

**CITY OF FREEPORT**  
FREEPORT, TEXAS

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED  
SEPTEMBER 30, 2007

**KENNEMER, MASTERS & LUNSFORD, LLC**  
**CERTIFIED PUBLIC ACCOUNTANTS**  
**8 WEST WAY COURT**  
**LAKE JACKSON, TEXAS 77566**

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**CITY OF FREEPORT**

Freeport, Texas

*Annual Financial Report  
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## **FINANCIAL SECTION**

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# KENNEMER, MASTERS & LUNSFORD

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## Independent Auditor's Report

November 16, 2007

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the discretely presented component unit, and the aggregate remaining fund information of the City of Freeport, Texas (the "City") as of and for the year ended September 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, the discretely presented component unit, and the aggregate remaining fund information of the City of Freeport, Texas as of September 30, 2007 and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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Members: American Institute of Certified Public Accountants, Texas Society of Certified Public Accountants,  
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In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2007 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 9 through 17, Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund, Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Streets, Drainage and Sidewalks Special Revenue Fund, and the Texas Municipal Retirement System and the Texas Statewide Emergency Services Personnel Retirement Fund Schedules of Funding Progress – Last Three Years on Pages 64 through 67 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Freeport's basic financial statements. The other schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Kennemer, Masters & Hunsford, LLC*



## **CITY OF FREEPORT, TEXAS**

### *Management's Discussion and Analysis For the Year Ended September 30, 2007*

As management of the City of Freeport, 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, 2007. We encourage readers to consider the information presented here in conjunction with the City's financial statements, which follow this section.

#### **Financial Highlights**

- In prior years, the Freeport Economic Development Corporation (the "FEDC") 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 was reported as a blended component unit. However, during the year ended September 30, 2007, the FEDC began construction and entered into a long-term lease for a marina with a company unrelated to the City. Because of this, the City is no longer able to report the FEDC as a blended component unit and has currently reported the FEDC as a discretely component unit.
- During the year ended September 30, 2007, the City loaned the FEDC \$ 6,000,000 to finance construction for a marina. The balance of previous and current notes, including accrued interest, at September 30, 2007 was \$ 7,074,964.
- The assets of the City of Freeport exceeded its liabilities at the close of the most recent fiscal year by \$ 26,590,295 (net assets). Of this amount, \$ 4,239,109 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors in accordance with the City's fund designation.
- The City's total net assets increased by \$ 2,008,707.
- As of the close of the current fiscal year, the City of Freeport's governmental funds reported combined ending fund balances of \$ 11,030,184. 37.00% of this total amount, \$ 4,080,973 (unreserved fund balance) is available for use within the City's fund designation. Of this amount, \$ 3,661,521 has been designated for specific uses.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$ 428,582 or 4.85% of the total general fund expenditure. Of this amount, \$ 419,452 has not been designated for specific uses.

#### **Overview of the Financial Statements**

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

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

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

## CITY OF FREEPORT, TEXAS

### *Management's Discussion and Analysis For the Year Ended September 30, 2007*

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

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The *governmental activities* of the City include general government and administration, public safety, public works, and cultural and recreation. The *business-type activities* of the City include the operations of water and sewer, golf course, and ambulance.

The government-wide financial statements can be [found on pages 20 through 23](#) of this report.

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

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provides 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, Streets, Drainage and Sidewalks Special Revenue Fund; all of which are considered to be major funds. Data from the other four funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements [on pages 70 through 73](#) of this report.

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- **Proprietary Funds.** The City maintains three individual *proprietary funds*-Enterprise Funds. Information is presented separately in the proprietary fund's statement of net assets, statement of revenues, expenses and changes in net assets, and statement of cash flows on pages 28 through 32 of the report for the Water and Sewer Enterprise Fund; which is considered to be a major fund. The other two funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major proprietary funds is provided in the form of combining statements on pages 78 through 81 of this report. Enterprise funds are used to report the same functions presented as business-type activities in government-wide financial statements. The City uses enterprise funds to account for its water and sewer, golf course, and ambulance operations. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on [pages 33 through 62 of this report](#).

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information that further explains and supports the information in the financial statements. Required supplementary information can be found on pages 64 through 67 of this report.

The combining statements referred to earlier in connection with non-major governmental funds are presented following the required supplementary information on pensions. Combining and individual statements and schedules can be [found on pages 70 through 87](#) of this report.

### **Government-wide Financial Analysis**

With the significant changes resulting from the reporting of the Freeport Economic Development Corporation as a discretely presented component unit rather than a blended component unit, the City is not presenting comparable columns in the various comparisons and analyses for the prior year. A comparative analysis of government-wide data will be presented in future years when the information is comparable and available.

As noted earlier, net assets may serve over time as a useful indicator of government's financial position. In the case of the City of Freeport, assets exceeded liabilities by \$ 26,590,295 as of September 30, 2007.

A large portion of the City's net assets (57.75%) reflects its investments in capital assets (e.g., land, buildings, improvements, equipment, machinery, construction in progress), less any debt used to acquire those assets that is still outstanding. The City uses capital assets to provide service to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

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An additional portion of the City's net assets of \$ 6,994,423 (26.30%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets of \$ 4,239,109 (15.95%) may be used to meet the government's ongoing obligations to citizens and creditors.

As of September 30, 2007, the City is able to report positive balances in all categories of net assets, both for the government as a whole, as well as for its separate categories-governmental and business-type activities.

### CITY OF FREEPORT'S NET ASSETS

	Governmental Activities 2007	Business-type Activities 2007	Total
Current and other assets	\$ 5,540,992	\$ 881,024	\$ 6,422,016
Long-term receivable	7,074,964		7,074,964
Capital assets	<u>12,970,455</u>	<u>8,348,499</u>	<u>21,318,954</u>
Total assets	<u>25,586,411</u>	<u>9,229,523</u>	<u>34,815,934</u>
Current and other liabilities	890,866	604,809	1,495,675
Long-term liabilities	<u>5,208,527</u>	<u>1,521,437</u>	<u>6,729,964</u>
Total liabilities	<u>6,099,393</u>	<u>2,126,246</u>	<u>8,225,639</u>
Net Assets:			
Invested in capital assets, net of related debt	8,457,264	6,899,499	15,356,763
Restricted	6,978,166	107,385	7,085,551
Unrestricted	<u>4,051,588</u>	<u>96,393</u>	<u>4,147,981</u>
Total net assets	<u>\$ 19,487,018</u>	<u>\$ 7,103,277</u>	<u>\$ 26,590,295</u>

**Analysis of the City's Operations.** The following table provides a summary of the City's operations for the years ended September 30, 2007. Governmental activities increased the City of Freeport's net assets by \$ 2,079,199 and the business-type activities decreased the City's net assets by \$ 70,492.

**CITY OF FREEPORT, TEXAS**  
*Management's Discussion and Analysis*  
*For the Year Ended September 30, 2007*

**CITY OF FREEPORT'S CHANGES IN NET ASSETS**

	Governmental Activities <u>2007</u>	Business-type Activities <u>2007</u>	<u>Total</u>
Revenues:			
Program Revenues:			
Charges for services	\$ 1,545,678	\$ 4,348,948	\$ 5,894,626
Operating grants and contributions	286,186		286,186
Capital grants and contributions		100,679	100,679
General Revenues:			
Property taxes	2,120,821		2,120,821
Other taxes	1,888,195		1,888,195
Industrial district	3,709,686		3,709,686
Investment earnings	491,254	19,042	510,296
Interest on long-term receivables	340,874		340,874
Miscellaneous	<u>435,104</u>		<u>435,104</u>
Total revenues	<u>10,817,798</u>	<u>4,468,669</u>	<u>15,286,467</u>
Expenses:			
General government & administration	1,323,174		1,323,174
Public safety	3,573,052		3,573,052
Public works	2,263,223		2,263,223
Culture and recreation	1,343,371		1,343,371
Interest on long-term debt	217,844		217,844
Water and sewer		3,631,517	3,631,517
Golf course		717,150	717,150
Ambulance		<u>414,333</u>	<u>414,333</u>
Total expenses	<u>8,720,664</u>	<u>4,763,000</u>	<u>13,483,664</u>
Increase (decrease) in net assets before contributions and transfers	2,097,134	( 294,331)	1,802,803
Contribution from component unit	205,904		205,904
Transfers	<u>( 223,839)</u>	<u>223,839</u>	<u>-0-</u>
Increase (decrease) in net assets	2,079,199	( 70,492)	2,008,707
Net assets - beginning	<u>17,407,819</u>	<u>7,173,769</u>	<u>24,581,588</u>
Net assets - ending	<u>\$ 19,487,018</u>	<u>\$ 7,103,277</u>	<u>\$ 26,590,295</u>

## **CITY OF FREEPORT, TEXAS**

*Management's Discussion and Analysis  
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### **Financial Analysis of the City's Funds**

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

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

As of the end of the current fiscal year, the City of Freeport's governmental funds reported combined ending fund balances of \$ 11,030,184. 37.00% of this total amount (\$ 4,080,973) constitutes unreserved fund balance. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed 1) for debt service expenditures (\$ 21,197), 2) for notes receivable (\$ 6,734,090), 3) for the expenditure of municipal court security (\$ 22,463), 4) for municipal court technology (\$ 56,804), and 5) for narcotics (\$ 114,657).

The General Fund balance increased by \$ 232,859 and the Streets, Drainage and Sidewalks Fund balance increased by \$ 777,487.

**Proprietary funds.** As mentioned earlier, the City's proprietary fund statements provide the same type of information found in the government-wide financial statements, but in more detail.

Net assets at September 30, 2007 amounted to \$ 7,103,277. Total net assets decreased by \$ 70,492 (or 0.98%).

**General Fund Budgetary Highlights.** Differences between the original budget and the final amended budget resulted in a \$ 821,260 increase in appropriations; and can be summarized as follows:

- \$ 210,885 in increases in general government and administrative activities.
- \$ 9,333 in decreases in public safety.
- \$ 6,000 in increases in parks and recreation.
- \$ 613,708 in increases allocated to capital outlay purchases.

The City's overall budgeted revenue increased 7.44% or \$ 688,398; and primarily the result of revised revenue projections in grant revenues, donations, and increased rates in solid waste services.

### **Capital Assets**

The City of Freeport's investment in capital assets for its governmental and business-type activities as of September 30, 2007, amounts to \$ 21,318,954 (net of accumulated depreciation). This investment in capital assets includes land, improvements, buildings, utility plant, furniture, equipment and vehicles, and construction in progress.

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Major capital asset events during the current fiscal year included the following:

- Water & Sewer Fund - Sewer line & meter replacement.
- Street, Drainage and Sidewalks Fund - 9<sup>th</sup> and 10<sup>th</sup> Street.
- Parks - Riverplace Outdoor Deck.
- Parks - Floating Water Fountains.
- Fire Department - Pumper Truck.
- Street Department/Water and Sewer Department - two backhoes.

### Capital Assets at Year-end Net of Accumulated Depreciation

	Governmental Activities 2007	Business-type Activities 2007	Total
Land	\$ 2,034,890	\$ 395,630	\$ 2,430,520
Improvements	5,647,042	251,183	5,898,225
Buildings	2,384,451	126,580	2,511,031
Utility plant		7,082,619	7,082,619
Furniture, equipment and vehicles	2,626,914	432,714	3,059,628
Construction in progress	<u>277,158</u>	<u>59,773</u>	<u>336,931</u>
Total	<u>\$ 12,970,455</u>	<u>\$ 8,348,499</u>	<u>\$ 21,318,954</u>

Additional information on the City of Freeport's capital assets can be found in [Note 6 on pages 48 through 50](#) of this report.

### Notes Receivable

At the end of the current fiscal year, the City of Freeport had a total note receivable of \$ 6,734,090. Of this amount, \$ 6,000,000 represents a loan made during the current fiscal year to the Freeport EDC. The remaining \$ 734,090 is a consolidated loan with the Freeport EDC from prior years.

### Outstanding Notes at Year-end Notes Receivable

	Governmental Activities 2007	Business-type Activities 2007	Total
Note to Freeport EDC, 2007	\$ 6,000,000	\$	\$ 6,000,000
Note to Freeport EDC, 2006	<u>734,090</u>		<u>734,090</u>
Total	<u>\$ 6,734,090</u>	<u>\$ -0-</u>	<u>\$ 6,734,090</u>

Additional information on the City of Freeport's long-term notes receivable can be found in [note 16 on pages 61 through 62](#) of this report.

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Management's Discussion and Analysis  
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### Debt Administration

At the end of the current fiscal year, the City of Freeport had a total bonded debt and certificates of obligation payable of \$ 5,869,000. Of this amount, \$ 4,420,000 is comprised of bonded debt backed by the full faith and credit of the City. These bonds will be retired with revenues from property and sales taxes. The remaining \$ 1,449,000 represents bonds secured solely by water and sewer revenues.

#### Outstanding Debt at Year-end Bonds Payable

	Governmental Activities <u>2007</u>	Business-type Activities <u>2007</u>	<u>Total</u>
Certificates of obligation	\$ 4,420,000	\$	\$ 4,420,000
Revenue bonds payable		<u>1,449,000</u>	<u>1,449,000</u>
Total	<u>\$ 4,420,000</u>	<u>\$ 1,449,000</u>	<u>\$ 5,869,000</u>

The City issued \$ 3,000,000 in combination Tax and Revenue Certificates of Obligation in the 2003-2004 fiscal year. The proceeds are being used to finance improvements to the water, sewer and drainage system, the streets, the parks, and the related professional services. The City also issued \$ 2,185,000 in Refunding Bonds and \$ 1,943,000 in Revenue Refunding Bonds. The \$ 2,185,000 in Refunding Bond proceeds refunded the City's 2001 Certificates of Obligation, and the \$ 1,943,000 in Revenue Refunding Bond proceeds refunded the City's 1995 Revenue Bonds.

Additional information on the City of Freeport's long-term debt can be found in [Note 14 on pages 57 through 60](#) of this report.

### Economic Factors and Next Year's Budgets and Rates

The 2007-2008 Budget reflects a balanced budget totaling \$ 17,523,078, which includes revenues of \$ 3,000,000 in Certificates of Obligation issued and \$ 421,388 in loan payments from the Economic Development Corporation to the General Fund. Overall operating revenues are expected to increase by 21.9% compared to the 2006-2007 Budget, but without the \$ 3,000,000 in Certificates of Obligation the net increase is 1.0%.

Certified assessed valuations increased 8.3% over the preceding year. The property tax rate remained at .7100, with 0.0905 as Interest & Sinking component used to pay the Certificates of Obligations, Series 2003 issued on October 23, 2003, leaving Maintenance & Operations with 0.6195. Overall property tax collection revenues will increase 12.5%.

