

***MANAGEMENT'S DISCUSSION
AND ANALYSIS***

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City of Freeport, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

September 30, 2024

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, 2024. 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 \$48,409,371 at September 30, 2024.
- At the close of the current fiscal year, the City's governmental funds reported combined fund balances of \$21,612,600, a decrease of \$1,254,526.
- The City had an overall increase in net position of \$5,858,612.
- The City closed the year with a net pension liability of \$6,098,926.

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).

City of Freeport, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2024

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 twelve 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, certain 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.

City of Freeport, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2024

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 \$48,409,371 as of September 30, 2024, in the primary government.

City of Freeport, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2024

The largest portion of the City's net position, \$28,820,826, 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:

	2024			2023		
	Governmental	Business-Type	Total	Governmental	Business-Type	Total
	Activities	Activities		Activities	Activities	
Current and						
other assets	\$ 24,875,650	\$ 7,065,472	\$ 31,941,122	\$ 26,400,553	\$ 5,496,263	\$ 31,896,816
Capital assets, net	23,641,250	16,512,576	40,153,826	21,225,408	12,141,802	33,367,210
Total Assets	48,516,900	23,578,048	72,094,948	47,625,961	17,638,065	65,264,026
Deferred Outflows	2,039,969	30,291	2,070,260	3,008,597	39,515	3,048,112
Other liabilities	1,706,578	3,171,577	4,878,155	2,075,624	1,681,222	3,756,846
Long-term liabilities	14,685,746	4,384,369	19,070,115	15,785,444	4,613,720	20,399,164
Total Liabilities	16,392,324	7,555,946	23,948,270	17,861,068	6,294,942	24,156,010
Deferred Inflows	1,800,734	6,833	1,807,567	1,602,147	3,222	1,605,369
Net Position:						
Net investment in						
capital assets	16,359,316	12,461,510	28,820,826	13,827,683	9,914,092	23,741,775
Restricted	7,970,539	-	7,970,539	8,115,069	-	8,115,069
Unrestricted	8,033,956	3,584,050	11,618,006	9,228,591	1,465,324	10,693,915
Total Net Position	\$ 32,363,811	\$ 16,045,560	\$ 48,409,371	\$ 31,171,343	\$ 11,379,416	\$ 42,550,759

Governmental activities current and other assets decreased by \$1,524,903 when compared to the prior year primarily due to less cash on hand, resulting from funds used for Hurricane Beryl relief. Total capital assets increased by \$6,786,616 due to new capital investments and infrastructure improvements throughout the year. Total other liabilities for business-type activities increased by \$1,490,355 primarily

City of Freeport, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2024

due to greater vendor payables, resulting from the timing of payments subsequent to year end. Total long-term liabilities decreased by \$1,329,049 primarily due to principal payments made on long-term debt and a decrease in the City's net pension liability.

Statement of Activities:

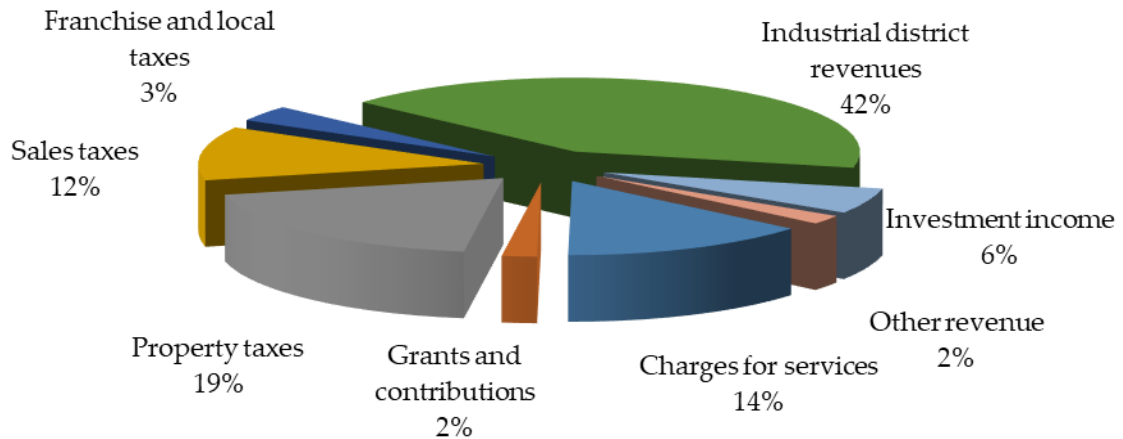
The following table provides a summary of the City's changes in net position:

	For the Year Ended September 30, 2024			For the Year Ended September 30, 2023		
	Governmental Activities	Business-Type Activities	Total Primary Government	Governmental Activities	Business-Type Activities	Total Primary Government
Revenues						
Program revenues:						
Charges for services	\$ 3,173,384	\$ 8,395,101	\$ 11,568,485	\$ 3,479,747	\$ 7,927,835	\$ 11,407,582
Grants and contributions	445,282	3,199,175	3,644,457	1,509,322	1,217,480	2,726,802
General revenues:						
Property taxes	4,318,958	-	4,318,958	3,807,185	-	3,807,185
Sales taxes	2,649,294	-	2,649,294	2,471,744	-	2,471,744
Franchise and local taxes	780,370	-	780,370	861,962	-	861,962
Industrial district revenues	9,413,205	-	9,413,205	8,954,728	-	8,954,728
Investment income	1,266,509	190,405	1,456,914	901,481	171,423	1,072,904
Other revenue	445,872	-	445,872	7,601,020	-	7,601,020
Total Revenues	22,492,874	11,784,681	34,277,555	29,587,189	9,316,738	38,903,927
Expenses						
General government	3,260,635	-	3,260,635	3,870,507	-	3,870,507
Public safety	9,239,723	-	9,239,723	8,878,677	-	8,878,677
Culture and recreation	3,602,223	-	3,602,223	3,642,702	-	3,642,702
Streets and drainage	2,131,361	-	2,131,361	2,036,705	-	2,036,705
Sanitation	763,915	-	763,915	747,174	-	747,174
Service center	336,906	-	336,906	227,444	-	227,444
Disaster relief	1,437,304	-	1,437,304	-	-	-
Interest and fiscal charges	141,315	76,369	217,684	130,460	91,397	221,857
Water and sewer	-	7,429,192	7,429,192	-	7,015,158	7,015,158
Total Expenses	20,913,382	7,505,561	28,418,943	19,533,669	7,106,555	26,640,224
Change in Net Position						
Before Transfers	1,579,492	4,279,120	5,858,612	10,053,520	2,210,183	12,263,703
Transfers	(387,024)	387,024	-	269,383	(269,383)	-
Total	(387,024)	387,024	-	269,383	(269,383)	-
Change in Net Position	1,192,468	4,666,144	5,858,612	10,322,903	1,940,800	12,263,703
Beginning Net Position	31,171,343	11,379,416	42,550,759	20,848,440	9,438,616	30,287,056
Ending Net Position	\$ 32,363,811	\$ 16,045,560	\$ 48,409,371	\$ 31,171,343	\$ 11,379,416	\$ 42,550,759

City of Freeport, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2024

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

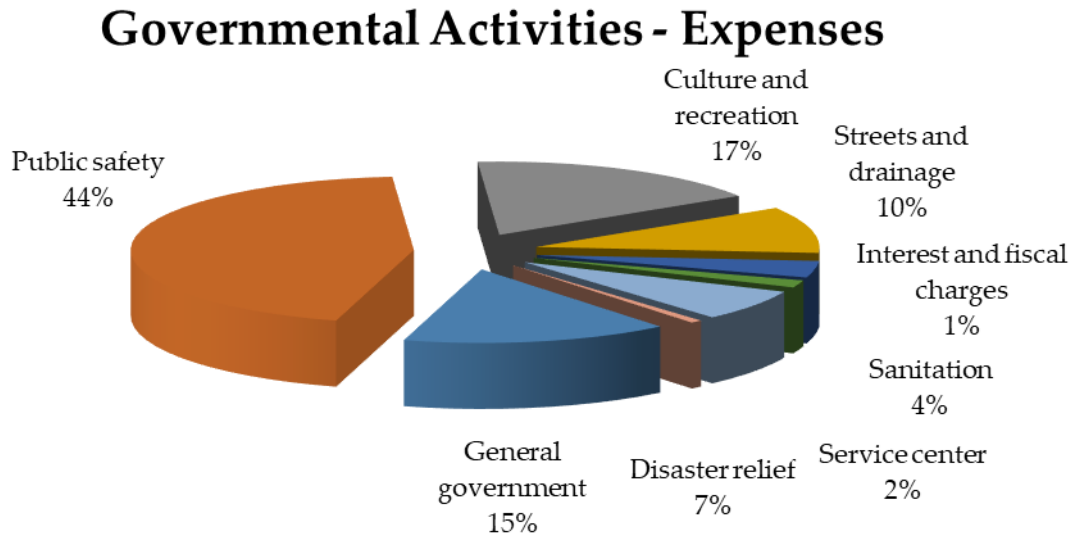
Governmental Activities - Revenues



For the year ended September 30, 2024, revenues from governmental activities totaled \$22,492,874. Industrial district revenues are the City's largest revenue sources. Charges for services decreased by \$306,363 or 9% primarily due to nonrecurring building permits related to Brazos ISD improvements and the Volkswagen facility issued in the prior year. Grants and contributions decreased by \$1,064,040 or 70% primarily due to nonrecurring COVID relief grants received in the prior year. Property tax revenues increased by \$511,773 or 13% primarily due to greater appraised values in the current year. Sales tax revenues increased by \$177,550 or 7% primarily due to economic growth in the current year. Franchise and local tax revenues decreased by \$81,592 or 9% primarily due to greater hotel occupancy rates and utility/garage franchise fees received in the prior year. Investment income increased by \$365,028 or 40% due to the realization of higher interest rates in the current year. Other revenues decreased by \$7,155,148 or 94% due to the nonrecurring settlement funds received from Port Freeport in the prior year. All other revenues remained relatively stable when compared to the previous year.

