

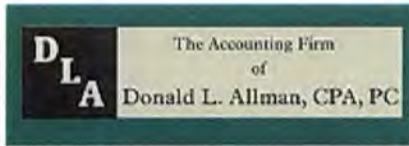
CITY OF LEONARD, TEXAS

Basic Financial Statements, Supplemental Schedules, and Annual Financial Report

For the Fiscal Year Ended September 30, 2018

CITY OF LEONARD, TEXAS
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September 30, 2018

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CERTIFIED PUBLIC ACCOUNTANT

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, 2018, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinions

In our opinion, 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 units, each major fund, and the aggregate remaining fund information of the City of Leonard, Texas as of September 30, 2018, 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 management's discussion and analysis, budgetary comparison information, and Schedule of Changes in Net Pension Liability and Related Ratios and Schedule of Contributions on pages 3-9, and pages 37-39, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 5, 2019 on our consideration of the City of Leonard, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Leonard, Texas' internal control over financial reporting and compliance.



Donald L. Allman, CPA, PC

Georgetown, TX
April 5, 2019

Management's Discussion and Analysis
City of Leonard, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the City of Leonard's financial performance provides an overview and analysis of the City's financial activities for the fiscal year ended September 30, 2018. Please read it in conjunction with the independent Auditors' Report on page 1, and the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

The City's government-wide net position increased by \$69,880 as a result of the year's operations.

The City's general fund activities net position increased by \$164,603 as a result of this year's operations.

Total revenues from all sources were \$2,157,504, an increase of \$38,721 from the prior year. This was primarily due to increases in services income.

During the year, the City's cost of all programs was \$2,087,624, which represents an increase of \$273,367 from the prior year.

At September 30, 2018, the City's governmental funds reported an ending balance of \$436,470, of which \$293,439 is unreserved and \$143,031 is reserved for debt service.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Position (on page 10). These provide information about the activities of the City as a whole and present a longer-term view of the City's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements (starting on page 12) report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. For governmental activities, these statements tell how services were financed in short term as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for tax levies and appropriations budget. Proprietary statements provide the same type of information as the government-wide financial statements, only in more detail.

The notes to the financial statements (starting on page 17) provide narrative explanations or additional data needed for full disclosure in the government-wide statements and the fund financial statements.

Management's Discussion and Analysis
City of Leonard, Texas

Reporting the City as a Whole

The Statement of Net Position and the Statement of Activities

The analysis of the City's overall financial condition and operations begins on page 10, its primary purpose is to show whether the City is better off or worse off as a result of the year's activities. The Statement of Net Position includes all the City's assets and liabilities at the end of the year while the Statement of Activities includes all the revenues and expenses generated by the City's operations during the year. These statements are presented using the accrual basis of accounting, which means that all of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

These two statements report the City's net position and changes in them. The City's net position (the difference between assets and liabilities) provide one measure of the City's financial health, or financial position. Over time, increases or decreases in the City's net position are one indicator of whether its financial health is improving or deteriorating. To fully assess the overall health of the City, however, you should consider non financial factors as well, such as changes in property tax base and condition of the City's facilities.

In the Statement of Net Position and the Statement of Activities, the City is divided into two kinds of activities.

Governmental activities – Most of the City's basic services are reported here, including police, and general government. Property taxes, sales taxes, and franchise fees finance most of these activities.

Business-type activities – The City charges a fee to customers to help cover all or most of the cost of certain services it provides. The City's water and sewer system activity are reported here.

Reporting the City's Most Significant Funds

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds – not the City as a whole. Some funds are required to be established by state law and by bond covenants. The City's two kinds of funds – governmental and proprietary – utilize different accounting approaches.

Management's Discussion and Analysis
City of Leonard, Texas

Governmental funds – The majority of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year end that are available for spending. These funds are reported using an accounting method identified as the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic service it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the city's programs. By comparing information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements, readers may better understand the long-term impact of the government's near-term financing decisions.

Proprietary funds – The City charges customers for the services it provides, whether to outside customers or to other units within the City. These services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in Statement of Net Position and the Statement of Activities. In fact, The City's enterprise funds are identical to the business-type activities that are reported in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The City's combined net position was \$3,043,777 as of September 30, 2018. When analyzing the net position and net expenses of governmental and business-type activities separately, the business type activities net position is \$1,604,186 and the general fund is \$1,439,591. The analysis focuses on net position (Table I) and general revenues and significant expenses of the City's governmental and business-type activities (Table II).

**Management's Discussion and Analysis
City of Leonard, Texas**

Table I
NET POSITION

	Governmental		Business-type		Total	
	Activities		Activities		Primary	
	2018	2017	2018	2017	2018	2017
Current and other						
assets	\$ 477,442	\$ 231,776	\$ 327,954	\$ 278,235	\$ 805,396	\$ 510,011
Capital assets, net	1,228,732	1,649,529	1,319,105	1,478,412	2,547,837	3,127,941
Restricted assets	143,031	152,494	54,496	62,700	197,527	215,194
Total assets	<u>1,849,205</u>	<u>2,033,799</u>	<u>1,701,555</u>	<u>1,819,347</u>	<u>3,550,760</u>	<u>3,853,146</u>
Deferred Outflows of Resources	12,840	25,657	6,418	12,827	19,258	38,484
Current liabilities	242,541	177,082	13,890	16,553	256,431	193,635
Long-term liabilities	137,837	252,142	68,859	55,596	206,696	307,738
Total liabilities	<u>380,378</u>	<u>429,224</u>	<u>82,749</u>	<u>72,149</u>	<u>463,127</u>	<u>501,373</u>
Deferred Inflows of Resources	42,076	14,087	21,038	7,044	63,114	21,131
Net Position:						
Net Investment in Capital Assets	976,590	1,266,481	1,319,105	1,471,308	2,295,695	2,737,789
Restricted for:			-			
Debt service	143,031	152,494	54,496	62,700	197,527	215,194
Street maintenance	-	-	-	-	-	-
Other non-major funds	-	-	-	-	-	-
Unrestricted	<u>319,970</u>	<u>197,167</u>	<u>230,585</u>	<u>218,973</u>	<u>550,555</u>	<u>416,140</u>
Total net position	<u>1,439,591</u>	<u>1,616,142</u>	<u>1,604,186</u>	<u>1,752,981</u>	<u>3,043,777</u>	<u>3,369,123</u>

