

CITY OF FREEPORT
FREEPORT, TEXAS

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED
SEPTEMBER 30, 2015

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, 2015*

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FINANCIAL SECTION

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Kennemer, Masters & Lunsford

CERTIFIED PUBLIC ACCOUNTANTS

Limited Liability Company

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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, 2015, 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, 2015, 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 20, and the Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General Fund and Marina Operations Special Revenue Fund, Schedule of TMRS Contributions – Last Ten Years, Schedule of TMRS Changes in Net Pension Liability and Related Ratios – Last Ten Years, Schedule of TESRS Changes in Net Pension Liability and Related Ratios – Last Ten Years, and Schedule of TESRS Investment Returns – Last Ten Years on pages 90 through 95, 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 other statements and schedules, are presented for purposes of additional analysis and are 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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 21, 2016, 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.

Kennemer, Masters & Kingford, LLC

Certified Public Accountants
Lake Jackson, Texas
April 21, 2016

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CITY OF FREEPORT, TEXAS

Management's Discussion and Analysis For the Year Ended September 30, 2015

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, 2015. We encourage readers to consider the information presented here in conjunction with the City's financial statements, which follow this section.

During the year ended September 30, 2015, the City implemented accounting changes that resulted in the current year presentation of the year ended September 30, 2015 (information is not available for the actual pension costs related to the implementation of GASB Statement Nos. 68 and 71) therefore, the comparative presentation will not be presented until next year.

Financial Highlights

- The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$ 24,875,715 (net position). Of this amount, \$ 6,707,555 (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 \$ 24,875,715 increased by \$ 6,600,608 from the prior year.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$ 10,287,357. 89.90% of this total amount, \$ 9,248,470 (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 \$ 9,948,457 and the unassigned fund balance was \$ 9,464,466. These amounts were 80.15% and 76.25% of the total general fund expenditures.
- On November 18, 2014 the City approved a resolution forgiving any and all indebtedness of the Freeport Economic Development Corporation (the "Corporation") to the City. The total amount forgiven was \$ 8,083,539 (\$ 6,639,208 in principal and \$ 1,444,331 in accrued interest). This loss for the City and the offsetting gain for the Corporation were reported in the year ended September 30, 2014.
- Additionally, on November 18, 2014, the City of Freeport and the Corporation entered into a settlement of the lawsuits Freeport Economic Development Corporation v. Hiram Walker Royall, et al, Consolidated with Briarwood Holdings, LLC v. City of Freeport Economic Development Corporation and City of Freeport (the "Lawsuit"). The settlement effectively called for the City and the Corporation to give up their interests in the Marina assets on February 1, 2015, which resulted in asset impairment losses of \$ 828,292 and \$ 6,110,930 for the City and the Corporation, respectively. These losses were reported in the year ended September 30, 2014.

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, 2015

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, economic development, public safety, streets and drainage, sanitation, service center, marina operations, library, and parks and recreation. The *business-type activities* of the City include the operations of water and sewer, golf course, and ambulance. The government-wide financial statements can be found on pages 22 through 25 of this report.

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

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

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

The City maintains ten (10) 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 eight (8) 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 98 through 101 of this report.

CITY OF FREEPORT, TEXAS

Management's Discussion and Analysis For the Year Ended September 30, 2015

- **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 32 through 37 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 39 through 87 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 90 through 95 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 98 through 117 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 \$ 24,906,417 as of September 30, 2015.

A large portion of the City's net position, in the amount of \$ 17,629,678 (70.87%) 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.

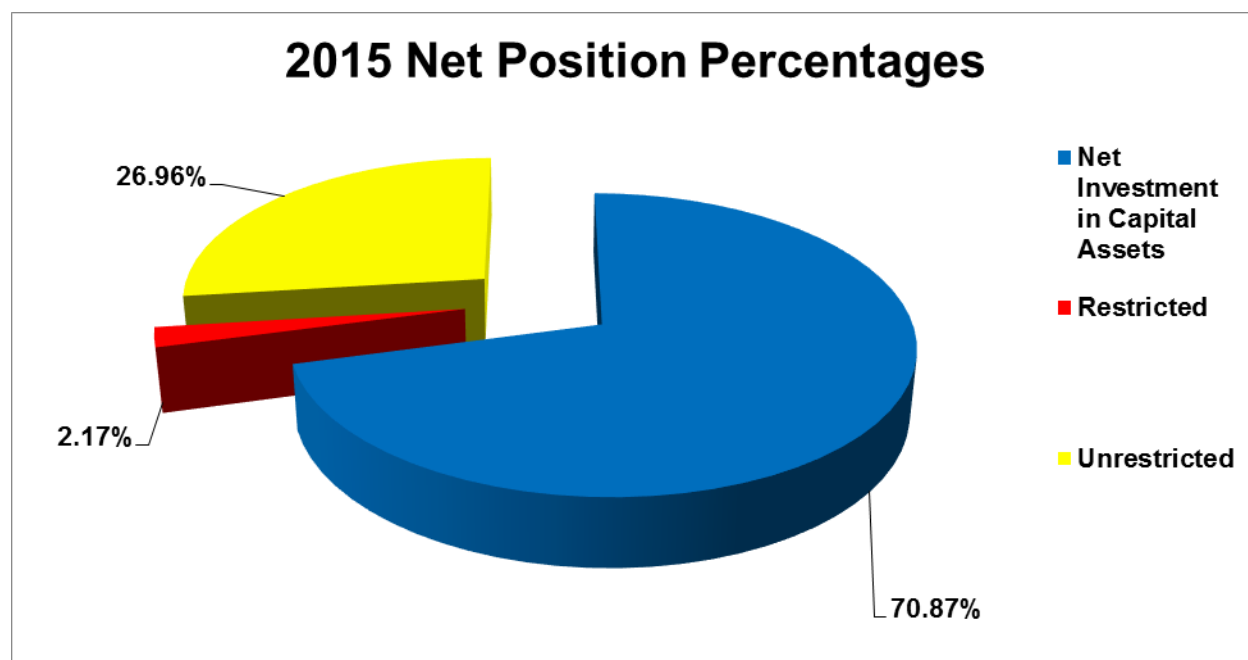
An additional portion of the City's net position of \$ 538,482 (2.16%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position of \$ 6,707,555 (26.97%) may be used to meet the government's ongoing obligations to citizens and creditors.

As of September 30, 2015, 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, TEXAS
Management's Discussion and Analysis
For the Year Ended September 30, 2015

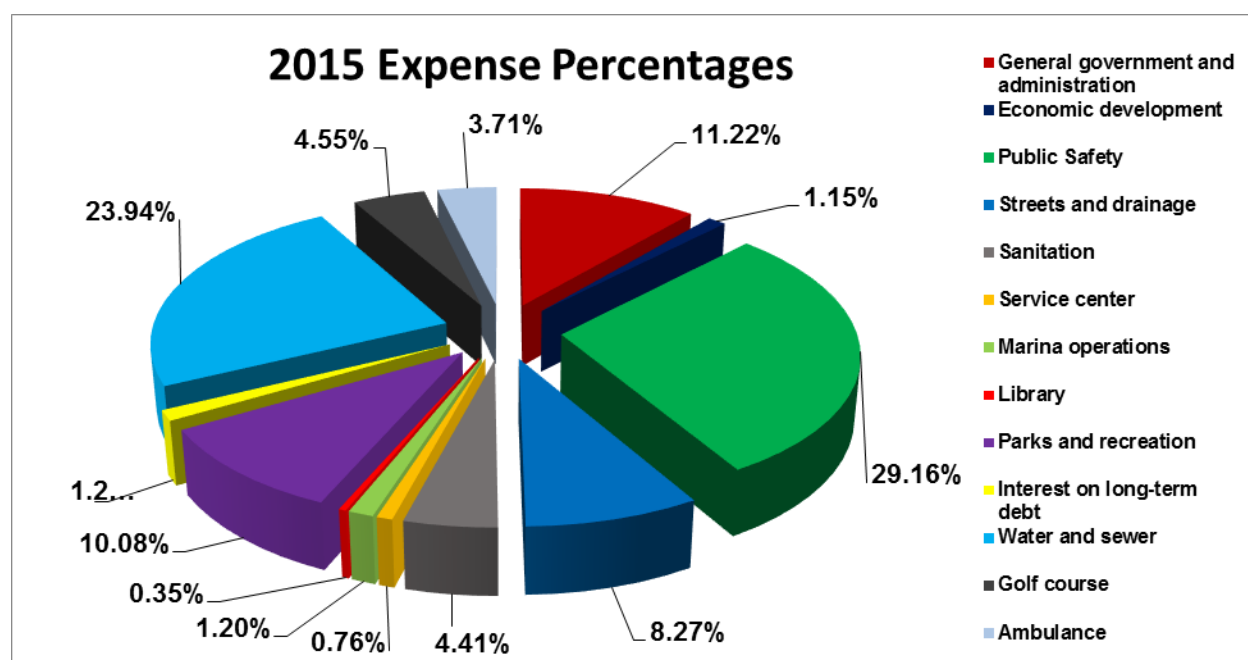
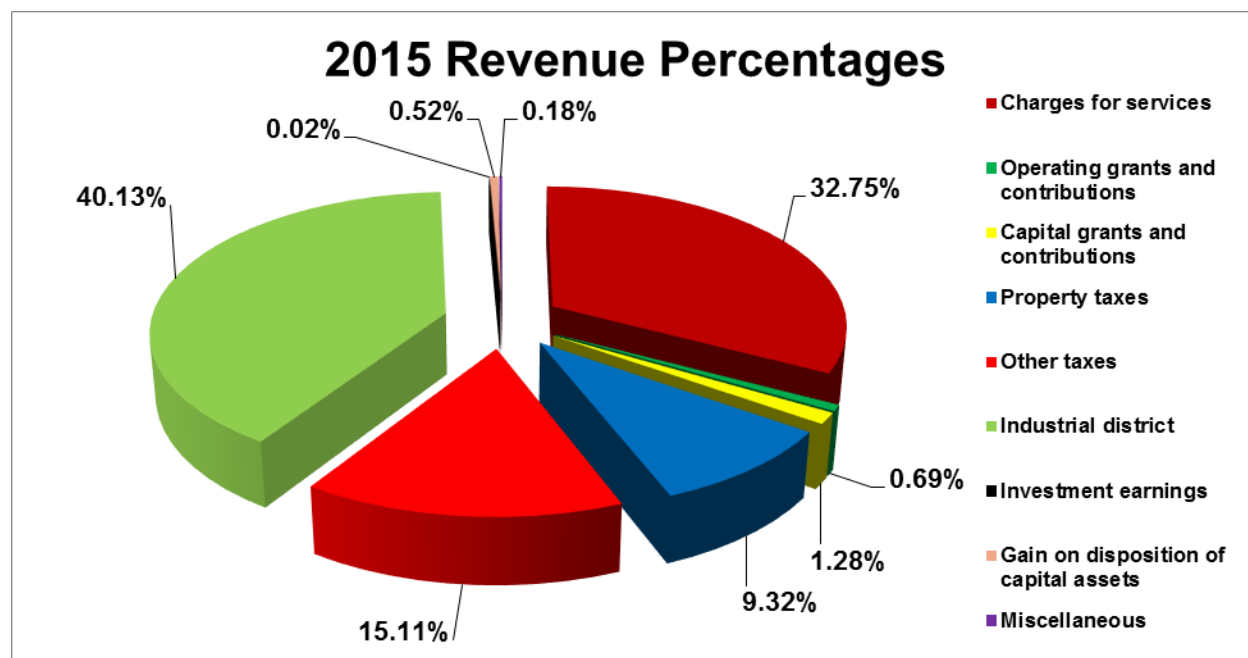
CITY OF FREEPORT'S NET POSITION

	Governmental Activities	Business-Type Activities	Totals
	September 30, 2015		
Current and other assets	\$ 11,892,064	\$ 1,487,075	\$ 13,379,139
Capital assets	<u>15,463,809</u>	<u>7,302,869</u>	<u>22,766,678</u>
Total assets	<u>27,355,873</u>	<u>8,789,944</u>	<u>36,145,817</u>
Deferred outflows of resources	<u>541,875</u>	<u>95,475</u>	<u>637,350</u>
Total deferred outflows of resources	<u>541,875</u>	<u>95,475</u>	<u>637,350</u>
Current and other liabilities	1,084,587	950,095	2,034,682
Long-term liabilities	<u>9,063,242</u>	<u>756,533</u>	<u>9,819,775</u>
Total liabilities	<u>10,147,829</u>	<u>1,706,628</u>	<u>11,854,457</u>
Deferred inflows of resources	<u>45,056</u>	<u>7,939</u>	<u>52,995</u>
Total deferred inflows of resources	<u>45,056</u>	<u>7,939</u>	<u>52,995</u>
Net Position:			
Net investment in capital assets	10,431,051	7,198,627	17,629,678
Restricted	538,482		538,482
Unrestricted	<u>6,735,330</u>	<u>(27,775)</u>	<u>6,707,555</u>
Total net position	<u>\$ 17,704,863</u>	<u>\$ 7,170,852</u>	<u>\$ 24,875,715</u>



CITY OF FREEPORT, TEXAS
Management's Discussion and Analysis
For the Year Ended September 30, 2015

Analysis of the City's Operations. The following graphs provide a summary of the City's operations for the years ended September 30, 2015. Governmental activities increased the City of Freeport's net position by \$ 5,247,790 and the business-type activities increased the City's net position by \$ 1,355,818.



CITY OF FREEPORT, TEXAS
Management's Discussion and Analysis
For the Year Ended September 30, 2015

CITY OF FREEPORT'S CHANGES IN NET POSITION

	Governmental Activities	Business-type Activities	Totals
	<u>For the Year Ended September 30, 2015</u>		
Revenues:			
Program Revenues:			
Charges for services	\$ 1,935,358	\$ 6,252,729	\$ 8,188,087
Operating grants and contributions	81,689	89,457	171,146
Capital grants and contributions	140,558	179,000	319,558
General Revenues:			
Property taxes	2,328,836		2,328,836
Other taxes	3,778,677		3,778,677
Industrial district	10,032,955		10,032,955
Investment earnings	5,105	52	5,157
Gain on disposition of capital assets	129,871		129,871
Miscellaneous	<u>45,620</u>		<u>45,620</u>
Total revenues	<u>18,478,669</u>	<u>6,521,238</u>	<u>24,999,907</u>
Expenses:			
General government and administration	2,063,459		2,063,459
Economic development	210,816		210,816
Public safety	5,373,438		5,373,438
Streets and drainage	1,521,757		1,521,757
Sanitation	810,919		810,919
Service center	139,371		139,371
Marina operations	219,735		219,735
Library	63,439		63,439
Parks and recreation	1,855,714		1,855,714
Interest on long-term debt	221,279		221,279
Water and sewer		4,398,015	4,398,015
Golf course		838,297	838,297
Ambulance		<u>683,060</u>	<u>683,060</u>
Total expenses	<u>12,479,927</u>	<u>5,919,372</u>	<u>18,399,299</u>
Increase in net position before transfers	5,998,742	601,866	6,600,608
Transfers	<u>(750,952)</u>	<u>750,952</u>	<u>-0-</u>
Increase in net position	5,247,790	1,355,818	6,600,608
Net position, Beginning (restated)	<u>12,457,073</u>	<u>5,818,034</u>	<u>18,275,107</u>
Net position, Ending	<u>\$ 17,704,863</u>	<u>\$ 7,170,852</u>	<u>\$ 24,875,715</u>

CITY OF FREEPORT, TEXAS

*Management's Discussion and Analysis
For the Year Ended September 30, 2015*

Financial Analysis of the City's Funds

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

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

As of the end of the current fiscal year, the City of Freeport's governmental funds reported combined ending fund balances of \$ 10,287,357. 89.90% of this total amount (\$ 9,248,470) 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 economic development \$ 438,977, 2) restricted for debt service \$ 45,407, 3) restricted for construction \$ 54,029, 4) restricted for municipal court security \$ 6,421, 5) restricted for municipal court technology \$ 10,107, 6) assigned for beach maintenance \$ 16,483; 7) assigned for narcotics operations \$ 19,850, 8) assigned to main street \$ 2,795, 9) assigned to capital projects \$ 420,726, and assigned to LNG boat maintenance \$ 24,092.

The General Fund balance increased by \$ 3,486,817, the Marina Operations (special revenue fund) increased by \$ 198,608, and the other governmental funds decreased \$ 381,604.

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, 2015 amounted to \$ 7,170,852. Total net position increased by \$ 1,352,818 (or 23.25%).

General Fund Budgetary Highlights. Differences between the original budget and the final amended budget resulted in an increase of \$ 5,245,203 and estimated revenues and a \$ 1,963,669 increase in appropriations which involved a number of budget items. The most significant item was \$ 5,000,000 increase in estimated revenues due to the new LNG industrial district contract.

