

CITY OF LEONARD

Fannin County, Texas

FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITORS' REPORT THEREON

SEPTEMBER 30, 2009

CITY OF LEONARD, TEXAS
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September 30, 2009

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Unqualified Opinion on Basic Financial Statements
Accompanied by Required Supplementary
Information and Supplementary Information

INDEPENDENT AUDITORS' REPORT

Honorable Mayor and Members
of the City Council
City of Leonard, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit and each major fund of the City of Leonard, Texas, as of and for the year ended September 30, 2009, which collectively comprise the City's 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 opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 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.

The City has not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the financial statements.

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, the discretely presented component unit and each major fund of the City of Leonard, Texas, as of September 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The budgetary comparison information on page 26 and the Texas Municipal Retirement System Schedule of Funding Progress on page 27 are not a required part of the 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.

Honorable Mayor and Members
of the City Council
City of Leonard, Texas
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Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Leonard, Texas financial statements. The Schedule of Property Taxes Levied and Receivable and the Schedule of Community Development Programs are presented for the purpose of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects, in relation to the financial statements taken as a whole.

McClamberton and Hulterman, LLP
Certified Public Accountants

Bonham, Texas
July 7, 2010

CITY OF LEONARD, TEXAS
Statement of Net Assets
September 30, 2009

Statement 1

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Leonard Community Development Corporation
<u>ASSETS</u>				
Current Assets:				
Cash and Cash Equivalents	\$ 93,959	\$ 5,025	\$ 98,984	\$ 39,272
Receivables (Net of Allowance for Uncollectibles)				
Taxes	78,773	-	78,773	-
Due From State	-	-	-	2,328
Due From Primary Government	-	-	-	16,779
Accounts	16,053	64,957	81,010	-
Due From Primary Government - Loan Current Portion	-	-	-	38,468
Due from Other Governments	25,978	-	25,978	-
Notes - Current Portion	-	-	-	13,685
Inventory	2,386	29,234	31,620	-
Noncurrent Assets:				
Restricted Cash and Cash Equivalents	-	13,797	13,797	10,949
Restricted Investments	-	37,833	37,833	-
Long Term Receivables:				
Due from Primary Government	-	-	-	35,812
Notes	-	-	-	32,158
Capital Assets (Net of Accumulated Depreciation):				
Land and Improvements	99,700	4,210	103,910	25,591
Buildings	841,406	-	841,406	-
Furniture, Equipment and Vehicles	293,460	39,244	332,704	-
Water and Sewer System	-	2,253,699	2,253,699	-
Construction in Progress	203,815	-	203,815	-
Total Assets	1,655,530	2,447,999	4,103,529	215,042
<u>LIABILITIES</u>				
Accounts Payable	30,355	17,351	47,706	-
Deferred Revenues	4,849	-	4,849	-
Due to Component Unit - Equipment Loan	28,387	-	28,387	-
Due to Component Unit - Taxes	16,779	-	16,779	-
Due to Component Unit - Loan Payable - Current Portion	10,081	-	10,081	-
Loans Payable - Short-Term	13,402	-	13,402	-
Loans Payable - Current Portion	10,416	16,667	27,083	10,081
Time Warrants - Current Portion	163,593	-	163,593	-
Due to Component Unit - Loan Payable - Long Term	35,813	-	35,813	-
Loans Payable - Long Term	-	-	-	35,812
Time Warrants Payable - Long Term	501,161	-	501,161	-
Customers' Meter Deposits	-	51,630	51,630	-
Total Liabilities	814,836	85,648	900,484	45,893
<u>NET ASSETS</u>				
Invested in Capital Assets, net of Related Debt	699,346	2,294,292	2,993,638	25,591
Restricted for:				
Debt Service	51,319	-	51,319	-
Notes Receivable	-	-	-	56,792
Unrestricted	90,029	68,059	158,088	86,766
Total Net Assets	\$ 840,694	\$ 2,362,351	\$3,203,045	\$ 169,149

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

CITY OF LEONARD, TEXAS
Statement of Activities
Year Ended September 30, 2009

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Unit Leonard Community Development Corporation
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	
Primary Government							
Governmental Activities:							
General Government	\$ 497,399	\$ 189,572	\$ -	\$ -	\$ (307,827)	\$ -	\$ -
Streets	157,033	-	-	73,184	(83,849)	-	(83,849)
Law Enforcement	281,357	48,861	-	-	(232,496)	-	(732,496)
Fire	41,271	4,500	-	-	(36,771)	-	(36,771)
Interest on Long-Term Debt	49,679	-	-	-	(49,679)	-	(49,679)
Total Governmental Activities	1,026,739	242,933	-	73,184	(710,622)	-	(710,622)
Business-Type Activities:							
Water/Sewer	686,516	620,329	-	-	-	(66,187)	(66,187)
Total Business Activities	686,516	620,329	-	-	-	(66,187)	(66,187)
Total Primary Government	\$ 1,713,255	\$ 863,262	\$ -	\$ 73,184	(710,622)	(66,187)	(776,809)
Component Unit:							
Leonard Community Development Corporation	\$ 17,114	\$ -	\$ -	\$ -	\$ -	\$ -	(17,114)
General Revenues:							
Taxes:							
Ad Valorem Taxes					457,559		457,559
Sales Tax					159,671		159,671
Franchise Tax					89,264		89,264
Miscellaneous Revenue					64,937		64,937
Interest Income					1,178	1,018	2,196
Gain on Sale of Fixed Assets					15,775	-	15,775
Insurance Proceeds					20,250	-	20,250
Transfers					(5,827)	5,827	-
Total General Revenues					802,807	6,845	809,652
Change in Net Assets					92,185	(59,342)	32,843
Net Assets - Beginning					748,509	2,421,693	3,170,202
Net Assets - Ending					\$ 840,694	\$ 2,362,351	\$ 3,203,045

