

CITY OF LEONARD

Fannin County, Texas

FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITORS' REPORT THEREON

SEPTEMBER 30, 2011

CITY OF LEONARD, TEXAS
Table of Contents
September 30, 2011

	<u>Statement</u>	<u>Page</u>
Report on Basic Financial Statements Accompanied by Required Supplementary Information and Supplementary Information		1
Financial Statements:		
Government-Wide Financial Statements:		
Statement of Net Position	1	3
Statement of Activities	2	4
Fund Financial Statements:		
Governmental Funds:		
Balance Sheet	3	5
Statement of Revenues, Expenditures, and Changes in Fund Balances	4	6
Proprietary Funds:		
Statement of Net Position	5	7
Statement of Revenues, Expenses, and Changes in Net Position	6	8
Statement of Cash Flows	7	9
Notes to Financial Statements		10
Required Supplementary Information:		
Budgetary Comparison Schedule - General Fund		28
Texas Municipal Retirement System – Schedule of Funding Progress		29
Notes to Required Supplementary Information		30
Communication with Those Charged with Governance		31
Misstatements Corrected by Management		35

McClanahan and Holmes, LLP
CERTIFIED PUBLIC ACCOUNTANTS

R. E. BOSTWICK, CPA
STEVEN W. MOHUNDRO, CPA
GEORGE H. STRUVE, CPA
ANDREW B. REICH, CPA
RUSSELL P. WOOD, CPA
DEBRA J. WILDER, CPA

228 SIXTH STREET S.E.
PARIS, TEXAS 75460
903-784-4316
FAX 903-784-4310

304 WEST CHESTNUT
DENISON, TEXAS 75020
903-465-6070
FAX 903-465-6093

1400 WEST RUSSELL
BONHAM, TEXAS 75418
903-583-5574
FAX 903-583-9453

Report on Basic Financial Statements Accompanied
by Required 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, and each major fund of the City of Leonard, Texas, as of and for the year ended September 30, 2011, and the related notes to financial statements which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Honorable Mayor and Members
of the City Council
City of Leonard, Texas
Page 2

Opinions

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, and each major fund of the City of Leonard, Texas, as of September 30, 2011 and the respective changes in financial position and where applicable cash flows thereof for the year then ended on the basis of accounting described in Note 1.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information and the Texas Municipal Retirement System Schedule of Funding Progress be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.


Certified Public Accountants

Bonham, Texas
March 7, 2014

CITY OF LEONARD, TEXAS
Statement of Net Position
September 30, 2011

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Leonard Community Development Corporation
<u>ASSETS</u>				
Current Assets:				
Cash and Cash Equivalents	\$ 99,412	\$ 21,430	\$ 120,842	\$ 20,694
Receivables (Net of Allowance for Uncollectibles)				
Taxes	64,315	-	64,315	-
Due From State	-	-	-	2,702
Due From Primary Government	-	-	-	46,623
Accounts	17,522	87,801	105,323	-
Due From Primary Government - Loan Current Portion	-	-	-	41,998
Due from Other Governments	84,800	-	84,800	-
Notes - Current Portion	-	-	-	15,086
Inventory	6,720	32,059	38,779	-
Internal Balances	(38,487)	38,487	-	-
Noncurrent Assets:				
Restricted Cash and Cash Equivalents	-	-	-	16,002
Long-Term Receivables:				
Due from Primary Government	-	-	-	12,946
Notes	-	-	-	20,344
Capital Assets (Net of Accumulated Depreciation):				
Land and Improvements	99,700	4,210	103,910	25,591
Buildings	705,592	-	705,592	-
Furniture, Equipment and Vehicles	233,212	24,576	257,788	-
Water and Sewer System	-	2,062,600	2,062,600	-
Construction in Progress	680,820	-	680,820	-
 Total Assets	 1,953,606	 2,271,163	 4,224,769	 201,986
<u>LIABILITIES</u>				
Accounts Payable	66,403	30,995	97,398	-
Deferred Revenues	4,116	-	4,116	-
Due to Component Unit - Equipment Loan	30,087	-	30,087	-
Due to Component Unit - Taxes	46,623	-	46,623	-
Due to Component Unit - Loan Payable - Current Portion	11,910	-	11,910	-
Loans Payable - Current Portion	8,990	-	8,990	11,910
Time Warrants - Current Portion	107,385	-	107,385	-
Due to Component Unit - Loan Payable - Long-Term	12,946	-	12,946	-
Loans Payable - Long-Term	-	-	-	12,946
Time Warrants Payable - Long-Term	365,273	-	365,273	-
Customers' Meter Deposits	-	56,225	56,225	-
 Total Liabilities	 653,733	 87,220	 740,953	 24,856
<u>NET POSITION</u>				
Net Investment in Capital Assets	1,182,733	2,091,386	3,274,119	25,591
Restricted for:				
Debt Service	77,927	-	77,927	-
Notes Receivable	-	-	-	51,431
Unrestricted	39,213	92,557	131,770	100,108
 Total Net Position	 \$ 1,299,873	 \$ 2,183,943	 \$3,483,816	 \$ 177,130

