

CITY OF FREEPORT
FREEPORT, TEXAS

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED
SEPTEMBER 30, 2014

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, 2014*

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FINANCIAL SECTION

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Kennemer, Masters & Lunsford

CERTIFIED PUBLIC ACCOUNTANTS

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Freeport, Texas (the "City") as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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Opinions

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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Freeport, as of September 30, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 11 through 24, and the budgetary comparison information, the Texas Municipal Retirement System, and the Texas Statewide Emergency Services Personnel Retirement Fund Schedules on pages 86 through 89, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, and other statements and schedules, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

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

Honorable Mayor, Members
of City Council, and City Manager
City of Freeport
Page 3

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 17, 2015, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City's internal control over financial reporting and compliance.

Kerremers, Masters & Hungford, LLC

Certified Public Accountants
Lake Jackson, Texas
June 17, 2015

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CITY OF FREEPORT, TEXAS

Management's Discussion and Analysis For the Year Ended September 30, 2014

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, 2014. We encourage readers to consider the information presented here in conjunction with the City's financial statements, which follow this section.

Financial Highlights

- Subsequent to September 30, 2014, on November 18, 2014 the City of Freeport approved a resolution forgiving any and all indebtedness of the Freeport Economic Development Corporation to the City of Freeport, Texas. The total amount forgiven was \$ 8,083,539 (\$ 6,639,208 in principal and \$ 1,444,331 in accrued interest). This loss has been reported at September 30, 2014.
- Additionally, on November 18, 2014, the City of Freeport and The Freeport Economic Development Corporation entered into a settlement of the lawsuits Freeport Economic Development Corporation v. Hiram Walker Royall, Freeport Waterfront Properties, L.P., Freeport Marina, L.P., Freeport Marina, GP, LLC, Briarwood Holdings, LLC., and Briarwood Capital Corporation Cause No. 55780 in the 239th Brazoria County District Court; Consolidated with Briarwood Holdings, LLC v. City of Freeport Economic Development Corporation and City of Freeport; Cause No. 54864 in the 239th Brazoria County District Court (the "Lawsuit"). The settlement effectively calls for the City to give up its interest in the Marina assets on February 1, 2015, which resulted in an asset impairment loss of \$ 828,292. This loss has been reported at September 30, 2014.
- The assets and deferred outflows of resources of the City of Freeport exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$ 21,840,984 (net position). Of this amount, \$ 5,064,280 (unrestricted net position) 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 position of \$ 21,840,984 decreased by \$ 7,398,693 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 \$ 6,175,394. 90.03% of this total amount, \$ 5,559,561 (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 \$ 6,449,641 and the unassigned fund balance was \$ 5,960,220. These amounts were 62.73% and 57.97% 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, 2014*

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

The *statement of activities* presents information showing how the City's net position changed during the fiscal year. All changes in net position 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 26 through 31 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, 2014

The City maintains nine 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 and the Marina Operations (special revenue fund), which are considered to be the major funds. 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 92 through 95 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 position, statement of revenues, expenses and changes in net position, and statement of cash flows on pages 38 through 43 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 45 through 83 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 86 through 89 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 92 through 109 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City of Freeport, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$ 21,840,984 as of September 30, 2014.

A large portion of the City's net position, in the amount of \$ 16,645,292 (76.21%) 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, 2014

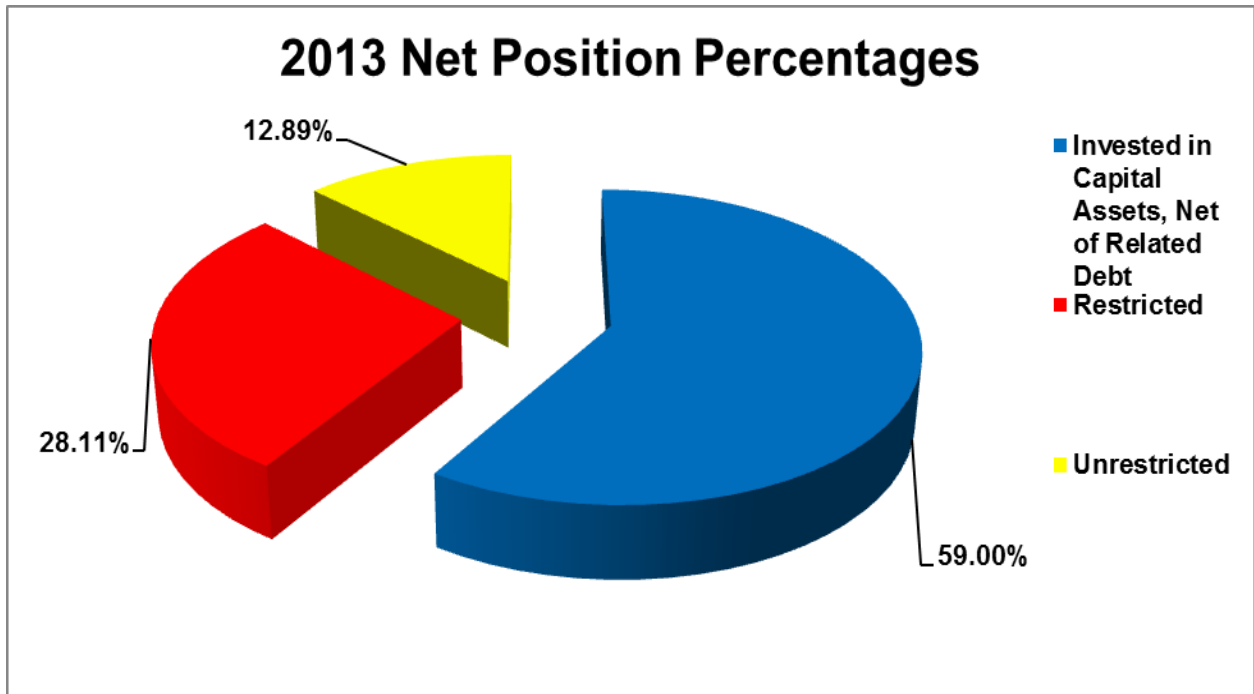
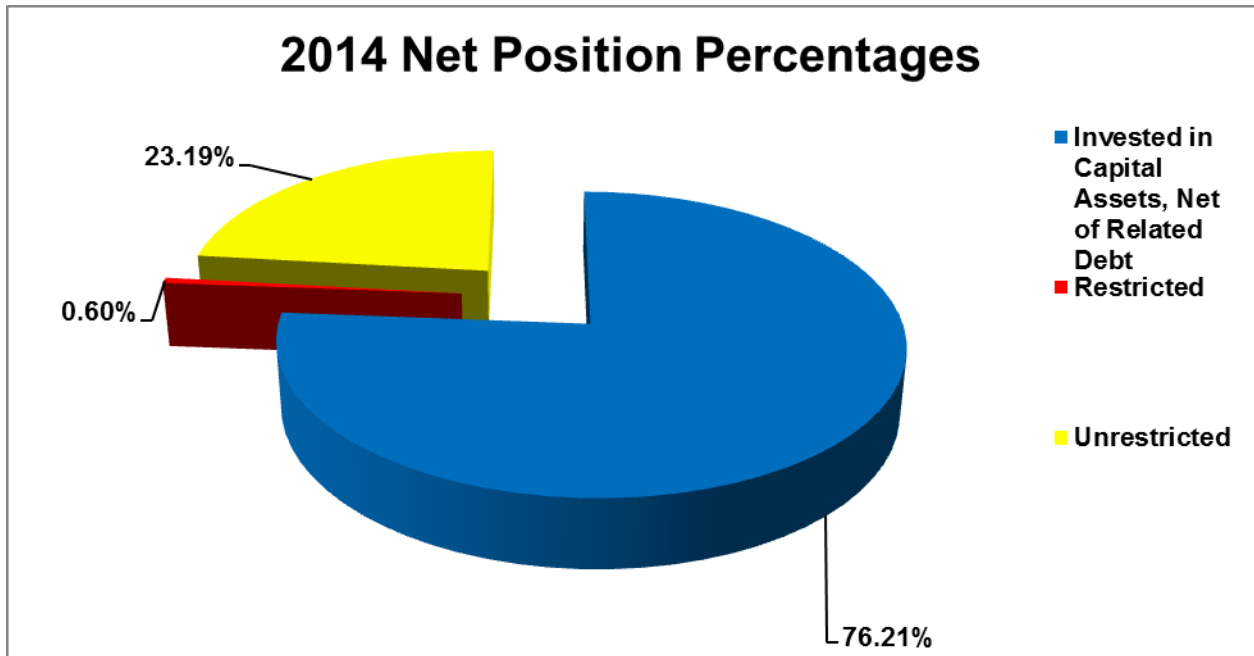
An additional portion of the City's net position of \$ 131,412 (0.60%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position of \$ 5,064,280 (23.19%) may be used to meet the government's ongoing obligations to citizens and creditors.

As of September 30, 2014, the City is able to report positive balances in all categories of net position for the government as a whole. The business-type activities report a negative amount in unrestricted net position.

CITY OF FREEPORT'S NET POSITION

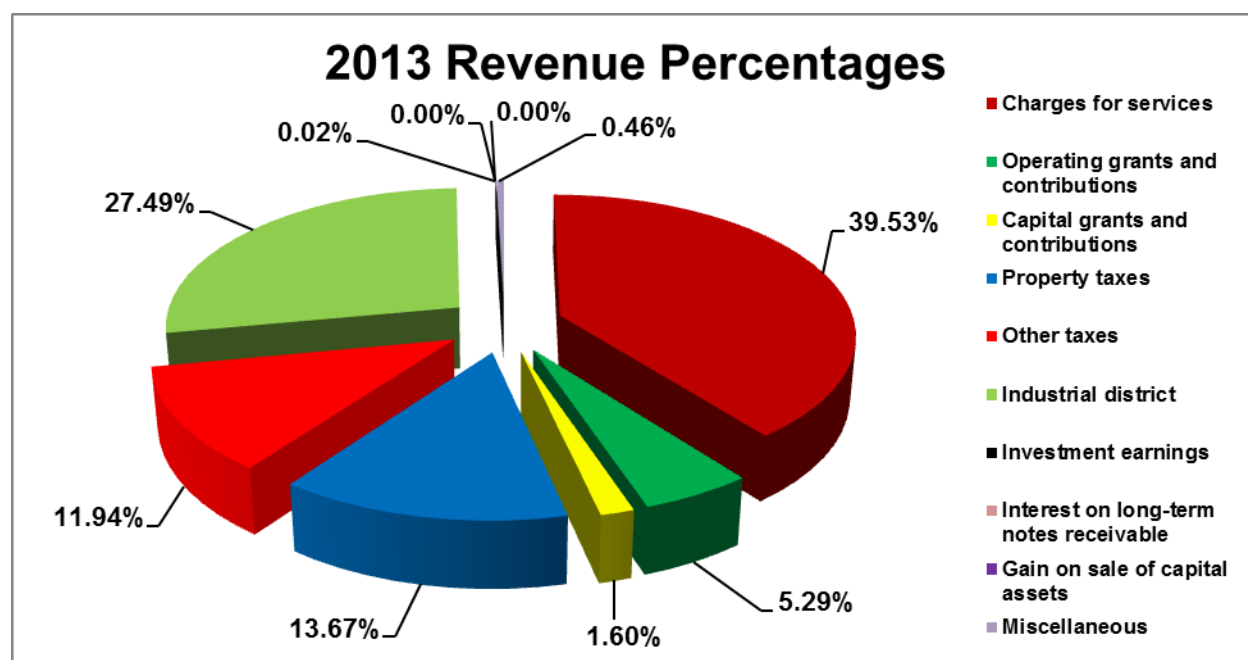
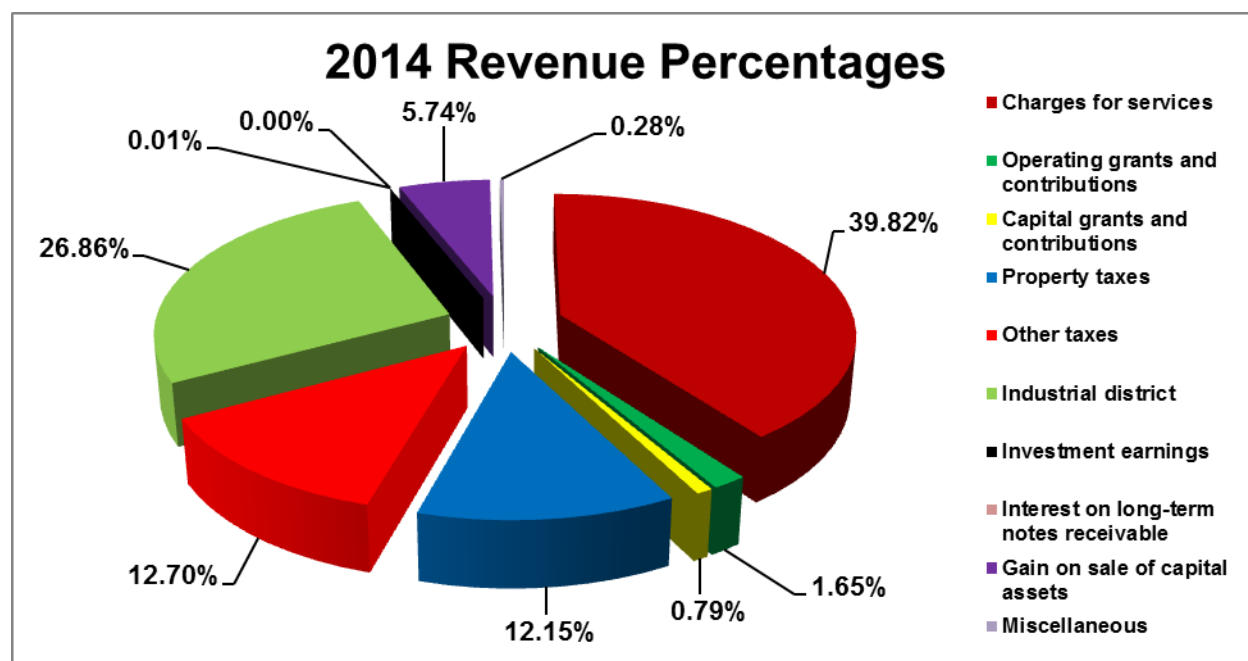
	Governmental Activities		Business-type Activities		Totals	
	September 30,		September 30		September 30,	
	2014	2013	2014	2013	2014	2013
Current and other assets	\$ 7,316,058	\$ 5,909,321	\$ 425,311	\$ 432,373	\$ 7,741,369	\$ 6,341,694
Long-term receivables		8,083,539				8,083,539
Capital assets	<u>14,213,316</u>	<u>15,715,181</u>	<u>7,434,413</u>	<u>7,554,896</u>	<u>21,647,729</u>	<u>23,270,077</u>
Total assets	<u>21,529,374</u>	<u>29,708,041</u>	<u>7,859,724</u>	<u>7,987,269</u>	<u>29,389,098</u>	<u>37,695,310</u>
Current and other liabilities	645,103	789,973	1,085,955	764,918	1,731,058	1,554,891
Long-term liabilities	<u>5,336,559</u>	<u>6,135,012</u>	<u>480,497</u>	<u>765,730</u>	<u>5,817,056</u>	<u>6,900,742</u>
Total liabilities	<u>5,981,662</u>	<u>6,924,985</u>	<u>1,566,452</u>	<u>1,530,648</u>	<u>7,548,114</u>	<u>8,455,633</u>
Net Position:						
Invest in capital assets, net of related debt	9,605,115	10,377,214	7,040,177	6,873,718	16,645,292	17,250,932
Restricted	115,235	8,202,427	16,177	16,177	131,412	8,218,604
Unrestricted	<u>5,827,362</u>	<u>4,203,415</u>	<u>(763,082)</u>	<u>(433,274)</u>	<u>5,064,280</u>	<u>3,770,141</u>
Total net position	<u>\$ 15,547,712</u>	<u>\$ 22,783,056</u>	<u>\$ 6,293,272</u>	<u>\$ 6,456,621</u>	<u>\$ 21,840,984</u>	<u>\$ 29,239,677</u>

CITY OF FREEPORT, TEXAS
Management's Discussion and Analysis
For the Year Ended September 30, 2014

