



CITY OF
Freeport, Texas

2025
ANNUAL
FINANCIAL
REPORT

FOR FISCAL YEAR ENDED
SEPTEMBER 30, 2025

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ANNUAL FINANCIAL REPORT

of the

City of Freeport, Texas

**For the Year Ended
September 30, 2025**

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City of Freeport, Texas

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September 30, 2025

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Freeport, Texas (the "City") as of and for the year ended September 30, 2025, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements 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 Freeport, Texas, as of September 30, 2025, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. We are required to be independent of City of Freeport, Texas and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

The City's management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the

preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Emphasis of Matter

As discussed in Note V.G. to the financial statements, due to corrections to accounts payable, assets, intergovernmental payable, and the implementation of GASB 101 over compensated absences, the City restated beginning fund balance/net position for the general fund, governmental activities, water and sewer fund/business type-activities and the Freeport EDC. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

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

Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated March 24, 2026 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely 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 effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control over financial reporting and compliance.

Brooks Watson & Co.

Brooks Watson & Co.
Certified Public Accountants
Houston, Texas
March 24, 2026

*MANAGEMENT'S DISCUSSION
AND ANALYSIS*

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City of Freeport, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

September 30, 2025

As management of the City of Freeport, Texas (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2025. We encourage readers to consider the information presented here in conjunction with additional information contained in this report.

Financial Highlights

- The City's total combined net position is \$57,333,700 at September 30, 2025.
- At the close of the current fiscal year, the City's governmental funds reported combined fund balances of \$22,265,844, an increase of \$750,904.
- The City had an overall increase in net position of \$10,252,265.
- The City closed the year with a net pension liability of \$5,666,250.

Overview of the Financial Statements

The discussion and analysis provided here are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) the notes to financial statements. This report also includes supplementary information intended to furnish additional detail to support the basic financial statements themselves.

Government-Wide Statements

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

The *statement of net position* presents information on all of the City's assets and liabilities. The difference between the two is reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. Other non-financial factors, such as the City's property tax base and the condition of the City's infrastructure, need to be considered in order to assess the overall health of the City.

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

City of Freeport, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2025

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, public works, culture and recreation, and economic development. The business-type activities of the City include water and sewer, and sanitation operations.

FUND FINANCIAL STATEMENTS

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

Governmental Funds

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

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

The City maintains twelve 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, capital projects fund, city grants, and 2020 CO bond CIP fund, which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in a separate section of the report.

The City adopts an annual appropriated budget for its general, debt service, 2020 CO bond CIP, certain special revenue and water/sewer funds. A budgetary comparison statement has been provided for the general and debt service fund to demonstrate compliance with their respective budget.

City of Freeport, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*
September 30, 2025

Proprietary Funds

The City maintains one type of proprietary fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses an enterprise fund to account for its water and sewer utility operations. All activities associated with providing such services are accounted for in this fund, including administration, operation, maintenance, debt service, capital improvements, meter maintenance, billing and collection. The City's intent is that costs of providing the services to the general public on a continuing basis is financed through user charges in a manner similar to a private enterprise.

Proprietary financial statements 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 utility fund, which is considered to be a major fund of the City.

Component Units

The City maintains the accounting and financial statements for two component units. The Freeport Economic Development Corporation is a discretely presented component unit displayed on the government-wide financial statements.

The TIRZ fund is a special purpose fund that collects property taxes within its boundaries for the purpose of infrastructure development. The fund's board consists of the EDC Board and a representative from each additional participating jurisdiction and is reported as a blended component unit, as it functions similar to a department of the City.

Notes to Financial Statements

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

Other Information

In addition to the basic financial statements, MD&A, and accompanying notes, this report also presents certain Required Supplementary Information (RSI). The required RSI includes a budgetary comparison schedule for the general fund, schedule of changes in the net pension liability and related ratios and schedule of employer contributions for the Texas Municipal Retirement System. RSI can be found after the basic financial statements.

City of Freeport, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2025

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted previously, net position may serve over time as a useful indicator of the City's financial position. For the City of Freeport, assets and deferred outflows exceeded liabilities and deferred inflows by \$57,333,700 as of September 30, 2025, in the primary government.

The largest portion of the City's net position, \$37,421,393, reflects its investments in capital assets (e.g., land, city hall, police station, streets, and drainage systems, as well as the public works facilities), less any debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the assets themselves cannot be used to liquidate these liabilities.

Statement of Net Position:

The following table reflects the condensed Statement of Net Position:

	2025			2024		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Current and other assets	\$ 28,645,177	\$ 3,831,527	\$ 32,476,704	\$ 24,875,650	\$ 7,065,472	\$ 31,941,122
Capital assets, net	23,610,390	31,103,868	54,714,258	23,641,250	16,512,576	40,153,826
Total Assets	52,255,567	34,935,395	87,190,962	48,516,900	23,578,048	72,094,948
Deferred Outflows	1,487,074	25,124	1,512,198	2,039,969	30,291	2,070,260
Other liabilities	5,135,138	1,921,822	7,056,960	1,804,238	3,171,577	4,975,815
Long-term liabilities	14,227,453	8,064,157	22,291,610	14,685,746	4,923,581	19,609,327
Total Liabilities	19,362,591	9,985,979	29,348,570	16,489,984	8,095,158	24,585,142
Deferred Inflows	2,009,425	11,465	2,020,890	1,800,734	6,833	1,807,567
Net Position:						
Net investment in capital assets	16,973,840	20,447,553	37,421,393	16,359,316	12,461,510	28,820,826
Restricted	5,355,863	-	5,355,863	7,970,539	-	7,970,539
Unrestricted	10,040,922	4,515,522	14,556,444	7,936,296	3,044,838	10,981,134
Total Net Position	\$ 32,370,625	\$ 24,963,075	\$ 57,333,700	\$ 32,266,151	\$ 15,506,348	\$ 47,772,499

City of Freeport, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2025

Governmental activities current and other assets increased by \$3,769,527 when compared to the prior year primarily due to a general fund surplus. Total capital assets increased by \$14,560,432 due to new capital investments and infrastructure improvements throughout the year. Total other liabilities for business-type activities decreased by \$1,249,755 primarily due to greater vendor payables in the prior year. Total long-term liabilities increased by \$2,682,283 primarily due to the issuance of a new loan to fund the purchase of new water meters.

Statement of Activities:

The following table provides a summary of the City's changes in net position:

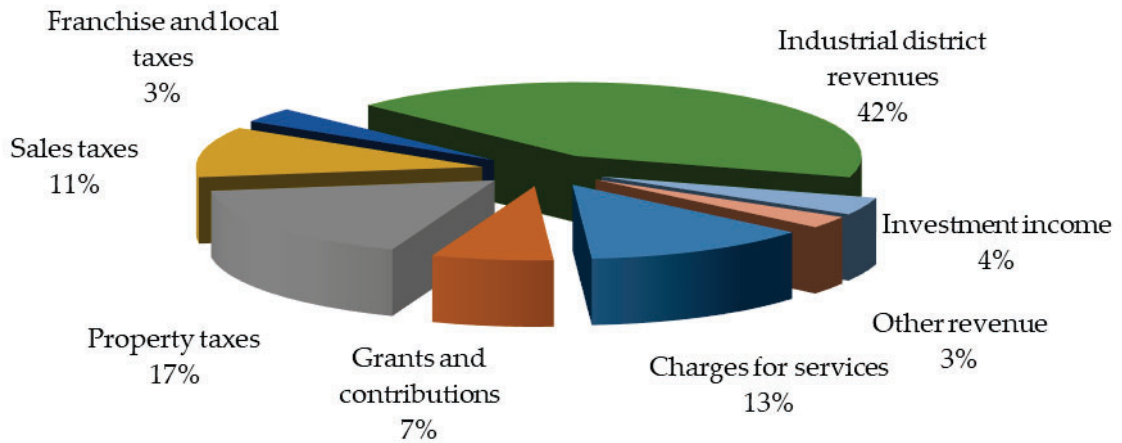
	For the Year Ended September 30, 2025			For the Year Ended September 30, 2024		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
			Primary Government			Primary Government
Revenues						
Program revenues:						
Charges for services	\$ 3,181,037	\$ 6,987,274	\$ 10,168,311	\$ 3,173,384	\$ 7,855,889	\$ 11,029,273
Grants and contributions	1,705,568	7,650,982	9,356,550	445,282	3,199,175	3,644,457
General revenues:						
Property taxes	4,198,769	-	4,198,769	4,318,958	-	4,318,958
Sales taxes	2,749,139	-	2,749,139	2,649,294	-	2,649,294
Franchise and local taxes	811,967	-	811,967	780,370	-	780,370
Industrial district revenues	10,556,052	-	10,556,052	9,413,205	-	9,413,205
Investment income	956,138	149,629	1,105,767	1,266,509	190,405	1,456,914
Other revenue	652,719	-	652,719	445,872	-	445,872
Total Revenues	24,811,389	14,787,885	39,599,274	22,492,874	11,245,469	33,738,343
Expenses						
General government	3,546,333	-	3,546,333	3,260,635	-	3,260,635
Public safety	9,734,679	-	9,734,679	9,239,723	-	9,239,723
Culture and recreation	3,718,746	-	3,718,746	3,602,223	-	3,602,223
Streets and drainage	2,192,125	-	2,192,125	2,131,361	-	2,131,361
Sanitation	803,387	-	803,387	763,915	-	763,915
Service center	240,004	-	240,004	336,906	-	336,906
Disaster relief	253,155	-	253,155	1,437,304	-	1,437,304
Interest and fiscal charges	151,516	206,367	357,883	141,315	76,369	217,684
Water and sewer	-	8,500,696	8,500,696	-	7,429,192	7,429,192
Total Expenses	20,639,946	8,707,063	29,347,009	20,913,382	7,505,561	28,418,943
Change in Net Position						
Before Transfers	4,171,443	6,080,822	10,252,265	1,579,492	3,739,908	5,319,400
Transfers	(3,375,905)	3,375,905	-	(387,024)	387,024	-
Total	(3,375,905)	3,375,905	-	(387,024)	387,024	-
Change in Net Position	795,538	9,456,727	10,252,265	1,192,468	4,126,932	5,319,400
Beginning Net Position	31,575,087 *	15,506,348	47,081,435	31,073,683	11,379,416	42,453,099
Ending Net Position	\$ 32,370,625	\$ 24,963,075	\$ 57,333,700	\$ 32,266,151	\$ 15,506,348	\$ 47,772,499

*Beginning net position was restated due to the implementation of GASB 101.

City of Freeport, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2025

Graphic presentations of selected data from the summary tables are displayed below to assist in the analysis of the City's activities.

Governmental Activities - Revenues

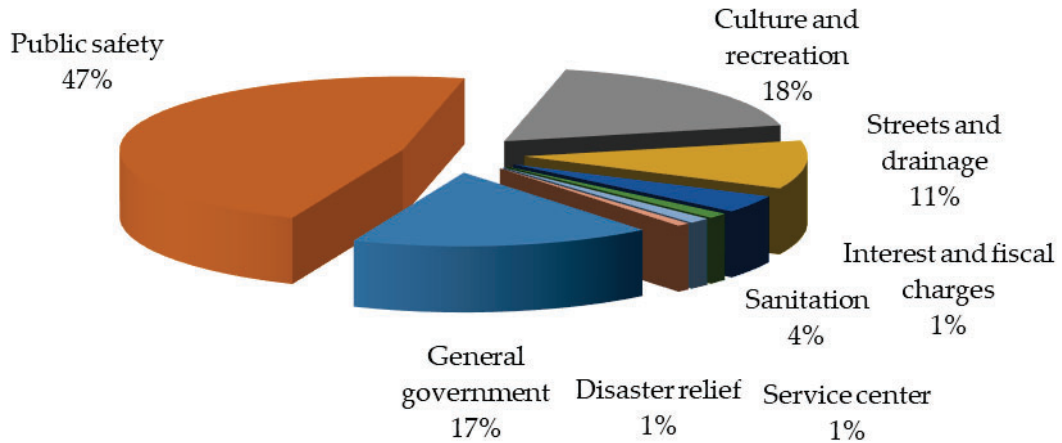


For the year ended September 30, 2025, revenues from governmental activities totaled \$24,811,389. Industrial district revenues are the City's largest revenue sources. Grants and contributions increased by \$1,260,286 or 283% primarily due to nonrecurring Hurricane Beryl and justice assistance grants in the year. Property tax revenues decreased by \$120,189 or 3% primarily due to a reduction in the M&O and I&S tax rates. Sales tax revenues increased by \$99,845 or 4% primarily due to economic growth in the current year. Franchise and local tax revenues increased by \$31,597 or 4% primarily due to greater hotel occupancy rates and utility/garage franchise fees received in the current year. Investment income decreased by \$310,371 or 25% due to the realization of higher interest rates in the prior year. Other revenues increased by \$206,847 or 46% due to the nonrecurring donations, insurance settlements and lease income. All other revenues remained relatively stable when compared to the previous year.

City of Freeport, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2025

This graph shows the governmental function expenses of the City:

Governmental Activities - Expenses

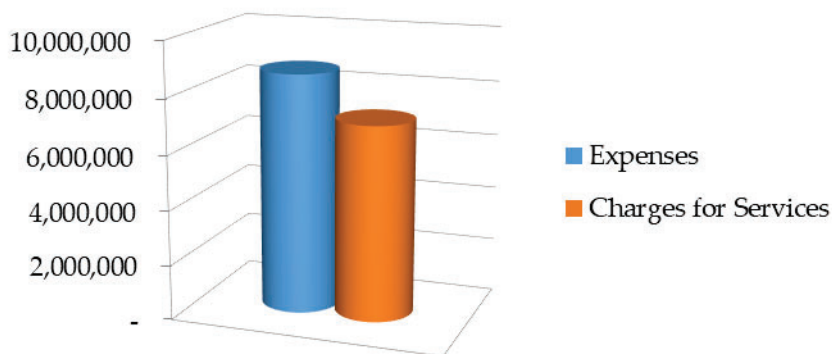


For the year ended September 30, 2025, expenses for governmental activities totaled \$20,639,946. This represents a decrease of \$273,436 or 1% from the prior year. General government expenses increased by \$285,699 or 9% due to an increase in the pension liability and software service contracts in the current year. Disaster relief expenses decreased by \$1,184,149 due to Hurricane Beryl related costs in the prior year. Public safety expenses increased \$494,956 or 5% due to an increase in the pension liability and salary and related expenses. All remaining expenses remained relatively consistent with the previous year.

