

**CITY OF FREEPORT  
FREEPORT, TEXAS**

**ANNUAL FINANCIAL REPORT**

**FOR THE YEAR ENDED  
SEPTEMBER 30, 2010**

**KENNEMER, MASTERS & LUNSFORD, LLC  
CERTIFIED PUBLIC ACCOUNTANTS  
8 WEST WAY COURT  
LAKE JACKSON, TEXAS 77566**

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**CITY OF FREEPORT**  
Freeport, Texas

*Annual Financial Report*  
*For the Year Ended September 30, 2010*

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## **FINANCIAL SECTION**

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# KENNEMER, MASTERS & LUNSFORD

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## Independent Auditor's Report

May 25, 2011

To The Honorable Mayor and  
Members of City Council  
City of Freeport  
Freeport, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the discretely presented component unit, and the aggregate remaining fund information of the City of Freeport, Texas (the "City") as of and for the year ended September 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, the discretely presented component unit, and the aggregate remaining fund information of the City of Freeport, Texas as of September 30, 2010 and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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In accordance with *Government Auditing Standards*, we have also issued our report dated May 25, 2011 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 9 through 20, Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund and the Texas Municipal Retirement System and the Texas Statewide Emergency Services Personnel Retirement Fund Schedules of Funding Progress – Last Three Years on Pages 74 through 76 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Freeport's basic financial statements. The other schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Kerremers, Masters & Hurford, LLC*



## **CITY OF FREEPORT, TEXAS**

### *Management's Discussion and Analysis For the Year Ended September 30, 2010*

As management of the City of Freeport (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, 2010. We encourage readers to consider the information presented here in conjunction with the City's financial statements, which follow this section.

#### **Financial Highlights**

- In May 2010, the City of Freeport (the "City") took over the operations of the Freeport Economic Development Corporation's (the "Corporation") marina. This involved collection of dock fees and payment of operating expenditures, which included operating leases. The City established a separate fund (Special Revenue) to account for these operations, and contracted a manager for the marina operations.
- The City purchased land from the Corporation for \$ 950,000. The land is being utilized for the marina project and the Corporation intends to utilize the funds for the marina project.
- The assets of the City of Freeport exceeded its liabilities at the close of the most recent fiscal year by \$ 28,301,245 (net assets). Of this amount, \$ 4,713,436 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors in accordance with the City's fund designation.
- The City reported total net assets of \$ 28,301,245. This is an increase of \$ 43,914 from the prior year.
- As of the close of the current fiscal year, the City of Freeport's governmental funds reported combined ending fund balances of \$ 11,255,155. 38.32% of this total amount, \$ 4,313,350 (unreserved fund balance) is available for use within the City's fund designation. Of this amount, \$ 670,215 has been designated for specific uses.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$ 3,646,082 or 35.13% of the total general fund expenditure. Of this amount, \$ 3,643,135 has not been designated for specific uses.

#### **Overview of the Financial Statements**

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

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

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

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

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from 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 and administration, public safety, public works, and cultural and recreation. The *business-type activities* of the City include the operations of water and sewer, golf course, and ambulance.

The government-wide financial statements can be found on pages 22 through 25 of this report.

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

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

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

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The City maintains eight 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, Series 2008 Debt Service Fund; and the 2008 Bond Construction Fund; all of which are considered to be major funds. Data from the other five funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements on pages 78 through 81 of this report.

- **Proprietary Funds.** The City maintains three individual *proprietary funds*-Enterprise Funds. Information is presented separately in the proprietary fund's statement of net assets, statement of revenues, expenses and changes in net assets, and statement of cash flows on pages 30 through 34 of the report for the Water and Sewer Enterprise Fund; which is considered to be a major fund. The other two funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major proprietary funds is provided in the form of combining statements on pages 89 through 92 of this report. Enterprise funds are used to report the same functions presented as business-type activities in government-wide financial statements. The City uses enterprise funds to account for its water and sewer, golf course, and ambulance operations. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 35 through 72 of this report.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information that further explains and supports the information in the financial statements. Required supplementary information can be found on pages 74 through 76 of this report.

The combining statements referred to earlier in connection with non-major governmental funds are presented following the required supplementary information on pensions. Combining and individual statements and schedules can be found on pages 78 through 104 of this report.

### **Government-wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of government's financial position. In the case of the City of Freeport, assets exceeded liabilities by \$ 28,301,245 as of September 30, 2010.

A large portion of the City's net assets (58.77%) reflects its investments in capital assets (e.g., land, buildings, improvements, equipment, machinery, construction in progress), less any debt used to acquire those assets that is still outstanding. The City uses capital assets to provide service to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

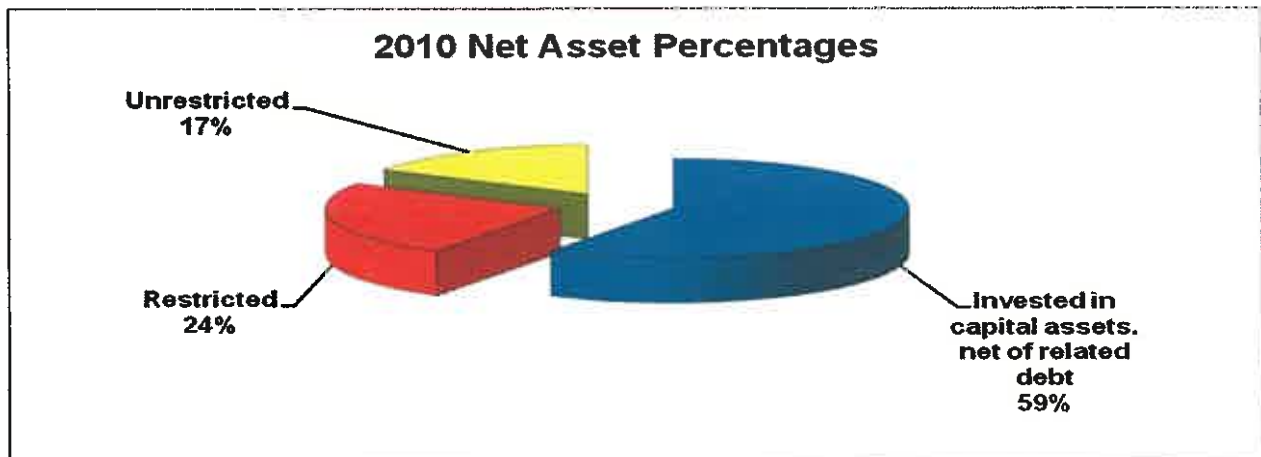
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An additional portion of the City's net assets of \$ 6,956,567 (24.58%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets of \$ 4,713,436 (16.65%) may be used to meet the government's ongoing obligations to citizens and creditors.

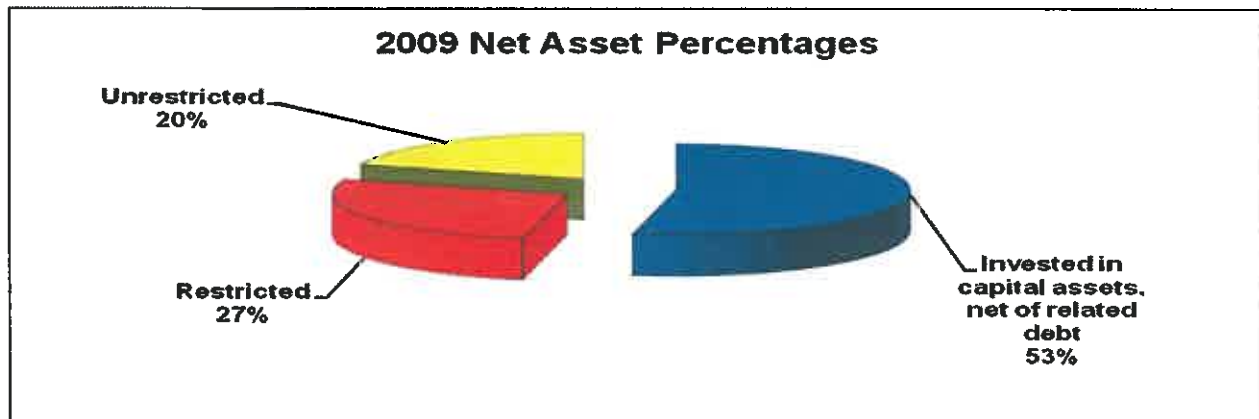
As of September 30, 2010, the City is able to report positive balances in all categories of net assets for the government as a whole. The business-type activities reports a negative amount in unrestricted net assets.

**CITY OF FREEPORT'S NET ASSETS**

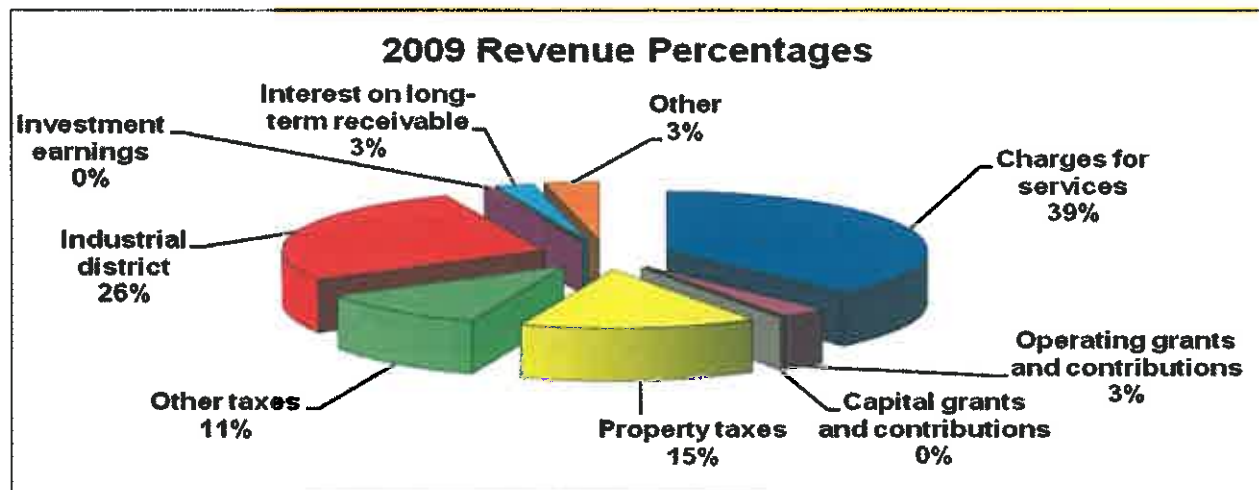
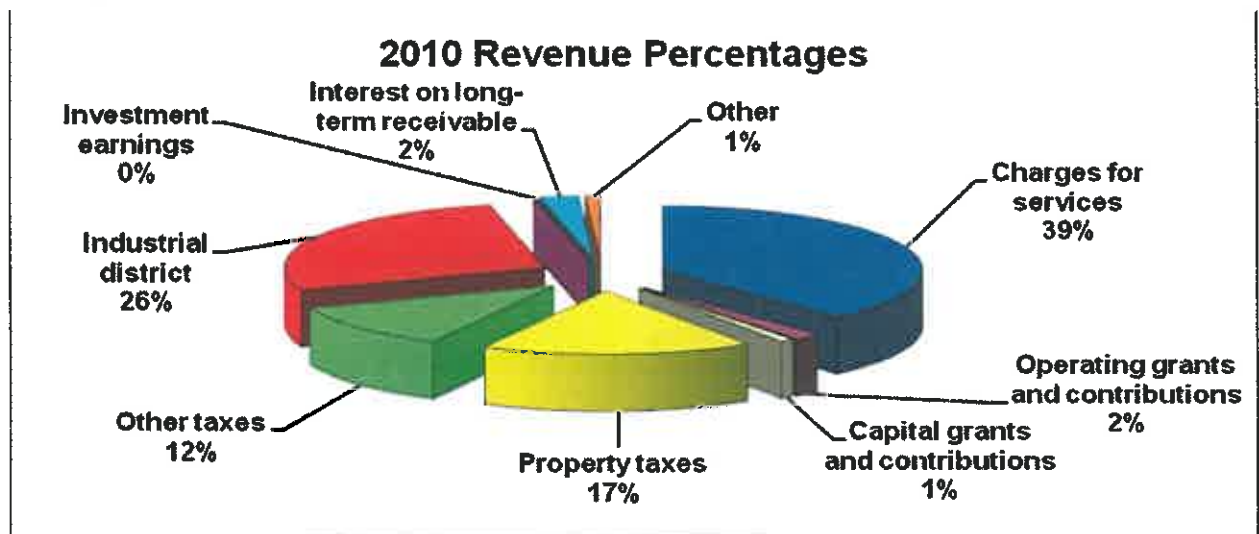
|   | <u>Governmental Activities</u> |                      | <u>Business-type Activities</u> |                     | <u>Totals</u>        |                      |
|---|--------------------------------|----------------------|---------------------------------|---------------------|----------------------|----------------------|
|   | September 30,                  |                      | September 30                    |                     | September 30,        |                      |
|   | 2010                           | 2009                 | 2010                            | 2009                | 2010                 | 2009                 |
| Current and other assets                      | \$ 6,122,369                   | \$ 7,789,999         | \$ 1,145,396                    | \$ 1,093,847        | \$ 7,267,765         | \$ 8,883,846         |
| Long-term receivables                         | 7,737,292                      | 7,365,195            |                                 |                     | 7,737,292            | 7,365,195            |
| Capital assets                                | <u>16,039,788</u>              | <u>15,030,790</u>    | <u>7,760,876</u>                | <u>7,994,444</u>    | <u>23,800,664</u>    | <u>23,025,234</u>    |
| <b>Total assets</b>                           | <u>29,899,449</u>              | <u>30,185,984</u>    | <u>8,906,272</u>                | <u>9,088,291</u>    | <u>38,805,721</u>    | <u>39,274,275</u>    |
| Current and other liabilities                 | 995,301                        | 1,239,907            | 1,206,444                       | 838,833             | 2,201,745            | 2,078,740            |
| Long-term liabilities                         | <u>7,306,158</u>               | <u>7,786,260</u>     | <u>996,573</u>                  | <u>1,151,944</u>    | <u>8,302,731</u>     | <u>8,938,204</u>     |
| <b>Total liabilities</b>                      | <u>8,301,459</u>               | <u>9,026,167</u>     | <u>2,203,017</u>                | <u>1,990,777</u>    | <u>10,504,476</u>    | <u>11,016,944</u>    |
| <b>Net Assets:</b>                            |                                |                      |                                 |                     |                      |                      |
| Invest in capital assets, net of related debt | 9,751,019                      | 7,995,656            | 6,880,223                       | 6,984,384           | 16,631,242           | 14,980,040           |
| Restricted                                    | 6,707,690                      | 7,631,471            | 248,877                         | 22,506              | 6,956,567            | 7,653,977            |
| Unrestricted                                  | <u>5,139,281</u>               | <u>5,532,690</u>     | <u>( 425,845)</u>               | <u>90,624</u>       | <u>4,713,436</u>     | <u>5,623,314</u>     |
| <b>Total net assets</b>                       | <u>\$ 21,597,990</u>           | <u>\$ 21,159,817</u> | <u>\$ 6,703,255</u>             | <u>\$ 7,097,514</u> | <u>\$ 28,301,245</u> | <u>\$ 28,257,331</u> |



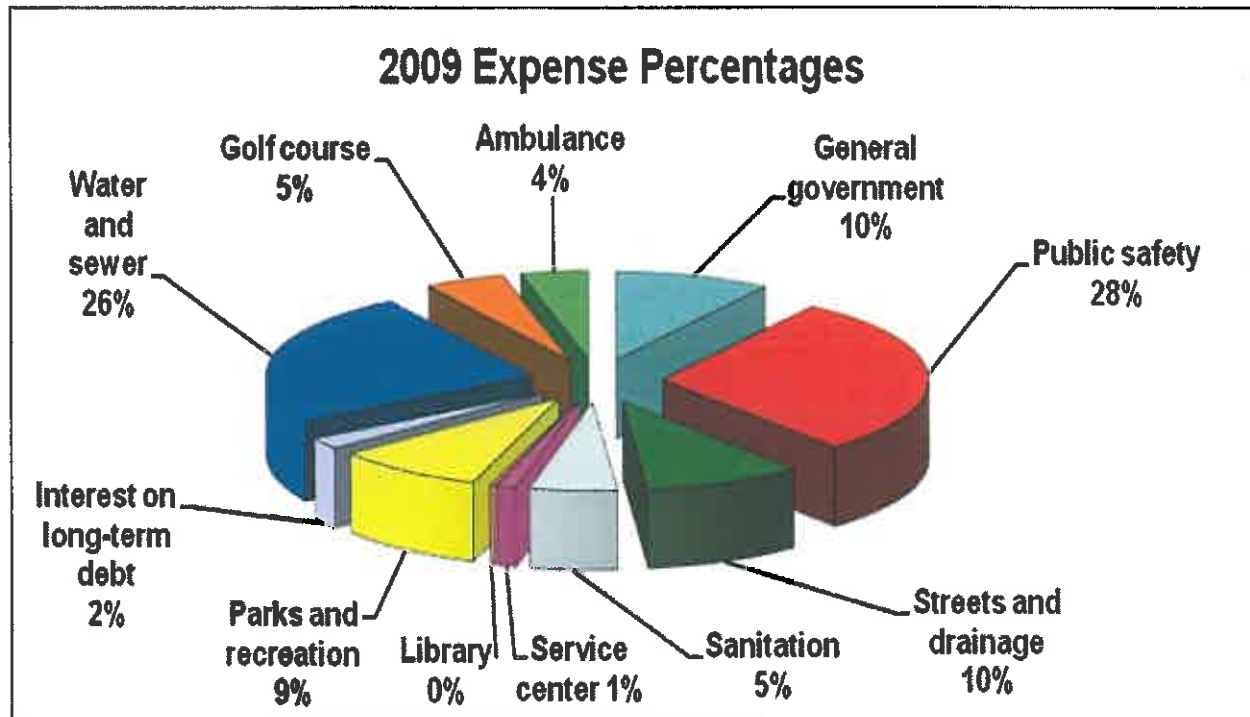
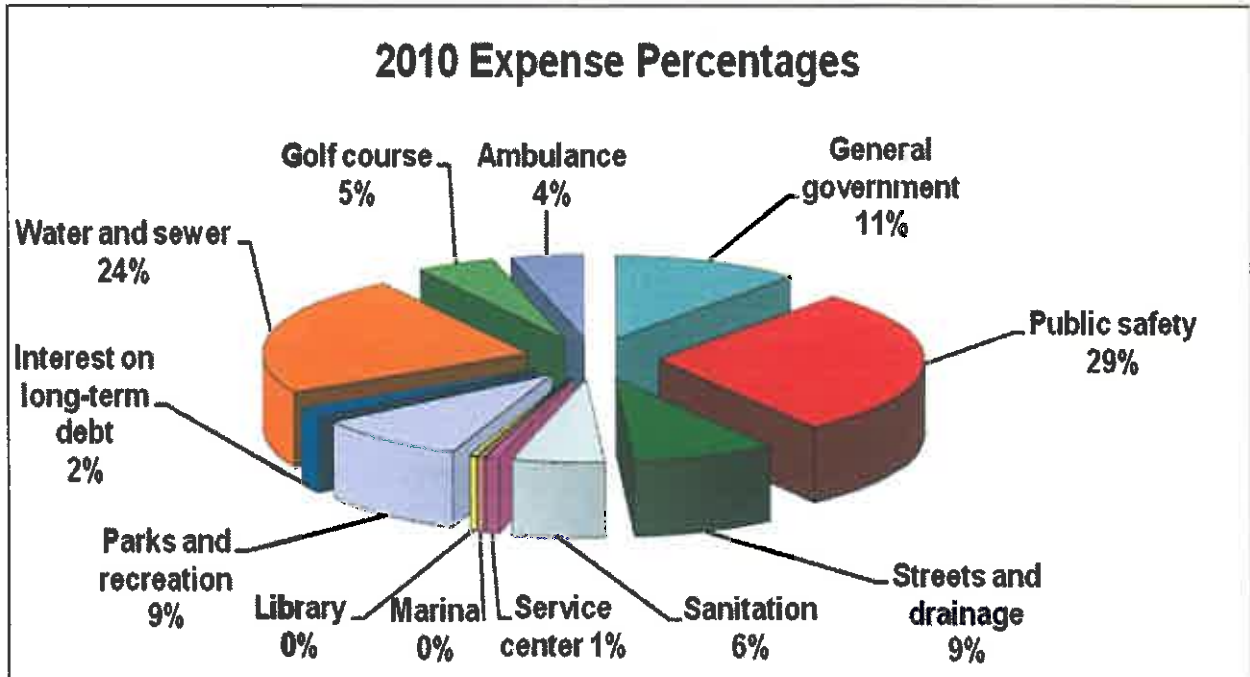
**CITY OF FREEPORT, TEXAS**  
*Management's Discussion and Analysis*  
 For the Year Ended September 30, 2010



**Analysis of the City's Operations.** The following table provides a summary of the City's operations for the years ended September 30, 2010. Governmental activities increased the City of Freeport's net assets by \$ 438,173 and the business-type activities decreased the City's net assets by \$ 394,259.



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**CITY OF FREEPORT'S CHANGES IN NET ASSETS**

|   | Governmental Activities |                      | Business-type Activities |                     | Totals               |                      |
|---|-------------------------|----------------------|--------------------------|---------------------|----------------------|----------------------|
|   | September 30,           |                      | September 30,            |                     | September 30,        |                      |
|   | 2010                    | 2009                 | 2010                     | 2009                | 2010                 | 2009                 |
| Revenues:   |                         |                      |                          |                     |                      |                      |
| Program Revenues:   |                         |                      |                          |                     |                      |                      |
| Charges for services                                      | \$ 1,524,669            | \$ 1,526,254         | \$ 4,463,379             | \$ 4,664,924        | \$ 5,988,048         | \$ 6,191,178         |
| Operating grants and contributions                        | 251,511                 | 458,412              |                          |                     | 251,511              | 458,412              |
| Capital grants and contributions                          |                         |                      | 128,029                  | 921                 | 128,029              | 921                  |
| General Revenues:   |                         |                      |                          |                     |                      |                      |
| Property taxes  | 2,619,766               | 2,369,185            |                          |                     | 2,619,766            | 2,369,185            |
| Other taxes   | 1,799,541               | 1,764,298            |                          |                     | 1,799,541            | 1,764,298            |
| Industrial district                                       | 4,282,985               | 4,429,222            |                          |                     | 4,282,985            | 4,429,222            |
| Investment earnings                                       | 10,237                  | 57,944               | 328                      | 707                 | 10,565               | 58,651               |
| Interest on long-term receivable                          | 372,097                 | 385,113              |                          |                     | 372,097              | 385,113              |
| Gain on disposition of capital assets                     |                         | 10,800               |                          |                     |                      | 10,800               |
| Miscellaneous   | 143,029                 | 529,372              |                          |                     | 143,029              | 529,372              |
| Total revenues  | <u>11,003,835</u>       | <u>11,530,600</u>    | <u>4,591,736</u>         | <u>4,666,552</u>    | <u>15,595,571</u>    | <u>16,197,152</u>    |
| Expenses:   |                         |                      |                          |                     |                      |                      |
| Administration  | 1,806,463               | 1,516,220            |                          |                     | 1,806,463            | 1,516,220            |
| Public safety   | 4,510,322               | 4,677,332            |                          |                     | 4,510,322            | 4,677,332            |
| Streets and drainage                                      | 1,385,528               | 1,527,031            |                          |                     | 1,385,528            | 1,527,031            |
| Sanitation  | 883,882                 | 842,172              |                          |                     | 883,882              | 842,172              |
| Service center  | 127,225                 | 185,264              |                          |                     | 127,225              | 185,264              |
| Marina  | 57,384                  |                      |                          |                     | 57,384               |                      |
| Library   | 64,589                  | 43,084               |                          |                     | 64,589               | 43,084               |
| Parks and recreation                                      | 1,452,935               | 1,440,061            |                          |                     | 1,452,935            | 1,440,061            |
| Interest on long-term debt                                | 297,836                 | 319,389              |                          |                     | 297,836              | 319,389              |
| Water and sewer   |                         |                      | 3,722,429                | 3,944,069           | 3,722,429            | 3,944,069            |
| Golf course   |                         |                      | 756,711                  | 775,044             | 756,711              | 775,044              |
| Ambulance   |                         |                      | 691,706                  | 647,900             | 691,706              | 647,900              |
| Total expenses  | <u>10,586,164</u>       | <u>10,550,553</u>    | <u>5,170,846</u>         | <u>5,367,013</u>    | <u>15,757,010</u>    | <u>15,917,566</u>    |
| Increase in net assets before contributions and transfers | 417,671                 | 980,047              | ( 579,110)               | ( 700,461)          | ( 161,439)           | 279,586              |
| Contributions   | 205,353                 | 205,457              |                          |                     | 205,353              | 205,457              |
| Transfers   | ( 184,851)              | ( 537,205)           | 184,851                  | 537,205             | -0-                  | -0-                  |
| Increase in net assets                                    | 438,173                 | 648,299              | ( 394,259)               | ( 163,256)          | 43,914               | 485,043              |
| Net assets – beginning                                    | <u>21,159,817</u>       | <u>20,511,518</u>    | <u>7,097,514</u>         | <u>7,260,770</u>    | <u>28,257,331</u>    | <u>27,772,288</u>    |
| Net assets – ending                                       | <u>\$ 21,597,990</u>    | <u>\$ 21,159,817</u> | <u>\$ 6,703,255</u>      | <u>\$ 7,097,514</u> | <u>\$ 28,301,245</u> | <u>\$ 28,257,331</u> |

**CITY OF FREEPORT, TEXAS**  
*Management's Discussion and Analysis*  
*For the Year Ended September 30, 2010*

**Financial Analysis of the City's Funds**

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

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

As of the end of the current fiscal year, the City of Freeport's governmental funds reported combined ending fund balances of \$ 11,255,155. 38.32% of this total amount (\$ 4,313,350) constitutes unreserved fund balance. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed 1) for construction \$ 260,350, 2) for debt service \$( 28,956), 3) for notes receivable \$ 6,639,208, 4) for the expenditure of municipal court security \$ 19,121, 5) for municipal court technology \$ 11,140, 5) and for narcotics \$ 40,942.

The General Fund balance decreased by \$ 759,056, the Series 2008 Debt Service Fund balance increased by \$ 56,960, the 2008 Bond Construction Fund decreased by \$ 720,276, and the other governmental funds decreased \$ 138,869.