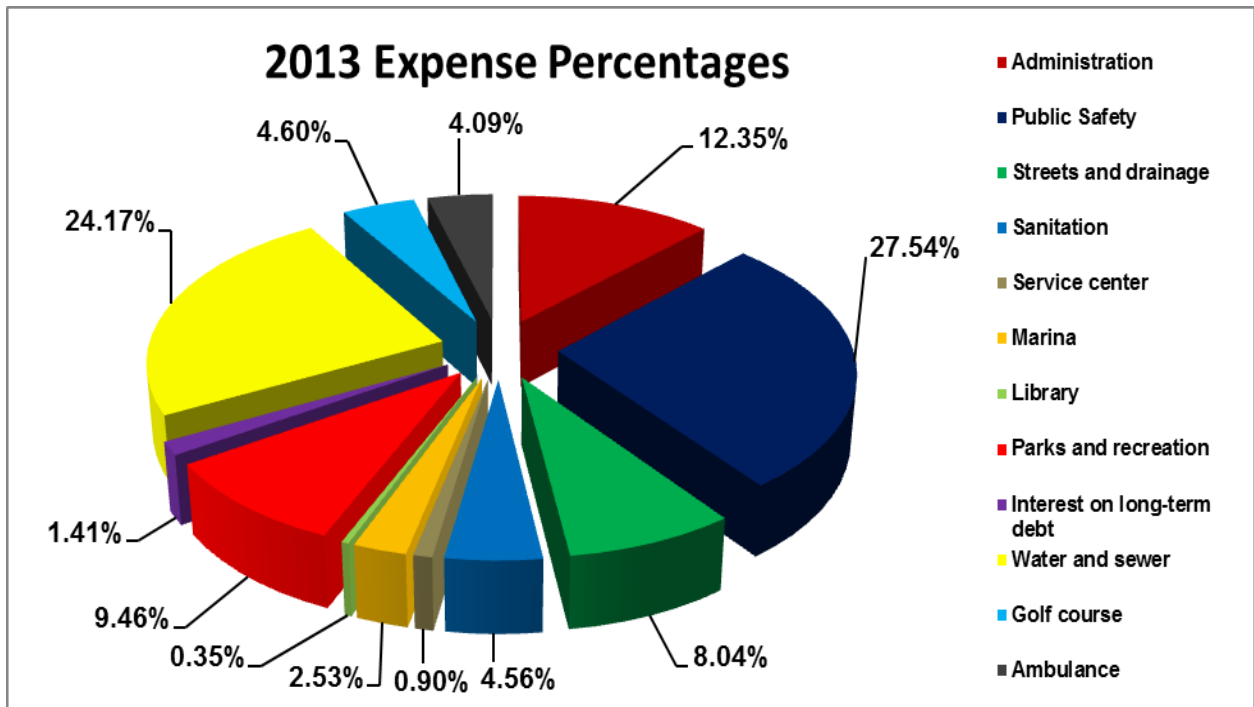
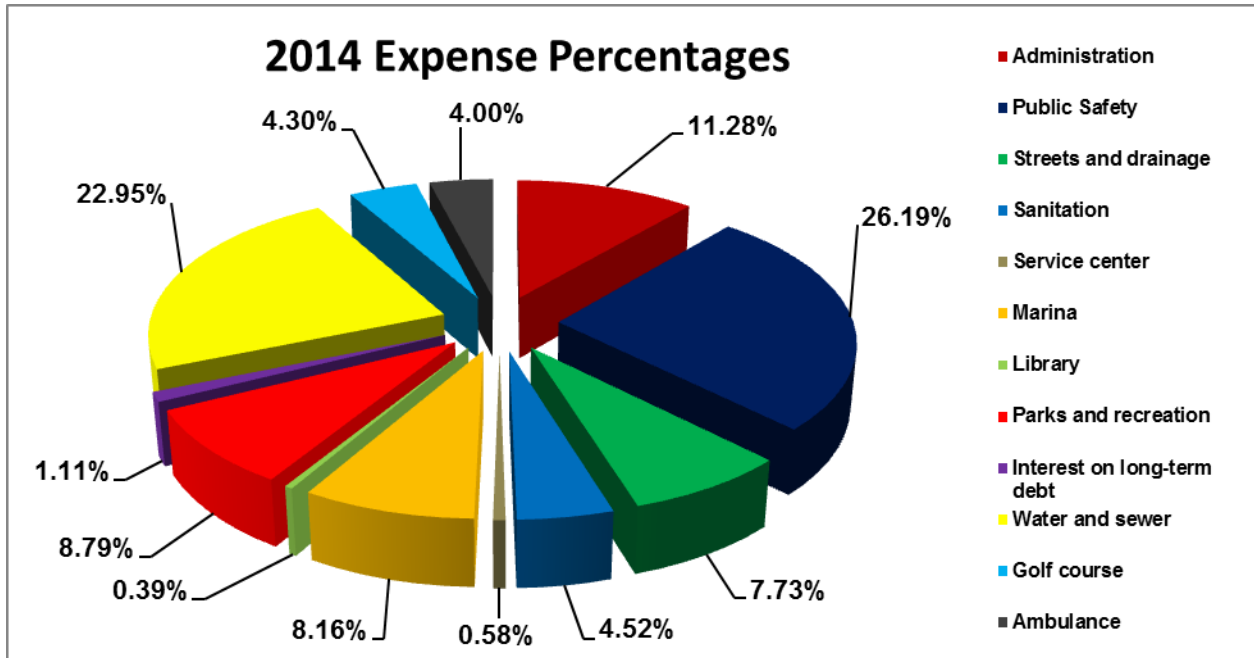


CITY OF FREEPORT, TEXAS
Management's Discussion and Analysis
For the Year Ended September 30, 2014

Analysis of the City's Operations. The following graphs provide a summary of the City's operations for the years ended September 30, 2014. Governmental activities decreased the City of Freeport's net position by \$ 7,235,344 and the business-type activities decreased the City's net position by \$ 163,349.



CITY OF FREEPORT, TEXAS
Management's Discussion and Analysis
For the Year Ended September 30, 2014



CITY OF FREEPORT, TEXAS
Management's Discussion and Analysis
For the Year Ended September 30, 2014

CITY OF FREEPORT'S CHANGES IN NET POSITION

	Governmental Activities		Business-type Activities		Totals	
	September 30,		September 30,		September 30,	
	2014	2013	2014	2013	2014	2013
Revenues:						
Program Revenues:						
Charges for services	\$ 2,511,689	\$ 2,405,898	\$ 4,953,463	\$ 4,617,204	\$ 7,465,152	\$ 7,023,102
Operating grants and contributions	310,589	853,399		86,910	310,589	940,309
Capital grants and contributions			147,375	285,053	147,375	285,053
General Revenues:						
Property taxes	2,278,002	2,428,164			2,278,002	2,428,164
Other taxes	2,380,490	2,120,609			2,380,490	2,120,609
Industrial district	5,036,516	4,884,316			5,036,516	4,884,316
Investment earnings	1,931	3,972	11	79	1,942	4,051
Gain on disposition of capital assets	1,075,536				1,075,536	-0-
Miscellaneous	52,393	82,447			52,393	82,447
Total revenues	<u>13,647,146</u>	<u>12,778,805</u>	<u>5,100,849</u>	<u>4,989,246</u>	<u>18,747,995</u>	<u>17,768,051</u>
Expenses:						
Administration	2,038,503	2,059,996			2,038,503	2,059,996
Public safety	4,731,449	4,592,872			4,731,449	4,592,872
Streets and drainage	1,395,651	1,341,802			1,395,651	1,341,802
Sanitation	815,929	760,582			815,929	760,582
Service center	105,151	150,225			105,151	150,225
Marina	1,473,542	422,178			1,473,542	422,178
Library	69,956	57,964			69,956	57,964
Parks and recreation	1,587,112	1,578,706			1,587,112	1,578,706
Interest on long-term debt	201,225	234,956			201,225	234,956
Water and sewer			4,145,877	4,030,789	4,145,877	4,030,789
Golf course			776,957	767,541	776,957	767,541
Ambulance			721,797	681,781	721,797	681,781
Total expenses	<u>12,418,518</u>	<u>11,199,281</u>	<u>5,644,631</u>	<u>5,480,111</u>	<u>18,063,149</u>	<u>16,679,392</u>
Increase in net position before contributions and transfers	1,228,628	1,579,524	(543,782)	(490,865)	684,846	1,088,659
Special item – Loss on forgiveness of debt	(8,083,539)				(8,083,539)	-0-
Transfers	(380,433)	(503,389)	380,433	503,389	-0-	-0-
Increase in net position	(7,235,344)	1,076,135	(163,349)	12,524	(7,398,693)	1,088,659
Net position – beginning	<u>22,783,056</u>	<u>21,706,921</u>	<u>6,456,621</u>	<u>6,444,097</u>	<u>29,239,677</u>	<u>28,151,018</u>
Net position – ending	<u>\$ 15,547,712</u>	<u>\$ 22,783,056</u>	<u>\$ 6,293,272</u>	<u>\$ 6,456,621</u>	<u>\$ 21,840,984</u>	<u>\$ 29,239,677</u>

CITY OF FREEPORT, TEXAS

*Management's Discussion and Analysis
For the Year Ended September 30, 2014*

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 \$ 6,175,394. 90.03% of this total amount (\$ 5,559,561) constitutes unassigned fund balance. The remainder of the fund balance is restricted to indicate that it is not available for new spending 1) restricted for tourism \$ 17,938, 2) restricted for debt service \$ 47,163, 3) restricted for capital projects \$ 54,029, 4) restricted for municipal court security \$ 17,391, 5) restricted for municipal court technology \$ 6,322, 6) assigned for beach maintenance \$ 7,282; 7) assigned for narcotics operations \$ 24,237, 8) assigned to main street \$ 2,795, 9) assigned to capital projects \$ 420,726, and assigned to LNG boat maintenance \$ 17,950.

The General Fund balance decreased by \$ 5,088,216, the Marina Operations (special revenue fund) decreased by \$ (123,376), and the other governmental funds increased \$ 139,940.

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 position at September 30, 2014 amounted to \$ 6,293,272. Total net position decreased by \$ 163,349 (or 2.52%).

General Fund Budgetary Highlights. Differences between the original budget and the final amended budget resulted in no change in estimated revenues and a \$ 248,565 increase in appropriations which involved a number of budget items. The most significant item was \$ 171,706 increase in budget funding for the Central Lift Station.

Capital Assets

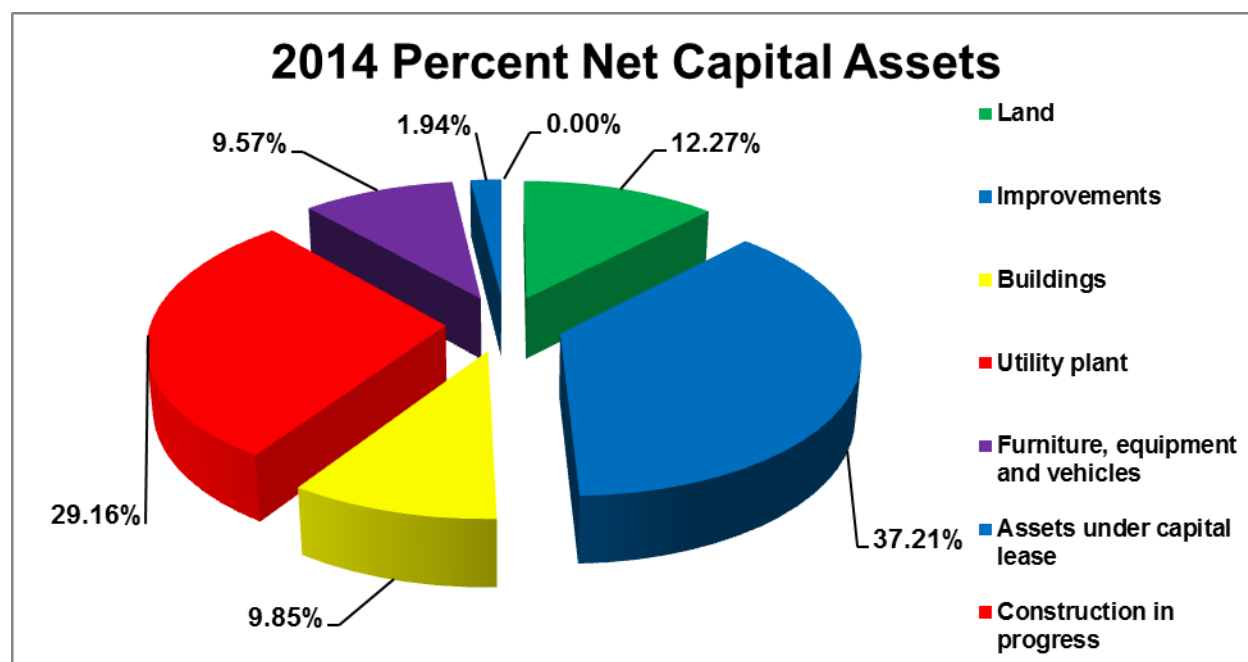
The City of Freeport's investment in capital assets for its governmental and business-type activities as of September 30, 2014, amounts to \$ 21,647,729 (net of accumulated depreciation). This investment in capital assets includes land, improvements, buildings, utility plant, furniture, equipment and vehicles, and construction in progress.

Major capital asset events during the current fiscal year included the CDBG Project – Central Lift Station.

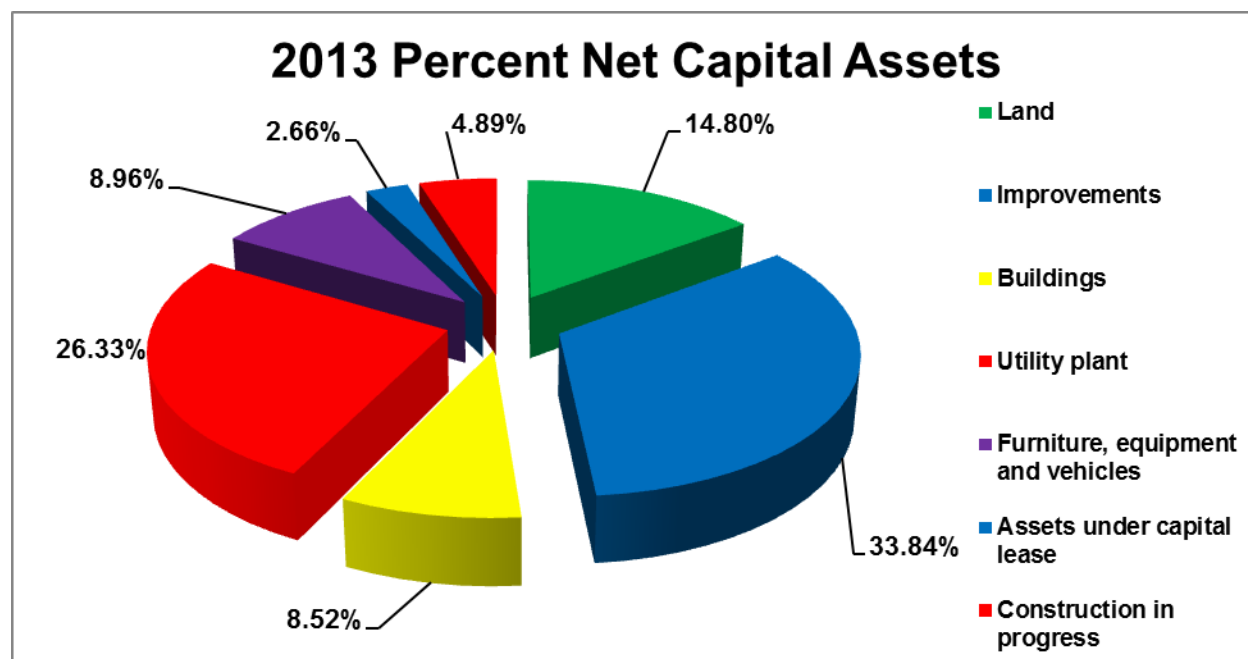
CITY OF FREEPORT, TEXAS
Management's Discussion and Analysis
For the Year Ended September 30, 2014

Capital Assets
Net of Accumulated Depreciation

	Governmental Activities		Business-type Activities		Totals	
	September 30,		September 30,		September 30,	
	2014	2013	2014	2013	2014	2013
Land	\$ 2,260,101	\$ 3,048,548	\$ 395,630	\$ 395,630	\$ 2,655,731	\$ 3,444,178
Improvements	7,957,178	7,770,513	97,583	104,210	8,054,761	7,874,723
Buildings	2,056,787	1,876,839	75,978	105,389	2,132,765	1,982,228
Utility plant			6,312,409	6,127,209	6,312,409	6,127,209
Furniture, equipment and vehicles	1,729,426	1,802,443	342,754	283,429	2,072,180	2,085,872
Assets under capital lease	209,824	365,190	210,059	253,976	419,883	619,166
Construction in progress		851,648		285,053	-0-	1,136,701
Total	\$ 14,213,316	\$ 15,715,181	\$ 7,434,413	\$ 7,554,896	\$ 21,647,729	\$ 23,270,077



CITY OF FREEPORT, TEXAS
Management's Discussion and Analysis
For the Year Ended September 30, 2014



Additional information on the City of Freeport's capital assets can be found in Note 5 on pages 62 through 65 of this report.

