

ANNUAL FINANCIAL REPORT

CITY OF FREEPORT, TEXAS

**For the Fiscal Year Ended
September 30, 2018**

CITY OF FREEPORT, TEXAS
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REPORT OF INDEPENDENT AUDITORS

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

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Freeport, Texas (the “City”) as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the City’s basic financial statements as listed in the table of contents.

Management’s Responsibility for the Financial Statements

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

Auditor’s Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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

Opinions

In our opinion, based on our audit the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of September 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 11 and budgetary comparison information, pension system and other post-employment benefit supplementary information on pages 59 through 64 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 fund statements and debt service budgetary comparison schedule are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Whitley Penn LLP
Houston, Texas
June 28, 2019

CITY OF FREEPORT, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Freeport (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2018.

Financial Highlights

- The City's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$29.4 million (*net position*). Of this amount, \$6.4 million (*unrestricted net position*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net position increased by \$5.7 million.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$10.5 million, an increase of \$4.1 million over the prior year. Approximately 97% of this total amount, \$10.1 million, is *available for spending* at the government's discretion (*unassigned fund balance*).
- At the end of the current fiscal year, unassigned fund balance for the general fund was 65% of total general fund expenditures.
- The City's long-term debt decreased by \$1.4 million over the prior year primarily due to scheduled principal payments made during the year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: (1) government-wide financial statements, (2) fund financial statements and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

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

The statement of activities presents information showing how the government'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 in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government and administration, economic development, public safety, streets and drainage, sanitation, service center, and culture and recreation. The business-type activities of the City include the operations of the water and sewer system. The government-wide financial statements can be found on pages 15 through 17 of this report.

CITY OF FREEPORT, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Fund Financial Statements

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

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 evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental 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 six individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General Fund which is considered to be a major fund. Data from the other five governmental funds are combined into a single, aggregated presentation.

The City adopts an annual appropriated budget for its general fund and debt service fund. Budgetary comparison schedules have been provided for the general fund and debt service fund to demonstrate compliance with their budgets.

The basic governmental fund financial statements can be found on pages 18 through 21 of this report.

Proprietary Fund

The City maintains one type of proprietary fund. Proprietary 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.

Proprietary fund 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 water and sewer operating fund that is considered to be a major fund of the City.

The basic proprietary fund financial statements can be found on pages 22 through 24 of this report.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 25 through 55 of this report.

CITY OF FREEPORT, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Other information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension and other post-employment benefits to its employees and general fund budgetary comparisons. Required supplementary information can be found on pages 59 through 64 of this report

The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the required supplementary information on pensions. Combining and individual fund statements and schedules can be found beginning on page 66 of the City's financial statements.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by \$29.4 million (net position). At the end of the current fiscal year, the City was able to report positive balances in all three categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities.

By far, the largest portion of the City's net position (77.2%) reflects its investment in capital assets (e.g., land, buildings, infrastructure, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net position (0.9%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position, 21.9% or \$6.4 million, may be used to meet the government's ongoing obligations to citizens and creditors.

CITY OF FREEPORT, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Government-wide Financial Analysis (continued)

The following table summarizes the financial position of the City as of September 30, 2018 and 2017.

CONDENSED SCHEDULE OF NET POSITION

September 30, 2018 and 2017

Amounts in (000's)

	Governmental Activities		Business-type Activities		Total	
	2018	2017 *	2018	2017 *	2018	2017 *
Current and other assets	\$ 12,349	\$ 8,380	\$ 1,095	\$ 1,695	\$ 13,444	\$ 10,075
Capital assets	17,316	17,971	8,265	8,170	25,581	26,141
Total Assets	29,665	26,351	9,360	9,865	39,025	36,216
Deferred Outflows of Resources	1,026	1,631	13	25	1,039	1,656
Other liabilities	919	1,225	884	1,527	1,803	2,752
Long-term liabilities	8,181	11,222	68	103	8,249	11,325
Total Liabilities	9,100	12,447	952	1,630	10,052	14,077
Deferred Inflows of Resources	585	36	7	1	592	37
Net position:						
Net investment in capital assets	14,447	13,675	8,265	8,170	22,712	21,845
Restricted	265	372			265	372
Unrestricted	6,294	1,452	149	89	6,443	1,541
Total Net Position	\$ 21,006	\$ 15,499	\$ 8,414	\$ 8,259	\$ 29,420	\$ 23,758

The City's net position increased by 35.5% or \$5.5 million during the current fiscal year due to a one-time lease payment described on the next page.

CITY OF FREEPORT, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Government-wide Financial Analysis (continued)

The following table summarizes the changes in net position for the City for the year ended September 30, 2018.

CONDENSED SCHEDULE OF CHANGES IN NET POSITION

For the Year Ended September 30, 2018 and 2017

Amounts in (000's)

	Governmental Activities		Business-type Activities		Total	
	2018	2017 *	2018	2017 *	2018	2017 *
Revenues						
Program revenue:						
Charges for services	\$ 3,125	\$ 2,847	\$ 4,836	\$ 5,152	\$ 7,961	\$ 7,999
Operating grants and contributions	136	15	104	229	240	244
Capital grants and contributions						
General revenues:						
Property taxes	2,676	2,553			2,676	2,553
Industrial payments	5,971	5,702			5,971	5,702
Sales and use taxes	3,275	3,308			3,275	3,308
Franchise taxes	611	605			611	605
Unrestricted investment earnings	177	61	6	4	183	65
Miscellaneous	6,062	606			6,062	606
Total Revenues	22,033	15,697	4,946	5,385		21,082
Expenses:						
General government	2,164	2,301			2,164	2,301
Public safety	7,006	7,342			7,006	7,342
Streets and drainage	1,865	2,046			1,865	2,046
Sanitation	962	976			962	976
Culture and recreation	3,407	3,833			3,407	3,833
Service center	168	270			168	270
Economic development	296	332			296	332
Interest on long-term debt	155	188			155	188
Water and sewer			5,294	5,527	5,294	5,527
Total Expenses	16,023	17,288	5,294	5,527	21,317	22,815
Increase in net position before transfers	6,010	(1,591)	(348)	(142)	5,662	(1,733)
Transfers	(503)	(539)	503	539		
Change in net position	5,507	(2,130)	155	397	5,662	(1,733)
Net position - beginning, as originally presented	15,499	17,900	8,259	7,866	23,758	25,766
Prior period adjustment*		(271)		(4)		(275)
Net position - ending	\$ 21,006	\$ 15,499	\$ 8,414	\$ 8,259	\$ 29,420	\$ 23,758

* Implementation of GASB 75 was effective at the beginning of the 2018 fiscal year. Changes for revenues and expenses prior to the implementation have not been calculated and are not available for comparison. Beginning October 1, 2017, the golf course and ambulance operations, previously reported as business type activities have been recast as governmental activities to better represent the nature of these operations.

CITY OF FREEPORT, TEXAS
MANAGEMENT’S DISCUSSION AND ANALYSIS (continued)

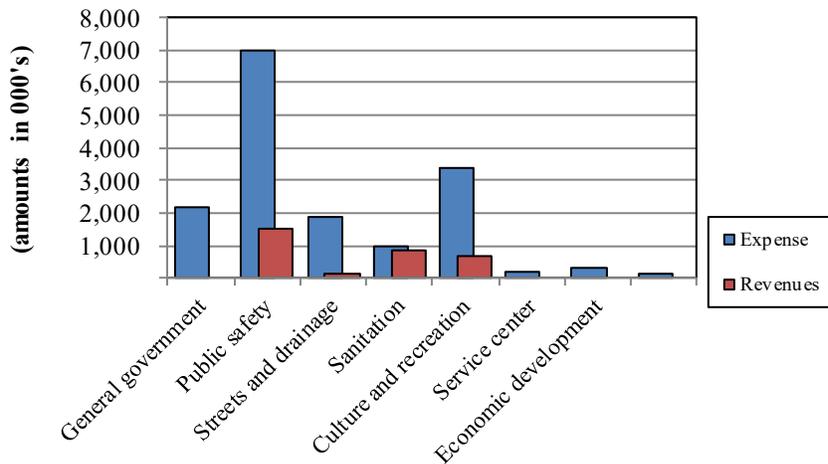
Governmental Activities

Governmental activities increased the City’s net position by approximately \$5.5 million or \$155 of beginning net position. The key elements of this increase are as follows:

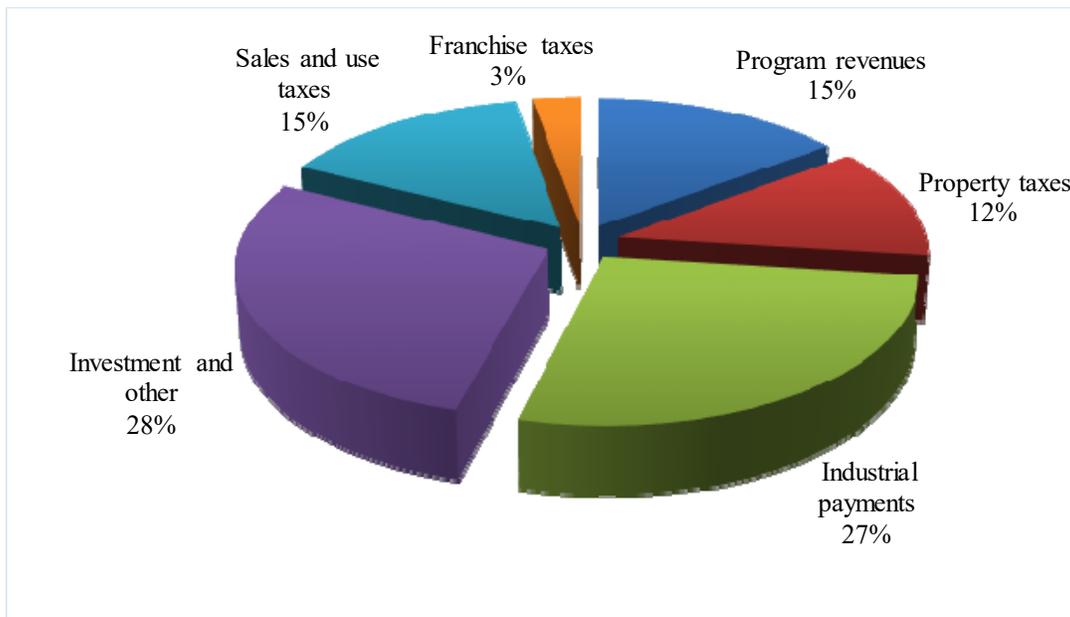
The City received \$5.5 million of lease revenue reported as miscellaneous income related to Dow Subsurface lease agreement. The \$5.5 million consisted of a one-time infusion of \$5 million along with the first years agreed upon payment amount of \$0.5 million.

Governmental Activities (continued)

A comparison of program expenses to program revenues follows:



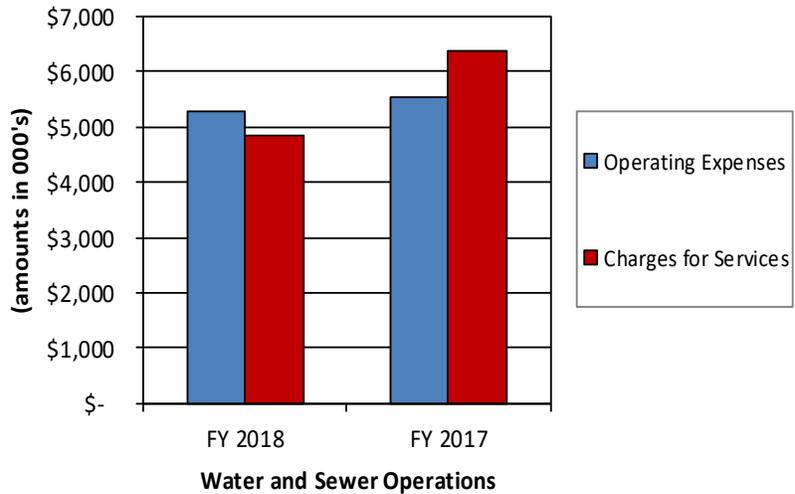
Revenue sources for governmental activities were distributed as follows:



CITY OF FREEPORT, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Business-type Activities

Business-type activities increased the City's net position by \$0.1 million. A comparison between expenses relating to water and sewer operations and program revenues (charges for services) for fiscal years 2018 and 2017 follows:



Revenue sources for business-type activities were almost entirely charges for water and sewer services.