City of Freeport, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2024

This graph shows the governmental function expenses of the City:

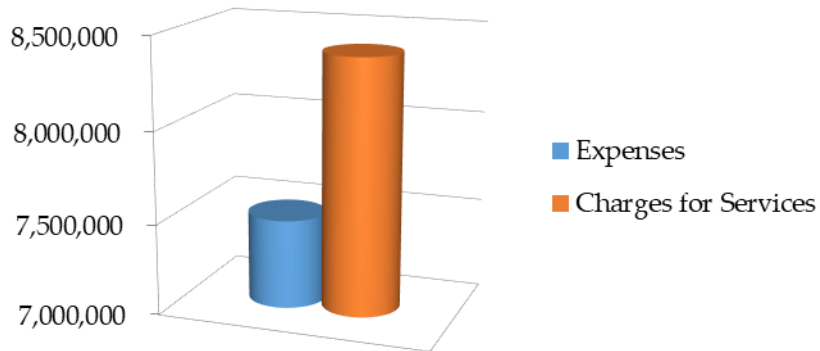


For the year ended September 30, 2024, expenses for governmental activities totaled \$20,913,382. This represents an increase of \$1,379,713 or 7% from the prior year. General government expenses decreased by \$609,872 or 16% due to a decrease in the pension liability, nonrecurring records scanning project expenses, legal fees, and professional services recognized in the prior year. Service center expenses increased by \$109,462 or 48% primarily due to nonrecurring land maintenance, fuel costs, and deposits paid related to concrete replacement in the current year. Disaster relief expenses increased by \$1,437,304 or 100% due to Hurricane Beryl making land fall on July 7, 2024. As a result, the City expended significant funds to aid in disaster recovery in the current year. All remaining expenses remained relatively consistent with the previous year.

City of Freeport, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2024

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, 2024, charges for services by business-type activities totaled \$8,395,101. This is an increase of \$467,266 or 6% from the previous year. This increase is directly related to an 11% increase in water rates. Grants increased by \$1,981,695 due to nonrecurring GLO and TDEM grant activity in the current year.

Business-type activities expenses increased by \$414,034 or 6% primarily due to greater water purchases, professional services related to pipe projects, and 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.

Governmental Funds - 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 \$11,384,510. The general fund had a net increase in fund balance for the year of \$621,044. This increase was primarily due to greater than anticipated revenues and less than expected expenditures. In addition, the fund received greater industrial district tax revenues when compared to the prior year.

The capital projects fund reflected a fund balance of \$6,451,853, which represents a decrease of \$648,147. The decrease is related to transfers out of the fund and capital expenditures exceeding current year investment income.

City of Freeport, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued

September 30, 2024

There was an increase in the 2020 CO Bond CIP fund of \$214,536 during the year, leaving a year end fund balance of \$1,026,584. The increase in fund balance is directly related to transfers in and investment income exceeding capital outlay expenditures.

Proprietary Funds - 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 \$4,149,131 in the general fund. This represents a combination of positive revenue, expenditure, and other financing sources variances of \$1,892,675, \$1,623,357, and \$633,099, respectively. The City amended the original general fund budget for fiscal year 2024 by increasing total revenues by \$160,000 and increasing total expenditures by \$2,464,232. The general government, sanitation, service center, 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 \$23,641,250 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 \$16,512,576 in a variety of capital assets and infrastructure, net of accumulated depreciation.

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

- Purchased land for \$223,466.
- Continued street improvements for \$820,236.
- Began improvements to the fire station for \$354,304.
- Purchased a new ambulance for \$227,831.
- Purchased multiple radios for \$196,695.
- Purchased multiple vehicles for \$510,242.
- Entered into a building lease for \$761,068.
- Made street improvements totaling \$222,099.
- Made sewer improvements totaling \$3,486,088.
- Made improvements to the WWTP for \$850,388.
- Made lift station improvements for \$368,850.

City of Freeport, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*
September 30, 2024

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 \$12,718,359. The City entered into a new property rental lease in the amount of \$761,068 in the current year. The City also made principal repayments on outstanding debt totaling \$720,281. 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 2025 (tax year 2024) is \$0.515 per \$100 of assessed value, which is less than the tax rate for fiscal year 2024 (tax year 2023), which was \$0.533. The Maintenance and Operation rate decreased by \$0.042776 per \$100 of assessed values while the Interest and Sinking rate decreased by \$0.000045 per \$100 of assessed value. Property tax revenue for the City is budgeted \$141 thousand lower than the previous year which is a 3.2% decrease. Of this revenue, the majority of the revenue was from changes in market value of property within the City of Freeport.

The City of Freeport has multiple industrial agreements that are based off property tax rates as well. In the fiscal year 2025 budget these revenues were estimated to increase by 3.6% over the fiscal year 2024 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, 1201 North Avenue H, Freeport, TX 77541.

FINANCIAL STATEMENTS

City of Freeport, Texas
STATEMENT OF NET POSITION (Page 1 of 2)
September 30, 2024

	Primary Government		
	Governmental	Business-Type	
	Activities	Activities	Total
<u>Assets</u>			
Cash and cash equivalents	\$ 21,304,356	\$ 3,936,831	\$ 25,241,187
Due from component unit	29,772	-	29,772
Receivables, net	1,693,380	3,302,632	4,996,012
Lease receivables, current	52,924	-	52,924
Internal balances	240,725	(240,725)	-
Prepays	222,345	66,734	289,079
Total Current Assets	23,543,502	7,065,472	30,608,974
Lease receivables, noncurrent	1,332,148	-	1,332,148
Capital assets:			
Non-depreciable	3,497,672	7,129,394	10,627,066
Net depreciable capital assets	20,143,578	9,383,182	29,526,760
Total Noncurrent Assets	24,973,398	16,512,576	41,485,974
Total Assets	48,516,900	23,578,048	72,094,948
<u>Deferred Outflows of Resources</u>			
Pension outflows	2,018,423	29,966	2,048,389
OPEB outflows - TMRS	8,467	126	8,593
OPEB outflows - Health	13,079	199	13,278
Total Deferred Outflows of Resources	2,039,969	30,291	2,070,260

See Notes to Financial Statements.

Component Unit	
Freeport	
EDC	
<hr/>	
\$	3,197,935
	-
	232,860
	-
	-
	-
	<hr/>
	3,430,795
	<hr/>
	-
	2,456,056
	233,845
	<hr/>
	2,689,901
	<hr/>
	6,120,696
	<hr/>
	47,181
	198
	-
	<hr/>
	47,379
	<hr/>

City of Freeport, Texas

STATEMENT OF NET POSITION (Page 2 of 2)

September 30, 2024

	Primary Government		
	Governmental	Business-Type	
	Activities	Activities	Total
<u>Liabilities</u>			
Current liabilities:			
Accounts payable and accrued liabilities	\$ 1,379,878	\$ 2,600,777	\$ 3,980,655
Customer deposits	-	313,800	313,800
Accrued interest	68,679	60,393	129,072
Due to primary government	-	-	-
Compensated absences, current	258,021	1,607	259,628
Long-term debt due within one year	696,402	195,000	891,402
	<u>2,402,980</u>	<u>3,171,577</u>	<u>5,574,557</u>
Noncurrent liabilities:			
Net pension liability	5,874,399	87,212	5,961,611
OPEB liability - TMRS	375,744	5,578	381,322
OPEB liability - Health	172,348	2,627	174,975
Compensated absences, noncurrent	28,669	179	28,848
Long-term debt due in more than one year	7,538,184	4,288,773	11,826,957
Total Noncurrent Liabilities	<u>13,989,344</u>	<u>4,384,369</u>	<u>18,373,713</u>
Total Liabilities	<u>16,392,324</u>	<u>7,555,946</u>	<u>23,948,270</u>
<u>Deferred Inflows of Resources</u>			
Pension inflows	171,586	2,547	174,133
OPEB inflows - TMRS	66,832	992	67,824
OPEB inflows - Health	216,185	3,294	219,479
Leases	1,346,131	-	1,346,131
Total Deferred Inflows of Resources	<u>1,800,734</u>	<u>6,833</u>	<u>1,807,567</u>
<u>Net Position</u>			
Net investment in capital assets	16,359,316	12,461,510	28,820,826
Restricted for:			
Capital projects	6,451,853	-	6,451,853
Municipal court	265,641	-	265,641
Economic development	570,587	-	570,587
Debt service	440,636	-	440,636
Tourism	241,822	-	241,822
Unrestricted	8,033,956	3,584,050	11,618,006
Total Net Position	<u>\$ 32,363,811</u>	<u>\$ 16,045,560</u>	<u>\$ 48,409,371</u>

See Notes to Financial Statements.

Component Unit
Freeport
EDC

\$	48,384
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-

-

29,772

5,889

-

84,045

137,315

8,783

-

654

-

146,752

230,797

4,011

1,562

-

-

5,573

2,689,901

-

-

3,241,804

-

-

-

\$	5,931,705
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City of Freeport, Texas

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2024

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities				
General government	\$ 3,260,635	\$ 306,968	\$ -	\$ -
Public safety	9,239,723	851,937	445,282	-
Streets and drainage	2,131,361	205,940	-	-
Culture and recreation	3,602,223	1,023,628	-	-
Sanitation	763,915	784,911	-	-
Service center	336,906	-	-	-
Disaster relief	1,437,304	-	-	-
Interest and fiscal charges	141,315	-	-	-
Total Governmental Activities	<u>20,913,382</u>	<u>3,173,384</u>	<u>445,282</u>	<u>-</u>
Business-Type Activities				
Water and sewer	7,505,561	8,395,101	-	3,199,175
Total Business-Type Activities	<u>7,505,561</u>	<u>8,395,101</u>	<u>-</u>	<u>3,199,175</u>
Total Primary Government	<u><u>\$ 28,418,943</u></u>	<u><u>\$ 11,568,485</u></u>	<u><u>\$ 445,282</u></u>	<u><u>\$ 3,199,175</u></u>
Component Unit				
Freeport EDC	800,864	-	-	-
Total Component Unit	<u><u>\$ 800,864</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

General Revenues:

Taxes
 Property taxes
 Sales taxes
 Industrial district
 Franchise and local taxes
 Investment income
 Other revenue
 Proceeds from sale of assets

Transfers

Total General Revenues and Transfers

Change in Net Position

Beg. Net Position, as previously reported

Error correction

Beg. Net Position, as adjusted

Ending Net Position

See Notes to Financial Statements.