City of Freeport, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2025

Business-type activities are shown comparing operating costs to revenues generated by related services.

Business-Type Activities - Revenues and Expenses



For the year ended September 30, 2025, charges for services by business-type activities totaled \$6,987,274. This is a decrease of \$868,615 or 11% from the previous year. This decrease is directly related to the discontinuation of service to the Village of Surfside in March of the current year, and a reduction in consumption. Grants increased by \$4,451,807 due to nonrecurring GLO and TDEM grant activity in the current year.

Business-type activities expenses increased by \$1,071,504 or 14% primarily due to greater water costs from the Brazosport Water Authority as well as higher wastewater processing charges from Veolia. In addition, depreciation was increased in the current year.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

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

As of the end of the year the general fund reflected a fund balance of \$15,093,592. The general fund had a net increase in fund balance for the year of \$3,806,742. This increase was primarily due to greater than anticipated revenues and less than expected expenditures. In addition, the fund received greater industrial district tax revenues when compared to the prior year.

City of Freeport, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*
September 30, 2025

The capital projects fund reflected a fund balance of \$3,159,667, which represents a decrease of \$3,292,186. The decrease is related to transfers out of the fund and capital expenditures exceeding current year investment income.

There was an increase in the 2020 CO Bond CIP fund of \$41,002 during the year, leaving a year end fund balance of \$1,067,586. The increase in fund balance is directly related to transfers in and investment income exceeding capital outlay expenditures.

Proprietary Funds - The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

GENERAL FUND BUDGETARY HIGHLIGHTS

There was a total positive budget variance of \$3,109,217 in the general fund. This represents a combination of positive revenue, expenditure, and other financing sources variances of \$2,651,218, \$67,990, and \$390,009, respectively. The City amended the original general fund budget for fiscal year 2025 by increasing total revenues by \$30,270 and increasing total expenditures by \$30,270. The streets and drainage, sanitation, capital outlay, principal, and interest/fiscal charges expenditures exceeded appropriations at the legal level of budgetary control.

CAPITAL ASSETS

As of the end of the year, the City's governmental activities funds had invested \$23,610,390 in a variety of capital assets and infrastructure, net of accumulated depreciation. Depreciation is included with the governmental capital assets as required by GASB Statement No. 34. The City's business-type activities funds had invested \$31,103,868 in a variety of capital assets and infrastructure, net of accumulated depreciation.

Major capital asset events during the current year include the following:

- New roof for the recreation center for \$127,892
- Leased assets for the golf course in the amount of \$404,509.
- Improvements to the fire station for \$202,683.
- Made sewer improvements totaling \$1,189,962.
- Port lift station improvements in the amount of \$933,900.
- Smart water meter additions for \$3,194,467.
- Made improvements to the WWTP for \$9,567,532.
- Made lift station improvements for \$368,850.

City of Freeport, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2025

More detailed information about the City's capital assets is presented in note IV. C to the financial statements.

LONG-TERM DEBT

At the end of the current year, the City had total bonds, notes payable, and leases outstanding (including premiums) of \$15,527,770. The City entered into a new note payable to finance the replacement of water meters in the amount of \$3,561,250 in the current year. The City also made principal repayments on outstanding debt totaling \$1,093,823. More detailed information about the City's long-term liabilities is presented in note IV. E to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Each year the budget is prepared on key objectives and assumptions. The property tax rate for fiscal year 2026 (tax year 2025) is \$0.514 per \$100 of assessed value, which is less than the tax rate for fiscal year 2025 (tax year 2024), which was \$0.515. The Maintenance and Operation rate decreased by \$0.015927 per \$100 of assessed values while the Interest and Sinking rate decreased by \$0.001676 per \$100 of assessed value. Property tax revenue for the City is budgeted \$79 thousand higher than the previous year which is a 1.9% increase. Of this revenue, the majority of the revenue was from changes in market value of property within the City of Freeport.

The City of Freeport has multiple industrial agreements that are based off property tax rates as well. In the fiscal year 2026 budget, these revenues were estimated to increase by 11.56% over the fiscal year 2025 budget.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the City of Freeport's finances for all those with an interest in the City's finances. Questions concerning this report or requests for additional financial information should be directed to the City Finance Director, 1201 North Avenue H, Freeport, TX 77541.

FINANCIAL STATEMENTS

City of Freeport, Texas
STATEMENT OF NET POSITION (Page 1 of 2)
September 30, 2025

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<u>Assets</u>			
Cash and cash equivalents	\$ 23,259,346	\$ 2,765,297	\$ 26,024,643
Due from primary government	-	-	-
Receivables, net	1,522,627	3,170,355	4,692,982
Lease receivables, current	155,198	-	155,198
Internal balances	2,166,959	(2,166,959)	-
Prepays	265,207	62,834	328,041
Total Current Assets	27,369,337	3,831,527	31,200,864
Lease receivables, noncurrent	1,275,840	-	1,275,840
Capital assets:			
Non-depreciable	3,075,895	12,424,168	15,500,063
Net depreciable capital assets	20,534,495	18,679,700	39,214,195
Total Noncurrent Assets	24,886,230	31,103,868	55,990,098
Total Assets	52,255,567	34,935,395	87,190,962
 <u>Deferred Outflows of Resources</u>			
Pension outflows	1,468,126	24,804	1,492,930
OPEB outflows - TMRS	8,111	137	8,248
OPEB outflows - Health	10,837	183	11,020
Total Deferred Outflows of Resources	1,487,074	25,124	1,512,198

See Notes to Financial Statements.

Component Unit

Freeport

EDC

\$	3,718,640
	67,370
	270,067
	-
	-
	-
	<u>4,056,077</u>

-

	2,456,056
	234,085
	<u>2,690,141</u>
	<u>6,746,218</u>

	36,834
	204
	-
	<u>37,038</u>

City of Freeport, Texas
STATEMENT OF NET POSITION (Page 2 of 2)
September 30, 2025

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<u>Liabilities</u>			
Current liabilities:			
Accounts payable and accrued liabilities	\$ 4,477,944	\$ 912,194	\$ 5,390,138
Unearned revenue	24,230	-	24,230
Customer deposits	-	311,720	311,720
Accrued interest	70,819	182,601	253,420
Due to component unit	67,370	-	67,370
Compensated absences, current	494,775	2,496	497,271
Long-term debt due within one year	727,882	512,811	1,240,693
	<u>5,863,020</u>	<u>1,921,822</u>	<u>7,784,842</u>
Noncurrent liabilities:			
Net pension liability	5,437,943	91,872	5,529,815
OPEB liability - TMRS	372,870	6,300	379,170
OPEB liability - Health	191,822	3,245	195,067
Compensated absences, noncurrent	520,681	277	520,958
Long-term debt due in more than one year	6,976,255	7,962,463	14,938,718
Total Noncurrent Liabilities	<u>13,499,571</u>	<u>8,064,157</u>	<u>21,563,728</u>
Total Liabilities	<u>19,362,591</u>	<u>9,985,979</u>	<u>29,348,570</u>
<u>Deferred Inflows of Resources</u>			
Pension inflows	428,195	7,234	435,429
OPEB inflows - TMRS	71,070	1,201	72,271
OPEB inflows - Health	179,122	3,030	182,152
Leases	1,331,038	-	1,331,038
Total Deferred Inflows of Resources	<u>2,009,425</u>	<u>11,465</u>	<u>2,020,890</u>
<u>Net Position</u>			
Net investment in capital assets	16,973,840	20,447,553	37,421,393
Restricted for:			
Capital projects	3,159,667	-	3,159,667
Municipal court	352,378	-	352,378
Economic development	963,358	-	963,358
Debt service	488,219	-	488,219
Tourism	392,241	-	392,241
Unrestricted	10,040,922	4,515,522	14,556,444
Total Net Position	<u>\$ 32,370,625</u>	<u>\$ 24,963,075</u>	<u>\$ 57,333,700</u>

See Notes to Financial Statements.

Component Unit
Freeport
EDC

\$	41,045
	-
	-
	-
	-
	12,438
	-
	<hr/>
	53,483
	<hr/>
	136,435
	9,355
	-
	13,495
	-
	<hr/>
	159,285
	<hr/>
	212,768
	<hr/>
	10,743
	1,783
	-
	-
	<hr/>
	12,526
	<hr/>
	2,690,141
	-
	-
	3,867,821
	-
	-
	-
	<hr/>
\$	6,557,962
	<hr/>

City of Freeport, Texas

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2025

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities				
General government	\$ 3,546,333	\$ 388,081	\$ -	\$ -
Public safety	9,734,679	1,111,681	1,096,719	-
Streets and drainage	2,192,125	170,468	-	-
Culture and recreation	3,718,746	1,510,357	-	-
Sanitation	803,387	450	-	-
Service center	240,004	-	-	-
Disaster relief	253,155	-	608,849	-
Interest and fiscal charges	151,516	-	-	-
Total Governmental Activities	20,639,946	3,181,037	1,705,568	-
Business-Type Activities				
Water and sewer	8,707,063	6,987,274	-	7,650,982
Total Business-Type Activities	8,707,063	6,987,274	-	7,650,982
Total Primary Government	\$ 29,347,009	\$ 10,168,311	\$ 1,705,568	\$ 7,650,982
Component Unit				
Freeport EDC	873,853	-	-	-
Total Component Unit	\$ 873,853	\$ -	\$ -	\$ -

General Revenues:

- Taxes
 - Property taxes
 - Sales taxes
 - Industrial district
 - Franchise and local taxes
- Investment income
- Other revenue

Transfers

Total General Revenues and Transfers

Change in Net Position

- Beg. Net Position, as previously reported
- Error correction
- New accounting standard
- Beg. Net Position, as adjusted
- Ending Net Position**

See Notes to Financial Statements.

Net (Expense) Revenue and Changes in Net Position

Primary Government		Component Unit	
Governmental Activities	Business-Type Activities	Total	Freeport EDC
\$ (3,158,252)	\$ -	\$ (3,158,252)	\$ -
(7,526,279)	-	(7,526,279)	-
(2,021,657)	-	(2,021,657)	-
(2,208,389)	-	(2,208,389)	-
(802,937)	-	(802,937)	-
(240,004)	-	(240,004)	-
355,694	-	355,694	-
(151,516)	-	(151,516)	-
(15,753,341)	-	(15,753,341)	-
-	5,931,193	5,931,193	-
-	5,931,193	5,931,193	-
(15,753,341)	5,931,193	(9,822,148)	-
			(873,853)
			(873,853)
4,198,769	-	4,198,769	-
2,749,139	-	2,749,139	1,374,569
10,556,052	-	10,556,052	-
811,967	-	811,967	-
956,138	149,629	1,105,767	145,002
652,719	-	652,719	5,936
(3,375,905)	3,375,905	-	-
16,548,879	3,525,534	20,074,413	1,525,507
795,538	9,456,727	10,252,265	651,654
32,363,811	16,045,560	48,409,371	5,931,705
(97,660)	(539,212)	(636,872)	(13,582)
(691,064)	-	(691,064)	(11,815)
31,575,087	15,506,348	47,081,435	5,906,308
\$ 32,370,625	\$ 24,963,075	\$ 57,333,700	\$ 6,557,962

City of Freeport, Texas

BALANCE SHEET GOVERNMENTAL FUNDS September 30, 2025

	General	Capital Projects	2020 CO Bond CIP Fund	City Grants
<u>Assets</u>				
Cash and cash equivalents	\$ 13,123,893	\$ 3,630,017	\$ 1,067,586	\$ 955,983
Receivables, net	2,627,563	-	-	25,714
Prepays	214,619	-	-	-
Due from other funds	1,845,441	-	-	2,166,959
Total Assets	\$ 17,811,516	\$ 3,630,017	\$ 1,067,586	\$ 3,148,656
<u>Liabilities</u>				
Accounts payable and accrued liabilities	\$ 842,857	\$ 470,350	\$ -	\$ 3,148,656
Unearned revenues	24,230	-	-	-
Due to component unit	67,370	-	-	-
Due to other funds	-	-	-	-
Total Liabilities	934,457	470,350	-	3,148,656
<u>Deferred Inflows of Resources</u>				
Unavailable revenue:				
Property tax	168,989	-	-	-
EMS	283,440	-	-	-
Leases	1,331,038	-	-	-
Total Deferred Inflows	1,783,467	-	-	-
<u>Fund Balances</u>				
Nonspendable				
Prepays	214,619	-	-	-
Restricted for:				
Capital projects	-	3,159,667	1,067,586	-
Municipal court	-	-	-	-
Debt service	-	-	-	-
Tourism	-	-	-	-
Economic development	-	-	-	-
Assigned for:				
Facilities and grounds	-	-	-	-
Streets and drainage	2,747,743	-	-	-
IT equipment	-	-	-	-
Unassigned reported in:				
General fund	12,131,230	-	-	-
Nonmajor funds	-	-	-	-
Total Fund Balances	15,093,592	3,159,667	1,067,586	-
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 17,811,516	\$ 3,630,017	\$ 1,067,586	\$ 3,148,656

See Notes to Financial Statements.

Nonmajor Governmental Funds	Total Governmental Funds
\$ 4,481,867	\$ 23,259,346
300,388	2,953,665
50,588	265,207
-	4,012,400
<u>\$ 4,832,843</u>	<u>\$ 30,490,618</u>
\$ 16,081	\$ 4,477,944
-	24,230
-	67,370
1,845,441	1,845,441
<u>1,861,522</u>	<u>6,414,985</u>
26,322	195,311
-	283,440
-	1,331,038
<u>26,322</u>	<u>1,809,789</u>
50,588	265,207
-	4,227,253
352,378	352,378
488,219	488,219
392,241	392,241
963,358	963,358
2,208,334	2,208,334
-	2,747,743
223,593	223,593
-	12,131,230
(1,733,712)	(1,733,712)
<u>2,944,999</u>	<u>22,265,844</u>
<u>\$ 4,832,843</u>	<u>\$ 30,490,618</u>

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City of Freeport, Texas

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

September 30, 2025

Fund Balances - Total Governmental Funds	\$	22,265,844
Adjustments for the Statement of Net Position:		
Capital assets used in governmental activities are not current financial resources and, therefore, not reported in the governmental funds.		
Capital assets - non-depreciable		3,075,895
Capital assets - net depreciable		20,534,495
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds.		
Property tax		195,311
EMS		283,440
Deferred outflows of resources, represent a consumption of net position that applies to a future period(s) and is not recognized as an outflow of resources (expenditure) until then.		
Pension outflows		1,468,126
OPEB outflows - TMRS		8,111
OPEB outflows - Health		10,837
Deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.		
Pension inflows		(428,195)
OPEB inflows - TMRS		(71,070)
OPEB inflows - Health		(179,122)
Some liabilities, including bonds payable and deferred charges, are not reported as liabilities in the governmental funds.		
Accrued interest		(70,819)
Deferred (gains) charges:		
For bond premiums		(265,022)
Net pension liability		(5,437,943)
OPEB liability - TMRS		(372,870)
OPEB liability - Health		(191,822)
Compensated absences		(1,015,456)
Bonds, notes, & lease liabilities		(7,439,115)
Net Position of Governmental Activities	\$	32,370,625

See Notes to Financial Statements.