Financial Analysis of the Government's Funds

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

Governmental Funds

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

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance was \$10.1 million. The unassigned fund balance increased \$4.2 million from fiscal year 2017.

As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 65% of annual general fund expenditures for the 2018 fiscal year.

CITY OF FREEPORT, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Proprietary Funds

The City's proprietary funds provide the same type of information found in the government-wide financial statements.

Unrestricted net position of the Water and Sewer Enterprise Fund at the end of the year amounted to \$0.1 million or 3% of annual operating expenses for the fund.

General Fund Budgetary Highlights

Actual revenues differed from budgeted revenues by (\$0.1) million primarily as a result of lower than expected sales tax revenue.

Appropriations in the final budget exceeded actual expenditures by \$2.2 million. Actual expenditures for public safety and streets and drainage were less than appropriations in the final budget by \$0.6 million and \$1.1 million, respectively, due to repairs, maintenance, and capital improvements that were budgeted in fiscal year 2018 but did not occur or were to take place in the next fiscal year.

Capital Asset and Debt Administration

The City's investment in capital assets for its governmental and business-type activities as of September 30, 2018, amounted to \$25.6 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, roads, park facilities, water and sewer plants and service lines, machinery and equipment, and construction in progress. Capital asset balances increased by approximately (\$0.6) million from the prior year due to contributions and construction of infrastructure.

The following table shows the balances at September 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Governmental Activities		
Capital assets, not being depreciated:		
Land	\$ 4,919	\$ 4,919
Capital assets being depreciated:		
Streets and improvements	7,586	7,673
Buildings and improvements	1,493	2,547
Furniture, equipment, and vehicles	3,319	2,832
Total capital assets - Governmental Activities	<u>\$ 17,316</u>	<u>\$ 17,971</u>
 Business-type Activities		
Capital assets, not being depreciated:		
Land	\$ 56	\$ 56
Construction in progress	294	290
Capital assets being depreciated:		
Water and sewer infrastructure	7,915	7,824
Total capital assets - Business-Type Activities	<u>\$ 8,265</u>	<u>\$ 8,170</u>

Additional information on the City's capital assets can be found in Note 5 to the basic financial statements of this report.

CITY OF FREEPORT, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Long-term Liabilities

At the end of the current fiscal year, the City had total debt outstanding of \$2.9 million. This is a decrease from the prior year of \$1.4 million due to scheduled principal payments made during the year. The entire amount of debt is backed by the full faith and credit of the City. A schedule of long-term liabilities at September 30, 2018 and 2017 follows (in \$000's):

	<u>2018</u>	<u>2017</u>
General obligation bonds	\$ 1,797	\$ 2,486
Notes payable/capital leases	1,073	1,809
	<u>\$ 2,870</u>	<u>\$ 4,295</u>

As of fiscal year 2018, the City reported other post-employment benefit (OPEB) liabilities of which represents the implied subsidy for health care benefits to retirees.

The City has no legal debt limit provision in its charter. Additional information on the City's long-term debt can be found in Note 6 to the basic financial statements of this report.

Economic Factors and Next Year's Budget and Rates

Each year the budget is prepared on key objectives and assumptions.

The property tax rate for fiscal 2019 (tax year 2018) remained the same \$0.628005 per \$100 of assessed value. The Maintenance and Operation rate increased by \$0.01128 per \$100 of assessed value while the Interest and Sinking rate decreased by the same amount. Property tax revenue for the City is budgeted \$297,866 higher than the previous year which is an 11.31% increase. Of this revenue, \$30,891 is expected be from new property added to the tax roll. Overall, tax revenue for the City is budgeted 9.4% higher than the previous year.

Requests for Information

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

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BASIC FINANCIAL STATEMENTS

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CITY OF FREEPORT, TEXAS

STATEMENT OF NET POSITION

September 30, 2018

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 10,177,394	\$ 288,895	\$ 10,466,289
Receivables (net of allowance for uncollectibles)	2,223,871	749,140	2,973,011
Internal balances	(56,607)	56,607	
Inventories	3,700		3,700
Capital assets, not subject to depreciation:			
Land	4,918,826	56,200	4,975,026
Construction in progress		293,579	293,579
Capital assets, net of depreciation:			
Streets and improvements	7,586,205	7,915,193	15,501,398
Buildings and improvements	1,492,735		1,492,735
Furniture, equipment, & vehicles	3,318,723		3,318,723
Total Capital Assets	<u>17,316,489</u>	<u>8,264,972</u>	<u>25,581,461</u>
Total Assets	<u>29,664,847</u>	<u>9,359,614</u>	<u>39,024,461</u>
Deferred Outflows of Resources			
Deferred outflows related to pension and OPEB activities	1,026,424	12,900	1,039,324
Total Deferred Outflows of Resources	<u>1,026,424</u>	<u>12,900</u>	<u>1,039,324</u>
Liabilities			
Accounts payable and accrued expenses	862,108	882,880	1,744,988
Accrued interest payable	57,136		57,136
Long-term liabilities:			
Due within one year	1,057,609	2,395	1,060,004
Due in more than one year	7,123,667	65,928	7,189,595
Total Liabilities	<u>9,100,520</u>	<u>951,203</u>	<u>10,051,723</u>
Deferred Inflows of Resources			
Deferred inflows related to pension activities	584,738	7,300	592,038
Total Deferred Inflows of Resources	<u>584,738</u>	<u>7,300</u>	<u>592,038</u>
Net Position			
Net investment in capital assets	14,446,880	8,264,972	22,711,852
Restricted for:			
Debt service	38,659		38,659
Economic Development	226,468		226,468
Unrestricted	6,294,006	149,039	6,443,045
Total Net Position	<u>\$ 21,006,013</u>	<u>\$ 8,414,011</u>	<u>\$ 29,420,024</u>

See Notes to Basic Financial Statements.

CITY OF FREEPORT, TEXAS
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2018

Functions/Programs	Expenses	Program Revenue	
		Charges for Services	Operating Grants and Contributions
Primary government			
Governmental Activities:			
General government	\$ 2,163,604	\$	\$
Public safety	7,006,492	1,436,056	108,346
Streets and drainage	1,864,572	146,470	
Sanitation	962,293	868,043	
Culture and recreation	3,407,081	674,490	27,328
Service Center	167,702		
Economic development	295,738		
Interest on long-term debt	154,901		
Total governmental activities	16,022,383	3,125,059	135,674
Business-type activities:			
Water and sewer	5,296,200	4,839,063	103,931
Total primary government	\$ 21,318,583	\$ 7,964,122	\$ 239,605

General revenues:

Taxes:

- Property taxes
- Industrial district revenues
- Sales and use taxes
- Franchise taxes

Unrestricted investment earnings

Miscellaneous

Transfers

Total general revenues and transfers

Change in net position

Net Position - Beginning, as originally presented

Prior period adjustments

Net Position - Ending

See Notes to Basic Financial Statements.

Net (Expense) Revenue and Changes in Net Position

Primary Government

<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
\$ (2,163,604)	\$	\$ (2,163,604)
(5,462,090)		(5,462,090)
(1,718,102)		(1,718,102)
(94,250)		(94,250)
(2,705,263)		(2,705,263)
(167,702)		
(295,738)		(295,738)
(154,901)		(154,901)
<u>(12,761,650)</u>		<u>(12,761,650)</u>
	<u>(353,206)</u>	<u>(353,206)</u>
<u>(12,761,650)</u>	<u>(353,206)</u>	<u>(13,114,856)</u>
2,675,705		2,675,705
5,971,351		5,971,351
3,275,074		3,275,074
610,991		610,991
175,392	5,576	180,968
6,062,400		6,062,400
(502,749)	502,749	
<u>18,268,164</u>	<u>508,325</u>	<u>18,776,489</u>
5,506,514	155,119	5,661,633
15,900,775	8,131,975	24,032,750
(401,276)	126,917	(274,359)
<u>\$ 21,006,013</u>	<u>\$ 8,414,011</u>	<u>\$ 29,420,024</u>

CITY OF FREEPORT, TEXAS

BALANCE SHEET

GOVERNMENTAL FUNDS

September 30, 2018

	<u>General Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets			
Cash and cash equivalents	\$ 10,088,276	\$ 89,118	\$ 10,177,394
Receivables (net of allowance for uncollectibles)	1,944,598	279,273	2,223,871
Due from other funds		91,135	91,135
Inventories	3,700		3,700
Total Assets	<u>\$ 12,036,574</u>	<u>\$ 459,526</u>	<u>\$ 12,496,100</u>
Liabilities			
Accounts payable	\$ 781,219	\$ 80,889	\$ 862,108
Due to other funds	133,871	13,871	147,742
Total Liabilities	<u>915,090</u>	<u>94,760</u>	<u>1,009,850</u>
Deferred Inflows of Resources			
Unavailable revenues	999,176	31,716	1,030,892
Total Deferred Inflows of Resources	<u>999,176</u>	<u>31,716</u>	<u>1,030,892</u>
Fund Balances			
Restricted:			
Debt service		64,078	64,078
Capital projects		54,029	54,029
Community projects		226,468	226,468
Unassigned	10,122,308	(11,525)	10,110,783
Total Fund Balances	<u>10,122,308</u>	<u>333,050</u>	<u>10,455,358</u>
Total Liabilities, Deferred Inflows, and Fund Balances	<u>\$ 12,036,574</u>	<u>\$ 459,526</u>	<u>\$ 12,496,100</u>

See Notes to Basic Financial Statements.

CITY OF FREEPORT, TEXAS

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET

TO THE STATEMENT OF NET POSITION

September 30, 2018

Total fund balance, governmental funds \$ 10,455,358

Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Position. 17,316,489

Certain other unavailable assets are not available to pay current period expenditures and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Position.

Unavailable revenue 1,030,892

Deferred outflows of resources relating to pension activities 1,026,424

Long-term liabilities are not due in the current period and, therefore, are not reported as liabilities in the fund financial statements, but are included in the governmental activities of the Statement of Net Position.

Bonds payable, at maturity (2,869,609)

Other post-employment benefits (OPEB) (409,422)

Accrued long-term interest (57,136)

Compensated absences (310,427)

Net pension liability (4,591,818)

Deferred inflows of resources relating to pension activities (584,738)

Net Position of Governmental Activities in the Statement of Net Position \$ 21,006,013

See Notes to Basic Financial Statements.