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

CITY OF LEONARD, TEXAS
Governmental Funds
Balance Sheet
September 30, 2009

	General Fund	Debt Service Fund	Total Governmental Funds
<u>ASSETS</u>			
Cash and Cash Equivalents	\$ 45,314	\$ 48,645	\$ 93,959
Receivables (Net of Allowance for Uncollectibles)			
Taxes	62,724	16,049	78,773
Accounts	16,053	-	16,053
Due from Other Governments	25,978	-	25,978
Inventory	2,386	-	2,386
Total Assets	\$ 152,455	\$ 64,694	\$ 217,149
<u>LIABILITIES AND FUND BALANCE</u>			
Accounts Payable and Accrued Liabilities	\$ 30,355	\$ -	\$ 30,355
Payable to Component Unit - Sales Tax	16,779	-	16,779
Deferred Revenues	28,194	13,375	41,569
Loans Payable	13,402	-	13,402
Due to Component Unit - Equipment	28,387	-	28,387
Total Liabilities	117,117	13,375	130,492
Fund Balances:			
Reserved:			
Debt Service	-	51,319	51,319
Inventory	2,386	-	2,386
Unreserved	32,952	-	32,952
Total Fund Balances	35,338	51,319	86,657
Total Liabilities and Fund Balances	\$ 152,455	\$ 64,694	\$ 217,149
Fund Balance - Total Governmental Funds (above)			\$ 86,657
Amounts reported for governmental activities in the Statement of Net Assets are different because:			
Capital assets used in government activities are not financial resources and therefore are not reported in the funds. The cost of the assets is \$2,346,836 and the accumulated depreciation is \$908,455.			1,438,381
Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds.			36,720
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:			
Loans Payable			(56,310)
Time Warrants Payable			(664,754)
Net Assets of Governmental Activities			\$ 840,694

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

CITY OF LEONARD, TEXAS
 Governmental Funds
 Statement of Revenues, Expenditures, and Changes in Fund Balances
 Year Ended September 30, 2009

	General Fund	Debt Service Fund	Total Governmental Funds
Revenues			
Ad Valorem Taxes	\$ 301,508	\$ 150,926	\$ 452,434
Sales Tax	159,671	-	159,671
Franchise Tax	89,264	-	89,264
Charges for Services	194,072	-	194,072
Fines	48,861	-	48,861
Miscellaneous	64,936	-	64,936
Interest Income	602	576	1,178
Intergovernmental	73,184	-	73,184
Total Revenues	<u>932,098</u>	<u>151,502</u>	<u>1,083,600</u>
Expenditures			
Current:			
General Government	462,965	-	462,965
Streets	129,590	-	129,590
Law Enforcement	279,313	-	279,313
Fire	11,560	-	11,560
Debt Service:			
Principal	-	109,436	109,436
Interest and Fees	-	49,679	49,679
Capital Outlay	139,746	-	139,746
Total Expenditures	<u>1,023,174</u>	<u>159,115</u>	<u>1,182,289</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(91,076)</u>	<u>(7,613)</u>	<u>(98,689)</u>
Other Financing Sources (Uses)			
Insurance Proceeds	20,250	-	20,250
Sale of Capital Assets	24,575	-	24,575
Operating Transfers In (Out)	(18,734)	12,907	(5,827)
Total Other Sources (Uses)	<u>26,091</u>	<u>12,907</u>	<u>38,998</u>
Net Change in Fund Balances	(64,985)	5,294	(59,691)
Fund Balances (Deficit) - Beginning of Year	100,323	46,025	146,348
Fund Balances (Deficit) - End of Year	<u>\$ 35,338</u>	<u>\$ 51,319</u>	<u>\$ 86,657</u>
Net Change in Fund Balances - Total Governmental Funds (above)			\$ (59,691)

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

Governmental Funds report capital outlays as expenditures. However, in the Government-Wide 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 exceeded depreciation in the current year.

Depreciation Expense	\$ (93,632)	
Capital Outlay	<u>139,746</u>	46,114

Some property taxes will not be collected for several months after the City's fiscal year ends; they are considered "available" revenues in the governmental funds.

Deferred tax revenues increased by this amount this year. 5,126

Repayment of long-term debt and lease purchase obligations are expenditures in the governmental funds but the repayment reduces long-term liabilities in the Statement of Net Assets. Proceeds were \$0 and payments were \$109,436. 109,436

The net effect of various miscellaneous transactions involving capital assets (sales, trade-ins and donations) is to increase (decrease) net assets. (8,800)

Change in Net Assets - Governmental Activities \$ 92,185

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

CITY OF LEONARD, TEXAS
 Proprietary Fund
 Statement of Net Assets
 September 30, 2009

<u>ASSETS</u>	<u>Water and Sewer Fund</u>
Current Assets	
Cash and Cash Equivalents	\$ 5,025
Accounts Receivable	64,957
Inventory	29,234
Total Current Assets	99,216
Noncurrent Assets	
Restricted Cash and Cash Equivalents	13,797
Restricted Investments	37,833
Capital Assets, Net of Accumulated Depreciation	2,297,153
Total Noncurrent Assets	2,348,783
Total Assets	2,447,999
 <u>LIABILITIES</u> 	
Current Liabilities	
Accounts Payable and Accrued Liabilities	17,353
Current Portion of Loans Payable	16,667
Customers' Meter Deposits	51,630
Total Current Liabilities	85,648
 <u>NET ASSETS</u> 	
Invested in Capital Assets, Net of Related Debt	2,294,292
Unrestricted	68,059
Total Net Assets	\$ 2,362,351

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

CITY OF LEONARD, TEXAS
 Proprietary Fund
 Statement of Revenues, Expenses, and Changes in Net Assets
 Year Ended September 30, 2009

	Water and Sewer Fund
Operating Revenues	
Charges for Services	\$ 561,490
Customer Charges - Taps and Other	58,839
Total Operating Revenues	620,329
Operating Expenses	
Salaries and Related Expenses	209,734
Repairs, Supplies and Other	250,826
Utilities	91,819
Depreciation	129,151
Total Operating Expenses	681,530
Operating Income (Loss)	(61,201)
Nonoperating Revenues (Expenses)	
Investment Income	1,018
Interest Expense	(4,986)
Total Nonoperating Revenues (Expenses)	(3,968)
Income (Loss) before Transfers	(65,169)
Transfers In	7,207
Transfers Out	(1,380)
Change in Net Assets	(59,342)
Net Assets - Beginning of Year	2,421,693
Net Assets - End of Year	\$ 2,362,351

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

CITY OF LEONARD, TEXAS
 Proprietary Fund
 Statement of Cash Flows
 Year Ended September 30, 2009

	Water and Sewer Fund
Cash Flows from Operating Activities	
Cash Received from Customers	\$ 683,541
Cash Payments to Suppliers	(423,081)
Cash Payments to Employees	(209,734)
Net Cash Provided by Operating Activities	50,726
Cash Flows from Noncapital Financing Activities	
Operating Transfers In	7,207
Operating Transfers Out	(1,380)
Principal Payments on Debt	(14,069)
Interest Payments on Debt	(5,137)
Net Cash Used for Noncapital Financing Activities	(13,379)
Cash Flows from Capital and Related Financing Activities	
Purchase of Capital Assets	(27,500)
Principal Payments on Long-Term Debt	(33,203)
Net Cash Used for Capital and Related Financing Activities	(60,703)
Cash Flows from Investing Activities	
Proceeds from Interest Earnings	1,018
Purchase of Investments	(861)
Net Cash Provided by Investing Activities	157
Net Increase (Decrease) in Cash and Cash Equivalents	(23,199)
Cash and Cash Equivalents, October 1	42,021
Cash and Cash Equivalents, September 30	\$ 18,822
Reconciliation to Statement of Net Assets	
Cash and Cash Equivalents	\$ 5,025
Restricted Cash and Cash Equivalents	13,797
Total Cash and Cash Equivalents	\$ 18,822
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:	
Operating Income (Loss)	\$ (61,201)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:	
Depreciation	129,151
Decrease in Accounts Receivable	59,971
Decrease in Accounts Payable	(82,889)
Increase in Customer Meter Deposits	3,240
Decrease in Inventory	2,454
Total Adjustments	111,927
Net Cash Provided by Operating Activities	\$ 50,726

