CITY OF FREEPORT, TEXAS

1201 NORTH AVENUE H | FREEPORT, TX 77541 WWW.FREEPORTTX.GOV | 979.233.3526

2023

ANNUAL FINANCIAL

REPORT

FOR FISCAL YEAR ENDED SEPTEMBER 30, 2023



ANNUAL FINANCIAL REPORT

of the

City of Freeport, Texas

For the Year Ended September 30, 2023



TABLE OF CONTENTS September 30, 2023

FINANCIAL SECTION

Independent Auditor's Report	1
Management's Discussion and Analysis	5
Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Position	20
Statement of Activities	24
Fund Financial Statements	
Governmental Funds:	
Balance Sheet	26
Reconciliation of the Balance Sheet to the Statement of Net Position-	
Governmental funds	29
Statement of Revenues, Expenditures, and Changes in Fund Balance-	
Governmental Funds	30
Reconciliation of the Statement of Revenues, Expenditures, and	
Changes in Fund Balances of Governmental Funds to the Statement	
of Activities	33
Proprietary Funds:	
Statement of Net Position	34
Statement of Revenues, Expenses, and Changes in Fund Net Position	37
Statement of Cash Flows	38
Notes to the Financial Statements	41
REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of Revenues, Expenditures, and Changes in Fund Balance-	
Budget and Actual - General Fund	84
Schedule of Changes in Net Pension Liability and Related Ratios	86
Schedule of Employer Contributions to Pension Plan	88
Schedule of Changes in OPEB Liability (TMRS) and Related Ratios	90
Schedule of Changes in OPEB Liability (Healthcare) and Related Ratios	92

COMBINING AND INDIVIDUAL FUND STATEMENTS

Combining Balance Sheet – Nonmajor Governmental Funds	96
Combining Statement of Revenues, Expenditures, and Changes in Fund	
Balance - Nonmajor Governmental Funds	98
Schedule of Revenues, Expenditures, and Changes in Fund Balance-	
Budget and Actual – Debt Service Fund	100



INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, business-type activities, the discretely presented component unit, 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, 2023, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Freeport, Texas, as of September 30, 2023, 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.

Basis for Opinions

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. We are required to be independent of City of Freeport, Texas and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

The City's management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to
 fraud or error, and design and perform audit procedures responsive to those risks. Such
 procedures include examining, on a test basis, evidence regarding the amounts and disclosures in
 the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 City's internal control. Accordingly, no such opinion is
 expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant
 accounting estimates made by management, as well as evaluate the overall presentation of the
 financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control—related matters that we identified during the audit.

Emphasis of Matter

As discussed in Note V.G. to the financial statements, due to various accounting corrections, implementation of GASB 96, and the reclassification of the EDC as a discretely presented component unit, the City restated beginning fund balance/net position for the general fund, water/sewer fund, governmental activities, business-type activities, and component unit activities. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, general fund budgetary comparison information, the schedule of changes in net pension liability and related ratios, the schedule of employer contributions to pension plan, and schedule of changes in the other postemployment benefits liability and related ratios, 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 combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates 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 accompanying supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated June 12, 2024 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's 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 the City's internal control over financial reporting and compliance.

BrooksWatson & Co.

Certified Public Accountants

Brook Watson & Co.

Houston, Texas

June 12, 2024

MANAGEMENT'S DISCUSSION AND ANALYSIS

(This page intentionally left blank.)

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) September 30, 2023

As management of the City of Freeport, Texas (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, 2023. We encourage readers to consider the information presented here in conjunction with additional information contained in this report.

Financial Highlights

- The City's total combined net position is \$42,335,949 at September 30, 2023.
- At the close of the current fiscal year, the City's governmental funds reported combined fund balances of \$22,629,198, an increase of \$6,422,329.
- The City had an overall increase in net position of \$12,263,703.
- The City closed the year with a net pension liability of \$7,267,291.

Overview of the Financial Statements

The discussion and analysis provided here are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) the notes to financial statements. This report also includes supplementary information intended to furnish additional detail to support the basic financial statements themselves.

Government-Wide 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.

The *statement of net position* presents information on all of the City's assets and liabilities. The difference between the two is 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. Other non-financial factors, such as the City's property tax base and the condition of the City's infrastructure, need to be considered in order to assess the overall health of the City.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued September 30, 2023

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other 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, public safety, public works, culture and recreation, and economic development. The business-type activities of the City include water and sewer, and sanitation operations.

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 three categories: governmental funds, proprietary funds, and fiduciary 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 *near-term inflows and outflows 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 assessing 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 fund balance sheet and the governmental fund 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 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, capital projects fund, and 2020 CO bond CIP fund, which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in a separate section of the report.

The City adopts an annual appropriated budget for its general, debt service, 2020 CO bond CIP, special revenue and water/sewer funds. A budgetary comparison statement has been provided for the general and debt service fund to demonstrate compliance with their respective budget.

MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2023

Proprietary Funds

The City maintains one type of proprietary fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses an enterprise fund to account for its water and sewer utility operations. All activities associated with providing such services are accounted for in this fund, including administration, operation, maintenance, debt service, capital improvements, meter maintenance, billing and collection. The City's intent is that costs of providing the services to the general public on a continuing basis is financed through user charges in a manner similar to a private enterprise.

Proprietary financial statements provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the utility fund, which is considered to be a major fund of the City.

Component Units

The City maintains the accounting and financial statements for two component units. The Freeport Economic Development Corporation is a discretely presented component unit displayed on the government-wide financial statements.

The TIRZ fund is a special purpose fund that collects property taxes within its boundaries for the purpose of infrastructure development. The fund's board consists of the City Council and is reported as a blended component unit, as it functions similar to a department of the City.

Notes to Financial Statements

The notes provide additional information that is necessary to acquire a full understanding of the data provided in the government-wide and fund financial statements.

Other Information

In addition to the basic financial statements, MD&A, and accompanying notes, this report also presents certain Required Supplementary Information (RSI). The required RSI includes a budgetary comparison schedule for the general fund, schedule of changes in the net pension liability and related ratios and schedule of employer contributions for the Texas Municipal Retirement System. RSI can be found after the basic financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted previously, net position may serve over time as a useful indicator of the City's financial position. For the City of Freeport, assets and deferred outflows exceeded liabilities and deferred inflows by \$42,335,949 as of September 30, 2023, in the primary government.

MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued September 30, 2023

The largest portion of the City's net position, \$23,741,775, reflects its investments in capital assets (e.g., land, city hall, police station, streets, and drainage systems, as well as the public works facilities), less any debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services 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 assets themselves cannot be used to liquidate these liabilities.

Statement of Net Position:

The following table reflects the condensed Statement of Net Position:

	2023							2022					
	G	overnmental	Βι	siness-Type				overnmental	Business-Type				
	Activities		Activities		Total	Activities		Activities		Total			
Current and	Current and												
other assets	\$	26,400,553	\$	5,520,566	\$	31,921,119	\$	19,124,344	\$	6,172,979	\$ 25,297,323		
Capital assets, net		21,225,408		12,141,802		33,367,210		17,218,387		9,541,701	26,760,088		
Total Assets		47,625,961	17,662,368 65,288,		65,288,329		36,342,731		15,714,680	52,057,411			
Deferred Outflows		3,008,597		39,515		3,048,112		1,119,811		14,455	1,134,266		
Other liabilities		2,296,660		1,682,407		3,979,067		2,646,046		1,272,514	3,918,560		
Long-term liabilities		15,785,444		4,613,720		20,399,164		12,251,989		4,968,701	17,220,690		
Total Liabilities		18,082,104		6,296,127		24,378,231		14,898,035		6,241,215	21,139,250		
Deferred Inflows		1,619,039		3,222		1,622,261		1,953,995		26,186	1,980,181		
Deferred mino ws	_	1,017,007	_	0,222	_	1,022,201	_	1,,,,,,,,,	_	20,100			
Net Position:													
Net investment in													
capital assets		13,827,683		9,914,092		23,741,775		13,719,772		9,063,763	22,783,535		
Restricted		8,115,069		-		8,115,069		480,088		-	480,088		
Unrestricted		8,990,663		1,488,442		10,479,105		6,410,652		397,971	6,808,623		
Total Net Position	\$	30,933,415	\$	11,402,534	\$	42,335,949	\$	20,610,512	\$	9,461,734	\$ 30,072,246		

Governmental activities current assets increased by \$7,276,209 when compared to the prior year primarily due to greater cash on hand, resulting from operating surpluses in the current year and the Port Freeport settlement of \$7.1 million. Total capital assets increased by \$6,607,122 due to new capital investments and infrastructure improvements throughout the year. Total long-term liabilities increased

MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued September 30, 2023

by \$3,178,474 primarily due to new lease issuances and the increase in the City's net pension liability outweighing current year principal payments.

Statement of Activities:

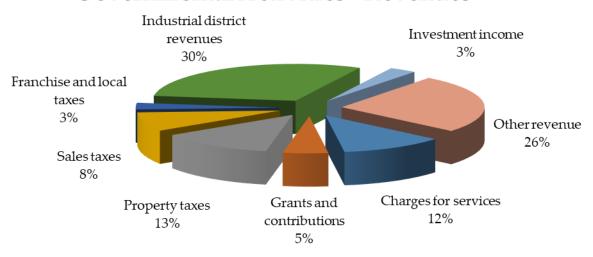
The following table provides a summary of the City's changes in net position:

	For the Year	Ended Septembe	er 30, 2023	For the Year	ar Ended September 30, 2022			
	Total				Total			
	Governmental	Business-Type	Primary	Governmental	Business-Type	Primary		
	Activities	Activities	Government	Activities	Activities	Government		
Revenues								
Program revenues:								
Charges for services	\$ 3,479,747	\$ 7,927,835	\$ 11,407,582	\$ 2,920,785	\$ 6,733,436	\$ 9,654,221		
Grants and contributions	1,509,322	1,217,480	2,726,802	1,900,995	759,058	2,660,053		
General revenues:								
Property taxes	3,807,185	-	3,807,185	3,822,191	-	3,822,191		
Sales taxes	2,471,744	-	2,471,744	2,391,139	-	2,391,139		
Franchise and local taxes	861,962	-	861,962	644,134	-	644,134		
Industrial district revenue	s 8,954,728	-	8,954,728	8,171,633	-	8,171,633		
Investment income	901,481	171,423	1,072,904	147,462	40,158	187,620		
Other revenue	7,601,020		7,601,020	617,012		617,012		
Total Revenues	29,587,189	9,316,738	38,903,927	20,615,351	7,532,652	28,148,003		
Expenses								
General government	3,870,507	-	3,870,507	2,640,068	-	2,640,068		
Public safety	8,878,677	-	8,878,677	7,991,155	-	7,991,155		
Culture and recreation	3,642,702	-	3,642,702	3,575,471	-	3,575,471		
Streets and drainage	2,036,705	-	2,036,705	1,915,628	-	1,915,628		
Sanitation	747,174	-	747,174	887,107	-	887,107		
Service center	227,444	-	227,444	216,009	-	216,009		
Interest and fiscal charges	130,460	91,397	221,857	134,696	102,531	237,227		
Water and sewer	-	7,015,158	7,015,158	-	6,418,544	6,418,544		
Total Expenses	19,533,669	7,106,555	26,640,224	17,360,134	6,521,075	23,881,209		
Change in Net Position								
Before Transfers	10,053,520	2,210,183	12,263,703	3,255,217	1,011,577	4,266,794		
Transfers	269,383	(269,383)	_	(173,000)	173,000	_		
Total	269,383	(269,383)		(173,000)	173,000			
Change in Net Position	10,322,903	1,940,800	12,263,703	3,082,217	1,184,577	4,266,794		
· ·								
Beginning Net Position	20,610,512	9,461,734	30,072,246	17,528,295	8,277,157	25,805,452		
Ending Net Position	\$ 30,933,415	\$ 11,402,534	\$ 42,335,949	\$ 20,610,512	\$ 9,461,734	\$ 30,072,246		

MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued September 30, 2023

Graphic presentations of selected data from the summary tables are displayed below to assist in the analysis of the City's activities.

Governmental Activities - Revenues

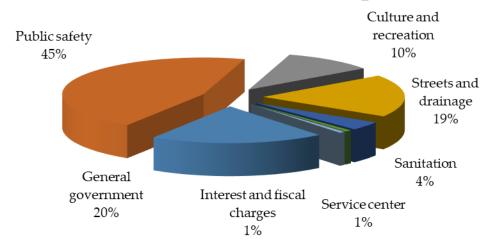


For the year ended September 30, 2023, revenues from governmental activities totaled \$29,587,189. Industrial district revenues are the City's largest revenue sources. Charges for services increased by \$558,962 or 19% primarily due to greater ambulance/EMS services and building permits issued in the current year. Grants and contributions decreased by \$391,673 or 21% primarily due to nonrecurring operating grants and intergovernmental revenues received from the EDC in the prior year. Franchise and local tax revenues increased by \$217,828 or 34% primarily due to greater hotel occupancy rates and utility franchise fees received in the current year. Industrial district revenues increased by \$783,095 or 10% primarily due to local economic growth. Investment income increased by \$754,019 or over 100% due to greater interest-bearing accounts and the realization of higher interest rates in the current year. Other revenues increased by \$6,984,008 or over 100% due to the nonrecurring settlement funds received from Port Freeport in the current year. All other revenues remained relatively stable when compared to the previous year.

MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued September 30, 2023

This graph shows the governmental function expenses of the City:

Governmental Activities - Expenses

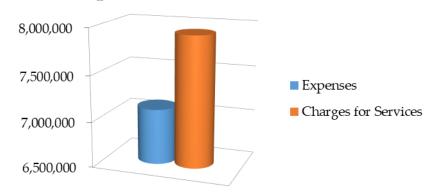


For the year ended September 30, 2023, expenses for governmental activities totaled \$19,533,669. This represents an increase of \$2,173,535 or 13% from the prior year. General government expenditures increased by \$1,230,439 or 47% due to an increase in the pension liability, nonrecurring record scanning project expenses, legal services, and IT costs recognized in the current year. In addition, employee benefit costs increased due to a greater net pension liability at the end of the current year. Public safety increased by \$887,522 or 11% primarily due to greater employee salaries and employee benefit expenses (as mentioned above) in the current year. Sanitation expenses decreased by \$139,933 or 16% due to the City changing garbage service companies in the current year. The new company charges lower rates. All remaining expenses remained relatively consistent with the previous year.

MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued September 30, 2023

Business-type activities are shown comparing operating costs to revenues generated by related services.

Business-Type Activities - Revenues and Expenses



For the year ended September 30, 2023, charges for services by business-type activities totaled \$7,927,835. This is an increase of \$1,194,399 or 18% from the previous year. This increase is directly related to greater water/sewer rates charged to customers, increased demand, and continued City growth. Investment income increased by \$131,265 or over 100% due to the realization of higher interest rates over the course of the year.

Business-type activities expenses increased by \$585,480 or 9% primarily due to greater water purchases, resulting from dryer weather conditions, greater Veolia contract rates, and increased asset depreciation in the current year.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, fund accounting is used to demonstrate and ensure compliance with finance-related legal requirements.

<u>Governmental Funds</u> - The focus of the City's governmental funds is to provide information of 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 the City's net resources available for spending at the end of the year.

As of the end of the year the general fund reflected a fund balance of \$10,556,882. The general fund had a net increase in fund balance for the year of \$2,356,487. This increase was primarily due to greater than anticipated revenues and less than expected expenditures. In addition, the fund received greater industrial district revenues when compared to the prior year.

MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued September 30, 2023

The capital projects fund reflected a fund balance of \$7,100,000, which represents an increase of \$7,100,000. The fund balance was zero at the end of the prior year. The change in fund balance is a direct result of the Port Freeport settlement funds totaling \$7,100,000, which was received in the current year.

There was a decrease in the 2020 CO Bond CIP fund of \$3,933,333 during the year, leaving a year end fund balance of \$812,048. The decrease in fund balance is a direct result of significant capital outlay expenditures exceeding investment income in the current year.

<u>Proprietary Funds</u> - The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

GENERAL FUND BUDGETARY HIGHLIGHTS

There was a total positive budget variance of \$3,182,572 in the general fund. This represents a combination of positive revenue, expenditure, and other financing sources variances of \$1,249,425, \$1,063,688, and \$869,459, respectively. The City amended the original general fund budget for fiscal year 2023 by increasing total revenues by \$185,908 and increasing total expenditures by \$809,079. The general government, principal, and interest/fiscal charges expenditures exceeded appropriations at the legal level of budgetary control.

CAPITAL ASSETS

As of the end of the year, the City's governmental activities funds had invested \$21,278,768 in a variety of capital assets and infrastructure, net of accumulated depreciation. Depreciation is included with the governmental capital assets as required by GASB Statement No. 34. The City's business-type activities funds had invested \$12,141,802 in a variety of capital assets and infrastructure, net of accumulated depreciation.

Major capital asset events during the current year include the following:

- Continued renovations on City Hall for \$114,543.
- Continued with phase two of reconstructing streets totaling \$3,174,332.
- Updated windows and doors at the library for \$49,017.
- Velasco House renovations totaling \$57,770.
- Park updates totaling \$57,502.
- Purchased a new fuel tank for \$30,000.
- Purchased two new vehicles for \$115,748.
- Purchased equipment for vehicles for \$44,032.

MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued September 30, 2023

- Purchased a new PD server for \$92,640.
- Purchased a new ambulance for \$233,600.
- Purchased ambulance equipment totaling \$100,288.
- Purchased two code vehicles for \$80,008.
- Purchased a dump truck for \$78,705.
- Stormwater improvements and rehab totaling \$73,768.
- Purchased a new mower for \$41,780.
- Made various street improvements totaling \$1,033,083.
- Improvements to the Riverside parking lot for \$73,500.
- Relocation of water lines totaling \$51,883.
- Wastewater improvements totaling \$1,069,265.
- Water pump improvements totaling \$61,244.
- Purchased meters totaling \$44,019.
- Lift station rehab totaling \$1,577,538.
- Sewer line replacements and updates totaling \$289,751.

More detailed information about the City's capital assets is presented in note IV. C to the financial statements.

LONG-TERM DEBT

At the end of the current year, the City had total bonds outstanding (including premiums) of \$12,256,042. During the year, the City entered into new lease and subscription agreements totaling \$254,401. The City also made principal repayments on outstanding debt totaling \$598,303. More detailed information about the City's long-term liabilities is presented in note IV. E to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Each year the budget is prepared on key objectives and assumptions. The property tax rate for fiscal year 2024 (tax year 2023) is \$0.533 per \$100 of assessed value, which is less than the tax rate for fiscal year 2023 (tax year 2022), which was \$0.60. The Maintenance and Operation rate decreased by \$0.054658 per \$100 of assessed values while the Interest and Sinking rate decreased by \$0.012342 per \$100 of assessed value. Property tax revenue for the City is budgeted \$360 thousand higher than the previous year which is a 11.07% increase. Of this revenue, the majority of the revenue was from changes in market value of property within the City of Freeport.

MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued September 30, 2023

The City of Freeport has multiple industrial agreements that are based off property tax rates as well. In the fiscal year 2024 budget these revenues were estimated to increase by 2.5% over the fiscal year 2023 budget.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the City of Freeport's finances for all those with an interest in the City's finances. Questions concerning this report or requests for additional financial information should be directed to the City Finance Director, 200 W. 2nd Street, Freeport, TX 77541.

(This page intentionally left blank.)

FINANCIAL STATEMENTS

STATEMENT OF NET POSITION (Page 1 of 2) September 30, 2023

Primary Government	
Business-Type	

	Governmental		Bu	siness-Type	-
		Activities		Activities	Total
Assets					
Cash and cash equivalents	\$	23,225,733	\$	3,464,763	\$ 26,690,496
Due from component unit		231,728		-	231,728
Receivables, net		1,132,288		2,239,403	3,371,691
Lease receivables, current		89,721		-	89,721
Internal balances		240,725		(240,725)	-
Prepaids		96,037		57,125	153,162
Total Current Assets		25,016,232		5,520,566	30,536,798
Lease receivables, noncurrent Capital assets:		1,384,321		-	1,384,321
Non-depreciable		6,153,314		2,208,112	8,361,426
Net depreciable capital assets		15,072,094		9,933,690	25,005,784
Total Noncurrent Assets		22,609,729	-	12,141,802	 34,751,531
Total Assets		47,625,961		17,662,368	65,288,329
Deferred Outflows of Resources					
Pension outflows		3,002,109		39,430	3,041,539
OPEB outflows - TMRS		6,488		85	6,573
Total Deferred Outflows of Resources		3,008,597		39,515	3,048,112

Con	nponent Unit
	Freeport
	EDC
\$	2,918,666
	-
	188,306
	-
	-
	-
	3,106,972
	-
	2,456,056
	2,201
	2,458,257
	5,565,229
	70,437
	152
	70,589

STATEMENT OF NET POSITION (Page 2 of 2)

September 30, 2023

	Primary Government						
	Governmental	Business-Type					
	Activities	Activities	Total				
<u>Liabilities</u>		_					
Current liabilities:							
Accounts payable and accrued liabilities	\$ 1,925,550	\$ 1,122,305	\$ 3,047,855				
Unearned revenue	16,893	-	16,893				
Customer deposits	-	306,301	306,301				
Accrued interest	71,364	60,393	131,757				
Due to primary government	-	-	-				
Compensated absences, current	282,853	3,408	286,261				
Long-term debt due within one year	453,047	190,000	643,047				
	2,749,707	1,682,407	4,432,114				
Noncurrent liabilities:							
Net pension liability	7,010,721	92,080	7,102,801				
OPEB liability - TMRS	340,079	4,467	344,546				
OPEB liability - Health	361,577	4,749	366,326				
Compensated absences, noncurrent	31,428	379	31,807				
Long-term debt due in more than one year	7,588,592	4,512,045	12,100,637				
Total Noncurrent Liabilities	15,332,397	4,613,720	19,946,117				
Total Liabilities	18,082,104	6,296,127	24,378,231				
Deferred Inflows of Resources							
OPEB inflows - TMRS	97,492	1,280	98,772				
OPEB inflows - Health	147,864	1,942	149,806				
Leases	1,373,683	-	1,373,683				
Total Deferred Inflows of Resources	1,619,039	3,222	1,622,261				
Net Position							
Net investment in capital assets	13,827,683	9,914,092	23,741,775				
Restricted for:							
Capital projects	7,100,180	-	7,100,180				
Municipal court	189,480	-	189,480				
Economic development	218,444	-	218,444				
Debt service	398,452	-	398,452				
Tourism	208,513	-	208,513				
Unrestricted	8,990,663	1,488,442	10,479,105				
Total Net Position	\$ 30,933,415	\$ 11,402,534	\$ 42,335,949				

	onent Unit
	eeport
I	EDC
\$	56,121
	-
	-
	-
	231,728
	6,048
	293,897
	164,490
	7,979
	-
	672
	170 141
	173,141
	467,038
	2,287
	-
	-
	2,287
	2,458,257
	-
	-
	2,708,236
	-
	-
\$	5,166,493

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2023

	Program Revenues								
			Charges for			Operating Grants and	Capital Grants and		
Functions/Programs		Expenses		Services		ntributions	Contributions		
Primary Government									
Governmental Activities									
General government	\$	3,870,507	\$	236,933	\$	-	\$	-	
Public safety		8,878,677		717,279		1,509,322		-	
Streets and drainage		2,036,705		587,602		-		-	
Culture and recreation		3,642,702		1,111,019		-		-	
Sanitation		747,174		826,914		-		-	
Service center		227,444		-		-		-	
Interest and fiscal charges		130,460		-		-		-	
Total Governmental Activities		19,533,669		3,479,747		1,509,322		-	
Business-Type Activities									
Water and sewer		7,106,555		7,927,835		-		1,217,480	
Total Business-Type Activities		7,106,555		7,927,835		-		1,217,480	
Total Primary Government	\$	26,640,224	\$	11,407,582	\$	1,509,322	\$	1,217,480	
Component Unit									
Freeport EDC		932,611		-		-		-	
Total Component Unit	\$	932,611	\$	-	\$	_	\$	-	

General Revenues:

Taxes

Property taxes

Sales taxes

Industrial district

Franchise and local taxes

Investment income

Other revenue

Port Freeport settlement funds

Proceeds from sale of assets

Transfers

Total General Revenues and Transfers

Change in Net Position

Beginning Net Position

Ending Net Position

Net (Expense) Revenue and Changes in Net Position

Component Unit	Primary Government							
Freeport			Business-Type	Governmental	Governmental			
EDC	Total		Activities	Activities				
-	(3,633,574)	\$	\$ -	(3,633,574)	\$			
-	(6,652,076)		-	(6,652,076)				
-	(1,449,103)		-	(1,449,103)				
-	(2,531,683)		-	(2,531,683)				
-	79,740		-	79,740				
-	(227,444)		-	(227,444)				
-	(130,460)			(130,460)				
-	(14,544,600)			(14,544,600)				
-	2,038,760		2,038,760	-				
-	2,038,760		2,038,760	-				
-	(12,505,840)		2,038,760	(14,544,600)				
(932,611) (932,611)								
_	3,807,185		-	3,807,185				
- 1,235,852	3,807,185 2,471,744		- -	3,807,185 2,471,744				
- 1,235,852 -			- - -					
- 1,235,852 - -	2,471,744		- - -	2,471,744				
- 1,235,852 - - 112,172	2,471,744 8,954,728		- - - - 171,423	2,471,744 8,954,728				
-	2,471,744 8,954,728 861,962		- - - - 171,423	2,471,744 8,954,728 861,962				
- - 112,172	2,471,744 8,954,728 861,962 1,072,904		- - - - 171,423 -	2,471,744 8,954,728 861,962 901,481				
- - 112,172	2,471,744 8,954,728 861,962 1,072,904 425,962		- - - 171,423 - -	2,471,744 8,954,728 861,962 901,481 425,962				
- - 112,172	2,471,744 8,954,728 861,962 1,072,904 425,962 7,100,000		- - - 171,423 - - - (269,383)	2,471,744 8,954,728 861,962 901,481 425,962 7,100,000				
- - 112,172	2,471,744 8,954,728 861,962 1,072,904 425,962 7,100,000		- - -	2,471,744 8,954,728 861,962 901,481 425,962 7,100,000 75,058				
- 112,172 24,952 - -	2,471,744 8,954,728 861,962 1,072,904 425,962 7,100,000 75,058		- - - (269,383)	2,471,744 8,954,728 861,962 901,481 425,962 7,100,000 75,058 269,383				
- 112,172 24,952 - - - 1,372,976	2,471,744 8,954,728 861,962 1,072,904 425,962 7,100,000 75,058		(269,383) (97,960)	2,471,744 8,954,728 861,962 901,481 425,962 7,100,000 75,058 269,383 24,867,503				