CITY OF FREEPORT, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended September 30, 2018

	<u>General Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues			
Taxes:			
Property taxes	\$ 2,079,806	\$ 571,549	\$ 2,651,355
Sales and use taxes	2,802,128	1,083,937	3,886,065
Industrial district	5,971,351		5,971,351
Fines and forfeitures	494,649		494,649
Licenses and permits	146,470		146,470
Intergovernmental	146,660		146,660
Charges for services	2,249,824		2,249,824
Investment earnings	174,914	478	175,392
Miscellaneous	400,587	12,794	413,381
Lease income	5,767,361		5,767,361
Total Revenues	<u>20,233,750</u>	<u>1,668,758</u>	<u>21,902,508</u>
Expenditures			
Current:			
General government	2,004,917		2,004,917
Public safety	6,898,256		6,898,256
Streets and drainage	1,906,959		1,906,959
Sanitation	962,293		962,293
Service center	154,297		154,297
Culture and recreation	3,499,870	23,022	3,522,892
Economic development	15,000	210,125	225,125
Debt service:			
Principal	87,491	1,338,363	1,425,854
Interest and other charges	10,918	143,983	154,901
Total Expenditures	<u>15,540,001</u>	<u>1,715,493</u>	<u>17,255,494</u>
Revenues over (under) expenditures	<u>4,693,749</u>	<u>(46,735)</u>	<u>4,647,014</u>
Other Financing Sources (Uses)			
Transfers in		358,106	358,106
Transfers out	(502,749)	(358,106)	(860,855)
Total other financing sources (uses)	<u>(502,749)</u>		<u>(502,749)</u>
Net changes in fund balances	4,191,000	(46,735)	4,144,265
Fund Balances - Beginning of Year, as originally presented	5,931,308	379,785	6,311,093
Prior period adjustments	(1,024,109)		(1,024,109)
Fund Balances - End of Year	<u>\$ 10,122,308</u>	<u>\$ 333,050</u>	<u>\$ 10,455,358</u>

See Notes to Basic 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, 2018

Net change in fund balances - total governmental funds: \$ 4,144,265

Amounts reported for Governmental Activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The capital asset expenditures are allocated over the assets' estimated useful lives as depreciation expense for the period.

This is the amount by which capital outlay of \$1,618,523 exceeded depreciation of \$2,273,007 in the current period. (654,484)

Governmental funds do not present revenues that are not available to pay current obligations. In contrast, such revenues are reported in the Statement of Activities when earned. 129,138

Pension contributions made during the year are reported as expenditures in the governmental funds but are treated as a reduction in the pension liability in the government-wide financial statements. 904,032

OPEB contributions made during the year are reported as expenditures in the governmental funds but are treated as a reduction in the pension liability in the government-wide financial statements. 200

Governmental funds report repayment of bond principal and capital leases as an expenditure. In contrast, the Statement of Activities treats such repayments as a reduction in long-term liabilities. This is the amount of payments made on long-term debt. 1,425,854

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

Changes in accrued compensated absences 805,968
OPEB expense for the OPEB plans measurement year (22,485)
Pension expense for the pension plan measurement year (1,225,974)

Change in net position of governmental activities \$ 5,506,514

See Notes to Basic Financial Statements.

CITY OF FREEPORT, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUND
September 30, 2018

	Business-type Activities
	Water and Sewer
Assets	
Current assets:	
Cash and cash equivalents	\$ 288,895
Receivables (net of allowance for uncollectibles)	690,997
Due from other funds	56,607
Receivables from other governments	58,143
Total Current Assets	<u>1,094,642</u>
Non-current assets:	
Land	56,200
Construction in progress	293,579
Utility system	24,219,852
Equipment and furniture	146,765
Less accumulated depreciation	(16,451,424)
Total Non-Current Assets	<u>8,264,972</u>
Total Assets	<u>9,359,614</u>
 Deferred Outflows of Resources	
Deferred outflows related to pension activities	12,900
Total Deferred Outflows of Resources	<u>12,900</u>
 Liabilities	
Current liabilities:	
Accounts payable	610,942
Deposits	267,549
Compensated absences	2,395
Salaries payable	4,389
Total Current Liabilities	<u>885,275</u>
Non-current liabilities:	
Compensated absences	3,592
Net OPEB liability	5,336
Net pension liability	57,000
Total Non-Current Liabilities	<u>65,928</u>
Total Liabilities	<u>951,203</u>
 Deferred Inflows of Resources	
Deferred inflows related to pension activities	7,300
Total Deferred Inflows of Resources	<u>7,300</u>
 Net Position	
Investment in capital assets	8,264,972
Unrestricted	149,039
Total Net Position	<u>\$ 8,414,011</u>

See Notes to Basic Financial Statements.

CITY OF FREEPORT, TEXAS
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET POSITION
PROPRIETARY FUND
For the Year Ended September 30, 2018

	Business-type Activities
	Water and Sewer
Operating Revenues	
Charges for services	\$ 4,839,063
Total Operating Revenues	<u>4,839,063</u>
Operating Expenses	
Personnel services	111,722
Supplies	32,977
Contracted services	2,377,969
Other	39,956
Water purchased	2,279,825
Depreciation	453,751
Total Operating Expenses	<u>5,296,200</u>
Operating income (loss)	<u>(457,137)</u>
Non-Operating Revenues (Expenses)	
Interest and investment revenue	5,576
Operating grants and contributions	103,931
Total Non-Operating Revenues (Expenses)	<u>109,507</u>
Income before Transfers	(347,630)
Transfers in	502,749
Change in net position	155,119
Total Net Position - Beginning	8,131,975
Prior period adjustment	126,917
Total Net Position - Ending	<u>\$ 8,414,011</u>

See Notes to Basic Financial Statements.

CITY OF FREEPORT, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the Year Ended September 30, 2018

	Business-type Activities
	<u>Water and Sewer</u>
Cash Flows From Operating Activities	
Receipts from customers and users	\$ 4,810,500
Disbursed for personnel services	(129,668)
Disbursed for goods and services	(5,388,846)
Net cash (used) by operating activities	<u>(708,014)</u>
Cash Flows from Noncapital Financing Activities	
Transfers from other funds	502,749
Net cash used by noncapital financing activities	<u>502,749</u>
Cash Flows From Capital and Related Financing Activities	
Transfer of proceeds to fiscal agent	103,931
Acquisition and construction of capital assets	(548,555)
Cash flows (used) by capital and related financing activities	<u>(444,624)</u>
Cash Flows From Investing Activities	
Interest received	5,576
Net cash provided by investing activities	<u>5,576</u>
Net increase (decrease) in cash and cash equivalents	(644,313)
Cash and cash equivalents - beginning of year	<u>933,208</u>
Cash and cash equivalents - end of year	<u>\$ 288,895</u>
Reconciliation of operating income to net cash provided by operating activities	
Operating Income	\$ (457,137)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	453,751
(Increase) decrease in accounts receivable	(43,828)
(Increase) decrease in pension deferred outflows	11,661
(Increase) decrease in OPEB deferred outflows	300
Increase (decrease) in accounts payable	(658,119)
Increase (decrease) in accrued wages payable	(1,845)
Increase (decrease) in accrued compensated absences	(9,658)
Increase (decrease) in customer deposits	15,265
Increase (decrease) in OPEB liability	500
Increase (decrease) in net pension liability	(25,650)
Increase (decrease) in pension deferred inflows	6,746
Net cash (used) by operating activities	<u>\$ (708,014)</u>

See Notes to Basic Financial Statements.

CITY OF FREEPORT, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS

Note 1 - Organization

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.

Note 2 - Summary of Significant Accounting Policies

The financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

A. Reporting Entity

Primary government

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

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

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

The members of City council (the "members") are elected by the public and have the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has the primary accountability for fiscal matters. Therefore, the City is considered a primary government for financial reporting purposes.

CITY OF FREEPORT, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)

Note 2 - Summary of Significant Accounting Policies (continued)

A. Reporting Entity (continued)

Blended Component Unit

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

The Corporation is governed by a seven member board of directors appointed by the City Council. All projects must have prior approval of the City Council. The voters of Freeport approved collection of a one- half cent sales tax, effective November 2, 1999, to fund the cost of land, buildings, equipment, facilities, improvements and maintenance and operation costs for public park purposes, recreational facilities and infrastructure improvements for development of new or expanded business enterprises. In prior years, the Freeport Economic Development Corporation (the "Corporation") provided services entirely or, almost entirely, to the City or otherwise exclusively or almost exclusively benefited the City even though it did not provide services directly to it and is reported as a blended component unit. However, during the years ended September 30, 2007 through 2014, the Corporation constructed and entered into a long-term lease for a marina with a company unrelated to the City. Because of this, the City was reported as a discretely presented component unit until it divested itself of the marina operations. During the current year, it was reported as a blended component unit.

B. Government-wide and Fund 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. These statements include all activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Exceptions to this general rule are charges between the City's business-type and governmental funds. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded in the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

CITY OF FREEPORT, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)

Note 2 - Summary of Significant Accounting Policies (continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus, as are the proprietary fund financial statements. The government-wide statements, proprietary fund statements, and fiduciary fund financial statements are reported using the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if 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 are generally 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 property taxes are recorded as receivables when levied and as revenue in the period for which they were levied and become available. Property taxes receivable have been recorded as deferred inflows of resources at year-end.

Property taxes collected within 60 days subsequent to September 30, 2018, have not been recorded as revenue as the amount is not considered material. Franchise taxes and sales taxes relating to underlying transactions that occurred prior to September 30, 2018, have been recorded as receivables and revenue. Licenses and permits and fines are not susceptible to accrual since they are not measurable until received. Revenue on federal and state cost-reimbursement grants is accrued when the related expenditures are incurred. Interest is recorded when earned.

The City reports one major governmental fund:

The *General Fund* is used to account for all financial transactions that are not accounted for in other funds of the City. The principal sources of revenue of the General Fund are property taxes, sales and use taxes, franchise taxes, licenses and permits, and fines and forfeitures. Expenditures are for general government, public safety, public works and parks and recreation.

The City reports one major proprietary fund:

The *Water and Sewer Enterprise Fund* is used to account for operations of the water and sewer division and the construction of related facilities. The fund is financed and operated in a manner similar to private business enterprises -- where the intent of the City is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. 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.

Amounts reported as program revenues include (1) charges to customers or applicants for goods, services or privileges provided, (2) operating grants and contributions and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than program revenues. Likewise, general revenues include all taxes.

CITY OF FREEPORT, TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)

Note 2 - Summary of Significant Accounting Policies (continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued)

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal ongoing operations. The principal operating revenues of the water and sewer enterprise fund are charges to customers for sales and services. Operational expenses for the fund include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues not meeting this definition are reported as non-operating revenues and expenses.

Net position is categorized into three components – net investment in capital assets, restricted, and unrestricted. These classifications are as follows:

- Net investment in capital assets - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or other borrowings.
- Restricted - This component of net position consists of constraints placed on net position use through external constraints imposed by creditors, grantors, contributors or laws or regulations of other governments or constraints imposed by law through contractual provisions or enabling legislation.
- Unrestricted net position - This component of net position consists of the balance of net position that does not meet the definition of the other components noted above.

D. Cash and Cash Equivalents

The City reports cash and cash equivalents in the City's statement of cash flows for Proprietary Fund Types and in all other financial statements of financial position. The City considers cash and cash equivalents to be cash on hand, demand deposits, certificates of deposit, balances in public funds investment pools and short-term investments with original maturities of three months or less from the date of acquisition.

The City's local government investment pools are recorded at amortized costs.

E. Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

F. Due to and from Other Funds

Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. These receivables and payables are, for the most part, eliminated from the Government-Wide Statement of Net Position and are recorded as "due from other funds" or "due to other funds" in the fund financial statements.

