u>
\$ (208,411)	\$ 257,217
69,112	638,558
(12,170)	(101,883)
	(155)
10,311	(197,569)
(15,592)	(6,607)
1,993	23,526
	36,588
	8,960
(2,424)	(31,097)
<u>24,802</u>	<u>39,270</u>
<u>76,032</u>	<u>409,591</u>
<u>\$ (132,379)</u>	<u>\$ 666,808</u>

CITY OF GALVESTON, TEXAS
WATERWORKS SYSTEM ENTERPRISE FUND
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET ASSETS - BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2003

Exhibit C-4

WITH COMPARATIVE TOTALS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2002

	2003		Variance with Final Budget - Positive (Negative)	2002
	Final Budget	Actual		Actual
Operating revenues:				
Charges for sales and services:				
Water sales	\$ 10,914,000	\$ 9,455,478	\$ (1,458,522)	\$ 9,510,097
Tap fees	168,325	161,808	(6,517)	185,734
Other	11,100	75,329	64,229	23,787
Total operating revenues	<u>11,093,425</u>	<u>9,692,615</u>	<u>(1,400,810)</u>	<u>9,719,618</u>
Operating expenses:				
Personal services	1,605,582	1,286,960	318,622	2,224,105
Materials and supplies	535,548	423,074	112,474	784,097
Contractual services	496,636	654,621	(157,985)	643,576
Other charges	153,222	166,467	(13,245)	155,931
Surface water contract	5,770,968	5,155,941	615,027	3,572,042
Payments in lieu of taxes	200,000	200,000		200,000
Administrative service charge	420,900	420,900		325,000
Depreciation	1,107,261	1,107,251	10	2,042,668
Total operating expenses	<u>10,290,117</u>	<u>9,415,214</u>	<u>874,903</u>	<u>9,947,419</u>
Operating income (loss)	<u>803,308</u>	<u>277,401</u>	<u>(525,907)</u>	<u>(227,801)</u>
Nonoperating revenues (expenses):				
Contribution of fixed assets by City				
Interest earned	200,000	204,753	4,753	288,922
Interest expense	(191,625)	(182,673)	8,952	(207,928)
Amortization of bond issuance costs	(112,000)	(118,429)	(6,429)	(96,716)
Total nonoperating revenues (expenses)	<u>(103,625)</u>	<u>(96,349)</u>	<u>7,276</u>	<u>(15,722)</u>
Income (loss) before operating transfers	699,683	181,052	(518,631)	(243,523)
Operating transfer in (out) - Sewer Fund				(409,443)
Change in Net Assets	699,683	181,052	(518,631)	(652,966)
Net assets at beginning of year	<u>23,621,046</u>	<u>23,621,046</u>		<u>24,274,012</u>
Net assets at end of year	<u>\$ 24,320,729</u>	<u>\$ 23,802,098</u>	<u>\$ (518,631)</u>	<u>\$ 23,621,046</u>

CITY OF GALVESTON, TEXAS
SEWER SYSTEM ENTERPRISE FUND
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET ASSETS - BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2003
WITH COMPARATIVE TOTALS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2002

Exhibit C-5

	2003		Variance with Final Budget - Positive (Negative)	2002
	Final Budget	Actual		Actual
Operating revenues:				
Charges for sales and services:				
Sewer charges	\$ 7,783,000	\$ 7,302,741	\$ (480,259)	\$ 7,025,107
Tap fees	56,630	32,727	(23,903)	31,449
Waste hauler fees	110,000	90,105	(19,895)	116,305
Other		21,174	21,174	13,558
Total operating revenues	<u>7,949,630</u>	<u>7,446,747</u>	<u>(502,883)</u>	<u>7,186,419</u>
Operating expenses:				
Personal services	2,831,105	2,904,034	(72,929)	2,161,594
Materials and supplies	987,334	948,780	38,554	966,138
Contractual services	907,190	917,817	(10,627)	966,102
Other charges	177,724	200,417	(22,693)	226,876
Payments in lieu of taxes	200,000	200,000		275,000
Administrative service charge	386,600	386,600		200,000
Depreciation	1,263,320	1,263,319	1	1,242,579
Total operating expenses	<u>6,753,273</u>	<u>6,820,967</u>	<u>(67,694)</u>	<u>6,038,289</u>
Operating income (loss)	<u>1,196,357</u>	<u>625,780</u>	<u>(570,577)</u>	<u>1,148,130</u>
Nonoperating revenues (expenses):				
Interest earned	240,000	131,742	(108,258)	287,286
Interest expense	(692,397)	(689,012)	3,385	(620,042)
Amortization of bond issuance costs	(39,500)	(39,473)	27	(37,766)
Gain (loss) on sale of asset		(56,921)	(56,921)	
Total nonoperating revenues (expenses)	<u>(491,897)</u>	<u>(653,664)</u>	<u>(161,767)</u>	<u>(370,522)</u>
Income before operating transfers	704,460	(27,884)	(732,344)	777,608
Operating transfer in (out) - Waterworks Fund				409,443
Change in Net Assets	704,460	(27,884)	(732,344)	1,187,051
Net assets at beginning of year	<u>35,417,347</u>	<u>35,417,347</u>		<u>34,230,296</u>
Net assets at end of year	<u>\$ 36,121,807</u>	<u>\$ 35,389,463</u>	<u>\$ (732,344)</u>	<u>\$ 35,417,347</u>

CITY OF GALVESTON, TEXAS
SANITATION SERVICES ENTERPRISE FUND
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET ASSETS - BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2003
WITH COMPARATIVE TOTALS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2002

Exhibit C-6

	2003		Variance with Final Budget - Positive (Negative)	2002
	Final Budget	Actual		Actual
Operating revenues:				
Charges for sales and services	\$ 3,437,000	\$ 3,549,914	\$ 112,914	\$ 3,616,382
Other		2,291	2,291	24,717
Total operating revenues	<u>3,437,000</u>	<u>3,552,205</u>	<u>115,205</u>	<u>3,641,099</u>
Operating expenses:				
Personal services	1,169,533	1,151,341	18,192	1,218,194
Materials and supplies	37,355	30,234	7,121	33,423
Contractual services	1,065,761	1,033,903	31,858	982,051
Other charges	62,495	54,972	7,523	84,972
Payments in lieu of taxes	200,000	200,000		200,000
Administrative service charge	200,000	200,000		200,000
Depreciation	400,000	364,385	35,615	372,974
Total operating expenses	<u>3,135,144</u>	<u>3,034,835</u>	<u>100,309</u>	<u>3,091,614</u>
Operating income (loss)	301,856	517,370	215,514	549,485
Nonoperating revenues (expenses):				
Interest earned		5,656	5,656	
Interest expense	(74,853)	(11,558)	63,295	(28,383)
	<u>(74,853)</u>	<u>(5,902)</u>	<u>68,951</u>	<u>(28,383)</u>
Changes in Net Assets	227,003	511,468	284,465	521,102
Net assets at beginning of year	<u>939,125</u>	<u>939,125</u>		<u>418,023</u>
Net assets at end of year	<u>\$ 1,166,128</u>	<u>\$ 1,450,593</u>	<u>\$ 284,465</u>	<u>\$ 939,125</u>

CITY OF GALVESTON, TEXAS
DRAINAGE UTILITY ENTERPRISE FUND
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET ASSETS - BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2003

