

**CITY OF FREEPORT
FREEPORT, TEXAS**

ANNUAL FINANCIAL REPORT

**FOR THE YEAR ENDED
SEPTEMBER 30, 2011**

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

CITY OF FREEPORT

Freeport, Texas

*Annual Financial Report
For the Year Ended September 30, 2011*

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FINANCIAL SECTION

KENNEMER, MASTERS & LUNSFORD

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Independent Auditor's Report

May 17, 2012

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, 2011, 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, 2011 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 17, 2012 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 22, 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 78 through 80 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.

Kennemer, Masters & Hurford, LLC

CITY OF FREEPORT, TEXAS

Management's Discussion and Analysis For the Year Ended September 30, 2011

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, 2011. 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 assets of the City of Freeport exceeded its liabilities at the close of the most recent fiscal year by \$ 28,085,268 (net assets). Of this amount, \$ 2,953,800 (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 \$ 28,085,268. This is a decreased of \$ 215,977 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 \$ 10,928,561. 32.79% of this total amount, \$ 3,583,779 (unassigned fund balance) is available for use within the City's fund designation.
- At the end of the current fiscal year, total fund balance for the general fund was \$ 10,564,668 and the unassigned fund balance was \$ 3,771,131. These amounts were 104.96% and 37.46% of the total general fund expenditures.

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.

CITY OF FREEPORT, TEXAS
Management's Discussion and Analysis
For the Year Ended September 30, 2011

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 24 through 27 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.

CITY OF FREEPORT, TEXAS

*Management's Discussion and Analysis
For the Year Ended September 30, 2011*

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 Fund; which is considered to be the only major fund. Data from the other seven 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 82 through 85 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 32 through 36 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 93 through 96 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 37 through 75 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 78 through 80 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 82 through 107 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 \$ 28,085,268 as of September 30, 2011.

A large portion of the City's net assets, in the amount of \$ 16,289,863 (58.00%) 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.

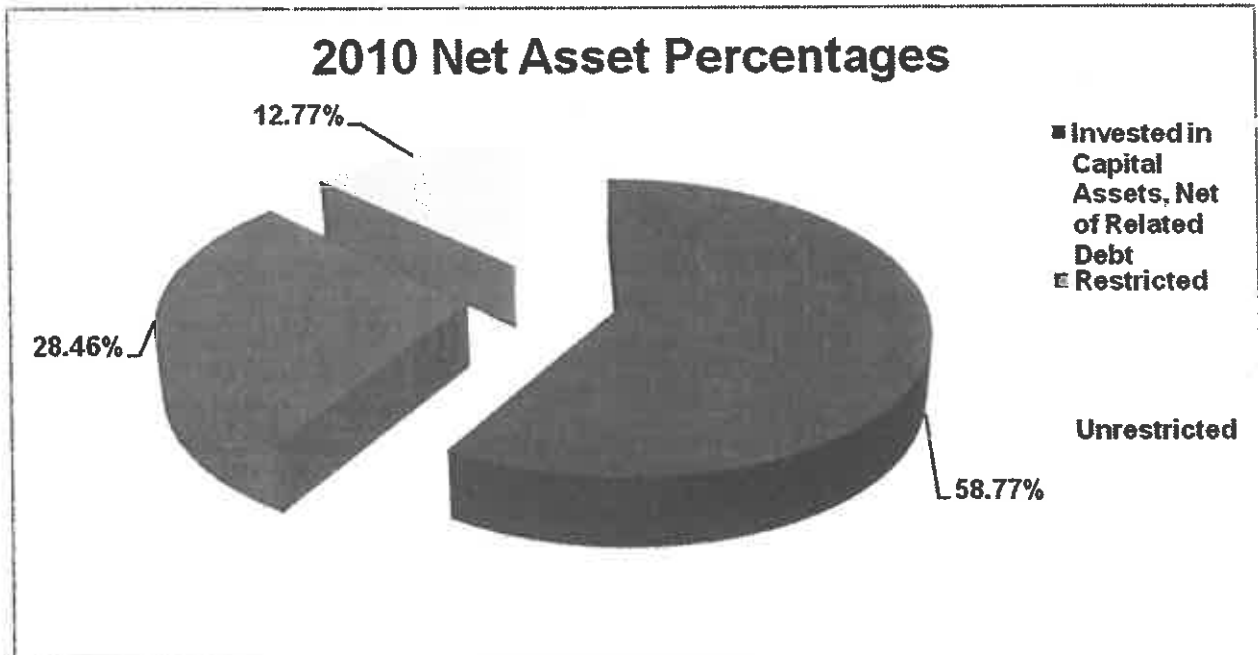
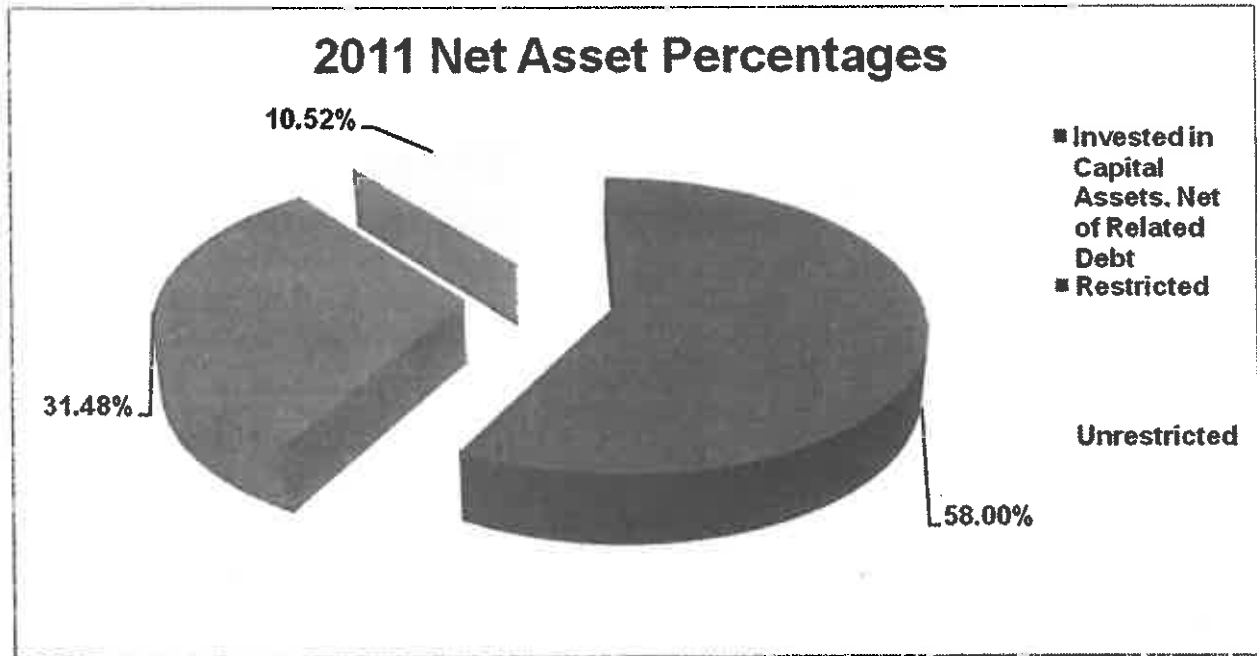
CITY OF FREEPORT, TEXAS
Management's Discussion and Analysis
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An additional portion of the City's net assets of \$ 8,841,605 (31.48%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets of \$ 2,953,800 (10.52%) may be used to meet the government's ongoing obligations to citizens and creditors.

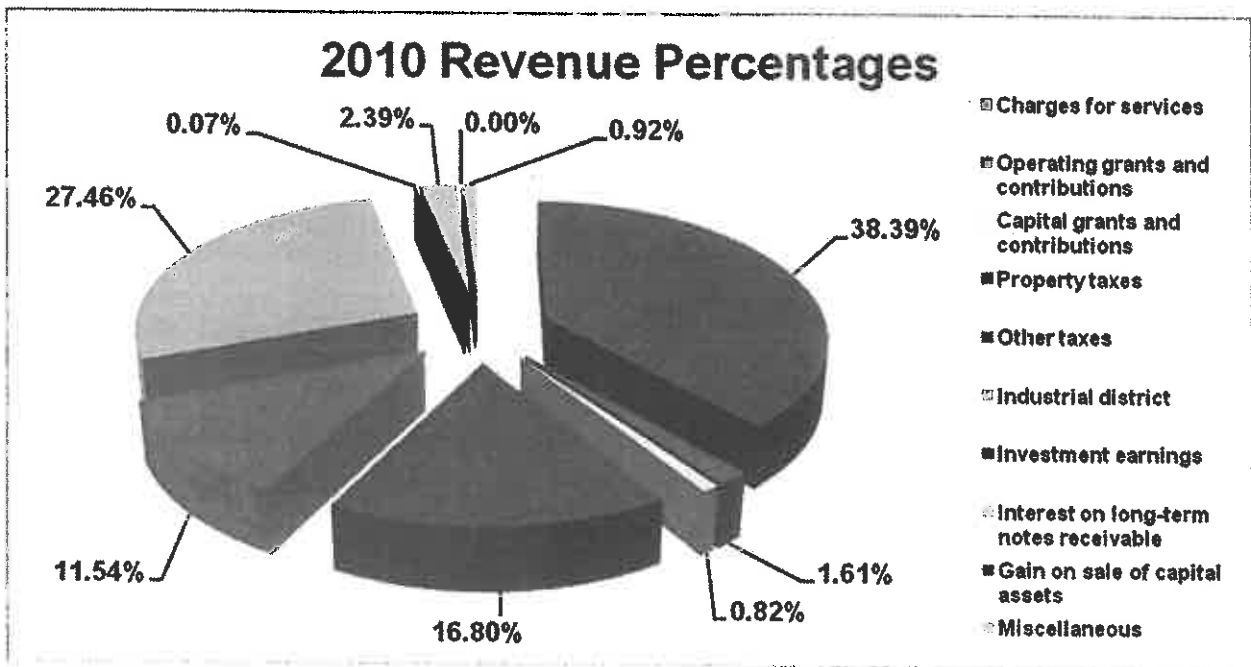
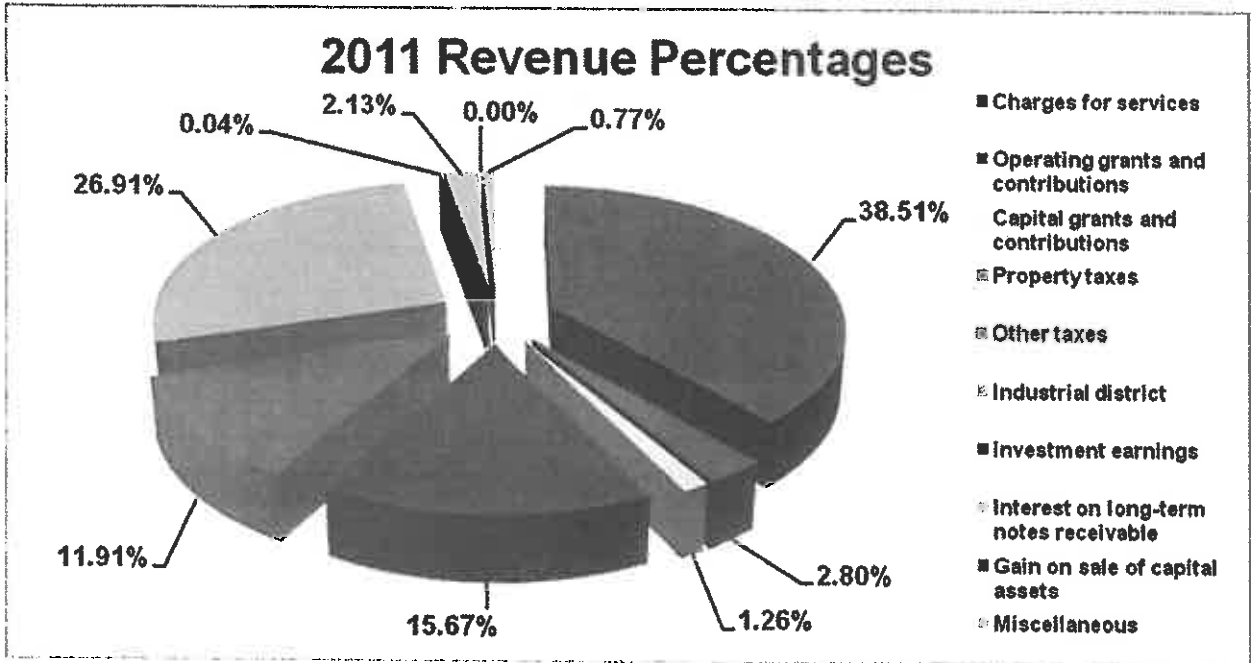
As of September 30, 2011, the City is able to report positive balances in all categories of net assets for the government as a whole. The business-type activities reports a negative amount in unrestricted net assets.