A \$ 6,000,000 loan from the City to the Economic Development Corporation is included in the 2007-2008 Budget, with construction activity having occurred in the audit year. Completion of the marina project is expected in the summer.



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The price of water from the Brazosport Water Authority will remain the same as the prior budget year. Anticipated increases in electricity and fuel costs were included in the budget.

Capital purchases are budgeted at \$ 4,522,689. The majority of the purchases are for street improvements (\$ 3,579,433), a new maintainer (\$ 140,000), and various other land and equipment purchases (\$ 803,256).

### **Request for Information**

This financial report is designed to provide a general overview of the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of Finance, 200 West Second Street, Freeport, Texas, 77541, or call (979) 233-3526.

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## **BASIC FINANCIAL STATEMENTS**

# CITY OF FREEPORT

Freeport, Texas

## STATEMENT OF NET ASSETS

September 30, 2007

	Primary Government			Freeport Economic Development Corporation
	Governmental Activities	Business- Type Activities	Total	
Assets:				
Cash and cash equivalents	\$ 4,420,577	\$ 97,521	\$ 4,518,098	\$ 5,690,727
Receivables (Net of Allowance for Uncollectibles):				
Taxes	81,260		81,260	111,461
Due from other governments	11,914		11,914	
Accounts	766,587	663,229	1,429,816	25,000
Interfund balances	231,699	( 231,699 )	-	
Inventory		55,860	55,860	
Restricted Assets:				
Temporarily Restricted:				
Cash and cash equivalents		189,797	189,797	
Bond issuance costs - current		15,188	15,188	
Bond issuance costs (net of current and accumulated amortization)	28,955	91,128	120,083	
Noncurrent Notes Receivable:				
Due within one year	435,756		435,756	
Due in more than one year	6,639,208		6,639,208	
Capital Assets (Net of Accumulated Depreciation):				
Land	2,034,890	395,630	2,430,520	
Improvements	5,647,042	251,183	5,898,225	32,283
Buildings	2,384,451	126,580	2,511,031	
Utility plant		7,082,619	7,082,619	
Furniture, equipment and vehicles	2,626,914	432,714	3,059,628	
Construction in progress	277,158	59,773	336,931	3,392,527
Total assets	25,586,411	9,229,523	34,815,934	9,251,998
Liabilities:				
Accounts payable	758,255	405,183	1,163,438	313,120
Judgments payable				446,651
Accrued wages	132,611	22,551	155,162	2,718
Due to other governments		3,335	3,335	
Liabilities payable from restricted assets		173,540	173,540	
Deferred revenue		200	200	
Noncurrent Liabilities:				
Due within one year	1,068,527	72,437	1,140,964	435,756
Due in more than one year	4,140,000	1,449,000	5,589,000	6,639,208
Total liabilities	6,099,393	2,126,246	8,225,639	7,837,453

(continued)

**CITY OF FREEPORT**

Freeport, Texas

## STATEMENT OF NET ASSETS - Continued

September 30, 2007

	<u>Primary Government</u>			<u>Freeport Economic Development Corporation</u>
	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>	
Net Assets:				
Invested in capital assets, net of related debt	\$ 8,457,264	\$ 6,899,499	\$ 15,356,763	\$ 1,488,535
Restricted For:				
Debt service	50,152	16,257	66,409	
Notes receivable	6,734,090		6,734,090	
Other	193,924		193,924	
Unrestricted	<u>4,051,588</u>	<u>187,521</u>	<u>4,239,109</u>	<u>( 73,990)</u>
Total net assets	<u>\$ 19,487,018</u>	<u>\$ 7,103,277</u>	<u>\$ 26,590,295</u>	<u>\$ 1,414,545</u>

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

**CITY OF FREEPORT**

Freeport, Texas

**STATEMENT OF ACTIVITIES**

September 30, 2007

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General government and administration	\$ 1,323,174	\$	\$ 75,597	\$
Public safety	3,573,052	677,566	210,589	
Public works	2,263,223			
Culture and recreation	1,343,371	868,112		
Interest on long-term debt	217,844			
Total governmental activities	<u>8,720,664</u>	<u>1,545,678</u>	<u>286,186</u>	<u>-0-</u>
Business-type Activities:				
Water and sewer	3,631,517	3,483,929		100,679
Golf course	717,150	462,982		
Ambulance	414,333	402,037		
Total business-type activities	<u>4,763,000</u>	<u>4,348,948</u>	<u>-0-</u>	<u>100,679</u>
Component Unit:				
Freeport Economic Development Corporation:				
General government and administration	694,198		6,166	
Interest on long-term debt	340,874			
Total component unit	<u>1,035,072</u>	<u>-0-</u>	<u>6,166</u>	<u>-0-</u>
Total	<u>\$ 14,518,736</u>	<u>\$ 5,894,626</u>	<u>\$ 292,352</u>	<u>\$ 100,679</u>

General Revenue:

Taxes:

Property taxes

Other taxes

Industrial district

Investment earnings

Interest from long-term receivables

Miscellaneous

Contributions from component unit

Transfers

Total general revenues and transfers

Change in net assets

Net assets – beginning (restated)

Net assets – ending

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

Net (Expense) Revenue and Changes in Net Assets			Freeport Economic Development Corporation
Governmental Activities	Business- Type Activities	Total	
\$( 1,247,577)	\$	\$( 1,247,577)	\$
( 2,684,897)		( 2,684,897)	
( 2,263,223)		( 2,263,223)	
( 475,259)		( 475,259)	
( 217,844)		( 217,844)	
( 6,888,800)	-0-	( 6,888,800)	-0-
	( 46,909)	( 46,909)	
	( 254,168)	( 254,168)	
	( 12,296)	( 12,296)	
-0-	( 313,373)	( 313,373)	-0-
		-0-	( 688,032)
		-0-	( 340,874)
-0-	-0-	-0-	( 1,028,906)
( 6,888,800)	( 313,373)	( 7,202,173)	( 1,028,906)
2,120,821		2,120,821	
1,888,195		1,888,195	620,833
3,709,686		3,709,686	
491,254	19,042	510,296	69,685
340,874		340,874	
435,104		435,104	
205,904		205,904	( 205,904)
( 223,839)	223,839	-0-	
8,967,999	242,881	9,210,880	484,614
2,079,199	( 70,492)	2,008,707	( 544,292)
17,407,819	7,173,769	24,581,588	1,958,837
\$ 19,487,018	\$ 7,103,277	\$ 26,590,295	\$ 1,414,545

**CITY OF FREEPORT**

Freeport, Texas

**BALANCE SHEET  
GOVERNMENTAL FUNDS**

September 30, 2007

	<u>General</u>	<u>Streets Drainage and Sidewalks</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Assets</u>				
Cash and temporary investments	\$ 540,345	\$ 3,803,630	\$ 76,602	\$ 4,420,577
Receivables (Net of Allowance for Uncollectibles):				
Taxes	73,843		7,417	81,260
Accounts	109,391		5,683	115,074
Other receivables	160,960			160,960
Sales tax	222,923			222,923
Due from state	11,914			11,914
Due from other funds	237,933			237,933
Noncurrent Receivables:				
Notes receivable	<u>6,734,090</u>			<u>6,734,090</u>
 Total assets	 <u>\$ 8,091,399</u>	 <u>\$ 3,803,630</u>	 <u>\$ 89,702</u>	 <u>\$ 11,984,731</u>
<u>Liabilities and Fund Balances</u>				
<u>Liabilities:</u>				
Accounts payable	\$ 550,656	\$ 207,599	\$	\$ 758,255
Accrued wages	132,611			132,611
Due to other funds			6,234	6,234
Deferred revenue	<u>51,536</u>		<u>5,911</u>	<u>57,447</u>
 Total liabilities	 <u>734,803</u>	 <u>207,599</u>	 <u>12,145</u>	 <u>954,547</u>
 <u>Fund Balance:</u>				
<u>Reserved:</u>				
Reserved for debt service			21,197	21,197
Reserved for notes receivable	6,734,090			6,734,090
Reserved for municipal court security	22,463			22,463
Reserved for municipal court technology	56,804			56,804
Reserved for narcotics	114,657			114,657
<u>Unreserved:</u>				
Designated for main street	9,130			9,130
Designated for subsequent years expenditures		3,596,031	56,360	3,652,391
Undesignated	<u>419,452</u>			<u>419,452</u>
 Total fund balances	 <u>7,356,596</u>	 <u>3,596,031</u>	 <u>77,557</u>	 <u>11,030,184</u>
 Total liabilities and fund balances	 <u>\$ 8,091,399</u>	 <u>\$ 3,803,630</u>	 <u>\$ 89,702</u>	 <u>\$ 11,984,731</u>

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



**CITY OF FREEPORT**

Freeport, Texas

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

September 30, 2007

Total fund balances – governmental funds balance sheet	\$ 11,030,184
<b>Amounts reported for <i>governmental activities</i> in the statement of net assets are different because:</b>	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Capital assets include \$ 25,502,983 in assets less \$ 12,532,528 in accumulated depreciation.	12,970,455
Municipal Court accounts receivables net of related allowance for uncollectibles are unavailable to pay for current period expenditures and funds that are uncertain as to availability are not recorded in the funds. Municipal Court receivables \$ 850,701 net of allowance for uncollectible accounts \$ 583,071 of the general fund amounted to \$ 267,630.	267,630
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds. Deferred property tax revenues for the general fund amounted to \$ 57,447.	57,447
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds. This is the debt issuance costs which is amortized over the life of the bond. This amount is debt issuance costs \$ 39,306 less accumulated costs of \$ 10,351.	28,955
Receivables for loan interest are not reported in the funds.	340,874
Payables for bond principal and other long-term debt are not reported in the funds.	( 4,420,000)
Payables for long-term compensated absences are not reported in the funds.	( 695,336)
Payables for bond interest are not reported in the funds.	<u>( 93,191)</u>
Net assets of governmental activities – statement of net assets.	<u>\$ 19,487,018</u>

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

# CITY OF FREEPORT

Freeport, Texas

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

For the Year Ended September 30, 2007

	General	Streets Drainage and Sidewalks	Non-Major Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$ 1,900,098	\$	\$ 277,783	\$ 2,177,881
Other taxes	1,870,940		17,255	1,888,195
Industrial district	3,709,686			3,709,686
Intergovernmental revenues	75,597			75,597
Revenue producing facilities	868,112			868,112
Fines, licenses and fees	677,566			677,566
Grant revenue	210,589			210,589
Investment income	294,982	180,329	15,943	491,254
Miscellaneous	430,820		4,284	435,104
Total assets	10,038,390	180,329	315,265	10,533,984
Expenditures:				
Current:				
Administration	1,132,511	8,818	14,162	1,155,491
Public safety	3,258,650			3,258,650
Streets and drainage	981,619			981,619
Sanitation	740,733			740,733
Service center	200,497			200,497
Library	34,230			34,230
Parks and recreation	1,155,376			1,155,376
Capital outlay	1,337,993	142,582	228,820	1,709,395
Debt Service:				
Principal			268,000	268,000
Interest			220,862	220,862
Total expenditures	8,841,609	151,400	731,844	9,724,853
Excess of revenues over (under) expenditures	1,196,781	28,929	( 416,579)	809,131
Other Financing Sources (Uses):				
Contributions from component unit			205,904	205,904
Operating transfers in	8,475	748,558		757,033
Operating transfers out	( 972,397)		( 8,475)	( 980,872)
Total other financing sources (uses)	( 963,922)	748,558	197,429	( 17,935)
Net changes in fund balances	232,859	777,487	( 219,150)	791,196
Fund balance - beginning (restated)	7,123,737	2,818,544	296,707	10,238,988
Fund balance - ending	\$ 7,356,596	\$ 3,596,031	\$ 77,557	\$ 11,030,184

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

**CITY OF FREEPORT**

Freeport, Texas

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

For the Year Ended September 30, 2007

Net change in fund balances – total governmental funds	\$	791,196
<b>Amounts reported for <i>governmental activities</i> in the statement of activities are different because:</b>		
Governmental funds report capital outlays as expenditures. However, in the governmental activities statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays \$ 1,709,395 exceeded depreciation \$ 905,416 in the current period.		803,979
Property tax revenues in the governmental activities statement of activities do not provide current financial resources and are not reported as revenues in the funds. Deferred property tax revenues for the general fund decreased by \$ 62,971, and for the debt service increased by \$ 5,911.	(	57,060)
Some revenues reported in the governmental activities statement of activities do not provide for current financial resources, and, therefore, are not reported as revenues in governmental funds. This is the change in accrued interest on long-term receivables of \$ 340,874.		340,874
Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the governmental activities statement of net assets. These amounts were for general obligation bonded debt for \$ 268,000.		268,000
Some expenses reported in the governmental activities statement of activities do not require the use of current financial resources, and, therefore, are not reported as expenditures in governmental funds. This is the change in accrued interest on long-term debt of \$( 5,650), accrued compensated absences of \$ 70,808, and the amortization of bond issuance costs of \$ 2,632.	(	<u>67,790</u> )
Change in net assets of governmental activities	\$	<u><u>2,079,199</u></u>

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

## CITY OF FREEPORT

Freeport, Texas

### STATEMENT OF NET ASSETS - PROPRIETARY FUNDS

September 30, 2007

	Water and Sewer	Non-Major Proprietary Funds	Total Proprietary Funds
<u>Assets</u>			
Current Assets:			
Cash and temporary investments	\$ 180	\$ 97,341	\$ 97,521
Receivables (Net of Allowance for Uncollectibles):			
Accounts	625,940	37,289	663,229
Inventory	_____	55,860	55,860
Total unrestricted current assets	626,120	190,490	816,610
Current Restricted Assets:			
Cash and temporary investments	189,797		189,797
Bond issuance costs (current)	15,188	_____	15,188
Total current restricted assets	204,985	-0-	204,985
Total current assets	831,105	190,490	1,021,595
Noncurrent Assets:			
Bond issuance costs (net of current and accumulated amortization of \$ 60,752) - restricted	91,128	_____	91,128
Capital Assets:			
Land	56,200	339,430	395,630
Buildings		180,887	180,887
Improvements		534,013	534,013
Utility plant	19,798,830		19,798,830
Furniture, equipment and vehicles	146,765	766,475	913,240
Construction in progress	47,343	12,430	59,773
Less accumulated depreciation	( 12,774,064)	( 759,810)	( 13,533,874)
Total capital assets (net of accumulated depreciation)	7,275,074	1,073,425	8,348,499
Total assets	\$ 8,197,307	\$ 1,263,915	\$ 9,461,222

(Continued)

