



**Comprehensive Annual
Financial Report
For Fiscal Year Ended September 30, 2016**

CITY OF GALVESTON, TEXAS



**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

**Fiscal Year Ended
September 30, 2016**

Prepared by:

Finance Department

CITY OF GALVESTON, TEXAS
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INTRODUCTORY SECTION

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City of Galveston



P. O. Box 779 / Galveston, Texas 77553

Comprehensive Annual Financial Report for Fiscal Year Ending September 30, 2016 Letter of Transmittal

March 22, 2017

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

State law requires that all general purpose local governments publish within 180 days of the close of each fiscal year a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the comprehensive annual financial report (CAFR) of the City of Galveston, Texas (the City) for the fiscal year ended September 30, 2016.

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

The City's financial statements have been audited by Whitley Penn, LLP a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City for the fiscal year ended September 30, 2016, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unmodified opinion that the City's financial statements for the fiscal year ended September 30, 2016 are fairly presented in conformity with GAAP.

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

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

Profile of the Government

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

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

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

- The Park Board which provides improvements and maintenance to City waterfront parks and beaches;
- The Galveston Redevelopment Authority, which manages funds from three tax reinvestment zones and three public improvement districts for development and improvement projects within specific geographic areas of the City;
- The Galveston Housing Finance Corporation which provides home mortgages and loans to lending institutions for the purpose of making home mortgages.;
- The City of Galveston Property Finance Authority, Inc. which was created by State Statute for the purpose of acquiring, owning, holding, leasing, and selling real or personal property to or for the benefit of the City for the furtherance of its public purposes;
- The Board of Trustees of the Galveston Wharves which manages, controls, and maintains the Port of Galveston;
- The Industrial Development Corporation which provides funding for public works, beach re-nourishment, parks and economic development projects; and
- The City of Galveston Employees' Retirement Plan for City employees, the Galveston Firefighters' Pension Fund, and the City of Galveston Employees' Retirement Plan for Police.

The annual budget serves as the foundation for the City's financial planning and control. For FY 2016 and prior years, all departments of the City were required to submit requests for appropriation to the City's manager around the middle of June each year. The city manager uses these requests as the starting point for developing a proposed budget. Beginning in FY 2016, the budget process for General Fund departments starts with a five-year forecast of revenue and expenditures presented to City Council in May. The forecast frames issues for

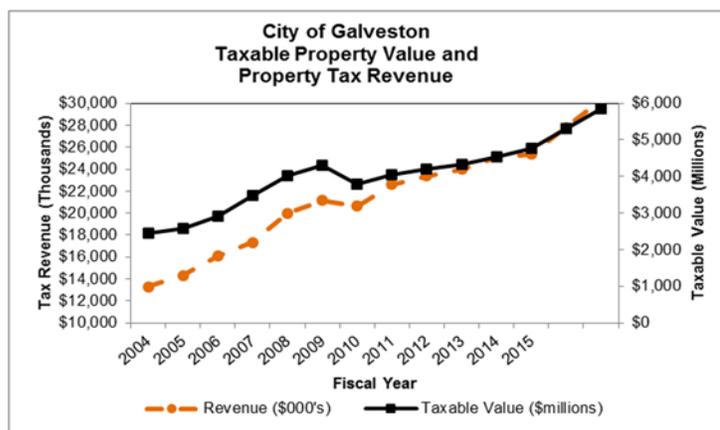
consideration by City Council that are discussed in budget work sessions held during June and July. Using council directed priorities and departmental spending targets derived from the forecast, the city manager develops a proposed budget and presents this proposed budget to the council for review the first week of August.

The council is required to hold public hearings on the proposed budget and to adopt a final budget by no later than seven calendar days before September 30, the close of the City’s fiscal year. The appropriated budget is prepared by fund, function (e.g., public safety), and department (e.g., police). The city manager may make transfers of appropriations within a department without prior approval by City Council. Transfers of appropriations between departments, however, require the prior approval of the City Council. Revenue and expense is monitored throughout the fiscal year and documented in quarterly reports, along with the status of capital projects and capital funds. The Budget is amended by City Council as needed for municipal purposes under the authority of the state Budget Law (Local Government Code Chapter 102) and the city charter. At the close of each fiscal year, any unencumbered balance of an appropriation reverts to the fund from which it was originally appropriated and may be re-appropriated by the council.

Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. For the General Fund, this comparison is presented on page 73 of the Basic Financial Statements. For governmental funds, other than the General Fund, with appropriated annual budgets, this comparison is presented in the governmental fund subsection for each governmental fund for which a budget has been adopted.

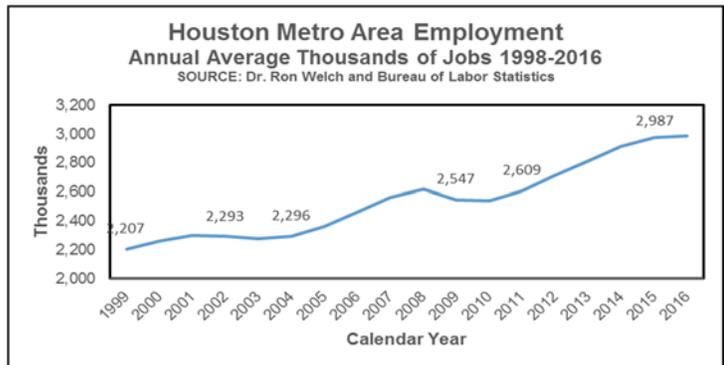
Economic Climate

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

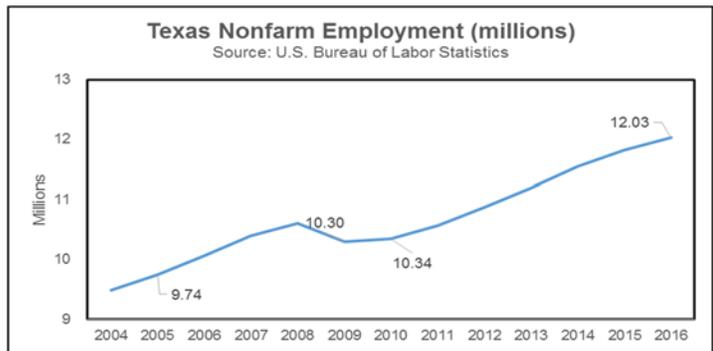


In the five tax years immediately prior to Hurricane Ike, which made landfall on September 13, 2008, the City’s economy expanded with total taxable value of all properties growing from \$2.4 billion in FY 2004 (Tax Year 2003) to \$4.3 billion in FY 2009 (Tax Year 2008), a 77 percent increase. After a one year adjustment due to the impact of Ike that dropped taxable values to \$3.8 billion, the City’s recovery efforts took over, bringing assessed values to \$5.86 billion in FY 2016 (Source: Galveston County Appraisal District), a 54 percent increase in seven years.

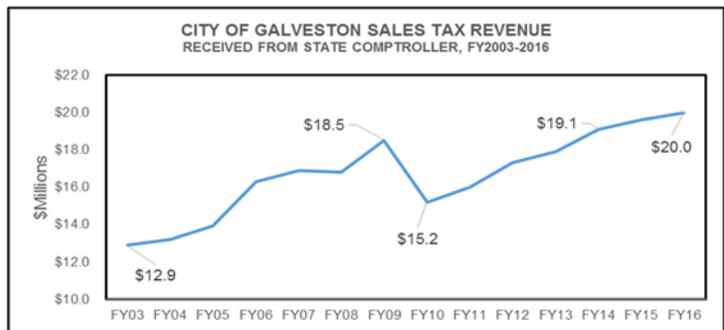
In the same period, 2004-2016, the Houston metropolitan area economy showed similar dramatic growth, with the strongest recovery from the Great Recession of any metropolitan area in the U.S. Total employment went from 2.3 million in 2004 to 2.6 million in 2008 before the Great Recession. Then after dropping back to 2.5 million jobs in 2010, the area rebounded strongly to 3 million jobs for 2016.



Since the Great Recession of 2008-2009, Texas' nonfarm employment has grown by 1.72 million jobs. A healthy and growing metropolitan and state economy leads to a healthy local economy and increasing revenues for the City of Galveston.

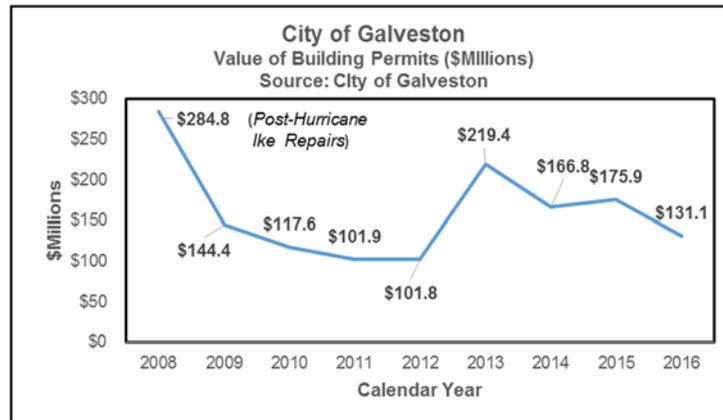


Galveston is the top recreation center for the region as evidenced by its sales tax revenue performance since FY 2003. Receipts reported by the State Comptroller's office and paid to the City grew from \$12.9 million in FY 2003 to \$18.5 million in FY 2008. As the combined result of Hurricane Ike and the Great Recession, sales tax revenue dropped to \$15.2 million in FY 2010, but then rebounded strongly to \$20 million in FY 2016. Based on seasonal variations in receipts for the warm months or tourist season, April through September, this strong rebound is attributed largely to the City's vibrant tourism sector.

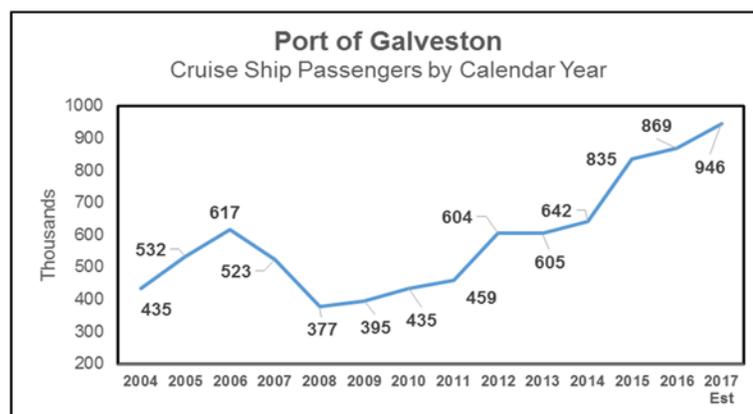


Galveston continues to have a lower cost of living than the national average in spite of its growing economy. According to the U.S. Department of Labor Statistics, the Consumer Price Index-Urban (CPI-U) for the U.S. as a whole was 241.4 in December 2016. The CPI-U For the metropolitan area including Galveston was 217.8 for December 2016. By this measure, Galveston’s cost of living is almost 10 percent less than the nation as a whole.

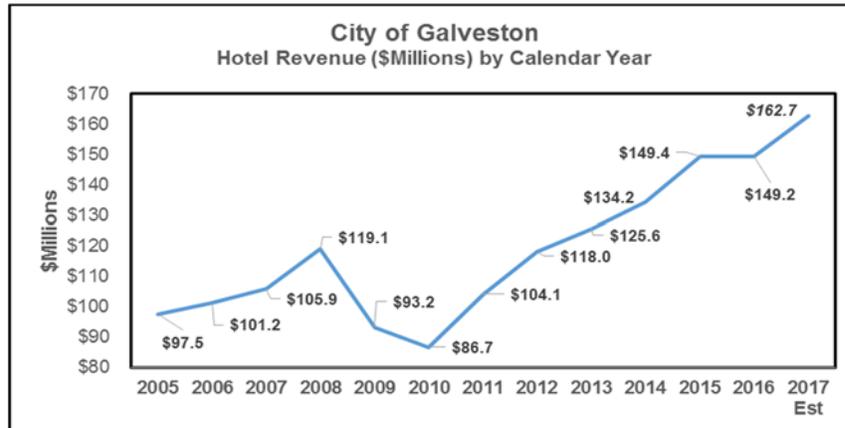
Construction activity in Galveston is continuing at a steady pace after the value of building permits in the immediate aftermath of Hurricane Ike peaked in 2008 at \$298.2 million. The last four calendar years including 2013 (\$227.1 million), 2014 (\$173.3 million), 2015 (\$175.9 million) and 2016 (\$131.1 million) witnessed declining but still strong performance in the value of building permits issued for commercial and residential construction projects.



The Port of Galveston is an important contributor to both the Galveston and Texas economies. In calendar year 2015, the Port of Galveston ranked fifty-first among all U.S. ports in total cargo volume, fifty-first for imports, and thirtieth for export cargo volume. The Port also ranked forty-first among all U.S. ports for total foreign trade and sixtieth for total domestic trade. Galveston is the fourth largest cruise port in the United States and is among the top ten cruise ports worldwide. Total cargo tonnage through the Port of Galveston decreased seven percent from 2015 to 2016. Since cruise ship traffic was interrupted by Hurricane Ike in 2008 and cruise passengers through the port dipped to 377,000, cruise ship passengers have grown steadily setting new records each year. The Port of Galveston saw 869,000 cruise passengers in 2016, a 131 percent improvement over 2008. The increase in cruise passengers are expected to continue into 2017 with projected passengers to be in excess of 946,000.



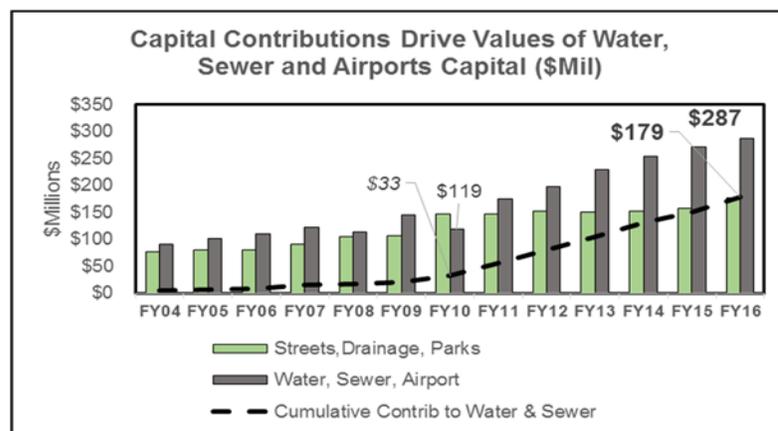
Galveston Island is a popular destination for tourists, including its ample beaches and other attractions. The City's downtown area features The Strand District, which is the home of some of Galveston's most historic commercial buildings, and the centerpiece for the City's active year-round calendar of community and seasonal events. Nearby is the East End Historical District which is on the National Historic Register and the site of many of the City's historic structures. Galveston was named the second favorite place to visit on USA Today's 2014 top ten list of spring break destinations. Like other local and regional indicators, Galveston hotel occupancy and revenue was set back in between September 2008 and 2010 because of damage sustained during Hurricane Ike. Galveston's hotel industry has shown steady, strong growth since that time. After flattening out in 2016 due to economic factors and weather, hotel industry revenue is on pace to grow approximately 9 percent in 2017.



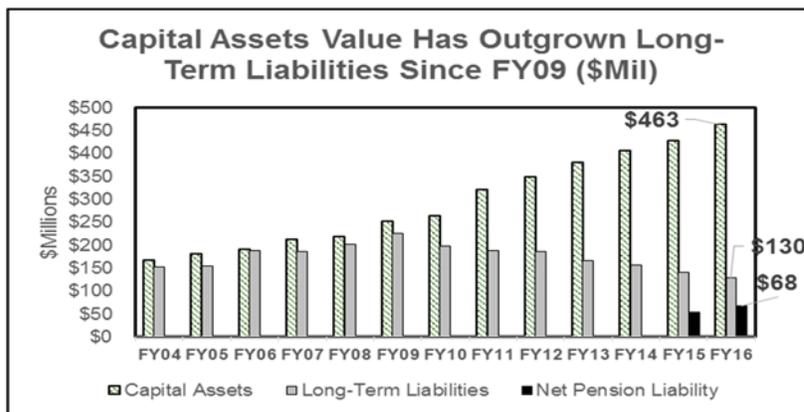
Long-term financial planning

In FY 2016, the city initiated a new budget and financial planning process that includes a five-year Long Range Financial Forecast, a five-year Capital Improvement Plan, and the Annual Budget. Quarterly Budget Status Reports published throughout the year provide year-end projections of revenue and expenses for all budgeted funds as well as capital project status reports and capital fund reconciliations. Emphasis is being placed on trend analysis that considers periods of more than five years, as shown in the previous section. Challenges and issues are highlighted through the long-term financial planning process and then addressed through the annual budget cycle that follows. This process supports decision makers in formulating a fiscally responsible annual budget and fully financed capital plans. The resulting financial documents can be found on the City's web page.

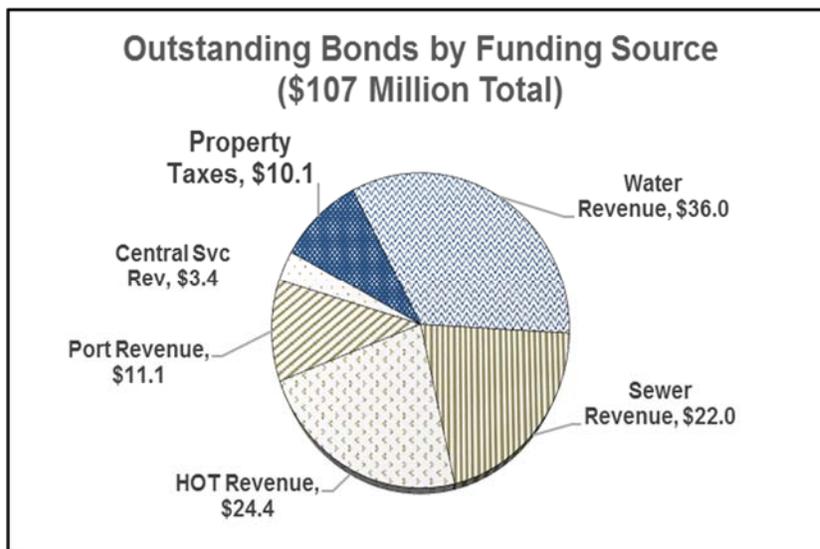
The City has benefitted from federal assistance in the aftermath of Ike as shown below. Capital asset value has grown significantly, particularly with water and sewer system assets that have grown from \$119 million in FY 2010 to \$287 million in FY 2016. This has been due largely to contributions, primarily grants, totaling \$146 million during the same period.



During this same period of time, the value of general government assets, including streets, storm sewers and parks has remained virtually flat. This is a combination of relatively less Ike related grant assistance going to general improvements and the absence of locally funded programs for streets and drainage. As a result of postponing a major streets and drainage improvement effort, the City now has a significant amount of unused financial capacity that can be used to begin improving its streets and drainage systems now. As shown below, the City has paid down its own long-term liabilities from a high of \$226 million in FY 2009 to \$130 million in FY 2016.



This total includes \$107 million in outstanding principal payments for bonds issued by the City and the Port. Of this total, \$10.1 million is for bonds being paid off with property taxes.



The City's last bond election was held in May 2001, and the bond funds authorized at that time by Galveston's voters have been allocated, spent and/or exhausted. The \$10.1 million in outstanding bonds are scheduled to be paid off in seven years, and require about 3.5 cents on the property tax rate for each year's debt service. Given the low debt load, the City is postured ideally to address its need for street and drainage improvements.

Relevant financial policies

The City Council has established a 90-day target balance for General Fund unrestricted fund balance. The General Fund ended the year with an unrestricted operating balance of \$20 million, representing approximately 151 days of maintenance and operation. In 2016, the City secured the renewal and expansion of its emergency bridge loan for \$50 million in the event of a major catastrophic emergency. The loan will be available to support federally eligible costs associated with any large emergency including a tropical storm or hurricane. The City adheres to an investment policy that emphasizes, in order of priority, safety, liquidity and return on investments.

With a positive economic outlook, conservative budgeting and substantial reserves for debt service, Fitch improved the City's rating of "AA-" to "AA" on its most recent tax and revenue certificate of obligation sale. In its rating, Fitch also increased its previous rating on the City's hotel occupancy tax revenue bonds from "A" to "AA." The upgrades noted "the city's continuing strong operating performance, solid expenditure flexibility, and moderate long-term liability burden."

Major management initiatives

A renewed emphasis on infrastructure improvements will drive resource allocation and staff efforts over the next five years. During FY 2016, the City continued winding down its Hurricane Ike recovery projects, making major infrastructure improvements with Community Development Block Grant (CDBG) and Hurricane Ike disaster funding. This included a new wastewater treatment plant, major new street projects, water system improvements and facilities expansions and improvements. The City also emphasized improving the City's infrastructure including major thoroughfares and neighborhood streets and related infrastructure. Protection of neighborhoods through stricter codes and clearer rules is also a high priority.

During 2016, efforts continued to develop accurate and comprehensive job descriptions and improve technology citywide. A major emphasis is underway to begin converting the City's defined benefit pension plans over time to a defined contribution basis. In this regard, recommendations are being prepared for City Council action that will move the city municipal employees' retirement plan to a defined contribution basis. This effort is crucial to management and reduction of the city's long-term liabilities. A renewed emphasis was placed on more complete utilization of the City's existing financial system in order to improve operational efficiency, management reporting and internal controls

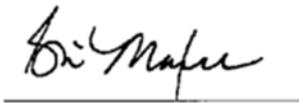
Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Galveston, Texas for its comprehensive annual financial report for the fiscal year ended September 30, 2016. In order to be awarded Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The preparation of this report is a joint effort of various departments and offices of the City. The City's Finance Department coordinates the compilation and prepares the final report along with the City's independent auditor, Whitley Penn, LLP. The successful and timely preparation of this report depends on the cooperation of all these groups and upon the diligence and dedication of the entire staff of the Finance Department. We would like to express our appreciation to all the City's Finance Department staff who assisted and contributed to the preparation of this report. Other City departments and offices make a significant contribution to the preparation of this report as well. We acknowledge their efforts in providing information and assistance during the preparation of this report. Finally, we acknowledge the Mayor and Council Members who have consistently supported the City's goal of excellence in all aspects of financial management. Their support is greatly appreciated.

Respectfully submitted,



Brian Maxwell
City Manager



Michael W. Loftin
Director of Finance

CITY OF GALVESTON, TEXAS
PRINCIPAL OFFICIALS



Mayor
Jim Yarbrough

District 1



Amy Bly

District 2



Craig Brown

District 3



Frank Maceo

District 4



Mike Doherty

District 5



Terrilyn Tarlton - Mayor Pro Tem

District 6



Carolyn Sunseri

City of Galveston, Texas

Incorporated March 1939
Charter Adopted April 19, 1960

Council – Manager Form of Government

City Council Appointees

City Manager	Brian Maxwell
City Secretary	Janelle Williams
City Attorney	Donald Glywasky
Court Judge	Jim Schweitzer
City Auditor	Glenn Bulgherini

Departmental Directors (City Manager Appointees)

Deputy City Manager	Dan Buckley
Assistant City Manager Finance	Michael Loftin
Assistant City Manager Grants & Public Transportation	Richard Beverlin
Assistant City Manager Development & Municipal Services	Brandon Cook
Police Chief	Richard Boyle
Fire Chief	Michael Wisko
City Marshal	Michael Gray
Executive Director of Development Services	Timothy Tietjens
Executive Director of Fleet, Mass Transit, & Special Events	David Smith
Executive Director of Grants and Housing	Sterling Patrick
Executive Director of Human Resources and Civil Service	Kent Etienne
Chief Information and Technology Officer	Hope Dean
City Engineer	Daniel Christodoss
Director of Capital Projects	Ross Blackketter
Director of Administration and Sanitation	Cindy DeWitt
Director of Airport	Michael Shahan
Director of Municipal Utilities	Angelo Grasso
Director of Parks and Recreation	Barbara Sanderson
Director of Public Works	Kyle Hockersmith
Communications Director/PIO	Jaree Hefner
Emergency Management Coordinator	Niki Bender
Public Transportation General Manager	Michael Worthy
Municipal Court Clerk	Gladys Lopez
Facilities Director	Charles Kenworthy
Risk Manager	Robert Simmons

CITY OF GALVESTON

EXECUTIVE TEAM ORGANIZATIONAL CHART AS OF SEPTEMBER 30, 2016



***City Council Appointees are shown in the following color (City Manager, City Attorney, City Auditor, City Secretary)



Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

City of Galveston
Texas

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

September 30, 2015

Executive Director/CEO

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FINANCIAL SECTION

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REPORT OF INDEPENDENT AUDITORS

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Galveston, Texas (the “City”), as of and for the year ended September 30, 2016 and the related notes to the financial statements, which collectively comprise the City’s basic financial statements as listed in the table of contents.

Management’s Responsibility for the Financial Statements

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

Auditor’s Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Park Board of Trustees of the City of Galveston (the “Park Board”), which represent 63 percent, 7 percent, and 76 percent, respectively, of the assets, liabilities, and revenues of the discretely presented component units. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Park Board, 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 from material misstatement.

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

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

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

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City, as of September 30, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 16, the general fund budgetary information schedule, required pension system supplementary information and other post-employment benefits supplementary information on pages 72 through 78 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Galveston, Texas basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 22, 2017, on our consideration of the City's internal controls over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal controls over financial reporting and compliance.

A handwritten signature in black ink that reads "Whitley Penn LLP". The signature is written in a cursive, flowing style.

Houston, Texas
March 22, 2017

CITY OF GALVESTON, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

The management of the City of Galveston (the "City") offers 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, 2016.

Financial Highlights

- The assets and deferred outflows of resources of the City exceeded its deferred inflows of resources and liabilities at the close of the most recent fiscal year by \$399.2 million (*net position*). Of this amount, \$26.0 million (*unrestricted net position*) may be used to meet the government's ongoing obligations to citizens and creditors.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$66.8 million, a decrease of \$477,000 over the prior year. Approximately 25 percent of this total amount, or \$16.6 million, is available for spending at the government's discretion (unassigned fund balance).
- The City's total liabilities decreased by a net amount of \$5.4 million, including a decrease in long-term liabilities of \$11.6 million, an increase of \$13.4 million in net pension liabilities and a net reduction in other liabilities of \$7.2 million.

Overview of the Financial Statements

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

Government-wide Financial Statements

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

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

The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation 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, administrative services, public safety, public works, parks and recreation and community development. The business-type activities of the City include utility system, including surface water operations, and solid waste operations as well as the operations of a regional airport facility.

CITY OF GALVESTON, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Government-wide Financial Statements (continued)

The government-wide financial statements include not only the City itself (known as *the primary government*), but also legally separate entities for which the City is financially accountable. Financial information for these *discretely presented component units* is reported separately from the financial information presented for the primary government itself. The City's eight discretely presented component units consist of the following:

Park Board of Trustees	Bayside at Waterman's – Public Improvement District
Galveston Island Redevelopment Authority	Board of Trustees of Galveston Wharves
Campeche Shores – Public Improvement District No. 1	Galveston Housing Finance Corporation
Beachside Village – Public Improvement District	Galveston Property Finance Authority

The government-wide financial statements can be found on pages 19 through 21 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 uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary 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 27 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, Hurricane Ike, and CDBG Disaster Fund Non-Housing, all of which are considered to be major funds. Data from the other 24 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 the comprehensive annual financial report. Four funds relating to debt reduction have been combined into one fund.

The basic governmental fund financial statements can be found on pages 22 through 25 of this report.

CITY OF GALVESTON, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Fund Financial Statements (continued)

Proprietary Funds - The City maintains two different types of proprietary 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 system, Sewer System, Drainage and sanitation operations as well as the operations of the airport. The City uses internal service funds to report activities that provide supplies and services for the City's other programs and activities. The Central Garage, Central Service, Casualty & Liability insurance, Construction management, Workers compensation insurance, Health and life insurance and the Separation funds are the City's internal service funds. Their purpose is to provide for the accumulation of money for employee benefits, as well as, vehicle and equipment replacement used in City operations. Because these services predominantly benefit governmental rather than business-type functions, they 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 Waterworks system and Sewer system are considered to be major funds of the City. Conversely, all internal service funds 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 the comprehensive annual financial report.

The basic proprietary fund financial statements can be found on pages 26 through 29 of this report.

Combining Component Unit Financial Statements

The City's eight discretely presented component units shown in aggregate on the face of the government-wide financial statements have individual information presented in the form of combining statements immediately following the fund financial statements of the primary government.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data presented in the government-wide and fund financial statements. The notes to the financial statements can be found beginning on page 32.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the City's progress in funding its obligation to provide pension benefits to its employees. The City adopts an annual appropriated budget for its general, debt service and certain special revenue funds. A budgetary comparison schedule has been provided for the general fund to demonstrate compliance with this budget. Required supplementary information can be found on pages 72 through 78 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$399.2 million at the close of the most recent fiscal year.

CITY OF GALVESTON, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Government-wide Financial Analysis (continued)

By far the largest portion of the City's net position, 81.4 percent or \$324.8 million, reflects its net investment in capital assets (e.g., land, buildings, and infrastructure), less any related outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending as of September 30, 2016. 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.

COMPARATIVE SCHEDULE OF NET POSITION

September 30, 2016 and 2015

Amounts in (000's)

	Governmental Activities		Business-type Activities		Totals	
	2016	2015*	2016	2015*	2016	2015*
Current and other assets	\$ 108,087	\$ 116,419	\$ 42,083	\$ 43,330	\$ 150,170	\$ 159,749
Capital assets	175,526	157,139	286,791	271,945	462,317	429,084
Total Assets	<u>283,613</u>	<u>273,558</u>	<u>328,874</u>	<u>315,275</u>	<u>612,487</u>	<u>588,833</u>
Total Deferred Outflows of Resources	<u>14,377</u>	<u>3,730</u>	<u>2,536</u>	<u>671</u>	<u>16,913</u>	<u>4,401</u>
Other liabilities	23,382	30,035	6,128	6,667	29,510	36,702
Long-term liabilities	83,460	72,629	46,484	68,940	129,944	141,569
Net pension liability	61,363	49,891	6,425	4,529	67,788	54,420
Total Liabilities	<u>168,205</u>	<u>152,555</u>	<u>59,037</u>	<u>80,136</u>	<u>227,242</u>	<u>232,691</u>
Total Deferred Inflows of Resources	<u>2,613</u>	<u>2,585</u>	<u>326</u>	<u>-</u>	<u>2,939</u>	<u>2,585</u>
Net Position						
Net investment in capital assets	112,678	113,903	212,148	178,032	324,826	291,935
Restricted	32,732	35,409	15,706	18,097	48,438	53,506
Unrestricted	(18,238)	(27,164)	44,193	39,681	25,955	12,517
Total Net Position	<u>\$ 127,172</u>	<u>\$ 122,148</u>	<u>\$ 272,047</u>	<u>\$ 235,810</u>	<u>\$ 399,219</u>	<u>\$ 357,958</u>

An additional portion of the City's net position, 12.1 percent or \$48.4 million, represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net position* of 6.5 percent or \$26.0 million, may be used to meet the government's ongoing obligations to citizens and creditors. This includes \$44.2 million in unrestricted business activity balances. Governmental unrestricted assets are actually a negative \$18.2 million which includes the reporting of \$61.4 million in net pension liabilities attributable to governmental activities.

* Comparative balances for fiscal year 2015 have been restated for prior period adjustments relating to receivable balances described in Note 15 to the financial statements.

CITY OF GALVESTON, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Government-wide Financial Analysis (continued)

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net position, for the government as a whole. The same situation held true for the prior fiscal year.

COMPARATIVE SCHEDULE OF CHANGES IN NET POSITION

For the Years Ended September 30, 2016 and 2015

Amounts in (000's)

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Totals</u>	
	<u>2016</u>	<u>2015*</u>	<u>2016</u>	<u>2015*</u>	<u>2016</u>	<u>2015*</u>
Revenues						
Program revenues:						
Charges for services	\$ 7,540	\$ 7,457	\$ 44,936	\$ 36,917	\$ 52,476	\$ 44,374
Operating grants and contributions	12,899	5,972	43	69	12,943	6,041
Capital grants and contributions	25,634	34,623	1,972	942	27,606	35,565
General revenues:					-	-
Property taxes	25,963	23,272	-	-	25,963	23,272
Sales tax	20,956	20,588	-	-	20,956	20,588
Hotel occupancy taxes	11,782	7,068	-	-	11,782	7,068
Franchise taxes	5,386	5,245	-	-	5,386	5,245
Payments in lieu of taxes	268	207	-	-	268	207
Other	3,529	7,921	155	209	3,684	8,130
Total Revenues	<u>113,957</u>	<u>112,353</u>	<u>47,106</u>	<u>38,137</u>	<u>161,063</u>	<u>150,490</u>
Expenses						
General government	9,882	8,284	-	-	9,882	8,284
Public safety	31,839	32,840	-	-	31,839	32,840
Public works	6,383	6,570	-	-	6,383	6,570
Culture and recreation	18,416	12,240	-	-	18,416	12,240
Planning and community development	4,732	8,799	-	-	4,732	8,799
Transportation system	6,013	8,424	-	-	6,013	8,424
Interest on long-term debt	2,660	1,896	-	-	2,660	1,896
Waterworks system	-	-	15,255	17,416	15,255	17,416
Sewer system	-	-	14,141	12,444	14,141	12,444
Sanitation services	-	-	5,756	5,078	5,756	5,078
Drainage utility	-	-	2,949	2,537	2,949	2,537
Airport	-	-	1,774	1,709	1,774	1,709
Total Expenses	<u>79,926</u>	<u>79,053</u>	<u>39,876</u>	<u>39,184</u>	<u>119,802</u>	<u>118,237</u>
Increase (decrease) in net position before transfers	34,031	33,300	7,230	(1,047)	41,261	32,253
Transfers	<u>(29,007)</u>	<u>(18,951)</u>	<u>29,007</u>	<u>18,951</u>	<u>-</u>	<u>-</u>
Increase (decrease) in net position	5,024	14,349	36,237	17,904	41,261	32,253
Net position - beginning	131,726	166,478	237,800	221,202	369,526	387,680
Prior period adjustment	(9,578)	(58,682)	(1,990)	(3,296)	(11,568)	(61,978)
Net position - ending	<u>\$ 127,172</u>	<u>\$ 122,145</u>	<u>\$ 272,047</u>	<u>\$ 235,810</u>	<u>\$ 399,219</u>	<u>\$ 357,955</u>

* Comparative balances for fiscal year 2015 have been restated for prior period adjustments relating to receivable balances described in Note 15 to the financial statements.

