

ANNUAL FINANCIAL REPORT

CITY OF FREEPORT, TEXAS

**For the Fiscal Year Ended
September 30, 2021**

CITY OF FREEPORT, TEXAS

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INDEPENDENT AUDITOR'S REPORT

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, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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.

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, 2021, 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.

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis, and budgetary comparison information, pension system and other post-employment benefit supplementary information, as presented in the table of contents, 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 18, 2022, on our consideration of the City’s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City’s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City’s internal control over financial reporting and compliance.



Houston, Texas
April 18, 2022

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, 2021.

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 \$30.4 million (*net position*). Of this amount, \$4.4 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 \$2.0 million.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$18.4 million, an increase of \$2.0 million over the prior year. Approximately 46% of this total amount, \$8.5 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 53% of total general fund expenditures.
- The City's long-term debt increased by \$4.5 million over the prior year due to the issuance of certificates of obligation.

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 starting on page 13 of this report.

Fund Financial Statements

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

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

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 starting on page 15 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 starting on page 19 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 starting on page 22 of this report.

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 starting on page 54 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 starting on page 62 of the City's financial statements.

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

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 \$30.4 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, for the government as a whole, as well as for governmental activities.

By far, the largest portion of the City's net position (79.5%) 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 (6.1%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position, (14%) or \$4.4 million, may be used to meet the government's ongoing obligations to citizens and creditors.

The following table summarizes the financial position of the City as of September 30, 2021 and 2020.

	Governmental Activities		Business-type Activities		Total	
	2021	2020	2021	2020	2021	2020
Current and other assets	\$ 22,452	\$ 18,295	\$ 6,623	\$ 1,143	\$ 29,075	\$ 19,438
Capital assets	17,103	17,670	8,454	8,486	25,557	26,156
Total Assets	39,555	35,965	15,077	9,629	54,632	45,594
Deferred Outflows of Resources	990	1,051	20	13	1,010	1,064
Current and other liabilities	3,541	1,079	1,551	1,091	5,092	2,170
Long-term liabilities	13,839	14,747	5,248	67	19,087	14,814
Total Liabilities	17,380	15,826	6,799	1,158	24,179	16,984
Deferred Inflows of Resources	1,048	1,242	20	15	1,068	1,257
Net Position:						
Net investment in capital assets	15,898	16,719	8,279	8,486	24,177	25,205
Restricted	1,844	1,145	-	-	1,844	1,145
Unrestricted	4,375	2,084	(2)	(17)	4,373	2,067
Total Net Position	\$ 22,117	\$ 19,948	\$ 8,277	\$ 8,469	\$ 30,394	\$ 28,417

The City's net position increased by 7.0% or \$2.0 million during the current fiscal year due to normal operations of the City.

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

The following table summarizes the changes in net position for the City for the years ended September 30, 2021 and 2020.

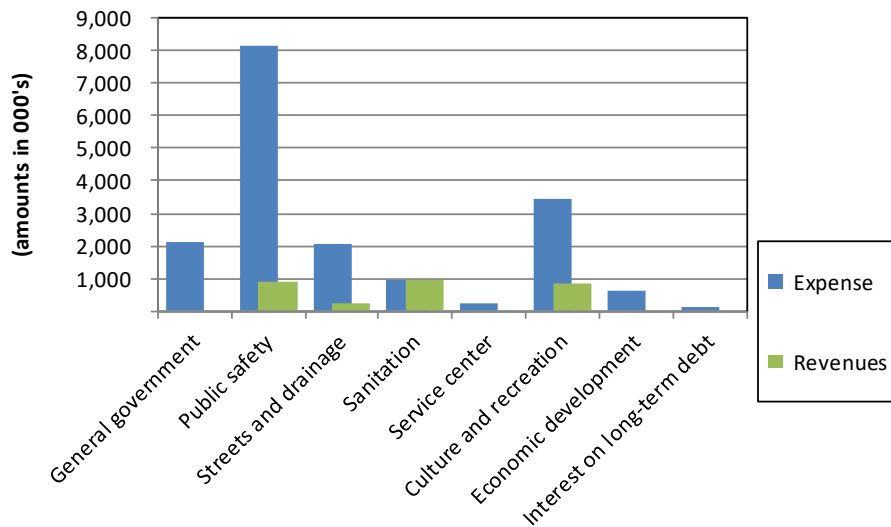
	Governmental Activities		Business-type Activities		Total	
	2021	2020	2021	2020	2021	2020
Revenues						
Program revenue:						
Charges for services	\$ 2,621	\$ 2,306	\$ 5,938	\$ 4,794	\$ 8,559	\$ 7,100
Operating grants and contributions	245	210	-	16	245	226
Capital grants and contributions	-	78	-	-	-	78
General revenues:						
Property taxes	3,225	3,132	-	-	3,225	3,132
Industrial payments	8,090	7,640	-	-	8,090	7,640
Sales and use taxes	3,641	3,072	-	-	3,641	3,072
Franchise taxes	621	606	-	-	621	606
Unrestricted investment earnings	75	93	1	-	76	93
Miscellaneous	1,387	506	-	-	1,387	506
Total Revenues	19,905	17,643	5,939	4,810		22,453
Expenses:						
General government	2,112	2,177	-	-	2,112	2,177
Public safety	8,147	7,850	-	-	8,147	7,850
Streets and drainage	2,039	2,055	-	-	2,039	2,055
Sanitation	968	981	-	-	968	981
Service center	222	3,290	-	-	222	3,290
Culture and recreation	3,440	206	-	-	3,440	206
Economic development	598	392	-	-	598	392
Interest on long-term debt	133	293	-	-	133	293
Water and sewer	-	-	6,208	6,098	6,208	6,098
Total Expenses	17,659	17,244	6,208	6,098	23,867	23,342
Increase in net position before transfers	2,246	399	(269)	(1,288)	1,977	(889)
Transfers	(77)	(1,000)	77	1,000	-	-
Change in net position	2,169	(601)	(192)	(288)	1,977	(889)
Net Position - Beginning	19,948	20,549	8,469	8,757	28,417	29,306
Net Position - Ending	\$ 22,117	\$ 19,948	\$ 8,277	\$ 8,469	\$ 30,394	\$ 28,417

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

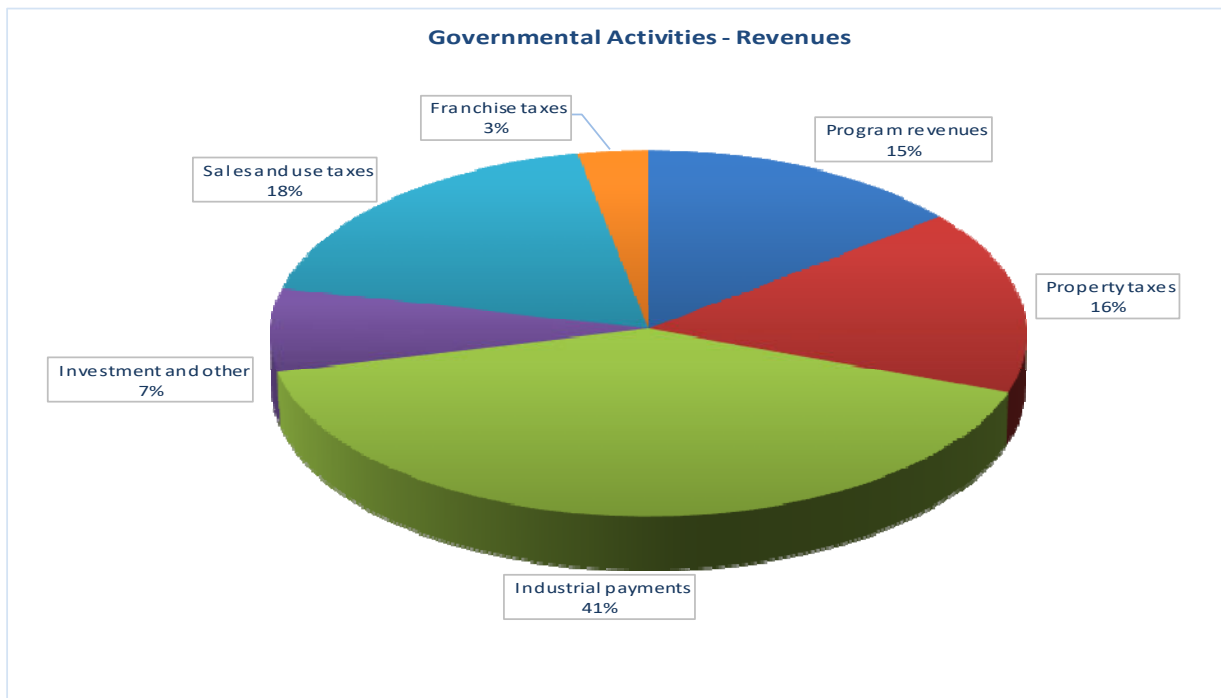
Governmental Activities

Governmental activities increased the City's net position by approximately \$2.2 million due to normal operations.

A comparison of program expenses to program revenues follows:



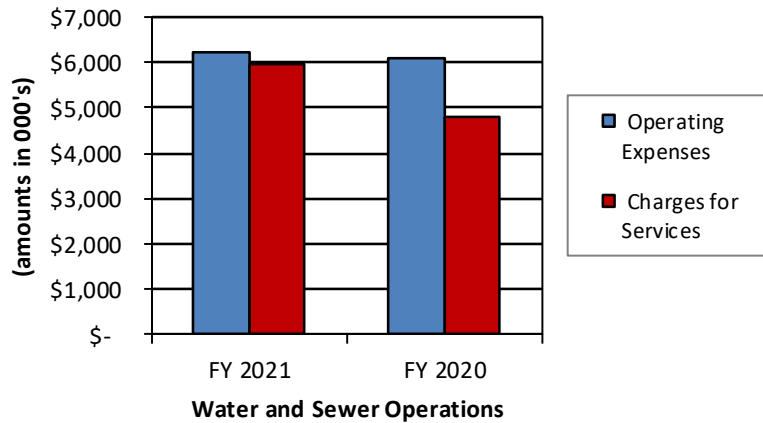
Revenue sources for governmental activities were distributed as follows:



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

Business-type Activities

Business-type activities decreased the City's net position by \$191 thousand. A comparison between expenses relating to water and sewer operations and program revenues (charges for services) for fiscal years 2021 and 2020 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 \$8.5 million. The unassigned fund balance increased by \$1.5 million from fiscal year 2020. Revenues increased in total by 12.3% or \$2.0 million. Property taxes increased by 5.8% or \$151 thousand due to an increase in taxable values; sales and use tax increased by 20.1% or \$399 thousand due to the improvements in the economy and increased activity; industrial contracts increased 5.9% or \$450 thousand which is also directly related to increased activity as the economy recovers. Charges for services increased 12.3% or \$243 thousand, primarily in the golf course as the economy recovered from COVID-19. The City received additional grant fund (\$443 thousand) and additional EDC revenue of \$150 thousand. Expenditures increased overall by only 5.7%.