BALANCE SHEET GOVERNMENTAL FUNDS September 30, 2023

		General		Capital Projects		2020 CO Bond CIP Fund	Nonmajor Government Funds		
Assets		General		Trojects		CII Fullu		ruitus	
Cash and cash equivalents	\$	10,915,273	\$	7,100,000	\$	1,321,732	\$	3,888,728	
Receivables, net	Ψ	2,555,766	Ψ	7,100,000	Ψ	1,021,702	Ψ	50,564	
Prepaids		26,153		_		_		69,884	
Due from component unit		231,728		_		_		07,004	
Due from other funds		201,720		_		_		255,278	
Total Assets	\$	13,728,920	\$	7,100,000	\$	1,321,732	\$	4,264,454	
Liabilities	<u> </u>	-, -,-	÷	,,	_	,- , -	_	, - , -	
Accounts payable and									
accrued liabilities	\$	1,352,182	\$	_	\$	509,684	\$	63,684	
Unearned revenues	7	-,, -	4	_	4	-	4	16,893	
Due to other funds		14,553		_		_		-	
Total Liabilities		1,366,735				509,684		80,577	
Deferred Inflows of Resources						<u> </u>	-		
Unavailable revenue:									
Property tax		143,708		-		_		23,609	
EMS		240,688		-		_		-	
Franchise taxes		47,224		-		-		-	
Leases		1,373,683		-		-		-	
Total Deferred Inflows		1,805,303		-		-		23,609	
Fund Balances		_							
Nonspendable									
Prepaids		26,153		-		-		69,884	
Restricted for:									
Capital projects		-		7,100,000		812,048		-	
Municipal court		-		-		-		189,480	
Debt service		-		-		-		398,452	
Tourism		-		-		-		208,513	
Economic development		-		-		-		218,444	
Assigned for:									
Facilities and grounds		-		-		-		2,375,964	
Vehicles and equipment		-		-		-		470,576	
IT equipment		-		-		-		228,955	
Unassigned reported in:									
General fund		10,530,729		-		-		-	
Total Fund Balances		10,556,882		7,100,000		812,048		4,160,268	
Total Liabilities, Deferred Inflows of									
Resources and Fund Balances	\$	13,728,920	\$	7,100,000	\$	1,321,732	\$	4,264,454	
San Notes to Financial Statements									

Total Governmental						
_						
\$	23,225,733					
	2,606,330					
	96,037					
	231,728					
	255,278					
\$	26,415,106					
\$	1,925,550					
	16,893					
	14,553					
	1,956,996					
	1/5 015					
	167,317					
	240,688					
	47,224					
	1,373,683					
	1,828,912					
	96,037					
	7,912,048					
	189,480					
	398,452					
	208,513					
	218,444					
	2,375,964					
	470,576					
	228,955					
	10 520 720					
_	10,530,729 22,629,198					
	22,027,170					
\$	26,415,106					

(This page intentionally left blank.)

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

September 30, 2023

Fund Balances - Total Governmental Funds	\$ 22,629,198
Adjustments for the Statement of Net Position:	
Capital assets used in governmental activities are not current financial	
resources and, therefore, not reported in the governmental funds.	
Capital assets - non-depreciable	6,153,314
Capital assets - net depreciable	15,072,094
Other long-term assets are not available to pay for current-period	
expenditures and, therefore, are deferred in the governmental funds.	
Property tax	167,317
EMS	240,688
Franchise	47,224
Deferred outflows of resources, represent a consumption of net position that applies	
to a future period(s) and is not recognized as an outflow of resources (expenditure)	
until then.	
Pension outflows	3,002,109
OPEB outflows - TMRS	6,488
Deferred inflows of resources, represents an acquisition of net position that applies to a future	
period(s) and so will not be recognized as an inflow of resources (revenue) until that time.	
OPEB inflows - TMRS	(97,492)
OPEB inflows - Health	(147,864)
Some liabilities, including bonds payable and deferred charges, are not reported as	
liabilities in the governmental funds.	
Accrued interest	(71,364)
Deferred (gains) charges:	. ,
For bond premiums	(338,997)
Net pension liability	(7,010,721)
OPEB liability - TMRS	(340,079)
OPEB liability - Health	(361,577)
Compensated absences	(314,281)
Bonds, notes, & lease liabilities	(7,702,642)
Net Position of Governmental Activities	\$ 30,933,415

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE GOVERNMENTAL FUNDS

For the Year Ended September 30, 2023

	General	Capital Projects	2020 CO Bond CIP Fund	Nonmajor Governmental Funds
Revenues				
Property tax	\$ 3,181,619	\$ -	\$ -	\$ 636,985
Sales tax	2,471,744	-	-	-
Industrial district	8,954,728	_	-	-
Franchise and local taxes	724,988	-	-	89,750
License and permits	587,602	-	-	-
Intergovernmental	1,509,322	-	-	-
Fines and forfeitures	191,086	-	-	45,847
Charges for services	2,583,219	-	-	-
Investment income	597,350	-	140,382	163,749
Other revenue	456,184	-	-	31,768
Total Revenues	21,257,842		140,382	968,099
Expenditures				
Current:				
General government	3,187,983	-	-	10,447
Public safety	8,012,758	-	-	19,620
Streets and drainage	1,415,724	-	-	-
Sanitation	747,174	-	-	-
Culture and recreation	3,142,915	-	-	-
Service center	202,594	-	-	-
Capital outlay	1,084,055	-	3,952,373	1,275,337
Debt Service:				
Principal	78,303	-	-	340,000
Interest and fiscal charges	19,213			154,340
Total Expenditures	17,890,719		3,952,373	1,799,744
Excess of Revenues	2.247.422		(0.011.001)	(004 (45)
Over (Under) Expenditures	3,367,123	-	(3,811,991)	(831,645)
Other Financing Sources (Uses)				
Lease issuance	230,594	-	-	-
SBITA issuance	23,807	-	-	-
Port Freeport settlement funds	-	7,100,000	-	-
Sales of assets	75,058	-	-	-
Transfers in	150,000	-	-	1,730,820
Transfers (out)	(1,490,095)		(121,342)	
Total Other Financing Sources	(1,010,636)	7,100,000	(121,342)	1,730,820
Net Change in Fund Balances	2,356,487	7,100,000	(3,933,333)	899,175
Beginning fund balances	8,200,395	-	4,745,381	3,261,093
Ending Fund Balances	\$ 10,556,882	\$ 7,100,000	\$ 812,048	\$ 4,160,268

Total	
Go	vernmental
	Funds
\$	3,818,604
	2,471,744
	8,954,728
	814,738
	587,602
	1,509,322
	236,933
	2,583,219
	901,481
	487,952
	22,366,323
	3,198,430
	8,032,378
	1,415,724
	747,174
	3,142,915
	202,594
	6,311,765
	0,511,705
	418,303
	173,553
	23,642,836
	(1,276,513)
	230,594
	23,807
	7,100,000
	75,058
	1,880,820
	(1,611,437)
	7,698,842
	6,422,329
	16,206,869
\$	22,629,198
_	



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

For the Year Ended September 30, 2023

Amounts reported for governmental activities in the statement of activities are different because:

Net changes in fund balances - total governmental funds

\$ 6,422,329

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay	5,984,606
Depreciation expense	(1,915,595)
Adjustment for sale of assets	(61,990)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Property tax	(11,419)
EMS	71,993
Franchise taxes	47.224

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Compensated absences	(11,351)
Accrued interest	4,638
Pension expense	(360,573)
OPEB expense	(49.316)

The issuance of long-term debt (e.g., bonds, leases, certificates of obligation)

provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of deferred costs, premiums, discounts, and similar items when they are first issued; whereas, these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Amortization of premium	38,455
Lease issuance	(230,594)
SBITA issuance	(23,807)
Principal payments	418,303
Change in Net Position of Governmental Activities	\$ 10.322.903

Change in Net Position of Governmental Activities 5

See Notes to Financial Statements.

STATEMENT OF NET POSITION PROPRIETARY FUND

September 30, 2023

		Water & Sewer
<u>Assets</u>		
Current Assets		
Cash and cash equivalents		\$ 3,464,763
Receivables, net		2,239,403
Prepaids		57,125
	Total Current Assets	5,761,291
Noncurrent Assets		
Capital assets:		
Non-depreciable		2,208,112
Net depreciable capital assets		9,933,690
	Total Noncurrent Assets	12,141,802
	Total Assets	17,903,093
Deferred Outflows of Resources		
Pension outflows		39,430
OPEB outflows - TMRS		85
	Total Deferred Outflows of Resources	 39,515

STATEMENT OF NET POSITION PROPRIETARY FUND (Continued) September 30, 2023

	Water & Sewer
<u>Liabilities</u>	 _
Current Liabilities	
Accounts payable and accrued liabilities	\$ 1,122,305
Customer deposits	306,301
Due to other funds	240,725
Accrued interest	60,393
Compensated absences, current	3,408
Long-term debt due within one year	190,000
Total Current Liabilities	1,923,132
Noncurrent Liabilities	
Net pension liability	92,080
OPEB liability - TMRS	4,467
OPEB liability - Health	4,749
Compensated absences, noncurrent	379
Long-term debt due in more than one year	4,512,045
Total Liabilities	6,536,852
Deferred Inflows of Resources	
OPEB inflows - TMRS	1,280
OPEB inflows - Health	1,942
Total Deferred Inflows of Resources	3,222
Net Position	
Net investment in capital assets	9,914,092
Unrestricted	1,488,442
Total Net Position	\$ 11,402,534

See Notes to Financial Statements.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION PROPRIETARY FUND

For the Year Ended September 30, 2023

			Water & Sewer
Operating Revenues		Ф	7 007 005
Charges for services	Total Operating Povenues	\$	7,927,835
	Total Operating Revenues		7,927,835
Operating Expenses			
Personnel services			171,488
Materials and supplies			26,811
Water purchases			2,759,400
Contractual services			3,072,211
Other			377,658
Depreciation			607,590
•	Total Operating Expenses		7,015,158
	Operating Income (Loss)		912,677
Nonconcusting Poyonus (Eumanas)			
Nonoperating Revenues (Expenses) Investment income			171 422
			171,423
Interest expense	Total Nononestina Povenuas (Evnences)		(91,397)
	Total Nonoperating Revenues (Expenses)		80,026
	Income (Loss) Before Transfers		992,703
Transfers and Contributions			
Capital contributions			1,217,480
Transfers in			121,342
Transfers (out)			(390,725)
	Total Transfers and Contributions		948,097
	Change in Net Position		1,940,800
Beginning net position			9,461,734
	Ending Net Position	\$	11,402,534

STATEMENT OF CASH FLOWS PROPRIETARY FUND (Page 1 of 2) For the Year Ended September 30, 2023

	Water & Sewer
Cash Flows from Operating Activities	
Receipts from customers	\$ 7,547,982
Receipts from (payments to) other funds	90,725
Payments to employees	(171,032)
Payments to suppliers and contractors	(6,023,545)
Net Cash Provided by Operating Activities	1,444,130
Cash Flows from Noncapital Financing Activities	
Transfers in	121,342
Transfers (out)	(390,725)
Net Cash Provided (Used) by Noncapital Financing Activities	(269,383)
Cash Flows from Capital and Related Financing Activities	
Capital purchases	(3,207,691)
Capital contributions	1,217,480
Principal paid on debt	(180,000)
Interest paid on debt	(121,450)
Net Cash (Used for) Capital and Related Financing Activities	(2,291,661)
Cash Flows from Investing Activities	
Interest on investments	171,423
Net Cash Provided by Investing Activities	171,423
Net (Decrease) in Cash and Cash Equivalents	(945,491)
Beginning cash and cash equivalents	 4,410,254
Ending Cash and Cash Equivalents	\$ 3,464,763

See Notes to Financial Statements.

STATEMENT OF CASH FLOWS PROPRIETARY FUND (Page 2 of 2) For the Year Ended September 30, 2023

	Water & Sewer
Reconciliation of Operating Income	 _
to Net Cash Provided by Operating Activities	
Operating Income	\$ 912,677
Adjustments to reconcile operating	
income to net cash provided:	
Depreciation	607,590
Changes in Operating Assets and Liabilities:	
(Increase) Decrease in:	
Accounts receivable	(387,403)
Prepaid expenses	3,600
Deferred Outflows of Resources:	
Pension outflows	(28,175)
OPEB outflows	3,115
Increase (Decrease) in:	
Accounts payable and accrued liabilities	208,935
Customer deposits	7,550
Compensated absences	1,708
Due to other funds	90,725
Net pension liability	55,356
OPEB liabilities	(8,584)
Deferred Inflows of Resources:	
Pension inflows	(23,906)
OPEB inflows	942
Net Cash Provided by Operating Activities	\$ 1,444,130

See Notes to Financial Statements.

(This page intentionally left blank.)

NOTES TO FINANCIAL STATEMENTS September 30, 2023

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. *Governmental activities*, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

B. Reporting Entity

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 is an independent political subdivision of the State of Texas governed by an elected council and is considered a primary government for financial reporting purposes as its activities are not considered a part of any other governmental or other type of reporting entity. 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. The Freeport Economic Development Corporation ("FEDC") is legally separate and presented as a discretely presented component unit. The Tax Increment Reinvestment Zone No. 1 Fund ("TIRZ #1") is a blended component unit and presented as a nonmajor governmental fund. No other entities have been included in the City's reporting entity. Additionally, as the City is considered a part of any other governmental or other type of reporting entity.