Net (Expense) Revenue and Changes in Net Position			
Primary Government			Component Unit
Governmental Activities	Business-Type Activities	Total	Freeport EDC
\$ (2,953,667)	\$ -	\$ (2,953,667)	\$ -
(7,942,504)	-	(7,942,504)	-
(1,925,421)	-	(1,925,421)	-
(2,578,595)	-	(2,578,595)	-
20,996	-	20,996	-
(336,906)	-	(336,906)	-
(1,437,304)	-	(1,437,304)	-
(141,315)	-	(141,315)	-
(17,294,716)	-	(17,294,716)	-
-	4,088,715	4,088,715	-
-	4,088,715	4,088,715	-
(17,294,716)	4,088,715	(13,206,001)	-
			(800,864)
			(800,864)
4,318,958	-	4,318,958	-
2,649,294	-	2,649,294	1,324,647
9,413,205	-	9,413,205	-
780,370	-	780,370	-
1,266,509	190,405	1,456,914	168,504
432,022	-	432,022	72,925
13,850	-	13,850	-
(387,024)	387,024	-	-
18,487,184	577,429	19,064,613	1,566,076
1,192,468	4,666,144	5,858,612	765,212
30,933,415	11,402,534	42,335,949	5,166,493
237,928	(23,118)	214,810	-
31,171,343	11,379,416	42,550,759	5,166,493
\$ 32,363,811	\$ 16,045,560	\$ 48,409,371	\$ 5,931,705

City of Freeport, Texas

BALANCE SHEET GOVERNMENTAL FUNDS September 30, 2024

	General	Capital Projects	2020 CO Bond CIP Fund	Nonmajor Governmental Funds
<u>Assets</u>				
Cash and cash equivalents	\$ 9,579,958	\$ 6,728,210	\$ 1,026,584	\$ 3,969,604
Receivables, net	2,981,449	-	-	97,003
Prepays	169,020	-	-	53,325
Due from component unit	29,772	-	-	-
Due from other funds	1,437,304	-	-	255,278
Total Assets	\$ 14,197,503	\$ 6,728,210	\$ 1,026,584	\$ 4,375,210
<u>Liabilities</u>				
Accounts payable and accrued liabilities	\$ 945,163	\$ 276,357	\$ -	\$ 158,358
Due to other funds	14,553	-	-	1,437,304
Total Liabilities	959,716	276,357	-	1,595,662
<u>Deferred Inflows of Resources</u>				
Unavailable revenue:				
Property tax	214,758	-	-	29,895
EMS	254,844	-	-	-
Franchise taxes	37,544	-	-	-
Leases	1,346,131	-	-	-
Total Deferred Inflows	1,853,277	-	-	29,895
<u>Fund Balances</u>				
Nonspendable				
Prepays	169,020	-	-	53,325
Restricted for:				
Capital projects	-	6,451,853	1,026,584	-
Municipal court	-	-	-	265,641
Debt service	-	-	-	440,636
Tourism	-	-	-	241,822
Economic development	-	-	-	570,587
Assigned for:				
Facilities and grounds	-	-	-	2,401,335
Unassigned reported in:				
General fund	11,215,490	-	-	-
Nonmajor funds	-	-	-	(1,438,698)
Total Fund Balances	11,384,510	6,451,853	1,026,584	2,749,653
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 14,197,503	\$ 6,728,210	\$ 1,026,584	\$ 4,375,210

See Notes to Financial Statements.

**Total
Governmental
Funds**

\$	21,304,356
	3,078,452
	222,345
	29,772
	1,692,582
\$	26,327,507

\$	1,379,878
	1,451,857
	2,831,735

	244,653
	254,844
	37,544
	1,346,131
	1,883,172

222,345

7,478,437

265,641

440,636

241,822

570,587

2,401,335

11,215,490

(1,438,698)

21,612,600

\$	26,327,507
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City of Freeport, Texas

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

September 30, 2024

Fund Balances - Total Governmental Funds	\$	21,612,600
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		3,497,672
Capital assets - net depreciable		20,143,578
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds.		
Property tax		244,653
EMS		254,844
Franchise		37,544
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		2,018,423
OPEB outflows - TMRS		8,467
OPEB outflows - Health		13,079
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.		
Pension inflows		(171,586)
OPEB inflows - TMRS		(66,832)
OPEB inflows - Health		(216,185)
Some liabilities, including bonds payable and deferred charges, are not reported as liabilities in the governmental funds.		
Accrued interest		(68,679)
Deferred (gains) charges:		
For bond premiums		(301,157)
Net pension liability		(5,874,399)
OPEB liability - TMRS		(375,744)
OPEB liability - Health		(172,348)
Compensated absences		(286,690)
Bonds, notes, & lease liabilities		(7,933,429)
Net Position of Governmental Activities	\$	<u><u>32,363,811</u></u>

See Notes to Financial Statements.

City of Freeport, Texas

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE GOVERNMENTAL FUNDS For the Year Ended September 30, 2024

	General	Capital Projects	2020 CO Bond CIP Fund	Nonmajor Governmental Funds	Total Governmental Funds
<u>Revenues</u>					
Property tax	\$ 3,397,417	\$ -	\$ -	\$ 844,205	\$ 4,241,622
Sales tax	2,649,294	-	-	-	2,649,294
Industrial district	9,413,205	-	-	-	9,413,205
Franchise and local taxes	713,297	-	-	76,753	790,050
License and permits	205,940	-	-	-	205,940
Intergovernmental	445,282	-	-	-	445,282
Fines and forfeitures	237,298	-	-	69,670	306,968
Charges for services	2,646,320	-	-	-	2,646,320
Investment income	689,180	310,656	63,108	203,565	1,266,509
Other revenue	432,022	-	-	-	432,022
Total Revenues	20,829,255	310,656	63,108	1,194,193	22,397,212
<u>Expenditures</u>					
Current:					
General government	3,456,163	-	-	62,000	3,518,163
Public safety	8,736,911	-	-	22,222	8,759,133
Streets and drainage	1,454,419	-	-	-	1,454,419
Sanitation	763,915	-	-	-	763,915
Culture and recreation	3,224,903	-	-	-	3,224,903
Service center	310,593	-	-	-	310,593
Disaster relief	-	-	-	1,437,304	1,437,304
Capital outlay	1,626,313	422,246	2,500	1,808,022	3,859,081
Debt Service:					
Principal	170,281	-	-	360,000	530,281
Interest and fiscal charges	31,562	-	-	150,278	181,840
Total Expenditures	19,775,060	422,246	2,500	3,839,826	24,039,632
Excess of Revenues Over (Under) Expenditures	1,054,195	(111,590)	60,608	(2,645,633)	(1,642,420)

City of Freeport, Texas

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE GOVERNMENTAL FUNDS For the Year Ended September 30, 2024

	General	Capital Projects	2020 CO Bond CIP Fund	Nonmajor Governmental Funds	Total Governmental Funds
Other Financing Sources (Uses)					
Lease issuance	\$ 761,068	\$ -	\$ -	\$ -	\$ 761,068
Sales of assets	13,850	-	-	-	13,850
Transfers in	150,000	-	153,928	1,204,141	1,508,069
Transfers (out)	(1,358,069)	(536,557)	-	(467)	(1,895,093)
Total Other Financing Sources (Uses)	(433,151)	(536,557)	153,928	1,203,674	387,894
Net Change in Fund Balances	621,044	(648,147)	214,536	(1,441,959)	(1,254,526)
Beg. fund balances, as previously reported	10,556,882	7,100,000	812,048	4,160,268	22,629,198
Error correction	206,584	-	-	31,344	237,928
Beg. fund balance, as adjusted	10,763,466	7,100,000	812,048	4,191,612	22,867,126
Ending Fund Balances	\$ 11,384,510	\$ 6,451,853	\$ 1,026,584	\$ 2,749,653	\$ 21,612,600

See Notes to Financial Statements.



City of Freeport, Texas

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, 2024

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

Net changes in fund balances - total governmental funds	\$ (1,254,526)
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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	4,578,163
Depreciation expense	(2,162,321)

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

Property tax	77,336
EMS	14,156
Franchise taxes	(9,680)

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	27,591
Accrued interest	2,685
Pension expense	(18,949)
OPEB expense	130,960

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	37,840
Lease issuance	(761,068)
Principal payments	530,281

Change in Net Position of Governmental Activities	\$ 1,192,468
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See Notes to Financial Statements.

City of Freeport, Texas

STATEMENT OF NET POSITION

PROPRIETARY FUND

September 30, 2024

	Water & Sewer
<u>Assets</u>	
<u>Current Assets</u>	
Cash and cash equivalents	\$ 3,936,831
Receivables, net	3,302,632
Prepays	66,734.00
Total Current Assets	7,306,197
<u>Noncurrent Assets</u>	
Capital assets:	
Non-depreciable	7,129,394
Net depreciable capital assets	9,383,182
Total Noncurrent Assets	16,512,576
Total Assets	23,818,773
<u>Deferred Outflows of Resources</u>	
Pension outflows	29,966
OPEB outflows - TMRS	126
OPEB outflows - Health	199
Total Deferred Outflows of Resources	30,291

City of Freeport, Texas
STATEMENT OF NET POSITION
PROPRIETARY FUND (Continued)
September 30, 2024

	Water & Sewer
<u>Liabilities</u>	
<u>Current Liabilities</u>	
Accounts payable and accrued liabilities	\$ 2,600,777
Customer deposits	313,800
Due to other funds	240,725
Accrued interest	60,393
Compensated absences, current	1,607
Long-term debt due within one year	195,000
Total Current Liabilities	3,412,302
<u>Noncurrent Liabilities</u>	
Net pension liability	87,212
OPEB liability - TMRS	5,578
OPEB liability - Health	2,627
Compensated absences, noncurrent	179
Long-term debt due in more than one year	4,288,773
Total Liabilities	7,796,671
<u>Deferred Inflows of Resources</u>	
Pension inflows	2,547
OPEB inflows - TMRS	992
OPEB inflows - Health	3,294
Total Deferred Inflows of Resources	6,833
<u>Net Position</u>	
Net investment in capital assets	12,461,510
Unrestricted	3,584,050
Total Net Position	\$ 16,045,560

See Notes to Financial Statements.

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City of Freeport, Texas

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

For the Year Ended September 30, 2024

	Water & Sewer
<u>Operating Revenues</u>	
Charges for services	\$ 8,395,101
Total Operating Revenues	8,395,101
<u>Operating Expenses</u>	
Personnel services	206,022
Materials and supplies	27,093
Water purchases	2,979,240
Contractual services	2,830,114
Other	697,508
Depreciation	689,215
Total Operating Expenses	7,429,192
Operating Income (Loss)	965,909
<u>Nonoperating Revenues (Expenses)</u>	
Investment income	190,405
Interest expense	(76,369)
Total Nonoperating Revenues (Expenses)	114,036
Income (Loss) Before Transfers	1,079,945
<u>Transfers and Contributions</u>	
Capital grants and contributions	3,199,175
Transfers in	537,024
Transfers (out)	(150,000)
Total Transfers and Contributions	3,586,199
Change in Net Position	4,666,144
Beg. net position, as previously reported	11,402,534
Error correction	(23,118)
Beg. net position, as adjusted	11,379,416
Ending Net Position	\$ 16,045,560

See Notes to Financial Statements.

City of Freeport, Texas
STATEMENT OF CASH FLOWS
PROPRIETARY FUND (Page 1 of 2)
For the Year Ended September 30, 2024

	Water & Sewer
<u>Cash Flows from Operating Activities</u>	
Receipts from customers	\$ 7,315,068
Payments to employees	(201,067)
Payments to suppliers and contractors	(5,063,907)
Net Cash Provided by Operating Activities	2,050,094
<u>Cash Flows from Noncapital Financing Activities</u>	
Transfers in	537,024
Transfers (out)	(150,000)
Net Cash Provided (Used) by Noncapital Financing Activities	387,024
<u>Cash Flows from Capital and Related Financing Activities</u>	
Capital purchases	(5,059,989)
Capital contributions	3,199,175
Principal paid on debt	(190,000)
Interest paid on debt	(104,641)
Net Cash (Used for) Capital and Related Financing Activities	(2,155,455)
<u>Cash Flows from Investing Activities</u>	
Interest on investments	190,405
Net Cash Provided by Investing Activities	190,405
Net Increase in Cash and Cash Equivalents	472,068
Beginning cash and cash equivalents	3,464,763
Ending Cash and Cash Equivalents	\$ 3,936,831

See Notes to Financial Statements.

