

KENNEMER, MASTERS & LUNSFORD

CERTIFIED PUBLIC ACCOUNTANTS
Limited Liability Company

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April 5, 2013

Mayor and Council Members
City of Freeport
200 West 2nd Street
Freeport, Texas

Dear Mayor and Council Members:

In planning and performing our audit of the financial statements of the City of Freeport ("City") for the year ended September 30, 2012, we considered its internal control structure in order to determine our auditing procedures for the purpose of our report on the financial statements and not to provide assurance on the internal control structure.

The communication of client advisory comments is discretionary and, therefore, differs from the required communications related to internal control. Client advisory comments pertain to findings other than those relating to internal control and other matters which are reportable conditions but are, in our judgment, worthy of mention. The following client advisory comments are presented for your consideration.

Marina Project

As of September 30, 2012, an asset impairment analysis was performed on the Freeport Economic Development Corporation's (the "Corporation") marina assets. This resulted in an asset impairment adjustment of \$ 3,403,424, reducing the Marina assets carrying amount from \$ 9,266,424 to \$ 5,863,000 (fair value of \$ 6,120,000 less estimated cost to move dry stack building of \$ 257,000).

In previous years we have communicated a need for the City and the Corporation to determine the ultimate ownership and means of operation of the Marina. As the Marina is substantially complete, excluding the move of the dry storage building, the ownership and operation of the Marina remains a major consideration. Know that the Marina is being depreciated in the Corporation while the City operates the Marina as a special revenue fund. Clearly, this is not the optimal situation and deserves study. Further, the City holds approximately \$ 8,083,539 (\$ 6,639,208 in note principal and \$ 1,444,331 in accrued interest receivable) in Corporation debt. During the year ended September 30, 2012, interest and the expectation of payments were frozen. This is a temporary solution to a long-term issue. If the Corporation is unable to repay, the asset (City) will have to be significantly discounted or written off.

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Marina Project – continued

A large portion of this liability could be satisfied by the transfer of the Marina capital assets from the Corporation to the City. We are not recommending this action, as we must remain independent, however, the only other options are the successful operation of the Marina by the Corporation, in a manner that would allow payment of a portion of the liability, with negotiations as to the elimination of the remaining balance, or, the sale of the Marina and again, negotiations as to the elimination of the remaining balance. Either way, it may be necessary to repay the debt to the City out of sales tax revenues or eliminate a portion of the debt in a manner that would be agreeable to the City and the Corporation. This would most likely significantly restrict the Corporation from any new economic development projects. Additionally, legal actions remain active and could have a significant impact on the City's and the Corporation's assets as well as options.

At the point when all construction is complete and the marina is in full operation, we recommend the City and the Corporation reach a formal, legal agreement as to the future ownership and operation of the marina facilities. Should the operation remain with the City and the ownership with the Corporation then we also recommend that an asset lease agreement or some other form of agreement be in place between the City and the Corporation for the City's use of the assets.

Deficit Fund Equities

At September 30, 2012, the City's debt service property tax rates and transfers from the General Fund were not adequate to offset all prior year fund balance deficits. At October 1, 2011, the 2003B Series Debt Service Fund had a deficit of \$ 32,597. During the year ended September 30, 2012, the 2003B Series Debt Service Fund had an increase in fund balance of \$ 27,407, resulting in a deficit fund balance of \$ 5,190. We recommend that the City establish an adequate debt service rate that will result in the collection of enough property tax revenue to eliminate this deficit. If increasing property taxes is not considered a good option by the City, then we recommend that the General Fund reduce its tax rate appropriately to prevent an increase in taxes. If the debt service tax rates are not set at an appropriate amount, then deficit will continue and the requirement of transferring funds from the General Fund will be required each year. If this is not desirable, then the General Fund should budget transfers each year in an amount adequate to overcome the short fall of debt service taxes.

In addition to the deficit in the debt service fund, the Marina Operations Special Revenue Fund has increased its deficit from \$ 122,137 to \$ 125,528 during the year ended September 30, 2012, in spite of a \$ 142,207 transfer from the General Fund. Although the Marina operations are still in their early phases, potential problems exist that may continue to require the General Fund to fund excess expenditures into the future. See Marina Project comments above.

Enterprise Fund Profit and Loss

The Water and Sewer Enterprise Fund has generated losses for the last few years. For the years ended September 30, 2012, 2011, and 2010; the City generated net operating losses of \$ 332,816, \$ 368,252, and \$ 356,691, respectively. Although the City implemented a rate increase in October of 2011, these losses continue and have resulted in a deficit unreserved net asset balance of \$ 366,315. This deficit continues to grow in spite of transfers from the General Fund. We recommend that the City continue to closely evaluate operating expenses and if necessary, the current rate charges.

The Golf Course Enterprise Fund has also sustained net losses over the past few years. For the year ended September 30, 2012, 2011, and 2010; the City sustained operating losses of \$ 221,906, \$ 270,322, and \$ 269,269, respectively, before transfers from the General Fund in the amount of \$ 166,165, 171,298, and 184,851, respectively. These losses have resulted in a deficit unreserved net asset balance of \$ 142,940. We recommend the City continue to evaluate the current rates and continue to keep costs at a minimum. The City does have the option of changing the fund status of the Golf Course Fund to a Special Revenue Fund. Due to the City continuing to have losses in this Fund, changing its status to a Special Revenue Fund would be more suitable because Enterprise Funds are theoretically for profit based funds.

For the year ended September 30, 2012, 2011, and 2010; the City had net income (losses) of \$ 240,234, \$ 81,074, and \$ (81,179), respectively, in the Ambulance Enterprise Fund. We would like to commend the City, as these results are very favorable. We recommend the City continue to evaluate the current rates charged for services and their relationship to costs of providing ambulance services and continue this positive trend in this fund.

Cut-off Procedures

During our tests of accounts payable and accrued expenditures/expenses, search for unrecorded liabilities, we identified a significant amount of liabilities that were not recorded at September 30, 2012. We recommend that management carefully review all liabilities at year end to eliminate the possibility of understating liabilities and expenditures/expenses. Further, we suggest the use of analytical procedures, comparison to prior year amounts, for all liabilities and expenditures/expenses.

General Considerations

During the performance of our audit and evaluation of internal accounting and administrative controls, we worked with the accounting and administrative personnel of the City. We found them to be cooperative, conscientious and concerned with the performance of their duties. We realize that internal control communications and advisory comments are critical in nature and do not in many instances praise the performances of the personnel performing the related functions.

Mayor and Council Members
City of Freeport
April 5, 2013
Page 4

We sincerely appreciate the cooperation and congeniality extended to us during our audit and the opportunity to serve as the City's external auditor. We look forward to a continuing and beneficial relationship.

Sincerely,

KENNEMER, MASTERS & LUNSFORD, LLC

By:  , CPA

Kevin R Cadenhead, CPA
Partner

cc: Jeff Pynes, City Manager
Bob Welch, Finance Director

KENNEMER, MASTERS & LUNSFORD

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April 5, 2013

Mayor and Council Members
City of Freeport
Freeport, Texas 77541

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Freeport (the "City") for the year ended September 30, 2012 and have issued our report thereon dated April 5, 2013. Professional standards require that we provide you with the following information related to our audit.

Our Responsibilities under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated June 15, 2012, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the City. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed test of the City's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope previously communicated to you in our engagement letter dated June 15, 2012.

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Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended September 30, 2012. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, the misstatements detected as a result of audit procedures and corrected by management were material, both individually and in the aggregate, to the financial statements taken as a whole. We believe that these corrections were required as a result of the timing of the change in accounting personnel and reflect on the situation rather than any personnel. Copies of the journal entries are attached for review.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated April 5, 2013.

Mayor and Council Members
City of Freeport
April 5, 2013
Page 3

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Mayor, Members of City Council and management of the City and is not intended to be and should not be used by anyone other than these specified parties.

Kennemer, Masters & Hunford, LLC

KENNEMER, MASTERS & LUNSFORD

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Independent Auditor's Report

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

April 5, 2013

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Freeport (the "City") as of and for the year ended September 30, 2012, which collectively comprise the City's basic financial statements and have issued our report thereon dated April 5, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

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To the Honorable Mayor and
Members of City Council
City of Freeport
April 5, 2013
Page 2

Compliance and Other Matters

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

We have performed tests designed to verify the City's compliance with the requirements of the Public Funds Investment Act. During the year ended September 30, 2012, no instances of noncompliance were found.

We noted certain matters that we reported to management of the City, in a separate letter dated April 5, 2013.

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

Kennemer, Masters & Hungford, LLC

CITY OF FREEPORT
FREEPORT, TEXAS

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED
SEPTEMBER 30, 2012

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

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CITY OF FREEPORT
Freeport, Texas

Annual Financial Report
For the Year Ended September 30, 2012

Table of Contents

	<u>Page</u>
FINANCIAL SECTION	
Independent Auditor's Report.....	7-8
Management's Discussion and Analysis	9-22
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets	24-25
Statement of Activities.....	26-27
Fund Financial Statements	
Balance Sheet - Governmental Funds.....	28
Reconciliation of the Governmental Funds Balance Sheet to the Governmental Activities Statement of Net Assets.....	29
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	30
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Governmental Activities Statement of Activities.....	31
Statement of Net Assets - Proprietary Funds	32-33
Statement of Revenues, Expenses, and Changes in Net Assets - Proprietary Funds.....	34
Statement of Cash Flows - Proprietary Funds	35-36
Notes to the Financial Statements.....	37-77
REQUIRED SUPPLEMENTARY INFORMATION	
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - General Fund	80
Texas Municipal Retirement System Schedule of Funding Progress - Last Three Fiscal Years	81
Texas Statewide Emergency Services Personnel Retirement Fund - Schedule of Funding Progress - Last Three Fiscal Years	82

CITY OF FREEPORT
Freeport, Texas

Annual Financial Report
For the Year Ended September 30, 2012

Table of Contents

	<u>Page</u>
OTHER SCHEDULES	
Combining Balance Sheet - Nonmajor Governmental Funds	84-85
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance - Nonmajor Governmental Funds.....	86-87
Statements of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual:	
Special Revenue Funds:	
Street, Drainage and Sidewalks.....	88
Hotel Motel Tax.....	89
Marina Operations.....	90
Debt Service Funds:	
Series 2003A.....	91
Series 2003B.....	92
Series 2008.....	93
Capital Projects Funds:	
2008 Bond Construction.....	94
Schedules of Revenues, Expenditures and Changes in Net Assets - Budget and Actual:	
Enterprise Funds:	
Water and Sewer	96-97
Golf Course	98-99
Ambulance	100-101
Schedule of Ad Valorem Tax Levy and Collections.....	103
Debt Service Requirements to Maturity - Certificates of Obligation Bonds	104
Debt Service Requirements to Maturity - Revenue Bonds	105

FINANCIAL SECTION

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Independent Auditor's Report

April 5, 2013

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, 2012, 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, 2012 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 April 5, 2013 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 80 through 82 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 & Hunford, LLC

CITY OF FREEPORT, TEXAS

Management's Discussion and Analysis For the Year Ended September 30, 2012

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, 2012. 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.
- During the current year, the City and the Corporation froze the payments of principal and interest and the accrual of interest until such time as the Marina is complete and an agreement of the amount and timing of debt payments can be reevaluated.
- The assets of the City of Freeport exceeded its liabilities at the close of the most recent fiscal year by \$ 28,157,714 (net assets). Of this amount, \$ 3,911,816 (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's net assets of \$ 28,157,714 increased by \$ 72,446 from the prior year.
- As of the close of the current fiscal year, the City of Freeport's governmental funds reported combined ending fund balances of \$ 11,175,678. 37.67% of this total amount, \$ 4,209,590 (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 \$ 11,074,469 and the unassigned fund balance was \$ 4,340,308. These amounts were 110.15% and 43.17% 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, 2012*

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, 2012

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 84 through 87 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, Golf Course Enterprise Fund, and Ambulance Enterprise Fund; which are considered to be major funds. 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 77 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 80 through 82 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 84 through 105 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 \$ 28,157,714 as of September 30, 2012.

A large portion of the City's net assets, in the amount of \$ 15,829,594 (56.21%) 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
For the Year Ended September 30, 2012

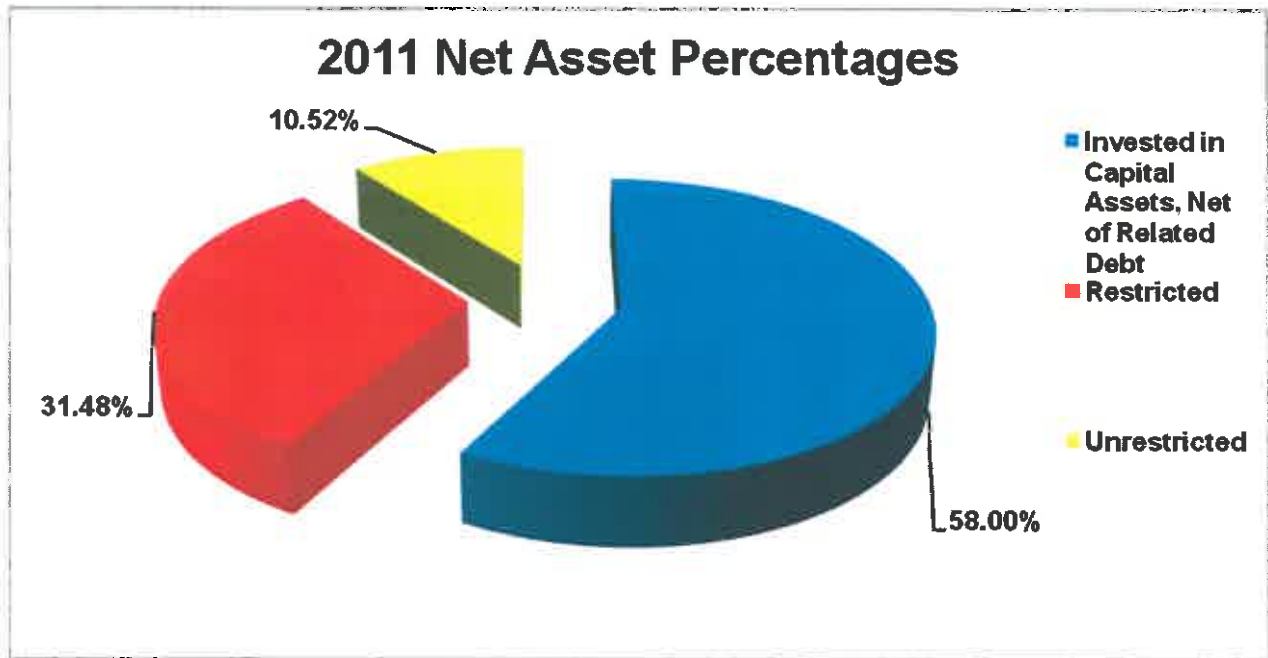
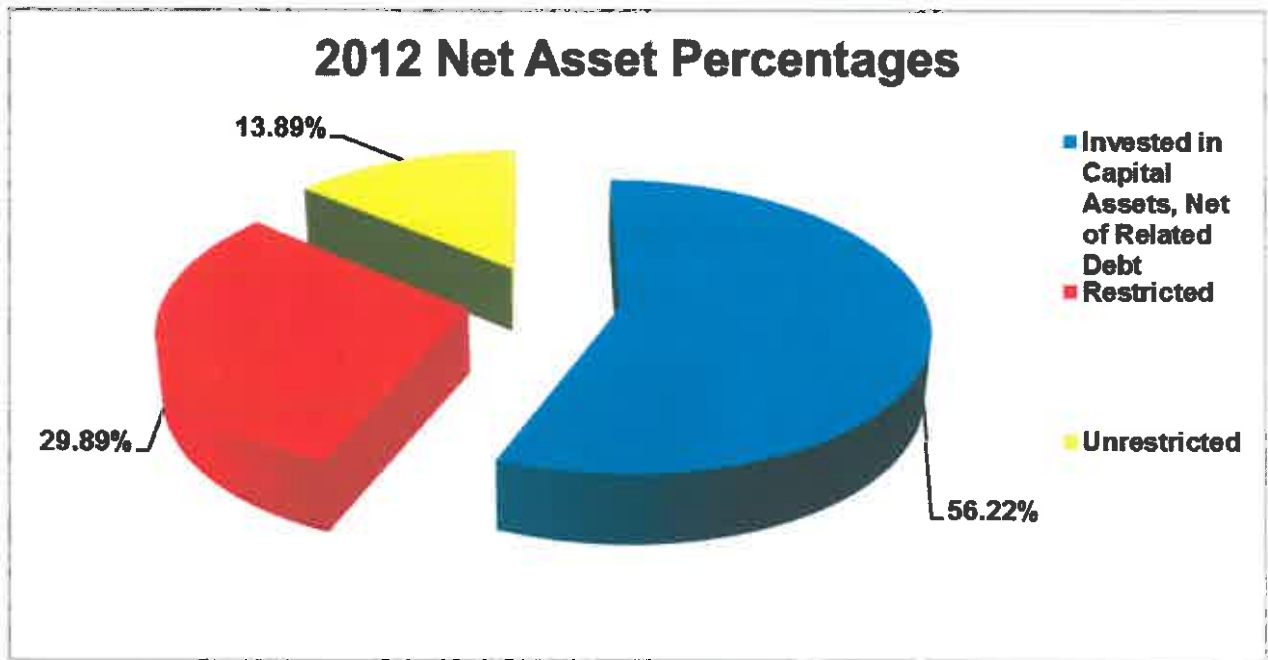
An additional portion of the City's net assets of \$ 8,416,304 (29.90%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets of \$ 3,911,816 (13.89%) may be used to meet the government's ongoing obligations to citizens and creditors.