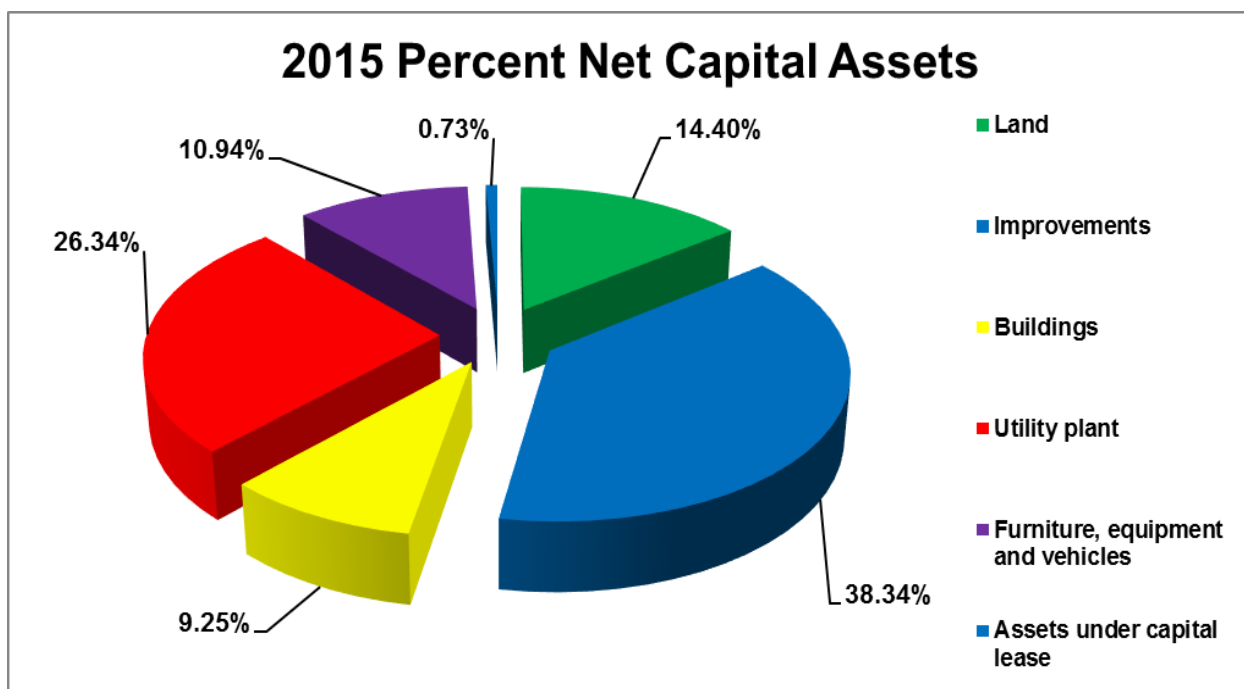
Capital Assets

The City of Freeport's investment in capital assets for its governmental and business-type activities as of September 30, 2015, amounts to \$ 22,766,678 (net of accumulated depreciation). This investment in capital assets includes land, improvements, buildings, utility plant, furniture, and equipment and vehicles.

CITY OF FREEPORT, TEXAS
Management's Discussion and Analysis
For the Year Ended September 30, 2015

Capital Assets
Net of Accumulated Depreciation

	Governmental Activities	Business-type Activities	Totals
	September 30, 2015		
Land	\$ 2,883,504	\$ 395,630	\$ 3,279,134
Improvements	8,681,645	47,747	8,729,392
Buildings	2,016,397	90,438	2,106,835
Utility plant		5,995,327	5,995,327
Furniture, equipment and vehicles	1,882,263	622,621	2,504,884
Assets under capital lease		<u>151,106</u>	<u>151,106</u>
Total	<u>\$ 15,463,809</u>	<u>\$ 7,302,869</u>	<u>\$ 22,766,678</u>



Additional information on the City of Freeport's capital assets can be found in Note 6 on pages 60 through 63 of this report.

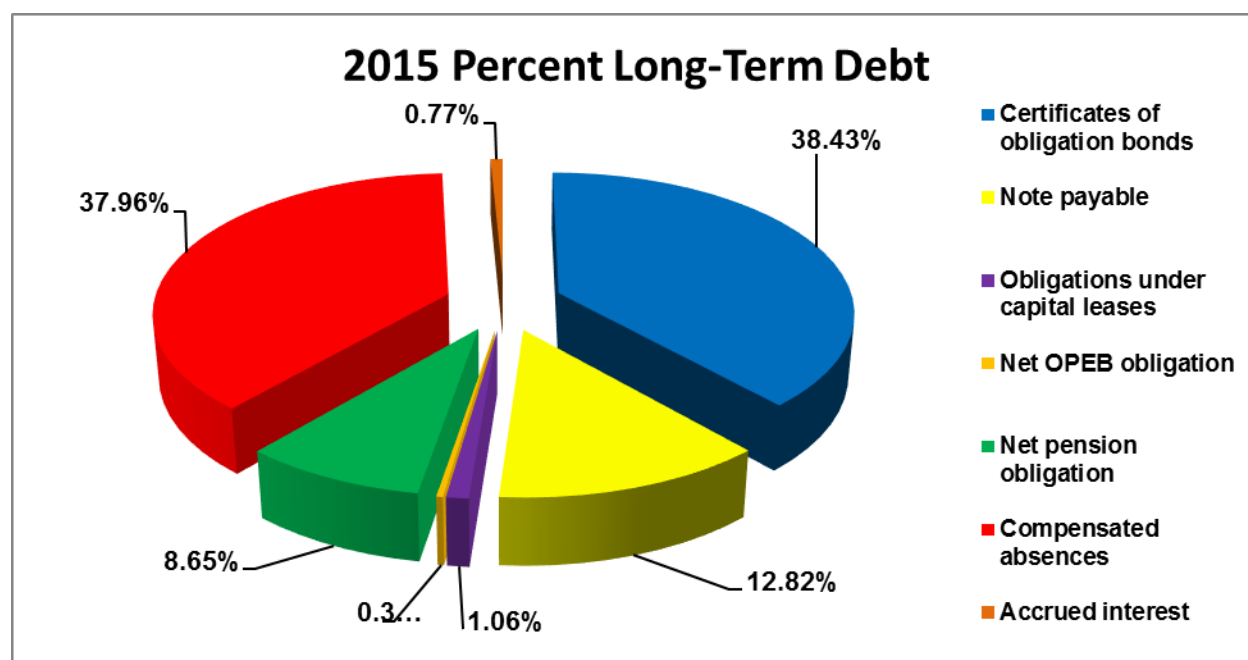
CITY OF FREEPORT, TEXAS
Management's Discussion and Analysis
For the Year Ended September 30, 2015

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 \$ 3,774,000, which is comprised of bonded debt backed by the full faith and credit of the City. The note payable, in the amount of \$ 1,258,758 will be retired with revenues from sales taxes of the Freeport Economic Development Corporation. The remaining \$ 104,242 represents capital lease obligations bonds secured solely by golf course revenues.

Long-Term Debt Outstanding

	Governmental Activities	Business-type Activities	Totals
	September 30, 2015		
Certificates of obligation bonds	\$ 3,774,000	\$	\$ 3,774,000
Notes payable	1,258,758		1,258,758
Obligation under capital leases		104,242	104,242
Compensated absences	760,247	89,089	849,336
Net OPEB obligation	26,103	4,599	30,702
Net pension obligation	3,168,968	558,400	3,727,368
Components of Long-Term Debt:			
Accrued interest payable	<u>75,166</u>	<u>203</u>	<u>75,369</u>
 Total	 <u>\$ 9,063,242</u>	 <u>\$ 756,533</u>	 <u>\$ 9,819,775</u>



Additional information on the City of Freeport's long-term debt can be found in Note 14 on pages 76 through 80 of this report.

CITY OF FREEPORT, TEXAS

*Management's Discussion and Analysis
For the Year Ended September 30, 2015*

Economic Factors and Next Year's Budgets and Rates

Certified assessed valuations increased 12% over the preceding year. The property tax rate decreased from 0.675586 to 0.645642 with 0.148064 as interest and sinking component and 0.497578 as the maintenance and operation component. From the interest and sinking component, 0.4838 was used to pay the Certificates of Obligations, Series 2003 issued on October 23, 2003 and 0.5162 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 \$ 2.25 to \$ 2.63 per thousand gallons and become effective October 1, 2015.

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

Exhibit A-1

Page 1 of 2

STATEMENT OF NET POSITION

September 30, 2015

	Governmental Activities	Business- Type Activities	Total
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES			
Assets:			
Cash and cash equivalents	\$ 10,162,177	\$ 320,036	\$ 10,482,213
Receivables (Net of Allowance for Uncollectible):			
Taxes	852,476		852,476
Accounts	408,956	1,342,366	1,751,322
Other	62,302		62,302
Due from other governments	625		625
Interfund balances	405,528	(405,528)	
Inventory		13,351	13,351
Restricted Assets:			
Temporarily Restricted:			
Cash and cash equivalents		216,850	216,850
Capital Assets (Net of Accumulated Depreciation):			
Land	2,883,504	395,630	3,279,134
Improvements	8,681,645	47,747	8,729,392
Buildings	2,016,397	90,438	2,106,835
Utility plant		5,995,327	5,995,327
Furniture, equipment and vehicles	1,882,263	622,621	2,504,884
Assets under capital lease		151,106	151,106
	<u>27,355,873</u>	<u>8,789,944</u>	<u>36,145,817</u>
Deferred Outflows of Resources:			
Pension:			
Net difference between expected and actual earnings	109,790	19,344	129,134
Subsequent contributions	<u>432,085</u>	<u>76,131</u>	<u>508,216</u>
	<u>541,875</u>	<u>95,475</u>	<u>637,350</u>

CITY OF FREEPORT

Freeport, Texas

Exhibit A-1

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STATEMENT OF NET POSITION

September 30, 2015

	Governmental Activities	Business- Type Activities	Total
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION			
Liabilities:			
Accounts payable	\$ 712,814	\$ 570,230	\$ 1,283,044
Accrued wages and benefits	331,206	70,874	402,080
Liabilities payable from restricted assets		216,850	216,850
Unearned revenue	40,567	92,141	132,708
Noncurrent Liabilities:			
Due within one year	1,205,684	157,445	1,363,129
Due in more than one year	<u>7,857,558</u>	<u>599,088</u>	<u>8,456,646</u>
Total liabilities	<u>10,147,829</u>	<u>1,706,628</u>	<u>11,854,457</u>
Deferred Inflows of Resources:			
Pension:			
Net difference between expected and actual experience	<u>45,056</u>	<u>7,939</u>	<u>52,995</u>
Total deferred inflows of resources	<u>45,056</u>	<u>7,939</u>	<u>52,995</u>
Net Position:			
Invested in capital assets, net of related debt	10,431,051	7,198,627	17,629,678
Restricted For:			
Economic development	438,977		438,977
Debt service	28,948		28,948
Capital projects	54,029		54,029
Municipal court security	6,421		6,421
Municipal court technology	10,107		10,107
Unrestricted	<u>6,735,330</u>	<u>(27,775)</u>	<u>6,707,555</u>
Total net position	<u>\$ 17,704,863</u>	<u>\$ 7,170,852</u>	<u>\$ 24,875,715</u>

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

CITY OF FREEPORT

Freeport, Texas

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2015

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General government and administration	\$ 2,063,459	\$ 549,727	\$ 35,001	\$
Economic development	210,816			
Public safety	5,373,438	193,870	41,896	140,558
Streets and drainage	1,521,757			
Sanitation	810,919	846,882		
Service center	139,371			
Marina operations	219,735	160,486		
Library	63,439			
Parks and recreation	1,855,714	184,393	4,792	
Interest on long-term debt	221,279			
Total governmental activities	<u>12,479,927</u>	<u>1,935,358</u>	<u>81,689</u>	<u>140,558</u>
Business-type Activities:				
Water and sewer (\$ 300 fees on long-term debt)	4,398,015	5,314,769		
Golf course (\$ 6,826 interest on long-term debt)	838,297	390,115		
Ambulance	683,060	547,845	89,457	179,000
Total business-type activities	<u>5,919,372</u>	<u>6,252,729</u>	<u>89,457</u>	<u>179,000</u>
Total	<u>\$ 18,399,299</u>	<u>\$ 8,188,087</u>	<u>\$ 171,146</u>	<u>\$ 319,558</u>
General Revenue:				
Taxes:				
Property taxes				
Other taxes				
Industrial district				
Investment earnings				
Miscellaneous				
Gain on disposal of capital assets				
Transfers				
Total general revenues and transfers				
Change in net position				
Net position – beginning (restated)				
Net position – ending				

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

Net (Expense) Revenue and Changes in Net Position		
Governmental Activities	Business- Type Activities	Total
\$(1,478,731)	\$	\$(1,478,731)
(210,816)		(210,816)
(4,997,114)		(4,997,114)
(1,521,757)		(1,521,757)
35,963		35,963
(139,371)		(139,371)
(59,249)		(59,249)
(63,439)		(63,439)
(1,666,529)		(1,666,529)
(221,279)		(221,279)
<u>(10,322,322)</u>	<u>-0-</u>	<u>(10,322,322)</u>
	916,754	916,754
	(448,182)	(448,182)
	<u>133,242</u>	<u>133,242</u>
<u>-0-</u>	<u>601,814</u>	<u>601,814</u>
<u>\$(10,322,322)</u>	<u>\$ 601,814</u>	<u>\$(9,720,508)</u>
\$ 2,328,836	\$	\$ 2,328,836
3,778,677		3,778,677
10,032,955		10,032,955
5,105	52	5,157
45,620		45,620
129,871		129,871
(750,952)	750,952	-0-
<u>15,570,112</u>	<u>751,004</u>	<u>16,321,116</u>
5,247,790	1,355,818	6,600,608
<u>12,457,073</u>	<u>5,818,034</u>	<u>18,275,107</u>
<u>\$ 17,704,863</u>	<u>\$ 7,170,852</u>	<u>\$ 24,875,715</u>

CITY OF FREEPORT

Freeport, Texas

Exhibit C-1

Page 1 of 2

**BALANCE SHEET
GOVERNMENTAL FUNDS**

September 30, 2015

	<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	\$ 9,876,852	\$	\$ 285,325	\$ 10,162,177
Receivables (Net of Allowance for Uncollectible):				
Property taxes	206,663		60,810	267,473
Sales tax	390,002		195,001	585,003
Accounts	131,364		13,925	145,289
Other receivables	62,302			62,302
Due from other governments			625	625
Due from other funds	<u>622,809</u>		<u>75,704</u>	<u>698,513</u>
 Total assets	 <u>11,289,992</u>	 <u>-0-</u>	 <u>631,390</u>	 <u>11,921,382</u>
 Deferred Outflows of Resources:				
Deferred outflows of resources				<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>\$ 11,289,992</u>	 <u>\$ -0-</u>	 <u>\$ 631,390</u>	 <u>\$ 11,921,382</u>

CITY OF FREEPORT

Freeport, Texas

Exhibit C-1

Page 2 of 2

BALANCE SHEET**GOVERNMENTAL FUNDS - Continued**

September 30, 2015

	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	\$ 702,154	\$ 358	\$ 10,302	\$ 712,814
Accrued wages and benefits	325,364	2,100	3,742	331,206
Due to other funds	75,704	201,222	16,059	292,985
Unearned revenue	40,567			40,567
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>1,143,789</u>	<u>203,680</u>	<u>30,103</u>	<u>1,377,572</u>
Deferred Inflows of Resources:				
Deferred inflows of resources	<u>197,746</u>		<u>58,707</u>	<u>256,453</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total deferred inflows of resources	<u>197,746</u>	<u>-0-</u>	<u>58,707</u>	<u>256,453</u>
Fund Balance:				
Restricted:				
Economic development			438,977	438,977
Debt service			45,407	45,407
Construction			54,029	54,029
Municipal court security	6,421			6,421
Municipal court technology	10,107			10,107
Assigned:				
Beach maintenance			16,483	16,483
Narcotics operations	19,850			19,850
Main street	2,795			2,795
Capital projects	420,726			420,726
LNG boat maintenance	24,092			24,092
Unassigned	<u>9,464,466</u>	<u>(203,680)</u>	<u>(12,316)</u>	<u>9,248,470</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total fund balances	<u>9,948,457</u>	<u>(203,680)</u>	<u>542,580</u>	<u>10,287,357</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 11,289,992</u>	<u>\$ -0-</u>	<u>\$ 631,390</u>	<u>\$ 11,921,382</u>

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

CITY OF FREEPORT

Freeport, Texas

Exhibit C-1R

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

September 30, 2015

Total fund balances – governmental funds balance sheet	\$ 10,287,357
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. Capital assets include \$ 38,169,713 in assets less \$ 22,705,904 in accumulated depreciation.	15,463,809
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 \$ 1,318,337 net of allowance for uncollectible accounts \$ 1,054,670 of the general fund amounted to \$ 263,667.	263,667
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 \$ 197,746 and \$ 58,707, respectively.	256,453
Deferred outflows of resources are not reported in the funds. These amounted to \$ 541,875 (\$ 109,790 for the net difference between expected and actual earnings and \$ 432,085 for subsequent contributions).	541,875
Deferred outflows of resources are not reported in the funds. These amounted to \$ 45,056 (for the net difference between expected and actual experience).	(45,056)
Payables for net pension obligation are not reported in the funds.	(3,168,968)
Payables for bond principal are not reported in the funds.	(3,774,000)
Payables for note principal are not reported in the funds.	(1,258,758)
Payables for long-term compensated absences are not reported in the funds.	(760,247)
Payables for bond interest are not reported in the funds.	<u>(75,166)</u>
Net position of governmental activities – statement of net position.	<u>\$ 17,730,966</u>