CITY OF FREEPORT'S NET ASSETS

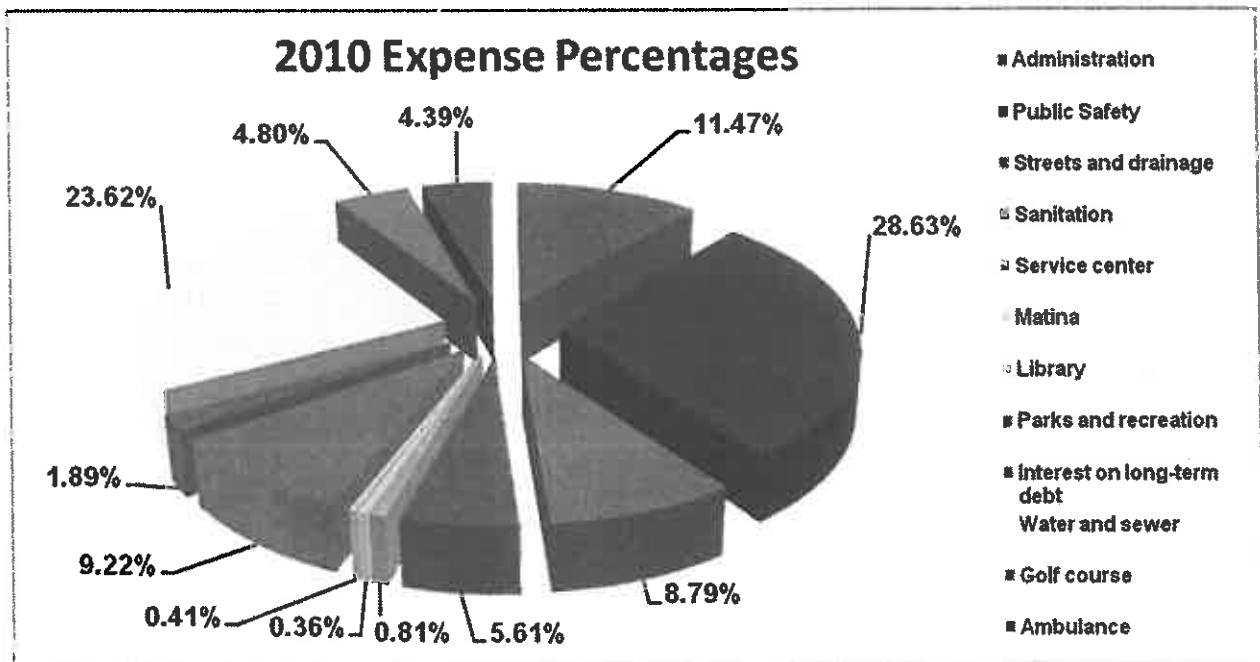
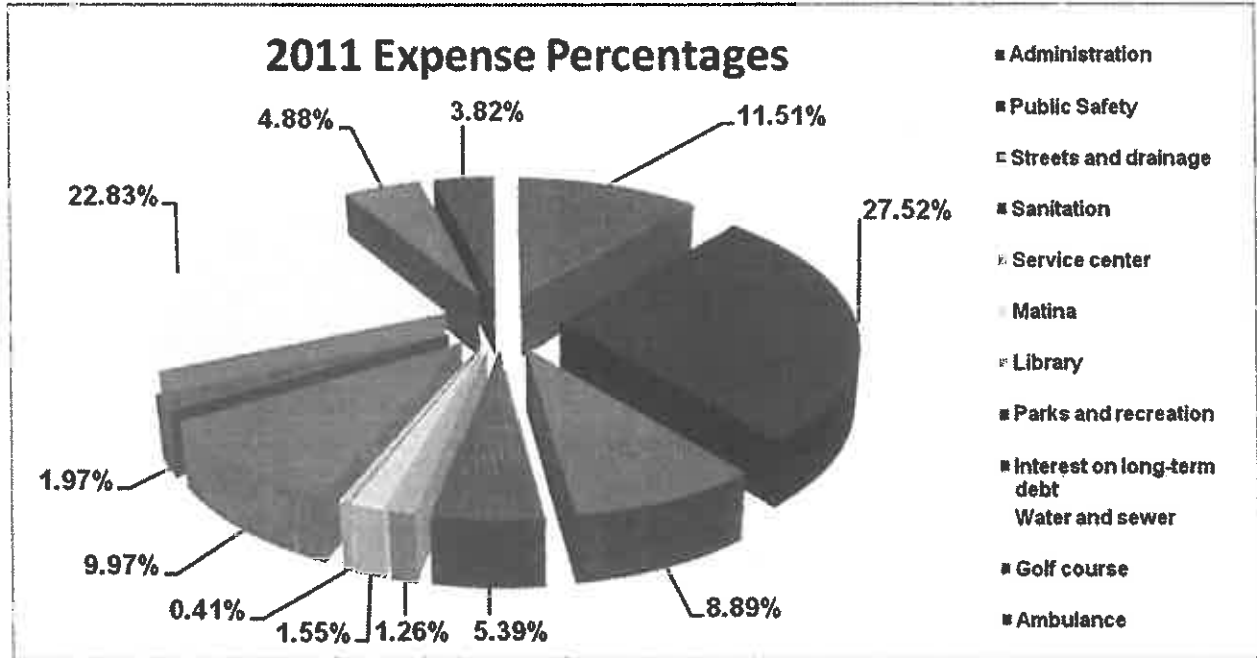
	Governmental Activities		Business-type Activities		Totals	
	September 30,		September 30		September 30,	
	2011	2010	2011	2010	2011	2010
Current and other assets	\$ 5,712,560	\$ 6,122,369	\$ 1,167,156	\$ 1,145,396	\$ 6,879,716	\$ 7,267,765
Long-term receivables	8,083,539	7,737,292			8,083,539	7,737,292
Capital assets	<u>15,647,846</u>	<u>16,039,788</u>	<u>7,555,756</u>	<u>7,760,876</u>	<u>23,203,602</u>	<u>23,800,664</u>
Total assets	<u>29,443,945</u>	<u>29,899,449</u>	<u>8,722,912</u>	<u>8,906,272</u>	<u>38,166,857</u>	<u>38,805,721</u>
Current and other liabilities	878,323	995,301	1,400,318	1,206,444	2,288,641	2,201,745
Long-term liabilities	<u>7,001,134</u>	<u>7,306,158</u>	<u>791,814</u>	<u>996,573</u>	<u>7,792,948</u>	<u>8,302,731</u>
Total liabilities	<u>7,889,457</u>	<u>8,301,459</u>	<u>2,192,132</u>	<u>2,203,017</u>	<u>10,081,589</u>	<u>10,504,476</u>
Net Assets:						
Invest in capital assets, net of related debt	9,408,387	9,751,019	6,881,476	6,880,223	16,289,863	16,631,242
Restricted	8,819,022	7,805,774	22,583	248,877	8,841,605	8,054,651
Unrestricted	<u>3,327,079</u>	<u>4,041,197</u>	<u>(373,279)</u>	<u>(425,845)</u>	<u>2,953,800</u>	<u>3,615,352</u>
Total net assets	<u>\$ 21,554,488</u>	<u>\$ 21,597,990</u>	<u>\$ 6,530,780</u>	<u>\$ 6,703,255</u>	<u>\$ 28,085,268</u>	<u>\$ 28,301,245</u>



Analysis of the City's Operations. The following table provides a summary of the City's operations for the years ended September 30, 2011. Governmental activities decreased the City of Freeport's net assets by \$ 43,502 and the business-type activities decreased the City's net assets by \$ 172,475.



CITY OF FREEPORT, TEXAS
Management's Discussion and Analysis
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CITY OF FREEPORT'S CHANGES IN NET ASSETS

	Governmental Activities		Business-type Activities		Totals	
	September 30,		September 30,		September 30,	
	2011	2010	2011	2010	2011	2010
Revenues:						
Program Revenues:						
Charges for services	\$ 1,634,153	\$ 1,524,669	\$ 4,617,658	\$ 4,463,379	\$ 6,251,811	\$ 5,988,048
Operating grants and contributions	367,521	251,511	87,323		454,844	251,511
Capital grants and contributions			203,727	128,029	203,727	128,029
General Revenues:						
Property taxes	2,543,884	2,619,766			2,543,884	2,619,766
Other taxes	1,932,730	1,799,541			1,932,730	1,799,541
Industrial district	4,368,796	4,282,985			4,368,796	4,282,985
Investment earnings	6,484	10,237	125	328	6,609	10,565
Interest on long-term receivable	346,247	372,097			346,247	372,097
Miscellaneous	<u>125,585</u>	<u>143,029</u>			<u>125,585</u>	<u>143,029</u>
Total revenues	<u>11,325,400</u>	<u>11,003,835</u>	<u>4,908,833</u>	<u>4,591,736</u>	<u>16,234,233</u>	<u>15,595,571</u>
Expenses:						
General government and administration	1,916,481	1,806,463			1,916,481	1,806,463
Public safety	4,583,174	4,510,322			4,583,174	4,510,322
Streets and drainage	1,481,235	1,385,528			1,481,235	1,385,528
Sanitation	896,875	883,882			896,875	883,882
Service center	209,355	127,225			209,355	127,225
Marina	257,926	57,384			257,926	57,384
Library	68,424	64,589			68,424	64,589
Parks and recreation	1,660,136	1,452,935			1,660,136	1,452,935
Interest on long-term debt	328,751	297,836			328,751	297,836
Water and sewer			3,802,517	3,722,429	3,802,517	3,722,429
Golf course			813,474	756,711	813,474	756,711
Ambulance			<u>636,615</u>	<u>691,706</u>	<u>636,615</u>	<u>691,706</u>
Total expenses	<u>11,402,357</u>	<u>10,586,164</u>	<u>5,252,606</u>	<u>5,170,846</u>	<u>16,654,963</u>	<u>15,757,010</u>
Increase in net assets before contributions and transfers	(76,957)	417,671	(343,773)	(579,110)	(420,730)	(161,439)
Contributions	204,753	205,353			204,753	205,353
Transfers	(171,298)	(184,851)	<u>171,298</u>	<u>184,851</u>	<u>-0-</u>	<u>-0-</u>
Increase in net assets	(43,502)	438,173	(172,475)	(394,259)	(215,977)	43,914
Net assets – beginning	<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>
Net assets – ending	<u>\$ 21,554,488</u>	<u>\$ 21,597,990</u>	<u>\$ 6,530,780</u>	<u>\$ 6,703,255</u>	<u>\$ 28,085,268</u>	<u>\$ 28,301,245</u>

CITY OF FREEPORT, TEXAS
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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 \$ 10,928,561. 32.79% of this total amount (\$ 3,583,779) constitutes unassigned fund balance. The remainder of the fund balance is either non-spendable or restricted to indicate that it is not available for new spending 1) non-spendable for long-term receivables \$ 6,639,208, 2) restricted for streets and sidewalks \$ 417,774, 3) restricted for tourism \$ 19,719, 4) restricted for debt service \$ 11,261, 5) restricted for capital projects \$ 102,491, 6) restricted for municipal court security \$ 19,702, 7) restricted for municipal court technology \$ 14,065, 8) and restricted for narcotics \$ 120,562.

The General Fund balance increased by \$ 208,175 and the other governmental funds decreased \$ 534,769.

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, 2011 amounted to \$ 6,530,780. Total net assets decreased by \$ 172,475 (or 2.57%).

General Fund Budgetary Highlights. Differences between the original budget and the final amended budget resulted in a \$ 214,367 increase in appropriations which involved a number of budget items. The more significant items are summarized below.

- \$ 66,448 increase for Museum building purchase and improvements.
- \$ 38,611 increase for Police Department numerous items including narcotics K-9 funding.
- \$ 35,830 increase for Gulf Motel demolition

The City's overall budgeted revenue increased 0.52% or \$ 50,833; primarily due to an increase in anticipated donations.

Capital Assets

The City of Freeport's investment in capital assets for its governmental and business-type activities as of September 30, 2011, amounts to \$ 23,203,602 (net of accumulated depreciation). This investment in capital assets includes land, improvements, buildings, utility plant, furniture, equipment and vehicles, and construction in progress.

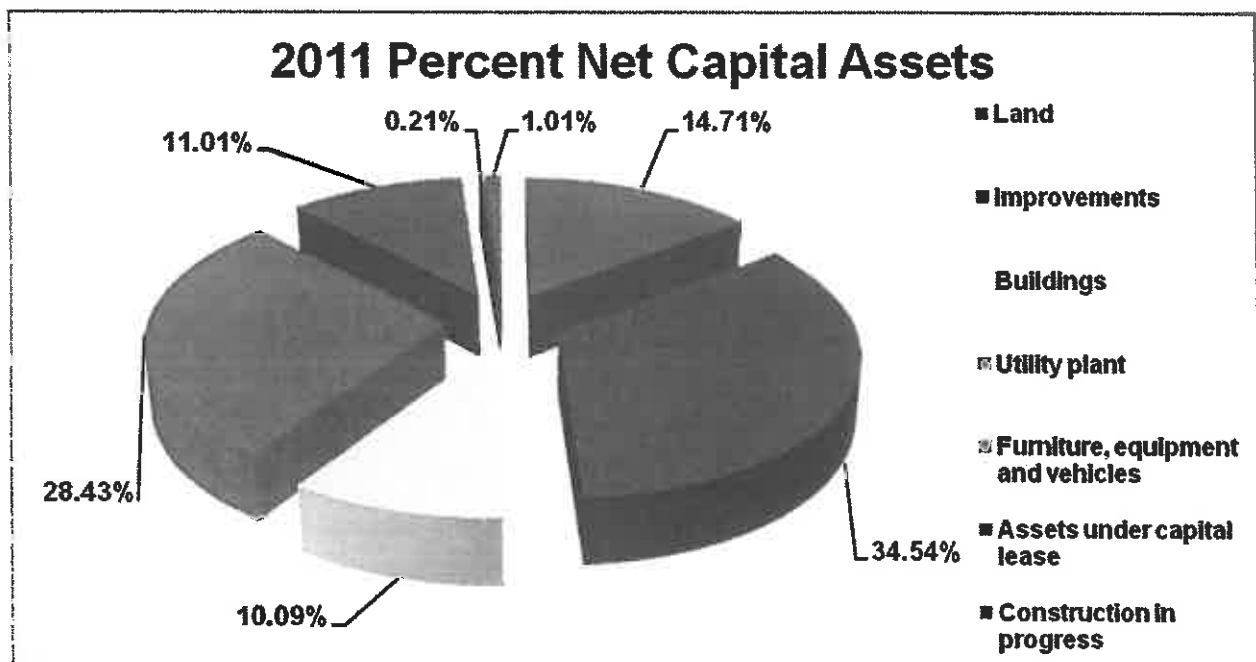
CITY OF FREEPORT, TEXAS
Management's Discussion and Analysis
For the Year Ended September 30, 2011

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

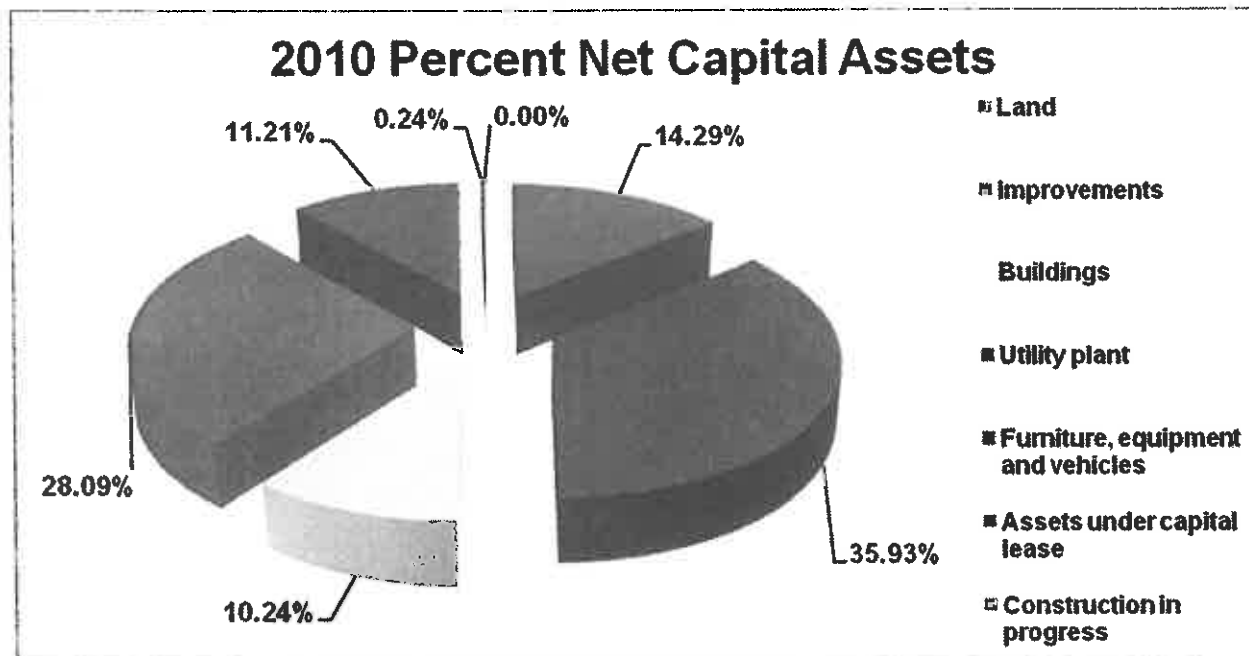
- Street improvement through County interlocal agreement
- Museum Building #2
- Street and Drainage – raising sidewalks
- Upgrades to Recreation Center
- New service vehicles
- New street sweeper

Capital Assets
Net of Accumulated Depreciation

	Governmental Activities		Business-type Activities		Totals	
	September 30,		September 30,		September 30,	
	2011	2010	2011	2010	2011	2010
Land	\$ 3,018,498	\$ 3,004,645	\$ 395,630	\$ 395,630	\$ 3,414,128	\$ 3,400,275
Improvements	7,858,135	8,367,257	155,791	183,707	8,013,926	8,550,964
Buildings	2,219,810	2,307,434	122,015	130,328	2,341,825	2,437,762
Utility plant			6,596,449	6,686,207	6,596,449	6,686,207
Furniture, equipment and vehicles	2,317,091	2,360,452	236,622	307,202	2,553,713	2,667,654
Assets under capital lease			49,249	57,802	49,249	57,802
Construction in progress	234,312				234,312	
Total	\$ 15,647,846	\$ 16,039,788	\$ 7,555,756	\$ 7,760,876	\$ 23,203,602	\$ 23,800,664



CITY OF FREEPORT, TEXAS
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Additional information on the City of Freeport's capital assets can be found in Note 5 on pages 53 through 56 of this report.