As of September 30, 2012, the City is able to report positive balances in all categories of net assets for the government as a whole. The business-type activities report a negative amount in unrestricted net assets.

CITY OF FREEPORT'S NET ASSETS

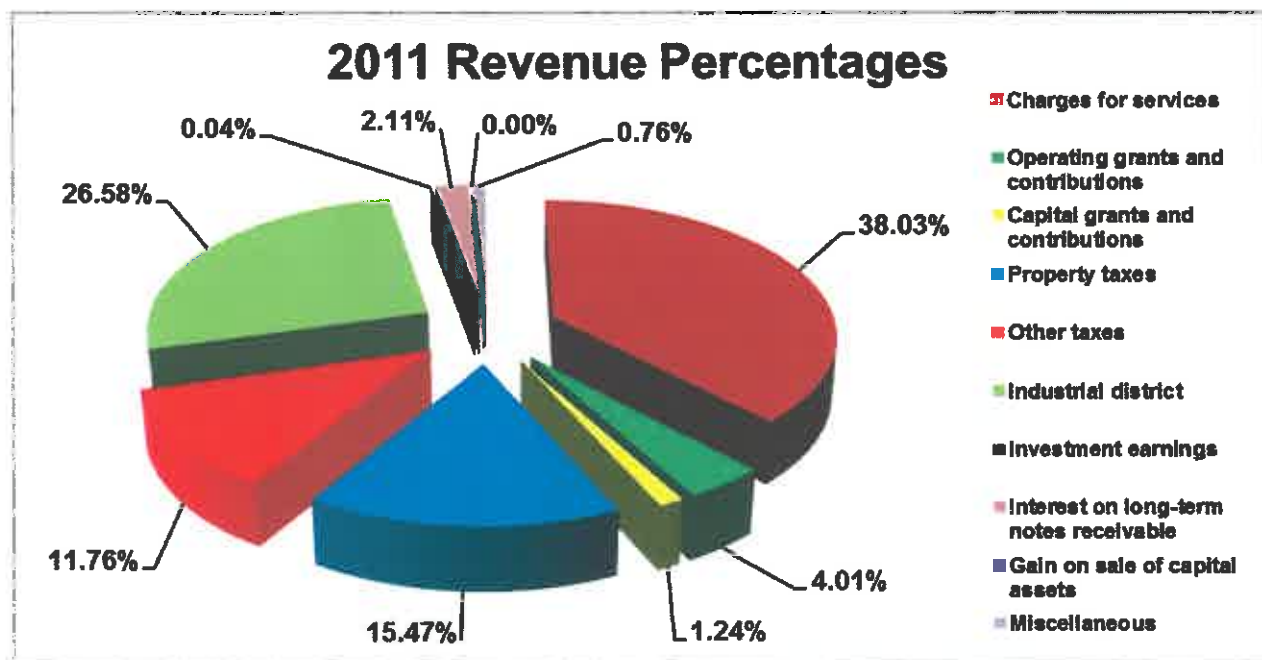
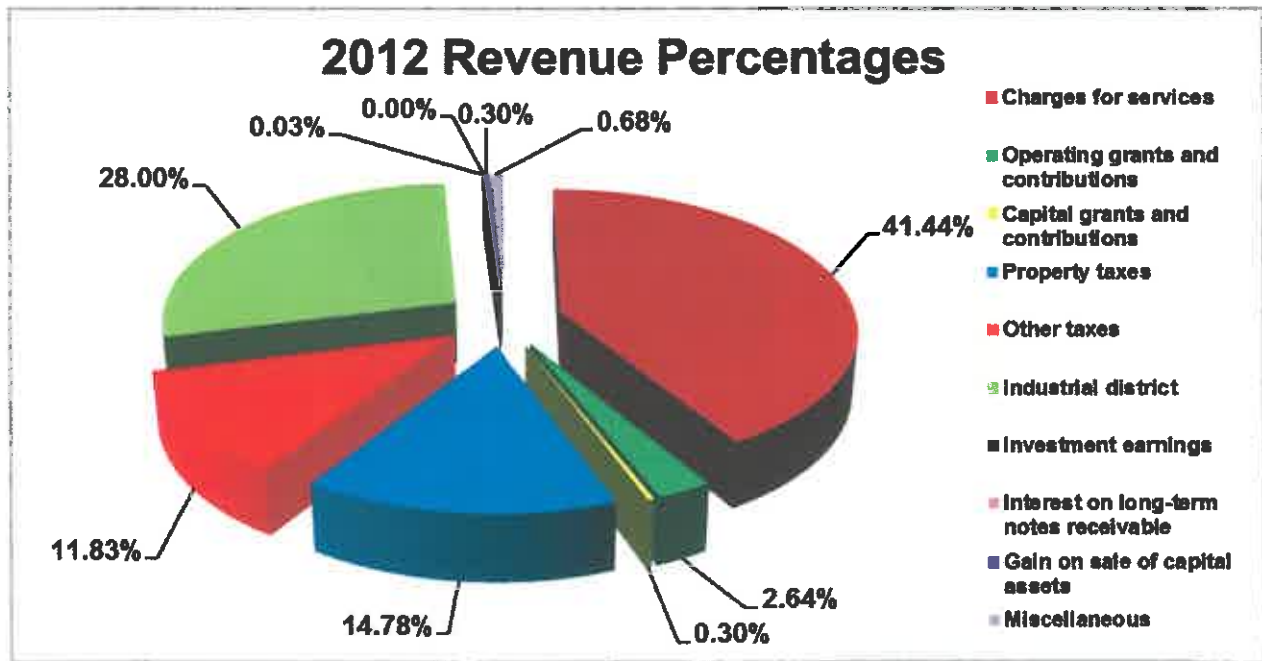
	Governmental Activities		Business-type Activities		Totals	
	September 30,		September 30		September 30,	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 5,853,354	\$ 5,712,560	\$ 538,230	\$ 1,167,156	\$ 6,391,584	\$ 6,879,716
Long-term receivables	8,083,539	8,083,539			8,083,539	8,083,539
Capital assets	<u>14,911,806</u>	<u>15,647,846</u>	<u>7,237,972</u>	<u>7,555,756</u>	<u>22,149,778</u>	<u>23,203,602</u>
Total assets	<u>28,848,699</u>	<u>29,443,945</u>	<u>7,776,202</u>	<u>8,722,912</u>	<u>36,624,901</u>	<u>38,166,857</u>
Current and other liabilities	746,195	888,323	469,620	1,400,318	1,215,815	2,288,641
Long-term liabilities	<u>6,419,263</u>	<u>7,001,134</u>	<u>832,109</u>	<u>791,814</u>	<u>7,251,372</u>	<u>7,792,948</u>
Total liabilities	<u>7,165,458</u>	<u>7,889,457</u>	<u>1,301,729</u>	<u>2,192,132</u>	<u>8,467,187</u>	<u>10,081,589</u>
Net Assets:						
Invest in capital assets, net of related debt	9,297,580	9,408,387	6,532,014	6,881,476	15,829,594	16,289,863
Restricted	8,416,304	8,819,022		22,583	8,416,304	8,841,605
Unrestricted	<u>3,969,357</u>	<u>3,327,079</u>	<u>(57,541)</u>	<u>(373,279)</u>	<u>3,911,816</u>	<u>2,953,800</u>
Total net assets	<u>\$ 21,683,241</u>	<u>\$ 21,554,488</u>	<u>\$ 6,474,473</u>	<u>\$ 6,530,780</u>	<u>\$ 28,157,714</u>	<u>\$ 28,085,268</u>

CITY OF FREEPORT, TEXAS
Management's Discussion and Analysis
For the Year Ended September 30, 2012

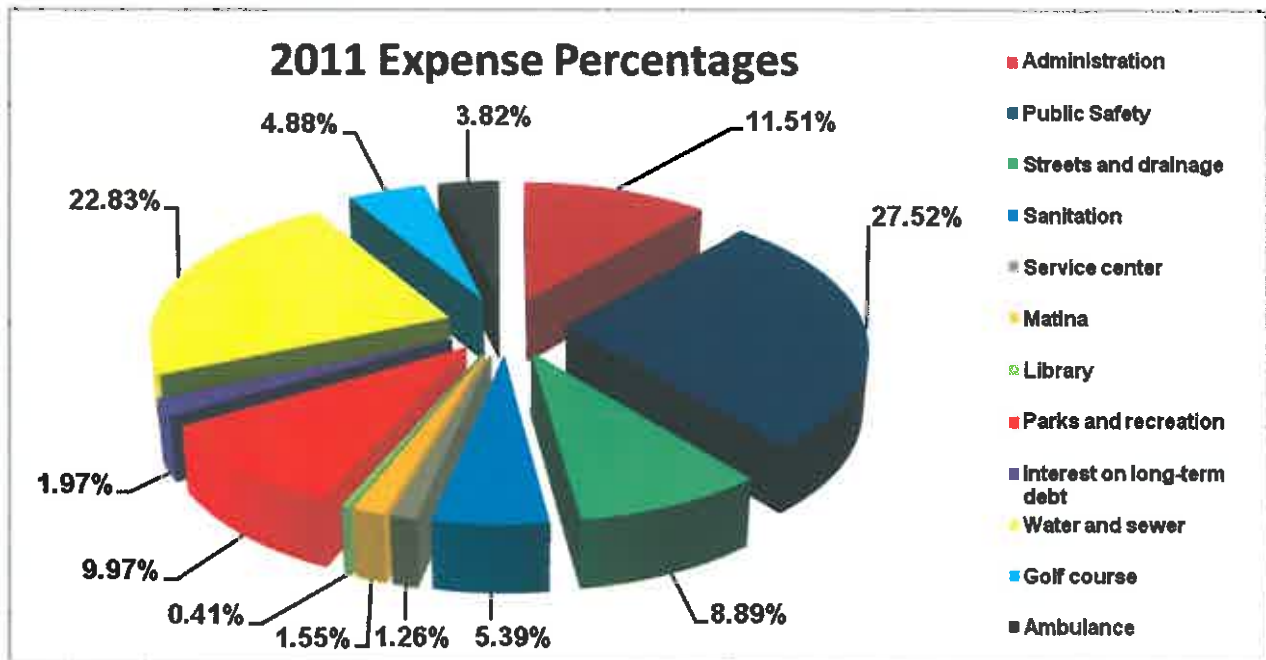
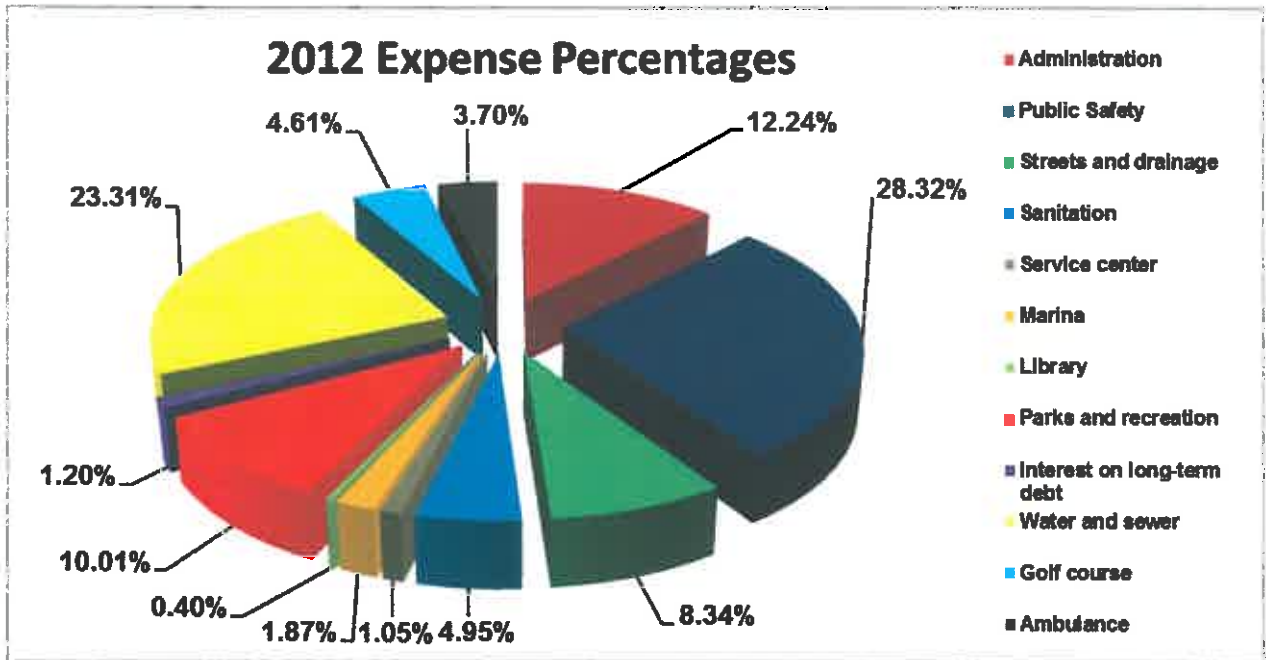


CITY OF FREEPORT, TEXAS
Management's Discussion and Analysis
For the Year Ended September 30, 2012

Analysis of the City's Operations. The following table provides a summary of the City's operations for the years ended September 30, 2012. Governmental activities increased the City of Freeport's net assets by \$ 128,753 and the business-type activities decreased the City's net assets by \$ 56,307.



CITY OF FREEPORT, TEXAS
Management's Discussion and Analysis
For the Year Ended September 30, 2012



CITY OF FREEPORT, TEXAS
Management's Discussion and Analysis
For the Year Ended September 30, 2012

CITY OF FREEPORT'S CHANGES IN NET ASSETS

	Governmental Activities		Business-type Activities		Totals	
	September 30,		September 30,		September 30,	
	2012	2011	2012	2011	2012	2011
Revenues:						
Program Revenues:						
Charges for services	\$ 2,054,223	\$ 1,634,153	\$ 4,973,425	\$ 4,617,658	\$ 7,027,648	\$ 6,251,811
Operating grants and contributions	448,987	572,274		87,323	448,987	659,597
Capital grants and contributions			50,045	203,727	50,045	203,727
General Revenues:						
Property taxes	2,505,767	2,543,884			2,505,767	2,543,884
Other taxes	2,005,458	1,932,730			2,005,458	1,932,730
Industrial district	4,748,786	4,368,796			4,748,786	4,368,796
Investment earnings	5,038	6,484	51	125	5,089	6,609
Interest on long-term receivable		346,247			-0-	346,247
Gain on sale of capital Assets	50,399				50,399	
Miscellaneous	115,746	125,585			115,746	125,585
Total revenues	11,934,404	11,530,153	5,023,521	4,908,833	16,957,925	16,438,986
Expenses:						
General government and administration	2,065,722	1,916,481			2,065,722	1,916,481
Public safety	4,782,099	4,583,174			4,782,099	4,583,174
Streets and drainage	1,407,419	1,481,235			1,407,419	1,481,235
Sanitation	835,764	896,875			835,764	896,875
Service center	177,731	209,355			177,731	209,355
Marina	316,233	257,926			316,233	257,926
Library	67,066	68,424			67,066	68,424
Parks and recreation	1,690,385	1,660,136			1,690,385	1,660,136
Interest on long-term debt	203,370	328,751			203,370	328,751
Water and sewer			3,936,715	3,802,517	3,936,715	3,802,517
Golf course			777,904	813,474	777,904	813,474
Ambulance			625,071	636,615	625,071	636,615
Total expenses	11,545,789	11,402,357	5,339,690	5,252,606	16,885,479	16,654,963
Increase in net assets before contributions and transfers	388,615	127,796	(316,169)	(343,773)	72,446	(215,977)
Transfers	(259,862)	(171,298)	259,862	171,298	-0-	-0-
Increase in net assets	128,753	(43,502)	(56,307)	(172,475)	72,446	(215,977)
Net assets – beginning	21,554,488	21,597,990	6,530,780	6,703,255	28,085,268	28,301,245
Net assets – ending	\$ 21,683,241	\$ 21,554,488	\$ 6,474,473	\$ 6,530,780	\$ 28,157,714	\$ 28,085,268

CITY OF FREEPORT, TEXAS

*Management's Discussion and Analysis
For the Year Ended September 30, 2012*

Financial Analysis of the City's Funds

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

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

As of the end of the current fiscal year, the City of Freeport's governmental funds reported combined ending fund balances of \$ 11,175,678. 37.67% of this total amount (\$ 4,209,590) 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 \$ 95,932, 3) restricted for tourism \$ 21,929, 4) restricted for debt service \$ 60,037, 5) restricted for capital projects \$ 54,029, 6) restricted for municipal court security \$ 27,381, 7) restricted for municipal court technology \$ 2,355, 8) restricted for narcotics operations \$ 63,517, 9) and assigned to main street \$ 1,700.