City of Freeport, Texas

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE GOVERNMENTAL FUNDS

For the Year Ended September 30, 2025

	General	Capital Projects	2020 CO Bond CIP Fund	City Grants
Revenues				
Property tax	\$ 3,358,614	\$ -	\$ -	\$ -
Sales tax	2,749,139	-	-	-
Industrial district	10,556,052	-	-	-
Franchise and local taxes	686,770	-	-	-
License and permits	170,468	-	-	-
Intergovernmental	7,597	-	-	480,273
Fines and forfeitures	286,489	-	-	-
Charges for services	3,202,741	-	-	-
Investment income	511,848	238,620	41,002	-
Other revenue	654,000	-	-	-
Total Revenues	22,183,718	238,620	41,002	480,273
Expenditures				
Current:				
General government	2,573,528	-	-	77,935
Public safety	8,816,131	-	-	-
Streets and drainage	1,501,527	-	-	-
Sanitation	803,387	-	-	-
Culture and recreation	3,315,171	-	-	-
Service center	212,430	-	-	-
Disaster relief	-	-	-	-
Capital outlay	1,113,451	344,239	-	63,000
Debt Service:				
Principal	333,753	-	-	-
Interest and fiscal charges	55,942	-	-	-
Total Expenditures	18,725,320	344,239	-	140,935
Excess of Revenues Over (Under) Expenditures	3,458,398	(105,619)	41,002	339,338

Nonmajor Governmental Funds	Total Governmental Funds
\$ 889,497	\$ 4,248,111
-	2,749,139
-	10,556,052
162,741	849,511
-	170,468
608,849	1,096,719
101,592	388,081
-	3,202,741
164,668	956,138
-	654,000
1,927,347	24,870,960

22,000	2,673,463
25,314	8,841,445
-	1,501,527
-	803,387
-	3,315,171
-	212,430
253,155	253,155
1,148,628	2,669,318
365,000	698,753
129,569	185,511
1,943,666	21,154,160

(16,319)	3,716,800
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City of Freeport, Texas

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE GOVERNMENTAL FUNDS

For the Year Ended September 30, 2025

	General	Capital Projects	2020 CO Bond CIP Fund	City Grants
<u>Other Financing Sources (Uses)</u>				
Lease issuance	\$ 404,509	\$ -	\$ -	\$ -
Sales of assets	5,500	-	-	-
Transfers in	150,000	-	-	-
Transfers (out)	(211,665)	(3,186,567)	-	(339,338)
Total Other Financing Sources (Uses)	348,344	(3,186,567)	-	(339,338)
Net Change in Fund Balances	3,806,742	(3,292,186)	41,002	-
Beg. fund balances, as previously reported	11,384,510	6,451,853	1,026,584	-
Error correction	(97,660)	-	-	-
Beg. fund balance, as adjusted	11,286,850	6,451,853	1,026,584	-
Ending Fund Balances	\$ 15,093,592	\$ 3,159,667	\$ 1,067,586	\$ -

See Notes to Financial Statements.

Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ 404,509
-	5,500
211,665	361,665
-	(3,737,570)
<u>211,665</u>	<u>(2,965,896)</u>
195,346	750,904
2,749,653	21,612,600
-	(97,660)
<u>2,749,653</u>	<u>21,514,940</u>
<u>\$ 2,944,999</u>	<u>\$ 22,265,844</u>



City of Freeport, Texas

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2025

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

Net changes in fund balances - total governmental funds	\$	750,904
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay		2,361,018
Depreciation expense		(2,185,027)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Property tax		(49,342)
EMS		28,596
Franchise taxes		(37,544)

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Compensated absences		(37,702)
Accrued interest		(2,140)
Pension expense		(370,451)
OPEB expense		13,628

The issuance of long-term debt (e.g., bonds, leases, certificates of obligation) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of deferred costs, premiums, discounts, and similar items when they are first issued; whereas, these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Amortization of premium		36,135
Lease issuance		(404,509)
Lease forgiven		200,070
Principal payments		698,753

		<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="border-top: 1px solid black;">Change in Net Position of Governmental Activities</td> <td style="border-top: 1px solid black; text-align: right;">\$</td> <td style="border-top: 1px solid black; text-align: right;">795,538</td> </tr> </table>	Change in Net Position of Governmental Activities	\$	795,538
Change in Net Position of Governmental Activities	\$	795,538			

See Notes to Financial Statements.

City of Freeport, Texas

STATEMENT OF NET POSITION

PROPRIETARY FUND

September 30, 2025

	<u>Water & Sewer</u>
<u>Assets</u>	
<u>Current Assets</u>	
Cash and cash equivalents	\$ 2,765,297
Receivables, net	3,170,355
Prepays	62,834.00
Total Current Assets	5,998,486
<u>Noncurrent Assets</u>	
Capital assets:	
Non-depreciable	12,424,168
Net depreciable capital assets	18,679,700
Total Noncurrent Assets	31,103,868
Total Assets	37,102,354
<u>Deferred Outflows of Resources</u>	
Pension outflows	24,804
OPEB outflows - TMRS	137
OPEB outflows - Health	183
Total Deferred Outflows of Resources	25,124

City of Freeport, Texas
STATEMENT OF NET POSITION
PROPRIETARY FUND (Continued)
September 30, 2025

	Water & Sewer
<u>Liabilities</u>	
<u>Current Liabilities</u>	
Accounts payable and accrued liabilities	\$ 912,194
Customer deposits	311,720
Due to other funds	2,166,959
Accrued interest	182,601
Compensated absences, current	2,496
Long-term debt due within one year	512,811
Total Current Liabilities	4,088,781
<u>Noncurrent Liabilities</u>	
Net pension liability	91,872
OPEB liability - TMRS	6,300
OPEB liability - Health	3,245
Compensated absences, noncurrent	277
Long-term debt due in more than one year	7,962,463
Total Liabilities	12,152,938
<u>Deferred Inflows of Resources</u>	
Pension inflows	7,234
OPEB inflows - TMRS	1,201
OPEB inflows - Health	3,030
Total Deferred Inflows of Resources	11,465
<u>Net Position</u>	
Net investment in capital assets	20,447,553
Unrestricted	4,515,522
Total Net Position	\$ 24,963,075

See Notes to Financial Statements.

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City of Freeport, Texas

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

For the Year Ended September 30, 2025

	Water & Sewer
<u>Operating Revenues</u>	
Charges for services	\$ 6,987,274
Total Operating Revenues	6,987,274
 <u>Operating Expenses</u>	
Personnel services	242,206
Materials and supplies	34,975
Water purchases	3,358,000
Contractual services	3,679,685
Other	420,171
Depreciation	704,409
Total Operating Expenses	8,439,446
Operating Income (Loss)	(1,452,172)
 <u>Nonoperating Revenues (Expenses)</u>	
Investment income	149,629
Interest expense	(206,367)
Debt issuance costs	(61,250)
Total Nonoperating Revenues (Expenses)	(117,988)
Income (Loss) Before Transfers	(1,570,160)
 <u>Transfers and Contributions</u>	
Capital grants and contributions	7,650,982
Transfers in	3,525,905
Transfers (out)	(150,000)
Total Transfers and Contributions	11,026,887
Change in Net Position	9,456,727
Beg. net position, as previously reported	16,045,560
Error correction	(539,212)
Beginning net position	15,506,348
Ending Net Position	\$ 24,963,075

See Notes to Financial Statements.

City of Freeport, Texas
STATEMENT OF CASH FLOWS
PROPRIETARY FUND (Page 1 of 2)
For the Year Ended September 30, 2025

	Water & Sewer
<u>Cash Flows from Operating Activities</u>	
Receipts from customers	\$ 7,117,471
Payments to employees	(225,420)
Payments to suppliers and contractors	(9,177,514)
Net Cash Used for Operating Activities	(359,229)
<u>Cash Flows from Noncapital Financing Activities</u>	
Transfers in	3,525,905
Transfers (out)	(150,000)
Net Cash Provided (Used) by Noncapital Financing Activities	3,375,905
<u>Cash Flows from Capital and Related Financing Activities</u>	
Capital purchases	(15,295,701)
Capital contributions	7,650,982
Principal paid on debt	(195,000)
Interest paid on debt	(110,549)
Net Cash (Used for) Capital and Related Financing Activities	(4,337,839)
<u>Cash Flows from Investing Activities</u>	
Interest on investments	149,629
Net Cash Provided by Investing Activities	149,629
Net (Decrease) in Cash and Cash Equivalents	(1,171,534)
Beginning cash and cash equivalents	3,936,831
Ending Cash and Cash Equivalents	\$ 2,765,297

See Notes to Financial Statements.

City of Freeport, Texas
STATEMENT OF CASH FLOWS
PROPRIETARY FUND (Page 2 of 2)
For the Year Ended September 30, 2025

	Water & Sewer
<u>Reconciliation of Operating Income</u>	
<u>to Net Cash Provided by Operating Activities</u>	
Operating Income	\$ (1,452,172)
Adjustments to reconcile operating income to net cash provided:	
Depreciation	704,409
Changes in Operating Assets and Liabilities:	
(Increase) Decrease in:	
Accounts receivable	132,277
Prepaid expenses	3,900
Deferred Outflows of Resources:	
Pension outflows	5,178
OPEB outflows	(11)
Increase (Decrease) in:	
Accounts payable and accrued liabilities	(1,688,583)
Customer deposits	(2,080)
Compensated absences	987
Net pension liability	4,660
OPEB liabilities	1,340
Deferred Inflows of Resources:	
Pension inflows	4,687
OPEB inflows	(55)
Net Cash Used for Operating Activities	\$ (359,229)

See Notes to Financial Statements.

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City of Freeport, Texas
NOTES TO FINANCIAL STATEMENTS
September 30, 2025

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. *Governmental activities*, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

B. Reporting Entity

The City of Freeport (City) operates under a Home Rule Charter adopted in a special election on June 20, 1960. The City operates under a Council-Manager form of government and provides the following services as authorized by its charter: public services, streets and drainage, sanitation, health and building inspections, culture-recreation, public improvements, planning and zoning, and general administrative services.

The City is an independent political subdivision of the State of Texas governed by an elected council and is considered a primary government for financial reporting purposes as its activities are not considered a part of any other governmental or other type of reporting entity. As required by generally accepted accounting principles, these basic financial statements have been prepared based on considerations regarding the potential for inclusion of other entities, organizations, or functions as part of the City's financial reporting entity. The Freeport Economic Development Corporation ("FEDC") is legally separate and presented as a discretely presented component unit. The Tax Increment Reinvestment Zone No. 1 Fund ("TIRZ #1") is a blended component unit and presented as a nonmajor governmental fund. No other entities have been included in the City's reporting entity. Additionally, as the City is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity.

Considerations regarding the potential for inclusion of other entities, organizations or functions in the City's financial reporting entity are based on criteria prescribed by generally accepted accounting principles. These same criteria are evaluated in considering whether the City is a part of any other governmental or other type of reporting entity. The overriding elements associated with prescribed criteria considered in determining that the City's financial reporting entity status is that of a primary government are that it has a separately

City of Freeport, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
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elected governing body; it is legally separate; and is fiscally independent of other state and local governments. Additionally, prescribed criteria under generally accepted accounting principles include considerations pertaining to organizations for which the primary government is financially accountable, and considerations pertaining to organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Blended Component Unit

Tax Increment Reinvestment Zone No. 1 Fund ("TIRZ")

On December 2, 2019, the City passed ordinance No. 2019-2590 designating a 345-acre tract of land to promote development along the Brazos River and the downtown area of the City. It creates dedicated funding for infrastructure within the district and an incentive for people to come and do business through the TIRZ from the additional property tax dollars generated in the district as a result of development. This district is set to collect 50% of the incremental new tax dollars generated to plug back into the district to foster additional development. The operations of the TIRZ are set to continue through December 31, 2049. The TIRZ can be dissolved at an earlier time if a subsequent ordinance is passed by the City and all subsequent issuances of tax increment bonds including interest, if any, along with project costs are paid in full.

Discretely Presented Component Unit

Freeport Economic Development Corporation

The City Council authorized the creation and approved the Articles of Incorporation and the Bylaws of the Freeport Economic Development Corporation (the Corporation). The Articles of Incorporation were filed with the Office of the Secretary of State of Texas on December 20, 1999. The Corporation, a nonprofit corporation, organized under Section 4B of the development Corporation Act of 1979 was created to act on behalf of the City in the promotion and financing of projects so as to promote public welfare.

The Corporation is governed by a seven-member board of directors appointed by the City Council. All projects must have prior approval of the City Council. The voters of Freeport approved collection of a one-half cent sales tax, effective November 2, 1999, to fund the cost of land, buildings, equipment, facilities, improvements and maintenance and operation costs for public park purposes, recreational facilities and infrastructure improvements for development of new or expanded business enterprises.

City of Freeport, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
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C. Basis of Presentation Government-Wide and Fund Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds while business-type activities incorporate data from the government's enterprise funds. Separate financial statements are provided for governmental funds and the proprietary funds.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments in lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the government's water and transit functions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

The fund financial statements provide information about the government's funds, including its blended component units. Separate statements for each fund category—governmental and proprietary are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

The government reports the following major governmental funds:

Governmental Funds

Governmental funds are those funds through which most governmental functions are typically financed.