Exhibit C-7

WITH COMPARATIVE TOTALS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2002

	2003		Variance with Final Budget - Positive (Negative)	2002
	Final Budget	Actual		Actual
Operating revenues:				
Charges for sales and services	\$ 1,269,000	\$ 733,659	\$ (535,341)	\$ 762,670
Other	3,500	15,162	11,662	
Total operating revenues	<u>1,272,500</u>	<u>748,821</u>	<u>(523,679)</u>	<u>762,670</u>
Operating expenses:				
Personal services	717,623	514,599	203,024	432,893
Materials and supplies	29,310	15,693	13,617	17,685
Contractual services	376,031	207,644	168,387	193,555
Other charges	103,109	6,206	96,903	4,751
Administrative service charge	35,000	35,000		
Total operating expenses	<u>1,261,073</u>	<u>779,142</u>	<u>481,931</u>	<u>648,884</u>
Operating income (loss)	<u>11,427</u>	<u>(30,321)</u>	<u>(41,748)</u>	<u>113,786</u>
Nonoperating revenues (expenses):				
Interest earned	5,900	197	(5,703)	4,058
Total non-operating revenues (expenses)	<u>5,900</u>	<u>197</u>	<u>(5,703)</u>	<u>4,058</u>
Changes in Net Assets	17,327	(30,124)	(47,451)	117,844
Net assets at beginning of year	<u>372,477</u>	<u>372,477</u>		<u>254,633</u>
Net assets at end of year	<u>\$ 389,804</u>	<u>\$ 342,353</u>	<u>\$ (47,451)</u>	<u>\$ 372,477</u>

CITY OF GALVESTON, TEXAS
MUNICIPAL AIRPORT ENTERPRISE FUND
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET ASSETS - BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2003
WITH COMPARATIVE TOTALS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2002

Exhibit C-8

	2003		Variance with Final Budget - Positive (Negative)	2002
	Final Budget	Actual		Actual
Operating revenues:				
Charges for sales and services:				
Building rental	\$ 176,669	\$ 177,891	\$ 1,222	\$ 169,140
Hangar rental	73,672	72,232	(1,440)	72,564
Terminal space rental	46,606	51,184	4,578	45,678
Land lease rental	488,814	467,710	(21,104)	423,732
Oil company receipts	57,573	57,516	(57)	40,516
Other	5,000	5,133	133	7,182
Total operating revenues	<u>848,334</u>	<u>831,666</u>	<u>(16,668)</u>	<u>758,812</u>
Operating expenses:				
Personal services	305,391	324,571	(19,180)	288,911
Materials and supplies	87,834	84,203	3,631	64,837
Contractual services	90,827	90,774	53	96,980
Other charges	112,083	113,479	(1,396)	94,772
Administrative Service Charge	35,000	35,000		35,000
Depreciation	190,000	205,061	(15,061)	182,730
Total operating expenses	<u>821,135</u>	<u>853,088</u>	<u>(31,953)</u>	<u>763,230</u>
Operating income (loss)	<u>27,199</u>	<u>(21,422)</u>	<u>(48,621)</u>	<u>(4,418)</u>
Nonoperating revenues (expenses):				
Interest earned	20,000	7,886	(12,114)	16,209
Interest expense	<u>(27,612)</u>	<u>(27,612)</u>		<u>(30,572)</u>
Total nonoperating revenues (expenses)	<u>(7,612)</u>	<u>(19,726)</u>	<u>(12,114)</u>	<u>(14,363)</u>
Income before contributions	19,587	(41,148)	(60,735)	(18,781)
Capital contribution		<u>630,000</u>	<u>630,000</u>	
Changes in Net Assets	19,587	588,852	569,265	(18,781)
Net assets at beginning of year	<u>2,477,514</u>	<u>2,477,514</u>		<u>2,496,295</u>
Net assets at end of year	<u>\$ 2,497,101</u>	<u>\$ 3,066,366</u>	<u>\$ 569,265</u>	<u>\$ 2,477,514</u>

CITY OF GALVESTON, TEXAS
MUNICIPAL GOLF COURSE ENTERPRISE FUND
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET ASSETS - BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2003

Exhibit C-9

WITH COMPARATIVE TOTALS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2002

	2003		Variance with Final Budget - Positive (Negative)	2002
	Final Budget	Actual		Actual
Operating revenues:				
Charges for sales and services	\$ 1,314,475	\$ 944,541	\$ (369,934)	\$ 912,829
Other	2,500	1,670	(830)	
Total operating revenues	<u>1,316,975</u>	<u>946,211</u>	<u>(370,764)</u>	<u>912,829</u>
Operating expenses:				
Personal services	605,478	594,833	10,645	538,546
Materials and supplies	293,370	234,171	59,199	245,574
Contractual services	255,053	234,470	20,583	160,660
Other charges	22,913	22,036	877	46,887
Depreciation	77,000	69,112	7,888	73,262
Total operating expenses	<u>1,253,814</u>	<u>1,154,622</u>	<u>99,192</u>	<u>1,064,929</u>
Operating income (loss)	<u>63,161</u>	<u>(208,411)</u>	<u>(271,572)</u>	<u>(152,100)</u>
Nonoperating revenues (expenses):				
Interest earned				27
Interest expense				(8,231)
Loss on retirement of fixed assets				(49,181)
Total non-operating revenues (expenses)				<u>(57,385)</u>
Income (loss) before operating transfers	63,161	(208,411)	(271,572)	(209,485)
Operating transfer in		150,000	150,000	
Changes in Net Assets	63,161	(58,411)	(121,572)	(209,485)
Net assets at beginning of year	<u>1,517,417</u>	<u>1,517,417</u>		<u>1,726,902</u>
Net assets at end of year	<u>\$ 1,580,578</u>	<u>\$ 1,459,006</u>	<u>\$ (121,572)</u>	<u>\$ 1,517,417</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 Services – to account for the financing of providing mailing, printing and data processing services to user departments.

Insurance – to account for City insurance costs and financing through charges to user departments.

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

CITY OF GALVESTON, TEXAS
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF NET ASSETS
SEPTEMBER 30, 2003
WITH COMPARATIVE TOTALS FOR SEPTEMBER 30, 2002

	<u>Garage Fund</u>	<u>Insurance Fund</u>	<u>Central Services Fund</u>
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 408,422	\$ 477,634	\$ 103,389
Investments			
Accounts Receivables, net	115,049	40,508	
Interest receivable	33		
Due from other funds			
Receivables from other governments	8,833		
Inventories	121,439		8,457
Prepaid Expenses		148,841	4,407
Total current assets	<u>653,776</u>	<u>666,983</u>	<u>116,253</u>
Non-current assets:			
Restricted Assets:			
Deposits			
Capital Assets:			
Construction in Progress			51,157
Buildings			476,280
Equipment and Furniture	69,294		220,483
Total non-current assets	<u>69,294</u>		<u>747,920</u>
Total assets	<u>723,070</u>	<u>666,983</u>	<u>864,173</u>
LIABILITIES			
Current Liabilities:			
Accounts payable	113,126	138,948	56,372
Salaries payable	17,256	2,016	12,538
Due to other funds			
Compensated absences			5,001
Capital leases obligation			56,303
Total current liabilities	<u>130,382</u>	<u>140,964</u>	<u>130,214</u>
Non-current liabilities:			
Compensated absences	95,750	14,701	65,818
Capital Lease Obligation			24,481
Claims and judgments	2,913	347,026	
Total non-current liabilities	<u>98,663</u>	<u>361,727</u>	<u>90,299</u>
Total liabilities	<u>229,045</u>	<u>502,691</u>	<u>220,513</u>
NET ASSETS			
Invested in capital assets, net of related debt	69,294		667,136
Unrestricted	424,731	164,292	(23,476)
Total net assets	<u>\$ 494,025</u>	<u>\$ 164,292</u>	<u>\$ 643,660</u>