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

CITY OF LEONARD, TEXAS
Notes to Financial Statements
September 30, 2009

Note 1: Summary of Significant Accounting Policies

The City of Leonard, Texas (the City) was incorporated on September 16, 1889. The City operates under a council-manager form of government. The City's major operations include public safety, public works and general government services. Additionally, the City operates a water and sewer system.

The accounting and reporting policies of the City relating to the funds included 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 principles 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.

A. The Reporting Entity

In evaluating how to define the government for financial reporting purposes, management has considered all potential component units. The basic – but not the only – criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the government and/or its citizens, or whether the activity is conducted within the geographic boundaries of the government and is generally available to its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the government is able to exercise oversight responsibilities. Based upon the application of these criteria, a component unit is included in the accompanying financial statements.

The City of Leonard for financial purposes, includes all of the funds relevant to the operations of the City. The discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City. The Leonard Community Development Corporation, Inc. does not issue separately audited financial statements.

The component unit referred to above was incorporated under the Texas Non-Profit Corporation Act. It operates without capital stock and was formed for the purpose of benefiting and accomplishing public purposes of, and to act on behalf of, the City of Leonard, Texas, to undertake, maintain and finance projects for the permitted purposes set forth in the act. The governing body of the Leonard Community Development Corporation is appointed by the City Council.

CITY OF LEONARD, TEXAS
Notes to Financial Statements (Continued)
September 30, 2009

Note 1: Summary of Significant Accounting Policies (Continued)

B. 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 the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized 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 after year end. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to claims and judgments, are recorded only when payment is due.

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

The City reports the following major governmental funds:

General Fund

This is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be reported in another fund.

Debt Service Fund

Debt Service Fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

The City reports the following major proprietary fund:

Water and Sewer Fund

This accounts for the water service charges that are used to finance the water system operating expenses.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

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. Operating expenses of the proprietary fund include the cost of personal and contractual services, supplies, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

CITY OF LEONARD, TEXAS
Notes to Financial Statements (continued)
September 30, 2009

Note 1: Summary of Significant Accounting Policies (Continued)

C. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for the proprietary fund. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance on these assets are recorded as expenses. Renewals and betterments are capitalized. The City has elected not to report major general infrastructure assets retroactively. Infrastructure assets acquired since October 1, 2003 are recorded at cost.

Assets capitalized have an original cost of \$5,000 and useful life in excess of one year. Depreciation on capital assets has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Buildings	20-40 Years
Furniture, Equipment and Vehicles	5-10 Years
Water and Sewer System	30-40 Years
Infrastructure	20-35 Years

D. Cash and Cash Equivalents

For purposes of the statement of cash flows, cash includes all cash on hand, demand deposits, and time deposits and other highly liquid investments with maturity of three months or less when purchased.

E. Investments

Investments classified in the financial statements consist entirely of certificates of deposit whose original maturity term exceeds three months. Investments are carried at cost, which approximates fair value.

F. Taxes Receivable and Deferred Revenue

Allowances for uncollectible taxes are based on historical experience in collecting property taxes. At September 30, 2009, the balance of allowances for uncollectible property taxes was \$11,015. At September 30, 2009, net taxes not estimated to be collectible within 60 days are reflected in deferred revenue.

G. Inventories

Inventories are stated at cost using the first-in, first-out method. Inventory in the governmental fund is recorded as an expense at the time individual inventory items are consumed. Reported inventories are equally offset by a fund balance reserve showing that they do not constitute available expendable resources. Inventory in the proprietary fund is recorded as an expense at the time individual inventory items are consumed.

CITY OF LEONARD, TEXAS
Notes to Financial Statements (Continued)
September 30, 2009

Note 1: Summary of Significant Accounting Policies (Continued)

H. Restricted Assets

Primary Government

Restricted assets on September 30, 2009 totaled \$51,630 and consisted of \$13,797 of cash and cash equivalents and \$37,833 of certificates of deposit held for meter deposits.

Component Unit

Certain proceeds from outside sources have been classified as restricted assets on the balance sheet because their use is limited by outside sources. The component unit maintains a separate bank account for funds associated with a Revolving Loan Fund Program Grant from the U.S. Department of Agriculture. The amount of restricted funds at September 30, 2009 was \$10,949.

I. Long-Term Debt

All long-term debt to be repaid from governmental and business-type resources is reported as liabilities in the government-wide statements. Presently, the City's long-term debt consists of time warrants and loans payable.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures. The accounting for proprietary funds is the same in the fund financial statements as it is in the government-wide statements.

J. Equity Classification

In the Government-Wide statements and the Proprietary fund, equity is classified as net assets and displayed as three components:

- a. Invested in capital assets, net of related debt - Consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds.
- b. Restricted net assets - Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

It is the City's policy to first use restricted net assets prior to use of unrestricted net assets when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Government fund equity is classified as fund balance. Governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally segregated for the specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

CITY OF LEONARD, TEXAS
Notes to Financial Statements (Continued)
September 30, 2009

Note 1: Summary of Significant Accounting Policies (Continued)

K. Revenues, Expenditures, and Expenses

Program Revenues

In the Statement of Activities, revenues that are derived directly from each activity or from parties outside the City's taxpayers are reported as program revenues. These include fine and sanitation revenue, Fannin County Fire Department runs and a U.S. Department of Housing and Urban Development Streetscape Grant. All other governmental revenues are reported as general. All taxes are classified as general revenue even if restricted for a specific purpose.

Operating Revenue and Expenses

Operating revenues and expenses for the proprietary fund result from providing services and producing and delivering goods and/or services. They also include all revenues and expenses not related to capital and related financing, noncapital financing, or investing activities.

L. Interfund Activity

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues.

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenue/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

Resource flows between the City and the discretely presented component unit are reported as if they were external transactions and are classified separately from internal balances and activities within the primary government.

Note 2: Stewardship, Compliance and Accountability

By its nature as a local government unit, the City and its component unit are subject to various federal, state, and local laws and contractual regulations.