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, 2011

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position			Component Unit Leonard Community Development Corporation	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-Type Activities		Total
Primary Government:								
Governmental Activities:								
General Government	\$ 487,822	\$ 190,435	\$ -	\$ -	\$ (297,387)	\$ (297,387)	\$ -	
Streets	96,622	-	-	181,154	84,532	84,532	-	
Law Enforcement	311,264	95,024	-	-	(216,240)	(216,240)	-	
Fire	44,101	4,125	-	-	(39,976)	(39,976)	-	
Interest on Long-Term Debt	35,692	-	-	-	(35,692)	(35,692)	-	
Total Governmental Activities	<u>975,501</u>	<u>289,584</u>	<u>-</u>	<u>181,154</u>	<u>(504,763)</u>	<u>(504,763)</u>	<u>-</u>	
Business-Type Activities:								
Water/Sewer	733,727	695,288	-	-	-	(38,439)	-	
Total Business Activities	<u>733,727</u>	<u>695,288</u>	<u>-</u>	<u>-</u>	<u>(38,439)</u>	<u>(38,439)</u>	<u>-</u>	
Total Primary Government	<u>\$ 1,709,228</u>	<u>\$ 984,872</u>	<u>\$ -</u>	<u>\$ 181,154</u>	<u>(504,763)</u>	<u>(543,202)</u>	<u>-</u>	
Component Unit:								
Leonard Community Development Corporation	\$ 47,618	\$ -	\$ -	\$ -			(47,618)	
General Revenues:								
Taxes:								
Ad Valorem Taxes					474,350	474,350	-	
Sales Tax					169,846	169,846	33,757	
Franchise Tax					84,404	84,404	-	
Miscellaneous Revenue					68,823	68,823	-	
Interest Income					372	491	4,596	
Insurance Proceeds					6,636	6,636	-	
Transfers					(46,303)	-	-	
Total General Revenues					<u>850,734</u>	<u>804,550</u>	<u>38,353</u>	
Change in Net Position					<u>(46,184)</u>	<u>261,348</u>	<u>(9,265)</u>	
Net Position - Beginning					<u>953,902</u>	<u>3,222,468</u>	<u>186,395</u>	
Net Position - Ending					<u>\$ 1,299,873</u>	<u>\$ 3,483,816</u>	<u>\$ 177,130</u>	

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

CITY OF LEONARD, TEXAS
Governmental Funds
Balance Sheet
September 30, 2011

	General Fund	Debt Service Fund	Total Governmental Funds
<u>ASSETS</u>			
Cash and Cash Equivalents	\$ 23,507	\$ 75,905	\$ 99,412
Receivables (Net of Allowance for Uncollectibles)			
Taxes	52,179	12,136	64,315
Accounts	17,522	-	17,522
Due from Other Governments	84,800	-	84,800
Inventory	6,720	-	6,720
Total Assets	\$ 184,728	\$ 88,041	\$ 272,769
<u>LIABILITIES</u>			
Accounts Payable and Accrued Liabilities	\$ 66,403	\$ -	\$ 66,403
Payable to Component Unit - Sales Tax	46,623	-	46,623
Unearned Revenues	4,116	-	4,116
Due to Other Fund	38,487	-	38,487
Due to Component Unit - Equipment	30,087	-	30,087
Total Liabilities	185,716	-	185,716
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Unavailable Revenue - Property Taxes	19,204	10,114	29,318
Total Deferred Inflows of Resources	19,204	10,114	29,318
<u>FUND BALANCES</u>			
Restricted For:			
Debt Service	-	77,927	77,927
Inventory	6,720	-	6,720
Unassigned	(26,912)	-	(26,912)
Total Fund Balances	(20,192)	77,927	57,735
Total Liabilities, Deferred Inflows of Resources, and Fund Balances (Deficits)	\$ 184,728	\$ 88,041	\$ 272,769
Fund Balance - Total Governmental Funds (above)			\$ 57,735
Amounts reported for governmental activities in the Statement of Net Position 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 \$2,840,506 and the accumulated depreciation is \$1,121,182.			
			1,719,324
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.			
			29,318
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			(33,846)
Time Warrants Payable			(472,658)
Net Position of Governmental Activities			\$ 1,299,873

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, 2011

	General Fund	Debt Service Fund	Total Governmental Funds
Revenues			
Ad Valorem Taxes	\$ 324,581	\$ 161,712	\$ 486,293
Sales Tax	169,846	-	169,846
Franchise Tax	84,404	-	84,404
Charges for Services	194,560	-	194,560
Fines	95,024	-	95,024
Miscellaneous	68,823	-	68,823
Interest Income	49	323	372
Intergovernmental	181,154	-	181,154
Total Revenues	<u>1,118,441</u>	<u>162,035</u>	<u>1,280,476</u>
Expenditures			
Current:			
General Government	451,898	-	451,898
Streets	64,056	-	64,056
Law Enforcement	302,237	-	302,237
Fire	14,390	-	14,390
Debt Service:			
Principal	22,505	108,890	131,395
Interest and Fees	1,461	34,231	35,692
Capital Outlay	348,100	-	348,100
Total Expenditures	<u>1,204,647</u>	<u>143,121</u>	<u>1,347,768</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(86,206)</u>	<u>18,914</u>	<u>(67,292)</u>
Other Financing Sources (Uses)			
Insurance Proceeds	6,636	-	6,636
Operating Transfers In (Out)	47,769	(1,466)	46,303
Total Other Sources (Uses)	<u>54,405</u>	<u>(1,466)</u>	<u>52,939</u>
Net Change in Fund Balances	(31,801)	17,448	(14,353)
Fund Balances (Deficit) - Beginning of Year	11,609	60,479	72,088
Fund Balances (Deficit) - End of Year	<u>\$ (20,192)</u>	<u>\$ 77,927</u>	<u>\$ 57,735</u>
Net Change in Fund Balances - Total Governmental Funds (above)			\$ (14,353)