Exhibit D-1

Totals	
2003	2002
\$ 989,445	\$ 546,059
155,557	169,462
33	273
	227,839
8,833	
129,896	102,092
153,248	123,807
<u>1,437,012</u>	<u>1,169,532</u>
	81,513
51,157	
476,280	447,663
289,777	230,293
<u>817,214</u>	<u>759,469</u>
<u>2,254,226</u>	<u>1,929,001</u>
308,446	422,768
31,810	30,682
	227,839
5,001	23,903
56,303	53,006
<u>401,560</u>	<u>758,198</u>
176,269	173,641
24,481	80,784
349,939	652,806
<u>550,689</u>	<u>907,231</u>
<u>952,249</u>	<u>1,665,429</u>
736,430	625,679
565,547	(362,107)
<u>\$ 1,301,977</u>	<u>\$ 263,572</u>

CITY OF GALVESTON, TEXAS

INTERNAL SERVICE FUNDS

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

FOR THE YEAR ENDED SEPTEMBER 30, 2003

WITH COMPARATIVE TOTALS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2002

	<u>Garage Fund</u>	<u>Insurance Fund</u>	<u>Central Services Fund</u>
REVENUES			
Charges for services	\$ 2,465,266	\$ 5,778,552	\$ 1,457,019
Miscellaneous	9,936	320,562	
Total operating revenues	<u>2,475,202</u>	<u>6,099,114</u>	<u>1,457,019</u>
OPERATING EXPENSES			
Personal services	768,820	109,378	520,928
Materials and supplies	1,099,489	1,873	281,725
Contractual services	336,301	179,722	477,941
Other Charges	264,098		11,173
Insurance policies in force		2,472,970	
Insurance claims and expenses		2,117,152	
Uninsured claims		275,257	
Depreciation	877		103,975
Total operating expenses	<u>2,469,585</u>	<u>5,156,352</u>	<u>1,395,742</u>
Operating income (loss)	<u>5,617</u>	<u>942,762</u>	<u>61,277</u>
NON-OPERATING REVENUES (EXPENSES)			
Interest and investment revenue	9,256	4,660	1,943
Gain on retirement of asset	19,530		
Interest expense			(6,640)
Total non-operating revenue (expenses)	<u>28,786</u>	<u>4,660</u>	<u>(4,697)</u>
Change in net assets	<u>34,403</u>	<u>947,422</u>	<u>56,580</u>
Net assets at beginning of year	459,622	(783,130)	587,080
NET ASSETS at End of Year	<u>\$ 494,025</u>	<u>\$ 164,292</u>	<u>\$ 643,660</u>

Exhibit D-2

Totals	
2003	2002
\$ 9,700,837	\$ 8,750,104
330,498	260,734
<u>10,031,335</u>	<u>9,010,838</u>
1,399,126	1,643,024
1,383,087	1,285,469
993,964	739,917
275,271	943,992
2,472,970	1,852,244
2,117,152	3,627,766
275,257	
104,852	126,944
<u>9,021,679</u>	<u>10,219,356</u>
<u>1,009,656</u>	<u>(1,208,518)</u>
15,859	18,907
19,530	
(6,640)	(9,745)
<u>28,749</u>	<u>9,162</u>
1,038,405	(1,199,356)
263,572	1,462,928
<u>\$ 1,301,977</u>	<u>\$ 263,572</u>

CITY OF GALVESTON, TEXAS
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2003
WITH COMPARATIVE TOTALS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2002

	<u>Central Garage</u>	<u>Insurance</u>	<u>Central Services</u>
Cash flows from operating activities:			
Cash received from customers	\$ 2,372,633	\$ 5,876,257	\$ 1,457,019
Cash payments to suppliers for goods and services	(1,674,124)	(4,711,196)	(851,847)
Cash payments to employees	(783,323)	(780,150)	(519,594)
Other operating revenue	9,936	320,562	
Net cash provided by (used for) operating activities	<u>(74,878)</u>	<u>705,473</u>	<u>85,578</u>
Cash flows from noncapital and related financing activities:			
Interfund advances	<u>227,839</u>	<u>(227,839)</u>	
Cash flows from capital and related financing activities:			
Proceeds from sale of equipment	19,530		
Payment for capital acquisition	(70,171)		(173,393)
Principal paid on capital leases			(53,006)
Interest paid on capital lease			(6,640)
Net cash used for capital and related financing activities	<u>(50,641)</u>		<u>(233,039)</u>
Cash flows from investing activities:			
Interest on investments	<u>9,223</u>		<u>1,670</u>
Net increase (decrease) in equity in pooled cash and investments	111,543	477,634	(145,791)
Cash and temporary investments, beginning of year	<u>296,879</u>		<u>249,180</u>
Cash and temporary investments, end of year	<u>\$ 408,422</u>	<u>\$ 477,634</u>	<u>\$ 103,389</u>

Exhibit D-3
Page 1 of 2

Totals	
2003	2002
\$ 9,705,909	\$ 8,921,578
(7,237,167)	(7,549,145)
(2,083,067)	(1,532,062)
330,498	
716,173	(159,629)
	(38,031)
19,530	
(243,564)	(425,823)
(53,006)	(49,840)
(6,640)	(9,745)
(283,680)	(485,408)
10,893	19,220
443,386	(663,848)
546,059	1,209,907
\$ 989,445	\$ 546,059

CITY OF GALVESTON, TEXAS

INTERNAL SERVICE FUNDS

COMBINING STATEMENT OF CASH FLOWS - Continued

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2003

WITH COMPARATIVE TOTALS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2002

	<u>Central Garage</u>	<u>Insurance</u>	<u>Central Services</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) by Operating Activities			
Operating income (loss)	\$ 5,617	\$ 942,762	\$ 61,277
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:			
Depreciation expense	877		103,975
Decrease (increase) in accounts receivable	(92,633)	97,705	
Decrease in deposits		81,513	
Decrease (increase) in due to other funds			
Decrease (increase) in inventory and prepaid items	(32,636)	(30,534)	5,925
Increase (decrease) in salaries payable	2,326	(910)	(288)
Increase (decrease) in accounts payable	58,400	(66,887)	(82,383)
Increase (decrease) in compensated absences	5,113	(23,009)	1,622
Increase (decrease) in claims payable	(21,942)	(295,167)	(4,550)
Total adjustments	<u>(80,495)</u>	<u>(237,289)</u>	<u>24,301</u>
Net cash provided by (used for) operating activities	<u>\$ (74,878)</u>	<u>\$ 705,473</u>	<u>\$ 85,578</u>

Exhibit D-3
Page 2 of 2

Totals	
2003	2002
\$ 1,009,656	\$ (1,208,518)
104,852	126,944
5,072	(89,260)
81,513	46,487
(57,245)	46,807
1,128	(8,344)
(90,870)	168,074
(16,274)	119,306
(321,659)	638,875
(293,483)	1,048,889
\$ 716,173	\$ (159,629)



TRUST AND AGENCY 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 accumulated 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, 2002.