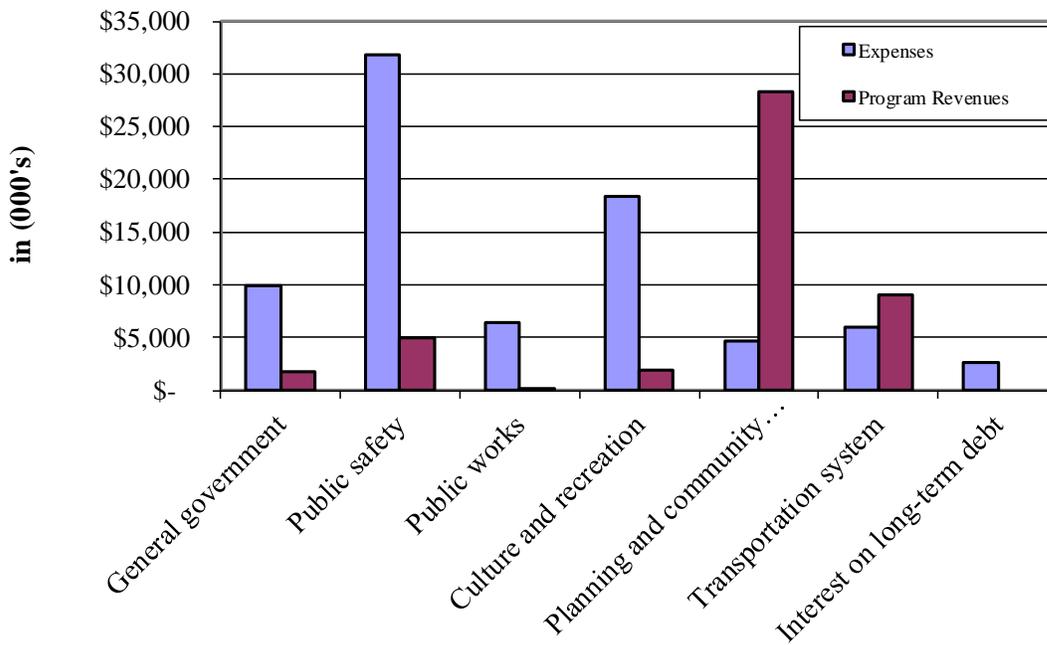
CITY OF GALVESTON, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Governmental Activities

Governmental activities increased the City's net position by \$5.0 million. Key elements of this increase are as follows:

- A decrease in capital grants and contributions of \$9 million from \$34.6 million to \$25.6 million and a corresponding increase in operating grants and contributions of 6.9 million.
- Of the capital grants and contributions noted above, \$2.98 million is shown here as being transferred out of Governmental Activities and into Business-Type Activities where it was invested in capital assets.
- Virtually all of the \$25.6 million in capital grants and contributions shown in Governmental Activities revenue is being invested in the City's infrastructure.
- The net position of Governmental Activities includes a \$61.4 million pension funds' liability. The latter total includes all of the fire and police pension funds' liabilities and a proportional share of the municipal employees' pension fund liability for governmental activities.

Expenses and Program Revenues - Governmental Activities

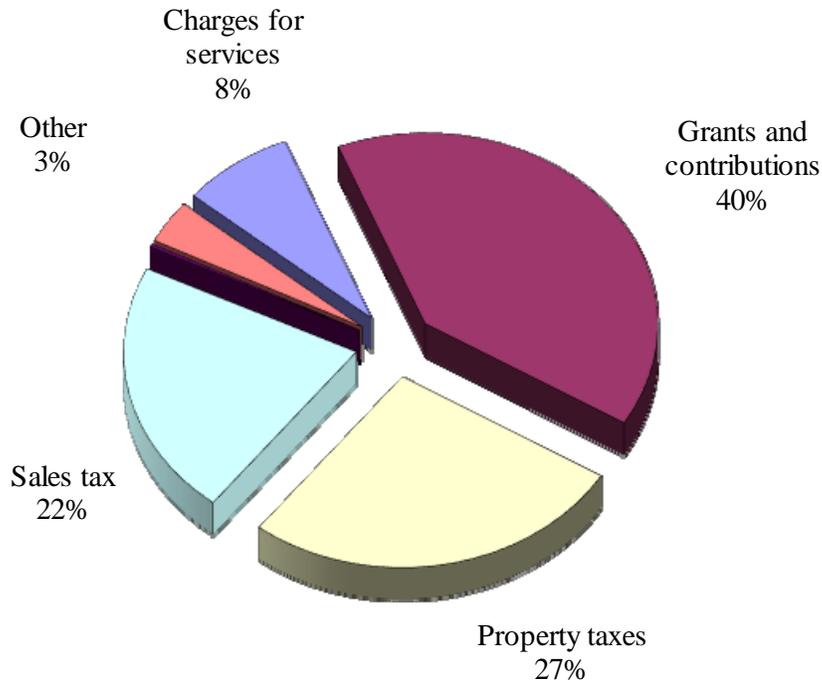


Governmental activities are largely funded from property, sales and other taxes. Public safety is the major public service funded with governmental revenues. Planning and Community Development program revenues as shown here include primarily federal grants awarded to the City for Hurricane Ike recovery. The majority of the program revenues for planning and community development was transferred to business activities for repairs and upgrades to the water and sewer systems.

CITY OF GALVESTON, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Governmental Activities (continued)

Revenues by Source - Governmental Activities



Business-type Activities

Business-type activities increased the City's net position by \$36.2 million. Key elements of this increase are as follows:

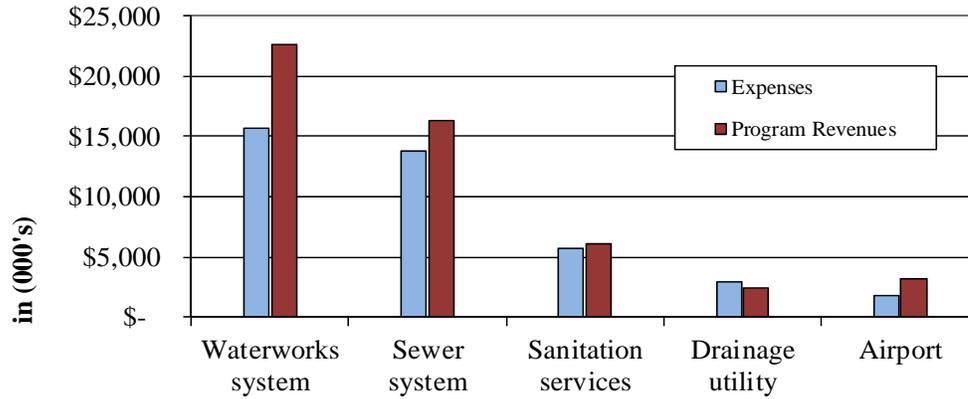
- FY 2015 Business-type activity charges for service are net of \$3.5 million for water and sewer rebates to system customers for overcharges in prior years. FY 2016 business-type activity charges are \$8.0 million more than FY 2015 including the new water and sewer rate effective October 1, 2015.
- Waterworks System total expenses remained relatively flat while individual categories changed as follows: a \$500,000 decrease in contractual services, a \$600,000 increase in surface water contract charges, and an \$800,000 reduction in depreciation charges.
- Sewer system costs increased \$1 million net for system operations and maintenance, including the cost of operating the new wastewater treatment plant and the old plant parallel for several months beginning in May, 2016.
- Net operating expenses increased by \$1.1 million total in all Business Activity funds combined.

The primary reason for the \$36.2 million increase in net position for Business activity funds was the \$29.0 million for transfers from grant funds classified as governmental funds in the form of capital assets.

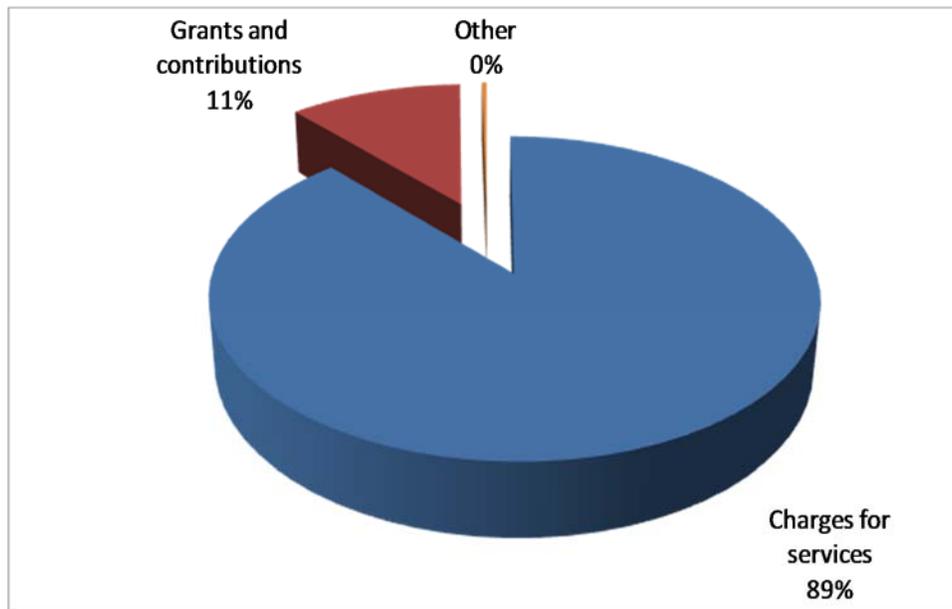
CITY OF GALVESTON, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Business-type Activities (continued)

Expenses and Program Revenues - Business-type Activities



Revenues by Source – Business-type Activities



CITY OF GALVESTON, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Financial Analysis of the City's Funds

As noted earlier, fund accounting is used to demonstrate and ensure compliance with finance-related legal requirements.

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

As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$66.8 million, a decrease of \$478,000 from the prior year. Approximately \$16.6 million of the combined ending fund balances, million, is *available for spending* at the government's discretion (*unassigned fund balance*).

The General Fund Balance increased by \$2.0 million as the result of funds received by the City from the closure of Tax Increment Revitalization Zone (TIRZ Eleven). The TIRZ Eleven cash balance was distributed among the three governmental parties to the development agreements with the TIRZ, including the County, the Navigation District and the City, the Redevelopment Authority and the developer.

The Infrastructure and Debt Service Fund is not reported as a part of the General Fund but as its own governmental fund. This fund is the recipient of increasingly higher set asides of General Fund revenue in accordance with a City Charter requirement. In FY 2016, four percent of the total General Fund operating budget was transferred into this fund. By FY 2020, according to the City Charter, General Fund contributions to this fund will equal the maximum level of eight percent of the operating budget per year. Its separate reporting status is appropriate so as to better demonstrate compliance with the City Charter.

Proprietary Funds - The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. The Waterworks fund has unrestricted net position at fiscal year-end of \$6.0 million. Held in reserve is \$1.2 million for average annual future revenue supported debt service payments. Likewise, the Sewer fund has approximately \$3.7 million in unrestricted net position after reserving \$2.1 million for average annual revenue supported debt service payments

Water and sewer rates were adjusted in October 2015 to promote conservation, provide new revenues to pay the higher cost of water as provided by the Gulf Coast Water Authority (GCWA), and to fund current and future water and sewer capital project costs on a pay as you go basis and through the issuance of new revenue supported bonds.

CITY OF GALVESTON, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

General Fund Budgetary Highlights

The General Fund expenditures budget was amended four times in FY 2016 based upon quarterly reports that included year-end projections of revenue and expenditures. These amendments were approved by City Council in ordinance form as proposed and recommended by the City Manager. Each amendment was for municipal purposes as allowed by Section 102.010 of the Texas Local Government Code. The City Charter authorizes the City Manager to transfer budget amounts within a department's total budget as adopted or amended by City Council. A separate schedule is provided on page 73 that demonstrates compliance with this requirement.

Total actual revenues of \$50.86 million exceeded budget by \$2,717,000. The excess is comprised of property taxes (\$629,000), franchise and other taxes (\$128,000), license and permit revenue (\$55,000), intergovernmental revenue (\$41,000) and other revenue (\$2,394,000) which exceeded budget by a total of \$3,190,000. This is offset by a revenue budget underrun of \$473,000 which is comprised of sales tax (\$177,000), fines and forfeits (\$112,000), charges for service (\$171,000) and investment earnings (\$13,000).

The single largest reason for the revenue overage versus budget was closure of TIRZ Eleven in calendar 2015 after the FY 2016 Budget was passed. By this action, the city took over the remaining TIRZ Eleven assets and liabilities as required by State law and the contractual provisions between the City, the TIRZ Eleven developer and the Redevelopment Authority. As a result, the City's incremental property tax revenue for TIRZ Eleven was treated as FY 2016 property tax revenue. With the dissolution of TIRZ Eleven, the City's share of the TIRZ Eleven ending cash balance (\$2.3 million) was deposited in the General Fund. The remaining cash balance in TIRZ Eleven, by interlocal agreement, was paid to the other two governmental partners in TIRZ Eleven, Galveston County and the Galveston County Navigation District.

Budgeted expenditures included a \$2.18 million city council contingency, reported as a part of General Government. This contingency is budgeted by City Council and allocated through the budget amendment process throughout the fiscal year. The contingency is typically allocated based on the receipt of previously unbudgeted revenues. Also, the contingency may be reduced to offset adjustments to other budgeted funds (e.g. special and enterprise funds) that are necessary to ensure the total city budget stays within the seven percent increase over the prior year as prescribed by Article VII Section 19 of the city charter.

The General Government expenditure category was reduced by ordinance adjustments of approximately \$2.3 million including reduction of the city council contingency by \$1.1 million to address increases in the overall City budget for sewer fund expenses (\$626,000), parking management (\$334,000), and in the amount estimated for transfer to the Rosenberg Library as required by city charter and the proportional sharing of the TIRZ Eleven FY 2016 property tax increment (\$67,000). The increase in the Transportation category reflected a budget adjustment to provide \$395,000 for the Island Transit consultant in FY 2016. Total General Fund expenditures and sources underran the budget by \$3.0 million, net. Spending in two functional areas (public safety and highways and roads exceeded budget; however, all departmental spending was less than the final amended budget as approved by City Council and was in compliance with the city charter and budget ordinance.

Fund balance ended the fiscal year at \$20.6 million as the result of two factors. Revenue exceeded expenditures by \$2.0 million, including other financing sources. Further, the city charter requires an annual set aside of General Fund monies for infrastructure and debt service that previously was reported as a part of the General Fund. Fund balance is being reduced by \$2.03 million to report the infrastructure and debt service reserve in its own fund.

CITY OF GALVESTON, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2016, the City's governmental activities and business-type activities had invested \$175.5 million and \$286.8 million, respectively, in a variety of capital assets and infrastructure, as reflected in the following schedule. This represents a net increase of \$18.4 million or 11.9 percent over the end of last fiscal year for governmental activities and a change of \$14.8 million or 5.5 percent for business-type activities.

<i>Amounts in (000's)</i>	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Totals</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Land	\$ 20,013	\$ 20,013	\$ 2,489	\$ 2,489	\$ 22,502	\$ 22,502
Construction in progress	31,922	20,715	19,270	105,252	51,191	125,967
Infrastructure	65,850	56,998	114,774	99,875	180,624	156,873
Building and Improvements	45,295	45,526	128,642	43,208	173,937	88,734
Contractual water rights	-	-	13,001	13,871	13,001	13,871
Equipment and furniture	12,446	13,887	8,615	7,249	21,062	21,136
Total Capital Assets	<u>\$ 175,526</u>	<u>\$ 157,139</u>	<u>\$ 286,791</u>	<u>\$ 271,944</u>	<u>\$ 462,317</u>	<u>\$ 429,083</u>

The increase in construction in progress for governmental activities is due to construction activities in various areas including:

- Preservation Green project,
- 61st to 103rd Beach Re-nourishment project,
- 43rd Street Broadway to Avenue U project,
- 41st Street – Avenue L to Seawall project
- Island Transit Bus Wash,
- Trolley Line Rehab
- ADA Ramps,
- Police Evidence Room Remodeling project,
- Roadway Reconstruction Design involving Avenue N, Avenue R, and Sealy Avenue,
- Neighborhood Revitalization projects in several council districts.

The increase in construction in progress for business-type activities is due to the construction activities in various areas including:

- City wide Fire Hydrant Replacement Program,
- Construction of the 59th street pump station,
- Airport North and South Taxiways project,
- Sea Isle Drainage Improvement Project, and
- Outfall rehabilitation on Harborside Drive.

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

CITY OF GALVESTON, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Long-Term Debt

At the end of the current fiscal year, the City had total bonds, certificates of obligation and other obligations outstanding of \$115 million. This total included \$7.8 million in discounts and premiums that were a part of prior bond sales and are being amortized as a part of the city's long-term debt.

<i>Amounts in (000's)</i>	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Totals</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
General obligation bonds	\$ 28,005	\$ 14,620	\$ -	\$ -	\$ 28,005	\$ 14,620
Special obligation bonds	24,390	25,200	-	-	24,390	25,200
Contracts payable	-	-	18,017	21,439	18,017	21,439
Revenue bonds	-	-	23,515	28,810	23,515	28,810
Certificates of obligation	9,788	14,153	-	13,210	9,788	27,363
Accreted interest	2,556	2,287	-	-	2,556	2,287
Notes payable	730	836	-	774	730	1,610
Discount and premiums	4,286	2,208	3,559	3,916	7,845	6,124
	<u>\$ 69,755</u>	<u>\$ 59,304</u>	<u>\$ 45,091</u>	<u>\$ 68,149</u>	<u>\$ 114,846</u>	<u>\$ 127,453</u>

During FY 2016, the City reduced its long-term debt by approximately \$12.6 million, due to a combination of current year principal payments and additional future savings from the refunding of bonds. Debt service is being paid on the city's outstanding bonds as shown below. Annual principal and interest payments are budgeted based on the projects actually provided with each respective bond sale.

<i>Amounts in (000's)</i>	<u>Property Tax</u>	<u>Water</u>	<u>Sewer</u>	<u>Central</u>	<u>Wharves</u>	<u>Hotel</u>	<u>Total</u>
	<u>Supported</u>	<u>Revenue</u>	<u>Revenue</u>	<u>Services</u>	<u>Board</u>	<u>Occupancy</u>	
Property-Tax Supported Debt						<u>Tax</u>	
General Obligation Bonds	\$ 10,104	\$ 7,777	\$ 7,663	\$ 2,461	\$ -	\$ -	\$ 28,005
Certificates of Obligation	-	514	514	226	8,534	-	9,788
Subtotal	<u>10,104</u>	<u>8,291</u>	<u>8,177</u>	<u>2,687</u>	<u>8,534</u>	<u>-</u>	<u>37,793</u>
Special Obligation Bonds	-	-	-	-	-	24,390	24,390
Revenue bonds	-	9,721	13,794	-	-	-	23,515
Contracts Payable	-	18,017	-	-	-	-	18,017
Accreted Interest	-	-	-	-	2,556	-	2,556
Notes Payable	-	-	-	730	-	-	730
Total Principal Payments	<u>\$ 10,104</u>	<u>\$ 36,029</u>	<u>\$ 21,971</u>	<u>\$ 3,417</u>	<u>\$ 11,090</u>	<u>\$ 24,390</u>	<u>\$ 107,001</u>

Additional information on long-term debt can be found in Note 8 to the financial statements.

CITY OF GALVESTON, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Economic Factors and Next Year's Budgets and Rates

Galveston's economy is tied to the national economy through tourism and trade, as well as the Texas state and Houston regional economy and their strong energy base. For these reasons, the city has a diversified basis for its economy that profits from local, regional, national and even international factors. The national economy has slowed somewhat, but job growth continues. Local construction permits remain healthy and it is clear that Galveston's economic outlook is stable.

The assumptions behind the FY 2017 Budget reflect Galveston's continued steady growth after several years of strong growth. FY 2017 property taxes are based on values from calendar year 2016. Not counting the \$2.3 million one-time revenue from the TIRZ Eleven cash balance transfer to the City, General Fund revenues are up seven percent. The property tax rate was reduced slightly from \$0.529 to \$0.526 per \$100 of taxable value and all property tax exemptions were maintained at their current levels. Sales tax growth is projected to grow by approximately two percent due to the continuing regional energy slowdown. Water and sewer revenue is one percent over last year and reflecting the increase in and restructuring of rates with somewhat higher revenues and strong evidence of conservation by water customers at higher consumption and rate levels.

The budget showed caution in spending, including compensation adjustments arrived that through collective bargaining for police and fire. A reserve of one and one-half percent for compensation of other city employees was established to address compensation including pension reform. The FY 2016 cash balance of \$2.29 million received from TIRZ 11 has been set aside in a special revenue fund for pension reform. New capital budgeting and tracking techniques continue to allow the city to make best use of its available capital fund resources in funding its increase in local funding for capital projects. Based on the approved capital budget and five year plan, a \$35 million certificate of obligation sale was conducted for water and sewer projects. Also, a bond election has been called for May 2017 for the voters to consider authorizing \$62 million for streets and drainage projects for the FY 2017-2021 period.

Requests for Information

This financial report is designed to provide a general overview of the City of Galveston's finances for all those with an interest in the City's finances. Questions concerning this report or requests for additional financial information should be addressed to the Office of the Finance Director, City of Galveston, P.O. Box 779, Galveston, TX 77553, or physically located at 823 Rosenberg, Suite 300, Galveston, TX 77550.

BASIC FINANCIAL STATEMENTS

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CITY OF GALVESTON, TEXAS

STATEMENT OF NET POSITION

September 30, 2016

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Current assets:				
Cash and cash equivalents	\$ 63,112,492	\$ 8,274,976	\$ 71,387,468	\$ 20,101,617
Accounts receivable, net of allowance for doubtful accounts	6,249,923	9,858,364	16,108,287	16,035,309
Internal balances	(5,779,435)	5,779,435	-	-
Due from other governments	18,244,048	-	18,244,048	-
Due from component units	6,813,672	-	6,813,672	-
Restricted cash and investments	18,473,317	18,018,466	36,491,783	27,796,300
Inventories	516,705	147,668	664,373	12,942
Prepaid items	456,564	4,000	460,564	980,183
Net investment in direct financing and capital leases - non-current	-	-	-	2,057,844
Total current assets	108,087,286	42,082,909	150,170,195	66,984,195
Non-current assets:				
Capital assets not being depreciated	51,934,803	21,759,632	73,694,435	50,365,861
Capital assets net of depreciation	123,590,965	265,031,734	388,622,699	446,276,056
Total non-current assets	175,525,768	286,791,366	462,317,134	496,641,917
Total Assets	283,613,054	328,874,275	612,487,329	563,626,112
Deferred Outflows of Resources				
Deferred charge on refunding	1,830,049	-	1,830,049	-
Deferred outflows relating to pension activities	12,546,983	2,536,400	15,083,383	499,641
Total Deferred Outflows of Resources	14,377,032	2,536,400	16,913,432	499,641
Liabilities				
Current liabilities:				
Accounts payable and accrued expenses	13,231,729	2,921,338	16,153,067	13,919,554
Due to Other Governments	436,634	448,118	884,752	736,990
Accrued interest	636,837	433,375	1,070,212	797,247
Unearned revenue	9,076,865	13,535	9,090,400	50,347
Customer deposits	-	2,313,044	2,313,044	-
Total current liabilities	23,382,065	6,129,410	29,511,475	15,504,138
Non-current liabilities:				
Due within one year	7,692,474	5,103,025	12,795,499	6,564,895
Due in more than one year	75,767,213	41,381,334	117,148,547	85,016,074
Net pension liability	61,363,485	6,424,500	67,787,985	2,478,716
Total non-current liabilities	144,823,172	52,908,859	197,732,031	94,059,685
Total Liabilities	168,205,237	59,038,269	227,243,506	109,563,823
Deferred Inflows of Resources				
Deferred gain on refunding	-	-	-	96,347
Deferred inflows relating to pension activities	2,613,001	325,600	2,938,601	37,614
Total Deferred Inflows of Resources	2,613,001	325,600	2,938,601	133,961
Net Position				
Net investment in capital assets	112,677,716	212,148,281	324,825,997	452,379,188
Restricted:				
Capital projects	21,549,478	12,386,188	33,935,666	-
Grants	1,833,048	-	1,833,048	-
Beach preservation	1,056,745	-	1,056,745	-
Debt Service	3,617,496	3,319,234	6,936,730	8,367,164
Tourism, convention and hotel industry				
Convention center operator	520,419	-	520,419	-
City of Galveston	4,154,602	-	4,154,602	-
Unrestricted	(18,237,656)	44,193,103	25,955,447	(6,318,383)
Total Net Position	\$ 127,171,848	\$ 272,046,806	\$ 399,218,654	\$ 454,427,969

See Notes to Financial Statements.

CITY OF GALVESTON, TEXAS
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2016

Functions/Programs	Expenses	Program Revenue		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government				
Governmental Activities:				
General government	\$ 9,882,369	\$ 1,724,891	\$ 14,256	\$ -
Public safety	31,839,224	2,378,023	2,612,951	-
Public works	6,383,366	-	-	32,002
Culture and recreation	18,416,331	42,379	1,885,390	-
Planning and community development	4,732,078	1,713,780	4,880,607	21,705,408
Transportation system	6,012,734	1,680,764	3,506,167	3,896,528
Interest on long-term debt	2,660,320	-	-	-
Total governmental activities	79,926,422	7,539,837	12,899,371	25,633,938
Business-type activities:				
Waterworks	15,255,455	20,759,470	-	-
Sewer system	14,140,756	14,524,291	-	-
Sanitation	5,756,348	6,036,788	-	-
Drainage	2,948,909	2,464,143	-	-
Airport	1,774,093	1,151,110	43,231	1,971,720
Total business-type activities	39,875,561	44,935,802	43,231	1,971,720
Total primary government	\$ 119,801,983	\$ 52,475,639	\$ 12,942,602	\$ 27,605,658
Component Units	73,362,059	39,673,776	-	22,547,597
Total component units	\$ 73,362,059	\$ 39,673,776	\$ -	\$ 22,547,597

General revenues

Property taxes
Sales Tax
Hotel occupancy taxes
Franchise Tax
Payments in lieu of taxes
Unrestricted investment earnings
Miscellaneous
Transfers

Total general revenues

Change in net position

Net position - beginning

Prior period adjustments

Net position - ending

See Notes to Financial Statements.

Net (Expense) Revenue and Changes in Net Position

Primary Government

Governmental Activities	Business-type Activities	Total	Component Units
\$ (8,143,222)	\$ -	\$ (8,143,222)	
(26,848,250)	-	(26,848,250)	
(6,351,364)	-	(6,351,364)	
(16,488,562)	-	(16,488,562)	
23,567,717	-	23,567,717	
3,070,725	-	3,070,725	
(2,660,320)	-	(2,660,320)	
<u>(33,853,276)</u>	<u>-</u>	<u>(33,853,276)</u>	
-	5,504,015	5,504,015	
-	383,535	383,535	
-	280,440	280,440	
-	(484,766)	(484,766)	
-	1,391,968	1,391,968	
-	7,075,192	7,075,192	
<u>\$ (33,853,276)</u>	<u>\$ 7,075,192</u>	<u>\$ (26,778,084)</u>	
			<u>\$ (11,140,686)</u>
			<u>\$ (11,140,686)</u>
25,962,502	-	25,962,502	2,875,137
20,956,150	-	20,956,150	-
11,782,092	-	11,782,092	10,002,829
5,385,846	-	5,385,846	-
268,077	-	268,077	-
492,489	154,096	646,585	269,652
3,037,755	916	3,038,671	12,882
<u>(29,007,469)</u>	<u>29,007,469</u>	<u>-</u>	<u>-</u>
<u>38,877,442</u>	<u>29,162,481</u>	<u>68,039,923</u>	<u>13,160,500</u>
5,024,166	36,237,673	41,261,839	2,019,814
131,725,621	237,799,529	369,525,150	454,415,728
<u>(9,577,939)</u>	<u>(1,990,396)</u>	<u>(11,568,335)</u>	<u>(2,007,573)</u>
<u>\$ 127,171,848</u>	<u>\$ 272,046,806</u>	<u>\$ 399,218,654</u>	<u>\$ 454,427,969</u>

CITY OF GALVESTON, TEXAS

BALANCE SHEET

GOVERNMENTAL FUNDS

September 30, 2016

	General Fund	Hurricane Ike	CDBG Disaster Fund Non- Housing	Non-Major Governmental Funds	Total Governmental Funds
Assets					
Cash and investments	\$ 16,645,729	\$ 4,889,116	\$ -	\$ 47,477,867	\$ 69,012,712
Receivables, net of allowance for uncollectibles	3,756,867	-	-	2,394,471	6,151,338
Due from other governments	2,854,780	13,104	7,462,305	7,801,888	18,132,077
Due from other funds	2,869,828	-	-	1,977,013	4,846,841
Inventories	-	-	-	294,596	294,596
Prepaid items	88,427	-	-	15,467	103,894
Total Assets	\$ 26,215,631	\$ 4,902,220	\$ 7,462,305	\$ 59,961,302	\$ 98,541,458
Liabilities					
Accounts payable	\$ 1,585,438	\$ 574,119	\$ 3,256,051	\$ 6,083,858	\$ 11,499,466
Accrued liabilities	1,226,615	138	-	150,660	1,377,413
Due to other funds	-	-	3,640,637	3,976,720	7,617,357
Payable to other governments	171,297	195,607	-	69,730	436,634
Unearned revenue	1,004,177	4,132,356	-	3,940,332	9,076,865
Total Liabilities	3,987,527	4,902,220	6,896,688	14,221,300	30,007,735
Deferred Inflows of Resources					
Unavailable revenue - property taxes	913,049	-	-	139,494	1,052,543
Unavailable revenue - court fines	655,845	-	-	-	655,845
Total Deferred Inflows of Resources	1,568,894	-	-	139,494	1,708,388
Fund Balance					
Nonspendable:					
Inventories	-	-	-	294,596	294,596
Prepaid items	88,427	-	-	-	88,427
Restricted:					
Debt service	-	-	-	4,254,333	4,254,333
Beach preservation	-	-	-	1,056,745	1,056,745
Capital projects	-	-	-	21,549,478	21,549,478
Grants	-	-	565,617	1,267,431	1,833,048
Tourism, convention and hotel industry	-	-	-	-	-
Convention center operator City of Galveston	-	-	-	520,419	520,419
City of Galveston	-	-	-	4,154,602	4,154,602
Committed					
Emergency reserves	3,575,226	-	-	-	3,575,226
Governmental projects	-	-	-	12,933,623	12,933,623
Unassigned	16,995,557	-	-	(430,719)	16,564,838
Total Fund Balance	20,659,210	-	565,617	45,600,508	66,825,335
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	\$ 26,215,631	\$ 4,902,220	\$ 7,462,305	\$ 59,961,302	\$ 98,541,458

See Notes to Financial Statements.

CITY OF GALVESTON, TEXAS

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION**

September 30, 2016

Total fund balance, governmental funds \$ 66,825,335

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

Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Position. The cost of the assets is \$295,132,902 and the accumulated depreciation is \$124,726,771. 170,406,131

Long-term non-financial receivables are not available to pay for current period expenditures and, therefore, are not reported as assets in the governmental funds. This represents capital contributions due from developers in the future.

Property taxes receivable	1,052,543
Adjudicated municipal court fines	655,845
Long-term receivable from component unit	6,813,672

Long-term liabilities, including bonds payable, compensated absences, and net pension liability are not due in the current period and, therefore, are not reported as liabilities in the fund financial statements. Liabilities at year end related to bonds payable, compensated absences, and sales tax payable consists of:

Bonds payable, at maturity	(64,738,943)
Accrued interest on the bonds	(636,837)
Premium/discount of bonds payable	(4,285,944)
Compensated absences	(8,438,424)
Deferred charge on refunding of debt	1,830,049
Net pension liability	<u>(61,363,485)</u>
	(137,633,584)

Deferred outflows and deferred inflows relating to pension activities 9,933,982

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 Position. 9,117,924

Net Position of Governmental Activities in the Statement of Net Position \$ 127,171,848

See Notes to Financial Statements.