Notes Receivable

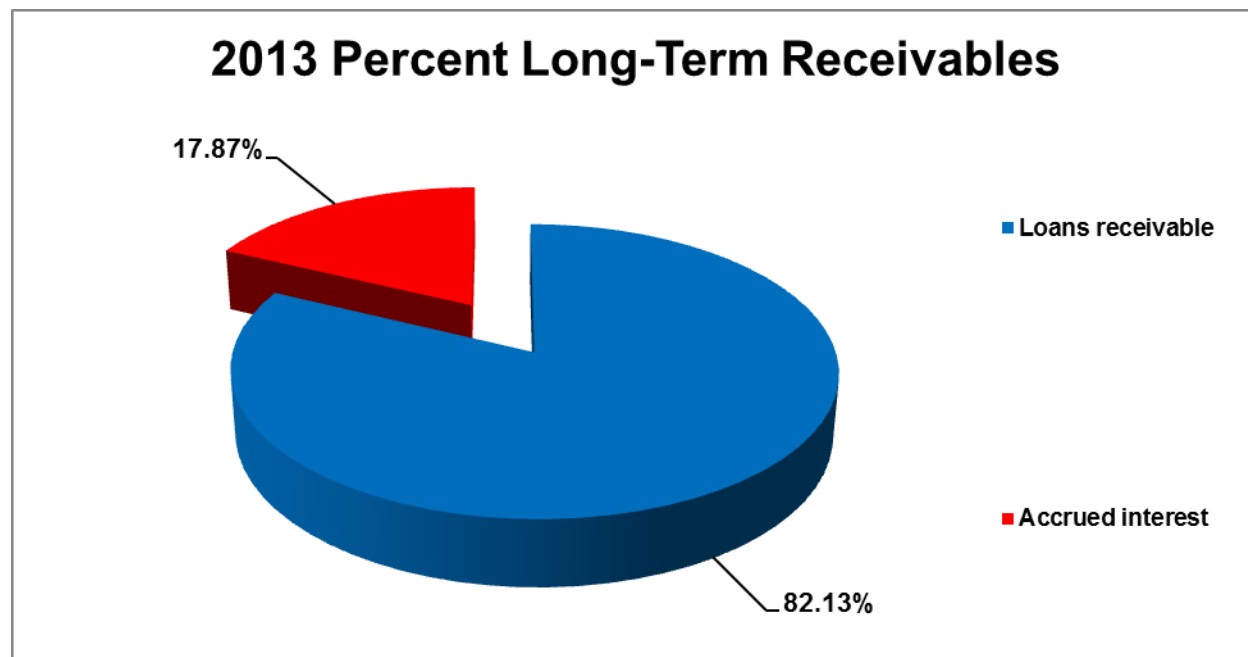
At the end of the current fiscal year, the City of Freeport had no notes receivable. On November 18, 2014, the City forgave all indebtedness owed by the Freeport Economic Development Corporation in the amount of \$ 8,083,539. Of this amount, \$ 6,639,208 represents principle and \$ 1,444,331 represented interest. This loss was reported in the financial statements of the City as of September 30, 2014.

Long-Term Receivables Outstanding

	Governmental Activities		Business-type Activities		Totals	
	September 30,		September 30,		September 30,	
	2014	2013	2014	2013	2014	2013
Loans receivable	\$ -0-	\$ 6,639,208	\$ -0-	\$ -0-	\$ -0-	\$ 6,639,208
Components of Long-Term Loans Receivable:						
Accrued interest receivable	-0-	1,444,331	-0-	-0-	-0-	1,444,331
Total	\$ -0-	\$ 8,083,539	\$ -0-	\$ -0-	\$ -0-	\$ 8,083,539

Additional information on the City of Freeport's long-term notes receivable can be found in Note 15 on pages 79 through 80 of this report.

CITY OF FREEPORT, TEXAS
Management's Discussion and Analysis
For the Year Ended September 30, 2014



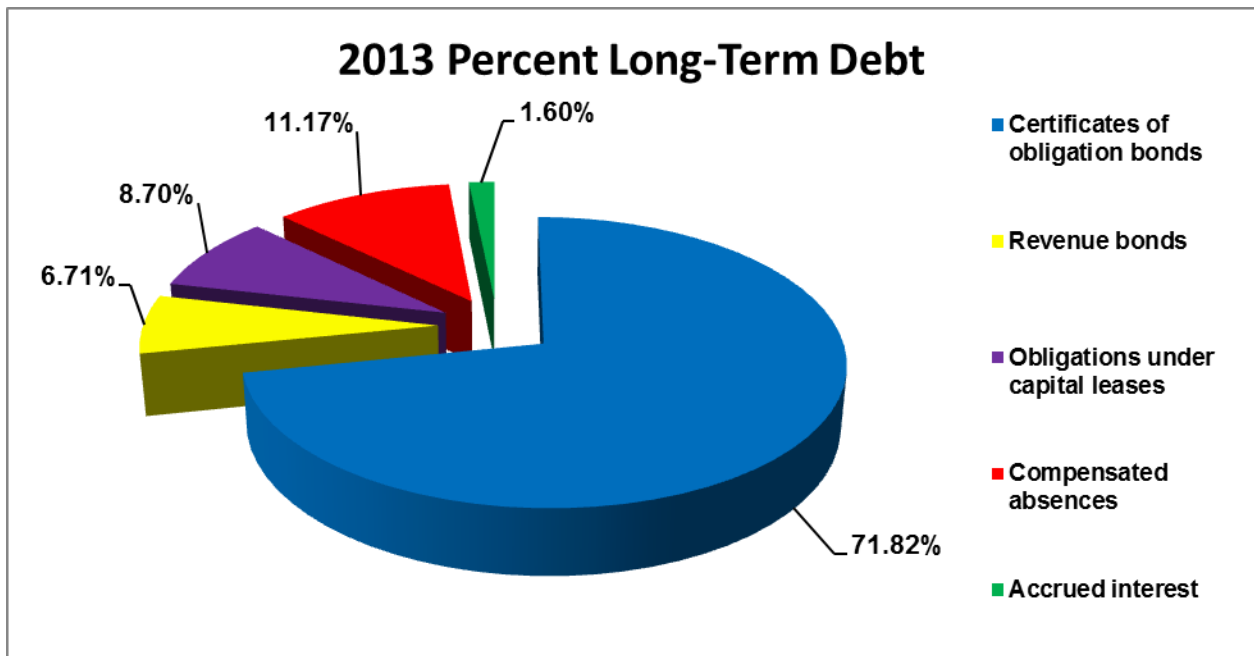
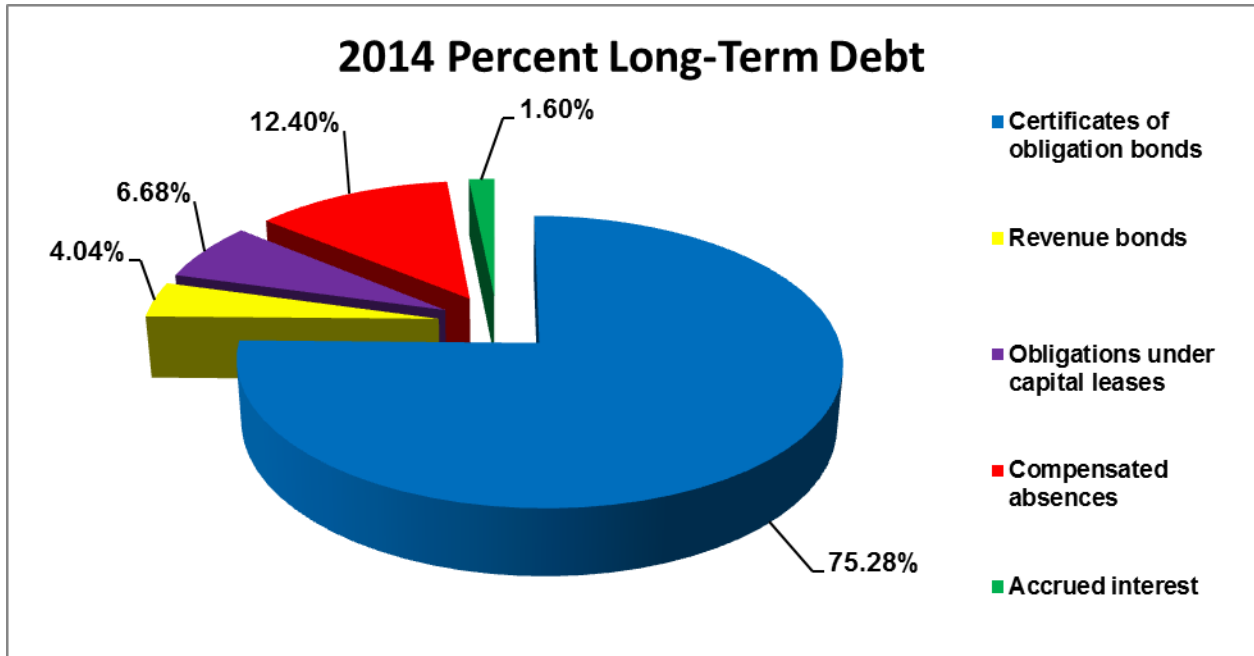
Debt Administration

At the end of the current fiscal year, the City of Freeport had a total bonded debt and certificates of obligation payable of \$ 4,614,000. Of this amount, \$ 4,379,000 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 \$ 235,000 represents bonds secured solely by water and sewer revenues.

Long-Term Debt Outstanding

	Governmental Activities		Business-type Activities		Totals	
	September 30,		September 30,		September 30,	
	2014	2013	2014	2013	2014	2013
Certificates of obligation bonds	\$ 4,379,000	\$ 4,956,000	\$	\$	\$ 4,379,000	\$ 4,956,000
Revenue bonds			235,000	463,000	235,000	463,000
Obligation under capital leases	229,201	381,967	159,236	218,178	388,437	600,145
Compensated absences	640,906	697,876	80,562	73,324	721,468	771,200
Components of Long-Term Debt:						
Accrued interest	<u>87,452</u>	<u>99,169</u>	<u>5,699</u>	<u>11,228</u>	<u>93,151</u>	<u>110,397</u>
Total	<u>\$ 5,336,559</u>	<u>\$ 6,135,012</u>	<u>\$ 480,497</u>	<u>\$ 765,730</u>	<u>\$ 5,817,056</u>	<u>\$ 6,900,742</u>

CITY OF FREEPORT, TEXAS
Management's Discussion and Analysis
For the Year Ended September 30, 2014



Additional information on the City of Freeport's long-term debt can be found in Note 13 on pages 72 through 75 of this report.

CITY OF FREEPORT, TEXAS

*Management's Discussion and Analysis
For the Year Ended September 30, 2014*

Economic Factors and Next Year's Budgets and Rates

Certified assessed valuations decreased .01% over the preceding year. The property tax rate remained the same at 0.0675586, with .167802 as Interest & Sinking component and 0.507784 as the Maintenance & Operations component. From the Interest & Sinking component 0.4834 was used to pay the Certificates of Obligations, Series 2003 issued on October 23, 2003 and 0.5166 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 \$ 1.92 to \$ 2.25 per thousand gallons and will become effective October 1, 2014.

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 POSITION

September 30, 2014

	Primary Government			Freeport Economic Development Corporation
	Governmental Activities	Business- Type Activities	Total	
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES				
Assets:				
Cash and cash equivalents	\$ 5,251,418	\$ 3,568	\$ 5,254,986	\$ 670,625
Receivables (Net of Allowance for Uncollectible):				
Taxes	286,140		286,140	
Accounts	387,160	1,174,952	1,562,112	
Other	84,276		84,276	
Due from other governments	310,912		310,912	150,578
Interfund balances	996,152	(996,152)	-0-	
Inventory		11,022	11,022	
Restricted Assets:				
Temporarily Restricted:				
Cash and cash equivalents		231,921	231,921	
Capital Assets (Net of Accumulated Depreciation):				
Land	2,260,101	395,630	2,655,731	
Improvements	7,957,178	75,978	8,033,156	125,032
Buildings	2,056,787	97,583	2,154,370	
Utility plant		6,312,409	6,312,409	
Furniture, equipment and vehicles	1,729,426	342,754	2,072,180	
Assets under capital lease	209,824	210,059	419,883	
Total assets	<u>21,529,374</u>	<u>7,859,724</u>	<u>29,389,098</u>	<u>946,235</u>
Deferred Outflows of Resources:				
Total deferred outflows of resources			-0-	-0-
Total assets and deferred outflows of resources	<u>\$ 21,529,374</u>	<u>\$ 7,859,724</u>	<u>\$ 29,389,098</u>	<u>\$ 946,235</u>

(continued)

CITY OF FREEPORT

Freeport, Texas

STATEMENT OF NET POSITION - Continued

September 30, 2014

	Primary Government			
	Governmental Activities	Business- Type Activities	Total	Freeport Economic Development Corporation
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION				
Liabilities:				
Accounts payable	\$ 376,995	\$ 723,931	\$ 1,100,926	\$ 11,129
Accrued wages and benefits	228,041	36,020	264,061	1,932
Liabilities payable from restricted assets		210,045	210,045	
Unearned revenue	40,067	115,959	156,026	
Noncurrent Liabilities:				
Due within one year	1,190,887	339,190	1,530,077	1,357,565
Due in more than one year	<u>4,145,672</u>	<u>141,307</u>	<u>4,286,979</u>	
Total liabilities	<u>5,981,662</u>	<u>1,566,452</u>	<u>7,548,114</u>	<u>1,370,626</u>
Deferred Inflows of Resources:				
Total deferred inflows of resources			<u>-0-</u>	<u>-0-</u>
Net Position:				
Invested in capital assets, net of related debt	9,605,115	7,040,177	16,645,292	(1,232,533)
Restricted For:				
Tourism	17,938		17,938	
Debt service	19,555	16,177	35,732	
Capital projects	54,029		54,029	
Municipal court security	17,391		17,391	
Municipal court technology	6,322		6,322	
Unrestricted	<u>5,827,362</u>	<u>(763,082)</u>	<u>5,064,280</u>	<u>808,142</u>
Total net position	<u>15,547,712</u>	<u>6,293,272</u>	<u>21,840,984</u>	<u>(424,391)</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 21,529,374</u>	<u>\$ 7,859,724</u>	<u>\$ 29,389,098</u>	<u>\$ 946,235</u>

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

CITY OF FREEPORT

Freeport, Texas

STATEMENT OF ACTIVITIES

September 30, 2014

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
Administration	\$ 2,038,503	\$ 177,654	\$	\$
Public safety	4,731,449	467,005	47,944	
Streets and drainage	1,395,651		57,683	
Sanitation	815,929	843,118		
Service center	105,151			
Marina	1,473,542	585,064		
Library	69,956			
Parks and recreation	1,587,112	438,848	274	
Interest on long-term debt	201,225		204,688	
Total governmental activities	<u>12,418,518</u>	<u>2,511,689</u>	<u>310,589</u>	<u>-0-</u>
Business-type Activities:				
Water and sewer	4,145,877	3,656,486		147,375
Golf course	776,957	478,128		
Ambulance	721,797	818,849		
Total business-type activities	<u>5,644,631</u>	<u>4,953,463</u>	<u>-0-</u>	<u>147,375</u>
Component Unit - Freeport Economic Development Corporation:				
Economic Development:				
Administration	101,303	925		
Marina	6,322,198			
Beautifications projects	58,363			
City of Freeport debt services Series 2003A	204,688			
Interest on long-term debt	82,567			
Total component unit	<u>6,769,119</u>	<u>925</u>	<u>-0-</u>	<u>-0-</u>
Total	<u>\$ 24,832,268</u>	<u>\$ 7,466,077</u>	<u>\$ 310,589</u>	<u>\$ 147,375</u>

Net (Expense) Revenue and Changes in Net Position			Freeport Economic Development Corporation
Governmental Activities	Business- Type Activities	Total	
\$(1,860,849)	\$	\$(1,860,849)	\$
(4,216,500)		(4,216,500)	
(1,337,968)		(1,337,968)	
27,189		27,189	
(105,151)		(105,151)	
(888,478)		(888,478)	
(69,956)		(69,956)	
(1,147,990)		(1,147,990)	
<u>3,463</u>		<u>3,463</u>	
<u>(9,596,240)</u>	<u>-0-</u>	<u>(9,596,240)</u>	<u>-0-</u>
	(342,016)	(342,016)	
	(298,829)	(298,829)	
	<u>97,052</u>	<u>97,052</u>	
<u>-0-</u>	<u>(543,793)</u>	<u>(543,793)</u>	<u>-0-</u>
		-0-	(100,378)
		-0-	(6,322,198)
		-0-	(58,363)
		-0-	(204,688)
		-0-	<u>(82,567)</u>
<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>(6,768,194)</u>
<u>(9,596,240)</u>	<u>(543,793)</u>	<u>(10,140,033)</u>	<u>(6,768,194)</u>

CITY OF FREEPORT
 Freeport, Texas
STATEMENT OF ACTIVITIES
 September 30, 2014

		Program Revenues		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
General Revenue:				
Taxes:				
Property taxes				
Other taxes				
Industrial district				
Investment earnings				
Miscellaneous				
Gain on disposal of capital assets				
<i>Special Item</i> – Gain (loss) on forgiveness of debt				
Transfers				
Total general revenues and transfers				
Change in net position				
Net position – beginning				
Net position – ending				

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

Net (Expense) Revenue and Changes in Net Position			Freeport Economic Development Corporation
Governmental Activities	Business- Type Activities	Total	
\$ 2,278,002	\$	\$ 2,278,002	\$
2,380,490		2,380,490	856,515
5,036,516		5,036,516	
1,931	11	1,942	122
52,393		52,393	916
1,075,536		1,075,536	
(8,083,539)		(8,083,539)	8,083,539
(380,433)	380,433	-0-	
<u>2,360,896</u>	<u>380,444</u>	<u>2,741,340</u>	<u>8,941,092</u>
(7,235,344)	(163,349)	(7,398,693)	2,172,898
<u>22,783,056</u>	<u>6,456,621</u>	<u>29,239,677</u>	<u>(2,597,289)</u>
<u>\$ 15,547,712</u>	<u>\$ 6,293,272</u>	<u>\$ 21,840,984</u>	<u>\$ (424,391)</u>