CITY OF LEONARD, TEXAS
Notes to Financial Statements (Continued)
September 30, 2009

Note 2: Stewardship, Compliance and Accountability (Continued)

A. Budgetary Noncompliance

The following instances of noncompliance are considered material to the financial statements. For the year ended September 30, 2009, expenditures exceeded appropriations at the legal level of control in the General Fund as follows:

<u>Department/Object Category</u>	<u>Expenditures Exceeding Appropriations</u>
General Government	\$ 75,465
Law Enforcement	17,548
Capital Outlay	95,746
Transfers Out	18,734

Note 3: Deposits and Investments

Primary Government

The City has not adopted formal deposit and investment policies other than that of the State of Texas.

Custodial credit risk for deposits is the risk that in the event of a bank failure, the City's deposits may not be returned or the City will not be able to recover collateral securities in the possession of an outside party. The City's policy requires deposits to be secured by collateral valued at market or par, whichever is lower, less the amount of the Federal Deposit Insurance Corporation insurance (FDIC). Deposited funds may be invested in certificates of deposits in institutions that are domiciled in the State of Texas. Collateral agreements must be approved prior to deposit of funds as provided by law.

As of September 30, 2009, the City was not exposed to custodial credit risk since deposits are insured or collateralized with securities pledged held in the name of the City. The City's carrying amount of deposits was \$150,614 and the bank's balances were \$161,256.

The City's Certificate of Deposit in the amount of \$37,833 is considered a deposit for this footnote but is classified as an investment on the face of the financial statements.

Component Unit

The bank balance and carrying amount of the Leonard Community Development Corporation's deposits was \$50,221 at September 30, 2009. The component unit was not exposed to custodial credit risk as its deposits were fully insured with FDIC insurance at year-end.

CITY OF LEONARD, TEXAS
Notes to Financial Statements (Continued)
September 30, 2009

Note 4: Property Taxes

Property taxes are levied by October 1 in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Tax rates per \$100 valuation for the 2008 levy amounted to .514802 for maintenance and operation and .254600 for the interest and sinking fund.

Note 5: Capital Assets

Primary Government

Capital asset activity for the year ended September 30, 2009, was as follows:

	<u>Balance</u> <u>9/30/08</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>9/30/09</u>
Governmental Activities:				
Capital Assets, not being Depreciated:				
Land	\$ 99,700	\$ -	\$ -	\$ 99,700
Construction in Progress	<u>130,631</u>	<u>73,184</u>	<u>-</u>	<u>203,815</u>
	<u>230,331</u>	<u>73,184</u>	<u>-</u>	<u>303,515</u>
Capital Assets being Depreciated:				
Buildings and Improvements	1,303,706	17,675	(12,000)	1,309,381
Furniture, Equipment and Vehicles	<u>685,053</u>	<u>48,887</u>	<u>-</u>	<u>733,940</u>
	<u>1,988,759</u>	<u>66,562</u>	<u>(12,000)</u>	<u>2,043,321</u>
Less Accumulated Depreciation for:				
Buildings	(430,852)	(40,323)	3,200	(467,975)
Furniture, Equipment and Vehicles	<u>(387,171)</u>	<u>(53,309)</u>	<u>-</u>	<u>(440,480)</u>
	<u>(818,023)</u>	<u>(93,632)</u>	<u>3,200</u>	<u>(908,455)</u>
Capital Assets being Depreciated, Net	<u>1,170,736</u>	<u>(27,070)</u>	<u>(8,800)</u>	<u>1,134,866</u>
Governmental Activities Capital Assets, Net	<u>\$ 1,401,067</u>	<u>\$ 46,114</u>	<u>\$ (8,800)</u>	<u>\$ 1,438,381</u>
Business-Type Activities Capital Assets, not being Depreciated:				
Land	\$ 4,210	\$ -	\$ -	\$ 4,210
Construction in Progress	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>4,210</u>	<u>-</u>	<u>-</u>	<u>4,210</u>

CITY OF LEONARD, TEXAS
Notes to Financial Statements (Continued)
September 30, 2009

Note 5: Capital Assets (Continued)

Primary Government (continued)

	<u>Balance</u> <u>9/30/08</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>9/30/09</u>
Capital Assets being Depreciated:				
Furniture, Equipment and Vehicles	175,111	27,500	-	202,611
Water and Sewer System	<u>4,755,416</u>	<u>-</u>	<u>-</u>	<u>4,755,416</u>
	<u>4,930,527</u>	<u>27,500</u>	<u>-</u>	<u>4,958,027</u>
Less Accumulated Depreciation for:				
Furniture, Equipment and Vehicles	(153,163)	(10,204)	-	(163,367)
Water and Sewer System	<u>(2,382,770)</u>	<u>(118,947)</u>	<u>-</u>	<u>(2,501,717)</u>
	<u>(2,535,933)</u>	<u>(129,151)</u>	<u>-</u>	<u>(2,665,084)</u>
Capital Assets being Depreciated, Net	<u>2,394,594</u>	<u>(101,651)</u>	<u>-</u>	<u>2,292,943</u>
Business-Type Activities Capital Assets, Net	<u>\$ 2,398,804</u>	<u>\$(101,651)</u>	<u>\$ -</u>	<u>\$ 2,297,153</u>

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

Governmental Activities:	
General Government	\$ 34,434
Streets	27,443
Law Enforcement	2,044
Fire	<u>29,711</u>
Total Depreciation Expense-Governmental Activities	<u>\$ 93,632</u>
Business-Type Activities:	
Water and Sewer	<u>\$ 129,151</u>

Component Unit

Capital asset activity for the year ended September 30, 2009, was as follows:

	<u>Balance</u> <u>9/30/08</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>9/30/09</u>
Capital Assets, not being Depreciated:				
Land	<u>\$ 25,591</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 25,591</u>

CITY OF LEONARD, TEXAS
Notes to Financial Statements (Continued)
September 30, 2009

Note 6: Short-Term Debt

A summary of short-term debt transactions for the year ending September 30, 2009, follows:

	Balance October 1, <u>2008</u>	<u>Additions</u>	<u>Retirements</u>	Balance September 30, <u>2009</u>
Governmental Activities				
Loans	\$ 24,000	\$ -	\$(10,598)	\$ 13,402
Loan from Component Unit	<u>-</u>	<u>28,387</u>	<u>-</u>	<u>28,387</u>
Total Governmental Activities	<u>24,000</u>	<u>28,387</u>	<u>(10,598)</u>	<u>41,789</u>
Business-Type Activities				
Time Warrants	<u>28,911</u>	<u>-</u>	<u>(28,911)</u>	<u>-</u>
Total Business -Type Activities	<u>28,911</u>	<u>-</u>	<u>(28,911)</u>	<u>-</u>
Total	<u>\$ 52,911</u>	<u>\$ 28,387</u>	<u>\$(39,509)</u>	<u>\$ 41,789</u>

The City borrowed \$38,000 in 2003 and has borrowed additional funds as needed for bank overdraft protection and operating expenses. The \$37,833 certificate of deposit in the Water and Sewer Fund is pledged as collateral for the \$13,402 loan.