CITY OF GALVESTON, TEXAS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

For the Year Ended September 30, 2016

	<u>General Fund</u>	<u>Hurricane Ike</u>	<u>CDBG Disaster Fund Non- Housing</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues					
Taxes:					
Property taxes	\$ 21,368,191	\$ -	\$ -	\$ 4,708,466	\$ 26,076,657
Sales tax	15,087,873	-	-	16,811,384	31,899,257
Franchise and other taxes	6,224,831	-	-	-	6,224,831
Licenses and permits	1,330,049	-	-	-	1,330,049
Fines and forfeitures	1,756,605	-	-	120,480	1,877,085
Charges for services	1,659,132	-	-	2,381,837	4,040,969
Investment earnings	137,269	-	-	289,428	426,697
Intergovernmental	188,077	3,663,238	20,836,893	12,485,817	37,174,025
Other	3,047,813	-	11,025	4,869,057	7,927,895
Total Revenues	<u>50,799,840</u>	<u>3,663,238</u>	<u>20,847,918</u>	<u>41,666,469</u>	<u>116,977,465</u>
Expenditures					
Current:					
General government	6,833,482	-	-	1,036,536	7,870,018
Public safety	28,425,382	-	-	236,828	28,662,210
Highways and roads	3,596,345	-	-	26,657	3,623,002
Culture and recreation	2,479,733	-	-	13,600,611	16,080,344
Planning and community development	2,061,851	386,903	116,432	1,461,768	4,026,954
Transportation	1,195,000	-	-	4,658,333	5,853,333
Debt Service:					
Principal	-	-	-	6,520,000	6,520,000
Interest and other charges	-	-	-	2,078,185	2,078,185
Bond issuance costs	-	-	-	234,985	234,985
Capital Outlay	<u>1,222,275</u>	<u>3,273,482</u>	<u>20,731,486</u>	<u>16,645,515</u>	<u>41,872,758</u>
Total Expenditures	<u>45,814,068</u>	<u>3,660,385</u>	<u>20,847,918</u>	<u>46,499,418</u>	<u>116,821,789</u>
Excess (deficiency) of revenues over expenditures	<u>4,985,772</u>	<u>2,853</u>	<u>-</u>	<u>(4,832,949)</u>	<u>155,676</u>
Other Financing Sources (Uses)					
Proceeds from refunding bonds	-	-	-	17,365,000	17,365,000
Premiums on refunding bonds	-	-	-	2,455,092	2,455,092
Payment to escrow agent	-	-	-	(21,102,803)	(21,102,803)
Sale of capital assets	25,447	-	-	3,813	29,260
Transfers in	650,000	-	14,769	4,990,159	5,654,928
Transfers (out)	<u>(3,659,478)</u>	<u>(2,853)</u>	<u>-</u>	<u>(1,372,620)</u>	<u>(5,034,951)</u>
Total other Financing Sources and Uses	<u>(2,984,031)</u>	<u>(2,853)</u>	<u>14,769</u>	<u>2,338,641</u>	<u>(633,474)</u>
Net change in fund balance	2,001,741	-	14,769	(2,494,308)	(477,798)
Fund balance - beginning	18,657,469	9,577,939	550,848	48,094,816	76,881,072
Prior period adjustment	<u>-</u>	<u>(9,577,939)</u>	<u>-</u>	<u>-</u>	<u>(9,577,939)</u>
Fund balance - ending	<u>\$ 20,659,210</u>	<u>\$ -</u>	<u>\$ 565,617</u>	<u>\$ 45,600,508</u>	<u>\$ 66,825,335</u>

See Notes to Financial Statements.

CITY OF GALVESTON, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2016

Net change in fund balance - total governmental funds: \$ (477,798)

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

Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period. This is the amount by which depreciation (\$9,553,623) is exceeded by capital outlays (\$28,417,885) in the current period. 18,864,626

Governmental funds report the entire net sales price (proceeds) from sale of an asset as revenue because it provides current financial resources. In contrast, the Statement of Activities reports only the gain or loss on the sale of the assets. Thus, the change in net position differs from the change in fund balance by the cost of the asset sold. (21,495)

Governmental funds do not present revenues that are not available to pay current obligations. In contrast, such revenues are reported in the Statement of Activities when earned. (162,099)

Governmental funds report the repayment of long-term receivables as revenues when received and available. In contrast these receipts are treated as a reduction in the receivable at the government wide level of reporting. (3,018,467)

Governmental activities assumed the debt previously reported in business-type activities. (16,940,200)
Contributions for defined benefit pension plans are recognized as expenditures in the governmental funds when the contributions are made. Pension expense is recognized in the government wide statement of activities based on changes in the long-term net pension liability. 5,355,778

Governmental funds report proceeds from new debt as a current financial resources. In contrast, the Statement of Activities treats such issuance of debt as a liability. Governmental funds report repayment of principal as an expenditure. In contrast, the Statement of Activities treats such repayments as a reduction in long-term liabilities. This is the amount by which proceeds exceeded repayments. 5,012,711

Some expenses reported in the Statement of Activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds.

Changes in accrued interest (184,421)
Changes in accrued compensated absences (713,766)
Pension expense for the pension plan measurement year (7,850,680)

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. 5,159,977

Change in net position of governmental activities \$ 5,024,166

See Notes to Financial Statements.

CITY OF GALVESTON, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
September 30, 2016

	Business-type Activities - Enterprise Funds				Governmental
	Waterworks	Sewer System	Other	Total	Activities
					Internal Service
	System		Funds		Funds
Assets					
Current assets:					
Cash and cash equivalents	\$ 4,445,737	\$ 1,156,065	\$ 2,673,174	\$ 8,274,976	\$ 12,137,852
Accounts receivable, net of allowance for doubtful accounts	3,469,380	3,066,643	3,322,341	9,858,364	98,585
Due from other funds	566,493	2,213,776	-	2,780,269	-
Receivables from other governments	-	-	-	-	111,971
Inventories	73,834	73,834	-	147,668	222,109
Prepaid items	2,000	2,000	-	4,000	352,670
Restricted cash and cash equivalents	4,929,755	11,378,099	1,710,612	18,018,466	435,245
Total current assets	13,487,199	17,890,417	7,706,127	39,083,743	13,358,432
Non-current assets:					
Capital assets not being depreciated:					
Land	686,031	572,536	1,230,764	2,489,331	-
Construction in progress	12,593,416	4,180,040	2,496,845	19,270,301	-
Capital assets (net of depreciation):					
Infrastructure	57,590,541	36,211,278	20,971,874	114,773,693	-
Buildings and improvements	21,790,294	103,902,977	2,948,512	128,641,783	4,565,152
Equipment and furniture	968,887	3,052,658	4,593,823	8,615,368	554,485
Intangibles	13,000,890	-	-	13,000,890	-
Total non-current assets	106,630,059	147,919,489	32,241,818	286,791,366	5,119,637
Total Assets	120,117,258	165,809,906	39,947,945	325,875,109	18,478,069
Deferred Outflows of Resources					
Deferred outflows relating to pension activities	474,000	1,007,800	1,054,600	2,536,400	-
Total Deferred Outflows of Resources	474,000	1,007,800	1,054,600	2,536,400	-
Liabilities					
Current liabilities:					
Accounts payable and accrued expenses	1,169,486	354,979	1,396,873	2,921,338	354,850
Accrued interest	198,239	235,136	-	433,375	-
Due to other funds	-	-	9,753	9,753	-
Due to other governments	152,036	(1,631)	297,713	448,118	-
Customer deposits	1,156,522	1,156,522	-	2,313,044	-
Unearned revenue	-	-	13,535	13,535	-
Total current liabilities	2,676,283	1,745,006	1,717,874	6,139,163	354,850
Non-current liabilities:					
Due within one year	3,899,295	1,141,400	62,330	5,103,025	277,348
Due in more than one year	26,217,556	14,601,046	562,732	41,381,334	5,719,028
Net pension liability	1,220,900	2,598,600	2,605,000	6,424,500	-
Total non-current liabilities	31,337,751	18,341,046	3,230,062	52,908,859	5,996,376
Total Liabilities	34,014,034	20,086,052	4,947,936	59,048,022	6,351,226
Deferred Inflows of Resources					
Deferred inflows relating to pension activities	60,200	128,000	137,400	325,600	-
Total Deferred Inflows of Resources	60,200	128,000	137,400	325,600	-
Net Position					
Net investment in capital assets	76,784,179	132,674,119	2,689,983	212,148,281	5,119,637
Restricted:					
Capital projects	2,547,363	8,128,213	1,710,612	12,386,188	-
Debt service	1,225,870	2,093,364	-	3,319,234	-
Unrestricted	5,959,612	3,707,958	31,516,614	41,184,184	7,007,206
Total Net Position	\$ 86,517,024	\$ 146,603,654	\$ 35,917,209	\$ 269,037,887	\$ 12,126,843

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

3,008,919

Total Net Position per Government-Wide financial statements

\$ 272,046,806

See Notes to Financial Statements.

CITY OF GALVESTON, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
For the Year Ended September 30, 2016

	Business-type Activities - Enterprise Funds				Governmental
	Waterworks System	Sewer System	Other	Total	Activities
			Enterprise Funds		Internal Service Funds
Revenues					
Charges for services	\$ 20,759,470	14,524,291	\$ 9,652,041	\$ 44,935,802	\$ 16,600,718
Total Operating Revenues	<u>20,759,470</u>	<u>14,524,291</u>	<u>9,652,041</u>	<u>44,935,802</u>	<u>16,600,718</u>
Operating Expenses					
Personnel services	2,211,267	4,518,513	4,916,168	11,645,948	2,654,258
Contractual services	614,411	2,200,235	2,920,938	5,735,584	1,199,690
Supplies and materials	891,768	1,861,409	205,228	2,958,405	2,333,518
Surface water contract	6,535,422	-	-	6,535,422	-
Insurance claims and premiums	-	-	-	-	8,982,950
Other expenses	572,725	737,316	604,515	1,914,556	524,480
Administration charge	669,377	408,546	315,540	1,393,463	-
Depreciation	3,682,225	4,156,359	1,805,961	9,644,545	391,042
Total Operating Expenses	<u>15,177,195</u>	<u>13,882,378</u>	<u>10,768,350</u>	<u>39,827,923</u>	<u>16,085,938</u>
Operating income (loss)	<u>5,582,275</u>	<u>641,913</u>	<u>(1,116,309)</u>	<u>5,107,879</u>	<u>514,780</u>
Non-Operating Revenues (Expenses)					
Intergovernmental revenue	-	-	43,231	43,231	-
Interest and investment revenue	43,394	78,378	32,324	154,096	68,705
Insurance proceeds	-	-	-	-	61,671
Gain (loss) on disposal of capital assets	-	916	-	916	723
Interest expense	(483,040)	(672,378)	-	(1,155,418)	(49,312)
Bad debt	(2,220)	-	-	(2,220)	-
Total Non-operating Revenue (Expenses)	<u>(441,866)</u>	<u>(593,084)</u>	<u>75,555</u>	<u>(959,395)</u>	<u>81,787</u>
Income (loss) before contributions and transfers	<u>5,140,409</u>	<u>48,829</u>	<u>(1,040,754)</u>	<u>4,148,484</u>	<u>596,567</u>
Capital contributions	13,284,664	18,703,281	1,971,720	33,959,665	2,899,800
Transfers in	-	1,114	102,956	104,070	2,513,365
Transfers out	(1,408,660)	(1,405,846)	(270,040)	(3,084,546)	(152,866)
Change in net position	<u>17,016,413</u>	<u>17,347,378</u>	<u>763,882</u>	<u>35,127,673</u>	<u>5,856,866</u>
Total net position - beginning	<u>70,321,847</u>	<u>129,626,046</u>	<u>35,952,717</u>	<u>235,900,610</u>	<u>6,269,977</u>
Prior period adjustment	(821,236)	(369,770)	(799,390)	(1,990,396)	-
Total net position - ending	<u>\$ 86,517,024</u>	<u>\$ 146,603,654</u>	<u>\$ 35,917,209</u>	<u>\$ 269,037,887</u>	<u>\$ 12,126,843</u>

Change in net position per above \$ 35,127,673

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.

1,110,000

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

\$ 36,237,673

See Notes to Financial Statements.

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CITY OF GALVESTON, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended September 30, 2016

	Business-type Activities - Enterprise Funds				Governmental
	Waterworks	Other Enterprise			Activities
	System	Sewer System	Funds	Total	Internal
					Service Funds
Cash Flows from Operating Activities:					
Receipts from customers and users	\$ 19,142,940	\$ 13,616,273	\$ 9,553,974	\$ 42,313,187	\$ 16,517,547
Disbursed for personnel services	(2,136,519)	(4,349,759)	(4,629,302)	(11,115,580)	(2,592,646)
Disbursed for goods and services	(9,095,340)	(4,419,237)	(2,739,679)	(16,254,256)	(12,780,239)
Administrative service charge	(669,377)	(408,546)	(315,540)	(1,393,463)	-
Net cash provided (used) by operating activities	7,241,704	4,438,731	1,869,453	13,549,888	1,144,662
Cash Flows from Non-Capital Financial Activities:					
Transfers from other funds	-	-	194,455	194,455	2,513,365
Transfers to other funds	(2,002,596)	(3,589,259)	(353,592)	(5,945,447)	(152,866)
Net cash provided (used) by noncapital financing activities	(2,002,596)	(3,589,259)	(159,137)	(5,750,992)	2,360,499
Cash Flows from Capital and Related Financing Activities:					
Proceeds from the sale of equipment	-	916	-	916	9,756
Insurance proceeds	-	-	-	-	61,671
Capital grants	-	-	(71,634)	(71,634)	-
Interest payments on debt	(674,180)	(768,577)	-	(1,442,757)	(45,281)
Principal payments on debt	(4,300,156)	(1,460,288)	-	(5,760,444)	(105,103)
Acquisition and construction of capital assets	(1,794,377)	(2,212,819)	(2,671,472)	(6,678,668)	(77,815)
Net cash used by capital and related financing activities	(6,768,713)	(4,440,768)	(2,743,106)	(13,952,587)	(156,772)
Cash Flows from Investing Activities					
Interest received	43,394	78,378	32,324	154,096	68,705
Interest paid	-	-	-	-	(49,312)
Net cash provided (used) by investing activities	43,394	78,378	32,324	154,096	19,393
Net increase (decrease) in cash and equivalents	(1,486,211)	(3,512,918)	(1,000,466)	(5,999,595)	3,367,782
Cash and equivalents, beginning of year	10,861,703	16,047,082	5,384,252	32,293,037	9,205,315
Cash and equivalents, at end of year	\$ 9,375,492	\$ 12,534,164	\$ 4,383,786	\$ 26,293,442	\$ 12,573,097
Unrestricted cash and equivalents	\$ 4,445,737	\$ 1,156,065	\$ 2,673,174	\$ 8,274,976	\$ 12,137,852
Restricted cash and equivalents	4,929,755	11,378,099	1,710,612	18,018,466	435,245
	<u>\$ 9,375,492</u>	<u>\$ 12,534,164</u>	<u>\$ 4,383,786</u>	<u>\$ 26,293,442</u>	<u>\$ 12,573,097</u>
Reconciliation of operating income to net cash provided by operating activities:					
Operating income (loss)	\$ 5,582,275	\$ 641,913	\$ (1,116,309)	\$ 5,107,879	\$ 514,780
Adjustments to reconcile operating income to cash provided by operating activities:					
Depreciation	3,682,225	4,156,359	1,805,961	9,644,545	391,042
(Increase) decrease in accounts receivable	(1,634,596)	(921,084)	100,709	(2,454,971)	(83,171)
(Increase) decrease in inventory	(2,899)	(2,899)	-	(5,798)	(392)
(Increase) decrease in prepaid items	234,270	283,326	110,433	628,029	60,297
(Increase) decrease in deferred outflows/inflows relating to pension activities	(284,900)	(605,300)	(649,800)	(1,540,000)	-
Increase (decrease) in accounts payable	(712,385)	99,296	880,569	267,480	200,494
Increase (decrease) in due wages payable	(11,027)	20,227	-	9,200	-
Increase (decrease) in customer deposits	18,066	18,066	-	36,132	-
Increase (decrease) in compensated absences	20,175	8,927	136,966	166,068	-
Increase (decrease) in deferred revenue	-	(5,000)	(198,776)	(203,776)	-
Increase (decrease) in net pension liability	350,500	744,900	799,700	1,895,100	61,612
Net cash provided by operating activities	\$ 7,241,704	\$ 4,438,731	\$ 1,869,453	\$ 13,549,888	\$ 1,144,662
Non-cash Transactions:					
Contributed Capital	\$ 13,284,664	\$ 18,703,281	\$ 1,971,720	\$ 33,959,665	

See Notes to Financial Statements.

CITY OF GALVESTON, TEXAS
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET POSITION

	Pension Trust Fund as of December 31, 2015	Agency Fund as of September 30, 2016
Assets		
Cash and temporary investments	\$ 893,262	\$ 741,843
Receivables		
Interest and dividends	207,711	-
Loans to participants	177,292	-
Investments		
Money market funds	1,465,380	-
U.S. Government agencies	877,250	-
Bonds	2,513,064	-
Common stocks	19,037,309	-
Equity mutual funds	50,927,068	-
Bond mutual funds	18,554,356	-
Alternative investments	7,322,780	-
Real estate	384,710	-
Prepaid items	-	-
Total Assets	<u>102,360,182</u>	<u>\$ 741,843</u>
Liabilities		
Accounts payable	162,900	\$ 3,800
Refunds payable and others	-	738,043
Total Liabilities	<u>162,900</u>	<u>\$ 741,843</u>
Net Position		
Held in trust for benefits and other purposes	<u>102,197,282</u>	
Total Net Position	<u>\$ 102,197,282</u>	

See Notes to Financial Statements.

CITY OF GALVESTON, TEXAS
FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
Year ended December 31, 2015

	Pension Trust Fund
Additions	
Contributions:	
Employer	\$ 4,222,952
Plan members	3,709,059
Total contributions	<u>7,932,011</u>
Investment Earnings:	
Net increase in fair value of investments	(4,038,508)
Interest and dividends	2,383,341
Less investment expenses	(536,499)
Net investment income	<u>(2,191,666)</u>
Total Additions	5,740,345
Deductions	
Benefits paid to members and beneficiaries	11,249,338
Refunds of contributions	469,405
Administrative expenses	327,228
Total Deductions	<u>12,045,971</u>
Change in net position	(6,305,626)
Net position, beginning of year	<u>108,502,908</u>
Net position, end of year	<u>\$ 102,197,282</u>

See Notes to Financial Statements.

CITY OF GALVESTON, TEXAS
NOTES TO FINANCIAL STATEMENTS

Note 1 – Summary of Significant Accounting Policies

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

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

A. Financial Reporting Entity

These financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the City's operations. The aggregate governmental and business-type discretely presented component units are reported in separate columns in the government-wide financial statements to emphasize that they are legally separate from the government.

Blended Component Units Reported with the Primary Government

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

Industrial Development Corporation

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

Pension Funds

The City of Galveston Employee's Retirement Plan for City Employees, Galveston Firefighters' Pension Fund, and the City of Galveston Employee's Retirement Plan for Police (the Pension Funds) were created in accordance with state statutes to provide benefits to non-civil service, firemen, police and City employees. The responsibility for administration and operation of the plan rests with each plan's board. Each pension plan is funded by a contribution mix from employees and the City. The Pension Funds are included in the City's pension trust funds as of December 31, 2015.

Note 1 – Summary of Significant Accounting Policies (continued)

A. Financial Reporting Entity (continued)

Discretely Presented Component Units

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

Following are the City's discretely presented component units:

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

The Park Board of Trustees of the City of Galveston, Texas, (the Park Board), was created by state statute to provide improvements and maintenance to City waterfront parks and beaches. The Park Board, funded primarily by hotel occupancy tax and beach parking receipts, is legally separate from the City. The Park Board, which is appointed by the City Council, has a nine-member board responsible for operations. The Park Board financial records are the board's responsibility. Complete financial statements for the Park Board may be obtained at the following address:

Park Board of Trustees of the City of Galveston, Texas
601 Tremont, Suite 200
Galveston, Texas 77550

Galveston Island Redevelopment Authority

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

Galveston Island Redevelopment Authority
1011 Tremont Street
Galveston, Texas 77550

Public Improvement District- Campeche Shores

Campeche Shores Public Improvement District was established by the City to provide funds for development and improvement projects specifically for Campeche Shores District. An agreement between GIRA and Campeche Shores LP dated April 28, 2005, details the responsibilities between all parties, including the City. Under the authority of GIRA, the City has established a Public Improvement District Fund for the district. Each year, following the levy and collection of assessments, the City shall transfer the amount to GIRA. These funds are used by GIRA to pay the administrative costs and to reimburse Campeche Shores LP for any and all costs associated with the public improvements. Separately issued financial statements are not available.

CITY OF GALVESTON, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 1 – Summary of Significant Accounting Policies (continued)

A. Financial Reporting Entity (continued)

Discretely Presented Component Units (continued)

Public Improvement District- Beachside Village

Beachside Village Public Improvement District was established by the City on February 11, 2010 to provide funds for street drainage and utility public improvement projects, specifically in Beachside Village Public Improvement District. The GIRA has an agreement with Kahala Development, Limited Partnership, which details the responsibilities between all parties, including the City. Each year, following the levy and collection of assessments levied against property within the district, the City shall transfer the amount to GIRA. These funds are used by GIRA to pay the administrative costs and to reimburse Kahala Development for the costs of constructing the public improvements. Separately issued financial statements are not available.

Public Improvement District - Bayside at Waterman's

Bayside at Waterman's Public Improvement District was established by the City on October 28, 2014 for the development of approximately 162 single family residences and associated rights-of-way, landscaping, and infrastructure necessary to provide roadways, drainage, and utilities within approximately 21.5 acres located in the corporate limits of the City.

An agreement between Bayside at Waterman's Public Improvement District and Laffite's Harbor Development, LP was signed December 10, 2014. Wilmington Trust agreed to be the Trustee and Paying Agent/Registrar as of December 1, 2014 for bonds issued relating to the development of the district. The bonds mature September 1, 2044. The average annual interest rate for bonds is approximately 5.85%.

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

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

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

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

CITY OF GALVESTON, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 1 – Summary of Significant Accounting Policies (continued)

A. Financial Reporting Entity (continued)

Discretely Presented Component Units (continued)

The Board of Trustees of the Galveston Wharves

The Board of Trustees of the Galveston Wharves (Galveston Wharves) was created by the City Charter on October 17, 1940 to manage, control, and maintain the wharves. The board of trustees of the Galveston Wharves, which is appointed by City Council, is a seven-member board, which is responsible for operating the wharves. The Galveston Wharves financial records are the board's responsibility. The Galveston Wharves have a December 31 fiscal year-end.

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

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

Related Organizations and Jointly Governed Organizations

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

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information about the City as a whole. These statements include all non-fiduciary activities of the primary government and its component units. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

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

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

CITY OF GALVESTON, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 1 – Summary of Significant Accounting Policies (continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

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

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

The government reports the following major governmental funds:

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

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

CDBG Disaster Recovery Non-housing are made available from 2008 Supplemental Community Development Block Grant funding associated with the Consolidated Security, Disaster Assistance, and Continuing Appropriations Act, (Public Law 11 0-329) appropriated by Congress through the United States Department of Housing and Urban Development. Projects included in the funding are for waste water treatment plant, sewer lift station, water systems, historic building front preservation, economic development loans, fire station #4 and fire apparatus.

The government reports the following major proprietary funds:

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

CITY OF GALVESTON, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 1 – Summary of Significant Accounting Policies (continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued)

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

Additionally, the government reports the following fund types:

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

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

The **Pension Trust Funds** account for the activities of the City Employees Retirement Plan, the Galveston Firefighters' Pension Fund and the Police Retirement Fund.

The **Agency Funds** are used to account for assets held by the City as an agent for individuals, private organizations and other governments. This fund is custodial in nature and does not involve measurement of results of operations. Agency funds include fiber crete maintenance funds, cemetery trust funds, confiscated monies pending disposition, etc.

As a general rule, the effect of inter-fund activity has been eliminated from the Government-wide financial statements.

Amounts reported as program revenues include: 1) charges to customers or applicants for goods, services, or privileges provided; 2) operating grants and contributions; and, 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for goods and services. Operating expenses for enterprise funds include the cost of goods and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

CITY OF GALVESTON, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 1 – Summary of Significant Accounting Policies (continued)

D. Cash and Investments

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

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

The City categorizes fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The City's local government investment pools are recorded at amortized costs as permitted by GASB Statement No. 79, *Certain Investment Pools and Pool Participants*.

E. Receivables and Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" and "due to other funds," respectively, on the balance sheet. Any residual balances outstanding between the governmental activities and business-type activities are reported in the Government-wide financial statements as "internal balances."

All trade and property tax receivables are shown net of an allowance for uncollectibles. The property tax receivable allowance is equal to 51% of total property taxes including the related penalty and interest accrual as of year-end. The allowance for enterprise fund charges for services is 28.0% of total outstanding charges as of year-end.

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

CITY OF GALVESTON, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 1 – Summary of Significant Accounting Policies (continued)

F. Inventories and Prepaid Items

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

Payments made to vendors for services that will benefit periods beyond September 30, 2016, are recorded as prepaid items.

G. Capital Assets

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

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

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

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

<u>Asset Description</u>	<u>Estimated Useful Life</u>
Buildings	25 to 75 years
Improvements	5 to 50 years
Equipment	2 to 40 years
Sewer plants	50 to 75 years
Sewer lines	40 to 75 years
Water plants, wells and hydrants	50 to 75 years
Water tanks and valves	50 years
Water meters	10 years
Infrastructure	5 to 75 years
Contractual water rights	10 to 30 years

H. Compensated Absences

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

Note 1 – Summary of Significant Accounting Policies (continued)

I. Long-Term Obligations

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

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

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

J. Fund Balances and Net Position

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

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

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

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

Assigned: This classification includes amounts that are constrained by the City's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the City Council or by the City Council's designee, pursuant to the City's fund balance policy. At September 30, 2016, the City had no assigned fund balance amounts.

CITY OF GALVESTON, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 1 – Summary of Significant Accounting Policies (continued)

J. Fund Balances and Net Position (continued)

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

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

K. Restricted Cash and Investments

Certain proceeds of enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. Other restricted accounts reflect money set aside by City Council action for improvements or to meet contractual obligations.

L. Inter-fund Transactions

Inter-fund services provided and received are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses, that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. All other inter-fund transactions are reported as transfers.

M. Legal Compliance- Budgets

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

Pursuant to City Charter, at least 45 days prior to the beginning of each fiscal year, the City Manager submits to the City Council a proposed operating and capital projects budget for the fiscal year commencing October 1. The proposed budget includes proposed expenditures and the means of financing them. A statement of capital projects planned for the next succeeding five fiscal years, with estimates of their costs is also submitted at this time.

At least seven days prior to the beginning of the fiscal year, the budget is legally enacted by formal approval of the City Council.

The City Charter requires that no funds shall be expended nor shall any obligation for the expenditure of money be incurred unless an appropriation exists in the duly adopted budget. Annual appropriations style budgets are adopted for the General Fund, Special Revenue Funds including the Island Transit, Rosenberg Library and Parks and Recreation Improvement Special Revenue Funds, the Debt Service Fund, and all Enterprise Funds. Formal budgetary integration is employed as a management control device during the year for the general fund, special revenue funds, capital projects funds, debt service funds and enterprise funds.

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

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

CITY OF GALVESTON, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 1 – Summary of Significant Accounting Policies (continued)

M. Legal Compliance - Budgets (continued)

Capital and planning grant activities in the Island Transit fund are not budgeted on an annual basis and are controlled in a manner similar to the grant project funds noted above. Budgeted amounts are reported herein as amended throughout the year. There were four formal, ordinance approved budget amendments during FY 2016. Total appropriations did not increase to remain in compliance with the city charter requirement limiting the total budget to a seven percent increase overall each year. Appropriation balances lapse at year-end and may be re-appropriated by City Council.

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

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

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

N. Estimates

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

O. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the City's three defined benefit pension plans (the "Plans") and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by the individual Plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

P. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The government has one item that qualifies for reporting in this category:

- Deferred outflows of resources for pension – Reported for the City's in the government-wide and enterprise fund financial statement of net position. One portion of this deferred outflow results from pension plan contributions made after the measurement date of the net pension liability, and will be recognized as a reduction of the net pension liability in the next fiscal year. The other pension related deferred outflows result primarily from differences between projected and actual earnings on pension plan investments. These amounts will be amortized over a closed five year period.

Note 1 – Summary of Significant Accounting Policies (continued)

P. Deferred Outflows/Inflows of Resources (continued)

- Deferred loss on refunding reported in the statement of net position – this deferred outflow results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has two items that qualify for reporting in this category:

- Deferred gain on refunding reported in the statement of net position – this deferred inflow results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.
- Deferred inflows of resources for pension – This deferred inflow results from the differences between expected and actual actuarial experiences and changes in actuarial assumptions will be amortized over the expected remaining service lives of all employees (active and inactive employees) that are provided with pensions through the pension plan.

Q. New Accounting Standards

In the current fiscal year, the City implemented the following new standards:

- *GASB Statement No. 72, Fair Value Measurement and Application*, addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements
- *GASB Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, clarifies the application of certain provisions of Statement No. 68 with regard to information that is required to be presented as notes to the 10-year schedules of required supplementary information about investment-related factors that significantly affect trends in the amounts reported.
- *GASB Statement No. 79, Certain External Investment Pools and Pool Participants*, addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures include information about any limitations or restrictions on participant withdrawals.

CITY OF GALVESTON, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 2 - Deposits (Cash) and Investments

Credit Risk. The primary stated objective of the City of Galveston's adopted Investment Policy (the Investment Policy) is the safety of principal and avoidance of principal loss. Credit risk within the City's portfolio among the authorized investments approved by the City's adopted Investment Policy is represented only in time and demand deposits, repurchase agreements, municipal obligations, and non-rated U.S. Securities and Exchange Commission (SEC) registered money market mutual funds.

All other investments are rated AAA, or equivalent, by at least one nationally recognized rating agency. Investments are made primarily in obligations of the U.S. Government, its agencies or instrumentalities and Local Government Investment Pools. State law and the Investment Policy restricts both time and demand deposits, including certificates of deposit, to those banks doing business in the State of Texas and further requires full insurance and/or collateral from these depositories.

Certificates of deposit are limited to a stated maturity of one year. Collateral, with a 102% margin, is required and collateral is limited to obligations of the U.S. Government, its agencies or instrumentalities and municipal obligations rated no less than AA or equivalent by two nationally recognized rating agencies. Independent safekeeping is required outside the pledging bank's holding company with monthly reporting. Securities are monitored and priced at market on a daily basis as a contractual responsibility of the bank.

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

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

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

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

CITY OF GALVESTON, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 2 - Deposits (Cash) and Investments (continued)

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

As of September 30, 2016,

- Investments in AAA-rated local government investment pools represented 66.7% of the total portfolio, and
- Holdings in US Government securities rated AAA represented 33.3% of the total portfolio.

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

	<u>Fair Value / Amortized Cost</u>	<u>Credit Quality Rating</u>	<u>Percentage of Investments</u>
Investment Type:			
Local Government Investment Pools:			
TexPool	1,703,187	A-1+/A-1	1.78%
Texas Term	62,238,293	AAAf/AAAm/A1/P1	64.97%
Total Local Government Investment Pools	<u>63,941,480</u>		<u>66.74%</u>
Investment Securities:			
Federal Home Loan Mortgage Corp.	4,950,000	AA+	5.17%
Federal Home Loan Bank	6,550,000	AA+	6.84%
US Treasury Securities	15,360,000	AA+	16.03%
Commercial Paper	5,000,000	A-1 to A-1+	5.22%
Total Investment Securities	<u>31,860,000</u>		<u>33.26%</u>
Total Primary Government	<u>\$ 95,801,480</u>		<u>100.00%</u>

Interest Rate Risk. In order to limit interest and market rate risk from changes in interest rates, the City's adopted investment policy establishes a maximum maturity of 36 months for operating funds and two years for reserve funds.

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

<u>Investment Type</u>	<u>Investment Maturities in Years</u>	<u>Investment Maturities in Years</u>
	<u>Less than 1 year</u>	<u>1 - 5 years</u>
U.S. Treasury Notes and Bills	7,335,000	8,025,000
U.S. Agency Securities:		
Federal Home Loan Mortgage Corp.	3,250,000	1,700,000
Federal Home Loan Bank	4,850,000	1,700,000
2A-7 like Local Government Pools	63,941,480	-
Commercial Paper	5,000,000	
Total	<u>\$ 84,376,480</u>	<u>\$ 11,425,000</u>

CITY OF GALVESTON, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 2 - Deposits (Cash) and Investments (continued)

Custodial Credit Risk. To control custody and safekeeping risk, the City's investment policy requires collateral for all time and demand deposits, as well as collateral for repurchase agreements, be transferred delivery versus payment and held in the City's name by an independent party. The custodian is required to provide original safekeeping receipts and monthly reporting of positions with position descriptions including market value. Repurchase agreements and deposits must be collateralized to 102% and be executed under written agreements. Depository agreements are executed under the terms of FIRREA (U.S. Financial Institutions Reform, Recovery and Enforcement Act of 1989). The counter-party of each type of transaction is held contractually liable for monitoring and maintaining the required collateral margins on a daily basis.

Portfolio disclosure as of September 30, 2016:

- All bank demand deposits were fully insured and collateralized. All pledged bank collateral for demand deposits was held by an independent institution outside the bank's holding company.