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	\$ (107,228)	
Capital Outlay	<u>348,100</u>	240,872

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 decreased by this amount this year. (11,943)

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 Position. 131,395

Change in Net Position - Governmental Activities \$ 345,971

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

CITY OF LEONARD, TEXAS
 Proprietary Fund
 Statement of Net Position
 September 30, 2011

<u>ASSETS</u>	<u>Water and Sewer Fund</u>
Current Assets	
Cash and Cash Equivalents	\$ 21,430
Due From Other Fund	38,487
Accounts Receivable	87,801
Inventory	32,059
Total Current Assets	<u>179,777</u>
Noncurrent Assets	
Capital Assets, Net of Accumulated Depreciation	<u>2,091,386</u>
Total Noncurrent Assets	<u>2,091,386</u>
Total Assets	<u>2,271,163</u>
<u>LIABILITIES</u>	
Current Liabilities	
Accounts Payable and Accrued Liabilities	30,995
Customers' Meter Deposits	56,225
Total Current Liabilities	<u>87,220</u>
<u>NET POSITION</u>	
Net Investment in Capital Assets	2,091,386
Unrestricted	92,557
Total Net Position	<u>\$ 2,183,943</u>

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 Position
 Year Ended September 30, 2011

	Water and Sewer Fund
Operating Revenues	
Charges for Services	\$ 660,608
Customer Charges - Taps and Other	34,680
Total Operating Revenues	695,288
Operating Expenses	
Salaries and Related Expenses	269,524
Repairs, Supplies and Other	259,587
Utilities	73,566
Depreciation	131,050
Total Operating Expenses	733,727
Operating Income (Loss)	(38,439)
Nonoperating Revenues (Expenses)	
Investment Income	119
Total Nonoperating Revenues (Expenses)	119
Income (Loss) before Transfers	(38,320)
Transfers In	14,415
Transfers Out	(60,718)
Change in Net Position	(84,623)
Net Position - Beginning of Year	2,268,566
Net Position - End of Year	\$ 2,183,943

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, 2011

	Water and Sewer Fund
Cash Flows from Operating Activities	
Cash Received from Customers	\$ 682,252
Cash Payments to Suppliers	(324,104)
Cash Payments to Employees	(269,524)
Net Cash Provided by Operating Activities	88,624
Cash Flows from Noncapital Financing Activities	
Operating Transfers In	14,415
Operating Transfers Out	(60,718)
Change in Interfund Balances	(38,487)
Net Cash Used for Noncapital Financing Activities	(84,790)
Cash Flows from Capital and Related Financing Activities	
Purchase of Capital Assets	(27,945)
Net Cash Used for Capital and Related Financing Activities	(27,945)
Cash Flows from Investing Activities	
Proceeds from Interest Earnings	28
Proceeds from Sales of Maturities of Investments	38,487
Net Cash Provided by Investing Activities	38,515
Net Increase (Decrease) in Cash and Cash Equivalents	14,404
Cash and Cash Equivalents, October 1	7,026
Cash and Cash Equivalents, September 30	\$ 21,430
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:	
Operating Income (Loss)	\$ (38,439)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:	
Depreciation	131,050
Increase in Accounts Receivable	(16,135)
Increase in Accounts Payable	6,025
Increase in Customer Meter Deposits	3,099
Decrease in Inventory	3,024
Total Adjustments	127,063
Net Cash Provided by Operating Activities	\$ 88,624

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

CITY OF LEONARD, TEXAS
Notes to Financial Statements
September 30, 2011

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, 2011

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, 2011

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 Unavailable Revenue

Allowances for uncollectible taxes are based on historical experience in collecting property taxes. At September 30, 2011, the balance of allowances for uncollectible property taxes was \$8,795. At September 30, 2011, net taxes not estimated to be collectible within 60 days are reflected in unavailable 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, 2011

Note 1: Summary of Significant Accounting Policies (Continued)

H. Restricted Assets

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, 2011 was \$16,002.

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. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The government does not have any items this year that qualify for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The government has only one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the government funds balance sheet. The governmental funds report unavailable revenues from one source: property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

K. Equity Classification

Net Position

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

- a. Net Investment in Capital Assets - 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.

CITY OF LEONARD, TEXAS
Notes to Financial Statements (Continued)
September 30, 2011

Note 1: Summary of Significant Accounting Policies (Continued)

K. Equity Classification (Continued)

Net Position (Continued)

- b. Restricted Net Position - Consists of net position 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 Position - All other net position that does not meet the definition of “restricted” or “net investment in capital assets”.

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

Fund Balance

Beginning with fiscal year 2011, the City implemented GASB Statement 54 “Fund Balance Reporting and Governmental Fund Type Definitions”. This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government’s fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used.

As of September 30, 2011, fund balances of the governmental funds are classified as follows:

Non-spendable – Amounts that cannot be spent either because they are in non-spendable form or because they are legally or contractually required to be maintained intact.