Considerations regarding the potential for inclusion of other entities, organizations or functions in the City's financial reporting entity are based on criteria prescribed by generally accepted accounting principles. These same criteria are evaluated in considering whether the City is a 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

NOTES TO FINANCIAL STATEMENTS, Continued September 30, 2023

elected governing body; it is legally separate; and 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 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.

Blended Component Unit

Tax Increment Reinvestment Zone No. 1 Fund ("TIRZ")

On December 2, 2019, the City passed ordinance No. 2019-2590 designating a 345-acre tract of land to promote development along the Brazos River and the downtown area of the City. It creates dedicated funding for infrastructure within the district and an incentive for people to come and do business through the TIRZ from the additional property tax dollars generated in the district as a result of development. This district is set to collect 50% of the incremental new tax dollars generated to plug back into the district to foster additional development. The operations of the TIRZ are set to continue through December 31, 2049. The TIRZ can be dissolved at an earlier time if a subsequent ordinance is passed by the City and all subsequent issuances of tax increment bonds including interest, if any, along with project costs are paid in full.

Discretely Presented Component Unit

<u>Freeport Economic Development Corporation</u>

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 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.

NOTES TO FINANCIAL STATEMENTS, Continued September 30, 2023

C. Basis of Presentation Government-Wide and Fund Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds while business-type activities incorporate data from the government's enterprise funds. Separate financial statements are provided for governmental funds and the proprietary funds.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments in lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the government's water and transit functions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

The fund financial statements provide information about the government's funds, including its blended component units. Separate statements for each fund category—governmental and proprietary are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

The government reports the following major governmental funds:

Governmental Funds

Governmental funds are those funds through which most governmental functions are typically financed.

General Fund

The general fund is used to account for all financial transactions not properly includable in other funds. The principal sources of revenues include local property taxes, sales and franchise taxes, licenses and permits, fines and forfeitures, and charges for services. Expenditures include general government, public safety, parks and recreation and public works.

Capital Projects Fund

The City's capital projects fund accounts for the acquisition and construction of the government's major capital facilities, other than those financed by proprietary funds.

NOTES TO FINANCIAL STATEMENTS, Continued September 30, 2023

2020 CO Bond CIP Fund

This fund accounts for the portion of the proceeds from the issuance of the 2020 certificates of obligation to be used for the purpose of repairing, improving, upgrading, and equipping City buildings, City streets and drainage, and City parks, including engineering and other related costs, and for the acquisition of equipment for general governmental purposes.

Proprietary Fund Types

Proprietary funds are used to account for activities that are similar to those often found in the private sector. All assets, liabilities, equities, revenues, expenses, and transfers relating to the government's business activities are accounted for through proprietary funds. The measurement focus is on determination of net income, financial position, and cash flows. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues include charges for services. Operating expenses include costs of materials, contracts, personnel, and depreciation. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. Proprietary fund types follow GAAP prescribed by the Governmental Accounting Standards Board (GASB) and all financial Accounting Standards Board's standards issued prior to November 30, 1989. Subsequent to this date, the City accounts for its enterprise funds as presented by GASB. The proprietary fund types used by the City include enterprise funds.

The government reports the following major enterprise fund:

Water and Sewer Fund

This fund is used to account for the provision of water and sewer services to the residents of the City and the construction of related facilities. Activities of the fund include administration, operations and maintenance of the water production and distribution system, water collection and treatment systems. The acquisition, maintenance and improvement of the physical plant facilities required to provide these goods and services are financed from existing cash resources, the issuance of bonds (revenue or general obligation), impact fees and other City funds. All costs are financed through charges to utility customers.

Additionally, the government reports the following fund types:

Debt Service Fund

The debt service fund is used to account for the payment of interest and principal on all general obligation bonds and other long-term debt of the City. The primary source of

NOTES TO FINANCIAL STATEMENTS, Continued September 30, 2023

revenue for debt service is local property taxes. The debt service fund is considered a nonmajor fund for reporting purposes.

Special Revenue Funds

The City accounts for resources restricted to, or designated for, specific purposes in a special revenue fund.

During the course of operations the government has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental and internal service funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., the enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as transfers in the business-type activities column.

D. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. 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.

NOTES TO FINANCIAL STATEMENTS, Continued September 30, 2023

The 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 government 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. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under leases are reported as other financing sources.

Property taxes, sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). All other revenue items are considered to be measurable and available only when cash is received by the government.

E. Budgetary Information

The original budget is adopted by the City Council prior to the beginning of the fiscal year for the General Fund and Debt Service Fund. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the department level. Transfers of appropriations between departments require the approval of the City Council.

F. Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position/Fund Balance

1. Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short term investments with original maturities of three months or less from the date of acquisition. For the purpose of the statement of cash flows, the proprietary fund types consider temporary investments with maturity of three months or less when purchased to be cash equivalents.

In accordance with GASB Statement No. 31, Accounting and Reporting for Certain Investments and External Investment Pools, the City reports all investments at fair value, except for "money

NOTES TO FINANCIAL STATEMENTS, Continued September 30, 2023

market investments" and "2a7-like pools." Money market investments, which are short-term highly liquid debt instruments that may include U.S. Treasury and agency obligations, are reported at amortized costs. Investment positions in external investment pools that are operated in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940, such as LOGIC, are reported using the pools' share price.

The City has adopted a written investment policy regarding the investment of its funds as defined in the Public Funds Investment Act, Chapter 2256, of the Texas Governmental Code. In summary, the City is authorized to invest in the following:

Direct obligations of the U.S. Government Fully collateralized certificates of deposit and money market accounts Statewide investment pools

2. Fair Value

The City has applied Governmental Accounting Standards Board ("GASB") Statement No. 72, Fair Value Measurement and Application. GASB Statement No. 72 provides guidance for determining a fair value measurement for reporting purposes and applying fair value to certain investments and disclosures related to all fair value measurements.

3. Receivables and Interfund Transactions

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the year are referred to as either "interfund receivables/payables" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds" in the fund financial statements. If the transactions are between the primary government and its component unit, these receivables and payables are classified as "due to/from component unit/primary government." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds are offset by a fund balance reserve account in the applicable governmental fund to indicate they are not available for appropriation and are not expendable available financial resources.

All trade receivables are shown net of any allowance for uncollectible amounts.

4. Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property in conformity with Subtitle E, Texas Property Tax

NOTES TO FINANCIAL STATEMENTS, Continued September 30, 2023

Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. Penalties are calculated after February 1 up to the date collected by the government at the rate of 6% for the first month and increased 1% per month up to a total of 12%. Interest is calculated after February 1 at the rate of 1% per month up to the date collected by the government. Under state law, property taxes levied on real property constitute a lien on the real property which cannot be forgiven without specific approval of the State Legislature. The lien expires at the end of twenty years. Taxes levied on personal property can be deemed uncollectible by the City.

5. Inventories and Prepaid Items

The costs of governmental fund type inventories are recorded as expenditures when the related liability is incurred, (i.e., the purchase method). The inventories are valued at the lower of cost or market using the first-in/first-out method. Certain payments to vendors reflect costs applicable to future accounting periods (prepaid expenditures) are recognized as expenditures when utilized.

6. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government, as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Interest costs incurred in connection with construction of enterprise fund capital assets are capitalized when the effects of capitalization materially impact the financial statements. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Property, plant, and equipment of the primary government, as well as the component units, are depreciated using the straight-line method over the following estimated useful years.

Estimated
Useful Life
5-15 years
40 years
Shorter of lease
term or 5-15 years
10-20 years

NOTES TO FINANCIAL STATEMENTS, Continued September 30, 2023

7. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net assets that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/ expenditure) until then. An example is a deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net assets that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The government has only one type of item, which arises only under a modified accrual basis of accounting, which qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property tax and fines and fee revenue. This amount is deferred and recognized as an inflow of resources in the period that the amounts become available. Deferred inflows of resources can also occur at the government wide level due to differences between investment gains and losses realized on pension investments compared to assumption used within the pension actuarial valuation model.

8. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the Fiduciary Net Position of the Texas Municipal Retirement System (TMRS) and additions to/deductions from TMRS's Fiduciary Net Position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

9. Other Postemployment Benefits

The City has implemented GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. This statement applies to the individual employers (TMRS cities) in the TMRS Supplemental Death Benefits (SDB) plan, with retiree coverage. The TMRS SDBF covers both active and retiree benefits with no segregation of assets, and therefore doesn't meet the definition of a trust under GASB No. 75 (i.e., no assets are accumulated for OPEB) as such the SDBF is considered to be an unfunded OPEB plan.

NOTES TO FINANCIAL STATEMENTS, Continued September 30, 2023

For purposes of reporting under GASB 75, the retiree portion of the SDBF is not considered a cost sharing plan and is instead considered a single employer, defined benefit OPEB plan. 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 on which TMRS deposits are made, for the 12-month period preceding the month of death. The death benefit amount for retirees is \$7,500. GASB No. 75 requires the liability of employers and nonemployer contributing entities to employees for defined benefit OPEB (net OPEB liability) to be measured as the portion of the present value of projected benefit payments to be provided to current active and inactive employees that is attributed to those employees' past periods of service (total OPEB liability), less the amount of the OPEB plan's fiduciary net position.

Additionally, the City provides its retirees the opportunity to maintain health insurance coverage by participating in the City's insurance plan. The City reports the total liability for this plan on the government-wide and proprietary fund financial statements. The actual cost recorded in the governmental fund financial statements is the cost of the health benefits incurred on behalf of the retirees less the premiums collected from the retirees.

10. Net Position Flow Assumption

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

11. Fund Balance Flow Assumptions

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

12. Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The government itself

NOTES TO FINANCIAL STATEMENTS, Continued September 30, 2023

can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The governing council is the highest level of decision-making authority for the government that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The governing body (City Council) has by resolution authorized the City Manager to assign fund balance. The Council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

13. 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 fifteen (15) days past his/her yearly anniversary date. It is possible for employees to have accrued vacation time at year end, 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.

It is the City's policy to liquidate compensated absences with future revenues rather than with currently available expendable resources. Accordingly, the City's governmental funds recognize accrued compensated absences when it is paid.

14. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net position. The long-term debt consists primarily of bonds payable, bond premiums, leases payable, and accrued compensated absences.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements until due. The debt proceeds are reported as other financing sources, net of the

NOTES TO FINANCIAL STATEMENTS, Continued September 30, 2023

applicable premium or discount and payments of principal and interest reported as expenditures. In the governmental fund types, issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures. However, claims and judgments paid from governmental funds are reported as a liability in the fund financial statements only for the portion expected to be financed from expendable available financial resources.

Long-term debt and other obligations, financed by proprietary funds, are reported as liabilities in the appropriate funds. For proprietary fund types, bond premiums, and discounts are deferred and amortized over the life of the bonds using the effective interest method, if material. Bonds payable are reported net of the applicable bond premium or discount. Issuance costs are expensed as incurred in accordance with GASB statement no. 65.

Assets acquired under the terms of leases are recorded as liabilities and capitalized in the government-wide financial statements at the present value of net minimum lease payments at inception of the lease. In the year of acquisition, lease transactions are recorded as other financing sources and as capital outlay expenditures in the general fund. Lease payments representing both principal and interest are recorded as expenditures in the general fund upon payment with an appropriate reduction of principal recorded in the government-wide financial statements.

15. Leases

Lessee: The City is a lessee for noncancellable lease of vehicles and office equipment. The City recognizes a lease liability and an intangible right-to-use lease asset (lease asset) in the full-accrual financial statements. The City recognizes lease liabilities with an initial, individual value of \$5,000 or more.

At the commencement of a lease, the City initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The leased asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over its useful life.

Key estimates and judgments related to leases include how the City determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

• The City uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the City uses its estimated incremental borrowing rate as the discount rate for leases.

NOTES TO FINANCIAL STATEMENTS, Continued September 30, 2023

• The lease term includes the noncancellable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option price that the City is reasonably certain to exercise.

The City monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

Lease assets are reported with other capital assets and lease liabilities are reported with long-term debt on the statement of net position.

Lessor: The City is a lessor for a noncancellable lease of cell towers and golf course subsurfaces. The City recognizes a lease receivable and a deferred inflow of resources in the government-wide and governmental fund financial statements.

At the commencement of a lease, the City initially measures the lease receivable at the present value of payments expected to be received during the lease term. Subsequently, the lease receivable is reduced by the principal portion of lease payments received. The deferred inflow of resources is initially measured as the initial amount of the lease receivable, adjusted for lease payments received at or before the lease commencement date. Subsequently, the deferred inflow of resources is recognized as revenue over the life of the lease term.

Key estimates and judgments include how the City determines (1) the discount rate it uses to discount the expected lease receipts to present value, (2) lease term, and (3) lease receipts.

- The City uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease. Lease receipts included in the measurement of the lease receivable is composed of fixed payments from the lessee.

The City monitors changes in circumstances that would require a remeasurement of its lease, and will remeasure the lease receivable and deferred inflows of resources if certain changes occur that are expected to significantly affect the amount of the lease receivable.