CITY OF FREEPORT

Freeport, Texas

**BALANCE SHEET
GOVERNMENTAL FUNDS**

September 30, 2014

	<u>General Fund</u>	<u>Marina Operations Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES				
<u>Assets</u>				
Cash and temporary investments	\$ 5,164,430	\$	\$ 86,988	\$ 5,251,418
Receivables (Net of Allowance for Uncollectible):				
Property taxes	221,517		64,623	286,140
Sales tax	301,157			301,157
Accounts	153,160		4,727	157,887
Other receivables	84,276			84,276
Due from other governments	9,130		625	9,755
Due from other funds	<u>1,407,667</u>		<u>64,035</u>	<u>1,471,702</u>
 Total assets	 <u>7,341,337</u>	 <u>-0-</u>	 <u>220,998</u>	 <u>7,562,335</u>
 Deferred Outflows of Resources:				
Deferred outflows of resources				-0-
 Total deferred outflows of resources	 <u>-0-</u>	 <u>-0-</u>	 <u>-0-</u>	 <u>-0-</u>
 Total assets and deferred outflows of resources	 <u>\$ 7,341,337</u>	 <u>\$ -0-</u>	 <u>\$ 220,998</u>	 <u>\$ 7,562,335</u>

CITY OF FREEPORT

Freeport, Texas

**BALANCE SHEET
GOVERNMENTAL FUNDS - Continued**

September 30, 2014

	General Fund	Marina Operations Fund	Non-Major Governmental Funds	Total Governmental Funds
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES				
<u>Liabilities and Fund Balances</u>				
Liabilities:				
Accounts payable	\$ 356,700	\$ 20,146	\$ 149	\$ 376,995
Accrued wages and benefits	224,450	3,591		228,041
Due to other funds	64,035	378,551	32,964	475,550
Unearned revenue	<u>40,067</u>	<u> </u>	<u> </u>	<u>40,067</u>
Total liabilities	<u>685,252</u>	<u>402,288</u>	<u>33,113</u>	<u>1,120,653</u>
Deferred Inflows of Resources:				
Deferred inflows of resources	<u>206,444</u>	<u> </u>	<u>59,844</u>	<u>266,288</u>
Total deferred inflows of resources	<u>206,444</u>	<u>-0-</u>	<u>59,844</u>	<u>266,288</u>
Fund Balance:				
Restricted:				
Tourism			17,938	17,938
Debt service			47,163	47,163
Construction			54,029	54,029
Municipal court security	17,391			17,391
Municipal court technology	6,322			6,322
Assigned:				
Beach maintenance			7,282	7,282
Narcotics operations	24,237			24,237
Main street	2,795			2,795
Capital projects	420,726			420,726
LNG boat maintenance	17,950			17,950
Unassigned	<u>5,960,220</u>	<u>(402,288)</u>	<u>1,629</u>	<u>5,559,561</u>
Total fund balances	<u>6,449,641</u>	<u>(402,288)</u>	<u>128,041</u>	<u>6,175,394</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 7,341,337</u>	<u>\$ -0-</u>	<u>\$ 220,998</u>	<u>\$ 7,562,335</u>

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

CITY OF FREEPORT

Freeport, Texas

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

September 30, 2014

Total fund balances – governmental funds balance sheet	\$ 6,175,394
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Net Capital assets include \$ 35,047,429 in capital assets less \$ 20,834,113 in accumulated depreciation.	14,213,316
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 \$ 1,146,367 net of allowance for uncollectible accounts \$ 917,094 of the general fund amounted to \$ 229,273.	229,273
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds. Deferred inflows of resources - property tax revenues for the general fund and debt service funds amounted to \$ 206,444 and \$ 59,844, respectively.	266,288
Payables for bond principal are not reported in the funds.	(4,379,000)
Payables for capital lease principal are not reported in the funds.	(229,201)
Payables for long-term compensated absences are not reported in the funds.	(640,906)
Payables for bond interest are not reported in the funds.	(87,452)
Net position of governmental activities – statement of net position.	<u>\$ 15,547,712</u>

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

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CITY OF FREEPORT

Freeport, Texas

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

For the Year Ended September 30, 2014

	General Fund	Marina Operations Fund	Non-Major Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$ 1,735,775	\$	\$ 566,994	\$ 2,302,769
Other taxes	2,366,468		14,022	2,380,490
Industrial district	5,036,516			5,036,516
Intergovernmental revenues	48,218		57,683	105,901
Revenue producing facilities	1,135,333	585,064	7,983	1,728,380
Fines, licenses and fees	458,187			458,187
Investment income	1,891		40	1,931
Miscellaneous	<u>368,697</u>		<u>204,688</u>	<u>573,385</u>
Total revenues	<u>11,151,085</u>	<u>585,064</u>	<u>851,410</u>	<u>12,587,559</u>
Expenditures:				
Current:				
Administration	1,691,610		21,592	1,713,202
Public safety	4,405,133			4,405,133
Streets and drainage	962,671			962,671
Sanitation	815,929			815,929
Service center	86,037			86,037
Marina operations		601,695		601,695
Library	49,216			49,216
Parks and recreation	1,441,310		7,318	1,448,628
Capital outlay	776,336	4,000	50,038	830,374
Debt Service:				
Principal	50,903	101,863	577,000	729,766
Interest and fees	<u>1,420</u>	<u>14,769</u>	<u>196,753</u>	<u>212,942</u>
Total expenditures	<u>10,280,565</u>	<u>722,327</u>	<u>852,701</u>	<u>11,855,593</u>
Excess of revenues over (under) expenditures	<u>870,520</u>	<u>(137,263)</u>	<u>(1,291)</u>	<u>731,966</u>
Other Financing Sources (Uses):				
Proceeds from sale of capital assets	1,216,023			1,216,023
Loss on forgiveness of debt	(6,639,208)			(6,639,208)
Operating transfers in		13,887	141,231	155,118
Operating transfers out	<u>(535,551)</u>			<u>(535,551)</u>
Total other financing sources (uses)	<u>(5,958,736)</u>	<u>13,887</u>	<u>141,231</u>	<u>(5,803,618)</u>
Net changes in fund balance	(5,088,216)	(123,376)	139,940	(5,071,652)
Fund balance – beginning	<u>11,537,857</u>	<u>(278,912)</u>	<u>(11,899)</u>	<u>11,247,046</u>
Fund balance - ending	<u>\$ 6,449,641</u>	<u>\$ (402,288)</u>	<u>\$ 128,041</u>	<u>\$ 6,175,394</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, 2014

Net change in fund balances – total governmental funds \$(5,071,652)

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 of \$ 1,363,459 exceeded capital outlay of \$ 830,373 in the current period. (533,086)

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 (land) sold in the amount of \$ 140,487. (140,487)

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 that were identified as impaired at September 30, 2014, due to subsequent transactions, in the amount of \$ 828,292 (land value impaired due to lawsuit settlement \$ 712,420 and equipment value impaired due to the lawsuit settlement effect on capital lease asset of \$ 115,872. (828,292)

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 accrued interest receivable from the component unit that was forgiven by the City on November 18, 2014, in the amount of \$ 1,444,331. (1,444,331)

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 \$ 8,818. 8,818

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 inflows of resources – property tax revenues, for the general fund decreased by \$ 21,560, and for the debt service increased by \$ 3,207. (24,767)

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 position. These amounts were for general obligation bonded debt for \$ 577,000 and capital leases for \$ 152,766. 729,766

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 \$ 11,717, and accrued compensated absences of \$ 56,970. 68,687

Change in net position of governmental activities \$(7,235,344)

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

CITY OF FREEPORT

Freeport, Texas

STATEMENT OF NET POSITION - PROPRIETARY FUNDS

September 30, 2014

	<u>Water and Sewer</u>	<u>Golf Course</u>	<u>Ambulance</u>	<u>Total Proprietary Funds</u>
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES				
Assets:				
Current Assets:				
Cash and temporary investments	\$ 180	\$ 3,388	\$	\$ 3,568
Receivables (Net of Allowance for Uncollectible):				
Accounts	624,713		550,239	1,174,952
Inventory	<u> </u>	<u>11,022</u>	<u> </u>	<u>11,022</u>
Total unrestricted current assets	<u>624,893</u>	<u>14,410</u>	<u>550,239</u>	<u>1,189,542</u>
Current Restricted Assets:				
Cash and temporary investments	<u>231,921</u>	<u> </u>	<u> </u>	<u>231,921</u>
Total current restricted assets	<u>231,921</u>	<u>-0-</u>	<u>-0-</u>	<u>231,921</u>
Total current assets	<u>856,814</u>	<u>14,410</u>	<u>550,239</u>	<u>1,421,463</u>
Capital Assets:				
Land	56,200	339,430		395,630
Buildings		211,468		211,468
Improvements		553,118		553,118
Utility plant	21,209,952			21,209,952
Furniture, equipment and vehicles	146,765	643,177	597,487	1,387,429
Assets under capital lease		307,416		307,416
Less accumulated depreciation	<u>(15,031,741)</u>	<u>(1,245,653)</u>	<u>(353,206)</u>	<u>(16,630,600)</u>
Total capital assets (net of accumulated depreciation)	<u>6,381,176</u>	<u>808,956</u>	<u>244,281</u>	<u>7,434,413</u>
Total assets	<u>7,237,990</u>	<u>823,366</u>	<u>794,520</u>	<u>8,855,876</u>
Deferred Outflows of Resources:				
Deferred outflows of resources	<u> </u>	<u> </u>	<u> </u>	<u>-0-</u>
Total deferred outflows of resources	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Total assets and deferred outflows of resources	<u>\$ 7,237,990</u>	<u>\$ 823,366</u>	<u>\$ 794,520</u>	<u>\$ 8,855,876</u>

(Continued)

CITY OF FREEPORT

Freeport, Texas

STATEMENT OF NET POSITION - PROPRIETARY FUNDS - Continued

September 30, 2014

	<u>Water and Sewer</u>	<u>Golf Course</u>	<u>Ambulance</u>	<u>Total Proprietary Funds</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION				
Liabilities:				
Current Liabilities:				
Accounts payable	\$ 699,304	\$ 13,153	\$ 11,183	\$ 723,640
Accrued wages and benefits	2,898	14,962	18,160	36,020
Accrued compensated absences	13,000	22,000	12,000	47,000
Accrued interest payable		291		291
Due to other funds	709,093	228,980	58,079	996,152
Obligations under capital lease - current		51,491		51,491
Unearned revenue	<u>115,959</u>			<u>115,959</u>
Total current liabilities	<u>1,540,254</u>	<u>330,877</u>	<u>99,422</u>	<u>1,970,553</u>
Current Liabilities Payable from Restricted Assets:				
Accrued interest payable	5,699			5,699
Customer deposits payable	210,045			210,045
Revenue bonds payable	<u>235,000</u>			<u>235,000</u>
Total current liabilities payable from restricted assets	<u>450,744</u>	<u>-0-</u>	<u>-0-</u>	<u>450,744</u>
Total current liabilities	<u>1,990,998</u>	<u>330,877</u>	<u>99,422</u>	<u>2,421,297</u>
Noncurrent Liabilities:				
Accrued compensated absences	9,091	8,282	16,189	33,562
Obligations under capital lease – net of current		<u>107,745</u>		<u>107,745</u>
Total noncurrent liabilities	<u>9,091</u>	<u>116,027</u>	<u>16,189</u>	<u>141,307</u>
Total liabilities	<u>2,000,089</u>	<u>446,904</u>	<u>115,611</u>	<u>2,562,604</u>
Deferred Inflows of Resources:				
Deferred inflows of resources				<u>-0-</u>
Total deferred inflows of resources	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Net Position:				
Invested in capital assets, net of related debt	6,146,176	649,720	244,281	7,040,177
Reserved for revenue bond debt	16,177			16,177
Unreserved	<u>(924,452)</u>	<u>(273,258)</u>	<u>434,628</u>	<u>(763,082)</u>
Total net position	<u>5,237,901</u>	<u>376,462</u>	<u>678,909</u>	<u>6,293,272</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 7,237,990</u>	<u>\$ 823,366</u>	<u>\$ 794,520</u>	<u>\$ 8,855,876</u>

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

CITY OF FREEPORT

Freeport, Texas

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

For the Year Ended September 30, 2014

	Water and Sewer	Golf Course	Ambulance	Total Proprietary Funds
Operating Revenues:				
Water service	\$ 2,172,050	\$	\$	\$ 2,172,050
Sewer service	1,392,724			1,392,724
Charges for other services	64,930		724,964	789,894
Golf course fees and charges		478,128		478,128
Miscellaneous	26,782		93,885	120,667
Total operating revenues	3,656,486	478,128	818,849	4,953,463
Operating Expenses:				
Personnel services	76,078	302,876	400,061	779,015
Employee benefits	24,691	114,996	133,730	273,417
Contract and professional services	2,230,477			2,230,477
Other operating costs	67,392	84,742	81,523	233,657
Supplies	9,644	52,863	52,262	114,769
Cost of sales and services	1,401,600	104,714		1,506,314
Operating expenses before depreciation	3,809,882	660,191	667,576	5,137,649
Depreciation	323,852	107,996	54,221	486,069
Total operating expenses	4,133,734	768,187	721,797	5,623,718
Net operating income (loss)	(477,248)	(290,059)	97,052	(670,255)
Non-Operating Revenues (Expenses):				
Interest revenue	6	5		11
Interest expense and agent fees	(12,143)	(8,770)		(20,913)
Total non-operating revenues (expenses)	(12,137)	(8,765)	-0-	(20,902)
Net income (loss) before contributions and operating transfers	(489,385)	(298,824)	97,052	(691,157)
Contributions (capital)	147,375			147,375
Transfers in	108,255	250,895	21,283	380,433
Change in net position	(233,755)	(47,929)	118,335	(163,349)
Net position - beginning	5,471,656	424,391	560,574	6,456,621
Net position - ending	\$ 5,237,901	\$ 376,462	\$ 678,909	\$ 6,293,272

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

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CITY OF FREEPORT

Freeport, Texas

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

For the Year Ended September 30, 2014

	Water and Sewer	Golf Course	Ambulance	Total Proprietary Funds
Cash Flows from Operating Activities:				
Receipts from customers and users	\$ 3,681,791	\$ 478,128	\$ 733,652	\$ 4,893,571
Receipts from other funds	142,894	82,018		224,912
Payments to other funds			(29,938)	(29,938)
Payments to suppliers	(3,517,221)	(249,757)	(143,160)	(3,910,138)
Payments to employees	(95,284)	(416,439)	(514,042)	(1,025,765)
Net cash provided (used) by operating activities	<u>212,180</u>	<u>(106,050)</u>	<u>46,512</u>	<u>152,642</u>
Cash Flows from Non-Capital Financing Activities:				
Transfers from other funds	<u>108,255</u>	<u>250,895</u>	<u>21,283</u>	<u>380,433</u>
Net cash provided by non-capital financing activities	<u>108,255</u>	<u>250,895</u>	<u>21,283</u>	<u>380,433</u>
Cash Flows from Capital and Related Financing Activities:				
Capital expenditures	(70,592)	(79,824)	(67,795)	(218,211)
Interest payments on capital leases		(8,479)		(8,479)
Principal payments on capital leases		(58,942)		(58,942)
Principal payments on bonds	(228,000)			(228,000)
Interest and fees on bonds	(17,672)			(17,672)
Net cash used by capital and related financing activities	<u>(316,264)</u>	<u>(147,245)</u>	<u>(67,795)</u>	<u>(531,304)</u>
Cash Flows from Investing Activities:				
Interest on investments	<u>6</u>	<u>5</u>	<u></u>	<u>11</u>
Net cash provided by investing activities	<u>6</u>	<u>5</u>	<u>-0-</u>	<u>11</u>
Net increase (decrease) in cash and cash equivalents	4,177	(2,395)	-0-	1,782
Cash and cash equivalents at the beginning of year	<u>227,924</u>	<u>5,783</u>	<u></u>	<u>233,707</u>
Cash and cash equivalents at the end of the year	<u>\$ 232,101</u>	<u>\$ 3,388</u>	<u>\$ -0-</u>	<u>\$ 235,489</u>

(Continued)

CITY OF FREEPORT

Freeport, Texas

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

For the Year Ended September 30, 2014

	<u>Water and Sewer</u>	<u>Golf Course</u>	<u>Ambulance</u>	<u>Total Proprietary Funds</u>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:				
Operating income (loss)	\$(477,248)	\$(290,059)	\$ 97,052	\$(670,255)
Adjustments to Reconcile Operating Income (Loss) to Net Cash				
Provided (Used) by Operating Activities:				
Depreciation	323,852	107,996	54,221	486,069
(Increase) decrease in accounts receivable	(100,160)		(85,197)	(185,357)
(Increase) decrease in inventory		(773)		(773)
Increase (decrease) in accounts payable	191,892	(6,665)	(9,375)	175,852
Increase (decrease) in accrued wages and benefits payable	1,347	8,324	9,758	19,429
Increase (decrease) in accrued compensated absences payable	4,138	(6,891)	9,991	7,238
Increase (decrease) in customer deposits	9,706			9,706
Increase (decrease) in unearned income	115,759			115,759
Increase (decrease) in due to other funds	<u>142,894</u>	<u>82,018</u>	<u>(29,938)</u>	<u>194,974</u>
Total adjustments	<u>689,428</u>	<u>184,009</u>	<u>(50,540)</u>	<u>822,897</u>
Net cash provided (used) by operating activities	<u>\$ 212,180</u>	<u>\$(106,050)</u>	<u>\$ 46,512</u>	<u>\$ 152,642</u>
Non-Cash Investing, Capital and Financing Activities:				
Contributions from other governments	\$ 147,375	\$	\$	\$ 147,375
Assets acquired as a result of contributed assets	<u>(147,375)</u>	<u></u>	<u></u>	<u>(147,375)</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.