City of Freeport, Texas
STATEMENT OF CASH FLOWS
PROPRIETARY FUND (Page 2 of 2)
For the Year Ended September 30, 2024

	Water & Sewer
<u>Reconciliation of Operating Income</u>	
<u>to Net Cash Provided by Operating Activities</u>	
Operating Income	\$ 965,909
Adjustments to reconcile operating income to net cash provided:	
Depreciation	689,215
Changes in Operating Assets and Liabilities:	
(Increase) Decrease in:	
Accounts receivable	(1,087,532)
Prepaid expenses	(9,609)
Deferred Outflows of Resources:	
Pension outflows	9,265
OPEB outflows	(41)
Increase (Decrease) in:	
Accounts payable and accrued liabilities	1,479,657
Customer deposits	7,499
Compensated absences	(2,001)
Net pension liability	(4,868)
OPEB liabilities	(1,011)
Deferred Inflows of Resources:	
Pension inflows	2,547
OPEB inflows	1,064
Net Cash Provided by Operating Activities	\$ 2,050,094

See Notes to Financial Statements.

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City of Freeport, Texas

NOTES TO FINANCIAL STATEMENTS

September 30, 2024

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 primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity.

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

City of Freeport, Texas

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2024

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

Freeport Economic Development Corporation

The City Council authorized the creation and approved the Articles of Incorporation and the Bylaws of the Freeport Economic Development Corporation (the Corporation). The Articles of Incorporation were filed with the Office of the Secretary of State of Texas on December 20, 1999. The Corporation, a nonprofit corporation, organized under Section 4B of the development Corporation Act of 1979 was created to act on behalf of the City in the promotion and financing of projects so as to promote 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.

City of Freeport, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2024

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.

City of Freeport, Texas

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2024

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

City of Freeport, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2024

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.

City of Freeport, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2024

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

City of Freeport, Texas

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2024

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

City of Freeport, Texas

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2024

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.

Asset Description	Estimated Useful Life
Vehicles and equipment	5-15 years
Utility plant	40 years
Right to use equipment	Shorter of lease term or 5-15 years
Buildings and improvements	10-20 years

City of Freeport, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2024

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.

City of Freeport, Texas

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2024

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

City of Freeport, Texas

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2024

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

City of Freeport, Texas

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2024

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.

City of Freeport, Texas

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2024

- 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

City of Freeport, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2024

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.

City of Freeport, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2024

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	\$	937,485
Sanitation		13,915
Service center		107,160
Principal		169,281
Interest and fiscal charges		31,562

City of Freeport, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2024

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of September 30, 2024, the primary government had the following investments:

Investment Type	Value	Weighted Average Maturity (Days)
External investment pools	\$ 17,093,412	31
Total fair value	<u>\$ 17,093,412</u>	
Portfolio weighted average maturity		31

As of September 30, 2024, the component unit had the following investments:

Investment Type	Value	Weighted Average Maturity (Days)
External investment pools	\$ 2,565,891	26
Total fair value	<u>\$ 2,565,891</u>	
Portfolio weighted average maturity		26

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

City of Freeport, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2024

amount equal to 102 percent of uninsured balances. As of September 30, 2024, 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 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.

City of Freeport, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2024

B. Receivables

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

	General	Nonmajor Governmental Funds	Utility	Total
Property taxes	\$ 277,660	\$ 45,280	\$ -	\$ 322,940
Sales tax	465,720	-	-	465,720
Franchise and local	17,804	80,429	-	98,233
EMS	933,793	-	-	933,793
Accounts	165,757	39,610	2,616,786	2,822,153
Grants	360,498	-	1,129,814	1,490,312
Lease receivables	1,385,675	-	-	1,385,675
Other	80,508	-	-	80,508
Allowance	(705,966)	(68,316)	(443,968)	(1,218,250)
Total	\$ 2,981,449	\$ 97,003	\$ 3,302,632	\$ 6,381,084

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. Annual lease payments of \$100,000 will be received from Dow Chemical through July 2036. As of September 30, 2024, the lease receivable and offsetting deferred inflows amounted to \$1,385,072 and \$1,346,131, respectively.

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

Year ending September 30,	Governmental Activities	
	Principal	Interest (4.28%)
2025	\$ 52,924	\$ 59,076
2026	55,198	56,801
2027	57,570	54,430
2028	53,990	52,010
Thereafter	1,165,390	334,610
	\$ 1,385,072	\$ 556,927

City of Freeport, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2024

C. Capital Assets

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

	Beginning Balances	Increases	Decreases/ Reclassifications	Ending Balances
Capital assets, not being depreciated:				
Land	\$ 2,405,700	\$ 223,465	\$ -	\$ 2,629,165
Construction in process	3,747,614	1,483,794	(4,362,901)	868,507
Total capital assets not being depreciated	<u>6,153,314</u>	<u>1,707,259</u>	<u>(4,362,901)</u>	<u>3,497,672</u>
Capital assets, being depreciated:				
Streets and improvements	27,126,458	367,280	4,362,901	31,856,639
Building and improvements	8,782,485	25,799	-	8,808,284
Furniture, equipment, and vehicles	17,190,483	1,716,757	-	18,907,240
Right-of-use assets	580,186	761,068	-	1,341,254
SBITA assets	51,545	-	-	51,545
Total capital assets being depreciated	<u>53,731,157</u>	<u>2,870,904</u>	<u>4,362,901</u>	<u>60,964,962</u>
Less accumulated depreciation				
Streets and improvements	18,433,677	858,795	-	19,292,472
Building and improvements	6,275,048	268,265	-	6,543,313
Furniture, equipment, and vehicles	13,751,371	802,623	-	14,553,994
Right-to-use assets	186,509	215,187	-	401,696
SBITA assets	12,458	17,451	-	29,909
Total accumulated depreciation	<u>38,659,063</u>	<u>2,162,321</u>	<u>-</u>	<u>40,821,384</u>
Net capital assets being depreciated	<u>15,072,094</u>	<u>708,583</u>	<u>4,362,901</u>	<u>20,143,578</u>
Total Capital Assets	<u><u>\$ 21,225,408</u></u>	<u><u>\$ 2,415,842</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 23,641,250</u></u>

Depreciation was charged to governmental functions as follows:

General government	\$ 409,144
Public safety	584,025
Streets and drainage	744,517
Culture and recreation	398,038
Service center	26,597
Total Governmental Activities Depreciation Expense	<u><u>\$ 2,162,321</u></u>

City of Freeport, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2024

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

	Beginning Balances	Increases	Decreases/ Reclassifications	Ending Balances
Capital assets, not being depreciated:				
Land	\$ 68,600	\$ -	\$ -	\$ 68,600
Construction in progress	2,139,512	4,921,282	-	7,060,794
Total capital assets not being depreciated	<u>2,208,112</u>	<u>4,921,282</u>	<u>-</u>	<u>7,129,394</u>
Capital assets, being depreciated:				
Water and sewer system	28,349,488	86,803	-	28,436,291
Furniture, equipment, and vehicles	748,488	51,904	-	800,392
Total capital assets being depreciated	<u>29,097,976</u>	<u>138,707</u>	<u>-</u>	<u>29,236,683</u>
Less accumulated depreciation				
Water and sewer system	18,848,942	602,800	-	19,451,742
Furniture, equipment, and vehicles	315,344	86,415	-	401,759
Total accumulated depreciation	<u>19,164,286</u>	<u>689,215</u>	<u>-</u>	<u>19,853,501</u>
Net capital assets being depreciated	<u>9,933,690</u>	<u>(550,508)</u>	<u>-</u>	<u>9,383,182</u>
Total Capital Assets	<u><u>\$ 12,141,802</u></u>	<u><u>\$ 4,370,774</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 16,512,576</u></u>

City of Freeport, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2024

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

	Beginning Balances	Increases	Decreases/ Reclassifications	Ending Balances
Capital assets, not being depreciated:				
Land	\$ 2,456,056	\$ -	\$ -	\$ 2,456,056
Total capital assets not being	<u>2,456,056</u>	<u>-</u>	<u>-</u>	<u>2,456,056</u>
Capital assets, being depreciated:				
Streets and improvements	2,362,143	243,513	-	2,605,656
Total capital assets being depreciated	<u>2,362,143</u>	<u>243,513</u>	<u>-</u>	<u>2,605,656</u>
Less accumulated depreciation				
Streets and improvements	2,359,942	11,869	-	2,371,811
Total accumulated depreciation	<u>2,359,942</u>	<u>11,869</u>	<u>-</u>	<u>2,371,811</u>
Net capital assets being depreciated	<u>2,201</u>	<u>231,644</u>	<u>-</u>	<u>233,845</u>
Total Capital Assets	<u><u>\$ 2,458,257</u></u>	<u><u>\$ 231,644</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 2,689,901</u></u>

City of Freeport, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2024

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.