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

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CITY OF FREEPORT

Freeport, Texas

Exhibit C-2

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

For the Year Ended September 30, 2015

	General Fund	Marina Operations Fund	Non-Major Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$ 1,759,554	\$	\$ 579,117	\$ 2,338,671
Other taxes	2,727,691		1,050,986	3,778,677
Industrial district	10,032,955			10,032,955
Intergovernmental revenues	114,387			114,387
Revenue producing facilities	1,116,285	160,486	19,413	1,296,184
Fines, licenses and fees	514,876			514,876
Investment income	4,828		277	5,105
Miscellaneous	243,074		310	243,384
Total revenues	16,513,650	160,486	1,650,103	18,324,239
Expenditures:				
Current:				
Administration	1,660,661			1,660,661
Economic development			209,345	209,345
Public safety	4,895,315			4,895,315
Streets and drainage	1,045,290			1,045,290
Sanitation	810,919			810,919
Service center	118,712			118,712
Marina operations		171,094		171,094
Library	38,487			38,487
Parks and recreation	1,614,892		10,212	1,625,104
Capital outlay	2,228,199		878,246	3,106,445
Debt Service:				
Principal		32,419	703,507	735,926
Interest		3,468	230,397	233,865
Total expenditures	12,412,475	206,981	2,031,707	14,651,163
Excess of revenues over (under) expenditures	4,101,175	(46,495)	(381,604)	3,673,076
Other Financing Sources (Uses):				
Sale of capital assets	136,594	245,103		381,697
Operating transfers in			351,070	351,070
Operating transfers out	(750,952)		(351,070)	(1,102,022)
Total other financing sources (uses)	(614,358)	245,103	-0-	(369,255)
Net changes in fund balance	3,486,817	198,608	(381,604)	3,303,821
Fund balance – beginning	6,461,640	(402,288)	924,184	6,983,536
Fund balance - ending	<u>\$ 9,948,457</u>	<u>\$ (203,680)</u>	<u>\$ 542,580</u>	<u>\$ 10,287,357</u>

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

CITY OF FREEPORT

Freeport, Texas

Exhibit C-2R

**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, 2015

Net change in fund balances – total governmental funds	\$ 3,303,821
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 capital outlay of \$ 3,106,445 exceeded depreciation of \$ 1,532,376 in the current period.	1,574,069
Municipal court revenues in the governmental activities statement of activities do not provide current financial resources and are not reported as revenues in the funds. Municipal court receivables, net of allowance, increased by \$ 34,394.	34,394
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 \$ 8,698, and for the debt service decreased by \$ 1,137.	(9,835)
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 of \$ 605,000 and capital leases of \$ 32,419 and note payable of \$ 98,507.	735,926
Some expenses reported in the governmental activities statement of activities do not require the use of current financial resources, and, therefore, are not reported as expenditures in governmental funds. This is the basis in assets retired in the amount of \$ 448,608 (original cost of assets of \$ 1,216,482 less accumulated depreciation of \$ 767,874).	(448,608)
Some revenues reported in the governmental activities statement of activities do not provide current financial resources, and, therefore, are not reported as revenues in governmental funds. This change in capital lease obligation due to the assumption of the liability of \$ 196,782 is reported as a sale of capital assets resulting in a gain on the sale of capital assets.	196,782
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 \$ 12,586, and accrued compensated absences of \$(119,341) and net pension obligation of \$(5,901).	<u>112,656</u>
Change in net position of governmental activities	<u>\$ 5,273,893</u>

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

CITY OF FREEPORT

Freeport, Texas

Exhibit D-1

Page 1 of 2

STATEMENT OF NET POSITION - PROPRIETARY FUNDS

September 30, 2015

	<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	\$ 270,685	\$ 5,836	\$ 43,515	\$ 320,036
Receivables (Net of Allowance for Uncollectible):				
Accounts	877,992		464,374	1,342,366
Inventory		<u>13,351</u>		<u>13,351</u>
Total unrestricted current assets	<u>1,148,677</u>	<u>19,187</u>	<u>507,889</u>	<u>1,675,753</u>
Current Restricted Assets:				
Cash and temporary investments	<u>216,850</u>			<u>216,850</u>
Total current restricted assets	<u>216,850</u>	<u>-0-</u>	<u>-0-</u>	<u>216,850</u>
Total current assets	<u>1,365,527</u>	<u>19,187</u>	<u>507,889</u>	<u>1,892,603</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	707,748	932,435	1,786,948
Assets under capital lease		247,545		247,545
Less accumulated depreciation	<u>(15,354,855)</u>	<u>(1,348,641)</u>	<u>(398,296)</u>	<u>(17,101,792)</u>
Total capital assets (net of accumulated depreciation)	<u>6,058,062</u>	<u>710,668</u>	<u>534,139</u>	<u>7,302,869</u>
Total assets	<u>7,423,589</u>	<u>729,855</u>	<u>1,042,028</u>	<u>9,195,472</u>
Deferred Outflows of Resources:				
Pension:				
Net difference between expected and actual Earnings	1,936	7,167	10,241	19,344
Subsequent pension contributions	<u>7,623</u>	<u>28,206</u>	<u>40,302</u>	<u>76,131</u>
Total deferred outflows of resources	<u>9,559</u>	<u>35,373</u>	<u>50,543</u>	<u>95,475</u>
Total assets and deferred outflows of resources	<u>\$ 7,433,148</u>	<u>\$ 765,228</u>	<u>\$ 1,092,571</u>	<u>\$ 9,290,947</u>

CITY OF FREEPORT

Freeport, Texas

Exhibit D-1

Page 2 Of 2

STATEMENT OF NET POSITION - PROPRIETARY FUNDS

September 30, 2015

	<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	\$ 547,446	\$ 20,575	\$ 2,209	\$ 570,230
Accrued wages and benefits	5,885	34,012	30,977	70,874
Accrued compensated absences	10,000	30,000	13,000	53,000
Accrued interest payable		203		203
Due to other funds		405,528		405,528
Obligations under capital lease - current		104,242		104,242
Unearned revenue	<u>92,141</u>			<u>92,141</u>
Total current liabilities	<u>655,472</u>	<u>594,560</u>	<u>46,186</u>	<u>1,296,218</u>
Current Liabilities Payable from Restricted Assets:				
Customer deposits payable	<u>216,850</u>			<u>216,850</u>
Total current liabilities payable from restricted assets	<u>216,850</u>	<u>-0-</u>	<u>-0-</u>	<u>216,850</u>
Total current liabilities	<u>872,322</u>	<u>594,560</u>	<u>46,186</u>	<u>1,513,068</u>
Noncurrent Liabilities:				
Accrued compensated absences	5,830	14,612	15,647	36,089
Net OPEB obligation	460	1,704	2,435	4,599
Net pension obligation	<u>55,895</u>	<u>206,888</u>	<u>295,617</u>	<u>558,400</u>
Total noncurrent liabilities	<u>62,185</u>	<u>223,204</u>	<u>313,699</u>	<u>599,088</u>
Total liabilities	<u>934,507</u>	<u>817,764</u>	<u>359,885</u>	<u>2,112,156</u>
Deferred Inflows of Resources:				
Pension:				
Difference between expected and actual experience	<u>795</u>	<u>2,941</u>	<u>4,203</u>	<u>7,939</u>
Total deferred inflows of resources	<u>795</u>	<u>2,941</u>	<u>4,203</u>	<u>7,939</u>
Net Position:				
Net invested in capital assets	6,058,062	606,426	534,139	7,198,627
Unrestricted	<u>439,784</u>	<u>(661,903)</u>	<u>194,344</u>	<u>(27,775)</u>
Total net position	<u>6,497,846</u>	<u>(55,477)</u>	<u>728,483</u>	<u>7,170,852</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 7,433,148</u>	<u>\$ 765,228</u>	<u>\$ 1,092,571</u>	<u>\$ 9,290,947</u>

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

CITY OF FREEPORT

Freeport, Texas

Exhibit D-2

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

For the Year Ended September 30, 2015

	<u>Water and Sewer</u>	<u>Golf Course</u>	<u>Ambulance</u>	<u>Total Proprietary Funds</u>
Operating Revenues:				
Water service	\$ 3,114,111	\$	\$	\$ 3,114,111
Sewer service	1,815,828			1,815,828
Charges for other services	384,830		547,845	932,675
Golf course fees and charges		390,115		390,115
Miscellaneous			<u>89,457</u>	<u>89,457</u>
Total operating revenues	<u>5,314,769</u>	<u>390,115</u>	<u>637,302</u>	<u>6,342,186</u>
Operating Expenses:				
Personnel services	72,072	357,225	402,709	832,006
Employee benefits	32,150	150,057	145,612	327,819
Contract and professional services	2,414,466			2,414,466
Other operating costs	51,179	70,940	37,469	159,588
Supplies	31,421	46,262	52,180	129,863
Cost of sales and services	<u>1,473,313</u>	<u>103,999</u>		<u>1,577,312</u>
Operating expenses before depreciation	4,074,601	728,483	637,970	5,441,054
Depreciation	<u>323,114</u>	<u>102,988</u>	<u>45,090</u>	<u>471,192</u>
Total operating expenses	<u>4,397,715</u>	<u>831,471</u>	<u>683,060</u>	<u>5,912,246</u>
Net operating income (loss)	<u>917,054</u>	<u>(441,356)</u>	<u>(45,758)</u>	<u>429,940</u>
Non-Operating Revenues (Expenses):				
Interest revenue	11	1	40	52
Interest expense and agent fees	<u>(300)</u>	<u>(6,826)</u>		<u>(7,126)</u>
Total non-operating revenues (expenses)	<u>(289)</u>	<u>(6,825)</u>	<u>40</u>	<u>(7,074)</u>
Net income (loss) before contributions and operating transfers	916,765	(448,181)	(45,718)	422,866
Contributions (capital)			179,000	179,000
Transfers in	<u>390,929</u>	<u>192,598</u>	<u>167,425</u>	<u>750,952</u>
Change in net position	1,307,694	(255,583)	300,707	1,352,818
Net position – beginning (restated)	<u>5,190,152</u>	<u>200,106</u>	<u>427,776</u>	<u>5,818,034</u>
Net position - ending	<u>\$ 6,497,846</u>	<u>\$ (55,477)</u>	<u>\$ 728,483</u>	<u>\$ 7,170,852</u>

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

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CITY OF FREEPORT

Freeport, Texas

Exhibit D-3

Page 1 of 2

**STATEMENT OF CASH FLOWS -
PROPRIETARY FUNDS**

For the Year Ended September 30, 2015

	<u>Water and Sewer</u>	<u>Golf Course</u>	<u>Ambulance</u>	<u>Total Proprietary Funds</u>
Cash Flows from Operating Activities:				
Receipts from customers and users	\$ 5,044,477	\$ 390,115	\$ 723,167	\$ 6,157,759
Receipts from other funds		176,548		176,548
Payments to other funds	(709,093)		(58,079)	(767,172)
Payments to suppliers	(4,122,237)	(216,108)	(98,623)	(4,436,968)
Payments to employees	(107,654)	(474,098)	(534,467)	(1,116,219)
Net cash provided (used) by operating activities	<u>105,493</u>	<u>(123,543)</u>	<u>31,998</u>	<u>13,948</u>
Cash Flows from Non-Capital Financing Activities:				
Transfers from other funds	<u>390,929</u>	<u>192,598</u>	<u>167,425</u>	<u>750,952</u>
Net cash provided by non-capital financing activities	<u>390,929</u>	<u>192,598</u>	<u>167,425</u>	<u>750,952</u>
Cash Flows from Capital and Related Financing Activities:				
Capital contributions			179,000	179,000
Capital expenditures		(4,700)	(334,948)	(339,648)
Interest payments on capital leases		(6,914)		(6,914)
Principal payments on capital leases		(54,994)		(54,994)
Principal payments on bonds	(235,000)			(235,000)
Interest and fees on bonds	(5,999)			(5,999)
Net cash used by capital and related financing activities	<u>(240,999)</u>	<u>(66,608)</u>	<u>(155,948)</u>	<u>(463,555)</u>
Cash Flows from Investing Activities:				
Interest on investments	<u>11</u>	<u>1</u>	<u>40</u>	<u>52</u>
Net cash provided by investing activities	<u>11</u>	<u>1</u>	<u>40</u>	<u>52</u>
Net increase in cash and cash equivalents	255,434	2,448	43,515	301,397
Cash and cash equivalents at the beginning of year	<u>232,101</u>	<u>3,388</u>		<u>235,489</u>
Cash and cash equivalents at the end of the year	<u>\$ 487,535</u>	<u>\$ 5,836</u>	<u>\$ 43,515</u>	<u>\$ 536,886</u>

CITY OF FREEPORT

Freeport, Texas

Exhibit D-3

Page 2 of 2

**STATEMENT OF CASH FLOWS -
PROPRIETARY FUNDS**

For the Year Ended September 30, 2015

	<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)	\$ 917,054	\$(441,356)	\$(45,758)	\$ 429,940
Adjustments to Reconcile Operating Income (Loss) to Net Cash				
Provided (Used) by Operating Activities:				
Depreciation	323,114	102,988	45,090	471,192
(Increase) decrease in accounts receivable	(253,279)		85,865	(167,414)
(Increase) decrease in inventory		(2,329)		(2,329)
(Increase) decrease in deferred outflows of resources	(3,537)	(12,704)	(17,293)	(33,534)
Increase (decrease) in accounts payable	(151,858)	7,422	(8,974)	(153,410)
Increase (decrease) in accrued wages and benefits payable	2,987	19,050	12,817	34,854
Increase (decrease) in accrued compensated absences payable	(6,261)	14,330	458	8,527
Increase (decrease) in unearned revenue	(23,818)			(23,818)
Increase (decrease) in customer deposits	6,805			6,805
Increase (decrease) in due to other funds	(709,093)	176,548	(58,079)	(590,624)
Increase (decrease) in deferred inflows of resources	795	2,941	4,203	7,939
Increase (decrease) in net OPEB obligation	460	1,704	2,435	4,599
Increase (decrease) in net pension obligation	<u>2,124</u>	<u>7,863</u>	<u>11,234</u>	<u>21,221</u>
Total adjustments	<u>(811,561)</u>	<u>317,813</u>	<u>77,756</u>	<u>(415,992)</u>
Net cash provided (used) by operating activities	<u>\$ 105,493</u>	<u>\$(123,543)</u>	<u>\$ 31,998</u>	<u>\$ 13,948</u>
Non-Cash Investing, Capital and Financing Activities:				
Capital contributions from a private company	\$	\$	\$ 179,000	\$ 179,000
Assets acquired through capital contribution	<u> </u>	<u> </u>	<u>(179,000)</u>	<u>(179,000)</u>
Net effect of non-cash transactions	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$(179,000)</u>	<u>\$(179,000)</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, 2015

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CITY OF FREEPORT

Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2015

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.

CITY OF FREEPORT

Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Reporting Entity - Continued

Primary Government – Continued

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.

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 is reported as a blended component unit. However, during the years ended September 30, 2007 through 2014, the Corporation constructed and entered into a long-term lease for a marina with a company unrelated to the City. Because of this, the City was reported as a discretely presented component unit until it divested itself of the marina operations.

CITY OF FREEPORT

Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2015

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, 2015

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 until February 1, 2015 when the assets and operation of the marina reverted to a private company. All rentals and general revenues associated with the marina were utilized for the operation of the marina until February 1, 2015 when the Corporation relinquished its rights to the marina as a result of a lawsuit settlement.

CITY OF FREEPORT

Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2015

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 Statement No. 68, "Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27", was issued June 2012. This statement was implemented during the current year. This statement is effective for periods beginning after June 15, 2014.

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. This statement was implemented during the current year. 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.

CITY OF FREEPORT

Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

GASB No. 73, "Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of Statements 67 and 68" was issued June 2015. The management of the City does not expect the implementation of this standard to have a material effect on the financial statements of the City. This statement is effective for periods beginning after June 15, 2016.

GASB No. 74, "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans" was issued June 2015. The management of the City does not expect the implementation of this standard to have a material effect on the financial statements of the City. This statement is effective for periods beginning after June 15, 2016.

GASB No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions" was issued June 2015. The management of the City does not expect the implementation of this standard to have a material effect on the financial statements of the City. This statement is effective for periods beginning after June 15, 2017.

GASB No. 76, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments" was issued June 2015. The management of the City does not expect the implementation of this standard to have a material effect on the financial statements of the City. This statement is effective for periods beginning after June 15, 2015.

GASB No. 77 "Tax Abatement Disclosures" was issued in August 2015. The management of the City does not expect the implementation of this standard to have a material effect on the financial statements of the City. This statement is effective for periods beginning after December 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).
- 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, 2015

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	\$ 1,307,694	\$(255,583)	\$ 300,707	\$ 1,355,818
Differences:				
Depreciation	323,114	102,988	45,090	471,192
Capital contributions			(179,000)	(179,000)
Capital outlay		(4,700)	(334,948)	(339,648)
Debt principal	(235,000)	(54,994)		(289,994)
Net income (loss) - budget basis	<u>\$ 1,395,808</u>	<u>\$(212,289)</u>	<u>\$(168,151)</u>	<u>\$ 1,015,368</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, 2015.