**CITY OF FREEPORT**  
Freeport, Texas

STATEMENT OF NET ASSETS - PROPRIETARY FUNDS - Continued

September 30, 2007

	<u>Water and Sewer</u>	<u>Non-Major Proprietary Funds</u>	<u>Total Proprietary Funds</u>
<u>Liabilities and Net Assets</u>			
Current Liabilities:			
Accounts payable	\$ 252,498	\$ 152,685	\$ 405,183
Accrued wages	2,607	19,944	22,551
Accrued compensated absences	14,004	58,433	72,437
Deferred revenue	200		200
Due to other governments	3,335		3,335
Due to other funds	<u>230,234</u>	<u>1,465</u>	<u>231,699</u>
Total current liabilities	<u>502,878</u>	<u>232,527</u>	<u>735,405</u>
Current Liabilities Payable From Restricted Assets:			
Customer deposits payable	<u>173,540</u>		<u>173,540</u>
Total current liabilities	<u>676,418</u>	<u>232,527</u>	<u>908,945</u>
Noncurrent Liabilities:			
Revenue bonds payable	<u>1,449,000</u>		<u>1,449,000</u>
Total noncurrent liabilities	<u>1,449,000</u>	<u>-0-</u>	<u>1,449,000</u>
Total liabilities	<u>2,125,418</u>	<u>232,527</u>	<u>2,357,945</u>
Net Assets:			
Invested in capital assets, net of related debt	5,826,074	1,073,425	6,899,499
Reserved for revenue bond debt	107,385		107,385
Unreserved	<u>138,430</u>	<u>( 42,037)</u>	<u>96,393</u>
Total net assets	<u>6,071,889</u>	<u>1,031,388</u>	<u>7,103,277</u>
Total liabilities and net assets	<u>\$ 8,197,307</u>	<u>\$ 1,263,915</u>	<u>\$ 9,461,222</u>

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

# CITY OF FREEPORT

Freeport, Texas

## STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS - PROPRIETARY FUNDS

For the Year Ended September 30, 2007

	Water and Sewer	Non-Major Proprietary Funds	Total Proprietary Funds
Operating Revenues:			
Water service	\$ 1,821,473	\$	\$ 1,821,473
Sewer service	1,217,349		1,217,349
Charges for other services	442,020	399,382	841,402
Golf course fees and charges		462,982	462,982
Miscellaneous	3,087	2,655	5,742
Total operating revenues	3,483,929	865,019	4,348,948
Operating Expenses:			
Personnel services	63,019	506,228	569,247
Employee benefits	21,865	152,741	174,606
Contract and professional services	3,093,473	154,372	3,247,845
Supplies	22,133	82,361	104,494
Cost of sales and services		149,723	149,723
Operating expenses before depreciation	3,200,490	1,045,425	4,245,915
Depreciation	336,567	86,058	422,625
Total operating expenses	3,537,057	1,131,483	4,668,540
Net operating income (loss)	( 53,128)	( 266,464)	( 319,592)
Non-Operating Revenues (Expenses):			
Interest revenue	10,634	8,408	19,042
Interest expense and agent fees	( 94,460)		( 94,460)
Total non-operating revenues (expenses)	( 83,826)	8,408	( 75,418)
Net income (loss) before contributions and operating transfers	( 136,954)	( 258,056)	( 395,010)
Contributions (capital)	100,679		100,679
Transfers in	13,115	210,724	223,839
Change in net assets	( 23,160)	( 47,332)	( 70,492)
Net assets, October 1	6,095,049	1,078,720	7,173,769
Net assets, September 30	\$ 6,071,889	\$ 1,031,388	\$ 7,103,277

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

**CITY OF FREEPORT**

Freeport, Texas

**STATEMENT OF CASH FLOWS -  
PROPRIETARY FUNDS**

For the Year Ended September 30, 2007

	Water and Sewer	Non-Major Proprietary Funds	Total Proprietary Funds
Cash Flows from Operating Activities:			
Receipts from customers and users	\$ 3,346,268	\$ 904,798	\$ 4,251,066
Payments to suppliers	( 2,676,652)	( 271,477)	( 2,948,129)
Payments to employees	( 90,334)	( 683,204)	( 773,538)
Payments to other funds	( 230,234)	( 1,465)	( 231,699)
Net cash provided (used) by operating activities	<u>349,048</u>	<u>( 51,348)</u>	<u>297,700</u>
Cash Flows from Non-Capital Financing Activities:			
Operating transfers from other funds	<u>13,115</u>	<u>210,724</u>	<u>223,839</u>
Net cash provided (used) by non-capital financing activities	<u>13,115</u>	<u>210,724</u>	<u>223,839</u>
Cash Flows from Capital and Related Financing Activities:			
Purchase of capital assets	( 105,037)	( 212,538)	( 317,575)
Principal payments on bonds	( 174,000)		( 174,000)
Interest and fees on bonds	( 79,272)		( 79,272)
Net cash provided (used) by capital and related financing activities	<u>( 358,309)</u>	<u>( 212,538)</u>	<u>( 570,847)</u>
Cash Flows from Investing Activities:			
Interest on investments	<u>10,634</u>	<u>8,408</u>	<u>19,042</u>
Net cash provided (used) by investing activities	<u>10,634</u>	<u>8,408</u>	<u>19,042</u>
Net increase (decrease) in cash and cash equivalents	14,488	( 44,754)	( 30,266)
Cash and cash equivalents at the beginning of year	<u>175,489</u>	<u>142,095</u>	<u>317,584</u>
Cash and cash equivalents at the end of the year	<u>\$ 189,977</u>	<u>\$ 97,341</u>	<u>\$ 287,318</u>

(Continued)

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

**CITY OF FREEPORT**

Freeport, Texas

**STATEMENT OF CASH FLOWS -  
PROPRIETARY FUNDS - Continued**

For the Year Ended September 30, 2007

	<u>Water and Sewer</u>	<u>Non-Major Proprietary Funds</u>	<u>Total Proprietary Funds</u>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:			
Operating income (loss)	\$ ( 53,128 )	\$ ( 266,464 )	\$ ( 319,592 )
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Depreciation	336,567	86,058	422,625
(Increase) decrease in accounts receivable	( 143,396 )	39,779	( 103,617 )
(Increase) decrease in prepaid expenditures	142,811		142,811
(Increase) decrease in due from other funds		1,046	1,046
(Increase) decrease in inventory		4,467	4,467
Increase (decrease) in customer deposits	5,735		5,735
Increase (decrease) in accounts payable	( 132,494 )	108,001	( 24,493 )
Increase (decrease) in other liabilities	( 5,450 )	( 25,700 )	( 31,150 )
Increase (decrease) in deferred revenues	( 200 )		( 200 )
Increase (decrease) in due to other funds	<u>198,603</u>	<u>1,465</u>	<u>200,068</u>
Total adjustments	<u>402,176</u>	<u>215,116</u>	<u>617,292</u>
Net cash provided (used) by operating activities	\$ <u>349,048</u>	\$ <u>( 51,348 )</u>	\$ <u>297,700</u>
Non-Cash Investing, Capital and Financing Activities:			
Contributions from other governments	100,679		100,679
Assets acquired as a result of contributed assets	( 100,679 )		( 100,679 )
Net effect of non-cash transactions	\$ <u>-0-</u>	\$ <u>-0-</u>	\$ <u>-0-</u>



**CITY OF FREEPORT**

Freeport, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For The Year Ended September 30, 2007

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# CITY OF FREEPORT

Freeport, Texas

## NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2007

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the City of Freeport, Texas (City) related to the funds in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. Generally accepted accounting principals for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled Audits of State and Local Governmental Units and by the Financial Accounting Standards Board (when applicable). As allowed in Section P80 of GASB's Codification of Governmental Accounting and Financial Reporting Standards, the City has elected not to apply Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee of Accounting Procedure issued after November 30, 1989. The more significant accounting policies of the City are described below.

#### Reporting Entity

In evaluating how to define the government, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. Based upon the application of these criteria, the following is a brief review of each potential component unit addressed in defining the City's reporting entity.

Included in the reporting entity:

#### Primary Government

The City of Freeport 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 safety, highways and streets, sanitation, health and social services, culture-recreation, public improvements planning and zoning and general administrative services.

The following entity was found to be a component unit of the City and is included in the basic financial statements and is discretely presented:

#### 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 public welfare.

# CITY OF FREEPORT

Freeport, Texas

## NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2007

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

#### Reporting Entity - continued

#### Freeport Economic Development Corporation - continued

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 "FEDC") 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 was reported as a blended component unit. However, during the year ended September 30, 2007, the FEDC began construction and entered into a long-term lease for a marina with a company unrelated to the City. Because of this, the City is no longer able to report the FEDC as a blended component unit and has currently reported the FEDC as a discretely component unit.

The Financial Statements for the Freeport Economic Development Corporation can be obtained from the Office of the Finance Director, City of Freeport, Texas.

#### Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities report financial information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

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

# CITY OF FREEPORT

Freeport, Texas

## NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2007

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

#### Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Revenues from property and sales taxes, grants and contracts, charges for services, licenses and permits, fines and forfeitures, and interest associated with the current fiscal period are all considered to be susceptible to accrual. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

Revenue from investments, including governmental external investment pools, is based upon fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Most investments are reported at amortized cost when the investments have remaining maturities of one year or less at time of purchase. External investment pools are permitted to report short-term debt investments at amortized cost, provided that the fair value of those investments is not significantly affected by the impairment of the credit standing of the issuer, or other factors. For that purpose, a pool's short-term investments are those with remaining maturities of up to ninety days.

Grant funds are considered earned to the extent of the expenditures made under the provisions of the grant. Accordingly, when such funds are received, they are recorded as deferred revenues until the related and authorized expenditures have been made. If balances have not been expended by the end of the project period, grantors sometimes require the City to refund all or part of the unused amount.

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

# CITY OF FREEPORT

Freeport, Texas

## NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2007

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

#### Measurement Focus, Basis Of Accounting, and Financial Statement Presentation - continued

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise fund are charges to customers for sales and services and rentals.

Operating expenses for the enterprise fund includes the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, and then unrestricted resources as they are needed.

The City has presented the following major governmental funds:

The *General fund* is the City's primary operating fund. It accounts for all financial resources of the City, except those required to be accounted for in another fund. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the general fund.

The *Streets, Drainage and Sidewalks special revenue fund* appropriations are accounted for in the annual budget. Funds are transferred from the General Fund to construct budgeted sewer projects, sidewalk projects, and resurfacing of existing streets and new streets.

The City reports the following major proprietary fund:

The Water and Sewer Enterprise Fund is used to account for the provision of water and sewer services to the residents of the City. Activities of the fund include administration, operations and maintenance of the water and sewer system and billing and collection activities. All costs are financed through charges to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the funds.

#### New Pronouncements

GASB No. 43, "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans," was issued May 2004 and establishes uniform financial reporting by state and local government entities for Other Postemployment Benefit plans. This statement provides standards for measurement, recognition, and display of the assets, liabilities and where applicable, net assets and changes in net assets of such funds and for related disclosures. This statement is effective for periods beginning after December 15, 2007. Management of the City has not determined the impact, if any, upon its financial position, results of operations or its cash flows upon adoption.

# CITY OF FREEPORT

Freeport, Texas

## NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2007

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

#### New Pronouncements - continued

In May 2004, the GASB issued Statement No. 44, "Economic Condition Reporting: The Statistical Section - an amendment of NCGA Statement 1". This statement amends the portions of NCGA statement 1, "Governmental Accounting and Financial Reporting Principles", that guide the preparation of the statistical section. The statistical section presents detailed information, typically in ten-year trends, that assists users in utilizing the basic financial statements and required supplementary information to assess the economic condition of a government. This statement is effective for periods beginning after June 15, 2005. The City does not provide a statistical section within their annual financial report.

GASB No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions," was issued June 2004. This statement establishes standards for the measurement, recognition, and display of other postemployment benefits (OPEB) expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers. This statement is effective for periods beginning after December 15, 2008. Management of the City has not determined the impact, if any, upon its financial position, results of operations or its cash flows upon adoption.

GASB No. 46, "Net Assets Restricted by Enabling Legislation: an amendment of GASB Statement No. 34", was issued December 2004. This statement clarifies the meaning of legally enforceable as applied to restrictions on net asset use imposed by enabling legislation. This statement is effective for periods beginning after June 15, 2006. The statement was implemented and did not have a material impact on the City's financial statements.

GASB No. 47, "Accounting for Termination Benefits", was issued April 2005. This statement provides guidance for measuring, recognizing, and reporting liabilities and expense/expenditures related to all termination benefits, both voluntary and involuntary. This statement is effective for periods beginning after June 15, 2005. This statement was implemented during the year ended August 31, 2006. This statement has been implemented and did not have a material effect on the financial statements of the City.

GASB No. 48, "Sales and Pledges of Receivables and Future Revenues and Intra Entity Transfers of Assets and Future Revenues", was issued September 2006. This statement provides guidance for transactions in which a government receives, or is entitled to, resources in exchange for future cash flows generated by collecting specific receivables or specific future revenues. This statement is effective for periods beginning after December 15, 2006. The statement was implemented and did not have an impact on the City's financial statements.

GASB No. 49, "Accounting and Financial Reporting for Pollution Remediation Obligations", was issued November 2006. This statement provides guidance for pollution remediation obligations. This statement is effective for periods beginning after December 15, 2007. The management of the City does not believe that the implementation of this statement will have a material effect on the financial statements of the City.

**CITY OF FREEPORT**

Freeport, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For The Year Ended September 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

New Pronouncements - continued

GASB No. 50, "Pension Disclosures", was issued May 2007. This statement provides guidance for financial reporting by pension plans and by employers that provide defined benefit and contribution plans. This statement is effective for periods beginning after June 15, 2007. The management of the City does not believe that the implementation of this statement will have a material effect on the financial statements of the City.

GASB No. 51, "Accounting and Financial Reporting for Intangible Assets", was issued June 2007. This statement provides guidance for financial reporting of intangible assets for all state and local governments. This statement is effective for periods beginning after June 15, 2009. The management of the City does not believe that the implementation of this statement will have a material effect on the financial statements of the City.

Budgetary Data

Financial statements in this report are based on legally enacted basis (modified accrual basis with certain exceptions) and the generally accepted accounting principles (GAAP) basis. The financial statements prepared on the legally enacted basis differ from the GAAP basis statements on an individual fund basis as follows:

Enterprise Funds:

Water and Sewer Fund - amortization of bond issuance costs.

Golf Course Fund - capital expenditures are recorded as current year expense as opposed to being capitalized and depreciated over the estimated useful life of the asset (GAAP).