**Management's Discussion and Analysis
City of Leonard, Texas**

Table II
CHANGE IN NET POSITION

	Governmental		Business-type		Total	
	Activities		Activities		Primary	
	2018	2017	2018	2017	2018	2017
Revenues						
Program Revenues:						
Charges for services	\$ 367,235	\$ 311,974	\$ 755,177	\$ 760,071	\$ 1,122,412	\$ 1,072,045
General Revenues:						
Property tax	556,330	543,946	-	-	556,330	543,946
Sales tax	243,169	256,945	-	-	243,169	256,945
Franchise Tax	92,587	90,490	-	-	92,587	90,490
Gain on Sale of Asset	-	-	-	-	-	-
Court fines & fees	28,341	53,822	-	-	28,341	53,822
Grant income	-	-	-	-	-	-
Other income	106,726	95,575	-	-	106,726	95,575
Investment earnings	4,545	4,482	3,394	1,478	7,939	5,960
Total revenues	<u>1,398,933</u>	<u>1,357,234</u>	<u>758,571</u>	<u>761,549</u>	<u>2,157,504</u>	<u>2,118,783</u>
Expenses:						
General government	515,774	431,864	-	-	515,774	431,864
Police	335,646	365,221	-	-	335,646	365,221
Streets	124,943	129,605	-	-	124,943	129,605
Court expenses	23,766	15,026			23,766	15,026
Parks and recreation	163,357	121,775	-	-	163,357	121,775
Fire	21,557	19,863	-	-	21,557	19,863
Library	27,696	29,659			27,696	29,659
Interest expense	21,591	8,793			21,591	8,793
Water and sewer	-	-	853,294	692,451	853,294	692,451
Total expenses	<u>1,234,330</u>	<u>1,121,806</u>	<u>853,294</u>	<u>692,451</u>	<u>2,087,624</u>	<u>1,814,257</u>
Increase in net position						
Before transfer	164,603	235,428	(94,723)	69,098	69,880	304,526
Transfers	-	36,000	-	(36,000)	-	-
Increase in net position	164,603	271,428	(94,723)	33,098	69,880	304,526
Net position - beginning	1,616,142	1,344,714	1,752,981	1,719,883	3,369,123	3,064,597
Prior Period Adjustment	(341,154)	-	(54,072)	-	(395,226)	-
Net position - ending	<u>1,439,591</u>	<u>1,616,142</u>	<u>1,604,186</u>	<u>1,752,981</u>	<u>3,043,777</u>	<u>3,369,123</u>

Management's Discussion and Analysis
City of Leonard, Texas

GOVERNMENT-WIDE FINANCIAL ANALYSIS (continued)

A large portion of the City's net position \$2,295,695 (75%) reflects its investment in capital assets (e.g., land, buildings, infrastructure, machinery, and equipment); less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net position (18%) represents resources that are subject to external restrictions on how they may be used. The balance of *unrestricted net position*, \$550,555, may be used to meet the government's ongoing obligations to citizens and suppliers.

For the fiscal year 2018, revenues from governmental activities totaled \$1,398,933. Property taxes and sales taxes are the largest components of revenue 57%.

For fiscal year 2018, expenses for governmental activities totaled \$1,234,330. The City's two largest funded programs are public safety and general government.

Revenues of the city's business-type activities were \$758,571 for the fiscal year ending September 30, 2018. Expenses for the City's business-type activities were \$853,294. The City's largest expense is personnel services.

THE CITY'S FUNDS

As the City completed the year, its governmental funds (as presented in the balance sheet on page 12) reported a combined fund balance of \$436,470, which is more than last year's total of \$299,516.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2018, the city has invested \$2,547,837 in capital assets, including equipment and land. This amount represents a net decrease of \$580,104 due to depreciation. This year's major additions included:

Water Sewer equipment \$76,328.

More detailed information about the City's capital assets is presented in the Notes to the Financial Statements starting on page 26.

Debt

At year-end, the City had \$252,142 in long-term debt outstanding, versus \$383,045 last year. This decrease is due to principal payments in fiscal year 2018.

More detailed information about the City's long-term liabilities is presented in the Notes to the Financial Statements starting on page 27.

Management's Discussion and Analysis
City of Leonard, Texas

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City's elected and appointed officials considered population growth and available resources from state revenues and tax revenues when setting the fiscal year budget and tax rate.

For the 2018 fiscal year, the City adopted a \$1,123,547 budget for the General Fund and a \$706,827 budget for the Enterprise Fund. It will be funded through property taxes via a \$0.7631 property tax rate, a slight reduction, and water and sewer revenue.

If the City does not incur any unforeseen expenditures or reductions in revenue, it should accomplish the task of providing services in the City within its available resources and not further reduce the current fund balance.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional information, contact the City's business office, at City of Leonard, 111 W. Collin Street, Leonard, Texas 75452.

CITY OF LEONARD, TEXAS
Statement of Net Position
September 30, 2018

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Leonard Community Development Corporation
ASSETS				
Cash and Cash Equivalents	\$ 339,020	\$ 202,131	\$ 541,151	\$ 152,174
Ad Valorem Taxes receivable	33,758		33,758	
Sales Tax Receivable	26,726		26,726	
Accounts and Franchise Fee receivable	27,203	100,455	127,658	
Note Receivable - Current Portion	-	-	-	-
Due From Primary Government	-	-	-	-
Net Pension Position	50,735	25,368	76,103	-
Internal Balances	-	-	-	-
Restricted Assets:				
Cash	143,031	54,496	197,527	-
Note Receivable - Long-Term Portion	-	-	-	-
Capital Assets Not Being Depreciated:				
Land	99,700	4,210	103,910	56,207
Capital Assets, Net of Accumulated Depreciation:				
Buildings and Improvements	941,605	-	941,605	175,506
Furniture, Equipment and Vehicles	187,427	41,970	229,397	-
Water and Sewer System	-	1,272,925	1,272,925	-
Total Assets	1,849,205	1,701,555	3,550,760	383,887
Deferred Outflows of Resources	12,840	6,418	19,258	
LIABILITIES				
Accounts Payable	47,461	5,109	52,570	4,169
Accrued expenses	52,049	8,781	60,830	-
Customers' Meter Deposits	-	54,496	54,496	-
Noncurrent Liabilities:				
Net OPEB Liability	28,726	14,363	43,089	
Due Within One Year	143,031	-	143,031	-
Due in More that One Year	109,111	-	109,111	-
Total Liabilities	380,378	82,749	463,127	4,169
Deferred Inflows of Resources	42,076	21,038	63,114	
NET POSITION				
Net Investment in Capital Assets	976,590	1,319,105	2,295,695	175,506
Restricted for:				
Debt Service	143,031	54,496	197,527	-
Notes Receivable	-	-	-	-
Unrestricted	319,970	230,585	550,555	204,212
Total Net Position	\$ 1,439,591	\$ 1,604,186	\$ 3,043,777	\$ 379,718