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, 2015

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, 2015, to finance general fund operations and the payment of principal and interest on general obligation long-term debt were \$ 0.507784 and \$ 0.167802 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 5 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, 2015

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, 2015:

	<u>2015</u>
Governmental activities	\$ 760,247
Business-type activities	<u>89,089</u>
	<u>\$ 849,336</u>

Pension Plans

The fiduciary net position of the Texas Municipal Retirement System (TMRS) has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes for purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, and information about assets, liabilities and additions to/deductions from TMRS's fiduciary net position. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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, 2015

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, 2015

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 - CHANGE IN ACCOUNTING PRINCIPLE / PRIOR PERIOD RESTATEMENT

During the year ended September 30, 2015, the District implemented GASB Statement No. 68, "Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27", and GASB Statement No. 71 "Pension Transition for Contributions Made Subsequent to the Measurement Date – and amendment of GASB No. 68". GASB Statement No. 68 establishes a definition of a pension plan that reflects the primary activities associated with the pension arrangement – determining pensions, accumulating and managing assets dedicated for pensions, and paying benefits to plan members as they come due. GASB Statement 71, amendment of GASB Statement No. 68, addresses the issue regarding application of the transition provisions. It requires a government employer to recognize a net pension liability measured as of a date (the measurement date) no earlier than the end of its prior fiscal year. If a government employer makes a contribution to a defined benefit pension plan between the measurement date of the reported net pension liability and the end of the government's reporting period, it requires that the government recognize its contribution as a deferred outflow of resources. The following represents the retroactive restatement of net position as a result of implementation of GASB Statements No. 68 and 71 and prior period restatement as noted above:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Net position, September 30, 2014 previously reported	\$ 15,123,323	\$ 6,293,272
Addition of Outflows of Resources:		
Subsequent pension contributions	382,548	61,941
Addition of net pension obligation	<u>(3,048,798)</u>	<u>(537,179)</u>
Net position, September 30, 2014 restated	<u>\$ 12,457,073</u>	<u>\$ 5,818,034</u>

CITY OF FREEPORT

Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2015

NOTE 2 - CHANGE IN ACCOUNTING PRINCIPLE / PRIOR PERIOD RESTATEMENT

	Proprietary Funds			
	Enterprise Funds			
	Water & Sewer	Golf Course	Ambulance	Total
Net position, September 30, 2014 previously reported	\$ 5,237,901	\$ 376,462	\$ 678,909	\$ 6,293,272
Addition of Outflows of Resources:				
Subsequent pension contributions	6,022	22,669	33,250	61,941
Addition of net pension obligation	(53,771)	(199,025)	(284,383)	(537,179)
Net position, September 30, 2014 restated	<u>\$ 5,190,152</u>	<u>\$ 200,106</u>	<u>\$ 427,776</u>	<u>\$ 5,818,034</u>

Information was not available to restate the September 30, 2014 net assets or the changes in net assets for the year ended September 30, 2014, therefore the MD&A presentation does not report comparative statements for the year ended September 30, 2014. Further, this change in accounting principle had no effect on governmental funds fund balance or changes in fund balance.

NOTE 3 - 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, 2015 are as follows:

	Unrestricted	Restricted	Total
Cash and Temporary Investments:			
Cash (petty cash accounts)	\$ 1,482	\$	\$ 1,482
Financial Institution Deposits:			
Demand deposits	1,141,427	216,850	1,358,277
State Treasury Investment Pool:			
Texpool	<u>9,339,304</u>	<u> </u>	<u>9,339,304</u>
Total cash and temporary investments	<u>\$ 10,482,213</u>	<u>\$ 216,850</u>	<u>\$ 10,699,063</u>

Deposits

All deposits with financial institutions must be collateralized in an amount equal to 100 percent of uninsured balances. At September 30, 2015, in addition to petty cash of \$ 1,482, the carrying amount of the City's deposits were \$ 1,358,277. The financial institutions balances were \$ 1,485,698 at September 30, 2015. Bank balances of \$ 250,000 were covered by federal depository insurance and \$ 1,235,698 was covered by collateral pledged in the City's name.

CITY OF FREEPORT

Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2015

NOTE 3 - DEPOSITS, INVESTMENTS AND DERIVATIVES - Continued

Deposits - Continued

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

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

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

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.

CITY OF FREEPORT

Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2015

NOTE 3 - DEPOSITS, INVESTMENTS AND DERIVATIVES - Continued

Investments - Continued

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

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

At September 30, 2015, Texpool had a weighted average maturity of 40 days. Although Texpool portfolio had a weighted average maturity of 40 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, 2015.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Days)</u>
Local government investment pools (LGIP)	\$ <u>9,339,304</u>	40
	\$ <u>9,339,304</u>	40

Credit Risk – As of September 30, 2015, 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, 2015

NOTE 3 - 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, 2015, and holds no direct investments in derivatives at September 30, 2015.

NOTE 4 - RECEIVABLES, UNCOLLECTIBLE ACCOUNTS, DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES AND UNEARNED REVENUES

Receivables and Allowances

Receivables as of September 30, 2015, for the government's individual governmental major and nonmajor funds, and proprietary major funds, including the applicable allowances for uncollectible accounts, are as follows:

	<u>Governmental Funds</u>		
	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Receivables:			
Property taxes	\$ 252,959	\$ 67,669	\$ 320,628
Sales taxes	390,002	195,001	585,003
Accounts	144,066	13,925	157,991
Paving assessments	144,244		144,244
Other receivables	62,302		62,302
Due from other governments (Brazoria County Tax Office)		625	625
Gross receivables	993,573	277,220	1,270,793
Less Allowance for Uncollectible:			
Property taxes	46,296	6,859	53,155
Accounts	12,702		12,702
Paving assessments	144,244		144,244
Net total receivables	<u>\$ 790,331</u>	<u>\$ 270,361</u>	<u>\$ 1,060,692</u>

CITY OF FREEPORT

Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2015

NOTE 4 - RECEIVABLES, UNCOLLECTIBLE ACCOUNTS, DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES AND UNEARNED REVENUES - Continued

Receivables and Allowances - Continued

	Proprietary Funds		
	Enterprise Funds		
	Water & Sewer Fund	Ambulance Fund	Total
Receivables:			
Accounts	\$ 936,551	\$ 2,755,609	\$ 3,692,160
Less Allowance for Uncollectible:			
Accounts	<u>58,559</u>	<u>2,291,235</u>	<u>2,349,794</u>
Net total receivables	<u>\$ 877,992</u>	<u>\$ 464,374</u>	<u>\$ 1,342,366</u>

Judicial Receivables

Judicial 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 the County's various court assessments is determined based on historical experience and evaluation of collectability in relation to the aging of customer accounts. The following is a summary of the receivable and allowance for uncollectible as of September 30, 2015:

	Governmental Activities 2015
Judicial Receivables:	
Accounts	\$ 1,318,337
Less allowance for uncollectible accounts	<u>(1,054,670)</u>
	<u>\$ 263,667</u>

CITY OF FREEPORT

Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2015

NOTE 4 - RECEIVABLES, UNCOLLECTIBLE ACCOUNTS, DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES AND UNEARNED REVENUES - Continued

Deferred Outflows and Inflows of Resources and Unearned Revenue

Governmental funds report deferred inflows of resources in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. As of September 30, 2015, the various components of deferred outflows of resources and unearned revenue reported in the governmental and proprietary funds were as follows:

	Governmental Funds			
	General	Other		
	Fund	Governmental Funds	Total	
Deferred Inflows of Resources:				
Delinquent property taxes receivable	\$ <u>197,746</u>	\$ <u>58,707</u>	\$ <u>256,453</u>	
Unearned Revenue:				
Deposits	\$ <u>40,567</u>	\$ <u>-0-</u>	\$ <u>40,567</u>	
	Proprietary Funds			
	Enterprise Funds			
	Water & Sewer Fund	Golf Course Fund	Ambulance Fund	Funds
Deferred Outflows of Resources:				
Pension:				
Difference between expected and actual earnings	\$ 1,936	\$ 7,167	\$ 10,241	\$ 19,344
Subsequent contributions	<u>7,623</u>	<u>28,206</u>	<u>40,302</u>	<u>76,131</u>
Total	\$ <u>9,559</u>	\$ <u>35,373</u>	\$ <u>50,543</u>	\$ <u>95,475</u>
Unearned Revenue:				
Customer deposits	\$ 216,850	\$	\$	\$ 216,850
Sewer	91,941			91,941
Other	<u>200</u>			<u>200</u>
	\$ <u>308,991</u>	\$ <u>-0-</u>	\$ <u>-0-</u>	\$ <u>308,991</u>

CITY OF FREEPORT

Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2015

NOTE 4 - RECEIVABLES, UNCOLLECTIBLE ACCOUNTS, DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES AND UNEARNED REVENUES - Continued

Deferred Outflows and Inflows of Resources and Unearned Revenue - Continued

	<u>Governmental Activities</u>		
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Unearned Revenue</u>
Pension Related:			
Differences between expected and actual experience	\$	\$ 45,056	\$
Differences between projected and actual investment earnings	109,790		
Subsequent contributions	432,085		
Unearned Revenue:			
Deposits	<u> </u>	<u> </u>	<u>40,567</u>
	<u>\$ 541,875</u>	<u>\$ 45,056</u>	<u>\$ 40,567</u>

	<u>Business-type Activities</u>		
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Unearned Revenue</u>
Pension Related:			
Differences between expected and actual experience	\$	\$ 7,939	\$
Differences between projected and actual investment earnings	19,344		
Subsequent contributions	76,131		
Unearned Revenue:			
Customer deposits	<u> </u>	<u> </u>	<u>216,850</u>
Sewer	<u> </u>	<u> </u>	<u>91,941</u>
Other	<u> </u>	<u> </u>	<u>200</u>
	<u>\$ 95,475</u>	<u>\$ 7,939</u>	<u>\$ 308,991</u>

CITY OF FREEPORT

Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2015

NOTE 5 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund balances at September 30, 2015 consisted of the following individual fund receivables and payables:

<u>Fund</u>	<u>Receivable</u>	<u>Payable</u>
General Fund:		
Special Revenue Fund:		
Marina Fund	\$ 201,222	\$
Debt Service Fund:		
Series 2003A	300	
Series 2003B	15,759	280
Series 2008		23,101
Capital Projects Fund:		
2008 Bond Construction		52,323
Enterprise Funds:		
Golf Course Fund	<u>405,528</u>	
	<u>622,809</u>	<u>75,704</u>
Special Revenue Fund:		
Marina Fund:		
General Fund		<u>201,222</u>
Debt Service Fund:		
Series 2003A Fund:		
General Fund		300
Series 2003B Fund:		
General Fund	280	15,759
Series 2008 Fund:		
General Fund	<u>23,101</u>	
	<u>23,381</u>	<u>16,059</u>
Capital Projects Fund:		
2008 Bond Construction Fund:		
General Fund	<u>52,323</u>	
Enterprise Funds:		
Golf Course Fund:		
General		<u>405,528</u>
Total	<u>\$ 698,513</u>	<u>\$ 698,513</u>

CITY OF FREEPORT

Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2015

NOTE 5 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS - Continued

Interfund transfers for the year ended September 30, 2015 consisted of the following individual fund transfers in and transfers out:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund:		
Enterprise Funds:		
Water and Sewer Fund	\$	\$ 390,929
Golf Course Fund		192,598
Ambulance Fund		<u>167,425</u>
	<u>-0-</u>	<u>750,952</u>
Special Revenue Funds:		
Debt Service Funds:		
Series 2003A		203,077
EDC Note		<u>147,993</u>
	<u>-0-</u>	<u>351,070</u>
Debt Service Funds:		
Special Revenue Funds:		
Series 2003A	203,077	
EDC Note	<u>147,993</u>	
	<u>351,070</u>	<u>-0-</u>
Enterprise Funds:		
Water & Sewer Fund:		
General Fund	390,929	
Golf Course Fund:		
General Fund	192,598	
Ambulance Fund:		
General Fund	<u>167,425</u>	
	<u>750,952</u>	<u>-0-</u>
 Total	 \$ <u>1,102,022</u>	 \$ <u>1,102,022</u>

CITY OF FREEPORT

Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2015

NOTE 6 - CAPITAL ASSETS

Capital assets activity for the year ended September 30, 2015 was as follows:

	<u>Balance</u> <u>10-01-14</u>	<u>Additions</u>	<u>Retirements</u> <u>& Transfers</u>	<u>Balance</u> <u>09-30-15</u>
Governmental Activities:				
Capital Assets, Not Depreciated:				
Land	\$ <u>2,260,101</u>	\$ <u>906,203</u>	\$(<u>282,800</u>)	\$ <u>2,883,504</u>
Total capital assets not being depreciated	<u>2,260,101</u>	<u>906,203</u>	<u>(282,800)</u>	<u>2,883,504</u>
Capital Assets, Being Depreciated:				
Improvements	20,701,263	1,360,064	(132,511)	21,928,816
Buildings	5,617,846	166,075	(492,168)	5,291,753
Furniture, equipment and vehicles	7,425,137	674,103	(33,600)	8,065,640
Assets under lease	<u>275,403</u>	<u> </u>	<u>(275,403)</u>	<u>-0-</u>
Total capital assets being depreciated	<u>34,019,649</u>	<u>2,200,242</u>	<u>(933,682)</u>	<u>35,286,209</u>
Less Accumulated Depreciation For:				
Improvements	12,619,053	798,200	(170,082)	13,247,171
Buildings	3,561,058	206,466	(492,168)	3,275,356
Furniture, equipment and vehicles	5,695,712	514,168	(26,503)	6,183,377
Assets under lease	<u>65,579</u>	<u>13,542</u>	<u>(79,121)</u>	<u>-0-</u>
Total accumulated depreciation	<u>21,941,402</u>	<u>1,532,376</u>	<u>(767,874)</u>	<u>22,705,904</u>
Total capital assets being depreciated, net	<u>12,078,247</u>	<u>667,866</u>	<u>(165,808)</u>	<u>12,580,305</u>
Governmental activities capital assets, net	\$ <u>14,338,348</u>	\$ <u>1,574,069</u>	\$(<u>448,608</u>)	\$ <u>15,463,809</u>
Combined Business-type Activities:				
Capital Assets, Not Depreciated:				
Land	\$ <u>395,630</u>	\$ <u> </u>	\$ <u> </u>	\$ <u>395,630</u>
Total capital assets not being depreciated	<u>395,630</u>	<u>-0-</u>	<u>-0-</u>	<u>395,630</u>
Capital Assets, Being Depreciated:				
Buildings	211,468			211,468
Improvements	553,118			553,118
Utility plant	21,209,952			21,209,952
Furniture, equipment and vehicles	1,447,300	339,648		1,786,948
Assets under capital lease	<u>247,545</u>	<u> </u>	<u> </u>	<u>247,545</u>
Total capital assets being depreciated	<u>23,669,383</u>	<u>339,648</u>	<u>-0-</u>	<u>24,009,031</u>

(continued)

CITY OF FREEPORT

Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2015

NOTE 6 - CAPITAL ASSETS - Continued

	Balance 10-01-14	Additions	Retirements & Transfers	Balance 09-30-15
Less Accumulated Depreciation For:				
Buildings	\$ 113,885	\$ 7,145	\$	\$ 121,030
Improvements	477,140	28,231		505,371
Utility plant	14,897,543	317,082		15,214,625
Furniture, equipment and vehicles	1,080,957	83,370		1,164,327
Assets under capital lease	<u>61,075</u>	<u>35,364</u>		<u>96,439</u>
Total accumulated depreciation	<u>16,630,600</u>	<u>471,192</u>	<u>-0-</u>	<u>17,101,792</u>
Total capital assets being depreciated, net	<u>7,038,783</u>	<u>(131,544)</u>	<u>-0-</u>	<u>6,907,239</u>
Business-type activities capital assets, net	<u>\$ 7,434,413</u>	<u>\$(131,544)</u>	<u>\$ -0-</u>	<u>\$ 7,302,869</u>
Business-type Activities:				
<u>Water and Sewer Enterprise Fund:</u>				
Capital Assets, Not Depreciated:				
Land	\$ <u>56,200</u>	\$ <u> </u>	\$ <u> </u>	\$ <u>56,200</u>
Total capital assets not being depreciated	<u>56,200</u>	<u>-0-</u>	<u>-0-</u>	<u>56,200</u>
Capital Assets, Being Depreciated:				
Utility plant	21,209,952			21,209,952
Furniture, equipment and vehicles	<u>146,765</u>			<u>146,765</u>
Total capital assets being depreciated	<u>21,356,717</u>	<u>-0-</u>	<u>-0-</u>	<u>21,356,717</u>
Less Accumulated Depreciation For:				
Utility plant	14,897,543	317,082		15,214,625
Furniture, equipment and vehicles	<u>134,198</u>	<u>6,032</u>		<u>140,230</u>
Total accumulated depreciation	<u>15,031,741</u>	<u>323,114</u>	<u>-0-</u>	<u>15,354,855</u>
Total capital assets being depreciated, net	<u>6,324,976</u>	<u>(323,114)</u>	<u>-0-</u>	<u>6,001,862</u>
Business-type activities capital assets, net	<u>\$ 6,381,176</u>	<u>\$(323,114)</u>	<u>\$ -0-</u>	<u>\$ 6,058,062</u>

(continued)