Ambulance Fund - capital expenditures are recorded as current year expense as opposed to being capitalized and depreciated over the estimated useful life of the asset (GAAP).

The following schedule reconciles the difference between the City's legally enacted basis and the GAAP basis:

	Budgeted Enterprise Funds			
	Water & Sewer	Golf Course	Ambulance	Total
Budgeted Enterprise Fund:				
Net income (loss) - GAAP basis	\$( 23,160)	\$( 40,745)	\$( 6,587)	\$( 70,492)
Capital asset additions	( 205,716)	( 53,708)	( 158,830)	( 418,254)
Net income (loss) - budget basis	<u>\$( 228,876)</u>	<u>\$( 94,453)</u>	<u>\$( 165,417)</u>	<u>\$( 488,746)</u>

The City follows these procedures in establishing the budgeting data reflected in the financial statements:

1. Between sixty (60) and ninety (90) days prior to the beginning of the next fiscal year (October 1), the City Manager submits to council a proposed budget, which includes a complete financial plan for the fiscal year.

# CITY OF FREEPORT

Freeport, Texas

## NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2007

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

#### Budgetary Data - continued

2. In September, a public hearing for the proposed budget is held. After the conclusion of the hearing, a vote is taken for adoption of the budget.
3. An ordinance is passed by Council to legally enact the budget.
4. Expenditures may not legally exceed appropriations at the fund level.

#### Encumbrances

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting - under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation - is utilized in the governmental funds. Encumbrances outstanding at year end do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

#### Cash and Investments

Cash and temporary investments include amounts in demand deposits and short-term investments with a maturity date within three months of the date acquired by the City. For purposes of the cash flow statement, cash and temporary investments are considered cash equivalents. In accordance with GASB Statement 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools", investments are stated at fair value. State statutes authorize the government to invest in obligations of the U. S. Treasury, commercial paper, corporate bonds and repurchase agreements, and other such securities or obligations as allowed in the Public Funds Investment Act (PFIA) as amended and approved by the City's Council. The City's management believes it complied with the requirements of the PFIA and the City's investment policies.

#### Property Taxes

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

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

The City is permitted by the State Property Tax Board to levy taxes up to \$ 1.50 per \$ 100 of assessed valuation for general governmental services other than the payment of principal and interest on long-term debt and unlimited amounts for the payment of principal and interest on long-term debt. The tax rates assessed for the year ended September 30, 2007, to finance general fund operations and the payment of principal and interest on general obligation long-term debt were \$ 0.614 and 0.096 per \$ 100 valuation, respectively, for a total of \$ 0.71 per \$ 100 valuation.



**CITY OF FREEPORT**

Freeport, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For The Year Ended September 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Interfund Receivables, Payables and Transfers

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All outstanding balances between funds are reported as "due to/from other funds". The City had no advances between funds. See Note 5 for additional discussion of interfund receivables, payables and transfers.

Capital Assets

Capital assets, which includes property, plant, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for proprietary funds. All capital assets are valued at historical cost or estimated historical cost if actual historical is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenses. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Assets capitalized have an original cost of \$ 5,000 or more and over three years of useful life. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Buildings	10-20 Years
Utility Plant	40 Years
Equipment	5-15 Years
Vehicles	5 Years

Compensated Absences

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

The following is a summary of benefits payable as of September 30, 2007:

	<u>2007</u>
Governmental activities	\$ 695,336
Business-type activities	<u>72,437</u>
	<u>\$ 767,773</u>

# CITY OF FREEPORT

Freeport, Texas

## NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2007

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

#### Long-Term Debt

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

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

#### Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

#### Net Assets

Net assets represents the differences between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciations, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Restricted net assets, as presented in the government-wide Statement of Net Assets, are reported when constraints placed on the use of net assets are either 1) externally imposed by creditors (such as through debt covenants, grantors, contributors, or laws or regulations of other governments), or 2) imposed by law through constitutional provisions or enabling legislation.

### NOTE 2 - RESTATEMENT OF FUND BALANCE/NET ASSETS

During the year ended September 30, 2007, the Freeport Economic Development Corporation (the "FEDC") initiated transactions that changed its reporting status with the City. In prior years, the FEDC 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. During the year ended September 30, 2007, the FEDC began construction and entered into a long-term lease for a marina with a company unrelated to the City. Because of this, the City is no longer able to report the FEDC as a blended component unit and has currently reported the FEDC as a discretely component unit. As a result, the City's net assets and fund balance have been restated to reflect the elimination of the FEDC as of

# CITY OF FREEPORT

Freeport, Texas

## NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2007

### NOTE 2 - RESTATEMENT OF FUND BALANCE/NET ASSETS - Continued

September 30, 2007. In addition, capital assets (infrastructure – roads and bridges) acquired in previous years were added to the City's capital assets in the net amount of \$ 138,990. Further, sales tax receivables totaling \$ 142,161 were not previously booked. This amount accounts for the November 2006 receipts as indicated on the State's website, plus the difference between what was set-up as receivable at September 30, 2006 and the October 2006 receipts. The beginning net assets and fund balance of the City in the statement of activities and balance sheet has been restated as follows:

Net assets at September 30, 2006	\$ 18,997,694
Freeport Economic Development Corporation:	
FEDC special revenue fund balance	( 632,512)
FEDC capital assets \$ 2,017,480 less accumulated depreciation of \$ 13,296	( 2,004,184)
Notes receivable from FEDC	765,670
Capital assets (Infrastructure) of \$ 6,978,990 less \$ 6,840,000	138,990
Increase sales tax receivables and revenues	<u>142,161</u>
Restated net assets at September 30, 2006	<u>\$ 17,407,819</u>

Fund balances (General Fund) have been restated as follows:

Fund balance at September 30, 2006	\$ 6,215,906
Notes receivable from FEDC	765,670
Increase sales tax receivables and revenues	<u>142,161</u>
Restated fund balance at September 30, 2006	<u>\$ 7,123,737</u>

### NOTE 3 - DEPOSITS, INVESTMENTS AND DERIVATIVES

The City classifies deposits and investments for financial statement purposes as cash and temporary investments, and investments based upon both liquidity (demand deposits) and maturity date (deposits and investments) of the asset at the date of purchase. For this purpose a temporary investment is one that when purchased had a maturity date of three months or less. Cash and temporary investments, as reported on the combined balance sheet at September 30, 2007 are as follows:

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Cash and Temporary Investments:			
Cash (petty cash accounts)	\$ 2,257	\$	\$ 2,257
Financial Institution Deposits:			
Demand deposits	57,925	189,797	247,722
State Treasury Investment Pool:			
Texpool	<u>4,457,916</u>	<u>                    </u>	<u>4,457,916</u>
Total cash and temporary investments	<u>\$ 4,518,098</u>	<u>\$ 189,797</u>	<u>\$ 4,707,895</u>

# CITY OF FREEPORT

Freeport, Texas

## NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2007

### NOTE 3 - DEPOSITS, INVESTMENTS AND DERIVATIVES - Continued

#### Deposits

All deposits with financial institutions must be collateralized in an amount equal to 100 percent of uninsured balances. At September 30, 2007, in addition to petty cash of \$ 2,257, the carrying amount of the City's cash, savings, and time deposits was \$ 247,722. The financial institutions balances were \$ 776,851 at September 30, 2007. Bank balances of \$ 100,000 were covered by federal depository insurance and \$ 676,851 was covered by collateral pledged in the City's name.

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

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

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

#### Investments

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

The City's Investment Committee submits an investment report each quarter to the City Council. The report details the investment positions of the City and the compliance of the investment portfolio's as they relate to both the investment strategy and policy approved by City Council and Texas State law.

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

**CITY OF FREEPORT**

Freeport, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For The Year Ended September 30, 2007

NOTE 3 - DEPOSITS, INVESTMENTS AND DERIVATIVES - Continued

Investments - continued

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

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

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

At September 30, 2007, Texpool had a weighted average maturity of 35 days. Although Texpool portfolio had a weighted average maturity of 35 days, the City considers holdings in these funds to have a one day weighted average maturity. This is due to the fact that the share position can usually be redeemed each day at the discretion of the shareholder, unless there has been a significant change in value.

All of the City's investments are insured, registered, or the City's agent holds the securities in the City's name; therefore, the City is not exposed to custodial credit risk.

The following table includes the portfolio balances of all investment types of the City at September 30, 2007.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Days)</u>
Local government investment pools (LGIP)	\$ <u>4,457,916</u>	<u>1</u>
	\$ <u>4,457,916</u>	<u>1</u>

**CITY OF FREEPORT**

Freeport, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For The Year Ended September 30, 2007

NOTE 3 - DEPOSITS, INVESTMENTS AND DERIVATIVES - Continued

Investments - continued

Credit Risk – As of September 30, 2007, the LGIPs (which represent approximately 100% of the City's portfolio) are rated AAAM by Standard and Poor's.

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

Derivatives

Interest in derivative products has increased in recent years. Derivatives are investment products, which may be a security or contract, which derives its value from another security, currency, commodity, or index, regardless of the source of funds used. The City made no direct investments in derivatives during the year ended September 30, 2007, and holds no direct investments in derivatives at September 30, 2007.

NOTE 4 - DEFERRED REVENUE

Governmental funds report deferred revenue in connection with receivables for revenues that are considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

As of September 30, 2007, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follow.

	<u>Unavailable</u>
Delinquent property taxes receivable (General Fund)	\$ 51,536
Delinquent property taxes receivable (Debt Service Fund)	<u>5,911</u>
Total deferred/unearned revenue from governmental funds	<u>\$ 57,447</u>

As of September 30, 2007, the various components of deferred revenue and unearned revenue reported in the proprietary funds were as follow.

	<u>Unearned</u>
Deposits	\$ <u>200</u>
Total deferred/unearned revenue from proprietary funds	<u>\$ 200</u>

**CITY OF FREEPORT**

Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2007

**NOTE 5 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**

Interfund balances at September 30, 2007 consisted of the following individual fund receivables and payables:

<u>Fund</u>	<u>Receivable</u>	<u>Payable</u>
General Fund:		
Debt Service Fund:		
Series 2003B	\$ 6,234	\$
Enterprise Fund:		
Water and Sewer	230,234	
Golf Course	1,465	
	<u>237,933</u>	<u>-0-</u>
Debt Service Fund:		
Series 2003B:		
General Fund	<u>-0-</u>	<u>6,234</u>
Enterprise Fund:		
Water and Sewer:		
General Fund		230,234
Golf Course:		
General Fund		1,465
	<u>-0-</u>	<u>231,699</u>
Total	<u>\$ 237,933</u>	<u>\$ 237,933</u>

Interfund transfers for the year ended September 30, 2007 consisted of the following individual fund transfers in and transfers out:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund:		
Special Revenue Fund:		
Streets, drainage and sidewalks	\$	\$ 748,558
Hotel/Motel Tax	8,475	
Enterprise Fund:		
Water and sewer		13,115
Golf course		210,724
	<u>8,475</u>	<u>972,397</u>
Special Revenue Fund:		
Street, Drainage and Sidewalks:		
General Fund	748,558	
Hotel/Motel Tax:		
General Fund		8,475
	<u>748,558</u>	<u>8,475</u>

(continued)

**CITY OF FREEPORT**

Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2007

NOTE 5 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS - Continued

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
Enterprise Fund:		
Water and Sewer:		
General Fund	\$ 13,115	\$
Golf Course:		
General Fund	<u>210,724</u>	<u>          </u>
	<u>223,839</u>	<u>-0-</u>
 Total	 <u>\$ 980,872</u>	 <u>\$ 980,872</u>

NOTE 6 - CAPITAL ASSETS

Capital assets activity for the year ended September 30, 2007 was as follows:

	<u>Balance</u> <u>10/01/06</u>	<u>Additions</u>	<u>Transfers</u>	<u>Retirements</u>	<u>Balance</u> <u>09/30/07</u>
Governmental Activities:					
Capital Assets, Not Depreciated:					
Land	\$ 2,081,622	\$ 124,268	\$( 171,000)	\$	\$ 2,034,890
Construction in progress	<u>          </u>	<u>166,935</u>	<u>110,223</u>	<u>          </u>	<u>277,158</u>
Total capital assets not being depreciated	<u>2,081,622</u>	<u>291,203</u>	<u>( 60,777)</u>	<u>-0-</u>	<u>2,312,048</u>
Capital Assets, Being Depreciated:					
Improvements	13,239,099	386,227	171,000	13,796,326	13,796,326
Buildings	4,161,893	256,034	( 110,223)	4,307,704	4,307,704
Furniture, equipment and vehicles	<u>4,592,402</u>	<u>775,931</u>	<u>          </u>	<u>281,428</u>	<u>5,086,905</u>
Total capital assets being depreciated	<u>21,993,394</u>	<u>1,418,192</u>	<u>60,777</u>	<u>281,428</u>	<u>23,190,935</u>
Less Accumulated Depreciation For:					
Improvements	7,804,852	344,432			8,149,284
Buildings	1,780,903	142,350			1,923,253
Furniture, equipment and vehicles	<u>2,322,785</u>	<u>418,634</u>	<u>          </u>	<u>281,428</u>	<u>2,459,991</u>
Total accumulated depreciation	<u>11,908,540</u>	<u>905,416</u>	<u>-0-</u>	<u>281,428</u>	<u>12,532,528</u>
Total capital assets being depreciated, net	<u>10,084,854</u>	<u>512,776</u>	<u>60,777</u>	<u>-0-</u>	<u>10,658,407</u>
Governmental activities capital assets, net	<u>\$ 12,166,476</u>	<u>\$ 803,979</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 12,970,455</u>



**CITY OF FREEPORT**

Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2007

NOTE 6 - CAPITAL ASSETS - Continued

	<u>Balance</u> <u>10/01/06</u>	<u>Additions</u>	<u>Transfers</u>	<u>Retirements</u>	<u>Balance</u> <u>09/30/07</u>
Business-type Activities:					
Capital Assets, Not Depreciated:					
Land	\$ 395,630	\$	\$	\$	\$ 395,630
Construction in progress	<u>                    </u>	<u>59,773</u>	<u>                    </u>	<u>                    </u>	<u>59,773</u>
Total capital assets not being depreciated	<u>395,630</u>	<u>59,773</u>	<u>-0-</u>	<u>-0-</u>	<u>455,403</u>
Capital Assets, Being Depreciated:					
Buildings	180,887	98,054	( 98,054)		180,887
Improvements	534,013				534,013
Utility plant	19,639,575		159,255		19,798,830
Furniture, equipment and vehicles	<u>714,013</u>	<u>260,428</u>	<u>( 61,201)</u>	<u>                    </u>	<u>913,240</u>
Total capital assets being depreciated	<u>21,068,488</u>	<u>358,482</u>	<u>-0-</u>	<u>-0-</u>	<u>21,426,970</u>
Less Accumulated Depreciation For:					
Buildings	46,013	8,294			54,307
Improvements	255,873	26,957			282,830
Utility plant	12,382,842	333,369			12,716,211
Furniture, equipment and vehicles	<u>426,521</u>	<u>54,005</u>	<u>                    </u>	<u>                    </u>	<u>480,526</u>
Total accumulated depreciation	<u>13,111,249</u>	<u>422,625</u>	<u>-0-</u>	<u>-0-</u>	<u>13,533,874</u>
Total capital assets being depreciated, net	<u>7,957,239</u>	<u>( 64,143)</u>	<u>-0-</u>	<u>-0-</u>	<u>7,893,096</u>
Business-type activities capital assets, net	<u>\$ 8,352,869</u>	<u>\$( 4,370)</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 8,348,499</u>

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

Governmental Activities:	
Administration	\$ 160,146
Public safety	269,732
Public works	318,504
Parks and recreation	<u>157,034</u>
Total depreciation expense-governmental activities	<u>\$ 905,416</u>

**CITY OF FREEPORT**

Freeport, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For The Year Ended September 30, 2007

NOTE 6 - CAPITAL ASSETS - Continued

Business-type Activities:

Water and sewer	\$ 336,567
Golf Course	62,501
Ambulance	<u>23,557</u>

Total depreciation expense-business-type activities \$ 422,625

NOTE 7 - ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS

Taxes - Ad valorem taxes receivable are reserved based on historical experience and evaluation of collectibility within the near future. The allowance for uncollectible taxes as of September 30, 2007, for the General Fund was \$ 208,158 and for the Debt Service Fund was \$ 2,755.