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

CITY OF GALVESTON, TEXAS
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS
DECEMBER 31, 2002
WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2001

	<u>Pension Trust Funds</u>	<u>Agency Fund *</u>
ASSETS		
Cash and temporary investments	\$ 2,821,338	\$ 283,247
Investments, at fair value	68,456,246	
Receivables:		
Interest and Dividends	284,295	
Loans to participants	112,198	
Contributions		
Due from other governments	55,041	
Prepaid benefits	358,227	
Total assets	<u>\$ 72,087,345</u>	<u>\$ 283,247</u>
LIABILITIES		
Accounts payable	73,098	27,623
Due to others		
Refunds payable and others		255,623
Total liabilities	<u>73,098</u>	<u>\$ 283,246</u>
NET ASSETS		
Held in trust for benefits and other purposes	<u>\$ 72,014,247</u>	

* as of September 30, 2003

Exhibit E-1

<u>2002</u>	<u>2001</u>
\$ 3,104,585	\$ 6,124,847
68,456,246	84,268,551
284,295	315,504
112,198	35,547
55,041	127,373
358,227	367,131
<u>\$ 72,370,592</u>	<u>\$ 91,238,953</u>
100,721	2,322,737
255,623	335,365
<u>356,344</u>	<u>2,658,102</u>
<u>\$ 72,014,248</u>	<u>\$ 88,580,851</u>

CITY OF GALVESTON, TEXAS
PENSION TRUST FUNDS
COMBINING STATEMENT OF PLAN NET ASSETS
DECEMBER 31, 2002
WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2001

	<u>City Employees Retirement</u>	<u>Firemen's Relief and Retirement</u>	<u>Police Retirement</u>
ASSETS			
Cash and temporary investments	\$ 2,356,035	\$ 1,847,126	\$ 974,212
Investments, at fair value	24,870,513	21,488,804	19,740,894
Receivables:			
Interest and Dividends	140,562	20,887	122,846
Loans to participants			112,198
Contributions			
Due from other governments	55,041		
Prepaid benefits	209,607		148,620
Total assets	<u>\$ 27,631,758</u>	<u>\$ 23,356,817</u>	<u>\$ 21,098,770</u>
LIABILITIES			
Accounts payable	\$ 26,829	\$ 20,809	\$ 25,460
Total liabilities	<u>26,829</u>	<u>20,809</u>	<u>25,460</u>
NET ASSETS			
Held in trust for benefits and other purposes	<u>\$ 27,604,929</u>	<u>\$ 23,336,008</u>	<u>\$ 21,073,310</u>

Exhibit E-2

<u>2002</u>	<u>2001</u>
\$ 5,177,373	\$ 5,676,975
66,100,211	84,268,551
284,295	315,504
112,198	35,547
55,041	127,373
358,227	367,131
<u>\$ 72,087,345</u>	<u>\$ 90,791,081</u>
\$ 73,098	\$ 2,210,230
<u>73,098</u>	<u>2,210,230</u>
<u>\$ 72,014,247</u>	<u>\$ 88,580,851</u>

CITY OF GALVESTON, TEXAS

PENSION TRUST FUNDS

COMBINING STATEMENT OF CHANGES IN PLAN NET ASSETS

FOR THE YEAR ENDED DECEMBER 31, 2002

WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2001

	<u>City Employees Retirement</u>	<u>Firemen's Relief and Retirement</u>	<u>Police Retirement</u>
ADDITIONS			
Contributions:			
Employer	\$ 692,688	\$ 615,897	\$ 361,978
Plan Members	658,023	548,539	724,967
Total contributions	<u>1,350,711</u>	<u>1,164,436</u>	<u>1,086,945</u>
Investment earnings:			
Net depreciation of investments	(10,328,760)	(2,805,148)	(3,182,277)
Interest	511,972	501,497	666,277
Dividends	211,212	247,403	168,872
Investment activity expense	(192,528)	(202,446)	(155,566)
Total net investment earnings	<u>(9,798,104)</u>	<u>(2,258,694)</u>	<u>(2,502,694)</u>
Total additions	<u>(8,447,393)</u>	<u>(1,094,258)</u>	<u>(1,415,749)</u>
DEDUCTIONS			
Benefits	2,317,652	1,185,424	1,794,085
Refunds of contributions	102,855		
Administrative	70,023	62,862	76,303
Total deductions	<u>2,490,530</u>	<u>1,248,286</u>	<u>1,870,388</u>
Change in net assets	(10,937,923)	(2,342,544)	(3,286,137)
Net assets - beginning	<u>38,542,852</u>	<u>25,678,552</u>	<u>24,359,447</u>
Net assets - ending	<u>\$ 27,604,929</u>	<u>\$ 23,336,008</u>	<u>\$ 21,073,310</u>

Exhibit E-3

<u>2002</u>	<u>2001</u>
\$ 1,670,563	\$ 1,531,243
1,931,529	1,683,462
<u>3,602,092</u>	<u>3,214,705</u>
(16,316,185)	(5,233,031)
1,679,746	2,132,575
627,487	681,658
<u>(550,540)</u>	<u>(527,419)</u>
<u>(14,559,492)</u>	<u>(2,946,217)</u>
<u>(10,957,400)</u>	<u>268,488</u>
5,297,161	4,819,299
102,855	292,079
209,188	482,716
<u>5,609,204</u>	<u>5,594,094</u>
(16,566,604)	(5,325,606)
<u>88,580,851</u>	<u>93,906,457</u>
<u>\$ 72,014,247</u>	<u>\$ 88,580,851</u>



***CAPITAL ASSETS USED IN THE
OPERATION OF GOVERNMENTAL
FUNDS***



CITY OF GALVESTON, TEXAS
COMPARATIVE SCHEDULE OF CAPITAL ASSETS
USED BY GOVERNMENTAL ACTIVITIES - BY SOURCE
SEPTEMBER 30, 2003

Exhibit F-1

	<u>2003</u>	<u>2002</u>
Capital Assets		
Land	\$ 1,673,302	\$ 1,673,302
Buildings	8,496,576	8,477,990
Improvements other than Buildings	3,507,824	4,818,784
Infrastructure	66,420,856	66,420,856
Equipment	5,155,699	3,204,348
Licensed Vehicles	13,429,187	12,147,978
Construction in progress	14,730,991	446,915
	<u>113,414,435</u>	<u>97,190,173</u>
Total Capital Assets	<u>\$ 113,414,435</u>	<u>\$ 97,190,173</u>
Investments in Capital Assets from:		
General Fund revenue	\$ 87,241,733	\$ 71,017,471
Federal grants	13,330,334	13,330,334
Donations	1,130,000	1,130,000
Capital Assets acquired before July 1, 1956	11,712,368	11,712,368
	<u>113,414,435</u>	<u>97,190,173</u>
Total Investment in Capital Assets	<u>\$ 113,414,435</u>	<u>\$ 97,190,173</u>

CITY OF GALVESTON, TEXAS
SCHEDULE OF CHANGES IN CAPITAL ASSETS USED IN GOVERNMENTAL ACTIVITIES
BY FUNCTION AND ACTIVITY
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2003