G. Inventories and Prepaid Items

Inventories of the General and Enterprise Funds are valued at the lesser of cost (weighted moving average) or fair value. Inventories for all funds consist of expendable supplies held for consumption, and the cost thereof is recorded as an expense/expenditure at the time the inventory items are issued (consumption method). Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

CITY OF FREEPORT, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)

Note 2 - Summary of Significant Accounting Policies (continued)

H. Capital Assets

Capital assets are reported in the applicable governmental or business-type activities column in the government-wide financial statements. The government defines capital assets as assets with an initial, individual cost of \$5,000 and an estimated useful life in excess of one year. All purchased capital assets are valued at cost where historical records exist. Donated capital assets, donated works of art and similar items, and capital assets received in a service concession arrangement should be reported at acquisition value rather than fair value.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements, including public domain, and equipment are capitalized and depreciated over the remaining useful lives of the related capital assets using the straight line method, as applicable.

<u>Asset</u>	<u>Estimated Useful Lives</u>
Utility Plant	40 years
Vehicles and Equipment	5-15 years
Building and improvements	10-20 years

I. Compensated Absences

Employees earn vacation based on years of service with the City. In accordance with GAAP, the liability for accumulated vacation at September 30, 2018, has been recorded as a liability in the Government-Wide Statement of Net Position.

Eligible City employees accrue vacation time monthly at various rates based on length of service with the City. Employees may elect to carry over a maximum of five (5) days past his/her yearly anniversary date. It is possible for employees to have accrued vacation time at September 30, which has not yet been lost. The City's sick leave policy provides fifteen paid sick days per year for full-time employees. Unused sick leave can be accumulated to a maximum of ninety (90) days. Upon termination, an employee with five years of service or more may be paid for accumulated sick leave to a maximum of two weeks.

CITY OF FREEPORT, TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)

Note 2 - Summary of Significant Accounting Policies (continued)

J. 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 position or fund balance that applies to a future period(s) and thus, will not be recognized as an outflow of resources (expense/expenditure) until then. The City has two items that qualify for reporting in this category.

- Deferred outflows of resources for pension activities - Reported in the government wide financial statement of net position, this deferred outflow results from pension plan contributions made after the measurement date of the net pension liability and the results of differences between expected and actual actuarial experiences. The deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the next fiscal year. The other pension related deferred outflows will be amortized over the expected remaining service lives of all employees (active and inactive employees) that are provided with pensions through the pension plan.
- Deferred outflows of resources for other post-employment benefits (OPEB) – Reported in the government wide financial statement of net position, this deferred outflow results from OPEB plan contributions made after the measurement date of the net OPEB liability and the results of 1) differences between projected and actual earnings on OPEB plan investments and 2) changes in the City’s proportional share of OPEB liabilities. The deferred outflows of resources related to OPEB resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the next fiscal year. The deferred outflows resulting from differences between projected and actual earnings on OPEB plan investments will be amortized over a closed five year period. The remaining OPEB related deferred outflows will be amortized over the expected remaining service lives of all employees (active and inactive employees) that are provided with OPEB through the plan.

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 position or fund balance that applies to a future period(s) and thus, will not be recognized as an inflow of resources (revenue) until that time. The City has two items that qualify for reporting in this category.

- Deferred inflows of resources for unavailable revenues - Reported only in the governmental funds balance sheet, unavailable revenues from property taxes, EMS services, and other miscellaneous items arise under the modified accrual basis of accounting. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.
- Deferred inflows of resources for pension activities - Reported in the government wide financial statement of net position, these deferred inflows result primarily from differences between projected and actual earnings on pension plan investments. These amounts will be amortized over a closed five year period.
- Deferred inflows of resources for other post-employment benefits (OPEB) – Reported in the government wide financial statement of net position, these deferred inflows result primarily from 1) changes in actuarial assumptions and 2) differences between expected and actual actuarial experiences. These OPEB related deferred inflows will be amortized over the expected remaining service lives of all employees (active and inactive employees) that are provided with OPEB through the plan.

CITY OF FREEPORT, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)

Note 2 - Summary of Significant Accounting Policies (continued)

K. General Property Taxes

The City levies taxes on or about October 1, of each year. Property taxes attach as an enforceable lien on property as of January 1. These taxes are due by January 31, and are considered delinquent after that date, at which time interest is charged at a rate established by the state property tax code. Collections made on or after July 1, are subject to an additional fifteen percent collection fee.

Property tax revenue is recognized when levied to the extent that they are available. Available includes those property tax receivables expected to be collected within sixty days after year end.

The tax rates assessed for the year ended September 30, 2018, to finance general fund operations and the payment of principal and interest on general obligation long-term debt were \$ 0.492570 and \$ 0.135435 per \$ 100 valuation,

L. Debt Service

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or proprietary fund type statement of net position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt is reported as other financing resources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

M. Use of 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, liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts may differ from these estimates.

N. Fund Equity

In the fund financial statements, the City categorizes portions of fund balance into categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

Non-spendable fund balance – amounts that are not in spendable form or are legally or contractually required to be maintained intact.

Restricted fund balance – amounts that are subject to external restrictions from creditors, grantors, contributors, or laws of other governments.

CITY OF FREEPORT, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)

Note 2 - Summary of Significant Accounting Policies (continued)

N. Fund Equity (continued)

Committed fund balance – amounts constrained for specific purposes as determined by a formal action of City Council. City Council is the highest level of decision-making authority for the City. Commitments may be established, modified, or rescinded only through ordinances approved by City Council. City Council will approve obligations of funds, such as multiyear contracts, prior to the end of the fiscal year.

Assigned fund balance – amounts the City intends to use for a specific purpose that is neither restricted or committed and includes the remaining positive fund balance of all governmental funds except for the General Fund. Balances for encumbrances, other than those committed by City Council, fall into this category. Under the City’s adopted policy, Resolution No. 465, intent to assign fund balance can be established by City Council or delegated to the City Administrator.

Unassigned fund balance – amounts that are available for any purpose. Positive amounts are reported only in the General Fund.

The City’s council meets on a regular basis to manage and review cash financial activities and to ensure compliance with established policies. The City’s Unassigned General Fund Balance is maintained to provide the City with sufficient working capital and a margin of safety to address local and regional emergencies without borrowing. The unassigned General Fund Balance may only be appropriated by resolution of the council. Fund Balance of the City may be committed for a specific source by formal action of the council. Amendments or modifications of the committed fund balance must also be approved by formal action by the council. When it is appropriate for fund balance to be assigned, the City council has delegated authority to the City Manager or the Finance Director. In circumstances where an expenditure is to be made for a purpose for which amounts are available in multiple fund balance classifications, the order in which resources will be expended is as follows: restricted fund balance, followed by committed fund balance, followed by assigned fund balance, and lastly, unassigned fund balance.

O. Revenues and Expenditures/Expenses

In the fund financial statements revenues for governmental funds are recorded when they are determined to be both measurable and available. Generally, tax revenues, fees and non-tax revenues are recognized when received. Grants from other governments are recognized when qualifying expenditures are incurred. Expenditures for governmental funds are recorded when the related liability is incurred. Revenues and expenses in the Government-wide Statement of Activities are recognized in essentially the same manner as used in commercial accounting.

P. Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation, is employed in the governmental funds. Open encumbrances are reported as assigned fund balances since they do not constitute expenditures or liabilities. Encumbrances outstanding at year-end are appropriately provided for in the subsequent year's budget.

Note 2 - Summary of Significant Accounting Policies (continued)

Q. Pensions

For purposes of measuring the net pension liability, pension related deferred outflows and inflows of resources, and pension expense, City specific information about its Fiduciary Net Position in the Texas Municipal Retirement System (TMRS) and additions to/deductions from the City'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. Information regarding the City's Total Pension Liability is obtained from TMRS through a report prepared for the City by TMRS consulting actuary, Gabriel Roeder Smith & Company.

R. Other-Post Employment Benefits (OPEB)

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.

Additionally, the City participates in a defined-benefit group-term life insurance plan, both for current and retired employees, administered by the Texas Municipal Retirement System (TMRS). The City reports the total liability for this plan on the government-wide and proprietary fund financial statements. Information regarding the City's total OPEB liability is obtained from TMRS through a report prepared for the City by TMRS' consulting actuary, Gabriel Roeder Smith & Company.

S. New Accounting Standards

In the current fiscal year, the City implemented the following new standards:

GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB). This Statement replaces the requirements of Statement 45 and requires governments to report a liability on the face of the financial statements for the OPEB that they provide. Statement 75 requires governments in all types of OPEB plans to present more extensive note disclosures and required supplementary information (RSI) about their OPEB liabilities. Among the new note disclosures is a description of the effect on the reported OPEB liability of using a discount rate and a healthcare cost trend rate that are one percentage point higher and one percentage point lower than assumed by the government. The new RSI includes a schedule showing the causes of increases and decreases in the OPEB liability and a schedule comparing a government's actual OPEB contributions to its contribution requirements.

CITY OF FREEPORT, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)

Note 3 - Deposits (Cash) and Investments

The City classifies deposits and investments for financial statement purposes as cash and temporary investments, and investments based upon both liquidity (demand deposits) and maturity date (deposits and investments) of the asset at the date of purchase. For this purpose a temporary investment is one that when purchased had a maturity date of three months or less.

The following schedule shows the City’s recorded cash and cash equivalents at year-end:

	Fair Value
Cash deposits	\$ 940,461
Local Government Investment Pools:	
TexPool	<u>9,525,828</u>
Total Investments	<u>9,525,828</u>
Total Cash and Investments	<u><u>\$ 10,466,289</u></u>

Custodial Credit Risk

Deposits. Custodial credit risk is the risk that in the event of a financial institution failure, the City’s deposits may not be returned to them. The City requires that all deposits with financial institutions be collateralized in an amount equal to 102 percent of uninsured balances. At September 30, 2018, the City’s cash deposits were entirely covered by federal depository insurance and by collateral held by the City's agent in the City's name.

Under Texas state law, a bank serving as the City depository must have a bond or in lieu thereof, deposited or pledged securities with the City or an independent third party agent, an amount equal to the highest daily balance of all deposits the City may have during the term of the depository contract, less any applicable FDIC insurance. Chapter 2256 of the Texas Government Code (the Public Funds Investment Act) authorizes the City to invest its funds under written investment policy (the “investment policy”) that primarily emphasizes safety of principal and liquidity, addresses investment diversification, yield, and maturity and addresses the quality and capability of investment personnel. This investment policy defines what constitutes the legal list of investments allowed under the policies, which excludes certain instruments allowed under chapter 2256 of the Texas Government Code.

Investments

The City’s deposits and investments are invested pursuant to the investment policy, which is approved by the City Council. The investment policy includes lists of authorized investment instruments and allowable stated maturity of individual investments. In addition it addresses the priorities of preservation of capital, liquidity, diversification and yield. Additionally, the soundness of financial institutions (including broker/dealers) in which the City will deposit funds is addressed. The City’s investment policy and types of investments are governed by the Public Funds Investment Act (PFIA).

CITY OF FREEPORT, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)

Note 3 - Deposits (Cash) and Investments (continued)

The City is authorized to invest in the following investment instruments provided that they meet the guidelines of the investment policy:

1. Fully insured or collateralized certificate of deposit of commercial banks;
2. U.S. Treasury Securities maturing in less than three (3) years;
3. Short-term obligations of U.S. Government Agencies which are guaranteed by the full faith and credit of the United States of America as to principle and interest;
4. Repurchase agreements collateralized by U.S. Treasury or U.S. Government Agency Securities in accordance with a master repurchase agreement approved by the Investment Committee;
5. Eligible investment pools authorized by the City Council;
6. Other securities or obligations approved by the Investment Committee and authorized by the Local Government Code, Sections 2256.006 and 2256.016.

As of September 30, 2018, the City’s investments included TexPool external investment pools. The external investment pool’s investments are not evidenced by securities that exist in physical or book entry form and, accordingly, do not have custodial risk.

