

City of Galesburg, Illinois

Comprehensive Annual Financial Report

December 31, 2005

Prepared by:
Finance Department

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May 8, 2006

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

State law requires that every general-purpose local government publish within six months of the close of each fiscal year a complete set of audited financial statements. This report is published to fulfill that requirement for the fiscal year ended December 31, 2005.

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon, a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

McGladrey & Pullen, LLP has issued an unqualified ("clean") opinion on the City of Galesburg's financial statements for the year ended December 31, 2005. The independent auditor's report is located at the front of the financial section of this report.

Management's discussion and analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview and analysis of the basic financial statements. MD&A complement this letter of transmittal and should be read in conjunction with it.

Profile of the Government

The City of Galesburg, incorporated on February 14, 1857, is located on Interstate 74 in Northwest Illinois. The City is approximately 50 miles east of the Mississippi River. It currently occupies 17.6 square miles and serves a population of 33,706. The City of Galesburg is empowered to levy a property tax on real property located within its boundaries. It also is empowered by state statute to extend its corporate limits by annexation, which it has done from time to time.

The City is a home rule municipality and has operated under the Council-Manager form of government since 1956. Policy-making and legislative authority are vested in a governing council (Council) consisting of seven aldermen and a mayor. The Council appoints the government's City manager, who in turn appoints the heads of the various departments. The aldermen are elected, for four year terms, from defined City wards. Residents of each ward vote for their ward's alderman only. All city residents elect the mayor for a four-year term.

The City of Galesburg provides a full range of services, including police and fire protection; water service; garbage collection; recycling collection; landscape waste collection; parks; campground; municipal airport; municipal golf course; municipal indoor swimming pool; water park; recreational programs; public library; community center; cemeteries and the care of streets and sidewalks. The City of Galesburg also is financially accountable for a legally separated public library and also the Town of the City of Galesburg, both of which are reported separately within the City of Galesburg's financial statements. Additional information on these legally separate entities can be found in the notes to basic financial statements.

The Council is required to adopt a final budget before the beginning of the fiscal year to which it applies. This annual budget serves as the foundation for the City of Galesburg's financial planning and control. The budget is prepared by fund, function (e.g., public safety) and department (e.g., police). Department heads may transfer resources within a division as they see fit. Transfer between departments, however, need special approval from the City Council.

Local economy

The Galesburg area has gained a number of large and small businesses as well as expanding existing businesses. In the past seven years, there have been over 3,050 new jobs created in the Galesburg area. These new jobs have produced over \$200,000,000 in investments. The Galesburg area is a dynamic market which has a lot to offer new businesses and residents. The two major markets, which border Galesburg to the north and east, are experiencing similar booms. To the north is the Quad Cities area which is the third largest metropolitan area outside of Chicago, and to the east is Peoria which ranks fourth. The borders of these two major markets, being located 30-minutes away, provide positive interest in the Galesburg area.

Galesburg draws from a large labor pool that is comprised of much more than those who reside in Galesburg. A commuting survey performed in 2003 by Paragon Decision Resources, Inc. shows that Galesburg pulls employees from a 50-minute drive time radius. There are 880,000 people with a labor force totaling 365,280 in this area. The area's 300-mile radius comprises 34 million people, or 15% of the United States population. This is the largest 300-mile market west of Chicago; 4 million more than St. Louis, Missouri, and 19 million more than Kansas City, Kansas.

Per capita income is approximately \$24,382. In 1995 the unemployment rate was 5.3%. In 2004 the rate had risen to 9.40%. The majority of the increase is attributed to the closure of the Maytag plant in 2004. In ten years, school enrollment decreased by 323 students to 4,777 students in 2004. Again, some of the decrease in students can be attributed to the Maytag plant closure but also to the decline in City's birth rate.

Long-term financial planning

As a strategic plan, the City along with the Galesburg Regional Economic Development Association (GREDA) is marketing a logistics park consisting of 350 acres. The overall layout of the park is rectangular. The ground is relatively flat, and ranges from 759 feet to 785 feet in elevation. The water table for the site is approximately five feet, adjusting according to the season.

The location of the logistics park is exceptional as Interstate 74 is adjacent to the north of the park, the Burlington Northern Santa Fe Railway and Illinois Route 150 are adjacent to the south of the park and Knox County Highway 10 is adjacent to the east of the park.