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Governmental Activities:					
Compensated absences	\$ 314,281	\$ 255,263	\$ (282,854)	\$ 286,690	\$ 258,021
Total Governmental Activities	<u>\$ 314,281</u>	<u>\$ 255,263</u>	<u>\$ (282,854)</u>	<u>\$ 286,690</u>	<u>\$ 258,021</u>
Long-term Liabilities Due in More than One Year				<u>\$ 28,669</u>	
Business-Type Activities:					
Compensated absences	\$ 3,787	\$ 1,786	\$ (3,787)	\$ 1,786	\$ 1,607
Total Business-Type Activities	<u>\$ 3,787</u>	<u>\$ 1,786</u>	<u>\$ (3,787)</u>	<u>\$ 1,786</u>	<u>\$ 1,607</u>
Long-term Liabilities Due in More than One Year				<u>\$ 179</u>	
Component Unit Activities:					
Compensated absences	\$ 6,720	\$ 6,143	\$ (6,320)	\$ 6,543	\$ 5,889
Total Component Unit Activities	<u>\$ 6,720</u>	<u>\$ 6,143</u>	<u>\$ (6,320)</u>	<u>\$ 6,543</u>	<u>\$ 5,889</u>
				<u>\$ 654</u>	

City of Freeport, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2024

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.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Payments</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
Governmental Activities:					
Bonds, notes and other payables:					
Certificates of obligation	\$ 7,215,000	\$ -	\$ (360,000)	\$ 6,855,000	\$ 365,000
Premiums	338,997	-	(37,840)	301,157	-
Lease liabilities	457,097	761,068	(156,379)	1,061,786	325,855
Subscription liabilities	30,545	-	(13,902)	16,643	5,547
Total Governmental Activities	<u>\$ 8,041,639</u>	<u>\$ 761,068</u>	<u>\$ (568,121)</u>	<u>\$ 8,234,586</u>	<u>\$ 696,402</u>

Long-term liabilities due in more than one year \$ 7,538,184

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Payments</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
Business-type Activities:					
Bonds, notes and other payables:					
Certificates of obligation	\$ 4,455,000	\$ -	\$ (190,000)	\$ 4,265,000	\$ 195,000
Premium	247,045	-	(28,272)	218,773	-
Total Business-type Activities	<u>\$ 4,702,045</u>	<u>\$ -</u>	<u>\$ (218,272)</u>	<u>\$ 4,483,773</u>	<u>\$ 195,000</u>

Long-term liabilities due in more than one year \$ 4,288,773

City of Freeport, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2024

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

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
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%	\$ 6,855,000	\$ -
\$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%	-	4,265,000
Total Certificates of Obligation	<u>\$ 6,855,000</u>	<u>\$ 4,265,000</u>
Lease Liabilities:		
\$275,312 lease agreement for 58 golf carts, one range picker due in installments through Nov 15, 2025, interest at 4.28%	\$ 203,596	\$ -
\$230,594 lease agreement for office equipment due in annual installments through Oct 2028, interest at various rates	174,356	-
\$761,068 lease agreement for property rental, due in annual installments through May 2027 interest at 4.28%	683,834	-
Total Lease Liabilities	<u>\$ 1,061,786</u>	<u>\$ -</u>
Subscription Liabilities:		
\$52,461 software subscriptions; terms 2 yr & 5 yr, due in installments through 2027, interest at 2.71% & 3.31%	\$ 16,643	\$ -
Total Subscription Liabilities	<u>\$ 16,643</u>	<u>\$ -</u>
Bond Premiums:	301,157	218,773
Total Debt	<u><u>\$ 8,234,586</u></u>	<u><u>\$ 4,483,773</u></u>

City of Freeport, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2024

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

Governmental Activities

Year Ending,	Certificates of Obligation	
	Principal	Interest
2025	\$ 365,000	\$ 133,469
2026	370,000	127,994
2027	375,000	122,444
2028	380,000	117,288
2029	395,000	101,613
2030-2034	2,160,000	329,694
2035-2039	2,320,000	170,056
2040	490,000	9,800
Total	\$ 6,855,000	\$ 1,112,358

Governmental Activities

	Lease Liabilities		Subscription Liabilities	
	Principal	Interest	Principal	Interest
2025	\$ 325,855	\$ 41,461	\$ 5,547	\$ 184
2026	468,144	21,111	5,548	183
2027	232,264	6,617	5,548	183
2028	33,821	791	-	-
2029	1,702	6	-	-
Total	\$ 1,061,786	\$ 69,986	\$ 16,643	\$ 550

The City has entered into lease agreements. The related governmental activities right to use assets had a carrying value of \$939,558 as of yearend.

The City has entered into software subscription agreements. The related governmental activities right to use assets had a carrying value of \$21,636 as of yearend.

City of Freeport, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2024

Business-type Activities

Year Ending,	Certificates of Obligation	
	Principal	Interest
2025	\$ 195,000	\$ 106,650
2026	205,000	98,850
2027	215,000	90,650
2028	220,000	82,050
2029	230,000	73,250
2030-2034	1,245,000	273,750
2035-2039	1,375,000	141,500
2040-2041	580,000	17,400
Total	\$ 4,265,000	\$ 884,100

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 \$7,970,539. Of which, \$507,463 is restricted by enabling legislation.

G. Interfund Transactions

Transfers between the primary government funds during the 2024 year were as follows:

	Transfers In:				
	2020 CO Bond				
Transfers (Out):	General	CIP	Nonmajor Govt.	Water & Sewer	Total
General	\$ -	\$ 153,928	\$ 1,204,141	\$ -	\$ 1,358,069
Capital projects	-	-	-	536,557	536,557
Nonmajor govt.	-	-	-	467	467
Water and sewer	150,000	-	-	-	150,000
	<u>\$ 150,000</u>	<u>\$ 153,928</u>	<u>\$ 1,204,141</u>	<u>\$ 537,024</u>	<u>\$ 2,045,093</u>

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

City of Freeport, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2024

The compositions of interfund balances to/from as of the year ended September 30, 2024 were as follows:

<u>Due from (Receivable fund):</u>	<u>Due to (Payable fund):</u>			<u>Total</u>
	<u>General</u>	<u>Nonmajor Govt.</u>	<u>Water & Sewer</u>	
General	\$ -	\$ 1,437,304	\$ -	\$ 1,437,304
Nonmajor govt.	14,553	-	240,725	255,278
	<u>\$ 14,553</u>	<u>\$ 1,437,304</u>	<u>\$ 240,725</u>	<u>\$ 1,692,582</u>

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

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 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 has three Industrial Development Agreements: Brazosport IDA (Interlocal with Lake Jackson and Clute), Freeport IDA, and Freeport LNG. Brazosport IDA and Freeport IDA, payments to the City are calculated based on property values or CPI, whichever is

City of Freeport, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2024

greater. Freeport LNG Industrial District payments are made in accordance to a payment schedule outlined in the agreement. The amount received under this contract and various other industrial district contracts during the year ended September 30, 2024 was \$9,413,205 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, 2024, the City of Freeport's portion of these expenses is estimated to be \$204,354.

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 Society for the Prevention of Cruelty to Animals ("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 original term of the agreement was from March 1, 2003 through February 28, 2023. The agreement is automatically renewed every subsequent year. 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, 2024, 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, 2024, the City has received \$7,100,000 from Port Freeport and \$371,791 was

City of Freeport, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2024

spent during the current year. 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 934 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.

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:

	<u>Plan Year 2023</u>	<u>Plan Year 2022</u>
Employee deposit rate	7.00%	7.00%
Matching ratio (city to employee)	2 to 1	2 to 1

City of Freeport, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2024

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, 2023 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	99
Inactive employees entitled to but not yet receiving benefits	155
Active employees	<u>133</u>
Total	<u>387</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 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 14.13% and 15.33% in calendar years 2023 and 2024, respectively. The City's contributions to TMRS for the year ended September 30, 2024, were \$1,275,534 and equaled the required contributions.

4. Net Pension Liability (Asset)

The City's Net Pension Liability (Asset) was measured as of December 31, 2023, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability (Asset) was determined by an actuarial valuation as of that date.

City of Freeport, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2024

Actuarial assumptions

The Total Pension Liability in the December 31, 2023 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3.60% to 11.85%, 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 period ending December 31, 2022. They were adopted in 2022 and first used in the December 31, 2023 actuarial valuation. The post-retirement mortality assumption for Annuity Purchase Rates (APRs) is based on the 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).

City of Freeport, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2024

The target allocation and best estimates of real rates of return for each major asset class in fiscal year 2024 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Global Public Equity	35.0%	6.7%
Core Fixed Income	6.0%	4.7%
Non-Core Fixed Income	20.0%	8.0%
Other Public/Private Markets	12.0%	8.0%
Real Estate	12.0%	7.6%
Hedge Funds	5.0%	6.4%
Private Equity	10.0%	11.6%
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 a discount rate that is 1-percentage-point lower (5.75%) or 1-percentage-point higher (7.75%) than the current rate:

1% Decrease 5.75%	Current Single Rate Assumption 6.75%	1% Increase 7.75%
\$ 11,979,142	\$ 6,098,926	\$ 1,360,900

City of Freeport, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2024

Changes in the Net Pension Liability (Asset)

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balance at 12/31/22	\$ 36,299,218	\$ 29,031,927	\$ 7,267,291
Changes for the year:			
Service cost	1,330,606	-	1,330,606
Interest	2,443,269	-	2,443,269
Difference between expected and actual experience	326,848	-	326,848
Changes of assumptions	(279,941)	-	(279,941)
Contributions – employer	-	1,104,669	(1,104,669)
Contributions – employee	-	547,253	(547,253)
Net investment income	-	3,358,750	(3,358,750)
Benefit payments, including refunds of emp. contributions	(1,535,890)	(1,535,890)	-
Administrative expense	-	(21,376)	21,376
Other changes	-	(149)	149
Net changes	2,284,892	3,453,257	(1,168,365)
Balance at 12/31/23	<u>\$ 38,584,110</u>	<u>\$ 32,485,184</u>	<u>\$ 6,098,926</u>

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. Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended September 30, 2024, the City recognized pension expense of \$1,301,422.

City of Freeport, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2024

At September 30, 2024, the City reported deferred outflows and inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred (Inflows) of Resources
Difference between projected and actual investment earnings	\$ 785,866	\$ -
Differences between expected and actual economic experience	347,180	-
Changes in assumptions	-	(178,144)
Contributions subsequent to the measurement date	962,524	-
Total	\$ 2,095,570	\$ (178,144)

The primary government and EDC reported \$940,853 and \$21,671, respectively, 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, 2025.

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:		
2024	\$	356,342
2025		277,619
2026		600,760
2027		(279,819)
2028		-
Thereafter		-
	\$	954,902

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

City of Freeport, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2024

terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

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

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing 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, 2023 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	62
Inactive employees entitled to but not yet receiving benefits	30
Active employees	133
Total	225

The City's retiree contribution rates to the TMRS SDBF for the years ended 2022, 2023, and 2024 are as follows:

Plan/ Calendar Year	Annual Required Contribution (Rate)	Actual Contribution Made (Rate)	Percentage of ARC Contributed
2022	0.10%	0.10%	100.0%
2023	0.12%	0.12%	100.0%
2024	0.14%	0.14%	100.0%

The Retiree's contributions to the TMRS SDBF for the years ended 2024 and 2023 were \$11,445, \$8,653 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, 2023, and the Total OPEB Liability was determined by an actuarial valuation as of that date.

City of Freeport, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2024

Actuarial assumptions:

The Total OPEB Liability in the December 31, 2023 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3.6% to 11.85%, including inflation per year
Discount rate	3.77%
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 3.77%. The discount rate was based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2023.

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 3.77%, 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 (2.77%) or 1-percentage-point higher (4.77%) than the current rate:

1% Decrease 2.77%	Current Single Rate Assumption 3.77%	1% Increase 4.77%
\$ 468,061	\$ 390,105	\$ 329,890

City of Freeport, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2024

Changes in the Total OPEB Liability:

	Total OPEB Liability
Balance at 12/31/22	<u>\$ 352,525</u>
Changes for the year:	
Service Cost	14,072
Interest	14,372
Difference between expected and actual experience	(1,532)
Changes of assumptions	20,050
Benefit payments	(9,382)
Net changes	<u>37,580</u>
Balance at 12/31/23	<u><u>\$ 390,105</u></u>

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

For the year ended September 30, 2024, the City recognized OPEB expense of \$15,285.