General Fund

The general fund is used to account for all financial transactions not properly includable in other funds. The principal sources of revenues include local property taxes, sales and franchise taxes, licenses and permits, fines and forfeitures, and charges for services. Expenditures include general government, public safety, parks and recreation and public works.

Capital Projects Fund

The City's capital projects fund accounts for the acquisition and construction of the government's major capital facilities, other than those financed by proprietary funds.

City of Freeport, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
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2020 CO Bond CIP Fund

This fund accounts for the portion of the proceeds from the issuance of the 2020 certificates of obligation to be used for the purpose of repairing, improving, upgrading, and equipping City buildings, City streets and drainage, and City parks, including engineering and other related costs, and for the acquisition of equipment for general governmental purposes.

City Grants Fund

This fund accounts for the receipt and expenditure of various grants received by the City.

Proprietary Fund Types

Proprietary funds are used to account for activities that are similar to those often found in the private sector. All assets, liabilities, equities, revenues, expenses, and transfers relating to the government's business activities are accounted for through proprietary funds. The measurement focus is on determination of net income, financial position, and cash flows. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues include charges for services. Operating expenses include costs of materials, contracts, personnel, and depreciation. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. Proprietary fund types follow GAAP prescribed by the Governmental Accounting Standards Board (GASB) and all financial Accounting Standards Board's standards issued prior to November 30, 1989. Subsequent to this date, the City accounts for its enterprise funds as presented by GASB. The proprietary fund types used by the City include enterprise funds.

The government reports the following major enterprise fund:

Water and Sewer Fund

This fund is used to account for the provision of water and sewer services to the residents of the City and the construction of related facilities. Activities of the fund include administration, operations and maintenance of the water production and distribution system, water collection and treatment systems. The acquisition, maintenance and improvement of the physical plant facilities required to provide these goods and services are financed from existing cash resources, the issuance of bonds (revenue or general obligation), impact fees and other City funds. All costs are financed through charges to utility customers.

City of Freeport, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
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Additionally, the government reports the following fund types:

Debt Service Fund

The debt service fund is used to account for the payment of interest and principal on all general obligation bonds and other long-term debt of the City. The primary source of revenue for debt service is local property taxes. The debt service fund is considered a nonmajor fund for reporting purposes.

Special Revenue Funds

The City accounts for resources restricted to, or designated for, specific purposes in a special revenue fund.

During the course of operations the government has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental and internal service funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., the enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as transfers in the business-type activities column.

D. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

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

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

Property taxes, sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). All other revenue items are considered to be measurable and available only when cash is received by the government.

E. Budgetary Information

The original budget is adopted by the City Council prior to the beginning of the fiscal year for the General Fund and Debt Service Fund. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the department level. Transfers of appropriations between departments require the approval of the City Council.

City of Freeport, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
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F. Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position/Fund Balance

1. Deposits and Investments

The City'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. For the purpose of the statement of cash flows, the proprietary fund types consider temporary investments with maturity of three months or less when purchased to be cash equivalents.

In accordance with GASB Statement No. 31, *Accounting and Reporting for Certain Investments and External Investment Pools*, the City reports all investments at fair value, except for "money market investments" and "2a7-like pools." Money market investments, which are short-term highly liquid debt instruments that may include U.S. Treasury and agency obligations, are reported at amortized costs. Investment positions in external investment pools that are operated in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940, such as LOGIC, are reported using the pools' share price.

The City has adopted a written investment policy regarding the investment of its funds as defined in the Public Funds Investment Act, Chapter 2256, of the Texas Governmental Code. In summary, the City is authorized to invest in the following:

- Direct obligations of the U.S. Government
- Fully collateralized certificates of deposit and money market accounts
- Statewide investment pools

2. Fair Value

The City has applied Governmental Accounting Standards Board ("GASB") Statement No. 72, Fair Value Measurement and Application. GASB Statement No. 72 provides guidance for determining a fair value measurement for reporting purposes and applying fair value to certain investments and disclosures related to all fair value measurements.

3. Receivables and Interfund Transactions

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the year are referred to as either "interfund receivables/payables" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds" in the fund financial statements. If the transactions are between the primary government and its component unit, these receivables and payables are classified as "due to/from component unit/primary government." Any residual balances

City of Freeport, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2025

outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

Advances between funds are offset by a fund balance reserve account in the applicable governmental fund to indicate they are not available for appropriation and are not expendable available financial resources.

All trade receivables are shown net of any allowance for uncollectible amounts.

4. Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property in conformity with Subtitle E, Texas Property Tax Code. 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. Penalties are calculated after February 1 up to the date collected by the government at the rate of 6% for the first month and increased 1% per month up to a total of 12%. Interest is calculated after February 1 at the rate of 1% per month up to the date collected by the government. Under state law, property taxes levied on real property constitute a lien on the real property which cannot be forgiven without specific approval of the State Legislature. The lien expires at the end of twenty years. Taxes levied on personal property can be deemed uncollectible by the City.

5. Inventories and Prepaid Items

The costs of governmental fund type inventories are recorded as expenditures when the related liability is incurred, (i.e., the purchase method). The inventories are valued at the lower of cost or market using the first-in/first-out method. Certain payments to vendors reflect costs applicable to future accounting periods (prepaid expenditures) are recognized as expenditures when utilized.

6. Capital Assets

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

Interest costs incurred in connection with construction of enterprise fund capital assets are capitalized when the effects of capitalization materially impact the financial statements.

City of Freeport, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2025

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

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

<u>Asset Description</u>	<u>Estimated Useful Life</u>
Vehicles and equipment	5-15 years
Utility plant	40 years
Right to use equipment	Shorter of lease term or 5-15 years
Buildings and improvements	10-20 years

7. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net assets that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/ expenditure) until then. An example is a deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net assets that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The government has only one type of item, which arises only under a modified accrual basis of accounting, which qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property tax and fines and fee revenue. This amount is deferred and recognized as an inflow of resources in the period that the amounts become available. Deferred inflows of resources can also occur at the government wide level due to differences between investment gains and losses realized on pension investments compared to assumption used within the pension actuarial valuation model.

8. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the Fiduciary Net Position of the Texas Municipal Retirement System (TMRS) and additions

City of Freeport, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2025

to/deductions from TMRS's Fiduciary Net Position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

9. Other Postemployment Benefits

The City has implemented GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. This statement applies to the individual employers (TMRS cities) in the TMRS Supplemental Death Benefits (SDB) plan, with retiree coverage. The TMRS SDBF covers both active and retiree benefits with no segregation of assets, and therefore doesn't meet the definition of a trust under GASB No. 75 (i.e., no assets are accumulated for OPEB) as such the SDBF is considered to be an unfunded OPEB plan. For purposes of reporting under GASB 75, the retiree portion of the SDBF is not considered a cost sharing plan and is instead considered a single employer, defined benefit OPEB plan. The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary, calculated based on the employee's actual earnings on which TMRS deposits are made, for the 12-month period preceding the month of death. The death benefit amount for retirees is \$7,500. GASB No. 75 requires the liability of employers and nonemployer contributing entities to employees for defined benefit OPEB (net OPEB liability) to be measured as the portion of the present value of projected benefit payments to be provided to current active and inactive employees that is attributed to those employees' past periods of service (total OPEB liability), less the amount of the OPEB plan's fiduciary net position.

Additionally, the City provides its retirees the opportunity to maintain health insurance coverage by participating in the City's insurance plan. The City reports the total liability for this plan on the government-wide and proprietary fund financial statements. The actual cost recorded in the governmental fund financial statements is the cost of the health benefits incurred on behalf of the retirees less the premiums collected from the retirees.

10. Net Position Flow Assumption

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

City of Freeport, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2025

11. Fund Balance Flow Assumptions

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

12. Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The governing council is the highest level of decision-making authority for the government that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The governing body (City Council) has by resolution authorized the City Manager to assign fund balance. The Council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

13. Compensated Absences

Eligible City employees accrue vacation time monthly at various rates based on length of service with the City. Employees may elect to carry over a maximum of fifteen (15) days past his/her yearly anniversary date. It is possible for employees to have accrued vacation time at year end, which has not yet been lost. The City's sick leave policy provides fifteen paid sick

City of Freeport, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
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days per year for full-time employees. Unused sick leave can be accumulated to a maximum of ninety (90) days.

The City accounts for vacation and sick leave in accordance with the provisions of GASB Statement No. 101, Compensated Absences. Under GASB Statement No. 101, the City recognizes a liability for compensated absences for vacation leave that is attributable to services already rendered and for which the City has a present obligation to provide compensation through paid time off or cash settlement. Vacation leave is reported as a liability regardless of whether it is expected to be paid within one year.

Sick leave is considered a non-separation benefit and is recognized as a liability only to the extent it is probable that the leave will be used for qualifying absences and the amount can be reasonably estimated. Because unused sick leave is not paid upon separation from employment, the City does not record a liability for sick leave beyond amounts expected to be taken as paid absences in the future.

It is the City's policy to liquidate compensated absences with future revenues rather than with currently available expendable resources. Accordingly, the City's governmental funds recognize accrued compensated absences when it is paid.

14. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net position. The long-term debt consists primarily of bonds payable, bond premiums, leases payable, and accrued compensated absences.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements until due. The debt proceeds are reported as other financing sources, net of the applicable premium or discount and payments of principal and interest reported as expenditures. In the governmental fund types, issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures. However, claims and judgments paid from governmental funds are reported as a liability in the fund financial statements only for the portion expected to be financed from expendable available financial resources.

Long-term debt and other obligations, financed by proprietary funds, are reported as liabilities in the appropriate funds. For proprietary fund types, bond premiums, and discounts are deferred and amortized over the life of the bonds using the effective interest method, if material. Bonds payable are reported net of the applicable bond premium or discount. Issuance costs are expensed as incurred in accordance with GASB statement no. 65.

City of Freeport, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2025

Assets acquired under the terms of leases are recorded as liabilities and capitalized in the government-wide financial statements at the present value of net minimum lease payments at inception of the lease. In the year of acquisition, lease transactions are recorded as other financing sources and as capital outlay expenditures in the general fund. Lease payments representing both principal and interest are recorded as expenditures in the general fund upon payment with an appropriate reduction of principal recorded in the government-wide financial statements.

15. Leases

Lessee: The City is a lessee for noncancellable lease of vehicles and office equipment. The City recognizes a lease liability and an intangible right-to-use lease asset (lease asset) in the full-accrual financial statements. The City recognizes lease liabilities with an initial, individual value of \$5,000 or more.

At the commencement of a lease, the City initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The leased asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over its useful life.

Key estimates and judgments related to leases include how the City determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

- The City uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the City uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option price that the City is reasonably certain to exercise.

The City monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

Lease assets are reported with other capital assets and lease liabilities are reported with long-term debt on the statement of net position.

Lessor: The City is a lessor for a noncancellable lease of cell towers and golf course subsurfaces. The City recognizes a lease receivable and a deferred inflow of resources in the government-wide and governmental fund financial statements.

City of Freeport, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
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At the commencement of a lease, the City initially measures the lease receivable at the present value of payments expected to be received during the lease term. Subsequently, the lease receivable is reduced by the principal portion of lease payments received. The deferred inflow of resources is initially measured as the initial amount of the lease receivable, adjusted for lease payments received at or before the lease commencement date. Subsequently, the deferred inflow of resources is recognized as revenue over the life of the lease term.

Key estimates and judgments include how the City determines (1) the discount rate it uses to discount the expected lease receipts to present value, (2) lease term, and (3) lease receipts.

- The City uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease. Lease receipts included in the measurement of the lease receivable is composed of fixed payments from the lessee.

The City monitors changes in circumstances that would require a remeasurement of its lease, and will remeasure the lease receivable and deferred inflows of resources if certain changes occur that are expected to significantly affect the amount of the lease receivable.

16. Subscription Based Information Technology Arrangements

The City implemented the provision of Governmental Accounting Standard Board (GASB) Statement No. 96, entitled Subscription-Based Information Technology Arrangements (“SBITA”). Upon implementation, the City recorded right to use assets and subscription liabilities based on the present value of the payments for the related arrangements. The assets are included within capital assets, and amortized straight-line over the term of the arrangement. The liabilities accrue interest at the implied rate estimated by the City, and are relieved with payments over the term of the arrangements.

17. Estimates

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

City of Freeport, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2025

G. Revenues and Expenditures/Expenses

1. Program Revenues

Amounts reported as *program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

2. Proprietary Funds Operating and Nonoperating Revenues and Expenses

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the utility fund are charges to customers for sales and services. The utility fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net position.

The governmental fund balance sheet includes reconciliation between *fund balance-total governmental funds* and *net position-governmental activities* as reported in the government-wide statement of net position. One element of that reconciliation explains that long-term liabilities, including bonds, are not due and payable in the current period and, therefore, are not reported in the funds.

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net position of governmental states that, “the issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Also, governmental funds report the effect of premiums, discounts, and similar items

City of Freeport, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
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when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.”

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Expenditures in Excess of Appropriations

The original budget is adopted by the City Council prior to the beginning of the fiscal year for the general fund, debt service fund, 2020 CO bond CIP fund, the capital projects fund, the special revenue funds, and the water/sewer fund. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the department level. Transfers of appropriations between departments require the approval of the City Council.

Appropriations lapse at the end of the year. Several supplemental budget amendments were made during the year.

Expenditures exceeded appropriations at the legal level of control as follows:

General Fund:

Streets and drainage	\$	44,619
Sanitation		28,387
Capital outlay		1,028,451
Principal		333,753
Interest and fiscal charges		55,942

City of Freeport, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2025

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of September 30, 2025, the primary government had the following investments:

Investment Type	Value	Weighted Average Maturity (Days)
External investment pools	\$ 17,862,373	44
Total fair value	\$ 17,862,373	
Portfolio weighted average maturity		44

As of September 30, 2025, the component unit had the following investments:

Investment Type	Value	Weighted Average Maturity (Days)
External investment pools	\$ 2,681,773	44
Total fair value	\$ 2,681,773	
Portfolio weighted average maturity		44

Interest rate risk – In accordance with its investment policy, the City manages its exposure to declines in fair values by limiting the weighted average of maturity to 365 days or less; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations; monitoring credit ratings of portfolio position to assure compliance with rating requirements imposed by the Public Funds Investment Act; and invest operating funds primarily in short-term securities or similar government investment pools.