	Beginning Balance (as restated)	Additions	(Deletions)	Ending Balance
General Government				
Executive	\$	\$ 43,260	\$	\$ 43,260
Finance	1,056,855			1,056,855
Flagship Hotel	4,155,755			4,155,755
Judicial				
Legislative	532,388			532,388
Personnel	15,308			15,308
Garage	604,725	2,143		606,868
Internal Service	18,139	29,865		48,004
Other-Unclassified	84,125			84,125
Total General Government	6,467,295	75,268		6,542,563
Public Safety				
Police	3,558,290	38,253	(35,583)	3,560,960
Communications	2,151,357			2,151,357
Fire	4,049,680	44,892	(104,073)	3,990,499
EMS	196,352			196,352
Emergency Management		31,048		31,048
Total Public Safety	9,955,679	114,193	(139,656)	9,930,216
Public Works and Streets				
Public Works	43,924,038	127,509		44,051,547
Traffic Control	15,669,847	10,289		15,680,136
Total Public Works and Streets	59,593,885	137,798		59,731,683
Culture and Recreation	3,451,411	15,022,120		19,100,708
Housing	77,456			77,456
Planning and Community Development	88,564	197,999		286,563
Transportation System	6,643,104	189,363		6,832,467
Trolley	10,912,779			10,912,779
Grand Total General Fixed Assets	\$ 97,190,173	\$ 15,736,741	\$ (139,656)	\$ 113,414,435

Land	Buildings	Improvements other than Buildings	Infrastructure	Equipment	Licensed Vehicles	Construction in Progress	Total Fixed Assets
\$	\$	\$	\$	\$ 12,212	\$ 31,048	\$	\$ 43,260
462	4,155,293			1,056,855			1,056,855
39,827	444,926	18,565		29,070			4,155,755
24,330	456,107				15,308		532,388
84,125				9,600	116,831		15,308
				29,865	18,139		606,868
148,744	5,056,326	18,565		1,137,602	181,326		48,004
							84,125
							6,542,563
	841,512	186,595		639,196	1,893,657		3,560,960
3,152	648,215	75,883		2,151,357			2,151,357
	22,729	4,860		44,893	3,218,356		3,990,499
					168,763		196,352
					31,048		31,048
3,152	1,512,456	267,338		2,835,446	5,311,824		9,930,216
	597,437	119,011	41,935,096	609,937	790,066		44,051,547
	130,361	1,518,725	13,785,760	44,289	201,001		15,680,136
	727,798	1,637,736	55,720,856	654,226	991,067		59,731,683
1,513,786	628,345	1,308,899		528,425	390,262	14,730,991	19,100,708
	36,103	41,353					77,456
					286,563		286,563
7,620	405,671	151,031			6,268,145		6,832,467
	129,877	82,902	10,700,000				10,912,779
\$ 1,673,302	\$ 8,496,576	\$ 3,507,824	\$ 66,420,856	\$ 5,155,699	\$ 13,429,187	\$ 14,730,991	\$ 113,414,435



UNAUDITED STATISTICAL SECTION

CITY OF GALVESTON, TEXAS
GENERAL GOVERNMENTAL EXPENDITURES BY FUNCTION
LAST TEN FISCAL YEARS

<u>Fiscal Year</u>	<u>General Government</u>	<u>Public Safety</u>	<u>Public Works and Streets</u>	<u>Culture and Recreation</u>	<u>Planning and Community Development</u>	<u>Transportation System</u>
1994	\$ 2,500,385	\$ 12,886,755	\$ 3,730,027	\$ 2,782,680	\$ 2,272,956	\$ 383,675
1995	2,359,599	12,600,909	4,906,846	2,516,368	2,371,822	1,202,718
1996	2,064,842	11,886,837	5,279,023	1,800,224	2,619,320	921,937
1997	2,236,073	11,517,481	6,096,608	1,954,131	2,400,092	301,628
1998	2,368,826	12,474,926	5,221,263	1,823,792	3,441,887	402,600
1999	3,210,409	14,638,579	3,912,071	1,981,478	3,735,695	3,046,353
2000	4,328,701	18,822,739	2,923,468	2,084,407	2,555,148	2,210,209
2001	4,499,673	19,856,393	2,822,852	2,244,369	2,376,734	4,181,645
2002	4,116,072	20,249,089	2,723,007	2,498,975	4,259,301	3,780,732
2003	3,988,181	19,784,935	2,807,218	3,102,454	4,353,386	3,870,762

Includes all Governmental Fund Types

- (1) Categories have been allocated to functional expenditures for fiscal years 2000 and 2001
- (2) Other Activities includes self insurance claims and judgments.

<u>Inter- governmental</u>	<u>Capital Outlay</u>	<u>Pension and Fringe Benefits (1)</u>	<u>Other Activities (1)(2)</u>	<u>Debt Service</u>	<u>Total</u>
\$ -	\$ 16,326	\$ 2,750,523	\$ 884,185	\$ 1,816,784	\$ 30,024,296
852,714		3,512,696	1,162,486	2,492,789	33,978,947
578,048		2,574,860	2,802,198	2,905,950	33,433,239
611,695		2,470,563	2,670,931	2,614,686	32,873,888
641,847		2,473,598	2,971,631	2,645,353	34,465,723
694,563	1,319,117	1,951,528	2,986,886	2,663,325	40,140,004
743,417	2,474,572			2,631,986	38,774,647
781,368	2,461,694			2,374,011	41,598,739
776,488	4,457,737			2,573,742	45,435,144
	21,006,276			5,568,977	64,482,189

CITY OF GALVESTON
GENERAL GOVERNMENT REVENUES BY SOURCE
LAST TEN FISCAL YEARS

<u>Fiscal Year</u>	<u>Property Taxes</u>	<u>Sales and Use Taxes</u>	<u>Franchise Taxes</u>	<u>Licenses and Permits</u>	<u>Inter-governmental</u>
1994	\$ 9,089,376	\$ 8,842,446	\$ 3,801,185	\$ 271,355	\$ 2,940,212
1995	8,758,805	9,402,017	3,480,667	270,795	3,552,354
1996	9,094,969	10,129,964	3,621,658	375,492	3,383,254
1997	9,289,272	10,030,302	3,845,031	424,449	3,046,876
1998	9,671,598	10,530,429	3,772,582	459,177	4,070,571
1999	9,313,827	11,396,831	4,361,024	398,011	7,031,295
2000	9,863,934	12,201,729	4,518,987	462,939	5,051,429
2001	10,636,480	12,802,191	5,472,040	461,130	6,456,727
2002	11,660,813	12,757,465	4,680,349	970,458	6,700,290
2003	12,147,194	13,339,761	4,824,484	882,048	8,212,693

Includes all Governmental Fund Types

Exhibit II

<u>Charges for Services</u>	<u>Fines and Forfeitures</u>	<u>Earnings on Investments</u>	<u>Other</u>	<u>Total</u>
\$ 1,054,223	\$ 805,485	\$ 239,330	\$ 630,882	\$ 27,674,494
1,591,598	983,491	539,199	632,561	29,211,487
1,763,794	1,184,788	832,792	403,666	30,790,377
1,696,991	1,347,405	655,797	1,395,012	31,731,135
1,790,317	1,591,543	635,976	945,719	33,467,912
1,628,048	1,682,468	547,181	1,467,525	37,826,210
2,796,569	1,757,325	478,547	987,007	38,118,466
2,920,992	1,665,389	835,654	1,442,479	42,693,082
2,615,043	1,919,174	654,678	1,696,133	43,654,403
2,692,018	1,835,900	716,787	7,433,637	52,084,522

CITY OF GALVESTON, TEXAS
PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN FISCAL YEARS