In November 2007, the City entered into a Time Warrant Agreement with the Component Unit for \$39,325. Interest was at 5% and the balance of \$28,911 was paid in full as of September 30, 2009.

In December 2008 and January 2009, the Component Unit purchased equipment for the City totaling \$28,387. The agreement provides for a two year lease of \$1 per year. Terms of repayment will be negotiated after the second year.

Note 7: Long-Term Debt

A summary of long-term debt transactions for the year ended September 30, 2009, follows:

	Balance October 1, <u>2008</u>	<u>Additions</u>	<u>Retirements</u>	Balance September 30, <u>2009</u>	Due Within <u>One Year</u>
Primary Government:					
Governmental Activities					
Time Warrants	\$ 753,203	\$ -	\$(88,449)	\$ 664,754	\$ 163,593
Loans	<u>77,297</u>	<u>-</u>	<u>(20,987)</u>	<u>56,310</u>	<u>20,497</u>
	<u>830,500</u>	<u>-</u>	<u>(109,436)</u>	<u>721,064</u>	<u>184,090</u>
Business-Type Activities					
Loan	<u>35,028</u>	<u>-</u>	<u>(18,361)</u>	<u>16,667</u>	<u>16,667</u>
Total	<u>\$ 865,528</u>	<u>\$ -</u>	<u>\$(127,797)</u>	<u>\$ 737,731</u>	<u>\$ 200,757</u>
Component Unit:					
Loans	<u>\$ 94,492</u>	<u>\$ -</u>	<u>\$(48,598)</u>	<u>\$ 45,894</u>	<u>\$ 10,081</u>

CITY OF LEONARD, TEXAS
Notes to Financial Statements (Continued)
September 30, 2009

Note 7: Long-Term Debt (Continued)

Long-term debt is comprised of the following:

Primary Government:

Governmental Activities

\$236,505, Time Warrants, dated September 1, 1997 due in monthly installments of \$838, through 2017, interest at 8.25%.	\$ 58,491
\$442,838, Time Warrants, dated February 1, 1998 due in monthly installments of \$3,110, through 2017, interest at 5.5%.	240,413
\$150,000, Time Warrants, dated January 11, 2002 due in monthly installments of \$984, through 2019, interest at 5.75%.	89,318
\$125,000, Time Warrants, dated August 3, 2005, due in monthly installments of \$1,312, through 2010, (when debt balloons), interest at 6.25%. Proceeds were used to purchase a building located at 118 W. Collin Street.	88,232
\$160,196, Time Warrants, dated September 14, 2005, due in monthly installments of \$2,117, through 2010 (when debt balloons), interest at 6.15%. Proceeds were used to purchase equipment.	89,876
\$180,000, Time Warrants, dated February 3, 2006, due in monthly installments of \$2,695, through 2013, interest at 6.75%. Proceeds were used to purchase a 2005 fire truck.	98,424
\$71,549, Loan, dated September 15, 2006, due in monthly installments of \$1,128, through 2013, interest at 8.25%. Proceeds were obtained through Leonard Community Development Corporation, the discretely presented component unit, and were used to purchase a first response vehicle.	45,894
\$24,000, Loan, dated August 5, 2008, due in monthly installments of \$1,076, through August 2010, interest at 7%. This was previously a short-term loan for bank overdraft protection that was refinanced.	10,416

Business-Type Activities

\$29,000, Refinanced Loan, dated August 5, 2008, due in monthly installments of \$1,300, through August 2010, interest at 7%. Short-term loan for bank overdraft protection.	13,806
\$12,875 Loan, dated May 2, 2007, due in monthly installments of \$358, through May 2010, interest at 9%. Proceeds were used to Purchase equipment.	2,861

\$ 737,731

CITY OF LEONARD, TEXAS
Notes to Financial Statements (Continued)
September 30, 2009

Note 7: Long-Term Debt (Continued)

Component Unit:

\$71,549, Loan, dated September 15, 2006 due in monthly installments of \$1,128, through 2013, interest at 8.25%. Proceeds were used to purchase a first response vehicle for the City. \$ 45,894

Primary Government

The annual requirements to amortize the long-term loans and warrants outstanding as of September 30, 2009, are as follows:

<u>Year Ending</u> <u>September 30,</u>	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2010	\$ 261,795	\$ 41,590	\$ 16,667	\$ 491	\$ 320,543
2011	78,269	26,793	-	-	105,062
2012	83,566	21,496	-	-	105,062
2013	70,152	16,046	-	-	86,198
2014	46,699	12,486	-	-	59,185
2015	49,616	9,569	-	-	59,185
2016	52,701	6,484	-	-	59,185
2017	56,023	3,162	-	-	59,185
2018	10,799	1,010	-	-	11,809
2019	<u>11,444</u>	<u>365</u>	<u>-</u>	<u>-</u>	<u>11,809</u>
	<u>\$ 721,064</u>	<u>\$ 139,001</u>	<u>\$ 16,667</u>	<u>\$ 491</u>	<u>\$ 877,223</u>

The ordinance authorizing the issuance of the Construction Time Warrants pledge the proceeds of the lease contract with the U. S. Postal Service.

The warrants may be redeemed at any time without penalty.

Component Unit:

The annual requirements to amortize the long-term loan outstanding as of September 30, 2009, are as follows:

<u>Year Ending</u> <u>September 30,</u>	<u>Principal</u>	<u>Interest</u>
2010	\$ 10,081	\$ 3,459
2011	10,957	2,583
2012	11,910	1,630
2013	<u>12,946</u>	<u>594</u>
	<u>\$ 45,894</u>	<u>\$ 8,266</u>

CITY OF LEONARD, TEXAS
Notes to Financial Statements (Continued)
September 30, 2009

Note 8: Contingent Liabilities

The City participates in federally assisted grant programs, which are subject to program compliance audits by grantors or their representatives. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

Note 9: Interfund Transfers

Interfund transfers for the year ended September 30, 2009, consisted of the following individual amounts:

Transfers to General Fund From:		
Water and Sewer Fund	\$	1,380
Total Transferred to General Fund	<u>\$</u>	<u>1,380</u>
Transfers to Water and Sewer Fund From:		
General Fund	\$	7,207
Total Transferred to Water and Sewer Fund	<u>\$</u>	<u>7,207</u>
Transfers to Debt Service From:		
General Fund	\$	12,907
Total Transferred to Debt Service	<u>\$</u>	<u>12,907</u>

The transfer to the General Fund from the Water and Sewer Fund was due to payment of debt. The transfers from the General Fund to the Water and Sewer Fund and the Debt Service Fund were to cover operating expenses and payment of debt.