Garbage Customer Receivables - The allowance for uncollectible receivables related to garbage service is determined using twenty-five percent of the accounts thirty days past due and one hundred percent of the accounts over sixty days. The allowance for uncollectible receivables for the year ended September 30, 2007 was \$ 5,579.

Paving Assessments - Receivables for special paving assessments have been fully reserved due to the uncertainty of collections within the near future. Revenue as related to paving assessments is reported as collected. The allowance for uncollectible assessments as of September 30, 2007 was \$ 155,717.

Utility Customer Receivables - The allowance for uncollectible receivables related to utility services is determined using twenty-five percent of the accounts thirty days past due and one hundred percent of the accounts over sixty days. The allowance for uncollectible receivables for the year ended September 30, 2007 was \$ 17,211.

Ambulance Customer Receivables - The allowance for uncollectible receivables related to ambulance service is determined using sixty-seven percent of all accounts based on current historical data. The allowance for uncollectible receivables for the year ended September 30, 2007 was \$ 80,047.

Municipal Court Receivables - Municipal court receivables are reported in the governmental activities statement of net assets. Since these receivables do not represent current available resources, they are not reported in the governmental funds balance sheet. The allowance for uncollectible receivables related to municipal court assessments is determined based on historical experience and evaluation of collectibility in relation to the aging of customer accounts. The allowance for uncollectible receivables for the year ended September 30, 2007 was \$ 583,071.

# CITY OF FREEPORT

Freeport, Texas

## NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2007

### NOTE 8 - CONTINGENT LIABILITIES

The City is contingently liable in respect to lawsuits and other claims in the ordinary course of its operations. The potential settlement (if any) of such contingencies under the budgetary process would require appropriation of revenues yet to be realized and would not materially affect the financial position of the City at September 30, 2007.

The City is involved in Cause No. 04-41196; Western Seafood v. City of Freeport; in the United States Court of Appeals for the Fifth Circuit. The lawsuit arises from the City and its related Economic Development Corporation developing a marina to stimulate the local economy. The plaintiff claims that the construction of the marina will interfere with their existing shrimp processing business. The plaintiff has filed for injunctive relief and for damages. The District judge granted a take-nothing judgment against the plaintiff but it has been appealed. There are no monetary damages or attorney fees obligation to the plaintiff thus far.

The Freeport Economic Development Corporation has a judgment liability of \$ 446,651 to Western Seafood and Western Shellfish, and if they were unable to pay the judgments, the City would be liable to the plaintiffs for the judgment amounts.

### NOTE 9 - PENSION PLAN

#### Plan Description

The City provides pension benefits for all of its full-time employees through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), one of 821 currently administered by TMRS, an agent multiple-employer public employee retirement system.

#### Benefits

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City-financed monetary credits, with interest. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount at least equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent (100%, 150%, or 200%) of the employee's accumulated contributions. In addition, the City can grant, as often as annually, another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and city matching percent had always been in existence and if the employee's salary had always been the average of his salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity.

Members can retire at ages 60 and above with 5 or more years of service or with 20 years of service regardless of age. A member is vested after 5 years. The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS and within the actuarial constraints also in the statutes. The contribution rate for the employees is 7%, and the City matching percent is currently 200%, both as adopted by the governing body of the City.

**CITY OF FREEPORT**

Freeport, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For The Year Ended September 30, 2007

NOTE 9 - PENSION PLAN - Continued

Contributions

Under the state law governing TMRS, the actuary annually determines the contribution rate. This rate consists of the normal cost contribution rate and the prior service contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to City matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time his retirement becomes effective. The prior service contribution rate amortizes the unfunded actuarial liability over the remainder of the plan's 25-year amortization period. The unit credit actuarial cost method is used for determining the City contribution rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance to budget for it, there is a one-year lag between the actuarial valuation that is the basis for the rate and the calendar year when the rate goes into effect.

Schedule of Actuarial Liabilities and Funding Progress

Actuarial Valuation Date			12/31/06
Actuarial Value of Assets		\$	6,277,152
Actuarial Accrued Liability		\$	7,637,604
Percentage Funded			82.19%
Unfunded (Over-funded) Actuarial Accrued Liability (UAAL)		\$	1,360,452
Annual Covered Payroll		\$	3,634,162
UAAL as a Percentage of Covered Payroll			37.44%
Net Pension Obligation (NPO) at the Beginning of Period		\$	-0-
Annual Pension Cost:			
Annual required contribution (APC)	\$	312,937	
Interest on NPO		-0-	
Adjustment to the APC		<u>-0-</u>	\$ 312,937
Contribution Made			\$ 312,937
Increase in NPO			<u>-0-</u>
NPO at the end of the period			<u>\$ -0-</u>

Funding Status and Progress

Pension benefit obligation, net assets available, unfunded pension benefit obligation and annual covered payroll of the City as of September 30, 2004 to 2006, are as follows:

**CITY OF FREEPORT**

Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2007

NOTE 9 - PENSION PLAN - Continued

Funding Status and Progress - continued

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) -entry age (b)	Unfunded (AAL) (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (e)	UAAL as a Percentage of Covered Payroll ((b-a)/e)
December 31,						
2004	\$ 5,883,784	\$ 6,932,079	\$ 1,048,295	84.90%	\$ 3,521,193	29.80%
2005	6,150,846	7,393,335	1,242,489	83.20%	3,488,675	35.60%
2006	6,277,152	7,637,604	1,360,452	82.19%	3,634,162	37.44%

Schedule of Employer Contributions

Fiscal Year Ended	Annual Required Contribution	Percentage Contribution
September 30,		
2005	\$ 255,983	100.00%
2006	276,017	100.00%
2007	312,937	100.00%

NOTE 10 - TEXAS STATEWIDE EMERGENCY SERVICES PERSONNEL RETIREMENT FUND

Plan Description

The Fire Fighters' Pension Commissioner is the administrator of the Texas Statewide Emergency Services Personnel Retirement Fund (TESRS), a cost-sharing multiple employer pension system established and administered by the State of Texas to provide pension benefits for emergency services personnel who serve without significant monetary remuneration. TESRS is considered a component unit of the State of Texas financial reporting entity and is included in the State's financial reports as a pension trust fund. At August 31, 2006, there were 181 member fire or emergency services departments participating in TESRS. Eligible participants include volunteer emergency services personnel who are members in good standing of a participating department.

The table below summarizes the TESRS membership as of August 31, 2006:

Retirees and beneficiaries currently receiving benefits	1,766
Terminated participants entitled to benefits but not yet receiving them	1,815
Current active participants (vested and nonvested)	4,480

# CITY OF FREEPORT

Freeport, Texas

## NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2007

### NOTE 10 - TEXAS STATEWIDE EMERGENCY SERVICES PERSONNEL RETIREMENT FUND - Continued

#### Plan Description - continued

Senate Bill 411, 65th Legislature, Regular Session (1977) created TESRS and established the applicable benefit provisions. The 79<sup>th</sup> Legislature, Regular Session (2005), recodified the provisions and gave the TESRS Board of Trustees authority to establish vesting requirements, contribution levels, benefit formulas, and eligibility requirements by board rule. The benefit provisions include retirement benefits as well as death and disability benefits. Member are 50% vested after the tenth year of service, with the vesting percent increasing 10% for each of the next five years of service so that a member becomes 100% vested with 15 years of service.

Upon reaching age 55, each vested member may retire and receive a monthly pension equal to his vested percent multiplied by six times the governing body's average monthly contribution over the member's years of qualified service. For years of service in excess of 15 years, this monthly benefit is increased at the rate of 6.2% compounded annually.

On and off duty death benefits and on-duty disability benefits are dependent on whether or not the member was engaged in the performance of duties at the time of death or disability. Death benefits include a lump-sum amount and continuing monthly payments to a member's surviving spouse and dependent children

#### Funding Policy

Contribution provisions were established by S.B. 411, 65th Legislative, Regular Session (1977) and were amended by board rule in 2006. No contributions are required by individual members of participating departments. The governing bodies of participating departments are required to contribute at least the minimum prescribed amount per month for each active member and may contribute more. Additional contributions may be made by a governing body to pay for granting credit for service before the department began participating in TESRS (prior service). The State may also be required to make annual contributions up to a limited amount to make TESRS actuarially sound.

#### Annual Required Contributions

The contribution requirement per active emergency services personnel member per month is not actuarially determined. Rather, the minimum contribution provisions were set by board rule. For the fiscal year ending August 31, 2006 total contributions (dues and prior service) of \$ 2,077,728 were paid into TESRS by the political subdivisions served by the member volunteer emergency services personnel. In addition, the state appropriated \$ 675,307 for the fiscal year ending August 31, 2006. Total contributions made were equal to the contributions required by the state statute and were equal to the contributions required based on the revised August 31, 2004 actuarial valuation.

**CITY OF FREEPORT**

Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2007

NOTE 10 - TEXAS STATEWIDE EMERGENCY SERVICES PERSONNEL RETIREMENT FUND -  
Continued

Annual Required Contributions - continued

The purpose of the biennial actuarial valuation is to test the adequacy of the financing arrangement to determine if it is adequate to pay the benefits that are promised. The actuarial valuation as of August 31, 2006 revealed the adequacy of the expected contributions from the political subdivisions (dues and prior service contributions) together with the actual state appropriations for the fiscal year ending August 31, 2007 (\$ 709,613 as the maximum state contribution according to state law plus approximately \$ 400,000 to help pay for the System's administrative expenses) and with the assumed continuation of legislative appropriations of (1) the maximum state contributions amount in future years for up to 30 years as is necessary for the System to have a 30-year amortization period, and (2) approximately \$ 400,000 each year to help pay for the System's administrative expenses. Expected contributions for the fiscal year ending August 31, 2007 are equal to the contributions required.

Required Supplementary Information - Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) <sup>1</sup> - Entry Age (b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a/b)	Total Members Covered (c)	UAAL Per Member Covered (b-a)/(c)
8/31/02	\$ 32,797,262	\$ 45,976,387	\$ 13,179,125	71.3%	7,669	1,718
8/31/04	38,140,501	51,567,426	13,426,925	74.0%	7,994	1,680
8/31/06	42,268,305	58,082,828	15,814,523	72.8%	8,061	1,962

Notes:

<sup>1</sup> The actuarial accrued liability is based upon the entry age actuarial cost method.

<sup>2</sup> Changes in actuarial assumptions and methods as well as benefit and contribution provisions were first reflected in this valuation.

Fiscal Year Ending	Three-Year Trend Information	
	Annual Required Contributions (ARC)	Percentage of ARC Contributed
August 31, 2004	\$ 2,896,557 <sup>1</sup>	65%
August 31, 2005	3,206,300 <sup>2</sup>	50%
August 31, 2006	2,753,035 <sup>3</sup>	100%

<sup>1</sup> Based on the August 31, 2002 actuarial valuation.

<sup>2</sup> Based on the original August 31, 2004 actuarial valuation.

<sup>3</sup> Based on the revised August 31, 2004 actuarial valuation.

**CITY OF FREEPORT**

Freeport, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For The Year Ended September 30, 2007

**NOTE 10 - TEXAS STATEWIDE EMERGENCY SERVICES PERSONNEL RETIREMENT FUND - Continued**

**Required Supplementary Information - Schedule of Funding Progress - continued**

The actuarial assumptions and methods for the two most recent biennial valuations are shown below.

Valuation date	August 31, 2004	August 31, 2006
Actuarial cost method	Entry Age	Entry Age
Amortization method	Level dollar, open	Level dollar, open
Remaining amortization period	Infinity	30 years
Asset valuation method	Market value smoothed by a 5-year deferred recognition method with a 90%/110% corridor on market value	Market value smoothed by a 5-year deferred recognition method with a 90%/110% corridor on market value
Actuarial assumptions:		
Investment rate of return*	8.00% per year, net of investment expenses	8.00% per year, net of investment expenses
Projected salary increases	N/A	N/A
* Included inflation at	3.75%	3.75%
Cost-of-living adjustments	None	None

A report may be obtained by contacting the Texas Comptroller, Post Office Box 13528, Capitol Station, Austin, Texas 78711-3528.

**NOTE 11 - INDUSTRIAL DISTRICT CONTRACTS**

On April 1, 1995 the City of Freeport in conjunction with the cities of Lake Jackson and Clute entered into an industrial contract with the Dow Chemical Company and BASF Corporation. A formula using Dow Chemical Company's and BASF Corporation's assets determine how much the City of Freeport will receive each year. The amount received under this contract and various other industrial district contracts during the year ended September 30, 2007 was \$ 3,709,686 and is reported in the General Fund.

**NOTE 12 - WATER SUPPLY CONTRACT**

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



**CITY OF FREEPORT**

Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2007

NOTE 13 - JOINT VENTURE

The City is party to an agreement with the City of Oyster Creek to share costs associated with the operation of a sewer treatment plant. The plant went on-line during the fiscal year ended September 30, 1989. The percentage for sharing the operating expenses is determined based upon meter flow calibrations. For the year ended September 30, 2007, the City of Freeport's portion of these expenses was \$ 41,204. The City of Oyster Creek maintains both budgetary and accounting responsibility over these operations.