	<u>Fair Value / Amortized Cost</u>	<u>Percentage of Investments</u>	<u>Weighted Average Maturity (Days)</u>
Governmental Activities:			
Investments:			
Local Government Investment Pools:			
TexPool	\$ 1,703,187	2%	40
Texas Term	62,238,293	65%	96
Total Local Government Investment Pools	<u>63,941,480</u>	<u>67%</u>	
Investment Securities:			
Federal Home Loan Mortgage Corp.	4,950,000	5%	14
Federal Home Loan Bank	6,550,000	7%	25
US Treasury Securities	15,360,000	16%	67
Commercial Paper	5,000,000	5%	10
Total Investment Securities	<u>31,860,000</u>	<u>33%</u>	
Total Governmental Activities	<u>\$ 95,801,480</u>	<u>100%</u>	77

Note 3 – Property Tax

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

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

In conjunction with limits placed on taxes, the annual increase in total budgeted expenditures for all purposes was limited to 7.0% over the prior year's total budgeted expenditures.

Within these guidelines, the adopted tax rate per \$100 of assessed valuation, for the year ended September 30, 2016, was \$0.5290. The tax rate to finance general governmental services was set at \$0.483955 and the tax rate for all other purposes, including debt service, was set at \$0.045045 per \$100 of assessed valuation.

CITY OF GALVESTON, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 4 - Sales Tax

The City's sales tax rate is 2.0% for the year ended September 30, 2016. A City Charter amendment was passed by the voters on January 21, 1989, whereby the City is required to offset ad valorem taxes each year by an amount equal to 25.0% of the 2.0% sales tax collected in the prior year. This offset was calculated using a calendar year formula provided by the State of Texas, resulting in ad valorem taxes offset by actual sales tax revenue of \$4.9 million in fiscal year 2016. The total maximum allowable tax rate of \$0.70 was thus limited to \$0.534 for the current fiscal year. It is the City Attorney's opinion that this amendment does not create a new tax cap and it would not restrict the City's ability to meet bond obligations.

Of the sales tax collections, 75.0% is allocated to the General Fund and 25.0% to the IDC fund. On November 4, 2008, the voters extended the offset amount for the IDC fund for 20 years, to expire on April 1, 2029. Effective through March 31, 2029, the IDC fund collections are allocated as follows: 25.0% for beach re-nourishment, 25.0% for streets, sewer and drainage improvement projects, 25.0% for economic development, and 25.0% delegated to park improvements.

Note 5 - Accounts Receivable

Receivables, as of September 30, 2016, for the City's individual major and non-major funds and internal service funds, including the applicable allowances for uncollectible accounts, are as follows:

GOVERNMENTAL FUNDS

	General Fund	Hurricane Ike	CDBG Disaster Fund Non- Housing	Non -Major Governmental Funds	Total
Receivables:					
Property taxes	\$1,867,663	\$ -	\$ -	249,131	\$ 2,116,794
Sales and use taxes	2,822,018	-	-	940,672	3,762,690
Franchise taxes	702,841	-	-	-	702,841
Hotel taxes	-	-	-	2,045,286	2,045,286
Court fines	2,853,354	-	-	-	2,853,354
Customer accounts	513,126	-	-	-	513,126
Intergovernmental	32,762	13,104	7,462,305	5,563,817	13,071,988
Other	771,844	-	-	1,507,089	2,278,933
Allowance for uncollectibles	(2,951,961)	-	-	(109,636)	(3,061,597)
Total	\$6,611,647	\$ 13,104	\$ 7,462,305	\$ 10,196,359	\$ 24,283,415

BUSINESS TYPE ACTIVITIES

	Water	Sewer	Non-Major Enterprise Funds	Internal Service Funds	Total
Receivables:					
Customer accounts	\$4,361,730	\$ 5,357,808	\$ 5,020,051	\$ -	\$ 14,739,589
Other	-	-	-	98,585	98,585
Allowance for uncollectibles	(892,350)	(2,291,165)	(1,697,710)	-	(4,881,225)
Total	\$3,469,380	\$ 3,066,643	\$ 3,322,341	\$ 98,585	\$ 9,956,949

CITY OF GALVESTON, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 6 - Interfund Transfers and Receivables

Interfund transfers for the primary government are as follows for the year ended September 30, 2016:

	Transfer In Fund						Totals
	General Fund	CDBG Disaster Non-Housing	Non-Major Governmental Funds	Sewer System	Non-Major Enterprise Funds	Internal Service Funds	
Transfer Out Fund							
General Fund	\$ -	\$ -	\$ 2,112,878	\$ -	\$ -	\$ 1,546,600	\$ 3,659,478
Hurricane Ike Fund	-	-	1,739	1,114	-	-	2,853
CDBG Disaster Fund Non-Housing	-	-	-	-	-	-	-
Non-Major Governmental Funds	50,000	14,769	817,410	-	102,956	387,485	1,372,620
Waterworks System	200,000	-	969,720	-	-	238,940	1,408,660
Sewer System	200,000	-	935,546	-	-	270,300	1,405,846
Non-Major Enterprise Funds	200,000	-	-	-	-	70,040	270,040
Internal Service Funds	-	-	152,866	-	-	-	152,866
	<u>\$ 650,000</u>	<u>\$ 14,769</u>	<u>\$ 4,990,159</u>	<u>\$ 1,114</u>	<u>\$ 102,956</u>	<u>\$ 2,513,365</u>	<u>\$ 8,272,363</u>

The following is a detail of the interfund transfers:

Transfer from	Transfer to	Purpose
Non-Major Governmental Funds	General Fund	To transfer from HOT fund for Special Events
Waterworks System	General Fund	To transfer for Payment in Lieu of Taxes
Sewer System	General Fund	To transfer for Payment in Lieu of Taxes
Non-Major Enterprise Funds	General Fund	To transfer for Payment in Lieu of Taxes
Non-Major Governmental Funds	CDBG Disaster Fund Non-Housing	To transfer fund balance from governmental fund to nonmajor governmental fund
General Fund	Non-Major Governmental Funds	To transfer for infrastructure capital projects
Hurricane Ike Fund	Non-Major Governmental Funds	To transfer for local project cost share
Non-Major Governmental Funds	Non-Major Governmental Funds	To transfer local share for Trolley project
Waterworks System	Non-Major Governmental Funds	To transfer for Debt Service payments
Sewer System	Non-Major Governmental Funds	To transfer for Debt Service payments
Internal Service Funds	Non-Major Governmental Funds	To transfer for Debt Service payments
Hurricane Ike Fund	Sewer System	To transfer for local project cost share
Non-Major Governmental Funds	Non-Major Enterprise Funds	To transfer for local project cost share
General Fund	Internal Service Funds	To create the Tech Replacement Fund and to fund the Separation Pay Fund
Non-Major Governmental Funds	Internal Service Funds	To create the Tech Replacement Fund
Waterworks System	Internal Service Funds	To create the Tech Replacement Fund and to fund the Separation Pay Fund
Sewer System	Internal Service Funds	To create the Tech Replacement Fund and to fund the Separation Pay Fund
Non-Major Enterprise Funds	Internal Service Funds	To fund the Separation Pay Fund

CITY OF GALVESTON, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 6 - Interfund Transfers and Receivables (continued)

The following is a detail of interfund receivables and payables for the primary government as of September 30, 2016:

	Receivable Funds: Due From			Totals
	CDBG Disaster Non- Housing	Non-Major Governmental Funds	Non-Major Enterprise Funds	
Payable Funds: Due To				
General Fund	\$ 860,368	\$ 2,002,145	\$ 7,315	\$ 2,869,828
Non-Major Governmental Funds		1,974,575	-	1,974,575
Water Fund	566,493	-	2,438	568,931
Sewer System	2,213,776	-	-	2,213,776
	<u>\$ 3,640,637</u>	<u>\$ 3,976,720</u>	<u>\$ 9,753</u>	<u>\$ 7,627,110</u>

The following is a detail of interfund receivables and payables:

Due to	Due from	Purpose
General Fund	CDBG Disaster Non-Major Housing	Prefunding grant expense
General Fund	Non-Major Governmental Funds	Prefunding grant expense
General Fund	Non-Major Enterprise Funds	Reimburse for share of sales tax
Water Fund	Non-Major Enterprise Funds	Reimburse for share of sales tax
Sewer Fund	CDBG Disaster Non-Major Housing	Prefunding grant expense
Non-Major Governmental	Non-Major Governmental	Prefunding grant expense and intergovernmental share project
Water Fund	CDBG Disaster Non-Major Housing	Prefund grant expense

CITY OF GALVESTON, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 7 - Capital Assets

The following is a detail of capital asset activity for the year ended September 30, 2016:

	Balance September 30, 2015	Increases	Decreases / Transfers	Balance September 30, 2016
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 20,013,022	\$ -	\$ -	\$ 20,013,022
Construction in progress	20,715,342	29,880,488	(18,674,049)	31,921,781
Total capital assets not being depreciated	40,728,364	29,880,488	(18,674,049)	51,934,803
Other capital assets:				
Infrastructure	133,441,453	13,101,157	-	146,542,610
Buildings and improvements	55,164,785	1,233,486	-	56,398,271
Licensed vehicles	22,160,782	1,457,287	(1,071,768)	22,546,301
Machinery and equipment	15,814,544	1,139,638	(33,094)	16,921,088
Improvements other than buildings	8,968,270	215,055	-	9,183,325
Total other capital assets	235,549,834	17,146,623	(1,104,862)	251,591,595
Less accumulated depreciation for:				
Infrastructure	(76,443,535)	(4,249,034)	-	(80,692,569)
Buildings and improvements	(13,818,735)	(1,409,296)	-	(15,228,031)
Licensed vehicles	(12,809,962)	(2,610,747)	1,050,273	(14,370,436)
Machinery and equipment	(11,278,814)	(1,404,930)	33,094	(12,650,650)
Improvements other than buildings	(4,788,287)	(270,657)	-	(5,058,944)
Total accumulated depreciation	(119,139,333)	(9,944,664)	1,083,367	(128,000,630)
Other capital assets, net	116,410,501	7,201,959	(21,495)	123,590,965
Totals	\$ 157,138,865	\$ 37,082,447	\$ (18,695,544)	\$ 175,525,768
	Balance September 30, 2015	Increases	Decreases / Transfers	Balance September 30, 2016
Business-type Activities:				
Capital assets not being depreciated:				
Land	\$ 2,489,331	\$ -	\$ -	\$ 2,489,331
Construction in progress	105,252,186	22,086,436	(108,682,248)	18,656,374
Total capital assets not being depreciated	107,741,517	22,086,436	(108,682,248)	21,145,705
Other capital assets:				
Improvements other than buildings	160,061,020	98,859	-	160,159,879
Building and system	67,380,700	106,818,354	-	174,199,054
Machinery and equipment	22,615,837	3,027,913	(101,990)	25,541,760
Contractual water rights	32,436,301	-	-	32,436,301
Total other capital assets	282,493,858	109,945,126	(101,990)	392,336,994
Less accumulated depreciation for:				
Improvements other than buildings	(60,186,338)	(3,221,907)	-	(63,408,245)
Building and system	(24,172,774)	(3,362,438)	-	(27,535,212)
Machinery and equipment	(15,366,280)	(1,662,102)	101,990	(16,926,392)
Contractual water rights	(18,565,102)	(1,398,098)	1,141,716	(18,821,484)
Total accumulated depreciation	(118,290,494)	(9,644,545)	1,243,706	(126,691,333)
Other capital assets, net	164,203,364	100,300,581	1,141,716	265,645,661
Totals	\$ 271,944,881	\$ 122,387,017	\$ (107,540,532)	\$ 286,791,366

CITY OF GALVESTON, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 7 - Capital Assets (continued)

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

General government	\$ 1,170,066
Public safety	1,275,554
Public works	3,339,387
Community and recreation	2,273,202
Planning and community development	158,074
Transportation system	1,337,339
In addition, depreciation on capital assets held by the City's internal service funds is charged to various functions based on their usage of the assets	<u>391,042</u>
Total Governmental Activities	<u>\$ 9,944,664</u>
Waterworks	\$ 3,682,223
Sewer System	4,156,360
Sanitation	404,130
Drainage	625,175
Airport	<u>776,657</u>
Total Business-Type Activities	<u>\$ 9,644,545</u>

CITY OF GALVESTON, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 7 - Capital Assets (continued)

Construction in progress and remaining commitment, as of September 30, 2016, were as follows:

Project Description	Project Authorization	Project Cost to Date	Remaining Commitment
Governmental Activities:			
Roadways Reconstruction & Design	\$ 9,583,757	\$ 9,459,538	\$ 124,219
Seawall Project	6,645,889	2,396,632	4,249,257
IDC Projects	11,409,181	3,034,713	8,374,468
Trolley Project	4,312,165	3,218,038	1,094,127
Island Transit Projects	4,144,290	2,087,046	2,057,244
61st St. Pedestrian Bridge at Washington Park Police Department, Fire Department & City	1,847,326	1,160,323	687,003
Hall Rehab	2,652,205	2,228,842	423,364
Various other projects	12,882,963	8,336,650	4,546,313
Total Governmental Activities	\$ 53,477,777	\$ 31,921,781	\$ 21,555,996
Business-type Activities:			
Waterworks System Fund Projects			
HMPG - 59th Street Pump Station	\$ 25,794,782	\$ 6,658,485	\$ 19,136,298
Fire Hydrant Replacement Program	7,467,085	3,161,713	4,305,373
Water Well Rehab #6a, 10, 13	848,705	813,089	35,616
Water Well Rehab #2A, 16, & 17	613,342	576,655	36,687
Various other water projects	2,134,678	769,645	1,365,032
Sewer System Fund Projects			
Inflow & infiltration line repairs	3,444,958	2,910,628	534,330
Seawolf Park WWTP Reconstruction & Expansion	898,072	157,822	740,250
Various other sewer projects	2,962,551	1,111,689	1,850,862
Drainage Fund Projects			
Storm Water Management	840,678	777,568	63,110
Harborside Drive Outfall	771,698	257,418	514,280
Storm Sewer Inlets	301,632	211,720	89,912
Sea Isle Drainage Improvements	1,410,563	457,306	953,257
Various other drainage projects	723,696	443,289	280,407
Airport Fund Projects			
Various other airport projects	642,270	349,348	292,922
Total Business-type Activities	\$ 48,854,710	\$ 18,656,374	\$ 30,198,336

CITY OF GALVESTON, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 8 - Long-Term Debt

A. Governmental Activities

Long-term liability activity for the year ended September 30, 2016, is as follows:

	Balance September 30, 2015	Increases	(Decreases)	Balance September 30, 2016	Amounts Due Within One Year
Bonds payable:					
General obligation bonds	\$ 14,620,000	\$ 17,365,000	\$ (3,980,000)	\$ 28,005,000	\$ 2,305,000
Accretion on capital interest bonds	2,286,925	268,346	-	2,555,271	-
Special obligation bonds	25,200,000	-	(810,000)	24,390,000	865,000
Certificates of obligation	14,153,472	-	(4,364,800)	9,788,672	3,435,000
Unamortized bond issuance premium	2,208,755	2,455,092	(377,903)	4,285,944	-
	<u>58,469,152</u>	<u>20,088,438</u>	<u>(9,532,703)</u>	<u>69,024,887</u>	<u>6,605,000</u>
Other liabilities:					
Other Post-Employment Benefit					
Obligation (OPEB)	3,350,414	587,500	(485,457)	3,452,457	-
Notes payable	835,581	-	(105,181)	730,400	109,589
Claims payable - workers comp	780,889	241,552	(332,969)	689,472	167,758
Claims payable - health insurance	440,623	3,992,405	(3,879,043)	553,985	553,985
Compensated absences	8,752,342	512,018	(255,874)	9,008,486	256,142
	<u>8,752,342</u>	<u>512,018</u>	<u>(255,874)</u>	<u>9,008,486</u>	<u>256,142</u>
Total Governmental Activities	<u>\$ 72,629,001</u>	<u>\$ 25,421,913</u>	<u>\$ (14,591,227)</u>	<u>\$ 83,459,687</u>	<u>\$ 7,692,474</u>

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

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

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

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

CITY OF GALVESTON, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 8 - Long-Term Debt (continued)

Governmental Activities (continued)

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

Series	Original Issue	Matures	Interest Rate (%)	Debt Outstanding
General Obligation Bonds				
Series 2011 Obligation Refunding Bonds	\$ 7,520,000	2023	2.0 to 4.0	\$ 6,435,000
Series 2014 Obligation Refunding Bonds	5,900,000	2023	2.0 to 4.0	5,025,000
Series 2016 Obligation Refunding Bonds	17,365,000	2033	2.0 to 5.0	16,545,000
Total General Obligation Bonds				\$ 28,005,000
Special Obligation Bonds				
Series 2012A Hotel Occupancy Tax Refunding Bonds	\$ 14,350,000	2034	3.0 to 5.0	\$ 12,820,000
Series 2012B Hotel Occupancy Tax Refunding Bonds	13,215,000	2032	3.0 to 5.0	11,570,000
Total Special Obligation Bonds				\$ 24,390,000
Certificates of Obligation				
Series 2004 Wharves and Terminal Revenue Bonds	\$ 19,323,672	2020	4.3 to 5.2	\$ 2,873,672
Series 2008 Combination Tax and Revenue Bonds	3,581,000	2033	4.3 to 5.3	1,255,000
Series 2013A Combination Tax and Revenue Refunding Bonds	11,420,000	2018	2.0 to 4.0	3,480,000
Series 2013B Combination Tax and Revenue Refunding Bonds	2,180,000	2018	3.0	2,180,000
Total Certificates of Obligation				\$ 9,788,672
Notes Payable				
2007 Note Payable	\$ 1,531,488	2024	3.5-4.0	\$ 730,400
Total Notes Payable				\$ 730,400

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

Year Ending Sept. 30	General Obligation Bonds		Special Obligation Bonds	
	Principal	Interest	Principal	Interest
2017	\$ 2,305,000	\$ 1,228,000	\$ 865,000	\$ 902,613
2018	2,385,000	1,152,200	920,000	868,013
2019	3,120,000	1,063,800	980,000	831,213
2020	3,025,000	918,150	1,045,000	792,013
2021	2,200,000	777,600	1,110,000	756,113
2022-2026	7,390,000	2,484,150	6,730,000	2,967,195
2027-2031	5,195,000	1,129,600	8,700,000	1,686,363
2032-2033	2,385,000	144,000	4,040,000	265,901
	\$ 28,005,000	\$ 8,897,500	\$ 24,390,000	\$ 9,069,424

CITY OF GALVESTON, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 8 - Long-Term Debt (continued)

Governmental Activities (continued)

Year Ending Sept. 30	Certificates of Obligation		Notes Payable	
	Principal	Interest	Principal	Interest
2017	\$ 3,435,000	\$ 926,323	\$ 109,590	\$ 29,171
2018	3,480,000	797,885	114,182	24,578
2019	1,483,051	1,676,949	118,967	19,793
2020	1,390,621	1,769,379	123,953	14,807
2021	-	-	129,148	9,612
2022-2026	-	-	134,560	4,200
	<u>\$ 9,788,672</u>	<u>\$ 5,170,536</u>	<u>\$ 730,400</u>	<u>\$ 102,161</u>

Current Year Refunding of Debt – Governmental Activities

On February 3, 2016, the City issued General Obligation Refunding Bonds, Series 2016 in the amount of \$17,365,000. The interest rate ranges from 3.0% - 5.0%. The bonds were issued at a premium totaling \$2,396,176. The proceeds of the bonds were used to refund a portion of the City's outstanding bonds and pay costs of issuance related to the bonds. A portion of the proceeds were deposited with the escrow agent to pay off the outstanding bonds. As a result, \$1,580,000 of the General Obligation and Refunding Bonds 2005 series are considered defeased and were called on February 16, 2016; \$3,730,000 of the Waterworks and Sewer System Revenue and Refunding Bonds Series 2016 were also called on the same date and, \$14,625,000 of the Combination Tax and Revenue Certificates of Obligation Series 2008 are scheduled to call on May 1, 2018, totaling \$19,935,000 of refunded debt. The purpose of the bonds was to lower the City's debt service payments. Sale of the bonds resulted in an economic gain of \$2,069,814 and a deferred loss on refunding of \$1,527,803.

Business Type Activities

Long-term liability activity for the year ended September 30, 2016, is as follows:

	Balance September 30, 2015	Increases	(Decreases)	Balance September 30, 2016	Amounts Due Within One Year
Bonds payable:					
Contracts (Gulf Coast Water Authority)	\$ 21,438,630	\$ -	\$ (3,421,624)	\$ 18,017,006	\$ 3,372,455
Revenue bonds - water fund	12,153,221	-	(2,427,727)	9,725,494	504,400
Revenue bonds - sewer fund	16,656,779	-	(2,867,270)	13,789,509	1,100,600
Certificates of obligation	13,210,200	-	(13,210,200)	-	-
Unamortized bond issuance premium	3,916,414	-	(357,173)	3,559,241	-
	<u>67,375,244</u>	<u>-</u>	<u>(22,283,994)</u>	<u>45,091,250</u>	<u>4,977,455</u>
Other liabilities:					
Notes payable	773,799	-	(773,799)	-	-
Compensated absences	1,245,213	295,493	(147,597)	1,393,109	125,570
Total Business-type Activities	<u>\$ 69,394,256</u>	<u>\$ 295,493</u>	<u>\$ (23,205,390)</u>	<u>\$ 46,484,359</u>	<u>\$ 5,103,025</u>

CITY OF GALVESTON, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 8 - Long-Term Debt (continued)

Business Type Activities (continued)

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

Series	Original Issue	Matures	Interest Rate (%)	Debt Outstanding
Contracts (Gulf Coast Water Authority)				
Series 2006 GCWA Chocolate Bayou Contract Note Payable	\$ 6,970,000	2017	4.0	\$ 437,437
Series 2011A GCWA Contract Refunding Revenue Bonds	17,730,000	2022	3.0 to 5.0	12,577,921
Series 2011E GCWA Water System Contract Revenue Refunding Bonds	4,320,000	2017	2.5 to 5.0	246,648
Series 2012 GCWA Contract Refunding Revenue Bonds	7,645,000	2022	2.3	4,755,000
Total Contracts (Gulf Coast Water Authority)				\$ 18,017,006
Revenue Bonds				
Series 2012 Waterworks and Sewer System Revenue and Refunding Bonds	6,180,000	2023	2.0 to 3.0	4,820,000
Series 2014 Waterworks and Sewer System Revenue and Refunding Bonds	19,640,000	2025	3.0 to 5.0	18,695,003
Total Contracts (Gulf Coast Water Authority)				\$ 23,515,003

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

Year Ending Sept. 30	Business-Type Activities			
	Revenue Bonds		Contracts	
	Principal	Interest	Principal	Interest
2017	\$ 1,605,000	\$ 1,040,100	\$ 3,372,455	\$ 687,715
2018	1,655,000	988,600	2,718,278	586,267
2019	1,715,000	935,300	2,806,890	490,857
2020	1,780,000	869,500	2,924,948	371,943
2021	1,865,000	794,100	3,033,283	264,540
2022-2026	8,205,000	2,780,250	3,161,152	135,262
2027-2031	6,690,003	856,250	-	-
	\$ 23,515,003	\$ 8,264,100	\$ 18,017,006	\$ 2,536,584

The revenue of the combined water and sewer funds are pledged for repayment of revenue bonds noted above.

Defeased Debt

As a result of the current year bond refunding, the City defeased certain outstanding bonds issued by placing the proceeds of new bonds in irrevocable escrow accounts to provide for all future debt service payments on the old bonds. Accordingly, the escrow accounts to provide for all future bonds are not included in the City's financial statements. The total amount of governmental and business-type defeased bonds outstanding as of September 30, 2016 is \$14,265,000.

CITY OF GALVESTON, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 8 - Long-Term Debt (continued)

Long-Term Contracts - Waterworks System

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

On July 15, 2011, the City entered into a contract with GCWA whereby GCWA issued \$4,320,000 of Gulf Coast Water Authority Contract Revenue Refunding Bonds, Series 2011 E to be used to repay all of its GCWA Contract Revenue Bonds Series 1997 and to pay costs of issuance of the Bonds. The Series 1997 Bonds were used to build a new two mile pipeline to transport water across Galveston Bay to the City, to repair an 80 year old pipeline already being used for that purpose, and to build a pipeline between Galveston Island and Pelican Island. The Bonds will be repaid with pledged revenues from the City's Waterworks funds.

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

On October 30, 2013, the City entered into a contract with GCWA whereby GCWA issued \$7,645,000 of Gulf Coast Water Authority Contract Revenue Refunding Bonds, Series 2012. This will repay its outstanding Series 2002 and to pay the cost of issuance of the bonds. These Bonds are used to build and improve facilities for potable water transportation to and within the City. The bonds will be repaid with pledged revenues from the City's Waterworks Fund.

Discretely Presented Component Unit - Bayside at Waterman's Public Improvement District

Long-term liability activity for the year ended September 30, 2016, is as follows:

	Balance September 30, 2016	Increases	(Decreases)	Balance September 30, 2016	Amounts Due Within One Year
Bayside at Waterman's PID					
Special assessment revenue bonds	\$ 9,600,000	\$ -	\$ -	\$ 9,600,000	\$ 150,000
	<u>\$ 9,600,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,600,000</u>	<u>\$ 150,000</u>

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

Series	Original Issue	Matures	Interest Rate (%)	Debt Outstanding
Bayside at Waterman's PID Bonds				
Series 2014 Special Assessment Revenue Bonds	9,600,000	2044	5.8 to 6.3	\$ 9,600,000
Total Bayside at Waterman's PID Bonds				<u>\$ 9,600,000</u>

CITY OF GALVESTON, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 8 - Long-Term Debt (continued)

Annual debt service requirements to maturity for Bayside at Waterman’s Public Improvement District long term debt are as follows:

Year Ending	Bayside at Waterman's PID	
	Revenue Bonds	
Sept. 30	Principal	Interest
2017	\$ 150,000	\$ 571,375
2018	150,000	562,938
2019	150,000	554,500
2020	175,000	546,063
2021	175,000	536,219
2022-2026	1,075,000	2,515,157
2027-2031	1,425,000	2,175,875
2032-2036	1,875,000	1,701,875
2037-2041	2,525,000	1,062,469
2042-2044	1,900,000	237,344
	<u>\$ 9,600,000</u>	<u>\$ 10,463,815</u>

All of the special assessment revenue received by the District is obligated to pay for the special assessment revenue bonds noted above.

Note 9 - Fund Equity

	Deficit Balance
Non-major governmental Funds:	
Special Revenue funds:	
Parks and recreation Improvement	\$ (233,758)
CDBG Disaster Housing	(14,768)

Deficit fund balances reported these funds are the result of timing differences between the funding agencies and local grantee qualifying outlays and . Deficits in both of these funds are considered temporary and expected to be relieved during the next fiscal year.

CITY OF GALVESTON, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 10 - Commitments and Contingencies

Grants

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

Environmental Liability

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

Note 11 - Risk Management

The City is exposed to various risks of loss related to torts, thefts, damage and destruction of assets, errors and omissions, injuries to employees and natural disasters. The City has commercial insurance policies for liability and property insurance. The major insurance policies, including law enforcement and public official policies, have deductibles of \$5,000 per occurrence.

The City purchases automobile and law enforcement liability insurance from the Texas Municipal League (TML) Intergovernmental Risk Pool, a self-insurance fund using members contributions to pay covered losses. Participation in the pool is affirmed when a City signs an inter-local agreement. There is no requirement for a municipality to invest funds into the risk pool other than by set insurance premiums for actual policies issued by TML.

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

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

Workers Compensation

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

All funds of the City participate in the program and make payments to the Workers Compensation Internal Service Fund based on estimates of the amounts needed to pay prior and current year claims. The claims liability is reported in the fund at September 30, 2016, and is based on requirements of GASB Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of loss can be reasonably estimated.

CITY OF GALVESTON, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 11 - Risk Management (continued)

Workers Compensation (continued)

The City's long-term worker's compensation liability is recorded in the government-wide statement of net position. Current liability amounts are recorded in all funds having incurred charges. The estimates of liability are based on current claims outstanding and the estimate of reserves based on industry experience.

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

<u>Fiscal Year</u>	<u>Beginning of Year Accrual</u>	<u>Current Year Estimates</u>	<u>Current Year Payments</u>	<u>End of Year Accrual</u>
2015	\$ 771,036	\$ 348,761	\$ (338,908)	\$ 780,889
2016	780,889	241,552	(332,969)	689,472

Employee Health Insurance

Effective November 1, 2001, the City established a limited Risk Management Program for Health Insurance by setting up an Internal Service Fund to account for its insured and self-insured risk of loss. The Internal Service Insurance Fund is principally supported by contributions from the City and the employees. The City makes contributions to cover the employees, and the employees are required to make contributions to cover their dependents. The Internal Service Fund charges the various funds premiums for the City's contribution. The City has obtained excess loss insurance that limits the City's claims paid to \$170,000 per individual and \$4,879,000 in aggregate claims on an annual basis from American National Insurance Co.

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

<u>Fiscal Year</u>	<u>Beginning of Year Accrual</u>	<u>Current Year Estimates</u>	<u>Current Year Payments</u>	<u>End of Year Accrual</u>
2015	\$ 486,838	\$ 3,278,863	\$ (3,325,078)	\$ 440,623
2016	440,623	3,992,405	(3,879,043)	553,985

CITY OF GALVESTON, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 12 - Major Contracts and Commitments

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

Emergency Medical Services Contract

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

Note 13 - Post-Employment Benefits Other Than Pensions

Plan Description

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

Funding Policy and Annual OPEB Cost

The City's annual other post employment benefits (OPEB) cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of accrual that, if paid on an ongoing basis, is projected to cover the normal cost each year and to amortize any unfunded actuarial liabilities (or funding excesses) over a period not to exceed thirty years. The City's annual OPEB cost for the fiscal year ending September 30, 2016 is as follows:

Determination of Net OPEB Obligation (NOO)	
Annual required contribution	\$ 576,417
Interest on net OPEB obligation	150,769
Adjustment to ARC	<u>(139,686)</u>
Annual OPEB cost	587,500
Less contributions made	<u>(485,457)</u>
Increase in net OPEB obligation	102,043
Net OPEB obligation – beginning of year	<u>3,350,414</u>
Net OPEB obligation – end of year	<u><u>\$ 3,452,457</u></u>

CITY OF GALVESTON, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 13 - Post-Employment Benefits Other Than Pensions (continued)

The City's annual OPEB cost, the amount contributed by the employer, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year ending September 30, 2016 and the preceding two fiscal years were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Employer Amount Contributed</u>	<u>Percentage Contributed</u>	<u>Net OPEB Obligation</u>
2016	\$ 587,500	\$ 485,457	82.6%	\$ 3,452,457
2015	569,819	300,022	52.7%	3,350,414
2014	473,422	-	0.0%	3,080,617

Funded Status and Funding Progress

The funded status of the City's retiree health care plan, under GASB Statement No. 45 as of the most recent actuarial valuation, is as follows:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Unfunded AAL (UAAL) (b)-(a)</u>	<u>Funded Ratio (a)/(b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a % of Covered Payroll ((b-a)/c)</u>
12/31/2014	\$ -	\$ 5,055,197	\$ 5,055,197	0.00%	37,781,880	13.4%

Under the reporting parameters, the City's retiree health care plan is 0.0% funded with the actuarial accrued liability exceeding the actuarial assets by \$5,055,197 at December 31, 2014. As of the most recent valuation, the ratio of the unfunded actuarial accrued liability to annual covered payroll is 13.4%.

Actuarial Methods and Assumptions

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

Note 13 - Post-Employment Benefits Other Than Pensions (continued)

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

Actuarial Methods and Assumptions

Inflation Rate	3.00% per annum
Investment Rate of Return	4.50% per annum, net of expenses
Actuarial Cost Method	Projected Unit Credit Cost Method
Amortization Method	Level as a percentage of employee payroll
Amortization Period	30-year open amortization
Payroll Growth	3.00% per annum
Medical & Drug Trend	Initial rate of 7.25% declining to an ultimate rate of 4.50% after 14 years

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

Note 14 - Employee Retirement System

Plan Descriptions

The City has three single employer defined benefit pension plans which provide pension benefits for substantially all of its full-time employees:

- City Of Galveston Employees' Retirement Plan for City Employees
- City Of Galveston Employees' Retirement Plan for Police
- Galveston Firefighters' Pension Fund

These pension plans were established under the authority of Title 8, Subchapter A of the Texas Government Code, Texas statutes (Vernon's Texas Civil Statutes, Articles 6243p and 6243e respectively) which establish the various benefit provisions. Independent Boards of Trustees administer each plan. The fiscal year of each pension fund ends December 31. The most recent available stand-alone financial statements of the pension funds are for the year ended December 31, 2014. The specific summary plan description for each Plan and the financial statements are available at the respective plan offices.

Note 14 - Employee Retirement System (continued)

Benefits Provided

The City Of Galveston Employees' Retirement Plan for City Employees ("ERP") provides for retirement benefits for non-civil service employees, service-connected disability and death benefits to eligible members and surviving spouse and/or dependents. The normal retirement benefit under the Plan equals the greater of 2.25% of Average Monthly Compensation on December 31, 2003, multiplied by a Participant's years of benefit service on December 31, 2003, or 2.25% of Average Monthly Compensation multiplied by a Participant's years of benefit service. The maximum normal retirement benefit is \$4,167 per month. Service retirement benefits are payable for the Participant's lifetime. In the event the Participant's death precedes that of his or her spouse, one half of the Participant's pension will be continued to the spouse for his or her lifetime or until remarried.