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 53% of annual general fund expenditures for the 2021 fiscal year.

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

Financial Analysis of the Government's Funds (continued)

Proprietary Funds

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

Unrestricted net position in the Water and Sewer Enterprise Fund at the end of the year amounted to a deficit of \$1,828. This is an increase from the prior year of \$15,775. Plans to rebuild the deficit net position include raising water and sewer rates and reviewing the outsourcing of the maintenance and operations of the department.

General Fund Budgetary Highlights

Actual revenues exceeded budgeted revenues by \$181.1 thousand primarily as a result of better than expected sales tax revenue and activity in charges for services.

Appropriations in the final budget exceeded actual expenditures by \$1.4 million. Actual expenditures for public safety and streets and drainage, culture and recreation were less than appropriations in the final budget by \$443 thousand, \$400 thousand and \$174 thousand, respectively, open budgeted positions in personnel, and capital outlay budgeted in fiscal year 2021 that did not occur or will 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, 2021, 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 decreased by approximately (\$0.6) million from the prior year due to disposals and depreciation exceeding additions in the current year.

The following table shows the balances at September 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Governmental Activities		
Capital assets, not being depreciated:		
Land	\$ 4,915	\$ 4,915
Construction in progress	608	-
Capital assets being depreciated:		
Streets and improvements	6,515	7,377
Buildings and improvements	2,298	2,267
Furniture, equipment, and vehicles	2,597	2,923
Assets under lease	170	188
Total Capital Assets - Governmental Activities	<u>\$ 17,103</u>	<u>\$ 17,670</u>
Business-type Activities		
Capital assets, not being depreciated:		
Land	\$ 56	\$ 56
Construction in progress	25	-
Capital assets being depreciated:		
Water and sewer infrastructure	8,148	8,362
Furniture, equipment, and vehicles	225	68
Total Capital Assets - Business-Type Activities	<u>\$ 8,454</u>	<u>\$ 8,486</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 \$13.9 million. This is an increase from the prior year of \$4.5 million due to the issuance of certificates of obligation. 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, 2021 and 2020 follows (in \$000's):

	<u>2021</u>	<u>2020</u>
Governmental Activities		
Certificates of obligation	\$ 7,880	\$ 8,295
Premium on bonds	416	443
Capital leases	159	218
Compensated absences	305	424
Total governmental activities	<u>\$ 8,760</u>	<u>\$ 9,380</u>
Business-type Activities		
Certificates of obligation	\$ 4,845	\$ -
Premium on bonds	300	-
Compensated absences	4	3
Total business-type activities	<u>\$ 5,149</u>	<u>\$ 3</u>

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 2022 (tax year 2021) went from \$0.615859 per \$100 of assessed value for fiscal year 2021 (tax year 2020) to \$0.600000. The Maintenance and Operation rate decreased by \$0.022327 per \$100 of assessed value while the Interest and Sinking rate increased by \$0.004982 per \$100 of assessed value. Property tax revenue for the City is budgeted \$557 thousand higher than the previous year which is a 17.3% increase. Of this revenue, approximately 87.7% is expected be from new property added to the tax roll.

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

BASIC FINANCIAL STATEMENTS



CITY OF FREEPORT, TEXAS
STATEMENT OF NET POSITION
September 30, 2021

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 20,699,998	\$ 5,729,058	\$ 26,429,056
Receivables, net of allowance	1,512,817	1,015,947	2,528,764
Internal balances	150,000	(150,000)	-
Prepaid items	89,535	27,774	117,309
Capital assets, not subject to depreciation:			
Land	4,915,116	56,200	4,971,316
Construction in progress	607,501	25,139	632,640
Capital assets, net of depreciation:			
Streets and improvements	6,515,025	-	6,515,025
Buildings and improvements	2,297,945	-	2,297,945
Furniture, equipment, & vehicles	2,767,031	225,313	2,992,344
Water and Sewer System	-	8,147,393	8,147,393
Total Capital Assets	<u>17,102,618</u>	<u>8,454,045</u>	<u>25,556,663</u>
Total Assets	<u>39,554,968</u>	<u>15,076,824</u>	<u>54,631,792</u>
Deferred Outflows of Resources			
Deferred outflows of resources for pensions	818,665	17,400	836,065
Deferred outflows of resources for OPEB	171,452	2,200	173,652
Total Deferred Outflows of Resources	<u>990,117</u>	<u>19,600</u>	<u>1,009,717</u>
Liabilities			
Accounts payable	1,516,654	1,228,903	2,745,557
Accrued liabilities	438,252	3,498	441,750
Unearned revenue	1,503,565	-	1,503,565
Accrued interest	82,210	27,622	109,832
Customer deposits	-	291,143	291,143
Noncurrent liabilities:			
Due within one year	483,438	211,706	695,144
Due in more than one year	8,276,980	4,937,595	13,214,575
Net Pension Liability	4,184,617	88,700	4,273,317
Total OPEB liability	894,002	9,800	903,802
Total Liabilities	<u>17,379,718</u>	<u>6,798,967</u>	<u>24,178,685</u>
Deferred Inflows of Resources			
Deferred intflows of resources for pensions	935,518	19,800	955,318
Deferred intflows of resources for OPEB	112,176	500	112,676
Total Deferred Inflows of Resources	<u>1,047,694</u>	<u>20,300</u>	<u>1,067,994</u>
Net Position			
Net investment in capital assets	15,898,347	8,278,985	24,177,332
Restricted for:			
Municipal court operations	134,723	-	134,723
Economic development	1,709,667	-	1,709,667
Unrestricted	4,374,936	(1,828)	4,373,108
Increase in net position before transfers	<u>\$ 22,117,673</u>	<u>\$ 8,277,157</u>	<u>\$ 30,394,830</u>

CITY OF FREEPORT, TEXAS
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2021

Functions/Programs	Expenses	Net (Expense) Revenue and Changes in Net Position				Total
		Program Revenue		Primary Government		
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-type Activities	
Primary Government						
Governmental Activities:						
General government	\$ 2,111,699	\$ -	\$ -	\$ (2,111,699)	\$ -	\$ (2,111,699)
Public safety	8,146,946	682,028	221,188	(7,243,730)	-	(7,243,730)
Streets and drainage	2,039,400	209,663	-	(1,829,737)	-	(1,829,737)
Sanitation	968,318	936,361	-	(31,957)	-	(31,957)
Service Center	221,954	-	-	(221,954)	-	(221,954)
Culture and recreation	3,439,765	793,173	23,293	(2,623,299)	-	(2,623,299)
Economic development	598,211	-	-	(598,211)	-	(598,211)
Interest on long-term debt	132,922	-	-	(132,922)	-	(132,922)
Total Governmental Activities	17,659,215	2,621,225	244,481	(14,793,509)	-	(14,793,509)
Business-type Activities:						
Water and sewer	6,207,623	5,938,284	-	-	(269,339)	(269,339)
Total Business-type Activities	6,207,623	5,938,284	-	-	(269,339)	(269,339)
Total Primary Government	\$ 23,866,838	\$ 8,559,509	\$ 244,481	(14,793,509)	(269,339)	(15,062,848)
General Revenues and Transfers:						
Taxes:						
Property taxes				3,225,469	-	3,225,469
Sales and use taxes				3,640,511	-	3,640,511
Franchise taxes				621,028	-	621,028
Industrial district revenues				8,090,088	-	8,090,088
Unrestricted investment earnings				75,386	1,411	76,797
Miscellaneous				1,386,841	-	1,386,841
Transfers				(76,601)	76,601	-
Total General Revenues and Transfer				16,962,722	78,012	17,040,734
Change in net position				2,169,213	(191,327)	1,977,886
Net Position - Beginning				19,948,460	8,468,484	28,416,944
Net Position - Ending				\$ 22,117,673	\$ 8,277,157	\$ 30,394,830

CITY OF FREEPORT, TEXAS

BALANCE SHEET

GOVERNMENTAL FUNDS

September 30, 2021

	General Fund	2020 CO Bond CIP Fund	Non-Major Governmental Funds	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 10,807,631	\$ 7,390,711	\$ 2,501,656	\$ 20,699,998
Receivables, net of allowance				
Taxes receivables	483,268	-	263,083	746,351
Customer accounts	623,843	-	-	623,843
Other receivables	159,442	-	-	159,442
Due from other funds	306,724	-	-	306,724
Due from other governments	74	-	-	74
Prepaid items	4,026	-	85,509	89,535
Total Assets	\$ 12,385,008	\$ 7,390,711	\$ 2,850,248	\$ 22,625,967
Liabilities, Deferred Inflows of Resources, and Fund Balances				
Liabilities				
Accounts payable	\$ 1,323,697	\$ 139,355	\$ 53,602	\$ 1,516,654
Accrued liabilities	437,778	-	-	437,778
Due to other funds	-	-	156,724	156,724
Unearned revenues	1,504,039	-	16,893	1,520,932
Total Liabilities	3,265,514	139,355	227,219	3,632,088
Deferred Inflows of Resources				
Unavailable revenues	586,110	-	26,293	612,403
Total Deferred Inflows of Resources	586,110	-	26,293	612,403
Fund Balances (Deficits)				
Nonspendable:				
Prepaid	4,026	-	2,847	6,873
Restricted:				
Debt service	-	-	54,545	54,545
Capital projects	-	7,251,356	-	7,251,356
Municipal court operations	-	-	134,723	134,723
Economic Development	-	-	1,741,184	1,741,184
Assigned:				
Facilities and grounds	-	-	174,573	174,573
Vehicles and equipment	-	-	232,632	232,632
Information technology equipment	-	-	256,232	256,232
Unassigned	8,529,358	-	-	8,529,358
Total Fund Balances (Deficits)	8,533,384	7,251,356	2,596,736	18,381,476
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 12,385,008	\$ 7,390,711	\$ 2,850,248	\$ 22,625,967