Note 10: Disaggregation of Receivables and Payables

Receivables at September 30, 2009, were as follows:

	<u>Taxes</u>	<u>From Primary Government</u>	<u>Accounts</u>	<u>Notes</u>	<u>Total Receivables</u>
Governmental Activities:					
General Fund	\$ 69,727	\$ -	\$ 16,053	\$ -	\$ 85,780
Debt Service Fund	<u>20,061</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>20,061</u>
Gross Receivables	89,788	-	16,053	-	105,841
Less: Allowance for Uncollectibles	(11,015)	<u>-</u>	<u>-</u>	<u>-</u>	<u>(11,015)</u>
Total – Governmental Activities	<u>\$ 78,773</u>	<u>\$ -</u>	<u>\$ 16,053</u>	<u>\$ -</u>	<u>\$ 94,826</u>
Business-Type Activities:					
Water and Sewer Fund	\$ -	\$ -	\$ 64,957	\$ -	\$ 64,957
Total – Business-Type Activities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 64,957</u>	<u>\$ -</u>	<u>\$ 64,957</u>

CITY OF LEONARD, TEXAS
Notes to Financial Statements (Continued)
September 30, 2009

Note 10: Disaggregation of Receivables and Payables (Continued)

	From Primary			Total	
	<u>Taxes</u>	<u>Government</u>	<u>Accounts</u>	<u>Notes</u>	<u>Receivables</u>
Component Unit	\$ 2,328	\$ 91,059	\$ -	\$ 50,937	\$ 144,324
Less: Allowance for Uncollectibles	<u>-</u>	<u>-</u>	<u>-</u>	<u>(5,094)</u>	<u>(5,094)</u>
	<u>\$ 2,328</u>	<u>\$ 91,059</u>	<u>\$ -</u>	<u>\$ 45,843</u>	<u>\$ 139,230</u>

The receivables not expected to be collected within one year consist of \$35,812 of the amount due from the Primary Government to the Component Unit and \$32,158 of the notes receivable.

Payables at September 30, 2009, were as follows:

	<u>Accounts</u>	To <u>Component Unit</u>	<u>Total Payables</u>
Governmental Activities:			
General Fund	\$ 30,355	\$ 16,779	\$ 47,134
Total – Governmental Activities	<u>\$ 30,355</u>	<u>\$ 16,779</u>	<u>\$ 47,134</u>
Business-Type Activities:			
Water and Sewer Fund	\$ 17,351	\$ -	\$ 17,351
Total - Business-Type Activities	<u>\$ 17,351</u>	<u>\$ -</u>	<u>\$ 17,351</u>

Note 11: Number of Water and Sewer System Customers

At September 30, 2009, 789 customers were connected to the water system and 746 to the sewer system.

Note 12: Pension Plan

Plan Description

The City provides pension benefits for all of its eligible employees through a nontraditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the City are within the options available in governing state statutes of TMRS.

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the System. This report may be obtained by writing to TMRS, P.O. Box 149153, Austin, TX 78714-9153 or by calling 800-924-8677, in addition, the report is available on TMRS' website at www.TRMS.com.

CITY OF LEONARD, TEXAS
Notes to Financial Statements (Continued)
September 30, 2009

Note 12: Pension Plan (Continued)

Plan Description (continued)

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Plan provisions for the City were as follows:

	<u>Plan Year 2008</u>	<u>Plan Year 2009</u>
Employee deposit rate	5%	5%
Matching ratio (city to employee):	1 to 1	1 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age/years of service)	60/5,0/25	60/5,0/25
Updated Service Credit	0%	0%
Annuity Increase (to retirees)	0% of CPI	0% of CPI

Contributions

Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that city. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

The City contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect. The annual pension cost and net pension obligation/(asset) are as follows:

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
9/30/09	\$ 18,326	100%	-

CITY OF LEONARD, TEXAS
Notes to Financial Statements (Continued)
September 30, 2009

Note 12: Pension Plan (continued)

Contributions (continued)

The required contribution rates for fiscal year 2009 were determined as part of the December 31, 2006 and 2007 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2008, also follows:

Valuation Date	<u>12/31/2006</u>	<u>12/31/2007</u>	<u>12/31/2008</u>
Actuarial Cost Method	Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
Remaining Amortization Period	25 yrs; open period	25 yrs; closed period	24 yrs; closed period
Asset Valuation Method	Amortized Cost	Amortized Cost	Amortized Cost
Actuarial Assumptions:			
Investment Rate of Return*	7.0%	7.0%	7.5%
Projected Salary Increases*	Varies by age and service	Varies by age and service	Varies by age and service
*Includes Inflation at	3.00%	3.00%	3.00%
Cost of Living Adjustments	N/A	0%	0%

The funded status as of December 31, 2008, the most recent actuarial valuation date, is as follows:

<u>Actuarial</u> <u>Valuation Date</u>	<u>Actuarial</u> <u>Value of</u> <u>Assets</u>	<u>Actuarial</u> <u>Accrued</u> <u>Liability (AAL)</u>	<u>Funded</u> <u>Ratio</u>	<u>Unfunded</u> <u>AAL</u> <u>(UAAL)</u>	<u>Covered</u> <u>Payroll</u>	<u>UAAL as a</u> <u>Percentage of</u> <u>Covered</u> <u>Payroll</u>
12/31/08	\$ 378,545	\$ 377,490	100.3%	\$(1,055)	\$426,994	(.2)%

The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

CITY OF LEONARD, TEXAS
Notes to Financial Statements (Continued)
September 30, 2009

Note 13: Commitments

On December 20, 1999, the City entered into an agreement with the Greater Texoma Utility Authority (GTUA), a political subdivision of the State of Texas serving as a conservation and reclamation authority, for the purpose of providing sanitary sewer collection and treatment facilities for use by the City and an additional supply of water to the City and certain water supply facilities in order to store and transport such water to the City. Under the terms of the Contract for Water Supply and Sewer Service, GTUA issued \$150,000 in 2000 City of Leonard Contract Revenue Bonds to be used, together with funds provided by the City, for the construction of water and sewer improvements. The City is required to make monthly payments to GTUA equal to one-twelfth of the annual bond payment. In addition, the City is required to pay to GTUA an amount equal to the Reserve Fund Payment required under the Bond Resolution. The bonds are due in annual installments of \$5,000 to \$10,000 through September 30, 2021, and bear interest at 4.5% to 6.35%. During the term of the Contract, GTUA has an undivided interest in the project equivalent to the percentage of the total cost of the project provided by GTUA through the issuance and sale of its bonds. The City's obligations to make any and all payments and the ownership interest of GTUA will terminate when all of the bonds have been paid in full and retired and are no longer outstanding.