Restricted – Amounts that can be spent only for specific purposes because of constitutional provisions, charter requirements or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed – Amounts that can be used only for specific purposes determined by a formal action of the City Council. The City Council is the highest level of decision making authority for the City. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the City Council.

Assigned – Amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purpose. Under the City’s policy, only the City Council may assign amounts for specific purposes.

Unassigned – All other spendable amounts.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the City Council has provided otherwise in its commitment or assignment actions.

CITY OF LEONARD, TEXAS
Notes to Financial Statements (Continued)
September 30, 2011

Note 1: Summary of Significant Accounting Policies (Continued)

L. 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, operating grants and contributions, and capital grants and contributions. 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.

M. Interfund Activity

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues. Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the year is recorded as "Amounts Due To" and "Amounts Due From" other funds appropriately. The General Fund owes the Proprietary Fund \$38,487 at September 30, 2011.

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, 2011

Note 2: Stewardship, Compliance and Accountability (Continued)

Budgetary Noncompliance

The following instances of noncompliance are considered material to the financial statements. For the year ended September 30, 2011, expenditures exceeded appropriations at the legal level of control in the General Fund as follows:

Department/Object Category	Expenditures Exceeding Appropriations
Capital Outlay	\$ 142,100
General Government	24,898
Debt Service Principal Payments	22,505

The over-expenditures were funded by available fund balance.

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, 2011, 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 \$120,842 and the bank's balances were \$128,912.

Component Unit

The bank balance and carrying amount of the Leonard Community Development Corporation's deposits was \$36,696 at September 30, 2011. The component unit was not exposed to custodial credit risk as its deposits were fully insured with FDIC insurance at year-end.

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 2010 levy amounted to .514802 for maintenance and operation and .254600 for the interest and sinking fund.

CITY OF LEONARD, TEXAS
Notes to Financial Statements (Continued)
September 30, 2011

Note 5: Capital Assets

Primary Government

Capital asset activity for the year ended September 30, 2011, was as follows:

	<u>Balance</u> <u>9/30/10</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>9/30/11</u>
Governmental Activities:				
Capital Assets, not being Depreciated:				
Land	\$ 99,700	\$ -	\$ -	\$ 99,700
Construction in Progress	<u>346,470</u>	<u>334,350</u>	<u>-</u>	<u>680,820</u>
	<u>446,170</u>	<u>334,350</u>	<u>-</u>	<u>780,520</u>
Capital Assets being Depreciated:				
Buildings and Improvements	1,258,459	-	-	1,258,459
Furniture, Equipment and Vehicles	<u>787,777</u>	<u>13,750</u>	<u>-</u>	<u>801,527</u>
	<u>2,046,236</u>	<u>13,750</u>	<u>-</u>	<u>2,059,986</u>
Less Accumulated Depreciation for:				
Buildings	(510,421)	(42,446)	-	(552,867)
Furniture, Equipment and Vehicles	<u>(503,533)</u>	<u>(64,782)</u>	<u>-</u>	<u>(568,315)</u>
	<u>(1,013,954)</u>	<u>(107,228)</u>	<u>-</u>	<u>(1,121,182)</u>
Capital Assets being Depreciated, Net	<u>1,032,282</u>	<u>(93,478)</u>	<u>-</u>	<u>938,804</u>
Governmental Activities Capital Assets, Net	<u>\$ 1,478,452</u>	<u>\$ 240,872</u>	<u>\$ -</u>	<u>\$1,719,324</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, 2011

Note 5: Capital Assets (Continued)

Primary Government (continued)

	<u>Balance</u> <u>9/30/10</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>9/30/11</u>
Capital Assets being Depreciated:				
Furniture, Equipment and Vehicles	202,611	6,022	-	208,633
Water and Sewer System	<u>4,782,174</u>	<u>21,923</u>	-	<u>4,804,097</u>
	<u>4,984,785</u>	<u>27,945</u>	-	<u>5,012,730</u>
Less Accumulated Depreciation for:				
Furniture, Equipment and Vehicles	(173,171)	(10,886)	-	(184,057)
Water and Sewer System	<u>(2,621,333)</u>	<u>(120,164)</u>	-	<u>(2,741,497)</u>
	<u>(2,794,504)</u>	<u>(131,050)</u>	-	<u>(2,925,554)</u>
Capital Assets being Depreciated, Net	<u>2,190,281</u>	<u>(103,105)</u>	-	<u>2,087,176</u>
Business-Type Activities Capital Assets, Net	<u>\$ 2,194,491</u>	<u>\$(103,105)</u>	<u>\$ -</u>	<u>\$ 2,091,386</u>

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

Governmental Activities:	
General Government	\$ 35,924
Streets	32,566
Law Enforcement	9,027
Fire	<u>29,711</u>
Total Depreciation Expense-Governmental Activities	<u>\$ 107,228</u>
Business-Type Activities:	
Water and Sewer	<u>\$ 131,050</u>

Component Unit

Capital asset activity for the year ended September 30, 2011, was as follows:

	<u>Balance</u> <u>9/30/10</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>9/30/11</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, 2011

Note 6: Short-Term Debt

A summary of short-term debt transactions for the year ending September 30, 2011, follows:

	Balance October 1, <u>2010</u>	<u>Additions</u>	<u>Retirements</u>	Balance September 30, <u>2011</u>
Governmental Activities				
Loans	\$ 6,439	\$ -	\$(6,439)	\$ -
Loan from Component Unit	<u>30,087</u>	<u>-</u>	<u>-</u>	<u>30,087</u>
Total Governmental Activities	<u>\$ 36,526</u>	<u>\$ -</u>	<u>\$(6,439)</u>	<u>\$ 30,087</u>

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 were to be negotiated after the second year. However, there have been no such negotiations as of September 30, 2011. In November 2009, \$8,700 of additional equipment was purchased and \$7,000 was repaid. No payments have been made during fiscal year ending September 30, 2011.