**Proprietary funds.** As mentioned earlier, the City's proprietary fund statements provide the same type of information found in the government-wide financial statements, but in more detail.

Net assets at September 30, 2010 amounted to \$ 6,703,255. Total net assets decreased by \$ 394,259 (or 5.55%).

**General Fund Budgetary Highlights.** Differences between the original budget and the final amended budget resulted in a \$ 1,220,948 increase in appropriations; and can be summarized as follows:

- \$ 950,000 increase for land purchase.
- \$ 82,573 increase in Police Department for purchase of 24 digital radios funded by a JAG grant.

The City's overall budgeted revenue increased 6.56% or \$ 676,487; primarily due to FEMA funds received and insurance recovery from Hurricane Ike.

**Capital Assets**

The City of Freeport's investment in capital assets for its governmental and business-type activities as of September 30, 2010, amounts to \$ 23,800,664 (net of accumulated depreciation). This investment in capital assets includes land, improvements, buildings, utility plant, furniture, equipment and vehicles, and construction in progress.



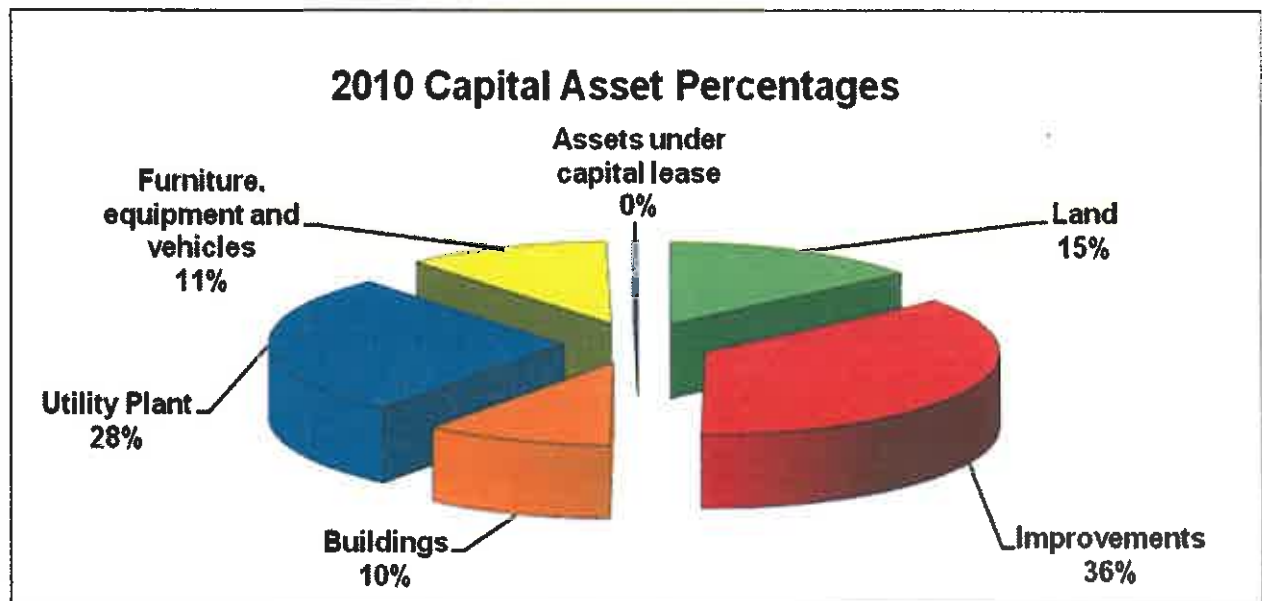
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*For the Year Ended September 30, 2010*

Major capital asset events during the current fiscal year included the following:

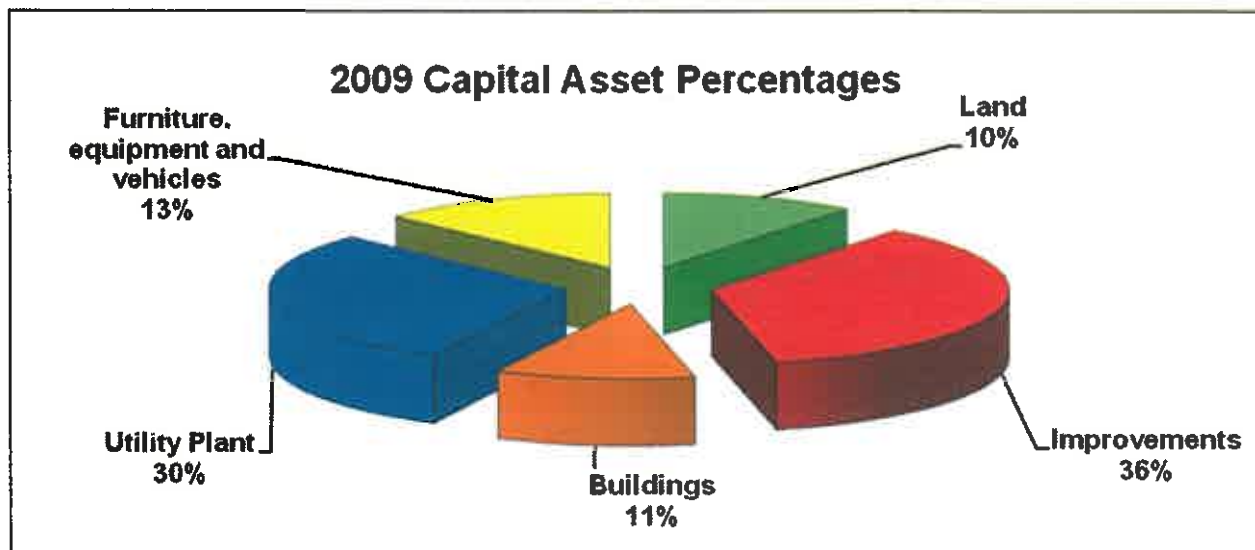
- Land purchase – Trico property
- Street improvement through County interlocal agreement
- CDBG Project for deep line sewer replacement
- Police Department – 24 digital radios
- Street and Drainage – raising sidewalks
- Improvement - Velasco Blvd. improvement project.

**Capital Assets**  
**Net of Accumulated Depreciation**

|                                   | Governmental Activities |                      | Business-type Activities |                     | Totals               |                      |
|-----------------------------------|-------------------------|----------------------|--------------------------|---------------------|----------------------|----------------------|
|                                   | September 30,           |                      | September 30,            |                     | September 30,        |                      |
|                                   | 2010                    | 2009                 | 2010                     | 2009                | 2010                 | 2009                 |
| Land                              | \$ 3,004,645            | \$ 2,049,359         | \$ 395,630               | \$ 395,630          | \$ 3,400,275         | \$ 2,444,989         |
| Improvements                      | 8,367,257               | 8,026,691            | 183,707                  | 211,622             | 8,550,964            | 8,238,313            |
| Buildings                         | 2,307,434               | 2,343,776            | 130,328                  | 139,392             | 2,437,762            | 2,483,168            |
| Utility plant                     |                         |                      | 6,686,207                | 6,862,663           | 6,686,207            | 6,862,663            |
| Furniture, equipment and vehicles | 2,360,452               | 2,554,899            | 307,202                  | 385,137             | 2,667,654            | 2,940,036            |
| Assets under capital lease        |                         |                      | 57,802                   |                     | 57,802               |                      |
| Construction in progress          |                         | 56,065               |                          |                     |                      | 56,065               |
| <b>Total</b>                      | <b>\$ 16,039,788</b>    | <b>\$ 15,030,790</b> | <b>\$ 7,760,876</b>      | <b>\$ 7,994,444</b> | <b>\$ 23,800,664</b> | <b>\$ 23,025,234</b> |



**CITY OF FREEPORT, TEXAS**  
*Management's Discussion and Analysis*  
*For the Year Ended September 30, 2010*



Additional information on the City of Freeport's capital assets can be found in Note 5 on pages 49 through 52 of this report.

**Notes Receivable**

At the end of the current fiscal year, the City of Freeport had a total note receivable of \$ 6,639,208. Of this amount, \$ 6,000,000 represents a loan made during the year ended September 30, 2007 to the Freeport Economic Development Corporation. The remaining \$ 639,208 is a consolidated loan with the Freeport Economic Development Corporation from prior years.

**Long-Term Receivables Outstanding**

|   | Governmental Activities |                     | Business-type Activities |               | Totals              |                     |
|---|-------------------------|---------------------|--------------------------|---------------|---------------------|---------------------|
|   | September 30,           |                     | September 30,            |               | September 30,       |                     |
|   | 2010                    | 2009                | 2010                     | 2009          | 2010                | 2009                |
| Loans receivable                          | \$ 6,639,208            | \$ 6,639,208        | \$                       | \$            | \$ 6,639,208        | \$ 6,639,208        |
| Components of Long-Term Loans Receivable: |                         |                     |                          |               |                     |                     |
| Accrued interest receivable               | <u>1,098,084</u>        | <u>725,987</u>      |                          |               | <u>1,098,084</u>    | <u>725,987</u>      |
| Total                                     | <u>\$ 7,737,292</u>     | <u>\$ 7,365,195</u> | <u>\$ -0-</u>            | <u>\$ -0-</u> | <u>\$ 7,737,292</u> | <u>\$ 7,365,195</u> |

Additional information on the City of Freeport's long-term notes receivable can be found in Note 15 on pages 69 through 71 of this report.

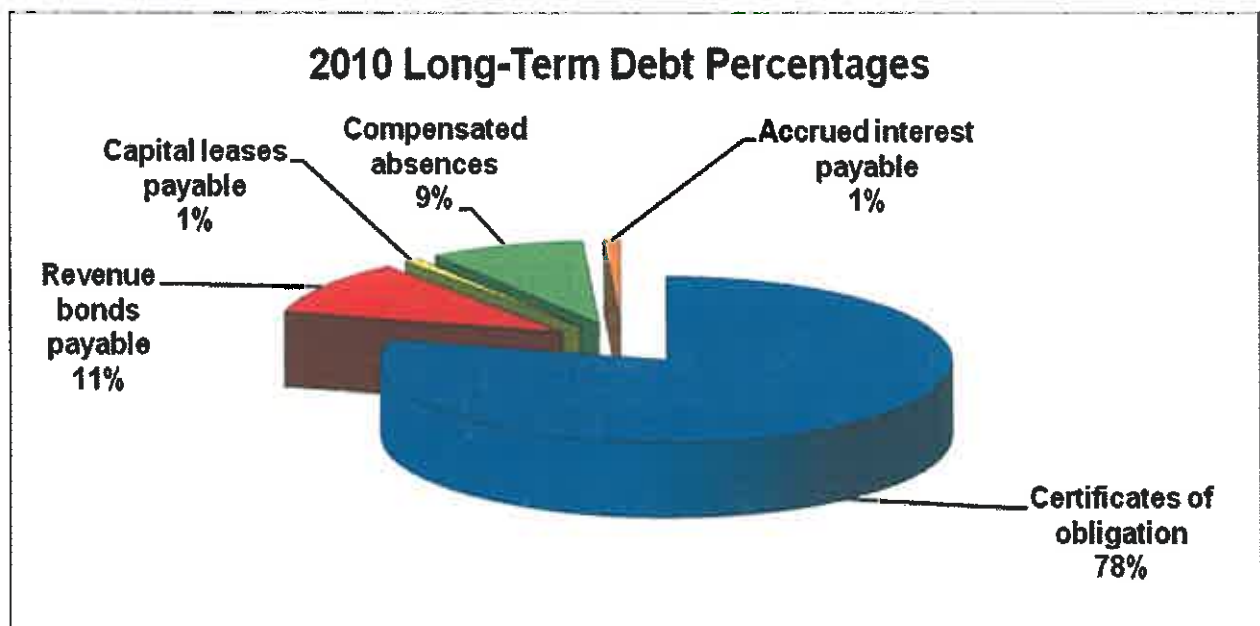
**CITY OF FREEPORT, TEXAS**  
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**Debt Administration**

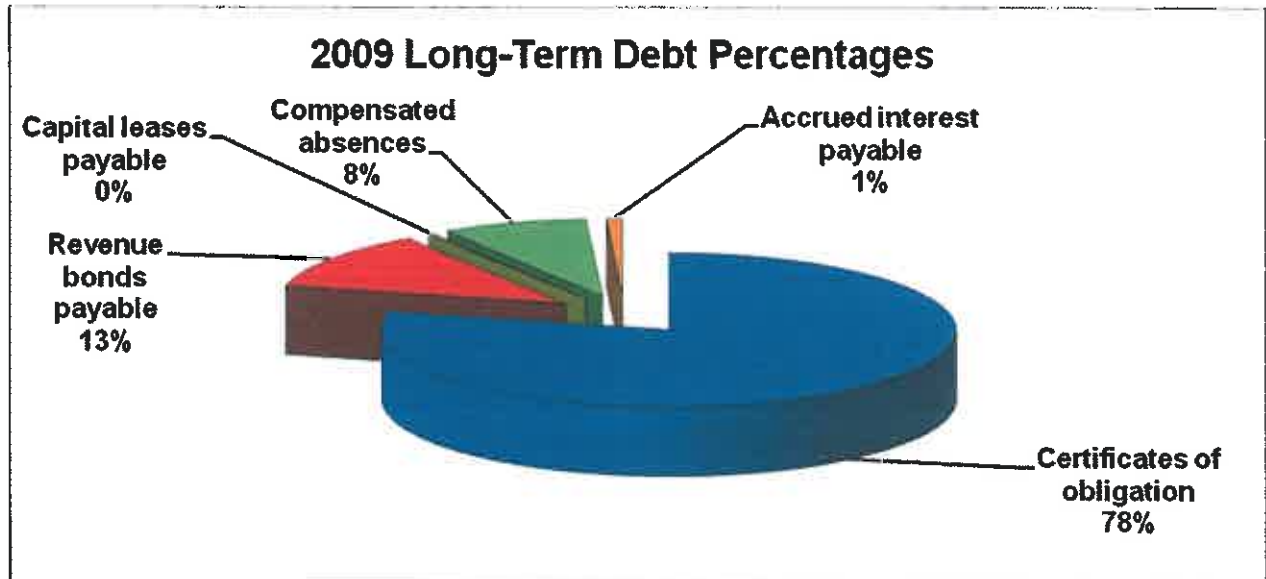
At the end of the current fiscal year, the City of Freeport had a total bonded debt and certificates of obligation payable of \$ 7,434,000. Of this amount, \$ 6,548,000 is comprised of bonded debt backed by the full faith and credit of the City. These bonds will be retired with revenues from property and sales taxes. The remaining \$ 886,000 represents bonds secured solely by water and sewer revenues.

**Long-Term Debt Outstanding**

|                               | Governmental Activities |                     | Business-type Activities |                     | Totals              |                     |
|-------------------------------|-------------------------|---------------------|--------------------------|---------------------|---------------------|---------------------|
|                               | September 30,           |                     | September 30,            |                     | September 30,       |                     |
|                               | 2010                    | 2009                | 2010                     | 2009                | 2010                | 2009                |
| Certificates of obligation    | \$ 6,548,000            | \$ 7,031,000        | \$                       | \$                  | \$ 6,548,000        | \$ 7,031,000        |
| Revenue bonds payable         |                         |                     | 886,000                  | 1,086,000           | 886,000             | 1,086,000           |
| Capital leases payable        | 11,505                  | 15,391              | 55,405                   |                     | 66,910              | 15,391              |
| Compensated absences          | 672,215                 | 658,946             | 55,168                   | 65,944              | 727,383             | 724,890             |
| Components of Long-Term Debt: |                         |                     |                          |                     |                     |                     |
| Accrued interest payable      | 74,438                  | 80,923              |                          |                     | 74,438              | 80,923              |
| <b>Total</b>                  | <b>\$ 7,306,158</b>     | <b>\$ 7,786,260</b> | <b>\$ 996,573</b>        | <b>\$ 1,151,944</b> | <b>\$ 8,302,731</b> | <b>\$ 8,938,204</b> |



**CITY OF FREEPORT, TEXAS**  
*Management's Discussion and Analysis*  
*For the Year Ended September 30, 2010*



Additional information on the City of Freeport's long-term debt can be found in Note 13 on pages 62 through 65 of this report.

**Economic Factors and Next Year's Budgets and Rates**

Certified assessed valuations increased 1.50% over the preceding year. The property tax rate increased to 0.708266, with 1.61081 as Interest & Sinking component and 0.547185 as the Maintenance & Operations component. From the Interest & Sinking component 0.078601 was used to pay the Certificates of Obligations, Series 2003 issued on October 23, 2003 and 0.082480 was used to pay the Certificates of Obligations, Series 2008 issued on March 3, 2008.

The price of water from the Brazosport Water Authority remained the same at \$ 1.64 per thousand gallons

The utility contract signed with GEXA Energy beginning on August 1, 2011 will save an estimated \$ 800,000 over a three year period.

**Request for Information**

This financial report is designed to provide a general overview of the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of Finance, 200 West Second Street, Freeport, Texas, 77541, or call (979) 233-3526.

## **BASIC FINANCIAL STATEMENTS**

**CITY OF FREEPORT**

· Freeport, Texas

**STATEMENT OF NET ASSETS**

September 30, 2010

|   | Primary Government         |                                 |                   | Freeport<br>Economic<br>Development<br>Corporation |
|---|----------------------------|---------------------------------|-------------------|--|
|   | Governmental<br>Activities | Business-<br>Type<br>Activities | Total             |  |
| <b>Assets:</b>  |                            |                                 |                   |  |
| Cash and cash equivalents   | \$ 5,193,872               | \$ 53,065                       | \$ 5,246,937      | \$ 854,298   |
| Receivables (Net of Allowance for Uncollectable):                 |                            |                                 |                   |  |
| Taxes   | 175,734                    |                                 | 175,734           |  |
| Accounts  | 395,240                    | 583,531                         | 978,771           | 25,000   |
| Due from other governments  | 272,699                    |                                 | 272,699           | 136,200  |
| Inventory   |                            | 18,929                          | 18,929            |  |
| Restricted Assets:  |                            |                                 |                   |  |
| Temporarily Restricted:   |                            |                                 |                   |  |
| Cash and cash equivalents   |                            | 429,119                         | 429,119           |  |
| Bond issuance costs - current                                     |                            | 15,188                          | 15,188            |  |
| Bond issuance costs (net of current and accumulated amortization) | 84,824                     | 45,564                          | 130,388           |  |
| Noncurrent Notes Receivable:                                      |                            |                                 |                   |  |
| Due within one year   | 1,373,977                  |                                 | 1,373,977         |  |
| Due in more than one year   | 6,363,315                  |                                 | 6,363,315         |  |
| Capital Assets (Net of Accumulated Depreciation):                 |                            |                                 |                   |  |
| Land  | 3,004,645                  | 395,630                         | 3,400,275         |  |
| Improvements  | 8,367,257                  | 183,707                         | 8,550,964         | 18,690   |
| Buildings   | 2,307,434                  | 130,328                         | 2,437,762         |  |
| Utility plant   |                            | 6,686,207                       | 6,686,207         |  |
| Furniture, equipment and vehicles                                 | 2,360,452                  | 307,202                         | 2,667,654         |  |
| Assets under capital lease  |                            | 57,802                          | 57,802            |  |
| Construction in progress  |                            |                                 |                   | <u>9,892,980</u>                                   |
| <b>Total assets</b>   | <u>29,899,449</u>          | <u>8,906,272</u>                | <u>38,805,721</u> | <u>10,927,168</u>                                  |
| <b>Liabilities:</b>   |                            |                                 |                   |  |
| Accounts payable  | 787,101                    | 989,375                         | 1,776,476         | 112,626  |
| Accrued wages and benefits  | 208,200                    | 36,627                          | 244,827           |  |
| Liabilities payable from restricted assets                        |                            | 180,242                         | 180,242           |  |
| Deferred revenue  |                            | 200                             | 200               |  |
| Noncurrent Liabilities:   |                            |                                 |                   |  |
| Due within one year   | 1,258,767                  | 69,307                          | 1,328,074         | 1,459,528  |
| Due in more than one year   | <u>6,047,391</u>           | <u>927,266</u>                  | <u>6,974,657</u>  | <u>7,992,943</u>                                   |
| <b>Total liabilities</b>  | <u>8,301,459</u>           | <u>2,203,017</u>                | <u>10,504,476</u> | <u>9,565,097</u>                                   |

(continued)

**CITY OF FREEPORT**

Freeport, Texas

STATEMENT OF NET ASSETS - Continued

September 30, 2010

|   | Primary Government         |                                 |                   | Freeport<br>Economic<br>Development<br>Corporation |
|---|----------------------------|---------------------------------|-------------------|--|
|   | Governmental<br>Activities | Business-<br>Type<br>Activities | Total             |  |
| Net Assets:                                     |                            |                                 |                   |  |
| Invested in capital assets, net of related debt | \$ 9,751,019               | \$ 6,880,223                    | \$ 16,631,242     | \$ 461,929   |
| Restricted For:                                 |                            |                                 |                   |  |
| Notes receivable                                | 6,639,208                  |                                 | 6,639,208         |  |
| Debt service                                    | ( 2,721 )                  | 248,877                         | 246,156           |  |
| Other   | 71,203                     |                                 | 71,203            |  |
| Unrestricted                                    | 5,139,281                  | ( 425,845 )                     | 4,713,436         | 900,142  |
| <br>Total net assets                            | <br>\$ 21,597,990          | <br>\$ 6,703,255                | <br>\$ 28,301,245 | <br>\$ 1,362,071                                   |

The notes to the financial statements are an integral part of this statement.

**CITY OF FREEPORT**  
Freeport, Texas  
**STATEMENT OF ACTIVITIES**  
September 30, 2010

| Functions/Programs                         | Expenses             | Program Revenues        |  |  |
|--|----------------------|-------------------------|--|--|
|  |                      | Charges for<br>Services | Operating<br>Grants and<br>Contributions | Capital<br>Grants and<br>Contributions |
| Primary Government:                        |                      |                         |  |  |
| Governmental Activities:                   |                      |                         |  |  |
| Administration                             | \$ 1,806,463         | \$                      | \$                                       | \$                                     |
| Public safety                              | 4,510,322            | 502,294                 | 247,801                                  |  |
| Streets and drainage                       | 1,385,528            |                         |  |  |
| Sanitation                                 | 883,882              | 869,634                 |  |  |
| Service center                             | 127,225              |                         |  |  |
| Marina                                     | 57,384               | 5,475                   |  |  |
| Library                                    | 64,589               |                         |  |  |
| Parks and recreation                       | 1,452,935            | 147,266                 |  |  |
| Interest on long-term debt                 | <u>297,836</u>       |                         | <u>3,710</u>                             |  |
| Total governmental activities              | <u>10,586,164</u>    | <u>1,524,669</u>        | <u>251,511</u>                           | <u>-0-</u>                             |
| Business-type Activities:                  |                      |                         |  |  |
| Water and sewer                            | 3,722,429            | 3,365,544               |  | 128,029                                |
| Golf course                                | 756,711              | 487,428                 |  |  |
| Ambulance                                  | <u>691,706</u>       | <u>610,407</u>          |  |  |
| Total business-type activities             | <u>5,170,846</u>     | <u>4,463,379</u>        | <u>-0-</u>                               | <u>128,029</u>                         |
| Component Unit:                            |                      |                         |  |  |
| Freeport Economic Development Corporation: |                      |                         |  |  |
| Economic development                       | 254,410              |                         |  |  |
| Interest on long-term debt                 | <u>425,863</u>       |                         |  |  |
| Total component unit                       | <u>680,273</u>       | <u>-0-</u>              | <u>-0-</u>                               | <u>-0-</u>                             |
| Total                                      | <u>\$ 16,437,283</u> | <u>\$ 5,988,048</u>     | <u>\$ 251,511</u>                        | <u>\$ 128,029</u>                      |

General Revenue:

Taxes:

Property taxes

Other taxes

Industrial district

Investment earnings

Interest on long-term receivables

Miscellaneous

Gain on disposal of capital assets

Contributions from component unit

Transfers

Total general revenues and transfers

Change in net assets

Net assets – beginning

Net assets – ending

The notes to the financial statements are an integral part of this statement.



| Net (Expense) Revenue and<br>Changes in Net Assets |                                 |                      | Freeport<br>Economic<br>Development<br>Corporation |
|--|---------------------------------|----------------------|--|
| Governmental<br>Activities                         | Business-<br>Type<br>Activities | Total                |  |
| \$( 1,806,463)                                     | \$                              | \$( 1,806,463)       | \$   |
| ( 3,760,227)                                       |                                 | ( 3,760,227)         |  |
| ( 1,385,528)                                       |                                 | ( 1,385,528)         |  |
| ( 14,248)  |                                 | ( 14,248)            |  |
| ( 127,225)   |                                 | ( 127,225)           |  |
| ( 51,909)  |                                 | ( 51,909)            |  |
| ( 64,589)  |                                 | ( 64,589)            |  |
| ( 1,305,669)                                       |                                 | ( 1,305,669)         |  |
| ( 294,126)   |                                 | ( 294,126)           |  |
| <u>( 8,809,984)</u>                                | <u>-0-</u>                      | <u>( 8,809,984)</u>  | <u>-0-</u>   |
|  | ( 228,856)                      | ( 228,856)           |  |
|  | ( 269,283)                      | ( 269,283)           |  |
|  | <u>( 81,299)</u>                | <u>( 81,299)</u>     |  |
| <u>-0-</u>   | <u>( 579,438)</u>               | <u>( 579,438)</u>    | <u>-0-</u>   |
|  |                                 | -0-                  | ( 254,410)   |
|  |                                 | <u>-0-</u>           | <u>( 425,863)</u>                                  |
| <u>-0-</u>   | <u>-0-</u>                      | <u>-0-</u>           | <u>( 680,273)</u>                                  |
| <u>( 8,809,984)</u>                                | <u>( 579,438)</u>               | <u>( 9,389,422)</u>  | <u>( 680,273)</u>                                  |
| \$ 2,619,766                                       | \$                              | \$ 2,619,766         | \$   |
| 1,799,541  |                                 | 1,799,541            | 571,356  |
| 4,282,985  |                                 | 4,282,985            |  |
| 10,237   | 328                             | 10,565               | 1,825  |
| 372,097  |                                 | 372,097              |  |
| 143,029  |                                 | 143,029              | 9  |
| 205,353  |                                 | 205,353              | 260,511  |
| <u>( 184,851)</u>                                  | <u>184,851</u>                  | <u>-0-</u>           | <u>( 205,353)</u>                                  |
| <u>9,248,157</u>                                   | <u>185,179</u>                  | <u>9,433,336</u>     | <u>628,348</u>                                     |
| 438,173  | ( 394,259)                      | 43,914               | ( 51,925)  |
| <u>21,159,817</u>                                  | <u>7,097,514</u>                | <u>28,257,331</u>    | <u>1,413,996</u>                                   |
| <u>\$ 21,597,990</u>                               | <u>\$ 6,703,255</u>             | <u>\$ 28,301,245</u> | <u>\$ 1,362,071</u>                                |