On September 17, 2002, the City entered into an agreement with the Greater Texoma Utility Authority (GTUA), a political subdivision of the State of Texas serving as a conservation and reclamation authority, for the construction acquisition and improvement of wastewater system facilities and necessary appurtenances for use by the City. Under the terms of the Contract for Water Supply and Sewer Service, GTUA issued \$865,000 in 2002 City of Leonard Contract Revenue Bonds to be used, together with funds provided by the City, for the construction of water and sewer improvements. The City is required to make monthly payments to GTUA equal to one-twelfth of the annual bond payment. In addition, the City is required to pay to GTUA an amount equal to the Reserve Fund Payment required under the Bond Resolution. The bonds are due in annual installments of \$35,000 to \$75,000 through October 1, 2021, and bear interest at 0.8% to 4.05%. During the term of the Contract, GTUA has an undivided interest in the project equivalent to the percentage of the total cost of the project provided by GTUA through the issuance and sale of its bonds. The City's obligations to make any and all payments and the ownership interest of GTUA will terminate when all of the bonds have been paid in full and retired and are no longer outstanding.

Note 14: Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employee's health and life; and natural disasters. The City purchases insurance coverage through the Texas Municipal League Intergovernmental Risk Pool to limit the risk of loss in these areas. Management believes such coverage is sufficient to preclude any significant uninsured losses to the City. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years.

Note 15: Subsequent Events

Management has evaluated subsequent events through July 7, 2010, the date on which the financial statements were available to be issued. There are no events that occurred after September 30, 2009, that require disclosure in the notes to the financial statements.

CITY OF LEONARD, TEXAS
General Fund
Budgetary Comparison Schedule
Year Ended September 30, 2009

	Original Budget	Final Budget	Actual Amounts	Variance Favorable (Unfavorable)
Revenues:				
Ad Valorem Taxes	\$ 314,700	\$ 314,700	\$ 301,508	\$ (13,192)
Sales Tax	172,000	172,000	159,671	(12,329)
Franchise Tax	90,000	90,000	89,264	(736)
Charges for Services	195,000	195,000	194,072	(928)
Fines	40,000	40,000	48,861	8,861
Interest Income	-	-	602	602
Miscellaneous	64,200	83,200	61,936	(18,264)
Intergovernmental	-	-	73,184	73,184
Total Revenues	<u>875,900</u>	<u>894,900</u>	<u>932,098</u>	<u>37,198</u>
Expenditures:				
General Government	399,500	387,500	462,965	(75,465)
Streets	145,793	178,793	129,590	49,203
Law Enforcement	261,765	261,765	279,313	(17,548)
Fire	11,900	11,900	11,560	340
Debt Service:				
Principal	30,000	30,000	-	30,000
Interest	-	-	-	-
Capital Outlay	26,000	44,000	139,746	(95,746)
Total Expenditures	<u>874,958</u>	<u>913,958</u>	<u>1,023,174</u>	<u>(109,216)</u>
Excess (Deficiency) of Revenues over Expenditures	<u>942</u>	<u>(19,058)</u>	<u>(91,076)</u>	<u>(72,018)</u>
Other Financing Sources (Uses)				
Insurance Proceeds	-	20,000	20,250	250
Sale of Capital Assets	-	-	24,575	24,575
Loan Proceeds	-	-	-	-
Operating Transfers In (Out)	-	-	(18,734)	(18,734)
Total Other Sources (Uses)	<u>-</u>	<u>20,000</u>	<u>26,091</u>	<u>6,091</u>
Net Change in Fund Balances	942	942	(64,985)	(65,927)
Fund Balances - Beginning of Year	<u>100,323</u>	<u>100,323</u>	<u>100,323</u>	<u>-</u>
Fund Balances - End of Year	<u>\$ 101,265</u>	<u>\$ 101,265</u>	<u>\$ 35,338</u>	<u>\$ (65,927)</u>

CITY OF LEONARD, TEXAS
Texas Municipal Retirement System
Schedule of Funding Progress
September 30, 2009

Texas Municipal Retirement System
Schedule of Funding Progress:
(unaudited)

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Funded Ratio</u>	<u>Unfunded AAL. (U.AAL)</u>	<u>Covered Payroll</u>	<u>U.AAL. as a Percentage of Covered Payroll</u>
12/31/2006	\$ 314,293	\$ 367,232	85.6%	\$ 52,939	\$ 397,179	13.3 %
12/31/2007	339,795	350,380	97.0%	10,585	266,117	4.0 %
12/31/2008	378,545	377,490	100.3%	(1,055)	426,994	(0.2) %

CITY OF LEONARD, TEXAS
Notes to Required Supplementary Information
September 30, 2009

The City Administrator submits a budget for the upcoming fiscal year to the City Council. After public hearings are held, the budget is adopted in September prior to the beginning of its subsequent fiscal year. The budget is prepared on the same modified accrual basis of accounting as applied to the governmental funds in the basic financial statements.

CITY OF LEONARD, TEXAS
 Schedule of Property Taxes Levied and Receivable
 Year Ended September 30, 2009

	<u>M & O</u>	<u>I & S</u>	<u>Total</u>
Property Taxes Receivable, October 1, 2008	\$ 29,165	\$ 18,225	\$ 47,390
Levy	301,477	149,098	450,575
Collections	(293,883)	(146,154)	(440,037)
Adjustments	<u>(1,744)</u>	<u>(1,107)</u>	<u>(2,851)</u>
Property Taxes Receivable, September 30, 2009	<u>\$ 35,015</u>	<u>\$ 20,062</u>	<u>\$ 55,077</u>

CITY OF LEONARD, TEXAS
 Schedule of Community Development Programs
 Year Ended September 30, 2009