Note 7: Long-Term Debt

A summary of long-term debt transactions for the year ended September 30, 2011, follows:

	Balance October 1, <u>2010</u>	<u>Additions</u>	<u>Retirements</u>	Balance September 30, <u>2011</u>	Due Within <u>One Year</u>
<u>Primary Government:</u>					
Governmental Activities					
Time Warrants	\$ 570,592	\$ -	\$(97,934)	\$ 472,658	\$ 107,385
Loans	<u>67,308</u>	<u>-</u>	<u>(33,462)</u>	<u>33,846</u>	<u>20,900</u>
	<u>637,900</u>	<u>-</u>	<u>(131,396)</u>	<u>506,504</u>	<u>128,285</u>
Business-Type Activities Loan	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 637,900</u>	<u>\$ -</u>	<u>\$(131,396)</u>	<u>\$ 506,504</u>	<u>\$ 128,285</u>
<u>Component Unit:</u>					
Loans	<u>\$ 35,813</u>	<u>\$ -</u>	<u>\$(10,957)</u>	<u>\$ 24,856</u>	<u>\$ 11,910</u>

CITY OF LEONARD, TEXAS
Notes to Financial Statements (Continued)
September 30, 2011

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%.	\$ 47,793
\$442,838, Time Warrants, dated February 1, 1998 due in monthly installments of \$3,110, through 2017, interest at 5.5%.	192,131
\$150,000, Time Warrants, dated January 11, 2002 due in monthly installments of \$984, through 2019, interest at 5.75%.	75,347
\$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.	66,376
\$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.	47,439
\$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.	43,572
\$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.	24,856
\$18,150, Loan, dated September 24, 2010, due in two yearly installments of \$9,696, through March 2012, interest at 7.25%. Proceeds were used to purchase a Law Enforcement vehicle.	8,990
	\$ 506,504

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.	\$ 24,856
---	-----------

CITY OF LEONARD, TEXAS
Notes to Financial Statements (Continued)
September 30, 2011

Note 7: Long-Term Debt (Continued)

Primary Government

The annual requirements to amortize the long-term loans and warrants outstanding as of September 30, 2011, 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>	
2012	\$ 128,285	\$ 28,335	\$ -	\$ -	\$ 156,620
2013	106,479	19,960	-	-	126,439
2014	60,207	14,720	-	-	74,927
2015	63,993	10,935	-	-	74,928
2016	66,100	6,925	-	-	73,025
2017	59,197	3,234	-	-	62,431
2018	10,799	1,010	-	-	11,809
2019	<u>11,444</u>	<u>365</u>	<u>-</u>	<u>-</u>	<u>11,809</u>
	<u>\$ 506,504</u>	<u>\$ 85,484</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 591,988</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, 2011, are as follows:

<u>Year Ending</u> <u>September 30,</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 11,910	\$ 1,630
2013	<u>12,946</u>	<u>594</u>
	<u>\$ 24,856</u>	<u>\$ 2,224</u>

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.

CITY OF LEONARD, TEXAS
Notes to Financial Statements (Continued)
September 30, 2011

Note 9: Interfund Transfers

Interfund transfers for the year ended September 30, 2011, consisted of the following individual amounts:

	<u>Transfers From Other Funds</u>	<u>Transfers To Other Funds</u>	<u>Total</u>
General Fund	\$ 110,769	\$ 63,000	\$ 47,769
Debt Service Fund	50,000	51,466	(1,466)
Water and Sewer Fund	<u>14,415</u>	<u>60,718</u>	<u>(46,303)</u>
	<u>\$ 175,184</u>	<u>\$ 175,184</u>	<u>\$ -</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, 2011, 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	\$ 57,940	\$ -	\$ 17,522	\$ -	\$ 75,462
Debt Service Fund	<u>15,170</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>15,170</u>
Gross Receivables	73,110	-	17,522	-	90,632
Less: Allowance for Uncollectibles	<u>(8,795)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(8,795)</u>
Total – Governmental Activities	<u>\$ 64,315</u>	<u>\$ -</u>	<u>\$ 17,522</u>	<u>\$ -</u>	<u>\$ 81,837</u>
Business-Type Activities:					
Water and Sewer Fund	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 87,801</u>	<u>\$ -</u>	<u>\$ 87,801</u>
Total – Business-Type Activities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 87,801</u>	<u>\$ -</u>	<u>\$ 87,801</u>

	<u>Sales Tax due From State</u>	<u>From Primary Government</u>	<u>Accounts</u>	<u>Notes</u>	<u>Total Receivables</u>
Component Unit	<u>\$ 2,702</u>	<u>\$ 101,567</u>	<u>\$ -</u>	<u>\$ 40,524</u>	<u>\$ 144,793</u>
Less: Allowance for Uncollectibles	<u>-</u>	<u>-</u>	<u>-</u>	<u>(5,094)</u>	<u>(5,094)</u>
	<u>\$ 2,702</u>	<u>\$ 101,567</u>	<u>\$ -</u>	<u>\$ 35,430</u>	<u>\$ 139,699</u>

CITY OF LEONARD, TEXAS
Notes to Financial Statements (Continued)
September 30, 2011

Note 10: Disaggregation of Receivables and Payables (Continued)

The receivables not expected to be collected within one year consist of \$12,946 of the amount due from the Primary Government to the Component Unit and \$20,344 of the notes receivable.

Payables at September 30, 2011, were as follows:

	<u>Accounts</u>	<u>To Component Unit</u>	<u>Total Payables</u>
Governmental Activities:			
General Fund	\$ 66,403	\$ 46,623	\$ 113,026
Total – Governmental Activities	<u>\$ 66,403</u>	<u>\$ 46,623</u>	<u>\$ 113,026</u>
Business-Type Activities:			
Water and Sewer Fund	\$ 30,995	\$ -	\$ 30,995
Total - Business-Type Activities	<u>\$ 30,995</u>	<u>\$ -</u>	<u>\$ 30,995</u>

Note 11: Number of Water and Sewer System Customers

At September 30, 2011, 792 customers were connected to the water system and 747 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 from TMRS' website at www.TRMS.com.

CITY OF LEONARD, TEXAS
Notes to Financial Statements (Continued)
September 30, 2011

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 2010</u>	<u>Plan Year 2011</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>
9/30/11	\$ 17,917	100%	-

CITY OF LEONARD, TEXAS
Notes to Financial Statements (Continued)
September 30, 2011

Note 12: Pension Plan (continued)

Contributions (continued)

The required contribution rates for fiscal year 2011 were determined as part of the December 31, 2008 and 2009 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2010, also follows:

Valuation Date	<u>12/31/2008</u>	<u>12/31/2009</u>	<u>12/31/10- Prior to Restructuring</u>	<u>12/31/10- Restructured</u>
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
Remaining Amortized Period	24 yrs; Closed Period	30.3 yrs; Closed Period	24.5 yrs; Closed Period	25.2 yrs; Closed Period
Amortization Period for New Gains/Losses	25 Years	25 Years	25 Years	25 Years
Asset Valuation Method	Amortized Cost	10-year Smoothed Market	10-year Smoothed Market	10-year Smoothed Market
Actuarial Assumptions:				
Investment Rate of Return*	7.5%	7.5%	7.5%	7.0%
Projected Salary Increases*	Varies by Age and Service	Varies by Age and Service	Varies by Age and Service	Varies by Age and Service
*Includes Inflation at	3.00%	3.00%	3.00%	3.00%
Cost of Living Adjustments	0%	0%	0%	0%

Funded Status and Funding Progress – In June, 2011, SB 350 was enacted by the Texas Legislature, resulting in a restructure of the TMRS funds. This legislation provided for the actuarial valuation to be completed, as if restructuring had occurred on December 31, 2010. In addition, the actuarial assumptions were updated for the new fund structure, based on an actuarial experience study that was adopted by the TMRS Board at their May, 2011 meeting (the review compared actual to expected experience for the four-year period of January 1, 2006 through December 31, 2009). For a complete description of the combined impact of the legislation and new actuarial assumptions, including the effects of TMRS city rates and funding ratios, please see the December 31, 2010 TMRS Comprehensive Annual Financial Report (CAFR).

CITY OF LEONARD, TEXAS
Notes to Financial Statements (Continued)
September 30, 2011

Note 12: Pension Plan (continued)

Contributions (continued)

The funded status as of December 31, 2010, under the two separate actuarial valuations, is presented as follows:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Funded Ratio</u>	<u>Unfunded AAL (UAAL)</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
12/31/10 ₁	\$ 437,340	\$ 444,382	98.4%	\$ 7,042	\$525,482	1.3%
12/31/10 ₂	492,903	452,534	108.9%	(40,369)	525,482	(7.7)%

- (1) Actuarial valuation performed under the original fund structure.
- (2) Actuarial valuation performed under the new fund structure.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Actuarial calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation, and reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

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.

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.

CITY OF LEONARD, TEXAS
Notes to Financial Statements (Continued)
September 30, 2011

Note 13: Commitments (Continued)

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

- A. Management has evaluated subsequent events through March 7, 2014, the date on which the financial statements were available to be issued. There are no events that occurred after September 30, 2011, that require disclosure in the notes to the financial statements.
- B. Leonard Community Development Corporation borrowed \$200,000 on April 23, 2013 to purchase property for \$250,000.

CITY OF LEONARD, TEXAS
General Fund
Budgetary Comparison Schedule
Year Ended September 30, 2011

	Original Budget	Final Budget	Actual Amounts	Variance Favorable (Unfavorable)
Revenues:				
Ad Valorem Taxes	\$ 310,000	\$ 310,000	\$ 324,581	\$ 14,581
Sales Tax	157,500	157,500	169,846	12,346
Franchise Tax	91,000	91,000	84,404	(6,596)
Charges for Services	194,000	194,000	194,560	560
Fines	50,000	50,000	95,024	45,024
Interest Income	-	-	49	49
Miscellaneous	71,900	71,900	68,823	(3,077)
Intergovernmental	300,000	300,000	181,154	(118,846)
Total Revenues	<u>1,174,400</u>	<u>1,174,400</u>	<u>1,118,441</u>	<u>(55,959)</u>
Expenditures:				
General Government	427,000	427,000	451,898	(24,898)
Streets	212,700	212,700	64,056	148,644
Law Enforcement	327,700	327,700	302,237	25,463
Fire	-	-	14,390	(14,390)
Debt Service:				
Principal	-	-	22,505	(22,505)
Interest	-	-	1,461	(1,461)
Capital Outlay	206,000	206,000	348,100	(142,100)
Total Expenditures	<u>1,173,400</u>	<u>1,173,400</u>	<u>1,204,647</u>	<u>(31,247)</u>
Excess (Deficiency) of Revenues over Expenditures	<u>1,000</u>	<u>1,000</u>	<u>(86,206)</u>	<u>(87,206)</u>
Other Financing Sources (Uses)				
Insurance Proceeds	13,000	13,000	6,636	(6,364)
Operating Transfers In (Out)	-	-	47,769	47,769
Total Other Sources (Uses)	<u>13,000</u>	<u>13,000</u>	<u>54,405</u>	<u>41,405</u>
Net Change in Fund Balances	14,000	14,000	(31,801)	(45,801)
Fund Balances - Beginning of Year	<u>11,609</u>	<u>11,609</u>	<u>11,609</u>	<u>-</u>
Fund Balances - End of Year	<u>\$ 25,609</u>	<u>\$ 25,609</u>	<u>\$ (20,192)</u>	<u>\$ (45,801)</u>

CITY OF LEONARD, TEXAS
Texas Municipal Retirement System
Schedule of Funding Progress
September 30, 2011

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

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
	(1)	(2)	(3)	(4)	(5)	(6)
			(1)/(2)	(2)-(1)		(4)/(5)
12/31/2008	\$ 378,545	\$ 377,490	100.3%	\$ (1,055)	\$426,994	(0.02) %
12/31/2009	441,182	438,698	100.6%	(2,484)	482,091	(0.05) %
12/31/2010 ¹	437,340	444,382	98.4%	7,042	525,482	1.30 %
12/31/2010 ²	492,903	452,534	108.9%	(40,369)	525,482	(7.70) %

(1) Actuarial valuation performed under the original fund structure

(2) Actuarial valuation performed under the new fund structure

CITY OF LEONARD, TEXAS
Notes to Required Supplementary Information
September 30, 2011

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.

McClanahan and Holmes, LLP
CERTIFIED PUBLIC ACCOUNTANTS

R. E. BOSTWICK, CPA
STEVEN W. MOHUNDRO, CPA
GEORGE H. STRUVE, CPA
ANDREW B. REICH, CPA
RUSSELL P. WOOD, CPA
DEBRA J. WILDER, CPA

228 SIXTH STREET S.E.
PARIS, TEXAS 75460
903-784-4318
FAX 903-784-4310

304 WEST CHESTNUT
DENISON, TEXAS 75020
903-465-6070
FAX 903-465-6093

1400 WEST RUSSELL
BONHAM, TEXAS 75418
903-583-5574
FAX 903-583-9453

Communication with Those Charged
with Governance

Honorable Mayor and Members
of the City Council
Leonard, Texas

We have audited the financial statements of City of Leonard, Texas for the year ended September 30, 2011. 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 letter to you dated March 7, 2014. 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 did not change during the audit period. We noted no transactions entered into by the City 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 (s) affecting the City's financial statements was depreciation.

Management's estimate of the depreciation is based on management's knowledge and experience. We evaluated the key factors and assumptions used to develop the depreciation in determining that it is reasonable in relation to the financial statements taken as a whole.

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 in Performing the Audit

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

Honorable Mayor and Members
of the City Council
Leonard, Texas
Page 2

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit other than those that are clearly 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, a disagreement with management as a financial accounting, reporting, or auditing 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 March 7, 2014.

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 City'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 make inquires of us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Finding for Issues

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 City's auditors. However, these discussions occurred in the normal course of our professional relationship, and our responses were not a condition to our retention.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements of City of Leonard, Texas as of and for the year ended September 30, 2011 in accordance with auditing standards generally accepted in the United States of America, 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. 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 was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies to be significant deficiencies in internal control.

Financial Accounting and Reporting:


The City does not have the ability 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
Page 4

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 Council 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's management, City Council, and grant agencies and is not intended to and should not be used by anyone other than these parties.


Certified Public Accountants

March 7, 2014
Bonham, Texas

CITY OF LEONARD, TEXAS
Misstatements Corrected by Management
September 30, 2011

Description	Debit	Credit
<u>General Fund</u>		
A/P Fire Expense	\$ 73.44	\$ -
A/P General Expense	14,177.78	-
A/P Law Expense	1,841.76	-
A/P Street Expense	-	54,345.15
Accounts Payable	38,252.17	-
Accounts Receivable - Trash	1,753.31	-
ADV Taxes Receivable	-	11,127.54
Allowance	2,225.51	-
Capital Outlay	343,775.76	-
Capital Outlay - Streets	4,323.92	-
Consulting Services	-	6,500.00
Deferred Franchise Tax Revenue	-	654.30
Deferred Revenue	7,418.74	-
Due from Other Government	-	10,276.59
Due to Water Sewer	-	38,487.31
Dues & Subscriptions	297.00	-
Engineering Services	-	10,000.00
Fine Income - Safety Fund	993.70	-
Fine Income - Tech Fund	1,785.01	-
Franchise Tax Receivable	-	8,197.61
Franchise Tax Revenue	6,474.11	-
Grant Expense	-	9,321.17
Grant Revenue	10,276.59	-
Interest Payable	103.54	-
Inventory	2,764.81	-
LEDCO Payable	-	19,062.25
Loan Payable - 9734767	6,439.24	-
Notes	-	1,824.32
Office Supplies	50.78	-
Other Income	37,047.38	-
Payroll Expenses	-	3,926.00
Payroll Taxes-General	1,036.62	-
Payroll Taxes-Law	2,016.68	-
Payroll Taxes-Library	231.60	-
Payroll Taxes-Streets	641.10	-
Purchased Equipment Streets	-	13,750.00
R&M Streets	-	2,764.81
Sales Tax Receivable	1,507.67	-
Sales Tax Revenue	-	1,507.67
Sidewalk Grant	-	20,550.73
Street Expense	-	4,323.92
Street Grant 2006	10,000.00	-
Street Grant 2007 - ORCA 727271	-	154,648.82
Street Grant 756351	-	189,005.04
Tax Revenue	1,483.29	-
TMRS General	488.71	-
TMRS Law	1,095.72	-
TMRS Payable	-	1,939.05
TMRS Streets	354.62	-
Transfer In from Debt Service	-	50.78

CITY OF LEONARD, TEXAS
 Misstatements Corrected by Management (Continued)
 September 30, 2011

Description	Debit	Credit
<u>General Fund (continued)</u>		
Transfer In from Water Sewer	-	4,718.46
Transfer to Debt Service	50,000.00	-
Transfer to Economic Development	19,062.25	-
Transfer to Water Sewer	3,817.73	-
Transfers to Court Tech/Safety	-	2,778.71
Trash Service Revenue	-	1,753.31
Utilities - General	-	297.00
	-	-
	<u>\$ 571,810.54</u>	<u>\$ 571,810.54</u>
<u>Water and Sewer Fund</u>		
A/P Sewer Expense	\$ 2,085.31	\$ -
A/P Water Expense	2,353.23	-
Accounting and Audit	-	1,874.56
Accounts Payable	-	4,438.54
Accounts Receivable	16,137.95	-
Accumulated Depreciation	-	131,050.00
CD	-	38,395.85
Customer Deposits (Liab)	-	3,099.13
Deposit Refunds	-	3,925.08
Depreciation Expense - Sewer	99,558.00	-
Depreciation Expense - Water	31,492.00	-
Due From GF	38,487.31	-
Fixed Assets	27,945.00	-
Fuel & Oil - Water	1,640.72	-
Interest Income	-	89.36
Interest Receivable	-	2.10
Inventory	-	3,023.22
Meter Deposits (Rev)	11,000.00	-
Monthly Service Fee - Water	-	3,975.79
New Sewer Lines	-	6,103.00
New Water Lines	-	8,000.00
Notes - Water	-	4,718.46
Operating Supplies - Water	3,023.22	-
Other Income - Water	3,289.43	-
Payroll Expenses	-	2,877.84
Payroll Tax Expense - Sewer	1,169.86	-
Payroll Tax Expense - Water	1,707.98	-
Purchase Equipment - Sewer	-	5,520.84
Purchase Equipment - Water	-	2,640.72
Repair & Maintenance System - Sewer	178.84	-
Repair & Maintenance System - Water	-	3,000.00
Transfer in from DS	-	1,414.87
Transfer to GF	4,718.46	-
Vehicle Purchases - Water	-	4,500.00
W/S Revenue	-	16,137.95
	-	-
	<u>\$ 244,787.31</u>	<u>\$ 244,787.31</u>

CITY OF LEONARD, TEXAS
 Misstatements Corrected by Management (Continued)
 September 30, 2011

Description	Debit	Credit
<u>Debt Service Fund</u>		
Taxes Receivable	\$ -	\$ 6,785.03
Allowance for Doubtful Accounts	1,357.01	-
Deferred Revenues	4,523.58	-
Ad Valorem Tax Revenue	904.44	1,414.87
Post Office Warrant Payment	837.81	-
Fire Truck Payment	2,694.74	-
City Hall Warrant Payment	-	837.81
First Responder Expenses	-	2,694.74
Office Supplies	-	50.78
Transfer to General Fund	50.78	-
Transfer to Water Sewer Fund	1,414.87	-
	<u>\$ 11,783.23</u>	<u>\$ 11,783.23</u>
<u>Leonard Economic Development Corporation</u>		
Sales Tax Revenue	\$ -	\$ 19,154.45
Sales Tax Receivable (State)	92.39	-
Sales Tax Receivable (City)	19,062.06	-
Loan Receivable - CLC	554.96	-
Loan Receivable - City of Leonard	2,582.92	-
Loan Receivable - Mcangus	582.31	-
Loan Receivable - Nolens	876.04	-
Interest Income	-	4,596.23
Bad Debt Expense	10,374.68	-
Loan Receivable - R&R	-	10,374.68
	<u>\$ 34,125.36</u>	<u>\$ 34,125.36</u>