The General Fund balance increased by \$ 509,801 and the other governmental funds decreased \$ 262,684.

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, 2012 amounted to \$ 6,474,473. Total net assets decreased by \$ 56,307 (or 0.86%).

General Fund Budgetary Highlights. Differences between the original budget and the final amended budget resulted in a \$ 370,507 increase in appropriations which involved a number of budget items. The more significant items are summarized below.

- \$ 88,737 increase in a re-route of a 12" water main on SH 332.
- \$ 100,433 increase for Police Department federal narcotics expense to spend Federal Seized Funds received in the prior year.
- \$ 107,555 increase in street improvements through a County inter-local agreement.

The City's overall budgeted revenue increased 1.15% or \$ 119,124; 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, 2012, amounts to \$ 22,149,778 (net of accumulated depreciation). This investment in capital assets includes land, improvements, buildings, utility plant, furniture, equipment and vehicles, and construction in progress.

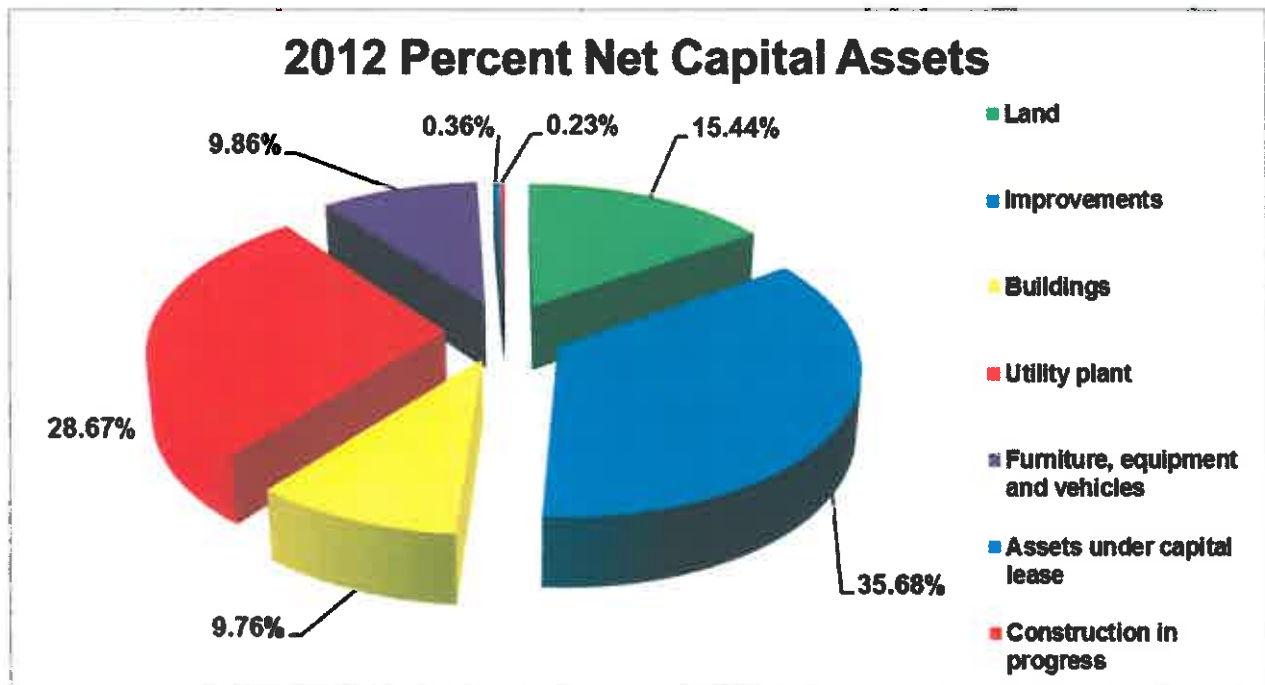
CITY OF FREEPORT, TEXAS
Management's Discussion and Analysis
For the Year Ended September 30, 2012

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

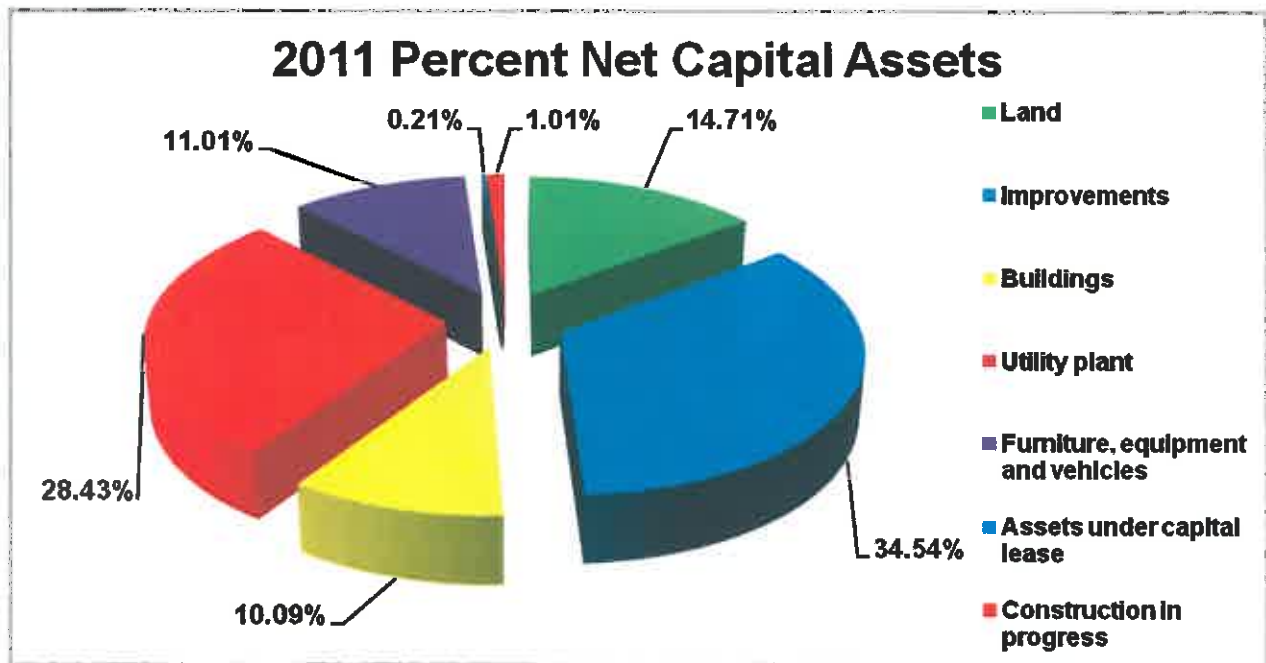
- Street improvement through County interlocal agreement
- New ambulance
- Pool slide for Recreation Center
- 2 – new Chevy Tahoe's for the Police Department

Capital Assets
Net of Accumulated Depreciation

	Governmental Activities		Business-type Activities		Totals	
	September 30,		September 30,		September 30,	
	2012	2011	2012	2011	2012	2011
Land	\$ 3,024,568	\$ 3,018,498	\$ 395,630	\$ 395,630	\$ 3,420,198	\$ 3,414,128
Improvements	7,769,993	7,858,135	132,442	155,791	7,902,435	8,013,926
Buildings	2,048,324	2,219,810	113,702	122,015	2,162,026	2,341,825
Utility plant			6,350,052	6,596,449	6,350,052	6,596,449
Furniture, equipment and vehicles	2,018,377	2,317,091	165,772	236,622	2,184,149	2,553,713
Assets under capital lease			80,374	49,249	80,374	49,249
Construction in progress	50,544	234,312			50,544	234,312
Total	\$ 14,911,806	\$ 15,647,846	\$ 7,237,972	\$ 7,555,756	\$ 22,149,778	\$ 23,203,602



CITY OF FREEPORT, TEXAS
Management's Discussion and Analysis
For the Year Ended September 30, 2012



Additional information on the City of Freeport's capital assets can be found in Note 5 on pages 54 through 57 of this report.

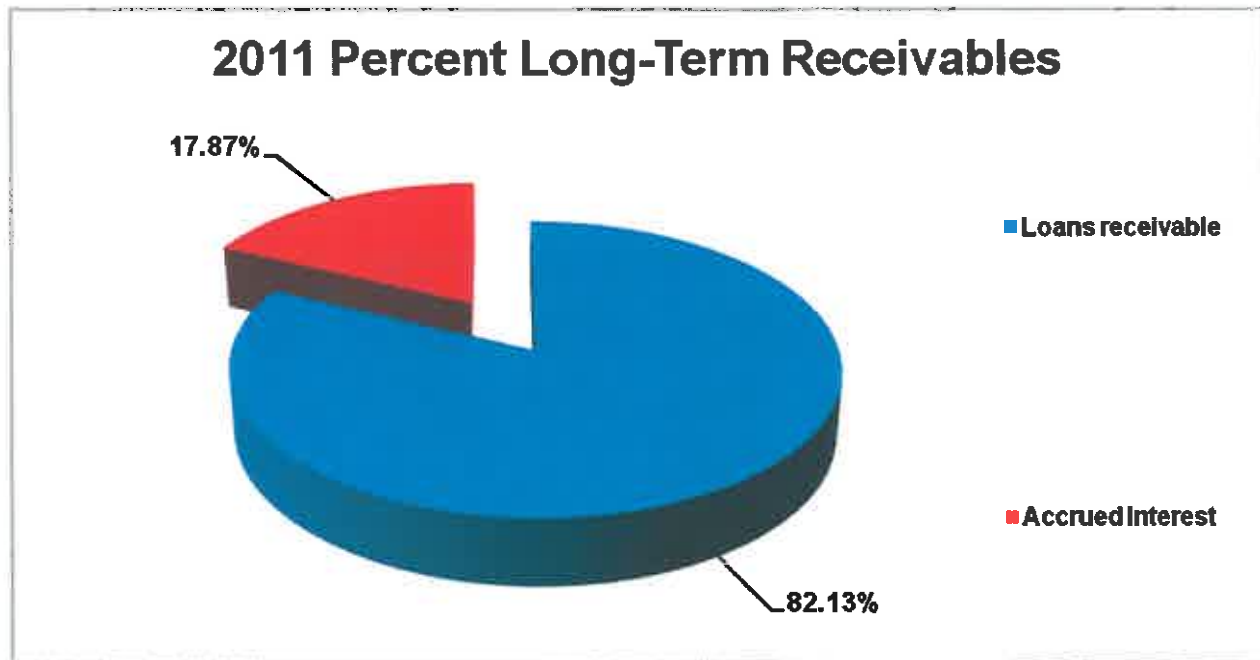
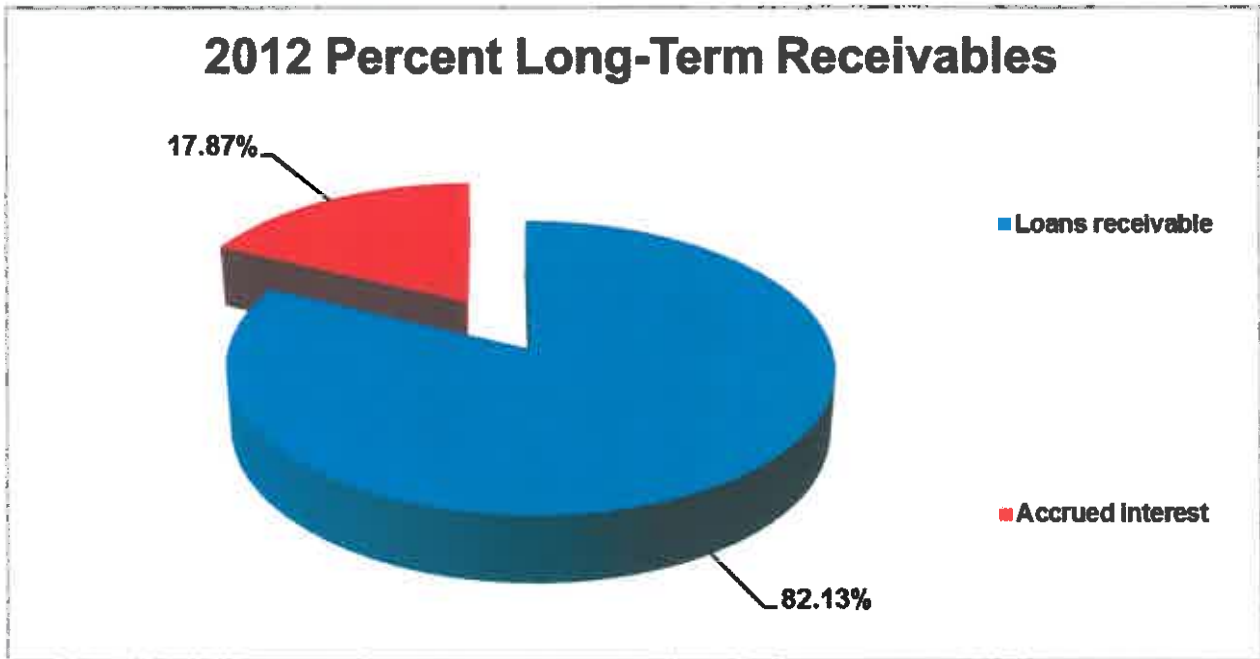
Notes Receivable

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

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Totals</u>	
	<u>September 30, 2012</u>	<u>September 30, 2011</u>	<u>September 30, 2012</u>	<u>September 30, 2011</u>	<u>September 30, 2012</u>	<u>September 30, 2011</u>
Loans receivable	\$ 6,639,208	\$ 6,639,208	\$	\$	\$ 6,639,208	\$ 6,639,208
Components of Long-Term						
Loans Receivable:						
Accrued interest receivable	<u>1,444,331</u>	<u>1,444,331</u>			<u>1,444,331</u>	<u>1,444,331</u>
Total	\$ <u>8,083,539</u>	\$ <u>8,083,539</u>	\$ <u>-0-</u>	\$ <u>-0-</u>	\$ <u>8,083,539</u>	\$ <u>8,083,539</u>

Additional information on the City of Freeport's long-term notes receivable can be found in Note 15 on pages 73 through 75 of this report.