All infrastructures are adjacent to the site. Additional infrastructure improvements have been implemented in 2005 such as water line extension, sewer extension, broadband upgrades and curb cuts. With sites ready and available, GREDA is working diligently to locate the first company to establish in the logistics park.

As a result of the annexation of the logistics park properties, various properties became contiguous to the City limits. These properties have an existing water agreement in which the City agreed to provide water to the properties; and the owners agreed to annex the properties into the City once the property became contiguous to the corporate limits.

In 2005, Council approved a three year extension on the City's current economic development incentive resolution which includes a section regarding the TIF II District. This section established an area in the TIF II area along the south side of East Main Street from Michigan Avenue to Interstate 74 that provides a developer a guaranteed 50% property tax and sales tax increment reimbursement for any project developed in the area. This incentive would have expired on March 31, 2005.

This economic development incentive was developed at the request of the Galesburg Development Group, a group which is marketing the area. The guaranteed incentive allows Galesburg Development Group to go to a developer with an incentive that they know the City Council will approve.

Also, during 2005, two companies have shown interest in developing two different shopping sites in the near future in Galesburg. The companies have commented that Galesburg has potential of becoming another shopping hub for local residents. With these two developments, interest may spark other businesses to locate in Galesburg thus producing more jobs in the community. The City of Galesburg and its citizens would also benefit in the increase in property tax and sales tax revenue generated by these developments. With the additional revenues, the City can continue to provide quality services to those individuals living in the community.

Relevant financial policies

The City's Investment Policy is presented and approved on an annual basis for City Council's review to ensure the policy is kept current and in compliance with State law. The annual review is conducted subsequent to audit fieldwork and includes a review of the Illinois State Statutes to ensure the policy complies with State law. The goal of the City management is to have 100% of its idle funds invested at all times interest bearing accounts. This goal will ensure City management is using the available funds to their maximum. The Investment Policy states that all available funds are managed and invested with three primary objectives listed in priority order: safety, liquidity and return on investment. Investment opportunities are limited by the parameters found in Illinois Statutes 30ILCS235. The prudent person standard is used in managing the City's overall portfolio.

Each year the City's Financial Policies are reviewed and updated where necessary to take into account changes in GAAP, Government Audit Standards and the City's budget process. The financial policies include a definition of the financial reporting entity, measurement focus and basis of accounting, operating revenue policies, operating expense policies, balance sheet policies, budget policies, capital improvement policies, vehicle replacement plan policies, building repair and maintenance plan policies, computer replacement plan policies, debt policies, risk management policies and GASB 34.

The Council annually approves the financial policies to ensure funds are spent and managed in the most cost effective manner based on the services provided while ensuring the financial records are maintained in accordance with GAAP, Government Auditing Standards and state and federal laws.

Major Initiatives

In 2005, a joint agreement with the Illinois Department of Transportation, the City and the Galesburg Sanitary District was established and the work completed for a downtown storm sewer project. The project included installing new storm sewers on Cherry St. from Cedar Creek to Tompkins Street, on Main St. from Cherry Street to Chambers Street, and on Kellogg St. from Main St. to Simmons Street. After all new sewers were installed, all affected streets were resurfaced. The City of Galesburg was awarded the authority for this project. The IDOT and the City Engineering Division were jointly responsible for the construction engineering of the project. This project improved the storm sewer system in the downtown area.

In order to provide a quality water system at an economical price, the City staff researches new technology and cost effective ways to work smarter. In 2005, the Water Division budgeted and purchased a Sensus Radio Read Metering System and 1,000 Associated Radio Read Meters. This system allows the division to retrieve water meter information from customers through radio signals designed to be sent to a computer carried in a Water Division vehicle. This information will be transferable into the financial software. By utilizing this technology, the City will ultimately be saving money in man hours needed to collect necessary information.

The City of Galesburg received a grant for the purpose of adding a water main that will serve as a fire protection line and as a water service line for Heat and Control facilities located on IL Route 164 and other potential customers along the proposed route. A 12-inch water main was constructed along the south side of IL Route 164; the majority of which will be on the public right-of-way thru permit from the Illinois Department of Transportation.

The City completed a Request for Proposal (RFP) for banking services. The responses to the RFP were evaluated based on cost of services, interest rates offered on accounts, financial strength of the institution, and experience in providing similar services. A committee was established to review the responses to the proposal. Due to the five year banking service contract, the City will be able to minimize fees paid for banking and custodial services through the competitive pricing offered through the proposals.