City Of Galveston Employees' Retirement Plan for Police ("PRP") provides retirement benefits for police officers in two groups: *Group A* consists of members with 15 or more years of service as of January 1, 2006, who were members as of June 30, 2008. *Group B* consists of members who either (a) had less than 15 years of service as of January 1, 2006, and who were members as of June 30, 2008, or (b) were employed on or after July 1, 2008.

Normal and Late Retirement - Eligibility is attainment of age 65. Benefits for Group B members will be equal to 2.11% of average monthly base pay multiplied by the years of benefit service, limited to 30 years. Benefits for Group A members shall be the greater of (i) the monthly amount determined as 2.11% of average monthly base pay multiplied by the years of benefit service, limited to 30 years, and (ii) the sum of the Preserved Benefit and Post Transition Accrued Benefit payable after the Member attains age sixty-five (65).

Galveston Firefighters' Pension Fund ("GFPP") provides retirement and incidental benefits for all civil service members of the City of Galveston, Texas Fire Department under the age of 35 at the date of entering service.

A member is eligible for service retirement upon completion of 20 years of service and attainment of age 50. Benefits are calculated at 3% of the highest 60-month average salary times years of service. Benefits are payable for the member's lifetime; if the member's death precedes the death of the member's spouse, two-thirds of the member's pension will be continued for the spouse for his or her lifetime. However, benefits cease if the spouse remarries.

A member who has attained age 51.5 and 21.5 years of service may elect to receive benefits under the Retro DROP option. This option is equal to the amount of monthly contributions that the member made to the fund during participation in the fund plus the total monthly retirement benefits the member would have received between the time the member entered DROP and the time the member retired under the plan.

CITY OF GALVESTON, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 14 - Employee Retirement System (continued)

Employees covered by the three plans as of September 30, 2016 were as follows:

	<u>Employees Pension Plan</u>	<u>Police Pension Plan</u>	<u>Fire Fighters Pension Plan</u>
Retirees and beneficiaries currently receiving benefits	338	144	85
Terminated employees entitled to but not receiving benefits	61	12	1
Active Employees	491	141	113
Total Participants	<u>890</u>	<u>297</u>	<u>199</u>

Contributions

Contribution rates for the City and employees for the fiscal year ended September 30, 2016 were as follows:

	<u>Employees Pension Plan</u>	<u>Police Pension Plan</u>	<u>Fire Fighters Pension Plan</u>
Participant contribution	6%	12%	16%
City contribution	9%	12%	14%

Pension contribution rates are determined by ordinance with respect to the Employee Plan and contract agreements with respect to the Police and Firefighters Plans.

Net Pension Liability

The City's net pension liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Plans' Fiduciary Net Position is determined on the same basis used by the pension plans.

	<u>Employees Pension Plan</u>	<u>Police Pension Plan</u>	<u>Fire Fighters Pension Plan</u>
Total Pension Liability	\$ 58,689,316	\$ 48,991,311	\$ 62,304,639
Fiduciary Net Position	42,942,348	20,228,442	39,026,491
Net Pension Liability	<u>\$ 15,746,968</u>	<u>\$ 28,762,869</u>	<u>\$ 23,278,148</u>
Fiduciary net position as a percentage of total pension liability	73%	41%	63%

CITY OF GALVESTON, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 14 - Employee Retirement System (continued)

Changes in Net Pension Liability

Changes in the City's net pension liability presented below are calculated on the same basis as each of the plans for the year ended December 31, 2015 (measurement year):

	Employees' Retirement Plan for City Employees <u>2015</u>	Galveston Firefighters' Pension Fund <u>2015</u>	Employees' Retirement Plan for Police <u>2015</u>
Total pension liability:			
Service cost	\$ 2,036,695	\$ 1,271,356	\$ 1,054,361
Interest	4,465,817	4,715,969	3,646,049
Difference between expected and actual experience	(932,848)	268,323	157,590
Change in assumptions	1,385,114	121,483	590,641
Benefit payments, including refunds of employee contributions	<u>(4,102,964)</u>	<u>(3,501,502)</u>	<u>(4,114,277)</u>
Net change in total pension liability	2,851,814	2,875,629	1,334,364
Total pension liability - beginning	<u>55,837,502</u>	<u>59,429,010</u>	<u>47,656,947</u>
Total pension liability - ending (a)	<u>\$ 58,689,316</u>	<u>\$ 62,304,639</u>	<u>\$ 48,991,311</u>
Plan fiduciary net position:			
Contributions - employer	\$ 1,968,772	\$ 996,543	\$ 1,257,637
Contributions - employee	1,315,516	1,138,906	1,254,637
Net investment income	(856,751)	(848,619)	(486,296)
Benefit payments, including refunds of employee contributions	(4,102,964)	(3,501,502)	(4,114,277)
Administrative expense	<u>(127,457)</u>	<u>(113,486)</u>	<u>(86,285)</u>
Net change in plan fiduciary net position	(1,802,884)	(2,328,158)	(2,174,584)
Plan fiduciary net position - beginning	<u>44,745,232</u>	<u>41,354,649</u>	<u>22,403,026</u>
Plan fiduciary net position - ending (b)	<u>\$ 42,942,348</u>	<u>\$ 39,026,491</u>	<u>\$ 20,228,442</u>
Net pension liability - ending (a) - (b)	<u>\$ 15,746,968</u>	<u>\$ 23,278,148</u>	<u>\$ 28,762,869</u>

CITY OF GALVESTON, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 14 - Employee Retirement System (continued)

Pension Expense

For the year ended September 30, 2016, the City recognized total pension expense of \$7,850,680 . Pension expense recognized by plan is as follows:

	<u>Employees Pension Plan</u>	<u>Police Pension Plan</u>	<u>Fire Fighters Pension Plan</u>
Service Cost	\$ 2,036,695	\$ 1,054,361	\$ 1,271,356
Interest on Total Pension Liability	4,465,817	3,646,049	4,715,969
Administrative expenses	127,457	86,285	113,486
member contributions	(1,315,516)	(1,254,637)	(1,138,906)
Expected investment return net of investment expenses	(3,320,412)	(1,724,710)	(3,249,191)
Recognition of economic/demographic gains or losses	186,570	(50,758)	37,886
Recognition of assumption changes or inputs	(197,873)	(284,837)	819,562
Differences between projected and actual earnings on plan investments	893,721	616,701	315,605
Pension Expense	<u>\$ 2,876,459</u>	<u>\$ 2,088,454</u>	<u>\$ 2,885,767</u>

Schedule of Deferred Outflows and Inflow of Resources

Deferred outflows of resources and deferred inflows of resources by source reported by the City at September 30, 2016 for each plan are as follows

	<u>Employees Pension Plan</u>		<u>Police Pension Plan</u>		<u>Fire Fighters Pension Plan</u>		<u>Total</u>
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	
Differences between expected and actual experience	\$ -	\$ 799,584	\$ 134,415	\$ 354,877	\$ 242,244	\$ -	\$ (777,802)
Changes of assumptions	1,187,241	-	503,782	1,784,140	109,676	-	16,559
Difference between projected and actual earnings	3,550,504	-	2,292,307	-	3,909,457	-	9,752,268
Employers contribution subsequent to measurement date	1,487,819	-	917,207	-	748,731	-	3,153,757
	<u>\$ 6,225,564</u>	<u>\$ 799,584</u>	<u>\$ 3,847,711</u>	<u>\$ 2,139,017</u>	<u>\$ 5,010,108</u>	<u>\$ -</u>	<u>\$ 12,144,782</u>

CITY OF GALVESTON, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 14 - Employee Retirement System (continued)

The \$3,153,757 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Fiscal Year</u>	<u>Employees Pension Plan</u>	<u>Police Pension Plan</u>	<u>Fire Fighters Pension Plan</u>	<u>Total</u>
2016	\$ (969,634)	\$ (281,106)	\$ (1,173,053)	\$ (2,423,793)
2017	(969,634)	(281,106)	(1,173,053)	(2,423,793)
2018	(969,634)	(281,106)	(857,448)	(2,108,188)
2019	(900,042)	(106,606)	(857,448)	(1,864,096)
2020	(64,609)	246,467	(37,886)	143,972
thereafter	(64,609)	(88,027)	(162,490)	(315,126)
	<u>\$ (3,938,162)</u>	<u>\$ (791,484)</u>	<u>\$ (4,261,378)</u>	<u>\$ (8,991,024)</u>

Assumptions and other data

Discount Rate

The discount rates reported are based on certified actuarial reports and are used to measure the total pension liability as of December 31, 2015 which is 8.0% for all three plans. The discount rate is an assumption that generally is not required to be updated between actuarial valuations dates.

Sensitivity of the net pension liability to changes in the discount rate

The following presents the net pension liability of the City, calculated using the discount rate of each plan as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rates used:

	<u>1% Decrease (6.50%)</u>	<u>Current Discount Rate (7.5%)</u>	<u>1% Increase (8.50%)</u>
Employees Pension Plan	\$ 22,168,503	\$ 15,746,968	\$ 10,275,476
	<u>(7.00%)</u>	<u>Rate (8.00%)</u>	<u>(9.00%)</u>
Police Pension Plan	\$ 34,473,510	\$ 28,762,869	\$ 23,997,406
Fire Fighters Pension Plan	\$ 27,995,882	\$ 23,278,148	\$ 20,705,010

CITY OF GALVESTON, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 15 - Prior Period Adjustments

During the year ended September 30, 2016 the City changed the way it accounted for certain funds and liabilities:

1. The City corrected errors in reporting customer accounts and grant accounts receivable effective October 1, 2015.

	Government-wide		Fund Level		
	Statement of Activities		Statement of Revenues, Expenses and Changes in Net Position - Proprietary Funds		
	Governmental Activities	Business-type Activities	Waterworks	Sewer	Other Enterprise Funds
Net position at September 30, 2015, as previously reported	\$ 131,725,621	\$ 237,799,529	\$ 70,321,847	\$ 129,626,046	\$ 35,952,717
Correction of accounts receivable	(9,577,939)	(1,990,396)	(821,236)	(369,770)	(799,390)
Net position at September 30, 2015, as restated	<u>\$ 122,147,682</u>	<u>\$ 235,809,133</u>	<u>\$ 69,500,611</u>	<u>\$ 129,256,276</u>	<u>\$ 35,153,327</u>
	Governmental Funds				
	Hurricane Ike				
Net position at September 30, 2015, as previously reported	\$ 9,577,939				
Correction of accounts receivable	<u>(9,577,939)</u>				
Net position at September 30, 2015, as restated	<u>\$ -</u>				

Note 16 - Litigation/Contingency

The City is a defendant in various lawsuits and is aware of pending claims arising in the ordinary course of its municipal and enterprise activities, certain of which seek damages that could impact the operations of the City. That litigation includes lawsuits claiming damages that allege that the City caused personal injuries and wrongful deaths; breach of contract and various claims from contractors for additional amounts under construction contracts. The status of such litigation ranges from an early discovery stage to various levels of appeal of judgments both for and against the City. The amount of damages is limited in certain cases under the Texas Tort Claims Act and is subject to appeal. However, in respect to the lawsuit styled *CDM Smith v. City of Galveston et. al.* in the 56th Judicial District Court of Galveston County Texas, the Plaintiff has alleged breach of contract and seeks up to \$26M in damages. The City strongly denies liability and is defending the case vigorously but cannot predict the outcome of the case. Certain jurisdictional issues have been decided and the case has been returned to the trial court for discovery.

The City intends to defend itself vigorously against all suits; however, no prediction can be made, as of the date. Thereof, with respect to the liability of the City for such claims or the final outcome of such suits. The City typically utilizes its general fund to liquidate claims and judgments; however, the City is authorized under Texas law to issue refunding bonds to pay any final judgments and settlements resulting from lawsuits against the City.

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REQUIRED SUPPLEMENTARY INFORMATION

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CITY OF GALVESTON, TEXAS
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Year Ended September 30, 2016

	<i>General Fund</i>					Variance with Final Budget Positive / (Negative)
	Budgeted Amounts		Actual	Reconciling Items	Budgetary Basis	
	Original	Final				
Revenues						
Property taxes	\$ 20,738,737	\$ 20,738,737	\$ 21,368,191	\$ -	\$ 21,368,191	\$ 629,454
Sales tax	15,265,000	15,265,000	15,087,873	-	15,087,873	(177,127)
Franchise and other taxes	6,097,100	6,097,100	6,224,831	-	6,224,831	127,731
Licenses and permits	1,275,500	1,275,500	1,330,049	-	1,330,049	54,549
Fines and forfeitures	1,868,300	1,868,300	1,756,605	-	1,756,605	(111,695)
Charges for services	1,830,200	1,830,200	1,659,132	-	1,659,132	(171,068)
Investment earnings	150,000	150,000	137,269	-	137,269	(12,731)
Intergovernmental	146,600	146,600	188,077	-	188,077	41,477
Other	776,000	711,000	3,047,813	-	3,047,813	2,336,813
Total Revenues	48,147,437	48,082,437	50,799,840	-	50,799,840	2,717,403
General government						
Legislative	478,399	501,099	493,245	-	493,245	7,854
Judicial	681,250	614,750	613,412	-	613,412	1,338
Executive	748,821	726,021	724,798	-	724,798	1,223
City auditor	312,289	252,289	248,638	-	248,638	3,651
Finance	1,749,651	1,705,651	1,702,903	-	1,702,903	2,748
Legal	900,442	596,942	590,036	-	590,036	6,906
Personnel	326,647	372,647	372,623	-	372,623	24
Taxation	247,073	209,073	208,553	-	208,553	520
Total general government	5,444,572	4,978,472	4,954,208	-	4,954,208	24,264
Public safety						
Police	16,881,491	17,356,491	17,356,086	-	17,356,086	405
Fire	10,251,167	10,236,167	10,230,532	5,394	10,235,926	241
Emergency management	216,633	208,933	207,442	-	207,442	1,491
Emergency medical service	566,400	566,400	566,258	-	566,258	142
City marshal	298,135	138,135	138,064	-	138,064	71
Total public safety	28,213,826	28,506,126	28,498,382	5,394	28,503,776	2,350
Public works and traffic	3,696,131	3,659,946	3,596,345	62,724	3,659,069	877
Culture and recreation	2,500,867	2,482,867	2,479,733	-	2,479,733	3,134
Planning and community developmen	2,357,120	2,099,042	2,071,832	-	2,071,832	27,210
Transportation system	900,000	1,295,000	1,195,000	100,000	1,295,000	-
Capital outlay	1,000,000	1,000,000	1,222,275	(244,459)	977,816	22,184
Governmental expenditures	8,183,822	7,293,502	3,615,350	76,341	3,691,691	3,601,811
Facilities maintenance	1,888,378	1,843,378	1,840,421	-	1,840,421	2,957
Total expenditures	54,184,716	53,158,333	49,473,546	-	49,473,546	3,684,787
Other Financing Sources (Uses)						
Transfers in	600,000	600,000	650,000	-	650,000	50,000
Sale of capital assets	65,000	65,000	25,447	-	25,447	(39,553)
Total Other Financing Sources	665,000	665,000	675,447	-	675,447	10,447
Net change in fund balance	(5,372,279)	(4,410,896)	2,001,741	-	2,001,741	6,412,637
Fund balance - beginning	18,657,469	18,657,469	18,657,469	-	18,657,469	-
Fund balance - ending	\$ 13,285,190	\$ 14,246,573	\$ 20,659,210	\$ -	\$ 20,659,210	\$ 6,412,637

CITY OF GALVESTON, TEXAS
REQUIRED PENSION SYSTEM SUPPLEMENTARY INFORMATION
Schedule of Changes in Net Pension Liability and Related Ratios
For the Last Two Measurement Years

	Employees' Retirement Plan for City Employees		Galveston Firefighters' Pension Fund	
	2015	2014	2015	2014
Total pension liability:				
Service cost	\$ 2,036,695	\$ 2,184,793	\$ 1,271,356	\$ 1,216,609
Interest	4,465,817	4,291,727	4,715,969	4,523,782
Difference between expected and actual experience	(932,848)	-	268,323	-
Change in assumptions	1,385,114	-	121,483	-
Benefit payments, including refunds of employee contributions	<u>(4,102,964)</u>	<u>(3,820,447)</u>	<u>(3,501,502)</u>	<u>(3,151,223)</u>
Net change in total pension liability	2,851,814	2,656,073	2,875,629	2,589,168
Total pension liability - beginning	<u>55,837,502</u>	<u>53,181,429</u>	<u>59,429,010</u>	<u>56,839,842</u>
Total pension liability - ending (a)	<u>\$ 58,689,316</u>	<u>\$ 55,837,502</u>	<u>\$ 62,304,639</u>	<u>\$ 59,429,010</u>
Plan fiduciary net position:				
Contributions - employer	\$ 1,968,772	\$ 1,836,025	\$ 996,543	\$ 986,610
Contributions - employee	1,315,516	1,224,018	1,138,906	1,127,549
Net investment income	(856,751)	1,803,409	(848,619)	1,486,347
Benefit payments, including refunds of employee contributions	(4,102,964)	(3,820,447)	(3,501,502)	(3,151,223)
Administrative expense	<u>(127,457)</u>	<u>(123,414)</u>	<u>(113,486)</u>	<u>(133,008)</u>
Net change in plan fiduciary net position	(1,802,884)	919,591	(2,328,158)	316,275
Plan fiduciary net position - beginning	<u>44,745,232</u>	<u>43,825,641</u>	<u>41,354,649</u>	<u>41,038,374</u>
Plan fiduciary net position - ending (b)	<u>\$ 42,942,348</u>	<u>\$ 44,745,232</u>	<u>\$ 39,026,491</u>	<u>\$ 41,354,649</u>
Net pension liability - ending (a) - (b)	<u>\$ 15,746,968</u>	<u>\$ 11,092,270</u>	<u>\$ 23,278,148</u>	<u>\$ 18,074,361</u>
Plan fiduciary net position as a percentage of total pension liability	73.17%	80.13%	62.64%	69.59%
Covered employee payroll	\$ 21,925,267	\$ 20,400,300	\$ 7,118,164	\$ 7,044,338
Net pension liability as a percentage of covered employee payroll	71.82%	54.37%	327.02%	256.58%

The amounts presented are for each measurement year, which end the preceding December 31 of the City's fiscal year end. Net pension liability is calculated using a new methodology and will be presented prospectively in accordance with GASB 68. Ten years of data should be presented in this schedule but data was unavailable prior to 2014.

**Employees' Retirement Plan for
Police**

<u>2015</u>	<u>2014</u>
\$ 1,054,361	\$ 1,140,739
3,646,049	3,669,170
157,590	(502,743)
590,641	(2,527,532)
<u>(4,114,277)</u>	<u>(3,808,422)</u>
1,334,364	(2,028,788)
47,656,947	49,685,735
<u>\$ 48,991,311</u>	<u>\$ 47,656,947</u>

\$ 1,257,637	\$ 1,240,469
1,254,637	1,240,469
(486,296)	1,101,143
(4,114,277)	(3,808,422)
<u>(86,285)</u>	<u>(85,937)</u>
(2,174,584)	(312,278)
22,403,026	22,715,304
<u>\$ 20,228,442</u>	<u>\$ 22,403,026</u>

<u>\$ 28,762,869</u>	<u>\$ 25,253,921</u>
----------------------	----------------------

41.29% 47.01%

\$ 10,455,308 \$ 10,337,242

275.10% 244.30%

CITY OF GALVESTON, TEXAS
REQUIRED PENSION SYSTEM SUPPLEMENTARY INFORMATION
Schedule of Contributions
Last Six Fiscal Years

	Employees' Retirement Plan for City Employees					
	2016	2015	2014	2013	2012	2011
Actuarially determined contributions	\$ 2,024,974	\$ 2,278,432	\$ 2,040,170	\$ 2,108,505	\$ 2,026,248	\$ 1,786,959
Contribution in relation to the actuarially required contribution	\$ 2,024,974	\$ 1,858,266	\$ 1,836,025	\$ 1,583,356	\$ 1,616,976	\$ 1,645,622
Contribution deficiency (excess)	\$ -	\$ 420,166	\$ 204,145	\$ 525,149	\$ 409,272	\$ 141,337
Covered employee payroll	\$ 22,499,711	\$20,647,326	\$20,400,300	\$17,592,844	\$17,966,400	\$ 18,284,689
Contributions as a percentage of covered employee payroll	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%
	Galveston Firefighters' Pension Fund					
	2016	2015	2014	2013	2012	2011
Contractually required contribution	\$ 1,023,954	\$ 985,160	\$ 986,610	\$ 945,945	\$ 918,961	\$ 914,489
Contribution in relation to the contractually required contribution	\$ 1,023,954	\$ 985,160	\$ 986,610	\$ 945,945	\$ 918,961	\$ 914,489
Contribution deficiency (excess)	-	-	-	-	-	-
Covered employee payroll	\$ 7,313,957	\$ 7,036,850	\$ 7,044,338	\$ 6,756,748	\$ 6,564,000	\$ 6,532,071
Contributions as a percentage of covered employee payroll	14.0%	14.0%	14.0%	14.0%	14.0%	14.0%
	Employees' Retirement Plan for Police					
	2016	2015	2014	2013	2012	2011
Contractually required contribution	\$ 1,249,715	\$ 1,187,532	\$ 1,240,469	\$ 1,114,126	\$ 1,117,059	\$ 1,070,099
Contribution in relation to the contractually required contribution	\$ 1,249,715	\$ 1,187,532	\$ 1,240,469	\$ 1,114,126	\$ 1,117,059	\$ 1,070,099
Contribution deficiency (excess)	-	-	-	-	-	-
Covered employee payroll	\$ 10,414,292	\$ 9,896,098	\$10,337,242	\$ 9,281,758	\$ 9,308,825	\$ 8,917,493
Contributions as a percentage of covered employee payroll	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%

CITY OF GALVESTON, TEXAS
REQUIRED PENSION SYSTEM SUPPLEMENTARY INFORMATION
Notes to Schedule of Contributions
For the Year Ended December 31, 2015

	Employees' Retirement Plan for City Employees	Galveston Firefighters' Pension Fund	Employees' Retirement Plan for Police
Valuation Date:	31-Dec-15	31-Dec-15	31-Dec-14

Methods and assumptions used to determine contribution rates:

Asset valuation method	Fair Value	Smoothed market value	Adjusted market value within a corridor range of 90% to 110% of fair market value.
Actuarial cost method	Entry Age Service	Entry Age Service	Entry Age Service
Amortization method	Level percentage of payroll, closed.	Level percentage of payroll, closed.	Level percentage of payroll, closed.
Inflation	3.25%	3.00%	4.00%
Investment rate of return	7.5%	8.0%	8.0%
Administrative expense	Assumed to increase 4.0% per year.	Assumed to increase 4.0% per year.	0.50% per annum
Salary increases	3.25%, plus promotion, step and longevity increases that vary by service	4.50%	4.00% per annum for wage inflation. 6.24% grading down to 0.00% per annum for longevity and promotion based on years of service. The total annual assumed salary increase for wage inflation plus longevity and promotion is based on years of service.
Mortality rates	RP-2000 Mortality Table, projected to 2015 using Scale AA, with the separate rates for males and females.	RP-2000 Mortality Table, projected to 2015 using Scale AA, with the separate rates for males and females.	RP-2000 Blue Collar Mortality Table for males and females projected with Scale AA to the measurement date plus 10 years.

CITY OF GALVESTON, TEXAS**REQUIRED OTHER POST EMPLOYMENT BENEFIT (OPEB) SUPPLEMENTARY INFORMATION**

City of Galveston Retiree Health Plan (Unaudited)						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
12/31/2010	\$ -	\$ 4,573,093	\$ 4,573,093	0.00%	36,230,562	12.6%
12/31/2012	\$ -	\$ 4,199,878	\$ 4,199,878	0.00%	33,839,225	12.4%
12/31/2014	\$ -	\$ 5,055,197	\$ 5,055,197	0.00%	37,781,880	13.4%

COMBINING AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES

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**CITY OF GALVESTON, TEXAS
NONMAJOR GOVERNMENTAL FUNDS**

SPECIAL REVENUE FUNDS

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

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

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

Parks and Recreation Improvement Fund – To account for receipt and expenditure of intergovernmental revenues designated for parks and recreation improvements.

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

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

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

PEG Fund – To account for receipt and expenditures of public-access television provided for the purpose of public, educational, and governmental information.

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

CDBG Entitlement Grant (ARRA) – To account for receipt and expenditure of federal revenue designated for disaster relief, long-term recovery, and restoration of housing under the American Recovery and Reinvestment Act of 2009.

Downtown Parking Fund – To account for receipts of downtown parking revenue and expenditures related to the operation and capital improvement of the downtown area.

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

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

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

**CITY OF GALVESTON, TEXAS
NONMAJOR GOVERNMENTAL FUNDS (CONTINUED)**

SPECIAL REVENUE FUNDS (CONTINUED)

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

Public Safety Programs – To account for receipt and expenditures restricted for governmental public safety capital projects.

Infrastructure Fund – To account for receipt and expenditures restricted for governmental infrastructure capital projects.

Judicial Programs – To account for receipt and expenditures restricted for governmental judicial capital projects.

Recovery and Capital Reserve – To account for receipt and expenditures committed for governmental projects.

CAPITAL PROJECTS FUNDS

Capital projects funds are used to account for the acquisition and construction of major capital facilities other than those financed by proprietary and trust funds.

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

Island Transit Capital Projects – To account for capital outlay related to the Island Transit operations.

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

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

CITY OF GALVESTON, TEXAS
NONMAJOR GOVERNMENTAL FUNDS (CONTINUED)

DEBT SERVICE FUNDS

Debt service funds are used to account for the accumulation of resources for debt service fund and payment of general long-term debt, principal, interest and related costs.

Debt Service Fund – To account for the payment of interest and principal on all general obligation bonds and other long-term debt of the City. The primary source of revenue for debt service is local property taxes.

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

CITY OF GALVESTON, TEXAS
BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
September 30, 2016

	Island Transit	Rosenberg Library	Parks and Recreation Improvement
Assets			
Cash and cash equivalents	\$ 200	\$ 268,278	\$ -
Receivables (net of allowance for uncollectibles)	471,846	71,294	-
Due from other governments	395,114	-	-
Due from other funds	-	-	-
Inventories	294,596	-	-
Prepaid Items	-	-	-
Total Assets	1,161,756	339,572	-
Liabilities			
Accounts payable	96,620	200,897	-
Accrued expenditures	109,500	-	-
Due to other funds	843,233	-	233,758
Payable to other governments	-	67,382	-
Unearned Revenue	-	-	-
Total Liabilities	1,049,353	268,279	233,758
Deferred Inflows of Resources			
Unavailable revenue - Property taxes	-	71,293	-
Total Deferred Inflows of Resources	-	71,293	-
Fund Balance			
Nonspendable:			
Inventories	294,596	-	-
Restricted:			
Debt service	-	-	-
Beach preservation	-	-	-
Capital projects	-	-	-
Grants	-	-	-
Tourism, convention and hotel industry:			
Convention center operator	-	-	-
City of Galveston	-	-	-
Committed:			
Governmental projects	-	-	-
Unassigned	(182,193)	-	(233,758)
Total Fund Balance	112,403	-	(233,758)
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	\$ 1,161,756	\$ 339,572	\$ -

Grants and Government Contracts	Project Specific Programs	Convention Center Funds	PEG Fund	CDBG Disaster Fund Housing	CDBG Entitlement Grant (ARRA)
\$ 1,475,106	\$ 4,409,066	\$ 4,087,593	\$ 525,152	\$ -	\$ 69,399
970,814	747,887	-	39,307	9,105	-
1,118,267	1,329,493	-	-	1,732,002	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>3,564,187</u>	<u>6,486,446</u>	<u>4,087,593</u>	<u>564,459</u>	<u>1,741,107</u>	<u>69,399</u>
287,771	2,734,945	890	-	-	-
20,311	-	-	-	291	-
1,088,356	55,789	-	-	1,755,584	-
2,348	-	-	-	-	-
1,928,496	-	-	-	-	69,399
<u>3,327,282</u>	<u>2,790,734</u>	<u>890</u>	<u>-</u>	<u>1,755,875</u>	<u>69,399</u>
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
236,905	-	-	-	-	-
-	-	520,419	-	-	-
-	-	3,566,284	564,459	-	-
-	3,695,712	-	-	-	-
-	-	-	-	(14,768)	-
<u>236,905</u>	<u>3,695,712</u>	<u>4,086,703</u>	<u>564,459</u>	<u>(14,768)</u>	<u>-</u>
<u>\$ 3,564,187</u>	<u>\$ 6,486,446</u>	<u>\$ 4,087,593</u>	<u>\$ 564,459</u>	<u>\$ 1,741,107</u>	<u>\$ 69,399</u>

CITY OF GALVESTON, TEXAS
BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
September 30, 2016
(continued)

	Downtown Parking Fund	Neighborhood Stabilization Program (ARRA)	Seawall Parking
Assets			
Cash and cash equivalents	\$ 39,992	\$ 28,337	\$ 994,066
Receivables (net of allowance for uncollectibles)	-	-	-
Due from other governments	-	-	62,679
Due from other funds	-	-	-
Inventories	-	-	-
Prepaid Items	15,467	-	-
Total Assets	55,459	28,337	1,056,745
Liabilities			
Accounts payable	31,600	-	-
Accrued expenditures	-	-	-
Due to other funds	-	-	-
Payable to other governments	-	-	-
Unearned Revenue	-	28,337	-
Total Liabilities	31,600	28,337	-
Deferred Inflows of Resources			
Unavailable revenue - Property taxes	-	-	-
Total Deferred Inflows of Resources	-	-	-
Fund Balance			
Nonspendable:			
Inventories	-	-	-
Restricted:			
Debt service	-	-	-
Beach preservation	-	-	1,056,745
Capital projects	-	-	-
Grants	-	-	-
Tourism, convention and hotel industry:			
Convention center operator	-	-	-
City of Galveston	23,859	-	-
Committed:			
Governmental projects	-	-	-
Unassigned	-	-	-
Total Fund Balance	23,859	-	1,056,745
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	\$ 55,459	\$ 28,337	\$ 1,056,745

CITY OF GALVESTON, TEXAS
BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
September 30, 2016
(continued)

	General Obligation Bond 2001 Capital Projects	Island Transit Capital Projects	General Obligation Bond 2005 Capital Projects
Assets			
Cash and cash equivalents	\$ -	\$ 430,951	\$ 1,224,991
Receivables (net of allowance for uncollectibles)	-	-	-
Due from other governments	-	2,223,661	-
Due from other funds	-	-	-
Inventories	-	-	-
Prepaid Items	-	-	-
Total Assets	-	2,654,612	1,224,991
Liabilities			
Accounts payable	-	1,071,246	1,224,991
Accrued expenditures	-	-	-
Due to other funds	-	-	-
Payable to other governments	-	-	-
Unearned Revenue	-	-	-
Total Liabilities	-	1,071,246	1,224,991
Deferred Inflows of Resources			
Unavailable revenue - Property taxes	-	-	-
Total Deferred Inflows of Resources	-	-	-
Fund Balance			
Nonspendable:			
Inventories	-	-	-
Restricted:			
Debt service	-	-	-
Beach preservation	-	-	-
Capital projects	-	1,583,366	-
Grants	-	-	-
Tourism, convention and hotel industry:			
Convention center operator	-	-	-
City of Galveston	-	-	-
Committed:			
Governmental projects	-	-	-
Unassigned	-	-	-
Total Fund Balance	-	1,583,366	-
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	\$ -	\$ 2,654,612	\$ 1,224,991

IDC Capital Improvements	Debt Service Fund	Hotel Occupancy Tax Debt Service Fund	Total Non-Major Governmental Funds
\$ 15,265,070	\$ 3,433,226	\$ 2,735,532	\$ 47,477,867
-	68,201	-	2,394,471
940,672	-	-	7,801,888
236,198	-	-	1,977,013
-	-	-	294,596
-	-	-	15,467
<u>16,441,940</u>	<u>3,501,427</u>	<u>2,735,532</u>	<u>59,961,302</u>
213,018	325	-	6,083,858
19,000	-	-	150,660
-	-	-	3,976,720
-	-	-	69,730
-	1,914,100	-	3,940,332
<u>232,018</u>	<u>1,914,425</u>	<u>-</u>	<u>14,221,300</u>
-	68,201	-	139,494
-	68,201	-	139,494
-	-	-	294,596
-	1,518,801	2,735,532	4,254,333
-	-	-	1,056,745
16,209,922	-	-	21,549,478
-	-	-	1,267,431
-	-	-	520,419
-	-	-	4,154,602
-	-	-	12,933,623
-	-	-	(430,719)
<u>16,209,922</u>	<u>1,518,801</u>	<u>2,735,532</u>	<u>45,600,508</u>
<u>\$ 16,441,940</u>	<u>\$ 3,501,427</u>	<u>\$ 2,735,532</u>	<u>\$ 59,961,302</u>