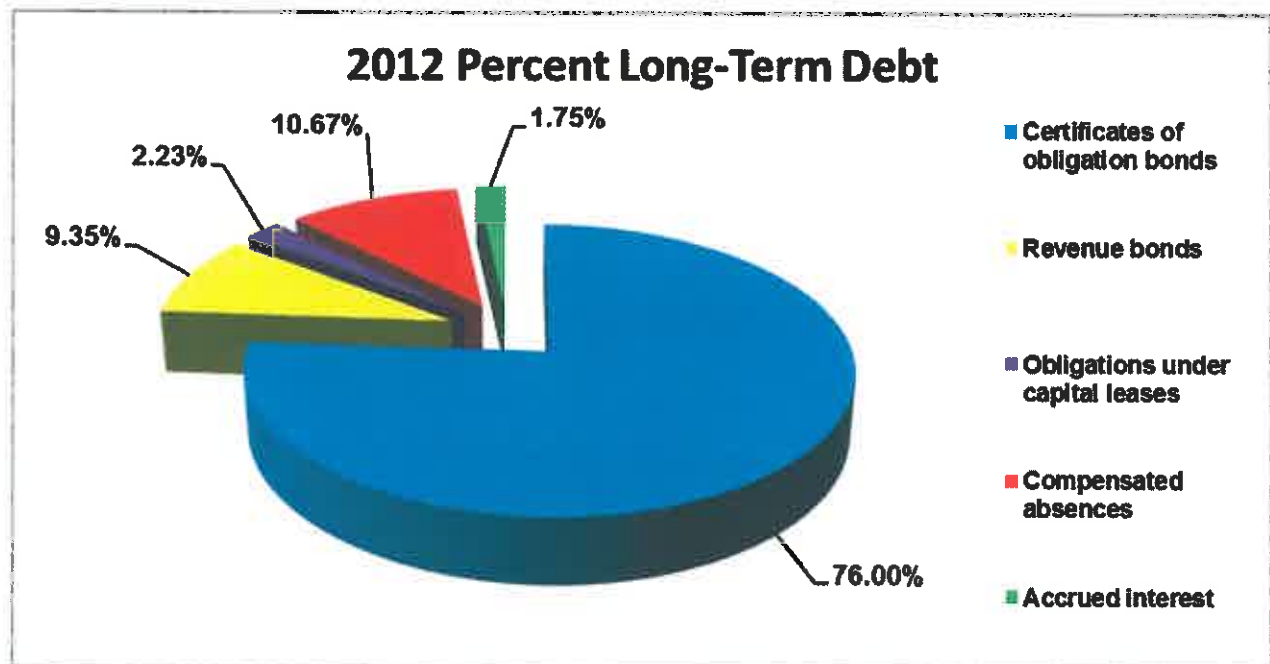
CITY OF FREEPORT, TEXAS
Management's Discussion and Analysis
For the Year Ended September 30, 2012

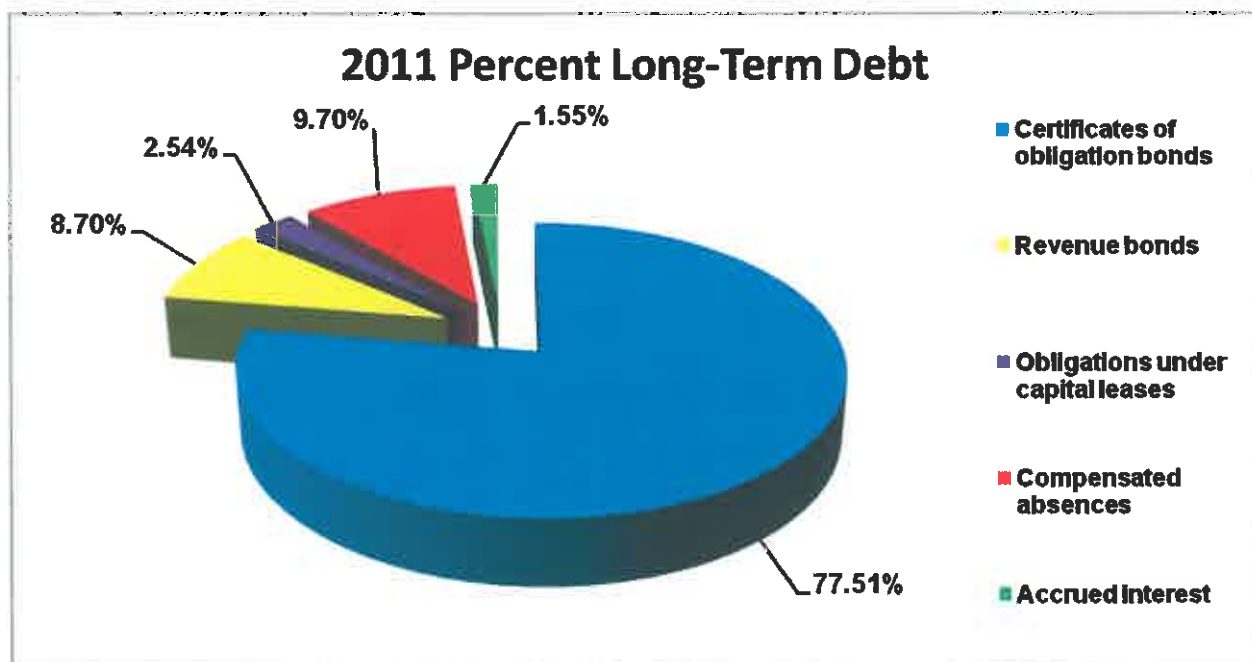
Debt Administration

At the end of the current fiscal year, the City of Freeport had a total bonded debt and certificates of obligation payable of \$ 6,189,000. Of this amount, \$ 5,511,000 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, 2012	2011	September 30, 2012	2011	September 30, 2012	2011
Certificates of obligation	\$ 5,511,000	\$ 6,040,000	\$	\$	\$ 5,511,000	\$ 6,040,000
Revenue bonds payable			678,000	886,000	678,000	678,000
Capital leases payable	103,226	155,755	58,334	41,844	161,560	197,599
Compensated absences	694,603	684,207	79,333	71,970	773,936	756,177
Components of Long-Term Debt:						
Accrued interest payable	<u>110,434</u>	<u>121,172</u>	<u>16,442</u>		<u>126,876</u>	<u>121,172</u>
Total	\$ <u>6,419,263</u>	\$ <u>7,001,134</u>	\$ <u>832,109</u>	\$ <u>791,814</u>	\$ <u>7,251,372</u>	\$ <u>7,792,948</u>





Additional information on the City of Freeport's long-term debt can be found in Note 13 on pages 66 through 69 of this report.

Economic Factors and Next Year's Budgets and Rates

Certified assessed valuations increased 4.11% over the preceding year. The property tax rate increased to 0.70000, with .166690 as Interest & Sinking component and 0.533310 as the Maintenance & Operations component. From the Interest & Sinking component 0.04834 was used to pay the Certificates of Obligations, Series 2003 issued on October 23, 2003 and 0.05166 was used to pay the Certificates of Obligations, Series 2008 issued on March 3, 2008.

The price of water from the Brazosport Water Authority increased from \$ 1.80 to \$1.85 per thousand gallons and will become effective October 1, 2012.

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, 2012

	Primary Government			Freeport Economic Development Corporation
	Governmental Activities	Business- Type Activities	Total	
Assets:				
Cash and cash equivalents	\$ 3,740,574	\$ 85,923	\$ 3,826,497	\$ 497,802
Receivables (Net of Allowance for Uncollectible):				
Taxes	258,435		258,435	
Accounts	390,463	956,112	1,346,575	
Other	45,795		45,795	
Due from other governments	382,572		382,572	134,024
Interfund balances	965,403	(965,403)	-0-	
Inventory		11,703	11,703	
Restricted Assets:				
Temporarily Restricted:				
Cash and cash equivalents		419,519	419,519	
Bond issuance costs - current		15,188	15,188	
Bond issuance costs (net of current and accumulated amortization)	70,112	15,188	85,300	
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	3,024,568	395,630	3,420,198	474,700
Improvements	7,769,993	132,442	7,902,435	1,481,775
Buildings	2,048,324	113,702	2,162,026	2,076,661
Utility plant		6,350,052	6,350,052	
Other				1,211,684
Furniture, equipment and vehicles	2,018,377	165,772	2,184,149	9,800
Assets under capital lease		80,374	80,374	
Construction in progress	50,544		50,544	1,048,318
Total assets	28,848,699	7,776,202	36,624,901	6,934,764
Liabilities:				
Accounts payable	548,291	271,099	819,390	120
Accrued wages and benefits	157,478	10,244	167,722	
Liabilities payable from restricted assets		188,077	188,077	
Deferred revenue	40,426	200	40,626	
Noncurrent Liabilities:				
Due within one year	1,247,962	316,413	1,564,375	79,518
Due in more than one year	5,171,301	515,696	5,686,997	9,545,161
Total liabilities	7,165,458	1,301,729	8,467,187	9,624,799

(continued)

CITY OF FREEPORT

Freeport, Texas

STATEMENT OF NET ASSETS - Continued

September 30, 2012

	Primary Government			Freeport Economic Development Corporation
	Governmental Activities	Business- Type Activities	Total	
Net Assets:				
Invested in capital assets, net of related debt	\$ 9,297,580	\$ 6,532,014	\$ 15,829,594	\$(3,321,741)
Restricted For:				
Notes receivable	8,083,539		8,083,539	
Streets, drainage and sidewalks	95,932		95,932	
Tourism	21,929		21,929	
Debt service	67,622		67,622	
Capital projects	54,029		54,029	
Municipal court security	27,381		27,381	
Municipal court technology	2,355		2,355	
Narcotics operations	63,517		63,517	
Unrestricted	3,969,357	(57,541)	3,911,816	631,706
 Total net assets	\$ 21,683,241	\$ 6,474,473	\$ 28,157,714	\$(2,690,035)

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

CITY OF FREEPORT

Freeport, Texas

STATEMENT OF ACTIVITIES

September 30, 2012

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General government and administration	\$ 2,065,722	\$ 21,093	\$ 93,318	\$
Public safety	4,782,099	584,282	149,299	
Streets and drainage	1,407,419			
Sanitation	835,764	835,385		
Service center	177,731			
Marina	316,233	178,694		
Library	67,066			
Parks and recreation	1,690,385	434,769		
Interest on long-term debt	<u>203,370</u>		<u>206,370</u>	
Total governmental activities	<u>11,545,789</u>	<u>2,054,223</u>	<u>448,987</u>	<u>-0-</u>
Business-type Activities:				
Water and sewer	3,936,715	3,555,528		50,045
Golf course	777,904	552,630		
Ambulance	<u>625,071</u>	<u>865,267</u>		
Total business-type activities	<u>5,339,690</u>	<u>4,973,425</u>	<u>-0-</u>	<u>50,045</u>
Component Unit - Freeport Economic Development Corporation:				
Economic Development:				
Marina	3,700,298			
Other	264,733	1,571	32,825	
Interest on long-term debt	<u>95,011</u>			
Total component unit	<u>4,060,042</u>	<u>1,571</u>	<u>32,825</u>	<u>-0-</u>
Total	<u>\$ 20,945,521</u>	<u>\$ 7,029,219</u>	<u>\$ 481,812</u>	<u>\$ 50,045</u>

General Revenue:

Taxes:

Property taxes

Other taxes

Industrial district

Investment earnings

Miscellaneous

Gain on sale of capital assets

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	
\$(1,951,311)	\$	\$(1,951,311)	\$
(4,048,518)		(4,048,518)	
(1,407,419)		(1,407,419)	
(379)		(379)	
(177,731)		(177,731)	
(137,539)		(137,539)	
(67,066)		(67,066)	
(1,255,616)		(1,255,616)	
3,000		3,000	
<u>(9,042,579)</u>	<u>-0-</u>	<u>(9,042,579)</u>	<u>-0-</u>
	(331,142)	(331,142)	
	(225,274)	(225,274)	
	<u>240,196</u>	<u>240,196</u>	
<u>-0-</u>	<u>(316,220)</u>	<u>(316,220)</u>	<u>-0-</u>
		-0-	(3,700,298)
		-0-	(230,337)
		-0-	(95,011)
<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>(4,025,646)</u>
<u>(9,042,579)</u>	<u>(316,220)</u>	<u>(9,358,799)</u>	<u>(4,025,646)</u>
2,505,767		2,505,767	
2,005,458		2,005,458	677,170
4,748,786		4,748,786	
5,038	51	5,089	409
115,746		115,746	
50,399		50,399	
<u>(259,862)</u>	<u>259,862</u>	<u>-0-</u>	
<u>9,171,332</u>	<u>259,913</u>	<u>9,431,245</u>	<u>677,579</u>
128,753	(56,307)	72,446	(3,348,067)
<u>21,554,488</u>	<u>6,530,780</u>	<u>28,085,268</u>	<u>658,032</u>
<u>\$ 21,683,241</u>	<u>\$ 6,474,473</u>	<u>\$ 28,157,714</u>	<u>\$(2,690,035)</u>

CITY OF FREEPORT
Freeport, Texas

BALANCE SHEET
GOVERNMENTAL FUNDS

September 30, 2012

	General	Non-Major Governmental Funds	Total Governmental Funds
Assets			
Cash and temporary investments	\$ 3,535,777	\$ 204,797	\$ 3,740,574
Receivables (Net of Allowance for Uncollectible):			
Property taxes	206,541	51,894	258,435
Sales tax	268,047		268,047
Accounts	126,963	3,578	130,541
Other receivables	45,795		45,795
Due from other governments	111,792	2,733	114,525
Due from other funds	1,119,592	66,627	1,186,219
Noncurrent Receivables:			
Notes receivable	6,639,208		6,639,208
Total assets	\$ 12,053,715	\$ 329,629	\$ 12,383,344
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ 523,165	\$ 25,126	\$ 548,291
Accrued wages and benefits	156,280	1,198	157,478
Due to other funds	66,627	154,189	220,816
Deferred revenue	233,174	47,907	281,081
Total liabilities	979,246	228,420	1,207,666
Fund Balance:			
Non-Spendable:			
Notes receivable	6,639,208		6,639,208
Restricted:			
Streets and sidewalk		95,932	95,932
Tourism		21,929	21,929
Debt service		60,037	60,037
Construction		54,029	54,029
Municipal court security	27,381		27,381
Municipal court technology	2,355		2,355
Narcotics operations	63,517		63,517
Assigned:			
Main street	1,700		1,700
Unassigned	4,340,308	(130,718)	4,209,590
Total fund balances	11,074,469	101,209	11,175,678
Total liabilities and fund balances	\$ 12,053,715	\$ 329,629	\$ 12,383,344

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, 2012

Total fund balances – governmental funds balance sheet	\$ 11,175,678
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 \$ 33,099,014 in assets less \$ 18,187,208 in accumulated depreciation.	14,911,806
Municipal Court accounts receivables net of related allowance for uncollectible 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 \$ 1,299,611 net of allowance for uncollectible accounts \$ 1,039,689 of the general fund amounted to \$ 259,922.	259,922
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 \$ 192,748 and \$ 47,907, respectively.	240,655
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 are amortized over the life of the bond. This amount is debt issuance costs \$ 114,891 less accumulated costs of \$ 44,779.	70,112
Receivables for loan interest are not reported in the funds.	1,444,331
Payables for bond principal are not reported in the funds.	(5,511,000)
Payables for capital lease principal are not reported in the funds.	(103,226)
Payables for long-term compensated absences are not reported in the funds.	(694,603)
Payables for bond interest are not reported in the funds.	<u>(110,434)</u>
Net assets of governmental activities – statement of net assets.	\$ <u>21,683,241</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, 2012

	General	Non-Major Governmental Funds	Total Governmental Funds
Revenues:			
Taxes	\$ 1,869,424	\$ 568,472	\$ 2,437,896
Other taxes	1,991,996	13,462	2,005,458
Industrial district	4,748,786		4,748,786
Intergovernmental revenues	242,617		242,617
Revenue producing facilities	1,095,228	178,694	1,273,922
Fines, licenses and fees	584,282		584,282
Investment income	4,658	380	5,038
Miscellaneous	<u>311,765</u>	<u>206,370</u>	<u>518,135</u>
Total revenues	<u>10,848,756</u>	<u>967,378</u>	<u>11,816,134</u>
Expenditures:			
Current:			
Administration	1,716,298	11,259	1,727,557
Public safety	4,383,122		4,383,122
Streets and drainage	973,469	56	973,525
Sanitation	835,764		835,764
Service center	182,369		182,369
Marina		312,246	312,246
Library	49,065		49,065
Parks and recreation	1,517,683		1,517,683
Capital outlay	339,222	260,316	599,538
Debt Service:			
Principal	52,529	529,000	581,529
Interest	<u>4,450</u>	<u>202,302</u>	<u>206,752</u>
Total expenditures	<u>10,053,971</u>	<u>1,315,179</u>	<u>11,369,150</u>
Excess of revenues over (under) expenditures	<u>794,785</u>	<u>(347,801)</u>	<u>446,984</u>
Other Financing Sources (Uses):			
Sale of capital assets	59,995		59,995
Operating transfers in	122,305	207,422	329,727
Operating transfers out	<u>(467,284)</u>	<u>(122,305)</u>	<u>(589,589)</u>
Total other financing sources (uses)	<u>(284,984)</u>	<u>85,117</u>	<u>(199,867)</u>
Net changes in fund balance	509,801	(262,684)	247,117
Fund balance – beginning	<u>10,564,668</u>	<u>363,893</u>	<u>10,928,561</u>
Fund balance - ending	<u>\$ 11,074,469</u>	<u>\$ 101,209</u>	<u>\$ 11,175,678</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, 2012

Net change in fund balances – total governmental funds	\$	247,117
Amounts reported for governmental activities 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 \$ 1,325,982 exceeded capital outlay \$ 599,538 in the current period.	(726,444)
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, decreased by \$ 24,710.	(24,710)
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 \$ 49,873, and for the debt service increased by \$ 17,998.		67,871
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 \$ 529,000 and capital leases for \$ 52,529.		581,529
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 basis in assets retired in the amount of \$ 9,596, (original cost of assets of \$ 94,686 less accumulated depreciation of \$ 85,090).	(9,596)
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 \$ 10,738, plus the amortization of bond issuance costs of \$ 7,356, and accrued compensated absences of \$ 10,396.	(<u>7,014</u>)
Change in net assets of governmental activities	\$	<u><u>128,753</u></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, 2012