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CITY OF FREEPORT

Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2014

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CITY OF FREEPORT

Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General Statement

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

The City prepares its basic financial statements in conformity with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board (GASB) and other authoritative sources. The City's Financial Statements are in accordance with GASB Statement No. 34, "Basic Financial Statements and Management Discussion and Analysis for State and Local Governments", GASB Statement No. 37, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus" which provides additional guidance for the implementation of GASB Statement No. 34, and GASB Statement No. 38 "Certain Financial Statement Disclosures" which changes the note disclosure requirements in the financial statements for governmental entities. GASB Statement No. 34 established a new financial reporting model for state and local governments that included the addition of management's discussion and analysis, government-wide financial statements, required supplementary information and the elimination of the effects of internal service activities and the use of account groups to the already required fund financial statements and notes. The GASB determined that fund accounting has and will continue to be essential in helping governments to achieve fiscal accountability and should, therefore, be retained. The GASB also determined that government-wide financial statements are needed to allow users of financial reports to assess a government's operational accountability. The GASB Statement No. 34 reporting model integrates fund-based financial reporting and government-wide financial reporting as complementary components of a single comprehensive financial reporting model.

The following is a summary of the most significant accounting policies.

Reporting Entity

Primary Government

The City is considered an independent entity for financial reporting purposes and is considered a primary government. As required by generally accepted accounting principles, these basic financial statements have been prepared, based on considerations regarding the potential for inclusion of other entities, organizations, or functions, as part of the City's financial reporting entity. Based on these considerations, the City's basic financial statements do not include any other entities. Additionally, as the City is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity.

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

CITY OF FREEPORT

Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Reporting Entity - Continued

Primary Government - Continued

Additionally prescribed criteria under generally accepted accounting principles include considerations pertaining to organizations for which the primary government is financially accountable; and considerations pertaining to other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The members of City council (the "members") are elected by the public and have the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has the primary accountability for fiscal matters. Therefore, the City is a financial reporting entity as defined by the GASB in its GASB Statement No. 61, "The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14, and No. 34".

Component Unit

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.

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.

CITY OF FREEPORT

Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position 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.

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.

CITY OF FREEPORT

Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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.

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 *Marina Operations special revenue fund*) accounts for all financial transactions related to the operation of the marina, owned by the Freeport Economic Development Corporation. All rental and general revenues associated with the marina are utilized for the operation of the marina.

CITY OF FREEPORT

Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

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 issues statements on a routine basis with the intent to provide authoritative guidance on the preparation of financial statements and to improve governmental accounting and financial reporting of governmental entities. Management reviews these statements to ensure that preparation of its financial statements are in conformity with generally accepted accounting principles and to anticipate changes in those requirements. The following recent GASB Statements reflect the action and consideration of management regarding these requirements:

GASB No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position", was issued June 2011. The statement was implemented and did not have an impact on the City's financial statements, although it has reclassified certain items previously recorded as assets and liabilities within the City's financial statements as outflow and inflows of resources. This statement is effective for periods beginning after December 15, 2011.

GASB No. 65, "Items Previously Reported as Assets and Liabilities", was issued March 2012. The statement was implemented and did have an impact on the City's financial statements. 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 statement was implemented and did not have an impact on the City's financial statements. 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, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

GASB Statement No. 67, "Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25", was issued June 2012. The 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, 2013.

GASB Statement No. 68, "Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27", was issued June 2012. The management of the City does 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, 2014.

GASB Statement No. 69, "Government Combinations and Disposals of Government Operations", was issued January 2013. 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, 2013.

GASB Statement No. 70, "Accounting and Financial Reporting for Nonexchange Financial Guarantees", was issued April 2013. 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, 2013.

GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 69", was issued November 2013. The management of the City believes that the implementation of this statement may have a material effect on the financial statements of the City. This statement is effective for periods beginning after June 15, 2014.

GASB Statement No. 72, "Fair Value Measurement and Application", was issued February 2015. This statement enhances the transparency and comparability of fair value measurements and disclosures in the state and local governments' financial statements. 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, 2015.

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

CITY OF FREEPORT

Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Budgetary Data - Continued

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

	<u>Budgeted Enterprise Funds</u>			
	<u>Water & Sewer</u>	<u>Golf Course</u>	<u>Ambulance</u>	<u>Total</u>
Net income (loss) - GAAP basis	\$(233,755)	\$(47,929)	\$ 118,335	\$(163,349)
Differences:				
Depreciation	323,852	107,996	54,221	486,069
Capital contributions	(147,375)			(147,375)
Capital outlay	(70,592)	(79,824)	(67,795)	(218,211)
Debt principal	<u>(228,000)</u>	<u>(58,942)</u>	<u> </u>	<u>(286,942)</u>
Net income (loss) - budget basis	<u>\$(355,870)</u>	<u>\$(78,699)</u>	<u>\$ 104,761</u>	<u>\$(329,808)</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.

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, 2014.

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.

CITY OF FREEPORT

Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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, 2014, to finance general fund operations and the payment of principal and interest on general obligation long-term debt were \$ 0.508704 and \$ 0.166882 per \$ 100 valuation, respectively, for a total of \$ 0.675586 per \$ 100 valuation.

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.

Capital 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

CITY OF FREEPORT

Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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, 2014:

	<u>2014</u>
Governmental activities	\$ 640,906
Business-type activities	<u>80,562</u>
	<u>\$ 721,468</u>

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 position. 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.

CITY OF FREEPORT

Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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 has 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:

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.

CITY OF FREEPORT

Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Net Position

Net assets represent the differences between assets and deferred outflows, and liabilities and deferred inflows of resources. Net position 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 position, as presented in the government-wide Statement of Net Position, are reported when constraints placed on the use of net position 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.

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, 2014 are as follows:

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Cash and Temporary Investments:			
Cash (petty cash accounts)	\$ 1,482	\$	\$ 1,482
Financial Institution Deposits:			
Demand deposits	171,053	231,921	402,974
State Treasury Investment Pool:			
Texpool	<u>5,082,451</u>	<u> </u>	<u>5,082,451</u>
Total cash and temporary investments	<u>\$ 5,254,986</u>	<u>\$ 231,921</u>	<u>\$ 5,486,907</u>

Deposits

All deposits with financial institutions must be collateralized in an amount equal to 100 percent of uninsured balances. At September 30, 2014, in addition to petty cash of \$ 1,482, the carrying amount of the City's deposits were \$ 402,974. The financial institutions balances were \$ 695,959 at September 30, 2014. Bank balances of \$ 250,000 were covered by federal depository insurance and \$ 445,959 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.

CITY OF FREEPORT

Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2014

NOTE 2 - DEPOSITS, INVESTMENTS AND DERIVATIVES - Continued

Deposits - Continued

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.

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.

CITY OF FREEPORT

Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2014

NOTE 2 - DEPOSITS, INVESTMENTS AND DERIVATIVES - Continued

Investments - Continued

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.

At September 30, 2014, 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, 2014.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Days)</u>
Local government investment pools (LGIP)	\$ <u>5,082,451</u>	48
	\$ <u>5,082,451</u>	48

Credit Risk – As of September 30, 2014, 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.

CITY OF FREEPORT

Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2014

NOTE 2 - DEPOSITS, INVESTMENTS AND DERIVATIVES - Continued

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, 2014, and holds no direct investments in derivatives at September 30, 2014.

NOTE 3 - DEFERRED INFLOWS OF RESOURCES AND UNEARNED REVENUE

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

As of September 30, 2014, the various components of deferred inflows of resources and unearned revenue reported in the governmental funds were as follow.

	<u>Deferred Inflows of Resources</u>	<u>Unearned Revenue</u>
Delinquent property taxes receivable (General Fund)	\$ 206,444	\$
Delinquent property taxes receivable (Debt Service Fund)	59,844	
Franchise tax receipts (General Fund)	<u> </u>	<u>40,067</u>
Total deferred inflows of resources/unearned revenue from governmental funds	<u>\$ 266,288</u>	<u>\$ 40,067</u>

As of September 30, 2014, the various components of unearned revenue reported in the proprietary funds were as follow.

	<u>Unearned Revenue</u>
Deposits	\$ 200
Advance payment for meter installation	<u>115,759</u>
Total unearned revenue from proprietary funds	<u>\$ 115,959</u>

CITY OF FREEPORT

Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2014

NOTE 4 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund balances at September 30, 2014 consisted of the following individual fund receivables and payables:

<u>Fund</u>	<u>Receivable</u>	<u>Payable</u>
General Fund:		
Special Revenue Fund:		
Streets, Drainage and Sidewalk	\$	\$ 11,432
Marina Operations	378,551	
Debt Service Fund:		
Series 2003A	300	
Series 2003B	23,928	280
Series 2008	8,736	
Capital Projects Fund:		
2008 Bond Construction		52,323
Enterprise Funds:		
Water and Sewer	709,093	
Golf Course	228,980	
Ambulance	<u>58,079</u>	
	<u>1,407,667</u>	<u>64,035</u>
Special Revenue Fund:		
Street, Drainage and Sidewalk Fund:		
General	11,432	
Marina Operations Fund:		
General		<u>378,551</u>
	<u>11,432</u>	<u>378,551</u>
Debt Service Fund:		
Series 2003A Fund:		
General		300
Series 2003B Fund:		
General	280	23,928
Series 2008 Fund:		
General		<u>8,736</u>
	<u>280</u>	<u>32,964</u>
Capital Projects Fund:		
2008 Bond Construction Fund:		
General	<u>52,323</u>	

(continued)

CITY OF FREEPORT

Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2014

NOTE 4 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS - Continued

<u>Fund</u>	<u>Receivable</u>	<u>Payable</u>
Enterprise Funds:		
Water and Sewer Fund:		
General	\$	\$ 709,093
Golf Course Fund:		
General		228,980
Ambulance Fund:		
General		58,079
	<u> </u>	<u> </u>
	-0-	996,152
	<u> </u>	<u> </u>
Total	\$ <u>1,471,702</u>	\$ <u>1,471,702</u>

Interfund transfers for the year ended September 30, 2014 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	\$	\$ 141,231
Marina Fund		13,887
Enterprise Funds:		
Water and Sewer		108,255
Golf Course		250,895
Ambulance		21,283
	<u> </u>	<u> </u>
	-0-	535,551
	<u> </u>	<u> </u>
Special Revenue Funds:		
Street, Drainage and Sidewalk Fund:		
General	141,231	
Marina Operations Fund:		
General	13,887	
	<u> </u>	<u> </u>
	155,118	-0-
	<u> </u>	<u> </u>
Enterprise Funds:		
Water & Sewer Fund:		
General	108,255	
Golf Course Fund:		
General	250,895	
Ambulance Fund:		
General	21,283	
	<u> </u>	<u> </u>
	380,433	-0-
	<u> </u>	<u> </u>
Total	\$ <u>535,551</u>	\$ <u>535,551</u>

CITY OF FREEPORT

Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2014

NOTE 5 - CAPITAL ASSETS

Capital assets activity for the year ended September 30, 2014 was as follows:

	Restated Balance 10/01/13	Additions	Retirements & Transfers	Balance 09/30/14
Governmental Activities:				
Capital Assets, Not Depreciated:				
Land	\$ 3,048,548	\$ 64,460	\$(852,907)	\$ 2,260,101
Construction in progress	<u>851,648</u>	<u>50,037</u>	<u>(901,685)</u>	<u>-0-</u>
Total capital assets not being depreciated	<u>3,900,196</u>	<u>114,497</u>	<u>(1,754,592)</u>	<u>2,260,101</u>
Capital Assets, Being Depreciated:				
Improvements	19,080,581		901,685	19,982,266
Buildings	4,774,243	351,434		5,125,677
Furniture, equipment and vehicles	7,039,540	364,442		7,403,982
Assets under lease	<u>391,275</u>	<u> </u>	<u>(115,872)</u>	<u>275,403</u>
Total capital assets being depreciated	<u>31,285,639</u>	<u>715,876</u>	<u>785,813</u>	<u>32,787,328</u>
Less Accumulated Depreciation For:				
Improvements	11,310,068	715,020		12,025,088
Buildings	2,897,404	171,486		3,068,890
Furniture, equipment and vehicles	5,237,097	437,459		5,674,556
Assets under lease	<u>26,085</u>	<u>39,494</u>	<u> </u>	<u>65,579</u>
Total accumulated depreciation	<u>19,470,654</u>	<u>1,363,459</u>	<u>-0-</u>	<u>20,834,113</u>
Total capital assets being depreciated, net	<u>11,814,985</u>	<u>(647,583)</u>	<u>785,813</u>	<u>11,953,215</u>
Governmental activities capital assets, net	<u>\$15,715,181</u>	<u>\$(533,086)</u>	<u>\$(968,779)</u>	<u>\$14,213,316</u>
Combined Business-type Activities:				
Capital Assets, Not Depreciated:				
Land	\$ 395,630	\$	\$	\$ 395,630
Construction in progress	<u>285,053</u>	<u>147,375</u>	<u>(432,428)</u>	<u>-0-</u>
Total capital assets not being depreciated	<u>680,683</u>	<u>147,375</u>	<u>(432,428)</u>	<u>395,630</u>
Capital Assets, Being Depreciated:				
Buildings	211,468			211,468
Improvements	553,118			553,118
Utility plant	20,706,932	70,592	432,428	21,209,952
Furniture, equipment and vehicles	1,239,810	147,619		1,387,429
Assets under capital lease	<u>307,416</u>	<u> </u>	<u> </u>	<u>307,416</u>
Total capital assets being depreciated	<u>23,018,744</u>	<u>218,211</u>	<u>432,428</u>	<u>23,669,383</u>

(continued)

CITY OF FREEPORT

Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2014

NOTE 5 - CAPITAL ASSETS - Continued

	<u>Balance</u> <u>10/01/13</u>	<u>Additions</u>	<u>Retirements</u> <u>& Transfers</u>	<u>Balance</u> <u>09/30/14</u>
Less Accumulated Depreciation For:				
Buildings	\$ 106,079	\$ 7,806	\$	\$ 113,885
Improvements	448,908	28,232		477,140
Utility plant	14,579,723	317,820		14,897,543
Furniture, equipment and vehicles	956,381	88,294		1,044,675
Assets under capital lease	<u>53,440</u>	<u>43,917</u>		<u>97,357</u>
Total accumulated depreciation	<u>16,144,531</u>	<u>486,069</u>	<u>-0-</u>	<u>16,630,600</u>
Total capital assets being depreciated, net	<u>6,874,213</u>	<u>(267,858)</u>	<u>432,428</u>	<u>7,038,783</u>
Business-type activities capital assets, net	<u>\$ 7,554,896</u>	<u>\$ (120,483)</u>	<u>\$ -0-</u>	<u>\$ 7,434,413</u>
Business-type Activities:				
<u>Water and Sewer Enterprise Fund:</u>				
Capital Assets, Not Depreciated:				
Land	\$ 56,200	\$	\$	\$ 56,200
Construction in progress	<u>285,053</u>	<u>147,375</u>	<u>(432,428)</u>	<u>-0-</u>
Total capital assets not being depreciated	<u>341,253</u>	<u>147,375</u>	<u>(432,428)</u>	<u>56,200</u>
Capital Assets, Being Depreciated:				
Utility plant	20,706,932	70,592	432,428	21,209,952
Furniture, equipment and vehicles	<u>146,765</u>	<u> </u>	<u> </u>	<u>146,765</u>
Total capital assets being depreciated	<u>20,853,697</u>	<u>70,592</u>	<u>432,428</u>	<u>21,356,717</u>
Less Accumulated Depreciation For:				
Utility plant	14,579,723	317,820		14,897,543
Furniture, equipment and vehicles	<u>128,166</u>	<u>6,032</u>		<u>134,198</u>
Total accumulated depreciation	<u>14,707,889</u>	<u>323,852</u>	<u>-0-</u>	<u>15,031,741</u>
Total capital assets being depreciated, net	<u>6,145,808</u>	<u>(253,260)</u>	<u>432,428</u>	<u>6,324,976</u>
Business-type activities capital assets, net	<u>\$ 6,487,061</u>	<u>\$ (105,885)</u>	<u>\$ -0-</u>	<u>\$ 6,381,176</u>

CITY OF FREEPORT

Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2014

NOTE 5 - CAPITAL ASSETS - Continued

	Balance 10/01/13	Additions	Retirements & Transfers	Balance 09/30/14
Business-type Activities:				
<u>Golf Course Enterprise Fund:</u>				
Capital Assets, Not Depreciated:				
Land	\$ 339,430	\$ _____	\$ _____	\$ 339,430
Total capital assets not being depreciated	<u>339,430</u>	<u>-0-</u>	<u>-0-</u>	<u>339,430</u>
Capital Assets, Being Depreciated:				
Buildings	211,468			211,468
Improvements	553,118			553,118
Furniture, equipment and vehicles	563,353	79,824		643,177
Assets under capital lease	<u>307,416</u>	<u>_____</u>	<u>_____</u>	<u>307,416</u>
Total capital assets being depreciated	<u>1,635,355</u>	<u>79,834</u>	<u>-0-</u>	<u>1,715,179</u>
Less Accumulated Depreciation For:				
Buildings	106,079	7,806		113,885
Improvements	448,908	28,232		477,140
Furniture, equipment and vehicles	529,230	28,041		557,271
Assets under capital lease	<u>53,440</u>	<u>43,917</u>	<u>_____</u>	<u>97,357</u>
Total accumulated depreciation	<u>1,137,657</u>	<u>107,996</u>	<u>-0-</u>	<u>1,245,653</u>
Total capital assets being depreciated, net	<u>497,698</u>	<u>(28,172)</u>	<u>-0-</u>	<u>469,526</u>
Business-type activities capital assets, net	\$ <u>837,128</u>	\$ <u>(28,172)</u>	\$ <u>-0-</u>	\$ <u>808,956</u>
Business-type Activities:				
<u>Ambulance Enterprise Fund:</u>				
Capital Assets, Being Depreciated:				
Furniture, equipment and vehicles	\$ 529,692	\$ 67,795	\$ _____	\$ 597,487
Total capital assets being depreciated	<u>529,692</u>	<u>67,795</u>	<u>-0-</u>	<u>597,487</u>
Less Accumulated Depreciation For:				
Furniture, equipment and vehicles	<u>298,985</u>	<u>54,221</u>	<u>_____</u>	<u>353,206</u>
Total accumulated depreciation	<u>298,985</u>	<u>54,221</u>	<u>-0-</u>	<u>353,206</u>
Business-type activities capital assets, net	\$ <u>230,707</u>	\$ <u>13,574</u>	\$ <u>-0-</u>	\$ <u>244,281</u>

CITY OF FREEPORT

Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2014

NOTE 5 - CAPITAL ASSETS - Continued

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

Governmental Activities:

Administration	\$ 338,819
Public safety	331,888
Service center	18,024
Streets and drainage	436,529
Marina	39,494
Library	20,740
Parks and recreation	<u>177,965</u>
Total depreciation expense-governmental activities	<u>\$ 1,363,459</u>

Business-type Activities:

Water and sewer	\$ 323,852
Golf Course	107,996
Ambulance	<u>54,221</u>
Total depreciation expense-business-type activities	<u>\$ 486,069</u>

Total	<u>\$ 1,849,528</u>
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On November 18, 2014, the City of Freeport and The Freeport Economic Development Corporation entered into a settlement of the Lawsuit regarding the Marina. The settlement effectively calls for the City to give up its interest in the Marina assets on February 1, 2015, which resulted in an asset impairment loss of \$ 828,292. This loss has also been reported in the City's financial statements at September 30, 2014. See Notes 14, 15, 20 and 21 for additional information.