Fiscal Year	Total current tax levy	Current tax collections	Percent of current levy collected	Delinquent tax collections	Total tax collections
1994	\$ 8,989,388	\$ 8,555,286	95.2%	\$ 431,232	\$ 8,986,518
1995	8,833,162	8,425,318	95.4%	394,212	8,819,530
1996	8,931,302	8,515,541	95.3%	505,473	9,021,014
1997	9,211,093	8,877,425	96.4%	390,828	9,268,253
1998	9,496,924	9,225,231	97.1%	421,153	9,646,384
1999	9,583,462	9,169,794	95.7%	373,059	9,542,853
2000	9,652,260	9,450,127	97.9%	261,835	9,711,962
2001	10,627,198	10,233,447	96.3%	327,631	10,561,078
2002	11,798,824	11,214,542	95.0%	410,797	11,625,339
2003	12,227,748	11,707,895	95.7%	452,687	12,160,582

Exhibit III

<u>Percent of total tax collections to current levy</u>	<u>Outstanding delinquent taxes by tax year</u>	<u>Percent of delinquent taxes to current tax levy</u>
100.0%	\$ 2,150,456	23.9%
99.8%	2,445,605	27.7%
101.0%	2,381,265	26.7%
100.6%	2,487,505	27.0%
101.6%	2,568,093	27.0%
99.6%	1,293,883	13.5%
100.6%	1,459,760	15.1%
99.4%	1,502,877	14.1%
98.5%	1,448,171	12.3%
99.5%	1,387,220	11.3%

CITY OF GALVESTON, TEXAS
ASSESSED AND ACTUAL VALUE OF TAXABLE AND NONTAXABLE PROPERTY
LAST TEN FISCAL YEARS

<u>Fiscal Year</u>	<u>Tax Year</u>	<u>Real Property</u>	<u>Personal Property</u>	<u>Total Value</u>	<u>Exemptions*</u>
1994	1993	\$ 1,539,205,092	\$ 238,810,777	\$ 1,778,015,869	\$ 156,457,105
1995	1994	1,513,426,407	270,758,648	1,784,185,055	163,502,660
1996	1995	1,555,952,645	233,265,992	1,789,218,637	167,157,796
1997	1996	1,617,891,554	238,449,582	1,856,341,136	178,093,125
1998	1997	1,686,337,630	231,850,167	1,918,187,797	186,163,134
1999	1998	1,712,403,966	217,292,758	1,929,696,724	188,376,774
2000	1999	1,786,250,158	222,790,255	2,009,040,413	195,430,697
2001	2000	1,906,082,465	241,140,604	2,147,223,069	210,953,229
2002	2001	2,115,860,748	260,088,183	2,375,948,931	223,055,537
2003	2002	2,186,679,405	257,828,683	2,444,508,088	237,044,410

* This category includes only exemptions which reduce taxable property liability. Separately, the Central Appraisal District reports \$971 million in totally tax-exempt property (non-profit, school district, city, county, etc.).

All assessments are at 100% of market value.
Source: Central Appraisal District

Exhibit IV

Net Assessed Value

\$ 1,621,558,764
1,620,682,395
1,622,060,841
1,678,248,011
1,732,024,663
1,741,319,950
1,813,609,716
1,936,269,840
2,152,893,394
2,207,463,678

CITY OF GALVESTON, TEXAS
PROPERTY TAX RATES - DIRECT AND OVERLAPPING GOVERNMENTS
LAST TEN FISCAL YEARS

<u>City of Galveston</u>						
<u>Fiscal Year</u>	<u>Tax Year</u>	<u>General Fund</u>	<u>Pension Fund</u>	<u>Library Fund</u>	<u>Debt Service Fund</u>	<u>Total</u>
1994	1993	\$ 0.2559	\$ 0.1885	\$ 0.0500	\$ 0.0615	\$ 0.5559
1995	1994	0.2480	0.1885	0.0500	0.0615	0.5480
1996	1995	0.2469	0.1885	0.0500	0.0615	0.5469
1997	1996	0.2472	0.1885	0.0500	0.0615	0.5472
1998	1997	0.2472	0.1885	0.0500	0.0615	0.5472
1999	1998	0.4255	-	0.0500	0.0739	0.5494
2000	1999	0.4271	-	0.0500	0.0728	0.5499
2001	2000	0.4314	-	0.0500	0.0672	0.5486
2002	2001	0.4421	-	0.0500	0.0638	0.5559
2003	2002	0.4421	-	0.0500	0.0628	0.5549

(1) Contains the Pension Fund beginning fiscal year 1999.

Exhibit V

<u>Galveston I.S.D.</u>	<u>Junior College</u>	<u>Navigation District No. 1</u>	<u>Galveston County</u>	<u>Total millage</u>
\$ 1.6322	\$ 0.1775	\$ 0.0282	\$ 0.4650	\$ 2.8588
1.5000	0.1775	0.0292	0.4650	2.7197
1.5000	0.1775	0.0322	0.4850	2.7416
1.5000	0.1775	0.0342	0.5075	2.7664
1.5000	0.1878	0.0396	0.5200	2.7946
1.5200	0.1878	0.0400	0.5200	2.8172
1.5200	0.1978	0.0400	0.5450	2.8527
1.5200	0.1978	0.0406	0.5450	2.8520
1.5200	0.1952	0.0406	0.5654	2.8771
1.5700	0.1952	0.0420	0.5939	2.9560

CITY OF GALVESTON, TEXAS
RATIO OF NET GENERAL OBLIGATION BONDED DEBT
TO ASSESSED VALUE AND NET GENERAL OBLIGATION BONDED DEBT PER CAPITA
LAST TEN FISCAL YEARS

<u>Fiscal Year</u>	<u>Population (2)</u>	<u>Assessed Value</u>	<u>Gross Bonded Debt (1)</u>	<u>Less Amount Available in Debt Service Fund</u>	<u>Less Debt Payable From Enterprise Revenues</u>
1994	59,070	\$ 1,621,558,764	\$ 10,117,362	\$ 1,416,964	\$ 1,900,000
1995	59,070	1,620,682,395	8,903,859	1,174,740	1,685,000
1996	59,070	1,622,060,841	7,828,829	911,830	1,460,000
1997	59,070	1,678,248,011	6,758,861	693,357	1,225,000
1998	63,859	1,732,024,663	5,655,241	764,338	980,000
1999	63,859	1,741,319,950	4,595,817	825,189	720,000
2000	63,859	1,813,609,716	7,100,808	746,296	450,000
2001	57,247	1,936,269,840	18,871,931 (3)	1,258,121	170,000
2002	57,247	2,152,893,394	18,334,425	1,528,664	-
2003	57,247	2,207,463,678	17,983,514	2,737,460	-

Notes: (1) Includes all long-term general obligation debt.
(2) Bureau of Census figures 1990 and 2000.
(3) Includes \$3,097,759 accretion.

Exhibit VI

<u>Net Bonded Debt</u>	<u>Ratio of Net Bonded Debt to Assessed Value</u>	<u>Net Bonded Debt per Capita</u>
\$ 6,800,398	0.42%	115
6,044,119	0.37%	102
5,456,999	0.34%	92
4,840,504	0.29%	82
3,910,903	0.23%	61
3,050,628	0.18%	48
5,904,512	0.33%	92
17,443,810	0.90%	305
16,805,761	0.78%	294
15,246,054	0.69%	266

CITY OF GALVESTON, TEXAS
COMPUTATION OF DIRECT AND OVERLAPPING
GENERAL OBLIGATION DEBT
September 30, 2003

Exhibit VII

Governmental Unit	Net Debt Outstanding	Percentage Applicable to City of Galveston (1)	Amount Applicable to City of Galveston
City of Galveston	\$ 15,246,054 (2)	100.00%	\$ 15,246,054
Galveston Independent School District	25,027,903	100.00%	25,027,903
Galveston County	97,095,845 (2)	14.84%	14,409,023
Total direct and overlapping debt			\$ 54,682,980

(1) Percentage will remain the same until annexation of Pirate's Beach is complete.