CITY OF FREEPORT

Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2015

NOTE 6 - CAPITAL ASSETS - Continued

	<u>Balance</u> <u>10-01-14</u>	<u>Additions</u>	<u>Retirements</u> <u>& Transfers</u>	<u>Balance</u> <u>09-30-15</u>
Business-type Activities:				
<u>Golf Course Enterprise Fund:</u>				
Capital Assets, Not Depreciated:				
Land	\$ 339,430	\$ _____	\$ _____	\$ 339,430
Total capital assets not being depreciated	<u>339,430</u>	<u>-0-</u>	<u>-0-</u>	<u>339,430</u>
Capital Assets, Being Depreciated:				
Buildings	211,468			211,468
Improvements	553,118			553,118
Furniture, equipment and vehicles	703,048	4,700		707,748
Assets under capital lease	<u>247,545</u>	<u>_____</u>	<u>_____</u>	<u>247,545</u>
Total capital assets being depreciated	<u>1,715,179</u>	<u>4,700</u>	<u>-0-</u>	<u>1,719,879</u>
Less Accumulated Depreciation For:				
Buildings	113,885	7,145		121,030
Improvements	477,140	28,231		505,371
Furniture, equipment and vehicles	593,553	32,248		625,801
Assets under capital lease	<u>61,075</u>	<u>35,364</u>	<u>_____</u>	<u>96,439</u>
Total accumulated depreciation	<u>1,245,653</u>	<u>102,988</u>	<u>-0-</u>	<u>1,348,641</u>
Total capital assets being depreciated, net	<u>469,526</u>	<u>(98,288)</u>	<u>-0-</u>	<u>371,238</u>
Business-type activities capital assets, net	\$ <u>808,956</u>	\$ <u>(98,288)</u>	\$ <u>-0-</u>	\$ <u>710,668</u>
Business-type Activities:				
<u>Ambulance Enterprise Fund:</u>				
Capital Assets, Being Depreciated:				
Furniture, equipment and vehicles	\$ 597,487	\$ 334,948	\$ _____	\$ 932,435
Total capital assets being depreciated	<u>597,487</u>	<u>334,948</u>	<u>-0-</u>	<u>932,435</u>
Less Accumulated Depreciation For:				
Furniture, equipment and vehicles	<u>353,206</u>	<u>45,090</u>	<u>_____</u>	<u>398,296</u>
Total accumulated depreciation	<u>353,206</u>	<u>45,090</u>	<u>-0-</u>	<u>398,296</u>
Total capital assets being depreciated, net	<u>244,281</u>	<u>289,858</u>	<u>-0-</u>	<u>534,139</u>
Business-type activities capital assets, net	\$ <u>244,281</u>	\$ <u>289,858</u>	\$ <u>-0-</u>	\$ <u>534,139</u>

(continued)

CITY OF FREEPORT

Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2015

NOTE 6 - CAPITAL ASSETS - Continued

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

Governmental Activities:

Administration	\$ 395,078
Public safety	359,486
Service center	17,124
Streets and drainage	457,845
Marina	53,473
Library	24,952
Parks and recreation	<u>224,418</u>
Total depreciation expense-governmental activities	<u>\$ 1,532,376</u>

Business-type Activities:

Water and sewer	\$ 323,114
Golf Course	102,988
Ambulance	<u>45,090</u>
Total depreciation expense-business-type activities	<u>\$ 471,192</u>

Total	<u>\$ 2,003,568</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 called for the City to give up its interest in the Marina assets on February 1, 2015, which resulted in asset impairment losses of \$ of \$ 828,292 and \$ 6,110,930 for the City and the Corporation, respectively. These losses were reported in the year ended September 30, 2014.

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, 2015.

CITY OF FREEPORT

Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2015

NOTE 8 - DEFINED BENEFIT PENSION AND SUPPLEMENTAL DEATH BENEFIT PLANS - TMRS

Plan Description

The City participates as one of 860 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code. TMRS issues a publically available comprehensive annual financial report (CAFR) that can be obtained at www.tmrs.com.

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

Benefits Provided

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

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

The plan provisions are adopted by the governing body of each city, within the options available in the state statutes governing TMRS. Members in most cities can retire at age 60 and above with 5 or more years of service or with 20 years of service regardless of age. Some cities have elected retirement eligibility with 25 years of service regardless of age. Most plans also provide death benefits and all provide disability benefits. Effective January 1, 2002, members are vested after 5 years, unless a city opted to maintain 10-year vesting. Members may work for more than one TMRS city during their career. If a member is vested in one TMRS city, he or she is immediately vested upon employment with another TMRS city. Similarly, once a member has met the eligibility requirements for retirement in a TMRS city, he or she is eligible in other TMRS cities as well.

Employees covered by benefit terms - At the December 31, 2014 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	65
Inactive employees entitled to but not yet receiving benefits	104
Active employees	<u>113</u>
 Total	 <u>282</u>

CITY OF FREEPORT

Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2015

NOTE 8 - DEFINED BENEFIT PENSION AND SUPPLEMENTAL DEATH BENEFIT PLANS - TMRS - Continued

Contributions

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

Employees of the City were required to contribute 7.00% of their annual gross earnings during the fiscal year. The contribution rates for the City were 12.84% and 13.80% in the calendar years 2014 and 2015, respectively. The City's contributions to TMRS for the year ended September 30, 2015, were \$ 677,622, and were equal to the required contributions.

Net Pension Liability

The City's net pension liability was measured as of December 31, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions - The Total Pension Liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions.

Inflation	3.0% per year
Overall payroll growth	3.0% per year
Investment Rate of Return	7.0%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Disabled Retiree Mortality Table is used, with slight adjustments.

Actuarial assumptions used in the December 31, 2014, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period January 1, 2006 through December 31, 2009, first used in the December 31, 2010 valuation. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2014 valuation.

The long-term expected rate of return on pension plan investments is 7.0%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

CITY OF FREEPORT

Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2015

NOTE 8 - DEFINED BENEFIT PENSION AND SUPPLEMENTAL DEATH BENEFIT PLANS - TMRS -
Continued

Net Pension Liability - Continued

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

Asset Class	Target Allocation	Long-Term Expected Net Rate of Return
Equities:		
Domestic	17.5%	4.80%
International	17.5%	6.05%
Fixed Income:		
Core	30.0%	1.50%
Non-Core	10.0%	3.50%
Real Return	5.0%	1.75%
Real Estate	10.0%	5.25%
Absolute Return	5.0%	4.25%
Private Equity	5.0%	8.50%
Total	100%	

Discount Rate - The discount rate used to measure the Total Pension Liability was 7.0%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefits payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

CITY OF FREEPORT

Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2015

NOTE 8 - DEFINED BENEFIT PENSION AND SUPPLEMENTAL DEATH BENEFIT PLANS - TMRS -
Continued

Net Pension Liability - Continued

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balance at December 31, 2013	\$ <u>20,407,476</u>	\$ <u>16,821,501</u>	\$ <u>3,585,975</u>
Changes for the Year:			
Service cost	749,370		749,370
Interest (on total pension liability)	1,424,774		1,424,774
Difference between expected and actual experience	(132,087)		(132,087)
Contributions – employer		600,889	(600,889)
Contributions – employee		348,367	(348,367)
Net investment income		962,281	(962,281)
Benefit payment, including refunds of employee contributions	(856,501)	(856,501)	-0-
Administrative expense		(10,047)	10,047
Other changes	<u> </u>	<u>(826)</u>	<u>826</u>
Net changes	<u>1,185,556</u>	<u>1,044,163</u>	<u>141,393</u>
Balance at December 31, 2014	\$ <u><u>21,593,032</u></u>	\$ <u><u>17,865,664</u></u>	\$ <u><u>3,727,368</u></u>

Sensitivity of the net pension liability to changes in the discount rate.

The following presents the net pension liability of the City, calculated using the discount rate of 7.0%, as well as what's the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.0%) or 1-percentage-point higher (8.0%) than the current rate:

	1% Decrease In Discount Rate (6.0%)	Discount Rate (7.0%)	1% Increase In Discount Rate (8.0%)
City's Net Pension Liability			
Changes for the Year:	\$ <u><u>7,168,699</u></u>	\$ <u><u>3,727,368</u></u>	\$ <u><u>972,749</u></u>

Pension Plan Fiduciary Net Position - Detailed information about the pension plan's Fiduciary Net Position is available in a separately-issues TMRS financial report. That report may be obtained on the Internet at www.tmrs.com.

CITY OF FREEPORT

Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2015

NOTE 8 - DEFINED BENEFIT PENSION AND SUPPLEMENTAL DEATH BENEFIT PLANS - TMRS -
Continued

Net Pension Liability - Continued

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - For the year ended September 30, 2015, the city recognized pension expense of \$ 679,149.

At September 30, 2015, the city reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$	\$ 52,995
Difference between projected and actual investment earnings	129,134	
Contributions subsequent to the measurement date	<u>508,216</u>	<u> </u>
 Total	 <u>\$ 637,350</u>	 <u>\$ 52,995</u>

\$ 508,216 reported as deferred outflows of resources related to pensions relating from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2015. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended September 30,</u>	
2016	\$ 3,499
2017	29,596
2018	43,044
2019	-0-
Thereafter	<u>-0-</u>
 Total	 <u>\$ 76,139</u>

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.

CITY OF FREEPORT

Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2015

NOTE 8 - DEFINED BENEFIT PENSION AND SUPPLEMENTAL DEATH BENEFIT PLANS - TMRS - Continued

OPEB Supplemental Death Benefits Fund - Continued

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 2015, 2014, and 2013 were \$ 8,609, \$ 12,649 and \$ 11,542, respectively, which equaled the required contributions each year.

Schedule of Contribution Rates (Retiree-only Portion of the Rate):

<u>Plan/Calendar Year</u>	<u>Actual Required Contribution (Rate)</u>	<u>Actual Contribution Made (Rate)</u>	<u>Percentage of ARC Contributed</u>
2013	0.05%	0.05%	100.0%
2014	0.05%	0.05%	100.0%
2015	0.05%	0.05%	100.0%

NOTE 9 - DEFINED BENEFIT PENSION PLANS - TESRS

Plan Description

The Texas Emergency Services Retirement System (TESRS) administers a cost-sharing multiple employer pension system (the “System”) established and administered by the State of Texas to provide pension benefits for emergency services personnel who serve without significant monetary remuneration. Direct financial activity for the System is classified in the financial statements as pension trust funds. Of the nine member Board of Trustees, at least five trustees must be active members of the pension system, one of whom must represent emergency medical services personnel.

One trustee may be a retiree of the pension system and three trustees must be persons who have experience in the fields of finance, securities investment, or pension administration. At August 31, 2014, there were 198 contributing fire and/or emergency services department members participating in TESRS, with. Eligible participants include volunteer emergency services personnel who are members in good standing of a member department.

CITY OF FREEPORT

Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2015

NOTE 9 - DEFINED BENEFIT PENSION PLANS - TESRS - Continued

Plan Description - Continued

On August 31, 2014, The Pension System Membership Consisted Of:

Retirees and beneficiaries currently receiving benefits	3,073
Terminated members entitled to benefits by not yet receiving them	2,161
Active participants (vested and nonvested)	4,036

On August 31, 2014, the City had 3 active participants (vested and nonvested).

Senate Bill 411, 65th Legislature, Regular Session (1977), created TESRS and established the applicable benefit provisions. The 79th Legislature, Regular Session (2005), re-codified the provisions and gave the TESRS Board of Trustees authority to establish vested requirements, contribution levels, benefit formulas, and eligibility requirements by board rule. The benefit provisions include retirement benefits as well as death and disability benefits. Members 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. There is no provision for automatic postretirement benefit increases.

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 or continuing monthly payments to a member's surviving spouse and dependent children.

Funding Policy

Contributions are made by governing bodies for the participating departments. No contributions are required from the individuals who are members of the System, nor are they allowed. The governing bodies of each participating department are required to make contributions for each month a member performs emergency services for a department (this minimum contribution is \$ 36 per member and the department may make a higher monthly contribution for its members). This is referred to as a Part One contribution, which is the legacy portion of the System contribution that directly impacts future retiree annuities.

The state is required to contribute an amount necessary to make the System "actuarially sound" each year, which may not exceed one-third of the total of all contributions made by participating governing bodies in a particular year.

CITY OF FREEPORT

Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2015

NOTE 9 - DEFINED BENEFIT PENSION PLANS - TESRS - Continued

Funding Policy - Continued

The board rule defining contributions was amended effective July 27, 2014 to add the potential for actuarially determined Part Two contributions that would be required only if the expected future annual contributions from the state are not enough with the Part One contributions to provide an adequate contribution arrangement as determined by the most recent actuarial valuation. This Part Two portion, which is actuarially adjusted near the end of each even-numbered calendar year based on the most recent actuarial valuation. Based on the actuarial valuation as of August 31, 2014, the Part Two contribution rate is 0% since the first actuarial valuation report after adoption of the rules showed the System to have an adequate contribution arrangement without any Part Two Contributions.

Additional contributions may be made by governing bodies within two years of joining the System, to grant up to ten years of credit for service per member. Prior service purchased must have occurred before the department began participation in the System.

A small subset of participating departments have a different contribution arrangement which is being phased in over time. In this arrangement, contributions made in addition to the monthly contributions for active members, are made by local governing bodies on a pay-as-you-go basis for members who are pensioners when their respective departments merged with the System. There is no actuarial impact associated with this arrangement as the pay-as-you-go contributions made by these governing bodies are always equal to benefit payments paid by the System.

Contributions

The contribution requirement per active emergency services personnel members per month is not actuarially determined. Rather, the minimum contribution provisions were set by board rule, and there is no maximum contribution rate. For the fiscal year ending August 31, 2014, the total contributions (dues, prior service, and interest on prior service financing) of \$ 4,176,659 were paid into TESRS by the political subdivisions served by the member volunteer emergency services personnel, and the City paid \$ 2,196. For the year ended August 31, 2014, the state appropriated \$ 1,530,343 and \$ 805, for both the System and the City, respectively.

The purpose of the biennial actuarial valuation is to determine if the contribution arrangement is adequate to pay the benefits that are promised. Actuarial assumptions are disclosed in subsection Net Pension Liability below.

The actuarial valuation as of August 31, 2014 stated that TESRS has an adequate contribution arrangement for the benefit provisions recognized in the valuation based on the expected total contributions, including the expected contributions both from the governing body of each participating department and from the state. The expected contributions from the state are state appropriations equal to (1) the maximum annual contribution (one-third of all contributions to TESRS by governing bodies of participating departments in a year) as needed in accordance with state law governing TESRS and (2) approximately \$ 625,000 each year to pay for part of the System's administrative expenses. On August 31, 2014, the actuarial liabilities exceeded the actuarial assets by \$ 26,093,761 and \$ 9,554 for the System and the City.

CITY OF FREEPORT

Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2015

NOTE 9 - DEFINED BENEFIT PENSION PLANS - TESRS - Continued

Net Pension Liability

The System's and the City's net pension liability was measured as of August 31, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of August 31, 2014.

Actuarial Assumptions - The Total Pension Liability in the August 31, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.50% per year
Salary increases	N/A
Investment Rate of Return	7.75%, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2000 Combined Healthy Lives Mortality Tables for males and for females projected to 2018 by scale AA.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future net real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These components are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation (3.50%). In addition, the final 7.75% assumption reflected a reduction of 0.20% for adverse deviation. The target allocation and expected arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Net Rate of Return</u>
Equities:		
Large cap domestic	32%	5.2%
Small cap domestic	10%	5.8%
Developed international	21%	5.5%
Emerging markets	6%	5.4%
Master limited partnerships	5%	7.1%
Fixed Income:		
Domestic	21%	1.4%
International	5%	1.6%
Cash	0%	0.0%
Total	<u>100%</u>	

CITY OF FREEPORT

Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2015

NOTE 9 - DEFINED BENEFIT PENSION PLANS - TESRS - Continued

Net Pension Liability - Continued

Discount Rate - The discount rate used to measure the total pension liability was 7.75%. No projection of cash flows was used to determine the discount rate because the August 31, 2014 actuarial valuation showed that expected contributions would pay the normal cost and amortize the unfunded actuarial accrued liability (UAAL) in 30 years using the conservative level dollar amortization method. That UAAL was based on an actuarial value of assets that was \$ 7.9 million less than the plan fiduciary net position as of August 31, 2014. Because of the 30-year amortization period with the conservative amortization method and with a lower value of assets, the pension plan's fiduciary net position is expected to be available to make all projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate - The following presents the net pension liability of the City, calculated using the discount rate of 7.75%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.75%) or 1 percentage point higher (8.75%) than the current rate:

	1% Decrease In Discount Rate <u>(6.75%)</u>	Discount Rate <u>(7.75%)</u>	1% Increase In Discount Rate <u>(8.75%)</u>
System's Net Pension Liability	\$ <u>37,446,213</u>	\$ <u>18,171,643</u>	\$ <u>6,926,006</u>
City's Net Pension Liability	\$ <u>19,688</u>	\$ <u>9,554</u>	\$ <u>3,642</u>

Financial Statements

Due to the insignificance of the amounts and the time required to make such calculations, the City has opted not to record the transactions required to implement GASB No. 68 for the TESRS Pension Plan to the current year financial statements.

CITY OF FREEPORT

Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2015

NOTE 10 - POST-EMPLOYMENT HEALTH CARE PLAN

The City of Freeport maintains, through TML MultiState Intergovernmental Employee Benefits Pool (IEBP), a health risk pool established pursuant to Texas Local Government Code Chapter 172, Texas Government Code Chapter 791, and the Texas Trust Code to provide health care benefits coverage for employees and retirees and dependents of employees and retirees, of Texas political subdivisions under an interlocal agreement. The City is currently offering health benefits coverage through IEBP which allows the extension of benefits to retirees of the City. The City provides health benefit s coverage to its retirees through IEBP and the cost of such coverage be paid for by the City to a maximum of \$ 750 per month; any additional amount will be the responsibility of the retiree. 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 or older and has been covered by TMRS for at least 5 years. The employee must also work for the City for a period of eight continuous years and meet the definition of retiree for purposes of the ordinance. The Interlocal Agreement in effect between the City and IEBP, adopted September 8, 2014, provides that the Board of Trustees may adopt rules and regulations which may amend this plan in the future. Other coverage's will be as established by the TML MultiState Intergovernmental Employee Benefits Pool Board of Trustees.