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, 2014, for the General Fund was \$ 44,938 and for the Debt Service Funds was \$ 5,866.

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, 2014 was \$ 13,006.

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, 2014 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, 2014 was \$ 36,425.

CITY OF FREEPORT

Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2014

NOTE 6 - ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS - Continued

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, 2014 was \$ 2,051,912.

Municipal Court Receivables - Municipal court receivables are reported in the governmental activities statement of net position. 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, 2014 was \$ 917,094.

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, 2014.

NOTE 8 - PENSION AND OPEB-SUPPLEMENTAL DEATH BENEFITS PLAN

Plan Description

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

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

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

	<u>Plan Year 2013</u>	<u>Plan Year 2014</u>
Employee deposit rate	7%	7%
Matching ratio (city to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age/years of service)	60/5, 0/20	60/5, 0/20
Updated Service Credit	100%	100%
	Repeating, Transfers	Repeating, Transfers
Annual Increase (to retirees)	70% of CPI	70% of CPI

CITY OF FREEPORT

Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2014

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)
2012	\$ 565,439	\$ 565,439	100%	\$ -0-
2013	571,460	571,460	100%	-0-
2014	596,278	596,278	100%	-0-

The required contribution rates for fiscal year 2014 were determined as part of the December 31, 2011 and 2012 actuarial valuations. Additionally information as of the latest actuarial valuation, December 31, 2013, also follows:

Valuation date	12-31-11	12-31-12	12-31-13
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected unit Credit
Amortization Method	Level Percent of payroll	Level Percent of payroll	Level Percent of payroll
GASB 25 Equivalent Single Amortization Period	26.3 years; closed period	25.3 years; closed period	30.0 years; closed period

CITY OF FREEPORT

Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2014

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

Amortization Period for new Gains/Losses	30 years	30 years	30 years
Asset Valuation Method	10-year Smoothed Market	10-year Smoothed Market	10-year Smoothed Market
Actuarial Assumptions: Investment Rate of Return*	7.0%	7.0%	7.0%
Projected Salary Increases*	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%
	2.10%	2.10%	2.10%

Funded Status and Funding Progress –

The funding status of December 31, 2013, the most recent actuarial valuation date, is presented, is presented as follows:

Actuarial Valuation Date	Actuarial Value of Assets (1)	Actuarial Accrued Liability (AAL) (2)	Funded Ratio (3) (1) / (2)	Unfunded AAL (UAAL) (4) (2) – (1)	Covered Payroll (5)	UAAL as a Percentage of Covered (6) (4) / (5)
12-31-11	\$13,664,468	\$ 17,542,600	77.9%	\$ 3,878,132	\$ 5,018,818	77.3%
12-31-12	14,744,043	18,505,472	79.7%	3,761,429	4,943,961	76.1%
12-31-13	15,844,430	20,407,476	77.6%	4,563,046	4,874,716	93.6%

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.

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.

CITY OF FREEPORT

Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2014

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

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 2014, 2013, and 2012 were \$ 12,649, \$ 11,542 and \$ 10,435, respectively, which equaled the required contributions each year.

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

Plan/Calendar Year	Actual Required Contribution (Rate)	Actual Contribution Made (Rate)	Percentage of ARC Contributed
2012	0.05%	0.05%	100.0%
2013	0.05%	0.05%	100.0%
2014	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. At August 31, 2012, there were 199 member fire or emergency services departments actively participating in TESRS. Eligible participants include volunteer emergency services personnel who are members in good standing of a participating department.

CITY OF FREEPORT

Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2014

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

Plan Description - Continued

At August 31, 2012, TESRS membership consisted of:

Retirees and beneficiaries currently receiving benefits	2,750
Terminated participants entitled to benefits but not yet receiving them	2,250
Current active participants (vested and non-vested)	<u>4,448</u>
	<u>9,448</u>

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, 2012 total contributions (dues and prior service) of \$ 3,517,455 were paid into TESRS by the political subdivisions served by the member volunteer emergency services personnel. The state did not appropriate any maximum state contribution for the fiscal years ending August 31, 2012 and 2013. Total contributions made were less than the contributions required by the state statute and required based on the August 31, 2010 actuarial valuation.

CITY OF FREEPORT

Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2014

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

Annual Required Contributions - Continued

The purpose of the biennial actuarial valuation is to test the adequacy of the contribution arrangement to determine if it is adequate to pay the benefits that are promised. The actuarial valuation as of August 31, 2012 revealed the inadequacy of the expected contributions from the political subdivisions (dues and prior service contributions) even together with the actual state appropriations for the fiscal year ending August 31, 2013 (\$ 528,538 to pay for part of the System's administrative expenses) and with the assumed 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 \$ 530,000 each year to help pay for part of the System's administrative expenses.

Required Supplementary Information - Schedule of Funding Progress

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)
8/31/08 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
8/31/12 ²	67,987,487	101,856,042	33,868,555	66.7%	9,448	3,585

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 assumptions and method were reflected in this valuation.

Fiscal Year Ending	Three-Year Trend Information		
	Annual Required Contributions (ARC)	Actual Contributions	Percentage of ARC Contributed
August 31, 2010	\$ 2,875,103 ¹	\$ 2,875,103	100%
August 31, 2011	3,125,329 ²	3,125,329	100%
August 31, 2012	4,423,898 ²	3,517,455	80%

- ¹ Based on the August 31, 2008 actuarial valuation.
- ² Based on the revised August 31, 2010 actuarial valuation.
- ³ Includes a requested state contribution of \$ 906,443.

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, 2014

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, 2014 was \$ 5,036,516 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, 2014, the City of Freeport's portion of these expenses was \$ 24,622. 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, 2014, the City paid \$ 87,126 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.

The general obligation bonds payable at September 30, 2014 are summarized as follows:

CITY OF FREEPORT

Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2014

NOTE 13 - LONG-TERM DEBT - Continued

General Long-Term Debt - Continued

Purpose	Interest Rate (%)	Series Dates			Bonds Outstanding 09/30/14
		Issued	Maturity	Callable	
Certificate Obligation					
Bonds Series 2008	3.79%	2008	2023		\$ 2,230,000
Bonds Series 2003	4.84%	2003	2018	2014	1,244,000
Refunding Bonds Series 2003	4.84%	2003	2018	2014	<u>905,000</u>
					<u>\$ 4,379,000</u>

General obligation bond transactions for the year ended September 30, 2014 were as follows:

	<u>2014</u>
Bonds outstanding, October 1,	\$ 4,956,000
Maturities	<u>(577,000)</u>
Bonds outstanding, September 30,	<u>\$ 4,379,000</u>

Aggregate maturities of certificate of obligation bonds for the five years subsequent to September 30, 2014 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 605,000	\$ 179,091	\$ 784,091
2016	629,000	151,606	780,606
2017	659,000	122,989	781,989
2018	689,000	93,024	782,024
2019	717,000	61,640	778,640
2020-2023	<u>1,080,000</u>	<u>104,225</u>	<u>1,184,225</u>
Total	<u>\$ 4,379,000</u>	<u>\$ 712,575</u>	<u>\$ 5,091,575</u>

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, 2014 are summarized as follows:

CITY OF FREEPORT

Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2014

NOTE 13 - LONG-TERM DEBT - Continued

Proprietary Fund Debt - Continued

Purpose	Interest Rate (%)	Series Dates			Bonds Outstanding 09-30-14
		Issued	Maturity	Callable	
Waterworks and Sewer System Revenue Bonds Series 2004	4.85%	2004	2015		\$ <u>235,000</u>
					\$ <u>235,000</u>

Revenue bond transactions for the year ended September 30, 2013 are as follows:

	2014
Bonds outstanding, October 1, Maturities	\$ 463,000 (<u>228,000</u>)
Bonds outstanding, September 30,	\$ <u>235,000</u>

Aggregate maturities of revenue bonds for the years subsequent to September 30, 2014 are as follows:

	Principal	Interest	Total
2015	\$ <u>235,000</u>	\$ <u>5,699</u>	\$ <u>240,699</u>
Total	\$ <u>235,000</u>	\$ <u>5,699</u>	\$ <u>240,699</u>

These bonds are due on October 1st each year and the City normally pays principal and interest on September 30th, however, payment was not made until October 1, 2013. Therefore, the reserve requirement for these bonds, in the amount of \$ 240,699, at September 30, 2014 was underfunded by \$ 218,823. Both payments for October 1, 2013 and April 1, 2014 were made without incident and the final payment is due on October 1, 2014.

Changes in Long-Term Debt

Transactions for the year ended September 30, 2014 are summarized as follows:

	Balance 10/01/13	Issues or Additions	Payments or Expenditures	Balance 09/30/14	Due Within One Year
Governmental Type Activities:					
General obligation bonds	\$ 4,956,000	\$	\$ 577,000	\$ 4,379,000	\$ 605,000
Capital lease	381,967		152,766	229,201	98,435
Compensated absences	697,876	416,546	473,516	640,906	400,000
Component of Long-Term Debt:					
Accrued interest payable	<u>99,169</u>	<u>87,452</u>	<u>99,169</u>	<u>87,452</u>	<u>87,452</u>
Total governmental activities	<u>6,135,012</u>	<u>503,998</u>	<u>1,302,451</u>	<u>5,336,559</u>	<u>1,190,887</u> (continued)

CITY OF FREEPORT

Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2014

NOTE 13 - LONG-TERM DEBT - Continued

Changes in Long-Term Debt - Continued

	<u>Balance</u> <u>10/01/13</u>	<u>Issues or</u> <u>Additions</u>	<u>Payments or</u> <u>Expenditures</u>	<u>Balance</u> <u>09/30/14</u>	<u>Due Within</u> <u>One Year</u>
Business Type Activities:					
Revenue bonds payable	\$ 463,000	\$	\$ 228,000	\$ 235,000	\$ 235,000
Capital leases	218,178		58,942	159,236	51,491
Compensated absences	73,324	47,576	40,338	80,562	47,000
Component of Long-Term Debt:					
Accrued interest	<u>11,228</u>	<u>5,699</u>	<u>11,228</u>	<u>5,699</u>	<u>5,699</u>
Total business type activities	<u>765,730</u>	<u>53,275</u>	<u>338,508</u>	<u>480,497</u>	<u>339,190</u>
Total government (net)	<u>\$ 6,900,742</u>	<u>\$ 557,273</u>	<u>\$ 1,640,959</u>	<u>\$ 5,817,056</u>	<u>\$ 1,530,077</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, 2014 was \$ 1,140,000 and the balance held in escrow was \$ 1,137,255.

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 or multi-year leases for up to ten years. The park and community house rentals are based upon usage.

CITY OF FREEPORT
Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2014

NOTE 14 - LEASES - Continued

Operating leases - Continued

Lessor (Governmental) - Continued

Aggregate maturities of operating lease receivables for the five years subsequent to September 30, 2014 are as follows:

<u>Year Ended September 30,</u>	<u>Total</u>
2015	\$ 120,000
2016	120,000
2017	<u>30,000</u>
Minimum payments under operating leases	<u>\$ 270,000</u>

Operating lease and rental income for the year ended September 30, 2014 was as follows:

Office lease income	\$ 134,725
Other rental income	<u>71,144</u>
Total	<u>\$ 224,392</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, which called for sixty-three monthly payments of \$ 156.00. During the year ended September 30, 2014, the City entered into an operating lease for a postage machine through June 30, 2019, which calls for sixty-three monthly payments of \$ 164. Further, on October 1, 2012, the City entered into two operating leases for copy machines, which calls for monthly payments, through September 30, 2017, of \$ 388 and \$ 239, respectively.

Aggregate maturities of operating lease obligations for the five years subsequent to September 30, 2014 are as follows:

<u>Year Ended September 30,</u>	<u>Total</u>
2015	\$ 9,492
2016	9,492
2017	9,492
2018	1,968
2019	<u>1,476</u>
Minimum payments under operating leases	<u>\$ 31,920</u>

CITY OF FREEPORT

Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2014

NOTE 14 - LEASES - Continued

Operating leases - Continued

Lessee (Governmental) - Continued

Operating lease expenditures for the year ended September 30, 2014 were \$ 9,420.

In May 2010, the City of Freeport (the "City") took over the operations of the Freeport Economic Development Corporation's (the "Corporation") marina. This involved collection of dock fees and payment of operating expenditures, which included operating leases. The City established a separate fund (Special Revenue) to account for these operations, and contracted a manager for the marina operations. The City has assumed, without transfer of liability, two operating leases for land related to the operation of the Marina which is a liability of the Freeport Economic Development Corporation.

On November 18, 2014, the Corporation agreed to a settlement effectively calling for the Corporation to give up its interest in the Marina assets on February 1, 2015, which includes payment of the land leases to that date. As of February 1, 2015, the City and Corporation will no longer have access to this land or the liability of the lease. See Notes 5, 15, 20 and 21.

Minimum future rentals to be paid on noncancelable leases, as of September 30, 2014, for each of the next five years and in the aggregate are as follows:

	<u>Land Lease #1</u>	<u>Land Lease #2</u>	<u>Total</u>
2015	\$ <u>33,542</u>	\$ <u>9,143</u>	\$ <u>42,685</u>

Operating lease expenditures for the year ended September 30, 2014 were \$ 122,279.

Capital Leases (Governmental)

During the year ended September 30, 2011, the City purchased an air sweeper under capital lease, with a cost of \$ 200,925, and an effective interest rate of 2.79%. Current requirements for principal and interest expenditures accounted for in the General Fund were \$ 50,903 and \$ 1,420, respectively. This lease ended December 1, 2013,

During the year ended September 30, 2013, the City purchased a Toyota Lift for use in the Marina (special revenue fund) under capital lease, with a cost of \$ 391,275 and an effective interest rate of 4.79%. Current requirements for principal and interest expenditures accounted for in the Marina Fund were \$ 101,863 and \$ 14,769, respectively. On November 18, 2014, the City entered into a settlement of a lawsuit (See Note 5, 13, 20 and 21 for additional details) which requires it to relinquish the asset on February 1, 2015 to plaintiffs and the capital lease will be either assumed by the plaintiffs or paid indirectly through the City. This resulted in an impairment of the asset in the amount of \$ 115,872 and is reported in the financial statements of the City.

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 \$ 39,494 and has been included in depreciation expense.

CITY OF FREEPORT

Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2014

NOTE 14 - LEASES - Continued

Capital Leases (Governmental) - Continued

The capital assets acquired through capital leases are as follows:

Asset:

Machinery and equipment	\$ 275,403
Less accumulated depreciation	<u>65,579</u>
Total	<u>\$ 209,824</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, 2014:

<u>Year Ended</u> <u>September 30,</u>	<u>Amount</u>
2015	\$ 98,688
2016	107,660
2017	<u>35,888</u>
	242,236
Less amount representing interest	<u>13,035</u>
Net present value of minimum lease payments	<u>\$ 229,201</u>

Capital Leases (Proprietary)

During the year ended September 30, 2010, the City purchased a John Deere PROGATOR 2030A Diesel, a John Deere HD200 SELECTSPRAY, and a Rogers Airfoil Boom FGF11 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 \$ 7,036 and \$ 132, respectively.

During the year ended September 30, 2010, the City purchased a John Deere Terrain Cut Trim Mower under capital lease, with an effective interest rate of 4.74%. Current requirements for principal and interest expense accounted for in the Golf Course fund were \$ 8,389 and \$ 834, respectively.