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

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CITY OF LEONARD, TEXAS
Statement of Activities
Year Ended September 30, 2018

Functions / Programs	Net (Expense) Revenue and Changes in Net Position				
	Primary Government				Leonard
	Expenses	Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Component Unit
Primary Government					
Governmental Activities:					
General Government	\$ 515,774	\$ 345,028	\$ -	\$ -	\$ -
Law Enforcement	335,646	-	-	-	-
Courts	23,766	28,341	-	-	-
Fire	21,557	-	-	-	-
Library	27,696	-	-	-	-
Street	124,943	-	-	-	-
Parks & Recreation	163,357	22,207	-	-	-
Interest	21,591	-	-	-	-
Total Governmental Activities	1,234,330	395,576	-	-	(838,754)
Business-Type Activities:					
Water and Sewer	853,294	755,177	-	-	(98,117)
Total Primary Government	\$ 2,087,624	\$ 1,150,753	\$ -	\$ -	(936,871)
Component Unit					
Leonard Community Development Corporation	\$ 41,461	\$ -	\$ -	\$ -	\$ (41,461)
General Revenues					
Taxes:					
Property Tax				556,330	-
Franchise Tax				92,587	-
Sales Tax				243,169	47,860
Miscellaneous Revenue				106,726	77,784
Gain on Sale of Capital Assets				-	-
Interest on Investments				4,545	-
Total General Revenues and Transfers				1,003,357	125,644
Change in Net Position				3,394	84,183
Net Position - Beginning				(94,723)	295,535
Prior Period Adjustment				1,752,981	-
Net Position - Ending				(54,072)	\$ 379,718
	\$ 1,439,591	\$ 1,604,186	\$ 3,043,777	\$ 3,043,777	\$ 379,718

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

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CITY OF LEONARD, TEXAS
 Governmental Funds
 Balance Sheet
 September 30, 2018

	General Fund	Debt Service Fund	Total Governmental Funds
ASSETS			
Cash and Cash Equivalents	\$ 339,020	\$ 143,031	\$ 482,051
Due From Other Funds	-	-	-
Receivables	87,687	-	87,687
Total Assets	\$ 426,707	\$ 143,031	\$ 569,738
LIABILITIES			
Accounts payable & accrued expenses	80,323	-	80,323
Unearned Revenue	52,945	-	52,945
Total Liabilities	133,268	-	133,268
FUND BALANCES			
Restricted Fund Balance:			
Debt Service	-	143,031	143,031
Unassigned Fund Balance	293,439	-	293,439
Total Fund Balances	293,439	143,031	436,470
Total Liabilities and Fund Balances	\$ 426,707	\$ 143,031	\$ 569,738
Fund Balance - Total Governmental Funds (above)			436,470
Deferred Outflows are not recognized in governmental funds			12,840
Amounts reported for governmental activities in the Statement of Net Position are different because:			
Net Pension Position is not considered in governmental funds			(47,913)
Capital assets used in government activities are not financial resources and therefore are not reported in the funds.			1,228,732
Unearned revenue not recognized in governmental activities			52,945
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			(252,142)
Deferred Inflows are not recognized in Governmental funds			(42,076)
Net Position of Governmental Activities			\$ 1,439,591

The accompanying notes to 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, 2018

	General Fund	Debt Service Fund	Total Governmental Funds
REVENUES			
Property Taxes	\$ 485,156	\$ 71,174	\$ 556,330
Sales Taxes	243,169	-	243,169
Franchise fees	92,587	-	92,587
Licenses & Permits	11,280	-	11,280
Intergovernmental	-	-	-
Charges for Services	302,853	-	302,853
Fines	28,341	-	28,341
Rents	53,102	-	53,102
Interest Income	4,545	-	4,545
Miscellaneous	106,726	-	106,726
Total Revenues	<u>1,327,759</u>	<u>71,174</u>	<u>1,398,933</u>
EXPENDITURES			
Current:			
General Government	495,867	-	495,867
Law Enforcement	318,653	-	318,653
Courts	23,766	-	23,766
Fire	21,557	-	21,557
Library	27,696	-	27,696
Streets	67,758	-	67,758
Parks & Recreation	154,188	-	154,188
Debt Service			
Principal	-	130,903	130,903
Interest & Fees	-	21,591	21,591
Capital Outlay	-	-	-
Total Expenditures	<u>1,109,485</u>	<u>152,494</u>	<u>1,261,979</u>
Excess (Deficiency) of Revenues over Expenditures	<u>218,274</u>	<u>(81,320)</u>	<u>136,954</u>
OTHER FINANCING SOURCES (USES)			
Transfers	(128,057)	128,057	-
Sale of General Capital Assets	-	-	-
Total Other Financing Sources (Uses)	<u>(128,057)</u>	<u>128,057</u>	<u>-</u>
Net Change in Fund Balances	90,217	46,737	136,954
Fund Balances (Deficit) - Beginning	203,222	96,294	299,516
Fund Balances (Deficit) - End	<u>\$ 293,439</u>	<u>\$ 143,031</u>	<u>\$ 436,470</u>
Net Change in Fund Balances - Total Governmental Funds (above)			<u>\$ 136,954</u>
Amounts reported for governmental activities in the statement of activities are different because:			
Various differences			0
Unearned ad valorem taxes			10,823
Governmental Funds report capital outlays as expenditures. However, in the Government-Wide Statement of Activities, the cost of those assets is allocated by which depreciation exceeded capital outlays in the current year.			
Depreciation Expense		\$ (114,077)	
Capital Outlay		<u>-</u>	(114,077)
Repayment of long-term is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.			<u>130,903</u>
Change in Net Position - Governmental Activities			164,603

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

CITY OF LEONARD, TEXAS
 Proprietary Fund
 Statement of Net Position
 September 30, 2018

	Water and Sewer Fund
ASSETS	
Current Assets	
Cash and Cash Equivalents	\$ 256,627
Net Pension Position	25,368
Accounts Receivable	100,455
Total Current Assets	382,450
Noncurrent Assets	
Capital Assets, Net of Accumulated Depreciation	1,319,105
Total Noncurrent Assets	1,319,105
Total Assets	1,701,555
Deferred Outflows of Resources	6,418
LIABILITIES	
Current Liabilities	
Accounts Payable & Accrued Expenses	13,890
Capital Lease Obligation - Current	-
Customers' Meter Deposits	54,496
Due to Other Funds	-
Total Current Liabilities	68,386
Noncurrent Liabilities	
OPEB Liability	14,363
Total Noncurrent Liabilities	14,363
Total Liabilities	82,749
Deferred Inflows of Resources	21,038
NET POSITION	
Net Investment in Capital Assets	1,319,105
Restricted	54,496
Unrestricted	230,585
Total Net Position	\$ 1,604,186

