



Annual Financial Report

**Fiscal Years Ended
August 31, 2006 and 2005**

a beacon of light guiding lifelong learning

GALVESTON COMMUNITY COLLEGE DISTRICT

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GALVESTON COMMUNITY COLLEGE DISTRICT

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GALVESTON COMMUNITY COLLEGE DISTRICT

Organizational Data
Year Ended August 31, 2006

Board of Regents

Officers

		Term Expires <u>May 31,</u>
Mr. Carl E. Kelly - Chairman	Galveston, Texas	2010
Mr. George Black - Secretary	Galveston, Texas	2010

Members

Ms. Barbara K. Crews	Galveston, Texas	2012
Mr. Paul J. Cunningham, M.D.	Galveston, Texas	2008
Mr. Florentino Gonzales	Galveston, Texas	2012
Ms. Phyllis H. Moore	Galveston, Texas	2008
Mr. F. A. ("Andy") Odom	Galveston, Texas	2010
Mr. Gregory R. Roof, Ph.D.	Galveston, Texas	2012
Mr. Carroll G. Sunseri	Galveston, Texas	2008

Key Officers

Dr. Elva Concha Le Blanc, Ph.D.	President
Dr. Gaynelle Hayes, Ed.D.	Vice-President of Administration
Dr. Phyllis Mingus-Pepin, Ph.D; Ed.D	Vice-President of Academic Affairs

INDEPENDENT AUDITORS' REPORT

Board of Regents
Galveston Community College District:

We have audited the accompanying basic financial statements of Galveston Community College District (the College) as of and for the years ended August 31, 2006 and 2005, as listed in the table of contents. These basic financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these basic financial statements based on our audits.

We did not audit the financial statements of the Galveston College Foundation, a discretely presented component unit, as of and for the year ended December 31, 2005. These statements were audited by other auditors whose report dated May 18, 2006 has been furnished to us, and our opinion, in so far as it relates to the amounts included for the College is based solely on the report of the other auditors.

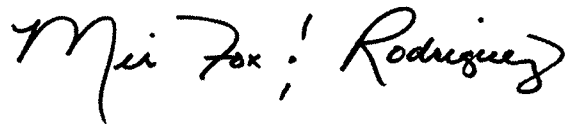
We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the College as of August 31, 2006 and 2005, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 25, 2006 on our consideration of the College's internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis as listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This information is the responsibility of the College's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our 2006 audit was performed for the purpose of forming an opinion on the 2006 basic financial statements of the College, taken as a whole. The supplemental schedules (schedule A through D) and statistical information are presented for purposes of additional analysis and are not a required part of the basic financial statements. Supplemental schedules A through D have been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the 2006 basic financial statements taken as a whole. The statistical information has not been subjected to the auditing procedures applied in the audit of the 2006 basic financial statements and, accordingly, we express no opinion on them. The accompanying schedule of expenditures of Federal awards (Schedule E) as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations* is presented for purposes of additional analysis and is not a part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the 2006 basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the 2006 basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Mui Fox ; Rodriguez". The signature is written in a cursive style with a semicolon between "Fox" and "Rodriguez".

October 25, 2006

Management's Discussion and Analysis (Unaudited)

This section of the Galveston Community College District's (the College) Annual Financial Report presents management's discussion and analysis of the College's financial activity during the fiscal years ended August 31, 2006 and 2005. Since management's discussion and analysis is designed to focus on current activities, and currently known facts, please read this in conjunction with the College's basic financial statements and the notes thereto. Responsibility for the completeness and fairness of this information rests with the management of the College.

Financial Highlights for 2006

- The College's net assets at August 31, 2006 are reported at \$13.6. This represents a 17% increase from prior year. The majority of the increase was attributable to an increase in State appropriations and property taxes.
- The College's net assets increased \$2 million for fiscal year 2006.
- The College reduced its annual tax rate from .1952 to .1918, without losing any tax revenue.
- A new 58-space parking lot was constructed at 39th Street & Avenue Q-½.
- Construction on Beacon Square, the new "front-door" to the College, began in Summer 2006 and will be completed Fall 2006. The project includes the cupola from the South Jetty Lighthouse which represents the College's vision "A Beacon of Light Guiding Lifelong Learning."
- Renovations of underutilized space in room N-119 to create a Student Success Center began in Summer 2006 and will be completed in Fall 2006. The new Center provides students access to computer work stations with an emphasis on one-on-one as well as group tutoring and testing areas. A significant portion of these costs were covered by Title V Grant funds.
- The College purchased new equipment for the Fitness Center and purchased two additional defibrillators (AED's). AED training was provided to all Fitness Center/Athletics staff and Security/Maintenance personnel.

Financial Highlights for 2005

- The College's net assets at August 31, 2005 are reported at \$11.6 million. This represents a 21% increase from prior year. The majority of the increase is due to a 6% increase in property tax revenues and a 3% decrease in expenses.
- The College's net assets increased \$2 million for fiscal year 2005.
- Renovations totaling \$1.2 million were made to transform two areas of the campus. The David Glenn Hunt Memorial Library was transformed into a Learning Resource Center featuring a cyber café, group study rooms, tutoring, testing and assessment, audio, and print media. Space on the second floor was converted for use by the Health Sciences Programs. The new area includes new office space, classrooms, and laboratories.

Overview of Financial Statements

The College qualifies as a special purpose government engaged in business-type activities and the basic financial statements are prepared on that basis. The basic financial statements include a statement of net assets, a statement of revenues, expenses and changes in net assets, a statement of cash flows and notes to the basic financial statements.

The statement of net assets' focus is to report the total net resources available to finance future services. This statement presents all of the College's assets and liabilities, and net assets as of the end of the fiscal year. The statement is prepared on the accrual basis of accounting, in which revenues and assets are recognized when earned, and expenses and liabilities are recognized when incurred regardless of when cash is received or paid. The difference between total assets and total liabilities is net assets, and increases and decreases to net assets is one indicator of whether the overall financial condition has improved or deteriorated during the year when considered with other factors such as enrollment, contact hours of instruction, student retention and other non-financial information. The statement of net assets is useful in determining the assets available to continue operations as well as how much the College owes to vendors, bondholders, and other entities at the end of the year.

The statement of revenues, expenses, and changes in net assets focuses on the “bottom line results” of the College’s operations. This approach summarizes and simplifies the user’s analysis of the cost of various College services to its students and the burden to the public. The statement is divided into operating revenues and expenses and nonoperating revenues and expenses. The College (like all other community colleges) is primarily dependent upon three sources of revenue: State appropriations, tuition and fees, and local property taxes. Since the Governmental Accounting Standards Board (GASB) requires State appropriations and property taxes to be classified as nonoperating revenues, community colleges will generally display an operating deficit before taking into account other support. Essentially, this deficit represents the net costs of services to students that must be covered by local taxpayer support, the State and other sources of revenue.

The statement of cash flows reports the cash receipts and cash payments that occurred during the fiscal year. This statement helps users assess: 1) the entity’s ability to generate future cash flows; 2) its ability to meet its obligations as they come due; and 3) its needs for external financing. The statement of cash flows presents information relative to cash inflows and outflows summarized by operating, financing, and investing activities.

The notes to the basic financial statements provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the College’s accounting policies, significant account balances and activities, and contingencies.

Under GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units – An Amendment of GASB Statement No. 14.*, the Galveston College Foundation is considered a component unit of the College and is discretely presented in the College’s financial statements. Complete financial statements of Galveston College Foundation can be obtained from their office.

Financial Analysis - Statement of Net Assets

The following chart summarizes the College’s assets, liabilities and net assets for the years ended August 31:

	Net Assets (in thousands)				
	<u>2006</u>	<u>2005</u>	Increase (Decrease) 2006 - <u>2005</u>	<u>2004</u>	Increase (Decrease) 2005 - <u>2004</u>
Assets:					
Current assets	\$ 7,200	5,876	1,324	8,179	(2,303)
Noncurrent assets:					
Capital assets, net of depreciation	9,920	9,722	198	9,032	690
Other	<u>3,962</u>	<u>3,908</u>	<u>54</u>	<u>783</u>	<u>3,125</u>
Total assets	\$ <u>21,082</u>	<u>19,506</u>	<u>1,576</u>	<u>17,994</u>	<u>(1,512)</u>
Liabilities:					
Current liabilities	2,237	2,083	154	2,049	34
Noncurrent liabilities	<u>5,198</u>	<u>5,760</u>	<u>(562)</u>	<u>6,294</u>	<u>(534)</u>
Total liabilities	\$ <u>7,435</u>	<u>7,843</u>	<u>(408)</u>	<u>8,343</u>	<u>(500)</u>
Net assets:					
Invested in capital assets, net of related debt	4,390	3,652	738	2,437	1,215
Restricted for expendable	1,110	1,109	3	1,076	33
Unrestricted	<u>8,147</u>	<u>6,902</u>	<u>1,245</u>	<u>6,138</u>	<u>764</u>
Total net assets	\$ <u>13,647</u>	<u>11,663</u>	<u>1,984</u>	<u>9,651</u>	<u>2,012</u>

Fiscal Year 2006 Compared to 2005

Current assets consist mainly of cash, investments in TexPool and Lone Star, and receivables. The increase in current assets of approximately \$1.3 million is due to the increase in receivables due from Federal grants of \$212,000 and an increase in short term investments as a direct result of the increase in net assets. At August 31, 2006, the College held short term investments totaling \$4.8 million. Noncurrent assets consist of capital assets and investments in U.S. securities. During 2006, the College completed construction on a much needed parking lot totaling approximately \$190,000 and completed approximately \$340,000 of design and site development for Beacon Square. (See page 14 for more discussion on the change in capital assets.) At August 31, 2006, the College's long term investments consisted of \$3 million of Federal Home Mortgage Corporation Notes, which mature in 2007.

Current liabilities increased \$154,000 due to an increase in deferred grant revenue of \$85,000 and an increase in accounts payables to vendors of \$73,000. The College is a recipient of various local grants. These funds are received in late July or early August as the donors have a June year end and will be spent in the 2007 fiscal year. Increase in accounts payable to vendors is mainly due to the timing of payments at year end. Noncurrent liabilities decreased \$562,000 as a result of continuing scheduled payments on outstanding bonds.

In 2004, the Galveston College Foundation transferred funds to the College for their athletic programs. In 2006, the Board approved transferring these funds back to the Foundation. Accordingly, the College transferred \$16,529 of auxiliary funds net assets back to the Foundation to support the College's athletic programs. The increase in net assets before the transfer was \$2 million, mainly due to the increase in property taxes. The College collected approximately \$790,000 more in property taxes (12% increase) in 2006.

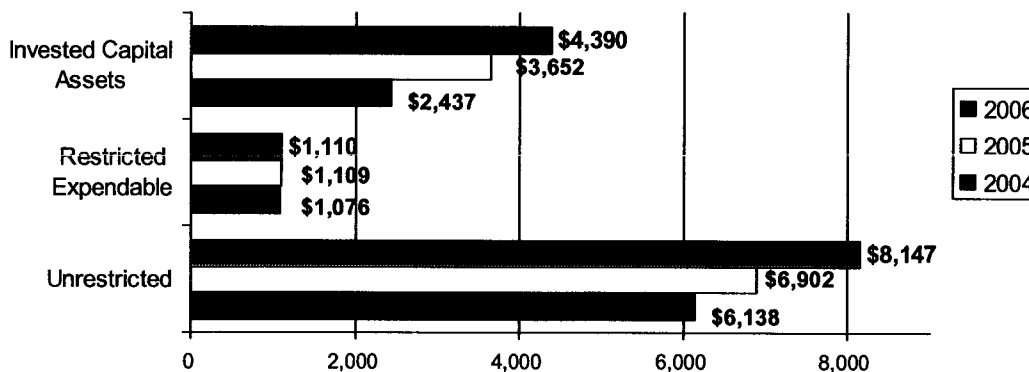
Fiscal Year 2005 Compared to 2004

Current assets decreased approximately \$2 million due to the College increasing its long term investments at the end of the year as interest rates continued to rise. At August 31, 2005, the College held \$3 million of Federal Home Loan Mortgage Corporation Notes, which mature in 2007. At August 31, 2004, the College held short term investments of \$4 million. (See page 14 for the discussion of the change in capital assets.)

Accounts payable and accrued liabilities decreased approximately \$43,000 as payments were made to vendors for goods and services by the end of the year. The \$54,000 increase in deferred revenue is due to approximately \$120,000 of grant funds received in late August 2005 for the 2005/2006 fiscal year and a decrease in deferred tuition of approximately \$68,000. There was a 5% decrease in enrollment for the 2005 fall semester. The change in noncurrent liabilities is the bond principal payment of \$525,000.

The College's financial position improved in fiscal year 2005 by approximately \$2 million primarily due to an increase in property tax revenue of approximately \$360,000 and a decrease in operating expenses of \$330,000. Unrestricted net assets are not subjected to externally imposed stipulations; however, the College has designated \$1,510,408 of unrestricted net assets for various projects.

The following is a graphic illustration of the breakdown of net assets (in thousands) for the years ended August 31, 2004 through 2006.