	Water and Sewer	Golf Course	Ambulance	Total Proprietary Funds
<u>Assets</u>				
Current Assets:				
Cash and temporary investments	\$ 180	\$ 2,762	\$ 82,981	\$ 85,923
Receivables (Net of Allowance for Uncollectible):				
Accounts	547,135	83	408,894	956,112
Inventory	<u> </u>	<u>11,703</u>	<u> </u>	<u>11,703</u>
Total unrestricted current assets	<u>547,315</u>	<u>14,548</u>	<u>491,875</u>	<u>1,053,738</u>
Current Restricted Assets:				
Cash and temporary investments	419,519			419,519
Bond issuance costs (current)	<u>15,188</u>			<u>15,188</u>
Total current restricted assets	<u>434,707</u>	<u>-0-</u>	<u>-0-</u>	<u>434,707</u>
Total current assets	<u>982,022</u>	<u>14,548</u>	<u>491,875</u>	<u>1,488,445</u>
Noncurrent Assets:				
Bond issuance costs (net of current and accumulated amortization of \$ 121,504) - restricted	<u>15,188</u>			<u>15,188</u>
Capital Assets:				
Land	56,200	339,430		395,630
Buildings		211,468		211,468
Improvements		553,118		553,118
Utility plant	20,630,832			20,630,832
Furniture, equipment and vehicles	146,765	563,353	343,789	1,053,907
Assets under capital lease		99,549		99,549
Less accumulated depreciation	<u>(14,402,914)</u>	<u>(1,049,967)</u>	<u>(253,651)</u>	<u>(15,706,532)</u>
Total capital assets (net of accumulated depreciation)	<u>6,430,883</u>	<u>716,951</u>	<u>90,138</u>	<u>7,237,972</u>
Total assets	<u>\$ 7,428,093</u>	<u>\$ 731,499</u>	<u>\$ 582,013</u>	<u>\$ 8,741,605</u>

(Continued)

CITY OF FREEPORT
Freeport, Texas

STATEMENT OF NET ASSETS - PROPRIETARY FUNDS - Continued

September 30, 2012

	Water and Sewer	Golf Course	Ambulance	Total Proprietary Funds
<u>Liabilities and Net Assets</u>				
Current Liabilities:				
Accounts payable	\$ 239,025	\$ 16,589	\$ 15,485	\$ 270,199
Accrued wages and benefits	1,147	4,200	4,897	10,244
Accrued compensated absences	16,455	27,928	14,741	59,124
Due to other funds	866,179	99,224		965,403
Obligations under capital lease - current		25,847		25,847
Deferred revenue	200			200
	<u>1,123,006</u>	<u>173,788</u>	<u>35,123</u>	<u>1,331,917</u>
Total current liabilities				
Current Liabilities Payable From Restricted Assets:				
Accrued interest payable	16,442			16,442
Customer deposits payable	188,077			188,077
Revenue bonds payable	215,000			215,000
	<u>419,519</u>	<u>-0-</u>	<u>-0-</u>	<u>419,519</u>
Total current liabilities payable from restricted assets				
	<u>1,542,525</u>	<u>173,788</u>	<u>35,123</u>	<u>1,751,436</u>
Total current liabilities				
Noncurrent Liabilities:				
Accrued compensated absences	5,624	9,547	5,038	20,209
Obligations under capital lease – net of current		32,487		32,487
Revenue bonds payable	463,000			463,000
	<u>468,624</u>	<u>42,034</u>	<u>5,038</u>	<u>515,696</u>
Total noncurrent liabilities				
	<u>2,011,149</u>	<u>215,822</u>	<u>40,161</u>	<u>2,267,132</u>
Total liabilities				
Net Assets:				
Invested in capital assets, net of related debt	5,783,259	658,617	90,138	6,532,014
Unreserved	(366,315)	(142,940)	451,714	(57,541)
	<u>5,416,944</u>	<u>515,677</u>	<u>541,852</u>	<u>6,474,473</u>
Total net assets				
	<u>\$ 7,428,093</u>	<u>\$ 731,499</u>	<u>\$ 582,013</u>	<u>\$ 8,741,605</u>
Total liabilities and net assets				

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, 2012

	Water and Sewer	Golf Course	Ambulance	Total Proprietary Funds
Operating Revenues:				
Water service	\$ 2,194,530	\$	\$	\$ 2,194,530
Sewer service	1,282,810			1,282,810
Charges for other services	65,276		778,681	843,957
Golf course fees and charges		552,630		552,630
Miscellaneous	<u>12,912</u>		<u>86,586</u>	<u>99,498</u>
Total operating revenues	<u>3,555,528</u>	<u>552,630</u>	<u>865,267</u>	<u>4,973,425</u>
Operating Expenses:				
Personnel services	77,195	308,084	351,268	736,547
Employee benefits	26,851	121,871	125,312	274,034
Contract and professional services	2,095,758			2,095,758
Other operating costs	61,635	76,136	69,171	206,942
Supplies	7,244	48,738	42,141	98,123
Cost of sales and services	<u>1,317,188</u>	<u>147,102</u>		<u>1,464,290</u>
Operating expenses before depreciation	3,585,871	701,931	587,892	4,875,694
Depreciation	<u>302,473</u>	<u>72,605</u>	<u>37,179</u>	<u>412,257</u>
Total operating expenses	<u>3,888,344</u>	<u>774,536</u>	<u>625,071</u>	<u>5,287,951</u>
Net operating income (loss)	<u>(332,816)</u>	<u>(221,906)</u>	<u>240,196</u>	<u>(314,526)</u>
Non-Operating Revenues (Expenses):				
Interest revenue	12	1	38	51
Interest expense and agent fees	<u>(48,371)</u>	<u>(3,368)</u>		<u>(51,739)</u>
Total non-operating revenues (expenses)	<u>(48,359)</u>	<u>(3,367)</u>	<u>38</u>	<u>(51,688)</u>
Net income (loss) before contributions and operating transfers	<u>(381,175)</u>	<u>(225,273)</u>	<u>240,234</u>	<u>(366,214)</u>
Contributions (capital)	50,045			50,045
Transfers in	<u>166,165</u>	<u>93,697</u>		<u>259,862</u>
Change in net assets	<u>(164,965)</u>	<u>(131,576)</u>	<u>240,234</u>	<u>(56,307)</u>
Net assets - beginning	<u>5,581,909</u>	<u>647,253</u>	<u>301,618</u>	<u>6,530,780</u>
Net assets - ending	<u>\$ 5,416,944</u>	<u>\$ 515,677</u>	<u>\$ 541,852</u>	<u>\$ 6,474,473</u>

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

CITY OF FREEPORT

Freeport, Texas

**STATEMENT OF CASH FLOWS -
PROPRIETARY FUNDS**

For the Year Ended September 30, 2012

	<u>Water and Sewer</u>	<u>Golf Course</u>	<u>Ambulance</u>	<u>Total Proprietary Funds</u>
Cash Flows from Operating Activities:				
Receipts from customers and users	\$ 3,680,167	\$ 552,547	\$ 685,758	\$ 4,918,472
Receipts from other funds	680,536	99,224		779,760
Payments to suppliers	(4,196,684)	(289,520)	(131,260)	(4,617,464)
Payments to employees	(102,162)	(422,471)	(473,581)	(998,214)
Net cash provided (used) by operating activities	<u>61,857</u>	<u>(60,220)</u>	<u>80,917</u>	<u>82,554</u>
Cash Flows from Non-Capital Financing Activities:				
Transfers from other funds	<u>166,165</u>	<u>93,697</u>		<u>259,862</u>
Net cash provided by non-capital financing activities	<u>166,165</u>	<u>93,697</u>	<u>-0-</u>	<u>259,862</u>
Cash Flows from Capital and Related Financing Activities:				
Capital expenditures		(4,750)		(4,750)
Interest payments on capital leases		(3,221)		(3,221)
Principal payments on capital leases		(23,188)		(23,188)
Interest and fees on bonds	<u>(16,741)</u>			<u>(16,741)</u>
Net cash used by capital and related financing activities	<u>(16,741)</u>	<u>(31,159)</u>	<u>-0-</u>	<u>(47,900)</u>
Cash Flows from Investing Activities:				
Interest on investments	<u>12</u>	<u>1</u>	<u>38</u>	<u>51</u>
Net cash provided by investing activities	<u>12</u>	<u>1</u>	<u>38</u>	<u>51</u>
Net increase in cash and cash equivalents	211,293	2,319	80,955	294,567
Cash and cash equivalents at the beginning of year	<u>208,406</u>	<u>443</u>	<u>2,026</u>	<u>210,875</u>
Cash and cash equivalents at the end of the year	<u>\$ 419,699</u>	<u>\$ 2,762</u>	<u>\$ 82,981</u>	<u>\$ 505,442</u>

(Continued)

CITY OF FREEPORT
Freeport, Texas

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

For the Year Ended September 30, 2012

	Water and Sewer	Golf Course	Ambulance	Total Proprietary Funds
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:				
Operating income (loss)	\$(332,816)	\$(221,906)	\$ 240,196	\$(314,526)
Adjustments to Reconcile Operating Income (Loss) to Net Cash				
Provided (Used) by Operating Activities:				
Depreciation	302,473	72,605	37,179	412,257
(Increase) decrease in accounts receivable	122,205	(83)	(179,509)	(57,387)
(Increase) decrease in inventory		289		289
Increase (decrease) in accounts payable	(714,859)	(17,833)	(19,948)	(752,640)
Increase (decrease) in accrued wages and benefits payable	607	2,110	2,287	5,004
Increase (decrease) in accrued compensated absences payable	1,277	5,374	712	7,363
Increase (decrease) in customer deposits	2,434			2,434
Increase (decrease) in due to other funds	<u>680,536</u>	<u>99,224</u>	<u> </u>	<u>779,760</u>
Total adjustments	<u>394,673</u>	<u>161,686</u>	<u>(159,279)</u>	<u>397,080</u>
Net cash provided (used) by operating activities	<u>\$ 61,857</u>	<u>\$(60,220)</u>	<u>\$ 80,917</u>	<u>\$ 82,554</u>
Non-Cash Investing, Capital and Financing Activities:				
Contributions from other governments	\$ 50,045	\$	\$	\$ 50,045
Assets acquired as a result of contributed assets	(50,045)			(50,045)
Capital lease liability		39,678		39,678
Assets acquired through capital lease	<u> </u>	<u>(39,678)</u>	<u> </u>	<u>(39,678)</u>
Net effect of non-cash transactions	<u>\$ -0-</u>	<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, 2012

INDEX

Note	Page
1. Summary of Significant Accounting Policies.....	38
2. Deposits, Investments and Derivatives.....	48
3. Deferred Revenue	50
4. Interfund Receivables, Payables and Transfers	51
5. Capital Assets.....	54
6. Allowance for Uncollectible Accounts	57
7. Contingent Liabilities.....	58
8. Pension and OPEB-Supplemental Death Benefits Plan.....	58
9. Texas Statewide Emergency Services Personnel Retirement Fund	62
10. Industrial District Contracts	66
11. Water Supply Contract	66
12. Joint Venture.....	66
13. Long-Term Debt	66
14. Leases	70
15. Long-Term Receivables.....	73
16. Risk Pool Participation	75
17. Grants, Entitlements and Shared Revenues	75
18. Deficit Fund Balances.....	75
19. Expenditures/Expenses in excess of appropriations	76
20. Evaluation of Subsequent Events.....	76
21. Litigation	76

CITY OF FREEPORT

Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2012

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, 2012

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, 2012

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, 2012

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 funds:

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 fund.

The Golf Course Enterprise Fund is used to account for the operation of the golf course to fulfill the recreational needs of the citizens and others. Activities of the fund include administration, operations and maintenance of the golf course activities. All costs are financed through charges to customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the fund.

The Ambulance Enterprise Fund is used to account for the operation of the EMS ambulance service to fulfill the emergency medical needs of the citizens and others. Activities of the fund include administration, operations and maintenance of the EMS and ambulances activities. All costs are financed through charges to customers with rates adjusted in accordance with insurance and regulatory agencies.

New Pronouncements

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, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

New Pronouncements - continued

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. This statement was implemented and did not have an impact on the City's financial statements. This statement is effective for periods beginning after June 15, 2011.

GASB No. 65, "Items Previously Reported as Assets and Liabilities", was issued March 2012. 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, although it will reclassify items previously recorded as assets and liabilities within the Corporation's financial statements as outflow and inflows of resources. This statement is effective for periods beginning after December 15, 2012.

GASB No. 66, "Technical Corrections – 2012 - an amendment of GASB Statements No. 10 and No. 62", was issued March 2012. 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, 2012.

CITY OF FREEPORT
Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2012

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	\$(164,965)	\$(131,576)	\$ 240,234	\$(56,307)
Differences:				
Depreciation	302,473	72,605	37,179	412,257
Amortization of bond issuance costs	15,188			15,188
Capital contributions	(50,045)			(50,045)
Net income (loss) - budget basis	<u>\$ 102,651</u>	<u>\$(58,971)</u>	<u>\$ 277,413</u>	<u>\$ 321,093</u>

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

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

CITY OF FREEPORT
Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2012

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, 2012.

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, 2012, to finance general fund operations and the payment of principal and interest on general obligation long-term debt were \$ 0.520739 and \$ 0.159261 per \$ 100 valuation, respectively, for a total of \$ 0.680000 per \$ 100 valuation.

CITY OF FREEPORT
Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2012

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, 2012:

	<u>2012</u>
Governmental activities	\$ 694,603
Business-type activities	<u>79,333</u>
	\$ <u>773,936</u>

CITY OF FREEPORT
Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2012

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.

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, 2012

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, 2012

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, 2012 are as follows:

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Cash and Temporary Investments:			
Cash (petty cash accounts)	\$ 4,137	\$	\$ 4,137
Financial Institution Deposits:			
Demand deposits	244,397	419,519	663,916
State Treasury Investment Pool:			
Texpool	3,577,963		3,577,963
Total cash and temporary investments	<u>\$ 3,826,497</u>	<u>\$ 419,519</u>	<u>\$ 4,246,016</u>

Deposits

All deposits with financial institutions must be collateralized in an amount equal to 100 percent of uninsured balances. At September 30, 2012, in addition to petty cash of \$ 4,137, the carrying amount of the City's deposits were \$ 663,916. The financial institutions balances were \$ 909,949 at September 30, 2012. Bank balances of \$ 250,000 were covered by federal depository insurance and \$ 659,949 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, 2012

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, 2012

NOTE 2 - DEPOSITS, INVESTMENTS AND DERIVATIVES - Continued

Investments - continued

At September 30, 2012, Texpool had a weighted average maturity of 48 days. Although Texpool portfolio had a weighted average maturity of 48 days, the City considers holdings in these funds to have a one day weighted average maturity. This is due to the fact that the share position can usually be redeemed each day at the discretion of the shareholder, unless there has been a significant change in value.

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

The following table includes the portfolio balances of all investment types of the City at September 30, 2012.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Days)</u>
Local government investment pools (LGIP)	\$ <u>3,577,963</u>	48
	\$ <u>3,577,963</u>	48

Credit Risk – As of September 30, 2012, 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, 2012, and holds no direct investments in derivatives at September 30, 2012.

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, 2012

NOTE 3 - DEFERRED REVENUE - Continued

As of September 30, 2012, 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)	\$ 192,748	\$
Delinquent property taxes receivable (Debt Service Fund)	47,907	
Franchise tax receipts (General Fund)		40,426
Total deferred/unearned revenue from governmental funds	\$ 240,655	\$ 40,426

As of September 30, 2012, the various components of deferred revenue and unearned revenue reported in the proprietary funds were as follow.