During the year ended September 30, 2003, the City began a joint venture with the City of Clute, City of Lake Jackson, and the SPCA for an animal shelter. The shelter is located in Lake Jackson and provides programs for the claiming and adoption of lost or abandoned animals for the three cities. The term of the agreement is from March 1, 2003 through February 28, 2023. The City and Clute contributed \$ 150,000 each and the SPCA contributed \$ 250,000 for a total of \$ 550,000 to Lake Jackson for the design, construction, and furnishing of the \$ 1,100,000 facility. The City pays each year for administrative operating costs. For the year ended September 30, 2007, the City paid \$ 58,832 for their portion of the operating costs.

NOTE 14 - LONG-TERM DEBT

General Long-Term Debt:

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

The general obligation bonds payable at September 30, 2007 is summarized as follows:

Purpose	Interest Rate (%)	Series Dates			Bonds Outstanding 09/30/07
		Issued	Maturity	Callable	
Certificate Obligation Bonds					
Series 2003	4.84	2003	2018	2014	\$ 2,557,000
Refunding Bonds,					
Series 2003	4.84	2003	2018	2014	<u>1,863,000</u>
					<u>\$ 4,420,000</u>

General obligation bond transactions for the year ended September 30, 2007 were as follows:

	<u>2007</u>
Bonds outstanding, October 1,	\$ 4,688,000
Maturities	<u>( 268,000)</u>
Bonds outstanding, September 30,	<u>\$ 4,420,000</u>

**CITY OF FREEPORT**

Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2007

NOTE 14 - LONG-TERM DEBT - Continued

General Long-Term Debt: - continued

Aggregate maturities of certificate of obligation bonds for the five years subsequent to September 30, 2007 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 280,000	\$ 207,152	\$ 487,152
2009	294,000	193,261	487,261
2010	308,000	178,693	486,693
2011	323,000	163,423	486,423
2012	339,000	147,402	486,402
2013-2017	1,955,000	468,391	2,423,391
2018-2019	<u>921,000</u>	<u>45,133</u>	<u>966,133</u>
Total	<u>\$ 4,420,000</u>	<u>\$ 1,403,455</u>	<u>\$ 5,823,455</u>

Proprietary Fund Debt:

In August 2004, the City issued \$ 1,943,000 in the Revenue Refunding Bonds. Long term debt of the proprietary fund, which consists of serially maturing bonds for water works and sewer system improvements payable from the operations of the water and sewer utility operations. The revenue bonds payable at September 30, 2007 is summarized as follows:

<u>Purpose</u>	<u>Interest Rate (%)</u>	<u>Series Dates</u>			<u>Bonds Outstanding 09-30-07</u>
		<u>Issued</u>	<u>Maturity</u>	<u>Callable</u>	
Waterworks and Sewer System Revenue Bonds Series 2004	4.85	2004	2015	No	\$ <u>1,449,000</u>
					\$ <u>1,449,000</u>

Revenue bond transactions for the year ended September 30, 2007 are as follows:

	<u>2007</u>
Bonds outstanding, October 1,	\$ 1,623,000
Maturities	<u>( 174,000)</u>
Bonds outstanding, September 30,	\$ <u>1,449,000</u>

**CITY OF FREEPORT**

Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2007

NOTE 14 - LONG-TERM DEBT - Continued

Proprietary Fund Debt: - continued

Aggregate maturities of revenue bonds for the years subsequent to September 30, 2007 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$	\$ 35,138	\$ 35,138
2009	177,000	65,984	242,984
2010	186,000	57,182	243,182
2011	200,000	47,821	247,821
2012	208,000	37,927	245,927
2013-2015	<u>678,000</u>	<u>50,295</u>	<u>728,295</u>
Total	<u>\$ 1,449,000</u>	<u>\$ 294,347</u>	<u>\$ 1,743,347</u>

Changes in Long-Term Debt

Transactions for the year ended September 30, 2007 are summarized as follows:

	<u>Balance 10/01/06</u>	<u>Issues or Additions</u>	<u>Payments or Expenditures</u>	<u>Balance 09/30/07</u>	<u>Due Within One Year</u>
Governmental Type Activities:					
General obligation bonds	\$ 4,688,000	\$	\$ 268,000	\$ 4,420,000	\$ 280,000
Compensated absences	624,528	341,758	270,950	695,336	695,336
Component of Long-Term Debt:					
Accrued interest payable	<u>98,841</u>	<u>93,191</u>	<u>98,841</u>	<u>93,191</u>	<u>93,191</u>
Total governmental activities	<u>5,411,369</u>	<u>434,949</u>	<u>637,791</u>	<u>5,208,527</u>	<u>1,068,527</u>
Business Type Activities:					
Revenue bonds payable	1,623,000		174,000	1,449,000	
Compensated absences	<u>104,449</u>	<u>31,631</u>	<u>63,643</u>	<u>72,437</u>	<u>72,437</u>
Total business type activities	<u>1,727,449</u>	<u>31,631</u>	<u>237,643</u>	<u>1,521,437</u>	<u>72,437</u>
Total government (net)	<u>\$ 7,138,818</u>	<u>\$ 466,580</u>	<u>\$ 875,434</u>	<u>\$ 6,729,964</u>	<u>\$ 1,140,964</u>

**CITY OF FREEPORT**

Freeport, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For The Year Ended September 30, 2007

NOTE 14 - LONG-TERM DEBT - Continued

Debt Issuances And Defeased Debt

General Long-Term Debt:

During the year ended September 30, 2004, the City issued \$ 2,185,000 in Certificate of Obligation Refunding Bonds, Series 2003 for refunding of previously issued and outstanding \$ 2,135,000 Economic Development Corporation Certificate of Obligation Bonds – Series 2001. The City placed \$ 2,142,889 from the proceeds of the refunding in an escrow fund. The escrow fund is irrevocably pledged to the payment of principal and interest on the issued being refunded. The difference between the cash flow required to service the old debt and that required to service the new debt and complete the refunding was a decrease of \$ 216,580. The economic gain resulting from the transaction was \$ 252,180. The outstanding balance of these defeased bonds at September 30, 2007 was \$ 1,895,000 and the balance held in escrow was \$ 1,929,611.

NOTE 15 - OPERATING LEASES

Lessor

The City leases various buildings and easements as lessor. These leases are considered for accounting purposes to be operating leases. Lease income for the year ended September 30, 2007 amounted to \$ 74,998.

Lessee

During the year ended September 30, 2005, the City entered into an operating lease for a postage machine through June 30, 2009 (12 quarters) and a payment of \$ 451.74 per quarter. During the year ended September 30, 2007 the City entered into two operating leases for copy machines through October 19, 2010 (48 months) and September 30, 2012 (60 months) with payments of \$ 282 and \$ 235.52 per month.

Aggregate maturities of operating lease obligations for the five years subsequent to September 30, 2007 are as follows:

<u>Year Ended September 30,</u>	<u>Total</u>
2008	\$ 8,535
2009	7,565
2010	6,210
2011	2,999
2012	<u>2,826</u>
Minimum payments under operating leases	<u>\$ 28,135</u>

**CITY OF FREEPORT**

Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2007

NOTE 15 - OPERATING LEASES - Continued

Lessee - continued

The City also entered into an operating lease agreement as lessee for golf carts during fiscal year 1994. The City keeps 50% of the rental fees collected and the lessor receives the other 50%. For the year ended September 30, 2007 the lease expense totaled \$ 56,227.

NOTE 16 - LONG-TERM RECEIVABLES

During the fiscal year, the City loaned the Freeport Economic Development Corporation (FEDC - a component unit of the City) \$ 6,000,000 to finance the development of a marina to be located in the City on approximately four acres of land owned by the FEDC. During the prior years, the City has loaned the FEDC additional money in connection with the acquisition of land and preliminary construction plans for a marina as well. For the year ended September 30, 2006, The City consolidated these loans in the amount of \$ 734,090. The notes receivable at September 30, 2007 is summarized as follows:

<u>Purpose</u>	<u>Interest Rate (%)</u>	<u>Dates</u>			<u>Bonds Outstanding 09/30/07</u>
		<u>Issued</u>	<u>Maturity</u>	<u>Callable</u>	
Note to Freeport EDC 2007	4.84	2007	2030	n/a	\$ 6,000,000
Consolidated note to Freeport EDC 2006	5.00	2006	2012	n/a	<u>734,090</u>
					<u>\$ 6,734,090</u>

Notes receivable transactions for the year ended September 30, 2007 is summarized as follows:

	<u>2007</u>
Notes receivable, October 1, Loans	\$ 734,090
	<u>6,000,000</u>
Notes outstanding, September 30,	<u>\$ 6,734,090</u>

**CITY OF FREEPORT**

Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2007

NOTE 16 - LONG-TERM RECEIVABLES - Continued

Aggregate maturities of notes receivables for the five years subsequent to September 30, 2007 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 94,882	\$ 26,506	\$ 121,388
2009	302,039	319,349	621,388
2010	107,048	314,340	421,388
2011	112,304	309,084	421,388
2012	117,817	503,571	621,388
2013-2017	903,755	1,596,245	2,500,000
2018-2022	1,457,447	1,042,553	2,500,000
2023-2027	1,853,793	646,207	2,500,000
2028-2030	<u>1,785,005</u>	<u>124,270</u>	<u>1,909,275</u>
Total	<u>\$ 6,734,090</u>	<u>\$ 4,882,125</u>	<u>\$ 11,616,215</u>

Changes in Long-Term Receivables

Transactions for the year ended September 30, 2007 are summarized as follows:

	<u>Balance</u> <u>10/01/07</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>09/30/07</u>	<u>Due Within</u> <u>One Year</u>
Governmental Type Activities:					
Notes receivable	\$ 734,090	\$ 6,000,000	\$	\$ 6,734,090	\$ 94,882
Component of Long-Term Receivable:					
Accrued interest receivable	<u>                    </u>	<u>340,874</u>	<u>                    </u>	<u>340,874</u>	<u>340,874</u>
Total governmental activities	<u>\$ 734,090</u>	<u>\$ 6,340,874</u>	<u>\$ -0-</u>	<u>\$ 7,074,964</u>	<u>\$ 435,756</u>

NOTE 17 - RISK POOL PARTICIPATION

The City is a participant in the Texas Municipal League Intergovernmental Risk Pool for coverage of liability, property and worker's compensation claims. The City pays annual premiums to the pool for the coverage stated. The agreement with the Texas Municipal League Intergovernmental Risk Pool requires the pool to be self-sustaining. Therefore, the City's exposure for claims is designed to be limited to their deductible.

**REQUIRED SUPPLEMENTARY INFORMATION**

# CITY OF FREEPORT

Freeport, Texas

## STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL GENERAL FUND

For the Year Ended September 30, 2007

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget Positive (Negative)
Revenues:				
Taxes	\$ 1,928,442	\$ 1,928,442	\$ 1,900,098	\$( 28,344)
Other taxes	1,712,500	1,712,500	1,870,940	158,440
Industrial district	3,658,970	3,658,970	3,709,686	50,716
Intergovernmental	60,000	60,000	75,597	15,597
Revenue producing facilities	647,750	844,499	868,112	23,613
Fines, licenses and fees	632,025	632,025	677,566	45,541
Grant revenue	118,000	322,817	210,589	( 112,228)
Investment income	275,000	275,000	294,982	19,982
Miscellaneous	221,400	508,232	430,820	( 77,412)
Total revenues	9,254,087	9,942,485	10,038,390	95,905
Expenditures:				
Current:				
Administration	1,144,284	1,144,284	1,132,511	11,773
Public safety	3,442,466	3,433,133	3,258,650	174,483
Streets and drainage	1,091,823	1,092,738	981,619	111,119
Sanitation	470,000	679,970	740,733	( 60,763)
Service center	203,417	203,417	200,497	2,920
Library	41,438	41,438	34,230	7,208
Parks and recreation	1,094,304	1,100,304	1,155,376	( 55,072)
Other	5,300	5,300		5,300
Capital outlay	666,485	1,280,193	1,337,993	( 57,800)
Total expenditures	8,159,517	8,980,777	8,841,609	139,168
Excess of revenues over (under) expenditures	1,094,570	961,708	1,196,781	235,073
Other Financing Sources (Uses):				
Operating transfers in	8,475	240,055	8,475	( 231,580)
Operating transfers out	( 6,972,397)	( 7,051,122)	( 972,397)	6,078,725
Total other financing sources (uses)	( 6,963,922)	( 6,811,067)	( 963,922)	5,847,145
Net change in fund balance	( 5,869,352)	( 5,849,359)	232,859	6,082,218
Fund balance, October 1,	7,123,737	7,123,737	7,123,737	-0-
Fund balance, September 30,	\$ 1,254,385	\$ 1,274,378	\$ 7,356,596	\$ 6,082,218



**CITY OF FREEPORT**

Freeport, Texas

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES - BUDGET AND ACTUAL  
STREETS, DRAINAGE AND SIDEWALKS SPECIAL REVENUE FUND**

For the Year Ended September 30, 2007

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Investment income	\$ 100,000	\$ 100,000	\$ 180,329	\$ 80,329
Total revenues	100,000	100,000	180,329	80,329
Expenditures:				
Current:				
Administration	40,000	40,000	8,818	31,182
Capital outlay	808,558	579,310	142,582	436,728
Total expenditures	848,558	619,310	151,400	467,910
Excess of revenues over (under) expenditures	( 748,558)	( 519,310)	28,929	548,239
Other Financing Sources (Uses):				
Operating transfers in	748,558	748,558	748,558	-0-
Total other financing sources (uses)	748,558	748,558	748,558	-0-
Net change in fund balance	-0-	229,248	777,487	548,239
Fund balance, October 1,	2,818,544	2,818,544	2,818,544	-0-
Fund balance, September 30,	\$ 2,818,544	\$ 3,047,792	\$ 3,596,031	\$ 548,239

**CITY OF FREEPORT**

Freeport, Texas

**TEXAS MUNICIPAL RETIREMENT SYSTEM  
SCHEDULE OF FUNDING PROGRESS  
LAST THREE FISCAL YEARS**

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets**</u>	<u>Actuarial Accrued Liability* (AAL)-</u>	<u>Unfunded AAL (UAAL)</u>	<u>Percentage Funded</u>	<u>Annual Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
	(a)	(b)	(b-a)	(a/b)	(c)	(b-a)/(c)
2004	\$ 5,883,784	\$ 6,932,079	\$ 1,048,295	84.90%	\$ 3,521,193	29.80%
2005	6,150,846	7,393,335	1,242,489	83.20%	3,488,675	35.60%
2006	6,277,152	7,637,604	1,360,452	82.19%	3,634,162	37.44%

\* As of December 31 of the preceding year, the date of the actuarial valuation.