**CITY OF FREEPORT**  
Freeport, Texas

**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**

September 30, 2010

|   | General                  | Debt<br>Service<br>Series 2008 | 2008<br>Bond<br>Construction | Non-Major<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|---|--------------------------|--------------------------------|------------------------------|------------------------------------|--------------------------------|
| <b>Assets</b>   |                          |                                |                              |                                    |                                |
| Cash and temporary investments                        | \$ 3,997,174             | \$ 201,051                     | \$ 277,728                   | \$ 717,919                         | \$ 5,193,872                   |
| Receivables (Net of Allowance for<br>Uncollectibles): |                          |                                |                              |                                    |                                |
| Taxes   | 148,113                  | 14,121                         |                              | 13,500                             | 175,734                        |
| Accounts  | 109,982                  |                                |                              | 3,516                              | 113,498                        |
| Other receivables                                     | 12,459                   |                                |                              |                                    | 12,459                         |
| Sales tax   | 241,917                  |                                |                              |                                    | 241,917                        |
| Due from other governments                            | 30,266                   | 228                            |                              | 288                                | 30,782                         |
| Due from other funds                                  | 200,564                  |                                |                              | 11,432                             | 211,996                        |
| Noncurrent Receivables:                               |                          |                                |                              |                                    |                                |
| Notes receivable                                      | <u>6,639,208</u>         |                                |                              |                                    | <u>6,639,208</u>               |
| <br>Total assets                                      | <br><u>\$ 11,379,683</u> | <br><u>\$ 215,400</u>          | <br><u>\$ 277,728</u>        | <br><u>\$ 746,655</u>              | <br><u>\$ 12,619,466</u>       |
| <br><b>Liabilities and Fund Balances</b>              |                          |                                |                              |                                    |                                |
| <b>Liabilities:</b>                                   |                          |                                |                              |                                    |                                |
| Accounts payable                                      | \$ 672,779               | \$ 57,040                      | \$ 17,378                    | \$ 39,904                          | \$ 787,101                     |
| Accrued wages and benefits                            | 208,200                  |                                |                              |                                    | 208,200                        |
| Due to other funds                                    | 11,432                   | 165,134                        |                              | 35,430                             | 211,996                        |
| Deferred revenue                                      | <u>130,779</u>           | <u>13,413</u>                  |                              | <u>12,822</u>                      | <u>157,014</u>                 |
| <br>Total liabilities                                 | <br><u>1,023,190</u>     | <br><u>235,587</u>             | <br><u>17,378</u>            | <br><u>88,156</u>                  | <br><u>1,364,311</u>           |
| <br><b>Fund Balance:</b>                              |                          |                                |                              |                                    |                                |
| <b>Reserved:</b>                                      |                          |                                |                              |                                    |                                |
| Reserved for notes receivable                         | 6,639,208                |                                |                              |                                    | 6,639,208                      |
| Reserved for construction                             |                          |                                | 260,350                      |                                    | 260,350                        |
| Reserved for debt service                             |                          | ( 20,187)                      |                              | ( 8,769)                           | ( 28,956)                      |
| Reserved for municipal court security                 | 19,121                   |                                |                              |                                    | 19,121                         |
| Reserved for municipal court technology               | 11,140                   |                                |                              |                                    | 11,140                         |
| Reserved for narcotics                                | 40,942                   |                                |                              |                                    | 40,942                         |
| <b>Unreserved:</b>                                    |                          |                                |                              |                                    |                                |
| Designated for main street                            | 2,947                    |                                |                              |                                    | 2,947                          |
| Designated for subsequent years<br>expenditures       |                          |                                |                              | 667,268                            | 667,268                        |
| Undesignated  | <u>3,643,135</u>         |                                |                              |                                    | <u>3,643,135</u>               |
| <br>Total fund balances                               | <br><u>10,356,493</u>    | <br><u>( 20,187)</u>           | <br><u>260,350</u>           | <br><u>658,499</u>                 | <br><u>11,255,155</u>          |
| <br>Total liabilities and fund balances               | <br><u>\$ 11,379,683</u> | <br><u>\$ 215,400</u>          | <br><u>\$ 277,728</u>        | <br><u>\$ 746,655</u>              | <br><u>\$ 12,619,466</u>       |

The notes to the financial statements are an integral part of this statement.

**CITY OF FREEPORT**  
Freeport, Texas

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE GOVERNMENTAL ACTIVITIES STATEMENT OF NET ASSETS**

September 30, 2010

|  |                      |
|--|----------------------|
| Total fund balances – governmental funds balance sheet   | \$ 11,255,155        |
| <b>Amounts reported for <i>governmental activities</i> in the statement of net assets are different because:</b>   |                      |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Capital assets include \$ 31,703,861 in assets less \$ 15,664,073 in accumulated depreciation.   | 16,039,788           |
| Municipal Court accounts receivables net of related allowance for uncollectibles are unavailable to pay for current period expenditures and funds that are uncertain as to availability are not recorded in the funds. Municipal Court receivables \$ 1,346,416 net of allowance for uncollectible accounts \$ 1,077,133 of the general fund amounted to \$ 269,283. | 269,283              |
| Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds. Deferred property tax revenues for the general fund and debt service funds amounted to \$ 130,779 and \$ 26,235, respectively.   | 157,014              |
| Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds. This is the debt issuance costs which is amortized over the life of the bond. This amount is debt issuance costs \$ 114,891 less accumulated costs of \$ 30,067.  | 84,824               |
| Receivables for loan interest are not reported in the funds.   | 1,098,084            |
| Payables for bond principal are not reported in the funds.   | ( 6,548,000)         |
| Payables for capital lease principal are not reported in the funds.  | ( 11,505)            |
| Payables for long-term compensated absences are not reported in the funds.   | ( 672,215)           |
| Payables for bond interest are not reported in the funds.  | ( <u>74,438</u> )    |
| Net assets of governmental activities – statement of net assets.   | <u>\$ 21,597,990</u> |

The notes to the financial statements are an integral part of this statement.

**CITY OF FREEPORT**  
Freeport, Texas

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES - GOVERNMENTAL FUNDS**

For the Year Ended September 30, 2010

|   | General              | Debt<br>Service<br>Series 2008 | 2008<br>Bond<br>Construction | Non-Major<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|---|----------------------|--------------------------------|------------------------------|------------------------------------|--------------------------------|
| <b>Revenues:</b>                                |                      |                                |                              |                                    |                                |
| Taxes   | \$ 1,951,052         | \$ 271,970                     | \$                           | \$ 265,622                         | \$ 2,488,644                   |
| Other taxes                                     | 1,789,506            |                                |                              | 10,035                             | 1,799,541                      |
| Industrial district                             | 4,282,985            |                                |                              |                                    | 4,282,985                      |
| Intergovernmental revenues                      | 251,511              |                                |                              |                                    | 251,511                        |
| Revenue producing facilities                    | 1,016,900            |                                |                              | 5,475                              | 1,022,375                      |
| Fines, licenses and fees                        | 487,843              |                                |                              |                                    | 487,843                        |
| Investment income                               | 7,237                | 247                            | 1,325                        | 1,428                              | 10,237                         |
| Miscellaneous                                   | <u>143,029</u>       |                                |                              |                                    | <u>143,029</u>                 |
| Total assets                                    | <u>9,930,063</u>     | <u>272,217</u>                 | <u>1,325</u>                 | <u>282,560</u>                     | <u>10,486,165</u>              |
| <b>Expenditures:</b>                            |                      |                                |                              |                                    |                                |
| Current:  |                      |                                |                              |                                    |                                |
| Administration                                  | 1,458,651            |                                |                              | 32,602                             | 1,491,253                      |
| Public safety                                   | 4,199,732            |                                |                              |                                    | 4,199,732                      |
| Streets and drainage                            | 975,038              |                                |                              | 104                                | 975,142                        |
| Sanitation                                      | 883,882              |                                |                              |                                    | 883,882                        |
| Service center                                  | 133,507              |                                |                              |                                    | 133,507                        |
| Marina  |                      |                                |                              | 57,384                             | 57,384                         |
| Library   | 46,588               |                                |                              |                                    | 46,588                         |
| Parks and recreation                            | 1,292,296            |                                |                              |                                    | 1,292,296                      |
| Capital outlay                                  | 1,385,686            |                                | 721,601                      | 96,986                             | 2,204,273                      |
| Debt Service:                                   |                      |                                |                              |                                    |                                |
| Principal                                       | 3,886                | 175,000                        |                              | 308,000                            | 486,886                        |
| Interest  | <u>766</u>           | <u>117,404</u>                 |                              | <u>178,795</u>                     | <u>296,965</u>                 |
| Total expenditures                              | <u>10,380,032</u>    | <u>292,404</u>                 | <u>721,601</u>               | <u>673,871</u>                     | <u>12,067,908</u>              |
| Excess of revenues over (under)<br>expenditures | ( 449,969 )          | ( 20,187 )                     | ( 720,276 )                  | ( 391,311 )                        | ( 1,581,743 )                  |
| <b>Other Financing Sources (Uses):</b>          |                      |                                |                              |                                    |                                |
| Contributions from component unit               |                      |                                |                              | 205,353                            | 205,353                        |
| Operating transfers in                          |                      | 77,147                         |                              | 47,089                             | 124,236                        |
| Operating transfers out                         | ( 309,087 )          |                                |                              |                                    | ( 309,087 )                    |
| Total other financing sources (uses)            | ( 309,087 )          | <u>77,147</u>                  | <u>-0-</u>                   | <u>252,442</u>                     | <u>20,502</u>                  |
| Net changes in fund balances                    | ( 759,056 )          | 56,960                         | ( 720,276 )                  | ( 138,869 )                        | ( 1,561,241 )                  |
| Fund balance – beginning                        | <u>11,115,549</u>    | ( 77,147 )                     | <u>980,626</u>               | <u>797,368</u>                     | <u>12,816,396</u>              |
| Fund balance - ending                           | <u>\$ 10,356,493</u> | <u>\$ ( 20,187 )</u>           | <u>\$ 260,350</u>            | <u>\$ 658,499</u>                  | <u>\$ 11,255,155</u>           |

The notes to the financial statements are an integral part of this statement.

**CITY OF FREEPORT**  
Freeport, Texas

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

For the Year Ended September 30, 2010

|   |                   |
|---|-------------------|
| Net change in fund balances – total governmental funds  | \$ ( 1,561,241 )  |
| <b>Amounts reported for <i>governmental activities</i> in the statement of activities are different because:</b>  |                   |
| Governmental funds report capital outlays as expenditures. However, in the governmental activities statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays \$ 2,204,273 exceeded depreciation \$ 1,195,275 in the current period.   | 1,008,998         |
| Municipal court revenues in the governmental activities statement of activities do not provide current financial resources and are not reported as revenues in the funds. Municipal court receivables, net of allowance, increased by \$ 14,451.  | 14,451            |
| Some revenues reported in the governmental activities statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. This is the change in accrued interest on long-term receivables of \$ 372,097.  | 372,097           |
| Property tax revenues in the governmental activities statement of activities do not provide current financial resources and are not reported as revenues in the funds. Deferred property tax revenues for the general fund increased by \$ 108,382, and for the debt service increased by \$ 22,740.  | 131,122           |
| Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the governmental activities statement of net assets. These amounts were for general obligation bonded debt for \$ 483,000 and capital leases for \$ 3,886.  | 486,886           |
| Some expenses reported in the governmental activities statement of activities do not require the use of current financial resources, and, therefore, are not reported as expenditures in governmental funds. This is the change in accrued interest on long-term debt of \$ 6,485, less the amortization of bond issuance costs of \$ 7,356, and accrued compensated absences of \$ 13,269. | ( 14,140 )        |
| Change in net assets of governmental activities   | \$ <u>438,173</u> |

The notes to the financial statements are an integral part of this statement.

**CITY OF FREEPORT**  
Freeport, Texas

**STATEMENT OF NET ASSETS - PROPRIETARY FUNDS**

September 30, 2010

|   | Water<br>and<br>Sewer | Non-Major<br>Proprietary<br>Funds | Total<br>Proprietary<br>Funds |
|---|-----------------------|-----------------------------------|-------------------------------|
| <b><u>Assets</u></b>  |                       |                                   |                               |
| Current Assets:   |                       |                                   |                               |
| Cash and temporary investments  | \$ 180                | \$ 52,885                         | \$ 53,065                     |
| Receivables (Net of Allowance for Uncollectable):   |                       |                                   |                               |
| Accounts  | 504,188               | 79,343                            | 583,531                       |
| Inventory   | 18,929                | 18,929                            | 18,929                        |
| Total unrestricted current assets   | 504,368               | 151,157                           | 655,525                       |
| Current Restricted Assets:  |                       |                                   |                               |
| Cash and temporary investments  | 429,119               |                                   | 429,119                       |
| Bond issuance costs (current)   | 15,188                |                                   | 15,188                        |
| Total current restricted assets   | 444,307               | -0-                               | 444,307                       |
| Total current assets  | 948,675               | 151,157                           | 1,099,832                     |
| Noncurrent Assets:  |                       |                                   |                               |
| Bond issuance costs (net of current and accumulated amortization of \$ 91,128) - restricted | 45,564                |                                   | 45,564                        |
| Capital Assets:   |                       |                                   |                               |
| Land  | 56,200                | 339,430                           | 395,630                       |
| Buildings   |                       | 211,468                           | 211,468                       |
| Improvements  |                       | 548,368                           | 548,368                       |
| Utility plant   | 20,377,060            |                                   | 20,377,060                    |
| Furniture, equipment and vehicles   | 146,765               | 907,142                           | 1,053,907                     |
| Assets under capital lease  |                       | 59,871                            | 59,871                        |
| Less accumulated depreciation   | ( 13,800,924 )        | ( 1,084,504 )                     | ( 14,885,428 )                |
| Total capital assets (net of accumulated depreciation)                                      | 6,779,101             | 981,775                           | 7,760,876                     |
| Total assets  | \$ 7,773,340          | \$ 1,132,932                      | \$ 8,906,272                  |

(Continued)

**CITY OF FREEPORT**  
Freeport, Texas

STATEMENT OF NET ASSETS - PROPRIETARY FUNDS - Continued

September 30, 2010

|  | <u>Water<br/>and<br/>Sewer</u> | <u>Non-Major<br/>Proprietary<br/>Funds</u> | <u>Total<br/>Proprietary<br/>Funds</u> |
|--|--------------------------------|--|--|
| <b><u>Liabilities and Net Assets</u></b>                 |                                |  |  |
| Current Liabilities:                                     |                                |  |  |
| Accounts payable   | \$ 946,267                     | \$ 43,108                                  | \$ 989,375                             |
| Accrued wages and benefits                               | 4,049                          | 32,578                                     | 36,627                                 |
| Accrued compensated absences                             | 20,148                         | 35,020                                     | 55,168                                 |
| Obligations under capital lease – current                |                                | 14,139                                     | 14,139                                 |
| Deferred revenue   | <u>200</u>                     |  | <u>200</u>                             |
| Total current liabilities                                | <u>970,664</u>                 | <u>124,845</u>                             | <u>1,095,509</u>                       |
| Current Liabilities Payable From Restricted Assets:      |                                |  |  |
| Customer deposits payable                                | <u>180,242</u>                 |  | <u>180,242</u>                         |
| Total current liabilities payable from restricted assets | <u>180,242</u>                 | <u>-0-</u>                                 | <u>180,242</u>                         |
| Total current liabilities                                | <u>1,150,906</u>               | <u>124,845</u>                             | <u>1,275,751</u>                       |
| Noncurrent Liabilities:                                  |                                |  |  |
| Obligations under capital lease – net of current         |                                | 41,266                                     | 41,266                                 |
| Revenue bonds payable                                    | <u>886,000</u>                 |  | <u>886,000</u>                         |
| Total noncurrent liabilities                             | <u>886,000</u>                 | <u>41,266</u>                              | <u>927,266</u>                         |
| Total liabilities  | <u>2,036,906</u>               | <u>166,111</u>                             | <u>2,203,017</u>                       |
| Net Assets:  |                                |  |  |
| Invested in capital assets, net of related debt          | 5,953,853                      | 926,370                                    | 6,880,223                              |
| Reserved for revenue bond debt                           | 248,877                        |  | 248,877                                |
| Unreserved   | <u>(466,296)</u>               | <u>40,451</u>                              | <u>(425,845)</u>                       |
| Total net assets   | <u>5,736,434</u>               | <u>966,821</u>                             | <u>6,703,255</u>                       |
| Total liabilities and net assets                         | <u>\$ 7,773,340</u>            | <u>\$ 1,132,932</u>                        | <u>\$ 8,906,272</u>                    |

The notes to the financial statements are an integral part of this statement.

**CITY OF FREEPORT**

Freeport, Texas

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN  
NET ASSETS - PROPRIETARY FUNDS**

For the Year Ended September 30, 2010

|  | <u>Water<br/>and<br/>Sewer</u> | <u>Non-Major<br/>Proprietary<br/>Funds</u> | <u>Total<br/>Proprietary<br/>Funds</u> |
|--|--------------------------------|--|--|
| Operating Revenues:  |                                |  |  |
| Water service  | \$ 1,946,966                   | \$   | \$ 1,946,966                           |
| Sewer service  | 1,275,137                      |  | 1,275,137                              |
| Charges for other services                                     | 141,698                        | 518,829                                    | 660,527                                |
| Golf course fees and charges                                   |                                | 487,428                                    | 487,428                                |
| Miscellaneous  | <u>1,743</u>                   | <u>91,578</u>                              | <u>93,321</u>                          |
| Total operating revenues                                       | <u>3,365,544</u>               | <u>1,097,835</u>                           | <u>4,463,379</u>                       |
| Operating Expenses:  |                                |  |  |
| Personnel services   | 74,142                         | 694,718                                    | 768,860                                |
| Employee benefits  | 25,229                         | 241,513                                    | 266,742                                |
| Contract and professional services                             | 1,988,438                      |  | 1,988,438                              |
| Other operating costs  | 47,796                         | 178,068                                    | 225,864                                |
| Supplies   | 9,758                          | 82,889                                     | 92,647                                 |
| Cost of sales and services                                     | <u>1,197,200</u>               | <u>140,915</u>                             | <u>1,338,115</u>                       |
| Operating expenses before depreciation                         | 3,342,563                      | 1,338,103                                  | 4,680,666                              |
| Depreciation   | <u>312,044</u>                 | <u>109,425</u>                             | <u>421,469</u>                         |
| Total operating expenses                                       | <u>3,654,607</u>               | <u>1,447,528</u>                           | <u>5,102,135</u>                       |
| Net operating income (loss)                                    | <u>( 289,063)</u>              | <u>( 349,693)</u>                          | <u>( 638,756)</u>                      |
| Non-Operating Revenues (Expenses):                             |                                |  |  |
| Interest revenue   | 194                            | 134  | 328                                    |
| Interest expense and agent fees                                | <u>( 67,822)</u>               | <u>( 889)</u>                              | <u>( 68,711)</u>                       |
| Total non-operating revenues (expenses)                        | <u>( 67,628)</u>               | <u>( 755)</u>                              | <u>( 68,383)</u>                       |
| Net income (loss) before contributions and operating transfers | <u>( 356,691)</u>              | <u>( 350,448)</u>                          | <u>( 707,139)</u>                      |
| Contributions (capital)  | 128,029                        |  | 128,029                                |
| Transfers in   |                                | <u>184,851</u>                             | <u>184,851</u>                         |
| Change in net assets   | <u>( 228,662)</u>              | <u>( 165,597)</u>                          | <u>( 394,259)</u>                      |
| Net assets - beginning   | <u>5,965,096</u>               | <u>1,132,418</u>                           | <u>7,097,514</u>                       |
| Net assets - ending  | <u>\$ 5,736,434</u>            | <u>\$ 966,821</u>                          | <u>\$ 6,703,255</u>                    |

The notes to the financial statements are an integral part of this statement.



**CITY OF FREEPORT**  
Freeport, Texas

**STATEMENT OF CASH FLOWS -  
PROPRIETARY FUNDS**

For the Year Ended September 30, 2010

|  | <u>Water<br/>and<br/>Sewer</u> | <u>Non-Major<br/>Proprietary<br/>Funds</u> | <u>Total<br/>Proprietary<br/>Funds</u> |
|--|--------------------------------|--|--|
| <b>Cash Flows from Operating Activities:</b>                         |                                |  |  |
| Receipts from customers and users                                    | \$ 3,430,441                   | \$ 1,110,534                               | \$ 4,540,975                           |
| Payments to suppliers  | ( 2,851,052)                   | ( 421,013)                                 | ( 3,272,065)                           |
| Payments to employees  | ( 97,762)                      | ( 949,630)                                 | ( 1,047,392)                           |
| Net cash provided (used) by operating activities                     | <u>481,627</u>                 | <u>( 260,109)</u>                          | <u>221,518</u>                         |
| <b>Cash Flows from Non-Capital Financing Activities:</b>             |                                |  |  |
| Transfers from other funds   | <u>                    </u>    | <u>184,851</u>                             | <u>184,851</u>                         |
| Net cash provided (used) by non-capital financing activities         | <u>-0-</u>                     | <u>184,851</u>                             | <u>184,851</u>                         |
| <b>Cash Flows from Capital and Related Financing Activities:</b>     |                                |  |  |
| Principal payments on capital leases                                 | <u>                    </u>    | ( 4,466)                                   | ( 4,466)                               |
| Interest payments on capital assets                                  | <u>                    </u>    | ( 889)                                     | ( 889)                                 |
| Principal payments on bonds  | ( 200,000)                     | <u>                    </u>                | ( 200,000)                             |
| Interest and fees on bonds   | ( 52,634)                      | <u>                    </u>                | ( 52,634)                              |
| Net cash provided (used) by capital and related financing activities | <u>( 252,634)</u>              | <u>( 5,355)</u>                            | <u>( 257,989)</u>                      |
| <b>Cash Flows from Investing Activities:</b>                         |                                |  |  |
| Interest on investments  | <u>194</u>                     | <u>134</u>                                 | <u>328</u>                             |
| Net cash provided (used) by investing activities                     | <u>194</u>                     | <u>134</u>                                 | <u>328</u>                             |
| Net increase (decrease) in cash and cash equivalents                 | 229,187                        | ( 80,479)                                  | 148,708                                |
| Cash and cash equivalents at the beginning of year                   | <u>200,112</u>                 | <u>133,364</u>                             | <u>333,476</u>                         |
| Cash and cash equivalents at the end of the year                     | <u>\$ 429,299</u>              | <u>\$ 52,885</u>                           | <u>\$ 482,184</u>                      |

(Continued)

The notes to the financial statements are an integral part of this statement.

**CITY OF FREEPORT**  
Freeport, Texas

**STATEMENT OF CASH FLOWS -  
PROPRIETARY FUNDS - Continued**

For the Year Ended September 30, 2010

|   | Water<br>and<br>Sewer | Non-Major<br>Proprietary<br>Funds | Total<br>Proprietary<br>Funds |
|---|-----------------------|-----------------------------------|-------------------------------|
| Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:               |                       |                                   |                               |
| Operating income (loss)   | \$( 289,063 )         | \$( 349,693 )                     | \$( 638,756 )                 |
| Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities: |                       |                                   |                               |
| Depreciation  | 312,044               | 109,425                           | 421,469                       |
| (Increase) decrease in accounts receivable  | 62,080                | 12,699                            | 74,779                        |
| (Increase) decrease in inventory  |                       | 7,191                             | 7,191                         |
| Increase (decrease) in customer deposits  | 2,816                 |                                   | 2,816                         |
| Increase (decrease) in accounts payable   | 392,141               | ( 26,332 )                        | 365,809                       |
| Increase (decrease) in accrued wages and benefits payable   | 1,024                 | ( 2,038 )                         | ( 1,014 )                     |
| Increase (decrease) in accrued compensated absences payable   | 585                   | ( 11,361 )                        | ( 10,776 )                    |
| Total adjustments   | 770,690               | 89,584                            | 860,274                       |
| Net cash provided (used) by operating activities  | \$ 481,627            | \$( 260,109 )                     | \$ 221,518                    |
| Non-Cash Investing, Capital and Financing Activities:   |                       |                                   |                               |
| Capital lease liability   | \$                    | \$ 59,871                         | \$ 59,871                     |
| Assets acquired through capital lease   |                       | ( 59,871 )                        | ( 59,871 )                    |
| Contributions from other governments  | 128,029               |                                   | 128,029                       |
| Assets acquired as a result of contributed assets   | ( 128,029 )           |                                   | ( 128,029 )                   |
| Net effect of non-cash transactions   | \$ -0-                | \$ -0-                            | \$ -0-                        |

**CITY OF FREEPORT**  
Freeport, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For The Year Ended September 30, 2010

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**CITY OF FREEPORT**  
Freeport, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For The Year Ended September 30, 2010

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting and reporting policies of the City of Freeport, Texas (City) related to the funds in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled Audits of State and Local Governmental Units and by the Financial Accounting Standards Board (when applicable). As allowed in Section P80 of GASB's Codification of Governmental Accounting and Financial Reporting Standards, the City has elected not to apply Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee of Accounting Procedure issued after November 30, 1989. The more significant accounting policies of the City are described below.

**Reporting Entity**

In evaluating how to define the government, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. Based upon the application of these criteria, the following is a brief review of each potential component unit addressed in defining the City's reporting entity.

Included in the reporting entity:

**Primary Government**

The City of Freeport 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 safety, highways and streets, sanitation, health and social services, culture-recreation, public improvements planning and zoning and general administrative services.

The following entity was found to be a component unit of the City and is included in the basic financial statements and is discretely presented:

**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 the public welfare.

**CITY OF FREEPORT**  
Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Reporting Entity - continued

Freeport Economic Development Corporation - continued

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. In prior years, the Freeport Economic Development Corporation (the "Corporation") provided services entirely or, almost entirely, to the City or otherwise exclusively or almost exclusively benefited the City even though it did not provide services directly to it and was reported as a blended component unit. However, during the year ended September 30, 2007, the Corporation began construction and entered into a long-term lease for a marina with a company unrelated to the City. Because of this, the City is no longer able to report the Corporation as a blended component unit and has currently reported the Corporation as a discretely presented component unit.