At September 30, 2024, 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 actual experience	\$ -	\$ (1,383)
Changes in assumptions	-	(68,003)
Contributions subsequent to measurement date	8,791	-
Total	<u><u>\$ 8,791</u></u>	<u><u>\$ (69,386)</u></u>

The primary government and EDC reported \$8,593 and \$198, respectively, 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, 2025.

City of Freeport, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2024

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

Year ended December 31:		
2024	\$	(12,985)
2025		(27,736)
2026		(30,587)
2027		1,922
2028		-
Thereafter		-
	\$	<u>(69,386)</u>

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 least 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.

City of Freeport, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2024

At the September 30, 2024 valuation, the following represents the active employees and retirees that are eligible to participate in the plan:

Employees covered by benefit terms

At the September 30, 2024 valuation date, the following employees were covered by the benefit terms:

<u>Status</u>	<u>Amount</u>
Inactive employees or beneficiaries currently receiving benefits	1
Active employees	123
Total	124

Actuarial Assumptions and Methods:

The Total OPEB Liability in the September 30, 2024 valuation was determined using the following actuarial assumptions:

Actuarial Cost Method	Individual Entry-Age Normal
Inflation	2.5% per year
Overall payroll growth	3.60% to 11.85%, including inflation per year
Discount rate	4.06% (decreased from 4.63%)
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 2021 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 4.06%. The discount rate was based on the Bond Buyer GO Bond 20 Year Index rate as of September 30, 2024, date of the actuarial valuation.

City of Freeport, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2024

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 4.06%, 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 (3.06%) or 1-percentage-point higher (5.06%) than the current rate:

1% Decrease (3.06%)	Current Single Rate Assumption 4.06%	1% Increase (5.06%)
\$ 196,725	\$ 174,975	\$ 156,043

Healthcare Cost Trend

1% Decrease (3.50%)	Current Healthcare Cost Trend (4.50%)	1% Increase (5.50%)
\$ 152,486	\$ 174,975	\$ 202,029

Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at 12/31/2022	\$ 366,326
Changes for the year:	
Service Cost	31,270
Interest	19,346
Change in benefit terms	(256,806)
Changes of assumptions	15,536
Benefit payments	(697)
Net changes	(191,351)
Balance at 12/31/2023	<u>\$ 174,975</u>

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

For the year ended September 30, 2024, the City recognized OPEB expense of \$15,547.

City of Freeport, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2024

At September 30, 2024, the City reported deferred outflows of resources and deferred inflows of resources related to the OPEB liability from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred (Inflows) of Resources</u>
Difference between expected and actual experience	\$ -	\$ (219,479)
Change in assumptions	13,278	-
Total	<u><u>\$ 13,278</u></u>	<u><u>\$ (219,479)</u></u>

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

Year ended September 30:

2025	\$ (35,069)
2026	(35,069)
2027	(35,069)
2028	(35,069)
2029	(35,069)
Thereafter	(30,856)
	<u><u>\$ (206,201)</u></u>

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. 100, entitled Accounting Changes and Error Calculations. The requirements of this Statement are displayed within the government-wide and fund financial statements, where applicable.

G. Restatement

Due to corrections to receivables, lease receivables, accounts payable, municipal bond payables, FSA liabilities, and other miscellaneous corrections, the City restated beginning fund balance/net position for the general fund, nonmajor governmental funds, governmental

City of Freeport, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2024

activities, water and sewer fund, and business-type activities. The restatement of beginning fund balance/net position is as follows:

	General Fund	Nonmajor Governmental	Total Governmental Activities
Prior year ending net position/fund balance, as reported	\$ 10,556,882	\$ 4,160,268	\$ 30,933,415
Restate property taxes	(14,452)	14,452	-
Correct pending seizures payable	-	16,892	16,892
Correct municipal bond payable	32,058	-	32,058
Correct FSA liabilities	188,237	-	188,237
Miscellaneous correction	741	-	741
Restated beginning net position/fund balance	<u>\$ 10,763,466</u>	<u>\$ 4,191,612</u>	<u>\$ 31,171,343</u>

	Business-Type Activities Water & Sewer
Prior year ending net position/fund balance, as reported	\$ 11,402,534
Correct Surfside Beach receivables	(24,303)
Correct benefits payables	1,185
Restated beginning fund balance/net position	<u>\$ 11,379,416</u>

H. Subsequent Events

On November 21, 2024, the City entered into a note payable in the amount of \$3,561,250 for the upgrade and replacement of water meters within the City. The note has a term of 15 years paid in annual installments of \$336,720 with an interest rate of 4.45%.

There were no other material subsequent events through August 11, 2025, the date the financial statements were issued.

REQUIRED SUPPLEMENTARY INFORMATION

City of Freeport, Texas

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

For the Year Ended September 30, 2024

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues</u>				
Property tax	\$ 3,715,000	\$ 3,715,000	\$ 3,397,417	\$ (317,583)
Sales tax	2,300,000	2,300,000	2,649,294	349,294
Industrial district	8,896,690	9,056,690	9,413,205	356,515
Franchise and local taxes	685,000	685,000	713,297	28,297
License and permits	248,025	248,025	205,940	(42,085)
Intergovernmental	19,000	19,000	445,282	426,282
Fines and forfeitures	257,700	257,700	237,298	(20,402)
Charges for services	2,222,000	2,222,000	2,646,320	424,320
Investment income	150,000	150,000	689,180	539,180
Other revenue	283,165	283,165	432,022	148,857
Total Revenues	18,776,580	18,936,580	20,829,255	1,892,675
<u>Expenditures</u>				
Current:				
General government	2,508,678	2,518,678	3,456,163	(937,485) *
Public safety	9,103,830	9,160,001	8,736,911	423,090
Streets and drainage	1,562,130	1,577,182	1,454,419	122,763
Sanitation	750,000	750,000	763,915	(13,915) *
Culture and recreation	3,649,936	3,649,936	3,224,903	425,033
Service center	203,433	203,433	310,593	(107,160) *
Capital outlay	1,155,178	3,538,187	1,626,313	1,911,874
Debt service:				
Principal	1,000	1,000	170,281	(169,281) *
Interest and fiscal charges	-	-	31,562	(31,562) *
Total Expenditures	18,934,185	21,398,417	19,775,060	1,623,357
Revenues Over (Under)				
Expenditures	(157,605)	(2,461,837)	1,054,195	3,516,032

City of Freeport, Texas

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

For the Year Ended September 30, 2024

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Other Financing Sources (Uses)</u>				
Transfers in	\$ 150,000	\$ 150,000	\$ 150,000	\$ -
Transfers (out)	(1,116,250)	(1,276,250)	(1,358,069)	(81,819)
Lease issuance	-	-	761,068	761,068
Sale of assets	60,000	60,000	13,850	(46,150)
Total Other Financing Sources (Uses)	(906,250)	(1,066,250)	(433,151)	633,099
Net Change in Fund Balance	\$ (1,063,855)	\$ (3,528,087)	621,044	\$ 4,149,131
Beg. fund balance, as previously reported			10,556,882	
Error correction			206,584	
Beg. fund balance, as adjusted			10,763,466	
Ending Fund Balance			\$ 11,384,510	

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.

City of Freeport, Texas

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

Years Ended:

	12/31/2023	12/31/2022	12/31/2021	12/31/2020
Total pension liability				
Service cost	\$ 1,330,606	\$ 1,188,602	\$ 1,227,173	\$ 1,210,072
Interest	2,443,269	2,284,689	2,145,373	2,021,037
Changes in benefit terms	-	-	-	-
Differences between expected and actual experience	326,848	345,806	199,603	(61,634)
Changes of assumptions	(279,941)	-	-	-
Benefit payments, including refunds of participant contributions	(1,535,890)	(1,545,644)	(1,432,204)	(1,239,813)
Net change in total pension liability	2,284,892	2,273,453	2,139,945	1,929,662
Total pension liability - beginning	36,299,218	34,025,765	31,885,820	29,956,158
Total pension liability - ending (a)	38,584,110	36,299,218	34,025,765	31,885,820
Plan fiduciary net position				
Contributions - employer	\$ 1,104,669	\$ 1,013,241	\$ 1,057,969	\$ 1,072,524
Contributions - members	547,253	503,340	521,251	524,814
Net investment income	3,358,750	(2,287,152)	3,599,409	1,923,014
Benefit payments, including refunds of participant contributions	(1,535,890)	(1,545,644)	(1,432,204)	(1,239,813)
Administrative expenses	(21,376)	(19,799)	(16,657)	(12,450)
Other	(149)	23,627	114	(486)
Net change in plan fiduciary net position	3,453,257	(2,312,387)	3,729,882	2,267,603
Plan fiduciary net position - beginning	29,031,927	31,344,314	27,614,432	25,346,829
Plan fiduciary net position - ending (b)	\$ 32,485,184	\$ 29,031,927	\$ 31,344,314	\$ 27,614,432
Fund's net pension liability (asset) - ending (a) - (b)	\$ 6,098,926	\$ 7,267,291	\$ 2,681,451	\$ 4,271,388
Plan fiduciary net position as a percentage of the total pension liability	84.19%	79.98%	92.12%	86.60%
Covered payroll	\$ 7,817,899	\$ 7,190,577	\$ 7,446,438	\$ 7,497,348
Fund's net position as a percentage of covered payroll	78.01%	101.07%	36.01%	56.97%

<u>12/31/2019</u>	<u>12/31/2018</u>	<u>12/31/2017</u>	<u>12/31/2016</u>	<u>12/31/2015</u>	<u>12/31/2014</u>
\$ 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
444,711	440,294	464,589	409,932	385,600	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
<u>\$ 4,609,329</u>	<u>\$ 6,704,387</u>	<u>\$ 4,633,434</u>	<u>\$ 5,511,838</u>	<u>\$ 5,405,646</u>	<u>\$ 3,727,368</u>
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%

City of Freeport, Texas

SCHEDULE OF EMPLOYER CONTRIBUTIONS TO PENSION PLAN

Fiscal Years Ended:

	9/30/2024	9/30/2023	9/30/2022	9/30/2021
Actuarially determined employer contributions	\$ 1,275,234	\$ 1,063,502	\$ 1,038,883	\$ 1,095,630
Contributions in relation to the actuarially determined contribution	\$ 1,275,534	\$ 1,063,502	\$ 1,038,883	\$ 1,095,630
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Annual covered payroll	\$ 8,491,786	\$ 7,532,012	\$ 7,257,170	\$ 7,593,889
Employer contributions as a percentage of covered payroll	15.02%	14.12%	14.32%	14.43%

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 22 years
 Asset Valuation Method 10 Year smoothed market; 12% soft corridor
 Inflation 2.5%
 Salary Increases 3.60% to 11.85% 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 2023 valuation pursuant to an experience study of the period ending 2022.