16. Subscription Based Information Technology Arrangements

The City implemented the provision of Governmental Accounting Standard Board (GASB) Statement No. 96, entitled Subscription-Based Information Technology Arrangements ("SBITA"). Upon implementation, the City recorded right to use assets and subscription liabilities based on the present value of the payments for the related arrangements. The assets are included within capital assets, and amortized straight-line over the term of the

NOTES TO FINANCIAL STATEMENTS, Continued September 30, 2023

arrangement. The liabilities accrue interest at the implied rate estimated by the City, and are relieved with payments over the term of the arrangements.

17. Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

G. Revenues and Expenditures/Expenses

1. Program Revenues

Amounts reported as *program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

2. Proprietary Funds Operating and Nonoperating Revenues and Expenses

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 utility fund are charges to customers for sales and services. The utility fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net position.

The governmental fund balance sheet includes reconciliation between *fund balance-total* governmental funds and net position-governmental activities as reported in the government-wide statement of net position. One element of that reconciliation explains that long-term liabilities, including bonds, are not due and payable in the current period and, therefore, are not reported in the funds.

NOTES TO FINANCIAL STATEMENTS, Continued September 30, 2023

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net position of governmental states that, "the issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities."

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Expenditures in Excess of Appropriations

The original budget is adopted by the City Council prior to the beginning of the fiscal year for the general fund, debt service fund, 2020 CO bond CIP fund, the special revenue funds, and the water/sewer fund. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the department level. Transfers of appropriations between departments require the approval of the City Council.

Appropriations lapse at the end of the year. Several supplemental budget amendments were made during the year.

Expenditures exceeded appropriations at the legal level of control as follows:

General fund:

General government	\$ 219,680
Principal	78,303
Interest and fiscal charges	19,213

NOTES TO FINANCIAL STATEMENTS, Continued September 30, 2023

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of September 30, 2023, the primary government had the following investments:

		Weighted
		Average Maturity
Investment Type	Value	(Days)
External investment pools	\$ 16,210,308	39
Total fair value	\$ 16,210,308	
Portfolio weighted average maturity		39

Interest rate risk – In accordance with its investment policy, the City manages its exposure to declines in fair values by limiting the weighted average of maturity to 365 days or less; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations; monitoring credit ratings of portfolio position to assure compliance with rating requirements imposed by the Public Funds Investment Act; and invest operating funds primarily in short-term securities or similar government investment pools.

Credit risk – The City's investment policy limits investments to obligations of the United States, State of Texas, or their agencies and instrumentalities with an investment quality rating of not less than "A" or its equivalent, by a nationally recognized investment rating firm. Other obligations must be unconditionally guaranteed (either express or implied) by the full faith and credit of the United States Government or the issuing U.S. agency and investment pools with an investment quality not less than AAA or AAA-m, or equivalent, by at least one nationally recognized rating service.

Custodial credit risk – deposits In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. State statutes require that all deposits in financial institutions be insured or fully collateralized by U.S. government obligations or its agencies and instrumentalities or direct obligations of Texas or its agencies and instrumentalities that have a market value of not less than the principal amount of the deposits. The City requires all deposits with financial institutions be collateralized in an amount equal to 102 percent of uninsured balances. As of September 30, 2023, the market values of pledged securities and FDIC exceeded bank balances.

Custodial credit risk – investments For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investment policy requires that it will seek to safekeeping securities at financial institutions, avoiding physical possession. Further, all trades, where applicable, are executed by delivery versus

NOTES TO FINANCIAL STATEMENTS, Continued September 30, 2023

payment to ensure that securities are deposited in the City's safekeeping account prior to the release of funds.

TexPool

TexPool was established as a trust company with the Treasurer of the State of Texas as trustee, segregated from all other trustees, investments, and activities of the trust company. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The advisory board members review the investment policy and management fee structure. Finally, Standard & Poor's rate TexPool AAAm. As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard & Poor's, as well as to the office of the Comptroller of Public Accounts for review. There were no limitations or restrictions on withdrawals.

Texas CLASS

Texas CLASS is a local government investment pool created to meet the cash management and short-term investment needs of Texas governmental entities. Texas CLASS Government seeks to provide participants with a competitive market yield while maintaining daily liquidity and a stable net asset value. Texas CLASS Government is rated 'AAAm' by S&P Global Ratings. There were no limitations or restrictions on withdrawals.

B. Receivables

1. The following comprise receivable balances of the primary government at year end:

Nonmajor

		G	overnmental				
	General		Funds	Utility	Total		
Property taxes	\$ 206,611	\$	38,119	\$ -	\$	244,730	
Sales tax	376,613		-	-		376,613	
Franchise and local	23,153		80,761	-		103,914	
EMS	744,145		-	-		744,145	
Accounts	211,077		-	2,509,418		2,720,495	
Lease receivables	1,474,042		-	-		1,474,042	
Other	137,586		-	-		137,586	
Allowance	 (617,461)		(68,316)	 (270,015)		(955,792)	
Total	\$ 2,555,766	\$	50,564	\$ 2,239,403	\$	4,845,733	

NOTES TO FINANCIAL STATEMENTS, Continued September 30, 2023

- 2. The discretely presented component unit's receivable balance consisted entirely of sales taxes.
- 3. The City is the lessor of two contracts in which the City receives lease payments from Verizon and Dow Chemical for the use of existing cell towers and golf course subsurfaces. The leases commenced in 2017 and 2022. Monthly lease payments of \$1,000 will be received from Verizon through March 2028. Monthly lease payments of \$100,000 will be received from Dow Chemical through July 2036. As of September 30, 2023, the lease receivable and offsetting deferred inflows amounted to \$1,474,042 and \$1,373,683, respectively.

The annual principal and interest payments to be received are as follows:

Year ending	Governmental Activities								
September 30,	Principal	Inte	erest (4.28%)						
2024	\$ 89,721	\$	122,279						
2025	52,924		59,076						
2026	55,198		56,801						
2027	<i>57,57</i> 0		54,430						
2028	53,990		52,010						
Thereafter	 1,164,639		334,610						
	\$ 1,474,042	\$	679,206						

NOTES TO FINANCIAL STATEMENTS, Continued September 30, 2023

C. Capital Assets

A summary of changes in governmental activities capital assets for the year end was as follows:

		Beginning Balances		Increases		Decreases/ lassifications	Ending Balances		
Capital assets, not being depreciated:		Datatices	1	Increases	Kec	lassifications		Datances	
Land	\$	2,459,060	\$	_	\$	(53,360)	\$	2,405,700	
Construction in process	Ψ	2,454,912	Ψ	3,288,875	Ψ	(1,996,173)	Ψ	3,747,614	
Total capital assets not being depreciated		4,913,972		3,288,875		(2,049,533)		6,153,314	
						<u> </u>			
Capital assets, being depreciated:									
Streets and improvements		24,019,680		1,135,333		1,971,445		27,126,458	
Building and improvements		8,522,573		259,912		-		8,782,485	
Furniture, equipment, and vehicles		16,119,670		1,046,085		24,728		17,190,483	
Right-to-use assets		394,610		254,401		(17,280)		631,731	
Total capital assets being depreciated		49,056,533		2,695,731		1,978,893		53,731,157	
Less accumulated depreciation									
Streets and improvements		17,671,933		761,744		-		18,433,677	
Building and improvements		6,023,057		251,991		-		6,275,048	
Furniture, equipment, and vehicles		12,950,898		800,473		-		13,751,371	
Right-to-use assets		106,230		101,387		(8,650)		198,967	
Total accumulated depreciation		36,752,118		1,915,595		(8,650)		38,659,063	
Net capital assets being depreciated		12,304,415		780,136		1,987,543		15,072,094	
Total Capital Assets	\$	17,218,387	\$	4,069,011	\$	(61,990)	\$	21,225,408	

Depreciation was charged to governmental functions as follows:

General government	\$ 294,972
Public safety	581,180
Streets and drainage	583,342
Culture and recreation	431,368
Service center	 24,733
Total Governmental Activities Depreciation Expense	\$ 1,915,595

NOTES TO FINANCIAL STATEMENTS, Continued September 30, 2023

A summary of changes in business-type activities capital assets for the year end was as follows:

	Beginning Balances		Increases	ecreases/ assifications	Ending Balances		
Capital assets, not being depreciated:							
Land	\$ 56,200	\$	12,400	\$ -	\$	68,600	
Construction in progress	1,173,474		1,121,206	(155,168)		2,139,512	
Total capital assets not being depreciated	1,229,674		1,133,606	(155,168)		2,208,112	
Capital assets, being depreciated:							
Water and sewer system	26,257,966		1,936,354	155,168		28,349,488	
Furniture, equipment, and vehicles	610,757		137,731	-		748,488	
Total capital assets being depreciated	26,868,723		2,074,085	 155,168		29,097,976	
Less accumulated depreciation							
Water and sewer system	18,318,299		530,643	-		18,848,942	
Furniture, equipment, and vehicles	238,397		76,947	-		315,344	
Total accumulated depreciation	18,556,696		607,590	-		19,164,286	
Net capital assets being depreciated	8,312,027		1,466,495	155,168		9,933,690	
Total Capital Assets	\$ 9,541,701	\$	2,600,101	\$ -	\$	12,141,802	

NOTES TO FINANCIAL STATEMENTS, Continued September 30, 2023

A summary of changes in component unit activities capital assets for the year end was as follows:

	Beginning Balances		I	ncreases	Decreases/ Reclassifications		Ending Balances	
Capital assets, not being depreciated:								
Land	\$	2,456,056	\$	_	\$		\$	2,456,056
Total capital assets not being		2,456,056		-		_		2,456,056
Capital assets, being depreciated: Streets and improvements		2,362,143						2,362,143
Total capital assets being depreciated		2,362,143	1	-		_		2,362,143
Less accumulated depreciation Streets and improvements		2,271,518		88,424		_		2,359,942
•			1					
Total accumulated depreciation		2,271,518	-	88,424				2,359,942
Net capital assets being depreciated Total Capital Assets	\$	90,625 2,546,681	\$	(88,424) (88,424)	\$		\$	2,201 2,458,257

NOTES TO FINANCIAL STATEMENTS, Continued September 30, 2023

D. Other Long-term Liabilities

The following is a summary of changes in the City's other long-term liabilities for the year ended. In general, the City uses the general fund and proprietary fund to liquidate compensated absences.

									A	mounts
	В	eginning				Ending			Dι	ıe Within
	Balance		Additions		Reductions		Balance		One Year	
Governmental Activities:										
Compensated absences	\$	302,930	\$	283,988	\$	(272,637)	\$	314,281	\$	282,853
Total Governmental Activities	\$	302,930	\$	283,988	\$	(272,637)	\$	314,281	\$	282,853
Long-term Liabilities Due in More than One Year								31,428		
Business-Type Activities:										
Compensated absences	\$	2,079	\$	1,708	\$	-	\$	3,787	\$	3,408
Total Business-Type Activities	\$	2,079	\$	1,708	\$	-	\$	3,787	\$	3,408
Long-term Liabilities Due in More t	han C	ne Year					\$	379		
Component Unit Activities:										
Compensated absences	\$	-	\$	6,970	\$	(250)	\$	6,720	\$	6,048
Total Component Unit Activities	\$	-	\$	6,970	\$	(250)	\$	6,720	\$	6,048
							\$	672		

NOTES TO FINANCIAL STATEMENTS, Continued September 30, 2023

E. Long-term Debt

The following is a summary of changes in the City's total governmental long-term liabilities for the year ended. In general, the City uses the debt service and general fund to liquidate governmental long-term liabilities.

]	Beginning Balance	A	Additions	F	ayments	Ending Balance		ue within One Year
Governmental Activities:									
Bonds, notes and other payables:									
Certificates of obligation	\$	7,555,000	\$	-	\$	(340,000)	\$ 7,215,000	\$	360,000
Premiums		377,452		-		(38,455)	338,997		-
Lease liabilities		283,806		230,594		(57,303)	457,097		79,145
Subscription liabilities		27,738		23,807		(21,000)	30,545		13,902
Total Governmental Activities	\$	8,243,996	\$	254,401	\$	(456,758)	\$ 8,041,639	\$	453,047
Long-term liabilities due in mo		han one year Beginning					\$ 7,588,592 Ending	D	ue within
		Balance		dditions	F	ayments	 Balance		One Year
Business-type Activities:			·	_				·	
Bonds, notes and other payables:									
Certificates of obligation	\$	4,635,000	\$	-	\$	(180,000)	\$ 4,455,000	\$	190,000
Premium		277,098		-		(30,053)	247,045		-
Total Business-type Activities	\$	4,912,098	\$	-	\$	(210,053)	\$ 4,702,045	\$	190,000
Long-term liabilities due in mo	ore t	han one year					\$ 4,512,045		

NOTES TO FINANCIAL STATEMENTS, Continued September 30, 2023

Primary government long-term debt at year end was comprised of the following debt issues:

	overnmental Activities	Business-type Activities	
Certificates of Obligation:			
\$7,735,000 Series 2020 Combined Tax & Revenue Cert. of Obligation,			
due in installments through Sept 2040, interest at 1.125% to 4.125%	\$ 7,215,000	\$	-
\$4,845,000 Series 2021 Combined Tax & Revenue Cert. of Obligation,			
due in annual installments through Sept 2041, interest at 1.25% to 2.84%	_		4,455,000
Total Certificates of Obligation	\$ 7,215,000	\$	4,455,000
Lease Liabilities:			
\$275,312 lease agreement for 58 golf carts, one range picker			
due in installments through Nov 15, 2025, interest at 4.28%	\$ 243,278	\$	-
\$230,594 lease agreement for office equipment			
due in annual installments through Oct 2028, interest at various rates	\$ 213,819	\$	-
Total Lease Liabilities	\$ 457,097	\$	-
Subscription Liabilities:			
\$52,461 software subscriptions; terms 2 yr & 5 yr,			
due in installments through 2027, interest at 2.71% & 3.31%	\$ 30,545	\$	-
Total Subscription Liabilities	\$ 30,545	\$	-
Bond Premiums:	338,997		247,045
Total Debt	\$ 8,041,639	\$	4,702,045

The annual requirements to amortize the primary government's debt issues outstanding at year ending were as follows:

Governmental Activities

Year	Certificates of Obligation									
Ending,	Principal		Interest							
2024	\$ 360,000	\$	139,769							
2025	365,000		133,469							
2026	370,000		127,994							
2027	375,000		122,444							
2028	380,000		117,288							
2029-2033	2,110,000		377,581							
2034-2038	2,285,000		204,381							
2039-2040	970,000		29,200							
Total	\$ 7,215,000	\$	1,252,126							

NOTES TO FINANCIAL STATEMENTS, Continued September 30, 2023

Governmental Activities

	Lease L	iabili	ties	Subscription Liabilities						
	Principal		Interest		Principal		Interest			
2024	\$ 79,145	\$	20,796	\$	13,902	\$	409			
2025	84,800		16,848		5,547		184			
2026	202,410		7,177		5,548		183			
2027	55,219		3,667		5,548		183			
2028	33,821		791		-		-			
2029	1,702		6		-		-			
Total	\$ 457,097	\$	49,285	\$	30,545	\$	959			

The City has entered into lease agreements. The related governmental activities right to use assets had a carrying value of \$393,677 as of yearend.