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, 2018

	Water and Sewer Fund
OPERATING REVENUES	
Charges for Services	699,869
Customer Charges - Taps and Other	55,309
Total Operating Revenues	755,178
OPERATING EXPENSES	
Salaries and Related Expenses	307,309
Repairs, Supplies and Other	139,270
Utilities & Administration	220,588
Depreciation	175,700
Total Operating Expenses	842,867
Operating Income (Loss)	(87,689)
NONOPERATING REVENUES (EXPENSES)	
Intergovernmental	-
Investment Income	3,394
Interest Expense	-
Total nonoperating Revenues (Expenses)	3,394
Change in Net Position	(84,295)
Transfers	(64,500)
Net Position - Beginning	1,752,981
Net Position - End	\$ 1,604,186

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

CITY OF LEONARD, TEXAS
Proprietary Fund
Statement of Cash Flows
Year Ended September 30, 2018

	Water and Sewer Fund
Cash Flows from Operating Activities	
Receipts from Customers	\$ 738,146
Receipts from Other Funds	-
Payments to Suppliers and Service Providers	(222,644)
Payments to Employees for Salaries and Benefits	(307,309)
Net Cash Provided by Operating Activities	208,193
Cash Flows from Noncapital Financing Activities	
Transfers	(64,500)
Net Cash Provided by Noncapital Financing Activities	(64,500)
Cash Flows from Capital and Related Financing Activities	
Acquisition of Capital Assets	(68,781)
Proceeds from Note Payable	-
Principal Payments on Note Payable	(7,104)
Principal Payments on Capital Lease Obligation	-
Interest Paid on Debt	-
Net Cash Used for Capital and Related Financing Activities	(75,885)
Cash Flows from Investing Activities	
Proceeds from Interest Earnings	3,394
Net Cash Provided by Investing Activities	3,394
Net Increase in Cash and Cash Equivalents	71,202
Cash and Cash Equivalents, October 1	185,425
Cash and Cash Equivalents, September 30	\$ 256,627
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:	
Operating Income (Loss)	\$ (87,689)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:	
Depreciation	175,700
(Increase)/Decrease in Accounts Receivable	(17,032)
(Increase) Decrease in Pension expense	(5,355)
Increase (Decrease) in Accounts Payable & accrued	4,441
Increase (Decrease) in Customers' Deposits	1,100
Increase (Decrease) in Prior Period Adjustment	137,028
Total Adjustments	295,882
Net Cash Provided by Operating Activities	\$ 208,193

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

CITY OF LEONARD, TEXAS
Notes to Financial Statements
September 30, 2018

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 financial statements of the City of Leonard, Texas (the "City") have been prepared in conformity with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant policies:

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). The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this report.

Note: 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, 2018

B Basis of Presentation

Government-Wide Statements

The Statement of Net Position and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity and its component unit. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

Note 1: Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation (Continued)

Fund Financial Statements

The City segregates transactions related to certain functions or activities in separate funds in order to aid in financial management and to demonstrate legal compliance. Separate statements are presented for governmental and proprietary activities. These statements present each major fund as a separate column on the fund financial statements.

The City has the following major funds:

Governmental Funds

General Fund – The General Fund is the general operating fund of the City. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Debt Service Fund – The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general obligation debt of governmental funds.

Proprietary Fund

Enterprise Fund – The Enterprise Fund is used to account for operations that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The City's one enterprise fund is the Water and Sewer Fund which is used to account for the provision of water and sewer services to the City's residents.

C. Measurement Focus and Basis of Accounting

Measurement Focus

In the government-wide Statement of Net Position and the Statement of Activities, both governmental and business-like activities are presented using the economic resources measurement focus and the accrual basis of accounting.

In the fund financial statements, the "current financial resources" measurement focus, and the modified accrual basis of accounting, is used.

CITY OF LEONARD, TEXAS
Notes to Financial Statements (Continued)
September 30, 2018

- a. All governmental funds utilize a “current financial resources” measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b. The proprietary fund utilizes an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position, financial position, and cash flows. All assets and liabilities (whether current or noncurrent, financial, or nonfinancial) associated with their activities are reported. Proprietary fund balance is classified as net position.

Note 1: Summary of significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting (Continued)

Basis of Accounting

The City of Leonard prepares its financial statements on the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

D. Assets, Liabilities, and Equity

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.

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

CITY OF LEONARD, TEXAS
Notes to Financial Statements (Continued)
September 30, 2018

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.

Note 1: Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Equity (Continued)

Long-Term Debt

All long-term debt arising from cash basis transactions to be repaid from governmental and business-type resources is reported as liabilities in the government-wide statements.

Long-term debt arising from cash basis transactions of 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 the treatment in the government-wide statements.

Capital Leases

Assets held under capital leases are recorded at the lower of the net present value of the minimum lease payments or the fair value of the leased asset at the inception of the lease. Amortization expense is computed using the straight-line method over the useful lives of the assets and is included in depreciation expense.

Net Position / Fund Balance

Net position represents the difference between assets and liabilities. 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. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislations adopted by the City or through external restrictions imposed by creditors, grantors, or laws and regulations of other governments. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

As of September 30, 2018, 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. The City does not have any restricted fund balances by enabling legislation.

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.

CITY OF LEONARD, TEXAS
Notes to Financial Statements (Continued)
September 30, 2018

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

Unassigned – All other spendable amounts.

Note 1: Summary of significant Accounting Policies (Continued)

D. Assets, Liabilities, and Equity (Continued)

Net Position / Fund Balance (Continued)

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.

E. 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.

F. 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.

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.

CITY OF LEONARD, TEXAS
Notes to Financial Statements (Continued)
September 30, 2018

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.

Budgetary Noncompliance

For the year ended September 30, 2018, expenditures exceeded appropriations at the legal level of control in the General Fund as follows:

	Expenditures Exceeding Appropriations
General	58,226
Parks	33,709
Courts	5,428

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.

At September 30, 2018, the carrying amount of deposits was \$738,678 and the bank balance was \$747,992. The City was not exposed to custodial credit risk as its deposits were fully insured with FDIC insurance at year-end.

Component Unit

The bank balance and carrying amount of the Leonard Community Development Corporation's deposits was \$152,174 at September 30, 2018. The component unit was not exposed to custodial credit risk as its deposits were fully insured with FDIC insurance at year-end.

CITY OF LEONARD, TEXAS
Notes to Financial Statements (Continued)
September 30, 2018

Note 4: Property Tax

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 2018 levy amounted to .7631, with .6615 for maintenance and operation and .1016 for the interest and sinking fund. Current property taxes receivable were \$12,752 and Delinquent taxes receivable were \$21,006.