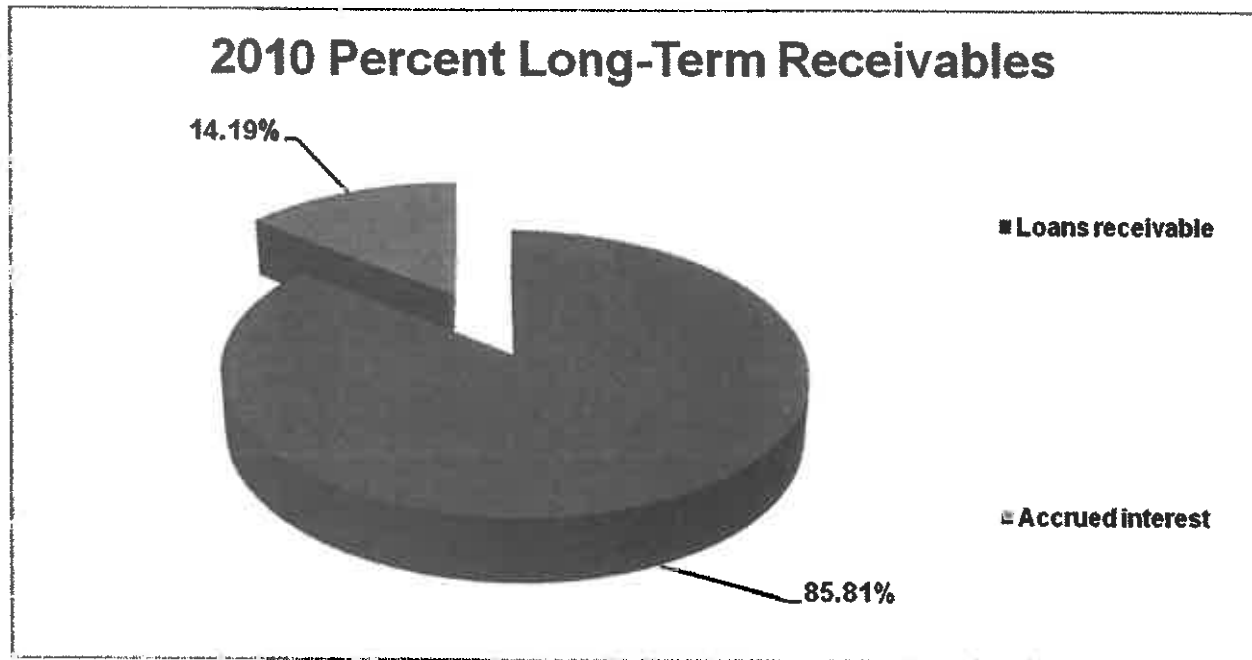
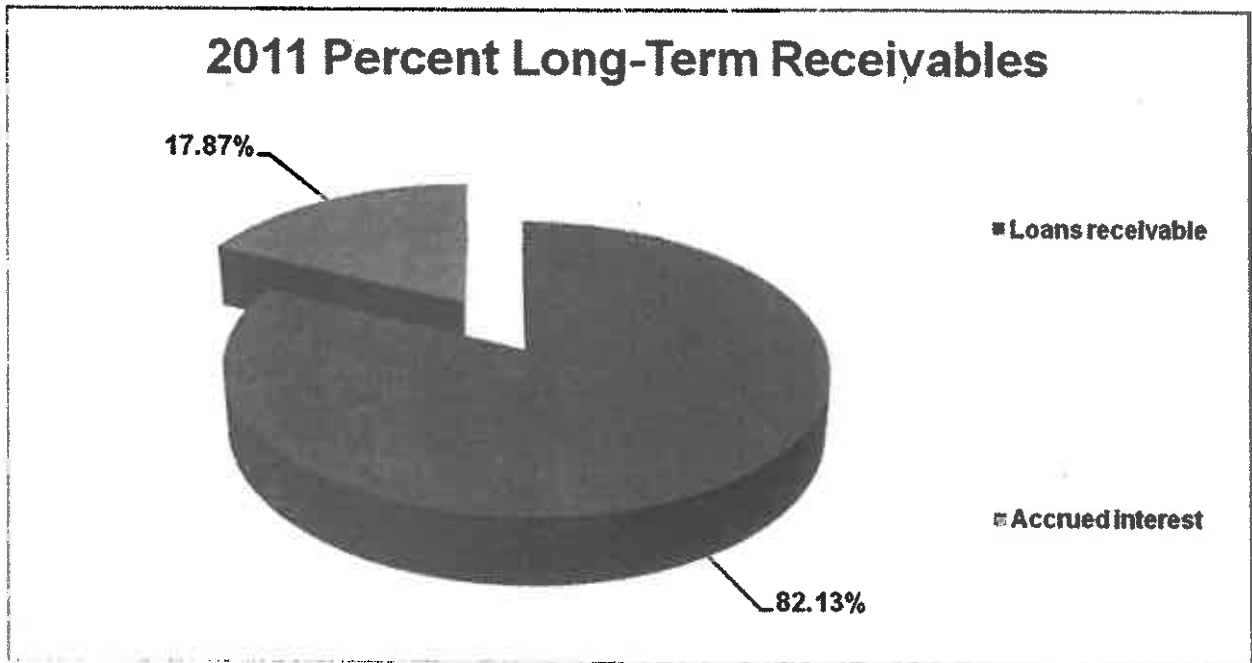
Notes Receivable

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,	
	2011	2010	2011	2010	2011	2010
Loans receivable	\$ 6,639,208	\$ 6,639,208	\$	\$	\$ 6,639,208	\$ 6,639,208
Components of Long-Term						
Loans Receivable:						
Accrued interest receivable	1,444,331	1,098,084			1,444,331	1,098,084
Total	\$ 8,083,539	\$ 7,737,292	\$ -0-	\$ -0-	\$ 8,083,539	\$ 7,737,292

Additional information on the City of Freeport's long-term notes receivable can be found in Note 15 on pages 72 through 74 of this report.



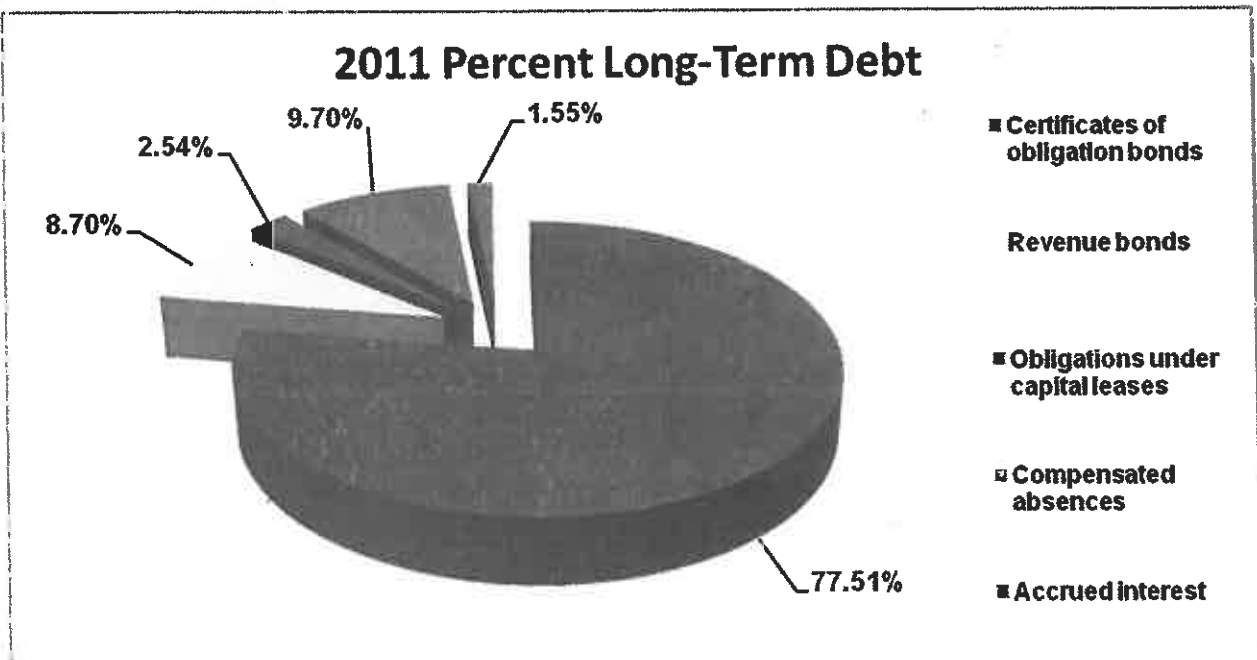
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Management's Discussion and Analysis
For the Year Ended September 30, 2011

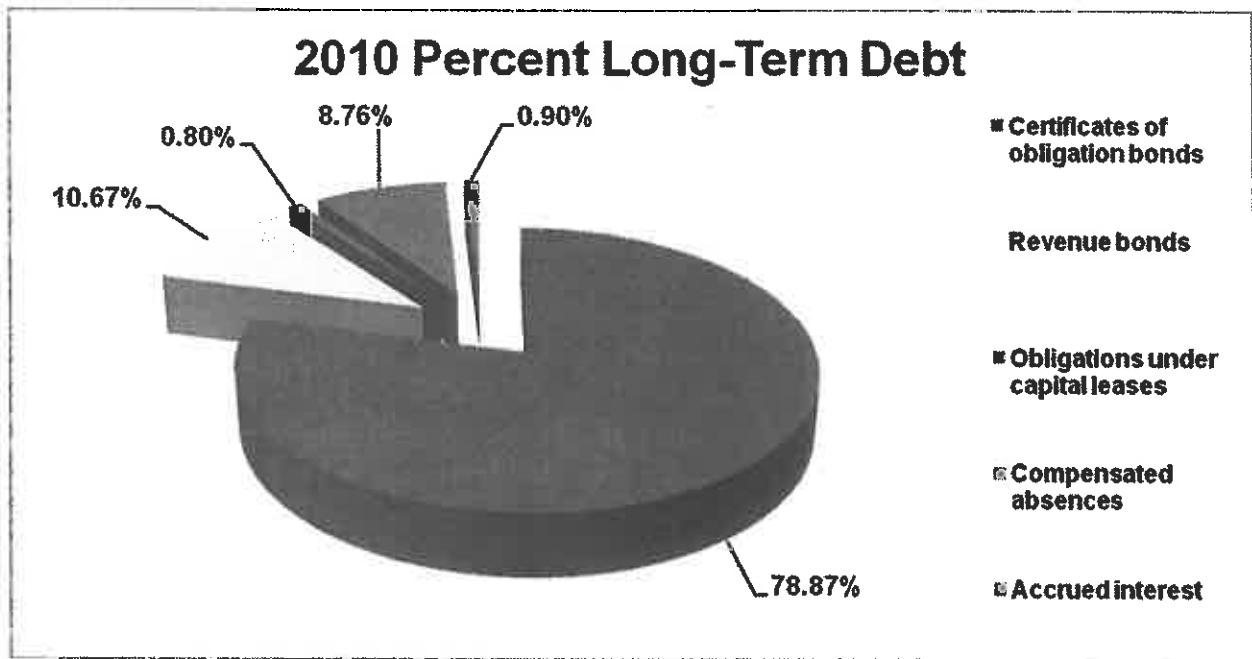
Debt Administration

At the end of the current fiscal year, the City of Freeport had a total bonded debt and certificates of obligation payable of \$ 6,718,000. Of this amount, \$ 6,040,000 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 \$ 678,000 represents bonds secured solely by water and sewer revenues.

Long-Term Debt Outstanding

	Governmental Activities		Business-type Activities		Totals	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
Certificates of obligation	\$ 6,040,000	\$ 6,548,000	\$	\$	\$ 6,040,000	\$ 6,548,000
Revenue bonds payable			678,000	886,000	678,000	886,000
Capital leases payable	155,755	11,505	41,844	55,405	197,599	66,910
Compensated absences	684,207	672,215	71,970	55,168	756,177	727,383
Components of Long-Term Debt:						
Accrued interest payable	121,172	74,438			121,172	74,438
Total	\$ 7,001,134	\$ 7,306,158	\$ 791,814	\$ 996,573	\$ 7,792,948	\$ 8,302,731





Additional information on the City of Freeport's long-term debt can be found in Note 13 on pages 65 through 68 of this report.

Economic Factors and Next Year's Budgets and Rates

Certified assessed valuations increased 1.17% over the preceding year. The property tax rate decreased to 0.68000, with .159261 as Interest & Sinking component and 0.520739 as the Maintenance & Operations component. From the Interest & Sinking component 0.04863 was used to pay the Certificates of Obligations, Series 2003 issued on October 23, 2003 and 0.05137 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 one thousand gallons, however a 10% rate increase to \$ 1.80 per one thousand gallons will become effective October 1, 2011.

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, 2011

	Primary Government			Freeport Economic Development Corporation
	Governmental Activities	Business- Type Activities	Total	
Assets:				
Cash and cash equivalents	\$ 4,550,538	\$ 2,649	\$ 4,553,187	\$ 684,232
Receivables (Net of Allowance for Uncollectable):				
Taxes	188,018		188,018	
Accounts	425,291	898,725	1,324,016	
Other	9,625		9,625	
Due from other governments	275,977		275,977	110,995
Interfund balances	185,643		185,643	
Inventory		11,992	11,992	
Restricted Assets:				
Temporarily Restricted:				
Cash and cash equivalents		208,226	208,226	
Bond issuance costs - current		15,188	15,188	
Bond issuance costs (net of current and accumulated amortization)	77,468	30,376	107,844	
Noncurrent Notes Receivable:				
Due within one year	2,083,538		2,083,538	
Due in more than one year	6,000,001		6,000,001	
Capital Assets (Net of Accumulated Depreciation):				
Land	3,018,498	395,630	3,414,128	
Improvements	7,858,135	155,791	8,013,926	14,159
Buildings	2,219,810	122,015	2,341,825	
Utility plant		6,596,449	6,596,449	
Furniture, equipment and vehicles	2,317,091	236,622	2,553,713	
Assets under capital lease		49,249	49,249	
Construction in progress	<u>234,312</u>		<u>234,312</u>	<u>10,108,686</u>
Total assets	<u>29,443,945</u>	<u>8,722,912</u>	<u>38,166,857</u>	<u>10,918,072</u>
Liabilities:				
Accounts payable	768,117	1,023,592	1,791,709	
Accrued wages and benefits	79,780	5,240	85,020	
Due to other funds		185,643	185,643	
Liabilities payable from restricted assets		185,643	185,643	
Deferred revenue	40,426	200	40,626	
Noncurrent Liabilities:				
Due within one year	1,234,121	69,038	1,303,159	2,172,934
Due in more than one year	<u>5,767,013</u>	<u>722,776</u>	<u>6,489,789</u>	<u>7,548,270</u>
Total liabilities	<u>7,889,457</u>	<u>2,192,132</u>	<u>10,081,589</u>	<u>9,721,204</u>

(continued)

CITY OF FREEPORT
Freeport, Texas

STATEMENT OF NET ASSETS - Continued

September 30, 2011

	Primary Government			Freeport Economic Development Corporation
	Governmental Activities	Business- Type Activities	Total	
Net Assets:				
Invested in capital assets, net of related debt	\$ 9,408,387	\$ 6,881,476	\$ 16,289,863	\$ 401,641
Restricted For:				
Notes receivable	8,083,539		8,083,539	
Streets, drainage and sidewalks	417,774		417,774	
Tourism	19,719		19,719	
Debt service	41,170	22,583	63,753	
Capital projects	102,491		102,491	
Municipal court security	19,702		19,702	
Municipal court technology	14,065		14,065	
Narcotics operations	120,562		120,562	
Unrestricted	3,327,079	(373,279)	2,953,800	795,227
 Total net assets	\$ 21,554,488	\$ 6,530,780	\$ 28,085,268	\$ 1,196,868