The City has entered into software subscription agreements. The related governmental activities right to use assets had a carrying value of \$39,087 as of yearend.

Business-type Activities

Year	Certificates of Obligation					
Ending,		Principal	Interest			
2024	\$	190,000	\$	114,250		
2025		195,000		106,650		
2026		205,000		98,850		
2027		215,000		90,650		
2028		220,000		82,050		
2029-2033		1,215,000		302,700		
2034-2038		1,350,000		168,500		
2039-2041		865,000		34,700		
Total	\$	4,455,000	\$	998,350		

NOTES TO FINANCIAL STATEMENTS, Continued September 30, 2023

F. Restricted Net Position

The City records restricted net position on amounts with externally imposed restrictions (e.g., through debt covenants or by grantors) or restrictions imposed by law through constitutional provisions or enabling legislation. Total restricted net position for the primary government was \$8,115,069. Of which, \$397,993 is restricted by enabling legislation.

G. Interfund Transactions

Transfers between the primary government funds during the 2023 year were as follows:

			T	ransfers In:				
Transfers (Out):	General		Nonmajor Govt.		Water & Sewer		Total	
General	\$	-	\$	1,490,095	\$	-	\$	1,490,095
2020 CO Bond CIP		-		-		121,342		121,342
Water and sewer		150,000		240,725		-		390,725
	\$	150,000	\$	1,730,820	\$	121,342	\$	2,002,162

Amounts transferred between funds relate to amounts collected by the governmental and enterprise funds for various capital expenditures and principal and interest payments.

The compositions of interfund balances to/from as of the year ended September 30, 2023 were as follows:

Due to (Parrable fund).

	Due to (Fayable lunu):						
Due from (Receivable fund):	General		Water & Sewer		Total		
Nonmajor govt.	\$	14,553	\$	240,725	\$	255,278	
	\$	14,553	\$	240,725	\$	255,278	

Amounts recorded as interfund receivables and payables are considered to be temporary loans and will be repaid during the following fiscal year.

As of September 30, 2023, the EDC owed the primary government (general fund) \$231,728.

V. OTHER INFORMATION

A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets, errors and omissions; and natural disasters for which the City participates along with over 2,800 other entities in the Texas Municipal League's Intergovernmental Risk Pools. The Pool purchases commercial insurance at group rates for participants in the Pool. The City has no additional risk or responsibility to the Pool outside

NOTES TO FINANCIAL STATEMENTS, Continued September 30, 2023

of the payment of insurance premiums. The City has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts for the past three years.

B. Contingent Liabilities

Amounts received or receivable from granting agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amounts of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends, including frequency and amount of payouts, and other economic and social factors. No such liabilities were recorded as of year end.

C. Contracts/Agreements

Industrial Contract Agreements

The City three Industrial Development Agreements: Brazosport IDA (Interlocal with Lake Jackson and Clute), Freeport IDA, and Freeport LNG. Brazosport IDA and Freeport IDA, are calculated based on property values or CPI, whichever is greater. Freeport LNG Industrial District payments are made in accordance to a payment schedule outline in the agreement. The amount received under this contract and various other industrial district contracts during the year ended September 30, 2023 was \$8,954,278 and is reported in the General Fund.

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 used or not, 2 million gallons of water per day. The actual supply of water under this contract started in March, 1989.

Sewage Treatment Contract

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, 2023, the City of Freeport's portion of these expenses is estimated to be \$172,290.

NOTES TO FINANCIAL STATEMENTS, Continued September 30, 2023

Animal Shelter

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 and does not have an equity interest. For the year ended September 30, 2023, the City paid \$119,119 for their portion of the operating costs.

Port Freeport Settlement Agreement

The City Council approved a mediated settlement agreement with Port Freeport on May 15, 2023. According to the agreement, Port Freeport agrees to pay the City a total of \$8,900,000 in full consideration of certain properties and easements in addition to a replacement lift station, water line relocation, and new wastewater lines. If the actual cost to install the new lift station exceeds \$1,200,000, Port Freeport will reimburse the City for 50% of the excess costs upon removal of the existing lift station by the City. The City will continue to maintain and repair the existing lift station until the replacement infrastructure is completed. As of September 30, 2023, the City has received \$7,100,000 from Port Freeport, none of which has been spent. The remaining \$1,800,000 will be held in escrow by Port Freeport and will be paid to the City within 10 days upon completion of the infrastructure project.

D. Pension Plans

Texas Municipal Retirement System

1. Plan Description

The City of Freeport, Texas participates as one of 919 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 publicly available annual comprehensive financial report (ACFR) that can be obtained at www.tmrs.com.

NOTES TO FINANCIAL STATEMENTS, Continued September 30, 2023

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

2. 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 payments options. Members 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 the City, within the options available in the state statutes governing TMRS. Plan provisions for the City were as follows:

	Plan Year 2021	Plan Year 2022
Employee deposit rate	7.00%	7.00%
Matching ratio (city to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility		
(expressed as age / years of service)	60/5, 0/20	60/5, 0/20
Updated service credit	100% Repeating Transfers	100% Repeating Transfers
Annuity increase (to retirees)	70% of CPI	70% of CPI

Employees covered by benefit terms

At the December 31, 2022 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	97
Inactive employees entitled to but not yet receiving benefits	144
Active employees	<u>124</u>
Total	<u>365</u>

3. 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

NOTES TO FINANCIAL STATEMENTS, Continued September 30, 2023

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 for the City of Freeport, Texas were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City of Freeport, Texas were 14.09% and 14.13% in calendar years 2022 and 2023, respectively. The City's contributions to TMRS for the year ended September 30, 2023, were \$1,063,502, and equaled the required contributions.

4. Net Pension Liability (Asset)

The City's Net Pension Liability (Asset) was measured as of December 31, 2022, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability (Asset) was determined by an actuarial valuation as of that date.

Actuarial assumptions

The Total Pension Liability in the December 31, 2021 actuarial valuation was determined using the following actuarial assumptions:

Inflation 2.5% per year

Overall payroll growth 3.5% to 11.50%, including inflation

Investment Rate of Return 6.75%, net of pension plan investment expense, including

inflation

Salary increases are based on a service-related table. Mortality rates for active members are based on the PUB(10) mortality tables with the Public Safety table used for males and the General Employee table used for females. Mortality rates for healthy retirees and beneficiaries are based on the Gender-distinct 2019 Municipal Retirees of Texas mortality tables. The rates for actives, healthy retirees and beneficiaries are projected on a fully generational basis by Scale UMP to account for future mortality improvements. For disabled annuitants, the same mortality tables for healthy retirees is used with a 4-year set-forward for males and a 3-year set-forward for females. In addition, a 3.5% and 3.0% minimum 16 mortality rate is applied, for males and females respectively, to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four-year period from December 31, 2014 to December 31, 2018. They were adopted in 2019 and first used in the December 31, 2019 actuarial valuation. The post-retirement mortality assumption for Annuity Purchase Rates (APRs) is based on the

NOTES TO FINANCIAL STATEMENTS, Continued September 30, 2023

Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. 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.

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. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimates of real rates of return for each major asset class in fiscal year 2023 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Global Public Equity	35.0%	7.70%
Core Fixed Income	6.0%	4.90%
Non-Core Fixed Income	20.0%	8.70%
Other Public/Private Markets	12.0%	8.10%
Real Estate	12.0%	5.80%
Hedge Funds	5.0%	6.90%
Private Equity	10.0%	11.80%
Total	100.0%	

Discount Rate

The discount rate used to measure the Total Pension Liability was 6.75%. 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 benefit 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.

Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate

The following presents the net pension liability of the City, calculated using the discount rate of 6.75%, as well as what the City's net pension liability would be if it were calculated using

NOTES TO FINANCIAL STATEMENTS, Continued September 30, 2023

a discount rate that is 1-percentage-point lower (5.75%) or 1-percentage-point higher (7.75%) than the current rate:

1% Decrease		Current Single Rate		1% Increase
 5.75%		Assumption 6.75%		7.75%
\$ 12,967,095	\$	7,267,291	\$	2,703,079

Changes in the Net Pension Liability (Asset)

	Total Pension Liability (a)	Pl	Plan Fiduciary Net Position (b)		Net Pension ability (a) – (b)
Balance at 12/31/21	\$ 34,025,765	\$	31,344,314	\$	2,681,451
Changes for the year:					
Service cost	1,188,602		-		1,188,602
Interest	2,284,689		-		2,284,689
Difference between expected and					
actual experience	345,806		-		345,806
Changes of assumptions	-		-		-
Contributions – employer	-		1,013,241		(1,013,241)
Contributions – employee	-		503,340		(503,340)
Net investment income	-		(2,287,152)		2,287,152
Benefit payments, including					
refunds of emp. contributions	(1,545,644)		(1,545,644)		-
Administrative expense	-		(19,799)		19,799
Other changes	-		23,627		(23,627)
Net changes	 2,273,453		(2,312,387)		4,585,840
Balance at 12/31/22	\$ 36,299,218	\$	29,031,927	\$	7,267,291

Pension Plan Fiduciary Net Position

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

5. <u>Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions</u>

For the year ended September 30, 2023, the City recognized pension expense of \$1,520,211.

NOTES TO FINANCIAL STATEMENTS, Continued September 30, 2023

At September 30, 2023, the City reported deferred outflows and inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources		Deferred
			(Inflows) of Resources
D://			
Difference between projected and actual			
investment earnings	\$	2,014,013	\$ -
Differences between expected and actual			
economic experience		306,004	-
Contributions subsequent to the			
measurement date		791,959	<u> </u>
Total	\$	3,111,976	\$ -

The primary government reported \$791,959 deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability for the year ending September 30, 2024.

Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	
2023	\$ 275,692
2024	619,104
2025	544,645
2026	880,576
2027	-
Thereafter	 -
	\$ 2,320,017

Other Postemployment Benefits

1. TMRS Supplemental Death Benefits Fund

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

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the

NOTES TO FINANCIAL STATEMENTS, Continued September 30, 2023

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 one-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 upcoming year; the intent is not to pre-fund retiree term life insurance during employees' entire careers.

Employees covered by benefit terms

At the December 31, 2022 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	61
Inactive employees entitled to but not yet receiving benefits	30
Active employees	124
Total	215

The City's retiree contribution rates to the TMRS SDBF for the years ended 2021, 2022, and 2023 are as follows:

	Annual	Actual	
	Required	Contribution	Percentage of
Plan/	Contribution	Made	ARC
Calendar Year	(Rate)	(Rate)	Contributed
2021	0.11%	0.11%	100.0%
2022	0.10%	0.10%	100.0%
2023	0.12%	0.12%	100.0%

The Retiree's contributions to the TMRS SDBF for the years ended 2023 and 2022 were \$8,653, \$7,429 respectively, which equaled the required contributions each year.

Total OPEB Liability

The City's Postemployment Benefits Other Than Pensions Liability (OPEB) was measured as of December 31, 2022, and the Total OPEB Liability was determined by an actuarial valuation as of that date.

NOTES TO FINANCIAL STATEMENTS, Continued September 30, 2023

Actuarial assumptions:

The Total OPEB Liability in the December 31, 2022 actuarial valuation was determined using the following actuarial assumptions:

Inflation 2.5% per year

Overall payroll growth 3.5% to 11.5%, including inflation per year

Discount rate 4.05% Retirees' share of benefit-related costs \$0

Administrative expenses All administrative expenses are paid through the

Pension Trust and accounted for under reporting

requirements under GASB Statement No. 68

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 Tables with Blue Collar Adjustment, 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 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with males rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

Discount Rate:

The discount rate used to measure the Total OPEB Liability was 4.05%. The discount rate was based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2022.