\*\* Assets are stated at cost as of December 31 of the preceding year.

**CITY OF FREEPORT**

Freeport, Texas

TEXAS STATEWIDE EMERGENCY SERVICES PERSONNEL RETIREMENT FUND  
SCHEDULE OF FUNDING PROGRESS  
LAST THREE FISCAL YEARS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)* - Entry Age (b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a/b)	Total Members Covered (c)	UAAL Per Member Covered (b-a)/(c)
8/31/02	\$ 32,797,262	\$ 45,976,387	\$ 13,179,125	71.3%	7,669	1,718
8/31/04	38,140,501	51,567,426	13,426,925	74.0%	7,994	1,680
8/31/06**	42,268,305	58,082,828	15,814,523	72.8%	8,061	1,962

\* The actuarial accrued liability is based upon the entry age actuarial cost method.

\*\* Changes in actuarial assumptions and methods as well as benefit and contribution provisions were first reflected in this valuation.

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## **OTHER SCHEDULES**

# CITY OF FREEPORT

Freeport, Texas

## COMBINING BALANCE SHEET- NONMAJOR GOVERNMENTAL FUNDS

September 30, 2007

	Special Revenue Fund	Debt Service Funds		
	Hotel Motel Tax	Series 2003A	Series 2003B	Total
<b>Assets:</b>				
Cash and temporary investments	\$ 50,677	\$ 11,366	\$ 14,559	\$ 25,925
Receivables (Net of Allowance for Uncollectibles):				
Taxes			7,417	7,417
Accounts	<u>5,683</u>	<u>-</u>	<u>-</u>	<u>-0-</u>
 Total assets	 <u>\$ 56,360</u>	 <u>\$ 11,366</u>	 <u>\$ 21,976</u>	 <u>\$ 33,342</u>
 <b>Liabilities:</b>				
Due to other funds	\$	\$	\$ 6,234	\$ 6,234
Deferred revenue	<u>-</u>	<u>-</u>	<u>5,911</u>	<u>5,911</u>
 Total liabilities	 <u>-0-</u>	 <u>-0-</u>	 <u>12,145</u>	 <u>12,145</u>
 <b>Fund Balances:</b>				
Reserved for debt service		11,366	9,831	21,197
Unreserved:				
Designated for subsequent years expenditures	<u>56,360</u>	<u>-</u>	<u>-</u>	<u>-0-</u>
 Total fund balances	 <u>56,360</u>	 <u>11,366</u>	 <u>9,831</u>	 <u>21,197</u>
 Total liabilities and fund balances	 <u>\$ 56,360</u>	 <u>\$ 11,366</u>	 <u>\$ 21,976</u>	 <u>\$ 33,342</u>

<u>Capital Projects Funds</u>	<u>Total Nonmajor Governmental Funds</u>
<u>2003 Construction Fund</u>	
\$	\$ 76,602
	7,417
<u>                    </u>	<u>5,683</u>
<u>\$ -0-</u>	<u>\$ 89,702</u>

\$	\$ 6,234
<u>                    </u>	<u>5,911</u>
<u>-0-</u>	<u>12,145</u>
	21,197
<u>                    </u>	<u>56,360</u>
<u>-0-</u>	<u>77,557</u>
<u>\$ -0-</u>	<u>\$ 89,702</u>

# CITY OF FREEPORT

Freeport, Texas

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

For the Year Ended September 30, 2007

	Special Revenue Fund	Debt Service		
	Hotel Motel Tax	Series 2003A	Series 2003B	Total
Revenues:				
Property taxes	\$	\$	\$ 277,783	\$ 277,783
Hotel-motel tax	17,255			-0-
Interest income	4,250			-0-
Miscellaneous		<u>1,831</u>	<u>2,453</u>	<u>4,284</u>
Total revenues	<u>21,505</u>	<u>1,831</u>	<u>280,236</u>	<u>282,067</u>
Expenditures:				
Current:				
Administrative	14,162			-0-
Capital outlay				-0-
Debt Service:				
Principal		113,000	155,000	268,000
Interest		<u>93,139</u>	<u>127,723</u>	<u>220,862</u>
Total expenditures	<u>14,162</u>	<u>206,139</u>	<u>282,723</u>	<u>488,862</u>
Excess of revenues over (under) expenditures	<u>7,343</u>	<u>( 204,308)</u>	<u>( 2,487)</u>	<u>( 206,795)</u>
Other Financing Sources (Uses):				
Contributions from component unit		205,904		205,904
Operating transfers out	<u>( 8,475)</u>			<u>-0-</u>
Total other financing sources (uses)	<u>( 8,475)</u>	<u>205,904</u>	<u>-0-</u>	<u>205,904</u>
Net changes in fund balances	<u>( 1,132)</u>	<u>1,596</u>	<u>( 2,487)</u>	<u>( 891)</u>
Fund balance, October 1,	<u>57,492</u>	<u>9,770</u>	<u>12,318</u>	<u>22,088</u>
Fund balance, September 30,	<u>\$ 56,360</u>	<u>\$ 11,366</u>	<u>\$ 9,831</u>	<u>\$ 21,197</u>



<u>Capital Projects Funds</u>	
<u>2003 Construction Fund</u>	<u>Total Nonmajor Governmental Funds</u>
\$	\$ 277,783
	17,255
11,693	15,943
<u>          </u>	<u>4,284</u>
<u>11,693</u>	<u>315,265</u>
	14,162
228,820	228,820
	268,000
<u>          </u>	<u>220,862</u>
<u>228,820</u>	<u>731,844</u>
<u>( 217,127)</u>	<u>( 416,579)</u>
	205,904
<u>          </u>	<u>( 8,475)</u>
<u>-0-</u>	<u>197,429</u>
<u>( 217,127)</u>	<u>( 219,150)</u>
<u>217,127</u>	<u>296,707</u>
<u>\$ -0-</u>	<u>\$ 77,557</u>

# CITY OF FREEPORT

Freeport, Texas

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

For the Year Ended September 30, 2007

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Other taxes	\$ 17,000	\$ 17,000	\$ 17,255	\$ 255
Investment income	<u>1,500</u>	<u>1,500</u>	<u>4,250</u>	<u>2,750</u>
Total revenues	<u>18,500</u>	<u>18,500</u>	<u>21,505</u>	<u>3,005</u>
Expenditures:				
Current:				
Administration	<u>10,025</u>	<u>14,164</u>	<u>14,162</u>	<u>2</u>
Total expenditures	<u>10,025</u>	<u>14,164</u>	<u>14,162</u>	<u>2</u>
Excess of revenues over (under) expenditures	<u>8,475</u>	<u>4,336</u>	<u>7,343</u>	<u>3,007</u>
Other Financing Sources (Uses):				
Operating transfers out	( 8,475)	( 8,475)	( 8,475)	-0-
Total other financing sources (uses)	( 8,475)	( 8,475)	( 8,475)	-0-
Net change in fund balance	-0-	( 4,139)	( 1,132)	3,007
Fund balance, October 1,	<u>57,492</u>	<u>57,492</u>	<u>57,492</u>	<u>-0-</u>
Fund balance, September 30,	<u>\$ 57,492</u>	<u>\$ 53,353</u>	<u>\$ 56,360</u>	<u>\$ 3,007</u>

**CITY OF FREEPORT**

Freeport, Texas

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

For the Year Ended September 30, 2007

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Investment income	\$ 380	\$ 380	\$ 1,831	\$ 1,451
Total revenues	<u>380</u>	<u>380</u>	<u>1,831</u>	<u>1,451</u>
Expenditures:				
Debt Service:				
Principal	113,000	113,000	113,000	-0-
Interest	<u>93,204</u>	<u>93,204</u>	<u>93,139</u>	<u>65</u>
Total expenditures	<u>206,204</u>	<u>206,204</u>	<u>206,139</u>	<u>65</u>
Excess of revenues over (under) expenditures	( 205,824)	( 205,824)	( 204,308)	<u>1,516</u>
Other Financing Sources (Uses):				
Contributions from component unit			205,904	205,904
Operating transfers in	<u>205,904</u>	<u>205,904</u>	<u>          </u>	<u>( 205,904)</u>
Total other financing sources (uses)	<u>205,904</u>	<u>205,904</u>	<u>205,904</u>	<u>-0-</u>
Net change in fund balance	80	80	1,596	1,516
Fund balance, October 1,	<u>9,770</u>	<u>9,770</u>	<u>9,770</u>	<u>-0-</u>
Fund balance, September 30,	<u>\$ 9,850</u>	<u>\$ 9,850</u>	<u>\$ 11,366</u>	<u>\$ 1,516</u>

**CITY OF FREEPORT**

Freeport, Texas

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

For the Year Ended September 30, 2007

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Taxes	\$ 282,760	\$ 282,760	\$ 277,783	\$( 4,977)
Investment income	50	50	2,453	2,403
Total revenues	<u>282,810</u>	<u>282,810</u>	<u>280,236</u>	<u>( 2,574)</u>
Expenditures:				
Debt Service:				
Principal	155,000	155,000	155,000	-0-
Interest	<u>127,810</u>	<u>127,810</u>	<u>127,723</u>	<u>87</u>
Total expenditures	<u>282,810</u>	<u>282,810</u>	<u>282,723</u>	<u>87</u>
Excess of revenues over (under) expenditures	<u>-0-</u>	<u>-0-</u>	<u>( 2,487)</u>	<u>( 2,487)</u>
Net change in fund balance	-0-	-0-	( 2,487)	( 2,487)
Fund balance, October 1,	<u>12,318</u>	<u>12,318</u>	<u>12,318</u>	<u>-0-</u>
Fund balance, September 30,	<u>\$ 12,318</u>	<u>\$ 12,318</u>	<u>\$ 9,831</u>	<u>\$( 2,487)</u>

**CITY OF FREEPORT**

Freeport, Texas

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES - BUDGET AND ACTUAL  
2003 CONSTRUCTION CAPITAL PROJECTS FUND**

For the Year Ended September 30, 2007

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Investment income	\$ _____	\$ _____	\$ <u>11,693</u>	\$ <u>11,693</u>
Total revenues	<u>-0-</u>	<u>-0-</u>	<u>11,693</u>	<u>11,693</u>
Expenditures:				
Capital outlay	_____	<u>229,248</u>	<u>228,820</u>	<u>428</u>
Total expenditures	<u>-0-</u>	<u>229,248</u>	<u>228,820</u>	<u>428</u>
Net change in fund balance	-0-	( 229,248)	( 217,127)	12,121
Fund balance, October 1,	<u>217,127</u>	<u>217,127</u>	<u>217,127</u>	<u>-0-</u>
Fund balance, September 30,	\$ <u>217,127</u>	\$ <u>(12,121)</u>	\$ <u>-0-</u>	\$ <u>12,121</u>

# CITY OF FREEPORT

Freeport, Texas

## COMBINING SCHEDULE OF NET ASSETS NONMAJOR ENTERPRISE FUNDS

September 30, 2007

	Golf Course	Ambulance	Total Nonmajor Enterprise Funds
<b>Assets:</b>			
<b>Current Assets:</b>			
Cash and temporary investments	\$ 487	\$ 96,854	\$ 97,341
Accounts receivable ambulance (less allowance for uncollectibles – \$ 80,047)		35,107	35,107
Other accounts receivable	2,182		2,182
Inventory	55,860		55,860
<b>Total current assets</b>	58,529	131,961	190,490
<b>Capital Assets:</b>			
Land	339,430		339,430
Buildings	180,887		180,887
Improvements	534,013		534,013
Furniture, equipment and vehicles	469,315	297,160	766,475
Construction in progress	12,430		12,430
Less accumulated depreciation	( 686,008)	( 73,802)	( 759,810)
<b>Total capital assets (net of accumulated depreciation)</b>	850,067	223,358	1,073,425
<b>Total assets</b>	\$ 908,596	\$ 355,319	\$ 1,263,915
<b>Liabilities and Net Assets:</b>			
<b>Current Liabilities:</b>			
Accounts payable	\$ 39,983	\$ 112,702	\$ 152,685
Accrued wages	10,181	9,763	19,944
Accrued compensated absences	51,587	6,846	58,433
Due to other funds	1,465		1,465
<b>Total current liabilities</b>	103,216	129,311	232,527
<b>Net Assets:</b>			
Invested in capital assets, net of related debt	850,067	223,358	1,073,425
Unreserved	( 44,687)	2,650	( 42,037)
<b>Total net assets</b>	805,380	226,008	1,031,388
<b>Total liabilities and net assets</b>	\$ 908,596	\$ 355,319	\$ 1,263,915

**CITY OF FREEPORT**

Freeport, Texas

**COMBINING SCHEDULE OF REVENUES, EXPENSES, AND CHANGES  
IN NET ASSETS - NONMAJOR ENTERPRISE FUNDS**

For the Year Ended September 30, 2007

	<u>Golf Course</u>	<u>Ambulance</u>	<u>Total Nonmajor Enterprise Funds</u>
Operating Revenues:			
Charges for other services	\$	\$ 399,382	\$ 399,382
Golf course fees and charges	462,982		462,982
Miscellaneous		<u>2,655</u>	<u>2,655</u>
Total operating revenues	<u>462,982</u>	<u>402,037</u>	<u>865,019</u>
Operating Expenses:			
Personnel services	263,922	242,306	506,228
Employee benefits	79,664	73,077	152,741
Contract and professional services	105,662	48,710	154,372
Supplies	55,678	26,683	82,361
Cost of sales and services	<u>149,723</u>		<u>149,723</u>
Operating expenses before depreciation	654,649	390,776	1,045,425
Depreciation	<u>62,501</u>	<u>23,557</u>	<u>86,058</u>
Total operating expenses	<u>717,150</u>	<u>414,333</u>	<u>1,131,483</u>
Net operating income (loss)	<u>( 254,168)</u>	<u>( 12,296)</u>	<u>( 266,464)</u>
Non-operating Revenues (Expenses):			
Interest revenue	<u>2,699</u>	<u>5,709</u>	<u>8,408</u>
Total non-operating revenues (expenses)	<u>2,699</u>	<u>5,709</u>	<u>8,408</u>
Net income (loss) before operating transfers	<u>( 251,469)</u>	<u>( 6,587)</u>	<u>( 258,056)</u>
Transfers in	<u>210,724</u>		<u>210,724</u>
Change in net assets	<u>( 40,745)</u>	<u>( 6,587)</u>	<u>( 47,332)</u>
Net assets, October 1,	<u>846,125</u>	<u>232,595</u>	<u>1,078,720</u>
Net assets September 30,	<u>\$ 805,380</u>	<u>\$ 226,008</u>	<u>\$ 1,031,388</u>