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

CITY OF FREEPORT

Freeport, Texas

STATEMENT OF ACTIVITIES

September 30, 2011

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General government and administration	\$ 1,916,481	\$	\$ 97,855	\$
Public safety	4,583,174	490,252	260,771	
Streets and drainage	1,481,235			
Sanitation	896,875	802,282		
Service center	209,355			
Marina	257,926	72,651		
Library	68,424			
Parks and recreation	1,660,136	268,968		
Interest on long-term debt	<u>328,751</u>		<u>8,895</u>	
Total governmental activities	<u>11,402,357</u>	<u>1,634,153</u>	<u>367,521</u>	<u>-0-</u>
Business-type Activities:				
Water and sewer	3,802,517	3,444,195		203,727
Golf course	813,474	543,147		
Ambulance	<u>636,615</u>	<u>630,316</u>	<u>87,323</u>	
Total business-type activities	<u>5,252,606</u>	<u>4,617,658</u>	<u>87,323</u>	<u>203,727</u>
Component Unit:				
Freeport Economic Development Corporation:				
Economic development	150,127	673	92	
Interest on long-term debt	<u>446,825</u>			
Total component unit	<u>596,952</u>	<u>673</u>	<u>92</u>	<u>-0-</u>
Total	<u>\$ 17,251,915</u>	<u>\$ 6,252,484</u>	<u>\$ 454,936</u>	<u>\$ 203,727</u>
General Revenue:				
Taxes:				
Property taxes				
Other taxes				
Industrial district				
Investment earnings				
Interest on long-term receivables				
Miscellaneous				
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 Changes in Net Assets			Freeport Economic Development Corporation
Governmental Activities	Business- Type Activities	Total	
\$(1,818,626)		\$(1,818,626)	\$
(3,832,151)		(3,832,151)	
(1,481,235)		(1,481,235)	
(94,593)		(94,593)	
(209,355)		(209,355)	
(185,275)		(185,275)	
(68,424)		(68,424)	
(1,391,168)		(1,391,168)	
(319,856)		(319,856)	
<u>(9,400,683)</u>	<u>-0-</u>	<u>(9,400,683)</u>	<u>-0-</u>
	(154,595)	(154,595)	
	(270,327)	(270,327)	
	<u>81,024</u>	<u>81,024</u>	
<u>-0-</u>	<u>(343,898)</u>	<u>(343,898)</u>	<u>-0-</u>
		-0-	(149,362)
		-0-	(446,825)
<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>(596,187)</u>
<u>(9,400,683)</u>	<u>(343,898)</u>	<u>(9,744,581)</u>	<u>(596,187)</u>
2,543,884		2,543,884	
1,932,730		1,932,730	635,016
4,368,796		4,368,796	
6,484	125	6,609	721
346,247		346,247	
125,585		125,585	
204,753		204,753	(204,753)
(171,298)	<u>171,298</u>	<u>-0-</u>	
<u>9,357,181</u>	<u>171,423</u>	<u>9,528,604</u>	<u>430,984</u>
(43,502)	(172,475)	(215,977)	(165,203)
<u>21,597,990</u>	<u>6,703,255</u>	<u>28,301,245</u>	<u>1,362,071</u>
<u>\$ 21,554,488</u>	<u>\$ 6,530,780</u>	<u>\$ 28,085,268</u>	<u>\$ 1,196,868</u>

CITY OF FREEPORT
Freeport, Texas

BALANCE SHEET
GOVERNMENTAL FUNDS

September 30, 2011

	General	Non-Major Governmental Funds	Total Governmental Funds
Assets			
Cash and temporary investments	\$ 3,887,767	\$ 662,771	\$ 4,550,538
Receivables (Net of Allowance for Uncollectibles):			
Property taxes	154,765	33,253	188,018
Sales tax	221,991		221,991
Accounts	136,620	4,039	140,659
Other receivables	9,625		9,625
Due from other governments	53,040	946	53,986
Due from other funds	454,554	63,755	518,309
Noncurrent Receivables:			
Notes receivable	6,639,208		6,639,208
 Total assets	 \$ 11,557,570	 \$ 764,764	 \$ 12,322,334
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ 666,370	\$ 101,747	\$ 768,117
Accrued wages and benefits	79,476	304	79,780
Due to other funds	63,755	268,911	332,666
Deferred revenue	183,301	29,909	213,210
 Total liabilities	 992,902	 400,871	 1,393,773
Fund Balance:			
Non-Spendable:			
Notes receivable	6,639,208		6,639,208
Restricted:			
Streets and sidewalk		417,774	417,774
Tourism		19,719	19,719
Debt service		11,261	11,261
Construction		102,491	102,491
Municipal court security	19,702		19,702
Municipal court technology	14,065		14,065
Narcotics operations	120,562		120,562
Unassigned	3,771,131	(187,352)	3,583,779
 Total fund balances	 10,564,668	 363,893	 10,928,561
 Total liabilities and fund balances	 \$ 11,557,570	 \$ 764,764	 \$ 12,322,334

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, 2011

Total fund balances – governmental funds balance sheet	\$ 10,928,561
 Amounts reported for <i>governmental activities</i> in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Capital assets include \$ 32,594,162 in assets less \$ 16,946,316 in accumulated depreciation.	15,647,846
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 \$ 1,423,162 net of allowance for uncollectible accounts \$ 1,138,530 of the general fund amounted to \$ 284,632.	284,632
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 \$ 142,875 and \$ 29,909, respectively.	172,784
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 \$ 37,423.	77,468
Receivables for loan interest are not reported in the funds.	1,444,331
Payables for bond principal are not reported in the funds.	(6,040,000)
Payables for capital lease principal are not reported in the funds.	(155,755)
Payables for long-term compensated absences are not reported in the funds.	(684,207)
Payables for bond interest are not reported in the funds.	(<u>121,172</u>)
Net assets of governmental activities – statement of net assets.	\$ <u><u>21,554,488</u></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, 2011

	General	Non-Major Governmental Funds	Total Governmental Funds
Revenues:			
Taxes	\$ 1,975,717	\$ 552,397	\$ 2,528,114
Other taxes	1,923,205	9,525	1,932,730
Industrial district	4,368,796		4,368,796
Intergovernmental revenues	323,933		323,933
Revenue producing facilities	1,071,250	72,651	1,143,901
Fines, licenses and fees	474,903		474,903
Investment income	5,132	1,352	6,484
Miscellaneous	169,173		169,173
	<u>10,312,109</u>	<u>635,925</u>	<u>10,948,034</u>
Total assets			
Expenditures:			
Current:			
Administration	1,563,432	10,566	1,573,998
Public safety	4,275,874		4,275,874
Streets and drainage	1,048,171	100	1,048,271
Sanitation	896,875		896,875
Service center	188,025		188,025
Marina		255,011	255,011
Library	50,423		50,423
Parks and recreation	1,490,894		1,490,894
Capital outlay	497,845	392,456	890,301
Debt Service:			
Principal	56,675	508,000	564,675
Interest	304	274,357	274,661
	<u>10,068,518</u>	<u>1,440,490</u>	<u>11,509,008</u>
Total expenditures			
Excess of revenues over (under) expenditures	<u>243,591</u>	<u>(804,565)</u>	<u>(560,974)</u>
Other Financing Sources (Uses):			
Contributions from component unit		204,753	204,753
Issuance of capital lease	200,925		200,925
Operating transfers in		65,043	65,043
Operating transfers out	(236,341)		(236,341)
	<u>(35,416)</u>	<u>269,796</u>	<u>234,380</u>
Total other financing sources (uses)			
Net changes in fund balances	208,175	(534,769)	(326,594)
Fund balance – beginning	10,356,493	898,662	11,255,155
Fund balance - ending	<u>\$ 10,564,668</u>	<u>\$ 363,893</u>	<u>\$ 10,928,561</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, 2011

Net change in fund balances – total governmental funds	\$(326,594)
Amounts reported for <i>governmental activities</i> in the statement of activities are different because:	
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 depreciation \$ 1,282,243 exceeded capital outlay \$ 890,301 in the current period.	(391,942)
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 \$ 15,349.	15,349
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 \$ 346,247.	346,247
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 \$ 12,096, and for the debt service increased by \$ 3,674.	15,770
Long-term debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the governmental activities statement of net assets. Long-term proceeds in the governmental fund were \$ 200,925 in capital leases.	(200,925)
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 \$ 508,000 and capital leases for \$ 56,675.	564,675
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 \$ 46,734, plus the amortization of bond issuance costs of \$ 7,356, and accrued compensated absences of \$ 11,992.	<u>(66,082)</u>
Change in net assets of governmental activities	<u>\$(43,502)</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, 2011

	<u>Water and Sewer</u>	<u>Non-Major Proprietary Funds</u>	<u>Total Proprietary Funds</u>
<u>Assets</u>			
Current Assets:			
Cash and temporary investments	\$ 180	\$ 2,469	\$ 2,649
Receivables (Net of Allowance for Uncollectable):			
Accounts	669,340	229,385	898,725
Inventory		<u>11,992</u>	<u>11,992</u>
 Total unrestricted current assets	 <u>669,520</u>	 <u>243,846</u>	 <u>913,366</u>
 Current Restricted Assets:			
Cash and temporary investments	208,226		208,226
Bond issuance costs (current)	<u>15,188</u>		<u>15,188</u>
 Total current restricted assets	 <u>223,414</u>	 <u>-0-</u>	 <u>223,414</u>
 Total current assets	 <u>892,934</u>	 <u>243,846</u>	 <u>1,136,780</u>
 Noncurrent Assets:			
Bond issuance costs (net of current and accumulated amortization of \$ 91,128) - restricted	<u>30,376</u>		<u>30,376</u>
 Capital Assets:			
Land	56,200	339,430	395,630
Buildings		211,468	211,468
Improvements		548,368	548,368
Utility plant	20,580,787		20,580,787
Furniture, equipment and vehicles	146,765	907,142	1,053,907
Assets under capital lease		59,871	59,871
Less accumulated depreciation	<u>(14,100,441)</u>	<u>(1,193,834)</u>	<u>(15,294,275)</u>
 Total capital assets (net of accumulated depreciation)	 <u>6,683,311</u>	 <u>872,445</u>	 <u>7,555,756</u>
 Total assets	 <u>\$ 7,606,621</u>	 <u>\$ 1,116,291</u>	 <u>\$ 8,722,912</u>

(Continued)

CITY OF FREEPORT
Freeport, Texas

STATEMENT OF NET ASSETS - PROPRIETARY FUNDS - Continued

September 30, 2011

	Water and Sewer	Non-Major Proprietary Funds	Total Proprietary Funds
<u>Liabilities and Net Assets</u>			
Current Liabilities:			
Accounts payable	\$ 953,884	\$ 69,708	\$ 1,023,592
Accrued wages and benefits	540	4,700	5,240
Accrued compensated absences	15,503	38,133	53,636
Due to other funds	185,643		185,643
Obligations under capital lease – current		15,402	15,402
Deferred revenue	200		200
Total current liabilities	1,155,770	127,943	1,283,713
Current Liabilities Payable From Restricted Assets:			
Customer deposits payable	185,643		185,643
Total current liabilities payable from restricted assets	185,643	-0-	185,643
Total current liabilities	1,341,413	127,943	1,469,356
Noncurrent Liabilities:			
Accrued compensated absences	5,299	13,035	18,334
Obligations under capital lease – net of current		26,442	26,442
Revenue bonds payable	678,000		678,000
Total noncurrent liabilities	683,299	39,477	722,776
Total liabilities	2,024,712	167,420	2,192,132
Net Assets:			
Invested in capital assets, net of related debt	6,050,875	830,601	6,881,476
Reserved for revenue bond debt	22,583		22,583
Unreserved	(491,549)	118,270	(373,279)
Total net assets	5,581,909	948,871	6,530,780
Total liabilities and net assets	\$ 7,606,621	\$ 1,116,291	\$ 8,722,912

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, 2011

	Water and Sewer	Non-Major Proprietary Funds	Total Proprietary Funds
Operating Revenues:			
Water service	\$ 2,096,401	\$	\$ 2,096,401
Sewer service	1,322,723		1,322,723
Charges for other services	19,491	630,316	649,807
Golf course fees and charges		543,147	543,147
Miscellaneous	5,580	87,323	92,903
Total operating revenues	3,444,195	1,260,786	4,704,981
Operating Expenses:			
Personnel services	83,075	659,673	742,748
Employee benefits	26,708	229,548	256,256
Contract and professional services	2,072,679		2,072,679
Other operating costs	55,791	177,694	233,485
Supplies	8,723	102,202	110,925
Cost of sales and services	1,197,200	169,395	1,366,595
Operating expenses before depreciation	3,444,176	1,338,512	4,782,688
Depreciation	299,517	109,330	408,847
Total operating expenses	3,743,693	1,447,842	5,191,535
Net operating income (loss)	(299,498)	(187,056)	(486,554)
Non-Operating Revenues (Expenses):			
Interest revenue	70	55	125
Interest expense and agent fees	(58,824)	(2,247)	(61,071)
Total non-operating revenues (expenses)	(58,754)	(2,192)	(60,946)
Net income (loss) before contributions and operating transfers	(358,252)	(189,248)	(547,500)
Contributions (capital)	203,727		203,727
Transfers in		171,298	171,298
Change in net assets	(154,525)	(17,950)	(172,475)
Net assets - beginning	5,736,434	966,821	6,703,255
Net assets - ending	\$ 5,581,909	\$ 948,871	\$ 6,530,780

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, 2011

	<u>Water and Sewer</u>	<u>Non-Major Proprietary Funds</u>	<u>Total Proprietary Funds</u>
Cash Flows from Operating Activities:			
Receipts from customers and users	\$ 3,284,444	\$ 1,110,744	\$ 4,395,188
Receipts from other funds	185,643		185,643
Payments to suppliers	(3,326,776)	(415,754)	(3,742,530)
Payments to employees	(112,638)	(900,951)	(1,013,589)
Net cash provided (used) by operating activities	<u>30,673</u>	<u>(205,961)</u>	<u>(175,288)</u>
Cash Flows from Non-Capital Financing Activities:			
Transfers from other funds		<u>171,298</u>	<u>171,298</u>
Net cash provided by non-capital financing activities	<u>-0-</u>	<u>171,298</u>	<u>171,298</u>
Cash Flows from Capital and Related Financing Activities:			
Interest payments on capital leases		(2,247)	(2,247)
Principal payments on capital assets		(13,561)	(13,561)
Principal payments on bonds	(208,000)		(208,000)
Interest and fees on bonds	(43,636)		(43,636)
Net cash used by capital and related financing activities	<u>(251,636)</u>	<u>(15,808)</u>	<u>(267,444)</u>
Cash Flows from Investing Activities:			
Interest on investments	<u>70</u>	<u>64</u>	<u>134</u>
Net cash provided by investing activities	<u>70</u>	<u>64</u>	<u>134</u>
Net decrease in cash and cash equivalents	(220,893)	(50,407)	(271,300)
Cash and cash equivalents at the beginning of year	<u>429,299</u>	<u>52,876</u>	<u>482,175</u>
Cash and cash equivalents at the end of the year	<u>\$ 208,406</u>	<u>\$ 2,469</u>	<u>\$ 210,875</u>

(Continued)

CITY OF FREEPORT
Freeport, Texas

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

For the Year Ended September 30, 2011

	Water and Sewer	Non-Major Proprietary Funds	Total Proprietary Funds
Reconciliation of Operating Income to Net Cash Provided (Used) by			
Operating Activities:			
Operating income (loss)	\$(299,498)	\$(187,056)	\$(486,554)
Adjustments to Reconcile Operating Income (Loss) to Net Cash			
Provided (Used) by Operating Activities:			
Depreciation	299,517	109,330	408,847
(Increase) decrease in accounts receivable	(165,152)	(150,042)	(315,194)
(Increase) decrease in inventory		6,937	6,937
Increase (decrease) in accounts payable	7,617	26,600	34,217
Increase (decrease) in accrued wages and benefits payable	(3,509)	(27,878)	(31,387)
Increase (decrease) in accrued compensated absences payable	654	16,148	16,802
Increase (decrease) in customer deposits	5,401		5,401
Increase (decrease) in due to other funds	<u>185,643</u>		<u>185,643</u>
Total adjustments	<u>330,171</u>	<u>(18,905)</u>	<u>311,266</u>
Net cash provided (used) by operating activities	<u>\$ 30,673</u>	<u>\$(205,961)</u>	<u>\$(175,288)</u>
Non-Cash Investing, Capital and Financing Activities:			
Contributions from other governments	\$ 203,727		\$ 203,727
Assets acquired as a result of contributed assets	<u>(203,727)</u>		<u>(203,727)</u>
Net effect of non-cash transactions	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

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

CITY OF FREEPORT
Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2011

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CITY OF FREEPORT

Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2011

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, 2011

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, 2011

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, 2011

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 fund:

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 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.