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 \$ 4,499 and \$ 21, respectively.

On March 15, 2013, the City purchased forty-five (45) Toyota golf cars for \$ 170,378, under capital lease, with an effective interest rate of 4.792%. This lease calls for thirty-six monthly payments of \$ 3,330 with a \$ 67,500 balloon payment on March 15, 2016. Current requirements for principal and interest expense accounted for in the Golf Course fund were \$ 33,457 and \$ 6,282, respectively. On March 15, 2013, the City purchased ten (10) Toyota golf cars for \$ 37,489, under capital lease, with an effective interest rate of 4.792%. This lease calls for thirty-six monthly payments of \$ 600 with a \$ 20,000 balloon payment on March 15, 2016. Current requirements for principal and interest expense accounted for in the Golf Course fund were \$ 5,688 and \$ 1,501, respectively.

CITY OF FREEPORT

Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2014

NOTE 14 - LEASES - Continued

The leased assets and related obligations are accounted for in the business-type activities column of the government wide financial statements as capital assets and noncurrent liabilities. Current year depreciation on leased assets totaled \$ 43,917 and has been included in depreciation expense.

The capital assets acquired through capital leases are as follows:

Asset:

Machinery and equipment	\$ 307,416
Less accumulated depreciation	<u>97,357</u>
Total	<u>\$ 210,059</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, 2014:

<u>Year Ended</u> <u>September 30,</u>	<u>Amount</u>
2015	\$ 57,990
2016	<u>110,057</u>
	168,047
Less amount representing interest	<u>8,811</u>
Net present value of minimum lease payments	<u>\$ 159,236</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, with a balance of \$ 639,208. 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.

On November 18, 2014, the City Council forgave the notes receivable and accrued interest owed by the Freeport Economic Development Corporation. This action is in conjunction with the settlement of Briarwood Holdings, LLC et al lawsuit against the City and the Freeport Economic Development Corporation. Additional information can be seen in Notes 5, 14, 20 and 21.

CITY OF FREEPORT

Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2014

NOTE 15 - LONG-TERM RECEIVABLES - Continued

Notes receivable transactions for the year ended September 30, 2014 are summarized as follows:

	<u>2014</u>
Notes receivable, October 1,	\$ 6,639,208
Forgiveness of debt	<u>(6,639,208)</u>
Notes outstanding, September 30,	<u>\$ -0-</u>

Changes in Long-Term Receivables

Transactions for the year ended September 30, 2014 are summarized as follows:

	<u>Balance</u> <u>10/01/13</u>	<u>Additions</u>	<u>Reduction</u>	<u>Balance</u> <u>09/30/14</u>	<u>Due Within</u> <u>One Year</u>
Governmental Type Activities:					
Notes receivable	\$ 6,639,208	\$	\$ 6,639,208	\$ -0-	\$
Component of Long-Term Receivable:					
Accrued interest receivable	<u>1,444,331</u>	<u> </u>	<u>1,444,331</u>	<u>-0-</u>	<u> </u>
Total governmental activities	<u>\$ 8,083,539</u>	<u>\$ -0-</u>	<u>\$ 8,083,539</u>	<u>\$ -0-</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, 2014, the City applied for and received federal grants related to various activities. The operations of these grants are reported in the General fund, the Streets, Drainage and Sidewalk (special revenue fund), and the Water and Sewer (enterprise fund). For the most part, these grants are reimbursement type grants, therefore, revenues equal expenditures. Grant revenues are classified as intergovernmental revenues and capital contributions. 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. Since the total federal or state revenues did not exceed \$ 500,000, a Single Audit was not required.

CITY OF FREEPORT

Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2014

NOTE 18 - DEFICIT FUND BALANCES/NET UNRESTRICTED POSITION

The following funds reported a fund balance deficit as of September 30, 2013:

Deficit Fund Balances:

Marina Operations (special revenue fund)	\$	402,288
Series 2003B (debt service fund)		10,370

Deficit Unrestricted Net Position:

Water and Sewer (enterprise fund)		924,452
Golf Course (enterprise fund)		273,258

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 \$ 2,667, which decreased the deficit in fund balance to \$ 10,370 at September 30, 2014.

NOTE 19 - EXPENDITURES/EXPENSES IN EXCESS OF APPROPRIATIONS

Expenditures exceeded appropriations for the year ended September 30, 2014 for the following funds:

Special Revenue Funds:

Hotel/Motel	\$	10,342
Marina Operations		164,118
Beach Maintenance		7,318

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 June 17, 2015, the date which the financial statements were available to be issued. Subsequent to September 30, 2014, on November 18, 2014 the City of Freeport approved a resolution forgiving any and all indebtedness of the Freeport Economic Development Corporation to the City of Freeport, Texas. The total amount forgiven was \$ 8,083,539 (\$ 6,639,208 in principal and \$ 1,444,331 in accrued interest). This loss has been reported in the financial statements of the City at September 30, 2014. Additionally, on November 18, 2014, the City of Freeport and The Freeport Economic Development Corporation entered into a settlement of the Lawsuit regarding the marina. The settlement effectively calls for the City to give up its interest in the Marina assets on February 1, 2015, which resulted in an asset impairment loss of \$ 828,292. This loss has also been reported in the City's financial statements at September 30, 2014. Through February 1, 2015, the City of Freeport has continued to perform the operation of the marina wet slip docks, which includes the payment of the operating leases as described in Note 14, Leasing Operations.

On September 8, 2014, the City of Freeport agreed to provide health insurance benefits coverage to its retirees, effective October 1, 2014, through the TML Multistate Intergovernmental Employee Benefits Pool (IEBP) a health risk pool established pursuant to Texas Local Governmental Code Chapter 172. The city defines "retiree" as an employee who is under 60 years of age and has been covered by TMRS (Texas Municipal Retirement System) for at least 20 years, or an employee who is 60 years of age or older and has been covered by TMRS for at least 5 years. The employee must also work for the City of Freeport for a period of eight continuous years and meet the definition of retiree for purposes of this ordinance.

CITY OF FREEPORT

Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2014

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 June 17, 2015.

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. On March 19, 2013, the First Court of Appeals dismissed the Plaintiffs' claims against the City other than Briarwood's breach of contract claim. The appellate court remanded to give Briarwood the opportunity to replead. On November 7, 2013, the Plaintiff's filed a third amended pleading alleging that FWP assigned its contract rights to Briarwood. The City sought discovery regarding the alleged assignment.

On November 18, 2014, the City of Freeport and The Freeport Economic Development Corporation entered into a settlement of the Lawsuit regarding the Marina. The settlement effectively calls for the City to give up its interest in the Marina assets on February 1, 2015, which resulted in an asset impairment loss of \$ 828,292. This loss has also been reported in the City's financial statements at September 30, 2014. Through February 1, 2015, the City of Freeport has continued to perform the operation of the marina wet slip docks, which includes the payment of the operating leases as described in Note 14, Leasing Operations.

In addition, as a result of the settlement agreement, on November 18, 2014 the City of Freeport approved a resolution forgiving any and all indebtedness of the Freeport Economic Development Corporation to the City of Freeport, Texas. The total amount forgiven was \$ 8,083,539 (\$ 6,639,208 in principal and \$ 1,444,331 in accrued interest). This loss has been reported in the financial statements of the City at September 30, 2014.

NOTE 22 - ECONOMIC DEVELOPMENT AGREEMENTS

On June 2, 2014 the City entered into an Economic Development Agreement with Headway Estate, LTD, Sunlake Limited and Skymark Development Company, collectively (the Developer) in accordance with Chapter 380 of the Texas Local Government Code. Under terms of the agreement, the Developer, who owns 343.254 acres of land located within the corporate City limits, will construct water, sewer, drainage and road improvements on the property which will be developed within a five-year period from the date of receiving applicable governmental and Union Pacific approvals. As certain sections of the

CITY OF FREEPORT

Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2014

NOTE 22 – ECONOMIC DEVELOPMENT AGREEMENTS - Continued

development are completed the Developer will convey at no cost to the City the improvements which include the water, sewer, drainage and street improvements. The City is expected to make a payment to the Developer from new development created tax revenue once received each year in reimbursement of funds spent by the Developer. The development payments made by the city shall not exceed \$ 7.5 Million for rail improvements, \$ 1.6 million for street improvements, and \$ 900 thousand for fire water supply plant and fire loop. Both the City and the Developer have agreed to various covenants, warranties, obligations and duties as a part of this agreement. No funds have been expended by the City in regards to this agreement for the year ended September 30, 2014.

On June 19, 2014, the City entered into an Economic Development Agreement with BrazTex Development, LLC (the Developer) in accordance with Chapter 380 of the Texas Local Government Code. Under terms of the agreement, the Developer owns 1.6 acres of land within the City limits and will construct 16 single family homes on the property. The City agrees to provide the Developer with a rebate of City ad valorem taxes not to exceed \$ 215,675. The rebate will be paid in annual installments equal in amount to the ad valorem taxes collected each year by the City from the previously described property improvements. No rebates have been provided by the City in the year ended September 30, 2014.

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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 AND MARINA SPECIAL REVENUE FUND

For the Year Ended September 30, 2014

	General Fund			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual	
	Original	Final		
Revenues:				
Taxes	\$ 1,874,385	\$ 1,874,385	\$ 1,735,775	\$(138,610)
Other taxes	2,039,272	2,039,272	2,366,468	327,196
Industrial district	4,982,206	4,982,206	5,036,516	54,310
Intergovernmental	94,706	94,706	48,218	(46,488)
Revenue producing facilities	1,148,230	1,148,230	1,135,333	(12,897)
Fines, licenses and fees	493,564	493,564	458,187	(35,377)
Investment income	4,100	4,100	1,891	(2,209)
Miscellaneous	62,316	62,316	368,697	306,381
Total revenues	<u>10,698,779</u>	<u>10,698,779</u>	<u>11,151,085</u>	<u>452,306</u>
Expenditures:				
Current:				
Administration	1,956,023	1,972,037	1,691,610	280,427
Public safety	4,460,446	4,506,096	4,405,133	100,963
Streets and drainage	1,083,852	1,083,852	962,671	121,181
Sanitation	823,500	823,500	815,929	7,571
Service center	147,727	147,727	86,037	61,690
Marina operations				-0-
Library	48,460	48,460	49,216	(756)
Parks and recreation	1,517,868	1,533,063	1,441,310	91,753
Capital outlay	267,900	439,606	776,336	(336,730)
Debt Service:				
Principal	50,903	50,903	50,903	-0-
Interest and fees	1,329	1,329	1,420	(91)
Total expenditures	<u>10,358,008</u>	<u>10,606,573</u>	<u>10,280,565</u>	<u>326,008</u>
Excess of revenues over (under) expenditures	<u>340,771</u>	<u>92,206</u>	<u>870,520</u>	<u>778,314</u>
Other Financing Sources (Uses):				
Proceeds from sale of capital assets			1,216,023	1,216,023
Loss on forgiveness of debt			(6,639,208)	(6,639,208)
Transfers out	(286,065)	(535,551)	(535,551)	-0-
Total other financing sources (uses)	<u>(286,065)</u>	<u>(535,551)</u>	<u>(5,958,736)</u>	<u>(5,423,185)</u>
Net change in fund balance	54,706	(443,345)	(5,088,216)	(4,644,871)
Fund balance - beginning	<u>11,537,857</u>	<u>11,537,857</u>	<u>11,537,857</u>	<u>-0-</u>
Fund balance - ending	<u>\$ 11,592,563</u>	<u>\$ 11,094,512</u>	<u>\$ 6,449,641</u>	<u>\$(4,644,871)</u>

Marina Operations Special Revenue Fund

Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
Original	Final		
\$	\$	\$	\$
			-0-
			-0-
			-0-
			-0-
544,322	544,322	585,064	40,742
			-0-
			-0-
			-0-
<u>544,322</u>	<u>544,322</u>	<u>585,064</u>	<u>40,742</u>
			-0-
			-0-
			-0-
			-0-
			-0-
317,302	317,302	601,695	(284,393)
			-0-
			-0-
4,500	4,500	4,000	500
221,407	221,407	101,863	119,544
<u>15,000</u>	<u>15,000</u>	<u>14,769</u>	<u>231</u>
<u>558,209</u>	<u>558,209</u>	<u>722,327</u>	<u>(164,118)</u>
<u>(13,887)</u>	<u>(13,887)</u>	<u>(137,263)</u>	<u>(123,376)</u>
13,887	13,887	13,887	-0-
			-0-
			-0-
<u>13,887</u>	<u>13,887</u>	<u>13,887</u>	<u>-0-</u>
-0-	-0-	(123,376)	(123,376)
<u>(278,912)</u>	<u>(278,912)</u>	<u>(278,912)</u>	<u>-0-</u>
<u>\$(278,912)</u>	<u>\$(278,912)</u>	<u>\$(402,288)</u>	<u>\$(123,376)</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)
12-31-11	\$ 13,664,468	\$ 17,542,600	\$ 3,878,132	77.9%	\$ 5,018,818	77.3%
12-31-12	14,744,043	18,505,472	3,761,429	79.7%	4,943,961	76.1%
12-31-13	15,844,430	20,407,476	4,563,046	77.6%	4,874,716	93.6%

* 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.

CITY OF FREEPORT

Freeport, Texas

TEXAS STATEWIDE EMERGENCY SERVICES PERSONNEL RETIREMENT FUND SCHEDULE OF FUNDING PROGRESS LAST THREE ACTUARIAL PERIODS

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)
8/31/08**	\$ 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
8/31/12***	67,987,487	101,856,042	33,868,555	66.7%	9,448	3,585

* 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.

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OTHER SCHEDULES

CITY OF FREEPORT

Freeport, Texas

COMBINING BALANCE SHEET- NONMAJOR GOVERNMENTAL FUNDS

September 30, 2014

	Special Revenue Funds			
	Streets, Drainage and Sidewalks	Hotel/ Motel Tax	Beach Maintenance	Total
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES				
Assets:				
Cash and temporary investments	\$ 567	\$ 13,211	\$ 7,431	\$ 21,209
Receivables (Net of Allowance for Uncollectable):				
Taxes				-0-
Accounts		4,727		4,727
Due from other governments				-0-
Due from other funds	<u>11,432</u>			<u>11,432</u>
Total assets	<u>11,999</u>	<u>17,938</u>	<u>7,431</u>	<u>37,368</u>
Deferred Outflows of Resources:				
Total deferred outflows of resources				<u>-0-</u>
Total assets and deferred outflows of resources	<u>\$ 11,999</u>	<u>\$ 17,938</u>	<u>\$ 7,431</u>	<u>\$ 37,368</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE				
Liabilities:				
Accounts payable	\$	\$	\$ 149	\$ 149
Due to other funds				<u>-0-</u>
Total liabilities	<u>-0-</u>	<u>-0-</u>	<u>149</u>	<u>149</u>
Deferred Inflows of Resources:				
Deferred inflows of resources – property taxes				<u>-0-</u>
Total deferred inflows of resources	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Fund Balances:				
Restricted:				
Tourism		17,938		17,938
Debt Service				-0-
Construction				-0-
Assigned:				
Beach maintenance			7,282	7,282
Unassigned	<u>11,999</u>			<u>11,999</u>
Total fund balances	<u>11,999</u>	<u>17,938</u>	<u>7,282</u>	<u>37,219</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 11,999</u>	<u>\$ 17,938</u>	<u>\$ 7,431</u>	<u>\$ 37,368</u>

Debt Service Funds				Capital Projects Fund	Total Nonmajor Governmental Funds
Debt Service Series 2003A	Debt Service Series 2003B	Debt Service Series 2008	Total	2008 Bond Construction	
\$ 11,704	\$ 10,561	\$ 41,808	\$ 64,073	\$ 1,706	\$ 86,988
	31,929	32,694	64,623		64,623
	302	323	-0-		4,727
	280		625		625
			280	52,323	64,035
<u>11,704</u>	<u>43,072</u>	<u>74,825</u>	<u>129,601</u>	<u>54,029</u>	<u>220,998</u>
			-0-		-0-
<u>\$ 11,704</u>	<u>\$ 43,072</u>	<u>\$ 74,825</u>	<u>\$ 129,601</u>	<u>\$ 54,029</u>	<u>\$ 220,998</u>
\$ 300	\$ 23,928	\$ 8,736	\$ -0-	\$	\$ 149
			32,964		32,964
<u>300</u>	<u>23,928</u>	<u>8,736</u>	<u>32,964</u>	<u>-0-</u>	<u>33,113</u>
	29,514	30,330	59,844		59,844
<u>-0-</u>	<u>29,514</u>	<u>30,330</u>	<u>59,844</u>	<u>-0-</u>	<u>59,844</u>
11,404		35,759	-0-		17,938
			47,163		47,163
			-0-	54,029	54,029
			-0-		7,282
	(10,370)		(10,370)		1,629
<u>11,404</u>	<u>(10,370)</u>	<u>35,759</u>	<u>36,793</u>	<u>54,029</u>	<u>128,041</u>
<u>\$ 11,704</u>	<u>\$ 43,072</u>	<u>\$ 74,825</u>	<u>\$ 129,601</u>	<u>\$ 54,029</u>	<u>\$ 220,998</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, 2014