CITY OF GALVESTON, TEXAS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

NON-MAJOR GOVERNMENTAL FUNDS

For the Year Ended September 30, 2016

	Island Transit	Rosenberg Library	Parks and Recreation Improvement
Revenues			
Property taxes	\$ -	\$ 2,478,140	\$ -
Sales and use taxes	-	-	-
Fines and forfeitures	-	-	-
Charges for services	1,589,702	-	-
Investment earnings	-	-	-
Intergovernmental	3,124,575	-	240,000
Other	114	-	-
Total Revenues	<u>4,714,391</u>	<u>2,478,140</u>	<u>240,000</u>
Expenditures			
Current:			
General government	-	-	-
Public safety	-	-	-
Highway and roads	-	-	-
Culture and recreation	-	2,478,140	76,874
Planning and community development	-	-	-
Transportation	4,619,476	-	-
Debt Service:			
Principal	-	-	-
Interest and other charges	-	-	-
Bond issuance cost	-	-	-
Capital Outlay	26,147	-	396,884
Total Expenditures	<u>4,645,623</u>	<u>2,478,140</u>	<u>473,758</u>
Excess (deficiency) of revenues over expenditures	<u>68,768</u>	<u>-</u>	<u>(233,758)</u>
Other Financing Sources (Uses)			
Proceeds from refunding bonds	-	-	-
Premiums on refunding bonds	-	-	-
Payment to escrow agent	-	-	-
Proceeds from sale of assets	3,813	-	-
Transfers in	-	-	-
Transfers out	-	-	-
Total other financing sources (uses)	<u>3,813</u>	<u>-</u>	<u>-</u>
Net change in fund balance	72,581	-	(233,758)
Fund balance - beginning	<u>39,822</u>	<u>-</u>	<u>-</u>
Fund balance - ending	<u>\$ 112,403</u>	<u>\$ -</u>	<u>\$ (233,758)</u>

Grants and Government Contracts	Project Specific Programs	Convention Center Funds	PEG Fund	CDBG Disaster Fund Housing	CDBG Entitlement Grant (ARRA)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	9,780,308	-	-	-
-	4,579	-	-	-	-
-	-	-	162,142	-	-
3	19,496	78	3,819	-	-
2,022,951	11,909	-	-	-	-
119,452	4,366,623	-	-	-	-
<u>2,142,406</u>	<u>4,402,607</u>	<u>9,780,386</u>	<u>165,961</u>	<u>-</u>	<u>-</u>
-	6	-	-	-	-
10,471	8,541	-	-	-	-
26,657	-	-	-	-	-
-	23,193	9,586,977	17,013	-	-
1,442,010	2	-	-	(1)	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
659,441	1,130,216	2,287,530	138,063	-	-
<u>2,138,579</u>	<u>1,161,958</u>	<u>11,874,507</u>	<u>155,076</u>	<u>(1)</u>	<u>-</u>
3,827	3,240,649	(2,094,121)	10,885	1	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	14,571	-	-	-	-
250,000	(146,565)	(701,731)	-	(14,769)	-
250,000	(131,994)	(701,731)	-	(14,769)	-
253,827	3,108,655	(2,795,852)	10,885	(14,768)	-
(16,922)	587,057	6,882,555	553,574	-	-
<u>\$ 236,905</u>	<u>\$ 3,695,712</u>	<u>\$ 4,086,703</u>	<u>\$ 564,459</u>	<u>\$ (14,768)</u>	<u>\$ -</u>

CITY OF GALVESTON, TEXAS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

NON-MAJOR GOVERNMENTAL FUNDS

For the Year Ended September 30, 2016

(continued)

	Downtown Parking Fund	Neighborhood Stabilization Program (ARRA)	Seawall Parking
Revenues			
Property taxes	\$ -	\$ -	\$ -
Sales and use taxes	-	-	-
Fines and forfeitures	-	-	-
Charges for services	356,115	-	188,875
Investment earnings	503	-	4,719
Intergovernmental	-	-	-
Other	-	-	-
Total Revenues	<u>356,618</u>	<u>-</u>	<u>193,594</u>
Expenditures			
Current:			
General government	-	-	-
Public safety	-	-	-
Highway and roads	-	-	-
Culture and recreation	190,250	-	879
Planning and community development	-	-	-
Transportation	-	-	-
Debt Service:			
Principal	-	-	-
Interest and other charges	-	-	-
Bond issuance cost	-	-	-
Capital Outlay	148,624	-	-
Total Expenditures	<u>338,874</u>	<u>-</u>	<u>879</u>
Excess (deficiency) of revenues over expenditures	<u>17,744</u>	<u>-</u>	<u>192,715</u>
Other Financing Sources (Uses)			
Proceeds from refunding bonds	-	-	-
Premiums on refunding bonds	-	-	-
Payment to escrow agent	-	-	-
Proceeds from sale of land	-	-	-
Transfers in	-	-	-
Transfers out	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	17,744	-	192,715
Fund balance - beginning	<u>6,115</u>	<u>-</u>	<u>864,030</u>
Fund balance - ending	<u>\$ 23,859</u>	<u>\$ -</u>	<u>\$ 1,056,745</u>

Arts and Historical	Neighborhood Revitalization	Public Safety Programs	Infrastructure Fund	Judicial Programs	Recovery and Capital Reserve
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
249,427	-	-	-	-	-
-	-	-	-	115,901	-
-	-	85,003	-	-	-
-	20,589	2,119	32,368	1,393	46,250
-	-	116,828	-	-	-
-	-	-	-	-	2,000
<u>249,427</u>	<u>20,589</u>	<u>203,950</u>	<u>32,368</u>	<u>117,294</u>	<u>48,250</u>
-	-	-	227,103	212,586	580,014
-	-	217,816	-	-	-
-	-	-	-	-	-
88,677	-	-	-	-	-
-	19,757	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	527	-	-	-	-
-	-	-	-	-	-
178,839	140,650	18,692	1,157,868	-	-
<u>267,516</u>	<u>160,934</u>	<u>236,508</u>	<u>1,384,971</u>	<u>212,586</u>	<u>580,014</u>
<u>(18,089)</u>	<u>(140,345)</u>	<u>(32,558)</u>	<u>(1,352,603)</u>	<u>(95,292)</u>	<u>(531,764)</u>
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	73,000	2,029,897	-	-
-	-	-	(300,000)	-	-
-	-	73,000	1,729,897	-	-
(18,089)	(140,345)	40,442	377,294	(95,292)	(531,764)
<u>641,873</u>	<u>2,979,888</u>	<u>366,300</u>	<u>3,126,771</u>	<u>347,417</u>	<u>6,930,132</u>
<u>\$ 623,784</u>	<u>\$ 2,839,543</u>	<u>\$ 406,742</u>	<u>\$ 3,504,065</u>	<u>\$ 252,125</u>	<u>\$ 6,398,368</u>

CITY OF GALVESTON, TEXAS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

NON-MAJOR GOVERNMENTAL FUNDS

For the Year Ended September 30, 2016

(continued)

	General Obligation Bond 2001 Capital Projects	Island Transit Capital Projects	General Obligation Bond 2005 Capital Projects
Revenues			
Property taxes	\$ -	\$ -	\$ -
Sales and use taxes	-	-	-
Fines and forfeitures	-	-	-
Charges for services	-	-	-
Investment earnings	241	8,014	10,974
Intergovernmental	-	4,004,154	-
Other	-	380,868	-
Total Revenues	<u>241</u>	<u>4,393,036</u>	<u>10,974</u>
Expenditures			
Current:			
General government	5	-	16,822
Public safety	-	-	-
Highway and roads	-	-	-
Culture and recreation	-	-	-
Planning and community development	-	-	-
Transportation	-	38,857	-
Debt Service:			
Principal	-	-	-
Interest and other charges	-	-	-
Bond issuance cost	-	-	-
Capital Outlay	111,336	4,106,668	1,983,203
Total Expenditures	<u>111,341</u>	<u>4,145,525</u>	<u>2,000,025</u>
Excess (deficiency) of revenues over expenditures	<u>(111,100)</u>	<u>247,511</u>	<u>(1,989,051)</u>
Other Financing Sources (Uses)			
Proceeds from refunding bonds	-	-	-
Premiums on refunding bonds	-	-	-
Payment to escrow agent	-	-	-
Proceeds from sale of land	-	-	-
Transfers in	-	814,559	-
Transfers out	-	(209,555)	-
Total other financing sources (uses)	<u>-</u>	<u>605,004</u>	<u>-</u>
Net change in fund balance	(111,100)	852,515	(1,989,051)
Fund balance - beginning	<u>111,100</u>	<u>730,851</u>	<u>1,989,051</u>
Fund balance - ending	<u>\$ -</u>	<u>\$ 1,583,366</u>	<u>\$ -</u>

IDC Capital Improvements	Debt Service Fund	Hotel Occupancy Tax Debt Service Fund	Total Non-Major Governmental Funds
\$ -	\$ 2,230,326	\$ -	\$ 4,708,466
5,029,292	-	1,752,357	16,811,384
-	-	-	120,480
-	-	-	2,381,837
109,074	29,597	191	289,428
-	2,965,400	-	12,485,817
-	-	-	4,869,057
<u>5,138,366</u>	<u>5,225,323</u>	<u>1,752,548</u>	<u>41,666,469</u>
-	-	-	1,036,536
-	-	-	236,828
-	-	-	26,657
1,138,608	-	-	13,600,611
-	-	-	1,461,768
-	-	-	4,658,333
-	5,710,000	810,000	6,520,000
2,840	1,136,035	938,783	2,078,185
-	234,985	-	234,985
4,161,354	-	-	16,645,515
<u>5,302,802</u>	<u>7,081,020</u>	<u>1,748,783</u>	<u>46,499,418</u>
<u>(164,436)</u>	<u>(1,855,697)</u>	<u>3,765</u>	<u>(4,832,949)</u>
-	17,365,000	-	17,365,000
58,915	2,396,177	-	2,455,092
-	(21,102,803)	-	(21,102,803)
-	-	-	3,813
-	2,058,132	-	4,990,159
<u>(250,000)</u>	<u>-</u>	<u>-</u>	<u>(1,372,620)</u>
<u>(191,085)</u>	<u>716,506</u>	<u>-</u>	<u>2,338,641</u>
(355,521)	(1,139,191)	3,765	(2,494,308)
16,565,443	2,657,992	2,731,767	48,094,816
<u>\$ 16,209,922</u>	<u>\$ 1,518,801</u>	<u>\$ 2,735,532</u>	<u>\$ 45,600,508</u>

CITY OF GALVESTON, TEXAS
SPECIAL REVENUE FUND - ISLAND TRANSIT
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Year Ended September 30, 2016

	2016		Variance Positive / (Negative)
	Budget	Actual	
Revenues			
Charges for Services	\$ 1,866,400	\$ 1,589,702	\$ (276,698)
Intergovernmental	3,172,328	3,124,575	(47,753)
Other	15,000	114	(14,886)
Total Revenues	5,053,728	4,714,391	(339,337)
Expenditures			
Transportation	5,218,565	4,619,476	599,089
Capital outlay	35,163	26,147	9,016
Total Expenditures	5,253,728	4,645,623	608,105
Revenues over (under) expenditures	(200,000)	68,768	268,768
Other Financing Sources (Uses)			
Proceeds from sale of assets	-	3,813	3,813
Transfers in	200,000	-	(200,000)
Changes in fund balance	-	72,581	68,768
Fund balance - beginning	39,822	39,822	-
Fund balance - ending	\$ 39,822	\$ 112,403	\$ 268,768

CITY OF GALVESTON, TEXAS
SPECIAL REVENUE FUND - ROSENBERG LIBRARY
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Year Ended September 30, 2016

	2016		Variance Positive / (Negative)
	Budget	Actual	
Revenues			
Property Taxes	\$ 2,410,758	\$ 2,478,140	\$ 67,382
Total Revenues	<u>2,410,758</u>	<u>2,478,140</u>	<u>67,382</u>
Expenditures			
Current:			
Culture and recreation	<u>2,477,424</u>	<u>2,478,140</u>	<u>(716)</u>
Total Expenditures	<u>2,477,424</u>	<u>2,478,140</u>	<u>(716)</u>
Changes in fund balance	<u>(66,666)</u>	<u>-</u>	<u>66,666</u>
Fund balance - beginning	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance - ending	<u>\$ (66,666)</u>	<u>\$ -</u>	<u>\$ 66,666</u>

CITY OF GALVESTON, TEXAS
DEBT SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Year Ended September 30, 2016

	2016		Variance Positive / (Negative)
	Budget	Actual	
Revenues			
Taxes:			
Property taxes	\$ 1,990,067	\$ 2,230,326	\$ 240,259
Investment earnings	44,500	29,597	(14,903)
Other	2,966,900	2,965,400	(1,500)
Total Revenues	<u>5,001,467</u>	<u>5,225,323</u>	<u>223,856</u>
Expenditures			
Debt Service:			
Principal	5,710,000	5,710,000	-
Interest and other charges	1,549,126	1,136,035	413,091
Bond issuance costs	136,000	234,985	(98,985)
Total Expenditures	<u>7,395,126</u>	<u>7,081,020</u>	<u>314,106</u>
Revenues over (under) expenditures	(2,393,659)	(1,855,697)	537,962
Other Financing Sources (Uses)			
Proceeds from refunding bonds	-	17,365,000	17,365,000
Premiums on refunding bonds	-	2,396,177	2,396,177
Payment to escrow agent	-	(21,102,803)	(21,102,803)
Transfers in	2,179,692	2,058,132	(121,560)
Total other financing sources (uses)	<u>2,179,692</u>	<u>716,506</u>	<u>(1,463,186)</u>
Changes in fund balance	(213,967)	(1,139,191)	(925,224)
Fund balance - beginning	<u>2,657,992</u>	<u>2,657,992</u>	<u>-</u>
Fund balance - ending	<u>\$ 2,444,025</u>	<u>\$ 1,518,801</u>	<u>\$ (925,224)</u>

**CITY OF GALVESTON, TEXAS
NONMAJOR ENTERPRISE FUNDS**

To account for operations that are financed and operated in a manner similar to private business enterprises – (a) 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 the user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

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

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

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

CITY OF GALVESTON, TEXAS
COMBINING STATEMENT OF NET POSITION
OTHER ENTERPRISE FUNDS
September 30, 2016

	<u>Sanitation</u>	<u>Drainage</u>	<u>Airport</u>	<u>Total</u>
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 889,114	\$ 846,476	\$ 937,584	\$ 2,673,174
Accounts Receivable, net of allowance for doubtful accounts	2,764,420	105,998	451,923	3,322,341
Restricted cash and cash equivalents	-	1,710,612	-	1,710,612
Total current assets	<u>3,653,534</u>	<u>2,663,086</u>	<u>1,389,507</u>	<u>7,706,127</u>
Non-current assets:				
Capital assets not being depreciated:				
Land and improvements	-	-	1,230,764	1,230,764
Construction in Progress	-	2,147,498	349,347	2,496,845
Capital assets (net of depreciation):				
Infrastructure	53,255	4,049,292	16,869,327	20,971,874
Buildings	412,346	-	2,536,166	2,948,512
Equipment and Furniture	2,224,382	2,308,856	60,585	4,593,823
Total non-current assets	<u>2,689,983</u>	<u>8,505,646</u>	<u>21,046,189</u>	<u>32,241,818</u>
Total assets	<u>6,343,517</u>	<u>11,168,732</u>	<u>22,435,696</u>	<u>39,947,945</u>
Deferred Outflows of Resources				
Deferred outflows relating to pension activities	621,300	335,200	98,100	1,054,600
Total Deferred Outflows of Resources	<u>621,300</u>	<u>335,200</u>	<u>98,100</u>	<u>1,054,600</u>
LIABILITIES				
Current Liabilities:				
Accounts payable and accrued expenses	571,187	766,014	59,672	1,396,873
Due to other funds	9,753	-	-	9,753
Due to other governments	297,713	-	-	297,713
Unearned revenue	13,535	-	-	13,535
Total Current Liabilities	<u>892,188</u>	<u>766,014</u>	<u>59,672</u>	<u>1,717,874</u>
Non-current liabilities:				
Due within one year	35,700	10,710	15,920	62,330
Due in more than one year	395,843	120,287	46,602	562,732
Net pension liability	1,473,300	901,900	229,800	2,605,000
Total non-current liabilities	<u>1,904,843</u>	<u>1,032,897</u>	<u>292,322</u>	<u>3,230,062</u>
Total Liabilities	<u>2,797,031</u>	<u>1,798,911</u>	<u>351,994</u>	<u>4,947,936</u>
Deferred Inflows of Resources				
Deferred inflows relating to pension activities	82,800	41,400	13,200	137,400
Total Deferred Inflows of Resources	<u>82,800</u>	<u>41,400</u>	<u>13,200</u>	<u>137,400</u>
NET POSITION				
Net investment in capital assets	2,689,983	-	-	2,689,983
Restricted for capital projects	-	1,710,612	-	1,710,612
Unrestricted	1,395,003	7,953,009	22,168,602	31,516,614
Total net position	<u>\$ 4,084,986</u>	<u>\$ 9,663,621</u>	<u>\$ 22,168,602</u>	<u>\$ 35,917,209</u>

CITY OF GALVESTON, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
OTHER ENTERPRISE FUNDS
For the Year Ended September 30, 2016

	<u>Sanitation</u>	<u>Drainage</u>	<u>Airport</u>	<u>Total</u>
REVENUES				
Charges for services	\$ 6,036,788	\$ 2,464,143	1,151,110	\$ 9,652,041
Total operating revenues	<u>6,036,788</u>	<u>2,464,143</u>	<u>1,151,110</u>	<u>9,652,041</u>
OPERATING EXPENSES				
Personnel services	2,904,623	1,547,500	464,045	4,916,168
Contractual services	2,027,904	629,352	263,682	2,920,938
Supplies and materials	97,895	27,147	80,186	205,228
Other expenses	266,886	129,829	207,800	604,515
Administration charge	212,911	47,906	54,723	315,540
Depreciation	404,129	625,175	776,657	1,805,961
Total Operating Expenses	<u>5,914,348</u>	<u>3,006,909</u>	<u>1,847,093</u>	<u>10,768,350</u>
Operating income (loss)	<u>122,440</u>	<u>(542,766)</u>	<u>(695,983)</u>	<u>(1,116,309)</u>
NON-OPERATING REVENUES (EXPENSES)				
Intergovernmental revenue	-	-	43,231	43,231
Interest and investment revenue	5,493	20,131	6,700	32,324
Total non-operating revenue (expenses)	<u>5,493</u>	<u>20,131</u>	<u>49,931</u>	<u>75,555</u>
Income (loss) before contributions and transfer	<u>127,933</u>	<u>(522,635)</u>	<u>(646,052)</u>	<u>(1,040,754)</u>
Capital contributions	-	-	1,971,720	1,971,720
Transfers in	-	102,956	-	102,956
Transfers out	(246,200)	(17,210)	(6,630)	(270,040)
Change in net position	<u>(118,267)</u>	<u>(436,889)</u>	<u>1,319,038</u>	<u>763,882</u>
Total net position - beginning	4,634,484	10,468,669	20,849,564	35,952,717
Prior period adjustment	(431,231)	(368,159)	-	(799,390)
Total net position - ending	<u>\$ 4,084,986</u>	<u>\$ 9,663,621</u>	<u>\$ 22,168,602</u>	<u>\$ 35,917,209</u>

CITY OF GALVESTON, TEXAS
COMBINING STATEMENT OF CASH FLOWS
NONMAJOR ENTERPRISE FUNDS
For the Year Ended September 30, 2016

	Business-type Activities - Enterprise Funds			
	Sanitation	Drainage	Airport	Total
Cash Flows from Operating Activities:				
Receipts from customers and users	\$ 5,582,025	\$ 3,046,815	\$ 925,134	\$ 9,553,974
Disbursed for personnel services	(2,691,783)	(1,503,850)	(433,669)	(4,629,302)
Disbursed for goods and services	(2,031,997)	(195,843)	(511,839)	(2,739,679)
Administrative service charge	(212,911)	(47,906)	(54,723)	(315,540)
Net cash provided (used) by operating activities	645,334	1,299,216	(75,097)	1,869,453
Cash Flows from Non-Capital Financial Activities:				
Transfers from other funds	-	102,956	91,499	194,455
Transfers to other funds	(329,752)	(17,210)	(6,630)	(353,592)
Net cash provided (used) by noncapital financing activities	(329,752)	85,746	84,869	(159,137)
Cash Flows from Capital and Related Financing Activities:				
Capital grants	-	-	(71,634)	(71,634)
Acquisition and construction of capital assets	(428,809)	(2,242,663)		(2,671,472)
Net cash used by capital and related financing activities	(428,809)	(2,242,663)	(71,634)	(2,743,106)
Cash Flows from Investing Activities				
Interest received	5,493	20,131	6,700	32,324
Net cash provided (used) by investing activities	5,493	20,131	6,700	32,324
Net increase (decrease) in cash and equivalents	(107,734)	(837,570)	(55,162)	(1,000,466)
Cash and equivalents, beginning of year	996,848	3,394,658	992,746	5,384,252
Cash and equivalents, at end of year	\$ 889,114	\$ 2,557,088	\$ 937,584	\$ 4,383,786
Unrestricted cash and equivalents	889,114	846,476	937,584	2,673,174
Restricted cash and equivalents	-	1,710,612	-	1,710,612
	\$ 889,114	\$ 2,557,088	\$ 937,584	\$ 4,383,786
Reconciliation of operating income to net cash provided by operating activities:				
Operating income (loss)	\$ 122,440	\$ (542,766)	\$ (695,983)	\$ (1,116,309)
Adjustments to reconcile operating income to cash provided by operating activities:				
Depreciation	404,129	625,175	776,657	1,805,961
(Increase) decrease in accounts receivable	(453,923)	582,672	(28,040)	100,709
(Increase) decrease in prepaid items	300	109,666	467	110,433
(Increase) decrease in deferred outflows / inflows relating to pension activities	(391,600)	(195,900)	(62,300)	(649,800)
Increase (decrease) in accounts payable	360,388	480,819	39,362	880,569
Increase (decrease) in compensated absences	122,440	(1,450)	15,976	136,966
Increase (decrease) in deferred revenue	(840)	-	(197,936)	(198,776)
Increase (decrease) in net pension liability	482,000	241,000	76,700	799,700
Net cash provided by operating activities	\$ 645,334	\$ 1,299,216	\$ (75,097)	\$ 1,869,453
Non-cash Transactions:				
Contributed capital	\$ -	\$ -	\$ 1,971,720	\$ 1,971,720

CITY OF GALVESTON, TEXAS

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN NET POSITION - BUDGET AND ACTUAL

WATERWORKS SYSTEM

For the Year Ended September 30, 2016

	Budgeted	Actual Amounts			Variance with Final Budget
	Amounts	GAAP Basis	Reconciling Items	Budgetary Basis	
	Final				
Revenues					
Charges for services	\$ 20,731,836	\$ 20,759,470	\$ -	\$ 20,759,470	\$ 27,634
Total Operating Revenues	<u>20,731,836</u>	<u>20,759,470</u>	<u>-</u>	<u>20,759,470</u>	<u>27,634</u>
Operating Expenses					
Personnel services	2,125,497	2,211,267	-	2,211,267	(85,770)
Contractual services	1,160,751	614,411	-	614,411	546,340
Supplies and materials	897,658	891,768	-	891,768	5,890
Surface water contract	10,457,928	6,535,422	-	6,535,422	3,922,506
Other expenses	575,698	572,725	-	572,725	2,973
Administration charge	669,377	669,377	-	669,377	-
Depreciation	-	3,682,225	(3,682,225)	-	-
Total Operating Expenses	<u>15,886,909</u>	<u>15,177,195</u>	<u>(3,682,225)</u>	<u>11,494,970</u>	<u>4,391,939</u>
Operating income (loss)	<u>4,844,927</u>	<u>5,582,275</u>	<u>3,682,225</u>	<u>9,264,500</u>	<u>4,419,573</u>
Non-Operating Revenues (Expenses)					
Interest and investment revenue	12,372	43,394	-	43,394	31,022
Principal expenditure	(878,295)	-	(878,295)	(878,295)	-
Gain (loss) on disposal of capital assets	-	-	-	-	-
Interest expense	(534,855)	(483,040)	-	(483,040)	51,815
Bad debt	-	(2,220)	-	(2,220)	2,220
Total Non-operating Revenue (Expenses)	<u>(1,400,778)</u>	<u>(441,866)</u>	<u>(878,295)</u>	<u>(1,320,161)</u>	<u>85,057</u>
Income (loss) before contributions and transfers	<u>3,444,149</u>	<u>5,140,409</u>	<u>2,803,930</u>	<u>7,944,339</u>	<u>4,500,190</u>
Capital contributions	-	13,284,664	(13,284,664)	-	-
Transfers in	(1,710,201)	-	-	-	1,710,201
Transfers out	(1,545,874)	(1,408,660)	-	(1,408,660)	137,214
Change in net position	<u>188,074</u>	<u>17,016,413</u>	<u>(10,480,734)</u>	<u>6,535,679</u>	<u>6,347,605</u>
Total net position - beginning	<u>70,321,847</u>	<u>70,321,847</u>	<u>-</u>	<u>70,321,847</u>	<u>-</u>
Prior period adjustment	-	(821,236)	-	(821,236)	(821,236)
Total net position - ending	<u>\$ 70,509,921</u>	<u>\$ 86,517,024</u>	<u>\$(10,480,734)</u>	<u>\$ 76,036,290</u>	<u>\$ 5,526,369</u>

CITY OF GALVESTON, TEXAS

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN NET POSITION - BUDGET AND ACTUAL

SEWER SYSTEM

For the Year Ended September 30, 2016

	Budgeted Amounts	Actual Amounts			Variance with Final Budget
	Final	Actual	Reconciling Items	Budgetary Basis	
Revenues					
Charges for services	\$ 15,363,135	\$ 14,524,291	\$ -	\$ 14,524,291	\$ (838,844)
Total Operating Revenues	<u>15,363,135</u>	<u>14,524,291</u>	<u>-</u>	<u>14,524,291</u>	<u>(838,844)</u>
Operating Expenses					
Personnel services	4,370,737	4,518,513	-	4,518,513	(147,776)
Contractual services	2,175,618	2,200,235	-	2,200,235	(24,617)
Supplies and materials	1,869,603	1,861,409	-	1,861,409	8,194
Other expenses	733,076	737,316	-	737,316	(4,240)
Administration charge	408,546	408,546	-	408,546	-
Depreciation	-	4,156,359	(4,156,359)	-	-
Total Operating Expenses	<u>9,557,580</u>	<u>13,882,378</u>	<u>(4,156,359)</u>	<u>9,726,019</u>	<u>(168,439)</u>
Operating income (loss)	<u>5,805,555</u>	<u>641,913</u>	<u>4,156,359</u>	<u>4,798,272</u>	<u>(1,007,283)</u>
Non-Operating Revenues (Expenses)					
Intergovernmental revenue	-	-	-	-	-
Interest and investment revenue	14,874	78,378	-	78,378	63,504
Principal expenditure	(1,460,495)	-	(1,460,495)	(1,460,495)	-
Gain (loss) on disposal of capital assets	-	916	-	916	916
Interest expense	(631,461)	(672,378)	-	(672,378)	(40,917)
Total Non-operating Revenue (Expenses)	<u>(2,077,082)</u>	<u>(593,084)</u>	<u>(1,460,495)</u>	<u>(2,053,579)</u>	<u>23,503</u>
Income (loss) before contributions and transfers	3,728,473	48,829	2,695,864	2,744,693	(983,780)
Capital contributions	-	18,703,281	(18,703,281)	-	-
Transfers in	(2,811,415)	1,114	-	1,114	2,812,529
Transfers out	(1,543,058)	(1,405,846)	-	(1,405,846)	137,212
Change in net position	<u>(626,000)</u>	<u>17,347,378</u>	<u>(16,007,417)</u>	<u>1,339,961</u>	<u>1,965,961</u>
Total net position - beginning	129,626,046	129,626,046	-	129,626,046	-
Prior period adjustment	-	(369,770)	-	(369,770)	(369,770)
Total net position - ending	<u>\$ 129,000,046</u>	<u>\$ 146,603,654</u>	<u>\$ (16,007,417)</u>	<u>\$ 130,596,237</u>	<u>\$ 1,596,191</u>

CITY OF GALVESTON, TEXAS

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN NET POSITION - BUDGET AND ACTUAL

SANITATION SERVICES

For the Year Ended September 30, 2016

	Budgeted	Actual Amounts			Variance with Final Budget
	Amounts	Actual	Reconciling Items	Budgetary Basis	
	Final	Actual			
Revenues					
Charges for services	\$ 5,878,177	\$ 6,036,788	\$ -	\$ 6,036,788	\$ 158,611
Total Operating Revenues	<u>5,878,177</u>	<u>6,036,788</u>	<u>-</u>	<u>6,036,788</u>	<u>158,611</u>
Operating Expenses					
Personnel services	2,819,844	2,904,623	-	2,904,623	(84,779)
Contractual services	2,469,197	2,027,904	-	2,027,904	441,293
Supplies and materials	123,776	97,895	-	97,895	25,881
Other expenses	184,978	266,886	-	266,886	(81,908)
Administration charge	212,911	212,911	-	212,911	-
Depreciation	-	404,129	(404,129)	-	-
Total Operating Expenses	<u>5,810,706</u>	<u>5,914,348</u>	<u>(404,129)</u>	<u>5,510,219</u>	<u>300,487</u>
Operating income (loss)	<u>67,471</u>	<u>122,440</u>	<u>404,129</u>	<u>526,569</u>	<u>459,098</u>
Non-Operating Revenues (Expenses)					
Interest and investment revenue	2,714	5,493	-	5,493	2,779
Total Non-operating Revenue (Expenses)	<u>2,714</u>	<u>5,493</u>	<u>-</u>	<u>5,493</u>	<u>2,779</u>
Income (loss) before contributions and transfers	70,185	127,933	404,129	532,062	461,877
Transfers in	176,015	-	-	-	(176,015)
Transfers out	(246,200)	(246,200)	-	(246,200)	-
Change in net position	<u>-</u>	<u>(118,267)</u>	<u>404,129</u>	<u>285,862</u>	<u>285,862</u>
Total net position - beginning	4,634,484	4,634,484	-	4,634,484	-
Prior period adjustment	-	(431,231)	-	(431,231)	(431,231)
Total net position - ending	<u>\$ 4,634,484</u>	<u>\$ 4,084,986</u>	<u>\$ 404,129</u>	<u>\$ 4,489,115</u>	<u>\$ (145,369)</u>

CITY OF GALVESTON, TEXAS

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN NET POSITION - BUDGET AND ACTUAL

DRAINAGE UTILITY

For the Year Ended September 30, 2016

	Budgeted Amounts	Actual Amounts			Variance with Final Budget
	Final	Actual	Reconciling Items	Budgetary Basis	
Revenues					
Charges for services	\$ 2,672,384	\$ 2,464,143	\$ -	\$ 2,464,143	\$ (208,241)
Total Operating Revenues	<u>2,672,384</u>	<u>2,464,143</u>	<u>-</u>	<u>2,464,143</u>	<u>(208,241)</u>
Operating Expenses					
Personnel services	1,503,851	1,547,500	-	1,547,500	(43,649)
Contractual services	404,494	629,352	-	629,352	(224,858)
Supplies and materials	59,405	27,147	-	27,147	32,258
Other expenses	128,311	129,829	-	129,829	(1,518)
Administration charge	47,906	47,906	-	47,906	-
Depreciation	-	625,175	(625,175)	-	-
Total Operating Expenses	<u>2,143,967</u>	<u>3,006,909</u>	<u>(625,175)</u>	<u>2,381,734</u>	<u>(237,767)</u>
Operating income (loss)	<u>528,417</u>	<u>(542,766)</u>	<u>625,175</u>	<u>82,409</u>	<u>(446,008)</u>
Non-Operating Revenues (Expenses)					
Interest and investment revenue	2,347	20,131	-	20,131	17,784
Total Non-operating Revenue (Expenses)	<u>2,347</u>	<u>20,131</u>	<u>-</u>	<u>20,131</u>	<u>17,784</u>
Income (loss) before contributions and transfers	530,764	(522,635)	625,175	102,540	(428,224)
Capital contributions	-	-	-	-	-
Transfers in	(513,554)	102,956	-	102,956	616,510
Transfers out	(17,210)	(17,210)	-	(17,210)	-
Change in net position	<u>-</u>	<u>(436,889)</u>	<u>625,175</u>	<u>188,286</u>	<u>188,286</u>
Total net position - beginning	10,468,669	10,468,669	-	10,468,669	-
Prior period adjustment	-	(368,159)	-	(368,159)	(368,159)
Total net position - ending	<u>\$ 10,468,669</u>	<u>\$ 9,663,621</u>	<u>\$ 625,175</u>	<u>\$ 10,288,796</u>	<u>\$ (179,873)</u>

CITY OF GALVESTON, TEXAS

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN NET POSITION - BUDGET AND ACTUAL

AIRPORT

For the Year Ended September 30, 2016

	Budgeted	Actual Amounts			Variance with Final Budget
	Amounts	Actual	Reconciling Items	Budgetary Basis	
	Final	Actual	Items	Basis	Final Budget
Revenues					
Charges for services	\$ 978,684	\$ 1,151,110	\$ -	\$ 1,151,110	\$ 172,426
Total Operating Revenues	<u>978,684</u>	<u>1,151,110</u>	<u>-</u>	<u>1,151,110</u>	<u>172,426</u>
Operating Expenses					
Personnel services	435,497	464,045	-	464,045	(28,548)
Contractual services	585,107	263,682	-	263,682	321,425
Supplies and materials	80,300	80,186	-	80,186	114
Other expenses	208,614	207,800	-	207,800	814
Administration charge	54,723	54,723	-	54,723	-
Depreciation	-	776,657	(776,657)	-	-
Total Operating Expenses	<u>1,364,241</u>	<u>1,847,093</u>	<u>(776,657)</u>	<u>1,070,436</u>	<u>293,805</u>
Operating income (loss)	<u>(385,557)</u>	<u>(695,983)</u>	<u>776,657</u>	<u>80,674</u>	<u>466,231</u>
Non-Operating Revenues (Expenses)					
Intergovernmental revenue	25,000	43,231	-	43,231	18,231
Interest and investment revenue	4,922	6,700	-	6,700	1,778
Total Non-operating Revenue (Expenses)	<u>29,922</u>	<u>49,931</u>	<u>-</u>	<u>49,931</u>	<u>20,009</u>
Income (loss) before contributions and transfers	<u>(355,635)</u>	<u>(646,052)</u>	<u>776,657</u>	<u>130,605</u>	<u>486,240</u>
Capital contributions	-	1,971,720	(1,971,720)	-	-
Transfers in	362,265	-	-	-	(362,265)
Transfers out	(6,630)	(6,630)	-	(6,630)	-
Change in net position	<u>-</u>	<u>1,319,038</u>	<u>(1,195,063)</u>	<u>123,975</u>	<u>123,975</u>
Total net position - beginning	<u>20,849,564</u>	<u>20,849,564</u>	<u>-</u>	<u>20,849,564</u>	<u>-</u>
Total net position - ending	<u>\$20,849,564</u>	<u>\$ 22,168,602</u>	<u>\$ (1,195,063)</u>	<u>\$20,973,539</u>	<u>\$ 123,975</u>

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CITY OF GALVESTON, TEXAS
INTERNAL SERVICE FUNDS

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

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

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

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

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

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

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

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

Technology Replacement Fund – To account for City resources from other funds used to implement hardware and software systems.