GASB No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions", was issued April 2009. This statement provides guidance on classification of fund equity. This statement was implemented and is reflected in the governmental financial statements.

CITY OF FREEPORT
Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

New Pronouncements - continued

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 effect 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 effect 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. This statement was implemented and did not have an impact on the City's financial statements.

GASB No. 60, "Accounting and Financial Reporting for Service Concession Arrangements", was issued November 2010. The management of the City does not believe that the implementation of this statement will have a material effect on the financial statements of the City. This statement is effective for periods beginning after December 15, 2011.

GASB No. 61, "The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and No. 34", was issued November 2010. The management of the City does not believe that the implementation of this statement will have a material effect on the financial statements of the City. This statement is effective for periods beginning after June 15, 2012.

GASB No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements", was issued December 2010. The management of the City does not believe that the implementation of this statement will have a material effect on the financial statements of the City. This statement is effective for periods beginning after December 15, 2011.

GASB No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position", was issued June 2011. The management of the City does not believe that the implementation of this statement will have a material effect on the financial statements of the City. This statement is effective for periods beginning after December 15, 2011.

GASB No. 64, "Derivative Instruments: Application of Hedge Accounting Termination Provisions-and amendment of GASB Statements No. 53", was issued June 2011. The management of the City does not believe that the implementation of this statement will have a material effect on the financial statements of the City. This statement is effective for periods beginning after June 15, 2011.

CITY OF FREEPORT
Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2011

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:

	Budgeted Enterprise Funds			
	Water & Sewer	Golf Course	Ambulance	Total
Net income (loss) - GAAP basis	\$(154,525)	\$(99,024)	\$ 81,074	\$(172,475)
Differences:				
Depreciation	299,517	72,051	37,279	408,847
Capital asset additions				-0-
Amortization of bond issuance costs	15,188			15,188
Debt principal	(208,000)			(208,000)
Capital contributions	(203,727)			(203,727)
 Net income (loss) - budget basis	 \$(251,547)	 \$(26,973)	 \$ 118,353	 \$(160,167)

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, 2011

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, 2011.

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, 2011, to finance general fund operations and the payment of principal and interest on general obligation long-term debt were \$ 0.547185 and \$ 0.161081 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, 2011

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 include 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.

The following is a summary of benefits payable as of September 30, 2011:

	<u>2011</u>
Governmental activities	\$ 684,207
Business-type activities	<u>71,970</u>
	<u>\$ 756,177</u>

CITY OF FREEPORT

Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Pension Plans

It is the policy of the City to fund pension costs annually. Pension costs are composed of normal cost and, where applicable, amortization of unfunded actuarial accrued liability and of unfunded prior service costs. In the fiscal year ended September 30, 1998, the City implemented GASB Statement No.27 for the Texas Municipal Retirement System (TMRS). At the date of transition and implementation of GASB Statement 27, there was no pension liability or pension asset. Further, in the fiscal year ended September 30, 2008, the City implemented GASB Statement No. 50, *Pension Disclosures* (an amendment of GASB Statements No. 25 and No. 27 (see Note 8)).

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

The City's council meets on a regular basis to manage and review cash financial activities and to ensure compliance with established policies. The City's Unassigned General Fund Balance is maintained to provide the City with sufficient working capital and a margin of safety to address local and regional emergencies without borrowing. The unassigned General Fund Balance may only be appropriated by resolution of the council. Fund Balance of the City may be committed for a specific source by formal action of the council. Amendments or modifications of the committed fund balance must also be approved by formal action by the council. When it is appropriate for fund balance to be assigned, the City council has delegated authority to the City Manager or the Finance Director. In circumstances where an expenditure is to be made for a purpose for which amounts are available in multiple fund balance classifications, the order in which resources will be expended is as follows: restricted fund balance, followed by committed fund balance, followed by assigned fund balance, and lastly, unassigned fund balance.

During the fiscal year, the City implemented GASB 54, "Fund Balance, Reporting and Governmental Fund Type Definitions", for its governmental funds. Under GASB 54, fund balances are required to be reported according to the following classifications:

CITY OF FREEPORT

Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Fund Equity - Continued

Non-spendable Fund Balance - Includes amounts that cannot be spent because they are either not in spendable form, or, for legal or contractual reasons, must be kept intact. This classification includes inventories, prepaid amounts, assets held for sale, and long-term receivables.

Restricted Fund Balance - Constraints placed on the use of these resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors or other governments; or are imposed by law (through constitutional provisions enabling legislation).

Committed Fund Balance - Amounts that can only be used for specific purposes because of a formal action (resolution or ordinance) by the government's highest level of decision-making authority.

Assigned Fund Balance - Amounts that are constrained by the City's intent to be used for specific purposes, but that do not meet the criteria to be classified as restricted or committed. Intent can be stipulated by the governing body, another body (such as a Finance Committee), or by an official to whom that authority has been given. With the exception of the General Fund, this is the residual fund balance classification for all government funds with positive balances.

Unassigned Fund Balance - This is the residual classification of the General Fund. Only the General Fund reports a positive unassigned fund balance. Other governmental funds might report a negative balance in this classification, as the result of overspending for specific purposes for which amounts had been restricted, committed, or assigned.

Net Assets

Net assets represent 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, 2011

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, 2011 are as follows:

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Cash and Temporary Investments:			
Cash (petty cash accounts)	\$ 7,137	\$	\$ 7,137
Financial Institution Deposits:			
Demand deposits	272,354	208,226	480,580
State Treasury Investment Pool:			
Texpool	4,273,696		4,273,696
Total cash and temporary investments	\$ 4,553,187	\$ 208,226	\$ 4,761,413

Deposits

All deposits with financial institutions must be collateralized in an amount equal to 100 percent of uninsured balances. At September 30, 2011, in addition to petty cash of \$ 7,137, the carrying amount of the City's cash, deposits was \$ 480,580. The financial institutions balances were \$ 997,018 at September 30, 2011. Bank balances of \$ 250,000 were covered by federal depository insurance and \$ 747,018 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, 2011

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, 2011

NOTE 2 - DEPOSITS, INVESTMENTS AND DERIVATIVES - Continued

Investments - continued

At September 30, 2011, Texpool had a weighted average maturity of 44 days. Although Texpool portfolio had a weighted average maturity of 44 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, 2011.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Days)</u>
Local government investment pools (LGIP)	\$ <u>4,273,696</u>	44
	\$ <u>4,273,696</u>	44

Credit Risk – As of September 30, 2011, 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, 2011, and holds no direct investments in derivatives at September 30, 2011.

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, 2011

NOTE 3 - DEFERRED REVENUE - Continued

As of September 30, 2011, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follow.

	<u>Unavailable</u>	<u>Unearned</u>
Delinquent property taxes receivable (General Fund)	\$ 142,875	\$
Delinquent property taxes receivable (Debt Service Fund)	29,909	
Franchise tax receipts (General Fund)		<u>40,426</u>
Total deferred/unearned revenue from governmental funds	<u>\$ 172,784</u>	<u>\$ 40,426</u>

As of September 30, 2011, 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, 2011 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
Marina	93,568	
Debt Service Fund:		
Series 2003A	48,886	
Series 2003B	125,457	
Capital Projects Fund:		
2008 Bond Construction		53,323
Enterprise Fund:		
Water and Sewer Fund	185,643	
	<u>453,554</u>	<u>64,755</u>

CITY OF FREEPORT
Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2011

NOTE 4 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS - Continued

<u>Fund</u>	<u>Receivable</u>	<u>Payable</u>
Special Revenue Fund:		
Street, Drainage and Sidewalk Fund:		
General	\$ 11,432	\$
Marina Fund:		
General		<u>93,568</u>
	<u>11,432</u>	<u>93,568</u>
Debt Service Fund:		
Series 2003A Fund:		
General Fund		48,886
Series 2003B Fund:		
General		<u>125,457</u>
	<u>-0-</u>	<u>174,343</u>
Capital Projects Fund:		
2008 Bon Construction Fund:		
General	<u>53,323</u>	
Enterprise Fund:		
Water and Sewer Fund:		
General		<u>185,643</u>
Total	<u>\$ 518,309</u>	<u>\$ 518,309</u>

Interfund transfers for the year ended September 30, 2011 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	\$	\$ 65,043
Enterprise Fund:		
Water and Sewer Fund		<u>171,298</u>
	<u>-0-</u>	<u>236,341</u>
Special Revenue Fund:		
Marina Fund:		
General	<u>65,043</u>	
Enterprise Fund:		
Golf Course:		
General Fund	<u>171,298</u>	
Total	<u>\$ 236,341</u>	<u>\$ 236,341</u>

CITY OF FREEPORT
Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2011

NOTE 5 - CAPITAL ASSETS - Continued

	<u>Balance</u> <u>10/01/10</u>	<u>Additions</u>	<u>Retirements</u> <u>& Transfers</u>	<u>Balance</u> <u>09/30/11</u>
Less Accumulated Depreciation For:				
Buildings	\$ 81,140	\$ 8,313	\$	\$ 89,453
Improvements	364,661	27,916		392,577
Utility plant	13,690,853	293,485		13,984,338
Furniture, equipment and vehicles	746,705	70,580		817,285
Assets under capital lease	<u>2,069</u>	<u>8,553</u>		<u>10,622</u>
Total accumulated depreciation	<u>14,885,428</u>	<u>408,847</u>	<u>-0-</u>	<u>15,294,275</u>
Total capital assets being depreciated, net	<u>7,365,246</u>	<u>(205,120)</u>	<u>-0-</u>	<u>7,160,126</u>
Business-type activities capital assets, net	<u>\$ 7,760,876</u>	<u>\$(205,120)</u>	<u>\$ -0-</u>	<u>\$ 7,555,756</u>
Business-type Activities:				
<u>Water and Sewer Enterprise Fund:</u>				
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:				
Utility plant	20,377,060	203,727		20,580,787
Furniture, equipment and vehicles	<u>146,765</u>	<u> </u>	<u> </u>	<u>146,765</u>
Total capital assets being depreciated	<u>20,523,825</u>	<u>203,727</u>	<u>-0-</u>	<u>20,727,552</u>
Less Accumulated Depreciation For:				
Utility plant	13,690,853	293,485		13,984,338
Furniture, equipment and vehicles	<u>110,071</u>	<u>6,032</u>	<u> </u>	<u>116,103</u>
Total accumulated depreciation	<u>13,800,924</u>	<u>299,517</u>	<u>-0-</u>	<u>14,100,441</u>
Total capital assets being depreciated, net	<u>6,722,901</u>	<u>(95,790)</u>	<u>-0-</u>	<u>6,627,111</u>
Business-type activities capital assets, net	<u>\$ 6,779,101</u>	<u>\$(95,790)</u>	<u>\$ -0-</u>	<u>\$ 6,683,311</u>

CITY OF FREEPORT
Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2011

NOTE 5 - CAPITAL ASSETS - Continued

	<u>Balance</u> <u>10/01/10</u>	<u>Additions</u>	<u>Retirements</u> <u>& Transfers</u>	<u>Balance</u> <u>09/30/11</u>
Business-type Activities:				
<u>Golf Course Enterprise Fund:</u>				
Capital Assets, Not Depreciated:				
Land	\$ 339,430	\$ _____	\$ _____	\$ 339,430
Total capital assets not being depreciated	<u>339,430</u>	<u>-0-</u>	<u>-0-</u>	<u>339,430</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>59,871</u>			<u>59,871</u>
Total capital assets being depreciated	<u>1,383,060</u>	<u>-0-</u>	<u>-0-</u>	<u>1,383,060</u>
Less Accumulated Depreciation For:				
Buildings	81,140	8,313		89,453
Improvements	364,661	27,916		392,577
Furniture, equipment and vehicles	457,441	27,269		484,710
Assets under capital lease	<u>2,069</u>	<u>8,553</u>		<u>10,622</u>
Total accumulated depreciation	<u>905,311</u>	<u>72,051</u>	<u>-0-</u>	<u>977,362</u>
Total capital assets being depreciated, net	<u>477,749</u>	<u>(72,051)</u>	<u>-0-</u>	<u>405,698</u>
Business-type activities capital assets, net	<u>\$ 817,179</u>	<u>\$(72,051)</u>	<u>\$ -0-</u>	<u>\$ 745,128</u>
Business-type Activities:				
<u>Ambulance Enterprise Fund:</u>				
Capital Assets, Not Depreciated:				
Total capital assets not being depreciated	\$ -0-	\$ _____	\$ _____	\$ -0-
Capital Assets, Being Depreciated:				
Furniture, equipment and vehicles	<u>343,789</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>179,193</u>	<u>37,279</u>		<u>216,472</u>
Total accumulated depreciation	<u>179,193</u>	<u>37,279</u>	<u>-0-</u>	<u>216,472</u>
Total capital assets being depreciated, net	<u>164,596</u>	<u>(37,279)</u>	<u>-0-</u>	<u>127,317</u>
Business-type activities capital assets, net	<u>\$ 164,596</u>	<u>\$(37,279)</u>	<u>\$ -0-</u>	<u>\$ 127,317</u>

CITY OF FREEPORT
Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2011

NOTE 5 - CAPITAL ASSETS - Continued

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

Governmental Activities:

Administration	\$ 330,860
Public safety	317,702
Streets and drainage	423,714
Service center	14,846
Library	18,001
Parks and recreation	<u>177,120</u>
Total depreciation expense-governmental activities	<u>\$ 1,282,243</u>

Business-type Activities:

Water and sewer	\$ 299,517
Golf Course	72,051
Ambulance	<u>37,279</u>
Total depreciation expense-business-type activities	<u>\$ 408,847</u>

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, 2011, for the General Fund was \$ 53,050 and for the Debt Service Funds was \$ 3,300.

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, 2011 was \$ 13,029.

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, 2011 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, 2011 was \$ 32,925.

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, 2011 was \$ 490,942.

CITY OF FREEPORT
Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2011

NOTE 6 - ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS - Continued

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, 2011 was \$ 1,138,530.

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, 2011.

NOTE 8 - PENSION AND OPEB-SUPPLEMENTAL DEATH BENEFITS PLAN

Plan Description

The City provides pension benefits for all of its eligible employees through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The plan provides provisions that have been adopted by the City are within the options available in the governing statutes of TMRS.

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the System. This report may be obtained from TMRS' website at www.TMRS.com.

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

	<u>Plan Year 2010</u>	<u>Plan Year 2011</u>
Employee deposit rate	7%	7%
Matching ratio (city to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age/years of service)	60/5, 0/20	60/5, 0/20
Updated Service Credit	100%	100%
	Repeating, Transfers	Repeating, Transfers
Annual Increase (to retirees)	0% of CPI	0% of CPI

CITY OF FREEPORT
Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2011

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

Contributions:

Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Protected Unit Credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service cost contributions rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for the city. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annual Increases.

The City contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect.

The annual pension cost and net pension obligation (asset) are as follows:

Three-Year Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Actual Contribution Made	Percentage of APC Contributed	Net Pension Obligation/ (Asset)
2009	\$ 426,181	\$ 426,181	100%	\$ -0-
2010	437,315	437,315	100%	-0-
2011	564,034	564,034	100%	-0-

The required contribution rates for fiscal year 2011 were determined as part of the December 31, 2008 and 2009 actuarial valuations. Additionally information as of the latest actuarial valuation, December 31, 2010, also follows:

Valuation date	12-31-08	12-31-09	12-31-10 Prior to Restructuring	12-31-10 Restructured
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit	Projected unit Credit
Amortization Method	Level Percent of payroll	Level Percent of payroll	Level Percent of payroll	Level Percent of payroll
GASB 25 Equivalent Single Amortization Period	29.0 years; closed period	28.2 years; closed period	27.3 years; closed period	27.3 years; closed period

CITY OF FREEPORT
Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2011

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

Amortization Period for new Gains/Losses	30 years	30 years	30 years	30 years
Asset Valuation Method	Amortized Cost	10-year Smoothed Market	10-year Smoothed Market	10-year Smoothed Market
Actuarial Assumptions:				
Investment Rate of Return*	7.5%	7.5%	7.5%	7.0%
Projected Salary Increases*	Varies by age & service	Varies by age & service	Varies by age & service	Varies by age and service
*Includes Inflation rate at Cost-of-Living Adjustments	3.00%	3.00%	3.00%	3.00%
	2.10%	2.10%	2.10%	2.10%

Funded Status and Funding Progress – In June, 2011, SB 350 was enacted by the Texas Legislature, resulting in a restructure of the TMRS funds. This legislation provided for the actuarial valuation to be completed, as if restructuring had occurred on December 31, 2010. In addition, the actuarial assumptions were updated for the new fund structure, based on an actuarial experience study that was adopted by the TMRS Board at their May, 2011 meeting (the review compared to expected experience for the four-year period of January 1, 2006 through December 31, 2009). For a complete description of the combined impact of the legislation and new actuarial assumptions, including the effects on TMRS city rates and funding ratios, please see the December 31, 2010 TMRS Comprehensive Annual Financial Report (CAFR).