(2) Includes bond accretion.

CITY OF GALVESTON, TEXAS**RATIO OF ANNUAL DEBT SERVICE EXPENDITURES FOR***Exhibit VIII***GENERAL OBLIGATION BONDED DEBT TO TOTAL GENERAL GOVERNMENTAL EXPENDITURES****LAST TEN FISCAL YEARS**

<u>Fiscal Year</u>	<u>Principal (1)</u>	<u>Interest (2)</u>	<u>Total Debt Service</u>	<u>Total General Governmental Expenditures (3)</u>	<u>Ratio of Debt Service to Total General Governmental Expenditures</u>
1994	\$ 959,623	\$ 253,729	\$ 1,213,352	\$ 30,024,296	4.04%
1995	998,503	235,487	1,233,990	33,978,947	3.63%
1996	834,968	408,685	1,243,653	33,433,239	3.72%
1997	858,620	413,343	1,271,963	32,873,888	3.87%
1998	799,424	486,499	1,285,923	34,465,723	3.73%
1999	927,151	625,436	1,552,587	40,140,004	3.87%
2000	735,332	565,458	1,300,790	38,774,647	3.35%
2001	375,252	963,748	1,339,000	41,598,739	3.22%
2002	375,252	514,748	890,000	45,435,144	1.96%
2003	350,911	1,054,300	1,405,211	64,482,189	2.18%

(1) General obligation bonds reported in the Enterprise Funds, Tax Reinvestment Zones, and Industrial Development Corporation have been excluded.

(2) Excludes advance refunding escrow.

(3) Includes General Fund, Pension and Fringe Benefits Fund, Rosenberg Fund, and Debt Service Funds,

CITY OF GALVESTON, TEXAS
REVENUE BOND COVERAGE
WATER AND SEWER BONDS
LAST TEN FISCAL YEARS

<u>Fiscal Year</u>	<u>Operating and Nonoperating Revenues</u>	<u>Direct Operating Expenses</u>	<u>Adjustments to Direct Operating Expenses (1)</u>	<u>Net Revenue Available For Debt Service</u>
1994	\$ 15,517,424	\$ 12,329,315	\$ -	\$ 3,188,109
1995	15,862,047	12,600,053	-	3,261,994
1996	15,727,889	14,076,621	4,222,052	5,873,320
1997	16,455,009	12,304,032	4,245,198	8,396,175
1998	16,822,624	12,198,874	4,713,739	9,337,489
1999	17,355,863	14,133,470	2,876,754	6,099,147
2000	18,277,247	14,445,017	2,719,964	6,552,194
2001	17,964,816	16,038,067	2,271,659	4,198,408
2002	17,482,247	15,985,708	3,685,247	5,181,786
2003	17,475,857	16,236,181	-	1,239,676

(1) Depreciation, Interest expense, and Payments in lieu of taxes.

Exhibit IX

Debt service requirements

<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Coverage</u>
\$ 835,000	\$ 644,166	\$ 1,479,166	2.16
880,000	565,964	1,445,964	2.26
930,000	514,884	1,444,884	4.06
990,000	458,972	1,448,972	5.79
1,120,000	331,466	1,451,466	6.43
1,077,459	368,050	1,445,509	4.22
1,310,549	1,045,753	2,356,302	2.78
1,448,032	851,017	2,299,049	1.83
1,311,010	690,667	2,001,677	2.59

CITY OF GALVESTON, TEXAS

WATERWORKS AND SEWER SYSTEM ENTERPRISE FUNDS

Exhibit X

**COMBINED SCHEDULE OF NET REVENUES AVAILABLE FOR DEBT SERVICE
FOR FISCAL YEAR ENDED SEPTEMBER 30, 2003**

	<u>Waterworks System</u>	<u>Sewer System</u>	<u>Total Waterworks & Sewer System</u>
Operating Revenues	\$ 9,692,615	\$ 7,446,747	\$ 17,139,362
Nonoperating Revenues	<u>204,753</u>	<u>131,742</u>	<u>336,495</u>
Adjusted revenues	<u>9,897,368</u>	<u>7,578,489</u>	<u>17,475,857</u>
Operating expenses	9,415,214	6,820,967	16,236,181
Less items excluded for purpose of computing net revenues available for debt service			
Depreciation and amortization	(1,107,251)	(1,263,319)	(2,370,570)
Payment in lieu of taxes	<u>(200,000)</u>	<u>(200,000)</u>	<u>(400,000)</u>
	<u>(1,307,251)</u>	<u>(1,463,319)</u>	<u>(2,770,570)</u>
Adjusted expenses	<u>8,107,963</u>	<u>5,357,648</u>	<u>13,465,611</u>
Net revenues available for debt service	<u>\$ 1,789,405</u>	<u>\$ 2,220,841</u>	<u>\$ 4,010,246</u>
Net revenue requirements pursuant to City of Galveston Water and Sewer System Revenue Bond Ordinances -Series 1989, 1993 and 2000 and 2003			
125% times average annual current revenue bond debt service	<u>\$ 326,275</u>		
125% times average annual current revenue bond debt service		<u>\$ 2,332,042</u>	
			<u>\$ 2,658,317</u>

CITY OF GALVESTON, TEXAS
TEN LARGEST TAXPAYERS
September 30, 2003

Exhibit XI

<u>Taxpayer</u>	<u>2002 Assessed Valuation</u>	<u>Percentage of total assessed valuation</u>
Centerpoint Energy Inc.	\$ 41,418,660	1.79%
Southwestern Bell	20,964,540	0.90%
Fertitta Hospitality	18,407,120	0.79%
Newpark Shipbuilding	13,324,280	0.57%
American National Insurance Co.	13,010,540	0.56%
MBP Corporation	11,340,710	0.49%
Sealy Smith Foundation	10,826,190	0.47%
Walmart Realty Co. #504	9,925,120	0.43%
Wal-Mart Stores East Inc.	8,757,140	0.38%
Dawn on the Seawall Partnership	<u>8,700,000</u>	<u>0.38%</u>
Total	<u>\$ 156,674,300</u>	<u>6.76%</u>
Total Assessed Value	<u>\$ 2,317,793,407</u>	

Source: Galveston Central Appraisal District

CITY OF GALVESTON, TEXAS
NEW CONSTRUCTION AND PROPERTY VALUE
LAST TEN FISCAL YEARS

Fiscal year	New Construction Permits (1)			
	Commercial		Residential	
	Number of units	Value	Number of units	Value
1994	11	\$ 20,103,855	84	\$ 9,270,778
1995	11	12,555,000	106	11,462,918
1996	6	5,209,500	78	15,558,989
1997	73	25,385,404	566	46,332,902
1998	22	44,394,700	202	26,440,094
1999	29	11,487,244	101	14,816,984
2000	19	5,667,417	159	26,478,271
2001	31	18,661,750	171	28,849,987
2002	31	53,858,013	153	21,274,383
2003	38	58,215,610	154	24,848,796