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the City, calculated using the discount rate of 4.05%, as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (3.05%) or 1-percentage-point higher (5.05%) than the current rate:

1% Decrease		Current Single Rate	1% Increase		
	3.05%	Assumption 4.05% 5.05%		5.05%	
\$	422,952	\$ 352,525	\$	298,301	

NOTES TO FINANCIAL STATEMENTS, Continued September 30, 2023

Changes in the Total OPEB Liability:

		Total OPEB	
	Liability		
Balance at 12/31/21	\$	500,432	
Changes for the year:			
Service Cost		23,729	
Interest		9,360	
Difference between expected and			
actual experience		12,121	
Changes of assumptions		(185,926)	
Benefit payments		(7,191)	
Net changes		(147,907)	
Balance at 12/31/22	\$	352,525	

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended September 30, 2023, the City recognized OPEB expense of \$17,829.

At September 30, 2023, the City reported deferred outflows and inflows of resources related to the OPEB liability from the following sources:

	Deferred Outflows of Resources		Deferred (Inflows) of Resources		
Primary Government:				_	
Difference between expected and	\$	-	\$	(4,519)	
actual experience					
Changes in assumptions		-		(96,540)	
Contributions subsequent to					
measurement date		6,725		-	
Total	\$	6,725	\$	(101,059)	

The primary government reported \$6,725 as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date that will be recognized as a reduction of the OPEB liability for the year ending September 30, 2024.

NOTES TO FINANCIAL STATEMENTS, Continued September 30, 2023

Other amounts reported as deferred outflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended December 31:	
2023	\$ (17,133)
2024	(16,959)
2025	(31,710)
2026	(34,561)
2027	(696)
Thereafter	 _
	\$ (101,059)

2. Retiree Healthcare Plan

Plan Description

The City of Freeport maintains a Retiree Health Care Plan ("RHCP") through Cigna Healthcare Insurance to provide health care benefits coverage for employees and retirees and dependents of employees and retirees. The City is currently offering health care benefits coverage through the RHCP which allows the extension of the benefits to retirees of the City. The City provides health benefits coverage to its retirees through RHCP and the cost of such coverage is paid entirely by the retiree. An employee who is under the 60 years of age and has been covered by TMRS (Texas Municipal Retirement Systems) for at least 20 years, or an employee who is 60 years or older and has been covered by TMRS for at leas 5 years. The employee must also work for the City for a period of fifteen (15) continuous years and meet the definition of retiree for the purposes of the ordinance.

Benefit Provided

The RHCP provides pre sixty-five benefit coverages which will continue until the end of the month for the covered retiree's 65th birthday. Coverage for early retirees under these plans will require that early retiree enroll in the Cigna Healthcare Insurance within 31 days of commencement of their pre 65 retirement, meet the plans definition of retiree, and that retiree receive all other applicable benefits provided to the retiree population. The pre sixty-five plan offer the retirees a choice of one of three plan options which consist of a base, buy-up and high deductible. Each plan has a specified rate that varies year over year.

At the December 31, 2021 valuation, the following represents the active employees and retirees that are eligible to participate in the plan:

NOTES TO FINANCIAL STATEMENTS, Continued September 30, 2023

Employees covered by benefit terms

At the December 31, 2021 valuation date, the following employees were covered by the benefit terms:

Status	Amount
Inactive employees or beneficiaries currently receiving benefits	0
Active employees	124
Total	124

Actuarial Assumptions and Methods:

The Total OPEB Liability in the December 31, 2021 (rolled forward to December 31, 2022) actuarial valuation was determined using the following actuarial assumptions:

Actuarial Cost Method Inflation	Individual Entry-Age Normal 2.5% per year
Overall payroll growth	3.5% to 11.5%, including inflation per year
Discount rate	4.63% (increased from 1.84%)
Demographic Assumptions	Based on the experience study covering the four- year period ending December 31, 2018, as conducted by TMRS.
Mortality	Mortality for healthy retirees, the gender-distinct 2019 Municipal Retirees of Texas mortality tables are used. The rates are projected on a fully generational basis using the ultimate mortality improvement rates in the MP tables to account for future mortality improvements.
Health Care Trend Rates	Initial rate of 7.00% declining to an ultimate rate of 4.15% after 15 years
Participate Rates	30% retirees age 55 or older at retirement; 10% for retirees under age 55 at retirement

Discount Rate

The discount rate used to measure the Total OPEB Liability was 4.63%. The discount rate was based on the Bond Buyer GO Bond 20 Year Index rate as of December 31, 2021, date of the actuarial valuation and rolled forward to December 31, 2022.

NOTES TO FINANCIAL STATEMENTS, Continued September 30, 2023

Sensitivity of the Net OPEB Liability (Asset) to Changes in the Discount Rate

The following presents the net OPEB liability of the City, calculated using the discount rate of 4.63%, as well as what the City's net OPEB liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (3.63%) or 1-percentage-point higher (5.63%) than the current rate:

1% Decrease		Current Single Rate		1% Increase
 (3.63%)		Assumption 4.63% (5.63%)		(5.63%)
\$ 427,345	\$	366,326	\$	318,867

Healthcare Cost Trend

1% Decrease	(Current Healthcare 1% Increase		1% Increase
 (3.15%)		Cost Trend (4.15%)		(5.15%)
\$ 307,947	\$	366,326	\$	444,857

Changes in the Total OPEB Liability

	Total OPEB Liability		
Balance at 12/31/2021	\$	558,419	
Changes for the year:			
Service Cost		57,496	
Interest		11,311	
Difference between expected and			
actual experience		-	
Changes of assumptions		(258,557)	
Benefit payments		(2,343)	
Net changes		(192,093)	
Balance at 12/31/2022	\$	366,326	

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended September 30, 2023, the City recognized OPEB expense of \$49,093.

NOTES TO FINANCIAL STATEMENTS, Continued September 30, 2023

At September 30, 2023, the City reported deferred outflows of resources and deferred inflows of resources related to the OPEB liability from the following sources:

	Deferred Outflows of Resources		red (Inflows) Resources
Difference between expected and actual experience Change in assumptions	\$	- -	\$ (61,621) (88,185)
Total	\$	-	\$ (149,806)

The \$0 reported as deferred outflows of resources related to OPEB resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the year ending September 30, 2024.

Amounts reported as deferred outflows/inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended September 30:	
2024	\$ (21,211)
2025	(20,496)
2026	(19,221)
2027	(14,660)
2028	(11,373)
Thereafter	 (62,845)
	\$ (149,806)

E. Deferred Compensation Plan

The City offers its employees the opportunity to participate in a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan is an additional retirement savings option for the City employees; however, no contributions will be made by the City. The retirement plan is offered to public service personnel only.

F. New Accounting Pronouncements

The City has adopted the provision of Governmental Accounting Standard Board (GASB) Statement No. 96, entitled Subscription-Based Information Technology Arrangements (SBITAs). Due to the implementation of GASB 96 in the current year, the City recorded right to use assets and subscription liabilities.

NOTES TO FINANCIAL STATEMENTS, Continued September 30, 2023

G. Restatement

Due to corrections to unbilled receivables, pension allocation, lease receivable, sale tax expense, capital assets, reclassification of the EDC as a discretely presented component unit, and the City's implementation of GASB 87 and 96, the City restated its beginning net position/fund balance for governmental activities, the general fund, and business-type activities (water and sewer fund). The restatement of beginning fund balance/net position is as follows:

			Total
	General	G	overnmental
	 Fund		Activities
Prior year ending net position/fund balance, as reported	\$ 8,165,411	\$	25,882,709
Correction to unbilled receivables	20,941		20,941
Reverse prior year lease receivable	(59,966)		(59,966)
Correction to sales tax expense	(47,670)		(47,670)
Correction to outstanding payables	121,679		121,679
Correction to capital assets	-		(136,060)
Remove uncollectible court revenues	-		(379,997)
Correction to pension allocation	-		(64,996)
Reclassification of EDC to discretely presented component unit	-		(2,179,447)
Remove EDC capital assets to component unit activities	-		(2,546,681)
Implementation of GASB 96 - right-to-use assets	-		27,738
Implementation of GASB 96 - subscription liabilities	-		(27,738)
GASB 87 - lessor (receivables)	1,425,755		1,425,755
GASB 87 - lessor (deferred inflows)	(1,425,755)		(1,425,755)
Restated beginning net position/fund balance	\$ 8,200,395	\$	20,610,512

	Business-Type Activities	
		Water &
	Sewer	
Prior year ending net position/fund balance, as		
reported	\$	9,054,951
Correct prior year pension allocation		80,745
Correction to unbilled revenue		326,038
Restated beginning fund balance/net position	\$	9,461,734

NOTES TO FINANCIAL STATEMENTS, Continued September 30, 2023

The City reclassified the EDC fund to a discretely presented component unit. In the prior years, the EDC was presented as a blended component unit. Below summarizes the restatement to the EDC's beginning net position.

	Component Unit	
		Activities
	EDC	
		_
Prior year ending fund balance, as reported	\$	2,179,447
Record capital assets		2,546,681
Restated beginning net position	\$	4,726,128

H. Subsequent Events

There were no material subsequent events through June 12, 2024, the date the financial statements were issued.

REQUIRED S	SUPPLEMEN'	TARY INFOR	MATION

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (Page 1 of 2) GENERAL FUND

For the Year Ended September 30, 2023

						Va	riance with
						Fi	nal Budget
	Original						Positive
	Budget	Fi	nal Budget	Actual		(Negative)
Revenues							
Property tax	\$ 3,355,000	\$	3,355,000	\$	3,181,619	\$	(173,381)
Sales tax	2,250,000		2,250,000		2,471,744		221,744
Industrial district	8,679,299		8,679,299		8,954,728		275,429
Franchise and local taxes	644,000		644,000		724,988		80,988
License and permits	204,125		390,033		587,602		197,569
Intergovernmental	2,102,765		2,102,765		1,509,322		(593,443)
Fines and forfeitures	208,500		208,500		191,086		(17,414)
Charges for services	2,045,900		2,045,900		2,583,219		537,319
Investment income	20,000		20,000		597,350		577,350
Other revenue	 312,920		312,920		456,184		143,264
Total Revenues	19,822,509		20,008,417		21,257,842		1,249,425
Expenditures							
Current:							
General government	2,252,905		2,968,303		3,187,983		(219,680) *
Public safety	8,438,807		8,142,203		8,012,758		129,445
Streets and drainage	1,500,782		1,465,967		1,415,724		50,243
Sanitation	720,000		747,200		747,174		26
Culture and recreation	3,567,947		3,279,026		3,142,915		136,111
Service center	201,887		214,812		202,594		12,218
Capital outlay	1,462,000		2,136,896		1,084,055		1,052,841
Debt service:							
Principal	1,000		-		78,303		(78,303) *
Interest and fiscal charges	 -				19,213		(19,213) *
Total Expenditures	18,145,328		18,954,407		17,890,719		1,063,688
Revenues Over (Under)	 	_					_
Expenditures	 1,677,181		1,054,010		3,367,123		2,313,113

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (Page 2 of 2) GENERAL FUND

For the Year Ended September 30, 2023

					V	ariance with
					F	inal Budget
	Original					Positive
	 Budget	Fi	nal Budget	Actual		(Negative)
Other Financing Sources (Uses)	 		_			
Transfers in	\$ 150,000	\$	150,000	\$ 150,000	\$	-
Transfers (out)	(2,070,095)		(2,070,095)	(1,490,095)		580,000
Lease issuance	-		-	230,594		230,594
SBITA issuance	-		-	23,807		23,807
Sale of assets	40,000		40,000	 75,058		35,058
Total Other Financing Sources	 		_			
(Uses)	 (1,880,095)		(1,880,095)	(1,010,636)		869,459
Net Change in Fund Balance	\$ (202,914)	\$	(826,085)	2,356,487	\$	3,182,572
Beginning fund balance	 			8,200,395		
Ending Fund Balance				\$ 10,556,882		

Notes to Required Supplementary Information

^{1.} Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

^{*} Expenditures exceeded appropriations at the legal level of control.

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS Years Ended:

	12/31/2022	12/31/2021	12/31/2020
Total pension liability			
Service cost	\$ 1,188,602	\$ 1,227,173	\$ 1,210,072
Interest	2,284,689	2,145,373	2,021,037
Changes in benefit terms	-	-	-
Differences between expected and actual			
experience	345,806	199,603	(61,634)
Changes of assumptions	-	-	-
Benefit payments, including refunds of participant			
contributions	(1,545,644)	(1,432,204)	(1,239,813)
Net change in total pension liability	2,273,453	2,139,945	1,929,662
Total pension liability - beginning	34,025,765	31,885,820	29,956,158
Total pension liability - ending (a)	36,299,218	34,025,765	31,885,820
Plan fiduciary net position	_		
Contributions - employer	\$ 1,013,241	\$ 1,057,969	\$ 1,072,524
Contributions - members	503,340	521,251	524,814
Net investment income	(2,287,152)	3,599,409	1,923,014
Benefit payments, including refunds of participant			
contributions	(1,545,644)	(1,432,204)	(1,239,813)
Administrative expenses	(19,799)	(16,657)	(12,450)
Other	23,627	114	(486)
Net change in plan fiduciary net position	(2,312,387)	3,729,882	2,267,603
Plan fiduciary net position - beginning	31,344,314	27,614,432	25,346,829
Plan fiduciary net position - ending (b)	\$ 29,031,927	\$ 31,344,314	\$ 27,614,432
Fund's net pension liability (asset) - ending (a) - (b)	\$ 7,267,291	\$ 2,681,451	\$ 4,271,388
Plan fiduciary net position as a percentage of the			
total pension liability	79.98%	92.12%	86.60%
Covered payroll	\$ 7,190,577	\$ 7,446,438	\$ 7,497,348
Fund's net position as a percentage of covered			
payroll	101.07%	36.01%	56.97%

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.