	Special Revenue Funds			
	Streets, Drainage and Sidewalks	Hotel/ Motel Tax	Beach Maintenance	Total
Revenues:				
Property taxes	\$	\$	\$	\$ -0-
Hotel-motel tax		14,022		14,022
Intergovernmental revenues	57,683			57,683
Revenue producing facilities			7,983	7,983
Investment income	5	4		9
Miscellaneous				-0-
Total revenues	57,688	14,026	7,983	79,697
Expenditures:				
Current:				
Administrative		21,592		21,592
Parks and recreation			7,318	7,318
Capital outlay	50,038			50,038
Debt Service:				
Principal				-0-
Interest				-0-
Total expenditures	50,038	21,592	7,318	78,948
Excess of revenues over (under) expenditures	7,650	(7,566)	665	749
Other Financing Sources (Uses):				
Transfers in	141,231			141,231
Total other financing sources (uses)	141,231	-0-	-0-	141,231
Net changes in fund balance	148,881	(7,566)	665	141,980
Fund balance - beginning	(136,882)	25,504	6,617	(104,761)
Fund balance - ending	\$ 11,999	\$ 17,938	\$ 7,282	\$ 37,219

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	
\$	\$ 274,139	\$ 292,855	\$ 566,994	\$	\$ 566,994
			-0-		14,022
			-0-		57,683
			-0-		7,983
6	6	19	31		40
<u>204,688</u>			<u>204,688</u>		<u>204,688</u>
<u>204,688</u>	<u>274,145</u>	<u>292,874</u>	<u>771,713</u>	<u>-0-</u>	<u>851,410</u>
			-0-		21,592
			-0-		7,318
			-0-		50,038
157,000	215,000	205,000	577,000		577,000
<u>47,989</u>	<u>56,478</u>	<u>92,286</u>	<u>196,753</u>		<u>196,753</u>
<u>204,989</u>	<u>271,478</u>	<u>297,286</u>	<u>773,753</u>	<u>-0-</u>	<u>852,701</u>
<u>(295)</u>	<u>2,667</u>	<u>(4,412)</u>	<u>(2,040)</u>	<u>-0-</u>	<u>(1,291)</u>
			-0-		141,231
<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>141,231</u>
<u>(295)</u>	<u>2,667</u>	<u>(4,412)</u>	<u>(2,040)</u>	<u>-0-</u>	<u>139,940</u>
<u>11,699</u>	<u>(13,037)</u>	<u>40,171</u>	<u>38,833</u>	<u>54,029</u>	<u>(11,899)</u>
<u>\$ 11,404</u>	<u>\$(10,370)</u>	<u>\$ 35,759</u>	<u>\$ 36,793</u>	<u>\$ 54,029</u>	<u>\$ 128,041</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, 2014

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Intergovernmental revenues	\$	\$ 35,335	\$ 57,683	\$ 22,348
Investment income			5	5
Total revenues	-0-	35,335	57,688	22,353
Expenditures:				
Capital outlay		176,566	50,038	126,528
Total expenditures	-0-	176,566	50,038	126,528
Excess of revenues over (under) expenditures	-0-	(141,231)	7,650	148,881
Other Financing Sources (Uses):				
Transfers in		141,231	141,231	-0-
Total other financing sources (uses)	-0-	141,231	141,231	-0-
Net change in fund balance	-0-	-0-	148,881	148,881
Fund balance - beginning	(136,882)	(136,882)	(136,882)	-0-
Fund balance - ending	\$(136,882)	\$(136,882)	\$ 11,999	\$ 148,881

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, 2014

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Other taxes	\$ 12,000	\$ 12,000	\$ 14,022	\$ 2,022
Investment income			4	4
Total revenues	12,000	12,000	14,026	2,026
Expenditures:				
Current:				
Administration	11,250	11,250	21,592	(10,342)
Total expenditures	11,250	11,250	21,592	(10,342)
Excess of revenues over expenditures	750	750	(7,566)	(8,316)
Other Financing Sources (Uses):				
Total other financing sources (uses)				-0-
Net change in fund balance	750	750	(7,566)	(8,316)
Fund balance - beginning	25,504	25,504	25,504	-0-
Fund balance - ending	\$ 26,254	\$ 26,254	\$ 17,938	\$(8,316)

CITY OF FREEPORT

Freeport, Texas

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

For the Year Ended September 30, 2014

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Revenue producing facilities	\$ _____	\$ _____	\$ <u>7,983</u>	\$ <u>7,983</u>
Total revenues	<u>-0-</u>	<u>-0-</u>	<u>7,983</u>	<u>7,983</u>
Expenditures:				
Parks and recreation	_____	_____	<u>7,318</u>	<u>(7,318)</u>
Total expenditures	<u>-0-</u>	<u>-0-</u>	<u>7,318</u>	<u>(7,318)</u>
Excess of revenues over expenditures	<u>-0-</u>	<u>-0-</u>	<u>665</u>	<u>665</u>
Other Financing Sources (Uses):				
Total other financing sources (uses)	_____	_____	_____	<u>-0-</u>
Net change in fund balance	<u>-0-</u>	<u>-0-</u>	<u>665</u>	<u>665</u>
Fund balance - beginning	_____	_____	<u>6,617</u>	<u>(6,617)</u>
Fund balance - ending	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 7,282</u>	<u>\$ (5,952)</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, 2014

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Investment income	\$	\$	\$ 6	\$ 6
Miscellaneous		402,173	204,688	(197,485)
Total revenues	-0-	402,173	204,694	(197,479)
Expenditures:				
Debt Service:				
Principal		269,390	157,000	112,390
Interest		132,783	47,989	84,794
Total expenditures	-0-	402,173	204,989	197,184
Excess of revenues over (under) expenditures	-0-	-0-	(295)	(295)
Other Financing Sources (Uses):				
Total other financing sources (uses)				-0-
Net change in fund balance	-0-	-0-	(295)	(295)
Fund balance - beginning	11,699	11,699	11,699	-0-
Fund balance - ending	<u>\$ 11,699</u>	<u>\$ 11,699</u>	<u>\$ 11,404</u>	<u>\$(295)</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, 2014

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Property taxes	\$ 280,713	\$ 280,713	\$ 274,139	\$ (6,574)
Investment income			6	6
Total revenues	<u>280,713</u>	<u>280,713</u>	<u>274,145</u>	<u>(6,568)</u>
Expenditures:				
Debt Service:				
Principal	215,000	215,000	215,000	-0-
Interest	<u>65,713</u>	<u>65,713</u>	<u>56,478</u>	<u>9,235</u>
Total expenditures	<u>280,713</u>	<u>280,713</u>	<u>271,478</u>	<u>9,235</u>
Excess of revenues over (under) expenditures	<u>-0-</u>	<u>-0-</u>	<u>2,667</u>	<u>2,667</u>
Other Financing Sources (Uses):				
Total other financing sources (uses)				<u>-0-</u>
Net change in fund balance	-0-	-0-	2,667	2,667
Fund balance - beginning	<u>(13,037)</u>	<u>(13,037)</u>	<u>(13,037)</u>	<u>-0-</u>
Fund balance - ending	<u><u>\$ (13,037)</u></u>	<u><u>\$ (13,037)</u></u>	<u><u>\$ (10,370)</u></u>	<u><u>\$ 2,667</u></u>

CITY OF FREEPORT

Freeport, Texas

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

For the Year Ended September 30, 2014

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Property taxes	\$ 297,586	\$ 297,586	\$ 292,855	\$(4,731)
Investment income			19	19
Total revenues	297,586	297,586	292,874	(4,712)
Expenditures:				
Debt Service:				
Principal	205,000	205,000	205,000	-0-
Interest	92,586	92,586	92,286	300
Total expenditures	297,586	297,586	297,286	300
Excess of revenues over (under) expenditures	-0-	-0-	(4,412)	(4,412)
Other Financing Sources (Uses):				
Total other financing sources (uses)				-0-
Net change in fund balance	-0-	-0-	(4,412)	(4,412)
Fund balance - beginning	40,171	40,171	40,171	-0-
Fund balance - ending	\$ 40,171	\$ 40,171	\$ 35,759	\$(4,412)

CITY OF FREEPORT

Freeport, Texas

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

For the Year Ended September 30, 2014

	Budgeted Amounts		Actual GAAP Basis	Adjustments to Budgetary Basis
	Original	Final		
Operating Revenues:				
Water service	\$ 2,311,081	\$ 2,311,081	\$ 2,172,050	\$
Sewer service	1,557,716	1,557,716	1,392,724	
Charges for other services	99,973	99,973	64,930	
Miscellaneous	11,500	11,500	26,782	
Total operating revenues	3,980,270	3,980,270	3,656,486	-0-
Operating Expenses:				
Personnel services	68,767	68,767	76,078	
Employee benefits	26,529	26,529	24,691	
Contract and professional services	2,133,292	2,312,140	2,230,477	
Other operating costs	46,885	9,000	67,392	
Supplies	26,300	26,300	9,644	
Cost of sales	1,405,440	1,405,440	1,401,600	
Operating expenses before depreciation	3,707,213	3,848,176	3,809,882	-0-
Depreciation			323,852	(323,852)
Total operating expenses	3,707,213	3,848,176	4,133,734	(323,852)
Net operating income (loss)	273,057	132,094	(477,248)	323,852
Non-Operating Revenues (Expenses):				
Interest revenue	23	23	6	
Capital outlay				(70,592)
Debt principal	(228,000)	(228,000)		(228,000)
Interest expense and agent fees	(17,557)	(17,557)	(12,143)	
Total non-operating revenues (expenses)	(245,534)	(245,534)	(12,137)	(298,592)
Net income (loss) before contributions and operating transfers	27,523	(113,440)	(489,385)	25,260
Contribution (capital)			147,375	(147,375)
Transfers in		108,255	108,255	-0-
Change in net position	\$ 27,523	\$(5,185)	\$(233,755)	\$(122,115)

Actual Budgetary Basis	Variance on Final Budget - Positive (Negative)
\$ 2,172,050	\$(139,031)
1,392,724	(164,992)
64,930	(35,043)
<u>26,782</u>	<u>15,282</u>
<u>3,656,486</u>	<u>(323,784)</u>
76,078	(7,311)
24,691	1,838
2,230,477	81,663
67,392	(58,392)
9,644	16,656
<u>1,401,600</u>	<u>3,840</u>
3,809,882	38,294
<u> </u>	<u>-0-</u>
<u>3,809,882</u>	<u>38,294</u>
<u>(153,396)</u>	<u>(285,490)</u>
6	(17)
(70,592)	(70,592)
(228,000)	-0-
<u>(12,143)</u>	<u>5,414</u>
<u>(310,729)</u>	<u>(65,195)</u>
(464,125)	(350,685)
-0-	-0-
<u>108,255</u>	<u>-0-</u>
<u>\$(355,870)</u>	<u>\$(350,685)</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, 2014

	Budgeted Amounts		Actual GAAP Basis	Adjustments to Budgetary Basis
	Original	Final		
Operating Revenues:				
Golf course fees and charges	\$ 615,000	\$ 615,000	\$ 478,128	\$
Total operating revenues	615,000	615,000	478,128	-0-
Operating Expenses:				
Personnel services	339,042	339,042	302,876	
Employee benefits	130,590	130,590	114,996	
Other operating costs	81,720	81,720	84,742	
Supplies	51,750	51,750	52,863	
Cost of sales and services	159,660	159,660	104,714	
Operating expenses before depreciation	762,762	762,762	660,191	-0-
Depreciation			107,996	(107,996)
Total operating expenses	762,762	762,762	768,187	(107,996)
Net operating income (loss)	(147,762)	(147,762)	(290,059)	107,996
Non-Operating Revenues (Expenses):				
Interest revenue			5	
Capital outlay	(79,825)	(79,825)		(79,824)
Lease principal	(14,538)	(14,538)		(58,942)
Interest expense and agent fees	(8,770)	(8,770)	(8,770)	
Total non-operating revenues (expenses)	(103,133)	(103,133)	(8,765)	(138,766)
Net income (loss) before operating transfers	(250,895)	(250,895)	(298,824)	(30,770)
Transfers in (out)	250,895	250,895	250,895	
Change in net position	\$ -0-	\$ -0	\$(47,929)	\$(30,770)

Actual Budgetary Basis	Variance on Final Budget - Positive (Negative)
\$ <u>478,128</u>	\$ (<u>136,872</u>)
<u>478,128</u>	(<u>136,872</u>)
302,876	36,166
114,996	15,594
84,742	(3,022)
52,863	(1,113)
<u>104,714</u>	<u>54,946</u>
660,191	102,571
<u>660,191</u>	<u>-0-</u>
(<u>182,063</u>)	(<u>34,301</u>)
5	5
(79,824)	1
(58,942)	(44,404)
(<u>8,770</u>)	<u>-0-</u>
(<u>147,531</u>)	(<u>44,398</u>)
(329,594)	(78,699)
<u>250,895</u>	<u>-0-</u>
\$ (<u><u>78,699</u></u>)	\$ (<u><u>78,699</u></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, 2014

	Budgeted Amounts		Actual GAAP Basis	Adjustments to Budgetary Basis
	Original	Final		
Operating Revenues:				
Charges for other services	\$ 646,634	\$ 652,477	\$ 724,964	\$
Miscellaneous	<u>86,500</u>	<u>86,500</u>	<u>93,885</u>	
Total operating revenues	<u>733,134</u>	<u>738,977</u>	<u>818,849</u>	<u>-0-</u>
Operating Expenses:				
Personnel services	372,357	409,158	400,061	
Employee benefits	181,560	144,760	133,730	
Other operating	75,000	80,842	81,523	
Supplies	<u>50,500</u>	<u>50,500</u>	<u>52,262</u>	
Operating expenses before depreciation	679,417	685,260	667,576	-0-
Depreciation			<u>54,221</u>	<u>(54,221)</u>
Total operating expenses	<u>679,417</u>	<u>685,260</u>	<u>721,797</u>	<u>(54,221)</u>
Net operating income (loss)	<u>53,717</u>	<u>53,717</u>	<u>97,052</u>	<u>54,221</u>
Non-Operating Revenues (Expenses):				
Capital outlay	<u>(75,000)</u>	<u>(75,000)</u>		<u>(67,795)</u>
Total non-operating revenues (expenses)	<u>(75,000)</u>	<u>(75,000)</u>	<u>-0-</u>	<u>(67,795)</u>
Net income (loss) before operating transfers	<u>(21,283)</u>	<u>(21,283)</u>	<u>97,052</u>	<u>(13,574)</u>
Transfers in	<u>21,283</u>	<u>21,283</u>	<u>21,283</u>	
Change in net position	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 118,335</u>	<u>\$(13,574)</u>

Actual Budgetary Basis	Variance on Final Budget - Positive (Negative)
\$ 724,964	\$ 72,487
<u>93,885</u>	<u>7,385</u>
<u>818,849</u>	<u>79,872</u>
400,061	9,097
133,730	11,030
81,523	(681)
<u>52,262</u>	<u>(1,762)</u>
667,576	17,684
<u> </u>	<u>-0-</u>
<u>667,576</u>	<u>17,684</u>
<u>151,273</u>	<u>97,556</u>
<u>(67,795)</u>	<u>7,205</u>
<u>(67,795)</u>	<u>7,205</u>
83,478	104,761
<u>21,283</u>	<u>-0-</u>
<u>\$ 104,761</u>	<u>\$ 104,761</u>

CITY OF FREEPORT

Freeport, Texas

SCHEDULE OF AD VALOREM TAX LEVY AND COLLECTIONS

September 30, 2014

Levy Year	Balance 10-01-13	Current Year Levy	Collections	Adjustments	Balance 09-30-14
2004 & Prior	\$ 42,232	\$	\$ 1,904	\$(13,429)	\$ 26,899
2005	7,164		379	(210)	6,575
2006	7,807		428	(216)	7,163
2007	9,731		883	(280)	8,568
2008	8,564		915	(110)	7,539
2009	11,306		2,565	(242)	8,499
2010	18,379		6,576	(346)	11,457
2011	103,656		10,951	(131)	92,574
2012	155,685		41,825	(4,517)	109,343
2013	<u> </u>	<u>2,245,834</u>	<u>2,187,507</u>	<u> </u>	<u>58,327</u>
	<u>\$ 364,524</u>	<u>\$ 2,245,834</u>	<u>\$ 2,253,933</u>	<u>\$(19,481)</u>	336,944
Less reserve for uncollectible taxes					<u>50,804</u>
Net delinquent ad valorem taxes receivable					<u>\$ 286,140</u>

CITY OF FREEPORT

Freeport, Texas

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

September 30, 2014

(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	
2015	\$ 226,000	\$ 54,740	\$ 164,000	\$ 39,833	\$ 215,000	\$ 84,518	\$ 784,091
2016	237,000	43,536	172,000	31,702	220,000	76,368	780,606
2017	248,000	31,799	181,000	23,159	230,000	68,031	781,989
2018	260,000	19,505	189,000	14,205	240,000	59,314	782,024
2019	273,000	6,607	199,000	4,817	245,000	50,216	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	10,801	295,801
TOTAL	\$ 1,244,000	\$ 156,187	\$ 905,000	\$ 113,716	\$ 2,230,000	\$ 442,672	\$ 5,091,575

**DEBT SERVICE REQUIREMENTS TO MATURITY
REVENUE BONDS**

September 30, 2014

(Unaudited)

Year Ending 09/30	\$ 1,943,000 Series 2004		Total Principal & Interest
	Principal	Interest	
2015	\$ 235,000	\$ 5,699	\$ 240,699
TOTAL	\$ 235,000	\$ 5,699	\$ 240,699

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