CITY OF FREEPORT, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
September 30, 2021

Total Fund Balance, Governmental Funds \$ 18,381,476

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

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. Capital assets at historical cost, net of accumulated depreciation, where applicable 17,102,618

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 612,403

Deferred inflows and outflows related to pension activities (116,853)

Deferred inflows and outflows related to OPEB activities 59,276

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 (7,880,000)

Premiums on bonds (416,465)

Capital leases payable (159,162)

Accrued interest payable (82,210)

Net pension liability (4,184,617)

Total OPEB liability (894,002)

Compensated absences (304,791)

Net Position of Governmental Activities in the Statement of Net Position \$ 22,117,673

CITY OF FREEPORT, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended September 30, 2021

	<u>General Fund</u>	<u>2020 CO Bond CIP Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues				
Taxes:				
Property taxes	\$ 2,716,469	\$ -	\$ 544,428	\$ 3,260,897
Sales and use taxes	2,387,917	-	1,193,959	3,581,876
Franchise fees and other	636,868	-	42,795	679,663
Industrial district	8,090,088	-	-	8,090,088
Fines and forfeitures	176,376	-	25,172	201,548
Licenses and permits	209,663	-	-	209,663
Intergovernmental	973,196	-	-	973,196
Charges for services	2,222,580	-	-	2,222,580
Investment earnings	22,649	38,756	13,981	75,386
Miscellaneous	432,117	-	89,071	521,188
Lease income	242,901	-	-	242,901
Total Revenues	18,110,824	38,756	1,909,406	20,058,986
Expenditures				
Current:				
General government	1,802,150	-	-	1,802,150
Public safety	7,740,122	-	15,869	7,755,991
Streets and drainage	1,368,136	-	-	1,368,136
Sanitation	968,318	-	-	968,318
Service center	214,790	-	-	214,790
Culture and recreation	3,166,763	-	-	3,166,763
Economic development	109,242	-	511,741	620,983
Capital outlay	557,151	791,871	569,739	1,918,761
Debt service:				
Principal	220,884	-	415,000	635,884
Interest and other charges	26,750	-	108,670	135,420
Total Expenditures	16,174,306	791,871	1,621,019	18,587,196
Excess (deficiency) of revenues over (under) expenditures	1,936,518	(753,115)	288,387	1,471,790
Other Financing Sources (Uses)				
Proceeds from capital lease	162,139	-	-	162,139
Proceeds from sale of assets	208,874	-	-	208,874
Transfers in	173,520	-	970,779	1,144,299
Transfers out	(966,676)	-	(23,520)	(990,196)
Total Other Financing Sources (Uses)	(422,143)	-	947,259	525,116
Net changes in fund balances	1,514,375	(753,115)	1,235,646	1,996,906
Fund Balances - Beginning	7,019,009	8,004,471	1,361,090	16,384,570
Fund Balances - Ending	\$ 8,533,384	\$ 7,251,356	\$ 2,596,736	\$ 18,381,476

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, 2021

Net change in fund balances - total governmental funds: \$ 1,996,906

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.

Capital Outlay	1,634,405
Depreciation	(2,028,890)

Governmental funds report the entire net sales price (proceeds) from sale of an asset as revenue because it provides current financial resources. In contrast, the Statement of Activities reports only the gain or loss on the sale of the assets. Thus, the change in net position differs from the change in fund balance by the book value of the asset sold. (172,771)

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.

Unavailable property tax revenue	(35,428)
Unavailable EMS revenue	(12,616)
Unavailable FEMA Disaster Recovery revenue	(171,401)

Some expenses (revenues) reported in the statement of activities do not require the use of current financial resources and, therefore, are not expenditures in governmental funds. These are detailed below:

Pension related activities	431,502
OPEB related activities	(73,247)
(Increase) decrease in accrued interest	(18,337)
(Increase) decrease in compensated absences	119,035

Governmental funds report proceeds from long-term debt as current financial resources. In contrast, the Statement of Activities treats such issuance of debt as a liability. Governmental funds report repayment of long-term debt principal as an expenditure, In contrast, the Statement of Activities treats such repayments as a reduction in long-term liabilities.

Debt service principal	415,000
Lease principal payments	220,884
Proceeds from capital leases	(162,139)

Other debt charges which are treated as expenditures or other sources/uses in the fund basis financial statements are reported in the Statement of Net Position and amortized. The net change for each represents an increase/(decrease) in net position.

Bond premiums/discounts	<u>26,310</u>
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Change in net position of governmental activities \$ 2,169,213

CITY OF FREEPORT, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUND
September 30, 2021

	<u>Business-type Activities</u>
	<u>Water and Sewer</u>
Assets	
Current assets:	
Cash and cash equivalents	\$ 5,729,058
Receivables, net of allowance	
Customer accounts	1,015,947
Prepaid items	<u>27,774</u>
Total Current Assets	<u>6,772,779</u>
Non-current assets:	
Capital Assets:	
Land	56,200
Construction in progress	25,139
Utility system	25,944,840
Equipment and furniture	411,326
Less accumulated depreciation	<u>(17,983,460)</u>
Total Non-Current Assets	<u>8,454,045</u>
Total Assets	<u>15,226,824</u>
Deferred Outflows of Resources	
Deferred outflows of resources for pensions	17,400
Deferred outflows of resources for OPEB	<u>2,200</u>
Total Deferred Outflows of Resources	<u>19,600</u>
Liabilities	
Current liabilities:	
Accounts payable	1,232,401
Accrued interest payable	27,622
Due to other funds	150,000
Customer deposits	291,143
Bonds, notes and loans payable	<u>211,760</u>
Total Current Liabilities	<u>1,912,926</u>
Non-current liabilities:	
Compensated absences	2,505
Net pension liability	88,700
Total OPEB liability	9,800
Bonds, notes and loans payable	<u>4,935,036</u>
Total Non-Current Liabilities	<u>5,036,041</u>
Total Liabilities	<u>6,948,967</u>
Deferred Inflows of Resources	
Deferred intflows of resources for pensions	19,800
Deferred intflows of resources for OPEB	<u>500</u>
Total Deferred Inflows of Resources	<u>20,300</u>
Net Position	
Investment in capital assets	8,278,985
Unrestricted	<u>(1,828)</u>
Total Net Position	<u>\$ 8,277,157</u>

CITY OF FREEPORT, TEXAS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUND
For the Year Ended September 30, 2021

	Business-type Activities
	Water and Sewer
Operating Revenues	
Charges for services	\$ 5,938,284
Total Operating Revenues	<u>5,938,284</u>
Operating Expenses	
Personnel services	178,995
Supplies	23,231
Contracted services	2,416,577
Other	467,991
Water purchased	2,396,289
Depreciation	522,982
Total Operating Expenses	<u>6,006,065</u>
Operating income (loss)	<u>(67,781)</u>
Non-Operating Revenues (Expenses)	
Interest and investment revenue	1,411
Other non-operating expense	(33,004)
Interest expense	(168,554)
Total Non-Operating Revenues (Expenses)	<u>(200,147)</u>
Income (loss) before transfers	(267,928)
Capital contributions	230,704
Transfers out	(154,103)
Change in net position	(191,327)
Net Position - Beginning	<u>8,468,484</u>
Net Position - Ending	<u>\$ 8,277,157</u>

CITY OF FREEPORT, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the Year Ended September 30, 2021

	Business-type Activities
	Water and Sewer
Cash Flows From Operating Activities	
Receipts from customers and users	\$ 5,387,752
Cash payments to employees for services	(151,406)
Cash payments to suppliers for goods and services	(4,917,166)
Net cash provided by (used for) operating activities	319,180
Cash Flows from Noncapital Financing Activities	
Transfers to other funds	52,504
Net cash provided by (used for) noncapital financing activities	52,504
Cash Flows From Capital and Related Financing Activities	
Other revenues	25,139
Proceeds from issuance of debt	5,145,036
Interest and other debt service payments	(140,932)
Acquisition and construction of capital assets	(260,236)
Net cash provided by (used for) capital and related financing activities	4,769,007
Cash Flows From Investing Activities	
Investment earnings	1,411
Net cash provided by (used for) investing activities	1,411
Net increase (decrease) in cash and cash equivalents	5,142,102
Cash and cash equivalents - beginning of year	586,956
Cash and cash equivalents - end of year	\$ 5,729,058
Reconciliation of operating lincome (loss) to net cash provided by (used for) operating activities:	
Operating income (loss)	\$ (67,781)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:	
Depreciation	522,982
(Increase) decrease in accounts receivable	(575,006)
(Increase) decrease in prepaid expenses	(27,774)
(Increase) decrease in pension deferred outflows	(5,300)
(Increase) decrease in OPEB deferred outflows	(1,200)
Increase (decrease) in accounts payable	414,696
Increase (decrease) in other liabilities	(7,400)
Increase (decrease) in customer deposits	24,474
Increase (decrease) in accrued compensated absences	889
Increase (decrease) in OPEB liability	5,100
Increase (decrease) in net pension liability	29,900
Increase (decrease) in pension deferred inflows	5,500
Increase (decrease) in OPEB deferred inflows	100
Total Adjustments	386,961
Net cash provided by (used for) operating activities	\$ 319,180
Non-cash Transactions	
Capital assets contributed to Enterprise Fund	\$ 230,704

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 Units

Freeport Economic Development Corporation

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

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.