**CITY OF FREEPORT**

Freeport, Texas

**COMBINING SCHEDULE OF CASH FLOWS  
NONMAJOR ENTERPRISE FUNDS**

For The Year Ended September 30, 2007

	<u>Golf Course</u>	<u>Ambulance</u>	<u>Total Nonmajor Enterprise Funds</u>
Cash Flows from Operating Activities:			
Receipts from customers and users	\$ 461,330	\$ 443,468	\$ 904,798
Payments to suppliers	( 298,926)	27,449	( 271,477)
Payments to employees	( 353,436)	( 329,768)	( 683,204)
Payments to other funds	<u>( 1,465)</u>	<u>                    </u>	<u>( 1,465)</u>
Net cash provided (used) by operating activities	<u>( 192,497)</u>	<u>141,149</u>	<u>( 51,348)</u>
Cash Flows from Non-Capital Financing Activities:			
Operating transfers from other funds	<u>210,724</u>	<u>                    </u>	<u>210,724</u>
Net cash provided (used) by non-capital financing activities	<u>210,724</u>	<u>-0-</u>	<u>210,724</u>
Cash Flows from Capital and Related Financing Activities:			
Purchase of capital assets	<u>( 53,708)</u>	<u>( 158,830)</u>	<u>( 212,538)</u>
Net cash provided (used) by capital and related financing activities	<u>( 53,708)</u>	<u>( 158,830)</u>	<u>( 212,538)</u>
Cash Flows from Investing Activities:			
Interest on investments	<u>2,699</u>	<u>5,709</u>	<u>8,408</u>
Net cash provided (used) by investment activities	<u>2,699</u>	<u>5,709</u>	<u>8,408</u>
Net increase (decrease) in cash and cash equivalents	( 32,782)	( 11,972)	( 44,754)
Cash and cash equivalents at the beginning of year	<u>33,269</u>	<u>108,826</u>	<u>142,095</u>
Cash and cash equivalents at the end of the year	<u>\$ 487</u>	<u>\$ 96,854</u>	<u>\$ 97,341</u>

(Continued)



**CITY OF FREEPORT**

Freeport, Texas

**COMBINING SCHEDULE OF CASH FLOWS  
NONMAJOR ENTERPRISE FUNDS - Continued**

For The Year Ended September 30, 2007

	<u>Golf Course</u>	<u>Ambulance</u>	<u>Total Nonmajor Enterprise Funds</u>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:			
Operating income (loss)	\$( 254,168)	\$( 12,296)	\$( 266,464)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Depreciation	62,501	23,557	86,058
(Increase) decrease in accounts receivable	( 1,652)	41,431	39,779
(Increase) decrease in due from other funds	982	64	1,046
(Increase) decrease in inventory	4,467		4,467
Increase (decrease) in accounts payable	5,223	102,778	108,001
Increase (decrease) in other liabilities	( 11,315)	( 14,385)	( 25,700)
Increase (decrease) in due to other funds	<u>1,465</u>	<u>          </u>	<u>1,465</u>
Total adjustments	<u>61,671</u>	<u>153,445</u>	<u>215,116</u>
Net cash provided (used) by operating activities	<u>\$( 192,497)</u>	<u>\$ 141,149</u>	<u>\$ 51,348</u>
Non-Cash Investing, Capital and Financing Activities:			
Net effect of non-cash transactions	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

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

# CITY OF FREEPORT

Freeport, Texas

## SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS - BUDGET AND ACTUAL WATER AND SEWER ENTERPRISE FUND

For the Year Ended September 30, 2007

	Budgeted Amounts		Actual on Budgetary Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
Operating Revenues:				
Water service	\$ 2,000,000	\$ 2,000,000	\$ 1,821,473	\$( 178,527)
Sewer service	1,400,000	1,400,000	1,217,349	( 182,651)
Charges for other services	284,500	344,600	442,020	97,420
Miscellaneous	1,900	1,900	3,087	1,187
Total operating revenues	3,686,400	3,746,500	3,483,929	( 262,571)
Operating Expenses:				
Personnel services	110,626	110,626	63,019	47,607
Employee benefits	34,026	34,026	21,865	12,161
Contract and professional services	3,101,848	3,161,948	3,093,473	68,475
Supplies	25,249	25,249	22,133	3,116
Operating expenses before depreciation	3,271,749	3,331,849	3,200,490	131,359
Depreciation		100	336,567	( 336,467)
Total operating expenses	3,271,749	3,331,949	3,537,057	( 205,108)
Net operating income (loss)	414,651	414,551	( 53,128)	( 467,679)
Non-Operating Revenues (Expenses):				
Interest revenue	250	250	10,634	10,384
Capital additions	( 362,000)	( 374,100)	( 205,716)	168,384
Interest expense and agent fees	( 253,016)	( 79,016)	( 94,460)	( 15,444)
Total non-operating revenues (expenses)	( 614,766)	( 452,866)	( 289,542)	163,324
Net income (loss) before contributions and operating transfers	( 200,115)	( 38,315)	( 342,670)	( 304,355)
Contribution (capital)	187,000	187,000	100,679	( 86,321)
Transfers in	13,115	13,115	13,115	-0-
Change in net assets	\$ -0-	\$ 161,800	\$( 228,876)	\$( 390,676)

# CITY OF FREEPORT

Freeport, Texas

## SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS - BUDGET AND ACTUAL GOLF COURSE ENTERPRISE FUND

For the Year Ended September 30, 2007

	Budgeted Amounts		Actual on Budgetary Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Operating Revenues:</b>				
Golf course fees and charges	\$ 509,750	\$ 509,750	\$ 462,982	\$( 46,768)
Total operating revenues	<u>509,750</u>	<u>509,750</u>	<u>462,982</u>	<u>( 46,768)</u>
<b>Operating Expenses:</b>				
Personnel services	271,882	271,882	263,922	7,960
Employee benefits	77,613	77,613	79,664	( 2,051)
Contract and professional services	121,879	121,879	105,662	16,217
Supplies	66,950	66,950	55,678	11,272
Cost of sales and services	<u>127,250</u>	<u>127,250</u>	<u>149,723</u>	<u>( 22,473)</u>
Operating expenses before depreciation	665,574	665,574	654,649	10,925
Depreciation		<u>100,000</u>	<u>62,501</u>	<u>37,499</u>
Total operating expenses	<u>665,574</u>	<u>765,574</u>	<u>717,150</u>	<u>48,424</u>
Net operating income (loss)	<u>( 155,824)</u>	<u>( 255,824)</u>	<u>( 254,168)</u>	<u>1,656</u>
<b>Non-Operating Revenues (Expenses):</b>				
Interest revenue	100	100	2,699	2,599
Capital additions	<u>( 55,000)</u>		<u>( 53,708)</u>	<u>( 53,708)</u>
Total non-operating revenues (expenses)	<u>( 54,900)</u>	<u>100</u>	<u>( 51,009)</u>	<u>( 51,109)</u>
Net income (loss) before operating transfers	<u>( 210,724)</u>	<u>( 255,724)</u>	<u>( 305,177)</u>	<u>( 49,453)</u>
Transfers in	<u>210,724</u>	<u>210,724</u>	<u>210,724</u>	<u>-0-</u>
Change in net assets	<u>\$ -0-</u>	<u>\$( 45,000)</u>	<u>\$( 94,453)</u>	<u>\$( 49,453)</u>

# CITY OF FREEPORT

Freeport, Texas

## SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL AMBULANCE ENTERPRISE FUND

For the Year Ended September 30, 2007

	Budgeted Amounts		Actual on Budgetary Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Operating Revenues:</b>				
Charges for other services	\$ 465,000	\$ 465,000	\$ 399,382	\$( 65,618)
Miscellaneous	<u>1,750</u>	<u>1,750</u>	<u>2,655</u>	<u>905</u>
Total operating revenues	<u>466,750</u>	<u>466,750</u>	<u>402,037</u>	<u>( 64,713)</u>
<b>Operating Expenses:</b>				
Personnel services	256,388	256,388	242,306	14,082
Employee benefits	83,605	83,605	73,077	10,528
Contract and professional services	61,700	61,700	48,710	12,990
Supplies	<u>27,955</u>	<u>27,955</u>	<u>26,683</u>	<u>1,272</u>
Operating expenses before depreciation	429,648	429,648	390,776	38,872
Depreciation		<u>38,500</u>	<u>23,557</u>	<u>14,943</u>
Total operating expenses	<u>429,648</u>	<u>468,148</u>	<u>414,333</u>	<u>53,815</u>
Net operating income (loss)	<u>37,102</u>	<u>( 1,398)</u>	<u>( 12,296)</u>	<u>( 10,898)</u>
<b>Non-Operating Revenues (Expenses):</b>				
Interest revenue	2,250	2,250	5,709	3,459
Capital additions	<u>( 170,000)</u>		<u>( 158,830)</u>	<u>( 158,830)</u>
Total non-operating revenues (expenses)	<u>( 167,750)</u>	<u>2,250</u>	<u>( 153,121)</u>	<u>( 155,371)</u>
Net income (loss) before operating transfers	<u>( 130,648)</u>	<u>852</u>	<u>( 165,417)</u>	<u>( 166,269)</u>
Transfers in				<u>-0-</u>
Change in net assets	<u>\$( 130,648)</u>	<u>\$ 852</u>	<u>\$( 165,417)</u>	<u>\$( 166,269)</u>

**CITY OF FREEPORT**

Freeport, Texas

**SCHEDULE OF AD VALOREM TAX LEVY AND COLLECTIONS**

September 30, 2007

<u>Levy Year</u>	<u>Balance 10-01-06</u>	<u>Current Year Levy</u>	<u>Collections</u>	<u>Adjustments</u>	<u>Balance 09-30-07</u>
1997 & Prior	\$ 165,980	\$	\$ 10,726	\$( 83,794)	\$ 71,460
1998	17,629		779	( 2,180)	14,670
1999	16,234		1,116	( 2,009)	13,109
2000	13,013		1,005	( 1,406)	10,602
2001	15,608		1,829	( 695)	13,084
2002	19,073		3,369	( 361)	15,343
2003	26,256		6,810	( 322)	19,124
2004	39,565		16,294	( 291)	22,980
2005	75,994		38,588	( 844)	36,562
2006	<u>                    </u>	<u>1,997,525</u>	<u>2,016,825</u>	<u>94,539</u>	<u>75,239</u>
	<u>\$ 389,352</u>	<u>\$ 1,997,525</u>	<u>\$ 2,097,341</u>	<u>\$ 2,637</u>	292,173
Less reserve for uncollectible taxes					<u>210,913</u>
Net delinquent ad valorem taxes receivable					<u>\$ 81,260</u>

**CITY OF FREEPORT**

Freeport, Texas

**DEBT SERVICE REQUIREMENTS TO MATURITY  
CERTIFICATES OF OBLIGATION BONDS**

September 30, 2007

(Unaudited)

Year Ending 09/30	\$ 3,000,000 Series 2003		\$ 2,185,000 Series 2003		Total Principal & Interest
	Principal	Interest	Principal	Interest	
2008	\$ 162,000	\$ 119,838	\$ 118,000	\$ 87,314	\$ 487,152
2009	170,000	111,804	124,000	81,457	487,261
2010	178,000	103,382	130,000	75,310	486,692
2011	187,000	94,549	136,000	68,873	486,422
2012	196,000	85,281	143,000	62,121	486,402
2013	205,000	75,577	150,000	55,031	485,608
2014	215,000	65,413	157,000	47,601	485,014
2015	226,000	54,740	164,000	39,833	484,573
2016	237,000	43,536	172,000	31,702	484,238
2017	248,000	31,799	181,000	23,159	483,958
2018	260,000	19,505	189,000	14,205	482,710
2019	<u>273,000</u>	<u>6,607</u>	<u>199,000</u>	<u>4,817</u>	<u>483,424</u>
TOTAL	<u>\$ 2,557,000</u>	<u>\$ 812,031</u>	<u>\$ 1,863,000</u>	<u>\$ 591,423</u>	<u>\$ 5,823,454</u>

# CITY OF FREEPORT

Freeport, Texas

## DEBT SERVICE REQUIREMENTS TO MATURITY REVENUE BONDS

September 30, 2007  
(Unaudited)

Year Ending 09/30	\$ 1,943,000 Series 2004		Total Principal & Interest
	Principal	Interest	
2008	\$	\$ 74,496	\$ 74,496
2009	177,000	65,984	242,984
2010	186,000	57,182	243,182
2011	200,000	47,821	247,821
2012	208,000	37,927	245,927
2013	215,000	27,669	242,669
2014	228,000	16,927	244,927
2015	<u>235,000</u>	<u>5,699</u>	<u>240,699</u>
TOTAL	<u>\$ 1,449,000</u>	<u>\$ 333,705</u>	<u>\$ 1,782,705</u>

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**OVERALL COMPLIANCE  
AND  
INTERNAL CONTROLS SECTION**

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# KENNEMER, MASTERS & LUNSFORD

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## Independent Auditor's Report

Report on Internal Control over Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements in Accordance with  
*Governmental Auditing Standards*

November 16, 2007

To the Honorable Mayor and  
Members of City Council  
City of Freeport  
Freeport, TX 77541

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Freeport, as of and for the year ended September 30, 2007, which collectively comprise the City's basic financial statements and have issued our report thereon dated November 16, 2007. 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.

### Internal Control over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

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Members: American Institute of Certified Public Accountants, Texas Society of Certified Public Accountants,  
Partnering for CPA Practice Success

To the Honorable Mayor and  
Members of City Council  
City of Freeport  
November 16, 2007  
Page 2

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

1. Inadequate design of internal control over preparation of financial statements. The City has engaged a licensed certified public accounting firm to both prepare and audit the City's annual financial report. The City ensures the quality of its annual financial report by engaging a qualified audit firm with particular expertise in governmental audits and reading a preliminary draft of the report. The City does not have specific controls in place to separately review the selection and application of accounting principles and resulting disclosures and presentations within the financial statements. Although it is common within a small governmental unit, an audit firm cannot be considered part of its client's internal control by professional standards currently in affect.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, we considered the above deficiency to be a material weakness.

#### Compliance and Other Matters

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

We have performed tests designed to verify the City's compliance with the requirements of the Public Funds Investment Act. During the year ended September 30, 2007, no instances of noncompliance were found.

We noted certain matters that we have reported to management of the City in a separate letter dated November 16, 2007.

This report is intended solely for the information of the City's mayor and members of City Council, management, and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Kennemer, Masters & Kingford, LLC*