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

NOTE 4 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund balances at September 30, 2012 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	\$ 99,204	\$ 11,432
Marina Operations		
Debt Service Fund:		
Series 2003B	54,985	
Series 2008		2,872
Capital Projects Fund:		
2008 Bond Construction		55,323
Enterprise Fund:		
Water and Sewer Fund	866,179	
Golf Course Fund	99,224	
	1,119,592	66,627

(continued)

CITY OF FREEPORT
Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2012

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 Operations Fund:		
General	<u> </u>	<u>99,204</u>
	<u>11,432</u>	<u>99,204</u>
Debt Service Fund:		
Series 2003B Fund:		
General Fund		54,985
Series 2003B Fund:		
General	<u>2,872</u>	<u> </u>
	<u>2,872</u>	<u>54,985</u>
Capital Projects Fund:		
2008 Bond Construction Fund:		
General	<u>52,323</u>	<u> </u>
Enterprise Fund:		
Water and Sewer Fund:		
General		866,179
Golf Course Fund:		
General	<u> </u>	<u>99,224</u>
	<u>-0-</u>	<u>965,403</u>
Total	<u>\$ 1,186,219</u>	<u>\$ 1,186,219</u>

Interfund transfers for the year ended September 30, 2012 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 Funds:		
Street Drainage & Sidewalk Fund	\$ 122,305	
Marina Operations		142,207
Debt Service Funds:		
Series 2003B		32,597
Series 2008		32,618
Enterprise Funds:		
Water and Sewer Fund		166,165
Golf Course Fund	<u> </u>	<u>93,697</u>
	<u>122,305</u>	<u>467,284</u>

CITY OF FREEPORT
Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2012

NOTE 4 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS - Continued

Fund	Receivable	Payable
Special Revenue Funds:		
Street Drainage & Sidewalk Fund:		
General	\$	\$ 122,305
Marina Operations Fund:		
General	142,207	
	142,207	122,305
Debt Service Funds:		
Series 2003B:		
General	32,597	
Series 2008:		
General	32,618	
	65,215	-0-
Enterprise Funds:		
Water & Sewer Fund:		
General	166,165	
Golf Course:		
General Fund	93,697	
	259,862	-0-
 Total	 \$ 589,589	 \$ 589,589

CITY OF FREEPORT
Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2012

NOTE 5 - CAPITAL ASSETS

Capital assets activity for the year ended September 30, 2012 was as follows:

	<u>Balance</u> <u>10/01/11</u>	<u>Additions</u>	<u>Retirements</u> <u>& Transfers</u>	<u>Balance</u> <u>09/30/12</u>
Governmental Activities:				
Capital Assets, Not Depreciated:				
Land	\$ 3,018,498	\$ 6,070	\$	\$ 3,024,568
Construction in progress	<u>234,312</u>	<u>50,544</u>	<u>(234,312)</u>	<u>50,544</u>
Total capital assets not being depreciated	<u>3,252,810</u>	<u>56,614</u>	<u>(234,312)</u>	<u>3,075,112</u>
Capital Assets, Being Depreciated:				
Improvements	17,954,151	275,910	234,312	18,464,373
Buildings	4,774,243			4,774,243
Furniture, equipment and vehicles	<u>6,612,958</u>	<u>267,014</u>	<u>(94,686)</u>	<u>6,785,286</u>
Total capital assets being depreciated	<u>29,341,352</u>	<u>542,924</u>	<u>139,626</u>	<u>30,023,902</u>
Less Accumulated Depreciation For:				
Improvements	10,096,016	598,364		10,694,380
Buildings	2,554,433	171,486		2,725,919
Furniture, equipment and vehicles	<u>4,295,867</u>	<u>556,132</u>	<u>(85,090)</u>	<u>4,766,909</u>
Total accumulated depreciation	<u>16,946,316</u>	<u>1,325,982</u>	<u>(85,090)</u>	<u>18,187,208</u>
Total capital assets being depreciated, net	<u>12,395,036</u>	<u>(783,058)</u>	<u>224,716</u>	<u>11,836,694</u>
Governmental activities capital assets, net	<u>\$ 15,647,846</u>	<u>\$ (726,444)</u>	<u>\$ (9,596)</u>	<u>\$ 14,911,806</u>
Combined Business-type Activities:				
Capital Assets, Not Depreciated:				
Land	\$ 395,630	\$	\$	\$ 395,630
Total capital assets not being depreciated	<u>395,630</u>	<u>-0-</u>	<u>-0-</u>	<u>395,630</u>
Capital Assets, Being Depreciated:				
Buildings	211,468			211,468
Improvements	548,368	4,750		553,118
Utility plant	20,580,787	50,045		20,630,832
Furniture, equipment and vehicles	1,053,907			1,053,907
Assets under capital lease	<u>59,871</u>	<u>39,678</u>		<u>99,549</u>
Total capital assets being depreciated	<u>22,454,401</u>	<u>94,473</u>	<u>-0-</u>	<u>22,548,874</u>

(continued)

CITY OF FREEPORT
Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2012

NOTE 5 - CAPITAL ASSETS - Continued

	<u>Balance</u> <u>10/01/11</u>	<u>Additions</u>	<u>Retirements</u> <u>& Transfers</u>	<u>Balance</u> <u>09/30/12</u>
Less Accumulated Depreciation For:				
Buildings	\$ 89,453	\$ 8,313	\$	\$ 97,766
Improvements	392,577	28,099		420,676
Utility plant	13,984,338	296,442		14,280,780
Furniture, equipment and vehicles	817,285	70,850		888,135
Assets under capital lease	<u>10,622</u>	<u>8,553</u>		<u>19,175</u>
Total accumulated depreciation	<u>15,294,275</u>	<u>412,257</u>	<u>-0-</u>	<u>15,706,532</u>
Total capital assets being depreciated, net	<u>7,160,126</u>	<u>(317,784)</u>	<u>-0-</u>	<u>6,842,342</u>
Business-type activities capital assets, net	<u>\$ 7,555,756</u>	<u>\$(317,784)</u>	<u>\$ -0-</u>	<u>\$ 7,237,972</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	20,580,787	50,045		20,630,832
Furniture, equipment and vehicles	<u>146,765</u>			<u>146,765</u>
Total capital assets being depreciated	<u>20,727,552</u>	<u>50,045</u>	<u>-0-</u>	<u>20,777,597</u>
Less Accumulated Depreciation For:				
Utility plant	13,984,338	296,442		14,280,780
Furniture, equipment and vehicles	<u>116,103</u>	<u>6,031</u>		<u>122,134</u>
Total accumulated depreciation	<u>14,100,441</u>	<u>302,473</u>	<u>-0-</u>	<u>14,402,914</u>
Total capital assets being depreciated, net	<u>6,627,111</u>	<u>(252,428)</u>	<u>-0-</u>	<u>6,374,683</u>
Business-type activities capital assets, net	<u>\$ 6,683,311</u>	<u>\$(252,428)</u>	<u>\$ -0-</u>	<u>\$ 6,430,883</u>

CITY OF FREEPORT
Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2012

NOTE 5 - CAPITAL ASSETS - Continued

	Balance 10/01/11	Additions	Retirements & Transfers	Balance 09/30/12
Business-type Activities:				
<u>Golf Course Enterprise Fund:</u>				
Capital Assets, Not Depreciated:				
Land	\$ 339,430	\$ _____	\$ _____	\$ 339,430
Total capital assets not being depreciated	339,430	-0-	-0-	339,430
Capital Assets, Being Depreciated:				
Buildings	211,468			211,468
Improvements	548,368	4,750		553,118
Furniture, equipment and vehicles	563,353			563,353
Assets under capital lease	59,871	39,678	_____	99,549
Total capital assets being depreciated	1,383,060	44,428	-0-	1,427,488
Less Accumulated Depreciation For:				
Buildings	89,453	8,313		97,766
Improvements	392,577	28,099		420,676
Furniture, equipment and vehicles	484,710	27,640		512,350
Assets under capital lease	10,622	8,553	_____	19,175
Total accumulated depreciation	977,362	72,605	-0-	1,049,967
Total capital assets being depreciated, net	405,698	(28,177)	-0-	377,521
Business-type activities capital assets, net	\$ 745,128	\$(28,177)	\$ -0-	\$ 716,951
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	343,789	_____	_____	343,789
Total capital assets being depreciated	343,789	-0-	-0-	343,789
Less Accumulated Depreciation For:				
Furniture, equipment and vehicles	216,472	37,179	_____	253,651
Total accumulated depreciation	216,472	37,179	-0-	253,651
Total capital assets being depreciated, net	127,317	(37,179)	-0-	90,138
Business-type activities capital assets, net	\$ 127,317	\$(37,179)	\$ -0-	\$ 90,138

CITY OF FREEPORT
Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2012

NOTE 5 - CAPITAL ASSETS - Continued

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

Governmental Activities:

Administration	\$ 329,349
Public safety	340,760
Streets and drainage	448,548
Service center	14,846
Library	18,001
Parks and recreation	<u>174,478</u>
Total depreciation expense-governmental activities	\$ <u>1,325,982</u>

Business-type Activities:

Water and sewer	\$ 302,473
Golf Course	72,605
Ambulance	<u>37,179</u>
Total depreciation expense-business-type activities	\$ <u>412,257</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, 2012, for the General Fund was \$ 51,365 and for the Debt Service Funds was \$ 4,164.

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, 2012 was \$ 7,961.

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, 2012 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, 2012 was \$ 24,933.

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, 2012 was \$ 849,077.

CITY OF FREEPORT
Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2012

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, 2012 was \$ 1,039,689.

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, 2012.

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:

	Plan Year 2011	Plan Year 2012
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)	70% of CPI	70% of CPI

CITY OF FREEPORT
Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2012

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)
2010	\$ 437,315	\$ 437,315	100%	\$ -0-
2011	564,034	564,034	100%	-0-
2012	565,439	565,439	100%	-0-

The required contribution rates for fiscal year 2012 were determined as part of the December 31, 2010 and 2011 actuarial valuations. Additionally information as of the latest actuarial valuation, December 31, 2011, also follows:

Valuation date	12-31-09	12-31-10 Prior to Restructuring	12-31-10 Restructured	12-31-11
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	28.2 years; closed period	27.3 years; closed period	27.3 years; closed period	26.3 years; closed period

CITY OF FREEPORT
Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2012

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	10-year Smoothed Market	10-year Smoothed Market	10-year Smoothed Market	10-year Smoothed Market
Actuarial Assumptions:				
Investment Rate of Return*	7.5%	7.5%	7.0%	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, 2011. 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, 2012 meeting (the review compared to expected experience for the four-year period of January 1, 2007 through December 31, 2010). 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, 2011 TMRS Comprehensive Annual Financial Report (CAFR).

The funding status of December 31, 2011, 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) / (2)	Unfunded AAL (UAAL) (4) - (1)	Covered Payroll (5)	UAAL as a Percentage of Covered (6) / (5)
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%
12-31-11 ⁽²⁾	13,664,468	17,542,600	77.9%	3,878,132	5,018,818	77.3%

- (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, 2012

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)
12-31-09	\$ 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%
12-31-11 ²	13,664,468	17,542,600	77.9%	3,878,132	5,018,818	77.3%

(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 2012, 2011, and 2010 were \$ 10,435, \$ 10,045 and \$ 10,560, respectively, which equaled the required contributions each year.

CITY OF FREEPORT
Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2012

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

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

<u>Plan/Calendar Year</u>	<u>Actual Required Contribution (Rate)</u>	<u>Actual Contribution Made (Rate)</u>	<u>Percentage of ARC Contributed</u>
2010	0.05%	0.05%	100.0%
2011	0.05%	0.05%	100.0%
2012	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, 2012

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, 2012

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

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL)¹ - Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b)-(a)</u>	<u>Funded Ratio (a/b)</u>	<u>Total Members Covered (c)</u>	<u>UAAL Per Member Covered (b-a)/(c)</u>
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	81,264,230	17,150,427	78.9%	8,644	1,984

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, 2012

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

Required Supplementary Information - Schedule of Funding Progress - Continued

<u>Fiscal Year</u> <u>Ending</u>	<u>Three-Year Trend Information</u>		<u>Percentage of</u> <u>ARC Contributed</u>
	<u>Annual Required</u> <u>Contributions</u> <u>(ARC)</u>	<u>Actual</u> <u>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, 2012

NOTE 10 - INDUSTRIAL DISTRICT CONTRACTS

In 2011, 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, 2012 was \$ 4,748,786 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, 2012, the City of Freeport's portion of these expenses was \$ 38,581. 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, 2012, 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, 2012

NOTE 13 - LONG-TERM DEBT - Continued

General Long-Term Debt: - continued

The general obligation bonds payable at September 30, 2012 are summarized as follows:

Purpose	Interest Rate (%)	Series Dates			Bonds Outstanding 09/30/12
		Issued	Maturity	Callable	
Certificate Obligation					
Bonds Series 2008	3.79%	2008	2023		\$ 2,635,000
Bonds Series 2003	4.84%	2003	2018	2014	1,664,000
Refunding Bonds					
Series 2003	4.84%	2003	2018	2014	<u>1,212,000</u>
					<u>\$ 5,511,000</u>

General obligation bond transactions for the year ended September 30, 2012 were as follows:

	<u>2012</u>
Bonds outstanding, October 1,	\$ 6,040,000
Maturities	<u>(529,000)</u>
Bonds outstanding, September 30,	<u>\$ 5,511,000</u>

Aggregate maturities of certificate of obligation bonds for the five years subsequent to September 30, 2012 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	659,000	122,989	781,989
2018-2022	2,201,000	248,087	2,449,087
2023	<u>285,000</u>	<u>10,802</u>	<u>295,802</u>
Total	<u>\$ 5,511,000</u>	<u>\$ 1,148,349</u>	<u>\$ 6,659,349</u>

CITY OF FREEPORT
Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2012

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, 2012 are summarized as follows:

<u>Purpose</u>	<u>Interest Rate (%)</u>	<u>Series Dates</u>			<u>Bonds Outstanding 09-30-12</u>
		<u>Issued</u>	<u>Maturity</u>	<u>Callable</u>	
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, 2012 are as follows:

	<u>2012</u>
Bonds outstanding, October 1,	\$ 678,000
Maturities	<u>-0-</u>
Bonds outstanding, September 30,	<u>\$ 678,000</u>

Aggregate maturities of revenue bonds for the years subsequent to September 30, 2012 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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>\$ 50,294</u>	<u>\$ 728,294</u>

CITY OF FREEPORT
Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2012

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>10/01/11</u>	<u>Issues or</u> <u>Additions</u>	<u>Payments or</u> <u>Expenditures</u>	<u>Balance</u> <u>09/30/12</u>	<u>Due Within</u> <u>One Year</u>
Governmental Type Activities:					
General obligation bonds	\$ 6,040,000	\$	\$ 529,000	\$ 5,511,000	\$ 555,000
Capital lease	155,755		52,529	103,226	52,561
Compensated absences	684,207	484,606	474,210	694,603	529,967
Component of Long-Term Debt:					
Accrued interest payable	<u>121,172</u>	<u>110,434</u>	<u>121,172</u>	<u>110,434</u>	<u>110,434</u>
Total governmental activities	<u>7,001,134</u>	<u>595,040</u>	<u>1,176,911</u>	<u>6,419,263</u>	<u>1,247,962</u>
Business Type Activities:					
Revenue bonds payable	678,000			678,000	215,000
Capital leases	41,844	39,678	23,188	58,334	25,847
Compensated absences	71,970	65,345	57,982	79,333	59,124
Component of Long-Term Debt:					
Accrued interest	<u> </u>	<u>16,442</u>	<u> </u>	<u>16,442</u>	<u>16,442</u>
Total business type activities	<u>791,814</u>	<u>121,465</u>	<u>81,170</u>	<u>832,109</u>	<u>316,413</u>
Total government (net)	<u>\$ 7,792,948</u>	<u>\$ 716,505</u>	<u>\$ 1,258,081</u>	<u>\$ 7,251,372</u>	<u>\$ 1,564,375</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, 2012 was \$ 1,390,000 and the balance held in escrow was \$ 1,395,212.

CITY OF FREEPORT
Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2012

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, 2012 are as follows:

<u>Year Ended September 30,</u>	<u>Total</u>
2013	\$ 126,072
2014	120,000
2015	120,000
2016	120,000
2017	<u>30,000</u>
Minimum payments under operating leases	<u>\$ 516,072</u>

Operating lease and rental income for the year ended September 30, 2012 was as follows:

Office lease income	\$ 133,812
Other rental income	<u>222,704</u>
Total	<u>\$ 356,516</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, 2012

NOTE 14 - LEASES - Continued

Lessee (Governmental) - Continued

Aggregate maturities of operating lease obligations for the five years subsequent to September 30, 2012 are as follows:

<u>Year Ended September 30,</u>	<u>Total</u>
2013	\$ 5,447
2014	<u>1,404</u>
Minimum payments under operating leases	\$ <u>6,851</u>

Operating lease expenditures for the year ended September 30, 2012 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, 2012 are as follows:

<u>Year Ended September 30,</u>	<u>Total</u>
2013	\$ <u>17,568</u>
Minimum payments under operating leases	\$ <u>17,568</u>

Operating lease expense for the year ended September 30, 2012 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, 2012

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 \$ 48,177 and \$ 4,146, 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>30,262</u>
Total	<u>\$ 190,917</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, 2012:

<u>Year Ended</u> <u>September 30,</u>	<u>Amount</u>
2013	\$ 55,427
2014	<u>52,323</u>
	107,750
Less amount representing interest	<u>4,524</u>
Net present value of minimum lease payments	<u>\$ 103,226</u>

Capital Leases (Proprietary)

During the year ended September 30, 2012, the City purchased a John Deere precision cut fairway mower under capital lease, with an effective interest rate of 4.67%. Current requirements for principal and interest expenses accounted for in the Golf Course fund were \$ 8,392 and \$ 1,535, respectively.

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 under capital lease, with an effective interest rate of 4.74%. Current requirements for principal and interest expense accounted for in the Golf Course fund were \$ 7,711 and \$ 930, respectively.

CITY OF FREEPORT
Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2012

NOTE 14 - LEASES - Continued

Capital Leases (Proprietary) - Continued

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 expense accounted for in the Golf Course fund were \$ 7,085 and \$ 755, respectively.

Accrued interest on these leases payable at September 30, 2012 was \$ 148.

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 \$ 12,968 and has been included in depreciation expense.