The funding status of December 31, 2010, under the two separate actuarial valuations, is presented as follows:

Actuarial Valuation Date	Actuarial Value of Assets (1)	Actuarial Accrued Liability (AAL) (2)	Funded Ratio (3) (1) / (2)	Unfunded AAL (UAAL) (4) (2) – (1)	Covered Payroll (5)	UAAL as a Percentage of Covered (6) (4) / (5)
12-31-10 ₁	\$ 8,256,939	\$ 12,498,561	66.1%	\$ 4,241,622	\$ 4,703,129	90.2%
12-31-10 ₂	12,689,121	16,586,761	76.5%	3,897,640	4,703,129	82.9%

(1) Actuarial valuation performed under the original fund structure.

(2) Actuarial valuation performed under the new fund structure.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

CITY OF FREEPORT
Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2011

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

Actuarial calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation, and reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

Required Supplementary Information - Funding Information:

Actuarial Valuation Date	Actuarial Value of Assets (1)	Actuarial Accrued Liability (AAL) (2)	Funded Ratio (3) (1) / (2)	Unfunded AAL (UAAL) (4) (2) - (1)	Covered Payroll (5)	UAAL as a Percentage of Covered (6) (4) / (5)
12-31-08	\$ 7,059,241	\$ 10,704,031	65.9%	\$ 3,644,790	\$ 4,362,156	83.6%
12-31-09	7,649,676	11,650,548	65.7%	4,000,872	4,531,168	88.3%
12-31-10 ¹	8,256,939	12,498,561	66.1%	4,241,622	4,703,129	90.2%
12-31-10 ²	12,689,121	16,586,761	76.5%	3,897,640	4,703,129	82.9%

(1) Actuarial valuation performed under the original fund structure.

(2) Actuarial valuation performed under the new fund structure.

OPEB Supplemental Death Benefits Fund

The city also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the Texas Municipal Retirement System (TMRS) known as the Supplemental Death Benefits Fund (SDBF). The city elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The city may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

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

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

The city's contributions to the TMRS SDBF for the years ended 2011, 2010, and 2009 were \$ 10,045, \$ 10,560 and \$ 11,287, respectively, which equaled the required contributions each year.

CITY OF FREEPORT
Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2011

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

Schedule of Contribution Rates (Retiree-only portion of the rate):

Plan/Calendar Year	Actual Required Contribution (Rate)	Actual Contribution Made (Rate)	Percentage of ARC Contributed
2009	0.06%	0.06%	100.0%
2010	0.05%	0.05%	100.0%
2011	0.05%	0.05%	100.0%

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	2,167
Terminated participants entitled to benefits but not yet receiving them	2,106
Current active participants (vested and nonvested)	<u>4,371</u>
	<u>8,644</u>

CITY OF FREEPORT
Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2011

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 79th 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, 2011

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

Notes:

- ¹ The actuarial accrued liability is based upon the entry age actuarial cost method.
- ² Changes in actuarial assumptions were reflected in this valuation.
- ³ 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, 2011

NOTE 9 - TEXAS STATEWIDE EMERGENCY SERVICES PERSONNEL RETIREMENT FUND
Continued

Required Supplementary Information - Schedule of Funding Progress - Continued

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

¹ Based on the original August 31, 2004 actuarial valuation.

² Based on the revised August 31, 2004 actuarial valuation.

³ Based on the August 31, 2006 actuarial valuation.

⁴ Based on the August 31, 2008 actuarial valuation.

⁵ 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.

⁶ Includes a state contribution of \$ 675,307.

⁷ Includes a state contribution of \$ 709,072.

⁸ 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 5-year deferred recognition method with a 90%/110% corridor on market value	Market value smoothed by a 5-year deferred recognition method with a 80%/120% corridor on market value
Actuarial assumptions:		
Investment rate of return*	8.00% per year, net of investment expenses	7.75% per year, net of 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, 2011

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, 2011 was \$ 4,368,796 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, 2011, the City of Freeport's portion of these expenses was \$ 43,898. 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, 2011, the City paid \$ 59,546 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, 2011

NOTE 13 - LONG-TERM DEBT - Continued

General Long-Term Debt: - continued

The general obligation bonds payable at September 30, 2011 are summarized as follows:

Purpose	Interest Rate (%)	Series Dates			Bonds Outstanding 09/30/11
		Issued	Maturity	Callable	
Certificate Obligation Bonds Series 2003	4.84	2003	2018	2014	\$ 1,860,000
Refunding Bonds, Series 2003	4.84	2003	2018	2014	1,355,000
Certificate Obligation Bonds Series 2008	3.79	2008	2023		<u>2,825,000</u>
					<u>\$ 6,040,000</u>

General obligation bond transactions for the year ended September 30, 2011 were as follows:

	2011
Bonds outstanding, October 1, Maturities	\$ 6,548,000 <u>(508,000)</u>
Bonds outstanding, September 30,	<u>\$ 6,040,000</u>

Aggregate maturities of certificate of obligation bonds for the five years subsequent to September 30, 2011 are as follows:

	Principal	Interest	Total
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	629,000	151,606	780,606
2017-2021	2,585,000	349,852	2,934,852
2022-2023	<u>560,000</u>	<u>32,026</u>	<u>592,026</u>
Total	<u>\$ 6,040,000</u>	<u>\$ 1,402,819</u>	<u>\$ 7,442,819</u>

CITY OF FREEPORT

Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2011

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, 2011 are summarized as follows:

Purpose	Interest Rate (%)	Series Dates			Bonds Outstanding 09-30-11
		Issued	Maturity	Callable	
Waterworks and Sewer System Revenue Bonds Series 2004	4.85	2004	2015		\$ <u>678,000</u>
					\$ <u>678,000</u>

Revenue bond transactions for the year ended September 30, 2011 are as follows:

	<u>2011</u>
Bonds outstanding, October 1,	\$ 886,000
Maturities	<u>(208,000)</u>
Bonds outstanding, September 30,	\$ <u>678,000</u>

Aggregate maturities of revenue bonds for the years subsequent to September 30, 2011 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$	\$ 16,442	\$ 16,442
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>678,000</u>	\$ <u>66,736</u>	\$ <u>744,736</u>

CITY OF FREEPORT
Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2011

NOTE 13 - LONG-TERM DEBT - Continued

Changes in Long-Term Debt

Transactions for the year ended September 30, 2011 are summarized as follows:

	<u>Balance</u> <u>10/01/10</u>	<u>Issues or</u> <u>Additions</u>	<u>Payments or</u> <u>Expenditures</u>	<u>Balance</u> <u>09/30/11</u>	<u>Due Within</u> <u>One Year</u>
Governmental Type Activities:					
General obligation bonds	\$ 6,548,000	\$	\$ 508,000	\$ 6,040,000	\$ 529,000
Capital lease	11,505	200,925	56,675	155,755	56,675
Compensated absences	672,215	470,491	458,499	684,207	527,274
Component of Long-Term Debt:					
Accrued interest payable	<u>74,438</u>	<u>121,172</u>	<u>74,438</u>	<u>121,172</u>	<u>121,172</u>
Total governmental activities	<u>7,306,158</u>	<u>792,588</u>	<u>1,097,612</u>	<u>7,001,134</u>	<u>1,234,121</u>
Business Type Activities:					
Revenue bonds payable	886,000		208,000	678,000	
Capital leases	55,405		13,561	41,844	15,402
Compensated absences	<u>55,168</u>	<u>63,442</u>	<u>46,640</u>	<u>71,970</u>	<u>53,636</u>
Total business type activities	<u>996,573</u>	<u>63,442</u>	<u>268,201</u>	<u>791,814</u>	<u>69,038</u>
Total government (net)	<u>\$ 8,302,731</u>	<u>\$ 856,030</u>	<u>\$ 1,365,813</u>	<u>\$ 7,792,948</u>	<u>\$ 1,303,159</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, 2011 was \$ 1,505,000 and the balance held in escrow was \$ 1,515,135.

CITY OF FREEPORT

Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2011

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 1st. The park and community house rentals are based upon usage.

Aggregate maturities of operating lease receivables for the five years subsequent to September 30, 2011 are as follows:

<u>Year Ended</u> <u>September 30,</u>	<u>Total</u>
2012	\$ <u>35,992</u>
Minimum payments under operating leases	\$ <u>35,992</u>

Operating lease and rental income for the year ended September 30, 2011 was as follows:

Office lease income	\$ 130,613
Other rental income	<u>80,611</u>
Total	\$ <u>211,224</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, 2011

NOTE 14 - LEASES - Continued

Lessee (Governmental) - Continued

Aggregate maturities of operating lease obligations for the five years subsequent to September 30, 2011 are as follows:

<u>Year Ended September 30,</u>	<u>Total</u>
2012	\$ 9,354
2013	5,447
2014	<u>1,404</u>

Minimum payments under operating leases \$ 16,205

Operating lease expenditures for the year ended September 30, 2011 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, 2011 are as follows:

<u>Year Ended September 30,</u>	<u>Total</u>
2012	\$ 38,649
2013	<u>17,568</u>

Minimum payments under operating leases \$ 56,217

Operating lease expense for the year ended September 30, 2011 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, 2011

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 \$ 4,352 and \$ 304, respectively.

During the year ended September 30, 2011, the City purchased an air sweeper under a capital lease, with an effective interest rate of 2.79%. Current requirements for principal and interest expenditures accounted for in the General Fund were \$ 52,323 and \$ -0-, 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	\$ 221,179
Less accumulated depreciation	<u>26,211</u>
Total	<u>\$ 194,968</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, 2011:

<u>Year Ended</u> <u>September 30,</u>	<u>Amount</u>
2012	\$ 56,979
2013	55,427
2014	<u>52,323</u>
	164,729
 Less amount representing interest	 <u>8,974</u>
 Net present value of minimum lease payments	 <u>\$ 155,755</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 \$ 7,354 and \$ 1,273, 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 \$ 6,207 and \$ 974, respectively.

CITY OF FREEPORT
Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2011

NOTE 14 - LEASES - Continued

Capital Leases (Proprietary) - Continued

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 \$ 4,138 and has been included in depreciation expense.

The assets acquired through capital leases are as follows:

Asset:

Machinery and equipment	\$ 59,871
Less accumulated depreciation	<u>6,207</u>
Total	<u><u>\$ 53,664</u></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, 2011:

<u>Year Ended</u> <u>September 30,</u>	<u>Amount</u>
2012	\$ 17,114
2013	16,461
2014	<u>11,108</u>
	44,683
Less amount representing interest	<u>2,839</u>
Net present value of minimum lease payments	<u><u>\$ 41,844</u></u>

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, 2011

NOTE 15 - LONG-TERM RECEIVABLES - Continued

The notes receivable at September 30, 2011 are summarized as follows:

Purpose	Interest Rate (%)	Dates			Bonds Outstanding 09/30/11
		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, 2011 are summarized as follows:

	2011
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, 2011 are as follows:

	Principal	Interest	Total
2012	\$ 639,207	\$ 1,286,577	\$ 1,925,784
2013		500,000	500,000
2014	25,842	474,158	500,000
2015	214,709	285,291	500,000
2016	225,291	274,709	500,000
2017-2020	1,304,365	1,195,635	2,500,000
2021-2025	1,659,081	840,919	2,500,000
2026-2030	<u>2,570,713</u>	<u>311,702</u>	<u>2,882,415</u>
Total	<u>\$ 6,639,208</u>	<u>\$ 5,168,991</u>	<u>\$ 11,808,199</u>

CITY OF FREEPORT
Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2011

NOTE 15 - LONG-TERM RECEIVABLES - Continued

Changes in Long-Term Receivables

Transactions for the year ended September 30, 2011 are summarized as follows:

	<u>Balance</u> <u>10/01/10</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>09/30/11</u>	<u>Due Within</u> <u>One Year</u>
Governmental Type Activities:					
Notes receivable	\$ 6,639,208	\$	\$	\$ 6,639,208	\$ 639,207
Component of Long-Term Receivable:					
Accrued interest receivable	<u>1,098,084</u>	<u>346,247</u>	<u> </u>	<u>1,444,331</u>	<u>1,444,331</u>
Total governmental activities	<u>\$ 7,737,292</u>	<u>\$ 346,247</u>	<u>\$ -0-</u>	<u>\$ 8,083,539</u>	<u>\$ 2,083,538</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, 2011, 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 (\$ 100,433 Equitable Sharing Grant); the U.S. Department of Homeland Security (\$ 79,842 direct grant from FEMA for Hurricane Ike); and U.S. Department of Housing and Urban Development (\$ 204,627 from Brazoria County, Texas, for the Community Development Block Grant Program, and other grants of \$ 3,474); which totaled \$ 388,376. 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 \$ 122,137 after the first year of operation, which includes a \$ 65,043 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 \$ 12,607, which increased the deficit in fund balance to \$ 32,597. The 2008 Debt Service Fund had a net decrease of \$ 12,431, which decreased the deficit in fund balance to \$ 32,618 at September 30, 2011.

CITY OF FREEPORT
Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2011

NOTE 19 – EXPENDITURES IN EXCESS OF APPROPRIATIONS

Expenditures exceeded appropriations for the year ended September 30, 2011 for the following funds:

General Fund	\$ 202,263
Special Revenue Funds:	
Hotel-Motel Tax	300
Marina Operations	40,468
Debt Service Fund:	
Series 2003B	202
Enterprise Fund:	
Golf Course	16,989

The expenditures and expenses were approved by City Council, however, the budget was not amended.

NOTE 20 - EVALUATION OF SUBSEQUENT EVENTS

The City has evaluated subsequent events through May 17, 2012, the date which the financial statements were available to be issued.

NOTE 21 - 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 17, 2012.

EEOC Charge No. 460-2011-03119, Chelsea Cavazos v. City of Freeport. Ms. Cavazos was a Police Officer for the City fo Freeport. She filed a gender discrimination charge with the Equal Employment Opportunity Commission alleging that she was discriminated based on her sex, in violation of the Civil Rights Act of 1964, as amended, the Texas Labor Code, and the Pregnancy Discrimination Act of 1978. Cavazos was terminated by the City when she violated Police Department policy during and immediately after her boyfriend's arrest for an outstanding warrant. The City responded to the charges on August 20, 1011 and intends to vigorously defend this action. The EEOC has not yet issued a finding or a Right to Sue Letter in this matter.