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.

<u>9/30/2020</u>	<u>9/30/2019</u>	<u>9/30/2018</u>	<u>9/30/2017</u>	<u>9/30/2016</u>	<u>9/30/2015</u>
\$ 1,004,021	\$ 892,025	\$ 912,207	\$ 773,757	\$ 699,079	\$ 677,622
<u>\$ 1,004,021</u>	<u>\$ 892,025</u>	<u>\$ 912,207</u>	<u>\$ 773,757</u>	<u>\$ 699,079</u>	<u>\$ 677,622</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
\$ 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%

City of Freeport, Texas

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

Years Ended:

	12/31/2023	12/31/2022	12/31/2021	12/31/2020
Total OPEB liability				
Service cost	\$ 14,072	\$ 23,729	\$ 24,573	\$ 22,492
Interest	14,372	9,360	9,611	10,633
Differences between expected and actual experience	(1,532)	12,121	(14,258)	(397)
Changes of assumptions	20,050	(185,826)	16,220	65,740
Benefit payments, including refunds of participant contributions	(9,382)	(7,191)	(8,191)	(2,999)
Net change in total OPEB liability	37,580	(147,807)	27,955	95,469
Total OPEB liability - beginning	\$ 352,525	\$ 500,332	\$ 472,377	\$ 376,908
Total OPEB liability - ending	\$ 390,105	\$ 352,525	\$ 500,332	\$ 472,377
 Covered-employee payroll	 \$ 7,817,899	 \$ 7,190,577	 \$ 7,446,438	 \$ 7,497,348
City's total OPEB liability as a percentage of covered-employee payroll	 4.99%	 4.90%	 6.72%	 6.30%

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.

<u>12/31/2019</u>	<u>12/31/2018</u>	<u>12/31/2017</u> ¹
\$ 12,706	\$ 11,923	\$ 10,618
11,579	10,724	10,509
(15,039)	(9,540)	-
63,192	(23,177)	26,796
(2,541)	(1,883)	(3,318)
<u>69,897</u>	<u>(11,953)</u>	<u>44,605</u>
\$ 307,011	\$ 318,964	\$ 274,359
<u>\$ 376,908</u>	<u>\$ 307,011</u>	<u>\$ 318,964</u> ²
\$ 6,353,014	\$ 6,275,121	\$ 6,636,342
5.93%	4.89%	4.81%

City of Freeport, Texas

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

Years Ended:

	<u>12/31/2024</u>	<u>12/31/2023</u>	<u>12/31/2022</u>	<u>12/31/2021</u>
Total OPEB liability				
Service cost	\$ 31,270	\$ 57,496	\$ 24,748	\$ 24,263
Interest	19,346	11,311	9,124	10,346
Changes in benefit terms	(256,806)	-	(21,529)	-
Differences between expected and actual experience	-	-	(27,506)	231
Changes of assumptions	15,536	(258,557)	142,157	34,141
Benefit payments, including refunds of participant contributions	(697)	(2,343)	-	(3,252)
Net change in total OPEB liability	<u>(191,351)</u>	<u>(192,093)</u>	<u>126,994</u>	<u>65,729</u>
Total OPEB liability - beginning	<u>\$ 366,326</u>	<u>\$ 558,419</u>	<u>\$ 431,425</u>	<u>\$ 365,696</u>
Total OPEB liability - ending	<u><u>\$ 174,975</u></u>	<u><u>\$ 366,326</u></u>	<u><u>\$ 558,419</u></u>	<u><u>\$ 431,425</u></u>
 Covered-employee payroll	 \$ 7,663,432	 \$ 7,663,432	 \$ 7,257,170	 \$ 6,234,975
City's total OPEB liability as a percentage of covered-employee payroll	 2.28%	 4.78%	 7.69%	 6.92%

Notes to schedule:

¹ This schedule is presented to illustrate the requirement to show information for ten years. However, until a full ten-year trend is compiled, only available information is shown.

² No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB statement No. 75 to pay related benefits.

<u>12/31/2020</u>	<u>12/31/2019</u>	<u>12/31/2018</u> ¹
\$ 26,027	\$ 27,301	\$ 24,443
16,948	16,533	17,182
(106,501)	-	-
(99,594)	(715)	-
33,523	(16,480)	20,081
(7,424)	(19,500)	(9,750)
<u>(137,021)</u>	<u>7,139</u>	<u>51,956</u>
\$ 502,717	\$ 495,578	\$ 443,622
<u>\$ 365,696</u>	<u>\$ 502,717</u>	<u>\$ 495,578</u> ²
\$ 6,353,014	\$ 6,275,121	\$ 6,636,342
5.76%	8.01%	7.47%

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***COMBINING STATEMENTS AND
INDIVIDUAL FUND SCHEDULES***

City of Freeport, Texas
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
September 30, 2024

	Debt Service	Hotel/Motel Tax	TIRZ	Court Revenue
<u>Assets</u>				
Cash and cash equivalents	\$ 183,671	\$ 221,012	\$ 570,587	\$ 244,703
Receivables, net	31,582	25,810	-	39,611
Prepays	53,325	-	-	-
Due from other funds	255,278	-	-	-
Total Assets	\$ 523,856	\$ 246,822	\$ 570,587	\$ 284,314
<u>Liabilities</u>				
Accounts payable	\$ -	\$ 5,000	\$ -	\$ 18,673
Due to Other Funds	-	-	-	-
Total Liabilities	-	5,000	-	18,673
<u>Deferred Inflows of Resources</u>				
Unavailable revenues	29,895	-	-	-
<u>Fund Balances</u>				
Nonspendable	53,325	-	-	-
Restricted for:				
Debt service	440,636	-	-	-
Tourism	-	241,822	-	-
Economic development	-	-	570,587	-
Municipal court	-	-	-	265,641
Assigned:				
Facilities and grounds	-	-	-	-
IT equipment	-	-	-	-
Unassigned	-	-	-	-
Total Fund Balances	493,961	241,822	570,587	265,641
Total Liabilities, Deferred Inflows, and Fund Balances	\$ 523,856	\$ 246,822	\$ 570,587	\$ 284,314

Facilities & Grounds CIP	Vehicles & Equipment	IT Fund	Hurricane Beryl	Marina Operations	Total
\$ 2,471,502	\$ 62,019	\$ 215,005	\$ -	\$ 1,105	\$ 3,969,604
-	-	-	-	-	97,003
-	-	-	-	-	53,325
-	-	-	-	-	255,278
<u>\$ 2,471,502</u>	<u>\$ 62,019</u>	<u>\$ 215,005</u>	<u>\$ -</u>	<u>\$ 1,105</u>	<u>\$ 4,375,210</u>
\$ 70,167	\$ 64,275	\$ -	\$ -	\$ 243	\$ 158,358
-	-	-	1,437,304	-	1,437,304
<u>70,167</u>	<u>64,275</u>	<u>-</u>	<u>1,437,304</u>	<u>243</u>	<u>1,595,662</u>
-	-	-	-	-	29,895
-	-	-	-	-	53,325
-	-	-	-	-	440,636
-	-	-	-	-	241,822
-	-	-	-	-	570,587
-	-	-	-	-	265,641
2,401,335	-	-	-	-	2,401,335
-	-	215,005	-	-	215,005
-	(2,256)	-	(1,437,304)	862	(1,438,698)
<u>2,401,335</u>	<u>(2,256)</u>	<u>215,005</u>	<u>(1,437,304)</u>	<u>862</u>	<u>2,749,653</u>
<u>\$ 2,471,502</u>	<u>\$ 62,019</u>	<u>\$ 215,005</u>	<u>\$ -</u>	<u>\$ 1,105</u>	<u>\$ 4,375,210</u>

City of Freeport, Texas

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

For the Year Ended September 30, 2024

	Debt Service	Hotel/Motel Tax	TIRZ	Court Revenue
<u>Revenues</u>				
Property tax	\$ 514,266	\$ -	\$ 329,939	\$ -
Other taxes	-	76,753	-	-
Fines and fees	-	-	-	69,670
Investment income	7,652	18,556	22,204	11,821
Total Revenues	521,918	95,309	352,143	81,491
<u>Expenditures</u>				
General government	-	62,000	-	-
Public safety	-	-	-	22,222
Disaster relief	-	-	-	-
Debt service:				
Principal	360,000	-	-	-
Interest	150,278	-	-	-
Capital outlay	-	-	-	-
Total Expenditures	510,278	62,000	-	22,222
Revenues Over (Under) Expenditures	11,640	33,309	352,143	59,269
<u>Other Financing Sources (Uses)</u>				
Transfers in	-	-	-	-
Transfers (out)	(467)	-	-	-
Total Other Financing Sources (Uses)	(467)	-	-	-
Net Change in Fund Balances	11,173	33,309	352,143	59,269
Beg. fund balances, as previously reported	468,336	208,513	218,444	189,480
Error correction	14,452	-	-	16,892
Beg. fund balances, as adjusted	482,788	208,513	218,444	206,372
Ending Fund Balances	\$ 493,961	\$ 241,822	\$ 570,587	\$ 265,641

Facilities & Grounds CIP	Vehicles & Equipment	IT Fund	Hurricane Beryl	Marina Operations	Total
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 844,205
-	-	-	-	-	76,753
-	-	-	-	-	69,670
122,973	8,466	11,031	-	862	203,565
<u>122,973</u>	<u>8,466</u>	<u>11,031</u>	<u>-</u>	<u>862</u>	<u>1,194,193</u>
-	-	-	-	-	62,000
-	-	-	-	-	22,222
-	-	-	1,437,304	-	1,437,304
-	-	-	-	-	360,000
-	-	-	-	-	150,278
647,243	1,135,798	24,981	-	-	1,808,022
<u>647,243</u>	<u>1,135,798</u>	<u>24,981</u>	<u>1,437,304</u>	<u>-</u>	<u>3,839,826</u>
(524,270)	(1,127,332)	(13,950)	(1,437,304)	862	(2,645,633)
549,641	654,500	-	-	-	1,204,141
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(467)</u>
549,641	654,500	-	-	-	1,203,674
25,371	(472,832)	(13,950)	(1,437,304)	862	(1,441,959)
2,375,964	470,576	228,955	-	-	4,160,268
-	-	-	-	-	31,344
2,375,964	470,576	228,955	-	-	4,191,612
<u>\$ 2,401,335</u>	<u>\$ (2,256)</u>	<u>\$ 215,005</u>	<u>\$ (1,437,304)</u>	<u>\$ 862</u>	<u>\$ 2,749,653</u>

SINGLE AUDIT REPORTS

City of Freeport, Texas

**Fiscal Year Ended
September 30, 2024**

City of Freeport, Texas

SINGLE AUDIT REPORTS

Year Ended September 30, 2024

TABLE OF CONTENTS

	<u>Page</u>
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	1
REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH THE UNIFORM GUIDANCE	3
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS	7
SCHEDULE OF FINDINGS AND RESPONSES COSTS	8-10
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	11
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	13



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Independent Auditor's Report

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

We have audited, 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, the financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Freeport, Texas as of and for the year ended September 30, 2024, and the related notes to the financial statements, which collectively comprise City of Freeport, Texas' basic financial statements, and have issued our report thereon dated August 11, 2025.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Freeport, Texas' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Freeport, Texas' internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Freeport, Texas' internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of City of Freeport, Texas's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses as item 2024-001 to be a material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and responses as item 2024-002 to be a significant deficiency.