Financial Analysis - Statement of Revenues, Expenses and Change in Net Assets

The following chart summarizes the College's operating results for the years ended August 31:

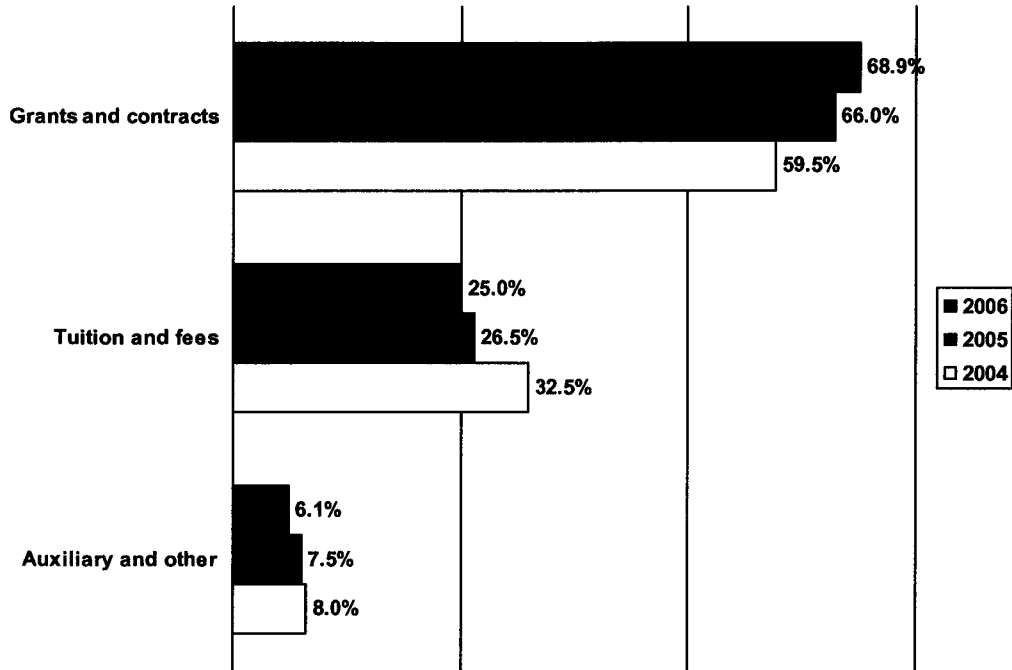
Operating Results (in thousands)

	<u>2006</u>	<u>2005</u>	Increase (Decrease) 2006 - <u>2005</u>	<u>2004</u>	Increase (Decrease) 2005 - <u>2004</u>
Operating revenues:					
Tuition and fees, net of scholarship allowance	\$ 1,276	1,425	(149)	1,723	(298)
Grants and contracts	3,510	3,563	(53)	3,159	404
Auxiliary enterprises, net	114	146	(32)	129	17
Other operating revenues	<u>197</u>	<u>260</u>	<u>(63)</u>	<u>297</u>	<u>(37)</u>
Total operating revenues	5,097	5,394	(297)	5,308	86
Less operating expenses	<u>16,579</u>	<u>15,602</u>	<u>977</u>	<u>15,932</u>	<u>(330)</u>
Operating loss	<u>(11,482)</u>	<u>(10,208)</u>	<u>(1,274)</u>	<u>(10,624)</u>	<u>416</u>
Nonoperating revenues (expenses)					
State appropriations	5,895	5,725	260	5,790	(65)
Property taxes	7,345	6,555	790	6,196	359
Investment and other income	334	134	200	33	101
Interest on capital related debt	<u>(182)</u>	<u>(194)</u>	<u>12</u>	<u>(252)</u>	<u>58</u>
Total nonoperating revenues, net	<u>13,482</u>	<u>12,220</u>	<u>1,262</u>	<u>11,767</u>	<u>453</u>
Increase in net assets	\$ <u>2,000</u>	<u>2,012</u>	<u>(12)</u>	<u>1,143</u>	<u>869</u>

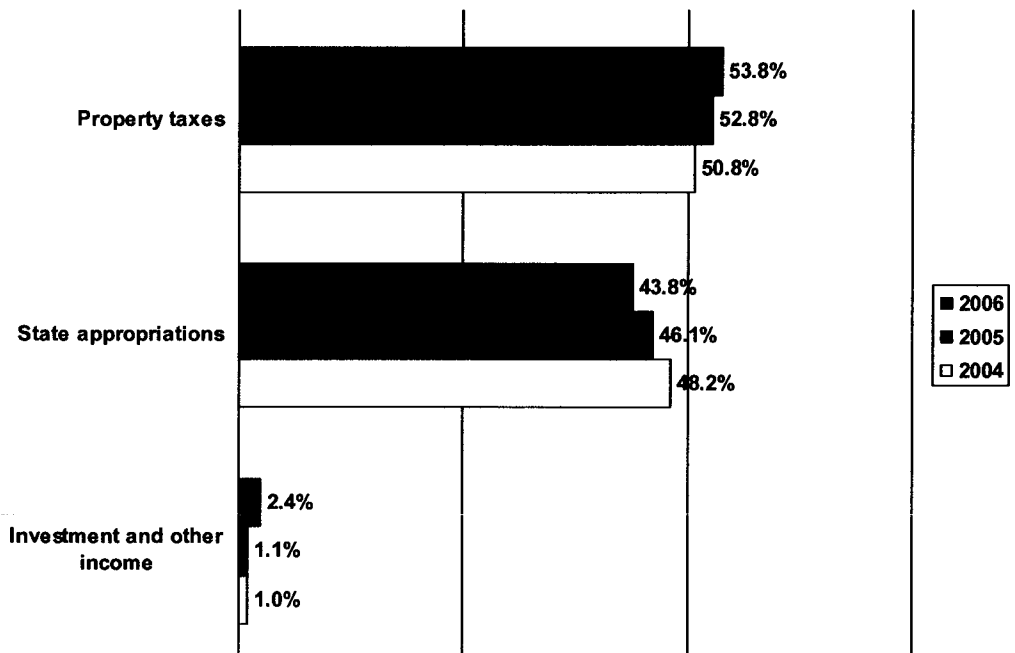
The following are graphic illustrations of revenues by source for the years ended August 31, 2004 through 2006.

Revenue by Source

Operating Revenue



Nonoperating Revenues



Fiscal Year 2006 Compared to 2005

Over the years, the proportions of revenues have generally remained constant. The College's operating revenues of \$5,097,000 are derived mainly from tuition and fees, and Federal grants and contracts. Tuition revenue is reported net of allowance for student financial aid and other State and local grants and scholarships. In 2006, while total tuition before allowance for scholarships and discounts decreased 16%, student fees increased 18%. Enrollment was down approximately 6%. The new \$37 per student general use fee brought in approximately \$210,000 of additional revenue. Grants and contracts provide over 60% of operating revenues over the past two years. The slight increase in grant and contract revenue in 2006, is due to funds received from the Department of Education Title V grant.

Over the last few years, property taxes have become the primary source of the College revenue. Even with the reduction in tax rate in 2006 from .1952 to .1918, property tax revenue increased \$790,000 or 12%. For the 2006 year, the College experienced a \$432 million or 13% increase in net assessed valuation. The College received \$184,000 more from the State for group health insurance. Investment income also increased as interest rates earned on investments were 5% at August 31, 2006, versus 3% at the end of 2005.

Fiscal Year 2005 Compared to 2004

Gross tuition increased over 10%. However, there was less than a 1% increase in credit hours in 2005. For students who receive financial aid, tuition is discounted. As more students qualify for financial aid, the discount amount increases. Approximately 400 more students received financial aid in 2005 and accordingly, the scholarship allowance increased approximately \$600,000.

The \$300,000 increase in grants and contracts was attributable to increase in Pell awards. The College also received several private grants including one grant for \$30,000 to fund a Hall Professor in Nursing and Allied Sciences.

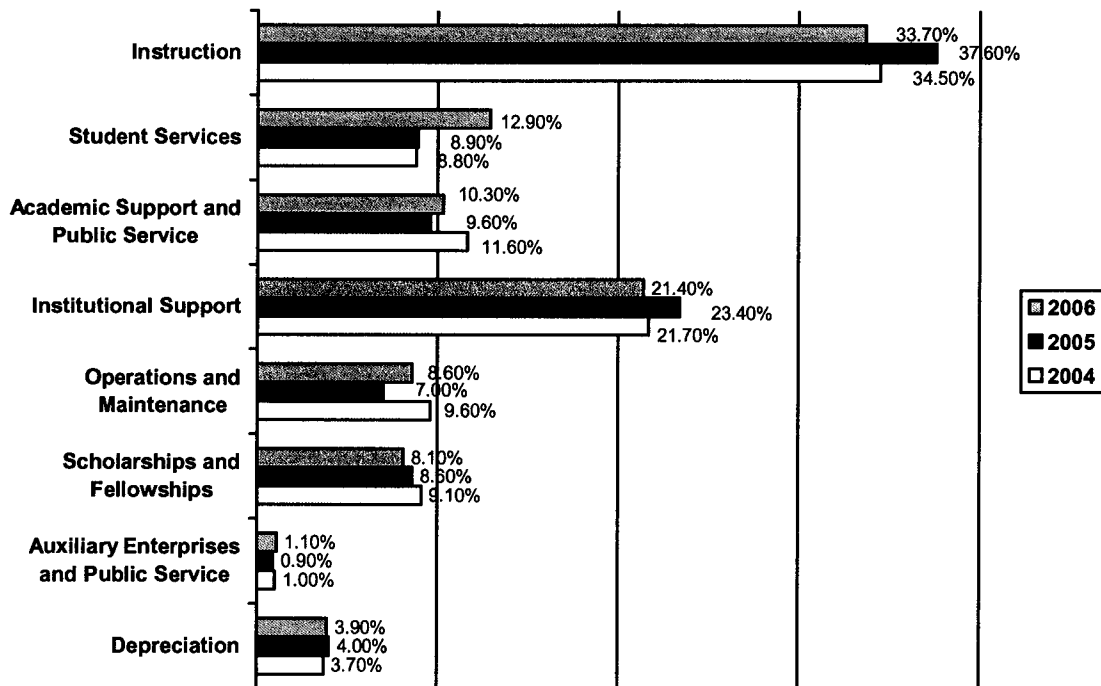
The slight decrease in State appropriations is due to a decrease in the amount of the State retirement match. Property taxes increased \$360,000 or 6% over 2004. This increase continues to be due to the increases in assessed valuation. For the 2005 year, the College experienced a \$200 million or 6% increase in net assessed valuation. Investment income increased approximately \$50,000 as interest rates increased throughout the year. The College's cash deposits and investments started the year earning a little over 1% interest and ended the year earning over 3%.

Below is a schedule and a graphic illustration of operating expenses for the years ended August 31:

**Operating Expenses
(in thousands)**

	2006	2005	Increase (Decrease) 2006-2005	2004	Increase (Decrease) 2005-2004
Operating expenses:					
Instruction	\$ 5,593	5,863	(270)	5,499	364
Public service	52	25	27	149	(124)
Academic support	1,663	1,468	195	1,702	(234)
Student services	2,142	1,393	749	1,401	(8)
Institutional support	3,551	3,647	(96)	3,454	193
Operation and maintenance of plant	1,422	1,099	323	1,534	(435)
Scholarships and fellowships	1,348	1,343	5	1,447	(104)
Auxiliary enterprises	165	141	24	158	(17)
Depreciation	643	623	20	588	35
Total	\$ 16,579	15,602	977	15,932	(330)

Operating Expenses



Fiscal Year 2006 Compared to 2005

Operating expenses for fiscal year 2006 increased \$977,000 or 6%. Compared to fiscal year 2005, salaries and wages increased 6% to \$85 million, while benefits increased 13% and other expenses decreased 7%. The most significant year to year expense changes were in instruction, student services and operation and maintenance. Besides changes in salaries and benefits, other reasons for changes in expenses are as follows.

The College spent \$149,000 of Title V funds to develop programs to increase student successes. The College was awarded various local grants at the end of fiscal year 2005 which were spent for the benefit of students; accordingly, in September 2005, the College provided \$150 to over 300 students to help them evacuate from Hurricane Rita. These funds were provided by the Dreamkeepers. Utility costs were expected to increase due to rising rates. Utility costs increased approximately \$100,000 or 24% in 2006. To save on electric costs, the College switched their provider to First Choice Power. The College also completed various preventative maintenance projects in fiscal year 2006, such as fire alarm repairs, totaling \$25,000.

Fiscal Year 2005 Compared to 2004

As shown by the table and graph, expenditures for fiscal year 2005 and 2004 were consistent. In 2005, the College had a conservative spending policy which resulted in actual expenses being under budget and \$330,000 less than 2004 total expenses. Several administrative positions were vacant during the year. The decrease in public service expense is a direct result of vacant positions and the decision to use resources for continuing education programs.

The College continues to offer many different types of financial aid which include loans, grants, scholarships and College employment. The increase in Pell awards expense of approximately \$300,000 is offset in the financial statement by the increase in student discounts and scholarships.

Cash Flow Activity

The following chart summarizes the statements of cash flows (rounded to the nearest thousand) for the fiscal years ended August 31:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Cash provided by (used in):			
Operating activities	\$ (9,826)	(8,909)	(9,397)
Non-capital financing activities	12,239	11,441	11,977
Capital and related financing activities	(1,563)	(2,032)	(742)
Investing activities	<u>322</u>	<u>1,136</u>	<u>(3,932)</u>
Net increase (decrease) in cash and cash equivalents	1,172	1,636	(2,094)
Cash and cash equivalents - beginning of year	<u>5,116</u>	<u>3,480</u>	<u>5,574</u>
Cash and cash equivalents - end of year	<u>\$ 6,288</u>	<u>5,116</u>	<u>3,480</u>

The College's operations will always be a use of cash as the College relies heavily on State appropriations and over the past three years property tax revenue to fund operations. The increases in cash from non-capital financing activities is a result of continued increases in property tax revenues. Changes in capital related financing activities are due to construction of new facilities and yearly bond principal and interest payments. Changes in cash flow from investing activities are due to the College purchasing or selling investments. The College held \$3 million of investments at August 31, 2006 and 2005, versus \$4 million of certificates of deposit at August 31, 2004.

Capital Asset and Noncurrent Debt Activity

Additions were made to capital assets in the amount of \$841,000 during fiscal year 2006. Major additions were \$190,000 parking lot, \$340,000 design and site development for Beacon Square and \$62,000 of fitness equipment. The 2005 increase in capital assets was due to \$1.2 million in renovations to the learning resource center and health service area. Also, effective September 1, 2004, the College began depreciating library books over 15 years.

The following table summarizes the breakdown of capital assets by fiscal year.

	Capital Assets, Net (in thousands)		
	<u>2006</u>	<u>2005</u>	<u>2004</u>
Capital assets:			
Land and improvements	\$ 2,387	1,810	1,791
Buildings	11,136	11,136	9,780
Equipment, furniture, and software	2,192	1,974	1,913
Library books	695	676	830
Construction in progress	—	—	182
Total	16,410	15,596	14,496
Less accumulated depreciation	<u>(6,490)</u>	<u>(5,874)</u>	<u>(5,464)</u>
Net capital assets	\$ <u>9,920</u>	<u>9,722</u>	<u>9,032</u>

The College issued \$6,595,000 of revenue bonds in fiscal year 2004 to refund the 1994 Revenue bonds at lower interest rates, saving approximately \$1.1 million over the remaining life of the bonds. The bonds pay off totaled \$6,795,000. Scheduled principal payments of \$540,000 and \$525,000 were made during the 2006 and 2005 fiscal years, respectively.

Currently Known Facts, Decisions and Conditions

In anticipation of continued growth in enrollment, the College is in the process of improving facilities and adding instructional and support staff. In January 2006, a new parking lot was completed at the corner of 39th Street and Avenue Q-½. This summer, construction began on Beacon Square. This is a beautiful new “front door” to the College consisting of the South Jetty Lighthouse cupola at the corner of 39th Street and Avenue Q, which symbolizes Galveston College’s vision “A Beacon of Light Guiding Lifelong Learning.” The dedication of Beacon Square will take place November 8, 2006. In an effort to promote wellness, the College purchased new equipment for our Fitness Center and purchased two additional defibrillators (AED’s). AED training was provided to all Fitness Center/Athletics staff and Security/Maintenance personnel.