Note 5: Capital Assets

Primary Government

Capital asset activity for the year ended September 30, 2018, was as follows:

	<u>Balance 9/30/17</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 9/30/18</u>
Governmental Activities:				
Capital Assets, not being Depreciated:				
Land	\$ 99,700	\$ -	\$ -	\$ 99,700
Capital Assets being Depreciated:				
Buildings & Improvements	2,045,703			2,045,703
Furniture, Equipment and Vehicles	1,081,057	-	-	1,081,057
	<u>3,126,760</u>	<u>-</u>	<u>-</u>	<u>3,126,760</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	1,035,123	-	68,975	1,104,098
Furniture, Equipment and Vehicles	848,528	-	45,102	893,630
	<u>1,883,651</u>	<u>-</u>	<u>114,077</u>	<u>1,997,728</u>
Capital Assets being Depreciated, Net	<u>1,243,109</u>	<u>-</u>	<u>(114,077)</u>	<u>1,129,032</u>
Governmental Activities Capital Assets, Net	<u>\$ 1,342,809</u>	<u>\$ -</u>	<u>\$ (114,077)</u>	<u>\$ 1,228,732</u>
Business-Type Activities Capital Assets, not being Depreciated:				
Land	\$ 4,210	\$ -	\$ -	\$ 4,210
Capital Assets being Depreciated:				
Furniture, Equipment and Vehicles	217,701	51,962	-	269,663
Water and Sewer System	4,846,976	24,366	-	4,871,342
	<u>5,064,677</u>	<u>76,328</u>	<u>-</u>	<u>5,141,005</u>

CITY OF LEONARD, TEXAS
Notes to Financial Statements (Continued)
September 30, 2018

Note 5: Capital Assets (Continued)

Primary Government (Continued)

	Balance 9/30/17	Additions	Retirements	Balance 9/30/18
Governmental Activities:				
Less Accumulated Depreciation for:				
Furniture, Equipment and Vehicles	201,343	26,350	-	227,693
Water and Sewer System	3,449,067	149,350	-	3,598,417
	<u>3,650,410</u>	<u>175,700</u>	<u>-</u>	<u>3,826,110</u>
Capital Assets being Depreciated, Net	<u>1,551,806</u>	<u>-</u>	<u>-</u>	<u>1,314,895</u>
Business-Type Activities Capital Assets, Net	<u>\$ 1,556,016</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,319,105</u>

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

Governmental Activities	
General Government	\$ 30,730
Law Enforcement & Fire	16,993
Parks & Library	9,169
Street	57,185
Total Depreciation Expense - Governmental Activities	<u>\$ 114,077</u>
Business-Type Activities:	
Water and Sewer	<u>\$ 175,700</u>

Component Unit

Capital asset activity for the year ended September 30, 2018, was as follows:

	Balance 9/30/2017	Additions	Retirements	Balance 9/30/2018
Capital Assets, not being Depreciated:				
Land	<u>\$ 56,207</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 56,207</u>
Capital Assets being Depreciated:				
Buildings & Improvements	<u>219,384</u>	<u>-</u>	<u>-</u>	<u>219,384</u>
Less Accumulated Depreciation for:				
Buildings	<u>36,565</u>	<u>-</u>	<u>7,313</u>	<u>43,878</u>
Capital Assets being Depreciated, Net	<u>182,819</u>	<u>-</u>	<u>(7,313)</u>	<u>175,506</u>
Governmental Activities Capital Assets, Net	<u>\$ 239,026</u>	<u>\$ -</u>	<u>\$ (7,313)</u>	<u>\$ 231,713</u>

CITY OF LEONARD, TEXAS
Notes to Financial Statements (Continued)
September 30, 2018

Note 6: Long-Term Debt

A summary of long-term debt transactions for the year ended September 30, 2018, follows:

	Balance October 1, 2017	Additions	Retirements	Balance September 30, 2018	Due Within One Year
<u>Primary Government:</u>					
Governmental Activities:					
Time Warrants	\$ 383,045	\$ -	\$ (130,903)	\$ 252,142	\$ 143,031
Note Payable	-	-	-	-	-
Credit Card Payable	-	-	-	-	-
Total	<u>\$ 383,045</u>	<u>\$ -</u>	<u>\$ (130,903)</u>	<u>\$ 252,142</u>	<u>\$ 143,031</u>
Business-Type Activities:					
Capital Lease	7,104	-	(7,104)	-	-
Installment Loan	-	-	-	-	-
Total	<u>\$ 7,104</u>	<u>\$ -</u>	<u>\$ (7,104)</u>	<u>\$ -</u>	<u>\$ -</u>
<u>Component Unit:</u>					
Note Payable	<u>\$ 173,806</u>	<u>\$ -</u>	<u>\$ (173,806)</u>	<u>\$ -</u>	<u>\$ -</u>

Long-term debt is comprised of the following:

Primary Government:

Governmental Activities

\$150,000, Time Warrants, dated January 11, 2002 due in monthly installments of \$1,001, through 2019, interest at 5.0% 12,636

\$125,000, Time Warrants, dated January 11, 2002 due in monthly installments of \$618, through 2018, (when debt balloons), interest at 6.0%. Proceeds were used to purchase a building located at 118 W. Collin Street -

\$160,196, Time Warrants dated September 14, 2005, due in monthly installments of \$408, through 2017 (when debt balloons), interest at 6.0%. Proceeds were used to purchase equipment. 18,004

\$43,257 Loan, dated November 16, 2016, payments of \$15,069.70 annually on March 30, interest at 3.286%, loan matures March 30, 2019 14,182

\$180,000, Time Warrants dated February 3, 2006, due in monthly installments of \$335, through 2018 (when debt balloons), interest at 6.0%. Proceeds were used to purchase a 2005 fire truck. 18,897

\$319,719 Loan, dated June 27, 2016 due in monthly installments of \$5,970.02, interest at 4.5%. Proceeds used for CML Machinery & Equipment. 188,423

\$ 252,142

Component Unit

\$200,00, Note Payable, dated April 23, 2013, due in monthly installments of \$1,433, through 2018 (when debt balloons), interest at 6.00%. -

CITY OF LEONARD, TEXAS
Notes to Financial Statements (Continued)
September 30, 2018

Note 6: Long-Term Debt (Continued)

Primary Government: (Continued)

Governmental Activities (Continued)

The annual requirements to amortize the long-term loans and warrants outstanding as of September 30, 2018, are as follows:

Year Ending, September 30,	Governmental Activities		Business-Type Activities		Total
	Principal	Interest	Principal	Interest	
2019	132,387	10,644	-	-	143,031
2020	67,635	4,005			71,640
2021	52,120	973			53,093
2022					
	<u>\$ 252,142</u>	<u>\$ 15,622</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 267,764</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.