The assets acquired through capital leases are as follows:

Asset:	
Machinery and equipment	\$ 99,549
Less accumulated depreciation	<u>19,175</u>
Total	<u>\$ 80,374</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, 2012:

<u>Year Ended</u> <u>September 30,</u>	<u>Amount</u>
2013	\$ 27,943
2014	21,938
2015	10,830
2016	<u>902</u>
	61,613
Less amount representing interest	<u>3,279</u>
Net present value of minimum lease payments	<u>\$ 58,334</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, 2012

NOTE 15 - LONG-TERM RECEIVABLES - Continued

Effective October 1, 2011, the Freeport Economic Development Corporation and the City of Freeport agreed to freeze the payment of scheduled note payments and the accrual of interest until such time as the Marina is complete and a determination of value and the ability to pay has been made.

The notes receivable at September 30, 2012 are summarized as follows:

Purpose	Interest Rate (%)	Dates			Bonds Outstanding 09/30/12
		Issued	Maturity	Callable	
Note to Freeport EDC 2007	4.84	2007	Undetermined		\$ 6,000,000
Consolidated note to Freeport EDC 2006	5.00	2006	Undetermined		<u>639,208</u>
					<u>\$ 6,639,208</u>

Notes receivable transactions for the year ended September 30, 2012 are summarized as follows:

	<u>2012</u>
Notes receivable, October 1, Maturities	\$ 6,639,208
	<u>-0-</u>
Notes outstanding, September 30,	<u>\$ 6,639,208</u>

Aggregate maturities of frozen notes receivable at September 30, 2012 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</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, 2012

NOTE 15 - LONG-TERM RECEIVABLES - Continued

Changes in Long-Term Receivables

Transactions for the year ended September 30, 2012 are summarized as follows:

	<u>Balance</u> <u>10/01/11</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>09/30/12</u>	<u>Due Within</u> <u>One Year</u>
Governmental Type Activities:					
Notes receivable	\$ 6,639,208	\$	\$	\$ 6,639,208	\$
Component of Long-Term Receivable:					
Accrued interest receivable	<u>1,444,331</u>	<u> </u>	<u> </u>	<u>1,444,331</u>	<u> </u>
Total governmental activities	<u>\$ 8,083,539</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 8,083,539</u>	<u>\$ -0-</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, 2012, 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 (\$ 35,632 Equitable Sharing Grant); the U.S. Department of Interior (\$ 50,544 pass through grant from Texas Parks and Wildlife for Wetlands Recreational Trail); the U.S. Department of Energy (\$ 42,773 direct grant for the SECO Energy Grant); and U.S. Department of Housing and Urban Development (\$ 50,045 from Brazoria County, Texas, for the Community Development Block Grant Program); which totaled \$ 178,994. Since the total federal grants were less than \$ 500,000 a Single Audit was not required.

NOTE 18 - DEFICIT FUND BALANCES

The Marina Operations (Special Revenue Fund) reported a fund balance deficit of \$ 125,528, which includes a \$ 142,207 transfer from the General Fund.

Property tax revenues in the Series 2003B Funds were not sufficient to cover debt payments during the current year. The Series 2003B Debt Service fund had a net increase of \$ 27,407, which decreased the deficit in fund balance to \$ 5,190 at September 30, 2012.

CITY OF FREEPORT
Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2012

NOTE 19 - EXPENDITURES IN EXCESS OF APPROPRIATIONS

Expenditures exceeded appropriations for the year ended September 30, 2012 for the following funds:

Special Revenue Funds:

Hotel-Motel Tax	\$	9
Marina Operations		4,214
Debt Service Fund:		
Series 2003B		528

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 April 5, 2013, 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 April 5, 2013.

Chelsea Cavazos v. City of Freeport (EEOC Charge No. 460-2011-03119). Ms. Cavazos was a Police Officer for the City of 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, 2011 and intends to vigorously defend this action. The EEOC has not yet issued a finding or a Right to Sue Letter in this matter.

Vincent Garcia v. City of Freeport (EEOC Charge No. 460-2012-02076). Mr. Garcia was a Police Officer for the City of Freeport. He filed a discrimination charge with the Equal Employment Opportunity Commission alleging that he was discriminated based on his disability in violation of the Americans with Disability Act of 1991, as amended. His employment was terminated on February 24, 2012 due to his inability to return to duty with or without accommodation. The City agreed to give Garcia an honorable discharge on his TCLEOSE records. The EEOC has not yet issued a finding or a Right to Sue Letter but he has filed a worker compensation retaliation lawsuit in the 239th District Court of Brazoria County. Since he has not received his right to sue letter he may add his ADA claim to his present case. The City intends to vigorously defend this action. The City's attorneys are unable to express an opinion concerning the likelihood of an unfavorable outcome should action arise out of the referenced charged.

CITY OF FREEPORT
Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2012

NOTE 21 - LITIGATION - Continued

David Kaw v. City of Freeport (EEOC Charge No. 31C-2012-00066). Mr. Kaw Garcia was a Field Crew Employee in the Freeport Parks and Recreation Department. He filed a discrimination charge with the Equal Employment Opportunity Commission alleging that he was discriminated based on gender harassment by a female supervisor. His employment was terminated on August 12, 2012 for insubordination and his failure to follow established Department policy. The EEOC has not yet issued a finding or a Right to Sue Letter in this matter.

FEDC v. Royall, et. al.; Cause No. 55780; in the 239th District Court of Brazoria County, Texas; Appeal No. 01-11-01108-CV in the Court of Appeals for the First District of Texas. This matter involves two separate lawsuits that have now been consolidated. The first lawsuit was filed by Briarwood Holdings, LLC ("Briarwood Holdings"), against the Freeport Economic Development Corporation (the "FEDC") and the City of Freeport (the "City"). In that lawsuit Briarwood Holdings alleges that the FEDC was required to sell Briarwood a tract of water-front property for an agreed sum and that, instead, the FEDC sold the property to the City. Briarwood alleges, among other things, that the FEDC and the City are guilty of fraud. In the second lawsuit, the FEDC sued Briarwood Holdings, Hiram Walker Royall ("Royall") Freeport Waterfront Properties, L.P. ("FWP"), Freeport Marina, L.P. ("FM"), Freeport Marina GP, LLC ("FMGP", and Briarwood Capital Corporation ("BCC"), alleging that the defendants are liable for the breach of various agreements concerning the development and operation of the Freeport Marina, a publicly owned pleasure boat marina in downtown Freeport. The City filed a plea to jurisdiction contending that it is immune from the claims asserted against it by the plaintiffs. The trial court denied that motion and the City filed an interlocutory appeal. The Court of Appeals reversed the portion of the lower court's decision that denied the City of Freeport's plea to the jurisdiction on Briarwood Holdings, LL.L.C.'s claims for common law fraud, statutory fraud, and trespass, but allowed the claim for breach of contract. We are unable, at this time, to express an opinion on the degree or amount of risk imposed by the claims against the City.

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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, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Taxes	\$ 2,025,986	\$ 2,025,986	\$ 1,869,424	\$(156,562)
Other taxes	1,891,984	1,891,984	1,991,996	100,012
Industrial district	4,673,835	4,673,835	4,748,786	74,951
Intergovernmental	80,000	94,165	242,617	148,452
Revenue producing facilities	1,153,676	1,153,676	1,095,228	(58,448)
Fines, licenses and fees	471,400	471,400	584,282	112,882
Investment income	5,500	5,500	4,658	(842)
Miscellaneous	69,270	174,229	311,765	137,536
Total revenues	<u>10,371,651</u>	<u>10,490,775</u>	<u>10,848,756</u>	<u>357,981</u>
Expenditures:				
Current:				
Administration	1,733,840	1,738,150	1,716,298	21,852
Public safety	4,340,676	4,474,808	4,383,122	91,686
Streets and drainage	1,085,939	1,085,939	973,469	112,470
Sanitation	842,550	842,550	835,764	6,786
Service center	183,570	183,570	182,369	1,201
Library	45,079	45,079	49,065	(3,986)
Parks and recreation	1,517,196	1,584,658	1,517,683	66,975
Capital outlay	385,201	549,804	339,222	210,582
Debt Service:				
Principal	56,031	56,031	52,529	3,502
Interest and fees	542	542	4,450	(3,908)
Total expenditures	<u>10,190,624</u>	<u>10,561,131</u>	<u>10,053,971</u>	<u>507,160</u>
Excess of revenues over (under) expenditures	<u>181,027</u>	<u>(70,356)</u>	<u>794,785</u>	<u>865,141</u>
Other Financing Sources (Uses):				
Proceeds from sale of capital assets	10,000	10,000	59,995	49,995
Transfers in	122,305	122,305	122,305	-0-
Transfers out	(313,332)	(467,284)	(467,284)	-0-
Total other financing sources (uses)	<u>(181,027)</u>	<u>(334,979)</u>	<u>(284,984)</u>	<u>49,995</u>
Net change in fund balance	<u>-0-</u>	<u>(405,335)</u>	<u>509,801</u>	<u>915,136</u>
Fund balance - beginning	<u>10,564,668</u>	<u>10,564,668</u>	<u>10,564,668</u>	<u>-0-</u>
Fund balance - ending	<u>\$ 10,564,668</u>	<u>\$ 10,159,333</u>	<u>\$ 11,074,469</u>	<u>\$ 915,136</u>

CITY OF FREEPORT

Freeport, Texas

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

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets**</u>	<u>Actuarial Accrued Liability* (AAL)-</u>	<u>Unfunded AAL (UAAL)</u>	<u>Percentage Funded</u>	<u>Annual Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
	(a)	(b)	(b-a)	(a/b)	(c)	(b-a)/(c)
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%
2011****	13,664,468	17,542,600	3,878,132	77.9%	5,018,818	77.3%

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

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

*** 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	72.8%	8,061	\$ 1,962
8/31/08**	60,987,157	64,227,341	3,240,184	95.0%	8,254	393
8/31/10***	64,113,803	81,264,230	17,150,427	78.9%	8,644	1,984

* The actuarial accrued liability is based upon the entry age actuarial cost method.

** Changes in actuarial assumptions were reflected in this valuation.

*** Changes in an actuarial assumption and method were reflected in this valuation.

OTHER SCHEDULES

CITY OF FREEPORT
Freeport, Texas

COMBINING BALANCE SHEET- NONMAJOR GOVERNMENTAL FUNDS

September 30, 2012

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	\$ 84,500	\$ 18,351	\$	\$ 102,851
Receivables (Net of Allowance for Uncollectable):				
Taxes				-0-
Accounts		3,578		3,578
Due from other governments				-0-
Due from other funds	<u>11,432</u>			<u>11,432</u>
Total assets	<u>\$ 95,932</u>	<u>\$ 21,929</u>	<u>\$ -0-</u>	<u>\$ 117,861</u>
Liabilities:				
Accounts payable	\$	\$	\$ 25,126	\$ 25,126
Accrued wages and benefits			1,198	1,198
Due to other funds			99,204	99,204
Deferred revenue				-0-
Total liabilities	<u>-0-</u>	<u>-0-</u>	<u>125,528</u>	<u>125,528</u>
Fund Balances:				
Restricted:				
Streets and drainage	95,932			95,932
Tourism		21,929		21,929
Debt Service				-0-
Construction				-0-
Unassigned			<u>(125,528)</u>	<u>(125,528)</u>
Total fund balances	<u>95,932</u>	<u>21,929</u>	<u>(125,528)</u>	<u>(7,667)</u>
Total liabilities and fund balances	<u>\$ 95,932</u>	<u>\$ 21,929</u>	<u>\$ -0-</u>	<u>\$ 117,861</u>

<u>Debt Service Funds</u>				<u>Capital Projects Fund</u>	<u>Total Nonmajor Governmental Funds</u>
<u>Debt Service Series 2003A</u>	<u>Debt Service Series 2003B</u>	<u>Debt Service Series 2008</u>	<u>Total</u>	<u>2008 Bond Construction</u>	
\$ 11,982	\$ 46,509	\$ 41,749	\$ 100,240	\$ 1,706	\$ 204,797
	26,137	25,757	51,894		51,894
	1,329	1,404	2,733		3,578
		<u>2,872</u>	<u>2,872</u>	<u>52,323</u>	<u>2,733</u>
					<u>66,627</u>
<u>\$ 11,982</u>	<u>\$ 73,975</u>	<u>\$ 71,782</u>	<u>\$ 157,739</u>	<u>\$ 54,029</u>	<u>\$ 329,629</u>
\$	\$	\$	\$	\$	\$
			-0-		25,126
			-0-		1,198
	54,985		54,985		154,189
	<u>24,180</u>	<u>23,727</u>	<u>47,907</u>		<u>47,907</u>
	<u>79,165</u>	<u>23,727</u>	<u>102,892</u>	<u>-0-</u>	<u>228,420</u>
					95,932
					21,929
11,982		48,055	60,037		60,037
			-0-	54,029	54,029
	<u>(5,190)</u>		<u>(5,190)</u>		<u>(130,718)</u>
<u>11,982</u>	<u>(5,190)</u>	<u>48,055</u>	<u>54,847</u>	<u>54,029</u>	<u>101,209</u>
<u>\$ 11,982</u>	<u>\$ 73,975</u>	<u>\$ 71,782</u>	<u>\$ 157,739</u>	<u>\$ 54,029</u>	<u>\$ 329,629</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, 2012

	Special Revenue Funds			
	Streets, Drainage and Sidewalks	Hotel/ Motel Tax	Marina Operations	Total
Revenues:				
Property taxes	\$	\$	\$	\$ -0-
Hotel-motel tax		13,462		13,462
Revenue producing facilities			178,694	178,694
Interest income	289	7		296
Miscellaneous				-0-
Total revenues	289	13,469	178,694	192,452
Expenditures:				
Current:				
Administrative		11,259		11,259
Streets and drainage	56			56
Marina			312,246	312,246
Capital outlay	199,770		12,046	211,816
Debt Service:				
Principal				-0-
Interest				-0-
Total expenditures	199,826	11,259	324,292	535,377
Excess of revenues over (under) expenditures	(199,537)	2,210	(145,598)	(342,925)
Other Financing Sources (Uses):				
Transfers in			142,207	142,207
Transfers out	(122,305)			(122,305)
Total other financing sources (uses)	(122,305)	-0-	142,207	19,902
Net changes in fund balance	(321,842)	2,210	(3,391)	(323,023)
Fund balance - beginning	417,774	19,719	(122,137)	315,356
Fund balance - ending	\$ 95,932	\$ 21,929	\$(125,528)	\$(7,667)

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	
\$	\$ 276,910	\$ 291,562	\$ 568,472	\$	\$ 568,472
			-0-		13,462
			-0-		178,694
10	9	27	46	38	380
<u>206,370</u>			<u>206,370</u>		<u>206,370</u>
<u>206,380</u>	<u>276,919</u>	<u>291,589</u>	<u>774,888</u>	<u>38</u>	<u>967,378</u>
			-0-		11,259
			-0-		56
			-0-		312,246
			-0-	48,500	260,316
143,000	196,000	190,000	529,000		529,000
<u>62,659</u>	<u>86,109</u>	<u>53,534</u>	<u>202,302</u>		<u>202,302</u>
<u>205,659</u>	<u>282,109</u>	<u>243,534</u>	<u>731,302</u>	<u>48,500</u>	<u>1,315,179</u>
<u>721</u>	<u>(5,190)</u>	<u>48,055</u>	<u>43,586</u>	<u>(48,462)</u>	<u>(347,801)</u>
	32,597	32,618	65,215		207,422
			-0-		(122,305)
<u>-0-</u>	<u>32,597</u>	<u>32,618</u>	<u>65,215</u>	<u>-0-</u>	<u>85,117</u>
721	27,407	80,673	108,801	(48,462)	(262,684)
<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>11,982</u>	\$ <u>(5,190)</u>	\$ <u>48,055</u>	\$ <u>54,847</u>	\$ <u>54,029</u>	\$ <u>101,209</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, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Investment income	\$ 30	\$ 30	\$ 289	\$ 259
Total revenues	<u>30</u>	<u>30</u>	<u>289</u>	<u>259</u>
Expenditures:				
Current:				
Streets and drainage			56	(56)
Capital outlay		<u>265,384</u>	<u>199,770</u>	<u>65,614</u>
Total expenditures	<u>-0-</u>	<u>265,384</u>	<u>199,826</u>	<u>65,558</u>
Excess of revenues over (under) expenditures	<u>30</u>	<u>(265,354)</u>	<u>(199,537)</u>	<u>65,817</u>
Other Financing Sources (Uses):				
Transfers out	<u>(122,305)</u>	<u>(122,305)</u>	<u>(122,305)</u>	<u>-0-</u>
Total other financing sources (uses)	<u>(122,305)</u>	<u>(122,305)</u>	<u>(122,305)</u>	<u>-0-</u>
Net change in fund balance	<u>(122,275)</u>	<u>(387,659)</u>	<u>(321,842)</u>	<u>65,817</u>
Fund balance - beginning	<u>417,774</u>	<u>417,774</u>	<u>417,774</u>	<u>-0-</u>
Fund balance - ending	<u>\$ 295,499</u>	<u>\$ 30,115</u>	<u>\$ 95,932</u>	<u>\$ 65,817</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, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Other taxes	\$ 9,809	\$ 9,809	\$ 13,462	\$ 3,653
Investment income	<u>30</u>	<u>30</u>	<u>7</u>	<u>(23)</u>
Total revenues	<u>9,839</u>	<u>9,839</u>	<u>13,469</u>	<u>3,630</u>
Expenditures:				
Current:				
Administration	<u>11,250</u>	<u>11,250</u>	<u>11,259</u>	<u>(9)</u>
Total expenditures	<u>11,250</u>	<u>11,250</u>	<u>11,259</u>	<u>(9)</u>
Excess of revenues over (under) expenditures	<u>(1,411)</u>	<u>(1,411)</u>	<u>2,210</u>	<u>3,621</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>(1,411)</u>	<u>(1,411)</u>	<u>2,210</u>	<u>3,621</u>
Fund balance - beginning	<u>19,719</u>	<u>19,719</u>	<u>19,719</u>	<u>-0-</u>
Fund balance - ending	<u>\$ 18,308</u>	<u>\$ 18,308</u>	<u>\$ 21,929</u>	<u>\$ 3,621</u>