Funding Policy - The contribution requirements of the City are established by the City Council and may be amended at any time. For the years ended September 30, 2015, the City contributed \$ 2,250.

Annual Other Post Employment Benefit (OPEB) Cost and Net OPEB Obligation - The City's annual other post-employment benefits (OPEB) cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with parameters established by GASB Statement 45. The ARC represents a level of accrual that, if paid on an ongoing basis, is projected to cover the normal costs each year and to amortize any unfunded actuarial liabilities (or funding excesses) over a period not to exceed thirty years. The City's annual OPEB cost for the fiscal year ended September 30, 2015 is as follows:

	<u>09-30-15</u>
Annual required contribution	\$ 32,952
Interest on net OPEB obligation	-0-
Adjustment to annual required contribution	<u>-0-</u>
Annual OPEB cost	32,952
Net estimated employer contributions	<u>(2,250)</u>
Increase in net OPEB obligation	30,702
Net OPEB obligation – beginning of year	<u>-0-</u>
Net OPEB obligation – end of year	<u>\$ 30,702</u>

The City's annual OPEB cost, the amount contributed by the employer, the percentage of annual OPEB costs contributed to the plan, and the net OPEB obligation for the fiscal year ended September 30, 2015 and the two preceding years were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Employer Amount Contributed</u>	<u>Percentage Contributed</u>	<u>Net OPEB Obligation</u>
September 30, 2013	\$ N/A	N/A	N/A	\$ -0-
September 30, 2014	N/A	N/A	N/A	-0-
September 30, 2015	32,952	2,250	6.8%	30,702

CITY OF FREEPORT

Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2015

NOTE 10 - POST-EMPLOYMENT HEALTH CARE PLAN - Continued

Funding Status – The funded status of the City’s retiree health care plan, under GASB Statement No. 45 as of December 31, 2014 is as follows:

Actuarial Valuation Date as of	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (d)	Ratio UAAL to Annual Covered Payroll (b-a)/d
September 30, 2014	\$ -0-	\$ 340,161	\$ 340,161	0%	\$ 4,976,675	0.07%

Under the reporting parameters, the City’s retiree health care plan is 0.0% funded with the actuarial accrued liability exceeding the actuarial assets by \$ 340,161 at December 31, 2014. As of the most recent valuation, the ratio of the unfunded actuarial liability to annual covered payroll is 0.07%.

Actuarial Methods and Assumptions – The Individual Entry Age Cost Method is used to calculate the GASB ARC for the City’s retiree health care plan. Using the plan benefits, the present health premiums and a set of actuarial assumptions, the anticipated future payments are projected. The actuarial cost method then provides for a systematic funding for these anticipated payments. The yearly ARC is computed to cover the cost of benefits being earned by covered members as well as to amortize a portion of the unfunded accrued liability.

Projections of health benefits are based on the plan as understood by the City and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the City and the City’s employees to that point. Actuarial calculations reflect a long-term prospective and employ methods and assumptions that are designed to reduce short term volatility in actuarial accrued liabilities and the actuarial value of assets. Significant methods and assumptions were as follows:

Actuarial Methods and Assumptions

Inflation rate	2.50% per annum
Investment rate of return	4.25% per annum, net of expenses
Actuarial cost method	Individual Entry Age Normal Cost Method
Amortization method	Level as a percentage of employee payroll
Amortization period	30-year open amortization
Payroll growth	3.00% per annum
Medical Trend	The explicit subsidy provided by the City is Not assumed to increase in the future.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status and the annual required contributions of the City’s retiree health care plan are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress presented as required supplementary information provides multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

CITY OF FREEPORT

Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2015

NOTE 11 - INDUSTRIAL DISTRICT CONTRACTS

The City of Freeport in conjunction with the cities of Lake Jackson and Clute entered into an industrial contract with the Dow Chemical Company, BASF Corporation and LNG Corporation. A formula using Dow Chemical Company's, BASF Corporation's and LNG 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, 2015 was \$ 10,032,955 and is reported in the General Fund.

NOTE 12 - 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 13 - 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, 2015, the City of Freeport's portion of these expenses was not recognized, as the City of Oyster Creek has not determined the amount and currently that information is unavailable. Prior amounts have not been significant and its omission will not impair the financial statements. 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, 2015, the City paid \$ 99,442 for their portion of the operating costs.

NOTE 14 - LONG-TERM DEBT

General Obligation Bonded Debt

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

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

CITY OF FREEPORT

Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2015

NOTE 14 - LONG-TERM DEBT - Continued

General Obligation Bonded Debt - Continued

The general obligation bonds payable at September 30, 2015 are summarized as follows:

Purpose	Interest Rate (%)	Series Dates			Bonds Outstanding 09-30-15
		Issued	Maturity	Callable	
Certificate Obligation					
Bonds Series 2008	3.79%	2008	2023		\$ 1,018,000
Bonds Series 2003	4.84%	2003	2018	2014	741,000
Refunding Bonds Series 2003	4.84%	2003	2018	2014	<u>2,015,000</u>
					<u>\$ 3,774,000</u>

General obligation bond transactions for the year ended September 30, 2015 were as follows:

	2015
Bonds outstanding, October 1, 2014	\$ 4,379,000
Maturities	<u>(605,000)</u>
Bonds outstanding, September 30, 2015	<u>\$ 3,774,000</u>

Aggregate maturities of certificate of obligation bonds for the five years subsequent to September 30, 2015 are as follows:

Year Ended September 30,	Principal	Interest	Total
2016	\$ 629,000	\$ 147,438	\$ 776,438
2017	659,000	118,630	777,630
2018	689,000	88,476	777,476
2019	717,000	56,997	773,997
2020	255,000	36,100	291,100
2021-2023	<u>825,000</u>	<u>47,659</u>	<u>872,659</u>
Total	<u>\$ 3,774,000</u>	<u>\$ 495,300</u>	<u>\$ 4,269,300</u>

Notes Payable

On February 11, 2010, the Freeport Economic Development Corporation (Corporation) borrowed \$ 1,750,000, with an interest rate of 6.00% from the First State Bank of Louise, Texas. The loan was secured by the Corporation's sales tax remittance guaranty and subordination agreement. These proceeds were utilized for the Marina project. The note called for fifty-nine (59) monthly payments of \$ 14,764.44 and one (1) balloon payment on March 1, 2015 of \$ 1,335,972.79. Current requirements for principal and interest expenditures accounted for in the Debt Service Fund were \$ 1,357,265 and \$ 15,134, respectively. On November 21, 2014, this note was paid off.

CITY OF FREEPORT

Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2015

NOTE 14 - LONG-TERM DEBT - Continued

Notes Payable – Continued

On November 21, 2014, the Corporation refinanced the remaining First State Bank of Louise note balance of \$ 1,356,747 with the First State Bank of Clute. The loan is secured by the Corporation's sales tax remittance guaranty and subordination agreement. The note calls for an interest rate of 3.50% and one hundred and twenty-one (121) monthly payments of \$ 13,234 and one (1) payment on February 1, 2025 of \$ 5,491.41. Current requirements for principal and interest accounted for in the Debt Service Fund were \$ 97,989 and \$ 35,675, respectively.

The notes payable at September 30, 2015 is summarized as follows:

Purpose	Interest Rate (%)	Series Dates			Bonds Outstanding 09-30-15
		Issued	Maturity	Callable	
Note Payable	3.50%	2014	2025		\$ <u>1,258,758</u>
					\$ <u>1,258,758</u>

Note transactions for the year ended September 30, 2015 were as follows:

	<u>2015</u>
Notes outstanding, October 1, 2014	\$ 1,357,565
Issuance	1,356,757
Maturities	<u>(1,455,554)</u>
Notes outstanding, September 30, 2015	<u>\$ 1,258,758</u>

Aggregate maturities of notes payable for the five years subsequent to September 30, 2015 are as follows:

Year Ended September 30,	Principal	Interest	Total
2016	\$ 101,518	\$ 44,056	\$ 145,574
2017	122,025	38,783	160,808
2018	126,163	32,645	158,808
2019	130,440	28,368	158,808
2020	134,862	23,946	158,808
2021-2025	<u>643,750</u>	<u>48,909</u>	<u>692,659</u>
Total	<u>\$ 1,258,758</u>	<u>\$ 216,707</u>	<u>\$ 1,475,465</u>

CITY OF FREEPORT

Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2015

NOTE 14 - LONG-TERM DEBT - Continued

Revenue Bond Debt

Proprietary Fund Debt

In August 2004, the City issued \$ 1,943,000 in Revenue Refunding Bonds. Long term debt of the proprietary fund consists of serially maturing bonds for waterworks and sewer system improvements payable from operations of the water and sewer utility operations.

The revenue bonds payable at September 30, 2015 are as follows:

<u>Purpose</u>	<u>Interest Rate (%)</u>	<u>Series Dates</u>			<u>Bonds Outstanding 09-30-15</u>
		<u>Issued</u>	<u>Maturity</u>	<u>Callable</u>	
Waterworks and Sewer System Revenue Bonds Series 2004	4.85%	2004	2015		\$ <u><u>-0-</u></u>

Revenue bond transactions for the year ended September 30, 2015 were as follows:

	<u>2015</u>
Bonds outstanding, October 1, 2014	\$ 235,000
Maturities	(<u>235,000</u>)
Notes outstanding, September 30, 2015	\$ <u><u>-0-</u></u>

Changes in Long-Term Debt

Transactions for the year ended September 30, 2015 are summarized as follows:

	<u>Balance 10-01-14</u>	<u>Issues or Additions</u>	<u>Payments or Expenditures</u>	<u>Balance 09-30-15</u>	<u>Due Within One Year</u>
Governmental Type Activities:					
General obligation bonds	\$ 4,379,000	\$	\$ 605,000	\$ 3,774,000	\$ 629,000
Notes payable	1,357,565	1,356,747	1,455,554	1,258,758	101,518
Capital lease	229,201		229,201	-0-	
Compensated absences	640,906	383,713	264,372	760,247	400,000
Net OPEB obligation		28,016	1,913	26,103	
Net pension obligation	3,048,796	2,040,685	1,920,513	3,168,968	
Component of Long-Term Debt:					
Accrued interest payable	<u>87,452</u>	<u>75,166</u>	<u>87,452</u>	<u>75,166</u>	<u>75,166</u>
Total governmental activities	<u>9,742,920</u>	<u>3,884,327</u>	<u>4,564,005</u>	<u>9,063,242</u>	<u>1,205,684</u>

(continued)

CITY OF FREEPORT

Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2015

NOTE 14 - LONG-TERM DEBT - Continued

Changes in Long-Term Debt - Continued

	<u>Balance</u> <u>10-01-14</u>	<u>Issues or</u> <u>Additions</u>	<u>Payments or</u> <u>Expenditures</u>	<u>Balance</u> <u>09-30-15</u>	<u>Due Within</u> <u>One Year</u>
Business Type Activities:					
Revenue obligation bonds	\$ 235,000	\$	\$ 235,000	\$ -0-	\$
Capital leases	159,236		54,994	104,242	104,242
Compensated absences	80,562	60,726	52,199	89,089	53,000
Net OPEB obligation		4,936	337	4,599	
Net pension obligation	537,179	359,556	338,335	558,400	
Component of Long-Term Debt:					
Accrued interest payable	<u>5,699</u>	<u>203</u>	<u>5,699</u>	<u>203</u>	<u>203</u>
Total business type activities	<u>1,017,676</u>	<u>425,421</u>	<u>686,564</u>	<u>756,533</u>	<u>157,445</u>
Total government (net)	\$ <u>10,760,596</u>	\$ <u>4,309,748</u>	\$ <u>5,250,569</u>	\$ <u>9,819,775</u>	\$ <u>1,363,129</u>

Advance Refunding 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, 2015 was \$ 1,005,000 and the balance held in escrow was \$ 999,378.

CITY OF FREEPORT

Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2015

NOTE 15 - 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.

Aggregate maturities of operating lease receivables for the five years subsequent to September 30, 2015 are as follows:

<u>Year Ended</u> <u>September 30,</u>	<u>Total</u>
2016	\$ 120,000
2017	<u>30,000</u>
Minimum payments under operating leases	\$ <u><u>150,000</u></u>

Operating lease and rental income for the year ended September 30, 2015 was as follows:

Office lease income	\$ 130,324
Other rental income	<u>214,970</u>
Total	\$ <u><u>345,294</u></u>

Lessee (Governmental)

During the year ended September 30, 2014, the City entered into an operating lease for a postage machine through June 30, 2019, which called for twenty quarterly payments of \$ 492.00.

During the year ended September 30, 2015 and 2013, the City entered into an operating lease agreements for copy machines, meters, and maintenance through October 31, 2019, which calls for monthly payments of \$ 31, \$ 96, \$ 388 and \$ 333 per month.

CITY OF FREEPORT

Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2015

NOTE 15 - LEASES - Continued

Operating leases - Continued

Lessee (Governmental) - Continued

Aggregate maturities of operating lease obligations for the five years subsequent to September 30, 2015 are as follows:

<u>Year Ended</u> <u>September 30,</u>	<u>Total</u>
2016	\$ 11,835
2017	11,773
2018	11,102
2019	10,129
2020	<u>721</u>
Minimum payments under operating leases	\$ <u><u>45,560</u></u>

Lease expense for the year ended September 30, 2015 were \$ 11,428.

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. At the time, the City 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 14, 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 included payment of the land leases to that date. As of February 1, 2015, the City and Corporation no longer had access to this land or the liability of the lease.

Operating lease expenditures for the year ended September 30, 2015 were \$ 42,685.

CITY OF FREEPORT

Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2015

NOTE 15 - LEASES - Continued

Lessee (Proprietary)

On December 21, 2014, the City's Golf Course Fund (enterprise fund) entered into an operating lease for a John Deere Top Dresser (greens machine) from December 1, 2014 through November 30, 2018, which calls for forty-eight (48) monthly payments of \$ 319.54

Aggregate maturities of operating lease obligations for the five years subsequent to September 30, 2015 are as follows:

<u>Year Ended</u> <u>September 30,</u>	<u>Total</u>
2016	\$ 3,835
2017	3,834
2018	3,835
2020	<u>639</u>
Minimum payments under operating leases	<u>\$ 12,143</u>

Lease expense for the year ended September 30, 2015 was \$ 3,195.

Capital Leases (Governmental)

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 Operations Fund were \$ 34,419 and \$ 34,688, respectively.

The leased assets and related obligations were 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 \$ 13,542 and has been included in depreciation expense.

On February 1, this capital lease and related asset were assumed due to the settlements of a law suit related to the marina operations. The remaining balance on the capital lease was \$ 196,782 and the net book value of the Toyota Lift was \$ 196,282 (\$ 275,403 cost less \$ 79,121 accumulated depreciation) and resulted in a gain of \$ 500.

CITY OF FREEPORT

Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2015

NOTE 15 - LEASES - Continued

Capital Leases (Proprietary)

During the year ended September 30, 2012, the City purchased a John Deere precision cut fairway mower for \$ 39,678, under capital lease, with an effective interest rate of 4.67%. Current requirements for principal and interest expense accounted for in the Golf Course fund (Enterprise fund) were \$ 10,821 and \$ 401, respectively.

During the year ended September 30, 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 (Enterprise fund) were \$ 38,097 and \$ 5,193, respectively.

During the year ended September 30, 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 (Enterprise fund) were \$ 6,476 and \$ 1,324, respectively.

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

The capital assets acquired through capital leases are as follows:

Asset:

Machinery and equipment	\$ 247,545
Less accumulated depreciation	<u>96,439</u>
Total	<u>\$ 151,106</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, 2015:

<u>Year Ended</u> <u>September 30,</u>	<u>Amount</u>
2016	\$ 106,136
Less amount representing interest	<u>1,894</u>
Net present value of minimum lease payments	<u>\$ 104,242</u>

CITY OF FREEPORT

Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2015

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, 2015, 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.

NOTE 18 - DEFICIT FUND BALANCES/NET POSITION

The following funds reported a fund balance deficit as of September 30, 2015:

Deficit Fund Balances:		
Marina Operations (special revenue fund)	\$	203,680
Series 2003B (debt service fund)		12,316
Deficit Net Position:		
Golf Course (enterprise fund)		55,477

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 decrease of \$ 1,946, which increased the deficit in fund balance to \$ 12,316 at September 30, 2015. Deficit balances will either be offset by future revenues or reimbursed by the General Fund.

NOTE 19 - EXPENDITURES/EXPENSES IN EXCESS OF APPROPRIATIONS

Expenditures exceeded appropriations for the year ended September 30, 2015 for the following funds:

Special Revenue Funds:		
Hotel/Motel	\$	12,750
Beach Maintenance		7,412
Debt Service Funds:		
Series 2003B		1,087

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

CITY OF FREEPORT

Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2015

NOTE 20 - EVALUATION OF SUBSEQUENT EVENTS

The City has evaluated subsequent events through April 21, 2016, the date which the financial statements were available to be issued.

NOTE 21 - LITIGATION

The City is involved in the following legal actions, and is represented by legal counsel. The stated probable outcome and the possible effect are the opinion of legal counsel based upon conditions existing as of April 21, 2016.

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 were 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. 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.

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.