The Financial Statements for the Freeport Economic Development Corporation can be obtained from the Office of the Finance Director, City of Freeport, Texas.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report financial information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

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

**CITY OF FREEPORT**  
Freeport, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For The Year Ended September 30, 2010

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

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

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

Revenues from property and sales taxes, grants and contracts, charges for services, licenses and permits, fines and forfeitures, and interest associated with the current fiscal period are all considered to be susceptible to accrual. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

Revenue from investments, including governmental external investment pools, is based upon fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Most investments are reported at amortized cost when the investments have remaining maturities of one year or less at time of purchase. External investment pools are permitted to report short-term debt investments at amortized cost, provided that the fair value of those investments is not significantly affected by the impairment of the credit standing of the issuer, or other factors. For that purpose, a pool's short-term investments are those with remaining maturities of up to ninety days.

Grant funds are considered earned to the extent of the expenditures made under the provisions of the grant. Accordingly, when such funds are received, they are recorded as deferred revenues until the related and authorized expenditures have been made. If balances have not been expended by the end of the project period, grantors sometimes require the City to refund all or part of the unused amount.

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

**CITY OF FREEPORT**  
Freeport, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For The Year Ended September 30, 2010

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**Measurement Focus, Basis Of Accounting, and Financial Statement Presentation - continued**

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 City's enterprise fund are charges to customers for sales and services and rentals.

Operating expenses for the enterprise fund includes the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, and then unrestricted resources as they are needed.

The City has presented the following major governmental funds:

The *General fund* is the City's primary operating fund. It accounts for all financial resources of the City, except those required to be accounted for in another fund. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the general fund.

The *Debt Service, Series 2008 fund* accounts for the accumulation of resources for the annual payment of general long-term debt principle and interest of the governmental funds.

The *2008 Bond Construction capital projects fund* accounts for bond proceeds authorized for acquisition and construction.

The City reports the following major proprietary fund:

The Water and Sewer Enterprise Fund is used to account for the provision of water and sewer services to the residents of the City. Activities of the fund include administration, operations and maintenance of the water and sewer system and billing and collection activities. All costs are financed through charges to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the funds.

**New Pronouncements**

GASB No. 51, "Accounting and Financial Reporting for Intangible Assets", was issued June 2007. This statement provides guidance for financial reporting of intangible assets for all state and local governments. This statement is effective for periods beginning after June 15, 2009. The statement was implemented and did not have an impact on the City's financial statements.

# CITY OF FREEPORT

Freeport, Texas

## NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2010

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

#### New Pronouncements - continued

GASB No. 52, "Land and Other Real Estate Held as Investments by Endowments", was issued November 2007. This statement does not apply to the City as it holds no endowment funds. This statement is effective for periods beginning after June 15, 2008. The statement was implemented and did not have an impact on the City's financial statements.

GASB No. 53, "Accounting and Financial Reporting for Derivative Instruments", was issued June 2008. This statement provides guidance for financial reporting of derivative instruments for all state and local governments. This statement is effective for periods beginning after June 15, 2009. The statement was implemented and did not have an impact on the City's financial statements.

GASB No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions", was issued April 2009. This statement provides guidance on classification of fund equity. The management of the City does not believe that the implementation of this statement will affect the financial statements of the City. This statement is effective for periods beginning after June 15, 2010.

GASB No. 55, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments", was issued April 2009. This statement is effective immediately and had no affect on the City's financial statements.

GASB No. 56, "Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards", was issued April 2009. This statement is effective immediately and had no affect on the City's financial statements.

GASB No. 57, "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans", was issued December 2009. This statement is effective immediately and did not have a material impact on the City's financial statements.

GASB No. 58, "Accounting and Financial Reporting for Chapter 9 Bankruptcies", was issued December 2009. This statement is effective for periods beginning after June 15, 2009. The statement was implemented and did not have an impact on the City's financial statements.

GASB No. 59, "Financial Instrument Omnibus", was issued December 2009. The management of the City does not believe that the implementation of this statement will affect the financial statements of the City. This statement is effective for periods beginning after June 15, 2010.



**CITY OF FREEPORT**  
Freeport, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For The Year Ended September 30, 2010

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**Budgetary Data**

Financial statements in this report are based on legally enacted basis (modified accrual basis with certain exceptions) and the generally accepted accounting principles (GAAP) basis. The financial statements prepared on the legally enacted basis differ from the GAAP basis statements on an individual fund basis as follows:

**Enterprise Funds:**

- Depreciation is not recorded as expense (Non-GAAP).
- Capital outlays are recorded as current year expense (Non-GAAP) as opposed to being capitalized and depreciated over the estimated useful life of the asset (GAAP).
- Amortization of bond issuance cost is not recorded as expense (Non-GAAP).
- Debt principal is recorded as an expense (Non-GAAP).
- Capital contributions

The following schedule reconciles the difference between the City's legally enacted basis and the GAAP basis:

|                                      | <u>Budgeted Enterprise Funds</u> |                         |                         |                          |
|--------------------------------------|----------------------------------|-------------------------|-------------------------|--------------------------|
|                                      | <u>Water &amp;<br/>Sewer</u>     | <u>Golf<br/>Course</u>  | <u>Ambulance</u>        | <u>Total</u>             |
| <b>Budgeted Enterprise Fund:</b>     |                                  |                         |                         |                          |
| Net income (loss) - GAAP basis       | \$( 228,662)                     | \$( 84,418)             | \$( 81,179)             | \$( 394,259)             |
| Depreciation                         | 312,044                          | 71,848                  | 37,577                  | 421,469                  |
| Capital asset additions              |                                  |                         |                         | -0-                      |
| Amortization of bond issuance costs  | 15,188                           |                         |                         | 15,188                   |
| Debt principal                       | ( 200,000)                       |                         |                         | ( 200,000)               |
| Capital contributions                | ( 128,029)                       |                         |                         | ( 128,029)               |
| <br>Net income (loss) - budget basis | <br>\$( <u>229,459</u> )         | <br>\$( <u>12,570</u> ) | <br>\$( <u>43,602</u> ) | <br>\$( <u>285,631</u> ) |

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

1. Between sixty (60) and ninety (90) days prior to the beginning of the next fiscal year (October 1), the City Manager submits to council a proposed budget, which includes a complete financial plan for the fiscal year.
2. In September, a public hearing for the proposed budget is held. After the conclusion of the hearing, a vote is taken for adoption of the budget.
3. An ordinance is passed by Council to legally enact the budget.
4. Expenditures may not legally exceed appropriations at the fund level.

# CITY OF FREEPORT

Freeport, Texas

## NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2010

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

#### Encumbrances

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting - under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation - is utilized in the governmental funds. Encumbrances outstanding at year end do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year. No encumbrances were outstanding at September 30, 2010.

#### Cash and Investments

Cash and temporary investments include amounts in demand deposits and short-term investments with a maturity date within three months of the date acquired by the City. For purposes of the cash flow statement, cash and temporary investments are considered cash equivalents. In accordance with GASB Statement 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools", investments are stated at fair value. State statutes authorize the government to invest in obligations of the U. S. Treasury, commercial paper, corporate bonds and repurchase agreements, and other such securities or obligations as allowed in the Public Funds Investment Act (PFIA) as amended and approved by the City's Council. The City's management believes it complied with the requirements of the PFIA and the City's investment policies.

#### Property Taxes

The City levies taxes on or about October 1, of each year. Property taxes attach as an enforceable lien on property as of January 1. These taxes are due by January 31, and are considered delinquent after that date, at which time interest is charged at a rate established by the state property tax code. Collections made on or after July 1, are subject to an additional fifteen percent collection fee.

Property tax revenue is recognized when levied to the extent that they are available. Available includes those property tax receivables expected to be collected within sixty days after year end.

The City is permitted by the State Property Tax Board to levy taxes up to \$ 1.50 per \$ 100 of assessed valuation for general governmental services other than the payment of principal and interest on long-term debt and unlimited amounts for the payment of principal and interest on long-term debt. The tax rates assessed for the year ended September 30, 2010, to finance general fund operations and the payment of principal and interest on general obligation long-term debt were \$ 0.546330 and \$ 0.161936 per \$ 100 valuation, respectively, for a total of \$ 0.708266 per \$ 100 valuation.

**CITY OF FREEPORT**  
Freeport, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For The Year Ended September 30, 2010

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**Interfund Receivables, Payables and Transfers**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All outstanding balances between funds are reported as "due to/from other funds". The City had no advances between funds. See Note 4 for additional discussion of interfund receivables, payables and transfers.

**Capital Assets**

Capital assets, which includes property, plant, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for proprietary funds. All capital assets are valued at historical cost or estimated historical cost if actual historical is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenses. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Assets capitalized have an original cost of \$ 5,000 or more and over three years of useful life. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

|               |             |
|---------------|-------------|
| Buildings     | 10-20 Years |
| Utility Plant | 40 Years    |
| Equipment     | 5-15 Years  |
| Vehicles      | 5 Years     |

**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 five (5) days past his/her yearly anniversary date. It is possible for employees to have accrued vacation time at September 30, which has not yet been lost. The City's sick leave policy provides fifteen paid sick days per year for full-time employees. Unused sick leave can be accumulated to a maximum of ninety (90) days. Upon termination, an employee with five years of service or more may be paid for accumulated sick leave to a maximum of two weeks.

**CITY OF FREEPORT**  
Freeport, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For The Year Ended September 30, 2010

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** - Continued

The following is a summary of benefits payable as of September 30, 2010:

|                          | <u>2010</u>       |
|--------------------------|-------------------|
| Governmental activities  | \$ 672,215        |
| Business-type activities | <u>55,168</u>     |
|                          | <u>\$ 727,383</u> |

**Long-Term Debt**

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

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt is reported as other financing resources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**Fund Equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Net Assets**

Net assets represents the differences between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciations, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Restricted net assets, as presented in the government-wide Statement of Net Assets, are reported when constraints placed on the use of net assets are either 1) externally imposed by creditors (such as through debt covenants, grantors, contributors, or laws or regulations of other governments), or 2) imposed by law through constitutional provisions or enabling legislation.

**CITY OF FREEPORT**  
Freeport, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For The Year Ended September 30, 2010

**NOTE 2 - DEPOSITS, INVESTMENTS AND DERIVATIVES**

The City classifies deposits and investments for financial statement purposes as cash and temporary investments, and investments based upon both liquidity (demand deposits) and maturity date (deposits and investments) of the asset at the date of purchase. For this purpose a temporary investment is one that when purchased had a maturity date of three months or less. Cash and temporary investments, as reported on the combined balance sheet at September 30, 2010 are as follows:

|                                      | <u>Unrestricted</u> | <u>Restricted</u> | <u>Total</u> |
|--------------------------------------|---------------------|-------------------|--------------|
| Cash and Temporary Investments:      |                     |                   |              |
| Cash (petty cash accounts)           | \$ 4,437            | \$                | \$ 4,437     |
| Financial Institution Deposits:      |                     |                   |              |
| Demand deposits                      | 749,140             | 429,119           | 1,178,259    |
| State Treasury Investment Pool:      |                     |                   |              |
| Texpool                              | 4,493,360           |                   | 4,493,360    |
| Total cash and temporary investments | \$ 5,246,937        | \$ 429,119        | \$ 5,676,056 |

**Deposits**

All deposits with financial institutions must be collateralized in an amount equal to 100 percent of uninsured balances. At September 30, 2010, in addition to petty cash of \$ 4,437, the carrying amount of the City's cash, savings, and time deposits was \$ 1,178,259. The financial institutions balances were \$ 2,266,092 at September 30, 2010. Bank balances of \$ 250,000 were covered by federal depository insurance and \$ 2,016,092 was covered by collateral pledged in the City's name.

**Custodial Credit Risk – Deposits.** Custodial credit risk is the risk that in the event of a financial institution failure, the City's deposits may not be returned to them. The City requires that all deposits with financial institutions be collateralized in an amount equal to 100 percent of uninsured balances.

Under Texas state law, a bank serving as the City depository must have a bond or in lieu thereof, deposited or pledged securities with the City or an independent third party agent, an amount equal to the highest daily balance of all deposits the City may have during the term of the depository contract, less any applicable FDIC insurance.

Chapter 2256 of the Texas Government Code (the Public Funds Investment Act) authorizes the City to invest its funds under written investment policy (the "investment policy") that primarily emphasizes safety of principal and liquidity, addresses investment diversification, yield, and maturity and addresses the quality and capability of investment personnel. This investment policy defines what constitutes the legal list of investments allowed under the policies, which excludes certain instruments allowed under chapter 2256 of the Texas Government Code.

# CITY OF FREEPORT

Freeport, Texas

## NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2010

### NOTE 2 - DEPOSITS, INVESTMENTS AND DERIVATIVES - Continued

#### Investments

The City's deposits and investments are invested pursuant to the investment policy, which is approved by the City Council. The investment policy includes lists of authorized investment instruments and allowable stated maturity of individual investments. In addition it addresses the priorities of preservation of capital, liquidity, diversification and yield. Additionally, the soundness of financial institutions (including broker/dealers) in which the City will deposit funds is addressed. The City's investment policy and types of investments are governed by the Public Funds Investment Act (PFIA). The City's management believes it complied with the requirements of the PFIA and the City's investment policy.

The City's Investment Committee submits an investment report each quarter to the City Council. The report details the investment positions of the City and the compliance of the investment portfolio's as they relate to both the investment strategy and policy approved by City Council and Texas State law.

The City is authorized to invest in the following investment instruments provided that they meet the guidelines of the investment policy:

1. Fully insured or collateralized certificate of deposit of commercial banks;
2. U.S. Treasury Securities maturing in less than three (3) years;
3. Short-term obligations of U.S. Government Agencies which are guaranteed by the full faith and credit of the United States of America as to principle and interest;
4. Repurchase agreements collateralized by U.S. Treasury or U.S. Government Agency Securities in accordance with a master repurchase agreement approved by the Investment Committee;
5. Eligible investment pools authorized by the City Council;
6. Other securities or obligations approved by the Investment Committee and authorized by the Local Government Code, Sections 2256.006 and 2256.016.

The City participates in one Local Government Investment Pool (LGIP): Texpool. The State Comptroller oversees Texpool with Federated Investors managing the daily operations of the pool under a contract with the State Comptroller.

The City invests in Texpool to provide its liquidity needs. Texpool is a local government investment pool that was established in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code and the Public Funds Investment Act, Chapter 2256 of the Code. Texpool is a 2(a)7 like fund, meaning that it is structured similar to a money market mutual fund. Such funds allow shareholders the ability to deposit or withdraw funds on a daily basis. Interest rates are also adjusted on a daily basis. Such funds seek to maintain a constant net asset value of \$ 1.00, although this cannot be fully guaranteed. Texpool is rated AAA and must maintain a dollar weighted average maturity not to exceed 60 days, which is the limit.

**CITY OF FREEPORT**  
Freeport, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For The Year Ended September 30, 2010

**NOTE 2 - DEPOSITS, INVESTMENTS AND DERIVATIVES** - Continued

**Investments** - continued

At September 30, 2010, Texpool had a weighted average maturity of 48 days. Although Texpool portfolio had a weighted average maturity of 48 days, the City considers holdings in these funds to have a one day weighted average maturity. This is due to the fact that the share position can usually be redeemed each day at the discretion of the shareholder, unless there has been a significant change in value.

All of the City's investments are insured, registered, or the City's agent holds the securities in the City's name; therefore, the City is not exposed to custodial credit risk.

The following table includes the portfolio balances of all investment types of the City at September 30, 2010.

| <u>Investment Type</u>                   | <u>Fair Value</u>   | <u>Weighted<br/>Average<br/>Maturity (Days)</u> |
|--|---------------------|---|
| Local government investment pools (LGIP) | \$ <u>4,493,360</u> | 49  |
|  | \$ <u>4,493,360</u> | 49  |

Credit Risk – As of September 30, 2010, the LGIP (which represents 100% of the City's portfolio) are rated AAAM by Standard and Poor's.

Interest rate Risk – As a means of minimizing risk of loss due to interest rate fluctuations, the Investment Policy the City avoid over-concentration of assets in a specific maturity sector, limiting of average maturities of operating fund investments to one year, and avoiding over-concentrated assets in specific instruments other than U.S. Treasury Securities and insured or collateralized certificates of deposit.

**Derivatives**

Interest in derivative products has increased in recent years. Derivatives are investment products, which may be a security or contract, which derives its value from another security, currency, commodity, or index, regardless of the source of funds used. The City made no direct investments in derivatives during the year ended September 30, 2010, and holds no direct investments in derivatives at September 30, 2010.

**NOTE 3 - DEFERRED REVENUE**

Governmental funds report deferred revenue in connection with receivables for revenues that are considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

**CITY OF FREEPORT**

Freeport, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For The Year Ended September 30, 2010

**NOTE 3 - DEFERRED REVENUE - Continued**

As of September 30, 2010, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follow.

|  | <u>Unavailable</u> |
|--|--------------------|
| Delinquent property taxes receivable (General Fund)      | \$ 130,779         |
| Delinquent property taxes receivable (Debt Service Fund) | <u>26,235</u>      |
| Total deferred/unearned revenue from governmental funds  | \$ <u>157,014</u>  |

As of September 30, 2010, the various components of deferred revenue and unearned revenue reported in the proprietary funds were as follow.

|  | <u>Unearned</u> |
|--|-----------------|
| Deposits   | \$ <u>200</u>   |
| Total deferred/unearned revenue from proprietary funds | \$ <u>200</u>   |

**NOTE 4 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**

Interfund balances at September 30, 2010 consisted of the following individual fund receivables and payables:

| <u>Fund</u>                    | <u>Receivable</u> | <u>Payable</u>    |
|--------------------------------|-------------------|-------------------|
| General Fund:                  |                   |                   |
| Special Revenue Fund:          |                   |                   |
| Streets, drainage and sidewalk | \$                | \$ 11,432         |
| Debt Service Fund:             |                   |                   |
| Series 2003B                   | 35,430            |                   |
| Series 2008                    | <u>165,134</u>    |                   |
|                                | <u>200,564</u>    | <u>11,432</u>     |
| Special Revenue Fund:          |                   |                   |
| General Fund:                  |                   |                   |
| Street, drainage and sidewalk  | <u>11,432</u>     | <u>-0-</u>        |
| Debt Service Fund:             |                   |                   |
| Series 2003B:                  |                   |                   |
| General Fund                   |                   | 35,430            |
| Series 2008:                   |                   |                   |
| General Fund                   |                   | <u>165,134</u>    |
|                                | <u>-0-</u>        | <u>200,564</u>    |
| Total                          | \$ <u>211,996</u> | \$ <u>211,996</u> |



**CITY OF FREEPORT**  
Freeport, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For The Year Ended September 30, 2010

**NOTE 4 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS** - Continued

Interfund transfers for the year ended September 30, 2010 consisted of the following individual fund transfers in and transfers out:

| <u>Fund</u>           | <u>Transfers In</u> | <u>Transfers Out</u> |
|-----------------------|---------------------|----------------------|
| General Fund:         |                     |                      |
| Special Revenue Fund: |                     |                      |
| Marina Operations     | \$                  | \$ 47,089            |
| Debt Service Fund:    |                     |                      |
| Series 2008           |                     | 77,147               |
| Enterprise Fund:      |                     |                      |
| Golf Course           |                     | <u>184,851</u>       |
|                       | <u>-0-</u>          | <u>309,087</u>       |
| Special Revenue Fund: |                     |                      |
| Marina Operations:    |                     |                      |
| General Fund          | <u>47,089</u>       |                      |
| Debt Service Fund:    |                     |                      |
| Series 2008           | <u>77,147</u>       |                      |
| Enterprise Fund:      |                     |                      |
| Golf Course:          |                     |                      |
| General Fund          | <u>184,851</u>      |                      |
| Total                 | <u>\$ 309,087</u>   | <u>\$ 309,087</u>    |

**NOTE 5 - CAPITAL ASSETS**

Capital assets activity for the year ended September 30, 2010 was as follows:

|   | <u>Balance</u>   |                  |                    | <u>Balance</u>   |
|---|------------------|------------------|--------------------|------------------|
|   | <u>10/01/09</u>  | <u>Additions</u> | <u>Retirements</u> | <u>09/30/10</u>  |
| Governmental Activities:                      |                  |                  |                    |                  |
| Capital Assets, Not Depreciated:              |                  |                  |                    |                  |
| Land  | \$ 2,049,359     | \$ 955,286       | \$                 | \$ 3,004,645     |
| Construction in progress                      | <u>56,065</u>    |                  | <u>( 56,065)</u>   | <u>-0-</u>       |
| Total capital assets not<br>being depreciated | <u>2,105,424</u> | <u>955,286</u>   | <u>( 56,065)</u>   | <u>3,004,645</u> |

(continued)

**CITY OF FREEPORT**  
Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2010

**NOTE 5 - CAPITAL ASSETS - Continued**

|  | Balance<br>10/01/09 | Additions    | Retirements | Balance<br>09/30/10 |
|--|---------------------|--------------|-------------|---------------------|
| Capital Assets, Being Depreciated:           |                     |              |             |                     |
| Improvements                                 | \$ 17,013,262       | \$ 818,586   | \$ 56,065   | \$ 17,887,913       |
| Buildings                                    | 4,572,853           | 119,108      |             | 4,691,961           |
| Furniture, equipment and vehicles            | 5,808,049           | 311,293      |             | 6,119,342           |
| Total capital assets being depreciated       | 27,394,164          | 1,248,987    | 56,065      | 28,699,216          |
| Less Accumulated Depreciation For:           |                     |              |             |                     |
| Improvements                                 | 8,986,571           | 534,085      |             | 9,520,656           |
| Buildings                                    | 2,229,077           | 155,450      |             | 2,384,527           |
| Furniture, equipment and vehicles            | 3,253,150           | 505,740      |             | 3,758,890           |
| Total accumulated depreciation               | 14,468,798          | 1,195,275    | -0-         | 15,664,073          |
| Total capital assets being depreciated, net  | 12,925,366          | 53,712       | 56,065      | 13,035,143          |
| Governmental activities capital assets, net  | \$ 15,030,790       | \$ 1,008,998 | \$ -0-      | \$ 16,039,788       |
| Combined Business-type Activities:           |                     |              |             |                     |
| Capital Assets, Not Depreciated:             |                     |              |             |                     |
| Land   | \$ 395,630          | \$           | \$          | \$ 395,630          |
| Construction in progress                     |                     |              |             | -0-                 |
| Total capital assets not being depreciated   | 395,630             | -0-          | -0-         | 395,630             |
| Capital Assets, Being Depreciated:           |                     |              |             |                     |
| Buildings                                    | 211,468             |              |             | 211,468             |
| Improvements                                 | 548,368             |              |             | 548,368             |
| Utility plant                                | 20,249,030          | 128,030      |             | 20,377,060          |
| Furniture, equipment and vehicles            | 1,053,907           |              |             | 1,053,907           |
| Assets under capital lease                   |                     | 59,871       |             | 59,871              |
| Total capital assets being depreciated       | 22,062,773          | 187,901      | -0-         | 22,250,674          |
| Less Accumulated Depreciation For:           |                     |              |             |                     |
| Buildings                                    | 72,076              | 9,064        |             | 81,140              |
| Improvements                                 | 336,747             | 27,914       |             | 364,661             |
| Utility plant                                | 13,386,367          | 304,486      |             | 13,690,853          |
| Furniture, equipment and vehicles            | 668,769             | 77,936       |             | 746,705             |
| Assets under capital lease                   |                     | 2,069        |             | 2,069               |
| Total accumulated depreciation               | 14,463,959          | 421,469      | -0-         | 14,885,428          |
| Total capital assets being depreciated, net  | 7,598,814           | ( 233,568)   | -0-         | 7,365,246           |
| Business-type activities capital assets, net | \$ 7,994,444        | \$( 233,568) | \$ -0-      | \$ 7,760,876        |

**CITY OF FREEPORT**  
Freeport, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For The Year Ended September 30, 2010

**NOTE 5 - CAPITAL ASSETS** - Continued

**Business-type Activities:**

**Water and Sewer Enterprise Fund:**

**Capital Assets, Not Depreciated:**

|  |                  |            |            |                  |
|--|------------------|------------|------------|------------------|
| Land                                       | \$ <u>56,200</u> | \$ _____   | \$ _____   | \$ <u>56,200</u> |
| Total capital assets not being depreciated | <u>56,200</u>    | <u>-0-</u> | <u>-0-</u> | <u>56,200</u>    |

**Capital Assets, Being Depreciated:**

|  |                   |                   |                   |                   |
|--|-------------------|-------------------|-------------------|-------------------|
| Buildings                              |                   |                   |                   |                   |
| Improvements                           |                   |                   |                   |                   |
| Utility plant                          | 20,249,030        | 128,030           |                   | 20,377,060        |
| Furniture, equipment and vehicles      | <u>146,765</u>    | <u>          </u> | <u>          </u> | <u>146,765</u>    |
| Total capital assets being depreciated | <u>20,395,795</u> | <u>128,030</u>    | <u>-0-</u>        | <u>20,523,825</u> |

**Less Accumulated Depreciation For:**

|                                   |                   |                |                   |                   |
|-----------------------------------|-------------------|----------------|-------------------|-------------------|
| Buildings                         |                   |                |                   |                   |
| Improvements                      |                   |                |                   |                   |
| Utility plant                     | 13,386,367        | 304,486        |                   | 13,690,853        |
| Furniture, equipment and vehicles | <u>102,513</u>    | <u>7,558</u>   | <u>          </u> | <u>110,071</u>    |
| Total accumulated depreciation    | <u>13,488,880</u> | <u>312,044</u> | <u>-0-</u>        | <u>13,800,924</u> |

|   |                  |                   |            |                  |
|---|------------------|-------------------|------------|------------------|
| Total capital assets being depreciated, net | <u>6,906,915</u> | <u>( 184,014)</u> | <u>-0-</u> | <u>6,722,901</u> |
|---|------------------|-------------------|------------|------------------|

|  |                     |                      |               |                     |
|--|---------------------|----------------------|---------------|---------------------|
| Business-type activities capital assets, net | \$ <u>6,963,115</u> | \$( <u>184,014</u> ) | \$ <u>-0-</u> | \$ <u>6,779,101</u> |
|--|---------------------|----------------------|---------------|---------------------|