CITY OF GALVESTON, TEXAS
COMBINING STATEMENT OF NET POSITION
INTERNAL SERVICE FUNDS
September 30, 2016

	<u>Central Garage</u>	<u>Casualty & Liability Insurance</u>	<u>Central Service</u>
Assets			
Current assets:			
Cash and cash equivalents	\$ 1,098,199	\$ 2,496,905	\$ 689,992
Accounts receivable, net of allowance for doubtful accounts	93,090	5,495	-
Receivables from other governments	-	-	-
Inventories	218,760	-	3,349
Prepaid items	-	352,670	-
Restricted Cash and cash equivalents	-	-	435,245
Total current assets	<u>1,410,049</u>	<u>2,855,070</u>	<u>1,128,586</u>
Non-current assets:			
Capital assets (net of depreciation):			
Buildings	-	-	4,565,152
Equipment and furniture	169,159	-	385,326
Total non-current assets	<u>169,159</u>	<u>-</u>	<u>4,950,478</u>
Total Assets	<u>1,579,208</u>	<u>2,855,070</u>	<u>6,079,064</u>
Liabilities			
Current liabilities:			
Accounts payable and accrued expenses	141,234	33,246	61,976
Total current liabilities	<u>141,234</u>	<u>33,246</u>	<u>61,976</u>
Non-current liabilities:			
Due within one year	-	-	109,590
Due in more than one year	191,881	41,683	863,585
Total non-current liabilities	<u>191,881</u>	<u>41,683</u>	<u>973,175</u>
Total Liabilities	<u>333,115</u>	<u>74,929</u>	<u>1,035,151</u>
Net Position			
Investment in capital assets	169,159	-	4,950,478
Unrestricted	1,076,934	2,780,141	93,435
Total Net Position	<u>\$ 1,246,093</u>	<u>\$ 2,780,141</u>	<u>\$ 5,043,913</u>

<u>Construction Management</u>	<u>Workers Compensation Insurance</u>	<u>Health and Life Insurance</u>	<u>Seperation Pay</u>	<u>Technology Replacement Fund</u>	<u>Total</u>
\$ 114,794	\$ 2,198,017	\$ 3,876,278	\$ 172,067	\$ 1,491,600	\$ 12,137,852
-	-	-	-	-	98,585
-	-	111,971	-	-	111,971
-	-	-	-	-	222,109
-	-	-	-	-	352,670
-	-	-	-	-	435,245
<u>114,794</u>	<u>2,198,017</u>	<u>3,988,249</u>	<u>172,067</u>	<u>1,491,600</u>	<u>13,358,432</u>
-	-	-	-	-	4,565,152
-	-	-	-	-	554,485
-	-	-	-	-	5,119,637
<u>114,794</u>	<u>2,198,017</u>	<u>3,988,249</u>	<u>172,067</u>	<u>1,491,600</u>	<u>18,478,069</u>
<u>15,327</u>	<u>15,572</u>	<u>87,495</u>	<u>-</u>	<u>-</u>	<u>354,850</u>
<u>15,327</u>	<u>15,572</u>	<u>87,495</u>	<u>-</u>	<u>-</u>	<u>354,850</u>
-	167,758	-	-	-	277,348
<u>93,723</u>	<u>521,714</u>	<u>4,006,442</u>	<u>-</u>	<u>-</u>	<u>5,719,028</u>
<u>93,723</u>	<u>689,472</u>	<u>4,006,442</u>	<u>-</u>	<u>-</u>	<u>5,996,376</u>
<u>109,050</u>	<u>705,044</u>	<u>4,093,937</u>	<u>-</u>	<u>-</u>	<u>6,351,226</u>
-	-	-	-	-	5,119,637
<u>5,744</u>	<u>1,492,973</u>	<u>(105,688)</u>	<u>172,067</u>	<u>1,491,600</u>	<u>7,007,206</u>
<u>\$ 5,744</u>	<u>\$ 1,492,973</u>	<u>\$ (105,688)</u>	<u>\$ 172,067</u>	<u>\$ 1,491,600</u>	<u>\$ 12,126,843</u>

CITY OF GALVESTON, TEXAS

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

INTERNAL SERVICE FUNDS

For the Year Ended September 30, 2016

	<u>Central Garage</u>	<u>Casualty & Liability Insurance</u>	<u>Central Service</u>
Revenues			
Charges for services	\$ 4,317,776	\$ 2,122,938	\$ 2,791,684
Total operating revenues	<u>4,317,776</u>	<u>2,122,938</u>	<u>2,791,684</u>
Operating Expenses			
Personnel services	1,197,726	158,680	1,166,567
Contractual services	368,329	32,283	732,049
Supplies and materials	2,008,476	1,389	316,998
Insurance claims and premiums	-	1,372,076	-
Other expenses	345,879	452	34,074
Depreciation	34,071	-	356,971
Total operating expenses	<u>3,954,481</u>	<u>1,564,880</u>	<u>2,606,659</u>
Operating income (loss)	<u>363,295</u>	<u>558,058</u>	<u>185,025</u>
Non-Operating Revenues (Expenses)			
Interest and investment revenue	5,711	14,017	5,643
Insurance proceeds	61,671	-	-
Interest expense	-	-	(49,312)
Gain (loss) on disposal of capital assets	723	-	-
Total non-operating revenue (expenses)	<u>68,105</u>	<u>14,017</u>	<u>(43,669)</u>
Income (loss) before capital contributions and transfers	431,400	572,075	141,356
Capital contributions	-	-	2,899,800
Transfers in	87,485	-	-
Transfers out	-	-	(152,866)
Change in net position	<u>518,885</u>	<u>572,075</u>	<u>2,888,290</u>
Total net position - beginning	<u>727,208</u>	<u>2,208,066</u>	<u>2,155,623</u>
Total net position - ending	<u>\$ 1,246,093</u>	<u>\$ 2,780,141</u>	<u>\$ 5,043,913</u>

Construction Management	Workers Compensation Insurance	Health and Life Insurance	Separation Pay	Technology Replacement Fund	Total
\$	\$ 741,230	\$ 6,627,090	\$ -	\$	\$ 16,600,718
-	741,230	6,627,090	-	-	16,600,718
131,285	-	-	-	-	2,654,258
67,029	-	-	-	-	1,199,690
6,655	-	-	-	-	2,333,518
-	255,075	6,553,350	802,449	-	8,982,950
(204,743)	459	348,359	-	-	524,480
-	-	-	-	-	391,042
226	255,534	6,901,709	802,449	-	16,085,938
(226)	485,696	(274,619)	(802,449)	-	514,780
225	14,052	29,057	-	-	68,705
-	-	-	-	-	61,671
-	-	-	-	-	(49,312)
-	-	-	-	-	723
225	14,052	29,057	-	-	81,787
(1)	499,748	(245,562)	(802,449)	-	596,567
-	-	-	-	-	2,899,800
-	-	-	934,280	1,491,600	2,513,365
-	-	-	-	-	(152,866)
(1)	499,748	(245,562)	131,831	1,491,600	5,856,866
5,745	993,225	139,874	40,236	-	6,269,977
\$ 5,744	\$ 1,492,973	\$ (105,688)	\$ 172,067	\$ 1,491,600	\$ 12,126,843

CITY OF GALVESTON, TEXAS
COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
For the Year Ended September 30, 2016

	<u>Central Garage</u>	<u>Casualty & Liability Insurance</u>	<u>Central Service</u>
Cash Flows from Operating Activities:			
Receipts from customers and users	\$ 4,352,071	\$ 2,117,443	\$ 2,791,684
Disbursed for personnel services	(1,181,092)	(144,587)	(1,136,806)
Disbursed for goods and services	(2,749,020)	(1,425,583)	(997,590)
Net cash provided (used) by operating activities	<u>421,959</u>	<u>547,273</u>	<u>657,288</u>
Cash Flows from Non-Capital Financing Activities:			
Transfers from other funds	87,485	-	-
Transfers to other funds	-	-	(152,866)
Net cash provided by (used by) noncapital financing activities	<u>87,485</u>	<u>-</u>	<u>(152,866)</u>
Cash Flows from Capital and Related Financing Activities:			
Proceeds from the sale of equipment	723	9,033	-
Insurance proceeds	61,671	-	-
Principal payments on debt	-	-	(105,103)
Interest payments on debt	-	-	(45,281)
Acquisition and construction of capital assets	(32,816)	-	(44,999)
Net cash used by capital and related financing activities	<u>29,578</u>	<u>9,033</u>	<u>(195,383)</u>
Cash Flows from Investing Activities			
Interest received	5,711	14,017	5,643
Interest paid	-	-	(49,312)
Net cash provided by (used by) investing activities	<u>5,711</u>	<u>14,017</u>	<u>(43,669)</u>
Net increase/(decrease) in cash and equivalents	544,733	570,323	265,370
Cash and equivalents, beginning of year	553,466	1,926,582	859,867
Cash and equivalents, at end of year	<u>\$ 1,098,199</u>	<u>\$ 2,496,905</u>	<u>\$ 1,125,237</u>
Unrestricted cash and equivalents	1,098,199	2,496,905	689,992
Restricted cash and equivalents	-	-	435,245
	<u>1,098,199</u>	<u>2,496,905</u>	<u>1,125,237</u>
Reconciliation of operating income to net cash provided by operating activities			
Operating income (loss)	363,295	558,058	185,025
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	34,071	-	356,971
(Increase) decrease in accounts receivable	34,295	(5,495)	-
(Increase) decrease in inventory	414	-	(806)
(Increase) decrease in prepaid expenses	-	(22,093)	82,390
Increase (decrease) in accounts payable	(26,750)	2,710	3,947
Increase (decrease) in compensated absences payable	16,634	14,093	29,761
Net cash provided by operating activities	<u>\$ 421,959</u>	<u>\$ 547,273</u>	<u>\$ 657,288</u>

Construction Management	Workers Compensation Insurance	Health and Life Insurance	Separation Pay	Technology Replacement Fund	Total
\$ -	\$ 741,230	\$ 6,515,119	\$ -	\$ -	\$ 16,517,547
(130,161)	-	-	-	-	(2,592,646)
146,021	(352,809)	(6,598,809)	(802,449)	-	(12,780,239)
15,860	388,421	(83,690)	(802,449)	-	1,144,662
-	-	-	934,280	1,491,600	2,513,365
-	-	-	-	-	(152,866)
-	-	-	934,280	1,491,600	2,360,499
-	-	-	-	-	9,756
-	-	-	-	-	61,671
-	-	-	-	-	(105,103)
-	-	-	-	-	(45,281)
-	-	-	-	-	(77,815)
-	-	-	-	-	(156,772)
225	14,052	29,057	-	-	68,705
-	-	-	-	-	(49,312)
225	14,052	29,057	-	-	19,393
16,085	402,473	(54,633)	131,831	1,491,600	3,367,782
98,709	1,795,544	3,930,911	40,236	-	9,205,315
\$ 114,794	\$ 2,198,017	\$ 3,876,278	\$ 172,067	\$ 1,491,600	\$ 12,573,097
114,794	2,198,017	3,876,278	172,067	1,491,600	12,137,852
-	-	-	-	-	435,245
114,794	2,198,017	3,876,278	172,067	1,491,600	12,573,097
(226)	485,696	(274,619)	(802,449)	-	514,780
-	-	-	-	-	391,042
-	-	(111,971)	-	-	(83,171)
-	-	-	-	-	(392)
-	-	-	-	-	60,297
14,962	(97,275)	302,900	-	-	200,494
1,124	-	-	-	-	61,612
\$ 15,860	\$ 388,421	\$ (83,690)	\$ (802,449)	\$ -	\$ 1,144,662

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**CITY OF GALVESTON, TEXAS
FIDUCIARY FUNDS**

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

Pension Trust – To account for the accumulation of resources to be used for retirement annuity payments at appropriate amounts and times in the future. These funds are reported on a calendar year basis for the year ended December 31, 2015.

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

CITY OF GALVESTON, TEXAS
FIDUCIARY FUNDS
COMBINING STATEMENT OF NET POSITION
December 31, 2015

	City of Galveston Employee's Retirement Plan for Police	City of Galveston Employee's Retirement Plan for Employees	Galveston Firefighters' Pension Fund	Total
Assets				
Cash and temporary investments	\$ -	\$ -	\$ 893,262	\$ 893,262
Receivables				
Interest and dividends	99,738	68,413	39,560	207,711
Loans to participants	177,292	-	-	177,292
Investments				
Money market funds	277,899	1,187,481	-	1,465,380
U.S. Government agencies	877,250	-	-	877,250
Bonds	2,513,064	-	-	2,513,064
Common stocks	3,671,292	3,250,166	12,115,851	19,037,309
Equity mutual funds	10,332,682	25,382,955	15,211,431	50,927,068
Bond mutual funds	2,329,677	13,079,166	3,145,513	18,554,356
Alternative investments	-	-	7,322,780	7,322,780
Real estate	-	-	384,710	384,710
Prepaid items	-	-	-	-
Total Assets	<u>20,278,894</u>	<u>42,968,181</u>	<u>39,113,107</u>	<u>102,360,182</u>
Liabilities				
Accounts payable	50,451	25,833	86,616	162,900
Total Liabilities	<u>50,451</u>	<u>25,833</u>	<u>86,616</u>	<u>162,900</u>
Net Position				
Held in trust for benefits and other purposes	20,228,443	42,942,348	39,026,491	102,197,282
Total Net Position	<u>\$20,228,443</u>	<u>\$42,942,348</u>	<u>\$39,026,491</u>	<u>\$102,197,282</u>

CITY OF GALVESTON, TEXAS

FIDUCIARY FUNDS

COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

Year ended December 31, 2015

	City of Galveston Employee's Retirement Plan for Police	City of Galveston Employee's Retirement Plan for Employees	Galveston Firefighters' Pension Fund	Total
Additions				
Contributions:				
Employer	\$ 1,257,637	\$ 1,968,772	\$ 996,543	4,222,952
Plan members	<u>1,254,637</u>	<u>1,315,516</u>	<u>1,138,906</u>	<u>3,709,059</u>
Total contributions	2,512,274	3,284,288	2,135,449	7,932,011
Investment Earnings:				
Net increase in fair value of investments	(921,457)	(1,616,692)	(1,500,359)	(4,038,508)
Interest and dividends	546,821	994,148	842,372	2,383,341
Less investment expenses	<u>(111,660)</u>	<u>(234,207)</u>	<u>(190,632)</u>	<u>(536,499)</u>
Net investment income	<u>(486,296)</u>	<u>(856,751)</u>	<u>(848,619)</u>	<u>(2,191,666)</u>
Total Additions	2,025,978	2,427,537	1,286,830	5,740,345
Deductions				
Benefits paid to members and beneficiaries	4,114,277	4,102,964	3,032,097	11,249,338
Refunds of contributions	-	-	469,405	469,405
Administrative expenses	<u>86,285</u>	<u>127,457</u>	<u>113,486</u>	<u>327,228</u>
Total Deductions	<u>4,200,562</u>	<u>4,230,421</u>	<u>3,614,988</u>	<u>12,045,971</u>
Change in net position	(2,174,584)	(1,802,884)	(2,328,158)	(6,305,626)
Net position, beginning of year	<u>22,403,027</u>	<u>44,745,232</u>	<u>41,354,649</u>	<u>108,502,908</u>
Net position, end of year	<u>\$ 20,228,443</u>	<u>\$ 42,942,348</u>	<u>\$ 39,026,491</u>	<u>\$ 102,197,282</u>

CITY OF GALVESTON, TEXAS
AGENCY FUNDS
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
September 30, 2016

	<u>September 30, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>September 30, 2016</u>
Assets				
Cash and temporary investments	\$ 963,798	\$ -	\$ (221,955)	\$ 741,843
Total Assets	<u>\$ 963,798</u>	<u>\$ -</u>	<u>\$ (221,955)</u>	<u>\$ 741,843</u>
Liabilities				
Accounts payable and other current liabilities	\$ 6,875	\$ -	\$ (3,075)	\$ 3,800
Refunds payable and others	956,923	-	(218,880)	738,043
Total Liabilities	<u>\$ 963,798</u>	<u>\$ -</u>	<u>\$ (221,955)</u>	<u>\$ 741,843</u>

CITY OF GALVESTON, TEXAS
MAJOR DISCRETELY PRESENTED COMPONENT UNITS

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

CITY OF GALVESTON, TEXAS
DISCRETELY PRESENTED COMPONENT UNITS
COMBINING STATEMENT OF NET POSITION
September 30, 2016

	Park Board of Trustees	Galveston Island Redevelopment Authority	Campeche Shores - Public Improvement District No. 1	Beachside Village - Public Improvement District
Assets				
Cash and cash equivalents	\$ 6,779,093	\$ 3,440,524	\$ 1,573	\$ 2,973
Investments	2,018,465	282,892	-	-
Accounts receivable, net of allowance for doubtful accounts	1,792,503	-	74,730	-
Inventories	12,942	-	-	-
Prepaid items	330,726	-	-	-
Other	7,300	-	-	-
Restricted cash and temporary investments	-	-	-	-
Net investment in direct financing and capital leases - non-current	-	-	-	-
Capital assets not being depreciated	-	-	-	-
Capital assets (net of accumulated depreciation)	341,923,712	-	-	-
Total Assets	352,864,741	3,723,416	76,303	2,973
Deferred Outflows of Resources				
Deferred outflows - pension items	-	47,915	-	-
Liabilities				
Current liabilities:				
Accounts payable and accrued expenses	1,984,865	3,156,777	1,573	2,973
Due to other governments	548,913	-	-	-
Interest payable	-	-	-	-
Deferred revenue	50,347	-	-	-
Total current liabilities	2,584,125	3,156,777	1,573	2,973
Non-current liabilities:				
Due within one year	902,636	405,000	-	-
Due in more than one year	4,164,973	20,322,110	-	-
Total non-current liabilities	5,067,609	20,727,110	-	-
Total Liabilities	7,651,734	23,883,887	1,573	2,973
Deferred Inflows of Resources				
Deferred gain on refunding	-	-	-	-
Deferred inflows - pension activities	-	-	-	-
Total Deferred Inflows of Resources	-	-	-	-
Net Position				
Net investment in capital assets	337,066,334	-	-	-
Restricted:				
Debt service	977,720	743,347	-	-
Unrestricted	7,168,953	(20,855,903)	74,730	-
Total Net Position	\$ 345,213,007	\$ (20,112,556)	\$ 74,730	\$ -

* As of December 31, 2015

Beachside Village - Public Improvement District	Bayside at Waterman's - Public Improvement District	Board of Trustees of Galveston Wharves*	Galveston Housing Finance Corporation*	Galveston Property Finance Authority*	Total Component Units
\$ 2,973	\$ 735,889	\$ 6,005,951	\$ 189,551	\$ 644,706	\$ 17,800,260
-	-	-	-	-	2,301,357
-	-	13,936,548	-	231,528	16,035,309
-	-	-	-	-	12,942
-	-	642,157	-	-	972,883
-	-	-	-	-	7,300
-	-	27,796,300	-	-	27,796,300
-	-	2,057,844	-	-	2,057,844
-	-	50,291,379	74,482	-	50,365,861
-	6,741,903	97,610,441	-	-	446,276,056
<u>2,973</u>	<u>7,477,792</u>	<u>198,340,620</u>	<u>264,033</u>	<u>876,234</u>	<u>563,626,112</u>
-	-	451,726	-	-	499,641
2,973	-	8,661,058	112,308	-	13,919,554
-	-	188,077	-	-	736,990
-	-	797,247	-	-	797,247
-	-	-	-	-	50,347
<u>2,973</u>	<u>-</u>	<u>9,646,382</u>	<u>112,308</u>	<u>-</u>	<u>15,504,138</u>
-	9,463,178	5,162,259	-	-	6,469,895
-	<u>9,463,178</u>	<u>53,639,529</u>	<u>-</u>	<u>-</u>	<u>87,589,790</u>
-	<u>9,463,178</u>	<u>58,801,788</u>	<u>-</u>	<u>-</u>	<u>94,059,685</u>
<u>2,973</u>	<u>9,463,178</u>	<u>68,448,170</u>	<u>112,308</u>	<u>-</u>	<u>109,563,823</u>
-	-	96,347	-	-	96,347
-	-	37,614	-	-	37,614
-	-	133,961	-	-	133,961
-	-	115,312,854	-	-	452,379,188
-	-	6,646,097	-	-	8,367,164
-	(1,985,386)	8,251,264	151,725	876,234	(6,318,383)
<u>\$ -</u>	<u>\$ (1,985,386)</u>	<u>\$ 130,210,215</u>	<u>\$ 151,725</u>	<u>\$ 876,234</u>	<u>\$ 454,427,969</u>

CITY OF GALVESTON, TEXAS
DISCRETELY PRESENTED COMPONENT UNITS
COMBINING STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2016

Functions/Programs	Expenses	Program Revenues			
		Charges for Services	Capital Grants and Contributions	Park Board of Trustees	Galveston Island Redevelopment Authority
Component Unit:					
Park Board of Trustees	\$ 32,747,752	\$ 6,482,726	\$ 17,654,307	\$ (8,610,719)	\$ -
Galveston Island Redevelopment Authority	6,467,156	-	-	-	(6,467,156)
Campeche Shores - Public Improvement District No. 1	91,243	-	-	-	-
Beachside Village - Public Improvement District	92,060	-	-	-	-
Bayside at Waterman's - Public Improvement District	808,837	-	-	-	-
Board of Trustees of Galveston Wharves*	32,982,532	33,015,643	4,893,290	-	-
Galveston Housing Finance Corporation*	45,355	-	-	-	-
Galveston Property Finance Authority*	127,124	175,407	-	-	-
	<u>\$ 73,362,059</u>	<u>\$ 39,673,776</u>	<u>\$ 22,547,597</u>	<u>(8,610,719)</u>	<u>(6,467,156)</u>
General revenues and extraordinary items					
Taxes:					
Property taxes				-	2,510,372
Hotel occupancy taxes				10,002,829	-
Miscellaneous				-	-
Unrestricted investment earnings				7,392	18,457
Total general revenues and extraordinary items				<u>10,010,221</u>	<u>2,528,829</u>
Change in net position				1,399,502	(3,938,327)
Net position - beginning				343,813,505	(16,174,229)
Change in accounting principle				-	-
Net position - ending				<u>\$345,213,007</u>	<u>\$ (20,112,556)</u>

* For the year ended December 31, 2015

Net (Expense) Revenue and Changes in Net Position

Campeche Shores - Public Improvement District No. 1	Beachside Village - Public Improvement District	Bayside at Waterman's - Public Improvement District	Board of Trustees of Galveston Wharves*	Galveston Housing Finance Corporation*	Galveston Property Finance Authority*	Totals
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (8,610,719)
-	-	-	-	-	-	(6,467,156)
(91,243)	-	-	-	-	-	(91,243)
-	(92,060)	-	-	-	-	(92,060)
-	-	(808,837)	-	-	-	(808,837)
-	-	-	4,926,401	-	-	4,926,401
-	-	-	-	(45,355)	-	(45,355)
-	-	-	-	-	48,283	48,283
<u>(91,243)</u>	<u>(92,060)</u>	<u>(808,837)</u>	<u>4,926,401</u>	<u>(45,355)</u>	<u>48,283</u>	<u>(11,140,686)</u>
88,200	84,362	192,203	-	-	-	2,875,137
-	-	-	-	-	-	10,002,829
-	3,240	-	3,279	6,363	-	12,882
-	-	4,155	232,073	208	7,367	269,652
<u>88,200</u>	<u>87,602</u>	<u>196,358</u>	<u>235,352</u>	<u>6,571</u>	<u>7,367</u>	<u>13,160,500</u>
(3,043)	(4,458)	(612,479)	5,161,753	(38,784)	55,650	2,019,814
77,773	4,458	(1,372,907)	127,056,035	190,509	820,584	454,415,728
			(2,007,573)			(2,007,573)
<u>\$ 74,730</u>	<u>\$ -</u>	<u>\$ (1,985,386)</u>	<u>\$ 130,210,215</u>	<u>\$ 151,725</u>	<u>\$ 876,234</u>	<u>\$ 454,427,969</u>

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CITY OF GALVESTON, TEXAS
UNAUDITED STATISTICAL SECTION

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

	Page
Financial Trends	128
These schedules contain trend information to help the reader understand how the City's financial performance and "well-being" have changed over time.	
Revenue Capacity	138
These schedules contain information to help the reader assess the City's most significant local revenue sources: sales and property taxes.	
Debt Capacity	144
These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.	
Demographic and Economic Information	148
These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.	
Operating Information	151
These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs.	

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

CITY OF GALVESTON, TEXAS**NET POSITION BY COMPONENT****LAST TEN FISCAL YEARS***Amounts in (000's)**(Accrual Basis of Accounting)**(Unaudited)*

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Governmental Activities				
Net investment in capital assets	\$ 37,327	\$ 49,273	\$ 49,607	\$ 98,300
Restricted	18,757	19,950	25,689	26,256
Unrestricted	5,912	6,113	18,853	26,157
Total governmental activities net position	<u>\$ 61,996</u>	<u>\$ 75,336</u>	<u>\$ 94,149</u>	<u>\$ 150,713</u>
Business-type Activities				
Net investment in capital assets	\$ 73,991	\$ 64,348	\$ 65,039	\$ 79,051
Restricted	10,327	11,053	7,173	10,949
Unrestricted	13,967	12,364	24,354	20,713
Total business-type net position	<u>\$ 98,285</u>	<u>\$ 87,765</u>	<u>\$ 96,566</u>	<u>\$ 110,713</u>
Primary government				
Net investment in capital assets	\$ 111,318	\$ 113,621	\$ 114,646	\$ 177,351
Restricted	29,084	31,003	32,863	37,205
Unrestricted	19,879	18,477	43,206	46,870
Total primary government net position	<u>\$ 160,281</u>	<u>\$ 163,101</u>	<u>\$ 190,715</u>	<u>\$ 261,426</u>

Fiscal Year					
2011	2012	2013	2014	2015	2016
\$ 98,510	\$ 90,856	\$ 102,988	\$ 110,071	\$ 113,903	\$ 112,678
25,326	25,670	22,388	26,170	35,409	32,732
10,861	31,737	33,857	30,237	(27,164)	(18,238)
<u>\$134,697</u>	<u>\$148,263</u>	<u>\$159,233</u>	<u>\$166,478</u>	<u>\$ 122,148</u>	<u>\$ 127,172</u>
\$ 99,989	\$ 80,157	\$ 181,656	\$ 181,656	\$ 178,032	\$ 212,148
11,886	11,920	21,326	21,326	18,097	15,706
22,183	70,504	18,221	18,220	39,681	44,193
<u>\$134,058</u>	<u>\$162,582</u>	<u>\$221,202</u>	<u>\$221,202</u>	<u>\$ 235,810</u>	<u>\$ 272,047</u>
\$ 198,499	\$ 171,013	\$ 284,644	\$ 291,727	\$ 291,935	\$ 324,826
37,212	37,590	43,714	47,496	53,506	48,438
33,044	102,240	52,078	48,457	12,517	25,955
<u>\$268,755</u>	<u>\$310,844</u>	<u>\$380,435</u>	<u>\$387,680</u>	<u>\$ 357,958</u>	<u>\$ 399,219</u>

CITY OF GALVESTON, TEXAS

CHANGES IN NET POSITION

Last Ten Fiscal Years

Amounts in (000's)

(Accrual Basis of Accounting)

(Unaudited)

	Fiscal Year			
	2007	2008	2009	2010
Expenses				
Governmental Activities:				
General government	\$ 5,166	\$ 5,307	\$ 5,742	\$ 8,484
Public Safety	27,040	32,145	29,390	29,180
Public works	5,990	12,735	69,234	25,590
Culture and recreation	8,258	9,020	10,764	8,289
Planning and community development	4,483	4,936	4,237	7,902
Transportation system	5,552	4,548	5,120	5,347
Interest on long-term debt	3,096	2,839	2,757	2,868
Total governmental activities expenses	59,585	71,530	127,244	87,660
Business-Type Activities:				
Waterworks	12,999	13,350	13,060	14,165
Sewer system	11,536	10,806	9,900	11,202
Sanitation	3,781	3,808	3,907	3,999
Drainage	1,312	1,651	1,700	1,737
Airport	1,201	1,185	1,073	1,127
Golf course	333	-	-	-
Total business-type activities expenses	31,162	30,800	29,640	32,230
Total primary government expenses	90,747	102,330	156,884	119,890
Program Revenues				
Governmental Activities:				
Charges for services:				
General government	1,400	1,552	1,628	1,717
Public safety	3,133	3,338	2,595	2,310
Public works	21	37	30	50
Culture and recreation	407	166	8	2
Planning and community development	1,620	1,119	1,890	1,282
Transportation system	939	697	461	508
Operating grants and contributions:				
General government	-	-	489	3,336
Public safety	487	312	1,646	5,234
Public works	-	-	76,730	37,424
Culture and recreation	767	936	980	963
Planning and community development	2,021	2,244	1,653	5,069
Transportation system	2,455	3,136	3,034	6,749
Capital grants and contributions:				
General government	-	-	316	-
Public safety	-	5,086	-	-
Public works	-	10,752	-	25,298
Culture and recreation	9,557	8,656	2	23
Planning and community development	-	-	-	-
Transportation system	1,735	1,501	448	2,934
Total governmental activities program revenues	24,542	39,532	91,910	92,899
Business-Type Activities				
Charges for services:				
Waterworks	14,309	14,640	14,168	14,988
Sewer system	12,799	12,259	11,082	11,523
Sanitation	4,587	4,360	3,888	4,257
Drainage	2,800	2,691	2,418	2,567
Airport	1,071	960	783	1,312
Golf course	189	-	-	-
Capital grants and contributions:				
Airport	-	-	-	-
Capital grants and contributions:				
Waterworks	-	-	-	-
Sewer system	-	-	-	-
Drainage	-	-	-	-
Airport	6,065	1,925	2,253	11,964
Total business-type activities program revenues	41,820	36,835	34,592	46,611
Total primary government program revenues	66,362	76,367	126,502	139,510
Net (Expense) Revenue				
Governmental activities	(35,043)	(31,998)	(35,334)	5,239
Business-type activities	10,658	6,035	4,952	14,381
Total primary government net expense	\$ (24,385)	\$ (25,963)	\$ (30,382)	\$ 19,620

Fiscal Year					
2011	2012	2013	2014	2015	2016
\$ 7,413	\$ 5,164	\$ 6,874	\$ 7,864	\$ 8,284	\$ 9,882
27,056	26,919	28,075	29,542	32,840	31,839
23,631	6,925	6,847	6,504	6,570	6,383
8,820	9,672	9,082	11,300	12,240	18,416
31,723	12,942	11,972	5,246	8,799	4,733
4,649	24,150	8,164	6,804	8,424	6,013
2,555	4,909	1,716	2,160	1,896	2,660
<u>105,847</u>	<u>90,681</u>	<u>72,730</u>	<u>69,420</u>	<u>79,053</u>	<u>79,926</u>
15,519	14,001	13,990	15,402	17,416	15,255
11,058	10,991	11,669	11,505	5,078	5,756
4,108	4,176	4,382	4,781	2,537	2,949
1,750	1,959	1,873	2,356	12,444	14,141
1,496	1,468	1,499	1,579	1,709	1,774
-	-	-	-	-	-
<u>33,931</u>	<u>32,595</u>	<u>33,412</u>	<u>35,623</u>	<u>39,184</u>	<u>39,876</u>
<u>139,778</u>	<u>123,276</u>	<u>106,142</u>	<u>105,043</u>	<u>118,237</u>	<u>119,802</u>
1,841	2,159	1,884	1,873	1,977	1,725
3,030	2,554	2,417	2,246	2,113	2,378
318	-	-	-	-	-
1	2	2	-	-	42
1,441	1,379	1,402	1,845	2,002	1,714
650	840	1,575	1,875	1,365	1,681
176	-	-	-	52	14
537	181	249	254	279	2,613
281	-	-	-	-	-
734	116	139	180	103	1,885
25,706	31,006	11,119	9,067	1,958	4,881
3,015	2,771	2,789	3,559	3,472	3,506
-	-	-	-	2,396	-
-	-	-	-	619	-
10,247	1,718	71	13	2,323	32
3	-	-	-	36	-
12,398	23,385	27,313	24,112	23,824	21,705
1,392	3,525	3,858	799	5,424	3,897
<u>61,770</u>	<u>69,636</u>	<u>52,818</u>	<u>45,822</u>	<u>47,944</u>	<u>46,073</u>
16,132	16,834	17,482	17,510	16,215	20,759
12,108	12,365	12,968	13,015	5,291	6,037
4,247	4,655	5,088	5,617	2,277	2,464
2,507	2,517	2,564	2,584	11,540	14,524
804	1,186	1,236	1,230	1,594	1,151
-	-	-	-	-	-
-	-	-	-	69	43
-	501	-	-	-	-
-	1,127	-	-	-	-
-	330	-	-	46	-
2,700	2,413	26	999	896	1,972
<u>38,498</u>	<u>41,928</u>	<u>39,363</u>	<u>40,955</u>	<u>37,928</u>	<u>46,951</u>
<u>100,268</u>	<u>111,564</u>	<u>92,181</u>	<u>86,777</u>	<u>85,871</u>	<u>93,024</u>
(44,077)	(21,045)	(19,912)	(23,598)	(31,109)	(33,853)
4,567	9,333	5,951	5,332	(1,256)	7,075
<u>\$ (39,510)</u>	<u>\$ (11,712)</u>	<u>\$ (13,962)</u>	<u>\$ (18,266)</u>	<u>\$ (32,366)</u>	<u>\$ (26,778)</u>