USOR Site PRP Group v. A&M Contractors, Inc., et al; Case No. 4:14-cv-02441 (U.S. District Court – S.D., Texas). In August 2014, Plaintiff USOR Site PRP Group filed suit against the City of Freeport and several hundred other entities and persons to compel the Defendants to participate with the Plaintiff, a group of parties potentially responsible for cleaning up site in Pasadena, Harris County, Texas, that was environmentally contaminated by the parties. The City of Freeport is alleged to have sent hazardous wastes to the site for disposal by contracting with Specialized Maintenance to dispose or transport the waste and to be responsible for contributing to the remediation of the super-fund site under CERCLA (42 U.S.C. 9301 et seq.) and TSWDA (Texas Health & Safety Code 361.001 et seq.). The City has employed

CITY OF FREEPORT

Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2015

NOTE 21 – LITIGATION - Continued

attorneys to defend this claim, which is not insured by the City. Although sufficient information is not available to accurately assess the potential loss to the City in the event of an unfavorable outcome on this claim, the City has reached a tentative agreement to pay \$ 8,000 to be dismissed from the litigation with prejudice.

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 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, 2015.

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, 2015.

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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 OPERATIONS SPECIAL REVENUE FUND

For the Year Ended September 30, 2015

	General Fund			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual	
	Original	Final		
Revenues:				
Taxes	\$ 1,869,278	\$ 1,869,278	\$ 1,759,554	\$(109,724)
Other taxes	2,300,411	2,300,411	2,727,691	427,280
Industrial district	5,039,089	10,039,089	10,032,955	(6,134)
Intergovernmental	52,000	201,488	114,387	(87,101)
Revenue producing facilities	1,040,550	1,040,550	1,116,285	75,735
Fines, licenses and fees	403,801	403,801	514,876	111,075
Investment income	1,500	1,500	4,828	3,328
Miscellaneous	194,783	290,498	243,074	(47,424)
Total revenues	<u>10,901,412</u>	<u>16,146,615</u>	<u>16,513,650</u>	<u>367,035</u>
Expenditures:				
Current:				
General government and administration	1,471,169	1,624,411	1,660,661	(36,250)
Public safety	4,782,341	4,927,543	4,895,315	32,228
Streets and drainage	1,095,988	1,095,988	1,045,290	50,698
Sanitation	846,348	846,348	810,919	35,429
Service center	150,559	150,559	118,712	31,847
Marina operations				-0-
Library	43,192	43,192	38,487	4,705
Parks and recreation	1,675,028	1,717,528	1,614,892	102,636
Capital outlay	713,466	2,336,191	2,228,199	107,992
Debt Service:				
Principal	4,158	4,158		4,158
Interest and fees	498	498		498
Total expenditures	<u>10,782,747</u>	<u>12,746,416</u>	<u>12,412,475</u>	<u>333,941</u>
Excess of revenues over (under) expenditures	<u>118,665</u>	<u>3,400,199</u>	<u>4,101,175</u>	<u>700,976</u>
Other Financing Sources (Uses):				
Sale of capital assets	5,000	12,853	136,594	123,741
Transfers in				-0-
Transfers out	(788,459)	(788,459)	(750,952)	37,507
Total other financing sources (uses)	<u>(783,459)</u>	<u>(775,606)</u>	<u>(614,358)</u>	<u>161,248</u>
Net change in fund balance	(664,794)	2,624,593	3,486,817	862,224
Fund balance - beginning	<u>6,461,640</u>	<u>6,461,640</u>	<u>6,461,640</u>	<u>-0-</u>
Fund balance - ending	<u>\$ 5,796,846</u>	<u>\$ 9,086,233</u>	<u>\$ 9,948,457</u>	<u>\$ 862,224</u>

Marina Operations Special Revenue Fund			
Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
Original	Final		
\$	\$	\$	\$
			-0-
			-0-
			-0-
			-0-
619,983	619,983	160,486	(459,497)
			-0-
			-0-
			-0-
<u>619,983</u>	<u>619,983</u>	<u>160,486</u>	<u>(459,497)</u>
			-0-
			-0-
			-0-
			-0-
			-0-
657,493	657,493	171,094	486,399
			-0-
			-0-
			-0-
			-0-
			-0-
		32,419	(32,419)
		<u>3,468</u>	<u>(3,468)</u>
<u>657,493</u>	<u>657,493</u>	<u>206,981</u>	<u>450,512</u>
<u>(37,510)</u>	<u>(37,510)</u>	<u>(46,495)</u>	<u>(8,985)</u>
			-0-
37,510	37,510	245,103	245,103
			(37,510)
			-0-
<u>37,510</u>	<u>37,510</u>	<u>245,103</u>	<u>207,593</u>
-0-	-0-	198,608	198,608
<u>(402,288)</u>	<u>(402,288)</u>	<u>(402,288)</u>	<u>-0-</u>
<u>\$(402,288)</u>	<u>\$(402,288)</u>	<u>\$(203,680)</u>	<u>\$ 198,608</u>

CITY OF FREEPORT

Freeport, Texas

Exhibit E-2

**SCHEDULE OF TMRS CONTRIBUTIONS
FOR THE LAST TEN YEARS (1)**

September 30, 2015 with Measurement Date of December 31, 2014

	<u>2014</u>
Actuarially determined contribution	\$ 677,622
Contributions in relation to the actuarially determined contribution	<u>677,622</u>
Contribution deficiency (excess)	<u>\$ -0-</u>
Covered-employee payroll	<u>\$ 4,976,675</u>
Contributions as a percentage of covered-employee payroll	13.62%

Notes to Schedule of TMRS Contributions

Valuation date

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

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial cost method	Entry age normal
Amortization method	Level Percentage of Payroll, Closed
Remaining Amortization period	29 years
Asset valuation method	10 Year smoothed market; 15% soft corridor
Inflation	3.0%
Salary increases	3.50% to 12.00% including inflation
Investment rate of return	7.00%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2010 valuation pursuant to an experience study of the period 2005 – 2009.
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generated basis with scale BB

Other Information

Notes There were no benefit changes during the year.

(1) The first TMRS actuarial report was completed for the year ended December 31, 2014 (measurement date), therefore, only one year of required supplemental information is available.

CITY OF FREEPORT

Freeport, Texas

Exhibit E-3

**SCHEDULE OF TMRS CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
FOR THE LAST TEN YEARS (1)**

September 30, 2015 with Measurement Date of December 31, 2014

	<u>2014</u>
Service cost	\$ 749,370
Interest (on the Total Pension Liability)	1,424,774
Changes in benefit terms	
Difference between expected and actual experience	(132,087)
Changes in assumptions	
Benefit payments, including refunds of employee contributions	<u>(856,501)</u>
Net Change in Total Pension Liability	1,185,556
Total Pension Liability – Beginning (2)	<u>20,407,476</u>
Total Pension Liability – Ending (a)	<u>\$ 21,593,032</u>
Contributions - employer	\$ 600,889
Contributions - employees	348,367
Net Investment Income	962,281
Benefit payments, including refunds of employee contributions	(856,501)
Administrative expense	(10,047)
Other	<u>(826)</u>
Net Change in Plan Fiduciary Net Position	1,044,163
Plan Fiduciary Net Position – Beginning	<u>16,821,501</u>
Plan Fiduciary Net Position – Ending (b)	<u>\$ 17,865,664</u>
Net Pension Liability (a-b)	<u>\$ 3,727,368</u>
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	<u>82.74%</u>
Covered Employee Payroll	<u>\$ 4,976,675</u>
Net Pension Liability as a Percentage of Covered Employee Payroll	<u>74.90%</u>

Notes to Schedule:

- (1) This schedule is presented to illustrate the requirement to show information for ten years. However, until a full ten-year trend is compiled, only available information is shown.
- (2) Determined from the end of year total pension liability using the roll back procedure allowed for the initial year of implementing GASB 67.

CITY OF FREEPORT

Freeport, Texas

Exhibit E-4

**SCHEDULE OF TESRS CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
FOR THE LAST TEN YEARS (1)**

September 30, 2015 with Measurement Date of December 31, 2014

	<u>2014</u>
Service cost	\$ 961
Interest (on the Total Pension Liability)	4,233
Changes in benefit terms	
Difference between expected and actual experience	
Changes in assumptions	
Benefit payments, including refunds of employee contributions	<u>(2,192)</u>
Net Change in Total Pension Liability	3,002
Total Pension Liability – Beginning (2)	<u>54,757</u>
Total Pension Liability – Ending (a)	<u>\$ 57,759</u>
Contributions - employer	\$ 2,196
Contributions - state	805
Net Investment Income	6,261
Benefit payments	(2,192)
Administrative expense	(87)
Other	<u> </u>
Net Change in Plan Fiduciary Net Position	6,983
Plan Fiduciary Net Position – Beginning	<u>41,222</u>
Plan Fiduciary Net Position – Ending (b)	<u>\$ 48,205</u>
Net Pension Liability (a-b)	<u>\$ 9,554</u>
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	<u>83.46%</u>
Number of Active Members (3)	<u>198</u>
City's Net Pension Liability per Active Member	<u>\$ 48</u>

Notes to Schedule:

- (1) This schedule is presented to illustrate the requirement to show information for ten years. However, until a full ten-year trend is compiled, only available information is shown.
- (2) Determined from the end of year total pension liability using the roll back procedure allowed for the initial year of implementing GASB 67.
- (3) There is no compensation for active members, so number of active members is used instead.

CITY OF FREEPORT

Freeport, Texas

Exhibit E-5

**SCHEDULE OF TESRS INVESTMENT RETURNS
FOR THE LAST TEN YEARS (1)**

September 30, 2015 with Measurement Date of December 31, 2014

<u>Fiscal Year Ending</u>	<u>Annual Money-Weighted Net Real Rate of Return (2)</u>
August 31, 2013	13.84%
August 31, 2014	14.92%

Notes to Schedule:

- (1) This schedule is presented to illustrate the requirement to show information for ten years. However, until a full ten-year trend is compiled, only available information is shown.
- (2) The money-weighted rate of return expresses investment performance, net of investment expenses, reflecting changing amounts actually invested during the year.

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OTHER SCHEDULES

CITY OF FREEPORT

Freeport, Texas

COMBINING BALANCE SHEET- NONMAJOR GOVERNMENTAL FUNDS

September 30, 2015

	Special Revenue Funds			
	Hotel/ Motel Tax	Economic Development Corporation	Beach Maintenance	Total
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES				
Assets:				
Cash and temporary investments	\$ 7,587	\$ 245,358	\$ 7,333	\$ 260,278
Receivables (Net of Allowance for Uncollectable):				
Property taxes				-0-
Sales taxes		195,001		195,001
Accounts	4,304		9,621	13,925
Due from other governments				-0-
Due from other funds				-0-
Total assets	<u>11,891</u>	<u>440,359</u>	<u>16,954</u>	<u>469,204</u>
Deferred Outflows of Resources:				
Total deferred outflows of resources				-0-
Total assets and deferred outflows of resources	<u>\$ 11,891</u>	<u>\$ 440,359</u>	<u>\$ 16,954</u>	<u>\$ 469,204</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE				
Liabilities:				
Accounts payable	\$	\$ 10,000	\$ 2	\$ 10,002
Accrued wages and benefits		3,273	469	3,742
Due to other funds				-0-
Total liabilities	<u>-0-</u>	<u>13,273</u>	<u>471</u>	<u>13,744</u>
Deferred Inflows of Resources:				
Deferred inflows of resources – property taxes				-0-
Total deferred inflows of resources	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Fund Balances:				
Restricted:				
Tourism	11,891			11,891
Economic development		427,086		427,086
Debt Service				-0-
Construction				-0-
Assigned:				
Beach maintenance			16,483	16,483
Unassigned				-0-
Total fund balances	<u>11,891</u>	<u>427,086</u>	<u>16,483</u>	<u>455,460</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 11,891</u>	<u>\$ 440,359</u>	<u>\$ 16,954</u>	<u>\$ 469,204</u>

Debt Service Funds					Capital Projects Fund	Total Nonmajor Governmental Funds
Debt Service Series 2003A	Debt Service Series 2003B	Debt Service Series 2008	Debt Service EDC Note	Total	2008 Bond Construction	
\$ 10,522	\$ 2,043	\$ 10,776	\$	\$ 23,341	\$ 1,706	\$ 285,325
	30,055	30,755		60,810		60,810
				-0-		195,001
				-0-		13,925
	302	323		625		625
	280	23,101		23,381	52,323	75,704
<u>10,522</u>	<u>32,680</u>	<u>64,955</u>	<u>-0-</u>	<u>108,157</u>	<u>54,029</u>	<u>631,390</u>
				-0-		-0-
<u>\$ 10,522</u>	<u>\$ 32,680</u>	<u>\$ 64,955</u>	<u>\$ -0-</u>	<u>\$ 108,157</u>	<u>\$ 54,029</u>	<u>\$ 631,390</u>
\$	\$ 300	\$	\$	\$ 300	\$	\$ 10,302
				-0-		3,742
<u>300</u>	<u>15,759</u>			<u>16,059</u>		<u>16,059</u>
<u>300</u>	<u>16,059</u>	<u>-0-</u>	<u>-0-</u>	<u>16,359</u>		<u>30,103</u>
	<u>28,937</u>	<u>29,770</u>		<u>58,707</u>		<u>58,707</u>
<u>-0-</u>	<u>28,937</u>	<u>29,770</u>	<u>-0-</u>	<u>58,707</u>	<u>-0-</u>	<u>58,707</u>
				-0-		11,891
				-0-		427,086
10,222		35,185		45,407		45,407
				-0-	54,029	54,029
				-0-		16,483
	(12,316)			(12,316)		(12,316)
<u>10,222</u>	<u>(12,316)</u>	<u>35,185</u>	<u>-0-</u>	<u>33,091</u>	<u>54,029</u>	<u>542,580</u>
<u>\$ 10,522</u>	<u>\$ 32,680</u>	<u>\$ 64,955</u>	<u>\$ -0-</u>	<u>\$ 108,157</u>	<u>\$ 54,029</u>	<u>\$ 631,390</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, 2015

	Special Revenue Funds			
	Hotel/ Motel Tax	Economic Development Corporation	Beach Maintenance	Total
Revenues:				
Property taxes	\$	\$	\$	\$ -0-
Sales taxes		1,033,036		1,033,036
Hotel-motel tax	17,950			17,950
Revenue producing facilities			19,413	19,413
Interest income	3	259		262
Miscellaneous		310		310
	<u>17,953</u>	<u>1,033,605</u>	<u>19,413</u>	<u>1,070,971</u>
Total revenues				
Expenditures:				
Current:				
Economic development	24,000	185,345		209,345
Parks and recreation			10,212	10,212
Capital outlay		878,246		878,246
Debt Service:				
Principal				-0-
Interest				-0-
	<u>24,000</u>	<u>1,063,591</u>	<u>10,212</u>	<u>1,097,803</u>
Total expenditures				
Excess of revenues over (under) expenditures	(6,047)	(29,986)	9,201	(26,832)
Other Financing Sources (Uses):				
Transfers in				-0-
Transfers out		(351,070)		(351,070)
	<u>-0-</u>	<u>(351,070)</u>	<u>-0-</u>	<u>(351,070)</u>
Total other financing sources (uses)				
Net changes in fund balance	(6,047)	(381,056)	9,201	(377,902)
Fund balance - beginning	<u>17,938</u>	<u>808,142</u>	<u>7,282</u>	<u>833,362</u>
Fund balance - ending	<u>\$ 11,891</u>	<u>\$ 427,086</u>	<u>\$ 16,483</u>	<u>\$ 455,460</u>

Debt Service Funds					Capital Projects Fund	Total Nonmajor Governmental Funds
Debt Service Series 2003A	Debt Service Series 2003B	Debt Service Series 2008	Debt Service EDC Note	Total	2008 Bond Construction	
\$	\$ 280,179	\$ 298,938	\$	\$ 579,117	\$	\$ 579,117
				-0-		1,033,036
				-0-		17,950
				-0-		19,413
7	3	5		15		277
				-0-		310
<u>7</u>	<u>280,182</u>	<u>298,943</u>	<u>-0-</u>	<u>579,132</u>	<u>-0-</u>	<u>1,650,103</u>
				-0-		209,345
				-0-		10,212
				-0-		878,246
164,000	226,000	215,000	98,507	703,507		703,507
<u>40,266</u>	<u>56,128</u>	<u>84,517</u>	<u>49,486</u>	<u>230,397</u>		<u>230,397</u>
<u>204,266</u>	<u>282,128</u>	<u>299,517</u>	<u>147,993</u>	<u>933,904</u>	<u>-0-</u>	<u>2,031,707</u>
<u>(204,259)</u>	<u>(1,946)</u>	<u>(574)</u>	<u>(147,993)</u>	<u>(354,772)</u>	<u>-0-</u>	<u>(381,604)</u>
203,077			147,933	351,070		351,070
				-0-		(351,070)
<u>203,077</u>	<u>-0-</u>	<u>-0-</u>	<u>147,933</u>	<u>351,070</u>	<u>-0-</u>	<u>-0-</u>
(1,182)	(1,946)	(574)	-0-	(3,702)	-0-	(381,604)
<u>11,404</u>	<u>(10,370)</u>	<u>35,759</u>		<u>36,793</u>	<u>54,029</u>	<u>924,184</u>
<u>\$ 10,222</u>	<u>\$ (12,316)</u>	<u>\$ 35,185</u>	<u>\$ -0-</u>	<u>\$ 33,091</u>	<u>\$ 54,029</u>	<u>\$ 542,580</u>