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, 2011

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget Positive (Negative)
Revenues:				
Taxes	\$ 2,099,849	\$ 2,099,849	\$ 1,975,717	\$(124,132)
Other taxes	1,709,884	1,709,884	1,923,205	213,321
Industrial district	4,250,153	4,250,153	4,368,796	118,643
Intergovernmental	102,312	102,312	323,933	221,621
Revenue producing facilities	1,073,602	1,073,602	1,071,250	(2,352)
Fines, licenses and fees	415,790	415,790	474,903	59,113
Investment income	5,190	5,190	5,132	(58)
Miscellaneous	<u>107,500</u>	<u>158,333</u>	<u>169,173</u>	<u>10,840</u>
Total revenues	<u>9,764,280</u>	<u>9,815,113</u>	<u>10,312,109</u>	<u>496,996</u>
Expenditures:				
Current:				
Administration	1,467,796	1,483,366	1,563,432	(80,066)
Public safety	4,153,896	4,245,115	4,275,874	(30,759)
Streets and drainage	1,167,970	1,167,970	1,048,171	119,799
Sanitation	822,000	822,000	896,875	(74,875)
Service center	194,440	194,440	188,025	6,415
Library	42,430	42,430	50,423	(7,993)
Parks and recreation	1,457,035	1,533,613	1,490,894	42,719
Capital outlay	342,071	373,071	497,845	(124,774)
Debt Service:				
Principal	3,708	3,708	56,675	(52,967)
Interest and fees	<u>542</u>	<u>542</u>	<u>304</u>	<u>238</u>
Total expenditures	<u>9,651,888</u>	<u>9,866,255</u>	<u>10,068,518</u>	<u>(202,263)</u>
Excess of revenues over (under) expenditures	<u>112,392</u>	<u>(51,142)</u>	<u>243,591</u>	<u>294,733</u>
Other Financing Sources (Uses):				
Proceeds from sale of capital assets	6,500	6,500		(6,500)
Issuance of capital lease			200,925	200,925
Transfers out	<u>(117,008)</u>	<u>(236,341)</u>	<u>(236,341)</u>	<u>-0-</u>
Total other financing sources (uses)	<u>(110,508)</u>	<u>(229,841)</u>	<u>(35,416)</u>	<u>194,425</u>
Net change in fund balance	1,884	(280,983)	208,175	489,158
Fund balance - beginning	<u>10,356,493</u>	<u>10,356,493</u>	<u>10,356,493</u>	<u>-0-</u>
Fund balance - ending	<u>\$ 10,358,377</u>	<u>\$ 10,075,510</u>	<u>\$ 10,564,668</u>	<u>\$ 489,158</u>

CITY OF FREEPORT
Freeport, Texas

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

Actuarial Valuation Date	Actuarial Value of Assets** (a)	Actuarial Accrued Liability* (AAL)- (b)	Unfunded AAL (UAAL) (b-a)	Percentage Funded (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/(c)
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%
2010***	8,256,939	12,498,561	4,241,622	66.1%	4,703,129	90.2%
2010****	12,689,121	16,586,761	3,897,640	76.5%	4,703,129	82.9%

* 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.

*** Actuarial valuation performed under the original fund structure.

**** Actuarial valuation performed under the new fund structure.

CITY OF FREEPORT
Freeport, Texas

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)* - Entry Age (b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a/b)	Total Members Covered (c)	UAAL Per Member Covered (b-a)/(c)
8/31/06	\$ 42,268,305	\$ 58,082,828	\$ 15,814,523	72.77%	8,061	\$ 1,962
8/31/08**	60,987,157	64,227,341	3,240,184	95.96%	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 revised August 31, 2004 actuarial valuation

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

OTHER SCHEDULES

CITY OF FREEPORT
Freeport, Texas

COMBINING BALANCE SHEET- NONMAJOR GOVERNMENTAL FUNDS

September 30, 2011

Special Revenue Funds

	<u>Streets, Drainage and Sidewalks</u>	<u>Hotel/ Motel Tax</u>	<u>Marina Operations</u>	<u>Total</u>
Assets:				
Cash and temporary investments	\$ 480,825	\$ 15,680	\$	\$ 496,505
Receivables (Net of Allowance for Uncollectable):				
Taxes				-0-
Accounts		4,039		4,039
Due from other governments				-0-
Due from other funds	<u>11,432</u>			<u>11,432</u>
Total assets	<u>\$ 492,257</u>	<u>\$ 19,719</u>	<u>\$ -0-</u>	<u>\$ 511,976</u>
Liabilities:				
Accounts payable	\$ 74,483	\$	\$ 27,264	\$ 101,747
Accrued wages and benefits			304	304
Due to other funds			94,569	94,569
Deferred revenue				-0-
Total liabilities	<u>74,483</u>	<u>-0-</u>	<u>122,137</u>	<u>196,620</u>
Fund Balances:				
Restricted:				
Streets and drainage	417,774			417,774
Tourism		19,719		19,719
Debt Service				-0-
Construction				-0-
Unassigned			<u>(122,137)</u>	<u>(122,137)</u>
Total fund balances	<u>417,774</u>	<u>19,719</u>	<u>(122,137)</u>	<u>315,356</u>
Total liabilities and fund balances	<u>\$ 492,257</u>	<u>\$ 19,719</u>	<u>\$ -0-</u>	<u>\$ 511,976</u>

Debt Service Funds				Capital Projects Fund	Total Nonmajor Governmental Funds
Debt Service Series 2003A	Debt Service Series 2003B	Debt Service Series 2008	Total	2008 Bond Construction	
\$ 11,261	\$ 14,202	\$ 90,635	\$ 116,098	\$ 50,168	\$ 662,771
	16,173	17,080	33,253		33,253
	460	486	946		946
			-0-	52,323	63,755
<u>\$ 11,261</u>	<u>\$ 30,835</u>	<u>\$ 108,201</u>	<u>\$ 150,297</u>	<u>\$ 102,491</u>	<u>\$ 764,764</u>
\$	\$	\$	\$	\$	\$
			-0-		101,747
			-0-		304
	48,885	125,457	174,342		268,911
	14,547	15,362	29,909		29,909
-0-	63,432	140,819	204,251	-0-	400,871
					417,774
					19,719
11,261			11,261		11,261
			-0-	102,491	102,491
	(32,597)	(32,618)	(65,215)		(187,352)
<u>11,261</u>	<u>(32,597)</u>	<u>(32,618)</u>	<u>(53,954)</u>	<u>102,491</u>	<u>363,893</u>
<u>\$ 11,261</u>	<u>\$ 30,835</u>	<u>\$ 108,201</u>	<u>\$ 150,297</u>	<u>\$ 102,491</u>	<u>\$ 764,764</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, 2011

	<u>Special Revenue Funds</u>			
	<u>Streets, Drainage and Sidewalks</u>	<u>Hotel/ Motel Tax</u>	<u>Marina Operations</u>	<u>Total</u>
Revenues:				
Property taxes	\$	\$	\$	\$ -0-
Hotel-motel tax		9,525		9,525
Revenue producing facilities			72,651	72,651
Interest income	836	22		858
Total revenues	<u>836</u>	<u>9,547</u>	<u>72,651</u>	<u>83,034</u>
Expenditures:				
Current:				
Administrative		10,566		10,566
Streets and drainage	100			100
Marina			255,011	255,011
Capital outlay	234,312			234,312
Debt Service:				
Principal				-0-
Interest				-0-
Total expenditures	<u>234,412</u>	<u>10,566</u>	<u>255,011</u>	<u>499,989</u>
Excess of revenues over (under) expenditures	(233,576)	(1,019)	(182,360)	(416,955)
Other Financing Sources (Uses):				
Contributions from component unit				-0-
Transfers in			65,043	65,043
Total other financing sources (uses)	<u>-0-</u>	<u>-0-</u>	<u>65,043</u>	<u>65,043</u>
Net changes in fund balances	(233,576)	(1,019)	(117,317)	(351,912)
Fund balance - beginning	<u>651,350</u>	<u>20,738</u>	(4,820)	<u>667,268</u>
Fund balance - ending	<u>\$ 417,774</u>	<u>\$ 19,719</u>	<u>\$(122,137)</u>	<u>\$ 315,356</u>

Debt Service Funds				Capital Projects Fund	Total Nonmajor Governmental Funds
Debt Service Series 2003A	Debt Service Series 2003B	Debt Service Series 2008	Total	2008 Bond Construction	
\$	\$ 269,415	\$ 282,982	\$ 552,397	\$	\$ 552,397
			-0-		9,525
			-0-		72,651
<u>20</u>	<u>29</u>	<u>160</u>	<u>209</u>	<u>285</u>	<u>1,352</u>
<u>20</u>	<u>269,444</u>	<u>283,142</u>	<u>552,606</u>	<u>285</u>	<u>635,925</u>
			-0-		10,566
			-0-		100
			-0-		255,011
			-0-	158,144	392,456
136,000	187,000	185,000	508,000		508,000
<u>68,733</u>	<u>95,051</u>	<u>110,573</u>	<u>274,357</u>		<u>274,357</u>
<u>204,733</u>	<u>282,051</u>	<u>295,573</u>	<u>782,357</u>	<u>158,144</u>	<u>1,440,490</u>
(<u>204,713</u>)	(<u>12,607</u>)	(<u>12,431</u>)	(<u>229,751</u>)	(<u>157,859</u>)	(<u>804,565</u>)
<u>204,753</u>			<u>204,753</u>		<u>204,753</u>
			-0-		<u>65,043</u>
<u>204,753</u>	<u>-0-</u>	<u>-0-</u>	<u>204,753</u>	<u>-0-</u>	<u>269,796</u>
40	(12,607)	(12,431)	(24,998)	(157,859)	(534,769)
<u>11,221</u>	(<u>19,990</u>)	(<u>20,187</u>)	(<u>28,956</u>)	<u>260,350</u>	<u>898,662</u>
<u>\$ 11,261</u>	<u>\$ (32,597)</u>	<u>\$ (32,618)</u>	<u>\$ (53,954)</u>	<u>\$ 102,491</u>	<u>\$ 363,893</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, 2011

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Investment income	\$ 650	\$ 650	\$ 836	\$ 186
Total revenues	<u>650</u>	<u>650</u>	<u>836</u>	<u>186</u>
Expenditures:				
Current:				
Streets and drainage		100	100	-0-
Capital outlay		<u>516,141</u>	<u>234,312</u>	<u>281,829</u>
Total expenditures	<u>-0-</u>	<u>516,241</u>	<u>234,412</u>	<u>281,829</u>
Excess of revenues over (under) expenditures	<u>650</u>	<u>(515,591)</u>	<u>(233,576)</u>	<u>282,015</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	650	(515,591)	(233,576)	282,015
Fund balance - beginning	<u>651,350</u>	<u>651,350</u>	<u>651,350</u>	<u>-0-</u>
Fund balance - ending	<u>\$ 652,000</u>	<u>\$ 135,759</u>	<u>\$ 417,774</u>	<u>\$ 282,015</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, 2011

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Other taxes	\$ 9,809	\$ 9,809	\$ 9,525	\$(284)
Investment income	30	30	22	(8)
Total revenues	9,839	9,839	9,547	(292)
Expenditures:				
Current:				
Administration	5,016	10,266	10,566	(300)
Total expenditures	5,016	10,266	10,566	(300)
Excess of revenues over (under) expenditures	4,823	(427)	(1,019)	(592)
Other Financing Sources (Uses):				
Total other financing sources (uses)	-0-	-0-	-0-	-0-
Net change in fund balance	4,823	(427)	(1,019)	(592)
Fund balance - beginning	20,738	20,738	20,738	-0-
Fund balance - ending	\$ 25,561	\$ 20,311	\$ 19,719	\$(592)

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, 2011

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Revenue producing facilities	\$ 149,500	\$ 149,500	\$ 72,651	\$(76,849)
Total revenues	149,500	149,500	72,651	(76,849)
Expenditures:				
Marina	214,543	214,543	255,011	(40,468)
Total expenditures	214,543	214,543	255,011	(40,468)
Excess of revenues over (under) expenditures	(65,043)	(65,043)	(182,360)	(117,317)
Other Financing Sources (Uses):				
Transfers in	65,043	65,043	65,043	-0-
Total other financing sources (uses)	65,043	65,043	65,043	-0-
Net change in fund balance	-0-	-0-	(117,317)	(117,317)
Fund balance - beginning	(4,820)	(4,820)	(4,820)	-0-
Fund balance - ending	\$(4,820)	\$(4,820)	\$(122,137)	\$(117,317)

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, 2011

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Investment income	\$ 20	\$ 20	\$ 20	\$ -0-
Total revenues	<u>20</u>	<u>20</u>	<u>20</u>	<u>-0-</u>
Expenditures:				
Debt Service:				
Principal	212,887	212,887	136,000	76,887
Interest	<u>169,459</u>	<u>169,459</u>	<u>68,733</u>	<u>100,726</u>
Total expenditures	<u>382,346</u>	<u>382,346</u>	<u>204,733</u>	<u>177,613</u>
Excess of revenues over (under) expenditures	(382,326)	(382,326)	(204,713)	<u>177,613</u>
Other Financing Sources (Uses):				
Contributions from component unit	<u>382,346</u>	<u>382,346</u>	<u>204,753</u>	(177,593)
Total other financing sources (uses)	<u>382,346</u>	<u>382,346</u>	<u>204,753</u>	(177,593)
Net change in fund balance	20	20	40	20
Fund balance - beginning	<u>11,221</u>	<u>11,221</u>	<u>11,221</u>	<u>-0-</u>
Fund balance - ending	<u>\$ 11,241</u>	<u>\$ 11,241</u>	<u>\$ 11,261</u>	<u>\$ 20</u>

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, 2011

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Taxes	\$ 282,822	\$ 282,822	\$ 269,415	\$(13,407)
Investment income	25	25	29	4
Total revenues	<u>282,847</u>	<u>282,847</u>	<u>269,444</u>	<u>(13,403)</u>
Expenditures:				
Debt Service:				
Principal	187,000	187,000	187,000	-0-
Interest	<u>94,849</u>	<u>94,849</u>	<u>95,051</u>	<u>(202)</u>
Total expenditures	<u>281,849</u>	<u>281,849</u>	<u>282,051</u>	<u>(202)</u>
Excess of revenues over (under) expenditures	<u>998</u>	<u>998</u>	<u>(12,607)</u>	<u>(13,605)</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	998	998	(12,607)	(13,605)
Fund balance - beginning	<u>(19,990)</u>	<u>(19,990)</u>	<u>(19,990)</u>	<u>-0-</u>
Fund balance - ending	<u>\$(18,992)</u>	<u>\$(18,992)</u>	<u>\$(32,597)</u>	<u>\$(13,605)</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, 2011

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Taxes	\$ 295,902	\$ 295,902	\$ 282,982	\$(12,920)
Investment income	<u>160</u>	<u>160</u>	<u>160</u>	<u>-0-</u>
Total revenues	<u>296,062</u>	<u>296,062</u>	<u>283,142</u>	<u>(12,920)</u>
Expenditures:				
Debt Service:				
Principal	185,000	185,000	185,000	-0-
Interest	<u>110,874</u>	<u>110,874</u>	<u>110,573</u>	<u>301</u>
Total expenditures	<u>295,874</u>	<u>295,874</u>	<u>295,573</u>	<u>301</u>
Excess of revenues over (under) expenditures	<u>188</u>	<u>188</u>	<u>(12,431)</u>	<u>(12,619)</u>
Other Financing Sources (Uses):				
Transfers in				<u>-0-</u>
Total other financing sources (uses)	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Net change in fund balance	188	188	(12,431)	(12,619)
Fund balance - beginning	<u>(20,187)</u>	<u>(20,187)</u>	<u>(20,187)</u>	<u>-0-</u>
Fund balance - ending	<u>\$(19,999)</u>	<u>\$(19,999)</u>	<u>\$(32,618)</u>	<u>\$(12,619)</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, 2011

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Investment income	\$ 50	\$ 50	\$ 285	\$ 235
Total revenues	<u>50</u>	<u>50</u>	<u>285</u>	<u>235</u>
Expenditures:				
Capital outlay	<u>67,278</u>	<u>260,851</u>	<u>158,144</u>	<u>102,707</u>
Total expenditures	<u>67,278</u>	<u>260,851</u>	<u>158,144</u>	<u>102,707</u>
Excess of revenues over (under) expenditures	(<u>67,228</u>)	(<u>260,801</u>)	(<u>157,859</u>)	<u>102,942</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>67,228</u>)	(<u>260,801</u>)	(<u>157,859</u>)	<u>102,942</u>
Fund balance - beginning	<u>260,350</u>	<u>260,350</u>	<u>260,350</u>	<u>-0-</u>
Fund balance - ending	<u>\$ 193,122</u>	<u>\$(451)</u>	<u>\$ 102,491</u>	<u>\$ 102,942</u>