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

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

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 non-fiduciary activities of the primary government and its blended component units. For the most part, the effect of interfund activity has been eliminated from these statements. However, interfund services provided and used are not eliminated in the consolidation process. 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 user fees and charges for support.

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

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

Note 2 - Summary of Significant Accounting Policies (continued)

B. Government-wide and Fund Financial Statements (continued)

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

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

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available 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.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

Property taxes collected within 60 days subsequent to September 30, 2021, 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, 2021, 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 two major governmental funds:

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 2020 CO Bond CIP Fund is used to account for the proceeds from and expenditures of the 2020 certificates of obligation.

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.

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)

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.

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 and payables

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown net of an allowance for uncollectibles.

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. The combined tax rate to finance general governmental service and debt service for the year ended September 30, 2021 was \$0.61586 per \$100 of assessed valuation.

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

Note 2 - Summary of Significant Accounting Policies (continued)

F. Inventories and Prepaid Items

In accordance with the consumption method of accounting, both inventories and prepaid items of governmental funds are recorded as expenditures when consumed rather than when purchased.

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 in both government-wide and fund financial statements.

G. 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

H. 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, 2021, 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 fifteen (15) 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.

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

Note 2 - Summary of Significant Accounting Policies (continued)

I. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position and/or balance sheet 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 that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure/reduction of liability) until then. The City has the following items that qualify for reporting in this category.

- Deferred outflows of resources for pension - 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 1) differences between projected and actual earnings on pension plan investments; 2) changes in actuarial assumptions; 3) differences between expected and actual actuarial experiences and 4) changes in the City's proportional share of pension liabilities. 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 deferred outflows resulting from differences between projected and actual earnings on pension plan investments will be amortized over a closed five-year period. The remaining 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 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 and/or balance sheet 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 that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue or reduction of expense) until that time. The City has the following 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 – Reported in the government wide financial statement of net position, these deferred inflows result primarily from 1) changes in actuarial assumptions; 2) differences between expected and actual actuarial experiences and 3) changes in the City's proportional share of pension liabilities. These pension related deferred inflows 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.

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

Note 2 - Summary of Significant Accounting Policies (continued)

I. Deferred Outflows/Inflows of Resources (continued)

- 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.

J. 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.

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.

K. 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.

L. 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.

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.

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

Note 2 - Summary of Significant Accounting Policies (continued)

L. Fund Equity (continued)

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.

M. 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.

N. 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.

O. 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.

CITY OF FREEPORT, TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)

Note 2 - Summary of Significant Accounting Policies (continued)

P. 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.

Q. New Accounting Standards

The following statements were effective for fiscal year 2021, but none had an effect on the City:

- GASB Statement No. 84 Fiduciary Activities
- GASB Statement No. 90 Minority Equity Interest, and amendment of GASB Statement No. 14 and 61
- GASB Statement No. 98, The Annual Comprehensive Financial Report

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

Note 3 - Deposits 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 City’s bank balances were fully insured or collateralized with securities held by the City’s agent in the City’s name at September 30, 2021.

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

	<u>Carrying Value</u>
Governmental Activities	
Cash on hand	\$ 1,850
Cash deposits	15,305,924
Total Cash	<u>15,307,774</u>
Investments:	
Local Government Investment Pools:	
TexPool	5,392,224
Total Governmental Activities	<u>20,699,998</u>
Business-type Activities	
Cash on hand	300
Cash deposits	5,728,758
Total Business-type Activities	<u>5,729,058</u>
Total Cash and Investments	<u>\$ 26,429,056</u>

Custodial Credit Risk

Custodial credit risk is the risk that a government will not be able to recover (a) deposits if the depository financial institution fails or (b) the value of investment or collateral securities that are in the possession of an outside party if the counterparty to the investment or deposit transaction fails. To minimize such risk, the City requires collateralization of most deposits in excess of coverage, utilizes the delivery vs. payment method for investment purchases, and contracts with a third-party custodian as evidenced by safekeeping receipts of the institution with which the securities are deposited. The City requires all deposits with financial institutions be collateralized in an amount equal to 102 percent of uninsured balances. As of September 30, 2021, the City was collateralized at 119%.

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.

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

Note 3 - Deposits and Investments (continued)

Investments

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

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

1. Obligations of the United States of America, its agencies and instrumentalities.
2. Certificates of Deposit issued by a depository institution that has its main office or a branch in Texas.
3. No-load Money Market Mutual Funds that 1) are registered and regulated by the Securities and Exchange Commission, 2) have a dollar weighted average stated maturity of 90 days or less, 3) seek to maintain a net asset value of \$1.00 per share and 4) are rated no lower than AAA or an equivalent rating by at least one nationally recognized rating service.
4. Local Government Investment Pools, authorized by a separate resolution, which meet the requirements of Chapter 2256.016 of the Public Funds Investment Act and are rated no lower than AAA or an equivalent rating by at least one nationally recognized rating service

For fiscal year 2021, the City invested in the State of Texas TexPool. TexPool operates in a manner consistent with the Security and Exchange Commission’s Rule 2a7 of the Investment Company Act of 1940.

TexPool is duly chartered and overseen by the State Comptroller’s Office and administered by Federated Investors, Inc. The State Street Bank is the custodial bank. The portfolio consists of U.S. T-Bills, T-Notes, collateralized repurchase and reverse repurchase agreements, and no-load money market mutual funds regulated by the Securities and Exchange Commission and rated AAA or equivalent by at least one nationally recognized rating service. Lone Star Investment Pool is duly chartered by the State of Texas Interlocal Cooperation Act, is administered by First Public, LLC, and managed by Standish Mellon and American Beacon Advisors. The Bank of New York is the custodial bank.

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:

Investment Type	Amortized Cost/ Fair Value	Percentage of Portfolio	Weighted Average Maturities (Days)
Local Government Investment Pools:			
TexPool	\$ 5,392,224	100%	34

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

Note 3 - Deposits and Investments (continued)

Interest rate Risk

Interest rate risk is the risk that changes in interest rates may adversely affect the value of the investments. The City monitors interest rate risk utilizing weighted average maturity analysis. In accordance with its investment policy, the City reduces its exposure to declines in fair values by limiting the weighted average maturity of the composite portfolio to 365 days or less.

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, 2021, 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	\$ 193,529	\$ 40,098	\$ -	\$ 233,627
Sales taxes	347,798	233,681	-	581,479
Fines and forfeitures	312,161	-	-	312,161
EMS	457,613	-	-	457,613
Garbage collection	177,355	-	-	177,355
Water and Sewer	-	-	1,135,135	1,135,135
Other	165,755	-	-	165,755
Gross Receivables	<u>1,654,211</u>	<u>273,779</u>	<u>1,135,135</u>	<u>3,063,125</u>
Less: allowance for uncollectibles	<u>(387,658)</u>	<u>(11,756)</u>	<u>(119,188)</u>	<u>(518,602)</u>
Net Total Receivables	<u><u>\$ 1,266,553</u></u>	<u><u>\$ 262,023</u></u>	<u><u>\$ 1,015,947</u></u>	<u><u>\$ 2,544,523</u></u>

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

Note 4 - Receivables (continued)

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, 2021, 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	\$ 130,103	\$ 26,293	\$ 156,396
Fines and forfeitures	312,161	-	312,161
Ambulance services	143,846	-	143,846
	<u>\$ 586,110</u>	<u>\$ 26,293</u>	<u>\$ 612,403</u>

Revenues for which payment is received prior to the exchange occurring or grant requirements have been met should be deferred and are considered unearned until the requirements for recognition have been met. As of September 30, 2021, the City reported the following unearned revenue:

	<u>General Fund</u>	<u>Non-major governmental funds</u>	<u>Total</u>
Grants	\$ 1,503,565	\$ -	\$ 1,503,565
Cash seizures and forfeitures	-	16,893	16,893
Golf course gift cards	474	-	474
	<u>\$ 1,504,039</u>	<u>\$ 16,893</u>	<u>\$ 1,520,932</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, 2021, follows:

	<u>Balance</u> <u>October 01, 2020</u>	<u>Additions</u>	<u>Transfers and</u> <u>(Retirements)</u>	<u>Balance</u> <u>September 30, 2021</u>
Governmental Activities				
Capital assets, not being depreciated:				
Land	\$ 4,915,116	\$ -	\$ -	\$ 4,915,116
Construction in progress	-	607,501	-	607,501
Total capital assets, not being depreciated	<u>4,915,116</u>	<u>607,501</u>	<u>-</u>	<u>5,522,617</u>
Capital assets being depreciated:				
Streets and improvements	25,484,275	33,200	-	25,517,475
Buildings and improvements	7,826,374	271,468	-	8,097,842
Furniture, equipment, and vehicles	14,298,074	560,097	(20,755)	14,837,416
Assets under lease	322,736	162,139	(287,951)	196,924
Total capital assets, being depreciated	<u>47,931,459</u>	<u>1,026,904</u>	<u>(308,706)</u>	<u>48,649,657</u>
Less accumulated depreciation for:				
Streets and improvements	(18,106,922)	(895,528)	-	(19,002,450)
Buildings and improvements	(5,559,873)	(240,024)	-	(5,799,897)
Furniture, equipment, and vehicles	(11,374,849)	(886,022)	20,755	(12,240,116)
Assets under lease	(135,057)	(7,316)	115,180	(27,193)
Total accumulated depreciation	<u>(35,176,701)</u>	<u>(2,028,890)</u>	<u>135,935</u>	<u>(37,069,656)</u>
Total Governmental Activities Capital Assets, net	<u>\$ 17,669,874</u>	<u>\$ (394,485)</u>	<u>\$ (172,771)</u>	<u>\$ 17,102,618</u>
	<u>Balance</u> <u>October 01, 2020</u>	<u>Additions</u>	<u>Transfers and</u> <u>(Retirements)</u>	<u>Balance</u> <u>September 30, 2021</u>
Business-type Activities				
Capital assets, not being depreciated:				
Land	\$ 56,200	\$ -	\$ -	\$ 56,200
Construction in progress	-	25,139	-	25,139
Total capital assets, not being depreciated	<u>56,200</u>	<u>25,139</u>	<u>-</u>	<u>81,339</u>
Capital assets being depreciated:				
Water and sewer system	25,658,325	286,515	-	25,944,840
Furniture, equipment, and vehicles	232,040	179,286	-	411,326
Total capital assets being depreciated	<u>25,890,365</u>	<u>465,801</u>	<u>-</u>	<u>26,356,166</u>
Less accumulated depreciation for:				
Utility and street projects	(17,296,658)	(500,789)	-	(17,797,447)
Furniture, equipment, and vehicles	(163,820)	(22,193)	-	(186,013)
Total accumulated depreciation	<u>(17,460,478)</u>	<u>(522,982)</u>	<u>-</u>	<u>(17,983,460)</u>
Business-type Activities Capital Assets, Net	<u>\$ 8,486,087</u>	<u>\$ (32,042)</u>	<u>\$ -</u>	<u>\$ 8,454,045</u>