Report on Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully,

A handwritten signature in black ink that reads "Brooks Watson & Co." in a cursive, flowing script.

BrooksWatson & Co., PLLC
14950 Heathrow Forest Pkwy | Ste 530
Houston, TX 77032
August 13, 2025



**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT
ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH THE UNIFORM GUIDANCE**

Independent Auditor's Report

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

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the City of Freeport, Texas' compliance with the types of compliance requirements identified as subject to audit in the (OMB) *Compliance Supplement* that could have a direct and material effect on each of the City of Freeport, Texas' major federal programs for the year ended September 30, 2024. The City of Freeport, Texas' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the City of Freeport, Texas complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2024.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States (Government Auditing Standards); and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of City of Freeport, Texas and to meet our other ethical responsibilities, in accordance with 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 opinion on compliance for each major federal program. Our audit does not provide a legal determination of City of Freeport, Texas' compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to City of Freeport, Texas' federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on City of Freeport, Texas' compliance based on our audit. 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, Government Auditing Standards, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about City of Freeport, Texas' compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 City of Freeport, Texas' compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of City of Freeport, Texas' internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of City of Freeport, Texas' internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Freeport, Texas as of and for the year ended September 30, 2024, and the related notes to the financial statements, which collectively comprise the City of Freeport, Texas' basic financial statements. We issued our report thereon dated August 11, 2025, which contained unmodified opinions on those financial statements. Our audit was conducted

for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such 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 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

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

Respectfully,

A handwritten signature in black ink that reads "Brooks Watson & Co." in a cursive, flowing script.

BrooksWatson & Co., PLLC
14950 Heathrow Forest Pkwy | Ste 530
Houston, TX 77032
August 13, 2025

City of Freeport, Texas
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
For the Year Ended September 30, 2024

I. SUMMARY OF PRIOR YEAR AUDIT FINDINGS:

Audit Finding Reference: **2023-001**

Status of Prior Finding: The City is working to address this comment in the current year.

Audit Finding Reference: **2023-002**

Status of Prior Finding: Planned corrective action completed this fiscal year.

Audit Finding Reference: **2023-003**

Status of Prior Finding: Planned corrective action completed this fiscal year.

Audit Finding Reference: **2023-004**

Status of Prior Finding: Planned corrective action completed this fiscal year.

Audit Finding Reference: **2023-005**

Status of Prior Finding: Planned corrective action completed this fiscal year.

Audit Finding Reference: **2023-006**

Status of Prior Finding: Planned corrective action completed this fiscal year.

City of Freeport, Texas
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended September 30, 2024

I. SUMMARY OF AUDITOR'S RESULTS:

Financial Statements

Type of auditor's report issued:

The auditor's report on the basic financial statements of the City expresses an unmodified opinion.

Internal control over financial reporting:

Are any material weaknesses identified?	<u> X </u> Yes	<u> </u> No
Are any significant deficiencies identified not considered to be material weaknesses?	<u> X </u> Yes	<u> </u> None Reported
Is any noncompliance material to financial statements noted?	<u> </u> Yes	<u> X </u> No

Federal Awards

The auditor's report on compliance for major federal programs expresses an unmodified opinion.

Internal control over major program compliance:

Are any material weaknesses identified?	<u> </u> Yes	<u> X </u> No
Are any significant deficiencies identified not considered to be material weaknesses?	<u> </u> Yes	<u> X </u> None Reported
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	<u> </u> Yes	<u> X </u> No

City of Freeport, Texas

SCHEDULE OF FINDINGS AND RESPONSES

For the Year Ended September 30, 2024

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
14.228	Community Development Block Grant / Harvey Infrastructure Grant
97.036	Federal Emergency Management Agency - Hurricane Beryl

Enter the dollar threshold used to distinguish between Type A and Type B programs:	\$750,000
Is the auditee qualified as a low-risk auditee?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No

II. FINANCIAL STATEMENT FINDINGS:

Material Weaknesses

Finding 2024-001:

Criteria: Management is responsible for establishing, maintaining and monitoring internal controls over financial reporting, and for the fair presentation of the financial statements and related notes in conformity with U.S. generally accepted accounting principles ("GAAP").

Condition and Context: For the year ended September 30, 2024, management requested us to prepare a draft of the City's financial statements and the related notes. Management reviewed, approved, and accepted responsibility for those statements prior to their issuance.

Cause: The City does not have controls over preparation of the financial statements which would prevent or detect a misstatement in the financial statements in the absence of the auditor's preparation.

Effect or Potential Effect: Without the auditor's assistance, the City may not include all disclosures or have materially correct financial statements as required under U.S. generally accepted accounting principles.

Recommendation: We recommend that management review the existing policies, procedures, and controls over these areas to ensure that all information is recorded and reported properly.

City of Freeport, Texas
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended September 30, 2024

Significant Deficiency

Finding 2024-002:

Criteria: The pooled cash fund account balance should equal the individual fund account balances.

Condition and Context: Adjustments were made to the pooled cash fund without adjusting the fund level account balances. Leaving a discrepancy that required reconciliation and correction.

Cause: The City failed to adjust all necessary accounts.

Effect or Potential Effect: The cash balance at year-end may not be accurate.

Recommendation: We recommend that the City review bank reconciliations monthly and ensure all account reconciliations are accurate.

Responsible Official's Response: Management will review bank reconciliations take corrective action.

FEDERAL AWARDS FINDINGS:

None.

City of Freeport, Texas
CORRECTIVE ACTION PLAN
For the Year Ended September 30, 2024

Finding 2024-001:

Condition and Context: For the year ended September 30, 2024, management requested us to prepare a draft of the City's financial statements and the related notes. Management reviewed, approved, and accepted responsibility for those statements prior to their issuance.

Corrective action planned: Management of the City will continue to work with the auditor to reduce the number of adjusting journal entries. In addition, we will take steps to further our understanding of GAAP financials and footnote disclosures.

Contact person: Ashlee Hurst, Finance Director (979) 871-0112

Anticipated completion date: January 2026

Finding 2024-002:

Condition and Context: Adjustments were made to the pooled cash fund without adjusting the fund level account balances. Leaving a discrepancy that required reconciliation and correction.

Corrective action planned: The City will review and correct any discrepancies between the pooled cash fund and the individual fund balances monthly.

Contact person: Ashlee Hurst, Finance Director (979) 871-0112

Anticipated completion date: September 2025

City of Freeport, Texas
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended September 30, 2024

Federal Grantor/Pass-through Agency/Program Name	Pass-through Entity Identifying Number	Federal CFDA Number	Federal Expenditures
US DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
Pass-through Texas General Land Office			
<i>Community Development Block Grant -GLO</i>	22-085-013-D213	14.228	\$ 2,117,258
<i>Community Development Block Grant -GLO</i>	22-085-047-D300	14.228	951,109
<i>Coronavirus State and Local Fiscal Recovery Fund</i>	25-065-007-E164	14.228	34,238
Total US Department of Housing and Urban Development			3,102,605
US DEPARTMENT OF HOMELAND SECURITY			
Pass-through Texas Division of Emergency Management			
<i>Hurricane Beryl</i>	DR-4798	97.036	1,077,978
<i>Hazard Mitigation Grant Program (HMGP)</i>	DR 4572-003	97.039	33,465
<i>Hazard Mitigation Grant Program (HMGP)</i>	DR 4572-004	97.039	29,640
<i>Hazard Mitigation Grant Program (HMGP)</i>	DR 4572-005	97.039	33,465
Total CFDA 97.039			96,570
<i>Assistance to Firefighters Grant (AFG)</i>	EMW-2022-FG-02061	97.044	181,525
Total US Department of Homeland Security			1,356,073
U.S. DEPARTMENT OF JUSTICE			
Pass-through Bureau of Justice Assistance:			
<i>DJ-Edward Byrne Memorial Justice Assistance Grant Program</i>	4850101	16.738	102,650
Total U.S. Department of Justice			102,650
TOTAL PROGRAMS			\$ 4,561,328

City of Freeport, Texas

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended September 30, 2024

NOTE 1: BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Freeport, Texas and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Cost Principles for Federal Awards (the Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the basic financial statements.

NOTE 2: INDIRECT COST RATE

The City has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

ANNUAL FINANCIAL REPORT

of the

City of Freeport, Texas

**For the Year Ended
September 30, 2024**

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City of Freeport, Texas

TABLE OF CONTENTS

September 30, 2024

FINANCIAL SECTION

Independent Auditor's Report	1
Management's Discussion and Analysis	5

Basic Financial Statements

Government-Wide Financial Statements

Statement of Net Position	18
Statement of Activities	22

Fund Financial Statements

Governmental Funds:

Balance Sheet	24
Reconciliation of the Balance Sheet to the Statement of Net Position- Governmental funds	27
Statement of Revenues, Expenditures, and Changes in Fund Balance- Governmental Funds	28
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	31

Proprietary Funds:

Statement of Net Position	32
Statement of Revenues, Expenses, and Changes in Fund Net Position	35
Statement of Cash Flows	36

Notes to the Financial Statements	39
--	----

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Revenues, Expenditures, and Changes in Fund Balance- Budget and Actual - General Fund	82
Schedule of Changes in Net Pension Liability and Related Ratios	84
Schedule of Employer Contributions to Pension Plan	86
Schedule of Changes in OPEB Liability (TMRS) and Related Ratios	88
Schedule of Changes in OPEB Liability (Healthcare) and Related Ratios	90

COMBINING AND INDIVIDUAL FUND STATEMENTS

Combining Balance Sheet – Nonmajor Governmental Funds	94
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance - Nonmajor Governmental Funds	96
Schedule of Revenues, Expenditures, and Changes in Fund Balance- Budget and Actual – Debt Service Fund	98



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, 2024, 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, 2024, 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, the City restated beginning fund balance/net position for the general fund, nonmajor governmental funds, water/sewer fund, governmental activities, and business-type 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 August 11, 2025 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.

Brooks Watson & Co.

Brooks Watson & Co.
Certified Public Accountants
Houston, Texas
August 11, 2025