**Business-type Activities:**

**Golf Course Enterprise Fund:**

**Capital Assets, Not Depreciated:**

|  |                   |            |            |                   |
|--|-------------------|------------|------------|-------------------|
| Land                                       | \$ <u>339,430</u> | \$ _____   | \$ _____   | \$ <u>336,430</u> |
| Total capital assets not being depreciated | <u>339,430</u>    | <u>-0-</u> | <u>-0-</u> | <u>336,430</u>    |

**Capital Assets, Being Depreciated:**

|                                   |                   |               |                   |               |
|-----------------------------------|-------------------|---------------|-------------------|---------------|
| Buildings                         | 211,468           |               |                   | 211,468       |
| Improvements                      | 548,368           |               |                   | 548,368       |
| Furniture, equipment and vehicles | 563,353           |               |                   | 563,353       |
| Assets under capital lease        | <u>          </u> | <u>59,871</u> | <u>          </u> | <u>59,871</u> |

|  |                  |               |            |                  |
|--|------------------|---------------|------------|------------------|
| Total capital assets being depreciated | <u>1,323,189</u> | <u>59,871</u> | <u>-0-</u> | <u>1,383,060</u> |
|--|------------------|---------------|------------|------------------|

**CITY OF FREEPORT**  
Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2010

**NOTE 5 - CAPITAL ASSETS - Continued**

|  |                   |                      |                                 |
|--|-------------------|----------------------|---------------------------------|
| Less Accumulated Depreciation For:           |                   |                      |                                 |
| Buildings                                    | \$ 72,076         | \$ 9,064             | \$ 81,140                       |
| Improvements                                 | 336,747           | 27,914               | 364,661                         |
| Furniture, equipment and vehicles            | 424,640           | 32,801               | 457,441                         |
| Assets under capital lease                   | <u>2,069</u>      | <u>2,069</u>         | <u>2,069</u>                    |
| Total accumulated depreciation               | <u>833,463</u>    | <u>71,848</u>        | <u>-0-</u> <u>905,311</u>       |
| Total capital assets being depreciated, net  | <u>489,726</u>    | <u>( 11,977)</u>     | <u>-0-</u> <u>477,749</u>       |
| Business-type activities capital assets, net | <u>\$ 829,156</u> | <u>\$( 11,977)</u>   | <u>\$ -0-</u> <u>\$ 817,179</u> |
| Business-type Activities:                    |                   |                      |                                 |
| <u>Ambulance Enterprise Fund:</u>            |                   |                      |                                 |
| Capital Assets, Not Depreciated:             |                   |                      |                                 |
| Total capital assets not being depreciated   | \$ <u>-0-</u>     | \$ <u>          </u> | \$ <u>-0-</u>                   |
| Capital Assets, Being Depreciated:           |                   |                      |                                 |
| Furniture, equipment and vehicles            | <u>343,789</u>    | <u>          </u>    | <u>343,789</u>                  |
| Total capital assets being depreciated       | <u>343,789</u>    | <u>-0-</u>           | <u>-0-</u> <u>343,789</u>       |
| Less Accumulated Depreciation For:           |                   |                      |                                 |
| Furniture, equipment and vehicles            | <u>141,616</u>    | <u>37,577</u>        | <u>179,193</u>                  |
| Total accumulated depreciation               | <u>141,616</u>    | <u>37,577</u>        | <u>-0-</u> <u>179,193</u>       |
| Total capital assets being depreciated, net  | <u>202,173</u>    | <u>( 37,577)</u>     | <u>-0-</u> <u>164,596</u>       |
| Business-type activities capital assets, net | <u>\$ 202,173</u> | <u>\$( 37,577)</u>   | <u>\$ -0-</u> <u>\$ 164,596</u> |

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

|   |                     |
|---|---------------------|
| Governmental Activities:                            |                     |
| Administration                                      | \$ 281,346          |
| Public safety                                       | 319,270             |
| Streets and drainage                                | 411,086             |
| Library   | 18,001              |
| Parks and recreation                                | <u>165,572</u>      |
| Total depreciation expense-governmental activities  | <u>\$ 1,195,275</u> |
| Business-type Activities:                           |                     |
| Water and sewer                                     | \$ 312,044          |
| Golf Course   | 71,848              |
| Ambulance   | <u>37,577</u>       |
| Total depreciation expense-business-type activities | <u>\$ 421,469</u>   |

**CITY OF FREEPORT**  
Freeport, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For The Year Ended September 30, 2010

**NOTE 6 - ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS**

Taxes - Ad valorem taxes receivable are reserved based on historical experience and evaluation of collectability within the near future. The allowance for uncollectible taxes as of September 30, 2010, for the General Fund was \$ 56,543 and for the Debt Service Funds was \$ 2,453.

Garbage Customer Receivables - The allowance for uncollectible receivables related to garbage service is determined using twenty-five percent of the accounts thirty days past due and one hundred percent of the accounts over sixty days. The allowance for uncollectible receivables for the year ended September 30, 2010 was \$ 8,105.

Paving Assessments - Receivables for special paving assessments have been fully reserved due to the uncertainty of collections within the near future. Revenue as related to paving assessments is reported as collected. The allowance for uncollectible assessments as of September 30, 2010 was \$ 144,284.

Utility Customer Receivables - The allowance for uncollectible receivables related to utility services is determined using twenty-five percent of the accounts thirty days past due and one hundred percent of the accounts over sixty days. The allowance for uncollectible receivables for the year ended September 30, 2010 was \$ 18,535.

Ambulance Customer Receivables - The allowance for uncollectible receivables related to ambulance service is determined using sixty-seven percent of all accounts based on current historical data. The allowance for uncollectible receivables for the year ended September 30, 2010 was \$ 171,561.

Municipal Court Receivables - Municipal court receivables are reported in the governmental activities statement of net assets. Since these receivables do not represent current available resources, they are not reported in the governmental funds balance sheet. The allowance for uncollectible receivables related to municipal court assessments is determined based on historical experience and evaluation of collection in relation to the aging of customer accounts. The allowance for uncollectible receivables for the year ended September 30, 2010 was \$ 1,077,133.

**NOTE 7 - CONTINGENT LIABILITIES**

The City is contingently liable in respect to lawsuits and other claims in the ordinary course of its operations. The potential settlement (if any) of such contingencies under the budgetary process would require appropriation of revenues yet to be realized and would not materially affect the financial position of the City at September 30, 2010.

**CITY OF FREEPORT**  
Freeport, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For The Year Ended September 30, 2010

**NOTE 8 - PENSION AND OPEB-SUPPLEMENTAL DEATH BENEFITS PLAN**

**Pension Trust Fund**

At its December 2009, meeting, the TMRS Board of Trustees adopted actuarial assumptions to be used in the actuarial valuation for the year ended December 31, 2009. A summary of actuarial assumptions and definitions can be found in the December 31, 2009 TMRS Comprehensive Annual Financial Report (CAFR).

Since its inception, TMRS has used the Unit Credit actuarial funding method. This method accounts for liability accrued as of the valuation date, but does not project the potential future liability of provisions adopted by the City. Two-thirds of the cities participating in TMRS have adopted Updated Service Credit and Annuity Increases provisions on an annually repeating basis. For the December 31, 2007 valuation, the TMRS Board determined that the Projected Unit Credit (PUC) funding method should be used, which facilitates advance funding for future updated service credits and annuity increases that are adopted on an annually repeating basis. In addition, the Board also adopted a change in the amortization period from a 25-year "open" to a 25-year "closed" period. TMRS Board of Trustees rules provide that, whenever a change in actuarial assumptions or methods results in a contribution rate increase in an amount greater than 0.5%, the amortization period will be increased to 30 years, unless a city requests that the period remain at 25 years. For cities with repeating features, these changes would likely result initially in higher required contributions and lower funded ratios; however, the funded ratio should show steady improvement over time. To assist in this transition to higher rates, the Board also approved an eight-year phase-in period, which will allow cities the opportunity to increase their contributions gradually (approximately 12.5% each year) to their full rate (or their required contribution rate).

If the changes in actuarial funding method and assumptions had not been adopted for the 2007 valuation, the City's unfunded actuarial liability would have been \$ 1,619,092 and the funded ratio would have been 80.6%.

In addition, TMRS is currently working on its legislative package for 2010. There is a possibility that the investment rate of return (IRR) assumption of 7% would be need to be lowered if desired legislation for 2010 session is unsuccessful. Maintaining a 7% IRR assumption is contingent in part on the continued diversification of the TMRS portfolio, from an almost exclusive bond portfolio that includes equities as well. If state legislation needed to facilitate the continued diversification is not enacted, TMRS may have to revisit the continued diversification of the portfolio and consider reducing the assumed IRR. A reduction in the IRR would result in increased actuarial accrued liabilities, thus causing further increases in city contribution rates, following the December 31, 2010 actuarial valuation.

The City, as an employer, participates as one of the 837 plans in the statewide agent multiple-employer plan administered by the System, providing pension benefits for all of its full-time employees. The plan provisions that have been adopted by the Texas Municipal Retirement System (TMRS) Board of Trustees are within the options available in the governing state statutes. Employees can retire at age 60 and above with 5 or more years of service or with 25 years of service regardless of age. The contribution rate for

**CITY OF FREEPORT**  
Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2010

**NOTE 8 - PENSION AND OPEB-SUPPLEMENTAL DEATH BENEFITS PLAN - Continued**

**Pension Trust Fund - Continued**

employees is 7% and the matching percentage for the City is 200%. The City, as an employer, has adopted 100% updated service credit (USC) on a repeating basis and annual increases (AI) on a repeating basis, at 0% of the change in the CPI. Employees are vested after 5 years of service, but their accumulated deposits and interest must remain in the plan to receive any employer-financed benefits.

At retirement, death, disability, the benefit is calculated by converting the sum of the employee's personal account balance and the employer-financed monetary credits to a monthly annuity using annuity purchase rates prescribed the TMR Act. Members may choose to receive their retirement benefit in one of seven payment options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution (PLSD). The drop in funded ratio in 2007 is due primarily to a funding method change adopted by the TMRS Board to advance fund annually repeating USC and AI. As an employer, the City's annual pension costs and contributions to the Pension Trust Fund for the years ended September 30, 2010, 2009 and 2008 were \$ 437,315, \$ 426,181, and \$ 342,814, respectively, which equaled the required contributions each year.

| Plan Provisions -  | 2007*      | 2007       | 2008       | 2009       |
|--|------------|------------|------------|------------|
| 1) Total number of participating entities                                | 827        | 827        | 833        | 837        |
| City Specific:   |            |            |            |            |
| 2) Employee deposit rate   | 7.0%       | 7.0%       | 7.0%       | 7.0%       |
| 3) Matching ratio (city to employee)                                     | 2 to 1     | 2 to 1     | 2 to 1     | 2 to 1     |
| 4) Years required for vesting  | 5          | 5          | 5          | 5          |
| 5) Service retirement eligibility<br>(expressed as age/years of service) | 60/5, 0/20 | 60/5, 0/20 | 60/5, 0/20 | 60/5, 0/20 |
| 6) Updated service credit<br>annually repeating (Y/N)                    | 100%<br>Y  | 100%<br>Y  | 100%<br>Y  | 100%<br>Y  |
| 7) Annuity increase to retirees<br>annually repeating (Y/N)              | 70%<br>Y   | 70%<br>Y   | 70%<br>Y   | 70%<br>Y   |
| 8) Supplemental death benefit:<br>For active employees (Y/N)             | Y          | Y          | Y          | Y          |
| For retirees (Y/N)   | Y          | Y          | Y          | Y          |

**CITY OF FREEPORT**  
Freeport, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For The Year Ended September 30, 2010

**NOTE 8 - PENSION AND OPEB-SUPPLEMENTAL DEATH BENEFITS PLAN - Continued**

**Pension Trust Fund - Continued**

| Actuarial Information -             | <u>2007*</u>              | <u>2007</u>                 | <u>2008</u>                 | <u>2009</u>                   |
|-------------------------------------|---------------------------|-----------------------------|-----------------------------|-------------------------------|
| 1) Actuarial cost method            | Unit Credit               | Projected<br>Unit Credit    | Projected<br>Unit Credit    | Projected<br>Unit Credit      |
| 2) Amortization method              | Level %<br>of payroll     | Level %<br>of payroll       | Level %<br>of payroll       | Level %<br>of payroll         |
| 3) Amortization period              | 25 years -<br>open period | 30 years -<br>closed period | 29 years -<br>closed period | 28 years -<br>closed period   |
| 4) Asset valuation method (cost)    | amortized                 | amortized                   | amortized                   | 10-year<br>smoothed<br>market |
| 5) Assumptions:                     |                           |                             |                             |                               |
| Investment return                   | 7.0%                      | 7.0%                        | 7.5%                        | 7.5%                          |
| Projected salary increases          | None                      | varies - age<br>and service | varies - age<br>and service | varies - age<br>and service   |
| Inflation                           | 3.5%                      | 3.5%                        | 3.0%                        | 3.0%                          |
| Cost-of-living adjustments          | None                      | 2.1%                        | 2.1%                        | 2.1%                          |
| 6) City specific assumptions        |                           |                             |                             |                               |
| Payroll growth assumption           | 4.0%                      | 3.0%                        | 3.0%                        | 3.0%                          |
| Withdrawal rates for<br>Male/Female | High/High                 | High/High                   | High/High                   | High/High                     |

**Funding Information -**

| <u>Actuarial<br/>Valuation<br/>Date</u> | <u>Actuarial<br/>Value of<br/>Assets***<br/>(a)</u> | <u>Actuarial<br/>Accrued<br/>Liability**<br/>(AAL)-<br/>(b)</u> | <u>Unfunded<br/>AAL<br/>(UAAL)<br/>(b-a)</u> | <u>Percentage<br/>Funded<br/>(a/b)</u> | <u>Annual<br/>Covered<br/>Payroll<br/>(c)</u> | <u>UAAL as a<br/>Percentage<br/>of Covered<br/>Payroll<br/>(b-a)/(c)</u> |
|---|---|---|--|--|---|--|
| 2007*                                   | 6,707,207   | 8,326,299   | 1,619,092                                    | 80.6%                                  | 3,586,122                                     | 45.1%  |
| 2007                                    | 6,707,207   | 9,815,901   | 3,108,694                                    | 68.3%                                  | 3,586,122                                     | 86.7%  |
| 2008                                    | 7,059,241   | 10,704,031  | 3,644,790                                    | 65.9%                                  | 4,362,156                                     | 83.6%  |
| 2009                                    | 7,649,676   | 11,650,548  | 4,000,872                                    | 65.7%                                  | 4,531,168                                     | 88.3%  |



**CITY OF FREEPORT**  
Freeport, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For The Year Ended September 30, 2010

**NOTE 8 - PENSION AND OPEB-SUPPLEMENTAL DEATH BENEFITS PLAN - Continued**

**Pension Trust Fund - Continued**

- \* Under old assumptions (for comparative purposes only).
- \*\* As of December 31 of the preceding year, the date of the actuarial valuation.
- \*\*\* Assets are stated cost as of December 31 of the preceding year.

Financial reports that include financial statements and supplementary information are publicly available by writing or calling the following: Texas Municipal Retirement System, PO Box 149153, Austin, TX 78714-9153, (877) 634-8595.

**OPEB-Supplemental Death Benefits Fund**

The City as an employer 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 to provide group-term life insurance coverage to both current and retired employees. 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 proceeding the month of death). The death benefit for retirees is considered a post-employment benefit other than pension benefit (OPEB or other post-employment benefit) and is a fixed amount of \$ 7,500.

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. Such rates were 0.22% and 0.24% in 2010 and 2009, respectively, as a percentage of covered payrolls. The rate is equal to the cost of providing one-year term life insurance. The funding 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 employee's entire careers. As an employer, the City's contributions to the SDBF for the years ended September 30, 2010, 2009, and 2008 were \$ 10,560, \$ 11,287, and \$ 10,909, respectively, which equaled the required contributions each year.

| Plan Provisions -   | <u>2009</u> |
|---|-------------|
| 1) Total number of participating entities offering supplemental death to retirees | 720         |
| City Specific:  |             |
| 2) Supplemental death benefit:  |             |
| For active employees (Y/N)  | Y           |
| For retirees (Y/N)  | Y           |

**CITY OF FREEPORT**  
Freeport, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For The Year Ended September 30, 2010

**NOTE 8 - PENSION AND OPEB-SUPPLEMENTAL DEATH BENEFITS PLAN - Continued**

**OPEB-Supplemental Death Benefits Fund - Continued**

| Actuarial Information -    | <u>2009</u>                 |
|----------------------------|-----------------------------|
| 1) Valuation date          | 12-31-09                    |
| 2) Actuarial cost method   | Projected Unit<br>Credit    |
| 3) Amortization method     | Level percent<br>Of payroll |
| 4) Amortization period     | 25 years –<br>open period   |
| 5) Asset valuation method  | Fund value                  |
| 6) Assumptions:            |                             |
| Investment return          | 4.25%                       |
| Projected salary increases | None                        |
| Inflation                  | 3.0%                        |
| Cost-of-living adjustments | None                        |

Financial reports that include financial statements and supplementary information are publicly available by writing or calling the following: Texas Municipal Retirement System, PO Box 149153, Austin, TX 78714-9153, (877) 634-8595.

**NOTE 9 - TEXAS STATEWIDE EMERGENCY SERVICES PERSONNEL RETIREMENT FUND**

**Plan Description**

The Fire Fighters' Pension Commissioner is the administrator of the Texas Statewide Emergency Services Personnel Retirement Fund (TESRS), a cost-sharing multiple employer pension system established and administered by the State of Texas to provide pension benefits for emergency services personnel who serve without significant monetary remuneration. TESRS is considered a component unit of the State of Texas financial reporting entity and is included in the State's financial reports as a pension trust fund. At August 31, 2010, there were 199 member fire or emergency services departments participating in TESRS. Eligible participants include volunteer emergency services personnel who are members in good standing of a participating department.

The table below summarizes the TESRS membership as of August 31, 2010:

|   |                     |
|---|---------------------|
| Retirees and beneficiaries currently receiving benefits                 | <b>2,231</b>        |
| Terminated participants entitled to benefits but not yet receiving them | 2,106               |
| Current active participants (vested and nonvested)                      | <b><u>4,371</u></b> |
|   | <b><u>8,708</u></b> |

**CITY OF FREEPORT**  
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**NOTES TO THE FINANCIAL STATEMENTS**

For The Year Ended September 30, 2010

**NOTE 9 - TEXAS STATEWIDE EMERGENCY SERVICES PERSONNEL RETIREMENT FUND -**  
Continued

**Plan Description** - continued

Senate Bill 411, 65th Legislature, Regular Session (1977) created TESRS and established the applicable benefit provisions. The 79<sup>th</sup> Legislature, Regular Session (2005), recodified the provisions and gave the TESRS Board of Trustees authority to establish vesting requirements, contribution levels, benefit formulas and eligibility requirements by board rule. The benefit provisions include retirement benefits as well as death and disability benefits. Member are 50% vested after the tenth year of service, with the vesting percent increasing 10% for each of the next five years of service so that a member becomes 100% vested with 15 years of service.

Upon reaching age 55, each vested member may retire and receive a monthly pension equal to his vested percent multiplied by six times the governing body's average monthly contribution over the member's years of qualified service. For years of service in excess of 15 years, this monthly benefit is increased at the rate of 6.2% compounded annually.

On and off duty death benefits and on-duty disability benefits are dependent on whether or not the member was engaged in the performance of duties at the time of death or disability. Death benefits include a lump-sum amount and continuing monthly payments to a member's surviving spouse and dependent children

**Funding Policy**

Contribution provisions were established by S.B. 411, 65th Legislative, Regular Session (1977) and were amended by board rule in 2006. No contributions are required by individual members of participating departments. The governing bodies of participating departments are required to contribute at least the minimum prescribed amount per month for each active member and may contribute more. Additional contributions may be made by a governing body to pay for granting credit for service before the department began participating in TESRS (prior service). The State may also be required to make annual contributions up to a limited amount to make TESRS actuarially sound.

**Annual Required Contributions**

The contribution requirement per active emergency services personnel member per month is not actuarially determined. Rather, the minimum contribution provisions were set by board rule. For the fiscal year ending August 31, 2010 total contributions (dues and prior service) of \$ 2,875,103 were paid into TESRS by the political subdivisions served by the member volunteer emergency services personnel.

**CITY OF FREEPORT**

Freeport, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For The Year Ended September 30, 2010

**NOTE 9 - TEXAS STATEWIDE EMERGENCY SERVICES PERSONNEL RETIREMENT FUND -**  
Continued

**Annual Required Contributions - continued**

In addition, the State did not appropriate any maximum state contribution for the fiscal years ending August 31, 2010 and 2011. Total contributions made were equal to the contributions required by the state statute and were equal to the contributions required based on the revised August 31, 2008 actuarial valuation.

The purpose of the biennial actuarial valuation is to test the adequacy of the financing arrangement to determine if it is adequate to pay the benefits that are promised. The actuarial valuation as of August 31, 2010 revealed the adequacy of the expected contributions from the political subdivisions (dues and prior service contributions) together with the actual state appropriations for the fiscal year ending August 31, 2010 (\$ 502,941 to help pay for the System's administrative expenses) and with the assumed continuation of legislative appropriations of (1) the maximum state contributions amount in future years for up to 30 years as is necessary for the System to have a 30-year amortization period, and (2) approximately \$ 500,000 each year to help pay for the System's administrative expenses. Expected contributions for the fiscal year ending August 31, 2011 are less than the contributions required because of the lag in time between and actuarial valuation that shows the need for maximum state contribution amounts and the appropriations process.

To the best of our knowledge, the actuarial information supplied in this section is complete, accurate and in compliance with GASB Statement No. 25. In our opinion, the assumptions used are reasonably related to the experience of the System and to reasonable expectations and represent a reasonable estimate of anticipated experience of the System over the long-term future.

**Required Supplementary Information - Schedule of Funding Progress**

| Actuarial<br>Valuation<br>Date | Actuarial<br>Value of<br>Assets<br>(a) | Actuarial<br>Accrued<br>Liability (AAL) <sup>1</sup><br>- Entry Age<br>(b) | Unfunded<br>AAL<br>(UAAL)<br>(b)-(a) | Funded<br>Ratio<br>(a/b) | Total<br>Members<br>Covered<br>(c) | UAAL Per<br>Member<br>Covered<br>(b-a)/(c) |
|--------------------------------|--|--|--------------------------------------|--------------------------|------------------------------------|--|
| 8/31/06                        | \$ 42,268,305                          | \$ 58,082,828  | \$ 15,814,523                        | 72.8%                    | 8,061                              | \$ 1,962                                   |
| 8/31/08 <sup>2</sup>           | 60,987,157                             | 64,227,341   | 3,240,184                            | 95.0%                    | 8,254                              | 393  |
| 8/31/10 <sup>3</sup>           | 64,113,803                             | 79,953,215   | 15,839,412                           | 80.2%                    | 8,708                              | 1,819                                      |

Notes:

- <sup>1</sup> The actuarial accrued liability is based upon the entry age actuarial cost method.
- <sup>2</sup> Changes in actuarial assumptions were reflected in this valuation.
- <sup>3</sup> Changes in actuarial assumption and method were reflected in this valuation.

**CITY OF FREEPORT**  
Freeport, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For The Year Ended September 30, 2010

**NOTE 9 - TEXAS STATEWIDE EMERGENCY SERVICES PERSONNEL RETIREMENT FUND -**  
Continued

**Required Supplementary Information - Schedule of Funding Progress - Continued**

| <u>Fiscal Year<br/>Ending</u> | <u>Three-Year Trend Information</u>                |                                 | <u>Percentage of<br/>ARC Contributed</u> |
|-------------------------------|--|---------------------------------|--|
|                               | <u>Annual Required<br/>Contributions<br/>(ARC)</u> | <u>Actual<br/>Contributions</u> |  |
| August 31, 2005               | \$ 3,206,300 <sup>1</sup>                          | \$ 1,606,759 <sup>5</sup>       | 50%                                      |
| August 31, 2006               | 2,753,035 <sup>2</sup>                             | 2,753,035 <sup>6</sup>          | 100%                                     |
| August 31, 2007               | 3,162,742 <sup>3</sup>                             | 3,162,742 <sup>7</sup>          | 100%                                     |
| August 31, 2008               | 3,160,764 <sup>3</sup>                             | 11,239,339 <sup>8</sup>         | 356%                                     |
| August 31, 2009               | 2,698,271 <sup>4</sup>                             | 2,698,271 <sup>5</sup>          | 100%                                     |
| August 31, 2010               | 2,875,103 <sup>4</sup>                             | 2,875,103 <sup>5</sup>          | 100%                                     |

<sup>1</sup> Based on the original August 31, 2004 actuarial valuation.

<sup>2</sup> Based on the revised August 31, 2004 actuarial valuation.

<sup>3</sup> Based on the August 31, 2006 actuarial valuation.

<sup>4</sup> Based on the August 31, 2008 actuarial valuation.

<sup>5</sup> A change in billing procedures resulted in a one-time change in the timing of dues contributions, resulting in an atypical amount of dues contributions for this fiscal year.

<sup>6</sup> Includes a state contribution of \$ 675,307.

<sup>7</sup> Includes a state contribution of \$ 709,072.

<sup>8</sup> Includes a state contribution of \$ 8,800,000.

The actuarial assumptions and methods for the two most recent biennial valuations are shown below.

|                               |   |   |
|-------------------------------|---|---|
| Valuation date                | August 31, 2008   | August 31, 2010   |
| Actuarial cost method         | Entry Age   | Entry Age   |
| Amortization method           | Level dollar, open  | Level dollar, open  |
| Remaining amortization period | 30 years  | 30 years  |
| Asset valuation method        | Market value smoothed by a<br>5-year deferred recognition<br>method with a 90%/110%<br>corridor on market value | Market value smoothed by a<br>5-year deferred recognition<br>method with a 80%/120%<br>corridor on market value |
| Actuarial assumptions:        |   |   |
| Investment rate of return*    | 8.00% per year, net of<br>investment expenses   | 7.75% per year, net of<br>investment expenses   |
| Projected salary increases    | N/A   | N/A   |
| * Included inflation at       | 3.50%   | 3.50%   |
| Cost-of-living adjustments    | None  | None  |

A report may be obtained by contacting the Texas Comptroller, Post Office Box 13528, Capitol Station, Austin, Texas 78711-3528.