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:

Function	Depreciation Expense
Governmental Activities	
General Administration	\$ 260,255
Economic Development	88,424
Public Safety	608,670
Service Center	13,489
Streets and Drainage	702,638
Parks and Recreation	355,414
Total Governmental Activities	\$ 2,028,890
Business-type Activities	
Water and sewer	\$ 522,982

Note 6 - Long-Term Debt

During the year ended September 30, 2021, the following changes occurred in long-term liabilities:

	Balance 10/1/2020	Additions	Reductions	Balance 9/30/2021	Due Within One Year
Governmental Activities:					
Certificates of obligation	\$ 8,295,000	\$ -	\$ (415,000)	\$ 7,880,000	\$ 325,000
Premiums on issuance of debt	442,775	-	(26,310)	416,465	-
Capital leases	217,907	162,138	(220,883)	159,162	36,522
Compensated absences	423,826	-	(119,035)	304,791	121,916
Total Governmental Activities	\$ 9,379,508	\$ 162,138	\$ (781,228)	\$ 8,760,418	\$ 483,438
Business-type Activities:					
Certificates of obligation	\$ -	\$ 4,845,000	\$ -	\$ 4,845,000	\$ 210,000
Premiums on issuance of debt	-	300,036	-	300,036	-
Compensated absences	\$ 3,376	\$ -	\$ 889	\$ 4,265	\$ 1,706
Total Business-type Activities	\$ 3,376	\$ 5,145,036	\$ 889	\$ 5,149,301	\$ 211,706

Certificates of Obligation

On July 12, 2021, the City issued \$4,845,000 Combination Tax and Revenue Certificates of Obligation, Series 2021 (the "Certificates"). Proceeds from the sale of the Certificates will be used for (i) repair and rehabilitation of, the construction of improvements to and the equipment of the City's water and sewer system; and (ii) the costs of professional services related thereto.

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

Note 6 - Long-Term Debt (continued)

Outstanding certificates of obligation as of September 30, 2021 consist of the following:

Series	Interest Rate	Original Issue	Maturity Date	Debt Outstanding
Governmental Activities				
Series 2008 Certificate of Obligation	3.79%	\$ 3,350,000	4/1/2023	\$ 560,000
Series 2020 Combination Tax and Revenue Certificates of Obligation	1.125% - 4.125%	7,735,000	4/1/2040	7,320,000
Total Certificates of Obligation - Governmental Activities				<u><u>\$ 7,880,000</u></u>
Business-Type Activities				
Series 2021 Certificate of Obligation	2.00-4.00%	\$ 4,845,000	7/14/2021	\$ 4,845,000
Total Certificates of Obligation - Business-Type Activities				<u><u>\$ 4,845,000</u></u>

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

Certificates of Obligation

Year Ending September 30,	Governmental Activities		
	Principal	Interest	Total
2022	\$ 325,000	\$ 165,324	\$ 490,324
2023	340,000	274,290	614,290
2024	360,000	254,018	614,018
2025	365,000	240,118	605,118
2026	370,000	226,844	596,844
2027-2031	1,990,000	866,668	2,856,668
2032-2036	1,955,000	452,194	2,407,194
2037-2041	2,175,000	210,632	2,385,632
	<u><u>\$ 7,880,000</u></u>	<u><u>\$ 2,690,088</u></u>	<u><u>\$ 10,570,088</u></u>

Certificates of Obligation

Year Ending September 30,	Business-Type Activities		
	Principal	Interest	Total
2022	\$ 210,000	\$ 92,698	\$ 302,698
2023	180,000	121,450	301,450
2024	190,000	114,250	304,250
2025	195,000	106,650	301,650
2026	205,000	98,850	303,850
2027-2031	1,145,000	371,600	1,516,600
2032-2036	1,300,000	221,000	1,521,000
2037-2041	1,420,000	86,000	1,506,000
	<u><u>\$ 4,845,000</u></u>	<u><u>\$ 1,212,498</u></u>	<u><u>\$ 6,057,498</u></u>

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

Note 6 - Long-Term Debt (continued)

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 at September 30, 2021. The following is a schedule of future minimum lease payments under capital leases:

<u>Payments Due Year Ending September 30,</u>		
2022		\$ 48,800
2023		48,744
2024		48,800
2025		48,799
2026		<u>4,063</u>
Minimum lease payments for all capital leases		199,206
Imputed interest		<u>(40,044)</u>
Present value - minimum lease payments		<u>\$ 159,162</u>
Assets under capital leases		<u>\$ 169,731</u>

On August 3, 2022, the City entered into a lease-purchase agreement for fifty-five (55) Dr2A Golf Cart, one (1) YU1A Range Picker, and three (3) YU2A golf carts from September 1, 2021 to November 1, 2025, which call for fifty-one (51) monthly payments of \$4,067. Current requirements for principal and interest expense accounted for in the culture and recreation department were \$2,976 and \$1,091.

Compensated absences

Typically, the general fund and water and sewer fund have been used to liquidate the liabilities for compensated absences.

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, 2021, was as follows:

Office lease income	\$242,901
Office rental income	\$34,348

Lessee

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, 2021 was \$63,736

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, 2021, is as follows:

	<u>Receivable</u>
	<u>General Fund</u>
Payable Fund	
Governmental activities	
Nonmajor governmental funds	\$ 156,724
Total governmental activities, net	<u>156,724</u>
Business-type activities	
Water and sewer Fund	<u>150,000</u>
Total business-type activities, net	<u>150,000</u>
Net interfund totals	<u><u>\$ 306,724</u></u>

	<u>Transfers in</u>			
	<u>General Fund</u>	<u>Non-major Governmental Funds</u>	<u>Water and Sewer Fund</u>	<u>Net</u>
Transfers out				
Governmental activities				
General fund	\$ -	\$ 966,676	\$ -	\$ 966,676
Nonmajor governmental funds	<u>23,520</u>	<u>-</u>	<u>27,774</u>	<u>51,294</u>
Total governmental activities, net	<u>23,520</u>	<u>966,676</u>	<u>27,774</u>	<u>1,017,970</u>
Business-type activities				
Water and sewer Fund	<u>150,000</u>	<u>31,877</u>	<u>-</u>	<u>181,877</u>
Total business-type activities	<u>150,000</u>	<u>31,877</u>	<u>-</u>	<u>181,877</u>
Net interfund totals	<u><u>\$ 173,520</u></u>	<u><u>\$ 998,553</u></u>	<u><u>\$ 27,774</u></u>	<u><u>\$ 1,199,847</u></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 participates as one of 887 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 comprehensive annual financial report (“CAFR”) available to the public 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 accumulated contributions, with interest, and the city-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payments options.

Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member’s deposits and interest.

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

	Plan Year 2020
Employee deposit rate:	7%
Matching ratio (City to employee):	2 to 1
Years required for vesting:	5
Service retirement eligibility:	20 years at any age; 5 years at age 60 and above
Updated Service Credit:	100% repeating transfers
Annuity Increase to retirees:	70% of CPI repeating
Supplemental death benefit – active employees and retirees:	Yes

At the December 31, 2020 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	84
Inactive employees entitled to but not yet receiving benefits	109
Number of active employees receiving benefits	130
Total	323

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

Note 8 - Employee Retirement System (continued)

Contributions

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

Employees of the City were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City was 14.30% and 14.21% in calendar years 2020 and 2021 respectively. The City's contributions to TMRS for the year ended September 30, 2021 were \$1,095,630 and were equal to the required contributions.

Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2020, 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, 2020 actuarial valuation was determined using the following actuarial assumptions:

Inflation rate	2.50%
Salary increases	3.50% to 11.50% including inflation

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

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

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four-year period from December 31, 2014, to December 31, 2018. They were adopted in 2019 and first used in the December 31, 2019, actuarial valuation. The post-retirement mortality assumption for annuity purchase rates is based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

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

Note 8 - Employee Retirement System (continued)

Actuarial Assumptions (continued)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimates of real rates of return for each major asset class in fiscal year 2021 are summarized in the table below:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return (Arithmetic)</u>
Global Equity	30.0%	5.30%
Core Fixed Income	10.0%	1.25%
Non-core Fixed Income	20.0%	4.14%
Real Return	10.0%	3.85%
Real Estate	10.0%	4.00%
Absolute Return	10.0%	3.48%
Private Equity	10.0%	7.75%
Total	<u>100.0%</u>	

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 the 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 period of projected benefit payments to determine the Total Pension Liability.

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, 2021, those percentages were 98% and 2%, respectively, which approximated the prior year’s allocations.

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

Note 8 - Employee Retirement System (continued)

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balance at December 31, 2019	\$ 29,956,158	\$ 25,346,829	\$ 4,609,329
Service Cost	1,210,072	-	1,210,072
Interest (on the Total Pension Liability)	2,021,037	-	2,021,037
Changes of benefit terms	-	-	-
Difference between expected and actual experience	(61,634)	-	(61,634)
Changes of assumptions	-	-	-
Contributions – employer	-	1,072,524	(1,072,524)
Contributions – employee	-	524,814	(524,814)
Net investment income	-	1,923,014	(1,923,014)
Administrative Expense	-	(12,450)	12,450
Other	-	(486)	486
Benefit payments, including refunds of employee contributions	(1,239,813)	(1,239,813)	-
Net change	1,929,662	2,267,603	(337,941)
Balance at December 31, 2020	<u>\$ 31,885,820</u>	<u>\$ 27,614,432</u>	<u>\$ 4,271,388</u>

As previously disclosed, the assumed interest rate of return used by GRS is 6.75%. As of December 31, 2020, TMRS recognized an investment return of 7.65%. This, in turn, resulted in a net decrease of \$337,941 in the City's NPL. The return on investments is primarily a result of unrealized gains recognized in the global equities asset class in 2020.