CITY OF FREEPORT
Freeport, Texas

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

September 30, 2011

	Golf Course	Ambulance	Total Nonmajor Enterprise Funds
Assets:			
Current Assets:			
Cash and temporary investments	\$ 443	\$ 2,026	\$ 2,469
Accounts receivable ambulance (less allowance for uncollectibles – \$ 490,942)		229,385	229,385
Inventory	11,992		11,992
Total current assets	12,435	231,411	243,846
Capital Assets:			
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	(977,362)	(216,472)	(1,193,834)
Total capital assets (net of accumulated depreciation)	745,128	127,317	872,445
Total assets	\$ 757,563	\$ 358,728	\$ 1,116,291
Liabilities and Net Assets:			
Current Liabilities:			
Accounts payable	\$ 34,275	\$ 35,433	\$ 69,708
Accrued wages and benefits	2,090	2,610	4,700
Accrued compensated absences	23,923	14,210	38,133
Obligations under capital lease - current	15,402		15,402
Total current liabilities	75,690	52,253	127,943
Non-Current Liabilities:			
Accrued compensated absences	8,178	4,857	13,035
Obligations under capital lease – net of current	26,442		26,442
Total liabilities	110,310	57,110	167,420
Net Assets:			
Invested in capital assets, net of related debt	703,284	127,317	830,601
Unreserved	(56,031)	174,301	118,270
Total net assets	647,253	301,618	948,871
Total liabilities and net assets	\$ 757,563	\$ 358,728	\$ 1,116,291

CITY OF FREEPORT
Freeport, Texas

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

For the Year Ended September 30, 2011

	Golf Course	Ambulance	Total Nonmajor Enterprise Funds
Operating Revenues:			
Charges for other services	\$	\$ 630,316	\$ 630,316
Golf course fees and charges	543,147		543,147
Miscellaneous		<u>87,323</u>	<u>87,323</u>
Total operating revenues	<u>543,147</u>	<u>717,639</u>	<u>1,260,786</u>
Operating Expenses:			
Personnel services	306,060	353,613	659,673
Employee benefits	111,989	117,559	229,548
Other operating costs	97,904	79,790	177,694
Supplies	53,828	48,374	102,202
Cost of sales and services	<u>169,395</u>		<u>169,395</u>
Operating expenses before depreciation	739,176	599,336	1,338,512
Depreciation	<u>72,051</u>	<u>37,279</u>	<u>109,330</u>
Total operating expenses	<u>811,227</u>	<u>636,615</u>	<u>1,447,842</u>
Net operating income (loss)	<u>(268,080)</u>	<u>81,024</u>	<u>(187,056)</u>
Non-operating Revenues (Expenses):			
Interest revenue	5	50	55
Interest expense	<u>(2,247)</u>		<u>(2,247)</u>
Total non-operating revenues (expenses)	<u>(2,242)</u>	<u>50</u>	<u>(2,192)</u>
Net income (loss) before operating transfers	<u>(270,322)</u>	81,074	<u>(189,248)</u>
Transfers in	<u>171,298</u>		<u>171,298</u>
Change in net assets	<u>(99,024)</u>	81,074	<u>(17,950)</u>
Net assets - beginning	<u>746,277</u>	<u>220,544</u>	<u>966,821</u>
Net assets - ending	<u>\$ 647,253</u>	<u>\$ 301,618</u>	<u>\$ 948,871</u>

CITY OF FREEPORT
Freeport, Texas

COMBINING SCHEDULE OF CASH FLOWS
NONMAJOR ENTERPRISE FUNDS

For The Year Ended September 30, 2011

	Golf Course	Ambulance	Total Nonmajor Enterprise Funds
Cash Flows from Operating Activities:			
Receipts from customers and users	\$ 543,147	\$ 567,597	\$ 1,110,744
Payments to suppliers	(302,762)	(112,992)	(415,754)
Payments to employees	(416,770)	(484,181)	(900,951)
Net cash used by operating activities	(176,385)	(29,576)	(205,961)
Cash Flows from Non-Capital Financing Activities:			
Operating transfers from other funds	171,298		171,298
Net cash provided by non-capital financing activities	171,298	-0-	171,298
Cash Flows from Capital and Related Financing Activities:			
Interest payments on capital leases	(2,247)		(2,247)
Principal payments on capital assets	(13,561)		(13,561)
Net cash provided (used) by capital and related financing activities	(15,808)	-0-	(15,808)
Cash Flows from Investing Activities:			
Interest on investments	14	50	64
Net cash provided by investment activities	14	50	64
Net decrease in cash and cash equivalents	(20,881)	(29,526)	(50,407)
Cash and cash equivalents at the beginning of year	21,324	31,552	52,876
Cash and cash equivalents at the end of the year	\$ 443	\$ 2,026	\$ 2,469

(Continued)

CITY OF FREEPORT

Freeport, Texas

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

For The Year Ended September 30, 2011

	<u>Golf Course</u>	<u>Ambulance</u>	<u>Total Nonmajor Enterprise Funds</u>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:			
Operating income (loss)	\$ (268,080)	\$ 81,024	\$ (187,056)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Depreciation	72,051	37,279	109,330
(Increase) decrease in accounts receivable		(150,042)	(150,042)
(Increase) decrease in inventory	6,937		6,937
Increase (decrease) in accounts payable	11,428	15,172	26,600
Increase (decrease) in accrued wages and benefits	(12,467)	(15,411)	(27,878)
Increase (decrease) in accrued compensated absences	<u>13,746</u>	<u>2,402</u>	<u>16,148</u>
 Total adjustments	 <u>91,695</u>	 <u>(110,600)</u>	 <u>(18,905)</u>
 Net cash used by operating activities	 <u>\$ (176,385)</u>	 <u>\$ (29,576)</u>	 <u>\$ (205,961)</u>
 Non-Cash Investing, Capital and Financing Activities:			
Net effect of non-cash transactions	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

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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, 2011

	Budgeted Amounts		Actual GAAP Basis	Adjustments to Budgetary Basis
	Original	Final		
Operating Revenues:				
Water service	\$ 2,136,390	\$ 2,136,390	\$ 2,096,401	\$
Sewer service	1,391,898	1,391,898	1,322,723	
Charges for other services	183,000	183,000	19,491	
Miscellaneous	1,575	1,575	5,580	
Total operating revenues	3,712,863	3,712,863	3,444,195	-0-
Operating Expenses:				
Personnel services	74,859	74,859	83,075	
Employee benefits	26,629	26,629	26,708	
Contract and professional services	2,021,892	2,111,892	2,072,679	
Other operating	41,103	41,103	55,791	
Supplies	14,250	14,250	8,723	
Cost of sales	1,203,760	1,203,760	1,197,200	
Operating expenses before depreciation	3,382,493	3,472,493	3,444,176	-0-
Depreciation			299,517	(299,517)
Total operating expenses	3,382,493	3,472,493	3,743,693	(299,517)
Net operating income (loss)	330,370	240,370	(299,498)	299,517
Non-Operating Revenues (Expenses):				
Interest revenue	110	110	70	
Capital outlay	(68,000)	(68,000)		
Debt principal	(208,000)	(208,000)		(208,000)
Interest expense and agent fees	(43,271)	(43,271)	(58,824)	15,188
Total non-operating revenues (expenses)	(319,161)	(319,161)	(58,754)	(192,812)
Net income (loss) before contributions and operating transfers	11,209	(78,791)	(358,252)	106,705
Contribution (capital)			203,727	(203,727)
Transfers in				-0-
Change in net assets	\$ 11,209	\$(78,791)	\$(154,525)	\$(97,022)

Actual Budgetary Basis	Variance on Final Budget - Positive (Negative)
\$ 2,096,401	\$(39,989)
1,322,723	(69,175)
19,491	(163,509)
<u>5,580</u>	<u>4,005</u>
<u>3,444,195</u>	<u>(268,668)</u>
83,075	(8,216)
26,708	(79)
2,072,679	39,213
55,791	(14,688)
8,723	5,527
<u>1,197,200</u>	<u>6,560</u>
3,444,176	28,317
<u>-0-</u>	<u>-0-</u>
<u>3,444,176</u>	<u>28,317</u>
<u>19</u>	<u>(240,351)</u>
70	(40)
	68,000
(208,000)	-0-
<u>(43,636)</u>	<u>(365)</u>
<u>(251,566)</u>	<u>67,595</u>
(251,547)	(172,756)
-0-	-0-
<u>-0-</u>	<u>-0-</u>
<u>\$(251,547)</u>	<u>\$(172,756)</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, 2011

	Budgeted Amounts		Actual GAAP Basis	Adjustments to Budgetary Basis
	Original	Final		
Operating Revenues:				
Golf course fees and charges	\$ 670,222	\$ 670,222	\$ 543,147	\$
Total operating revenues	<u>670,222</u>	<u>670,222</u>	<u>543,147</u>	<u>-0-</u>
Operating Expenses:				
Personnel services	322,015	322,015	306,060	
Employee benefits	125,533	125,533	111,989	
Contract and professional services	97,917	98,617	97,904	
Supplies	46,500	45,800	53,828	
Cost of sales and services	<u>130,222</u>	<u>130,222</u>	<u>169,395</u>	
Operating expenses before depreciation	722,187	722,187	739,176	-0-
Depreciation			<u>72,051</u>	<u>(72,051)</u>
Total operating expenses	<u>722,187</u>	<u>722,187</u>	<u>811,227</u>	<u>(72,051)</u>
Net operating income (loss)	<u>(51,965)</u>	<u>(51,965)</u>	<u>(268,080)</u>	<u>72,051</u>
Non-Operating Revenues (Expenses):				
Interest revenue			5	
Interest expense			<u>(2,247)</u>	
Total non-operating revenues (expenses)	<u>-0-</u>	<u>-0-</u>	<u>(2,242)</u>	<u>-0-</u>
Net income (loss) before operating transfers	<u>(51,965)</u>	<u>(51,965)</u>	<u>(270,322)</u>	<u>72,051</u>
Transfers in (out)	<u>51,965</u>	<u>51,965</u>	<u>171,298</u>	
Change in net assets	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$(99,024)</u>	<u>\$ 72,051</u>

Actual Budgetary Basis	Variance on Final Budget - Positive (Negative)
\$ <u>543,147</u>	\$ (<u>127,075</u>)
<u>543,147</u>	(<u>127,075</u>)
306,060	15,955
111,989	13,544
97,904	713
53,828	(8,028)
<u>169,395</u>	(<u>39,173</u>)
739,176	(16,989)
<u>-0-</u>	<u>-0-</u>
<u>739,176</u>	(<u>16,989</u>)
(<u>196,029</u>)	(<u>144,064</u>)
5	5
(<u>2,247</u>)	(<u>2,247</u>)
(<u>2,242</u>)	(<u>2,242</u>)
(198,271)	(146,306)
<u>171,298</u>	<u>119,333</u>
\$ (<u>26,973</u>)	\$ (<u>26,973</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, 2011

	Budgeted Amounts		Actual GAAP Basis	Adjustments to Budgetary Basis
	Original	Final		
Operating Revenues:				
Charges for other services	\$ 550,000	\$ 550,000	\$ 630,316	\$
Miscellaneous	<u>87,900</u>	<u>90,288</u>	<u>87,323</u>	
Total operating revenues	<u>637,900</u>	<u>640,288</u>	<u>717,639</u>	<u>-0-</u>
Operating Expenses:				
Personnel services	359,788	361,506	353,613	
Employee benefits	132,204	132,204	117,559	
Other operating	64,723	65,539	79,790	
Supplies	<u>50,510</u>	<u>52,808</u>	<u>48,374</u>	
Operating expenses before depreciation	607,225	612,057	599,336	-0-
Depreciation			<u>37,279</u>	<u>(37,279)</u>
Total operating expenses	<u>607,225</u>	<u>612,057</u>	<u>636,615</u>	<u>(37,279)</u>
Net operating income (loss)	<u>30,675</u>	<u>28,231</u>	<u>81,024</u>	<u>37,279</u>
Non-Operating Revenues (Expenses):				
Interest revenue	<u>113</u>	<u>113</u>	<u>50</u>	
Total non-operating revenues (expenses)	<u>113</u>	<u>113</u>	<u>50</u>	<u>-0-</u>
Net income (loss) before operating transfers	30,788	28,344	81,074	37,279
Transfers in				<u>-0-</u>
Change in net assets	<u>\$ 30,788</u>	<u>\$ 28,344</u>	<u>\$ 81,074</u>	<u>\$ 37,279</u>

Actual Budgetary Basis	Variance on Final Budget - Positive (Negative)
\$ 630,316	\$ 80,316
<u>87,323</u>	<u>(2,865)</u>
<u>717,639</u>	<u>77,351</u>
353,613	7,893
117,559	14,645
79,790	(14,251)
<u>48,374</u>	<u>4,434</u>
599,336	12,721
<u>-0-</u>	<u>-0-</u>
<u>599,336</u>	<u>12,721</u>
<u>118,303</u>	<u>90,072</u>
<u>50</u>	<u>(63)</u>
<u>50</u>	<u>(63)</u>
118,353	90,009
<u>-0-</u>	<u>-0-</u>
<u>\$ 118,353</u>	<u>\$ 90,009</u>

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CITY OF FREEPORT
Freeport, Texas

SCHEDULE OF AD VALOREM TAX LEVY AND COLLECTIONS

September 30, 2011

Levy Year	Balance 10-01-10	Current Year Levy	Collections	Adjustments	Balance 09-30-11
2001 & Prior	\$ 46,937	\$	\$ 2,030	\$(10,082)	\$ 34,825
2002	10,129		593	(341)	9,195
2003	11,737		724	(77)	10,936
2004	10,234		729	(57)	9,448
2005	10,494		1,821	(130)	8,543
2006	12,083		1,868	(218)	9,997
2007	21,169		6,700	(233)	14,236
2008	31,891		12,799	(278)	18,814
2009	80,056		42,225	(3,053)	34,778
2010		<u>2,513,055</u>	<u>2,398,719</u>	<u>(20,740)</u>	<u>93,596</u>
	<u>\$ 234,730</u>	<u>\$ 2,513,055</u>	<u>\$ 2,468,208</u>	<u>\$(35,209)</u>	244,368
Less reserve for uncollectible taxes					<u>56,350</u>
Net delinquent ad valorem taxes receivable					<u>\$ 188,018</u>

CITY OF FREEPORT
Freeport, Texas

DEBT SERVICE REQUIREMENTS TO MATURITY
CERTIFICATES OF OBLIGATION BONDS

September 30, 2011
(Unaudited)

Year Ending 09-30	\$ 3,000,000 Series 2003		\$ 2,185,000 Series 2003		\$ 3,350,000 Series 2008		Total Principal & Interest
	Principal	Interest	Principal	Interest	Principal	Interest	
2012	\$ 196,000	\$ 85,281	\$ 143,000	\$ 62,121	\$ 190,000	\$ 107,068	\$ 783,470
2013	205,000	75,577	150,000	55,031	200,000	99,866	785,474
2014	215,000	65,413	157,000	47,601	205,000	92,286	782,300
2015	226,000	54,740	164,000	39,833	215,000	84,518	784,091
2016	237,000	43,536	172,000	31,702	220,000	76,368	780,606
2017	248,000	31,799	181,000	23,159	230,000	68,031	781,989
2018	260,000	19,505	189,000	14,205	240,000	59,314	782,024
2019	273,000	6,607	199,000	4,817	245,000	50,218	778,642
2020					255,000	40,932	295,932
2021					265,000	31,265	296,265
2022					275,000	21,224	296,224
2023					285,000	10,802	295,802
TOTAL	\$ 1,860,000	\$ 382,458	\$ 1,355,000	\$ 278,469	\$ 2,825,000	\$ 741,892	\$ 7,442,819

CITY OF FREEPORT

Freeport, Texas

**DEBT SERVICE REQUIREMENTS TO MATURITY
REVENUE BONDS**

September 30, 2011
(Unaudited)

Year Ending 09/30	\$ 1,943,000 Series 2004		Total Principal & Interest
	Principal	Interest	
2012	\$	\$ 16,442	\$ 16,442
2013	215,000	27,669	242,669
2014	228,000	16,926	244,926
2015	235,000	5,699	240,699
2016			
2017			
2018			
2019			
2020			
2021			
2022			
2023			
TOTAL	<u>\$ 678,000</u>	<u>\$ 66,736</u>	<u>\$ 744,736</u>