TexPool policies require that local government deposits be used to purchase investments authorized by the Public Funds Investment Act (PFIA) of 1987, as amended. The Texas State Comptroller of Public Accounts has oversight responsibility for TexPool. TexPool is a public funds investment pool created by the Texas Treasury Safekeeping Trust Company (Trust Company) to provide a safe environment for the placement of local government funds in authorized short-term, fully collateralized investments, including direct obligations of, or obligations guaranteed by, the United States or State of Texas or their agencies; federally insured certificates of deposit issued by Texas banks or savings and loans; and fully collateralized direct repurchase agreements secured by United States Government agency securities and placed through a primary government securities dealer.

In accordance with GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, the local government investment pools do not have any limitations and restrictions on withdrawals such as notice periods or maximum transaction amounts. These pools do not impose any liquidity fees or redemption gates.

At year-end, the City had the following investments subject to interest rate risk disclosure, under U.S. generally accepted accounting principles:

	<u>Fair Value</u>	<u>Percentage of Portfolio</u>	<u>Weighted Average Maturities (Days)</u>
Investment Type:			
Local Government Investment Pools:			
TexPool	<u>\$ 9,525,828</u>	100%	28
Portfolio weighted average maturities (days)			

Interest rate Risk

As a means of minimizing risk of loss due to interest rate fluctuations, the Investment Policy the City avoid over-concentration of assets in a specific maturity sector, limiting of average maturities of operating fund investments to one year, and avoiding over-concentrated assets in specific instruments other than U.S. Treasury Securities and insured or collateralized certificates of deposit.

CITY OF FREEPORT, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)

Note 3 - Deposits (Cash) and Investments (continued)

Credit Risk

At year-end, balances in TexPool, a privately-managed public fund investment pools rated AAAm by Standard and Poor’s Ratings Services. All credit ratings meet acceptable levels required by guidelines prescribed by both the PFIA and the City’s investment policy.

Note 4 - Receivables

Amounts recorded as receivables as of September 30, 2018, for the government’s individual major and non-major funds, including the applicable allowance for uncollectible accounts, are as follows:

	<u>General Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Water and Sewer Fund</u>	<u>Total</u>
Receivables:				
Property taxes	\$ 118,388	\$ 42,003	\$	\$ 160,391
Sales taxes	492,331	246,165		738,496
Fines and forfeitures	2,275,087			2,275,087
Customer accounts	652,423		744,543	1,396,966
Paving Assessments	144,284			144,284
Other Governments			58,143	58,143
Other	323,198	26,391		349,589
Gross Receivables	<u>4,005,711</u>	<u>314,559</u>	<u>802,686</u>	<u>5,122,956</u>
Less: allowance for uncollectibles	<u>(2,061,113)</u>	<u>(35,286)</u>	<u>(53,546)</u>	<u>(2,149,945)</u>
Net Total Receivables	<u>\$ 1,944,598</u>	<u>\$ 279,273</u>	<u>\$ 749,140</u>	<u>\$ 2,973,011</u>

Unavailable Revenue

Governmental funds report deferred inflows of resources in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. As of September 30, 2018, the various components of deferred outflows of resources reported in the governmental funds were as follows:

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total</u>
Property taxes	\$ 77,349	\$ 31,716	\$ 109,065
Fines and forfeitures	453,831		453,831
Ambulance services	467,996		467,996
	<u>\$ 999,176</u>	<u>\$ 31,716</u>	<u>\$ 1,030,892</u>

CITY OF FREEPORT, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)

Note 5 - Capital Assets

A summary of activity for capital assets capitalized by the City for the year ended September 30, 2018, follows:

	Balance 9/30/2017	Additions	Deletions	Balance 9/30/2018
Governmental Activities				
Capital assets, not being depreciated:				
Land	\$ 4,918,826	\$	\$	\$ 4,918,826
Total capital assets, not being depreciated	4,918,826			4,918,826
Capital assets being depreciated:				
Streets and improvements	23,297,823	629,964		23,927,787
Buildings and improvements	5,590,357			5,590,357
Furniture, equipment, and vehicles	11,907,985	988,559		12,896,544
Assets under lease	436,533			436,533
Total capital assets being depreciated	41,232,698	1,618,523		42,851,221
Less accumulated depreciation for:				
Streets and improvements	(15,485,144)	(856,438)		(16,341,582)
Buildings and improvements	(3,861,538)	(236,084)		(4,097,622)
Furniture, equipment, and vehicles	(8,688,510)	(1,095,977)		(9,784,487)
Assets under lease	(145,360)	(84,507)		(229,867)
Total accumulated depreciation	(28,180,552)	(2,273,006)		(30,453,558)
Total capital assets being depreciated, net	13,052,146	(654,483)		12,397,663
Governmental Activities				
Capital Assets, Net	\$ 17,970,972	\$ (654,483)	\$	\$ 17,316,489
	Balance 9/30/2017	Additions	Deletions	Balance 9/30/2018
Business-type Activities				
Capital assets, not being depreciated:				
Land	\$ 56,200	\$	\$	\$ 56,200
Construction in progress	289,684	3,895		293,579
Total capital assets, not being depreciated	345,884	3,895		349,779
Capital assets being depreciated:				
Water and sewer system	23,675,193	544,660		24,219,853
Furniture, equipment, and vehicles	146,765			146,765
Total capital assets being depreciated	23,821,958	544,660		24,366,618
Less accumulated depreciation for:				
Utility and street projects	(15,850,909)	(453,751)		(16,304,660)
Furniture, equipment, and vehicles	(146,765)			(146,765)
Total accumulated depreciation	(15,997,674)	(453,751)		(16,451,425)
Total capital assets being depreciated, net	7,824,284	90,909		7,915,193
Business-type Activities				
Capital Assets, Net	\$ 8,170,168	\$ 94,804	\$	\$ 8,264,972

CITY OF FREEPORT, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)

Note 5 - Capital Assets (continued)

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

<u>Function</u>	<u>Depreciation Expense</u>
Governmental Activities	
General Administration	\$ 274,085
Economic Development	90,185.00
Public Safety	713,115.00
Service Center	20,438.00
Streets and Drainage	747,977.00
Parks and Recreation	427,206.00
	<u>\$ 2,273,006</u>
 Business-type Activities	
Water and sewer	<u>\$ 453,751</u>

Construction in progress for the various projects and remaining commitments under these construction contracts at September 30, 2018, are as follows:

Business-type Activities	<u>Authorized Contract</u>	<u>Total in Progress</u>	<u>Remaining Commitment</u>
<i>Street Projects:</i>			
8th Street	\$ 534,500	\$ 293,579	\$ 240,921
Avenue D - Velasco to Caldwell	8,814		8,814
Avenue D - Division to Fisher	9,470		9,470
Avenue D - Quintana to Mc Niel	32,971		32,971
Caldwell - Avenue D to Ave. G	14,945		14,945
Dezavalla - Front to Ave. B	13,575		13,575
Fisher - Front to Ave. A	10,233		10,233
Division - Mystery Harbor to Ave. A	7,102		7,102
Division - Gulf Blvd. to Ave. F to Ave. A	7,815		7,815
Mc Niel St. - Gulf Blvd. to Ave. F	7,330		7,330
Munson St. - Ave F to Ave. G	7,102		7,102
Broad St. - Yaupon to Mesquite	91,160		91,160
Velasco St. @ Hwy. 36 Entrance	16,490		16,490
<i>Utility Projects:</i>			
Skinner Elevated Water Tower	401,000		401,000
Lift Station & Force Main South Ave A	14,075		14,075
Sewer Main 2 Street 900 BL	54,046		54,046
Sewer Main Replacement	387,035		387,035
	<u>\$ 1,617,662</u>	<u>\$ 293,579</u>	<u>\$ 1,324,084</u>

CITY OF FREEPORT, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)

Note 6 - Long-Term Debt

During the year ended September 30, 2018, the following changes occurred in long-term liabilities:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities:					
Certificates of obligation	\$ 2,486,000	\$	\$ (689,000)	\$ 1,797,000	\$ 717,000
Notes payable	1,544,628		(649,363)	895,265	128,849
Capital leases	264,835		(87,491)	177,344	87,589
Compensated absences	975,824	398,926	(1,064,323)	310,427	124,171
Governmental Activities Long-term Liabilities	<u>\$ 5,271,287</u>	<u>\$ 398,926</u>	<u>\$ (2,490,177)</u>	<u>\$ 3,180,036</u>	<u>\$ 1,057,609</u>
Business-type Activities:					
Compensated absences	\$ 156,216	\$ 7,880	\$ (158,109)	\$ 5,987	\$ 2,395
Business-type Activities Long-term Liabilities	<u>\$ 156,216</u>	<u>\$ 7,880</u>	<u>\$ (158,109)</u>	<u>\$ 5,987</u>	<u>\$ 2,395</u>

Certificates of Obligation

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

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

<u>Series</u>	<u>Interest Rate</u>	<u>Original Issue</u>	<u>Maturity Date</u>	<u>Debt Outstanding</u>
Series 2003 Certificate of Obligation	4.84%	3,000,000	10/24/2018	\$ 273,000
Series 2008 Certificate of Obligation	3.79%	3,350,000	4/1/2023	1,325,000
Series 2003 (Refunding Bonds)	4.84%	2,185,000	10/24/2018	199,000
Total Certificates of Obligation				<u>\$ 1,797,000</u>

Annual debt service requirements to retire outstanding certificate of obligation bonds are as follows:

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 717,000	\$ 73,063	\$ 790,063
2020	255,000	40,932	295,932
2021	265,000	31,268	296,268
2022	275,000	21,224	296,224
2023	285,000	10,802	295,802
	<u>\$ 1,797,000</u>	<u>\$ 177,289</u>	<u>\$ 1,974,289</u>

CITY OF FREEPORT, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)

Note 6 - Long-Term Debt (continued)

Notes Payable

On November 21, 2014, the Freeport Economic Development Corporation (Corporation) refinanced the remaining First State Bank of Louise note balance of \$1,356,747 with the First State Bank of Clute. The loan is secured by the Corporation’s sales tax remittance guaranty and subordination agreement. The note calls for an interest rate of 3.50% and monthly payments of \$13,234 and one (1) balloon payment on November 21, 2019 of \$765,602.

On September 4, 2015, the Freeport Economic Development Corporation (Corporation) financed the purchase of land from Western Seafood Company with a note payable of \$ 2,450,000. On the same date, the Corporation made an \$ 875,000 principal payment, bring the note balance to \$ 1,575,000. The loan is secured by the land. The remaining note calls for an interest rate of 3.00% and three (3) annual payments of \$ 525,000, with final payment on September 4, 2018. Current requirements for principal and interest accounted for in the Debt Service Fund were \$ 525,000 and \$ 31,500, respectively.

The notes payable at September 30, 2018 is summarized as follows:

<u>Purpose</u>	<u>Interest Rate</u>	<u>Original Issue</u>	<u>Maturity Date</u>	<u>Debt Outstanding</u>
EDC Loan	3.50%	1,356,747	11/21/2019	\$ 895,265
EDC Western Seafood Company Land	3.00%	1,575,000	9/4/2018	
Total Notes Payable				<u>\$ 895,265</u>

Annual debt service requirements to retire outstanding notes payable are as follows:

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 128,849	\$ 29,959	\$ 158,808
2020	766,416	4,559	770,975
	<u>\$ 895,265</u>	<u>\$ 34,518</u>	<u>\$ 929,783</u>

CITY OF FREEPORT, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)

Note 6 - Long-Term Debt (continued)

Compensated absences

Typically, the general fund and water and sewer fund have been used to liquidate the liabilities for compensated absences. At September 30, 2018, current sick and vacation leave payable for governmental activities amounted to \$124,171 and non-current sick and vacation leave payable amounted to \$186,256. Current sick and vacation leave payable for business-type activities amounted to \$2,395 and non-current sick and vacation leave payable amounted to \$3,592.