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

The following presents the net pension liability of the City, calculated using the discount rate of 6.75%, as well as what the City's net pension liability or (asset) would be if it were calculated using a discount rate that is 1 percentage-point lower (5.75%) or 1 percentage-point higher (7.75%) than the current rate:

	1% Decrease (5.75%)	Current (6.75%)	1% Increase (7.75%)
City's Net Pension Liability	\$ 9,340,920	\$ 4,271,388	\$ 202,574

Pension Plan Fiduciary Net Position

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

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, 2021, the City recognized pension expense of \$4,271,388

At September 30, 2021, 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	\$	\$ 243,205
Changes of assumptions	57,708	-
Net difference between projected and actual earnings	-	712,113
Contributions made subsequent to measurement date	778,357	-
	<u>\$ 836,065</u>	<u>\$ 955,318</u>

Deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date of \$778,357 will be recognized as a reduction of the net pension liability for the measurement year ending December 31, 2021 (recognized in the City’s financial statements September 30, 2022). Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ended September 30:</u>	<u>Amount</u>
2021	\$ (388,543)
2022	(36,256)
2023	(430,392)
2024	(42,419)
Total	<u>\$ (897,610)</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.

The City’s net pension liability calculated as of December 31, 2020 is a decrease of \$13,555 to \$1,929. The adjustment was made as a decrease to the net pension liability with a negative expense (revenue) to record. Due to the insignificance of the amounts and the time required to make such calculations, this is the only adjustment made for 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’s single-employer defined benefit group-term life insurance plan is operated by the Texas Municipal Retirement System (TMRS) via the Supplemental Death Benefits Fund (SDBF). The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

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 post-employment 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).

Membership in the plan as of the measurement date of December 31, 2020 was as follows:

Inactive employees or beneficiaries currently receiving benefits	53
Inactive employees entitled to but not yet receiving benefits	22
Number of active employees receiving benefits	130
Total	<u>205</u>

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 (currently 0.15% of covered payroll). 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.

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 2.75% based on the Fidelity Index’s “20-Year Municipal GO AA Index” rate as of December 31, 2019.

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

Note 9 - Other Post-Employment Benefits (continued)

TMRS Supplemental Death Benefits Fund (continued)

Actuarial Assumptions

The City’s Total OPEB Liability was measured at December 31, 2020 and was determined by an actuarial valuation as of that date using the following actuarial assumptions:

Inflation	2.50%
Salary increase	3.50% to 11.50% including inflation
Discount rate*	2.00%
Retirees' share of benefit-related costs	0%
Administrative expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68.
Mortality rates - service retirees	2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP.
Mortality rates - disabled retirees	2019 Municipal Retirees of Texas Mortality Tables with a 4 year set-forward for males and a 3 year set-forward for females. In addition, a 3.5% and 3% minimum mortality rate will be applied to reflect the impairment for younger members who become disabled for males and females, respectively. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.

*The discount rate was based on the Fidelity Index’s “20-Year Municipal GO AA Index” rate as of December 31, 2020.

Notes: The actuarial assumptions used in the December 31, 2020 valuation were based on the results of an actuarial experience study for the period December 31, 2014 to December 31, 2018.

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, 2021, those percentages were 98% and 2%, respectively, which approximated the prior year’s allocations.

Changes in the Total OPEB Liability

Balance at December 31, 2019	\$ 376,908
Changes for the year:	
Service cost	22,492
Interest on Total OPEB Liability	10,633
Difference between expected and actual experience	(397)
Changes in assumptions or other inputs	65,740
Benefit payments	<u>(2,999)</u>
Net changes	<u>95,469</u>
Balance at December 31, 2020	<u><u>\$ 472,377</u></u>

Ending total OPEB liability is as of December 31, 2020. Changes of assumptions reflect a change in the discount rate from 3.71% as of December 31, 2019 to 2.75% as of December 31, 2020.

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

Note 9 - Other Post-Employment Benefits (continued)

TMRS Supplemental Death Benefits Fund (continued)

Sensitivity Analysis

The following presents the total OPEB liability of the employer, calculated using the discount rate of 2.75%, 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 (1.75%) or 1 percentage point higher (3.75%) 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.

	1% Decrease	Current	1% Increase
	(1.00%)	(2.00%)	(3.00%)
City's Net OPEB Liability	\$ 584,580	\$ 472,377	\$ 387,615

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

For the year ended September 30, 2021, the City recognized OPEB expense of \$53,348

As of September 30, 2021, the City reported deferred outflows of resources related to OPEB from the following sources:

	Deferred Outflows of	Deferred Inflows of
	Resources	Resources
Difference in expected and actual experience	\$ -	\$ 14,475
Change in assumptions	101,570	11,042
Contributions made subsequent to measurement date	3,288	-
Total	\$ 104,858	\$ 25,517

The \$3,288 reported as deferred outflows of resources related to OPEB resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the OPEB liability in the year ending September 30, 2022.

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

Year ended	Amount
September 30:	
2021	\$ 20,223
2022	18,963
2023	17,090
2024	17,264
2025	2,513
Total	\$ 76,053

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

Note 9 - Other Post-Employment Benefits (continued)

Retiree Healthcare Plan

Plan Description

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

Benefits Provided

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

At December 31, 2020, the following employees were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefits	1
Active Plan Members	<u>118</u>
Total	<u><u>119</u></u>

Total OPEB Liability

The City’s total OPEB liability of \$431,425 was measured as of December 31, 2020 as determined by an actuarial valuation of the same date.

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

Note 9 - Other Post-Employment Benefits (continued)

Retiree Healthcare Plan (continued)

Actuarial Assumptions and Methods

The total OPEB liability in the December 31, 2020 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Actuarial Cost Method	Individual Entry-Age Normal
Discount rate	2.00%
Inflation	2.50%
Salary increase	3.50% to 11.50% including inflation
Demographic Assumptions	Based on the experience study covering the four-year period ending December 31, 2018 as conducted for the Texas Municipal Retirement System (TMRS)
Mortality	Mortality For healthy retirees, the gender-distinct 2019 Municipal Retirees of Texas mortality tables are used. The rates are projected on a fully generational basis using the ultimate mortality improvement rates in the MP tables to account for future mortality improvements.
Health Care Trend Rates	Health Care Trend Rates Initial rate of 7.00% declining to an ultimate rate of 4.15% after 15 years
Participation Rates	30% for retirees age 55 or older at retirement; 10% for retirees under age 55 at retirement

Discount Rate

For plans that do not have formal assets, the discount rate should equal the tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date. For the purpose of this valuation, the municipal bond rate is 2.75% (based on the daily rate closest to but not later than the measurement date of the Fidelity “20-Year Municipal GO AA Index”). The discount rate was 3.71% as of the prior measurement date.

Plan Assets

There are no plan assets accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

Changes in the Total OPEB Liability

Balance at December 31, 2019	\$ 365,696
Changes for the year:	
Service cost	24,263
Interest on Total OPEB Liability	10,346
Change in benefit terms	-
Difference between expected and actual experience	231
Changes in assumptions or other inputs	34,141
Benefit payments	<u>(3,252)</u>
Net changes	<u>65,729</u>
Balance at December 31, 2020	<u><u>\$ 431,425</u></u>

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

Note 9 - Other Post-Employment Benefits (continued)

Retiree Healthcare Plan (continued)

Changes in the Total OPEB Liability (continued)

The ending Total OPEB Liability was \$431,425 as of December 31, 2020.

Changes of assumptions reflect a change in the discount rate from 2.75% as of December 31, 2019 to 2.00% as of December 31, 2020, and minor updates to the health care trend assumption.

Sensitivity of the total OPEB liability to changes in the discount rate

The following presents the plan's total OPEB liability, calculated using a discount rate of 2.00%, as well as what the plan's total OPEB liability would be if it were calculated using a discount rate that is one percent lower or one percent higher:

	1% Decrease (1.00%)	Current Discount Rate Assumptions (2.00%)	1% Increase (3.00%)
Retiree Health Care Plan	\$ 481,600	\$ 431,425	\$ 386,571

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates

The employer provided benefit is not affected by sensitivity in healthcare trends

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

For the year ended September 30, 2020, the City recognized a (negative) OPEB expense of \$31,287

At September 30, 2020, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference in expected and actual experience	\$ 203	\$ 76,400
Change in assumptions	66,324	10,759
Contributions made subsequent to measurement date	2,267	-
Total	<u>\$ 68,794</u>	<u>\$ 87,159</u>

The \$2,267 reported as deferred outflows of resources related to OPEB resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the year ending September 30, 2022.

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

Note 9 - Other Post-Employment Benefits (continued)

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (continued)

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:

Year ended September 30:	Amount
2022	\$ (3,322)
2023	(3,322)
2024	(3,322)
2025	(3,322)
2026	(4,148)
Thereafter	(3,196)
Total	<u>\$ (20,632)</u>

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, 2021 was **Error! Not a valid link.**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, 2021 was \$100,000

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

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

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, 2021, the City of Freeport's portion of these expenses is estimated to be \$82,434.

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, 2021, the City paid \$119,119 for their portion of the operating costs.