	TDCP Funds				Local Matching Funds				Variance Favorable (Unfavorable)	
	Budget	Actual Prior Years	Actual 10/1/08- 09/30/09	Total	Variance Favorable (Unfavorable)	Budget	Actual Prior Years	Actual 10/1/08- 09/30/09		Total
TDCP Contract No. 726351										
Project Receipts		\$ 4,367	\$ -	\$ 4,367						
Expense Categories										
Street Improvements	\$120,633	-	-	-	\$ 120,633	\$ -	\$ -	\$ -	\$ -	\$ -
Engineering/Architectural Administration	4,367	4,367	-	4,367	-	11,250	-	1,333	1,333	9,917
	-	-	-	-	-	15,000	187	187	9,120	5,880
Total Disbursements	<u>\$125,000</u>	<u>4,367</u>	<u>-</u>	<u>4,367</u>	<u>\$120,633</u>	<u>\$ 26,250</u>	<u>\$ 187</u>	<u>\$ 10,266</u>	<u>\$ 10,453</u>	<u>\$ 15,797</u>
Receivable (Payable)		<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>						
TDCP Contract No. 727271										
Project Receipts		\$ -	\$ -	\$ -						
Expense Categories										
Street Improvements	\$120,350	-	-	-	\$ 120,350	\$ 64,553	\$ -	\$ -	\$ -	\$ 64,553
Engineering Administration	4,650	-	-	-	4,650	9,000	-	-	-	9,000
	-	-	-	-	-	21,000	2,205	2,205	7,403	13,597
Total Disbursements	<u>\$125,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>\$125,000</u>	<u>\$ 94,553</u>	<u>\$ 2,205</u>	<u>\$ 5,198</u>	<u>\$ 7,403</u>	<u>\$ 87,150</u>
Receivable (Payable)		<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>						

McCLANAHAN AND HOLMES, LLP
CERTIFIED PUBLIC ACCOUNTANTS

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Communication with Those Charged
with Governance

Honorable Mayor and Members of
the City Council
Leonard, Texas

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit and each major fund of the City of Leonard, Texas (City) for the year ended September 30, 2009. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you dated September 9, 2009. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices:

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 to the audited financial statements. No new accounting policies were adopted, and the application of existing policies was not changed during 2009. We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the City's financial statements was:

Managements estimate of depreciation expense. Depreciation expense is calculated on a straight-line basis, over the estimated useful lives of the City's assets. We evaluated the key factors and assumptions used to develop the depreciation method used and the estimates of useful lives of the assets in determining that it is reasonable in relation to the financial statements taken as a whole.

Honorable Mayor and Members of
the City Council
Leonard, Texas

The disclosures in the financial statements are neutral, consistent and clear. There are no disclosures that are considered sensitive because of their significance to the financial statement users.

Difficulties Encountered in Performing the Audit:

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements:

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The attached schedule following this letter summarizes misstatements detected as a result of audit procedures that were corrected by management.

Disagreements with Management:

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or audit matter, whether or not resolved to our satisfaction, which could be significant to the financial statements or auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations:

We have requested certain representations from management that are included in the management representation letter dated July 7, 2010.

Management Consultations with Other Independent Accountants:

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion," in certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements, or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings:

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship, and our responses were not a condition to our retention.

Honorable Mayor and Members of
the City Council
Leonard, Texas

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements of the City of Leonard, Texas as of and for the year ended September 30, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) 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. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and material weaknesses.

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 a 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.

A material weakness is a significant deficiency, or a 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. We consider the following deficiencies to be significant deficiencies and material weaknesses in internal control.

Financial Accounting and Reporting:

The City does not have the governmental accounting expertise to prepare the financial statements and control the period-end financial reporting process, including controls over the selection and application of accounting principles that are in conformity with generally accepted accounting principles; controls over procedures used to analyze transactions comprising general ledger activity; controls over initiating, authorizing, recording and processing journal entries into the general ledger; and controls over recording recurring and nonrecurring adjustments to the financial statements.

Honorable Mayor and Members of
the City Council
Leonard, Texas

Segregation of Duties:

A critical element in any internal control structure is the characteristic known as segregation of duties. Assigning different personnel the responsibility of authorizing transactions, recording transactions, and maintaining custody of assets achieve this internal control structure attribute. Due to the City's small number of personnel, there is limited segregation of duties in substantially all areas of the accounting system. To the extent possible, every effort should be made to utilize a "best practices" approach when considering controls over cash transactions and preparation of accounting records. We encourage the Board to closely monitor its financial activities which may help offset the weaknesses associated with limited segregation of duties.

This report is intended solely for the information and use of the City Council, management, and grant agencies and is not intended to and should not be used by anyone other than these parties.

McClanahan and Kellers, LLP
Certified Public Accountants

July 7, 2010
Bonham, Texas

CITY OF LEONARD, TEXAS
Misstatements Corrected by Management
September 30, 2009

Description	Debit	Credit
<u>General Fund</u>		
Taxes Receivable	\$ 4,089	\$ -
Allowance for Doubtful Accounts	-	1,170
Deferred Revenues	-	5,178
Ad Valorem Tax Revenue	-	780
Streets Expense	-	119,863
Inventory	-	7,215
Transfer to Water and Sewer Fund	7,207	-
Loans Payable	-	18,780
Transfer to Debt Service Fund	12,907	-
Transfer from Water and Sewer Fund	-	1,380
Interest Payable	46	-
Sales Tax Revenue	1,411	-
Transfer to Economic Development Corporation	8,066	-
Due to Component Unit - Loan Payable	-	8,066
Miscellaneous Revenue	31,500	-
Accounts Payable	11,590	-
Law Expense	-	242
Fire Expense	-	1,465
General Government Expense	-	25,664
Capital Outlay	139,746	-
Due to Component Unit - Equipment	-	28,387
Franchise Tax Revenue	1,628	-
Accounts Receivable	271	-
Charges for Services	-	271
Intergovernmental Revenue	5,267	-
Due from Other Governments	-	5,267
	<u>\$ 223,728</u>	<u>\$ 223,728</u>
<u>Water and Sewer Fund</u>		
Investments	\$ 862	\$ -
Interest Receivable	-	2
Investment Income	-	860
Repairs, Supplies and Other	-	86,828
Inventory	-	2,454
Loans Payable	9,968	-
Transfer from General Fund	-	7,207
Interest Payable	151	-
Transfer to General Fund	1,380	-
Meter Deposits (Revenue)	15,147	-
Customer Deposits (Liability)	-	3,240
Deposit Refunds	-	3,873
Charges for Services	-	6,101
Insurance Proceeds	58,038	-
Insurance Receivable	-	58,038
Accounts Receivable	-	1,933
Accounts Payable	84,990	-
Capital Assets	27,500	-
Customer Charges - Taps and Other	-	27,500
Depreciation	129,151	-
Accumulated Depreciation	-	129,151
	<u>\$ 327,187</u>	<u>\$ 327,187</u>

CITY OF LEONARD, TEXAS
 Misstatements Corrected by Management (Continued)
 September 30, 2009

Description	Debit	Credit
<u>Debt Service Fund</u>		
Taxes Receivable	\$ 1,837	\$ -
Loans Payable	12,907	-
Allowance for Doubtful Accounts	-	367
Deferred Revenues	-	1,225
Ad Valorem Tax Revenue	-	245
Transfer from General Fund	-	12,907
	<u>\$ 14,744</u>	<u>\$ 14,744</u>