CITY OF LEONARD, TEXAS
Notes to Financial Statements (Continued)
September 30, 2018

Note 7: Capital Leases

In October 2014, the City began leasing equipment under an agreement classified as a capital lease due to a bargain purchase option. The capital lease and accumulated amortization are as follows:

	9/30/18
Capital Lease Equipment, at Cost	5,969
Less Accumulated Amortization	(5,969)
Capital Lease Equipment, Net	\$ -

The Future minimum lease payments required under the capital leases and the present value of the net minimum lease payments as of September 30, 2018 are as follows:

Year Ending September 30,	Amount
2018	8,183
Total Minimum Lease Payments	8,183
Less Amount Representing Interest	(1,079)
Present Value of Net Minimum Lease Payments	7,104
Less Current Maturities of Capital Lease Obligations	(7,104)
	\$ -

Note 8: Interfund Balances

Due To/Due From's for the year ended September 30, 2018 consisted of the following:

0

The amount payable to the General Fund from the Water Sewer fund relates to operating activities. The balance is scheduled to be collected in the subsequent year.

Note 9: Number of Water and Water and Sewer System Customers

At September 30, 2018, 819 customers were connected to the water system and 764 to the sewer system.

CITY OF LEONARD, TEXAS
Notes to Financial Statements (Continued)
September 30, 2018

Note 11: Pension Plan

A. Plan Description

The City of Leonard participates as one of 860 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmr.com.

All eligible employees of the City are required to participate in TMRS.

B. Benefits Provided

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the city, within the options available in the state statutes governing TMRS.

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the city-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payment options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

Employees covered by benefit terms

At the December 31, 2017 valuation and measurement date, the following employees were covered by the benefit terms.

Inactive employees or beneficiaries currently receiving benefits	8
Inactive employees entitled to but not yet receiving benefits	20
Active employees	14
Total	<u>42</u>

C. Contributions

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

Employees for the City of Leonard were required to contribute 5% of their annual gross earnings during the fiscal year. The full contribution rates for the City of Leonard were 0.86% and 0.86% in calendar years 2016 and 2017, respectively. The City's contributions to TMRS for the year ended September 30, 2018, were \$52,165 and were equal to the required contributions.

CITY OF LEONARD, TEXAS
Notes to Financial Statements (Continued)
September 30, 2018

Note 11: Pension Plan (Continued)

D. Net Pension Liability

The city's Net Pension Liability (NPL) was measured as of December 31, 2017, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial assumptions:

The Total Pension Liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions:

Inflation 2.5% per year

Overall payroll growth 3.5-10.5% per year

Investment Rate of Return 6.75% net of pension plan investment expense, including inflation.

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

Actuarial assumptions used in the December 31, 2017, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period January 1, 2010 through December 31, 2014, first used in the December 31, 2015 valuation. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2015 valuation.

The long-term expected rate of return on pension plan investments is 6.75%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

CITY OF LEONARD, TEXAS
Notes to Financial Statements (Continued)
September 30, 2018

Note 11: Pension Plan (Continued)

D. Net Pension Liability

Asset class	Target allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.5%	4.80%
International Equity	17.5%	6.05%
Core Fixed Income	30.0%	1.50%
Non-Core Fixed Income	10.0%	3.50%
Real Return	5.0%	1.75%
Real Estate	10.0%	5.25%
Absolute Return	5.0%	4.25%
Private Equity	5.0%	8.50%
Total	100.0%	

Discount Rate

The discount rate used to measure the Total Pension Liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

City of Leonard
Schedule of Changes in Net Pension Liability and Related Ratios Current Period
September 30, 2018

A. Total pension liability		
1. Service Cost	\$	58,514
2. Interest (on the Total Pension Liability)		48,700
3. Changes of benefit terms		-
4. Difference between expected and actual experience		(1,110)
5. Changes of assumptions		-
6. Benefit payments, including refunds of employee contributor		(39,528)
7. Net change in total pension liability	\$	66,576
8. Total pension liability - beginning		711,987
9. Total pension liability - ending	\$	<u>778,563</u>
B. Plan fiduciary net position		
1. Contributions - employer	\$	9,895
2. Contributions - employee		42,270
3. Net investment income		102,439
4. Benefit payments, including refunds of employee contributor		(39,528)
5. Administrative Expense		(532)
6. Other		(26)
7. Net change in plan fiduciary net position	\$	114,518
8. Plan fiduciary net position - beginning		740,148
9. Plan fiduciary net position - ending	\$	<u>854,666</u>
C. Net pension liability [A.9-B.9]	\$	<u>(76,103)</u>
D. Plan fiduciary net position as a percentage of the total pension liability [B.9 / A.9]		109.77%
E. Covered-employee payroll	\$	603,860
F. Net pension liability as a percentage of covered employee payroll [C / E]		-12.60%

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

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

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's net pension liability	\$30,447	\$(76,103)	\$(163,027)
Pension Plan Fiduciary Net Position			

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

**CITY OF LEONARD
SCHEDULE OF PENSION EXPENSE
SEPTEMBER 30, 2018**

1.	Total Service Cost	\$ 58,514
2.	Interest on the Total Pension Liability	48,700
3.	Current Period Benefit Changes	-
4.	Employee Contributions (Reduction of Expense)	(42,270)
5.	Projected Earnings on Plan Investments (Reduction of Expense)	(49,960)
6.	Administrative Expense	532
7.	Other Changes in Fiduciary Net Position	27
8.	Recognition of Current Year Outflow (Inflow) of Resources - Liabilities	(376)
9.	Recognition of Current Year Outflow (Inflow) of Resources - Assets	(10,496)
10.	Amortization of Prior Year Outflows (Inflows) of Resources - Liabilities	(41)
11.	Amortization of Prior Year Outflows (Inflows) of Resources - Assets	<u>11,435</u>
12.	Total Pension Expense	\$ 16,065

CITY OF LEONARD
SCHEDULE OF OUTFLOWS AND INFLOWS - CURRENT AND FUTURE EXPENSE
SEPTEMBER 30, 2018

	Recognition Period (or amortization yrs)	Total (Inflow) or Outflow of Resources	2018 Recognized in current pension expense	Deferred (Inflow) Outflow in future expense
<u>Due to Liabilities:</u>				
Difference in expected and actual experience [actuarial (gains) or losses]	2.9500	\$ (1,110)	\$ (376)	\$ (734)
Difference in assumption changes [actuarial (gains) or losses]	2.9500	\$ -	\$ -	\$ -
			<u>\$ (376)</u>	<u>\$ (734)</u>
<u>Due to Assets:</u>				
Difference in projected and actual earnings on pension plan investments [actuarial (gains) or losses]	5.0000	\$ (52,479)	\$ (10,496)	\$ (41,983)
			<u>\$ (10,496)</u>	<u>\$ (41,983)</u>
<u>Total:</u>				<u>\$ (42,717)</u>

Deferred Outflows and Deferred Inflows of Resources, by year, to be recognized in future pension expense as follows:

	Net deferred outflows (inflows) of resources
2018	\$ (3,950)
2019	(4,390)
2020	(10,508)
2021	(10,495)
2022	-
Thereafter	-
Total	<u>\$ (29,343)</u>

CITY OF LEONARD, TEXAS
Notes to Financial Statements (Continued)
September 30, 2018

Note 11: Pension Plan (Continued)
Supplemental Death Benefits Fund

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by 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.