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.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF FREEPORT, TEXAS

GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

For the Year Ended September 30, 2021

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Revenues				
Taxes:				
Property taxes	\$ 2,764,154	\$ 2,764,154	\$ 2,716,469	\$ (47,685)
Sales and use taxes	1,900,000	2,182,235	2,387,917	205,682
Franchise fees and other	635,826	664,739	636,868	(27,871)
Industrial district	7,967,460	8,090,088	8,090,088	-
Fines and forfeitures	301,800	309,300	176,376	(132,924)
Licenses and permits	119,591	119,591	209,663	90,072
Intergovernmental	132,120	977,700	973,196	(4,504)
Charges for services	2,040,199	2,040,199	2,222,580	182,381
Investment earnings	90,000	90,000	22,649	(67,351)
Miscellaneous	205,700	409,147	432,117	22,970
Lease income	282,574	282,574	242,901	(39,673)
Total Revenues	16,439,424	17,929,727	18,110,824	181,097
Expenditures				
Current:				
General government	1,873,788	1,886,484	1,802,150	84,334
Public safety	7,827,388	8,183,343	7,740,122	443,221
Streets and drainage	1,325,979	1,767,790	1,368,136	399,654
Sanitation	992,453	992,453	968,318	24,135
Service center	222,087	227,637	214,790	12,847
Culture and recreation	3,277,048	3,340,778	3,166,763	174,015
Economic development	240,000	130,000	109,242	20,758
Capital outlay	250,000	794,369	557,151	237,218
Debt service:				
Principal	220,884	221,684	220,884	800
Interest and other charges	26,750	26,750	26,750	-
Total Expenditures	16,256,377	17,571,288	16,174,306	1,396,982
Excess (deficiency) of revenues over (under) expenditures	183,047	358,439	1,936,518	1,578,079
Other Financing Sources (Uses)				
Proceeds from capital lease	-	-	162,139	162,139
Proceeds from sale of assets	-	-	208,874	208,874
Transfers in	(350,000)	(713,718)	173,520	887,238
Transfers out	(950,676)	(967,780)	(966,676)	1,104
Total Other Financing Sources (Uses)	(1,300,676)	(1,681,498)	(422,143)	1,259,355
Net changes in fund balances	(1,117,629)	(1,323,059)	1,514,375	2,837,434
Fund Balances - Beginning	7,019,009	7,019,009	7,019,009	-
Fund Balances - Ending	\$ 5,901,380	\$ 5,695,950	\$ 8,533,384	\$ 2,837,434

CITY OF FREEPORT, TEXAS
NOTES TO THE REQUIRED SUPPLEMENTARY BUDGET INFORMATION
Year Ended September 30, 2021

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 Seven Measurement Years

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Total Pension Liability:				
Service cost	\$ 1,210,072	\$ 1,020,294	\$ 972,644	\$ 1,069,778
Interest	2,021,037	1,923,902	1,828,285	1,693,736
Difference between expected and actual experience	(61,634)	(459,710)	(84,705)	462,205
Change in assumptions	-	142,572	-	-
Benefit payments, including refunds of employee contributions	(1,239,813)	(1,326,009)	(1,321,000)	(1,046,653)
Net change in total pension liability	1,929,662	1,301,049	1,395,224	2,179,066
Total Pension Liability - Beginning	29,956,158	28,655,109	27,259,885	25,080,819
Total Pension Liability - Ending (a)	<u>\$ 31,885,820</u>	<u>\$ 29,956,158</u>	<u>\$ 28,655,109</u>	<u>\$ 27,259,885</u>
Plan Fiduciary Net Position:				
Contributions - employer	\$ 1,072,524	\$ 904,482	\$ 896,313	\$ 944,578
Contributions - employee	524,814	444,711	440,294	464,589
Net investment income	1,923,014	3,392,674	(677,553)	2,709,724
Benefit payments, including refunds of employee contributions	(1,239,813)	(1,326,009)	(1,321,000)	(1,046,653)
Administrative expense	(12,450)	(19,175)	(13,099)	(14,056)
Other	(486)	(576)	(684)	(712)
Net change in plan fiduciary net position	2,267,603	3,396,107	(675,729)	3,057,470
Plan Fiduciary Net Position - Beginning	25,346,829	21,950,722	22,626,451	19,568,981
Plan Fiduciary Net Position - Ending (b)	<u>27,614,432</u>	<u>25,346,829</u>	<u>21,950,722</u>	<u>22,626,451</u>
Net Pension Liability - Ending (a) - (b)	<u>\$ 4,271,388</u>	<u>\$ 4,609,329</u>	<u>\$ 6,704,387</u>	<u>\$ 4,633,434</u>
Plan fiduciary net position as a percentage of total pension liability	86.60%	84.61%	76.60%	83.00%
Covered payroll	\$ 7,497,348	\$ 6,353,014	\$ 6,275,121	\$ 6,636,342
Net pension liability as a percentage of covered payroll	56.97%	72.55%	106.84%	69.82%

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 Changes in Net Pension Liability and Related Ratios
Last Seven Measurement Years

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total Pension Liability:			
Service cost	\$ 941,887	\$ 867,502	\$ 749,370
Interest	1,586,800	1,511,254	1,424,774
Difference between expected and actual experience	(31,659)	276,833	(132,087)
Change in assumptions	-	116,881	-
Benefit payments, including refunds of employee contributions	(906,817)	(874,894)	(856,501)
Net change in total pension liability	1,590,211	1,897,576	1,185,556
Total Pension Liability - Beginning	23,490,608	21,593,032	20,407,476
Total Pension Liability - Ending (a)	<u>\$ 25,080,819</u>	<u>\$ 23,490,608</u>	<u>\$ 21,593,032</u>
Plan Fiduciary Net Position:			
Contributions - employer	\$ 773,757	\$ 699,079	\$ 600,889
Contributions - employee	409,932	385,600	348,367
Net investment income	1,221,694	26,362	962,281
Benefit payments, including refunds of employee contributions	(906,817)	(874,894)	(856,501)
Administrative expense	(13,803)	(16,057)	(10,047)
Other	(744)	(792)	(826)
Net change in plan fiduciary net position	1,484,019	219,298	1,044,163
Plan Fiduciary Net Position - Beginning	18,084,962	17,865,664	16,821,501
Plan Fiduciary Net Position - Ending (b)	<u>19,568,981</u>	<u>18,084,962</u>	<u>17,865,664</u>
Net Pension Liability - Ending (a) - (b)	<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	78.02%	76.99%	82.74%
Covered payroll	\$ 5,846,596	\$ 5,501,315	\$ 4,976,675
Net pension liability as a percentage of covered payroll	94.27%	98.26%	74.90%

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 the City's Pension Contributions
Last Seven Fiscal Years

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Actuarially determined contribution	\$ 1,095,630	\$ 1,004,021	\$ 892,025	\$ 912,207
Contribution in relation of the actuarially determined contribution	<u>1,095,630</u>	<u>1,004,021</u>	<u>892,025</u>	<u>912,207</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 7,593,889	\$ 7,028,033	\$ 6,444,398	\$ 6,461,534
Contributions as a percentage of covered payroll	14.4%	14.3%	13.8%	14.1%
	<u>2017</u>	<u>2016</u>	<u>2015</u>	
Actuarially determined contribution	\$ 773,757	\$ 699,079	\$ 677,622	
Contribution in relation of the actuarially determined contribution	<u>773,757</u>	<u>699,079</u>	<u>677,622</u>	
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
Covered payroll	\$ 5,846,596	\$ 5,501,315	\$ 4,976,675	
Contributions as a percentage of covered payroll	13.2%	12.7%	13.6%	

Valuation Date Actuarially determined contribution rates are calculated on a calendar year basis 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	25 Years
Asset valuation method	10-year smoothed market; 15% soft corridor
Inflation rate	2.50%
Salary increases	3.50% to 11.50% including inflation
Investment rate of return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2019 valuation pursuant to an experience study of the period 2014 - 2018
Mortality rate	Post-retirement: 2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP. Pre-retirement: PUB(10) mortality tables, with the Public Safety table used for males and the General Employee table used for females. The rates are projected on a fully generational basis with scale UMP.

CITY OF FREEPORT, TEXAS

TEXAS MUNICIPAL RETIREMENT SYSTEM SUPPLEMENTAL DEATH BENEFIT (UNAUDITED)

Schedule of Changes in Total OPEB Liability and Related Ratios

Last Four Measurement Years

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Total OPEB Liability:				
Service cost	\$ 22,492	\$ 12,706	\$ 11,923	\$ 10,618
Interest	10,633	11,579	10,724	10,509
Difference between expected and actual experience	(397)	(15,039)	(9,540)	-
Change in assumptions	65,740	63,192	(23,177)	26,796
Benefit payments	(2,999)	(2,541)	(1,883)	(3,318)
Total change in total OPEB liability	<u>95,469</u>	<u>69,897</u>	<u>(11,953)</u>	<u>44,605</u>
Total OPEB Liability - Beginning	<u>376,908</u>	<u>307,011</u>	<u>318,964</u>	<u>274,359</u>
Total OPEB Liability - Ending (a)	<u>\$ 472,377</u>	<u>\$ 376,908</u>	<u>\$ 307,011</u>	<u>\$ 318,964</u>
Covered payroll	\$ 7,497,348	\$ 6,353,014	\$ 6,275,121	\$ 6,636,342
Total OPEB liability as a percentage of covered payroll	6.30%	5.93%	4.89%	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.

Notes to Schedule:

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

Summary of Actuarial Assumptions:

Inflation	2.50%
Salary increase	3.50% to 11.50% including inflation
Discount rate*	2.75%
Retirees' share of benefit-related costs	0%
Administrative expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68.
Mortality rates - service retirees	2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP.
Mortality rates - disabled retirees	2019 Municipal Retirees of Texas Mortality Tables with a 4 year set forward for males and a 3 year set-forward for females. In addition, a 3.5% and 3% minimum mortality rate will be applied to reflect the impairment for younger members who become disabled for males and females, respectively. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements.

*The discount rate was based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2019.