Capital Leases

The City is obligated under certain leases accounted for as capital leases. The leased assets and related obligations are accounted for in the statement of net position. Assets under capital leases totaled \$488,208 at September 30, 2018. The following is a schedule of future minimum lease payments under capital leases:

Payments Due Year Ending September 30,	
2019	\$ 115,218
2020	90,661
Minimum lease payments for all capital lease	205,879
Imputed interest	(10,128)
Present value - minimum lease payments	<u>\$ 195,751</u>
 Assets under capital leases	 <u>\$ 571,533</u>

During the year ended September 30, 2016, the City purchased a Case 621 F Wheel Loader for use in the Streets and Drainage Department under capital lease, with a cost of \$ 143,004 and an effective interest rate of 2.94%. Current requirements for principal and interest expenditures accounted for in the Streets and Drainage Department of the General Fund were \$27,759 and \$2,533 respectively.

During the year ended September 30, 2016, the City purchased a Gradall D152 2x4 for use in the Streets and Drainage Department under capital lease, with a cost of \$ 244,544 and an effective interest rate of 2.94%. Current requirements for principal and interest expenditures accounted for in the Streets and Drainage Department of the General Fund were \$47,469 and \$4,331 respectively.

On April 15, 2016, the City entered into an operating lease for fifty- five (55) Yamaha golf cars from April 15, 2016 through March 15, 2019, which calls for thirty-six (36) monthly payments of \$ 3,750.

During the year ended September 30, 2015, the City purchased a John Deere Top Dresser for \$ 14,200, under capital lease, with an effective interest rate of 4.00%. Current requirements for principal and interest expense accounted for in the Golf Course fund were \$3,703 and \$131, respectively.

During the year ended September 30, 2016, the City purchased a Toro Greens Master (greens mower) 3150-Q w/attachments for \$ 34,785, under capital lease, with an effective interest rate of 3.59%. The lease calls for forty-eight (48) monthly payments of \$777 with final payment on August 31, 2020. Current requirements for principal and interest accounted for in the Golf Course fund were \$8,560 and \$788 respectively.

CITY OF FREEPORT, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)

Note 6 - Long-Term Debt (continued)

Operating Leases

Lessor

The City leases various office space as well as park and community house rentals as lessor. These leases are considered operating leases for accounting purposes and are reported as income in the General Fund. The office leases are on a month-to-month basis. The park and community house rentals are based upon usage.

Operating lease and rental income for the year ended September 30, 2018 was as follows:

Office lease Income	\$ 29,713
Office rental income	\$ 71,015

Lessee

During the year ended September 30, 2015, the City entered into a 5 year operating lease agreements for copy machines, meters, and maintenance which calls for monthly payments of \$397 and \$381.

During the year ended September 30, 2018, the City entered into a 5 year operating lease agreements for copy machines and a digital mailing system which calls for monthly payments of \$625 and \$153

Operating lease expense for the year ended September 30, 2018 was \$18,671

CITY OF FREEPORT, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)

Note 7 - Interfund receivables, payables, and transfers

The composition of interfund balances as of September 30, 2018, is as follows:

	Receivable Fund		
	Non-major Governmental Funds	Water and Sewer Fund	Totals
Payable Fund			
Governmental activities			
General fund	\$ 77,264	\$ 56,607	\$ 133,871
Nonmajor governmental funds	13,871	-	13,871
<i>Net interfund totals</i>	<u>\$ 91,135</u>	<u>\$ 56,607</u>	<u>\$ 147,742</u>
	Transfers in		
	Non-major Governmental Funds	Water and Sewer Fund	Net
Transfers out			
Governmental activities			
General fund	-	\$ 502,749	\$ 502,749
Nonmajor governmental funds	358,106	-	358,106
<i>Net interfund totals</i>	<u>\$ 358,106</u>	<u>\$ 502,749</u>	<u>\$ 860,855</u>

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

CITY OF FREEPORT, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)

Note 8 - Employee Retirement System

Texas Municipal Retirement System

Plan Description and Provisions

The City of Freeport participates as one of 883 plans in the nontraditional, joint contributory, hybrid agent multiple-employer 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 issue a publically available comprehensive annual financial report (CAFR) that can be obtained at www.tmr.org.

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

Benefits Provided

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

At retirement, the benefit is calculated as if the sum of the employee’s contributions, with interest, and the city-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven 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 member’s deposits and interest.

A summary of plan provisions for 2016 and 2017 for the City are as follows:

	Plan Year 2016	Plan Year 2017
Employee deposit rate:	7%	7%
Matching ratio (City to employee):	2 to 1	2 to 1
Years required for vesting:	5	5
Service retirement eligibility:	20 years at any age; 5 years at age 60 and above	20 years at any age; 5 years at age 60 and above
Updated Service Credit:	100% repeating transfers	100% repeating transfers
Annuity Increase to retirees:	70% of CPI repeating	70% of CPI repeating
Supplemental death benefit – active employees and retirees:	Yes	Yes

CITY OF FREEPORT, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)

Note 8 - Employee Retirement System (continued)

Employees Covered by Benefits Terms

At the December 31, 2017 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	67
Inactive employees entitled to but not yet receiving benefits	108
Active employees	120
Total	295

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 consulting 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 were required to contribute 7% of their annual gross earnings during the fiscal year. For fiscal year 2018, the City made contributions of 14.36% for the months in 2017 and 14.25% for the months in 2018. The City’s contributions to TMRS for the year ended September 30, 2018, were \$929,815 and were equal to the required contributions.

Net Pension Liability

The City’s Net Pension Liability (NPL) was measured as of December 31, 2018, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The Total Pension Liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5%
Salary increases	3.5% to 10.5% including inflation
Investment rate of return	6.75%

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 Disabled Retiree 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.

CITY OF FREEPORT, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)

Note 8 - Employee Retirement System (continued)

Actuarial Assumptions (continued)

Actuarial assumptions used in the December 31, 2017, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period January 1, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (“EAN”) actuarial cost method. Assumptions are reviewed annually. 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 investment was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimates of arithmetic real rates of return for each major asset class in fiscal year 2018 are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return (Arithmetic)
U.S. equities	17.5%	4.55%
International equities	17.5%	6.35%
Core fixed income	10.0%	1.00%
Non-core fixed income	20.0%	4.15%
Real estate	10.0%	4.75%
Real return	10.0%	4.15%
Absolute return	10.0%	4.00%
Private equity	5.0%	7.75%
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.

CITY OF FREEPORT, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)

Note 8 - Employee Retirement System (continued)

Basis of Allocation

Pension items are allocated between governmental activities and business type activities on the basis of employee payroll funding. For the year ended September 30, 2018, those percentages were 99% and 1%, respectively, which approximated the prior year's allocations.

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balance at 12/31/2016	\$ 25,080,819	\$ 19,568,981	\$ 5,511,838
Changes for the year:			
Service cost	1,069,778		1,069,778
Interest	1,693,736		1,693,736
Difference between expected and actual experience	462,205		462,205
Contributions - employer		944,578	(944,578)
Contributions - employee		464,589	(464,589)
Net investment income		2,709,724	(2,709,724)
Benefit payments, including refunds, of employee contributions	(1,046,653)	(1,046,653)	
Administrative expense		(14,056)	14,056
Other charges		(712)	712
Net changes	<u>2,179,066</u>	<u>3,057,470</u>	<u>(878,404)</u>
Balance at 12/31/2017	<u>\$ 27,259,885</u>	<u>\$ 22,626,451</u>	<u>\$ 4,633,434</u>

Sensitivity of the Net Pension Liability

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:

	Current Single Rate		
	1% Decrease to 5.75%	Assumption 6.75%	1% Increase to 7.75%
City's net pension liability	\$ 9,058,233	\$ 4,633,434	\$ 1,088,364

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.tmr.com.

CITY OF FREEPORT, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)

Note 8 - Employee Retirement System (continued)

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

For the year ended September 30, 2018, the City recognized pension expense of \$1,225,974.

At September 30, 2018, the City reported deferred outflows and inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference in expected and actual experience	\$ 360,320	\$ (13,145)
Change in assumptions	10,303	
Difference in projected and actual earnings on pension plan earnings		(578,892)
Contributions subsequent to the measurement date	<u>646,581</u>	
Total	<u>\$ 1,017,204</u>	<u>\$ (592,037)</u>

Deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date of \$646,581 will be recognized as a reduction of the net pension liability for the measurement year ending December 31, 2017 (i.e. recognized in the City’s financial statements September 30, 2018). Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Fiscal Year</u>	<u>Net deferred outflows (inflows) of resources</u>
2018	\$ 161,669
2019	89,289
2020	(194,607)
2021	<u>(277,765)</u>
Total	<u>\$ (221,414)</u>

Texas Emergency Services Retirement System

Plan Description and Provisions

The Texas Emergency Services Retirement System (TESRS) administers a cost-sharing multiple employer pension system (the System) established and administered by the State of Texas to provide pension benefits for emergency services personnel who serve without significant monetary remuneration. Direct financial activity for the System is classified in the financial statements as pension trust funds. The System issues a stand-alone financial report that is available to the public at www.tesrs.org.

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

CITY OF FREEPORT, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)

Note 9 - Other Post-Employment Benefits

TMRS Supplemental Death Benefits Fund

Plan Description

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.

Benefits Provided

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 another postemployment benefit (OPEB). As the SDBF covers both active and retiree participants, with no segregation of assets, the SDBF is considered to be an unfunded OPEB plan (i.e. no assets are accumulated).

Employees Covered by Benefits Terms

At the December 31, 2017 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees currently receiving benefits	45
Inactive employees entitled to but not yet receiving benefits	20
Active employees	120
Total	185

Contributions

Contributions are made monthly based on the covered payroll of employee members of the participating member city. The contractually required contribution rate is determined annually for each city. The rate is based on the mortality and service experience of all employees covered by the SDBF and the demographics specific to the workforce of the city. There is a one-year delay between the actuarial valuation that serves as the basis for the employer contribution rate and the calendar year when the rate goes into effect. The funding policy of this plan is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to prefund retiree term life insurance during employees’ entire careers. As such, contributions are utilized to fund active member deaths on a pay-as-you-go basis; any excess contributions and investment income over payments then become net position available for benefits.

Employees for the City were required to contribute 7% of their annual gross earnings during the fiscal year. For fiscal year 2018, the City made contributions of 0.15% for the months in 2017 and 0.14% for the months in 2018. The City’s contributions to TMRS for the year ended September 30, 2018, were \$929,815 and were equal to the required contributions.

CITY OF FREEPORT, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)

Note 9 - Other Post-Employment Benefits (continued)

TMRS Supplemental Death Benefits Fund (continued)

Discount Rate

The TMRS SDBF program is treated as unfunded OPEB plan because the SDBF trust covers both active employees and retirees and the assets are not segregated for these groups. Under GASB Statement No. 75, the discount rate for an unfunded OPEB plan should be based on 20-year tax-exempt AA or higher Municipal Bonds. Therefore, a discount rate of 3.31% based on the 20 Year Bond GO Index published by bondbuyer.com is used as of the measurement date of December 31, 2017. At transition, GASB Statement No.75 also requires that the total OPEB liability as of the prior fiscal year end be estimated based on the 20 Year Bond GO Index as of the prior fiscal year end. The actuary has estimated the total OPEB liability, as of December 31, 2016, using a discount rate of 3.78%.

Net OPEB Liability

The actuarial assumptions used in the December 31, 2017 valuation were based on the results of an actuarial experience study for the period December 31, 2010 to December 31, 2014.