CITY OF GALVESTON, TEXAS
CHANGES IN NET POSITION (continued)
Last Ten Fiscal Years
Amounts in (000's)
(Accrual Basis of Accounting)
(Unaudited)

	Fiscal Year			
	2007	2008	2009	2010
General Revenues and Other Changes in Net Position				
Governmental Activities:				
Taxes:				
Property taxes	\$ 16,333	\$ 18,640	\$ 19,718	\$ 18,270
Sales and use taxes	17,498	17,747	18,588	15,705
Hotel occupancy taxes	4,619	4,958	3,742	4,058
Franchise taxes	5,375	5,450	4,807	4,756
Payments in lieu of taxes	737	126	120	120
Unrestricted investment earnings	2,439	1,483	219	115
Miscellaneous	844	224	418	438
Loss of assets due to Hurricane Ike	-	(2,022)	-	-
Impairment of capital assets due to Hurricane Ike	-	(1,867)	1,112	-
Insurance proceeds	-	-	4,863	7,170
Transfers	1,690	600	562	695
Total governmental activities	49,535	45,339	54,149	51,327
Business-Type Activities:				
Net gain on sale of asset	2,454	1,805	877	169
Unrestricted investment earnings	52	136	28	106
Miscellaneous	-	-	-	-
Impairment of capital assets due to Hurricane Ike	-	(17,897)	-	(34)
Insurance proceeds	-	-	3,509	220
Transfers	(1,690)	(600)	(562)	(695)
Total business-type activities	816	(16,556)	3,852	(234)
Total primary government	50,351	28,783	58,001	51,093
Changes in Net Position:				
Governmental activities	14,492	13,341	18,815	56,566
Business-type activities	11,474	(10,521)	8,804	14,147
Total primary government	\$ 25,966	\$ 2,820	\$ 27,619	\$ 70,713

Fiscal Year						
2011	2012	2013	2014	2015	2016	
\$ 20,087	\$ 21,489	\$ 21,988	\$ 22,920	\$ 23,272	\$ 25,963	
16,589	17,712	18,638	19,978	20,588	20,956	
4,722	5,507	5,500	6,092	7,068	11,782	
5,009	5,073	5,043	5,267	5,245	5,386	
120	119	125	165	207	268	
89	122	179	120	299	492	
1,113	3,418	2,535	927	523	3,038	
-	-	-	-	-	-	
-	-	-	-	-	-	
-	-	-	-	7,111	-	
<u>(18,863)</u>	<u>(18,830)</u>	<u>(23,124)</u>	<u>(23,601)</u>	<u>(18,951)</u>	<u>(29,007)</u>	
<u>28,866</u>	<u>34,610</u>	<u>30,884</u>	<u>31,868</u>	<u>45,362</u>	<u>38,877</u>	
-	-	-	-	-	-	
155	132	153	54	179	154	
158	228	4,075	165	30	1	
-	-	-	-	-	-	
-	-	-	-	-	-	
<u>18,863</u>	<u>18,830</u>	<u>23,124</u>	<u>23,601</u>	<u>18,951</u>	<u>29,007</u>	
<u>19,176</u>	<u>19,190</u>	<u>27,352</u>	<u>23,821</u>	<u>19,160</u>	<u>29,162</u>	
<u>48,042</u>	<u>53,800</u>	<u>58,236</u>	<u>55,689</u>	<u>64,522</u>	<u>68,040</u>	
(15,211)	13,565	10,972	8,270	14,252	5,024	
<u>23,743</u>	<u>28,523</u>	<u>33,303</u>	<u>29,153</u>	<u>17,904</u>	<u>36,238</u>	
<u>\$ 8,532</u>	<u>\$ 42,088</u>	<u>\$ 44,274</u>	<u>\$ 37,423</u>	<u>\$ 32,156</u>	<u>\$ 41,262</u>	

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

	Fiscal Year			
	2007	2008	2009	2010
General fund				
Nonspendable:				
Inventories	\$ 8,255	\$ -	\$ -	\$ -
Prepaid items	190,081	86,688	100,407	101,738
Restricted:				
Debt service	-	-	-	-
Committed:				
Emergency reserves	2,425,226	2,625,226	2,825,226	3,025,226
Other	-	-	-	-
Assigned	-	-	-	-
Unassigned	11,227,881	11,421,882	13,751,737	8,580,214
Total General fund	<u>\$13,851,443</u>	<u>\$14,133,796</u>	<u>\$16,677,370</u>	<u>\$11,707,178</u>
 All other governmental funds				
Nonspendable:				
Inventories	\$ 311,042	\$ 363,026	\$ 363,212	\$ 193,611
Prepaid items	-	-	-	-
Restricted:				
Debt service	6,819,760	7,044,374	7,603,944	7,643,345
Beach preservation	-	-	-	-
Capital projects	16,204,348	14,130,090	14,662,428	16,854,667
Grants	-	-	-	-
Other	175,307	69,031	176,765	287,163
Convention Center Operator	-	-	-	-
City of Galveston	-	-	-	-
Committed:				
Other	1,512,171	1,492,648	1,552,638	2,680,920
Assigned	465,327	(127,495)	33,210,416	30,831,813
Unassigned	-	-	-	-
Total all other governmental funds	<u>\$25,487,955</u>	<u>\$22,971,674</u>	<u>\$57,569,403</u>	<u>\$58,491,519</u>

Note: In conforming to provisions of GASB Statement No. 54, fund balances of prior periods were restated to the new fund balance classifications.

Fiscal Year					
2011	2012	2013	2014	2015	2016
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
88,521	49,626	47,206	85,379	92,764	88,427
-	363,296	363,296	2,519,528	-	-
3,225,226	3,425,226	3,575,226	3,575,226	3,575,226	3,575,226
363,296	-	-	-	-	-
176,999	-	-	-	-	-
6,588,090	12,939,901	14,751,167	13,706,159	14,989,479	16,995,557
<u>\$ 10,442,132</u>	<u>\$ 16,778,049</u>	<u>\$ 18,736,895</u>	<u>\$ 19,886,292</u>	<u>\$ 18,657,469</u>	<u>\$ 20,659,210</u>
\$ 151,858	\$ 148,976	\$ 162,672	\$ 259,579	\$ 264,300	\$ 294,596
-	-	-	-	249,875	
8,447,339	12,515,705	12,749,073	6,634,959	5,139,884	4,254,333
-	4,921,580	968,854	3,228,192	864,030	1,056,745
29,207,678	15,276,707	21,195,867	20,634,660	26,858,694	21,549,478
-	8,782,571	8,775,316	10,143,558	10,128,787	1,833,048
-	-	-	-	-	-
-	-	-	3,821,514	4,066,682	520,419
-	-	-	2,815,873	3,375,562	4,154,602
2,145,641	1,834,852	1,353,703	1,633,932	7,517,189	12,933,623
-	-	-	-	-	-
(147,964)	(188,367)	(138,902)	(109,360)	(241,400)	(430,719)
<u>\$ 39,804,552</u>	<u>\$ 43,292,024</u>	<u>\$ 45,066,583</u>	<u>\$ 49,062,907</u>	<u>\$ 58,223,603</u>	<u>\$ 46,166,125</u>

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

	Fiscal Year			
	2007	2008	2009	2010
Revenues				
Taxes:				
Property taxes	\$ 16,200,093	\$ 18,647,994	\$ 19,530,352	\$ 18,284,008
Sales and use taxes	22,116,284	22,704,813	22,329,682	19,762,544
Franchise taxes	5,374,681	5,450,345	4,806,846	4,756,164
Licenses and permits	1,334,749	1,000,361	1,784,222	1,161,760
Fines and forfeitures	2,466,285	2,601,586	2,326,075	2,040,355
Charges for services	3,686,864	2,838,980	2,075,934	2,285,567
Investment earnings	2,234,647	1,378,287	414,544	103,811
Intergovernmental	6,893,575	16,654,859	83,977,409	68,424,863
Other	1,407,875	1,567,770	1,427,391	2,388,035
Payments in lieu of taxes	736,824	125,880	119,753	120,117
Total Revenues	62,451,877	72,970,875	138,792,208	119,327,224
Expenditures				
General government	5,044,120	5,482,693	5,934,113	7,642,352
Public safety	25,262,076	31,028,485	28,674,367	28,881,042
Highways and roads	3,356,179	9,479,789	66,170,885	17,007,107
Culture and recreation	6,826,276	7,816,000	8,800,651	6,697,503
Planning and community development	4,330,446	3,531,916	3,293,090	6,420,644
Transportation	4,892,519	5,022,723	4,418,959	4,941,417
Capital outlay	5,437,402	8,027,872	7,223,020	33,770,019
Debt Service:				
Principal	2,376,618	1,976,368	2,048,866	22,393,732
Interest and other charges	3,225,640	3,501,027	3,451,105	3,479,515
Total Expenditures	60,751,276	75,866,873	130,015,056	131,233,331
Excess of revenues over (under) expenditures	1,700,601	(2,895,998)	8,777,152	(11,906,107)
Other Financing Sources (Uses)				
Premiums on debt issued	-	-	-	-
Bonds issued	-	-	-	-
Payments to refunding bond escrow agent	-	-	-	-
Issuance of debt	767,043	-	-	-
Proceeds from loan	-	-	22,500,000	-
Sale of assets	258,495	61,239	21,898	(3,808)
Capital contributions	-	-	316,072	-
Transfers in	4,490,769	4,264,684	4,696,451	6,295,984
Transfers (out)	(3,914,885)	(3,663,853)	(4,080,005)	(5,601,169)
Total other financing sources (uses)	1,601,422	662,070	23,454,416	691,007
Extraordinary item - insurance proceeds from Hurricane Ike	-	-	4,909,735	7,170,024
Net change in fund balances	\$ 3,302,023	\$ (2,233,928)	\$ 37,141,303	\$ (4,045,076)
Debt service as a percentage of noncapital expenditures	10.1%	8.1%	4.5%	26.5%

Fiscal Year					
2011	2012	2013	2014	2015	2016
\$ 20,133,281	\$ 21,581,964	\$ 22,134,235	\$ 23,063,200	\$ 23,215,372	\$ 26,076,657
21,310,423	23,218,434	24,137,885	26,477,757	27,656,239	31,899,257
5,009,456	5,073,022	5,042,575	5,267,085	5,244,681	6,224,831
1,143,096	1,260,920	1,157,610	1,226,220	1,437,379	1,330,049
2,833,357	2,466,092	2,243,919	1,991,045	1,775,217	1,877,085
2,647,526	2,703,729	3,290,246	3,818,853	4,211,953	4,040,969
77,639	103,988	149,833	101,853	257,725	426,697
54,464,276	62,395,037	47,740,626	40,750,422	42,403,382	37,174,025
2,235,767	2,633,854	974,471	1,163,677	8,390,920	7,927,895
-	-	-	-	-	-
<u>109,854,821</u>	<u>121,437,040</u>	<u>106,871,400</u>	<u>103,860,112</u>	<u>114,592,868</u>	<u>116,977,465</u>
6,565,344	5,862,705	6,478,540	6,881,718	8,030,642	7,870,018
27,751,162	26,312,416	26,953,671	27,522,088	26,895,220	28,662,210
20,947,719	4,376,642	4,171,875	3,707,638	3,559,100	3,623,002
7,933,345	7,902,712	6,964,476	9,101,210	10,002,638	16,080,344
30,051,147	33,911,247	11,784,903	5,086,927	4,367,107	4,026,954
5,115,134	5,057,683	5,291,857	5,562,920	5,656,739	5,853,333
26,735,581	28,211,925	33,036,633	34,977,699	21,545,616	41,872,758
2,474,843	3,460,785	7,420,397	6,030,509	4,681,927	6,520,000
3,657,873	3,385,968	3,311,138	2,561,735	2,500,163	2,313,170
<u>131,232,148</u>	<u>118,482,083</u>	<u>105,413,490</u>	<u>101,432,444</u>	<u>87,239,152</u>	<u>116,821,789</u>
(21,377,327)	2,954,957	1,457,910	2,427,668	27,353,716	155,676
-	2,632,838	1,700,560	-	832,890	2,455,092
8,029,904	-	-	-	5,900,000	17,365,000
(7,810,944)	-	(42,296,436)	-	(6,583,192)	(21,102,803)
150,000	1,564,791	41,165,000	1,071,675	-	-
-	-	-	-	-	-
150,489	1,990,040	467,254	49,650	99,109	29,260
-	-	-	-	-	-
4,281,316	2,816,126	13,261,479	9,599,009	6,666,229	5,654,928
(3,378,451)	(2,135,363)	(12,022,362)	(8,002,281)	(26,336,878)	(5,034,951)
<u>1,422,314</u>	<u>6,868,432</u>	<u>2,275,495</u>	<u>2,718,053</u>	<u>(19,421,842)</u>	<u>(633,474)</u>
-	-	-	-	-	-
<u>\$ (19,955,013)</u>	<u>\$ 9,823,389</u>	<u>\$ 3,733,405</u>	<u>\$ 5,145,721</u>	<u>\$ 7,931,874</u>	<u>\$ (477,798)</u>
5.9%	7.6%	14.8%	12.9%	10.2%	10.0%

CITY OF GALVESTON, TEXAS**ASSESSED VALUE AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY***Last Ten Fiscal Years**(Unaudited)***Real Property**

Fiscal Year	Tax Year	Residential Property	Commercial Property	Personal Property	Less Tax Exempt Real Property
2007	2006	\$ 1,683,926,873	\$ 3,003,749,029	\$ 314,300,569	\$ 1,673,747,884
2008	2007	2,017,563,012	3,434,393,698	414,272,322	1,726,137,187
2009	2008	2,238,512,202	3,448,537,786	481,608,711	1,738,355,125
2010	2009	1,895,989,601	2,915,703,876	471,811,336	1,505,666,315
2011	2010	2,326,513,779	3,180,929,673	448,096,912	1,653,285,702
2012	2011	2,389,829,758	3,186,490,428	496,632,617	1,656,461,844
2013	2012	2,492,520,267	3,231,185,848	447,606,979	1,660,988,116
2014	2013	2,578,072,508	3,219,107,042	512,611,154	1,660,330,009
2015	2014	2,773,011,254	3,225,158,603	539,398,047	1,663,741,467
2016	2015	2,972,643,369	3,280,478,885	535,883,517	1,741,560,555

Source: Galveston Central Appraisal District

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

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

Total Taxable Assessed Value	Total Direct Tax Rate	Estimated Actual Taxable Value	Assessed Value as a Percentage of Actual Value
\$ 3,328,228,587	0.49400	\$ 5,001,976,471	66.54%
4,140,091,845	0.49400	6,183,802,150	66.95%
4,430,303,574	0.49400	6,518,843,089	67.96%
3,777,838,498	0.55400	5,602,592,850	67.43%
4,302,254,662	0.55400	6,273,760,599	68.58%
4,416,490,959	0.55400	6,420,552,045	68.79%
4,510,324,978	0.55400	6,508,502,012	69.30%
4,649,460,695	0.55400	6,672,920,667	69.68%
4,873,826,437	0.53389	6,936,435,152	70.26%
5,047,445,216	0.52901	7,166,530,940	70.43%

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

City Direct Rates

Fiscal Year	General	Library	Debt Service	Total Direct
2007	\$ 0.38340	\$ 0.05000	\$ 0.06060	\$ 0.49400
2008	0.38980	0.05000	0.05420	0.49400
2009	0.39310	0.05000	0.05090	0.49400
2010	0.44040	0.05000	0.06360	0.55400
2011	0.44640	0.05000	0.05760	0.55400
2012	0.45120	0.05000	0.05280	0.55400
2013	0.45320	0.05000	0.05080	0.55400
2014	0.45513	0.05000	0.04887	0.55400
2015	0.43658	0.05000	0.04731	0.53389
2016	0.43396	0.05000	0.04505	0.52901

Source: Galveston Central Appraisal District, 2015 Taxing Entities and Tax Rates

Overlapping Rates

Galveston Independent School District	Galveston College	Navigation District 1	Galveston County	Total Millage
\$ 1.52500	\$ 0.17000	\$ 0.03370	\$ 0.58740	\$ 2.81010
1.17500	0.17000	0.03300	0.56860	2.44060
1.16500	0.17000	0.03200	0.55860	2.41960
1.16500	0.19000	0.04800	0.61860	2.57560
1.16500	0.18950	0.04880	0.61980	2.57710
1.16500	0.18950	0.04660	0.61290	2.56800
1.16500	0.18940	0.04660	0.59990	2.55490
1.16500	0.18700	0.04662	0.58980	2.54242
1.15500	0.18700	0.04662	0.57884	2.50135
1.15500	0.17875	0.04529	0.56125	2.46930

CITY OF GALVESTON, TEXAS

PRINCIPAL PROPERTY TAXPAYERS

Current Year and Nine Years Ago

(Unaudited)

Taxpayer	Fiscal Year 2016			Fiscal Year 2007		
	Tax Year 2015		% of Total Assessed Valuation	Tax Year 2006		% of Total Assessed Valuation
	Taxable Assessed Value	Rank		Taxable Assessed Value	Rank	
CenterPoint Energy Inc	\$ 45,827,826	1	0.91%	\$ 39,945,820	1	0.80%
Fertitta Hospitality Inc	38,570,690	2	0.76%	28,246,100	3	0.56%
Willie G's Post Oak Inc	30,077,185	3	0.60%	-		
Noble Drilling Services Inc.	29,436,828	4	0.58%	-		
Eighteen Seventy Strand Corp	22,125,280	5	0.44%	20,649,660	5	0.41%
TFT Galveston Portfolio LTD	18,501,120	6	0.37%	-		
Silverleaf Resorts Inc	17,711,280	7	0.35%	-		
Galveston Island Water Park LP	17,293,370	8	0.34%	-		
Galveston Terminals Inc	15,019,290	9	0.30%	-		
AET Lighting Services LLC	14,297,132	10	0.28%			
Centex Homes	-			38,443,099	2	0.77%
Club Lodging LTD Partnership	-			23,578,451	4	0.47%
Southwestern Bell Telephone Co	-			16,261,670	6	0.33%
Evia Partners LTD	-			13,831,840	7	0.28%
American National Insurance Co	-			13,725,250	8	0.27%
Halliburton Energy Services, Inc.	-			13,277,700	9	0.27%
Harbor Properties	-			13,197,230	10	0.26%
	248,860,001		4.9%	221,156,820		4.4%
Other taxpayers	4,798,585,215		95.1%	4,780,819,651		95.6%
Total Assessed Valuation	\$ 5,047,445,216		100.0%	\$ 5,001,976,471		100.0%

Source - Galveston County Appraisal District

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

Fiscal Year	Tax Year	Tax Rate	Total Tax Levy for Fiscal Year	Collected Within the Fiscal Year of the Levy		Collections (Refunds) in Subsequent Years	Total Collections to Date	
				Amount	Percent of Levy	Amount	Amount	Percent of Levy
2007	2006	\$ 0.49400	\$ 16,373,557	\$ 15,524,973	94.8%	\$ 392,080	\$ 15,917,053	97.2%
2008	2007	0.49400	18,845,581	17,848,399	94.7%	482,864	18,331,263	97.3%
2009	2008	0.49400	19,933,324	18,814,521	94.4%	383,514	19,198,035	96.3%
2010	2009	0.55400	18,549,699	17,435,131	94.0%	525,369	17,960,500	96.8%
2011	2010	0.55400	20,259,666	19,157,461	94.6%	628,686	19,786,147	97.7%
2012	2011	0.55400	21,237,761	20,665,231	97.3%	534,159	21,199,390	99.8%
2013	2012	0.55400	21,871,371	21,295,639	97.4%	513,930	21,809,569	99.7%
2014	2013	0.55400	22,575,966	22,198,509	98.3%	384,119	22,582,628	100.0%
2015	2014	0.53389	22,892,129	22,463,530	98.1%	414,562	22,878,092	99.9%
2016	2015	0.52901	25,901,327	25,406,740	98.1%	437,410	25,844,150	99.8%

Source: Tax department records of the City. Tax levy based on the certified roll received from GCAD.

CITY OF GALVESTON, TEXAS**RATIOS OF OUTSTANDING DEBT BY TYPE***Last Ten Fiscal Years**Amounts in (000's) except per capita amounts**(Unaudited)*

Governmental Activities					
Fiscal Year	General Obligation Bonds	Special Obligation Bonds	Capital Leases	Certificates of Obligation	Other**
2007	\$ 22,898	\$ 36,985	\$ 756	\$ 19,324	\$ 19,363
2008	21,967	35,535	748	22,905	19,508
2009	20,963	34,010	880	22,772	24,111
2010	19,834	32,835	606	22,691	2,601
2011	18,478	31,595	212	22,605	2,516
2012	21,702	30,290	1,654	22,516	2,854
2013	18,569	26,690	1,291	19,572	3,029
2014	18,950	25,960	882	16,900	2,714
2015	16,907	25,200	-	14,153	3,039
2016	30,560	24,390	-	9,789	5,016

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

*See the Schedule of Demographic and Economic Statistics for personal income and population data.

** Other debt consists of contracts, notes payable and issuance discount/premiums.

Business-Type Activities

Revenue Bonds	Capital Leases	Certificates of Obligation	Other**	Total Primary Government	Percentage of Personal Income*	Percentage of Actual Taxable value of Property	Per Capita*
\$ 47,100	\$ 404	\$ 630	\$ 48,941	\$ 196,401	19%	3.9%	\$ 3,367
45,420	1,278	16,849	46,085	210,295	20%	3.4%	3,553
43,670	921	16,146	51,361	214,834	24%	3.3%	4,270
41,765	649	15,668	49,484	186,133	19%	3.3%	3,301
39,800	397	15,174	43,593	174,369	15%	2.8%	3,652
37,955	135	14,658	40,651	172,415	15%	2.7%	3,559
35,755	-	14,116	30,767	149,791	13%	2.3%	3,136
33,525	-	13,674	26,820	139,425	11%	2.1%	2,861
28,810	-	13,210	25,674	126,994	10%	1.8%	2,560
23,515	-	-	21,576	114,846	9%	1.6%	2,289

CITY OF GALVESTON, TEXAS

RATIOS OF GENERAL BONDED DEBT OUTSTANDING

Last Ten Fiscal Years

Amounts in (000's) except per capita amounts

(Unaudited)

Fiscal Year	Tax Year	General Obligation Bonds	Less: Amounts Available in Debt Service Fund	Total	Percentage of Estimated Actual Taxable Value* of Property	Per Capita**
2007	2006	\$ 22,898	\$ 3,739	\$ 19,159	0.38%	\$ 328
2008	2007	21,967	3,955	18,012	0.29%	304
2009	2008	20,963	4,505	16,458	0.25%	327
2010	2009	19,834	4,557	15,277	0.27%	271
2011	2010	18,478	4,611	13,867	0.22%	290
2012	2011	21,702	3,766	17,936	0.28%	370
2013	2012	18,569	4,039	14,530	0.22%	304
2014	2013	18,950	4,403	14,547	0.22%	299
2015	2014	16,907	3,238	13,668	0.20%	276
2016	2015	30,560	4,254	26,306	0.37%	524

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

* See the Schedule of Assessed Value and Estimated Actual Value of Taxable Property for property value data.

** Population data can be found in the Schedule of Demographic and Economic Statistics.

CITY OF GALVESTON, TEXAS
DIRECT AND ESTIMATED OVERLAPPING
GOVERNMENTAL ACTIVITIES DEBT
September 30, 2016
(Unaudited)

<u>Taxing Jurisdiction</u>	<u>Gross Debt</u>	<u>Overlapping</u>	
		<u>Estimated Percentage *</u>	<u>Amount</u>
Galveston Independent School District (1)	\$ 51,379,998	93.77%	\$ 48,178,928
Galveston County (2)	270,900,000	19.16%	51,911,320
Total Overlapping Debt			100,090,248
City Direct Debt			<u>69,755,287</u>
Total Direct and Overlapping Debt			<u>\$ 169,845,535</u>
Ratio of Direct and Overlapping Funded Debt to 2016 Taxable Assessed Valuation			<u>3.36%</u>
Per Capita Debt - Direct and Overlapping			<u>\$ 3,385</u>

Sources:

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

Notes:

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

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

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

Fiscal Year	Estimated Population ¹	Personal Income (\$000's)	Per Capita Personal Income ¹	Median Age ¹	Educational Level in Years of Formal Schooling ¹	School Enrollment ²
2007	58,329	\$ 1,036,448	\$ 17,769	35.5	12.0	8400
2008	59,186	1,051,676	17,769	35.5	12.0	6876
2009	50,308	893,923	17,769	35.5	12.0	6047
2010	56,391	1,002,012	17,769	38.8	12.0	6400
2011	47,743	1,125,828	23,581	38.8	12.0	6400
2012	48,444	1,142,358	23,581	38.8	12.0	6450
2013	47,762	1,185,548	24,822	38.8	12.0	6450
2014	48,733	1,287,039	26,410	38.8	12.0	6800
2015	49,608	1,297,944	26,164	37.3	12.0	6813
2016	50,180	1,338,050	26,665	36.3	12.0	6976

Data Sources:

- 1 - United States Census Bureau
- 2 - Galveston Independent School District
- 3 - United States Census Bureau and Texas Workforce Commission
- 4 - City of Galveston

Note: Personal income information is a total for the year. Unemployment rate information is an adjusted yearly average.

Unemployment Rate³	Value of Building Permits Issued (millions) ⁴
4.9%	N/A
5.6%	\$ 298
7.7%	166
8.4%	125
8.9%	109
7.6%	109
7.7%	227
5.6%	173
6.3%	171
4.8%	161

CITY OF GALVESTON, TEXAS

PRINCIPAL EMPLOYERS

Current Year and Nine Years Ago

(Unaudited)

Employer	2016			2007		
	Employees	Rank	Percentage of Total City Employment (A)	Employees	Rank	Percentage of Total City Employment (A)
University of Texas Medical Branch	9,000	1	39.38%	12,408	1	47.00%
American National Insurance Company	1,600	2	7.00%	1,476	2	5.59%
Galveston Independent School District	1,361	3	5.96%	1,221	4	4.63%
Landry's Restaurants	1,300	4	5.69%	1,245	3	4.72%
Moody Gardens	922	5	4.03%	840	6	3.18%
City of Galveston	700	6	3.06%	820	7	3.11%
Fertitta Hospitality	566	7	2.48%	687	8	2.60%
Galveston College	543	8	2.38%	-	-	0.00%
Galveston County (on Island only)	460	9	2.01%	979	5	3.71%
Texas A&M University at Galveston	397	10	1.74%	402	9	1.52%
U.S. Army Corps of Engineers	390	11	1.71%	312	10	1.18%
	<u>17,239</u>		<u>76.34%</u>	<u>20,390</u>		<u>77.23%</u>

Source: Galveston Economic Development Partnership and Texas Workforce Commission.

<http://www.galvestonistx.com/business/economic/profiles.htm>

CITY OF GALVESTON, TEXAS

FULL-TIME EQUIVALENT CITY GOVERNMENT EMPLOYEES BY FUNCTION

Last Ten Fiscal Years

(Unaudited)

Function	Fiscal Year									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
General government:										
City Secretary	3	3	4	3	3	3	3	3	3	4
Municipal Court	13	13	9	9	10	10	10	9	9	9
City Manager	4	4	4	3	5	5	4	4	4	6
City Auditor	-	1	1	-	1	1	2	2	2	2
Finance	17	16	20	18	13	13	14	15	16	19
Legal	5	5	5	5	5	5	6	6	6	6
Human Resources	3	4	4	5	4	3	3	3	3	4
Public Safety:										
Police	220	205	192	197	131	177	177	188	185	185
Fire	131	131	119	124	115	115	115	115	115	118
Emergency Management	1	1	2	1	1	1	2	2	2	2
City Marshal	-	-	-	-	-	-	-	-	-	0.5
Public Works:										
Streets and Traffic	50	51	44	45	31	31	36	42	42	46
Parks	34	38	44	39	34	34	33	34	34	36
Planning and Community Development	23	35	42	54	23	24	24	23	23	25
Waterworks	38	34	36	39	32	32	35	37	41	40
Sewer System	74	69	55	65	69	69	80	81	84	87
Drainage Utility	22	16	16	7	23	23	26	35	35	34
Municipal Golf Course	12	-	-	-	-	-	-	-	-	-
Sanitation	55	43	39	39	45	45	45	48	48	58
Municipal Airport	9	9	8	8	8	8	8	8	8	8
Central Service	10	12	9	10	12	12	13	14	15	16
Central Garage	23	22	20	19	22	22	22	22	22	24
Municipal Insurance	2	2	2	-	2	2	2	2	2	2
Construction Management	6	7	7	6	5	5	5	5	5	6
Island Transit	65	59	48	52	52	52	52	52	52	58
Total	820	780	730	748	646	692	717	750	756	793

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

Function	2007	2008	2009	2010
Police:				
Physical arrests	14,245	10,889	7,154	7,043
Parking violations	38,822	18,600	5,733	4,391
Traffic violations	21,084	32,804	31,072	25,499
Fire:				
Calls	7,751	7,852	7,024	6,382
Inspections	2,276	2,099	1,913	2,123
Water:				
Service connections	25,747	22,688	25,083	26,305
Average daily consumption (gallons)	16,696,885	16,458,298	15,399,203	16,013,795
Sewer:				
Average daily flow (gallons)	10,877,000	8,161,875	8,175,912	8,529,000
Maximum daily capacity of plants (gallons)	14,500,000	14,580,000	14,580,000	14,580,000

Source: Various City Departments.

Fiscal Year					
2011	2012	2013	2014	2015	2016
6,593	7,065	7,597	6,039	6,356	6,178
11,951	27,680	9,267	25,556	12,320	15,406
40,676	15,328	28,765	22,148	20,243	20,915
8,645	6,681	6,311	7,020	7,172	7,700
735	1,324	407	1,678	1,693	2,750
23,966	21,323	20,595	23,294	19,938	21,623
16,143,437	14,480,142	14,570,688	14,557,447	14,509,978	14,170,071
6,694,692	7,108,791	7,854,000	7,136,000	8,826,700	9,302,558
14,580,000	14,580,000	14,500,000	17,713,000	14,550,000	14,550,000

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

Function	2007	2008	2009	2010
Police:				
Stations	3	1	1	3
Patrol Units	63	60	63	51
Police officers	162	158	152	158
Fire:				
Stations	6	6	6	6
Fire fighters	131	120	120	112
Highways and streets:				
Streets (miles)	321	321	321	321
Street lights	4,199	4,212	4,236	4,257
Culture and recreation:				
Parks acreage	277	128	50	50
Parks	16	10	14	14
Tennis courts	15	19	15	15
Community centers	1	2	2	2
Cemeteries	7	6	5	5
Athletic fields	28	20	22	22
Municipal golf course	1	-	-	-
Water:				
Water mains (miles)	333	380	385	386
Fire hydrants	2,350	2,368	2,410	2,414
Maximum daily capacity (thousands of gallons)	33,000,000	33,000,000	33,000,000	33,000,000
Sewer:				
Treatment plants	4	5	4	4
Sanitary sewers (miles)	182	238	238	243
Storm sewers (miles)	75	75	75	75
Maximum daily treatment capacity (thousands of gallons)	14,500,000	14,580,000	14,580,000	8,529,000

Source: Various City Departments.

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

Fiscal Year					
2011	2012	2013	2014	2015	2016
4	1	2	1	1	1
67	55	60	74	78	65
131	139	143	143	140	136
6	6	6	6	6	6
115	108	115	109	109	112
321	321	321	321	321	324
4,444	4,365	4,377	4,411	4,417	4,405
50	50	168	168	168	168
14	14	14	14	14	13
16	16	16	16	16	16
2	2	2	2	2	2
2	2	7	7	7	6
11	11	12	12	12	11
-	-	-	-	-	-
388	389	389	389	389	391
2,422	2,422	2,422	2,552	2,555	2,555
33,000,000	37,150,000	39,700,000	39,700,000	36,500,000	21,500,000
4	4	4	4	4	4
243	243	243	243	243	244
75	75	75	75	75	75
14,580,000	14,580,000	14,250,000	14,250,000	14,750,000	14,874,000

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