CITY OF FREEPORT, TEXAS
RETIREE HEALTH CARE PLAN (UNAUDITED)
Schedule of Changes in Total OPEB Liability and Related Ratios
Last Four Fiscal Years

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Total OPEB liability				
Service cost	\$ 24,263	\$ 26,027	\$ 27,301	\$ 24,443
Interest on the total OPEB liability	10,346	16,948	16,533	17,182
Changes of benefit terms		(106,501)	-	-
Difference between expected and actual experience	231	(99,594)	(715)	-
Change in assumptions	34,141	33,523	(16,480)	20,081
Benefit payments	<u>(3,252)</u>	<u>(7,424)</u>	<u>(19,500)</u>	<u>(9,750)</u>
Total change in total OPEB liability	<u>65,729</u>	<u>(137,021)</u>	<u>7,139</u>	<u>51,956</u>
Total OPEB liability - beginning	<u>365,696</u>	<u>502,717</u>	<u>495,578</u>	<u>443,622</u>
Total OPEB liability - ending (a)	<u>\$ 431,425</u>	<u>\$ 365,696</u>	<u>\$ 502,717</u>	<u>\$ 495,578</u>
Covered payroll	\$ 6,234,975	\$ 6,353,014	\$ 6,275,121	\$ 6,636,342
Total OPEB liability as a percentage of covered payroll	6.92%	5.76%	8.01%	7.47%

FYE20 - The demographic assumptions were updated to reflect the 2019 TMRS Experience Study, the election rate was decreased from 70% to 30% as a result of the plan change. Prior to August 2019, the City provided a \$750.00 contribution toward the cost of eligible retiree medical insurance to retirees who chose coverage through the TML IEBP Pre-65 pooled plan option. After the August 2019 plan change, eligible retirees may participate in the City's medical plan until age 65, provided the retiree pays the full premium amount.

OTHER SUPPLEMENTARY INFORMATION

CITY OF FREEPORT, TEXAS
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
As of September 30, 2021

	Debt Service Fund	Hotel/Motel Tax	Economic Development Corporation	TIRZ	Court Revenue
Assets					
Cash and cash equivalents	\$ -	\$ 66,562	\$ 1,560,409	\$ 30,457	\$ 152,181
Receivables, net of allowance					
Taxes receivables	28,342	59,782	173,899	1,060	-
Prepaid expenses	82,662	-	-	-	2,847
Total Assets	\$ 111,004	\$ 126,344	\$ 1,734,308	\$ 31,517	\$ 155,028
Liabilities, Deferred Inflows of Resources, and Fund Balances					
Liabilities					
Accounts payable	\$ 10,612	\$ -	\$ 13,815	\$ -	\$ 565
Due to other funds	19,554	-	137,170	-	-
Unearned revenues	-	-	-	-	16,893
Total Liabilities	30,166	-	150,985	-	17,458
Deferred Inflows of Resources					
Unavailable revenues	26,293	-	-	-	-
Total Deferred Inflows of Resources	26,293	-	-	-	-
Fund Balances (Deficits)					
Nonspendable:					
Prepaid	-	-	-	-	2,847
Restricted:					
Debt service	54,545	-	-	-	-
Municipal court operations	-	-	-	-	134,723
Economic Development	-	126,344	1,583,323	31,517	-
Assigned:					
Facilities and grounds	-	-	-	-	-
Vehicles and equipment	-	-	-	-	-
Information technology equipment	-	-	-	-	-
Total Fund Balances (Deficits)	54,545	126,344	1,583,323	31,517	137,570
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 111,004	\$ 126,344	\$ 1,734,308	\$ 31,517	\$ 155,028

CITY OF FREEPORT, TEXAS
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
As of September 30, 2021

	<u>Capital Projects Fund</u>	<u>Facilities and Grounds CIP</u>	<u>Vehicles and Equipment</u>	<u>IT Fund</u>	<u>Total Non-Major Governmental Funds</u>
Assets					
Cash and cash equivalents	\$ -	\$ 187,812	\$ 232,632	\$ 271,603	\$ 2,501,656
Receivables, net of allowance					
Taxes receivables	-	-	-	-	263,083
Prepaid expenses	-	-	-	-	85,509
Total Assets	<u>\$ -</u>	<u>\$ 187,812</u>	<u>\$ 232,632</u>	<u>\$ 271,603</u>	<u>\$ 2,850,248</u>
Liabilities, Deferred Inflows of Resources, and Fund Balances					
Liabilities					
Accounts payable	\$ -	\$ 13,239	\$ -	\$ 15,371	\$ 53,602
Due to other funds	-	-	-	-	156,724
Unearned revenues	-	-	-	-	16,893
Total Liabilities	<u>-</u>	<u>13,239</u>	<u>-</u>	<u>15,371</u>	<u>227,219</u>
Deferred Inflows of Resources					
Unavailable revenues	-	-	-	-	26,293
Total Deferred Inflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>26,293</u>
Fund Balances (Deficits)					
Nonspendable:					
Inventories	-	-	-	-	2,847
Restricted:					
Debt service	-	-	-	-	54,545
Municipal court operations	-	-	-	-	134,723
Economic Development	-	-	-	-	1,741,184
Assigned:					
Facilities and grounds	-	174,573	-	-	174,573
Vehicles and equipment	-	-	232,632	-	232,632
Information technology equipment	-	-	-	256,232	256,232
Total Fund Balances (Deficits)	<u>-</u>	<u>174,573</u>	<u>232,632</u>	<u>256,232</u>	<u>2,596,736</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ -</u>	<u>\$ 187,812</u>	<u>\$ 232,632</u>	<u>\$ 271,603</u>	<u>\$ 2,850,248</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, 2021

	Debt Service Fund	Hotel/Motel Tax	Economic Development Corporation	TIRZ	Court Revenue
Revenues					
Taxes:					
Property taxes	\$ 512,911	\$ -	\$ -	\$ 31,517	\$ -
Sales and use taxes	-	-	1,193,959	-	-
Franchise fees and other	-	42,795	-	-	-
Fines and forfeitures	-	-	-	-	25,172
Investment earnings	4,801	261	5,706	-	836
Miscellaneous	-	-	5,586	-	-
Total Revenues	517,712	43,056	1,205,251	31,517	26,008
Expenditures					
Current:					
Public safety	-	-	-	-	15,869
Economic development	-	5,000	506,741	-	-
Capital outlay	-	-	-	-	16,970
Debt service:					
Principal	415,000	-	-	-	-
Interest and other charges	108,670	-	-	-	-
Total Expenditures	523,670	5,000	506,741	-	32,839
Excess (deficiency) of revenues over (under) expenditures	(5,958)	38,056	698,510	31,517	(6,831)
Other Financing Sources (Uses)					
Transfers in	4,103	-	-	-	-
Transfers out	-	-	-	-	-
Total Other Financing Sources (Uses)	4,103	-	-	-	-
Net changes in fund balances	(1,855)	38,056	698,510	31,517	(6,831)
Fund Balances - Beginning	56,400	88,288	884,813	-	144,401
Fund Balances - Ending	\$ 54,545	\$ 126,344	\$ 1,583,323	\$ 31,517	\$ 137,570

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

NON-MAJOR GOVERNMENTAL FUNDS

For the Year Ended September 30, 2021

	Capital Projects Fund	Facilities and Grounds CIP	Vehicles and Equipment	IT Fund	Total Non-Major Governmental Funds
Revenues					
Taxes:					
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ 544,428
Sales and use taxes	-	-	-	-	1,193,959
Franchise fees and other	-	-	-	-	42,795
Fines and forfeitures	-	-	-	-	25,172
Investment earnings	-	581	722	1,074	13,981
Miscellaneous	-	-	83,485	-	89,071
Total Revenues	<u>-</u>	<u>581</u>	<u>84,207</u>	<u>1,074</u>	<u>1,909,406</u>
Expenditures					
Current:					
Public safety	-	-	-	-	15,869
Economic development	-	-	-	-	511,741
Capital outlay	-	185,363	147,305	220,101	569,739
Debt service:					
Principal	-	-	-	-	415,000
Interest and other charges	-	-	-	-	108,670
Total Expenditures	<u>-</u>	<u>185,363</u>	<u>147,305</u>	<u>220,101</u>	<u>1,621,019</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>(184,782)</u>	<u>(63,098)</u>	<u>(219,027)</u>	<u>288,387</u>
Other Financing Sources (Uses)					
Transfers in	-	205,775	285,642	475,259	970,779
Transfers out	(23,520)	-	-	-	(23,520)
Total Other Financing Sources (Uses)	<u>(23,520)</u>	<u>205,775</u>	<u>285,642</u>	<u>475,259</u>	<u>947,259</u>
Net changes in fund balances	(23,520)	20,993	222,544	256,232	1,235,646
Fund Balances - Beginning	<u>23,520</u>	<u>153,580</u>	<u>10,088</u>	<u>-</u>	<u>1,361,090</u>
Fund Balances - Ending	<u>\$ -</u>	<u>\$ 174,573</u>	<u>\$ 232,632</u>	<u>\$ 256,232</u>	<u>\$ 2,596,736</u>

CITY OF FREEPORT, TEXAS

DEBT SERVICE FUND

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGETARY COMPARISON SCHEDULE - DEBT SERVICE FUND**

For the Year Ended September 30, 2021

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues				
Taxes:				
Property taxes	\$ 568,300	\$ 568,300	\$ 512,911	\$ (55,389)
Investment earnings	-	-	4,801	4,801
Total Revenues	<u>568,300</u>	<u>568,300</u>	<u>517,712</u>	<u>(50,588)</u>
Expenditures				
Debt Service:				
Principal	415,000	415,000	415,000	-
Interest and other charges	136,924	137,054	108,670	28,384
Total Expenditures	<u>551,924</u>	<u>552,054</u>	<u>523,670</u>	<u>28,384</u>
Excess (deficiency) of revenues over (under) expenditures	<u>16,376</u>	<u>16,246</u>	<u>(5,958)</u>	<u>(22,204)</u>
Other Financing Sources (Uses)				
Transfers in	-	-	4,103	4,103
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>4,103</u>	<u>4,103</u>
Net changes in fund balances	16,376	16,246	(1,855)	(18,101)
Fund Balances - Beginning	56,400	56,400	56,400	-
Fund Balances - Ending	<u>\$ 72,776</u>	<u>\$ 72,646</u>	<u>\$ 54,545</u>	<u>\$ (18,101)</u>