In September of 2005, the College was awarded a \$2.3 million, Department of Education Title V grant. The overall scope of the project is to increase student success and institutional effectiveness at the community college level, especially for the Hispanic student population. The funds that were awarded are to be used for programs within the College over a five year period, which we are now entering the second year. The 2005-2006 accomplishments include the expansion of the Developmental Education Program with the implementation of new textbook learning tools such as “My Math Lab” and “My Writing Lab”; the improvement of tutoring facilities by renovating existing underutilized space, creating a new Student Success Center. The new Center provides students accessibility to computer work stations with an emphasis on one-on-one as well as group tutoring and testing areas.

Contacting the College’s Financial Management

This financial report is designed to provide the College’s citizens, taxpayers, students, investors, and creditors with a general overview of the College’s finances and to demonstrate the College’s accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Affairs office at 4015 Avenue Q, Galveston, Texas 77550.

GALVESTON COMMUNITY COLLEGE DISTRICT

Statements of Net Assets
August 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	\$ 5,325,985	4,208,733
Accounts receivable	427,892	229,348
Property tax receivable, net	607,287	614,149
Student receivables, net	819,368	793,623
Other assets	19,490	30,815
Total current assets	<u>7,200,022</u>	<u>5,876,668</u>
Noncurrent assets:		
Restricted cash and cash equivalents	956,869	891,822
Restricted agency funds cash and cash equivalents	4,891	15,165
Long term investments	3,000,000	3,000,000
Capital assets, net:		
Not subjected to depreciation	1,676,743	1,676,743
Subjected to depreciation	8,243,500	8,045,625
Total noncurrent assets	<u>13,882,003</u>	<u>13,629,355</u>
Total assets	<u>21,082,025</u>	<u>19,506,023</u>
<u>Liabilities</u>		
Current liabilities:		
Accounts payable	347,510	281,165
Funds held for others - agency	4,891	15,165
Deferred revenues	1,294,787	1,213,624
Deposits	9,840	8,090
Compensated absences - current portion	30,000	25,000
Bonds payable-current portion	550,000	540,000
Total current liabilities	<u>2,237,028</u>	<u>2,083,044</u>
Noncurrent liabilities:		
Compensated absences	218,093	229,680
Bonds payable	4,980,000	5,530,000
Total noncurrent liabilities	<u>5,198,093</u>	<u>5,759,680</u>
Total liabilities	<u>7,435,121</u>	<u>7,842,724</u>
Net assets:		
Invested in capital assets, net of related debt	4,390,243	3,652,368
Restricted for - expendable:		
Student aid	214,519	224,277
Loans	177,238	162,917
Debt service	717,740	721,240
Unrestricted	8,147,164	6,902,497
Total net assets	<u>\$ 13,646,904</u>	<u>11,663,299</u>

See accompanying notes to basic financial statements.

GALVESTON COLLEGE FOUNDATION

Statement of Assets, Liabilities, and Net Assets
December 31, 2005
(With Comparative Totals for 2004)

	2005			Total	2004 Total
	Universal Access	Galveston College Scholarships	Other Funds		
<u>Assets</u>					
Cash	\$ 61	817	(878)	-	799
Investments (at fair value)	4,139,790	564,393	487,822	5,192,005	5,008,820
Promises to give	5,551			5,551	36,429
Interfund receivable				-	7,299
Total assets	<u>\$ 4,145,402</u>	<u>565,210</u>	<u>486,944</u>	<u>5,197,556</u>	<u>5,053,347</u>
<u>Liabilities and Net Assets</u>					
Liabilities:					
Accrued expenses				-	71,737
Interfund payable				-	7,299
Agency transactions due to others			3,467	3,467	2,757
Total liabilities	<u>-</u>	<u>-</u>	<u>3,467</u>	<u>3,467</u>	<u>81,793</u>
Net assets:					
Unrestricted	955,590		216,206	1,171,796	1,247,205
Temporarily restricted		444,210	267,271	711,481	438,537
Permanently restricted	<u>3,189,812</u>	<u>121,000</u>		<u>3,310,812</u>	<u>3,285,812</u>
Total net assets	<u>4,145,402</u>	<u>565,210</u>	<u>483,477</u>	<u>5,194,089</u>	<u>4,971,554</u>
Total liabilities and net assets	<u>\$ 4,145,402</u>	<u>565,210</u>	<u>486,944</u>	<u>5,197,556</u>	<u>5,053,347</u>

GALVESTON COMMUNITY COLLEGE DISTRICT

Statements of Revenues, Expenses, and Changes in Net Assets
Years Ended August 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Operating revenues:		
Student tuition and fees, net of scholarship allowance of \$1,436,776 for 2006 and \$1,458,998 for 2005	\$ 1,276,243	1,424,513
Federal grants and contracts	3,032,275	3,219,479
State and local grants and contracts	109,356	92,001
Private grants and scholarships	368,102	251,909
Sales and services of educational activities	3,773	23,062
Auxiliary enterprises net of scholarship allowance of \$80,562 for 2006 and \$52,679 for 2005	114,001	145,697
Other operating revenues	<u>193,366</u>	<u>236,896</u>
Total operating revenues (Schedule A)	<u>5,097,116</u>	<u>5,393,557</u>
Operating expenses:		
Instruction	5,593,228	5,863,405
Public service	51,599	24,593
Academic support	1,663,492	1,468,222
Student services	2,141,722	1,392,952
Institutional support	3,550,507	3,646,767
Operation and maintenance of plant	1,422,376	1,099,230
Scholarships and fellowships	1,347,747	1,342,710
Auxiliary enterprises	165,345	140,787
Depreciation	<u>643,214</u>	<u>623,269</u>
Total operating expenses (Schedule B)	<u>16,579,230</u>	<u>15,601,935</u>
Operating loss	<u>(11,482,114)</u>	<u>(10,208,378)</u>
Nonoperating revenues (expenses):		
State appropriations	5,985,663	5,724,768
Property taxes	7,345,132	6,555,487
Investment income	333,693	134,599
Interest on capital related debt	(181,240)	(194,365)
Other nonoperating expense	<u>(1,000)</u>	<u></u>
Total nonoperating revenues, net (Schedule C)	<u>13,482,248</u>	<u>12,220,489</u>
Increase in net assets	2,000,134	2,012,111
Net assets, beginning of year	11,663,299	9,651,188
Transfer of net assets	<u>(16,529)</u>	<u></u>
Net assets, end of year	<u>\$ 13,646,904</u>	<u>11,663,299</u>

See accompanying notes to basic financial statements.

GALVESTON COLLEGE FOUNDATION

Statement of Revenues, Expenses, and Changes in Net Assets
 For the Year Ended December 31, 2005
 (With Comparative Totals for 2004)

	2005			Total	2004 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Support and revenue:					
Contributions and grants	\$ 94,422	294,330	25,000	413,752	237,984
Sales	625			625	4,975
Cost of sales	(1,004)			(1,004)	(1,589)
Other revenue	6,275	5,318		11,593	15,144
Donated facilities and services	62,799			62,799	62,799
Interest and dividends	122,685	14,962		137,647	135,800
Realized gains on investments, net	343,920	41,943		385,863	137,402
Unrealized (depreciation) appreciation on investments	(431,028)	(52,567)		(483,595)	162,195
Net assets released from restriction	46,207	(46,207)		-	-
Total support and revenue	<u>244,901</u>	<u>257,779</u>	<u>25,000</u>	<u>527,680</u>	<u>754,710</u>
Expenses:					
Donated facilities and services	62,799			62,799	62,799
Investment fees	39,614			39,614	35,781
Foreign taxes	268			268	278
Fundraising	2,178			2,178	2,022
Program expenses paid:					
Galveston College Grant administrative	30,000			30,000	50,000
Galveston College Scholarships	42,481			42,481	110,551
Universal Access Scholarships	122,746			122,746	95,185
DreamKeepers match	35,000			35,000	
Lecture series				-	17,978
Other	92			92	
Miscellaneous	1,661			1,661	6,474
Total expenses	<u>336,839</u>	<u>-</u>	<u>-</u>	<u>336,839</u>	<u>381,068</u>
(Decrease) increase in net assets	(91,938)	257,779	25,000	190,841	373,642
Net assets, beginning of year	1,247,205	438,537	3,285,812	4,971,554	4,547,343
Prior period adjustment					57,158
Transfer of net assets from (to) other entities	16,529	15,165		31,694	(6,589)
Net assets, end of year	<u>\$ 1,171,796</u>	<u>711,481</u>	<u>3,310,812</u>	<u>5,194,089</u>	<u>4,971,554</u>

GALVESTON COMMUNITY COLLEGE DISTRICT

Statements of Cash Flows
Years Ended August 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Receipts from students and other customers	\$ 1,291,793	1,176,453
Receipts from grants and contracts	3,366,468	3,698,465
Payments to or on behalf of employees	(9,803,719)	(9,292,139)
Payments to suppliers for goods or services	(3,640,347)	(3,531,818)
Payments for scholarships	(1,347,747)	(1,342,710)
Other cash receipts	<u>307,367</u>	<u>382,593</u>
Net cash used by operating activities	<u>(9,826,185)</u>	<u>(8,909,156)</u>
Cash flows from non-capital financing activities:		
Proceeds from State appropriations	4,904,019	4,868,366
Proceeds from property taxes	7,351,994	6,572,242
Transfer of net assets to Galveston College Foundation	<u>(16,529)</u>	<u></u>
Net cash provided by non-capital financing activities	<u>12,239,484</u>	<u>11,440,608</u>
Cash flows from capital and related financing activities:		
Purchases of capital assets	(841,089)	(1,313,158)
Principal paid on capital debt	(540,000)	(525,000)
Payment of interest on capital debt	(181,240)	(194,365)
Other non-operating expense	<u>(1,000)</u>	<u></u>
Net cash used by capital and related financing activities	<u>(1,563,329)</u>	<u>(2,032,523)</u>
Cash flows from investing activities:		
Proceeds from sale and maturities of investments		4,000,000
Purchases of investments		(3,000,000)
Investment income	<u>322,055</u>	<u>136,473</u>
Net cash provided by investing activities	<u>322,055</u>	<u>1,136,473</u>
Increase in cash and cash equivalents	1,172,025	1,635,402
Cash and cash equivalents, beginning of year	<u>5,115,720</u>	<u>3,480,318</u>
Cash and cash equivalents, end of year	<u>\$ 6,287,745</u>	<u>5,115,720</u>
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	\$ (11,482,114)	(10,208,378)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	643,214	623,269
Noncash State appropriations for employee benefits	1,081,644	856,402
Changes in assets and liabilities:		
Receivables, net	(212,651)	(192,934)
Other assets	11,325	(12,254)
Accounts payable	66,345	(42,726)
Funds held for others - agency funds	(10,274)	
Deferred revenues	81,163	53,873
Deposits	1,750	3,015
Compensated absences	<u>(6,587)</u>	<u>10,577</u>
Net cash used by operating activities	<u>\$ (9,826,185)</u>	<u>(8,909,156)</u>

See accompanying notes to basic financial statements.

GALVESTON COLLEGE FOUNDATION

Statement of Cash Flows
 For the Year Ended December 31, 2005
 (With Comparative Totals for 2004)

	<u>2005</u>	<u>2004</u>
Change in net assets	\$ 190,841	373,643
Cash flows from operating activities:		
Unrealized depreciation (appreciation) on investments	483,595	(162,195)
Realized gains on investments	(385,863)	(132,598)
Prior period adjustment		57,158
Changes in assets and liabilities:		
Promises to give	30,878	(36,429)
Accrued expenses	(71,737)	71,738
Agency transactions due to others	710	(2,470)
Transfer of net assets to other entities	<u>31,694</u>	<u>(6,589)</u>
Net cash provided by operating activities	<u>280,118</u>	<u>162,258</u>
Cash flows from investing activities:		
Purchases of investment securities	(897,042)	(1,592,350)
Sales of investment securities	<u>616,125</u>	<u>1,419,030</u>
Net cash used by investing activities	<u>(280,917)</u>	<u>(173,320)</u>
Decrease in cash and cash equivalents	(799)	(11,062)
Cash and cash equivalents, beginning of year	<u>799</u>	<u>11,861</u>
Cash and cash equivalents, end of year	<u>\$ -</u>	<u>799</u>

GALVESTON COMMUNITY COLLEGE DISTRICT

Notes to Basic Financial Statements August 31, 2006 and 2005

1. Reporting Entity

Galveston Community College District (the College) was established in 1967, in accordance with the laws of the State of Texas, to serve the educational needs of the City of Galveston and the surrounding communities. The College is considered to be a special purpose, primary government. While the College receives funding from local, State, and Federal sources, and must comply with the spending, reporting, and record keeping requirements of these entities, it is not a component unit of any other governmental entity.

Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations are Component Units - An Amendment of GASB Statement No. 14*, gives guidance in determining whether certain organizations for which the primary government is not financially accountable should be reported as component units based on the nature and significance of their relationship with the primary government. It requires reporting as a component unit if the organization raises and holds economic resources for the direct benefit of the governmental unit and the component unit is significant compared to the primary government. GASB Statement No. 39 has been applied as required in the preparation of these basic financial statements and accordingly, the Galveston College Foundation (the Foundation) is considered a component unit of the College. The Foundation is reported in separate financial statements because of the difference in its reporting model, as further discussed below.

The Foundation is a separate nonprofit organization, with the sole purpose of supporting the educational and other activities of the College. The Foundation reports its financial results under Financial Accounting Standards Board (FASB) Statements. Most significant to the Foundation's operations and reporting model are FASB Statement No. 116, *Accounting for Contributions Received and Contributions Made* and FASB Statement No. 117, *Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the College's financial reporting entity for these differences. The College furnished certain services, such as office space, supplies and staff assistance to the Foundation amounting to approximately \$31,000 and \$45,000 for the years ended August 31, 2006 and 2005, respectively. The costs of these services were not significant to the College. Complete financial statements for the Foundation can be obtained from their offices.

2. Summary of Significant Accounting Policies

Reporting guidelines

The basic financial statements of the College are presented in accordance with GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Government*, Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*, and Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus*. The College is reported as a special government engagement in business type activities. The basic financial statement presentation provides a comprehensive, entity-wide perspective of the College's assets, liabilities, net assets, revenues, expenses, changes in net assets, and cash flows. The basic financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

Continued

GALVESTON COMMUNITY COLLEGE DISTRICT

Notes to Basic Financial Statements, Continued

The significant accounting policies followed by the College in preparing these basic financial statements are in accordance with the Texas Higher Education Coordinating Board's *Annual Financial Reporting Requirements for Texas Public Community and Junior Colleges*. The College applies all applicable GASB pronouncements and all applicable Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, unless they conflict or contradict GASB pronouncements. The College has elected not to apply FASB guidance issued subsequent to November 30, 1989, unless specifically adopted by the GASB.

Tuition discounting

Texas Public Education Grants - Certain tuition amounts are required to be set aside for use as scholarships by qualifying students. This set aside, called the Texas Public Education Grant (TPEG), is shown with tuition and fee revenue amounts as a separate set aside amount (Texas Education Code §56.0333). When the award for tuition is used by the student, the amount is recorded as tuition and a corresponding amount is recorded as a tuition discount. If the amount is disbursed directly to the student, the amount is recorded as a scholarship expense.

Title IV Higher Education Act (HEA) Program Funds - Certain Title IV funds are received by the College to pass through to the student. These funds are initially received by the College and recorded as restricted revenue. When the student is awarded and uses these funds for tuition and fees, the amounts are recorded as revenue and a corresponding amount is recorded as a tuition discount. If the amount is disbursed directly to the student, the amount is recorded as a scholarship expense.

Other tuition discounts - The College awards tuition and fee scholarships from institutional funds to qualifying students. When these amounts are used for tuition and fees, the amounts are recorded as tuition and fee revenue and a corresponding amount is recorded as a tuition discount. If the amount is disbursed directly to the student, the amount is recorded as a scholarship expense.

Basis of accounting

The basic financial statements of the College have been prepared on the accrual basis whereby all revenues are recorded when earned and all expenses are recorded when they have been reduced to a legal or contractual obligation to pay.

Net assets: The College's net assets are classified as follows:

Invested in capital assets, net of related debt: This represents the College's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

Restricted net assets - expendable: Restricted expendable net assets include resources in which the College is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

Continued

GALVESTON COMMUNITY COLLEGE DISTRICT

Notes to Basic Financial Statements, Continued

Unrestricted net assets: Unrestricted net assets represent resources derived from student tuition and fees, State appropriations, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the College, and may be used at the discretion of the governing board to meet current expenses for any purpose. These resources also include auxiliary enterprises which are substantially self-supporting activities that provide services for students, faculty and staff.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the College's policy is to first apply the expense towards unrestricted resources, and then towards restricted resources.

Budgetary data

Each community college district in Texas is required by law to prepare an annual operating budget of anticipated revenues and expenditures for the fiscal year beginning September 1. The College's Board of Regents adopts the budget, which is prepared on the accrual basis of accounting. A copy of the approved budget must be filed with the Texas Higher Education Coordinating Board, Legislative Budget Board, Legislative Reference Library, and Governor's Office of Budget and Planning by December 1.

Cash and cash equivalents

The College's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. The governing board has designated public funds investment pools to be cash equivalents, as the investments are redeemable on demand.

Investments

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, investments are reported at fair value. Fair values are based on published market rates. Short-term investments have an original maturity greater than three months but less than one year at time of purchase. Long-term investments have an original maturity of greater than one year at the time of purchase.

Capital assets

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation. For equipment, the College's capitalization policy includes all items with a unit cost of \$5,000 or more and an estimated useful life in excess of one year. Renovations of \$100,000 to buildings, and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materiality extend assets' lives are charged to operating expense in the year in which the expense is incurred. Depreciation is computed using the straight-line method over the following estimated useful lives of the assets:

Buildings	45 years
Land improvements	20 years
Library books	15 years
Furniture, equipment and vehicles	5-10 years
Computer systems	5 years

Continued

GALVESTON COMMUNITY COLLEGE DISTRICT

Notes to Basic Financial Statements, Continued

Deferred revenues

Deferred revenues, primarily consisting of tuition and fees, relate to academic terms in the next fiscal year and as such, have been deferred. Deferred revenue also includes amounts received from grant and contract sponsors that have not yet been earned.

Classification of revenues and expenses

The College defines operating activities, for purposes of reporting on the statement of revenues, expenses, and changes in net assets, as those activities that generally result from exchange transactions, such as payments received for providing services and payments made for goods or services received. With the exception of interest expense on long-term indebtedness, substantially all College expenses are considered to be operating expenses. Certain significant revenue streams relied upon for operations are recorded as nonoperating revenues, as defined by GASB Statement No. 35, including State appropriations, property tax, and investment income. The operation of the bookstore and food services are performed by a third party contracted by the College.

Management estimates

The preparation of the basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Income taxes

Galveston Community College District is exempt from Federal income taxes under Internal Revenue Code Section 115, *Income of States, Municipalities, Etc.*, although unrelated business income may be subject to Federal income taxes under Internal Revenue Code Section 511 (a)(2)(B), *Imposition of Tax on Unrelated Business Income of Charitable, Etc., Organizations*. The College had no unrelated business income tax liability for the years ended August 31, 2006 and 2005.

Reclassifications

Certain 2005 amounts have been reclassified to conform to the 2006 presentation.

3. Authorized Investments

The Board of Regents of the College has adopted a written investment policy regarding the investments of its funds as defined in the Public Funds Investment Act (Chapter 2256.001 Texas Government Code). The investments of the College are in compliance with the Board of Regents' investment policy and the Public Funds Investment Act. Such investments include (1) obligations of the United States and its agencies, (2) directed obligations of the State of Texas or its agencies, (3) obligations of political subdivisions rated not less than A by a national investment rating firm, (4) certificates of deposit and, (5) other instruments and obligations authorized by statute.

Continued

GALVESTON COMMUNITY COLLEGE DISTRICT

Notes to Basic Financial Statements, Continued

4. Deposits and Investments

Credit risk for deposits with financial institutions is the risk that in the event of bank failure, the College's deposits may not be returned to it. All deposits with the depository bank must be collateralized in an amount equal to at least 102% of the amount of uninsured collected funds. The collateral must be held by a third-party collateral bank in the name of the College.

At August 31, 2006 and 2005, the carrying amount of the College's deposits was \$1,477,569 and \$1,296,221, respectively; and bank balances equaled \$2,016,140 and \$1,738,463, respectively. Bank balances totaling \$100,000 were covered by Federal depository insurance and the remaining balance is collateralized with securities. The following table presents the cash and cash equivalents included in Exhibit 1 statement of net assets as of August 31:

	<u>2006</u>	<u>2005</u>
Cash and cash equivalents:		
Petty cash	\$ 1,456	1,456
Demand deposits	1,477,569	1,296,221
Investment pools:		
Lone Star Investment Pool	3,087,965	1,196,086
Vanguard Admiral Treasury Money Market Fund	597,940	573,746
Local Government Investment Cooperative	<u>1,122,815</u>	<u>2,048,211</u>
Cash and cash equivalents	<u>\$ 6,287,745</u>	<u>5,115,720</u>

Interest risk is the risk that changes in interest rates, will adversely affect the fair value of an investment. Investments held for longer periods can be are subjected to increase risk of adverse interest rate changes. In accordance with its investment policy, the College limits its exposure to interest risk by structuring its portfolio to provide for liquidity for operating funds and maximizing yields for funds not needed within a two year period. The investment policy limits the maximum maturity length of obligations of the United States government, its agencies and instrumentalities and government sponsoring enterprises to two years.

Credit risk is the risk that the issuer of the debt security will not pay its par value upon maturity. The College investment policy limits credit risk based on meeting requirements of State law.

Concentration of credit risk is the risk of loss attributed to the magnitude on investment in a single issuer. At August 31, 2006, the College had 100% of its investment portfolio of \$3 million in Federal Home Loan Mortgage Corporation Notes, which mature in 2007. With the exception of United States Government obligations, instrumentalities and government sponsored enterprises and authorized local government investment pools, no more than fifty percent (50%) of the total investment portfolio can be invested in any one security or with a single financial institution.

Continued

GALVESTON COMMUNITY COLLEGE DISTRICT

Notes to Basic Financial Statements, Continued

5. Disaggregation of Receivables and Payables Balances

Receivables consist of the following at August 31:

	<u>2006</u>	<u>2005</u>
Tuition and fee receivables, net	\$ 819,368	793,623
Federal receivables	287,303	75,491
Interest receivables	20,249	8,611
Other receivables	<u>120,340</u>	<u>145,246</u>
Total	<u>\$ 1,247,260</u>	<u>1,022,971</u>
Property tax receivable	\$ 648,083	651,838
Less allowance for doubtful accounts	<u>(40,796)</u>	<u>(37,689)</u>
	<u>\$ 607,287</u>	<u>614,149</u>

Payables consist of the following at August 31:

Vendors payable	\$ 340,315	267,276
Benefits payable	<u>7,195</u>	<u>13,889</u>
	<u>\$ 347,510</u>	<u>281,165</u>

6. Capital Assets

Capital assets activities for the years ended August 31:

	2006			Balance August 31, 2006
	Balance September 1, 2005	Increase	Decrease	
Not depreciated:				
Land	\$ <u>1,676,743</u>	-	-	<u>1,676,743</u>
Other capital assets:				
Buildings	11,135,539			11,135,539
Land improvements	133,327	576,750		710,077
Furniture, equipment and vehicles	757,458	137,671	26,500	868,629
Computer system	1,216,786	107,873		1,324,659
Library books	<u>676,076</u>	<u>18,795</u>		<u>694,871</u>
Total depreciated	<u>13,919,186</u>	<u>841,089</u>	<u>26,500</u>	<u>14,733,775</u>
Less accumulated depreciation:				
Buildings	3,957,677	247,456		4,205,133
Land improvements	100,793	8,762		109,555
Furniture, equipment and vehicles	527,233	103,528	26,500	604,261
Computer system	990,900	252,113		1,243,013
Library books	<u>296,958</u>	<u>31,355</u>		<u>328,313</u>
Total accumulated depreciation	<u>5,873,561</u>	<u>643,214</u>	<u>26,500</u>	<u>6,490,275</u>
Net capital assets	<u>\$ 9,722,368</u>	<u>197,875</u>	-	<u>9,920,243</u>

Continued

GALVESTON COMMUNITY COLLEGE DISTRICT

Notes to Basic Financial Statements, Continued

	2005			Balance August 31 2005
	Balance September 1 2004, as restated	Increase	Decrease	
Not depreciated:				
Land	\$ 1,676,743			1,676,743
Construction in progress	<u>182,477</u>		<u>182,477</u>	<u>-</u>
Total not depreciated	<u>1,859,220</u>	<u>-</u>	<u>182,477</u>	<u>1,676,743</u>
Other capital assets:				
Buildings	9,779,856	1,355,683		11,135,539
Land improvements	114,300	19,027		133,327
Furniture, equipment and vehicles	695,567	103,691	41,800	757,458
Computer system	1,216,786			1,216,786
Library books	<u>829,847</u>	<u>17,234</u>	<u>171,005</u>	<u>676,076</u>
Total depreciated	<u>12,636,356</u>	<u>1,495,635</u>	<u>212,805</u>	<u>13,919,186</u>
Less accumulated depreciation:				
Buildings	3,700,349	257,328		3,957,677
Land improvements	99,000	1,793		100,793
Furniture, equipment and vehicles	472,660	96,373	41,800	527,233
Computer system	753,854	237,046		990,900
Library books	<u>437,234</u>	<u>30,729</u>	<u>171,005</u>	<u>296,958</u>
Total accumulated depreciation	<u>5,463,097</u>	<u>623,269</u>	<u>212,805</u>	<u>5,873,561</u>
Net capital assets	\$ <u>9,032,479</u>	<u>872,366</u>	<u>182,477</u>	<u>9,722,368</u>

7. Noncurrent Liabilities

Noncurrent liabilities activities for the years ended August 31:

	2006				
	Balance September 1, 2005	Additions	Payments	Balance August 31, 2006	Current Portion
Combined Fee Revenue					
Refunding Bonds Series 2004 \$	6,070,000		(540,000)	5,530,000	550,000
Other liabilities - compensated absences	<u>254,680</u>	<u>180,696</u>	<u>(187,283)</u>	<u>248,093</u>	<u>30,000</u>
Total	\$ <u>6,324,680</u>	<u>180,696</u>	<u>(727,283)</u>	<u>5,778,093</u>	<u>580,000</u>

Continued

GALVESTON COMMUNITY COLLEGE DISTRICT

Notes to Basic Financial Statements, Continued

	2005				Current Portion
	Balance September 1, 2004	Additions	Payments	Balance August 31, 2005	
Combined Fee Revenue Refunding Bonds Series 2004	\$ 6,595,000		(525,000)	6,070,000	540,000
Other liabilities - compensated absences	<u>244,103</u>	<u>42,377</u>	<u>(31,800)</u>	<u>254,680</u>	<u>25,000</u>
Total	\$ <u>6,839,103</u>	<u>42,377</u>	<u>(556,800)</u>	<u>6,324,680</u>	<u>565,000</u>

8. Bonds Payable

Bonds payable consist of Combined Fee Revenue Refunding Bonds, Series 2004. General information related to bonds payable is summarized below:

- Issued March 1, 2004.
- Refunded the 1994 Combined Revenue Bonds, and paid cost of issuing the new bonds.
- \$6,595,000, all authorized bonds have been issued.
- Interest rates range from 5.5% to 6.2%.
- Net proceeds from Refunding Series - \$682,235 after payment of \$168,285 in underwriting fees, insurance and other issuance costs.
- Additional \$680,437 of 1994 Series sinking fund monies was used to purchase U.S. Government securities which were deposited in an irrevocable trust with an escrow agent to provide for all future debt payments on the 2004 Series bonds.
- The 1994 Combined Fee Revenue Bonds are considered fully defeased and the liability for those bonds has been removed from the financial statements.
- Advanced refunding of the 1994 Series bonds reduced the College debt service payment approximately \$1,116,000 over the next 11 years.
- Economic gain - \$949,218 difference between the net present value of the old and new debt service payments.

Continued

GALVESTON COMMUNITY COLLEGE DISTRICT

Notes to Basic Financial Statements, Continued

The College is to maintain a reserve account equal to the maximum annual principal and interest requirements. The reserve balance at August 31, 2006 is \$717,740, which meets the full reserve requirement.

The principal and interest expense requirements for the next five years and thereafter are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 550,000	167,740	717,740
2008	570,000	153,990	723,990
2009	580,000	139,740	719,740
2010	595,000	125,240	720,240
2011	610,000	110,365	720,365
2012-2015	<u>2,625,000</u>	<u>250,230</u>	<u>2,875,230</u>
Total	<u>\$ 5,530,000</u>	<u>947,305</u>	<u>6,477,305</u>

9. Unrestricted Net Assets

The College designates a portion of unrestricted net assets to indicate management's tentative plans for future use of financial resources. Designations of unrestricted net assets were as follows at August 31:

	<u>2006</u>	<u>2005</u>
Worker's compensation	\$ 25,000	25,000
Learning Resource Center		850,408
Parking lot/Beacon Square	646,000	370,000
Three mini buses	250,000	
Deferred maintenance	762,000	205,000
Adult Basic Education		
Contractual Agreement	100,000	
Technology	<u>192,000</u>	<u>60,000</u>
	<u>\$ 1,975,000</u>	<u>1,510,408</u>

10. Transfer of Net Assets

In early 2006, the College transferred \$16,529 of auxiliary fund net assets to the Galveston College Foundation to support the College's athletic programs.

11. Employee Retirement Plans

The State of Texas (State) has joint contributory retirement plans for almost all of its employees. One of the primary plans in which the College participates is administered by the Teacher Retirement System of Texas (TRS). The percentages of participant salaries currently contributed by the State and by each participant are 6.0% and 6.4%, respectively, of annual compensation.

TRS does not separately account for each of its component government agencies, because it bears sole responsibility for retirement commitments beyond contributions fixed by the State Legislature. Further information regarding actuarial assumptions and conclusions, together with audited financial statements, are included in the TRS annual financial report.

Continued

GALVESTON COMMUNITY COLLEGE DISTRICT

Notes to Basic Financial Statements, Continued

The State has also established an optional retirement program (ORP) for institutions of higher education. Participation in the optional retirement program is in lieu of participation in TRS. The optional retirement program provides for the purchase of annuity contracts. The percentages of participant salaries currently contributed by the State and each participant are 6.0% and 6.65%, respectively. The College contributes 2.5% for employees who were participating in the optional retirement program prior to September 1, 1995. Benefits fully vest after one year plus one day of employment. Since these are individual contracts, the State has no additional or unfunded liability for this program.

The total payroll for all College employees was \$8,465,167 and \$8,043,871 for fiscal years ended August 31, 2006 and 2005, respectively. The total payroll of employees covered by TRS was \$4,533,489 and \$3,751,677, and the total payroll of employees covered by ORP was \$2,911,171 and \$2,466,729 for fiscal years August 31, 2006 and 2005, respectively.

The retirement expense to the State for the College was \$441,339 and \$373,495 for the fiscal years ended August 31, 2006 and 2005, respectively. This amount represents the portion of expended appropriations made by the State Legislature on behalf of the College.

12. Deferred Compensation Program

The College's employees may elect to defer a portion of their earnings for income tax and investment purposes pursuant to authority granted in Government Code Section 609.001. The plan is essentially an unfunded promise to pay by the employer to each of the plan participants. As of August 31, 2006, the College had 46 employees participating in the program and a total of \$222,236 in contributions were invested in the plan during the fiscal year. As of August 31, 2005, the College had 43 employees participating in the program and a total of \$224,028 in contributions were invested in the plan during the fiscal year.

13. Post Retirement Health Care and Life Insurance Benefits

In addition to providing pension benefits, the State provides certain health care and life insurance benefits for retired employees. Almost all of the employees may become eligible for these benefits if they reach normal retirement age while working for the State. These and similar benefits for active employees are provided through an insurance company whose premiums are based on benefits paid during the previous year. The State recognizes the cost of providing these benefits by expending the annual insurance premiums. The State's contribution per full-time employee was \$360 per month for the years ended August 31, 2006 and 2005 and totaled \$814,975 and \$630,911, respectively. The cost of providing those benefits for retirees was \$327,145 and \$292,474 for August 31, 2006 and 2005, respectively.

Continued

GALVESTON COMMUNITY COLLEGE DISTRICT

Notes to Basic Financial Statements, Continued

14. Compensated Absences

The College has three ways in which compensated absences can be earned.

Sick leave

All full-time employees earn sick leave at the rate of one day per month. Sick leave can accumulate to a maximum of 60 days for the purpose of carry-over from year to year. Unused accrued sick leave is forfeited upon termination of employment with the College with one exception. Sick leave which was accrued prior to September 1, 1989, is compensated at the rate of one-half the accrued amount up to a maximum of 60 days based on the employee's salary at separation of service. The College's policy is to recognize sick leave when paid. The liability is not shown in the financial statements since experience indicates the expenditure for sick leave to be minimal.

Vacation

Classified and administrative full-time employees are eligible for vacation benefits at a rate of one day per full month of employment; and may accrue and carry forward from one year to the next a maximum of 30 vacation days. Upon termination of employment, not more than 30 vacation days shall be compensated. The College has recognized an accrued liability for unpaid vacation leave in the amount of \$248,093 and \$254,680 for August 31, 2006 and 2005, respectively.

Faculty employees are not eligible to earn vacation benefits.

Compensatory time

For nonexempt employees, it is the policy of the College to compensate overtime hours worked with compensatory time calculated at the rate of 1.5 times for each hour worked over 40 hours per week. All compensatory hours should be used by the end of the month following that in which it was earned; however, a maximum of 40 hours may be accrued and carried forward from year to year. The liability is not shown in the financial statements since experience indicates the expenditure of compensatory time to be minimal.

15. Property Tax

The College's ad valorem property tax is levied each October 1 on the assessed value listed as of the prior January 1 for all real, business/land personal property located in the tax area of the College. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed.

At August 31:	<u>2006</u>	<u>2005</u>	
Assessed valuation of the College	\$ 4,027,627,570	3,581,392,948	
Less exemptions	<u>(291,027,006)</u>	<u>(276,882,930)</u>	
Net assessed valuation of the College	\$ <u>3,736,600,564</u>	<u>3,304,510,018</u>	
	<u>Current</u>	<u>Debt</u>	<u>Total</u>
	<u>Operations</u>	<u>Service</u>	
Tax rate per \$100 valuation for authorized	\$.2700	-	.2700
Tax rate per \$100 valuation assessed	.1918	-	.1918

Continued

GALVESTON COMMUNITY COLLEGE DISTRICT

Notes to Basic Financial Statements, Continued

Taxes levied for the years ended August 31, 2006 and 2005 were \$7,166,800 and \$6,450,404, respectively (which includes any penalty and interest assessed if applicable). Galveston County Tax Assessor and Collection is the collecting agency for the levy and remits the collections to the College, net of a collection fee.

Under GASB Statement No. 33, *Accounting and Financial Reporting for Non Exchange Transactions*, ad valorem taxes are imposed non-exchange revenue. Assets from imposed non-exchange transactions are recorded when the entity has an enforceable legal claim to the assets or when the entity receives resources, whichever comes first. The enforceable legal claim date for ad valorem taxes is the assessment date. The College has recognized all assessed taxes in the current year and recorded a receivable for uncollected taxes.

<u>Taxes Collected for August 31</u>	<u>2006</u>	<u>2005</u>
Current taxes collected	\$ 6,929,577	6,242,726
Delinquent taxes collected	241,367	240,502
Penalties and interest collected	87,248	89,014
Taxes on foreclosed property sales	<u>93,802</u>	<u> </u>
Total collections	\$ <u>7,351,994</u>	<u>6,572,242</u>

Tax collections for the years ended August 31, 2006 and 2005 were 96.69% and 96.78, respectively of the current tax levy. Allowances for uncollectible taxes are based upon historical experience in collecting property taxes. The use of tax proceeds is restricted to either maintenance and operations or interest and sinking expenditures.

16. Contract and Grant Awards

Contract and grant awards are accounted for in accordance with accounting principles generally accepted in the United States of America. Grant funds are recognized as funds are actually expended. For Federal contracts and grant awards, funds expended but not collected are reported as receivables. Funds received but not expended during the reporting period are deferred until earned. As of August 31, 2006 and 2005, \$239,129 and \$170,582, respectively, of grant funds have been received in advance.

17. Commitments and Contingencies

Commitments

The College has entered into a contract for the construction of Beacon Square. Commitments remaining under this contract were approximately \$650,000 at August 31, 2006.

State and Federally assisted programs

The College participates in a number of State and Federally assisted programs. These programs are subject to program compliance audits by the grantors or their representatives. Accordingly, the College's compliance with applicable grant requirements will be finally determined at some future date. The amount, if any, of expenditures which may be disallowed by the grantor agencies cannot be determined at this time, although the College expects such amounts, if any, to be immaterial.

Continued

GALVESTON COMMUNITY COLLEGE DISTRICT

Notes to Basic Financial Statements, Continued

18. Recent Accounting Pronouncements

In May 2004, GASB issued Statement No. 44, *Economic Condition Reporting; The Statistical Section - an Amendment of NCGA Statement 1*. This statement amends the portions of NCGA Statement 1, Governmental Accounting and Financial Reporting Principles that guide the preparation of the statistical section. The statistical section presents detailed information, typically in ten-year trends, that assists users in utilizing the basic financial statements, notes to basic financial statements, and required supplementary information to assess the economic condition of a government. The statistical section is a required part of a comprehensive annual financial report (CAFR), although governments are not required to prepare a statistical section if they do not present their basic financial statements in a CAFR. These circumstances are not altered by the Statement. However, this Statement does apply to any statistical information that accompanies a government's basic financial statements. This statement was implemented by the College during fiscal year ended August 31, 2006. See the statistical section of the report.

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. This Statement is effective for periods beginning after December 15, 2006.

College management has not yet determined the impact that implementation of GASB Statement No. 45 will have on the College's basic financial statements.

Supplemental Schedules

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GALVESTON COMMUNITY COLLEGE DISTRICT

Schedule of Detailed Operating Revenues
Year Ended August 31, 2006
(With Memorandum Totals for the Year Ended August 31, 2005)

	2006				2005 Total	
	Educational Activity		Total Educational Activity	Auxiliary Enterprises		Total
	Unrestricted	Restricted				
Tuition:						
State funded courses:						
In-district resident tuition	\$ 1,183,980		1,183,980		1,394,193	
TPEG (set aside) *	80,970		80,970	80,970	88,684	
Non-resident tuition	128,958		128,958	128,958	139,510	
Non-state funded continuing education	257,391		257,391	257,391	342,574	
Total tuition	<u>1,651,299</u>	-	<u>1,651,299</u>	-	<u>1,964,961</u>	
Fees:						
Student service fee				70,458	73,408	
Laboratory fee	119,114		119,114	119,114	126,495	
Building use fee	512,642		512,642	512,642	593,397	
General Service fee	210,938		210,938	210,938	210,938	
Registration fee			-	168,492	125,250	
Total fees	<u>842,694</u>	-	<u>842,694</u>	<u>238,950</u>	<u>918,550</u>	
Scholarship allowances and discounts:						
Scholarship allowances	(138,826)		(138,826)	(19,924)	(142,909)	
Remissions and exemptions - State	(32,990)		(32,990)	(32,990)	(20,333)	
Remissions and exemptions - local	(15,525)		(15,525)	(15,525)	(9,569)	
Title IV Federal grants to students	(1,249,435)		(1,249,435)	-	(1,286,187)	
Total scholarship allowances and discounts	<u>(1,436,776)</u>	-	<u>(1,436,776)</u>	<u>(19,924)</u>	<u>(1,458,998)</u>	
Total net tuition and fees	<u>1,057,217</u>	-	<u>1,057,217</u>	<u>219,026</u>	<u>1,424,513</u>	
Other operating revenues:						
Federal grants and contracts		3,032,275	3,032,275		3,219,479	
State grants and contracts		109,356	109,356		92,001	
Private grants and scholarships		368,102	368,102		251,909	
Sales and services of educational activities	3,773		3,773		23,062	
Other operating revenues	193,366		193,366		236,896	
Total other operating revenues	<u>197,139</u>	<u>3,509,733</u>	<u>3,706,872</u>	-	<u>3,823,347</u>	
Auxiliary enterprises:						
Residential life				60,638	55,462	
Less scholarship allowances and discounts				(60,638)	(52,679)	
Bookstore commissions				53,486	58,588	
Vending commissions				21,086	14,255	
Other auxiliary revenue				39,429	70,071	
Total auxiliary enterprises				<u>114,001</u>	<u>145,697</u>	
Total operating revenues	<u>\$ 1,254,356</u>	<u>3,509,733</u>	<u>4,764,089</u>	<u>333,027</u>	<u>5,097,116</u> (Exhibit 2)	
					<u>5,393,557</u> (Exhibit 2)	

* In accordance with Education Code 56.033, \$80,970 and \$88,684 for the years ended August 31, 2006 and 2005, respectively, of tuition was set aside for Texas Public Education Grants (TPEG).

GALVESTON COMMUNITY COLLEGE DISTRICT

Schedule of Operating Expenses by Object
 Year Ended August 31, 2006
 (With Memorandum Totals for the Year Ended August 31, 2005)

	2006				2005 Total
	Salaries and Wages	State	Benefits Local	Other Expenses	
Unrestricted - educational activities:					
Instruction	\$ 3,955,153		545,415	414,599	4,915,167
Public service	48,054			3,545	51,599
Academic support	1,126,310		149,722	214,045	1,490,077
Student services	777,729		106,944	91,094	975,767
Institutional support	1,475,064		203,194	1,636,900	3,315,158
Operation and maintenance of plant	434,214		64,166	923,996	1,422,376
Total unrestricted educational activities	7,816,524	-	1,069,441	3,284,179	12,170,144
Restricted - educational activities:					
Instruction		631,728	8,701	37,632	678,061
Public service		173,415			173,415
Academic support	538,707	215,822	61,520	349,906	1,165,955
Student services		235,349			235,349
Institutional support				1,347,747	1,347,747
Scholarships and fellowships					
Total restricted educational activities	538,707	1,256,314	70,221	1,735,285	3,600,527
Total educational activities	8,355,231	1,256,314	1,139,662	5,019,464	15,770,671
Auxiliary enterprises	109,936		17,633	37,776	165,345
Depreciation expense - buildings and other real estate improvements				256,218	256,218
Depreciation expense - equipment, furniture and library books				386,996	386,996
Total operating expenses	\$ 8,465,167	1,256,314	1,157,295	5,700,454	16,579,230
					<u>(Exhibit 2)</u>

GALVESTON COMMUNITY COLLEGE DISTRICT

Schedule of Nonoperating Revenues and Expenses
Year Ended August 31, 2006
(With Memorandum Totals for the Year Ended August 31, 2005)

	2006			2005 Total	
	Unrestricted	Restricted	Auxiliary Enterprises		Total
Nonoperating revenues:					
State appropriations:					
Education and general State support	\$ 4,729,349			4,729,349	4,720,362
State group insurance		814,975		814,975	630,911
State retirement match		441,339		441,339	373,495
Total State appropriations	<u>4,729,349</u>	<u>1,256,314</u>	<u>-</u>	<u>5,985,663</u>	<u>5,724,768</u>
Property taxes	7,345,132			7,345,132	6,555,487
Investment income	249,914		83,779	333,693	134,599
Total nonoperating revenues	<u>7,595,046</u>	<u>-</u>	<u>83,779</u>	<u>7,678,825</u>	<u>6,690,086</u>
Nonoperating expenses:					
Interest on capital related debt	181,240			181,240	194,365
Other nonoperating expense	1,000			1,000	-
Total nonoperating expenses	<u>182,240</u>	<u>-</u>	<u>-</u>	<u>182,240</u>	<u>194,365</u>
Net nonoperating revenues, net	<u>\$ 12,142,155</u>	<u>1,256,314</u>	<u>83,779</u>	<u>13,482,248</u>	<u>12,220,489</u>
				(Exhibit 2)	(Exhibit 2)

GALVESTON COMMUNITY COLLEGE DISTRICT

Schedule of Net Assets by Source and Availability
 Year Ended August 31, 2006
 (With Memorandum Totals for Year Ended August 31, 2005)

	Detail by Source					Capital Assets Net of Depreciation and Related Debt	Total	Available for Current Operations	
	Unrestricted	Restricted		Non-Expendable	Total			Yes	No
		Expendable							
Current:									
Unrestricted	\$ 3,532,286					3,532,286	3,532,286		
Board designated	1,725,000					1,725,000		1,725,000	
Auxiliary	460,510					460,510	460,510		
Board designated	250,000					250,000		250,000	
Scholarships		214,519				214,519	214,519		
Loans		177,238				177,238	177,238		
						-			
Plant:									
Unexpended	140,273					140,273	140,273		
Debt service	2,039,095			717,740		2,756,835	2,039,095	717,740	
Investment in plant						4,390,243	4,390,243		4,390,243
Total net assets, August 31, 2006	8,147,164	1,109,497				13,646,904	6,563,921	7,082,983	
Total net assets, August 31, 2005	6,902,497	1,108,434				11,663,299	5,779,283	5,884,016	
Net increase in net assets	\$ 1,244,667	1,063				1,983,605	784,638	1,198,967	
						(Note 1)			

Note 1

Increase in net assets - exhibit 2	\$ 2,000,134
Transfer of net assets to Galveston College Foundation	(16,529)
	<u>1,983,605</u>

**SINGLE AUDIT REPORTS
AND SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS**

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL
CONTROL OVER FINANCIAL REPORTING AND
COMPLIANCE AND OTHER MATTERS BASED ON
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Regents
Galveston Community College District:

We have audited the basic financial statements of Galveston Community College District (the College) as of and for the year ended August 31, 2006, and have issued our report thereon dated October 25, 2006. 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving internal control over financial reporting, which we have reported to management of the College in a separate letter dated October 25, 2006.

Compliance and Other Matters

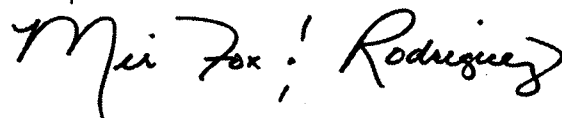
As part of obtaining reasonable assurance about whether the College's basic financial statements are free of material misstatement, we performed tests of the College's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of basic financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Texas Public Funds Investment Act

We also performed tests of the College's compliance with the requirements of the Texas Public Funds Investment Act (the Act). The results of our tests disclosed no instances of noncompliance with the Act. However, providing an opinion on compliance with the Act was not an objective of our audit and accordingly, we do not express an opinion.

This report is intended solely for the information and use of the Board of Regents, the College's management, and Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

October 25, 2006



INDEPENDENT AUDITORS'
REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND
INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133

Board of Regents
Galveston Community College District:

Compliance

We have audited the compliance of Galveston Community College District (the College), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement*, that are applicable to each of its major Federal programs for the year ended August 31, 2006. The College's major Federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs is the responsibility of the College's management. Our responsibility is to express an opinion on the College's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the College's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the College's compliance with those requirements.

In our opinion, Galveston Community College District complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended August 31, 2006.

Internal Control over Compliance

The management of the College is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to Federal programs. In planning and performing our audit, we considered the College's internal control over compliance with requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major Federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Regents, the College's management, and Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Mari Fox Rodriguez

October 25, 2006

GALVESTON COMMUNITY COLLEGE DISTRICT

Schedule of Expenditures of Federal Awards
Year Ended August 31, 2006

<u>Federal Grantor/Pass-Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures and Pass-Through Disbursements</u>
<u>U.S. Department of Education</u>			
Direct Programs:			
Federal Supplemental Educational Opportunity Grants	84.007	P007A054027 (1)	\$ 94,690
Strengthening Institutions - Title V	84.031S	P031S050033	149,799
Federal Work-Study Program	84.033	P033A054027 (1)	86,158
TRIO - Student Support Services	84.042	P042A051354 (2)	203,383
TRIO - Upward Bound	84.047	P047A031035 (2)	227,351
Federal Pell Grant Program	84.063	P063P052585 (1)	2,107,345
Federal Family Education Loans	84.268	N/A (1)	<u>1,293,281</u>
Total Direct Programs			<u>4,162,007</u>
Passed-Through Programs:			
Texas Higher Education Coordinating Board:			
Carl Perkins Annual Application	84.048	64218	160,539
Leveraging Educational Assistance Partnership	84.069	N/A	<u>3,010</u>
Total Passed-Through Programs			<u>163,549</u>
Total expenditures of Federal Awards			<u>\$ 4,325,556</u>

(1) Cluster Student Financial Aid

(2) Cluster TRIO Programs

See accompanying notes to schedule of expenditures of Federal awards.

GALVESTON COMMUNITY COLLEGE DISTRICT

**Notes to Schedule of Expenditures of Federal Awards
Year Ended August 31, 2006**

1. Federal Assistance Reconciliation

Federal revenues:	
Restricted Federal grants and contracts - (Schedule A)	\$ 3,032,275
Federal Family Education Loans	<u>1,293,281</u>
Total expenditures of Federal awards	<u>\$ 4,325,556</u>

2. Significant Accounting Policies Used in Preparing the Schedule

The schedule of expenditures of Federal awards presents the activity of Federal financial assistance programs of the College for the year ended August 31, 2006. Expenditure reports to funding agencies are prepared on the award period basis. The expenditures reported above represent funds which have been expended by the College for the purposes of the award and may not have been reimbursed by the funding agencies as of the end of the fiscal year. Separate accounts are maintained for the different awards to aid in the observance of limitations and restrictions imposed by the funding agencies. The College has followed all applicable guidelines issued by various entities in the preparation of the schedule.

3. Student Loans Processed and Administrative Costs Recovered

<u>Federal Grantor/ CFDA Number/Program Name</u>	<u>New Loans Processed</u>	<u>Administrative Costs Recovered</u>	<u>Total Loans Processed Administrative Costs Recovered</u>
Department of Education 84.268 Direct Loans	\$ <u>1,293,281</u>	<u> -</u>	<u>1,293,281</u>

4. Relationship to Federal Reports

Differences between amounts reflected in the financial reports filed with grantor agencies for the programs and in the schedule of expenditures of Federal awards are due to different program year ends and accruals that will be reflected in the next report filed with the agencies.

GALVESTON COMMUNITY COLLEGE DISTRICT

Schedule of Findings and Questioned Costs Year Ended August 31, 2006

Section 1

Summary of Auditors' Results

Financial Statements

- | | | |
|----|--|---------------|
| 1. | Type of auditors' report issued: | Unqualified |
| 2. | Internal control over financial reporting: | |
| a. | Material weaknesses identified? | No |
| b. | Reportable conditions identified not considered to be material weaknesses? | None reported |
| c. | Noncompliance material to the financial statements noted? | No |

Federal Awards

- | | | |
|----|--|---------------|
| 1. | Internal control over major programs: | |
| a. | Material weaknesses identified? | No |
| b. | Reportable conditions identified not considered to be material weaknesses? | None reported |
| 2. | Type of auditors' report issued on compliance for major programs: | Unqualified |
| 3. | Any audit findings disclosed that are required to be reported in accordance with Circular OMB A-133, Section 510(a)? | No |
| 4. | Identification of major programs: | |

CFDA Number

Name of Federal Program

84.007
84.033
84.063
84.268

Student Financial Aid Cluster
Federal Supplemental Educational Opportunity Grants
Federal Work-Study Program
Federal Pell Grant Program
Federal Family Education Loans

84.031S

Strengthening Institutions - Title V

- | | | |
|----|--|-----------|
| 5. | Dollar threshold used to distinguish between Type A and Type B programs: | \$300,000 |
| 6. | Auditee qualified as a low-risk auditee? | Yes |

Section 2

Financial Statement Findings

(None reported)

Section 3

Federal Award Findings and Questioned Costs

(None reported)

Section 4

Schedule of Prior Year Findings

The audit of Federal awards disclosed no findings that were required to be reported for the year ended August 31, 2005.

STATISTICAL SECTION

These statistical tables provide selected financial and demographic information.
The statistical tables are for informational purposes only and are not audited.

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GALVESTON COMMUNITY COLLEGE DISTRICT

Net Assets by Component
 Fiscal Years 2002 to 2006
 (amounts expressed in thousands)
 (Unaudited)

	<u>For the Fiscal Year Ended August 31, 2006</u>				
	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Invested in capital assets, net of related debt	\$ 4,390	3,652	2,437	2,988	2,737
Restricted - expendable	1,110	1,109	1,076	980	1,021
Unrestricted	<u>8,147</u>	<u>6,902</u>	<u>6,138</u>	<u>4,947</u>	<u>4,507</u>
Total primary government net assets	<u>\$ 13,647</u>	<u>11,663</u>	<u>9,651</u>	<u>8,915</u>	<u>8,265</u>

Note: Due to reporting format and definition changes prescribed by GASB Statement 34, only fiscal years 2002-2006 are available.

Table 2

GALVESTON COMMUNITY COLLEGE DISTRICT

Revenues by Source
Fiscal Years 2002 to 2006
(Unaudited)

	For the Year Ended August 31, 2006 (amounts expressed in thousands)				
	2006	2005	2004	2003	2002
Tuition and fees (net of discounts)	\$ 1,276	1,425	1,723	1,538	1,281
Governmental grants and contracts:					
Federal grants and contracts	3,032	3,219	2,830	2,213	2,357
State grants and contracts	109	92	191	103	123
Non-governmental grants and contracts	368	252	137	-	-
Sales and services of educational activities	4	23	16	3	-
Auxiliary enterprises	114	146	129	114	313
Other operating revenues	194	237	282	270	385
Total operating revenues	<u>5,097</u>	<u>5,394</u>	<u>5,308</u>	<u>4,241</u>	<u>4,459</u>
State appropriations	5,985	5,725	5,790	6,028	6,312
Ad valorem taxes	7,345	6,555	6,196	5,583	5,349
Investment income	334	134	78	70	123
Interest on capital related debt	(181)	(194)	(252)	(428)	(451)
Other non-operating revenues	(1)	-	(45)	-	-
Total non-operating revenues	<u>13,482</u>	<u>12,220</u>	<u>11,767</u>	<u>11,253</u>	<u>11,333</u>
Total revenues	<u>\$ 18,579</u>	<u>17,614</u>	<u>17,075</u>	<u>15,494</u>	<u>15,792</u>

	For the Year Ended August 31, (amounts expressed in thousands)				
	2006	2005	2004	2003	2002
Tuition and fees (net of discounts)	6.87%	8.09%	10.09%	9.93%	8.11%
Governmental grants and contracts:					
Federal grants and contracts	16.32%	18.28%	16.57%	14.28%	14.93%
State grants and contracts	0.59%	0.52%	1.12%	0.66%	0.78%
Non-governmental grants and contracts	1.98%	1.43%	0.80%	-	-
Sales and services of educational activities	0.02%	0.13%	0.09%	0.02%	-
Auxiliary enterprises	0.61%	0.83%	0.76%	0.74%	1.98%
Other operating revenues	1.04%	1.35%	1.65%	1.74%	2.44%
Total operating revenues	<u>27.43%</u>	<u>30.63%</u>	<u>31.08%</u>	<u>27.37%</u>	<u>28.24%</u>
State appropriations	32.21%	32.50%	33.91%	38.91%	39.97%
Ad valorem taxes	39.53%	37.21%	36.29%	36.03%	33.87%
Investment income	1.80%	0.76%	0.46%	0.45%	0.78%
Interest on capital related debt	-0.97%	-1.10%	-1.48%	-2.76%	-2.86%
Other non-operating revenues	-0.01%	-	-0.26%	-	-
Total non-operating revenues	<u>72.57%</u>	<u>69.37%</u>	<u>68.92%</u>	<u>72.63%</u>	<u>71.76%</u>
Total expenses	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

Note: Due to reporting format and definition changes prescribed by GASB Statement 34, only fiscal years 2002-2006 are available.

Table 3

GALVESTON COMMUNITY COLLEGE DISTRICT

Program Expenses by Function
Fiscal Years 2002 to 2006
(Unaudited)

	For the Year Ended August 31, (amounts expressed in thousands)				
	2006	2005	2004	2003	2002
Instruction	\$ 5,593	5,863	5,499	5,727	6,070
Public service	52	25	150	93	139
Academic support	1,663	1,468	1,702	1,523	1,516
Student services	2,142	1,393	1,401	1,068	1,259
Institutional support	3,551	3,647	3,454	3,378	2,866
Operation and maintenance of plant	1,422	1,099	1,534	1,492	1,229
Scholarships and fellowships	1,348	1,343	1,447	804	1,375
Auxiliary enterprises	165	141	158	231	215
Depreciation	643	623	587	528	465
Total operating expenses	<u>16,579</u>	<u>15,602</u>	<u>15,932</u>	<u>14,844</u>	<u>15,134</u>
Interest on capital related debt	182	194	252	428	451
Other non-operating expenses	1		45		
Total non-operating expenses	<u>183</u>	<u>194</u>	<u>297</u>	<u>428</u>	<u>451</u>
Total expenses	<u>\$ 16,762</u>	<u>15,796</u>	<u>16,229</u>	<u>15,272</u>	<u>15,585</u>

	For the Year Ended August 31, (amounts expressed in thousands)				
	2006	2005	2004	2003	2002
Instruction	33.37%	37.12%	33.88%	37.50%	38.95%
Public service	0.31%	0.16%	0.92%	0.61%	0.89%
Academic support	9.92%	9.29%	10.49%	9.97%	9.73%
Student services	12.78%	8.82%	8.63%	6.99%	8.08%
Institutional support	21.18%	23.09%	21.29%	22.12%	18.39%
Operation and maintenance of plant	8.48%	6.96%	9.45%	9.78%	7.89%
Scholarships and fellowships	8.04%	8.50%	8.92%	5.26%	8.82%
Auxiliary enterprises	0.98%	0.89%	0.97%	1.51%	1.38%
Depreciation	<u>3.84%</u>	<u>3.94%</u>	<u>3.62%</u>	<u>3.46%</u>	<u>2.98%</u>
Total operating expenses	<u>98.90%</u>	<u>98.77%</u>	<u>98.17%</u>	<u>97.20%</u>	<u>97.11%</u>
Interest on capital related debt	1.09%	1.23%	1.55%	2.80%	2.89%
Other non-operating expenses	<u>0.01%</u>	<u>-</u>	<u>0.28%</u>	<u>-</u>	<u>-</u>
Total non-operating expenses	<u>1.10%</u>	<u>1.23%</u>	<u>1.83%</u>	<u>2.80%</u>	<u>2.89%</u>
Total expenses	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

Note: Due to reporting format and definition changes prescribed by GASB Statement 34, only fiscal years 2002-2006 are available.

GALVESTON COMMUNITY COLLEGE DISTRICT

Tuition and Fees Last Ten Academic Years (Unaudited)

Academic Year (Fall)	Resident Fees per Semester Credit Hour (SCH)										Increase from Prior Year Out-of-District
	Registration Fee (per student)	In-District Tuition	Out-of-District Tuition	Building Use Fee	Technology Fees	Student Activity Fees (per student)	General Service Fee	Cost for 12 SCH In-District	Cost for 12 SCH Out-of-District	Increase from Prior Year In-District	
2006	\$ 25	30	30	12	15	37	581	581	581	7.79%	
2005	20	30	30	12	15		539	539	539	0.00%	
2004	20	30	30	12	15		539	539	539	55.33%	
2003	20	9	9	12	5		347	347	347	7.43%	
2002	20	8	8	12	4		323	323	323	7.31%	
2001	10	8	8	12	3		301	301	301	0.00%	
2000	10	8	8	12	3		301	301	301	0.00%	
1999	10	8	8	12	3		301	301	301	0.00%	
1998	10	8	8	12	3		301	301	301	0.00%	
1997	10	8	8	12	3		301	301	301	0.00%	

Academic Year (Fall)	Non - Resident Fees per Semester Credit Hour (SCH)										Increase from Prior Year International
	Registration Fee (per student)	Non-Resident Tuition Out of State	Non-Resident Tuition International	Building Use Fee	Technology Fees	Student Activity Fees	General Service Fee	Cost for 12 SCH Out of State	Cost for 12 SCH International	Increase from Prior Year Out of State	
2006	\$ 25	60	60	12	15	37	941	941	941	4.67%	
2005	20	60	60	12	15		899	899	899	0.00%	
2004	20	60	60	12	15		899	899	899	50.08%	
2003	20	30	30	12	5		599	599	599	2.04%	
2002	20	30	30	12	4		587	587	587	31.91%	
2001	10	20	20	12	3		445	445	445	0.00%	
2000	10	20	20	12	3		445	445	445	0.00%	
1999	10	20	20	12	3		445	445	445	0.00%	
1998	10	20	20	12	3		445	445	445	0.00%	
1997	10	20	20	12	3		445	445	445	0.00%	

Source: Galveston Community College

Note: Includes basic enrollment tuition and fees but excludes course based fees such as laboratory fees, testing fees and certification fees.

Table 4

GALVESTON COMMUNITY COLLEGE DISTRICT

**Assessed Value and Taxable Assessed Value of Property
Last Ten Fiscal Years
(Unaudited)**

Fiscal Year	(Amounts expressed in thousands)			Ratio of Taxable Assessed Value to Assessed Value	Direct Rate		
	Assessed Valuation of Property	Less: Exemptions	Taxable Assessed Value (TAV)		Maintenance & Operations (a)	Debt Service (a)	Total (a)
2005-06	4,027,628	291,027	3,736,601	92.77%	0.191800	0.000000	0.191800
2004-05	3,581,393	276,883	3,304,510	92.27%	0.195200	0.000000	0.195200
2003-04	3,371,245	266,107	3,105,138	92.11%	0.195200	0.000000	0.195200
2002-03	2,929,690	229,164	2,700,526	92.18%	0.195200	0.000000	0.195200
2001-02	2,881,049	236,163	2,644,886	91.80%	0.195200	0.000000	0.195200
2000-01	2,652,097	213,231	2,438,866	91.96%	0.197800	0.000000	0.197800
1999-00	2,498,993	196,849	2,302,144	92.12%	0.197800	0.000000	0.197800
1998-99	2,401,474	187,264	2,214,210	92.20%	0.187800	0.000000	0.187800
1997-98	2,381,429	183,997	2,197,432	92.27%	0.187800	0.000000	0.187800
1996-97	2,302,497	174,822	2,127,675	92.41%	0.177500	0.000000	0.177500

Source: Galveston Central Appraisal District

Notes: Property is assessed at full market value.
(a) per \$100 Taxable Assessed Valuation

Table 5

GALVESTON COMMUNITY COLLEGE DISTRICT

State Appropriation per FTSE and Contact Hour
Last Ten Fiscal Years
(Unaudited)

Fiscal Year	Appropriation per FTSE			Appropriation per Contact Hour				
	State Appropriation	FTSE (a)	State Appropriation per FTSE	Academic Contact Hours (b)	Voc/Tech Contact Hours (b)	Continuing Education Hours (c)	Total Contact Hours	State Appropriation per Contact Hour
2005-06	\$ 4,729,349	1,434	3,297	597,664	376,480	24,520	998,664	4.74
2004-05	4,720,362	1,635	2,888	718,476	388,232	43,243	1,149,951	4.10
2003-04	4,720,440	1,542	3,061	677,724	372,292	49,334	1,099,350	4.29
2002-03	4,907,632	1,589	3,144	657,488	353,698	148,378	1,159,564	4.23
2001-02	4,996,789	1,515	3,537	682,176	309,040	101,135	1,092,351	4.57
2000-01	5,359,724	1,708	2,654	687,936	295,128	275,262	1,258,326	4.26
1999-00	4,533,544	1,686	2,633	686,320	282,340	264,167	1,232,827	3.68
1998-99	4,439,127	1,605	2,682	645,440	233,484	276,963	1,155,887	3.84
1997-98	4,305,082	1,595	2,764	648,640	245,784	261,183	1,155,607	3.73
1996-97	4,407,785	1,646	2,678	675,904	305,016	227,603	1,208,523	3.65

Notes:

Full time student equivalents = Total semester credit hours divided by 30 plus continuing education contact hours divided by 900.

(a) Annual Data Profile

(b) Source CBM001

(c) Source CBM00A

Table 6

Table 7

GALVESTON COMMUNITY COLLEGE DISTRICT

Principal Taxpayers
Last Ten Tax Years
(Unaudited)

Taxpayer	Type of Business	Taxable Assessed Value (TAV) by Tax Year (\$000 omitted)						
		2006	2005	2004	2003	2002	2001	2000
BP Products (NA) Inc	Refinery	\$ 1,285,600	1,096,800	795,500	644,400	618,800	24,900	-
Valero Refining - Texas LP	Refinery	324,300	275,400	323,900	289,000	371,800	417,600	515,500
Union Carbide Corp	Refinery	-	-	-	-	-	1,175,400	986,200
South Houston Green Power LP	Utilities	668,500	452,400	211,900	226,600	209,600	108,200	227,200
Sterling Chemicals Inc	Refinery	155,100	177,400	174,800	197,800	197,700	244,100	293,200
Praxair Inc	Supplier	115,800	116,700	184,700	157,500	166,800	186,600	329,300
BP Amoco Chemical Co.	Refinery	114,100	124,300	110,800	85,500	72,700	77,800	85,200
Marathon Petroleum Co. LLC	Refinery	281,700	111,100	119,000	67,500	-	-	-
ISP Technologies Inc.	Computers	132,800	104,274	78,900	46,300	47,800	50,500	39,700
B.A.S.F. Corp	Refinery	68,800	51,100	46,800	47,700	49,000	50,500	49,600
Ineds Styrenics	Refinery	-	-	-	-	-	125,100	190,300
Texas-New Mexico Power Co.	Utilities	63,000	60,300	28,200	40,500	30,400	51,500	37,800
Centerpoint Energy Inc.	Utilities	50,000	44,600	47,300	43,200	38,500	36,600	41,500
National Onshore LP	Utilities	44,600	47,400	46,700	44,100	102,700	-	-
Praxair Hydrogen Supply Inc.	Supplier	-	-	240,000	32,900	-	-	-
GTE Southwest Inc.	Utilities	-	-	-	-	81,200	84,200	84,600
Calpine Central LP	Utilities	35,500	35,200	34,000	33,800	33,800	37,400	40,000
Texas City Terminal Railway Co.	Railroad	26,800	55,300	64,700	71,600	-	-	-
Lyondell-Citgo Refining LP	Refinery	-	-	31,100	-	48,500	58,400	63,200
Totals		3,366,600	2,752,274	2,538,300	2,028,400	2,069,300	2,728,800	2,983,300
Total Taxable Assessed Value		\$ 160,659,611	143,755,010	144,656,435	132,638,435	121,912,395	129,618,815	133,981,476

Taxpayer	Type of Business	% of Taxable Assessed Value (TAV) by Tax Year						
		2006	2005	2004	2003	2002	2001	2000
BP Products (NA) Inc	Refinery	0.80%	0.76%	0.55%	0.49%	0.51%	0.02%	0.00%
Union Carbide Corp	Refinery	0.20%	0.19%	0.22%	0.22%	0.30%	0.32%	0.38%
Amoco Texas Refinery Co.	Refinery	0.00%	0.00%	0.00%	0.00%	0.00%	0.91%	0.74%
Valero Refining - Texas LP	Utilities	0.42%	0.31%	0.15%	0.17%	0.17%	0.08%	0.17%
Sterling Chemicals Inc	Refinery	0.10%	0.12%	0.12%	0.15%	0.16%	0.19%	0.22%
BP Amoco Chemical Co.	Supplier	0.07%	0.08%	0.13%	0.12%	0.14%	0.14%	0.25%
Marathon Petroleum Co. LLC	Refinery	0.07%	0.09%	0.08%	0.06%	0.06%	-	-
South Houston Green Power LP	Refinery	0.18%	0.08%	0.08%	0.05%	-	-	-
Praxair Inc	Computers	0.08%	-	-	-	-	-	-
ISP Technologies Inc.	Refinery	0.04%	0.04%	-	-	-	-	-
Reliant Energy HL & P	Refinery	-	0.00%	0.00%	0.00%	0.00%	0.10%	0.14%
B.A.S.F. Corp	Utilities	-	-	-	-	-	-	-
Texas-New Mexico Power Co.	Utilities	-	-	-	-	-	-	-
Centerpoint Energy Inc.	Utilities	-	-	-	-	-	-	-
MHCB (USA) Leasing & Finance	Supplier	-	-	-	-	-	-	0.00%
Texas City Cogeneration LP	Utilities	-	-	-	-	-	0.06%	0.06%
Praxair Hydrogen Supply Inc.	Utilities	-	-	-	-	0.03%	0.03%	0.03%
Calpine Central LP	Railroad	-	-	-	0.05%	0.00%	0.00%	-
Transtexas Gas Corp	Refinery	-	-	0.02%	0.00%	0.04%	-	-
Totals		2.10%	1.91%	1.77%	1.53%	1.70%	2.11%	2.23%

Source: Galveston County Central Appraisal District

Note: Information only available for seven years. Galveston College will implement prospectively.

GALVESTON COMMUNITY COLLEGE DISTRICT

Property Tax Levies and Collections
Last Ten Tax Years

(Unaudited)

(amounts expressed in thousands)

<u>Fiscal Year Ended August 31</u>	<u>Total Tax Levy (a)</u>	<u>Collections - Current Levy (b)</u>	<u>Percentage</u>	<u>Current Collections of Prior Levies (b)</u>	<u>Total Collections</u>	<u>Percentage of Current Levy</u>
2006	\$ 7,167	6,929	96.68%	\$ 241	7,170	100.04%
2005	6,450	6,243	96.79%	241	6,484	100.52%
2004	6,212	5,793	93.26%	243	6,036	97.17%
2003	5,386	5,259	97.64%	209	5,468	101.52%
2002	5,163	5,029	97.40%	209	5,238	101.46%
2001	4,824	4,592	95.19%	108	4,700	97.44%
2000	4,554	4,344	95.40%	119	4,463	98.02%
1999	4,158	3,977	95.65%	111	4,088	98.31%
1998	4,127	3,997	96.84%	182	4,179	101.26%

Note: Data available for nine year only. Galveston College will implement prospectively.

Source: Local Tax Assessor/Collector and District records

(a) As of August 31st of each year presented

(b) Property tax only - does not include penalties and interest

GALVESTON COMMUNITY COLLEGE DISTRICT

**Ratios of Outstanding Debt
Last Ten Fiscal Years
For the Year Ended August 31
(Unaudited)**

	For the Year Ended August 31, (amount expressed in thousands)									
	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Other Debt										
Revenue bonds	\$ 5,530	6,070	6,595	6,795	7,180	7,695	7,895	8,225	8,540	8,840
Notes	-	-	-	-	-	-	-	-	-	-
Capital lease obligations	-	-	-	-	-	-	-	-	-	-
Total Outstanding Debt	\$ 5,530	6,070	6,595	6,795	7,180	7,695	7,895	8,225	8,540	8,840
Total Outstanding Debt Ratios										
Per Capita	3.93	4.32	4.69	4.83	5.11	5.47	5.61	5.85	6.07	6.29
Per Student	237	260	282	291	308	330	338	352	366	379
As a percentage of Taxable Assessed Value	0.01%	0.01%	0.01%	0.01%	0.01%	0.01%	0.01%	0.01%	0.01%	0.01%

Note: Galveston College has no general obligation bonds.
Notes: Ratios calculated using population and TAV from current year. Debt per student calculated using full-time-equivalent enrollment.

Table 9

GALVESTON COMMUNITY COLLEGE DISTRICT

Legal Debt Margin Information Last Ten Fiscal Years (Unaudited)

Note: Galveston College has no general obligation bonds, therefore, this statistical schedule is not required to be completed.

	For the Year Ended August 31, (amount expressed in thousands)									
	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Taxable assessed value	\$ -	-	-	-	-	-	-	-	-	-
General obligation bonds	-	-	-	-	-	-	-	-	-	-
Statutory tax levy limit for debt service	-	-	-	-	-	-	-	-	-	-
Less: funds restricted for repayment of general obligation bonds	-	-	-	-	-	-	-	-	-	-
Total net general obligation debt	-	-	-	-	-	-	-	-	-	-
Current year debt service requirements	-	-	-	-	-	-	-	-	-	-
Excess of statutory limit for debt Service over Current Requirements	\$ -	-	-	-	-	-	-	-	-	-
Net current requirements as a % of statutory limit	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

Note: Texas Education Code Section 130.122 limits the debt service tax levy of community colleges to \$0.50 per hundred dollars taxable assessed valuation.

GALVESTON COMMUNITY COLLEGE DISTRICT

Pledged Revenue Coverage
Last Ten Fiscal Years
(Unaudited)

Fiscal Year Ended August 31	Pledged Revenues (\$000 omitted)							Debt Service Requirements (\$000 omitted)				Coverage Ratio
	Tuition	Community Education Fees	Building Use Fees	Photocopy Fees	Testing Fees	Misc Fees	Total	Principal	Interest	Total		
2006	\$ 87	94	513	108	23	-	825	540	181	721	1.14	
2005	98	91	594	133	27	21	964	525	194	719	1.34	
2004	86	112	537	120	15	18	888	6,795	252	7,047	7.93	
2003	77	117	533	107	4	11	849	385	428	813	1.04	
2002	82	82	442	124	4	17	751	515	451	966	1.29	
2001	129	145	555	-	-	10	839	350	466	816	1.03	
2000	127	141	551	-	-	10	829	330	483	813	1.02	
1999	125	137	547	-	-	10	819	315	498	813	1.01	
1998	123	133	543	-	-	10	809	300	513	813	1.00	
1997	121	129	539	-	-	10	799	290	526	816	0.98	

Note: Years 1999, 2000, 2001 are estimated based upon 1997 and 1998 data included in the Official Statement of the 1994 Series Combined Fee Revenue & Refunding Bonds

2004 principal payment represents bond refunding.

Table 11

GALVESTON COMMUNITY COLLEGE DISTRICT
Demographic and Economic Statistics - Taxing District
Last Ten Fiscal Years
(Unaudited)

Calendar Year	County of Galveston Population	Galveston County Personal Income (in millions of dollars)	Galveston County Personal Income Per Capita	Galveston County Unemployment Rate
2005 (a)	277,563	\$ 9,237	32,747	5.20%
2004 (a)	272,024	8,720	32,005	5.60%
2003 (a)	266,858	8,356	31,313	6.10%
2002	260,825	7,965	30,537	5.90%
2001	254,923	6,660	26,564	4.70%
2000	250,158	6,387	25,662	4.60%
1999	248,893	6,251	25,446	4.90%
1998	245,644	5,954	24,303	4.50%
1997	242,712	5,706	23,548	5.30%
1996	240,126	5,370	22,399	5.40%

Sources:

Population from U.S. Bureau of the Census

Personal income from U.S. Bureau of Economic Analysis

Unemployment rate from Texas Workforce Commission

Notes:

a. Personal income amounts from 2003-2005 are preliminary.

GALVESTON COMMUNITY COLLEGE DISTRICT

Principal Employers
August 31, 2006
(Unaudited)

<u>Employer</u>	<u>Number of Employees</u>	<u>Percentage of Total Employment</u>
University of Texas Medical Branch	10,081	55.71%
American National Insurance Company	1,530	8.46%
Galveston Independent School District	1,320	7.29%
Landry's Restaurants	1,245	6.88%
Galveston County (on Island only)	901	4.98%
Moody Gardens	840	4.64%
City of Galveston	750	4.14%
Fertitta Hospitality	687	3.80%
Texas A&M University of Galveston	429	2.37%
U.S. Army Corps of Engineers	312	1.72%
Total	<u>18,095</u>	<u>65.58%</u>

Source:

Galveston Chamber of Commerce, GEDP survey, 2005

Note:

Percentages are calculated using the midpoints of the ranges.

This institution previously did not present this schedule and choses to implement prospectively.

GALVESTON COMMUNITY COLLEGE DISTRICT

Faculty, Staff, and Administrators Statistics
Last Ten Fiscal Years
(Unaudited)

	Fiscal Year									
	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Faculty										
Full-Time	54	51	51	56	43	50	49	43	48	50
Part-Time	87	92	86	92	104	92	100	111	89	91
Total	<u>141</u>	<u>143</u>	<u>137</u>	<u>148</u>	<u>147</u>	<u>142</u>	<u>149</u>	<u>154</u>	<u>137</u>	<u>141</u>
Percent										
Full-Time	38.3%	35.7%	37.2%	37.8%	29.3%	35.2%	32.9%	27.9%	35.0%	35.5%
Part-Time	61.7%	64.3%	62.8%	62.2%	70.7%	64.8%	67.1%	72.1%	65.0%	64.5%
Staff and Administrators										
Full-Time	96	89	95	100	103	104	105	97	88	85
Part-Time	162	39	72	86	35	45	54	53	53	60
Total	<u>258</u>	<u>128</u>	<u>167</u>	<u>186</u>	<u>138</u>	<u>149</u>	<u>159</u>	<u>150</u>	<u>141</u>	<u>145</u>
Percent										
Full-Time	37.2%	69.5%	56.9%	53.8%	74.6%	69.8%	66.0%	64.7%	62.4%	58.6%
Part-Time	62.8%	30.5%	43.1%	46.2%	25.4%	30.2%	34.0%	35.3%	37.6%	41.4%
FTSE per Full-time Faculty	19.7	18.9	19.9	17.5	22.0	20.9	19.9	20.1	20.5	20.5
FTSE per Full-Time Staff Member	10.9	15.1	13.4	11.8	14.9	14.2	13.3	14.0	15.1	15.7
Average Faculty Salary Equated to 9 month contract	\$ 46,127	44,374	38,802	42,536	41,425	40,645	39,864	39,608	39,552	38,157

Notes: The number of full-time and part-time staff and administrators for years 1996, 1998, 2000 are estimated based on prior and subsequent year data available.
The average faculty salary equated to 9 month contract for year 2000 is estimated based on prior year data available.

Table 14

Table 15

GALVESTON COMMUNITY COLLEGE DISTRICT

Enrollment Details
Last Five Fiscal Years
(Unaudited)

Student Classification	Fall 2005		Fall 2004		Fall 2003		Fall 2002		Fall 2001	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
00-30 hours	1,631	73.63%	1,863	79.21%	1,750	78.13%	1,683	73.40%	1,748	79.20%
31-60 hours	394	17.79%	245	10.42%	257	11.47%	361	15.74%	255	11.55%
> 60 hours	140	6.32%	148	6.29%	138	6.16%	119	5.19%	89	4.03%
Unclassified	50	2.26%	96	4.08%	95	4.24%	130	5.67%	115	5.21%
Total	2,215	100.00%	2,352	100.00%	2,240	100.00%	2,293	100.00%	2,207	100.00%

Semester Hour Load	Fall 2005		Fall 2004		Fall 2003		Fall 2002		Fall 2001	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Less than 3	35	1.58%	37	1.57%	35	1.56%	48	2.09%	140	6.34%
3-5 semester hours	599	27.04%	646	27.47%	634	28.30%	608	26.52%	547	24.78%
6-8 Semester hours	600	27.09%	530	22.53%	524	23.39%	609	26.56%	519	23.52%
9-11 semester hours	292	13.18%	352	14.97%	314	14.02%	381	16.62%	329	14.91%
12-14 semester hours	536	24.20%	622	26.45%	602	26.88%	484	21.11%	517	23.43%
15-17 semester hours	143	6.46%	144	6.12%	118	5.27%	145	6.32%	129	5.85%
18 & over	10	0.45%	21	0.89%	13	0.58%	18	0.78%	26	1.18%
Total	2,215	100.00%	2,352	100.00%	2,240	100.00%	2,293	100.00%	2,207	100.00%

Average course load	8.6	8.8	8.6	8.5	8.4
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Tuition Status	Fall 2005		Fall 2004		Fall 2003		Fall 2002		Fall 2001	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Texas Resident (in-District)	2,126	95.98%	2,266	96.34%	2,165	96.65%	2,208	96.29%	2,151	97.46%
Texas Resident (out-of-District)	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%
Non-Resident Tuition	89	4.02%	86	3.66%	75	3.35%	85	3.71%	56	2.54%
Total	2,215	100.00%	2,352	100.00%	2,240	100.00%	2,293	100.00%	2,207	100.00%

Source: Data for the CBM001 and CBM01A reports.

Table 16

GALVESTON COMMUNITY COLLEGE DISTRICT

Student Profile
Last Five Fiscal Years
(Unaudited)

	Fall 2005		Fall 2004		Fall 2003		Fall 2002		Fall 2001	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Gender										
Female	1,427	64.42%	1,528	64.97%	1,475	65.85%	1,494	65.15%	1,439	65.20%
Male	788	35.58%	824	35.03%	765	34.15%	799	34.85%	768	34.80%
Total	2,215	100.00%	2,352	100.00%	2,240	100.00%	2,293	100.00%	2,207	100.00%
Ethnic Origin										
White	1,159	52.33%	1,253	53.27%	1,181	52.72%	1,183	51.59%	1,182	53.56%
Hispanic	535	24.15%	542	23.04%	520	23.21%	515	22.46%	485	21.98%
African American	414	18.69%	450	19.13%	422	18.84%	480	20.93%	450	20.39%
Asian	67	3.02%	61	2.59%	67	2.99%	65	2.83%	62	2.81%
Foreign	33	1.49%	38	1.62%	38	1.70%	38	1.66%	23	1.04%
Native American	6	0.27%	5	0.21%	8	0.36%	8	0.35%	5	0.23%
Unknown/not reported	1	0.05%	3	0.14%	4	0.18%	4	0.18%	-	0.00%
Total	2,215	100.00%	2,352	100.01%	2,240	100.00%	2,293	100.01%	2,207	100.00%
Age										
Under 18	235	10.61%	248	10.54%	267	11.92%	276	12.04%	204	9.24%
18 - 21	754	34.04%	778	33.08%	764	34.11%	750	32.71%	788	35.70%
22 - 24	299	13.50%	374	15.90%	328	14.64%	318	13.87%	287	13.00%
25 - 35	533	24.06%	546	23.21%	501	22.37%	538	23.46%	455	20.62%
36 - 50	301	13.59%	310	13.18%	292	13.04%	314	13.69%	295	13.37%
51 & over	93	4.20%	96	4.08%	88	3.93%	97	4.23%	178	8.07%
Total	2,215	100.00%	2,352	100.00%	2,240	100.00%	2,293	100.00%	2,207	100.00%
Average Age	27		27		26		28		29	

Source: Data from the CBM001 and CBM0A reports.

Table 17

GALVESTON COMMUNITY COLLEGE DISTRICT

Transfers to Senior Institutions
2001 Fall Students as of Fall 2002
(Includes only public senior colleges in Texas)
(Unaudited)

	Transfer Student Count <u>Academic</u>	Transfer Student Count <u>Technical</u>	Transfer Student Count <u>Tech-Prep</u>	Total of all Transfer Students	% of all Transfer Students
1 Texas A&M University at Galveston	166	2		168	30.00%
2 University of Houston at Clear Lake	50	4	1	55	9.82%
3 Lamar University	50			50	8.93%
4 Texas A&M University	46	2		48	8.57%
5 The University of Texas at Austin	40	1		41	7.32%
6 University of Texas Medical Branch Galveston	33	7		40	7.14%
7 University of Houston	30	1		31	5.54%
8 Sam Houston State University	22	2	1	25	4.46%
9 Southwest Texas State University	22	3		25	4.46%
10 Prairie View A&M University	13			13	2.32%
11 University of North Texas	10			10	1.79%
12 Texas Southern University	8	1		9	1.61%
13 Stephen F. Austin State University	8			8	1.43%
14 The University of Texas at Arlington	6	1		7	1.25%
15 The University of Texas at San Antonio	4	1		5	0.89%
16 Texas Women's University	4			4	0.71%
17 University of Houston - Downtown	2	1	1	4	0.71%
18 Midwestern State University		3		3	0.54%
19 Sul Ross State University	2			2	0.36%
20 Texas A&M University at Commerce	2			2	0.36%
21 University of Texas Health Science Center at Houston	2			2	0.36%
22 Tarleton State University	1			1	0.18%
23 Texas A&M University at Corpus Christi	1			1	0.18%
24 Texas A&M University at Kingsville	1			1	0.18%
25 Texas A&M University at Texarkana	1			1	0.18%
26 Texas Tech University	1			1	0.18%
27 The University of Texas at Dallas	1			1	0.18%
28 University of Houston at Victoria	1			1	0.18%
29 The University of Texas M.D. Anderson Cancer Center		1		1	0.18%
Totals	<u>527</u>	<u>30</u>	<u>3</u>	<u>560</u>	<u>100.00%</u>

GALVESTON COMMUNITY COLLEGE DISTRICT

Capital Assets Information
 Fiscal Years 2002 to 2006
 (Unaudited)

	Fiscal Year				
	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Academic buildings	4	4	4	4	4
Square footage (in thousands)	243	243	243	243	243
Libraries	1	1	1	1	1
Square footage (in thousands)	13	13	13	13	13
Number of Volumes (in thousands)	35	35	34	34	33
Administrative and support buildings	1	1	1	1	1
Square footage (in thousands)	46	46	46	46	46
Apartments	14	14	10	10	10
Square footage (in thousands)	14	14	10	10	10
Number of beds	56	56	52	52	52
Dining Facilities	1	1	1	1	1
Square footage (in thousands)	8	8	8	8	8
Average daily customers	400	375	350	325	300
Athletic Facilities	2	2	2	2	2
Square footage (in thousands)	53	53	53	53	53
Gymnasiums	1	1	1	1	1
Fitness Centers	1	1	1	1	1
Plant facilities	1	1	1	1	1
Square footage (in thousands)	3	3	3	3	3
Light Trucks/Vans	5	5	4	4	3