**CITY OF FREEPORT**  
Freeport, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For The Year Ended September 30, 2010

**NOTE 10 - INDUSTRIAL DISTRICT CONTRACTS**

On April 1, 1995 the City of Freeport in conjunction with the cities of Lake Jackson and Clute entered into an industrial contract with the Dow Chemical Company and BASF Corporation. A formula using Dow Chemical Company's and BASF Corporation's assets determine how much the City of Freeport will receive each year. The amount received under this contract and various other industrial district contracts during the year ended September 30, 2010 was \$ 4,282,985 and is reported in the General Fund.

**NOTE 11 - 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 taken or not, 2 million gallons of water per day. The actual supply of water under this contract started in March, 1989.

**NOTE 12 - JOINT VENTURE**

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, 2010, the City of Freeport's portion of these expenses was \$ 58,117. The City of Oyster Creek maintains both budgetary and accounting responsibility over these operations.

During the year ended September 30, 2003, the City began a joint venture with the City of Clute, City of Lake Jackson, and the 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 term of the agreement is from March 1, 2003 through February 28, 2023. 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. For the year ended September 30, 2010, the City paid \$ 85,539 for their portion of the operating costs.

**NOTE 13 - LONG-TERM DEBT**

**General Long-Term Debt:**

On October 24, 2003, the City issued \$ 3,000,000 and \$ 2,185,000 of Series 2003 Certificate of Obligation Bonds and Series 2003 Refunding Bonds. The Refunding Bonds effectively defeased the Series 2001 Certificates of Obligation Bonds.

On March 13, 2008, the City issued \$ 3,350,000 of Series 2008 Certificates of Obligation for authorized construction projects.

**CITY OF FREEPORT**  
Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2010

**NOTE 13 - LONG-TERM DEBT** - Continued

**General Long-Term Debt:** - continued

The general obligation bonds payable at September 30, 2010 are summarized as follows:

| Purpose                                  | Interest Rate (%) | Series Dates |          |          | Bonds Outstanding 09/30/10 |
|--|-------------------|--------------|----------|----------|----------------------------|
|  |                   | Issued       | Maturity | Callable |                            |
| Certificate Obligation Bonds Series 2003 | 4.84              | 2003         | 2018     | 2014     | \$ 2,047,000               |
| Refunding Bonds, Series 2003             | 4.84              | 2003         | 2018     | 2014     | 1,491,000                  |
| Certificate Obligation Bonds Series 2008 | 3.79              | 2008         | 2023     |          | <u>3,010,000</u>           |
|  |                   |              |          |          | <u>\$ 6,548,000</u>        |

General obligation bond transactions for the year ended September 30, 2010 were as follows:

|  | <u>2010</u>                |
|--|----------------------------|
| Bonds outstanding, October 1, Maturities | \$ 7,031,000<br>( 483,000) |
| Bonds outstanding, September 30,         | <u>\$ 6,548,000</u>        |

Aggregate maturities of certificate of obligation bonds for the five years subsequent to September 30, 2010 are as follows:

|           | <u>Principal</u>    | <u>Interest</u>     | <u>Total</u>        |
|-----------|---------------------|---------------------|---------------------|
| 2011      | \$ 508,000          | \$ 220,462          | \$ 728,462          |
| 2012      | 529,000             | 254,470             | 783,470             |
| 2013      | 555,000             | 230,474             | 785,474             |
| 2014      | 577,000             | 205,300             | 782,300             |
| 2015      | 605,000             | 179,091             | 784,091             |
| 2016-2020 | 2,949,000           | 256,379             | 3,205,379           |
| 2021-2023 | <u>825,000</u>      | <u>31,647</u>       | <u>856,647</u>      |
| Total     | <u>\$ 6,548,000</u> | <u>\$ 1,377,823</u> | <u>\$ 7,925,823</u> |

**CITY OF FREEPORT**  
Freeport, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For The Year Ended September 30, 2010

**NOTE 13 - LONG-TERM DEBT - Continued**

**Proprietary Fund Debt:**

In August 2004, the City issued \$ 1,943,000 in Revenue Refunding Bonds. Long term debt of the proprietary fund, which consists of serially maturing bonds for waterworks and sewer system improvements, is payable from the operations of the water and sewer utility operations. The revenue bonds payable at September 30, 2010 are summarized as follows:

| <u>Purpose</u>  | <u>Interest<br/>Rate<br/>(%)</u> | <u>Issued</u> | <u>Series Dates<br/>Maturity</u> | <u>Callable</u> | <u>Bonds<br/>Outstanding<br/>09-30-10</u> |
|---|----------------------------------|---------------|----------------------------------|-----------------|---|
| Waterworks and Sewer<br>System Revenue Bonds<br>Series 2004 | 4.85                             | 2004          | 2015                             |                 | \$ <u>886,000</u>                         |
|   |                                  |               |                                  |                 | \$ <u>886,000</u>                         |

Revenue bond transactions for the year ended September 30, 2010 are as follows:

|                                  | <u>2010</u>        |
|----------------------------------|--------------------|
| Bonds outstanding, October 1,    | \$ 1,086,000       |
| Maturities                       | ( <u>200,000</u> ) |
| Bonds outstanding, September 30, | \$ <u>886,000</u>  |

Aggregate maturities of revenue bonds for the years subsequent to September 30, 2010 are as follows:

|       | <u>Principal</u>  | <u>Interest</u>   | <u>Total</u>      |
|-------|-------------------|-------------------|-------------------|
| 2011  | \$                | \$ 21,486         | \$ 21,486         |
| 2012  | 208,000           | 37,927            | 245,927           |
| 2013  | 215,000           | 27,669            | 242,669           |
| 2014  | 228,000           | 16,926            | 244,926           |
| 2015  | <u>235,000</u>    | <u>5,699</u>      | <u>240,699</u>    |
| Total | \$ <u>886,000</u> | \$ <u>109,707</u> | \$ <u>995,707</u> |



**CITY OF FREEPORT**  
Freeport, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For The Year Ended September 30, 2010

**NOTE 13 - LONG-TERM DEBT - Continued**

**Changes in Long-Term Debt**

Transactions for the year ended September 30, 2010 are summarized as follows:

|                                       | <u>Balance</u><br><u>10/01/09</u> | <u>Issues or</u><br><u>Additions</u> | <u>Payments or</u><br><u>Expenditures</u> | <u>Balance</u><br><u>09/30/10</u> | <u>Due Within</u><br><u>One Year</u> |
|---------------------------------------|-----------------------------------|--------------------------------------|---|-----------------------------------|--------------------------------------|
| <b>Governmental Type Activities:</b>  |                                   |                                      |   |                                   |                                      |
| General obligation bonds              | \$ 7,031,000                      | \$                                   | \$ 483,000                                | \$ 6,548,000                      | \$ 508,000                           |
| Capital lease                         | 15,391                            |                                      | 3,886                                     | 11,505                            | 4,114                                |
| Compensated absences                  | 658,946                           | 471,768                              | 458,499                                   | 672,215                           | 672,215                              |
| Component of Long-Term Debt:          |                                   |                                      |   |                                   |                                      |
| Accrued interest payable              | <u>80,923</u>                     | <u>74,438</u>                        | <u>80,923</u>                             | <u>74,438</u>                     | <u>74,438</u>                        |
| <b>Total governmental activities</b>  | <u>7,786,260</u>                  | <u>546,206</u>                       | <u>1,026,308</u>                          | <u>7,306,158</u>                  | <u>1,258,767</u>                     |
| <b>Business Type Activities:</b>      |                                   |                                      |   |                                   |                                      |
| Revenue bonds payable                 | 1,086,000                         |                                      | 200,000                                   | 886,000                           |                                      |
| Capital leases                        |                                   | 59,871                               | 4,466                                     | 55,405                            | 14,139                               |
| Compensated absences                  | <u>65,944</u>                     | <u>52,217</u>                        | <u>62,993</u>                             | <u>55,168</u>                     | <u>55,168</u>                        |
| <b>Total business type activities</b> | <u>1,151,944</u>                  | <u>112,088</u>                       | <u>267,459</u>                            | <u>996,573</u>                    | <u>69,307</u>                        |
| <b>Total government (net)</b>         | <u>\$ 8,938,204</u>               | <u>\$ 658,294</u>                    | <u>\$ 1,293,767</u>                       | <u>\$ 8,302,731</u>               | <u>\$ 1,328,074</u>                  |

**Debt Issuances and Defeased Debt**

**General Long-Term Debt:**

During the year ended September 30, 2004, the City issued \$ 2,185,000 in Certificate of Obligation Refunding Bonds, Series 2003 for refunding of previously issued and outstanding \$ 2,135,000 Economic Development Corporation Certificate of Obligation Bonds – Series 2001. The City placed \$ 2,142,889 from the proceeds of the refunding in an escrow fund. The escrow fund is irrevocably pledged to the payment of principal and interest on the issue being refunded. The difference between the cash flow required to service the old debt and that required to service the new debt and complete the refunding was a decrease of \$ 216,580. The economic gain resulting from the transaction was \$ 252,180. The outstanding balance of these defeased bonds at September 30, 2010 was \$ 1,610,000 and the balance held in escrow was \$ 1,625,674.

**CITY OF FREEPORT**  
Freeport, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For The Year Ended September 30, 2010

**NOTE 14 - LEASES**

**Operating leases**

**Lessor (Governmental)**

The City leases various office space as well as park and community house rentals as lessor. These leases are considered operating leases for accounting purposes and are reported as income in the General Fund. The office leases are annual leases that are renewed each year as of January 1<sup>st</sup>. The park and community house rentals are based upon usage.

Aggregate maturities of operating lease receivables for the five years subsequent to September 30, 2010 are as follows:

| <u>Year Ended</u><br><u>September 30,</u> | <u>Total</u>     |
|---|------------------|
| 2011                                      | \$ <u>32,681</u> |
| Minimum payments under operating leases   | \$ <u>32,681</u> |

Operating lease and rental income for the year ended September 30, 2010 was as follows:

|                     |                   |
|---------------------|-------------------|
| Office lease income | \$ 131,244        |
| Other rental income | <u>92,229</u>     |
| Total               | \$ <u>223,473</u> |

**Lessee (Governmental)**

During the year ended September 30, 2008, the City entered into an operating lease for a postage machine through June 30, 2014, sixty-three monthly payments of \$ 156.00.

During the year ended September 30, 2008, the City entered into an operating lease for a copy machine through November 12, 2012, sixty monthly payments of \$ 235.52.

During the year ended September 30, 2008, the City entered into an operating lease for a copy machine through May 28, 2013, sixty monthly payments of \$ 388.00.

**CITY OF FREEPORT**  
Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2010

**NOTE 14 - LEASES - Continued**

**Lessee (Governmental) - Continued**

Aggregate maturities of operating lease obligations for the five years subsequent to September 30, 2010 are as follows:

| <u>Year<br/>Ended<br/>September 30,</u> | <u>Total</u>     |
|---|------------------|
| 2011                                    | \$ 9,354         |
| 2012                                    | 9,354            |
| 2013                                    | 5,447            |
| 2014                                    | <u>1,404</u>     |
| Minimum payments under operating leases | <u>\$ 25,559</u> |

Operating lease expenditures for the year ended September 30, 2010 was \$ 9,354.

**Lessee (Proprietary)**

During the year ended September 30, 2009, the City's Golf Course fund entered into an operating lease for forty-five (45) golf carts from February 1, 2009 through January 1, 2013, forty-eight payments of \$ 2,635.20.

During the year ended September 30, 2010, the City's Golf Course fund entered into an operating lease for ten (10) golf carts from October 1, 2009 through September 1, 2013, forty-eight payments of \$ 585.60.

Aggregate maturities of operating lease obligations for the five years subsequent to September 30, 2010 are as follows:

| <u>Year<br/>Ended<br/>September 30,</u> | <u>Total</u>     |
|---|------------------|
| 2011                                    | \$ 38,650        |
| 2012                                    | 38,649           |
| 2013                                    | <u>17,568</u>    |
| Minimum payments under operating leases | <u>\$ 94,867</u> |

Operating lease expense for the year ended September 30, 2010 was \$ 38,650 and was charged to the Golf Course fund as cost of sales.

**CITY OF FREEPORT**  
Freeport, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For The Year Ended September 30, 2010

**NOTE 14 - LEASES** - Continued

**Capital Leases (Governmental)**

During the year ended September 30, 2008, the City purchased a digital copier under a capital lease, with an effective interest rate of 5.62%. Current requirements for principal and interest expenditures accounted for in the General Fund were \$ 3,886 and \$ 766, respectively.

The leased assets and related obligations are accounted for in the governmental activities column of the government-wide financial statements as capital assets and noncurrent liabilities. Current year depreciation on leased assets totaled \$ 4,051 and has been included in depreciation expense.

The assets acquired through capital leases are as follows:

Asset:

|                               |                  |
|-------------------------------|------------------|
| Machinery and equipment       | \$ 20,254        |
| Less accumulated depreciation | <u>9,114</u>     |
| Total                         | <u>\$ 11,140</u> |

The following is a schedule of future minimum lease payments under capital leases, together with the net present value of the minimum lease payments, as of September 30, 2010:

| <u>Year Ended</u><br><u>September 30,</u>   | <u>Amount</u>    |
|---|------------------|
| 2011  | \$ 4,656         |
| 2012  | 4,656            |
| 2013  | <u>3,104</u>     |
|   | 12,416           |
| Less amount representing interest           | <u>911</u>       |
| Net present value of minimum lease payments | <u>\$ 11,505</u> |

**Capital Leases (Proprietary)**

During the year ended September 30, 2010, the City purchased a John Deere PROGATOR 2030A Diesel, a John Deere HD200 SELECTSPRAY, and a Rogers Airfoil Boom FGF11 Boom under capital lease, with an effective interest rate of 4.74%. Current requirements for principal and interest expenses accounted for in the Golf Course fund were \$ 1,192 and \$ 246, respectively.

During the year ended September 30, 2010, the City purchased a John Deere Terrain Cut Trim Mower under capital lease, with an effective interest rate of 4.74%. Current requirements for principal and interest expenses accounted for in the Golf Course fund were \$ 3,274 and \$ 643, respectively.

The leased assets and related obligations are accounted for in the business-type activities column of the government wide financial statements as capital assets and noncurrent liabilities. Current year depreciation on leased assets totaled \$ 2,069 and has been included in depreciation expense.

**CITY OF FREEPORT**  
Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2010

**NOTE 14 - LEASES - Continued**

**Capital Leases (Proprietary) - Continued**

The assets acquired through capital leases are as follows:

Asset:

|                               |                         |
|-------------------------------|-------------------------|
| Machinery and equipment       | \$ 59,871               |
| Less accumulated depreciation | <u>2,069</u>            |
| <b>Total</b>                  | <b><u>\$ 57,802</u></b> |

The following is a schedule of future minimum lease payments under capital leases, together with the net present value of the minimum lease payments, as of September 30, 2010:

| <u>Year Ended<br/>September 30,</u>         | <u>Amount</u>           |
|---|-------------------------|
| 2011  | \$ 16,461               |
| 2012  | 16,461                  |
| 2013  | 16,461                  |
| 2014  | <u>11,108</u>           |
|   | 60,491                  |
| Less amount representing interest           | <u>5,086</u>            |
| Net present value of minimum lease payments | <b><u>\$ 55,405</u></b> |

**NOTE 15 - LONG-TERM RECEIVABLES**

During prior years, the City loaned the Freeport Economic Development Corporation (the "Corporation") - a component unit of the City, funds in connection with the acquisition of land and preliminary construction plans for the marina project. During the year ended September 30, 2007, the City consolidated these loans in the amount of \$ 734,090. No payments have been received on this loan since September 30, 2008.

During the year ended September 30, 2007, the City loaned the Corporation, a component unit of the City, \$ 6,000,000 to finance the development of the marina project to be located in the City on approximately four acres of land owned or leased by the Corporation. No payments on this loan have been paid since inception.

**CITY OF FREEPORT**  
Freeport, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For The Year Ended September 30, 2010

**NOTE 15 - LONG-TERM RECEIVABLES - Continued**

The notes receivable at September 30, 2010 are summarized as follows:

| Purpose                                | Interest Rate (%) | Dates  |          |          | Bonds Outstanding 09/30/10 |
|--|-------------------|--------|----------|----------|----------------------------|
|  |                   | Issued | Maturity | Callable |                            |
| Note to Freeport EDC 2007              | 4.84              | 2007   | 2030     |          | \$ 6,000,000               |
| Consolidated note to Freeport EDC 2006 | 5.00              | 2006   | 2012     |          | <u>639,208</u>             |
|  |                   |        |          |          | <u>\$ 6,639,208</u>        |

Notes receivable transactions for the year ended September 30, 2010 are summarized as follows:

|                                  | <u>2010</u>         |
|----------------------------------|---------------------|
| Notes receivable, October 1,     | \$ 6,639,208        |
| Maturities                       | <u>-0-</u>          |
| Notes outstanding, September 30, | <u>\$ 6,639,208</u> |

Aggregate maturities of notes receivables for the five years subsequent to September 30, 2010 are as follows:

|           | <u>Principal</u>    | <u>Interest</u>     | <u>Total</u>         |
|-----------|---------------------|---------------------|----------------------|
| 2011      | \$ 275,893          | \$ 957,924          | \$ 1,233,817         |
| 2012      | 363,315             | 505,805             | 869,120              |
| 2013      |                     | 500,000             | 500,000              |
| 2014      | 212,763             | 287,237             | 500,000              |
| 2015      | 223,921             | 276,079             | 500,000              |
| 2016-2020 | 1,296,436           | 1,203,564           | 2,500,000            |
| 2021-2025 | 1,648,995           | 851,005             | 2,500,000            |
| 2026-2030 | <u>2,617,885</u>    | <u>375,228</u>      | <u>2,993,113</u>     |
| Total     | <u>\$ 6,639,208</u> | <u>\$ 4,956,842</u> | <u>\$ 11,596,050</u> |

**CITY OF FREEPORT**  
Freeport, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For The Year Ended September 30, 2010

**NOTE 15 - LONG-TERM RECEIVABLES - Continued**

**Changes in Long-Term Receivables**

Transactions for the year ended September 30, 2010 are summarized as follows:

|                                       | <u>Balance</u><br><u>10/01/09</u> | <u>Additions</u>  | <u>Payments</u>             | <u>Balance</u><br><u>09/30/10</u> | <u>Due Within</u><br><u>One Year</u> |
|---------------------------------------|-----------------------------------|-------------------|-----------------------------|-----------------------------------|--------------------------------------|
| Governmental Type Activities:         |                                   |                   |                             |                                   |                                      |
| Notes receivable                      | \$ 6,639,208                      | \$                | \$                          | \$ 6,639,208                      | \$ 275,893                           |
| Component of Long-Term<br>Receivable: |                                   |                   |                             |                                   |                                      |
| Accrued interest receivable           | <u>725,987</u>                    | <u>372,097</u>    | <u>                    </u> | <u>1,098,084</u>                  | <u>1,098,084</u>                     |
| Total governmental activities         | <u>\$ 7,365,195</u>               | <u>\$ 372,097</u> | <u>\$ -0-</u>               | <u>\$ 7,737,292</u>               | <u>\$ 1,373,977</u>                  |

**NOTE 16 - RISK POOL PARTICIPATION**

The City is a participant in the Texas Municipal League Intergovernmental Risk Pool for coverage of liability, property and worker's compensation claims. The City pays annual premiums to the pool for the coverage stated. The agreement with the Texas Municipal League Intergovernmental Risk Pool requires the pool to be self-sustaining. Therefore, the City's exposure for claims is designed to be limited to their deductible.

**NOTE 17 - GRANTS, ENTITLEMENTS AND SHARED REVENUES**

During the year ended September 30, 2010, the City applied for and received federal grants related to various activities. The operations of these grants are reported in the general fund. For the most part, these grants are reimbursement type grants, therefore, revenues equal expenditures. Grant revenues are classified as intergovernmental revenues. The federal grants are covered by the requirements of the Single Audit Act and OMB Circular A-133. The state grants are covered by the State of Texas Single Audit Circular.

The federal grants received were from the U.S. Department of Justice (\$ 82,573 direct Justice Assistance Grant, and \$ 31,398 received from Brazoria County, Texas for a Justice Assistance Grant); the U.S. Department of Homeland Security (\$ 3,710 direct grant from FEMA for Hurricane Ike); and U.S. Department of Housing and Urban Development (\$ 128,029 from Brazoria County, Texas, for the Community Development Block Grant Program); which totaled \$ 245,710. Since the total federal grants were less than \$ 500,000 a Single Audit was not required.

**NOTE 18 - DEFICIT FUND BALANCES**

The Marina Operation (Special Revenue Fund) reported a fund balance deficit of \$ 4,820 after the first year of operation, in spite of a \$ 47,089 transfer from the General Fund.

Property tax revenues in the Series 2003B and Series 2008 Debt Service Funds were not sufficient to cover debt payments during the current year. The Series 2003B Debt Service fund had a net decrease of \$ 15,790, which increased the deficit in fund balance to \$ 19,990. The 2008 Debt Service Fund had a net increase of \$ 56,960, after receiving a \$ 77,147 transfer from the General Fund, which decreased the deficit in fund balance to \$ 20,187 at September 30, 2010.

# CITY OF FREEPORT

Freeport, Texas

## NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2010

### NOTE 19 - EVALUATION OF SUBSEQUENT EVENTS

The City has evaluated subsequent events through May 25, 2011, the date which the financial statements were available to be issued.

On January 20, 2011, Brazoria County, Texas provided the City of Freeport with a Special Warranty Deed for the right-of-way for the purpose of constructing, maintaining, repairing and reconstructing the Pine Street Bridge. This right-of-way is utilized by the Freeport Economic Development Corporation for the marina project.

Through May 25, 2011, the City of Freeport has continued to perform the operation of the marina wet slip docks, which includes the payment of the operating leases as described in Note 14, Leases.

### NOTE 20 - LITIGATION

The City is involved in the following legal actions, and is represented by legal counsel. The stated probable outcome and the possible effect are the opinion of legal counsel based upon conditions existing as of May 25, 2011.

Cause No. 55022; *John A. Stanford Jr. v. City of Freeport and Jeff Pynes*; In the 239<sup>th</sup> Judicial District Court of Brazoria County, Texas. The former Freeport Fire Chief John A. Stanford, Jr. filed suit against the City of Freeport and the City Manager, individually, on November 16, 2009. Stanford claims that he was fired in violation of the Texas Whistleblower Act, his age, and in retaliation for action protected under Title VII and that he was defamed by the City Manager. The City Manager was sued in his individual capacity but has been dismissed from the case based upon his individual immunity. The Court also dismissed the Age claim but has retained the Whistleblower and Retaliation claims against the City. The City is unable to express an opinion covering the likelihood of an unfavorable outcome at this time.

Cause No. 55632; *Minette Ashley v. City of Freeport and Jeff Pynes*; In the 23<sup>rd</sup> Judicial District Court of Brazoria County, Texas. Plaintiff brought suit under the Texas Human Rights Act alleging gender and retaliation claims arising from her pay and the termination of her employment. Motions for Summary Judgments regarding all claims are pending. The City is unable to express an opinion covering the likelihood of an unfavorable outcome at this time.

Cause No. 576287; *Jimmie Garza v. City of Freeport*; In the 412<sup>th</sup> Judicial District Court of Brazoria County, Texas. This suit was brought by Plaintiff under the Texas Tort claims Act and the Recreational Use statute. City is unable to express an opinion covering the likelihood of an unfavorable outcome at this time.



## **REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF FREEPORT**  
Freeport, Texas

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

For the Year Ended September 30, 2010

|  | Budgeted Amounts     |                      | Actual               | Variance with<br>Final Budget<br>Positive<br>(Negative) |
|--|----------------------|----------------------|----------------------|---|
|  | Original             | Final                |                      |   |
| <b>Revenues:</b>                             |                      |                      |                      |   |
| Taxes  | \$ 1,896,485         | \$ 1,896,485         | \$ 1,951,052         | \$ 54,567   |
| Other taxes                                  | 1,852,168            | 1,852,168            | 1,789,506            | ( 62,662)   |
| Industrial district                          | 4,154,857            | 4,154,857            | 4,282,985            | 128,128   |
| Intergovernmental                            | 77,500               | 259,770              | 251,511              | ( 8,259)  |
| Revenue producing facilities                 | 983,585              | 983,585              | 1,016,900            | 33,315  |
| Fines, licenses and fees                     | 536,922              | 523,253              | 487,843              | ( 35,410)   |
| Investment income                            | 9,400                | 9,400                | 7,237                | ( 2,163)  |
| Miscellaneous                                | <u>55,942</u>        | <u>144,518</u>       | <u>143,029</u>       | <u>( 1,489)</u>   |
| Total revenues                               | <u>9,566,859</u>     | <u>9,824,036</u>     | <u>9,930,063</u>     | <u>106,027</u>  |
| <b>Expenditures:</b>                         |                      |                      |                      |   |
| Current:                                     |                      |                      |                      |   |
| Administration                               | 1,731,119            | 1,735,619            | 1,458,651            | 276,968   |
| Public safety                                | 3,857,926            | 3,999,878            | 4,199,732            | ( 199,854)  |
| Streets and drainage                         | 1,104,938            | 1,104,938            | 975,038              | 129,900   |
| Sanitation                                   | 756,809              | 756,809              | 883,882              | ( 127,073)  |
| Service center                               | 194,128              | 194,128              | 133,507              | 60,621  |
| Library                                      | 39,150               | 39,150               | 46,588               | ( 7,438)  |
| Parks and recreation                         | 1,318,328            | 1,321,018            | 1,292,296            | 28,722  |
| Capital outlay                               | 315,000              | 1,386,806            | 1,385,686            | 1,120   |
| Debt Service:                                |                      |                      |                      |   |
| Principal                                    |                      |                      | 3,886                | ( 3,886)  |
| Interest and fees                            |                      |                      | <u>766</u>           | <u>( 766)</u>   |
| Total expenditures                           | <u>9,317,398</u>     | <u>10,538,346</u>    | <u>10,380,032</u>    | <u>158,314</u>  |
| Excess of revenues over (under) expenditures | <u>249,461</u>       | <u>( 714,310)</u>    | <u>( 449,969)</u>    | <u>264,341</u>  |
| <b>Other Financing Sources (Uses):</b>       |                      |                      |                      |   |
| Operating transfers out                      | <u>( 171,790)</u>    | <u>( 309,087)</u>    | <u>( 309,087)</u>    | <u>-0-</u>  |
| Total other financing sources (uses)         | <u>( 171,790)</u>    | <u>( 309,087)</u>    | <u>( 309,087)</u>    | <u>-0-</u>  |
| Net change in fund balance                   | 77,671               | ( 1,023,397)         | ( 759,056)           | 264,341   |
| Fund balance - beginning                     | <u>11,115,549</u>    | <u>11,115,549</u>    | <u>11,115,549</u>    | <u>-0-</u>  |
| Fund balance - ending                        | <u>\$ 11,193,220</u> | <u>\$ 10,092,152</u> | <u>\$ 10,356,493</u> | <u>\$ 264,341</u>                                       |

**CITY OF FREEPORT**  
Freeport, Texas

**TEXAS MUNICIPAL RETIREMENT SYSTEM**  
**SCHEDULE OF FUNDING PROGRESS**  
**LAST THREE FISCAL YEARS**

| Actuarial<br>Valuation<br>Date | Actuarial<br>Value of<br>Assets** | Actuarial<br>Accrued<br>Liability*<br>(AAL)- | Unfunded<br>AAL<br>(UAAL) | Percentage<br>Funded | Annual<br>Covered<br>Payroll | UAAL as a<br>Percentage<br>of Covered<br>Payroll |
|--------------------------------|-----------------------------------|--|---------------------------|----------------------|------------------------------|--|
|                                | (a)                               | (b)  | (b-a)                     | (a/b)                | (c)                          | (b-a)/(c)  |
| 2007***                        | \$ 6,707,207                      | \$ 9,815,901                                 | \$ 3,108,694              | 68.3%                | \$ 3,586,122                 | 86.7%  |
| 2008                           | 7,059,241                         | 10,704,031                                   | 3,644,790                 | 65.9%                | 4,362,156                    | 83.6%  |
| 2009                           | 7,649,676                         | 11,650,548                                   | 4,000,872                 | 65.7%                | 4,531,168                    | 88.3%  |

\* As of December 31 of the preceding year, the date of the actuarial valuation.