Credit risk – The City’s investment policy limits investments to obligations of the United States, State of Texas, or their agencies and instrumentalities with an investment quality rating of not less than “A” or its equivalent, by a nationally recognized investment rating firm. Other obligations must be unconditionally guaranteed (either express or implied) by the full faith and credit of the United States Government or the issuing U.S. agency and investment pools with an investment quality not less than AAA or AAA-m, or equivalent, by at least one nationally recognized rating service.

Custodial credit risk – deposits In the case of deposits, this is the risk that in the event of a bank failure, the City’s deposits may not be returned to it. State statutes require that all deposits in financial institutions be insured or fully collateralized by U.S. government obligations or its agencies and instrumentalities or direct obligations of Texas or its agencies and instrumentalities that have a market value of not less than the principal amount of the deposits. The City requires all deposits with financial institutions be collateralized in an

City of Freeport, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2025

amount equal to 102 percent of uninsured balances. As of September 30, 2025, the market values of pledged securities and FDIC exceeded bank balances.

Custodial credit risk – investments For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investment policy requires that it will seek to safekeeping securities at financial institutions, avoiding physical possession. Further, all trades, where applicable, are executed by delivery versus payment to ensure that securities are deposited in the City's safekeeping account prior to the release of funds.

TexPool

TexPool was established as a trust company with the Treasurer of the State of Texas as trustee, segregated from all other trustees, investments, and activities of the trust company. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The advisory board members review the investment policy and management fee structure. Finally, Standard & Poor's rate TexPool AAAM. As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard & Poor's, as well as to the office of the Comptroller of Public Accounts for review. There were no limitations or restrictions on withdrawals.

Texas CLASS

Texas CLASS is a local government investment pool created to meet the cash management and short-term investment needs of Texas governmental entities. Texas CLASS Government seeks to provide participants with a competitive market yield while maintaining daily liquidity and a stable net asset value. Texas CLASS Government is rated 'AAAM' by S&P Global Ratings. There were no limitations or restrictions on withdrawals.

City of Freeport, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2025

B. Receivables

1. The following comprise receivable balances of the primary government at year end:

	<u>General</u>	<u>City Grants</u>	<u>Nonmajor Governmental Funds</u>	<u>Utility</u>	<u>Total</u>
Property taxes	\$ 231,892	\$ -	\$ 72,824	\$ -	\$ 304,716
Sales tax	540,133	-	-	-	540,133
Franchise and local	21,671	-	50,077	-	71,748
EMS	1,457,636	-	-	-	1,457,636
Accounts	111,825	-	85,955	957,977	1,155,757
Grants	-	25,714	117,848	2,307,940	2,451,502
Lease receivables	1,431,038	-	-	-	1,431,038
Other	20,024	-	-	-	20,024
Allowance	(1,186,656)	-	(26,316)	(95,562)	(1,308,534)
Total	<u>\$ 2,627,563</u>	<u>\$ 25,714</u>	<u>\$ 300,388</u>	<u>\$ 3,170,355</u>	<u>\$ 6,124,020</u>

2. The discretely presented component unit's receivable balance consisted entirely of sales taxes.

3. The City is the lessor of two contracts in which the City receives lease payments from Verizon and Dow Chemical for the use of existing cell towers and golf course subsurfaces. The leases commenced in 2017 and 2022. Monthly lease payments of \$1,000 will be received from Verizon through March 2028. Annual lease payments of \$100,000 will be received from Dow Chemical through July 2036. The current year payment for Dow Chemical was received in October and was not paid as of year end. As of September 30, 2025, the lease receivable and offsetting deferred inflows amounted to \$1,431,038 and \$1,331,038, respectively.

The annual principal and interest payments to be received are as follows:

<u>Year ending September 30,</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest (4.28%)</u>
2026	\$ 155,198	\$ 56,801
2027	57,570	54,430
2028	53,990	52,010
Thereafter	1,164,280	334,610
	<u>\$ 1,431,038</u>	<u>\$ 497,851</u>

City of Freeport, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2025

C. Capital Assets

A summary of changes in governmental activities capital assets for the year end was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases/ Reclassifications</u>	<u>Ending Balances</u>
Capital assets, not being depreciated:				
Land	\$ 2,629,165	\$ -	\$ -	\$ 2,629,165
Construction in process	868,507	465,483	(887,260)	446,730
Total capital assets not being depreciated	<u>3,497,672</u>	<u>465,483</u>	<u>(887,260)</u>	<u>3,075,895</u>
Capital assets, being depreciated:				
Streets and improvements	31,856,639	35,860	287,725	32,180,224
Building and improvements	8,808,284	711,867	445,692	9,965,843
Furniture, equipment, and vehicles	18,907,240	743,299	(24,703)	19,625,836
Right-of-use assets	1,341,254	404,509	(349,594)	1,396,169
SBITA assets	51,545	-	-	51,545
Total capital assets being depreciated	<u>60,964,962</u>	<u>1,895,535</u>	<u>359,120</u>	<u>63,219,617</u>
Less accumulated depreciation				
Streets and improvements	19,292,472	768,055	(14,159)	20,046,368
Building and improvements	6,543,313	252,779	(56,520)	6,739,572
Furniture, equipment, and vehicles	14,553,994	862,180	(23,354)	15,392,820
Right-to-use assets	401,696	291,009	(227,256)	465,449
SBITA assets	29,909	11,004	-	40,913
Total accumulated depreciation	<u>40,821,384</u>	<u>2,185,027</u>	<u>(321,289)</u>	<u>42,685,122</u>
Net capital assets being depreciated	<u>20,143,578</u>	<u>(289,492)</u>	<u>680,409</u>	<u>20,534,495</u>
Total Capital Assets	<u>\$ 23,641,250</u>	<u>\$ 175,991</u>	<u>\$ (206,851)</u>	<u>\$ 23,610,390</u>

Depreciation was charged to governmental functions as follows:

General Administration	\$ 493,168
Public Safety	652,181
Service Center	27,574
Streets and Drainage	662,052
Parks and Recreation	350,052
Total Governmental Activities Depreciation Expense	<u>\$ 2,185,027</u>

City of Freeport, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2025

A summary of changes in business-type activities capital assets for the year end was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases/ Reclassifications</u>	<u>Ending Balances</u>
Capital assets, not being depreciated:				
Land	\$ 68,600	\$ -	\$ -	\$ 68,600
Construction in progress	7,060,794	14,974,290	(9,679,516)	12,355,568
Total capital assets not being depreciated	<u>7,129,394</u>	<u>14,974,290</u>	<u>(9,679,516)</u>	<u>12,424,168</u>
Capital assets, being depreciated:				
Water and sewer system	28,436,291	101,039	9,570,866	38,108,196
Furniture, equipment, and vehicles	800,392	220,372	108,650	1,129,414
Total capital assets being depreciated	<u>29,236,683</u>	<u>321,411</u>	<u>9,679,516</u>	<u>39,237,610</u>
Less accumulated depreciation				
Water and sewer system	19,451,742	610,501	-	20,062,243
Furniture, equipment, and vehicles	401,759	93,908	-	495,667
Total accumulated depreciation	<u>19,853,501</u>	<u>704,409</u>	<u>-</u>	<u>20,557,910</u>
Net capital assets being depreciated	<u>9,383,182</u>	<u>(382,998)</u>	<u>9,679,516</u>	<u>18,679,700</u>
Total Capital Assets	<u><u>\$ 16,512,576</u></u>	<u><u>\$ 14,591,292</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 31,103,868</u></u>

City of Freeport, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2025

A summary of changes in component unit activities capital assets for the year end was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases/ Reclassifications</u>	<u>Ending Balances</u>
Capital assets, not being depreciated:				
Land	\$ 2,456,056	\$ -	\$ -	\$ 2,456,056
Total capital assets not being	<u>2,456,056</u>	<u>-</u>	<u>-</u>	<u>2,456,056</u>
Capital assets, being depreciated:				
Streets and improvements	2,605,656	16,474	-	2,622,130
Total capital assets being depreciated	<u>2,605,656</u>	<u>16,474</u>	<u>-</u>	<u>2,622,130</u>
Less accumulated depreciation				
Streets and improvements	2,371,811	16,234	-	2,388,045
Total accumulated depreciation	<u>2,371,811</u>	<u>16,234</u>	<u>-</u>	<u>2,388,045</u>
Net capital assets being depreciated	<u>233,845</u>	<u>240</u>	<u>-</u>	<u>234,085</u>
Total Capital Assets	<u><u>\$ 2,689,901</u></u>	<u><u>\$ 240</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 2,690,141</u></u>

City of Freeport, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2025

D. Other Long-term Liabilities

The following is a summary of changes in the City's other long-term liabilities for the year ended. In general, the City uses the general fund and proprietary fund to liquidate compensated absences.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Governmental Activities:					
Compensated absences	\$ 977,754	\$ 37,702	\$ -	\$ 1,015,456	\$ 494,775
Total Governmental Activities	<u>\$ 977,754</u>	<u>\$ 37,702</u>	<u>\$ -</u>	<u>\$ 1,015,456</u>	<u>\$ 494,775</u>
Long-term Liabilities Due in More than One Year				<u>\$ 520,681</u>	
Business-Type Activities:					
Compensated absences	\$ 1,786	\$ 987	\$ -	\$ 2,773	\$ 2,496
Total Business-Type Activities	<u>\$ 1,786</u>	<u>\$ 987</u>	<u>\$ -</u>	<u>\$ 2,773</u>	<u>\$ 2,496</u>
Long-term Liabilities Due in More than One Year				<u>\$ 277</u>	
Component Unit Activities:					
Compensated absences	\$ 18,358	\$ 7,575	\$ -	\$ 25,933	\$ 12,438
Total Component Unit Activities	<u>\$ 18,358</u>	<u>\$ 7,575</u>	<u>\$ -</u>	<u>\$ 25,933</u>	<u>\$ 12,438</u>
				<u>\$ 13,495</u>	

City of Freeport, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2025

E. Long-term Debt

The following is a summary of changes in the City's total governmental long-term liabilities for the year ended. In general, the City uses the debt service and general fund to liquidate governmental long-term liabilities.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
Governmental Activities:					
Bonds, notes and other payables:					
Certificates of obligation	\$ 6,855,000	\$ -	\$ (365,000)	\$ 6,490,000	\$ 370,000
Premiums	301,157	-	(36,135)	265,022	-
Lease liabilities	1,061,786	404,509	(528,276)	938,019	352,335
Subscription liabilities	16,643	-	(5,547)	11,096	5,547
Total Governmental Activities	<u>\$ 8,234,586</u>	<u>\$ 404,509</u>	<u>\$ (934,958)</u>	<u>\$ 7,704,137</u>	<u>\$ 727,882</u>

Long-term liabilities due in more than one year \$ 6,976,255

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Payments</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
Business-type Activities:					
Bonds, notes and other payables:					
Certificates of obligation	\$ 4,265,000	\$ -	\$ (195,000)	\$ 4,070,000	\$ 205,000
Premium	218,773	-	(26,390)	192,383	-
Intergovernmental payable	539,212	112,429	-	651,641	200,000
Notes payable	-	3,561,250	-	3,561,250	107,811
Total Business-type Activities	<u>\$ 5,022,985</u>	<u>\$ 3,673,679</u>	<u>\$ (221,390)</u>	<u>\$ 8,475,274</u>	<u>\$ 512,811</u>

Long-term liabilities due in more than one year \$ 7,962,463

City of Freeport, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2025

Primary government long-term debt at year end was comprised of the following debt issues:

	Governmental Activities	Business-type Activities
Certificates of Obligation:		
\$7,735,000 Series 2020 Combined Tax & Revenue Cert. of Obligation, due in installments through Sept 2040, interest at 1.125% to 4.125%	\$ 6,490,000	\$ -
\$4,845,000 Series 2021 Combined Tax & Revenue Cert. of Obligation, due in annual installments through Sept 2041, interest at 1.25% to 2.84%	-	4,070,000
\$4,035,000 Series 2019A Combined Tax & Revenue Cert. of Obligation, due in annual installments through July 2038, interest at 3.125%-4%	-	-
Total Certificates of Obligation	\$ 6,490,000	\$ 4,070,000
Notes Payable:		
\$3,561,5250 note payable for Water Meter System due in installments through May 15, 2040, interest at 4.45%	\$ -	\$ 3,561,250
Total Notes Payable	\$ -	\$ 3,561,250
Intergovernmental Payable:		
\$651,641 overcharge for water services to Village of Surfside due in installments through Sep 2031, interest at 3.68%	\$ -	\$ 651,641
Total Intergovernmental Payable	\$ -	\$ 651,641
Lease Liabilities:		
\$404,509 lease agreement for 63 golf carts, one range picker due in installments through Jan 15, 2029, interest at 6.16%	\$ 364,320	\$ -
\$230,594 lease agreement for office equipment due in annual installments through Oct 2028, interest at various rates	130,920	-
\$761,068 lease agreement for property rental, due in annual installments through May 2027 interest at 4.28%	442,779	-
Total Lease Liabilities	\$ 938,019	\$ -
Subscription Liabilities:		
\$52,461 software subscriptions; terms 2 yr & 5 yr, due in installments through 2027, interest at 2.71% & 3.31%	\$ 11,096	\$ -
Total Subscription Liabilities	\$ 11,096	\$ -
Bond Premiums:	265,022	192,383
Total Debt	\$ 7,704,137	\$ 8,475,274

City of Freeport, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2025

The annual requirements to amortize the primary government's debt issues outstanding at year ending were as follows:

Governmental Activities

Year Ending,	Certificates of Obligation	
	Principal	Interest
2026	\$ 370,000	\$ 127,994
2027	375,000	122,444
2028	380,000	117,288
2029	395,000	101,613
2030	410,000	85,319
2031	430,000	68,406
2032	435,000	63,569
2033	440,000	58,675
2034	445,000	53,725
2035	450,000	47,606
2036	455,000	41,419
2037	465,000	34,594
2038	470,000	27,038
2039	480,000	19,400
2040	490,000	9,800
Total	\$ 6,490,000	\$ 978,888

Governmental Activities

	Lease Liabilities		Subscription Liabilities	
	Principal	Interest	Principal	Interest
2026	\$ 352,335	\$ 41,106	\$ 5,548	\$ 183
2027	281,542	24,299	5,548	183
2028	86,129	15,444	-	-
2029	218,013	4,185	-	-
Total	\$ 938,019	\$ 85,035	\$ 11,096	\$ 366

The City has entered into lease agreements. The related governmental activities right to use assets had a carrying value of \$1,212,108 as of year end.