	12/31/2019		12/31/2018	12/31/2017		12/31/2016		12/31/2015			12/31/2014	1
\$	1,020,294	\$	972,644	\$	1,069,778	\$	941,887	\$	867,502	\$	749,370	,
	1,923,902		1,828,285		1,693,736		1,586,800		1,511,254		1,424,774	
	-		-		-		-		-		-	
	(459,710)		(84,705)		462,205		(31,659)		276,833		(132,087)	
	142,572		-		-		-		116,881		-	
	(1,326,009)		(1,321,000)		(1,046,653)		(906,817)		(874,894)		(856,501)	
	1,301,049		1,395,224		2,179,066		1,590,211		1,897,576		1,185,556	_
	28,655,109		27,259,885		25,080,819		23,490,608		21,593,032		20,407,476	
	29,956,158		28,655,109		27,259,885		25,080,819		23,490,608		21,593,032	
\$	904,482	\$	896,313	\$	944,578	\$	773,757	\$	699,079	\$	600,889	
Ψ	444,711	Ψ	440,294	Ψ	464,589	Ψ	409,932	Ψ	385,600	Ψ	348,367	
	3,392,674		(677,553)		2,709,724		1,221,694		26,362		962,281	
	-,,-		(= ,===)		,,		, ,==		-,		, , ,	
	(1,326,009)		(1,321,000)		(1,046,653)		(906,817)		(874,894)		(856,501)	
	(19,175)		(13,099)		(14,056)		(13,803)		(16,057)		(10,047)	
	(576)		(684)		(712)		(744)		(792)		(826)	
	3,396,107		(675,729)		3,057,470		1,484,019		219,298		1,044,163	
	21,950,722		22,626,451		19,568,981		18,084,962		17,865,664		16,821,501	_
\$	25,346,829	\$	21,950,722	\$	22,626,451	\$	19,568,981	\$	18,084,962	\$	17,865,664	
\$	4,609,329	\$	6,704,387	\$	4,633,434	\$	5,511,838	\$	5,405,646	\$	3,727,368	
	84.61%		76.60%		83.00%		78.02%		76.99%		82.74%	
\$	6,353,014	\$	6,275,121	\$	6,636,342	\$	5,846,596	\$	5,501,315	\$	4,976,675	
	72.55%		106.84%		69.82%		94.27%		98.26%		74.90%	

SCHEDULE OF EMPLOYER CONTRIBUTIONS TO PENSION PLAN Fiscal Years Ended:

	9/30/2023		 9/30/2022	9/30/2021	
Actuarially determined employer contributions	\$	1,063,502	\$ 1,038,883	\$	1,095,630
Contributions in relation to the actuarially					
determined contribution	\$	1,063,502	\$ 1,038,883	\$	1,095,630
Contribution deficiency (excess)	\$	-	\$ -	\$	-
Annual covered payroll	\$	7,532,012	\$ 7,257,170	\$	7,593,889
Employer contributions as a percentage of covered					
payroll		14.12%	14.32%		14.43%

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.

NOTES TO SCHEDULE OF EMPLOYER CONTRIBUTIONS TO PENSION PLAN

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 23 years

Asset Valuation Method 10 Year smoothed market; 12% soft corridor

Inflation 2.5%

Salary Increases 3.50% to 11.50% including inflation

Investment Rate of Return 6.75%

Retirement Age Experience-based table of rates that are specific to

the City's plan of benefits. Last updated for the 2019 valuation pursuant to an experience study

of the period 2014 - 2018

Mortality Post-retirement: 2019 Municipal Retirees of Texas Mortality Tables.

The rates are projected on a fully generational basis with scale UMP.

Pre-retirement: PUB(10) mortality tables, with the Public Safety table used for males and the General Employee table used for females. The

rates are projected on a fully generational

Other Information:

Notes There were no benefit changes during the year.

 9/30/2020	 9/30/2019	 9/30/2018	9/30/2017	 9/30/2016	 9/30/2015 1
\$ 1,004,021	\$ 892,025	\$ 912,207	\$ 773,757	\$ 699,079	\$ 677,622
\$ 1,004,021	\$ 892,025	\$ 912,207	\$ 773,757	\$ 699,079	\$ 677,622
\$ -	\$ -	\$ 	\$ -	\$ -	\$ -
\$ 7,028,033	\$ 6,444,398	\$ 6,461,534	\$ 5,846,596	\$ 5,501,315	\$ 4,976,675
14.29%	13.84%	14.12%	13.23%	12.71%	13.62%

SCHEDULE OF CHANGES IN POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) LIABILITY AND RELATED RATIOS TEXAS MUNICIPAL RETIREMENT SYSTEM SUPPLEMENTAL DEATH BENEFITS PLAN

Years Ended:

	12/31/2022		12/31/2021		12/31/2020		12/31/2019	
Total OPEB liability								
Service cost	\$	23,729	\$	24,573	\$	22,492	\$	12,706
Interest		9,360		9,611		10,633		11,579
Differences between expected and								
actual experience		12,121		(14,258)		(397)		(15,039)
Changes of assumptions		(185,826)		16,220		65,740		63,192
Benefit payments, including refunds								
of participant contributions		(7,191)		(8,191)		(2,999)		(2,541)
Net change in total OPEB liability		(147,807)		27,955		95,469		69,897
Total OPEB liability - beginning	\$	500,332	\$	472,377	\$	376,908	\$	307,011
Total OPEB liability - ending	\$	352,525	\$	500,332	\$	472,377	\$	376,908
Covered-employee payroll City's total OPEB liability as a	\$	7,190,577	\$	7,446,438	\$	7,497,348	\$	6,353,014
percentage of covered-employee payroll		4.90%		6.72%		6.30%		5.93%

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 No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB statement No. 75 to pay related benefits.

	12/31/2018	12/31/2017						
\$	11,923	\$	10,618					
	10,724		10,509					
	(9,540)		-					
	(23,177)		26,796					
	(1,883)		(3,318)					
	(11,953)		44,605					
\$	318,964	\$	274,359					
\$	307,011	\$	318,964	2				
\$	6,275,121	\$	6,636,342					
	4 000/		1.010/					
	4.89%		4.81%					

SCHEDULE OF CHANGES IN POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) LIABILITY AND RELATED RATIOS RETIREE HEALTH CARE PLAN

Years Ended:

	12/31/2022		12/31/2021		12/31/2020		12/31/2019	
Total OPEB liability								
Service cost	\$	57,496	\$	24,748	\$	24,263	\$	26,027
Interest		11,311		9,124		10,346		16,948
Changes in benefit terms		-		(21,529)		-		(106,501)
Differences between expected and								
actual experience		-		(27,506)		231		(99,594)
Changes of assumptions		(258,557)		142,157		34,141		33,523
Benefit payments, including refunds								
of participant contributions		(2,343)		-		(3,252)		(7,424)
Net change in total OPEB liability		(192,093)		126,994		65,729		(137,021)
Total OPEB liability - beginning	\$	558,419	\$	431,425	\$	365,696	\$	502,717
Total OPEB liability - ending	\$	366,326	\$	558,419	\$	431,425	\$	365,696
Covered-employee payroll	\$	7,663,432	\$	7,257,170	\$	6,234,975	\$	6,353,014
City's total OPEB liability as a								
percentage of covered-employee		. =0.51						
payroll		4.78%		7.69%		6.92%		5.76%

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 No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB statement No. 75 to pay related benefits.

1	12/31/2018	1	12/31/2017	
\$	27,301	\$	24,443	
	16,533		17,182	
	-		-	
	(715)		-	
	(16,480)		20,081	
	(19,500)		(9,750)	
	7,139		51,956	
\$	495,578	\$	443,622	
\$	502,717	\$	495,578	
		-		
\$	6,275,121	\$	6,636,342	
	8.01%		7.47%	

(This page intentionally left blank.)

COMBINING STATEMENTS AND INDIVIDUAL FUND SCHEDULES

COMBINING BALANCE SHEET NONMAJOR GOVERNMENTAL FUNDS

September 30, 2023

	Debt Service	Но	otel/Motel Tax	TIRZ		I	Court Revenue
<u>Assets</u>							
Cash and cash equivalents	\$ 142,361	\$	182,371	\$	218,444	\$	225,268
Receivables, net	24,422		26,142		-		-
Prepaids	69,884		-		-		-
Due from other funds	255,278		-		-		-
Total Assets	\$ 491,945	\$	208,513	\$	218,444	\$	225,268
<u>Liabilities</u>							
Accounts payable	\$ -	\$	-	\$	-	\$	18,895
Deferred income	-		-		-		16,893
Total Liabilities	-		-		-		35,788
Deferred Inflows of Resources							
Unavailable revenues	 23,609	-					
Fund Balances							
Nonspendable	69,884		-		-		-
Restricted for:							
Debt service	398,452		-		-		-
Tourism	-		208,513		-		-
Economic development	-		-		218,444		-
Municipal court	-		-		-		189,480
Assigned:							
Facilities and grounds	-		-		-		-
Vehicles and equipment	-		-		-		-
IT equipment	-		-		-		-
Total Fund Balances	468,336		208,513		218,444		189,480
Total Liabilities, Deferred		-				-	
Inflows, and Fund Balances	\$ 491,945	\$	208,513	\$	218,444	\$	225,268

F	acilities &	V	ehicles &							
Gı	rounds CIP	Ec	quipment]	IT Fund		Total			
\$	2,420,464	\$	470,576	\$	229,244	\$	2 000 720			
Ф	2,420,464	Þ	470,376	Þ	229,244	Þ	3,888,728			
	-		-		-		50,564			
	-		-		-		69,884			
\$	2,420,464	đ	470,576	\$	229,244	đ	255,278 4,264,454			
Þ	2,420,464	\$	4/0,5/6	Þ	229,244	\$	4,204,434			
\$	44,500	\$	-	\$	289	\$	63,684			
	-		-		-		16,893			
	44,500		-		289		80,577			
	-		-		-		23,609			
	-		-		-		69,884			
							200.452			
	-		-		-		398,452			
	-		-		-		208,513			
	-		-		-		218,444			
	-		-		-		189,480			
	2,375,964		-		_		2,375,964			
	-		470,576		-		470,576			
	-		-		228,955		228,955			
	2,375,964		470,576		228,955		4,160,268			
\$	2,420,464	\$	470,576	\$	229,244	\$	4,264,454			

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

For the Year Ended September 30, 2023

	Debt		Hotel/Motel				Court	
		Service		Tax		TIRZ	F	Revenue
Revenues								
Property tax	\$	492,964	\$	-	\$	144,021	\$	-
Other taxes		-		89,750		-		-
Fines and fees		-		-		-		45,847
Investment income		8,982		5,603		16,304		8,894
Other income		-		-		-		
Total Revenues		501,946		95,353		160,325		54,741
Expenditures								
General government		-		5,000		5,447		-
Public safety		-		-		-		19,620
Debt service:								
Principal		340,000		-		-		-
Interest		154,340		-		-		-
Capital outlay		-		-		-		-
Total Expenditures		494,340		5,000		5,447		19,620
Revenues Over (Under)								
Expenditures		7,606		90,353		154,878		35,121
Other Financing Sources (Uses)								
Transfers in		240,725		-		-		
Total Other Financing Sources			'					
(Uses)		240,725						-
Net Change in Fund Balances		248,331		90,353		154,878		35,121
Beginning fund balances		220,005		118,160		63,566		154,359
Ending Fund Balances	\$	468,336	\$	208,513	\$	218,444	\$	189,480

Facilities &	Vehicles &				
Grounds CIP	Equipment	IT Fund	Total		
\$ -	\$ -	\$ -	\$ 636,985		
-	-	-	89,750		
-	-	-	45,847		
81,748	32,618	9,600	163,749		
-	31,768	-	31,768		
81,748	64,386	9,600	968,099		
-	-	-	10,447		
-	-	-	19,620		
-	-	-	340,000		
-	-	-	154,340		
334,961	822,996	117,380	1,275,337		
334,961	822,996	117,380	1,799,744		
(253,213)	(758,610)	(107,780)	(831,645)		
989,095	501,000		1,730,820		
989,095	501,000		1,730,820		
735,882	(257,610)	(107,780)	899,175		
1,640,082	728,186	336,735	3,261,093		
\$ 2,375,964	\$ 470,576	\$ 228,955	\$ 4,160,268		

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL DEBT SERVICE FUND

For the Year Ended September 30, 2023

				Variance with Final Budget		
	Original & Final Budget		Actual		Positive (Negative)	
Revenues	-	<u> </u>				<u> </u>
Property tax	\$	527,750	\$	492,964	\$	(34,786)
Investment income		400		8,982		8,582
Total Revenues		528,150		501,946		(26,204)
Expenditures						
Debt Service:						
Principal		513,850		340,000		173,850
Interest and fiscal charges		287,940		154,340		133,600
Total Expenditures		801,790		494,340		307,450
Other Financing Sources (Uses)						
Transfers in		301,450		240,725		(60,725)
Total Other Financing Sources (Uses)		301,450		240,725		(60,725)
Net Change in Fund Balance	\$	27,810		248,331	\$	220,521
Beginning fund balance				220,005		
Ending Fund Balance			\$	468,336		

Notes to Supplementary Information

^{1.} Annual budgets are adopted on a basis consistent with generally accepted accounting principles