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 employee's entire careers.

The city's contributions to the TMRS SDBF for the fiscal years ending September 30, 2017, 2016 and 2015 were \$888, \$888, and \$873 respectively, which equaled the required contributions for each year.

Net Other Post Employment Benefits Liability.
Actuarial Assumptions

Actuarial assumptions were developed from the actuarial investigation of the experience of TMRS over the four year period from December 31, 2010 to December 31, 2014. These assumptions were adopted in 2015 and first used in the December 31, 2015 valuation.

All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68.

The Mortality Experience Investigation Study covering 2009 through 2011 is used as the basis for the post-retirement mortality assumption for healthy annuitants and Annuity Purchase Rate (APRs). Mortality Rates for service employees uses the RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis with scale BB to account for future mortality improvements subject to the 3% floor.

Inflation	2.50% per year
Overall payroll growth	3.50 to 10.5% per year including inflation
Discount rate	3.31%

CITY OF LEONARD, TEXAS
Notes to Financial Statements (Continued)
September 30, 2018

Note 11: Pension Plan (Continued)

Changes in the Net Other Post Employment Benefits Liability

	Increase (Decrease) <u>Total OPEB Liability</u>
Balance at 12/31/16	\$36,269
Changes for the year	
Service Cost	2,234
Interest on Total OPEB liability	1,407
Changes of benefit terms	0
Differences between expected and actual experience	0
Changes in assumption or other inputs	3,481
Benefit payments	(302)
Net changes	6,820
Total OPEB Liability – end of year	\$ 43,089
 Total OPEB Liability as a Percentage of Covered Payroll	 7.14%

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the City, calculated using the current discount rate of 3.31% as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.31%) or -1 percentage point higher (4.31%) than the current rate. Because the SDBF is considered an unfunded trust, the relevant discount rate to calculate the total OPEB liability is based on the Fidelity Index's 20 year Municipal GO AA Index.

	1% Decrease in Discount Rate (2.31%)	1% Increase in Discount Rate (3.31%)	Discount Rate (4.31%)
Total OPEB liability	\$52,350	\$ 43,089	\$36,142

**CITY OF LEONARD
SCHEDULE OF OPEB EXPENSE
SEPTEMBER 30, 2018**

1. Total Service Cost	\$ 2,234
2. Interest on the Total OPEB Liability	1,407
3. Changes in benefit terms	-
4. Employer Administrative Costs	-
5. recognition of deferred outflows/inflows of resources	-
6. Differences between expected and actual experience	-
7. Changes in assumptions or other inputs	683
8 Total OPEB Expense	\$ 4,324

CITY OF LEONARD, TEXAS
Notes to Financial Statements (Continued)
September 30, 2018

Note 11: Pension Plan (Continued)

CITY OF LEONARD
SCHEDULE OF OPEB OUTFLOWS AND INFLOWS - CURRENT AND FUTURE EXPENSE
SEPTEMBER 30, 2018

	Recognition Period (or amortization yrs)	Total (Inflow) or Outflow of Resources	2018 Recognized in current pension expense	Deferred (Inflow) Outflow in future expense
<u>Due to Liabilities:</u>				
Difference in expected and actual experience [actuarial (gains) or losses]	5.1000	\$ -	\$ -	\$ -
Difference in assumption changes [actuarial (gains) or losses]	5.1000	\$ 3,481	\$ 683	\$ 2,798
			<u>\$ 683</u>	<u>\$ 2,798</u>

Deferred Outflows and Deferred Inflows of Resources, by year, to be recognized in future pension expense as follows:

	Net deferred outflows (inflows) of resources
2018	\$ 683
2019	683
2020	683
2021	683
2022	66
Thereafter	-
Total	<u>\$ 2,798</u>

Other Information

Due to the SDBF being considered an unfunded OPEB plan, benefit payments are treated as being equal to the employer's yearly contributions for retirees. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75 to pay related benefits. In order to determine the retiree portion of the City's Supplemental Death Benefit Plan contributions (that which is considered OPEB), the City should perform the following calculation:

Total covered payroll * retiree Portion of SDB Contribution (Rate)

CITY OF LEONARD, TEXAS
Notes to Financial Statements (Continued)
September 30, 2018

Note 12: Federal Grants

In the normal course of operations, the City receives grant funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Accordingly, the City's compliance with applicable grant requirements has not yet been established. The amount, if any, of reimbursements which may be required by the granting agencies cannot be determined at this time.

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, 2018

Note: 13 Commitments (Continued)

The debt obligations for GUTA's revenue bonds are not reflected in the City's financial statements are presented for disclosure purposes only. The liabilities for the debt obligations, however, are separately presented in the publicly available September 30, 2018 financial statements of GTUA.

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: Prior Period Adjustments

GASB Statement No. 75, ACCOUNTING AND FINANCIAL REPORTING FOR POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS. This new standard requires a net opeb liability to be recorded, along with opeb expense, deferred outflows of resources, and a prior period adjustment.

The prior period adjustment is 35,967, deferred outflows of resources are 2,798, and opeb expense is 4,324. The Net OPEB liability is 43,089.

Accumulated Depreciation was recorded incorrectly in the fiscal year ending September 30, 2017. Depreciation expense was subtracted from accumulated depreciation causing Capital Assets to be overstated. The net value of capital assets in the General Fund was reported on the 9/30/2017 audit as \$1,649,526. The correct amount was \$1,342,809. The difference of \$306,717 is included in the prior period adjustment amount of \$341,154.

Accumulated Depreciation was recorded incorrectly in the fiscal year ending September 30, 2017. Depreciation expense was subtracted from accumulated depreciation causing Capital Assets to be overstated. The net value of capital assets in the Enterprise Fund was reported on the 9/30/2017 audit as \$1,478,412. The correct amount was \$1,319,105. The difference of \$159,307 is included in the prior period adjustment amount of \$54,072.