The City has entered into software subscription agreements. The related governmental activities right to use assets had a carrying value of \$16,180 as of yearend.

City of Freeport, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2025

Business-type Activities

Year Ending,	Certificates of Obligation		Note Payable		Intergovernmental Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2026	\$ 205,000	\$ 98,850	\$ 107,811	\$ 228,909	\$ 200,000	\$ -
2027	215,000	90,650	183,042	153,678	83,377	16,623
2028	220,000	82,050	191,187	145,533	86,446	13,554
2029	230,000	73,250	199,695	137,025	89,627	10,373
2030	235,000	66,350	208,582	128,138	92,926	7,074
2031	245,000	59,300	217,864	118,857	99,265	3,654
2032	250,000	54,400	227,558	109,162	-	-
2033	255,000	49,400	237,685	99,035	-	-
2034	260,000	44,300	248,262	88,458	-	-
2035	265,000	39,100	259,309	77,411	-	-
2036	270,000	33,800	270,849	65,871	-	-
2037	275,000	28,400	282,901	53,819	-	-
2038	280,000	22,900	295,491	41,229	-	-
2039	285,000	17,300	308,640	28,080	-	-
2040	290,000	11,600	322,374	14,346	-	-
2041	290,000	5,800	-	-	-	-
Total	<u>\$ 4,070,000</u>	<u>\$ 777,450</u>	<u>\$ 3,561,250</u>	<u>\$ 1,489,551</u>	<u>\$ 651,641</u>	<u>\$ 51,277</u>

F. Restricted Net Position

The City records restricted net position on amounts with externally imposed restrictions (e.g., through debt covenants or by grantors) or restrictions imposed by law through constitutional provisions or enabling legislation. Total restricted net position for the primary government was \$5,355,863. Of which, \$352,378 is restricted by enabling legislation.

G. Interfund Transactions

Transfers between the primary government funds during the 2025 year were as follows:

Transfers (Out):	Transfers In:			
	General	Nonmajor Govt.	Water & Sewer	Total
General	\$ -	\$ 211,665	\$ -	\$ 211,665
Capital projects	-	-	3,186,567	3,186,567
City grants	-	-	339,338	339,338
Water and sewer	150,000	-	-	150,000
	<u>\$ 150,000</u>	<u>\$ 211,665</u>	<u>\$ 3,525,905</u>	<u>\$ 3,887,570</u>

City of Freeport, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2025

Amounts transferred between funds relate to amounts collected by the governmental and enterprise funds for various capital expenditures and principal and interest payments.

The compositions of interfund balances to/from as of the year ended September 30, 2025 were as follows:

<u>Due from (Receivable fund):</u>	<u>Due to (Payable fund):</u>		<u>Total</u>
	<u>Nonmajor Govt.</u>	<u>Water & Sewer</u>	
General	\$ 1,845,441	\$ -	\$ 1,845,441
City Grants	-	2,166,959	2,166,959
	<u>\$ 1,845,441</u>	<u>\$ 2,166,959</u>	<u>\$ 4,012,400</u>

Amounts recorded as interfund receivables and payables are considered to be temporary loans and will be repaid during the following fiscal year.

V. OTHER INFORMATION

A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets, errors and omissions; and natural disasters for which the City participates along with over 2,800 other entities in the Texas Municipal League’s Intergovernmental Risk Pools. The Pool purchases commercial insurance at group rates for participants in the Pool. The City has no additional risk or responsibility to the Pool outside of the payment of insurance premiums. The City has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts for the past three years.

B. Contingent Liabilities

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

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends, including frequency and amount of payouts, and other economic and social factors. No such liabilities were recorded as of year end.

City of Freeport, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2025

C. Contracts/Agreements

Industrial Contract Agreements

The City has three Industrial Development Agreements: Brazosport IDA (Interlocal with Lake Jackson and Clute), Freeport IDA, and Freeport LNG. Brazosport IDA and Freeport IDA, payments to the City are calculated based on property values or CPI, whichever is greater. Freeport LNG Industrial District payments are made in accordance to a payment schedule outlined in the agreement. The amount received under this contract and various other industrial district contracts during the year ended September 30, 2025 was \$10,556,052 and is reported in the General Fund.

Water Supply Contract

The City entered into a water supply contract with the Brazosport Water Authority on February 20, 1987. The contract term is forty years and may not be terminated as long as bonds are outstanding. The City agrees to take and pay for, whether used or not, 2 million gallons of water per day. The actual supply of water under this contract started in March, 1989.

Sewage Treatment Contract

The City is party to an agreement with the City of Oyster Creek to share costs associated with the operation of a sewer treatment plant. The plant went on-line during the fiscal year ended September 30, 1989. The percentage for sharing the operating expenses is determined based upon meter flow calibrations. For the year ended September 30, 2025, the City of Freeport's portion of these expenses is estimated to be \$187,046.

Animal Shelter

During the year ended September 30, 2003, the City began a joint venture with the City of Clute, City of Lake Jackson, and the Society for the Prevention of Cruelty to Animals ("SPCA") for an animal shelter. The shelter is located in Lake Jackson and provides programs for the claiming and adoption of lost or abandoned animals for the three cities. The original term of the agreement was from March 1, 2003 through February 28, 2023. The agreement is automatically renewed every subsequent year. The City and Clute contributed \$150,000 each and the SPCA contributed \$250,000 for a total of \$550,000 to Lake Jackson for the design, construction, and furnishing of the \$1,100,000 facility. The City pays each year for administrative operating costs and does not have an equity interest. For the year ended September 30, 2025, the City paid \$136,987 for their portion of the operating costs.

Port Freeport Settlement Agreement

The City Council approved a mediated settlement agreement with Port Freeport on May 15, 2023. According to the agreement, Port Freeport agrees to pay the City a total of \$8,900,000 in

City of Freeport, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2025

full consideration of certain properties and easements in addition to a replacement lift station, water line relocation, and new wastewater lines. If the actual cost to install the new lift station exceeds \$1,200,000, Port Freeport will reimburse the City for 50% of the excess costs upon removal of the existing lift station by the City. The City will continue to maintain and repair the existing lift station until the replacement infrastructure is completed. As of September 30, 2025, the City has received \$7,100,000 from Port Freeport and \$3,530,806 was spent during the current year. The remaining \$1,800,000 will be held in escrow by Port Freeport and will be paid to the City within 10 days upon completion of the infrastructure project. Unspent proceeds, including accumulated investment earnings, was \$3,630,017 as of year end.

D. Pension Plans

Texas Municipal Retirement System

1. Plan Description

The City of Freeport, Texas participates as one of 938 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available annual comprehensive financial report (ACFR) that can be obtained at www.tmr.com.

All eligible employees of the City are required to participate in TMRS.

2. Benefits Provided

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the city, within the options available in the state statutes governing TMRS.

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the city-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payments options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

City of Freeport, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2025

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Plan provisions for the City were as follows:

	<u>Plan Year 2023</u>	<u>Plan Year 2024</u>
Employee deposit rate	7.00%	7.00%
Matching ratio (city to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age / years of service)	60/5, 0/20	60/5, 0/20
Updated service credit	100% Repeating Transfers	100% Repeating Transfers
Annuity increase (to retirees)	70% of CPI	70% of CPI

Employees covered by benefit terms

At the December 31, 2024 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	102
Inactive employees entitled to but not yet receiving benefits	170
Active employees	<u>138</u>
Total	<u>410</u>

3. Contributions

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the City matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the City. Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the City of Freeport, Texas were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City of Freeport, Texas were 15.33% and 16.11% in calendar years 2024 and 2025, respectively. The City's contributions to TMRS for the year ended September 30, 2025, were \$1,320,783 and equaled the required contributions.

City of Freeport, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2025

4. Net Pension Liability (Asset)

The City's Net Pension Liability (Asset) was measured as of December 31, 2024, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability (Asset) was determined by an actuarial valuation as of that date.

Actuarial assumptions

The Total Pension Liability in the December 31, 2025 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3.60% to 11.85%, including inflation
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation

Salary increases are based on a service-related table. Mortality rates for active members are based on the PUB(10) mortality tables with the Public Safety table used for males and the General Employee table used for females. Mortality rates for healthy retirees and beneficiaries are based on the Gender-distinct 2019 Municipal Retirees of Texas mortality tables. The rates for actives, healthy retirees and beneficiaries are projected on a fully generational basis by Scale UMP to account for future mortality improvements. For disabled annuitants, the same mortality tables for healthy retirees is used with a 4-year set-forward for males and a 3-year set-forward for females. In addition, a 3.5% and 3.0% minimum 16 mortality rate is applied, for males and females respectively, to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the period ending December 31, 2022. They were adopted in 2022 and first used in the December 31, 2023 actuarial valuation. The post-retirement mortality assumption for Annuity Purchase Rates (APRs) is based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a

City of Freeport, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2025

recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive).

The target allocation and best estimates of real rates of return for each major asset class in fiscal year 2025 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Global Public Equity	35.0%	6.7%
Core Fixed Income	6.0%	4.7%
Non-Core Fixed Income	20.0%	8.0%
Other Public/Private Markets	12.0%	8.0%
Real Estate	12.0%	7.6%
Hedge Funds	5.0%	6.4%
Private Equity	10.0%	11.6%
Total	100.0%	

Discount Rate

The discount rate used to measure the Total Pension Liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate

The following presents the net pension liability of the City, calculated using the discount rate of 6.75%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75%) or 1-percentage-point higher (7.75%) than the current rate:

1% Decrease 5.75%	Current Single Rate Assumption 6.75%	1% Increase 7.75%
\$ 12,121,584	\$ 5,666,250	\$ 470,784

City of Freeport, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2025

Changes in the Net Pension Liability (Asset)

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balance at 12/31/23	\$ 38,584,110	\$ 32,485,184	\$ 6,098,926
Changes for the year:			
Service cost	1,513,898	-	1,513,898
Interest	2,597,667	-	2,597,667
Difference between expected and actual experience	717,889	-	717,889
Changes of assumptions	-	-	-
Contributions – employer	-	1,311,931	(1,311,931)
Contributions – employee	-	599,055	(599,055)
Net investment income	-	3,373,297	(3,373,297)
Benefit payments, including refunds of emp. contributions	(1,714,205)	(1,714,205)	-
Administrative expense	-	(21,647)	21,647
Other changes	-	(506)	506
Net changes	3,115,249	3,547,925	(432,676)
Balance at 12/31/24	\$ 41,699,359	\$ 36,033,109	\$ 5,666,250

Pension Plan Fiduciary Net Position

Detailed information about the pension plan’s Fiduciary Net Position is available in a separately-issued TMRS financial report. That report may be obtained on the internet at www.tmr.com.

5. Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended September 30, 2025, the City recognized pension expense of \$1,723,196.

City of Freeport, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2025

At September 30, 2025, the City reported deferred outflows and inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred (Inflows) of Resources
Difference between projected and actual investment earnings	\$ 557,134	\$ -
Differences between expected and actual economic experience	-	(369,825)
Changes in assumptions	-	(76,347)
Contributions subsequent to the measurement date	972,630	-
Total	\$ 1,529,764	\$ (446,172)

The primary government and EDC reported \$949,211 and \$23,419, respectively, deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability for the year ending September 30, 2026.

Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	
2025	\$ 302,563
2026	560,435
2027	(515,929)
2028	(236,107)
2029	-
Thereafter	-
	\$ 110,962

Other Postemployment Benefits

1. TMRS Supplemental Death Benefits Fund

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the Texas Municipal Retirement System (TMRS) known as the Supplemental Death Benefits Fund (SDBF). The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The City may

City of Freeport, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2025

terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

The death benefit for active employees provides a lump-sum payment approximately equal to the employee’s annual salary (calculated based on the employee’s actual earnings, for the 12-month period preceding the month of death); retired employees are insured for \$7,500; this coverage is an “other postemployment benefit,” or OPEB.

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees’ entire careers.

Employees covered by benefit terms

At the December 31, 2024 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	65
Inactive employees entitled to but not yet receiving benefits	31
Active employees	138
Total	234

The City’s retiree contribution rates to the TMRS SDBF for the years ended 2023, 2024, and 2025 are as follows:

Plan/ Calendar Year	Annual Required Contribution (Rate)	Actual Contribution Made (Rate)	Percentage of ARC Contributed
2023	0.12%	0.12%	100.0%
2024	0.14%	0.14%	100.0%
2025	0.14%	0.14%	100.0%

The Retiree’s contributions to the TMRS SDBF for the years ended 2025 and 2024 were \$11,632, \$11,445, \$8,653 respectively, which equaled the required contributions each year.

Total OPEB Liability

The City’s Postemployment Benefits Other Than Pensions Liability (OPEB) was measured as of December 31, 2024, and the Total OPEB Liability was determined by an actuarial valuation as of that date.

City of Freeport, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2025

Actuarial assumptions:

The Total OPEB Liability in the December 31, 2024 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3.6% to 11.85%, including inflation per year
Discount rate	4.08%
Retirees' share of benefit-related costs	\$0
Administrative expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with males rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

Discount Rate:

The discount rate used to measure the Total OPEB Liability was 4.08%. The discount rate was based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2024.

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the City, calculated using the discount rate of 4.08%, as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.08%) or 1-percentage-point higher (5.08%) than the current rate:

1% Decrease 2.08%	Current Single Rate Assumption 4.08%	1% Increase 5.08%
\$ 463,670	\$ 388,525	\$ 330,326

City of Freeport, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2025

Changes in the Total OPEB Liability:

	Total OPEB Liability
Balance at 12/31/23	\$ 390,105
Changes for the year:	
Service Cost	17,972
Interest	14,820
Difference between expected and actual experience	(1,191)
Changes of assumptions	(21,500)
Benefit payments	(11,981)
Net changes	(1,880)
Balance at 12/31/24	\$ 388,225

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended September 30, 2025, the City recognized OPEB expense of \$15,072.

At September 30, 2025, the City reported deferred outflows and inflows of resources related to the OPEB liability from the following sources:

	Deferred Outflows of Resources	Deferred (Inflows) of Resources
Primary Government:		
Difference between expected and actual experience	\$ -	\$ (116)
Changes in assumptions	-	(73,938)
Contributions subsequent to measurement date	8,452	-
Total	\$ 8,452	\$ (74,054)

The primary government and EDC reported \$8,249 and \$203, respectively, as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date that will be recognized as a reduction of the OPEB liability for the year ending September 30, 2026.