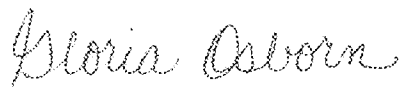
Awards and Acknowledgements

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Galesburg for its comprehensive annual financial report (CAFR) for the fiscal year ended December 31, 2004. This was the tenth consecutive fiscal year that the government received this prestigious award. In order to be awarded a Certificate of Achievement, the government had to publish an easily readable and efficiently organized CAFR that satisfied both general accepted accounting principles and applicable legal requirements.

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

The preparation of this report would not have been possible without the efficient and dedicated service of the entire staff of the finance and all other offices that provided assistance and support throughout the preparation of this report. We extend our appreciation to everyone who assisted in this effort. I would also like to thank the Mayor and the City Council for their unfailing support for maintaining the highest standards of professionalism in the management of the City of Galesburg's finances.

Respectfully submitted,

A handwritten signature in cursive script that reads "Gloria Osborn".

Gloria Osborn
Director of Finance and Information Systems

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Galesburg,
Illinois

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2004

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Carla E. Perry

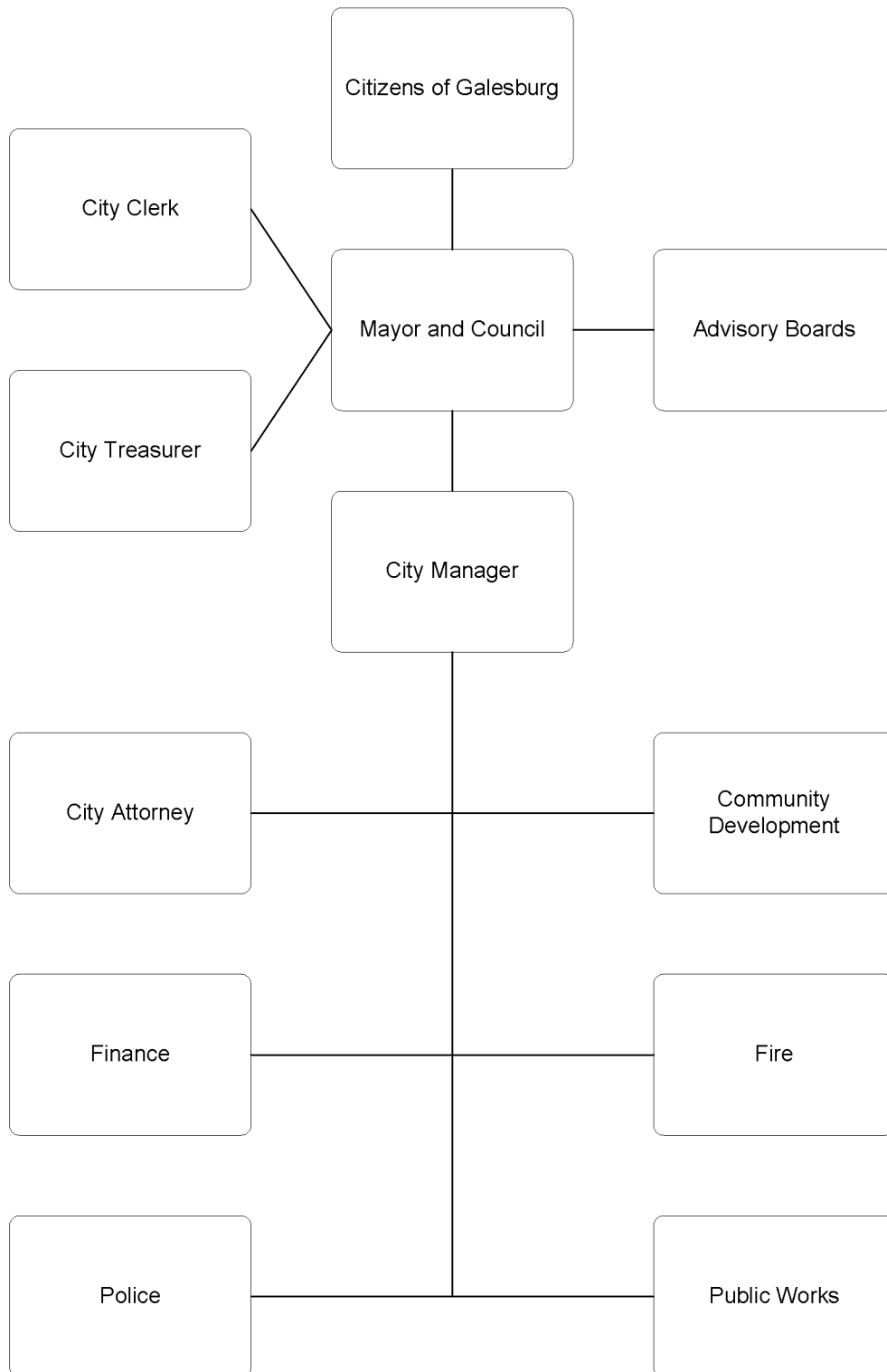
President

Jeffrey R. Emswiler

Executive Director

City of Galesburg, Illinois

Organizational Chart
Year Ended December 31, 2005



City of Galesburg, Illinois

Elected and Appointed City Officials
Year Ended December 31, 2005

Elected Officials

Gary C. Smith
Mayor

Aldermen:

Mike Spah, First Ward
Bill Kendall, Second Ward
Monte Gifford, Third Ward
Lomac Payton, Fourth Ward
Karen Lafferty, Fifth Ward
Wayne Allen, Sixth Ward
Roland Paulsgrove, Seventh Ward

Anita Carlton
City Clerk

Rebecca Mason
City Treasurer

Appointed Officials

Gary Goddard
City Manager

Department Directors:

Roy Parkin, Director of Community Development
Gloria Osborn, Director of Finance and Information Systems
Larry Cox, Director of Public Works
John Cratty, Fire Chief
John Schlaf, Police Chief

McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council
City of Galesburg, Illinois

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Galesburg, Illinois as of and for the year ended December 31, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Galesburg, Illinois' management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the basic financial statements of the Town of the City of Galesburg, the blended component unit, which represents 2 percent and 3 percent, respectively, of the assets and program and general revenues of the governmental activities and represents 2 percent and 7 percent, respectively, of the aggregate remaining fund information assets and revenues. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Town of the City of Galesburg, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Town of the City of Galesburg were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Galesburg, Illinois as of December 31, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 28, 2006 on our consideration of the City of Galesburg Illinois's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. 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 Audit Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 3 through 12, budgetary comparison information on pages 67 through 70 and the Pension Plans Schedules of Funding Progress and Schedules of Employer Contributions on pages 64 through 66 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Galesburg, Illinois' basic financial statements. The combining and individual nonmajor fund financial statements and other schedules, listed in the table of contents as supplementary information, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Nonprofit Organizations* and is not a required part of the basic financial statements. Such information for the year ended December 31, 2005 has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion and the opinion of the other auditors, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The accompanying introductory and statistical sections, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in our audit of the basic financial statements and, accordingly, we express no opinion on them.

McGladrey & Pullen, LLP

Davenport, Iowa
April 28, 2006

City of Galesburg, Illinois

Management's Discussion and Analysis For the Year Ended December 31, 2005

It is an honor to present to you the financial picture of the City of Galesburg, Illinois. We offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City of Galesburg, Illinois for the year ended December 31, 2005. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal.

Financial Highlights

The assets of the City of Galesburg exceeded its liabilities as of December 31, 2005 and 2004 by \$80,228,751 and \$77,328,455 (net assets), respectively. Of this amount, \$34,731,383 for 2005 and \$32,137,259 for 2004 is unrestricted and may be used to meet the government's ongoing obligations to citizens and creditors.

The government's total net assets increased by \$2,900,296 and \$5,066,115 during the years ended December 31, 2005 and 2004, respectively.

As of December 31, 2005, the City of Galesburg's governmental funds reported combined ending fund balances of \$35,560,006, an increase of \$1,477,445 from the prior year. Approximately 62 percent of this total amount, \$22,207,147, is available for spending at the government's discretion (unreserved fund balance). As of December 31, 2004, the City of Galesburg's governmental funds reported combined ending fund balances of \$34,082,561, an increase of \$2,588,922 from the prior year. Approximately 57 percent of this total amount, \$19,461,598, is available for spending at the government's discretion (unreserved fund balance).

As of December 31, 2005, unreserved undesignated fund balance for the General Fund was \$7,128,366 or 43 percent of total General Fund expenditures and \$5,871,904 or 33 percent for 2004.