\*\* Assets are stated at cost as of December 31 of the preceding year.

\*\*\* The drop in funded ratio in 2007 is due primarily to a funding method change adopted by the TMRS Board to advance fund annually repeating USC and AI.

**CITY OF FREEPORT**  
Freeport, Texas

**TEXAS STATEWIDE EMERGENCY SERVICES PERSONNEL RETIREMENT FUND**  
**SCHEDULE OF FUNDING PROGRESS**  
**LAST THREE FISCAL YEARS**

| Actuarial<br>Valuation<br>Date | Actuarial<br>Value of<br>Assets<br>(a) | Actuarial<br>Accrued<br>Liability (AAL)*<br>- Entry Age<br>(b) | Unfunded<br>AAL<br>(UAAL)<br>(b)-(a) | Funded<br>Ratio<br>(a/b) | Total<br>Members<br>Covered<br>(c) | UAAL Per<br>Member<br>Covered<br>(b-a)/(c) |
|--------------------------------|--|--|--------------------------------------|--------------------------|------------------------------------|--|
| 8/31/06**                      | \$ 42,268,305                          | \$ 58,082,828  | \$ 15,814,523                        | 72.8%                    | 8,061                              | \$ 1,962                                   |
| 8/31/08***                     | 60,987,157                             | 64,227,341   | 3,240,184                            | 95.0%                    | 8,254                              | 393  |
| 8/31/10***                     | 64,113,803                             | 79,953,215   | 15,839,412                           | 80.2%                    | 8,708                              | 1,819                                      |

\* Based on the original August 31, 2004 actuarial valuation.

\*\* Based on the original August 31, 2006 actuarial valuation

\*\*\* Based on the original August 31, 2008 actuarial valuation.

## **OTHER SCHEDULES**

**CITY OF FREEPORT**  
Freeport, Texas

**COMBINING BALANCE SHEET- NONMAJOR GOVERNMENTAL FUNDS**

September 30, 2010

|   | Special Revenue Funds                 |                        |                      |                   |
|---|---------------------------------------|------------------------|----------------------|-------------------|
|   | Streets,<br>Drainage and<br>Sidewalks | Hotel/<br>Motel<br>Tax | Marina<br>Operations | Total             |
| <b>Assets:</b>                                    |                                       |                        |                      |                   |
| Cash and temporary investments                    | \$ 651,032                            | \$ 17,222              | \$ 23,970            | \$ 692,224        |
| Receivables (Net of Allowance for Uncollectable): |                                       |                        |                      |                   |
| Taxes   |                                       |                        |                      | -0-               |
| Accounts  |                                       | 3,516                  |                      | 3,516             |
| Due from other governments                        |                                       |                        |                      | -0-               |
| Due from other funds                              | <u>11,432</u>                         |                        |                      | <u>11,432</u>     |
| <br>  |                                       |                        |                      |                   |
| Total assets                                      | <u>\$ 662,464</u>                     | <u>\$ 20,738</u>       | <u>\$ 23,970</u>     | <u>\$ 707,172</u> |
| <br>  |                                       |                        |                      |                   |
| <b>Liabilities:</b>                               |                                       |                        |                      |                   |
| Accounts payable                                  | \$ 11,114                             |                        | \$ 28,790            | \$ 39,904         |
| Due to other funds                                |                                       |                        |                      | -0-               |
| Deferred revenue                                  |                                       |                        |                      | -0-               |
| <br>  |                                       |                        |                      |                   |
| Total liabilities                                 | <u>11,114</u>                         | <u>-0-</u>             | <u>28,790</u>        | <u>39,904</u>     |
| <br>  |                                       |                        |                      |                   |
| <b>Fund Balances:</b>                             |                                       |                        |                      |                   |
| Reserved for debt service                         |                                       |                        |                      | -0-               |
| Unreserved:                                       |                                       |                        |                      |                   |
| Designated for subsequent years expenditures      | <u>651,350</u>                        | <u>20,738</u>          | <u>( 4,820)</u>      | <u>667,268</u>    |
| <br>  |                                       |                        |                      |                   |
| Total fund balances                               | <u>631,350</u>                        | <u>20,738</u>          | <u>( 4,820)</u>      | <u>667,268</u>    |
| <br>  |                                       |                        |                      |                   |
| Total liabilities and fund balances               | <u>\$ 662,464</u>                     | <u>\$ 20,738</u>       | <u>\$ 23,970</u>     | <u>\$ 707,172</u> |

Debt Service Funds

| <u>Debt<br/>Service<br/>Series 2003A</u> | <u>Debt<br/>Service<br/>Series 2003B</u> | <u>Total</u>     | <u>Total<br/>Nonmajor<br/>Governmental<br/>Funds</u> |
|--|--|------------------|--|
| \$ 11,221                                | \$ 14,474                                | \$ 25,695        | \$ 717,919   |
|  | 13,500                                   | 13,500           | 13,500   |
|  | 288                                      | 288              | 288  |
|  |  | -0-              | 11,432   |
| <u>11,221</u>                            | <u>28,262</u>                            | <u>39,483</u>    | <u>746,655</u>                                       |
| <br>                                     |  |                  |  |
| \$                                       | \$                                       | \$ -0-           | \$ 39,904  |
|  | 35,430                                   | 35,430           | 35,430   |
|  | <u>12,822</u>                            | <u>12,822</u>    | <u>12,822</u>  |
| <u>-0-</u>                               | <u>48,252</u>                            | <u>48,252</u>    | <u>88,156</u>  |
| <br>                                     |  |                  |  |
| 11,221                                   | ( 19,990)                                | ( 8,769)         | ( 8,769)   |
|  |  | -0-              | 667,268  |
| <u>11,221</u>                            | <u>( 19,990)</u>                         | <u>( 8,769)</u>  | <u>658,499</u>                                       |
| <br>                                     |  |                  |  |
| <u>\$ 11,221</u>                         | <u>\$ 28,262</u>                         | <u>\$ 39,483</u> | <u>\$ 746,655</u>                                    |

**CITY OF FREEPORT**  
Freeport, Texas

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

For the Year Ended September 30, 2010

|   | Special Revenue Funds                 |                        |                      |                   |
|---|---------------------------------------|------------------------|----------------------|-------------------|
|   | Streets,<br>Drainage and<br>Sidewalks | Hotel/<br>Motel<br>Tax | Marina<br>Operations | Total             |
| <b>Revenues:</b>                                    |                                       |                        |                      |                   |
| Property taxes                                      | \$                                    | \$                     | \$                   | \$ -0-            |
| Hotel-motel tax                                     |                                       | 10,035                 |                      | 10,035            |
| Revenue producing facilities                        |                                       |                        | 5,475                | 5,475             |
| Interest income                                     | <u>1,333</u>                          | <u>42</u>              |                      | <u>1,375</u>      |
| <b>Total revenues</b>                               | <u>1,333</u>                          | <u>10,077</u>          | <u>5,475</u>         | <u>16,885</u>     |
| <b>Expenditures:</b>                                |                                       |                        |                      |                   |
| Current:  |                                       |                        |                      |                   |
| Administrative                                      |                                       | 32,602                 |                      | 32,602            |
| Streets and drainage                                | 104                                   |                        |                      | 104               |
| Marina  |                                       |                        | 57,384               | 57,384            |
| Capital outlay                                      | 96,986                                |                        |                      | 96,986            |
| Debt Service:                                       |                                       |                        |                      |                   |
| Principal   |                                       |                        |                      | -0-               |
| Interest  |                                       |                        |                      | -0-               |
| <b>Total expenditures</b>                           | <u>97,090</u>                         | <u>32,602</u>          | <u>57,384</u>        | <u>187,076</u>    |
| <b>Excess of revenues over (under) expenditures</b> | <u>( 95,757)</u>                      | <u>( 22,525)</u>       | <u>( 51,909)</u>     | <u>( 170,191)</u> |
| <b>Other Financing Sources (Uses):</b>              |                                       |                        |                      |                   |
| Contributions from component unit                   |                                       |                        |                      | -0-               |
| Transfers in  |                                       |                        | 47,089               | 47,089            |
| <b>Total other financing sources (uses)</b>         | <u>-0-</u>                            | <u>-0-</u>             | <u>47,089</u>        | <u>47,089</u>     |
| <b>Net changes in fund balances</b>                 | <u>( 96,757)</u>                      | <u>( 22,525)</u>       | <u>( 4,820)</u>      | <u>( 123,102)</u> |
| <b>Fund balance - beginning</b>                     | <u>747,107</u>                        | <u>43,263</u>          |                      | <u>790,370</u>    |
| <b>Fund balance - ending</b>                        | <u>\$ 651,350</u>                     | <u>\$ 20,738</u>       | <u>\$( 4,820)</u>    | <u>\$ 667,268</u> |



Debt Service Funds

| <u>Debt<br/>Service<br/>Series 2003A</u> | <u>Debt<br/>Service<br/>Series 2003B</u> | <u>Total</u>      | <u>Total<br/>Nonmajor<br/>Governmental<br/>Funds</u> |
|--|--|-------------------|--|
| \$                                       | \$ 265,622                               | \$ 265,622        | \$ 265,622   |
|  |  | -0-               | 10,035   |
|  |  | -0-               | 5,475  |
| <u>24</u>                                | <u>29</u>                                | <u>53</u>         | <u>1,428</u>   |
| <u>24</u>                                | <u>265,651</u>                           | <u>265,675</u>    | <u>282,560</u>                                       |
|  |  | -0-               | 32,602   |
|  |  | -0-               | 104  |
|  |  | -0-               | 57,384   |
|  |  | -0-               | 96,986   |
| 130,000                                  | 178,000                                  | 308,000           | 308,000  |
| <u>75,354</u>                            | <u>103,441</u>                           | <u>178,795</u>    | <u>178,795</u>                                       |
| <u>205,354</u>                           | <u>281,441</u>                           | <u>486,795</u>    | <u>673,871</u>                                       |
| ( 205,330)                               | ( 15,790)                                | ( 221,120)        | ( 391,311)   |
| 205,353                                  |  | 205,353           | 205,353  |
|  |  | -0-               | 47,089   |
| <u>205,353</u>                           | <u>-0-</u>                               | <u>205,353</u>    | <u>252,442</u>                                       |
| 23                                       | ( 15,790)                                | ( 15,767)         | ( 138,869)   |
| <u>11,198</u>                            | <u>( 4,200)</u>                          | <u>6,998</u>      | <u>797,368</u>                                       |
| <u>\$ 11,221</u>                         | <u>\$( 19,990)</u>                       | <u>\$( 8,769)</u> | <u>\$ 658,499</u>                                    |

**CITY OF FREEPORT**

Freeport, Texas

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES - BUDGET AND ACTUAL  
STREETS, DRAINAGE AND SIDEWALKS SPECIAL REVENUE FUND**

For the Year Ended September 30, 2010

|  | Budgeted Amounts  |                   | Actual            | Variance with<br>Final Budget<br>Positive<br>(Negative) |
|--|-------------------|-------------------|-------------------|---|
|  | Original          | Final             |                   |   |
| Revenues:                                    |                   |                   |                   |   |
| Investment income                            | \$ 1,019          | \$ 1,019          | \$ 1,333          | \$ 314  |
| Total revenues                               | <u>1,019</u>      | <u>1,019</u>      | <u>1,333</u>      | <u>314</u>  |
| Expenditures:                                |                   |                   |                   |   |
| Current:                                     |                   |                   |                   |   |
| Streets and drainage                         | 5,100             | 5,100             | 104               | 4,996   |
| Capital outlay                               | <u>130,000</u>    | <u>130,000</u>    | <u>96,986</u>     | <u>33,014</u>   |
| Total expenditures                           | <u>135,100</u>    | <u>135,100</u>    | <u>97,090</u>     | <u>38,010</u>   |
| Excess of revenues over (under) expenditures | ( 134,081)        | ( 134,081)        | ( 95,757)         | <u>38,324</u>   |
| Other Financing Sources (Uses):              |                   |                   |                   |   |
| Total other financing sources (uses)         | <u>-0-</u>        | <u>-0-</u>        | <u>-0-</u>        | <u>-0-</u>  |
| Net change in fund balance                   | ( 134,081)        | ( 134,081)        | ( 95,757)         | 38,324  |
| Fund balance - beginning                     | <u>747,107</u>    | <u>747,107</u>    | <u>747,107</u>    | <u>-0-</u>  |
| Fund balance - ending                        | <u>\$ 613,026</u> | <u>\$ 613,026</u> | <u>\$ 651,350</u> | <u>\$ 38,324</u>  |

**CITY OF FREEPORT**  
Freeport, Texas

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES - BUDGET AND ACTUAL  
HOTEL/MOTEL TAX SPECIAL REVENUE FUND**

For the Year Ended September 30, 2010

|  | <u>Budgeted Amounts</u> |                  | <u>Actual</u>    | <u>Variance with<br/>Final Budget<br/>Positive<br/>(Negative)</u> |
|--|-------------------------|------------------|------------------|---|
|  | <u>Original</u>         | <u>Final</u>     |                  |   |
| Revenues:                                    |                         |                  |                  |   |
| Hotel/Motel taxes                            | \$ 17,000               | \$ 17,000        | \$ 10,035        | \$( 6,965)  |
| Investment income                            | <u>85</u>               | <u>85</u>        | <u>42</u>        | <u>( 43)</u>  |
| Total revenues                               | <u>17,085</u>           | <u>17,085</u>    | <u>10,077</u>    | <u>( 7,008)</u>   |
| Expenditures:                                |                         |                  |                  |   |
| Current:                                     |                         |                  |                  |   |
| Administration                               | <u>26,085</u>           | <u>42,229</u>    | <u>32,602</u>    | <u>9,627</u>  |
| Total expenditures                           | <u>26,085</u>           | <u>42,229</u>    | <u>32,602</u>    | <u>9,627</u>  |
| Excess of revenues over (under) expenditures | <u>( 9,000)</u>         | <u>( 25,144)</u> | <u>( 22,525)</u> | <u>2,619</u>  |
| Other Financing Sources (Uses):              |                         |                  |                  |   |
| Total other financing sources (uses)         | <u>-0-</u>              | <u>-0-</u>       | <u>-0-</u>       | <u>-0-</u>  |
| Net change in fund balance                   | <u>( 9,000)</u>         | <u>( 25,144)</u> | <u>( 22,525)</u> | <u>2,619</u>  |
| Fund balance - beginning                     | <u>43,263</u>           | <u>43,263</u>    | <u>43,263</u>    | <u>-0-</u>  |
| Fund balance - ending                        | <u>\$ 34,263</u>        | <u>\$ 18,119</u> | <u>\$ 20,738</u> | <u>\$ 2,619</u>   |

**CITY OF FREEPORT**  
Freeport, Texas

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES - BUDGET AND ACTUAL  
MARINA OPERATIONS SPECIAL REVENUE FUND**

For the Year Ended September 30, 2010

|  | Budgeted Amounts |           | Actual     | Variance with<br>Final Budget<br>Positive<br>(Negative) |
|--|------------------|-----------|------------|---|
|  | Original         | Final     |            |   |
| Revenues:                                    |                  |           |            |   |
| Revenue producing facilities                 | \$ 33,480        | \$ 18,751 | \$ 5,475   | \$( 13,276)   |
| Total revenues                               | 33,480           | 18,751    | 5,475      | ( 13,276)   |
| Expenditures:                                |                  |           |            |   |
| Marina                                       | 69,170           | 65,840    | 57,384     | 8,456   |
| Total expenditures                           | 69,170           | 65,840    | 57,384     | 8,456   |
| Excess of revenues over (under) expenditures | ( 35,690)        | ( 47,089) | ( 51,909)  | ( 4,820)  |
| Other Financing Sources (Uses):              |                  |           |            |   |
| Transfers in                                 | 35,690           | 47,089    | 47,089     | -0-   |
| Total other financing sources (uses)         | 35,690           | 47,089    | 47,089     | -0-   |
| Net change in fund balance                   | -0-              | -0-       | ( 4,820)   | ( 4,820)  |
| Fund balance - beginning                     | -0-              | -0-       | -0-        | -0-   |
| Fund balance - ending                        | \$ -0-           | \$ -0-    | \$( 4,820) | \$( 4,820)  |

**CITY OF FREEPORT**  
Freeport, Texas

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES - BUDGET AND ACTUAL  
SERIES 2003A DEBT SERVICE FUND**

For the Year Ended September 30, 2010

|  | Budgeted Amounts |            | Actual     | Variance with<br>Final Budget<br>Positive<br>(Negative) |
|--|------------------|------------|------------|---|
|  | Original         | Final      |            |   |
| Revenues:                                    |                  |            |            |   |
| Investment income                            | \$ 30            | \$ 30      | \$ 24      | \$( 6)  |
| Total revenues                               | 30               | 30         | 24         | ( 6)  |
| Expenditures:                                |                  |            |            |   |
| Debt Service:                                |                  |            |            |   |
| Principal                                    | 130,000          | 130,000    | 130,000    | -0-   |
| Interest                                     | 111,008          | 111,008    | 75,354     | 35,654  |
| Total expenditures                           | 241,008          | 241,008    | 205,354    | 35,654  |
| Excess of revenues over (under) expenditures | ( 240,978)       | ( 240,978) | ( 205,330) | 35,648  |
| Other Financing Sources (Uses):              |                  |            |            |   |
| Contributions from component unit            | 241,608          | 241,608    | 205,353    | ( 36,255)   |
| Total other financing sources (uses)         | 241,608          | 241,608    | 205,353    | ( 36,255)   |
| Net change in fund balance                   | 630              | 630        | 23         | ( 607)  |
| Fund balance - beginning                     | 11,198           | 11,198     | 11,198     | -0-   |
| Fund balance - ending                        | \$ 11,828        | \$ 11,828  | \$ 11,221  | \$( 607)  |

**CITY OF FREEPORT**  
Freeport, Texas

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES - BUDGET AND ACTUAL  
SERIES 2003B DEBT SERVICE FUND**

For the Year Ended September 30, 2010

|  | Budgeted Amounts   |                    | Actual             | Variance with<br>Final Budget<br>Positive<br>(Negative) |
|--|--------------------|--------------------|--------------------|---|
|  | Original           | Final              |                    |   |
| Revenues:                                    |                    |                    |                    |   |
| Taxes  | \$ 272,908         | \$ 272,908         | \$ 265,622         | \$( 7,286)  |
| Investment income                            | <u>28</u>          | <u>28</u>          | <u>29</u>          | <u>1</u>  |
| Total revenues                               | <u>272,936</u>     | <u>272,936</u>     | <u>265,651</u>     | <u>( 7,285)</u>   |
| Expenditures:                                |                    |                    |                    |   |
| Debt Service:                                |                    |                    |                    |   |
| Principal                                    | 178,000            | 178,000            | 178,000            | -0-   |
| Interest                                     | <u>103,682</u>     | <u>13,682</u>      | <u>103,441</u>     | <u>241</u>  |
| Total expenditures                           | <u>281,682</u>     | <u>281,682</u>     | <u>281,441</u>     | <u>241</u>  |
| Excess of revenues over (under) expenditures | <u>( 8,746)</u>    | <u>( 8,746)</u>    | <u>( 15,790)</u>   | <u>( 7,044)</u>   |
| Other Financing Sources (Uses):              |                    |                    |                    |   |
| Total other financing sources (uses)         | <u>-0-</u>         | <u>-0-</u>         | <u>-0-</u>         | <u>-0-</u>  |
| Net change in fund balance                   | ( 8,746)           | ( 8,746)           | ( 15,790)          | ( 7,044)  |
| Fund balance - beginning                     | <u>( 4,200)</u>    | <u>( 4,200)</u>    | <u>( 4,200)</u>    | <u>-0-</u>  |
| Fund balance - ending                        | <u>\$( 12,946)</u> | <u>\$( 12,946)</u> | <u>\$( 19,990)</u> | <u>\$( 7,044)</u>                                       |

**CITY OF FREEPORT**

Freeport, Texas

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES - BUDGET AND ACTUAL  
SERIES 2008 DEBT SERVICE FUND**

For the Year Ended September 30, 2010

|  | Budgeted Amounts   |                   | Actual             | Variance with<br>Final Budget<br>Positive<br>(Negative) |
|--|--------------------|-------------------|--------------------|---|
|  | Original           | Final             |                    |   |
| Revenues:                                    |                    |                   |                    |   |
| Taxes  | \$ 290,990         | \$ 290,990        | \$ 271,970         | \$( 19,020)   |
| Investment income                            | 65                 | 65                | 247                | 182   |
| Total revenues                               | <u>291,055</u>     | <u>291,055</u>    | <u>272,217</u>     | <u>( 18,838)</u>  |
| Expenditures:                                |                    |                   |                    |   |
| Debt Service:                                |                    |                   |                    |   |
| Principal                                    | 175,000            | 175,000           | 175,000            | -0-   |
| Interest                                     | <u>117,696</u>     | <u>117,696</u>    | <u>117,404</u>     | <u>292</u>  |
| Total expenditures                           | <u>292,696</u>     | <u>292,696</u>    | <u>292,404</u>     | <u>292</u>  |
| Excess of revenues over (under) expenditures | <u>( 1,641)</u>    | <u>( 1,641)</u>   | <u>( 20,187)</u>   | <u>( 18,546)</u>  |
| Other Financing Sources (Uses):              |                    |                   |                    |   |
| Transfers in                                 |                    | 77,147            | 77,147             | -0-   |
| Total other financing sources (uses)         | <u>-0-</u>         | <u>77,147</u>     | <u>77,147</u>      | <u>-0-</u>  |
| Net change in fund balance                   | <u>( 1,641)</u>    | <u>75,506</u>     | <u>56,960</u>      | <u>( 18,546)</u>  |
| Fund balance - beginning                     | <u>( 77,147)</u>   | <u>( 77,147)</u>  | <u>( 77,147)</u>   | <u>-0-</u>  |
| Fund balance - ending                        | <u>\$( 78,788)</u> | <u>\$( 1,641)</u> | <u>\$( 20,187)</u> | <u>\$( 18,546)</u>                                      |

**CITY OF FREEPORT**  
Freeport, Texas

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES - BUDGET AND ACTUAL  
2008 BOND CONSTRUCTION CAPITAL PROJECTS FUND**

For the Year Ended September 30, 2010

|  | Budgeted Amounts |            | Actual     | Variance with<br>Final Budget<br>Positive<br>(Negative) |
|--|------------------|------------|------------|---|
|  | Original         | Final      |            |   |
| Revenues:                                    |                  |            |            |   |
| Investment income                            | \$ 1,047         | \$ 1,047   | \$ 1,325   | \$ 278  |
| Total revenues                               | 1,047            | 1,047      | 1,325      | 278   |
| Expenditures:                                |                  |            |            |   |
| Capital outlay                               | 424,665          | 939,220    | 721,601    | 217,619   |
| Total expenditures                           | 424,665          | 939,220    | 721,601    | 217,619   |
| Excess of revenues over (under) expenditures | ( 423,618)       | ( 938,173) | ( 720,276) | 217,897   |
| Other Financing Sources (Uses):              |                  |            |            |   |
| Total other financing sources (uses)         | -0-              | -0-        | -0-        | -0-   |
| Net change in fund balance                   | ( 423,618)       | ( 938,173) | ( 720,276) | 217,897   |
| Fund balance - beginning                     | 980,626          | 980,626    | 980,626    | -0-   |
| Fund balance - ending                        | \$ 557,008       | \$ 42,453  | \$ 260,350 | \$ 217,897  |