Actuarial Assumptions

The Total OPEB Liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5%
Salary increases	3.5% to 10.5% including inflation
Investment rate of return	6.75%

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 Disabled Retiree 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.

Basis of Allocation

OPEB items are allocated between governmental activities and business type activities on the basis of employee payroll funding. For the year ended September 30, 2018, those percentages were 99% and 1%, respectively, which approximated the prior year's allocations.

CITY OF FREEPORT, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)

Note 9 - Other Post-Employment Benefits (continued)

TMRS Supplemental Death Benefits Fund (continued)

Changes in the Net OPEB Liability

	<u>Increase (Decrease)</u>
	<u>Total OPEB Liability</u>
Balance at 12/31/2016	\$ 274,359
Changes for the year:	
Service cost	10,618
Interest on Total OPEB Liability	10,509
Changes in assumptions or other inputs	26,796
Benefit payments	(3,318)
Net changes	<u>44,605</u>
Balance at 12/31/2017	<u>\$ 318,964</u>

Sensitivity Analysis

The following presents the total OPEB liability of the employer, calculated using the discount rate of 3.31%, 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 (2.31%) or 1 percentage point higher (4.31%) than the current rate. Note that the healthcare cost trend rate does not affect the total OPEB liability, so sensitivity to the healthcare cost trend rate is not shown.

	<u>1% Decrease to 2.21%</u>	<u>Current Discount Rate 3.31%</u>	<u>1% Increase to 4.31%</u>
City's Total OPEB Liability			
TMRS SDB Plan	\$ 387,999	\$ 318,964	\$ 265,678

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

For the year ended September 30, 2018, the City recognized OPEB expense of \$25,803

As of September 30, 2018, the City reported deferred outflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Change in assumptions	\$ 22,120	\$
Total	<u>\$ 22,120</u>	<u>\$</u>

CITY OF FREEPORT, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)

Note 9 - Other Post-Employment Benefits (continued)

TMRS Supplemental Death Benefits Fund (continued)

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

Amounts currently reported as deferred outflows of resources related to OPEB, excluding contributions subsequent to the measurement date, will be recognized in OPEB expense as follows:

Fiscal Year	Net deferred outflows (inflows) of resources
2019	\$ 4,676
2020	4,676
2021	4,676
2022	4,676
2023	3,416
Total	<u>\$ 22,120</u>

Retiree Healthcare

Plan Description

The City of Freeport maintains, through TML MultiState Intergovernmental Employee Benefits Pool (IEBP), a health risk pool established pursuant to Texas Local Government Code Chapter 172, Texas Government Code Chapter 791, and the Texas Trust Code to provide health care benefits coverage for employees and retirees and dependents of employees and retirees, of Texas political subdivisions under an interlocal agreement. The City is currently offering health benefits coverage through IEBP which allows the extension of benefits to retirees of the City. The City provides health benefits coverage to its retirees through IEBP and the cost of such coverage be paid for by the City to a maximum of \$750 per month; any additional amount will be the responsibility of the retiree. An employee who is under 60 years of age and has been covered by TMRS (Texas Municipal Retirement System) for at least 20 years, or an employee who is 60 years or older and has been covered by TMRS for at least 5 years. The employee must also work for the City for a period of eight continuous years and meet the definition of retiree for purposes of the ordinance. The Interlocal Agreement in effect between the City and IEBP, adopted September 8, 2014, provides that the Board of Trustees may adopt rules and regulations which may amend this plan in the future. Other coverage’s will be as established by the TML MultiState Intergovernmental Employee Benefits Pool Board of Trustees.

Financial Statements

The City’s annual other post-employment benefits (OPEB) cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined. The ARC represents a level of accrual that, if paid on an ongoing basis, is projected to cover the normal costs each year and to amortize any unfunded actuarial liabilities (or funding excesses) over a period not to exceed thirty years. The unfunded actuarial accrued liability is \$340,161 as of December 31, 2014, which is when the last actuarial valuation was performed.

CITY OF FREEPORT, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)

Note 10 - 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.

Note 11 - Industrial Contract Agreements

The City three Industrial Development Agreements: Brazosport IDA (Interlocal with Lake Jackson and Clute), Freeport IDA, and Freeport LNG. Brazosport IDA and Freeport IDA, are calculated based on property values or CPI – whichever is greater. Freeport LNG Industrial District payments are made in accordance to a payment schedule outline in the agreement. The amount received under this contract and various other industrial district contracts during the year ended September 30, 2018 was \$ 5,971,351 and is reported in the General Fund.

Note 12 - Subsurface Lease Agreement

The City entered into a subsurface lease agreement with the Dow Chemical Corporation in July 2017. The terms of the lease agreement is July 31, 2017 through July 31, 2037 with an option to extend the term for an additional 5 years through July 31, 2042. The City will receive a total of \$8,000,000 throughout the life of the lease. The amount received under this contract during the year ended September 30, 2018 was \$5,500,000.

Note 13 - Water Supply Contract

The City entered into a water supply contract with the Brazosport Water Authority on February 20, 1987. The contract term is forty years and may not be terminated as long as bonds are outstanding. The City agrees to take and pay for, whether taken or not, 2 million gallons of water per day. The actual supply of water under this contract started in March, 1989.

Note 14 - Joint Venture

The City is party to an agreement with the City of Oyster Creek to share costs associated with the operation of a sewer treatment plant. The plant went on-line during the fiscal year ended September 30, 1989. The percentage for sharing the operating expenses is determined based upon meter flow calibrations. For the year ended September 30, 2018, the City of Freeport's portion of these expenses \$73,825.

During the year ended September 30, 2003, the City began a joint venture with the City of Clute, City of Lake Jackson, and the SPCA for an animal shelter. The shelter is located in Lake Jackson and provides programs for the claiming and adoption of lost or abandoned animals for the three cities. The term of the agreement is from March 1, 2003 through February 28, 2023. The City and Clute contributed \$ 150,000 each and the SPCA contributed \$ 250,000 for a total of \$ 550,000 to Lake Jackson for the design, construction, and furnishing of the \$ 1,100,000 facility. The City pays each year for administrative operating costs. For the year ended September 30, 2018, the City paid \$111,950 for their portion of the operating costs.

CITY OF FREEPORT, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)

Note 15 - Commitments and Contingencies

Litigation and Other Contingencies

From time to time, the City is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of City Management and legal counsel that any ultimate uninsured liability to the City from these lawsuits will not be material.

Arbitrage Rebate

In accordance with the provisions of the Internal Revenue Code, sections 103, 103A, and 148, as amended, a governmental debt issuance must qualify and maintain tax-exempt status by satisfying certain arbitrage requirements contained in these provisions. As part of the requirements, certain amounts earned on the non-purpose investment of debt issuance proceeds, in excess of the yield on an issue, earned as arbitrage, will be required to be paid to the U.S. Treasury. As part of this process, the City annually determines potential arbitrage liabilities on its debt issues, on component unit debt issues and on debt issues assumed by the City from various Municipal Utility Districts.

Note 16 - 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 in the Texas Municipal League's General Liability Fund. In addition, the City participates in the Texas Municipal League's Workers Compensation Fund to insure the City for workers compensation claims. The Texas Municipal League is not intended to operate as an insurance company but rather as contracting mechanism by which the city provides self-insurance benefits to its employees. The fund contracts with a third-party administrator for administration, investigation and adjustment services in the handling of claims. Premiums are based on the estimated City payroll risk factor and rates. The premiums are adjusted by the City's experience modifier. All loss contingencies, including claims incurred but not reported, if any, are recorded and accounted for by the TML Pool. The City has not significantly reduced insurance coverage in the last three years.

Note 17 - Prior Period Adjustment

Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions." – This statement changes the focus of accounting of postemployment benefits other than pensions from whether they are responsibly funding the benefits over time to a point-in time liability that is reflected on the employer's financial statements for any actuarially underfunded portion of benefits earned to date. The implementation of GASB Statement No. 75 resulted in restatement of beginning net position for removal of the OPEB liability previously recorded under GASB Statement No. 45, the recording of the total OPEB liability under Statement No. 75, and the beginning deferred outflow for contributions made after the measurement date.

CITY OF FREEPORT, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)

Note 17 - Prior Period Adjustment (continued)

For the year ended September 30, 2018, the City reclassified the Golf Course and Ambulance business-type activities as part of the general fund

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>General Fund</u>
Ending Net Position at September 30, 2017, as previously reported	\$ 15,900,775	\$ 8,131,975	\$ 6,955,417
Change in presentation:			
Reclassified Golf Course BTA as part of general fund	(471,576)	471,576	(830,369)
Reclassified Ambulance service BTA as part of general fund	341,259	(341,259)	(193,833)
Change in Accounting Standards:			
Adoption of GASB No. 75			
Less: net OPEB liability as of September 30, 2017	(270,959)	(3,400)	
Net prior period adjustments	<u>(401,276)</u>	<u>126,917</u>	<u>(1,024,202)</u>
Beginning Net Position as of October 1, 2017, as restated	<u>\$ 15,499,499</u>	<u>\$ 8,258,892</u>	<u>\$ 5,931,215</u>

Note 18 - Subsequent Events

The City entered into three capital leases subsequent to September 30, 2018. In November 2018 the City entered into a lease for a John Deere mower costing \$58,975 which will be paid in equal installments monthly for 5 years. The City entered into two capital leases in December 2018. The first lease is a street sweeper costing \$206,268 which will be paid annually in four installments of \$54,914. The second lease is for a fire truck costing \$799,918 which will be paid annually in 5 installments of \$173,445.

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REQUIRED SUPPLEMENTARY INFORMATION

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CITY OF FREEPORT, TEXAS

GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL (GAAP BASIS)

For the Year Ended September 30, 2018

	2018			Variance Positive (Negative)
	Original Budget	Final Budget	Actual	
Revenues				
Taxes:				
Property taxes	\$ 2,213,311	\$ 2,213,311	\$ 2,079,806	\$ (133,505)
Sales and use taxes	3,090,100	3,090,100	2,802,128	(287,972)
Industrial district	5,665,000	5,665,000	5,971,351	306,351
Fines and forfeitures	447,000	447,000	494,649	47,649
Licenses and permits	200,500	200,500	146,470	(54,030)
Intergovernmental	195,800	311,482	146,660	(164,822)
Charges for services	2,258,050	2,292,664	2,249,824	(42,840)
Investment earnings	20,000	20,000	174,914	154,914
Miscellaneous	192,645	223,834	400,587	176,753
Lease income	5,638,716	5,689,578	5,767,361	77,783
Total Revenues	<u>19,921,122</u>	<u>20,153,469</u>	<u>20,233,750</u>	<u>80,281</u>
Expenditures				
Current:				
General government:	2,238,857	2,246,357	2,004,917	241,440
Public safety	7,383,627	7,514,753	6,898,256	616,497
Economic Development		15,000	15,000	
Streets and drainage	2,333,155	2,966,201	1,906,959	1,059,242
Sanitation	936,000	936,000	962,293	(26,293)
Service Center	202,175	202,175	154,297	47,878
Culture and Recreation	3,680,511	3,792,447	3,499,870	292,577
Debt Service:				
Principal	97,958	97,958	87,491	10,467
Interest and other charges	2,589	2,589	10,918	(8,329)
Total Expenditures	<u>16,874,872</u>	<u>17,773,480</u>	<u>15,540,001</u>	<u>2,233,479</u>
Revenues over (under) expenditures	<u>3,046,250</u>	<u>2,379,989</u>	<u>4,693,749</u>	<u>2,313,760</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	(502,749)	(502,749)	(502,749)	
Total other financing sources (uses)	<u>(502,749)</u>	<u>(502,749)</u>	<u>(502,749)</u>	
Changes in fund balance	2,543,501	1,877,240	4,191,000	2,313,760
Fund Balances - Beginning	<u>5,931,308</u>	<u>5,931,308</u>	<u>5,931,308</u>	
Fund Balances - Ending	<u>\$ 8,474,809</u>	<u>\$ 7,808,548</u>	<u>\$ 10,122,308</u>	<u>\$ 2,313,760</u>

CITY OF FREEPORT, TEXAS

NOTES TO THE REQUIRED SUPPLEMENTARY BUDGET INFORMATION

Year Ended September 30, 2018

General Budget Policies

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.