City of Freeport, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2025

Other amounts reported as deferred outflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended December 31:		
2025	\$	(32,469)
2026		(35,326)
2027		(2,804)
2028		(3,455)
2029		-
Thereafter		-
	<u>\$</u>	<u>(74,054)</u>

2. Retiree Healthcare Plan

Plan Description

The City of Freeport maintains a Retiree Health Care Plan (“RHCP”) through Cigna Healthcare Insurance to provide health care benefits coverage for employees and retirees and dependents of employees and retirees. The City is currently offering health care benefits coverage through the RHCP which allows the extension of the benefits to retirees of the City. The City provides health benefits coverage to its retirees through RHCP and the cost of such coverage is paid entirely by the retiree. An employee who is under the 60 years of age and has been covered by TMRS (Texas Municipal Retirement Systems) for at least 20 years, or an employee who is 60 years or older and has been covered by TMRS for at least 5 years. The employee must also work for the City for a period of fifteen (15) continuous years and meet the definition of retiree for the purposes of the ordinance.

Benefit Provided

The RHCP provides pre sixty-five benefit coverages which will continue until the end of the month for the covered retiree’s 65th birthday. Coverage for early retirees under these plans will require that early retiree enroll in the Cigna Healthcare Insurance within 31 days of commencement of their pre 65 retirement, meet the plans definition of retiree, and that retiree receive all other applicable benefits provided to the retiree population. The pre sixty-five plan offer the retirees a choice of one of three plan options which consist of a base, buy-up and high deductible. Each plan has a specified rate that varies year over year.

City of Freeport, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2025

Employees covered by benefit terms

At the September 30, 2024 valuation date, the following employees were covered by the benefit terms:

Status	Amount
Inactive employees or beneficiaries currently receiving benefits	1
Active employees	123
Total	124

Actuarial Assumptions and Methods:

The Total OPEB Liability, measured as of September 30, 2025, was determined using the following actuarial assumptions:

Actuarial Cost Method	Individual Entry-Age Normal
Inflation	2.5% per year
Overall payroll growth	3.60% to 11.85%, including inflation per year
Discount rate	4.06% (decreased from 4.63%)
Demographic Assumptions	Based on the experience study covering the four-year period ending December 31, 2018, as conducted by TMRS.
Mortality	Mortality for healthy retirees, the gender-distinct 2021 Municipal Retirees of Texas mortality tables are used. The rates are projected on a fully generational basis using the ultimate mortality improvement rates in the MP tables to account for future mortality improvements.
Health Care Trend Rates	Initial rate of 7.00% declining to an ultimate rate of 4.15% after 15 years
Participate Rates	30% retirees age 55 or older at retirement; 10% for retirees under age 55 at retirement

Discount Rate

The discount rate used to measure the Total OPEB Liability was 4.06%. The discount rate was based on the Bond Buyer GO Bond 20 Year Index rate as of September 30, 2024, date of the actuarial valuation.

City of Freeport, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2025

Sensitivity of the Net OPEB Liability (Asset) to Changes in the Discount Rate

The following presents the net OPEB liability of the City, calculated using the discount rate of 4.06%, as well as what the City's net OPEB liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (3.06%) or 1-percentage-point higher (5.06%) than the current rate:

1% Decrease (3.06%)	Current Single Rate Assumption 4.06%	1% Increase (5.06%)
\$ 169,996	\$ 195,067	\$ 225,228

Healthcare Cost Trend

1% Decrease (3.50%)	Current Healthcare Cost Trend (4.50%)	1% Increase (5.50%)
\$ 173,961	\$ 195,067	\$ 219,315

Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at 12/31/2023	\$ 174,975
Changes for the year:	
Service Cost	13,165
Interest	7,624
Change in benefit terms	-
Changes of assumptions	-
Benefit payments	(697)
Net changes	20,092
Balance at 12/31/2024	\$ 195,067

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended September 30, 2025, the City recognized OPEB expense of \$14,280.

City of Freeport, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2025

At September 30, 2025, the City reported deferred outflows of resources and deferred inflows of resources related to the OPEB liability from the following sources:

	Deferred Outflows of Resources	Deferred (Inflows) of Resources
Difference between expected and actual experience	\$ -	\$ (182,152)
Change in assumptions	11,020	-
Total	\$ 11,020	\$ (182,152)

Amounts reported as deferred outflows/inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended September 30:	
2026	\$ (35,069)
2027	(35,069)
2028	(35,069)
2029	(35,069)
2030	(30,856)
Thereafter	-
	\$ (171,132)

E. Deferred Compensation Plan

The City offers its employees the opportunity to participate in a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan is an additional retirement savings option for the City employees; however, no contributions will be made by the City. The retirement plan is offered to public service personnel only.

F. New Accounting Pronouncements

The City adopted GASB 101, *Compensated Absences* during the year. The goal of the standard is to create a more consistent model for accounting for compensated absences that can be applied to all types of compensated absence arrangements.

The new guidance introduces three criteria for recording a liability in financial statements prepared using the economic resources measurement focus (often referred to as a “full accrual” basis). A liability should be recognized for leave that has not been used if all of the following are true:

City of Freeport, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2025

- The leave is attributable to services already rendered.
- The leave accumulates.
- The leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means (likelihood of more than 50 percent).

This standard was applied retroactively and resulted in a sick leave liability of \$702,879 as of September 30, 2024.

G. Restatement

Due to corrections to accounts payable, long-term liabilities, assets and the implementation of GASB 101 over compensated absences, the City restated beginning fund balance/net position for the general fund, governmental activities, the water and sewer fund/business type-activities, and the Freeport EDC. The restatement of beginning fund balance/net position is as follows:

	<u>General Fund</u>	<u>Governmental Activities</u>	<u>Water & Sewer Fund</u>	<u>Business-type Activities</u>
Prior year ending net position/fund balance, as reported	\$ 11,384,510	\$ 32,363,811	\$ 16,045,560	\$ 16,045,560
Correction of accounts payable	(97,660)	(97,660)	-	-
Implementation of GASB 101	-	(691,064)	-	-
Village of Surfside payable	-	-	(539,212)	(539,212)
Restated beginning net position/fund balance	<u>\$ 11,286,850</u>	<u>\$ 31,575,087</u>	<u>\$ 15,506,348</u>	<u>\$ 15,506,348</u>

	<u>Freeport EDC</u>
Prior year ending net position/fund balance, as reported	\$ 5,931,705
Correction of assets	(13,582)
Implementation of GASB 101	(11,815)
Restated beginning net position/fund balance	<u>\$ 5,906,308</u>

H. Subsequent Events

There were no material subsequent events through March 24, 2026, the date the financial statements were issued.

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REQUIRED SUPPLEMENTARY INFORMATION

City of Freeport, Texas

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (Page 1 of 2) GENERAL FUND

For the Year Ended September 30, 2025

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues</u>				
Property tax	\$ 3,370,000	\$ 3,370,000	\$ 3,358,614	\$ (11,386)
Sales tax	2,450,000	2,450,000	2,749,139	299,139
Industrial district	9,389,300	9,389,300	10,556,052	1,166,752
Franchise and local taxes	715,000	715,000	686,770	(28,230)
License and permits	277,800	277,800	170,468	(107,332)
Intergovernmental	22,000	22,000	7,597	(14,403)
Fines and forfeitures	222,600	222,600	286,489	63,889
Charges for services	2,363,100	2,363,100	3,202,741	839,641
Investment income	320,000	320,000	511,848	191,848
Other revenue	372,430	402,700	654,000	251,300
Total Revenues	19,502,230	19,532,500	22,183,718	2,651,218
<u>Expenditures</u>				
Current:				
General government	2,846,447	2,876,447	2,573,528	302,919
Public safety	9,711,201	9,711,471	8,816,131	895,340
Streets and drainage	1,456,908	1,456,908	1,501,527	(44,619) *
Sanitation	775,000	775,000	803,387	(28,387) *
Culture and recreation	3,673,818	3,673,818	3,315,171	358,647
Service center	214,666	214,666	212,430	2,236
Capital outlay	85,000	85,000	1,113,451	(1,028,451) *
Debt service:				
Principal	-	-	333,753	(333,753) *
Interest and fiscal charges	-	-	55,942	(55,942) *
Total Expenditures	18,763,040	18,793,310	18,725,320	67,990
Revenues Over (Under) Expenditures	739,190	739,190	3,458,398	2,719,208

City of Freeport, Texas

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (Page 2 of 2) GENERAL FUND

For the Year Ended September 30, 2025

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Other Financing Sources (Uses)</u>				
Transfers in	\$ 150,000	\$ 150,000	\$ 150,000	\$ -
Transfers (out)	(211,665)	(211,665)	(211,665)	-
Lease issuance	-	-	404,509	404,509
Sale of assets	20,000	20,000	5,500	(14,500)
Total Other Financing Sources (Uses)	(41,665)	(41,665)	348,344	390,009
Net Change in Fund Balance	\$ 697,525	\$ 697,525	3,806,742	\$ 3,109,217
Beg. fund balance, as previously reported			11,384,510	
Error correction			(97,660)	
Beg. fund balance, as adjusted			11,286,850	
Ending Fund Balance			\$ 15,093,592	

Notes to Required Supplementary Information

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

* Expenditures exceeded appropriations at the legal level of control.

City of Freeport, Texas

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

Years Ended:

	<u>12/31/2024</u>	<u>12/31/2023</u>	<u>12/31/2022</u>	<u>12/31/2021</u>
Total pension liability				
Service cost	\$ 1,513,898	\$ 1,330,606	\$ 1,188,602	\$ 1,227,173
Interest	2,597,667	2,443,269	2,284,689	2,145,373
Changes in benefit terms	-	-	-	-
Differences between expected and actual experience	717,889	326,848	345,806	199,603
Changes of assumptions	-	(279,941)	-	-
Benefit payments, including refunds of participant contributions	(1,714,205)	(1,535,890)	(1,545,644)	(1,432,204)
Net change in total pension liability	<u>3,115,249</u>	<u>2,284,892</u>	<u>2,273,453</u>	<u>2,139,945</u>
Total pension liability - beginning	<u>38,584,110</u>	<u>36,299,218</u>	<u>34,025,765</u>	<u>31,885,820</u>
Total pension liability - ending (a)	<u>41,699,359</u>	<u>38,584,110</u>	<u>36,299,218</u>	<u>34,025,765</u>
Plan fiduciary net position				
Contributions - employer	\$ 1,311,931	\$ 1,104,669	\$ 1,013,241	\$ 1,057,969
Contributions - members	599,055	547,253	503,340	521,251
Net investment income	3,373,297	3,358,750	(2,287,152)	3,599,409
Benefit payments, including refunds of participant contributions	(1,714,205)	(1,535,890)	(1,545,644)	(1,432,204)
Administrative expenses	(21,647)	(21,376)	(19,799)	(16,657)
Other	(506)	(149)	23,627	114
Net change in plan fiduciary net position	<u>3,547,925</u>	<u>3,453,257</u>	<u>(2,312,387)</u>	<u>3,729,882</u>
Plan fiduciary net position - beginning	<u>32,485,184</u>	<u>29,031,927</u>	<u>31,344,314</u>	<u>27,614,432</u>
Plan fiduciary net position - ending (b)	<u>\$ 36,033,109</u>	<u>\$ 32,485,184</u>	<u>\$ 29,031,927</u>	<u>\$ 31,344,314</u>
Fund's net pension liability (asset) - ending (a) - (b)	<u>\$ 5,666,250</u>	<u>\$ 6,098,926</u>	<u>\$ 7,267,291</u>	<u>\$ 2,681,451</u>
percentage of the total pension liability	86.41%	84.19%	79.98%	92.12%
Covered payroll	\$ 8,557,930	\$ 7,817,899	\$ 7,190,577	\$ 7,446,438
Fund's net position as a percentage of covered payroll	66.21%	78.01%	101.07%	36.01%

	<u>12/31/2020</u>	<u>12/31/2019</u>	<u>12/31/2018</u>	<u>12/31/2017</u>	<u>12/31/2016</u>	<u>12/31/2015</u>
\$	1,210,072	\$ 1,020,294	\$ 972,644	\$ 1,069,778	\$ 941,887	\$ 867,502
	2,021,037	1,923,902	1,828,285	1,693,736	1,586,800	1,511,254
	-	-	-	-	-	-
	(61,634)	(459,710)	(84,705)	462,205	(31,659)	276,833
	-	142,572	-	-	-	116,881
	(1,239,813)	(1,326,009)	(1,321,000)	(1,046,653)	(906,817)	(874,894)
	<u>1,929,662</u>	<u>1,301,049</u>	<u>1,395,224</u>	<u>2,179,066</u>	<u>1,590,211</u>	<u>1,897,576</u>
	<u>29,956,158</u>	<u>28,655,109</u>	<u>27,259,885</u>	<u>25,080,819</u>	<u>23,490,608</u>	<u>21,593,032</u>
	<u>31,885,820</u>	<u>29,956,158</u>	<u>28,655,109</u>	<u>27,259,885</u>	<u>25,080,819</u>	<u>23,490,608</u>
\$	1,072,524	\$ 904,482	\$ 896,313	\$ 944,578	\$ 773,757	\$ 699,079
	524,814	444,711	440,294	464,589	409,932	385,600
	1,923,014	3,392,674	(677,553)	2,709,724	1,221,694	26,362
	(1,239,813)	(1,326,009)	(1,321,000)	(1,046,653)	(906,817)	(874,894)
	(12,450)	(19,175)	(13,099)	(14,056)	(13,803)	(16,057)
	(486)	(576)	(684)	(712)	(744)	(792)
	<u>2,267,603</u>	<u>3,396,107</u>	<u>(675,729)</u>	<u>3,057,470</u>	<u>1,484,019</u>	<u>219,298</u>
	<u>25,346,829</u>	<u>21,950,722</u>	<u>22,626,451</u>	<u>19,568,981</u>	<u>18,084,962</u>	<u>17,865,664</u>
\$	<u>27,614,432</u>	<u>\$ 25,346,829</u>	<u>\$ 21,950,722</u>	<u>\$ 22,626,451</u>	<u>\$ 19,568,981</u>	<u>\$ 18,084,962</u>
\$	<u>4,271,388</u>	<u>\$ 4,609,329</u>	<u>\$ 6,704,387</u>	<u>\$ 4,633,434</u>	<u>\$ 5,511,838</u>	<u>\$ 5,405,646</u>
	86.60%	84.61%	76.60%	83.00%	78.02%	76.99%
\$	7,497,348	\$ 6,353,014	\$ 6,275,121	\$ 6,636,342	\$ 5,846,596	\$ 5,501,315
	56.97%	72.55%	106.84%	69.82%	94.27%	98.26%

City of Freeport, Texas

SCHEDULE OF EMPLOYER CONTRIBUTIONS TO PENSION PLAN

Fiscal Years Ended:

	9/30/2025	9/30/2024	9/30/2023	9/30/2022
Actuarially determined employer contributions	\$ 1,320,783	\$ 1,275,234	\$ 1,063,502	\$ 1,038,883
Contributions in relation to the actuarially determined contribution	\$ 1,320,783	\$ 1,275,534	\$ 1,063,502	\$ 1,038,883
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Annual covered payroll	\$ 8,308,487	\$ 8,491,786	\$ 7,532,012	\$ 7,257,170
Employer contributions as a percentage of covered payroll	15.90%	15.02%	14.12%	14.32%

NOTES TO SCHEDULE OF EMPLOYER CONTRIBUTIONS TO PENSION PLAN

Valuation Date:

Notes Actuarially determined contribution rates are calculated as of December 31 and become effective in January 13 months later.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	21 years
Asset Valuation Method	10 Year smoothed market; 12% soft corridor
Inflation	2.5%
Salary Increases	3.60% to 11.85% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2023 valuation pursuant to an experience study of the period ending 2022.