* Assessed values on tax rolls prior to exemptions

** Over age 65; veteran's exemptions; 20% homestead exemption

*** Non Taxable property includes properties owned by government agencies,
non-profits, and religious organizations

**** Statistics not available from Central Appraisal District

Source: (1) City Planning Department
(2) Galveston Central Appraisal District

Property Value * (2)

<u>Commercial</u>	<u>Residential</u>	<u>Exemptions**</u>	<u>Nontaxable ***</u>
\$ 402,535,659	\$ 1,333,112,176	\$ 156,457,105	****
356,435,565	1,604,072,097	163,502,660	****
299,238,470	1,269,046,324	166,189,812	872,488,152
362,971,294	1,196,480,316	176,349,300	908,007,854
352,271,783	1,242,618,342	185,007,563	917,125,717
367,640,830	1,310,973,122	192,155,736	936,064,551
368,068,760	1,310,980,332	195,402,715	981,643,856
380,455,091	1,409,138,702	210,953,229	980,533,832
400,505,347	1,577,716,296	223,055,537	979,642,112
404,608,547	1,675,076,631	238,108,229	970,562,108

CITY OF GALVESTON, TEXAS
HISTORICAL WATER CONSUMPTION
LAST TEN FISCAL YEARS

Fiscal Year	Estimated City Population (1)	Water Usage (Millions of Gallons)			
		Number of Customers	Average Day Usage	Peak Day Usage	Peak Month Usage
1994	59,070	20,122	12.100	22.900	632.400
1995	63,859	20,208	16.200	23.400	659.000
1996	63,859	20,473	14.700	24.400	706.100
1997	63,859	21,148	16.333	21.279	625.761
1998	63,859	20,116	14.026	22.750	500.611
1999	63,859	20,698	15.314	22.957	622.868
2000	57,247	21,003	17.192	24.272	657.125
2001	57,013	20,579	15.610	23.714	612.826
2002	57,027	18,432	12.440	16.150	500.500
2003	57,027	20,689	14.100	16.840	505.200

- (1) 1993 based on the 1990 Census.
 Years 1994-99 based on 1994 U.S. Census update.
 Year 2000 based on 2000 Census.
 Years 2001, 2002 and 2003 based on Texas State Data Center, Texas A&M University

Exhibit XIII

<u>Total Usage</u>	<u>Operating Revenue</u>
4,419.700	\$ 9,102,779
5,923.900	9,130,903
5,366.100	9,310,005
5,945.359	9,792,137
5,119.522	9,399,966
5,496.860	10,035,831
6,292.100	10,948,771
5,698.000	9,648,928
4,623.100	9,927,095
4,931.500	9,692,615

CITY OF GALVESTON, TEXAS
NUMBER OF EMPLOYEES IN GOVERNMENT SERVICE
LAST TEN FISCAL YEARS

Exhibit XIV

<u>Fiscal Year</u>	<u>Civil Service</u>	<u>Non-Civil Service</u>	<u>Total</u>
1994	269	492	761
1995	268	466	734
1996	258	475	733
1997	258	431	689
1998	258	387	645
1999	255	441	696
2000	258	498	756
2001	270	513	783
2002	255	514	769
2003	267	497	764

CITY OF GALVESTON, TEXAS
DEMOGRAPHIC STATISTICS
LAST TEN FISCAL YEARS

Exhibit XV

<u>Fiscal year</u>	<u>Population</u>		<u>Per Capita income</u>		<u>Median age</u>		<u>School enrollment (4)</u>	<u>Unemployment (5)</u>
1994	63,859	(1)	\$ 12,399	(1)	32.5	(1)	10,309	10.9%
1995	63,859	(1)	12,399	(1)	32.5	(1)	10,805	9.7%
1996	63,859	(1)	12,399	(1)	32.5	(1)	11,279	10.4%
1997	63,859	(1)	12,399	(1)	32.5	(1)	10,034	10.5%
1998	63,859	(1)	12,399	(1)	32.5	(1)	10,855	8.6%
1999	63,859	(1)	12,399	(1)	32.5	(1)	9,800	8.5%
2000	57,247	(2)	17,769	(2)	35.5	(2)	9,266	7.7%
2001	57,013	(3)	17,769	(2)	35.5	(2)	9,005	7.8%
2002	57,027	(3)	17,769	(2)	35.5	(2)	9,191	9.3%
2003	57,027	(3)	17,769	(2)	35.5	(2)	9,619	10.3%

- Source:
- (1) U.S. 1994 Census update
 - (2) U.S. 2000 Census
 - (3) Texas State Data Center, Texas A & M University
 - (4) Galveston Independent School District
 - (5) Texas Workforce Commission

CITY OF GALVESTON, TEXAS

Miscellaneous Statistics

September 30, 2003

Exhibit XVI

Page 1 of 3

Date of Incorporation	March 1839
Date of adoption of City Charter	April 19, 1960
Form of Government	Council-Manager
Area	264.66 square miles

City of Galveston facilities and services

Miles of streets:

Paved	270
Unpaved	18
Underground storm drains	75

Number of street lights: 3,812

Police Protection:

Number of Stations	3
Number of police officers	164
Number of patrol units	63
Number of law violations	
Physical arrests	9,069
Traffic tickets issued	45,450
Parking violations issued	57,431

Fire Protection:

Number of stations	6
Number of firefighters	105
Number of fire calls answered	7,276
Number of inspections conducted	531

Parks and Recreation:

Number of community centers	2
Number of parks	16
Number of acres in parks	277
Municipal golf course	1
Number of tennis courts	15
Number of athletic fields	28
Number of cemeteries	7

Water System:

Miles of water main	240
Number of service connections	22,000
Number of fire hydrants	1,800
Daily average consumption in gallons	17,192,000
Maximum capacity in gallons	33,000,000

Sewerage System:

Miles of sanitary sewers	220
Number of treatment plants	4
Average daily flow in gallons	10,000,000
Maximum daily capacity of plants in gallons	14,500,000

Number of City employees at September 30, 2003:

Civil Service	267
Non-Civil Service	497

Facilities and services not included in the reporting entity

Education:

Colleges	3
High Schools	
Schools	2
Teachers	223
Enrollment	2,621
Elementary/Middle Schools	
Schools	14
Teachers	501
Enrollment	6,614

Rosenberg Public Library:

Materials	
Total Material Circulates	227,666
Catalogued Units	240,197
Utilization:	
Total Active Borrowers	19,322
Total Library Visits	245,540
Library Programs Conducted	1,307
Total Attendance at Library Programs Conducted	24,813
Computer Laboratory Usage (hours)	55,378

Galveston Wharves:

Number of piers	27
Number of warehouses	
Dockside	5
Other	5
Channel Depth in feet	40
Docking capacity (number of ships)	22

Hospitals:

Number of hospitals	6
Number of beds	795

<u>Year</u>	<u>Population</u>	<u>Percentage increase (decrease)</u>
1838	580	
1850	4,177	620%
1860	7,307	75%
1870	13,818	89%
1880	22,248	61%
1890	29,084	31%
1900	37,789	30%
1910	36,981	(2)%
1920	44,255	20%
1930	52,938	20%
1940	60,862	15%
1950	66,568	9%
1960	65,662	(1)%
1970	61,813	(6)%
1980	61,902	0%
1990	59,070	(5)%
2000	57,247	(3)%