**REQUIRED
SUPPLEMENTARY
INFORMATION**

CITY OF LEONARD, TEXAS
 General Fund
 Budgetary Comparison Schedule
 Year Ended September 30, 2018

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:				
Property Taxes	\$ 537,332	\$ 537,332	\$ 556,330	\$ 18,998
Sales Taxes	205,000	205,000	243,169	38,169
Franchise Taxes	89,300	89,300	92,587	3,287
Licenses and Permits	7,500	7,500	11,280	3,780
Intergovernmental	-	-	-	-
Charges for Services	234,500	234,500	302,853	68,353
Fines	52,265	52,265	28,341	(23,924)
Rents	53,952	53,952	53,102	(850)
Interest Income	2,000	2,000	4,545	2,545
Miscellaneous	25,625	25,625	106,726	81,101
Total Revenues	<u>1,207,474</u>	<u>1,207,474</u>	<u>1,398,933</u>	<u>191,459</u>
Expenditures:				
General Government	437,641	437,641	495,867	(58,226)
Law Enforcement	336,825	336,825	318,653	18,172
Courts	18,338	18,338	23,766	(5,428)
Fire	24,897	24,897	21,557	3,340
Library	35,342	35,342	27,696	7,646
Streets	78,500	78,500	67,758	10,742
Parks & Recreation	120,479	120,479	154,188	(33,709)
Debt Service:				-
Principal	61,701	61,701	130,903	(69,202)
Interest expense	9,825	9,825	21,591	(11,766)
Capital Outlay	-	-	-	-
Total Expenditures	<u>1,123,548</u>	<u>1,123,548</u>	<u>1,261,979</u>	<u>(138,431)</u>
Excess (Deficiency) of Revenues over Expenditures	<u>83,926</u>	<u>83,926</u>	<u>136,954</u>	<u>53,028</u>
Other Financing Sources (Uses)				
Proceeds from Insurance of Long-Term Debt	-	-	-	-
Sale of General Capital Assets	-	-	-	-
Total Other Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	<u>83,926</u>	<u>83,926</u>	<u>136,954</u>	<u>53,028</u>
Fund Balances - Beginning of Year	<u>299,516</u>	<u>299,516</u>	<u>299,516</u>	<u>-</u>
Fund Balances - End of Year	<u>\$ 383,442</u>	<u>\$ 383,442</u>	<u>\$ 436,470</u>	<u>\$ 53,028</u>

City of Leonard
Schedule of Changes in Net Pension Liability and Related Ratios
Last ten years (will ultimately be displayed)

Total pension liability	2014	2015	2016	2017
1. Service Cost	\$ 34,127	35,099	37,404	58,514
2. Interest (on the Total Pension Liability)	41,480	43,411	46,487	48,700
3. Changes of benefit terms	-		11,083	-
4. Difference between expected and actual experience	102	(8,310)	(18,527)	(1,110)
5. Changes of assumptions	-	24,093	-	-
6. Benefit payments, including refunds of employee contributions	(67,996)	(29,223)	(46,745)	(39,528)
7. Net change in total pension liability	<u>\$ 7,713</u>	<u>65,070</u>	<u>29,702</u>	<u>66,576</u>
8. Total pension liability - beginning	609,502	617,215	682,285	711,987
9. Total pension liability - ending	<u><u>\$ 617,215</u></u>	<u><u>682,285</u></u>	<u><u>711,987</u></u>	<u><u>778,563</u></u>
 Plan fiduciary net position				
1. Contributions - employer	\$ 1,306	3,753	3,565	9,895
2. Contributions - employee	27,686	28,035	29,268	42,270
3. Net investment income	40,227	1,039	47,769	102,439
4. Benefit payments, including refunds of employee contributions	(67,996)	(29,223)	(46,745)	(39,528)
5. Administrative Expense	(420)	(633)	(540)	(532)
6. Other	(35)	(32)	(29)	(26)
7. Net change in plan fiduciary net position	<u>\$ 768</u>	<u>2,939</u>	<u>33,288</u>	<u>114,518</u>
8. Plan fiduciary net position - beginning	703,153	703,921	706,860	740,148
9. Plan fiduciary net position - ending	<u><u>\$ 703,921</u></u>	<u><u>706,860</u></u>	<u><u>740,148</u></u>	<u><u>854,666</u></u>
 Net pension liability [A.9-B.9]	 <u><u>\$ (86,706)</u></u>	 <u><u>(24,575)</u></u>	 <u><u>(28,161)</u></u>	 <u><u>(76,103)</u></u>
 Plan fiduciary net position as a percentage of the total pension liability [B.9 / A.9]	 114.05%	 103.60%	 103.96%	 109.77%
 Covered-employee payroll	 \$ 553,718	 \$ 560,693	 585,355	 603,860
 Net pension liability as a percentage of covered employee payroll [C / E]	 -15.66%	 -4.38%	 -4.81%	 -12.60%

**City of Leonard
Schedule of Contributions**

Last 10 Fiscal Years (will ultimately be displayed)

September 30, 2018

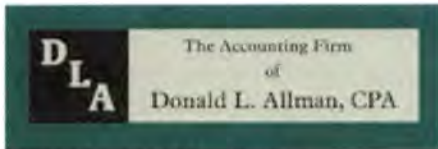
	2014	2015	2016	2017
Actually Determined Contribution	\$ 28,992	\$ 31,788	\$ 32,833	\$ 52,165
Contributions in relation to the actuarially determined contribution	<u>28,992</u>	<u>31,788</u>	<u>32,833</u>	<u>52,165</u>
Contribution deficiency (excess)	-	-	-	-
Covered employee payroll	\$ 553,718	\$ 560,693	\$ 585,355	\$ 603,860
Contributions as a percentage of covered employee payroll	5.24%	5.67%	5.61%	-12.60%

Noes to Schedule of Contributions

Valuation Date determined 12/31/2017

Notes

Valuation Date:	
Notes	effective in January 13 months later.
Methods and Assumptions Used to Determine Contribution Rates:	
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	25 Years
Asset Valuation Method	10 Year Smoothed Market 15% Soft Corridor
Inflation	2.5%
Salary Increases	3.50% to 10.50% Including Inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specefic to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2014
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB



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Georgetown, Texas 78626

CERTIFIED PUBLIC ACCOUNTANT

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Mayor & City Council
City of Leonard, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Leonard, Texas, as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the City of Texas, Texas' basic financial statements, and have issued our report thereon dated April 5, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Leonard, Texas' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Leonard, Texas' internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Leonard, Texas' internal control.

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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Donald L. Allman, CPA, PC

Georgetown, TX
April 5, 2019