The City of Galesburg, Illinois' total long-term debt, excluding compensated absences, decreased by \$763,418 (5 percent) during the year ended December 31, 2005 due to scheduled debt payments and no new debt issued in 2005. The City of Galesburg, Illinois' total long-term debt, excluding compensated absences, decreased by \$648,021 (4 percent) during the year ended December 31, 2004 due to scheduled debt payments and no new debt issued in 2004.

Overview of the Financial Statements

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

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

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

City of Galesburg, Illinois

Management's Discussion and Analysis For the Year Ended December 31, 2005

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

Both of the government-wide financial statements distinguished functions of the City of Galesburg that are principally supported by taxes (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City of Galesburg include general government, economic development, public safety, public works and culture and recreation. The business-type activities of the City of Galesburg include water, refuse and an eighteen-hole golf course.

The government-wide financial statements include the City of Galesburg, Illinois, the Town of the City of Galesburg, Illinois (blended component unit) and the Galesburg Public Library (discretely presented component unit). There are no other organizations or agencies whose financial statements should be combined and presented with the financial statements of the City.

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

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

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

The City of Galesburg, Illinois maintains twenty-three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General Fund, Economic Development Fund, General Obligation Debt Fund and the GO Bonds 2000 Fund which are considered to be major funds. Data from the other nineteen governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

City of Galesburg, Illinois

Management's Discussion and Analysis For the Year Ended December 31, 2005

The City adopts an annual appropriated budget for all of its funds. A budgetary comparison statement has been provided as required supplementary information for the General Fund and Economic Development Fund, to demonstrate compliance with this budget on pages 67 through 70.

Proprietary funds – The City of Galesburg maintains two types of proprietary funds: enterprise and internal service. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. As of December 31, 2005, the City of Galesburg maintained three enterprise funds. The Golf Course Fund, a nonmajor enterprise fund, was closed out on January 1, 2005 to the General Fund. Internal service funds are used to report the same functions presented as governmental-type activities in the government-wide financial statements. The City maintains two internal service funds. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water Fund, as this fund is considered to be a major fund of the City of Galesburg. Data from the other two enterprise funds are combined into a single, aggregated presentation and data from the two internal service funds are combined into a single aggregated presentation. Individual fund data for each of these nonmajor proprietary funds and internal service funds is provided in the form of combining statements elsewhere in this report.

Fiduciary funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City of Galesburg, Illinois' own programs. The fiduciary funds of the City are pension trust funds. Total net assets of the fiduciary funds was \$40,714,938 as of December 31, 2005.

Notes to basic financial statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information – In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City of Galesburg, Illinois' progress in funding its obligation to provide pension benefits to its employees and the General Fund and Economic Development Fund, budgetary comparison.

The combining statements referred to earlier in connection with nonmajor governmental funds, nonmajor enterprise funds and internal service funds are presented immediately following the notes to basic financial statements and the required supplementary information.

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The City's total net assets have increased from a year ago. Table 1 reflects total net assets of \$80,228,751, which represents an increase of \$2,990,296 from 2004.

City of Galesburg, Illinois

Management's Discussion and Analysis For the Year Ended December 31, 2005

Of the City of Galesburg's net assets, as of December 31, 2005 and 2004, 47 percent reflects its investment in capital assets (e.g., land, construction-in-progress, land improvements, buildings and improvements, machinery and equipment and infrastructure), less any related debt used to acquire those assets that are still outstanding for both years. The City of Galesburg uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

Table 1 - City of Galesburg's Net Assets

	Governmental Activities December 31, 2005	Governmental Activities December 31, 2004	Business-Type Activities December 31, 2005	Business-Type Activities December 31, 2004	Total December 31, 2005	Total December 31, 2004
Current and other assets	\$ 46,189,951	\$ 45,087,071	\$ 9,125,184	\$ 8,146,000	\$ 55,315,135	\$ 53,233,071
Capital assets	41,269,224	40,676,074	10,805,088	10,844,285	52,074,312	51,520,359
Total assets	87,459,175	85,763,145	19,930,272	18,990,285	107,389,447	104,753,430
Noncurrent liabilities	14,209,731	14,856,300	23,077	21,767	14,232,808	14,878,067
Other liabilities	11,617,949	11,626,835	1,309,939	920,073	12,927,888	12,546,908
Total liabilities	25,827,680	26,483,135	1,333,016	941,840	27,160,696	27,424,975
Net assets:						
Invested in capital assets, net of related debt	26,686,008	25,329,440	10,805,088	10,844,285	37,491,096	36,173,725
Restricted	8,006,272	9,017,471	-	-	8,006,272	9,017,471
Unrestricted	26,939,215	24,933,099	7,792,168	7,204,160	34,731,383	32,137,259
Total net assets	\$ 61,631,495	\$ 59,280,010	\$ 18,597,256	\$ 18,048,445	\$ 80,228,751	\$ 77,328,455