CITY OF FREEPORT

Freeport, Texas

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

For the Year Ended September 30, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Revenue producing facilities	\$ 177,871	\$ 177,871	\$ 178,694	\$ 823
Total revenues	<u>177,871</u>	<u>177,871</u>	<u>178,694</u>	<u>823</u>
Expenditures:				
Marina	308,078	308,078	312,246	(4,168)
Capital outlay	<u>12,000</u>	<u>12,000</u>	<u>12,046</u>	<u>(46)</u>
Total expenditures	<u>320,078</u>	<u>320,078</u>	<u>324,292</u>	<u>(4,214)</u>
Excess of revenues over (under) expenditures	<u>(142,207)</u>	<u>(142,207)</u>	<u>(145,598)</u>	<u>(3,391)</u>
Other Financing Sources (Uses):				
Transfers in	<u>142,207</u>	<u>142,207</u>	<u>142,207</u>	<u>-0-</u>
Total other financing sources (uses)	<u>142,207</u>	<u>142,207</u>	<u>142,207</u>	<u>-0-</u>
Net change in fund balance	-0-	-0-	(3,391)	(3,391)
Fund balance - beginning	<u>(122,137)</u>	<u>(122,137)</u>	<u>(122,137)</u>	<u>-0-</u>
Fund balance - ending	<u>\$(122,137)</u>	<u>\$(122,137)</u>	<u>\$(125,528)</u>	<u>\$(3,391)</u>

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, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Investment income	\$ 285	\$	\$ 10	\$ 10
Miscellaneous	<u>205,457</u>	<u>206,370</u>	<u>206,370</u>	
Total revenues	<u>205,742</u>	<u>206,370</u>	<u>206,380</u>	<u>10</u>
Expenditures:				
Debt Service:				
Principal	124,000	217,359	143,000	74,359
Interest	<u>81,757</u>	<u>164,987</u>	<u>62,659</u>	<u>102,328</u>
Total expenditures	<u>205,757</u>	<u>382,346</u>	<u>205,659</u>	<u>176,687</u>
Excess of revenues over (under) expenditures	<u>(15)</u>	<u>(175,976)</u>	<u>721</u>	<u>176,697</u>
Other Financing Sources (Uses):				
Transfers in		176,260		(176,260)
Transfers out				<u>-0-</u>
Total other financing sources (uses)	<u>-0-</u>	<u>176,260</u>	<u>-0-</u>	<u>(176,260)</u>
Net change in fund balance	<u>(15)</u>	<u>284</u>	<u>721</u>	<u>437</u>
Fund balance - beginning	<u>11,261</u>	<u>11,261</u>	<u>11,261</u>	<u>-0-</u>
Fund balance - ending	<u>\$ 11,246</u>	<u>\$ 11,545</u>	<u>\$ 11,982</u>	<u>\$ 437</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, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Taxes	\$ 281,581	\$ 281,581	\$ 276,910	\$(4,671)
Investment income			9	9
Total revenues	281,581	281,581	276,919	(4,662)
Expenditures:				
Debt Service:				
Principal	196,000	196,000	196,000	-0-
Interest	85,581	85,581	86,109	(528)
Total expenditures	281,581	281,581	282,109	(528)
Excess of revenues over (under) expenditures	-0-	-0-	(5,190)	(5,190)
Other Financing Sources (Uses):				
Transfers in		32,597	32,597	-0-
Total other financing sources (uses)	-0-	32,597	32,597	-0-
Net change in fund balance	-0-	32,597	27,407	(5,190)
Fund balance - beginning	(32,597)	(32,597)	(32,597)	-0-
Fund balance - ending	\$(32,597)	\$ -0-	\$(5,190)	\$(5,190)

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, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Taxes	\$ 297,368	\$ 297,368	\$ 291,562	\$(5,806)
Investment income			27	27
Total revenues	<u>297,368</u>	<u>297,368</u>	<u>291,589</u>	<u>(5,779)</u>
Expenditures:				
Debt Service:				
Principal	190,000	190,000	190,000	-0-
Interest	<u>107,368</u>	<u>107,368</u>	<u>53,534</u>	<u>53,834</u>
Total expenditures	<u>297,368</u>	<u>297,638</u>	<u>243,534</u>	<u>53,834</u>
Excess of revenues over (under) expenditures	<u>-0-</u>	<u>-0-</u>	<u>48,055</u>	<u>48,055</u>
Other Financing Sources (Uses):				
Transfers in		<u>32,618</u>	<u>32,618</u>	<u>-0-</u>
Total other financing sources (uses)	<u>-0-</u>	<u>32,618</u>	<u>32,618</u>	<u>-0-</u>
Net change in fund balance	-0-	32,618	80,673	48,055
Fund balance - beginning	<u>(32,618)</u>	<u>(32,618)</u>	<u>(32,618)</u>	<u>-0-</u>
Fund balance - ending	<u><u>\$(32,618)</u></u>	<u><u>\$ -0-</u></u>	<u><u>\$ 48,055</u></u>	<u><u>\$ 48,055</u></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, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Investment income	\$ _____	\$ _____	\$ _____ 38	\$ _____ 38
Total revenues	_____ -0-	_____ -0-	_____ 38	_____ 38
Expenditures:				
Capital outlay	_____ 48,500	_____ 48,500	_____ 48,500	_____ -0-
Total expenditures	_____ 48,500	_____ 48,500	_____ 48,500	_____ -0-
Excess of revenues over (under) expenditures	(_____ 48,500)	(_____ 48,500)	(_____ 48,462)	_____ 38
Other Financing Sources (Uses):				
Total other financing sources (uses)	_____ -0-	_____ -0-	_____ -0-	_____ -0-
Net change in fund balance	(_____ 48,500)	(_____ 48,500)	(_____ 48,462)	_____ 38
Fund balance - beginning	_____ 102,491	_____ 102,491	_____ 102,491	_____ -0-
Fund balance - ending	\$ _____ 53,991	\$ _____ 53,991	\$ _____ 54,029	\$ _____ 38

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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, 2012

	<u>Budgeted Amounts</u>		<u>Actual GAAP Basis</u>	<u>Adjustments to Budgetary Basis</u>
	<u>Original</u>	<u>Final</u>		
Operating Revenues:				
Water service	\$ 2,256,000	\$ 2,256,000	\$ 2,194,530	\$
Sewer service	1,310,000	1,310,000	1,282,810	
Charges for other services	131,300	131,300	65,276	
Miscellaneous	<u>1,200</u>	<u>1,200</u>	<u>12,912</u>	
Total operating revenues	<u>3,698,500</u>	<u>3,698,500</u>	<u>3,555,528</u>	<u>-0-</u>
Operating Expenses:				
Personnel services	76,795	76,795	77,195	
Employee benefits	38,243	38,243	26,851	
Contract and professional services	1,362,136	1,450,873	2,095,758	
Other operating	43,725	43,725	61,635	
Supplies	17,000	17,000	7,244	
Cost of sales	<u>1,991,902</u>	<u>1,991,902</u>	<u>1,317,188</u>	
Operating expenses before depreciation	3,529,801	3,618,538	3,585,871	-0-
Depreciation			<u>302,473</u>	<u>(302,473)</u>
Total operating expenses	<u>3,529,801</u>	<u>3,618,538</u>	<u>3,888,344</u>	<u>(302,473)</u>
Net operating income (loss)	<u>168,699</u>	<u>79,962</u>	<u>(332,816)</u>	<u>302,473</u>
Non-Operating Revenues (Expenses):				
Interest revenue	100	100	12	
Debt principal	(208,000)	(208,000)		
Interest expense and agent fees	<u>(38,227)</u>	<u>(38,227)</u>	<u>(48,371)</u>	<u>15,188</u>
Total non-operating revenues (expenses)	<u>(246,127)</u>	<u>(246,127)</u>	<u>(48,359)</u>	<u>15,188</u>
Net income (loss) before contributions and operating transfers	<u>(77,428)</u>	<u>(166,165)</u>	<u>(381,175)</u>	<u>317,661</u>
Contribution (capital) Transfers in	<u>77,428</u>	<u>166,165</u>	<u>50,045</u> <u>166,165</u>	<u>(50,045)</u> <u>-0-</u>
Change in net assets	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$(164,965)</u>	<u>\$ 267,616</u>

Actual Budgetary Basis	Variance on Final Budget - Positive (Negative)
\$ 2,194,530	\$(61,470)
1,282,810	(27,190)
65,276	(66,024)
<u>12,912</u>	<u>11,712</u>
<u>3,555,528</u>	<u>(142,972)</u>
77,195	(400)
26,851	11,392
2,095,758	(644,885)
61,635	(17,910)
7,244	9,756
<u>1,317,188</u>	<u>674,714</u>
3,585,871	32,667
<u>-0-</u>	<u>-0-</u>
<u>3,585,871</u>	<u>32,667</u>
<u>(30,343)</u>	<u>(110,305)</u>
12	(88)
	208,000
<u>(33,183)</u>	<u>5,044</u>
<u>(33,171)</u>	<u>212,956</u>
(63,514)	102,651
-0-	-0-
<u>166,165</u>	<u>-0-</u>
<u>\$ 102,651</u>	<u>\$ 102,651</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, 2012

	Budgeted Amounts		Actual GAAP Basis	Adjustments to Budgetary Basis
	Original	Final		
Operating Revenues:				
Golf course fees and charges	\$ 641,998	\$ 641,998	\$ 552,630	\$
Total operating revenues	<u>641,998</u>	<u>641,998</u>	<u>552,630</u>	<u>-0-</u>
Operating Expenses:				
Personnel services	327,444	327,444	308,084	
Employee benefits	124,886	124,886	121,871	
Contract and professional services	102,415	102,415	76,136	
Supplies	50,800	50,800	48,738	
Cost of sales and services	<u>130,150</u>	<u>130,150</u>	<u>147,102</u>	
Operating expenses before depreciation	735,695	735,695	701,931	-0-
Depreciation			<u>72,605</u>	(72,605)
Total operating expenses	<u>735,695</u>	<u>735,695</u>	<u>774,536</u>	(72,605)
Net operating income (loss)	(93,697)	(93,697)	(221,906)	<u>72,605</u>
Non-Operating Revenues (Expenses):				
Interest revenue			1	
Interest expense			(3,368)	
Total non-operating revenues (expenses)	<u>-0-</u>	<u>-0-</u>	(3,367)	<u>-0-</u>
Net income (loss) before operating transfers	(93,697)	(93,697)	(225,273)	72,605
Transfers in (out)	<u>93,697</u>	<u>93,697</u>	<u>93,697</u>	
Change in net assets	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$(131,576)</u>	<u>\$ 72,605</u>

Actual Budgetary Basis	Variance on Final Budget - Positive (Negative)
\$ <u>552,630</u>	\$ (<u>89,368</u>)
<u>552,630</u>	(<u>89,368</u>)
308,084	19,360
121,871	3,015
76,136	26,279
48,738	2,062
<u>147,102</u>	(<u>16,952</u>)
701,931	33,764
<u>-0-</u>	<u>-0-</u>
<u>701,931</u>	<u>33,764</u>
(<u>149,301</u>)	(<u>55,604</u>)
1	1
(<u>3,368</u>)	<u>3,368</u>
(<u>3,367</u>)	<u>3,369</u>
(152,668)	(52,235)
<u>93,697</u>	<u>-0-</u>
\$ (<u>58,971</u>)	\$ (<u>52,235</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, 2012

	<u>Budgeted Amounts</u>		<u>Actual GAAP Basis</u>	<u>Adjustments to Budgetary Basis</u>
	<u>Original</u>	<u>Final</u>		
Operating Revenues:				
Charges for other services	\$ 550,000	\$ 550,000	\$ 778,681	\$
Miscellaneous	<u>87,900</u>	<u>87,900</u>	<u>86,586</u>	<u> </u>
Total operating revenues	<u>637,900</u>	<u>637,900</u>	<u>865,267</u>	<u>-0-</u>
Operating Expenses:				
Personnel services	385,414	385,414	351,268	
Employee benefits	135,205	135,205	125,312	
Other operating	67,913	74,313	69,171	
Supplies	<u>62,800</u>	<u>62,800</u>	<u>42,141</u>	<u> </u>
Operating expenses before depreciation	651,332	657,732	587,892	-0-
Depreciation	<u> </u>	<u> </u>	<u>37,179</u>	<u>(37,179)</u>
Total operating expenses	<u>651,332</u>	<u>657,732</u>	<u>625,071</u>	<u>(37,179)</u>
Net operating income (loss)	<u>(13,432)</u>	<u>(19,832)</u>	<u>240,196</u>	<u>37,179</u>
Non-Operating Revenues (Expenses):				
Interest revenue	<u>113</u>	<u>113</u>	<u>38</u>	<u> </u>
Total non-operating revenues (expenses)	<u>113</u>	<u>113</u>	<u>38</u>	<u>-0-</u>
Net income (loss) before operating transfers	<u>(13,319)</u>	<u>(19,719)</u>	<u>240,234</u>	<u>37,179</u>
Transfers in	<u> </u>	<u> </u>	<u> </u>	<u>-0-</u>
Change in net assets	<u>\$(13,319)</u>	<u>\$(19,719)</u>	<u>\$ 240,234</u>	<u>\$ 37,179</u>

Actual Budgetary Basis	Variance on Final Budget - Positive (Negative)
\$ 778,681	\$ 228,681
<u>86,586</u>	<u>(1,314)</u>
<u>865,267</u>	<u>227,367</u>
351,268	34,146
125,312	9,893
69,171	5,142
<u>42,141</u>	<u>20,659</u>
587,892	69,840
<u>-0-</u>	<u>-0-</u>
<u>587,892</u>	<u>69,840</u>
<u>277,375</u>	<u>297,207</u>
<u>38</u>	<u>(75)</u>
<u>38</u>	<u>(75)</u>
277,413	297,132
<u>-0-</u>	<u>-0-</u>
<u>\$ 277,413</u>	<u>\$ 297,132</u>

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CITY OF FREEPORT

Freeport, Texas

SCHEDULE OF AD VALOREM TAX LEVY AND COLLECTIONS

September 30, 2012

Levy Year	Balance 10-01-11	Current Year Levy	Collections	Adjustments	Balance 09-30-12
2002 & Prior	\$ 44,020	\$	\$ 752	\$(6,772)	\$ 36,496
2003	10,936		181	(32)	10,723
2004	9,448		418	(30)	9,000
2005	8,543		588	(28)	7,927
2006	9,997		887	(415)	8,695
2007	14,236		2,500	(537)	11,199
2008	18,814		6,783	(187)	11,844
2009	34,778		15,202	(309)	19,267
2010	93,595		49,364	(2,219)	42,012
2011		<u>2,459,082</u>	<u>2,302,281</u>		<u>156,801</u>
	<u>\$ 244,367</u>	<u>\$ 2,459,082</u>	<u>\$ 2,378,956</u>	<u>\$(10,529)</u>	313,964
Less reserve for uncollectible taxes					<u>55,529</u>
Net delinquent ad valorem taxes receivable					<u>\$ 258,435</u>

CITY OF FREEPORT

Freeport, Texas

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

September 30, 2012
(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	
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	59,313	782,023
2019	273,000	6,607	199,000	4,816	245,000	50,217	778,640
2020					255,000	40,932	295,932
2021					265,000	31,268	296,268
2022					275,000	21,224	296,224
2023					285,000	10,802	295,802
TOTAL	\$ 1,664,000	\$ 297,177	\$ 1,212,000	\$ 216,347	\$ 2,635,000	\$ 634,825	\$ 6,659,349

CITY OF FREEPORT

Freeport, Texas

**DEBT SERVICE REQUIREMENTS TO MATURITY
REVENUE BONDS**

September 30, 2012

(Unaudited)

Year Ending 09/30	\$ 1,943,000 Series 2004		Total Principal & Interest
	Principal	Interest	
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>50,294</u>	\$ <u>728,294</u>

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