Mortality Post-retirement: 2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP.

Pre-retirement: PUB(10) mortality tables, with the Public Safety table used for males and the General Employee table used for females. The rates are projected on a fully generational

Other Information:

Notes There were no benefit changes during the year.

<u>9/30/2021</u>	<u>9/30/2020</u>	<u>9/30/2019</u>	<u>9/30/2018</u>	<u>9/30/2017</u>	<u>9/30/2016</u>
\$ 1,095,630	\$ 1,004,021	\$ 892,025	\$ 912,207	\$ 773,757	\$ 699,079
<u>\$ 1,095,630</u>	<u>\$ 1,004,021</u>	<u>\$ 892,025</u>	<u>\$ 912,207</u>	<u>\$ 773,757</u>	<u>\$ 699,079</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
\$ 7,593,889	\$ 7,028,033	\$ 6,444,398	\$ 6,461,534	\$ 5,846,596	\$ 5,501,315
14.43%	14.29%	13.84%	14.12%	13.23%	12.71%

City of Freeport, Texas

SCHEDULE OF CHANGES IN POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) LIABILITY AND RELATED RATIOS TEXAS MUNICIPAL RETIREMENT SYSTEM SUPPLEMENTAL DEATH BENEFITS PLAN

Years Ended:

	<u>12/31/2024</u>	<u>12/31/2023</u>	<u>12/31/2022</u>	<u>12/31/2021</u>
Total OPEB liability				
Service cost	\$ 17,972	\$ 14,072	\$ 23,729	\$ 24,573
Interest	14,820	14,372	9,360	9,611
Differences between expected and actual experience	(1,191)	(1,532)	12,121	(14,258)
Changes of assumptions	(21,200)	20,050	(185,826)	16,220
Benefit payments, including refunds of participant contributions	(11,981)	(9,382)	(7,191)	(8,191)
Net change in total OPEB liability	<u>(1,580)</u>	<u>37,580</u>	<u>(147,807)</u>	<u>27,955</u>
Total OPEB liability - beginning	<u>\$ 390,105</u>	<u>\$ 352,525</u>	<u>\$ 500,332</u>	<u>\$ 472,377</u>
Total OPEB liability - ending	<u><u>\$ 388,525</u></u>	<u><u>\$ 390,105</u></u>	<u><u>\$ 352,525</u></u>	<u><u>\$ 500,332</u></u>
Covered-employee payroll	\$ 8,557,930	\$ 7,817,899	\$ 7,190,577	\$ 7,446,438
City's total OPEB liability as a percentage of covered-employee payroll	4.54%	4.99%	4.90%	6.72%

Notes to schedule:

¹ This schedule is presented to illustrate the requirement to show information for ten years. However, until a full ten-year trend is compiled, only available information is shown.

² No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB statement No. 75 to pay related benefits.

	<u>12/31/2020</u>	<u>12/31/2019</u>	<u>12/31/2018</u>	<u>12/31/2017</u> ¹
\$	22,492	\$ 12,706	\$ 11,923	\$ 10,618
	10,633	11,579	10,724	10,509
	(397)	(15,039)	(9,540)	-
	65,740	63,192	(23,177)	26,796
	(2,999)	(2,541)	(1,883)	(3,318)
	<u>95,469</u>	<u>69,897</u>	<u>(11,953)</u>	<u>44,605</u>
\$	<u>376,908</u>	<u>\$ 307,011</u>	<u>\$ 318,964</u>	<u>\$ 274,359</u>
	<u>472,377</u>	<u>\$ 376,908</u>	<u>\$ 307,011</u>	<u>\$ 318,964</u> ²
\$	7,497,348	\$ 6,353,014	\$ 6,275,121	\$ 6,636,342
	6.30%	5.93%	4.89%	4.81%

City of Freeport, Texas

SCHEDULE OF CHANGES IN POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) LIABILITY AND RELATED RATIOS RETIREE HEALTH CARE PLAN

Years Ended:

	12/31/2024	12/31/2023	12/31/2022	12/31/2021
Total OPEB liability				
Service cost	\$ 13,165	\$ 31,270	\$ 57,496	\$ 24,748
Interest	7,624	19,346	11,311	9,124
Changes in benefit terms	-	(256,806)	-	(21,529)
Differences between expected and actual experience	-	-	-	(27,506)
Changes of assumptions	-	15,536	(258,557)	142,157
Benefit payments, including refunds of participant contributions	(697)	(697)	(2,343)	-
Net change in total OPEB liability	20,092	(191,351)	(192,093)	126,994
Total OPEB liability - beginning	\$ 174,975	\$ 366,326	\$ 558,419	\$ 431,425
Total OPEB liability - ending	\$ 195,067	\$ 174,975	\$ 366,326	\$ 558,419
 Covered-employee payroll	 \$ 7,324,133	 \$ 7,663,432	 \$ 7,663,432	 \$ 7,257,170
City's total OPEB liability as a percentage of covered-employee payroll	 2.66%	 2.28%	 4.78%	 7.69%

Notes to schedule:

¹ This schedule is presented to illustrate the requirement to show information for ten years. However, until a full ten-year trend is compiled, only available information is shown.

² No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB statement No. 75 to pay related benefits.

<u>12/31/2020</u>	<u>12/31/2019</u>	<u>12/31/2018</u>	<u>12/31/2017</u> ¹
\$ 24,263	\$ 26,027	\$ 27,301	\$ 24,443
10,346	16,948	16,533	17,182
-	(106,501)	-	-
231	(99,594)	(715)	-
34,141	33,523	(16,480)	20,081
(3,252)	(7,424)	(19,500)	(9,750)
<u>65,729</u>	<u>(137,021)</u>	<u>7,139</u>	<u>51,956</u>
\$ 365,696	\$ 502,717	\$ 495,578	\$ 443,622
\$ 431,425	\$ 365,696	\$ 502,717	\$ 495,578 ²
<u><u>\$ 6,234,975</u></u>	<u><u>\$ 6,353,014</u></u>	<u><u>\$ 6,275,121</u></u>	<u><u>\$ 6,636,342</u></u>
6.92%	5.76%	8.01%	7.47%

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***COMBINING STATEMENTS AND
INDIVIDUAL FUND SCHEDULES***

City of Freeport, Texas
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
September 30, 2025

	<u>Debt Service</u>	<u>Hotel/Motel Tax</u>	<u>TIRZ</u>	<u>Court Revenue</u>
<u>Assets</u>				
Cash and cash equivalents	\$ 487,560	\$ 354,783	\$ 931,212	\$ 266,423
Receivables, net	26,981	37,458	32,146	85,955
Prepays	50,588	-	-	-
Total Assets	\$ 565,129	\$ 392,241	\$ 963,358	\$ 352,378
<u>Liabilities</u>				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Due to Other Funds	-	-	-	-
Total Liabilities	-	-	-	-
<u>Deferred Inflows of Resources</u>				
Unavailable revenues	26,322	-	-	-
<u>Fund Balances</u>				
Nonspendable	50,588	-	-	-
Restricted for:				
Debt service	488,219	-	-	-
Tourism	-	392,241	-	-
Economic development	-	-	963,358	-
Municipal court	-	-	-	352,378
Assigned:				
Facilities and grounds	-	-	-	-
IT equipment	-	-	-	-
Unassigned	-	-	-	-
Total Fund Balances	538,807	392,241	963,358	352,378
Total Liabilities, Deferred Inflows, and Fund Balances	\$ 565,129	\$ 392,241	\$ 963,358	\$ 352,378

<u>Facilities & Grounds CIP</u>	<u>Vehicles & Equipment</u>	<u>IT Fund</u>	<u>Hurricane Beryl</u>	<u>Marina Operations</u>	<u>Total</u>
\$ 2,208,334	\$ 8,848	\$ 223,593	\$ -	\$ 1,114	\$ 4,481,867
-	-	-	117,848	-	300,388
-	-	-	-	-	50,588
<u>\$ 2,208,334</u>	<u>\$ 8,848</u>	<u>\$ 223,593</u>	<u>\$ 117,848</u>	<u>\$ 1,114</u>	<u>\$ 4,832,843</u>
\$ -	\$ 1,922	\$ -	\$ 14,159	\$ -	\$ 16,081
-	-	-	1,845,441	-	1,845,441
-	<u>1,922</u>	-	<u>1,859,600</u>	-	<u>1,861,522</u>
-	-	-	-	-	26,322
-	-	-	-	-	50,588
-	-	-	-	-	488,219
-	-	-	-	-	392,241
-	-	-	-	-	963,358
-	-	-	-	-	352,378
2,208,334	-	-	-	-	2,208,334
-	-	223,593	-	-	223,593
-	6,926	-	(1,741,752)	1,114	(1,733,712)
<u>2,208,334</u>	<u>6,926</u>	<u>223,593</u>	<u>(1,741,752)</u>	<u>1,114</u>	<u>2,944,999</u>
<u>\$ 2,208,334</u>	<u>\$ 8,848</u>	<u>\$ 223,593</u>	<u>\$ 117,848</u>	<u>\$ 1,114</u>	<u>\$ 4,832,843</u>

City of Freeport, Texas

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES NONMAJOR GOVERNMENTAL FUNDS

For the Year Ended September 30, 2025

	Debt Service	Hotel/Motel Tax	TIRZ	Court Revenue
<u>Revenues</u>				
Property tax	\$ 528,596	\$ -	\$ 360,901	\$ -
Other taxes	-	162,741	-	-
Intergovernmental	-	-	-	-
Fines and fees	-	-	-	101,592
Investment income	10,819	9,678	31,870	10,459
Total Revenues	539,415	172,419	392,771	112,051
<u>Expenditures</u>				
General government	-	22,000	-	-
Public safety	-	-	-	25,314
Disaster relief	-	-	-	-
Debt service:				
Principal	365,000	-	-	-
Interest	129,569	-	-	-
Capital outlay	-	-	-	-
Total Expenditures	494,569	22,000	-	25,314
Revenues Over (Under) Expenditures	44,846	150,419	392,771	86,737
<u>Other Financing Sources (Uses)</u>				
Transfers in	-	-	-	-
Total Other Financing Sources (Uses)	-	-	-	-
Net Change in Fund Balances	44,846	150,419	392,771	86,737
Beginning fund balances	493,961	241,822	570,587	265,641
Ending Fund Balances	\$ 538,807	\$ 392,241	\$ 963,358	\$ 352,378

<u>Facilities & Grounds CIP</u>	<u>Vehicles & Equipment</u>	<u>IT Fund</u>	<u>Hurricane Beryl</u>	<u>Marina Operations</u>	<u>Total</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 889,497
-	-	-	-	-	162,741
-	-	-	608,849	-	608,849
-	-	-	-	-	101,592
91,120	1,882	8,588	-	252	164,668
<u>91,120</u>	<u>1,882</u>	<u>8,588</u>	<u>608,849</u>	<u>252</u>	<u>1,927,347</u>
-	-	-	-	-	22,000
-	-	-	-	-	25,314
-	-	-	253,155	-	253,155
-	-	-	-	-	365,000
-	-	-	-	-	129,569
284,121	204,365	-	660,142	-	1,148,628
<u>284,121</u>	<u>204,365</u>	<u>-</u>	<u>913,297</u>	<u>-</u>	<u>1,943,666</u>
<u>(193,001)</u>	<u>(202,483)</u>	<u>8,588</u>	<u>(304,448)</u>	<u>252</u>	<u>(16,319)</u>
-	211,665	-	-	-	211,665
-	211,665	-	-	-	211,665
(193,001)	9,182	8,588	(304,448)	252	195,346
2,401,335	(2,256)	215,005	(1,437,304)	862	2,749,653
<u>\$ 2,208,334</u>	<u>\$ 6,926</u>	<u>\$ 223,593</u>	<u>\$ (1,741,752)</u>	<u>\$ 1,114</u>	<u>\$ 2,944,999</u>

City of Freeport, Texas
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
DEBT SERVICE FUND
For the Year Ended September 30, 2025

	Original & Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues</u>			
Property tax	\$ 526,250	\$ 528,596	\$ 2,346
Investment income	400	10,819	10,419
Total Revenues	526,650	539,415	12,765
<u>Expenditures</u>			
Debt Service:			
Principal	560,000	365,000	195,000
Interest and fiscal charges	241,619	129,569	112,050
Total Expenditures	801,619	494,569	307,050
<u>Other Financing Sources (Uses)</u>			
Transfers in	301,650	-	(301,650)
Total Other Financing Sources (Uses)	301,650	-	(301,650)
Net Change in Fund Balance	\$ 26,681	44,846	\$ 18,165
Beginning fund balance		493,961	
Ending Fund Balance		\$ 538,807	

Notes to Supplementary Information

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles