

CITY OF LEONARD

Fannin County, Texas

FINANCIAL STATEMENTS WITH  
INDEPENDENT AUDITORS' REPORT THEREON

SEPTEMBER 30, 2012

CITY OF LEONARD, TEXAS  
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September 30, 2012

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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, the discretely presented component unit, and each major fund of the City of Leonard, Texas, as of and for the year ended September 30, 2012, 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  
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### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, and each major fund of the City of Leonard, Texas, as of September 30, 2012 and the respective changes in financial position and where applicable cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the 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.

*McClanahan and Holmes, LLP*  
Certified Public Accountants

Bonham, Texas  
June 8, 2015

CITY OF LEONARD, TEXAS  
Statement of Net Position  
September 30, 2012

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Leonard Community Development Corporation
<u>ASSETS</u>				
Current Assets:				
Cash and Cash Equivalents	\$ 369,035	\$ 61,418	\$ 430,453	\$ 13,970
Receivables (Net of Allowance for Uncollectibles)				
Taxes	91,015	-	91,015	-
Due From State	-	-	-	5,713
Due From Primary Government	-	-	-	32,842
Accounts	17,522	74,159	91,681	-
Due From Primary Government - Loan Current Portion	-	-	-	30,088
Due from Other Governments	14,123	-	14,123	-
Notes - Current Portion	-	-	-	14,138
Inventory	4,380	67,257	71,637	-
Internal Balances	(38,487)	38,487	-	-
Noncurrent Assets:				
Restricted Cash and Cash Equivalents	-	-	-	17,293
Long-Term Receivables:				
Notes	-	-	-	9,851
Capital Assets (Net of Accumulated Depreciation):				
Land and Improvements	99,700	4,210	103,910	25,591
Buildings	1,424,436	-	1,424,436	-
Furniture, Equipment and Vehicles	347,910	13,811	361,721	-
Water and Sewer System	-	1,985,549	1,985,549	-
Construction in Progress	-	75,150	75,150	-
<b>Total Assets</b>	<b>2,329,634</b>	<b>2,320,041</b>	<b>4,649,675</b>	<b>149,486</b>
<u>LIABILITIES</u>				
Accounts Payable	89,928	8,683	98,611	-
Deferred Revenues	3,724	-	3,724	-
Due to Component Unit - Equipment Loan	30,087	-	30,087	-
Due to Component Unit - Taxes	32,842	-	32,842	-
Time Warrants - Current Portion	119,261	-	119,261	-
Time Warrants Payable - Long-Term	738,408	-	738,408	-
Customers' Meter Deposits	-	57,563	57,563	-
<b>Total Liabilities</b>	<b>1,014,250</b>	<b>66,246</b>	<b>1,080,496</b>	<b>-</b>
<u>NET POSITION</u>				
Net Investment in Capital Assets	984,290	2,078,720	3,063,010	25,591
Restricted for:				
Debt Service	40,581	-	40,581	-
Notes Receivable	-	-	-	41,282
Unrestricted	290,513	175,075	465,588	82,613
<b>Total Net Position</b>	<b>\$ 1,315,384</b>	<b>\$ 2,253,795</b>	<b>\$3,569,179</b>	<b>\$ 149,486</b>

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, 2012

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position			Component Unit	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government				Leonard Community Development Corporation
					Governmental Activities	Business-Type Activities	Total		
<b>Primary Government:</b>									
<b>Governmental Activities:</b>									
General Government	\$ 685,255	\$ 248,485	\$ 16,000	\$ 102,063	\$ (420,770)	\$ -	\$ (420,770)	\$ -	
Streets	103,631	-	-	-	(1,568)	-	(1,568)	-	
Law Enforcement	289,140	35,701	-	-	(253,439)	-	(253,439)	-	
Fire	34,422	4,125	-	-	(30,297)	-	(30,297)	-	
Interest on Long-Term Debt	42,277	-	-	-	(42,277)	-	(42,277)	-	
Total Governmental Activities	<u>1,154,725</u>	<u>288,311</u>	<u>16,000</u>	<u>102,063</u>	<u>(748,351)</u>	<u>-</u>	<u>(748,351)</u>	<u>-</u>	
<b>Business-Type Activities:</b>									
Water/Sewer	693,677	709,124	-	-	-	15,447	15,447	-	
Total Business Activities	<u>693,677</u>	<u>709,124</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>15,447</u>	<u>15,447</u>	<u>-</u>	
<b>Total Primary Government</b>	<u>\$ 1,848,402</u>	<u>\$ 997,435</u>	<u>\$ 16,000</u>	<u>\$ 102,063</u>	<u>(748,351)</u>	<u>15,447</u>	<u>(732,904)</u>	<u>-</u>	
<b>Component Unit:</b>									
Leonard Community Development Corporation	\$ 64,261	\$ -	\$ -	\$ -				(64,261)	
<b>General Revenues:</b>									
<b>Taxes:</b>									
Ad Valorem Taxes					466,627		466,627	-	
Sales Tax					177,981		177,981	35,854	
Franchise Tax					99,632		99,632	-	
Miscellaneous Revenue					73,375		73,375	-	
Interest Income					604	48	652	763	
Transfers					(54,357)	54,357	-	-	
Total General Revenues					<u>763,862</u>	<u>54,405</u>	<u>818,267</u>	<u>36,617</u>	
Change in Net Position					15,511	69,852	85,363	(27,644)	
Net Position - Beginning					1,299,873	2,183,943	3,483,816	177,130	
Net Position - Ending					<u>\$ 1,315,384</u>	<u>\$ 2,253,795</u>	<u>\$ 3,569,179</u>	<u>\$ 149,486</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, 2012

	General Fund	Debt Service Fund	Total Governmental Funds
<u>ASSETS</u>			
Cash and Cash Equivalents	\$ 330,596	\$ 38,439	\$ 369,035
Receivables (Net of Allowance for Uncollectibles)			
Taxes	78,160	12,855	91,015
Accounts	17,522	-	17,522
Due from Other Governments	14,123	-	14,123
Inventory	4,380	-	4,380
Total Assets	<u>\$ 444,781</u>	<u>\$ 51,294</u>	<u>\$ 496,075</u>
<u>LIABILITIES</u>			
Accounts Payable and Accrued Liabilities	\$ 89,928	\$ -	\$ 89,928
Payable to Component Unit - Sales Tax	32,842	-	32,842
Unearned Revenues	3,724	-	3,724
Due to Other Fund	38,487	-	38,487
Due to Component Unit - Equipment	30,087	-	30,087
Total Liabilities	<u>195,068</u>	<u>-</u>	<u>195,068</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Unavailable Revenue - Property Taxes	22,980	10,713	33,693
Total Deferred Inflows of Resources	<u>22,980</u>	<u>10,713</u>	<u>33,693</u>
<u>FUND BALANCES</u>			
Restricted For:			
Debt Service	-	40,581	40,581
Inventory	4,380	-	4,380
Unassigned	222,353	-	222,353
Total Fund Balances	<u>226,733</u>	<u>40,581</u>	<u>267,314</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances (Deficits)	<u>\$ 444,781</u>	<u>\$ 51,294</u>	<u>\$ 496,075</u>

Fund Balance - Total Governmental Funds (above) \$ 267,314

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 \$3,144,406 and the accumulated depreciation is \$1,272,360. 1,872,046

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. 33,693

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:

Time Warrants Payable (857,669)

Net Position of Governmental Activities \$ 1,315,384

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, 2012

	General Fund	Debt Service Fund	Total Governmental Funds
Revenues			
Ad Valorem Taxes	\$ 336,794	\$ 125,458	\$ 462,252
Sales Tax	177,981	-	177,981
Franchise Tax	99,632	-	99,632
Capital Contributions	17,316	-	17,316
Charges for Services	205,860	-	205,860
Fines	35,701	-	35,701
Miscellaneous	73,375	-	73,375
Interest Income	297	307	604
Intergovernmental	100,747	-	100,747
Rents	46,750	-	46,750
Total Revenues	1,094,453	125,765	1,220,218
Expenditures			
Current:			
General Government	621,132	-	621,132
Streets	64,944	-	64,944
Law Enforcement	270,483	-	270,483
Fire	4,711	-	4,711
Debt Service:			
Principal	8,991	140,731	149,722
Interest and Fees	654	41,623	42,277
Capital Outlay	303,900	-	303,900
Total Expenditures	1,274,815	182,354	1,457,169
Excess (Deficiency) of Revenues over Expenditures	(180,362)	(56,589)	(236,951)
Other Financing Sources (Uses)			
Capital Financing	500,887	-	500,887
Operating Transfers In (Out)	(73,600)	19,243	(54,357)
Total Other Sources (Uses)	427,287	19,243	446,530
Net Change in Fund Balances	246,925	(37,346)	209,579
Fund Balances (Deficit) - Beginning of Year	(20,192)	77,927	57,735
Fund Balances (Deficit) - End of Year	\$ 226,733	\$ 40,581	\$ 267,314
Net Change in Fund Balances - Total Governmental Funds (above)			\$ 209,579
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		\$ (151,178)	
Capital Outlay		303,900	152,722
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.			4,375
Deferred tax revenues increased by this amount this year.			
The issuance of long-term debt provides current financial resources to Governmental Funds while the repayment of long-term debt consumes the current financial resources of Governmental Funds. Neither transaction, however, has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items.			(351,165)
Change in Net Position - Governmental Activities			\$ 15,511

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, 2012

	<u>Water and Sewer Fund</u>
<u>ASSETS</u>	
Current Assets	
Cash and Cash Equivalents	\$ 61,418
Due From Other Fund	38,487
Accounts Receivable	74,159
Inventory	67,257
Total Current Assets	<u>241,321</u>
Noncurrent Assets	
Capital Assets, Net of Accumulated Depreciation	<u>2,078,720</u>
Total Noncurrent Assets	<u>2,078,720</u>
Total Assets	<u>2,320,041</u>
<u>LIABILITIES</u>	
Current Liabilities	
Accounts Payable and Accrued Liabilities	8,683
Customers' Meter Deposits	57,563
Total Current Liabilities	<u>66,246</u>
<u>NET POSITION</u>	
Net Investment in Capital Assets	2,078,720
Unrestricted	175,075
Total Net Position	<u>\$ 2,253,795</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, 2012

	Water and Sewer Fund
Operating Revenues	
Charges for Services	\$ 707,599
Customer Charges - Taps and Other	1,525
Total Operating Revenues	709,124
Operating Expenses	
Salaries and Related Expenses	315,591
Repairs, Supplies and Other	176,991
Utilities	70,400
Depreciation	130,695
Total Operating Expenses	693,677
Operating Income (Loss)	15,447
Nonoperating Revenues (Expenses)	
Investment Income	48
Total Nonoperating Revenues (Expenses)	48
Income (Loss) before Transfers	15,495
Transfers In	70,633
Transfers Out	(16,276)
Change in Net Position	69,852
Net Position - Beginning of Year	2,183,943
Net Position - End of Year	\$ 2,253,795

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, 2012

	Water and Sewer Fund
Cash Flows from Operating Activities	
Cash Received from Customers	\$ 724,104
Cash Payments to Suppliers	(304,901)
Cash Payments to Employees	(315,591)
Net Cash Provided by Operating Activities	103,612
Cash Flows from Noncapital Financing Activities	
Operating Transfers In	70,633
Operating Transfers Out	(16,276)
Net Cash Provided by Noncapital Financing Activities	54,357
Cash Flows from Capital and Related Financing Activities	
Purchase of Capital Assets	(118,029)
Net Cash Used for Capital and Related Financing Activities	(118,029)
Cash Flows from Investing Activities	
Proceeds from Interest Earnings	48
Net Cash Provided by Investing Activities	48
Net Increase in Cash and Cash Equivalents	39,988
Cash and Cash Equivalents, October 1	21,430
Cash and Cash Equivalents, September 30	\$ 61,418
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:	
Operating Income (Loss)	\$ 15,447
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:	
Depreciation	130,695
Decrease in Accounts Receivable	13,642
Decrease in Accounts Payable	(22,312)
Increase in Customer Meter Deposits	1,338
Increase in Inventory	(35,198)
Total Adjustments	88,165
Net Cash Provided by Operating Activities	\$ 103,612

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

CITY OF LEONARD, TEXAS  
Notes to Financial Statements  
September 30, 2012

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, 2012

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, 2012

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, 2012, the balance of allowances for uncollectible property taxes was \$10,108. At September 30, 2012, 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, 2012

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, 2012 was \$17,293.

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, 2012

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, 2012, 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, 2012

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, 2012.

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, 2012

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, 2012, expenditures exceeded appropriations at the legal level of control in the General Fund as follows:

Department/Object Category	Expenditures Exceeding Appropriations
General Government	\$ 116,632

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, 2012, \$19,545 of the City's deposits and/or investments were exposed to custodial credit risk because they were not insured or collateralized with securities. The remaining \$465,258 of the City's deposits and/or investments were not exposed to custodial credit risk since they were insured or collateralized with securities pledged held in the name of the City.

Component Unit

The bank balance and carrying amount of the Leonard Community Development Corporation's deposits was \$31,263 at September 30, 2012. 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 2011 levy amounted to .5613 for maintenance and operation and .2079 for the interest and sinking fund.

CITY OF LEONARD, TEXAS  
Notes to Financial Statements (Continued)  
September 30, 2012

Note 5: Capital Assets

Primary Government

Capital asset activity for the year ended September 30, 2012, was as follows:

	<u>Balance</u> <u>9/30/11</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>9/30/12</u>
<b>Governmental Activities:</b>				
Capital Assets, not being Depreciated:				
Land	\$ 99,700	\$ -	\$ -	\$ 99,700
Construction in Progress	<u>680,820</u>	<u>89,108</u>	<u>( 769,928)</u>	<u>-</u>
	<u>780,520</u>	<u>89,108</u>	<u>( 769,928)</u>	<u>99,700</u>
Capital Assets being Depreciated:				
Buildings and Improvements	1,258,459	787,244	-	2,045,703
Furniture, Equipment and Vehicles	<u>801,527</u>	<u>197,476</u>	<u>-</u>	<u>999,003</u>
	<u>2,059,986</u>	<u>984,720</u>	<u>-</u>	<u>3,044,706</u>
Less Accumulated Depreciation for:				
Buildings	( 552,867)	( 68,400)	-	( 621,267)
Furniture, Equipment and Vehicles	<u>( 568,315)</u>	<u>( 82,778)</u>	<u>-</u>	<u>( 651,093)</u>
	<u>( 1,121,182)</u>	<u>( 151,178)</u>	<u>-</u>	<u>(1,272,360)</u>
Capital Assets being Depreciated, Net	<u>938,804</u>	<u>833,542</u>	<u>-</u>	<u>1,772,346</u>
Governmental Activities Capital Assets, Net	<u>\$ 1,719,324</u>	<u>\$ 922,650</u>	<u>\$( 769,928)</u>	<u>\$1,872,046</u>
Business-Type Activities Capital Assets, not being Depreciated:				
Land	\$ 4,210	\$ -	\$ -	\$ 4,210
Construction in Progress	<u>-</u>	<u>75,150</u>	<u>-</u>	<u>75,150</u>
	<u>4,210</u>	<u>75,150</u>	<u>-</u>	<u>79,360</u>

CITY OF LEONARD, TEXAS  
Notes to Financial Statements (Continued)  
September 30, 2012

Note 5: Capital Assets (Continued)

Primary Government (Continued)

	<u>Balance</u> <u>9/30/11</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>9/30/12</u>
Capital Assets being Depreciated:				
Furniture, Equipment and Vehicles	208,633	-	-	208,633
Water and Sewer System	<u>4,804,097</u>	<u>42,879</u>	<u>-</u>	<u>4,846,976</u>
	<u>5,012,730</u>	<u>42,879</u>	<u>-</u>	<u>5,055,609</u>
Less Accumulated Depreciation for:				
Furniture, Equipment and Vehicles	( 184,057)	( 10,765)	-	( 194,822)
Water and Sewer System	<u>( 2,741,497)</u>	<u>( 119,930)</u>	<u>-</u>	<u>(2,861,427)</u>
	<u>( 2,925,554)</u>	<u>( 130,695)</u>	<u>-</u>	<u>(3,056,249)</u>
Capital Assets being Depreciated, Net	<u>2,087,176</u>	<u>( 87,816)</u>	<u>-</u>	<u>1,999,360</u>
Business-Type Activities Capital Assets, Net	<u>\$ 2,091,386</u>	<u>\$( 12,666)</u>	<u>\$ -</u>	<u>\$ 2,078,720</u>

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

Governmental Activities:	
General Government	\$ 64,123
Streets	38,687
Law Enforcement	18,657
Fire	<u>29,711</u>
Total Depreciation Expense-Governmental Activities	<u>\$ 151,178</u>
Business-Type Activities:	
Water and Sewer	<u>\$ 130,695</u>

Component Unit

Capital asset activity for the year ended September 30, 2012, was as follows:

	<u>Balance</u> <u>9/30/11</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>9/30/12</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, 2012

Note 6: Short-Term Debt

A summary of short-term debt transactions for the year ending September 30, 2012, follows:

	Balance October 1, <u>2011</u>	<u>Additions</u>	<u>Retirements</u>	Balance September 30, <u>2012</u>
Governmental Activities				
Loan from Component Unit	\$ 30,087	\$ -	\$ -	\$ 30,087
Total Governmental Activities	<u>\$ 30,087</u>	<u>\$ -</u>	<u>\$ -</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, 2012. 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, 2012.

Note 7: Long-Term Debt

A summary of long-term debt transactions for the year ended September 30, 2012, follows:

	Balance October 1, <u>2011</u>	<u>Additions</u>	<u>Retirements</u>	Balance September 30, <u>2012</u>	Due Within <u>One Year</u>
<u>Primary Government:</u>					
Governmental Activities					
Time Warrants	\$ 472,658	\$ 500,887	\$( 115,876)	\$ 857,669	\$ 119,261
Loans	<u>33,846</u>	<u>-</u>	<u>( 33,846)</u>	<u>-</u>	<u>-</u>
	<u>506,504</u>	<u>500,887</u>	<u>( 149,722)</u>	<u>857,669</u>	<u>119,216</u>
Business-Type Activities					
Loan	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 506,504</u>	<u>\$ 500,887</u>	<u>\$( 149,722)</u>	<u>\$ 857,669</u>	<u>\$ 119,261</u>
<u>Component Unit:</u>					
Loans	<u>\$ 24,856</u>	<u>\$ -</u>	<u>\$( 24,856)</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF LEONARD, TEXAS  
Notes to Financial Statements (Continued)  
September 30, 2012

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 \$956, through 2016, interest at 7.25%.	\$ 40,952
\$442,838, Time Warrants, dated February 1, 1998 due in monthly installments of \$1,886, through 2016 when debt balloons), interest at 5.5%.	171,635
\$150,000, Time Warrants, dated January 11, 2002 due in monthly installments of \$984, through 2019, interest at 5.75%.	68,349
\$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.	58,947
\$160,196, Time Warrants, dated September 14, 2005, due in monthly installments of \$408, through 2017 (when debt balloons), interest at 6.15%. Proceeds were used to purchase equipment.	37,386
\$180,000, Time Warrants, dated February 3, 2006, due in monthly installments of \$335, through 2013 (when debt balloons), interest at 6.75%. Proceeds were used to purchase a 2005 fire truck.	16,064
\$500,887, Time Warrant, dated December 17, 2011, due in monthly installments of \$7,339, through 2016, interest at 6.00%.	<u>464,336</u>
	<u>\$ 857,669</u>

CITY OF LEONARD, TEXAS  
Notes to Financial Statements (Continued)  
September 30, 2012

Note 7: Long-Term Debt (Continued)

Primary Government

The annual requirements to amortize the long-term loans and warrants outstanding as of September 30, 2012, 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>	
2013	\$ 119,261	\$ 51,771	\$ -	\$ -	\$ 171,032
2014	114,127	40,486	-	-	154,613
2015	121,241	33,372	-	-	154,613
2016	238,727	25,819	-	-	264,546
2017	219,505	6,052	-	-	225,557
2018	32,757	1,234	-	-	33,991
2019	<u>12,051</u>	<u>365</u>	<u>-</u>	<u>-</u>	<u>12,416</u>
	<u>\$ 857,669</u>	<u>\$ 159,099</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,016,768</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.

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, 2012

Note 9: Interfund Transfers

Interfund transfers for the year ended September 30, 2012, consisted of the following individual amounts:

	<u>Transfers From Other Funds</u>	<u>Transfers To Other Funds</u>	<u>Total</u>
General Fund	\$ 729,278	\$ 802,878	\$( 73,600)
Debt Service Fund	29,051	9,808	19,243
Water and Sewer Fund	<u>70,633</u>	<u>16,276</u>	<u>54,357</u>
	<u>\$ 828,962</u>	<u>\$ 828,962</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, 2012, 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	\$ 85,054	\$ -	\$ 17,522	\$ -	\$ 102,576
Debt Service Fund	<u>16,068</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>16,068</u>
Gross Receivables	101,122	-	17,522	-	118,644
Less: Allowance for Uncollectibles	<u>( 10,107)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>( 10,107)</u>
Total – Governmental Activities	<u>\$ 91,015</u>	<u>\$ -</u>	<u>\$ 17,522</u>	<u>\$ -</u>	<u>\$ 108,537</u>
Business-Type Activities:					
Water and Sewer Fund	\$ -	\$ -	\$ 74,159	\$ -	\$ 74,159
Total – Business-Type Activities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 74,159</u>	<u>\$ -</u>	<u>\$ 74,159</u>
	<u>Sales Tax due</u>	<u>From Primary Government</u>	<u>Accounts</u>	<u>Notes</u>	<u>Total Receivables</u>
Component Unit	<u>\$ 5,713</u>	<u>\$ 32,842</u>	<u>\$ -</u>	<u>\$ 29,083</u>	<u>\$ 67,638</u>
Less: Allowance for Uncollectibles	<u>-</u>	<u>-</u>	<u>-</u>	<u>( 5,094)</u>	<u>( 5,094)</u>
	<u>\$ 5,713</u>	<u>\$ 32,842</u>	<u>\$ -</u>	<u>\$ 23,989</u>	<u>\$ 62,544</u>



CITY OF LEONARD, TEXAS  
Notes to Financial Statements (Continued)  
September 30, 2012

Note 10: Disaggregation of Receivables and Payables (Continued)

The receivables not expected to be collected within one year consist of \$9,851 of the notes receivable.

Payables at September 30, 2012, were as follows:

	<u>Accounts</u>	<u>To Component Unit</u>	<u>Total Payables</u>
<b>Governmental Activities:</b>			
General Fund	\$ 89,928	\$ 32,842	\$ 122,770
<b>Total – Governmental Activities</b>	<u>\$ 89,928</u>	<u>\$ 32,842</u>	<u>\$ 122,770</u>
<b>Business-Type Activities:</b>			
Water and Sewer Fund	\$ 8,683	\$ -	\$ 8,683
<b>Total - Business-Type Activities</b>	<u>\$ 8,683</u>	<u>\$ -</u>	<u>\$ 8,683</u>

Note 11: Number of Water and Sewer System Customers

At September 30, 2012, 777 customers were connected to the water system and 738 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](http://www.TRMS.com).

CITY OF LEONARD, TEXAS  
Notes to Financial Statements (Continued)  
September 30, 2012

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 2011</u>	<u>Plan Year 2012</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>
9/30/12	\$ 9,548	100%	-

CITY OF LEONARD, TEXAS  
Notes to Financial Statements (Continued)  
September 30, 2012

Note 12: Pension Plan (Continued)

Contributions (Continued)

The required contribution rates for fiscal year 2012 were determined as part of the December 31, 2009 and 2010 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2011, also follows:

Valuation Date	<u>12/31/2009</u>	<u>12/31/10- Restructured</u>	<u>12/31/2011</u>
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
Remaining Amortized Period	30.3 yrs; Closed Period	25.2 yrs; Closed Period	24.7 yrs; Closed Period
Amortization Period for New Gains/Losses	25 Years	25 Years	25 Years
Asset Valuation Method	10-year Smoothed Market	10-year Smoothed Market	10-year Smoothed Market
Actuarial Assumptions:			
Investment Rate of Return*	7.5%	7.0%	7.0%
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	0%	0%	0%

CITY OF LEONARD, TEXAS  
Notes to Financial Statements (Continued)  
September 30, 2012

Note 12: Pension Plan (Continued)

Contributions (Continued)

The funded status as of December 31, 2011, the most recent actuarial valuation date, 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>
12/31/11	\$ 547,724	\$ 497,549	110.1%	\$( 50,175)	\$531,554	(9.4)%

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.

Supplemental Death Benefits Fund

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the Texas Municipal Retirement System (TMRS) known as the Supplemental Death Benefits Fund (SDBF). The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death); retired employees are insured for \$7,500; this coverage is an "other postemployment benefit," or OPEB.

CITY OF LEONARD, TEXAS  
Notes to Financial Statements (Continued)  
September 30, 2012

Note 12: Pension Plan (Continued)

Supplemental Death Benefits Fund (Continued)

Contributions

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees' entire careers.

Schedule of Contribution Rates:  
(RETIREE-only portion of the rate)

Plan/ Calendar Year	Annual Required Contribution (Rate)	Actual Contribution Made (Rate)	Percentage of ARC Contributed
2010	0.02%	0.02%	100.0%
2011	0.02%	0.02%	100.0%
2012	0.03%	0.03%	100.0%

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.

CITY OF LEONARD, TEXAS  
Notes to Financial Statements (Continued)  
September 30, 2012

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.

The City is subject to pending lawsuits. Although the outcome of lawsuits is not presently determinable, it is the opinion of the City's counsel that resolution of these matters will not have a material adverse effect on the financial condition of the City.

Note 15: Subsequent Events

- A. Management has evaluated subsequent events through June 8, 2015, the date on which the financial statements were available to be issued. There are no events that occurred after September 30, 2012, that require disclosure in the notes to the financial statements.
- B. The City purchased an asphalt machine in October 2012 for \$149,641.
- C. Leonard Community Development Corporation borrowed \$200,000 on April 23, 2013 to purchase property for \$250,000.
- D. In May 2015, a grand jury returned 39 indictments against the former City Manager for theft of property, forgery of a financial instrument, tampering with governmental records, and credit card abuse, among others. The indictments are formal charges and are not an indication of guilt.

CITY OF LEONARD, TEXAS  
General Fund  
Budgetary Comparison Schedule  
Year Ended September 30, 2012

	Original Budget	Final Budget	Actual Amounts	Variance Favorable (Unfavorable)
<b>Revenues:</b>				
Ad Valorem Taxes	\$ 320,000	\$ 320,000	\$ 336,794	\$ 16,794
Sales Tax	178,000	178,000	177,981	(19)
Franchise Tax	101,000	101,000	99,632	(1,368)
Capital Contributions	-	-	17,316	17,316
Charges for Services	210,500	210,500	205,860	(4,640)
Fines	50,000	50,000	35,701	(14,299)
Interest Income	-	-	297	297
Miscellaneous	29,500	29,500	73,375	43,875
Intergovernmental	140,000	140,000	100,747	(39,253)
Rents	56,400	56,400	46,750	(9,650)
Total Revenues	<u>1,085,400</u>	<u>1,085,400</u>	<u>1,094,453</u>	<u>9,053</u>
<b>Expenditures:</b>				
General Government	504,500	504,500	621,132	(116,632)
Streets	157,350	157,350	64,944	92,406
Law Enforcement	287,850	287,850	270,483	17,367
Fire	13,700	13,700	4,711	8,989
Debt Service:				
Principal	-	-	8,991	(8,991)
Interest	-	-	654	(654)
Capital Outlay	623,000	623,000	303,900	319,100
Total Expenditures	<u>1,586,400</u>	<u>1,586,400</u>	<u>1,274,815</u>	<u>311,585</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(501,000)</u>	<u>(501,000)</u>	<u>(180,362)</u>	<u>320,638</u>
<b>Other Financing Sources (Uses)</b>				
Capital Financing	501,000	501,000	500,887	(113)
Operating Transfers In (Out)	-	-	(73,600)	(73,600)
Total Other Sources (Uses)	<u>501,000</u>	<u>501,000</u>	<u>427,287</u>	<u>(73,713)</u>
Net Change in Fund Balances	-	-	246,925	246,925
Fund Balances - Beginning of Year	<u>(20,192)</u>	<u>(20,192)</u>	<u>(20,192)</u>	<u>-</u>
Fund Balances - End of Year	<u>\$ (20,192)</u>	<u>\$ (20,192)</u>	<u>\$ 226,733</u>	<u>\$ 246,925</u>

CITY OF LEONARD, TEXAS  
Texas Municipal Retirement System  
Schedule of Funding Progress  
September 30, 2012

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

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u> (1)	<u>Actuarial Accrued Liability (AAL)</u> (2)	<u>Funded Ratio</u> (3) (1)/(2)	<u>Unfunded AAL (UAAL)</u> (4) (2)-(1)	<u>Covered Payroll</u> (5)	<u>UAAL as a Percentage of Covered Payroll</u> (6) (4)/(5)
12/31/2009	\$ 441,182	\$ 438,698	100.6%	\$ (2,484)	\$482,091	(0.05) %
12/31/2010	437,340	444,382	98.4%	7,042	525,482	1.30 %
12/31/2011	547,724	497,549	110.1%	(50,175)	531,554	(9.40) %



CITY OF LEONARD, TEXAS  
Notes to Required Supplementary Information  
September 30, 2012

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

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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 for the year ended September 30, 2012. 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 July 1, 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

In performing and completing our audit, we encountered difficulties in obtaining supporting documentation for substantive selections. Cash disbursements lacked invoices or other supporting documentation. There was insufficient documentation regarding grants. Credit card statements lacked supporting documentation of purchases.

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.

Appendix A following this letter summarizes misstatements detected as a result of audit procedures that were corrected by management.

Appendix B summarizes uncorrected misstatements of the financial statements. Management has determined that the effect of these uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

#### 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 June 8, 2015.

#### 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, 2012 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 audit procedures that are appropriate in the circumstances 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, significant deficiencies or material weaknesses may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and material weaknesses.

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.

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 and material weaknesses.

**Financial Accounting and Reporting:**

The City does not 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.

**Supporting Documentation**

In performing and completing our audit, we encountered difficulties in obtaining supporting documentation for substantive selections. Cash disbursements lacked invoices or other supporting documentation. There was insufficient documentation regarding grants. Credit card statements lacked supporting documentation of purchases. We recommend management implement financial accounting policies and procedures, and encourage the Council to monitor compliance.

This report is intended solely for the information and use of the City's management, those charged with governance, and grant agencies and is not intended to and should not be used by anyone other than these specified parties.

*McClardum and Helling, LLP*  
Certified Public Accountants

June 8, 2015  
Bonham, Texas

CITY OF LEONARD, TEXAS  
Misstatements Corrected by Management  
September 30, 2012

Description	Debit	Credit
<u>General Fund</u>		
Sales Tax Receivable	\$ 13,758.78	\$ -
Sales Tax Revenue		13,758.78
Adv. Taxes Receivable	5,663.98	-
Allowance	-	1,132.80
Deferred Rev. Property Taxes	-	3,776.18
Tax Revenue	-	755.00
Capital Outlay	49,996.00	-
Transfer	-	49,996.00
Sales Tax Income	11,114.00	-
Sales Tax - Trash	-	11,114.00
Trash Service Expense	130,999.96	-
Repair and Maintenance Streets	3,901.28	-
Repair and Maintenance Building	13,325.00	-
Purchases - GG	-	148,226.24
Uncategorized Income	27,558.47	-
Court Tech Income	1,582.94	-
Grant Receivable	-	84,799.67
Transfer In	55,658.26	-
General Government-R & M General	3,258.40	-
General Government-Utilities	7,514.50	-
General Government-Reimbursement	916.46	-
Uncategorized	1,200.00	-
General Government-Dues	170.00	-
General Government-Insurance	2,605.00	-
Trash Service Expense	12,147.98	-
General Government-Office	597.62	-
Credit Card Payment	518.83	-
Law-Uniforms	505.76	-
Streets-Repair & Maintenance	1,944.40	-
General Government-Property Tax	3,544.30	-
Cash	-	34,923.25
Franchise Tax Receivable	7,690.68	-
Deferred Franchise Tax Receivable	391.70	-
Uncategorized Income	49,868.71	-
Franchise Fees	-	57,951.09
General Government-Sales Tax	-	49,186.59
General Government-Court Fees	2,560.46	-
LEDCO Payable	13,781.77	-
Sales Tax Revenue	32,844.36	-
Lawyer Fees	440.00	-
Transfer Out	29,050.92	-
Debt Payments	-	29,490.92
Repair and Maintenance-Street	2,340.21	-
Inventory	-	2,340.21
Uncategorized Income	500,887.43	-
Loan Proceeds	-	500,887.43
Uncategorized Income	1,375.00	-
County	1,375.00	-

CITY OF LEONARD, TEXAS  
Misstatements Corrected by Management (Continued)  
September 30, 2012

Description	Debit	Credit
<u>General Fund (continued)</u>		
Fire County Runs	-	2,750.00
GG Repair and Maintenance	-	1,157.71
Streets-Repair & Maintenance	-	16,510.75
GG Grant	-	4,704.00
GG Vet Services	-	200.00
Credit Card Payment	-	354.96
Purchases - GG	22,927.42	-
Grant Receivable	14,122.78	-
Grant Revenue	-	14,122.78
Purchases - GG	14,122.78	-
Streets Repair and Maintenance	-	14,122.78
Purchases - GG	28,642.00	-
Office Expense	-	28,642.00
TMRS Payable	-	2,368.24
Retirement Expense	1,623.78	-
TMRS Liabilities	744.46	-
Accounts Payable-Street Expense	4,717.03	-
Accounts Payable-Law Expense	6,109.69	-
Accounts Payable-Fire Expense	-	357.15
Accounts Payable-General Expense	17,042.13	-
Accounts Payable	-	27,511.70
Purchases - GG - Capital Outlay	9,061.00	-
Uncategorized	-	4,700.00
Streets Repair and Maintenance	-	4,361.00
Streets Repair and Maintenance	1,000.00	-
Purchases-GG	-	1,000.00
Health Insurance Liability	5,610.60	-
Insurance Expense	-	5,610.60
	<u>\$ 1,116,811.83</u>	<u>\$ 1,116,811.83</u>
<u>Water and Sewer Fund</u>		
Transfer In	\$ 10.00	\$ -
Monthly Service Fees	-	10.00
Repair and Maintenance	2,207.01	-
Utilities	6,382.62	-
Grant Expense	2,750.00	-
Supplies	2,228.59	-
Uncategorized	25.00	-
Fuel	1,461.41	-
Telephone	530.13	-
Fees	470.00	-
Uniforms	1,011.51	-
Meter Deposit Refund	824.56	-
Cash	-	17,890.83
Construction in Progress	75,150.00	-
Grant Expenses	-	75,150.00
Fixed Assets	42,878.68	-
Repair and Maintenance	-	42,878.68

CITY OF LEONARD, TEXAS  
Misstatements Corrected by Management (Continued)  
September 30, 2012

Description	Debit	Credit
<u>Water and Sewer Fund (continued)</u>		
Depreciation Expense	130,695.00	-
Accumulated Depreciation	-	130,695.00
Inventory	35,197.62	-
Supplies	-	35,197.62
Accounts Receivable	-	13,642.62
W/S Revenue - Monthly Service Fees	13,642.62	-
Meter Deposits (Revenue)	11,824.78	-
Meter Deposits Refund	2,129.06	-
Customer Deposits (Liability)	-	1,337.31
Monthly Service Fees	-	12,616.53
Retirement Expense	1,955.71	-
TMRS Liabilities	-	1,955.71
Accounts Payable	24,267.99	-
Water Sewer Expense Payable	-	24,267.99
	<u>\$ 355,642.29</u>	<u>\$ 355,642.29</u>
 <u>Debt Service Fund</u>		
Taxes Receivable	\$ 898.36	\$ -
Allowance	-	179.68
Deferred Revenues	-	598.94
Tax Revenue	-	119.74
Transfer	49,996.00	-
Miscellaneous Expense	-	49,996.00
Debt Payments	29,050.92	-
Transfer In	-	29,050.92
	<u>\$ 79,945.28</u>	<u>\$ 79,945.28</u>
 <u>Leonard Economic Development Corporation</u>		
Sales Tax Receivable (State)	\$ 3,010.43	\$ -
Sales Tax Receivable (City)	-	13,781.77
Sales Tax Revenue	10,771.34	-
Interest Income	39,821.94	-
Loan Receivable - City	-	24,855.86
Loan Receivable - Flanagan	-	6,557.56
Loan Receivable - Noble	-	4,000.26
Loan Receivable - Nolans	-	3,773.08
Loan Receivable - Fab & Funky	-	635.18
Loan Receivable	15,000.00	-
Uncategorized	-	15,000.00
Bad Debt Expense	11,474.00	-
Loan Receivable	-	11,474.00
Note Payable (American Bank)	24,855.86	-
Loan Payment Expense	-	24,855.86
	<u>\$ 104,933.57</u>	<u>\$ 104,933.57</u>



CITY OF LEONARD, TEXAS  
Uncorrected Misstatements  
September 30, 2012

<u>Description</u>	<u>Debit</u>	<u>Credit</u>
<u>Debt Service</u>		
Interest Expense	\$ 6,567.00	\$ -
Accrued Interest Payable	-	6,567.00
	<u>\$ 6,567.00</u>	<u>\$ 6,567.00</u>

CITY OF LEONARD, TEXAS  
Uncorrected Misstatements (Continued)  
September 30, 2012

<u>Description</u>	<u>Debit</u>	<u>Credit</u>
<u>General Fund</u>		
Franchise Tax Receivable	\$ 10,842.52	\$ -
Fund Balance	-	10,842.52
	<u>\$ 10,842.52</u>	<u>\$ 10,842.52</u>