**CITY OF FREEPORT**  
Freeport, Texas

**COMBINING SCHEDULE OF NET ASSETS**  
**NONMAJOR ENTERPRISE FUNDS**

September 30, 2010

|  | Golf<br>Course | Ambulance   | Total<br>Nonmajor<br>Enterprise<br>Funds |
|--|----------------|-------------|--|
| <b>Assets:</b>   |                |             |  |
| <b>Current Assets:</b>   |                |             |  |
| Cash and temporary investments   | \$ 21,333      | \$ 31,552   | \$ 52,885                                |
| Accounts receivable ambulance (less allowance for uncollectibles – \$ 171,561) |                | 79,343      | 79,343                                   |
| Inventory  | 18,929         |             | 18,929                                   |
| <b>Total current assets</b>  | 40,262         | 110,895     | 151,157                                  |
| <b>Capital Assets:</b>   |                |             |  |
| Land   | 339,430        |             | 339,430                                  |
| Buildings  | 211,468        |             | 211,468                                  |
| Improvements   | 548,368        |             | 548,368                                  |
| Furniture, equipment and vehicles  | 563,353        | 343,789     | 907,142                                  |
| Assets under capital lease   | 59,871         |             | 59,871                                   |
| Less accumulated depreciation  | ( 905,311 )    | ( 179,193 ) | ( 1,084,504 )                            |
| <b>Total capital assets (net of accumulated depreciation)</b>                  | 817,179        | 164,596     | 981,775                                  |
| <b>Total assets</b>  | \$ 857,441     | \$ 275,491  | \$ 1,132,932                             |
| <b>Liabilities and Net Assets:</b>   |                |             |  |
| <b>Current Liabilities:</b>  |                |             |  |
| Accounts payable   | \$ 22,847      | \$ 20,261   | \$ 43,108                                |
| Accrued wages and benefits   | 14,557         | 18,021      | 32,578                                   |
| Accrued compensated absences   | 18,355         | 16,665      | 35,020                                   |
| Obligations under capital lease - current                                      | 14,139         |             | 14,139                                   |
| <b>Total current liabilities</b>   | 69,898         | 54,947      | 124,845                                  |
| <b>Non-Current Liabilities:</b>  |                |             |  |
| Obligations under capital lease – net of current                               | 41,266         |             | 41,266                                   |
| <b>Total liabilities</b>   | 111,164        | 54,947      | 166,111                                  |
| <b>Net Assets:</b>   |                |             |  |
| Invested in capital assets, net of related debt                                | 761,774        | 164,596     | 926,370                                  |
| Unreserved   | ( 15,497 )     | 55,948      | 40,451                                   |
| <b>Total net assets</b>  | 746,277        | 220,544     | 966,821                                  |
| <b>Total liabilities and net assets</b>  | \$ 857,441     | \$ 275,491  | \$ 1,132,932                             |

**CITY OF FREEPORT**  
Freeport, Texas

**COMBINING SCHEDULE OF REVENUES, EXPENSES, AND CHANGES  
IN NET ASSETS - NONMAJOR ENTERPRISE FUNDS**

For the Year Ended September 30, 2010

|  | Golf<br>Course    | Ambulance         | Total<br>Nonmajor<br>Enterprise<br>Funds |
|--|-------------------|-------------------|--|
| Operating Revenues:                          |                   |                   |  |
| Charges for other services                   | \$                | \$ 518,829        | \$ 518,829                               |
| Golf course fees and charges                 | 487,428           |                   | 487,428                                  |
| Miscellaneous                                | <u>          </u> | 91,578            | <u>91,578</u>                            |
| Total operating revenues                     | <u>487,428</u>    | <u>610,407</u>    | <u>1,097,835</u>                         |
| Operating Expenses:                          |                   |                   |  |
| Personnel services                           | 280,298           | 414,420           | 694,718                                  |
| Employee benefits                            | 114,448           | 127,065           | 241,513                                  |
| Other operating costs                        | 100,189           | 77,879            | 178,068                                  |
| Supplies                                     | 48,124            | 34,765            | 82,889                                   |
| Cost of sales and services                   | <u>140,915</u>    | <u>          </u> | <u>140,915</u>                           |
| Operating expenses before depreciation       | 683,974           | 654,129           | 1,338,103                                |
| Depreciation                                 | <u>71,848</u>     | <u>37,577</u>     | <u>109,425</u>                           |
| Total operating expenses                     | <u>755,822</u>    | <u>691,706</u>    | <u>1,447,528</u>                         |
| Net operating income (loss)                  | <u>( 268,394)</u> | <u>( 81,299)</u>  | <u>( 349,693)</u>                        |
| Non-operating Revenues (Expenses):           |                   |                   |  |
| Interest revenue                             | 14                | 120               | 134                                      |
| Interest expense                             | <u>( 889)</u>     | <u>          </u> | <u>( 889)</u>                            |
| Total non-operating revenues (expenses)      | <u>( 875)</u>     | <u>120</u>        | <u>( 755)</u>                            |
| Net income (loss) before operating transfers | <u>( 269,269)</u> | <u>( 81,179)</u>  | <u>( 350,448)</u>                        |
| Transfers in                                 | <u>184,851</u>    | <u>          </u> | <u>184,851</u>                           |
| Change in net assets                         | <u>( 84,418)</u>  | <u>( 81,179)</u>  | <u>( 165,597)</u>                        |
| Net assets - beginning                       | <u>830,695</u>    | <u>301,723</u>    | <u>1,132,418</u>                         |
| Net assets - ending                          | <u>\$ 746,277</u> | <u>\$ 220,544</u> | <u>\$ 966,821</u>                        |

**CITY OF FREEPORT**  
Freeport, Texas

**COMBINING SCHEDULE OF CASH FLOWS**  
**NONMAJOR ENTERPRISE FUNDS**

For The Year Ended September 30, 2010

|  | Golf<br>Course   | Ambulance        | Total<br>Nonmajor<br>Enterprise<br>Funds |
|--|------------------|------------------|--|
| <b>Cash Flows from Operating Activities:</b>                         |                  |                  |  |
| Receipts from customers and users                                    | \$ 487,428       | \$ 623,106       | \$ 1,110,534                             |
| Payments to suppliers  | ( 303,557)       | ( 117,456)       | ( 421,013)                               |
| Payments to employees  | ( 408,788)       | ( 540,842)       | ( 949,630)                               |
| Net cash provided (used) by operating activities                     | ( 224,917)       | ( 35,192)        | ( 260,109)                               |
| <b>Cash Flows from Non-Capital Financing Activities:</b>             |                  |                  |  |
| Operating transfers from other funds                                 | 184,851          | —                | 184,851                                  |
| Net cash provided (used) by non-capital financing activities         | 184,851          | -0-              | 184,851                                  |
| <b>Cash Flows from Capital and Related Financing Activities:</b>     |                  |                  |  |
| Interest payments on capital leases                                  | ( 889)           | —                | ( 889)                                   |
| Principal payments on capital assets                                 | ( 4,466)         | —                | ( 4,466)                                 |
| Net cash provided (used) by capital and related financing activities | ( 5,355)         | -0-              | ( 5,355)                                 |
| <b>Cash Flows from Investing Activities:</b>                         |                  |                  |  |
| Interest on investments  | 14               | 120              | 134                                      |
| Net cash provided (used) by investment activities                    | 14               | 120              | 134                                      |
| Net increase (decrease) in cash and cash equivalents                 | ( 45,407)        | ( 35,072)        | ( 80,479)                                |
| Cash and cash equivalents at the beginning of year                   | 66,740           | 66,624           | 133,364                                  |
| Cash and cash equivalents at the end of the year                     | <u>\$ 21,333</u> | <u>\$ 31,552</u> | <u>\$ 52,885</u>                         |

(Continued)

**CITY OF FREEPORT**  
Freeport, Texas

**COMBINING SCHEDULE OF CASH FLOWS**  
**NONMAJOR ENTERPRISE FUNDS - Continued**

For The Year Ended September 30, 2010

|  | Golf<br>Course   | Ambulance       | Total<br>Nonmajor<br>Enterprise<br>Funds |
|--|------------------|-----------------|--|
| Reconciliation of Operating Income to Net Cash Provided<br>(Used) by Operating Activities:               |                  |                 |  |
| Operating income (loss)  | \$( 268,394)     | \$( 81,299)     | \$( 349,693)                             |
| Adjustments to Reconcile Operating Income (Loss) to<br>Net Cash Provided (Used) by Operating Activities: |                  |                 |  |
| Depreciation   | 71,848           | 37,577          | 109,425                                  |
| (Increase) decrease in accounts receivable   |                  | 12,699          | 12,699                                   |
| (Increase) decrease in inventory   | 7,191            |                 | 7,191                                    |
| Increase (decrease) in accounts payable  | ( 21,520)        | ( 4,812)        | ( 26,332)                                |
| Increase (decrease) in accrued wages and benefits  | 2,000            | ( 4,038)        | ( 2,038)                                 |
| Increase (decrease) in accrued compensated absences  | ( 16,042)        | 4,681           | ( 11,361)                                |
| <br>Total adjustments  | <br>43,477       | <br>46,107      | <br>89,584                               |
| <br>Net cash provided (used) by operating activities   | <br>\$( 224,917) | <br>\$( 35,192) | <br>\$( 260,109)                         |
| <br>Non-Cash Investing, Capital and Financing Activities:  |                  |                 |  |
| Capital lease liability  | \$ 59,871        | \$              | \$ 59,871                                |
| Assets acquired through capital lease  | ( 59,871)        |                 | ( 59,871)                                |
| <br>Net effect of non-cash transactions  | <br>\$ -0-       | <br>\$ -0-      | <br>\$ -0-                               |

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**CITY OF FREEPORT**  
Freeport, Texas

**SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN  
NET ASSETS - BUDGET AND ACTUAL  
WATER AND SEWER ENTERPRISE FUND**

For the Year Ended September 30, 2010

|   | Budgeted Amounts   |                    | Actual<br>GAAP<br>Basis | Adjustments<br>to Budgetary<br>Basis |
|---|--------------------|--------------------|-------------------------|--------------------------------------|
|   | Original           | Final              |                         |                                      |
| <b>Operating Revenues:</b>  |                    |                    |                         |                                      |
| Water service   | \$ 2,029,781       | \$ 2,029,781       | \$ 1,946,966            | \$                                   |
| Sewer service   | 1,263,310          | 1,263,310          | 1,275,137               |                                      |
| Charges for other services  | 383,972            | 383,972            | 141,698                 |                                      |
| Miscellaneous   | 1,725              | 1,725              | 1,743                   |                                      |
| <b>Total operating revenues</b>   | <b>3,678,788</b>   | <b>3,678,788</b>   | <b>3,365,544</b>        | <b>-0-</b>                           |
| <b>Operating Expenses:</b>  |                    |                    |                         |                                      |
| Personnel services  | 71,315             | 71,315             | 74,142                  |                                      |
| Employee benefits   | 23,588             | 23,588             | 25,229                  |                                      |
| Contract and professional services  | 2,086,187          | 2,086,187          | 1,988,438               |                                      |
| Other operating   | 32,332             | 32,332             | 47,796                  |                                      |
| Supplies  | 18,525             | 18,525             | 9,758                   |                                      |
| Cost of sales   | 1,193,920          | 1,193,920          | 1,197,200               |                                      |
| <b>Operating expenses before depreciation</b>                             | <b>3,425,867</b>   | <b>3,425,867</b>   | <b>3,342,563</b>        | <b>-0-</b>                           |
| Depreciation  |                    |                    | 312,044                 | ( 312,044 )                          |
| <b>Total operating expenses</b>   | <b>3,425,867</b>   | <b>3,425,867</b>   | <b>3,654,607</b>        | <b>( 312,044 )</b>                   |
| <b>Net operating income (loss)</b>  | <b>252,921</b>     | <b>252,921</b>     | <b>( 289,063 )</b>      | <b>312,044</b>                       |
| <b>Non-Operating Revenues (Expenses):</b>                                 |                    |                    |                         |                                      |
| Interest revenue  | 50                 | 50                 | 194                     |                                      |
| Debt principal  | ( 200,000 )        | ( 200,000 )        |                         | ( 200,000 )                          |
| Interest expense and agent fees   | ( 52,971 )         | ( 52,971 )         | ( 67,822 )              | 15,188                               |
| <b>Total non-operating revenues<br/>(expenses)</b>                        | <b>( 252,921 )</b> | <b>( 252,921 )</b> | <b>( 67,628 )</b>       | <b>( 184,812 )</b>                   |
| <b>Net income (loss) before contributions<br/>and operating transfers</b> | <b>-0-</b>         | <b>-0-</b>         | <b>( 356,691 )</b>      | <b>127,232</b>                       |
| Contribution (capital)<br>Transfers in                                    |                    |                    | 128,029                 | ( 128,029 )                          |
|   |                    |                    |                         | -0-                                  |
| <b>Change in net assets</b>   | <b>\$ -0-</b>      | <b>\$ -0-</b>      | <b>\$( 228,662 )</b>    | <b>\$( 797 )</b>                     |

| Actual<br>Budgetary<br>Basis | Variance on<br>Final Budget -<br>Positive<br>(Negative) |
|------------------------------|---|
| \$ 1,946,966                 | \$( 82,815)   |
| 1,275,137                    | 11,827  |
| 141,698                      | ( 242,274)  |
| <u>1,743</u>                 | <u>18</u>   |
| <u>3,365,544</u>             | <u>( 313,244)</u>                                       |
| 74,142                       | ( 2,827)  |
| 25,229                       | ( 1,641)  |
| 1,988,438                    | 97,749  |
| 47,796                       | ( 15,464)   |
| 9,758                        | 8,767   |
| <u>1,197,200</u>             | <u>( 3,280)</u>   |
| 3,342,563                    | 83,304  |
| <u>-0-</u>                   | <u>-0-</u>  |
| <u>3,342,563</u>             | <u>83,304</u>   |
| <u>22,981</u>                | <u>( 229,940)</u>                                       |
| 194                          | 144   |
| ( 200,000)                   | -0-   |
| <u>( 52,634)</u>             | <u>337</u>  |
| <u>( 252,440)</u>            | <u>481</u>  |
| <u>( 229,459)</u>            | <u>( 229,459)</u>                                       |
| -0-                          | -0-   |
| <u>-0-</u>                   | <u>-0-</u>  |
| <u>\$( 229,459)</u>          | <u>\$( 229,459)</u>                                     |

**CITY OF FREEPORT**  
Freeport, Texas

**SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN  
NET ASSETS - BUDGET AND ACTUAL  
GOLF COURSE ENTERPRISE FUND**

For the Year Ended September 30, 2010

|  | Budgeted Amounts |            | Actual<br>GAAP<br>Basis | Adjustments<br>to Budgetary<br>Basis |
|--|------------------|------------|-------------------------|--------------------------------------|
|  | Original         | Final      |                         |                                      |
| Operating Revenues:                          |                  |            |                         |                                      |
| Golf course fees and charges                 | \$ 729,262       | \$ 729,262 | \$ 487,428              | \$                                   |
| Total operating revenues                     | 729,262          | 729,262    | 487,428                 | -0-                                  |
| Operating Expenses:                          |                  |            |                         |                                      |
| Personnel services                           | 299,690          | 299,690    | 280,298                 |                                      |
| Employee benefits                            | 117,023          | 117,023    | 114,448                 |                                      |
| Contract and professional services           | 93,800           | 93,800     | 100,189                 |                                      |
| Supplies                                     | 47,000           | 47,000     | 48,124                  |                                      |
| Cost of sales and services                   | 171,759          | 171,759    | 140,915                 |                                      |
| Operating expenses before depreciation       | 729,272          | 729,272    | 683,974                 | -0-                                  |
| Depreciation                                 |                  |            | 71,848                  | ( 71,848 )                           |
| Total operating expenses                     | 729,272          | 729,272    | 755,822                 | ( 71,848 )                           |
| Net operating income (loss)                  | ( 10 )           | ( 10 )     | ( 268,394 )             | 71,848                               |
| Non-Operating Revenues (Expenses):           |                  |            |                         |                                      |
| Interest revenue                             | 10               | 10         | 14                      |                                      |
| Interest expense                             |                  |            | ( 889 )                 |                                      |
| Total non-operating revenues<br>(expenses)   | 10               | 10         | ( 875 )                 | -0-                                  |
| Net income (loss) before operating transfers | -0-              | -0-        | ( 269,269 )             | 71,848                               |
| Transfers in (out)                           |                  | 184,851    | 184,851                 |                                      |
| Change in net assets                         | \$ -0-           | \$ 184,851 | \$( 84,418 )            | \$ 71,848                            |



| Actual<br>Budgetary<br>Basis | Variance on<br>Final Budget -<br>Positive<br>(Negative) |
|------------------------------|---|
| \$ <u>487,428</u>            | \$( <u>241,834</u> )                                    |
| <u>487,428</u>               | ( <u>241,834</u> )                                      |
| 280,298                      | 19,392  |
| 114,448                      | 2,575   |
| 100,189                      | ( 6,389 )   |
| 48,124                       | ( 1,124 )   |
| <u>140,915</u>               | <u>30,844</u>   |
| 683,974                      | 45,298  |
| <u>-0-</u>                   | <u>-0-</u>  |
| <u>683,974</u>               | <u>45,298</u>   |
| ( <u>196,546</u> )           | ( <u>196,536</u> )                                      |
| 14                           | 4   |
| ( <u>889</u> )               | <u>889</u>  |
| ( <u>875</u> )               | <u>893</u>  |
| ( 197,421 )                  | ( 195,643 )   |
| <u>184,851</u>               | <u>-0-</u>  |
| \$( <u>12,570</u> )          | \$( <u>195,643</u> )                                    |

**CITY OF FREEPORT**  
Freeport, Texas

**SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN  
FUND BALANCES - BUDGET AND ACTUAL  
AMBULANCE ENTERPRISE FUND**

For the Year Ended September 30, 2010

|  | Budgeted Amounts   |                       | Actual<br>GAAP<br>Basis | Adjustments<br>to Budgetary<br>Basis |
|--|--------------------|-----------------------|-------------------------|--------------------------------------|
|  | Original           | Final                 |                         |                                      |
| Operating Revenues:                          |                    |                       |                         |                                      |
| Charges for other services                   | \$ 410,000         | \$ 410,000            | \$ 518,829              | \$                                   |
| Miscellaneous                                | <u>89,772</u>      | <u>94,555</u>         | <u>91,578</u>           |                                      |
| Total operating revenues                     | <u>499,772</u>     | <u>504,555</u>        | <u>610,407</u>          | <u>-0-</u>                           |
| Operating Expenses:                          |                    |                       |                         |                                      |
| Personnel services                           | 449,915            | 454,887               | 414,420                 |                                      |
| Employee benefits                            | 134,680            | 134,680               | 127,065                 |                                      |
| Other operating                              | 53,055             | 53,292                | 77,879                  |                                      |
| Supplies                                     | <u>34,025</u>      | <u>34,025</u>         | <u>34,765</u>           |                                      |
| Operating expenses before depreciation       | 671,675            | 676,884               | 654,129                 | -0-                                  |
| Depreciation                                 |                    |                       | <u>37,577</u>           | <u>( 37,577 )</u>                    |
| Total operating expenses                     | <u>671,675</u>     | <u>676,884</u>        | <u>691,706</u>          | <u>( 37,577 )</u>                    |
| Net operating income (loss)                  | <u>( 171,903 )</u> | <u>( 172,329 )</u>    | <u>( 81,299 )</u>       | <u>37,577</u>                        |
| Non-Operating Revenues (Expenses):           |                    |                       |                         |                                      |
| Interest revenue                             | <u>113</u>         | <u>113</u>            | <u>120</u>              |                                      |
| Total non-operating revenues<br>(expenses)   | <u>113</u>         | <u>113</u>            | <u>120</u>              | <u>-0-</u>                           |
| Net income (loss) before operating transfers | <u>( 171,790 )</u> | <u>( 172,216 )</u>    | <u>( 81,179 )</u>       | <u>37,577</u>                        |
| Transfers in                                 | <u>171,790</u>     |                       |                         | <u>-0-</u>                           |
| Change in net assets                         | <u>\$ -0-</u>      | <u>\$ ( 172,216 )</u> | <u>\$ ( 81,179 )</u>    | <u>\$ 37,577</u>                     |

| Actual<br>Budgetary<br>Basis | Variance on<br>Final Budget -<br>Positive<br>(Negative) |
|------------------------------|---|
| \$ 518,829                   | \$ 108,829  |
| <u>91,578</u>                | <u>( 2,977)</u>   |
| 610,407                      | <u>105,852</u>  |
| 414,420                      | 40,467  |
| 127,065                      | 7,615   |
| 77,879                       | ( 24,587)   |
| <u>34,765</u>                | <u>( 740)</u>   |
| 654,129                      | 22,755  |
| <u>-0-</u>                   | <u>-0-</u>  |
| 654,129                      | <u>22,755</u>   |
| <u>( 43,722)</u>             | <u>128,607</u>  |
| <u>120</u>                   | <u>7</u>  |
| <u>120</u>                   | <u>7</u>  |
| ( 43,602)                    | 128,614   |
| <u>-0-</u>                   | <u>-0-</u>  |
| <u>\$( 43,602)</u>           | <u>\$ 128,614</u>                                       |

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**CITY OF FREEPORT**  
Freeport, Texas

**SCHEDULE OF AD VALOREM TAX LEVY AND COLLECTIONS**

September 30, 2010

| Levy<br>Year                               | Balance<br>10-01-09 | Current Year<br>Levy | Collections         | Adjustments      | Balance<br>09-30-10 |
|--|---------------------|----------------------|---------------------|------------------|---------------------|
| 2000 & Prior                               | \$ 57,030           | \$                   | \$ 3,602            | \$( 15,308)      | \$ 38,120           |
| 2001                                       | 10,106              |                      | 550                 | ( 739)           | 8,817               |
| 2002                                       | 11,435              |                      | 688                 | ( 618)           | 10,129              |
| 2003                                       | 13,353              |                      | 780                 | ( 836)           | 11,737              |
| 2004                                       | 12,994              |                      | 2,021               | ( 739)           | 10,234              |
| 2005                                       | 15,387              |                      | 4,030               | ( 863)           | 10,494              |
| 2006                                       | 20,974              |                      | 7,694               | ( 1,197)         | 12,083              |
| 2007                                       | 41,393              |                      | 18,618              | ( 1,606)         | 21,169              |
| 2008                                       | 80,826              |                      | 43,750              | ( 5,185)         | 31,891              |
| 2009                                       |                     | <u>2,342,879</u>     | <u>2,350,741</u>    | <u>87,918</u>    | <u>80,056</u>       |
|  | <u>\$ 263,498</u>   | <u>\$ 2,342,879</u>  | <u>\$ 2,432,474</u> | <u>\$ 60,827</u> | 234,730             |
| Less reserve for uncollectible taxes       |                     |                      |                     |                  | <u>58,996</u>       |
| Net delinquent ad valorem taxes receivable |                     |                      |                     |                  | <u>\$ 175,734</u>   |

**CITY OF FREEPORT**  
Freeport, Texas

**DEBT SERVICE REQUIREMENTS TO MATURITY**  
**CERTIFICATES OF OBLIGATION BONDS**

September 30, 2010  
(Unaudited)

| Year Ending<br>09/30 | \$ 3,000,000<br>Series 2003 |                   | \$ 2,185,000<br>Series 2003 |                   |
|----------------------|-----------------------------|-------------------|-----------------------------|-------------------|
|                      | Principal                   | Interest          | Principal                   | Interest          |
| 2011                 | \$ 187,000                  | \$ 94,549         | \$ 136,000                  | \$ 68,873         |
| 2012                 | 196,000                     | 85,281            | 143,000                     | 62,121            |
| 2013                 | 205,000                     | 75,577            | 150,000                     | 55,031            |
| 2014                 | 215,000                     | 65,413            | 157,000                     | 47,601            |
| 2015                 | 226,000                     | 54,740            | 164,000                     | 39,833            |
| 2016                 | 237,000                     | 43,536            | 172,000                     | 31,702            |
| 2017                 | 248,000                     | 31,799            | 181,000                     | 23,159            |
| 2018                 | 260,000                     | 19,505            | 189,000                     | 14,205            |
| 2019                 | 273,000                     | 6,607             | 199,000                     | 4,817             |
| 2020                 |                             |                   |                             |                   |
| 2021                 |                             |                   |                             |                   |
| 2022                 |                             |                   |                             |                   |
| 2023                 |                             |                   |                             |                   |
| TOTAL                | <u>\$ 2,047,000</u>         | <u>\$ 477,007</u> | <u>\$ 1,491,000</u>         | <u>\$ 347,342</u> |

| \$ 3,350,000<br>Series 2008 |                   | Total Principal<br>& Interest |
|-----------------------------|-------------------|-------------------------------|
| <u>Principal</u>            | <u>Interest</u>   |                               |
| \$ 185,000                  | \$ 114,079        | \$ 785,501                    |
| 190,000                     | 107,068           | 783,470                       |
| 200,000                     | 99,867            | 785,475                       |
| 205,000                     | 92,287            | 782,301                       |
| 215,000                     | 84,517            | 784,090                       |
| 220,000                     | 76,369            | 780,607                       |
| 230,000                     | 68,031            | 781,989                       |
| 240,000                     | 59,314            | 782,024                       |
| 245,000                     | 50,218            | 778,642                       |
| 255,000                     | 40,932            | 295,932                       |
| 265,000                     | 31,268            | 296,268                       |
| 275,000                     | 21,224            | 296,224                       |
| <u>285,000</u>              | <u>10,802</u>     | <u>295,802</u>                |
| <br>                        |                   |                               |
| <u>\$ 3,010,000</u>         | <u>\$ 855,976</u> | <u>\$ 8,228,325</u>           |

**CITY OF FREEPORT**

Freeport, Texas

**DEBT SERVICE REQUIREMENTS TO MATURITY  
REVENUE BONDS**

September 30, 2010

(Unaudited)

| Year Ending<br>09/30 | \$ 1,943,000<br>Series 2004 |                       | Total Principal<br>& Interest |
|----------------------|-----------------------------|-----------------------|-------------------------------|
|                      | Principal                   | Interest              |                               |
| 2011                 | \$                          | \$ 47,821             | \$ 47,821                     |
| 2012                 | 208,000                     | 37,927                | 245,927                       |
| 2013                 | 215,000                     | 27,669                | 242,669                       |
| 2014                 | 228,000                     | 16,927                | 244,927                       |
| 2015                 | <u>235,000</u>              | <u>5,699</u>          | <u>240,699</u>                |
| <br>TOTAL            | <br>\$ <u>886,000</u>       | <br>\$ <u>136,043</u> | <br>\$ <u>1,022,043</u>       |



**OVERALL COMPLIANCE  
AND  
INTERNAL CONTROLS SECTION**

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# KENNEMER, MASTERS & LUNSFORD

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(281) 752-0200 Fax: (281) 752-0204

## Independent Auditor's Report

Report on Internal Control over Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statement Performed in Accordance with  
*Government Auditing Standards*

May 25, 2011

To the Honorable Mayor and  
Members of Council  
City of Freeport  
Freeport, Texas 77541

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Freeport (the "City") as of and for the year ended September 30, 2010, which collectively comprise the City's basic financial statements and have issued our report thereon dated May 25, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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To the Honorable Mayor and  
Members of City Council  
City of Freeport  
May 25, 2011  
Page 2

Compliance and Other Matters

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

We have performed tests designed to verify the City's compliance with the requirements of the Public Funds Investment Act. During the year ended September 30, 2010, no instances of noncompliance were found.

We noted certain matters that we reported to management of the City, in a separate letter dated May 25, 2011.

This report is intended solely for the information and use of management, the mayor and City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Kennemer, Masters & Kingford, LLC*