A restricted portion of the City's net assets (23 percent as of December 31, 2005 and 12 percent as of December 31, 2004) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$34,731,383 for 2005 and \$32,137,259 for 2004, may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City of Galesburg, Illinois is able to report positive balances in all three categories of net assets. The same situation held true for the prior fiscal year.

The City's total net assets increased by \$2,990,296 during the year ended December 31, 2005 compared to \$5,066,115 during the year ended December 31, 2004. The governmental-type activities' net assets increased by \$2,351,485 in 2005 and \$3,726,800 in 2004. The total business-type activities' net assets increased by \$548,811 in 2005 and \$1,339,315 in 2004. This increase was mainly attributable to continued positive earnings on investments, successful completion and approval of federal and state grants, and the self-supporting capability of one of the business-type activities, the Water Fund, to cover the expenses of the program with revenues generated through user charges.

Table 2 highlights the City's revenues and expenses for the years ended December 31, 2005 and 2004. These two main components are subtracted to yield the change in net assets. This table utilizes the full accrual method of accounting.

City of Galesburg, Illinois

**Management's Discussion and Analysis
For the Year Ended December 31, 2005**

Revenue is further divided into two major components: program revenue and general revenue. Program revenue is defined as charges for sales and services, operating grants and contributions and capital grants and contributions. General revenue includes taxes, investment income and other unrestricted revenue sources.

Table 2 - City of Galesburg's Changes in Net Assets

	Governmental Activities December 31, 2005	Governmental Activities December 31, 2004	Business-Type Activities December 31, 2005	Business-Type Activities December 31, 2004	Total December 31, 2005	Total December 31, 2004
Revenues:						
Program revenues:						
Charges for services	\$ 4,414,306	\$ 3,405,413	\$ 4,454,944	\$ 4,883,462	\$ 8,869,250	\$ 8,288,875
Operating grants and contributions	2,683,969	872,289	-	-	2,683,969	872,289
Capital grants and contributions	1,805,324	1,350,964	-	-	1,805,324	1,350,964
General revenues:						
Property taxes	5,561,438	6,006,019	-	-	5,561,438	6,006,019
Sales taxes	10,443,838	9,472,884	-	-	10,443,838	9,472,884
Other taxes	1,351,234	2,768,237	-	-	1,351,234	2,768,237
Franchise fees	301,470	288,976	-	-	301,470	288,976
Investment earnings	818,873	503,711	160,513	242,015	979,386	745,726
Miscellaneous	77,787	1,059,073	8,211	338	85,998	1,059,411
Total revenues	27,458,239	25,727,566	4,623,668	5,125,815	32,081,907	30,853,381
Expenses:						
General government	5,481,000	4,828,694	-	-	5,481,000	4,828,694
Economic development	387,024	498,905	-	-	387,024	498,905
Public safety	8,801,857	8,414,239	-	-	8,801,857	8,414,239
Public works	7,104,102	5,103,610	-	-	7,104,102	5,103,610
Culture and recreation	2,494,499	2,212,413	-	-	2,494,499	2,212,413
Debt service, interest	887,767	942,905	-	-	887,767	942,905
Water	-	-	2,618,961	2,206,053	2,618,961	2,206,053
Golf	-	-	16,625	299,502	16,625	299,502
Refuse	-	-	1,389,776	1,280,945	1,389,776	1,280,945
Total expenses	25,156,249	22,000,766	4,025,362	3,786,500	29,181,611	25,787,266
Increase in net assets before transfers	2,301,990	3,726,800	598,306	1,339,315	2,900,296	5,066,115
Transfers	49,495	-	(49,495)	-	-	-
Net assets, beginning	59,280,010	55,553,210	18,048,445	16,709,130	77,328,455	72,262,340
Net assets, ending	\$ 61,631,495	\$ 59,280,010	\$ 18,597,256	\$ 18,048,445	\$ 80,228,751	\$ 77,328,455