CITY OF FREEPORT

Freeport, Texas

Exhibit F-3

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

For the Year Ended September 30, 2015

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Hotel-motel taxes	\$ 12,500	\$ 12,500	\$ 17,950	\$ 5,450
Investment income			3	3
Total revenues	<u>12,500</u>	<u>12,500</u>	<u>17,953</u>	<u>5,453</u>
Expenditures:				
Current:				
Economic development	<u>11,250</u>	<u>11,250</u>	<u>24,000</u>	<u>(12,750)</u>
Total expenditures	<u>11,250</u>	<u>11,250</u>	<u>24,000</u>	<u>(12,750)</u>
Excess of revenues over expenditures	<u>1,250</u>	<u>1,250</u>	<u>(6,047)</u>	<u>(7,297)</u>
Other Financing Sources (Uses):				
Total other financing sources (uses)				<u>-0-</u>
Net change in fund balance	1,250	1,250	(6,047)	(7,297)
Fund balance - beginning	<u>17,938</u>	<u>17,938</u>	<u>17,938</u>	<u>-0-</u>
Fund balance - ending	<u>\$ 19,188</u>	<u>\$ 19,188</u>	<u>\$ 11,891</u>	<u>\$ (7,297)</u>

CITY OF FREEPORT

Freeport, Texas

Exhibit F-4

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - BUDGET AND ACTUAL
 ECONOMIC DEVELOPMENT SPECIAL REVENUE FUND

For the Year Ended September 30, 2015

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Sales taxes	\$	\$ 902,150	\$ 1,033,036	\$ 130,886
Investment income		150	259	109
Miscellaneous		2,000	310	(1,690)
Total revenues	-0-	904,300	1,033,605	129,305
Expenditures:				
Current:				
Economic development		294,050	185,345	108,705
Capital outlay		883,246	878,246	5,000
Total expenditures	-0-	1,177,296	1,063,591	113,705
Excess of revenues over (under) expenditures	-0-	(272,996)	(29,986)	243,010
Other Financing Sources (Uses):				
Transfers out		(465,542)	(351,070)	114,472
Total other financing sources (uses)	-0-	(465,542)	(351,070)	114,472
Net change in fund balance	-0-	(738,538)	(381,056)	357,482
Fund balance - beginning	808,142	808,142	808,142	-0-
Fund balance - ending	\$ 808,142	\$ 69,604	\$ 427,086	\$ 357,482

CITY OF FREEPORT

Freeport, Texas

Exhibit F-5

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

For the Year Ended September 30, 2015

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Revenue producing facilities	\$ 15,000	\$ 15,000	\$ 19,413	\$ 4,413
Total revenues	<u>15,000</u>	<u>15,000</u>	<u>19,413</u>	<u>4,413</u>
Expenditures:				
Parks and recreation	<u>2,800</u>	<u>2,800</u>	<u>10,212</u>	<u>(7,412)</u>
Total expenditures	<u>2,800</u>	<u>2,800</u>	<u>10,212</u>	<u>(7,412)</u>
Excess of revenues over expenditures	<u>12,200</u>	<u>12,200</u>	<u>9,201</u>	<u>(2,999)</u>
Other Financing Sources (Uses):				
Total other financing sources (uses)				<u>-0-</u>
Net change in fund balance	12,200	12,200	9,201	(2,999)
Fund balance - beginning	<u>7,282</u>	<u>7,282</u>	<u>7,282</u>	<u>-0-</u>
Fund balance - ending	<u>\$ 19,482</u>	<u>\$ 19,482</u>	<u>\$ 16,483</u>	<u>\$(2,999)</u>

CITY OF FREEPORT

Freeport, Texas

Exhibit F-6

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

For the Year Ended September 30, 2015

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Investment income	\$	\$	7	7
Total revenues	-0-	-0-	7	7
Expenditures:				
Debt Service:				
Principal		164,000	164,000	-0-
Interest		40,500	40,266	234
Total expenditures	-0-	204,500	204,266	234
Excess of revenues over (under) expenditures	-0-	(204,500)	(204,259)	241
Other Financing Sources (Uses):				
Transfers in		204,500	203,077	(1,423)
Total other financing sources (uses)	-0-	204,500	203,077	(1,423)
Net change in fund balance	-0-	-0-	(1,182)	(1,182)
Fund balance - beginning	11,404	11,404	11,404	-0-
Fund balance - ending	\$ 11,404	\$ 11,404	\$ 10,222	\$(1,182)

CITY OF FREEPORT

Freeport, Texas

Exhibit F-7

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

For the Year Ended September 30, 2015

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Property taxes	\$ 281,041	\$ 281,041	\$ 280,179	\$ (862)
Investment income			3	3
Total revenues	<u>281,041</u>	<u>281,041</u>	<u>280,182</u>	<u>(859)</u>
Expenditures:				
Debt Service:				
Principal	226,000	226,000	226,000	-0-
Interest	<u>55,041</u>	<u>55,041</u>	<u>56,128</u>	<u>(1,087)</u>
Total expenditures	<u>281,041</u>	<u>281,041</u>	<u>282,128</u>	<u>(1,087)</u>
Excess of revenues over (under) expenditures	<u>-0-</u>	<u>-0-</u>	<u>(1,946)</u>	<u>(1,946)</u>
Other Financing Sources (Uses):				
Total other financing sources (uses)				<u>-0-</u>
Net change in fund balance	-0-	-0-	(1,946)	(1,946)
Fund balance - beginning	<u>(10,370)</u>	<u>(10,370)</u>	<u>(10,370)</u>	<u>-0-</u>
Fund balance - ending	<u><u>\$(10,370)</u></u>	<u><u>\$(10,370)</u></u>	<u><u>\$(12,316)</u></u>	<u><u>\$(1,946)</u></u>

CITY OF FREEPORT

Freeport, Texas

Exhibit F-8

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

For the Year Ended September 30, 2015

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Taxes	\$ 299,818	\$ 299,818	\$ 298,938	\$ (880)
Investment income			5	5
Total revenues	<u>299,818</u>	<u>299,818</u>	<u>298,943</u>	<u>(875)</u>
Expenditures:				
Debt Service:				
Principal	215,000	215,000	215,000	-0-
Interest	<u>84,818</u>	<u>84,818</u>	<u>84,517</u>	<u>301</u>
Total expenditures	<u>299,818</u>	<u>299,818</u>	<u>299,517</u>	<u>301</u>
Excess of revenues over (under) expenditures	<u>-0-</u>	<u>-0-</u>	<u>(574)</u>	<u>(574)</u>
Other Financing Sources (Uses):				
Total other financing sources (uses)				<u>-0-</u>
Net change in fund balance	-0-	-0-	(574)	(574)
Fund balance - beginning	<u>35,759</u>	<u>35,759</u>	<u>35,759</u>	<u>-0-</u>
Fund balance - ending	<u>\$ 35,759</u>	<u>\$ 35,759</u>	<u>\$ 35,185</u>	<u>\$ (574)</u>

CITY OF FREEPORT

Freeport, Texas

Exhibit F-9

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
DEBT SERVICE EDC NOTE FUND

For the Year Ended September 30, 2015

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Total revenues	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Expenditures:				
Debt Service:				
Principal		232,220	98,507	133,713
Interest		28,822	49,486	(20,664)
Total expenditures	-0-	261,042	147,993	113,049
Excess of revenues over (under) expenditures	-0-	(261,042)	(147,993)	113,049
Other Financing Sources (Uses):				
Transfers in		261,042	147,993	(113,049)
Total other financing sources (uses)	-0-	261,042	147,993	(113,049)
Net change in fund balance	-0-	-0-	-0-	-0-
Fund balance - beginning				-0-
Fund balance - ending	\$ -0-	\$ -0-	\$ -0-	\$ -0-

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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, 2015

	Budgeted Amounts		Actual GAAP Basis	Adjustments to Budgetary Basis
	Original	Final		
Operating Revenues:				
Water service	\$ 2,597,553	\$ 2,612,053	\$ 3,114,111	\$
Sewer service	1,479,021	1,493,521	1,815,828	
Charges for other services	112,250	112,250	384,830	
Miscellaneous	<u>23,000</u>	<u>113,666</u>		
Total operating revenues	<u>4,211,824</u>	<u>4,331,490</u>	<u>5,314,769</u>	<u>-0-</u>
Operating Expenses:				
Personnel services	79,408	79,408	72,072	
Employee benefits	29,138	29,138	32,150	
Contract and professional services	2,178,242	2,421,367	2,414,466	
Other operating costs	54,235	54,235	51,179	
Supplies	27,300	27,300	31,421	
Cost of sales	<u>1,642,500</u>	<u>1,642,500</u>	<u>1,473,313</u>	
Operating expenses before depreciation	4,010,823	4,253,948	4,074,601	-0-
Depreciation			<u>323,114</u>	<u>(323,114)</u>
Total operating expenses	<u>4,010,823</u>	<u>4,253,948</u>	<u>4,397,715</u>	<u>(323,114)</u>
Net operating income (loss)	<u>201,001</u>	<u>77,542</u>	<u>917,054</u>	<u>323,114</u>
Non-Operating Revenues (Expenses):				
Interest revenue			11	
Capital outlay	(350,933)	(350,933)		
Debt principal	(235,000)	(235,000)		(235,000)
Interest expense and agent fees	<u>(5,999)</u>	<u>(5,999)</u>	<u>(300)</u>	
Total non-operating revenues (expenses)	<u>(591,932)</u>	<u>(591,932)</u>	<u>(289)</u>	<u>(235,000)</u>
Net income (loss) before contributions and operating transfers	(390,931)	(514,390)	916,765	88,114
Transfers in	<u>390,926</u>	<u>390,926</u>	<u>390,929</u>	<u>-0-</u>
Change in net position	<u>\$(5)</u>	<u>\$(123,464)</u>	<u>\$ 1,307,694</u>	<u>\$ 88,114</u>

Actual Budgetary Basis	Variance on Final Budget - Positive (Negative)
\$ 3,114,111	\$ 502,058
1,815,828	322,307
384,830	272,580
<u> </u>	<u>(113,666)</u>
<u>5,314,769</u>	<u>983,279</u>
72,072	7,336
32,150	(3,012)
2,414,466	6,901
51,179	3,056
31,421	(4,121)
<u>1,473,313</u>	<u>169,187</u>
4,074,601	179,347
<u> </u>	<u>-0-</u>
<u>4,074,601</u>	<u>179,347</u>
<u>1,240,628</u>	<u>1,163,086</u>
11	11
235,000	350,933
(300)	-0-
<u>(235,289)</u>	<u>5,699</u>
<u> </u>	<u>356,643</u>
1,004,879	1,519,269
<u>390,929</u>	<u>3</u>
<u>\$ 1,395,808</u>	<u>\$ 1,519,272</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, 2015

	Budgeted Amounts		Actual GAAP Basis	Adjustments to Budgetary Basis
	Original	Final		
Operating Revenues:				
Golf course fees and charges	\$ 544,004	\$ 544,004	\$ 390,115	\$
Miscellaneous	145	145		
Total operating revenues	<u>544,149</u>	<u>544,149</u>	<u>390,115</u>	<u>-0-</u>
Operating Expenses:				
Personnel services	364,566	364,566	357,225	
Employee benefits	134,880	134,880	150,057	
Contract and professional services	74,750	74,750	70,940	
Supplies	55,250	55,250	46,262	
Cost of sales and services	<u>144,149</u>	<u>144,149</u>	<u>103,999</u>	
Operating expenses before depreciation	773,595	773,595	728,483	-0-
Depreciation			<u>102,988</u>	<u>(102,988)</u>
Total operating expenses	<u>773,595</u>	<u>773,595</u>	<u>831,471</u>	<u>(102,988)</u>
Net operating income (loss)	<u>(229,446)</u>	<u>(229,446)</u>	<u>(441,356)</u>	<u>102,988</u>
Non-Operating Revenues (Expenses):				
Interest revenue			1	
Capital outlay	(4,500)	(4,500)		(4,700)
Lease principal	(13,992)	(13,992)		(54,994)
Interest expense and agent fees			<u>(6,826)</u>	
Total non-operating revenues (expenses)	<u>(18,492)</u>	<u>(18,492)</u>	<u>(6,825)</u>	<u>(59,694)</u>
Net income (loss) before operating transfers	(247,938)	(247,938)	(448,181)	43,294
Transfers in (out)	<u>192,598</u>	<u>192,598</u>	<u>192,598</u>	
Change in net position	<u><u>\$(55,340)</u></u>	<u><u>\$(55,340)</u></u>	<u><u>\$(255,583)</u></u>	<u><u>\$ 43,294</u></u>

Actual Budgetary Basis	Variance on Final Budget - Positive (Negative)
\$ 390,115	\$(153,889)
<u>390,115</u>	<u>(145)</u>
<u>390,115</u>	<u>(154,034)</u>
357,225	7,341
150,057	(15,177)
70,940	3,810
46,262	8,988
<u>103,999</u>	<u>40,150</u>
728,483	45,112
<u>728,483</u>	<u>-0-</u>
<u>728,483</u>	<u>45,112</u>
<u>(338,368)</u>	<u>(108,922)</u>
1	1
(4,700)	(200)
(54,994)	(41,002)
<u>(6,826)</u>	<u>6,826</u>
<u>(66,519)</u>	<u>(34,375)</u>
(404,887)	(143,297)
<u>192,598</u>	<u>-0-</u>
<u>\$(212,289)</u>	<u>\$(143,297)</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, 2015

	Budgeted Amounts		Actual GAAP Basis	Adjustments to Budgetary Basis
	Original	Final		
Operating Revenues:				
Charges for other services	\$ 647,000	\$ 647,000	\$ 547,845	\$
Miscellaneous	86,276	86,276	89,457	
Total operating revenues	<u>733,276</u>	<u>733,276</u>	<u>637,302</u>	<u>-0-</u>
Operating Expenses:				
Personnel services	444,798	444,798	402,709	
Employee benefits	163,803	163,803	145,612	
Other operating	57,000	57,000	37,469	
Supplies	68,500	68,500	52,180	
Operating expenses before depreciation	734,101	734,101	637,970	-0-
Depreciation			45,090	(45,090)
Total operating expenses	<u>734,101</u>	<u>734,101</u>	<u>683,060</u>	<u>(45,090)</u>
Net operating income (loss)	<u>(825)</u>	<u>(825)</u>	<u>(45,758)</u>	<u>45,090</u>
Non-Operating Revenues (Expenses):				
Interest revenue			40	
Capital outlay	(166,600)	(166,600)		(334,948)
Total non-operating revenues (expenses)	<u>(166,600)</u>	<u>(166,600)</u>	<u>40</u>	<u>(334,948)</u>
Net income (loss) before operating transfers	(167,425)	(167,425)	(45,718)	(289,858)
Capital contributions		179,000	179,000	(179,000)
Transfers in	167,425	167,425	167,425	
Change in net position	<u>\$ -0-</u>	<u>\$ 179,000</u>	<u>\$ 300,707</u>	<u>\$ (468,858)</u>

Actual Budgetary Basis	Variance on Final Budget - Positive (Negative)
\$ 547,845	\$(99,155)
<u>89,457</u>	<u>3,181</u>
<u>637,302</u>	<u>(95,974)</u>
402,709	42,089
145,612	18,191
37,469	19,531
<u>52,180</u>	<u>16,320</u>
637,970	96,131
<u> </u>	<u>-0-</u>
<u>637,970</u>	<u>96,131</u>
<u>(668)</u>	<u>157</u>
40	40
<u>(334,948)</u>	<u>(168,348)</u>
<u>(335,576)</u>	<u>(168,308)</u>
(333,141)	(168,151)
<u>167,425</u>	<u>(179,000)</u>
<u> </u>	<u>-0-</u>
<u>\$(168,151)</u>	<u>\$(347,151)</u>

CITY OF FREEPORT

Freeport, Texas

Exhibit H-1

SCHEDULE OF AD VALOREM TAX LEVY AND COLLECTIONS

September 30, 2015

Levy Year	Balance 10-01-14	Current Year Levy	Collections	Adjustments	Balance 09-30-15
2005 & Prior	\$ 33,474	\$	\$ 1,298	\$(2,048)	\$ 30,128
2006	7,163		189	(15)	6,959
2007	8,568		129	(15)	8,424
2008	7,539		295	(15)	7,229
2009	8,499		1,036	(26)	7,437
2010	11,457		3,118	(102)	8,237
2011	92,574		6,598	(98)	85,878
2012	109,343		11,804	(80)	97,459
2013	58,327		34,804	(4,787)	18,736
2014		<u>2,292,002</u>	<u>2,237,393</u>	<u>(4,468)</u>	<u>50,141</u>
	<u>\$ 336,944</u>	<u>\$ 2,292,002</u>	<u>\$ 2,296,664</u>	<u>\$(11,654)</u>	320,628
Less reserve for uncollectible taxes					<u>53,155</u>
Net delinquent ad valorem taxes receivable					<u>\$ 267,473</u>

CITY OF FREEPORT

Freeport, Texas

Exhibit H-2

**DEBT SERVICE REQUIREMENTS TO MATURITY
CERTIFICATES OF OBLIGATION BONDS**September 30, 2015
(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	
2016	\$ 237,000	\$ 43,536	\$ 172,000	\$ 31,702	\$ 220,000	\$ 72,200	\$ 776,438
2017	248,000	31,799	181,000	23,159	230,000	63,672	777,630
2018	260,000	19,505	189,000	14,205	240,000	54,766	777,476
2019	273,000	6,607	199,000	4,817	245,000	45,573	773,997
2020					255,000	36,100	291,100
2021					265,000	26,246	291,246
2022					275,000	16,012	291,012
2023					285,000	5,401	290,401
TOTAL	\$ 1,018,000	\$ 101,447	\$ 741,000	\$ 73,883	\$ 2,015,000	\$ 319,970	\$ 4,269,300

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