CITY OF FREEPORT, TEXAS
TEXAS MUNICIPAL RETIREMENT SYSTEM (UNAUDITED)
Schedule of Changes in Net Pension Liability and Related Ratios
Last Four Measurement Years

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total pension liability:				
Service cost	\$ 1,069,778	\$ 941,887	\$ 867,502	\$ 749,370
Interest	1,693,736	1,586,800	1,511,254	1,424,774
Difference between expected and actual experience	462,205	(31,959)	276,833	(132,087)
Change in assumptions			116,881	
Benefit payments, including refunds of employee contributions	(1,046,653)	(906,817)	(874,894)	(856,501)
Net change in total pension liability	2,179,066	1,589,911	1,897,576	1,185,556
Total pension liability - beginning	25,080,519	23,490,608	21,593,032	20,407,476
Total pension liability - ending (a)	<u>\$ 27,259,585</u>	<u>\$ 25,080,519</u>	<u>\$ 23,490,608</u>	<u>\$ 21,593,032</u>
Plan fiduciary net position:				
Contributions - employer	\$ 944,578	\$ 773,757	\$ 699,079	\$ 600,889
Contributions - employee	464,589	409,932	385,600	348,367
Net investment income	2,709,724	1,221,694	26,362	962,281
Benefit payments, including refunds of employee contributions	(1,046,653)	(906,817)	(874,894)	(856,501)
Administrative expense	(14,056)	(13,803)	(16,057)	(10,047)
Other	(712)	(1,044)	(792)	(826)
Net change in plan fiduciary net position	3,057,470	1,483,719	219,298	1,044,163
Plan fiduciary net position - beginning	19,568,681	18,084,962	17,865,664	16,821,501
Plan fiduciary net position - ending (b)	<u>22,626,151</u>	<u>19,568,681</u>	<u>18,084,962</u>	<u>17,865,664</u>
Net pension liability - ending (a) - (b)	<u>\$ 4,633,434</u>	<u>\$ 5,511,838</u>	<u>\$ 5,405,646</u>	<u>\$ 3,727,368</u>
Plan fiduciary net position as a percentage of total pension liability	83.00%	78.02%	76.99%	82.74%
Covered employee payroll	\$ 6,636,342	\$ 5,846,596	\$ 5,501,315	\$ 4,976,675
Net pension liability as a percentage of covered employee payroll	69.82%	94.27%	98.26%	74.90%

The amounts presented are for each measurement year, which end the preceding December 31 of the City's fiscal year end. Net pension liability is calculated using a new methodology and will be presented prospectively in accordance with GASB 68. Ten years of data should be presented in this schedule but data was unavailable prior to 2014.

CITY OF FREEPORT, TEXAS

TEXAS MUNICIPAL RETIREMENT SYSTEM (UNAUDITED)

Schedule of Contributions

Last Four Fiscal Years

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarially determined contribution	\$ 912,207	\$ 773,757	\$ 699,079	\$ 677,622
Contribution in relation of the actuarially determined contribution	\$ 912,207	\$ 773,757	\$ 699,079	\$ 677,622
Contribution deficiency (excess)				
Covered employee payroll	\$ 6,461,534	\$ 5,846,596	\$ 5,501,315	\$ 4,976,675
Contributions as a percentage of covered employee payroll	14.1%	13.2%	12.7%	13.6%

CITY OF FREEPORT, TEXAS
REQUIRED PENSION SYSTEM SUPPLEMENTARY INFORMATION
September 30, 2018

Notes to Required Supplementary Information:

Valuation Date: Actuarial 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:	30 years
Asset Valuation Method:	10 Year smoothed market; 15% soft corridor
Inflation:	2.75%
Salary Increases:	3.5% to 10.5% 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 2015 valuation pursuant to an experience study of the period 2010 - 2014.
Mortality:	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.
Other Information:	There were no benefit changes during the year.

CITY OF FREEPORT, TEXAS

TEXAS MUNICIPAL RETIREMENT SYSTEM SUPPLEMENTAL DEATH BENEFIT (UNAUDITED)

Schedule of Changes in Total OPEB Liability and Related Ratios

Last Measurement Year

	<u>2017</u>
Total OPEB liability:	
Service cost	\$ 10,618
Interest	10,509
Change in assumptions	26,796
Benefit payments, including refunds of employee contributions	<u>(3,318)</u>
Total change in total OPEB liability	44,605
Total OPEB liability - beginning	<u>274,359</u>
Total OPEB liability - ending (a)	<u><u>\$ 318,964</u></u>
Covered employee payroll	\$ 6,636,342
Total OPEB liability as a percentage of covered employee payroll	4.81%

The amounts presented are for each measurement year, which end the preceding December 31 of the City's fiscal year end. Total OPEB liability is calculated using a new methodology and will be presented prospectively in accordance with GASB 75. Ten years of data should be presented in this schedule but data was unavailable prior to 2017.

COMBINING STATEMENTS

CITY OF FREEPORT, TEXAS
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
September 30, 2018

	Debt Service Fund	Hotel/Motel Tax	Economic Development Corporation
Assets			
Cash and cash equivalents	\$ 25,265	\$ 2,055	\$ 69,772
Receivables (net of allowance for uncollectibles)	31,717	1,391	246,165
Due from other funds	38,812		
Total Assets	\$ 95,794	\$ 3,446	\$ 315,937
Liabilities			
Accounts payable	\$	\$	\$ 79,044
Due to other funds			13,871
Total Liabilities			92,915
Deferred Inflows of Resources			
Unavailable revenues	31,716		
Total Deferred Inflows of Resources	31,716		
Fund Balances			
Restricted:			
Debt service	64,078		
Capital projects			
Economic Development		3,446	223,022
Unassigned			
Total Fund Balances	64,078	3,446	223,022
Total Liabilities, Deferred Inflows, and Fund Balances	\$ 95,794	\$ 3,446	\$ 315,937

CITY OF FREEPORT, TEXAS
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
September 30, 2018

	<u>Beach Maintenance</u>	<u>Capital Projects Fund</u>	<u>Total Non-Major Governmental Funds</u>
Assets			
Cash and cash equivalents	\$ (9,680)	\$ 1,706	\$ 89,118
Receivables (net of allowance for uncollectibles)			279,273
Due from other funds		52,323	91,135
Total Assets	<u>\$ (9,680)</u>	<u>\$ 54,029</u>	<u>\$ 459,526</u>
Liabilities			
Accounts payable	\$ 1,845	\$	\$ 80,889
Due to other funds			13,871
Total Liabilities	<u>1,845</u>		<u>94,760</u>
Deferred Inflows of Resources			
Unavailable revenues			31,716
Total Deferred Inflows of Resources			<u>31,716</u>
Fund Balances			
Restricted:			
Debt service			64,078
Capital projects		54,029	54,029
Economic Development			226,468
Unassigned	(11,525)		(11,525)
Total Fund Balances	<u>(11,525)</u>	<u>54,029</u>	<u>333,050</u>
Total Liabilities, Deferred Inflows, and Fund Balances	<u>\$ (9,680)</u>	<u>\$ 54,029</u>	<u>\$ 459,526</u>

CITY OF FREEPORT, TEXAS
COMBINING STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
For the Year Ended September 30, 2018

	<u>Debt Service Fund</u>	<u>Hotel/Motel Tax</u>	<u>Economic Development Corporation</u>
Revenues			
Taxes:			
Property taxes	\$ 571,549	\$	\$
Sales and use taxes		11,360	1,072,577
Investment earnings	478		
Miscellaneous			4,476
Total Revenues	<u>572,027</u>	<u>11,360</u>	<u>1,077,053</u>
Expenditures			
Current:			
Culture and recreation			
Economic development		10,500	199,625
Debt service:			
Principal	813,363		525,000
Interest and other charges	128,233		15,750
Total Expenditures	<u>941,596</u>	<u>10,500</u>	<u>740,375</u>
Other Financing Sources (Uses)			
Transfers in	358,106		
Transfers out			(358,106)
Total other financing sources (uses)	<u>358,106</u>		<u>(358,106)</u>
Changes in Fund Balances	(11,463)	860	(21,428)
Fund Balances - Beginning of Year	<u>75,541</u>	<u>2,586</u>	<u>244,450</u>
Fund Balances - End of Year	<u>\$ 64,078</u>	<u>\$ 3,446</u>	<u>\$ 223,022</u>

CITY OF FREEPORT, TEXAS
COMBINING STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
For the Year Ended September 30, 2018

	<u>Beach Maintenance</u>	<u>Capital Projects Fund</u>	<u>Total Non-Major Governmental Funds</u>
Revenues			
Taxes:			
Property taxes	\$	\$	\$ 571,549
Sales and use taxes			1,083,937
Investment earnings			478
Miscellaneous	8,318		12,794
Total Revenues	<u>8,318</u>		<u>1,668,758</u>
Expenditures			
Current:			
Culture and recreation	23,022		23,022
Economic development			210,125
Debt service:			
Principal			1,338,363
Interest and other charges			143,983
Total Expenditures	<u>23,022</u>		<u>1,715,493</u>
Other Financing Sources (Uses)			
Transfers in			358,106
Transfers out			(358,106)
Total other financing sources (uses)			
Changes in Fund Balances	(14,704)		(46,735)
Fund Balances - Beginning of Year	<u>3,179</u>	<u>54,029</u>	<u>379,785</u>
Fund Balances - End of Year	<u>\$ (11,525)</u>	<u>\$ 54,029</u>	<u>\$ 333,050</u>

CITY OF FREEPORT, TEXAS

DEBT SERVICE FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -

BUDGET AND ACTUAL (GAAP BASIS)

For the Year Ended September 30, 2018

	2018			
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues				
Taxes:				
Property taxes	\$ 579,420	\$ 579,420	\$ 571,549	\$ (7,871)
Investment earnings			478	478
Total Revenues	<u>579,420</u>	<u>579,420</u>	<u>572,027</u>	<u>(7,393)</u>
Expenditures				
Debt Service:				
Principal	811,808	811,808	813,363	(1,555)
Interest and other charges	<u>130,236</u>	<u>130,236</u>	<u>128,233</u>	<u>2,003</u>
Total Expenditures	<u>942,044</u>	<u>942,044</u>	<u>941,596</u>	<u>448</u>
Revenues over (under) expenditures	(362,624)	(362,624)	(369,569)	(6,945)
Other Financing Sources (Uses)				
Transfers in	<u>362,924</u>	<u>362,924</u>	<u>358,106</u>	<u>(4,818)</u>
Total other financing sources (uses)	<u>362,924</u>	<u>362,924</u>	<u>358,106</u>	<u>(4,818)</u>
Net changes in fund balances	300	300	(11,463)	(11,763)
Fund Balances - Beginning	<u>75,541</u>	<u>75,541</u>	<u>75,541</u>	
Fund Balances - Ending	<u>\$ 75,841</u>	<u>\$ 75,841</u>	<u>\$ 64,078</u>	<u>\$ (11,763)</u>