

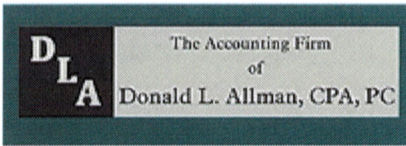
CITY OF LEONARD, TEXAS

Basic Financial Statements, Supplemental Schedules, and Annual Financial Report

For the Fiscal Year Ended September 30, 2016

CITY OF LEONARD, TEXAS
Table of Contents
September 30, 2016

	<u>Statement</u>	<u>Page</u>
Independent Auditor's Report		1
Management Discussion and Analysis		3 - 9
Basic Financial Statements:		
Government-Wide Financial Statements		
Statement of Net Position	1	10
Statement of Activities	2	11
Fund Financial Statements:		
Governmental Funds:		
Balance Sheet	3	12
Statement of Revenues, Expenditures, and Changes in Fund Balances	4	13
Proprietary Funds:		
Statement of Net Position	5	14
Statement of Revenues, Expenses, and Changes in Net Position	6	15
Statement of Cash Flows	7	16
Notes to Financial Statements		17-35
Required Supplementary Information:		
Budgetary Comparison Schedule		37
Schedule of Changes in Net Pension Liability and Related Ratios		38
Schedule of Contributions and Notes to Schedule of Contributions		39
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		40



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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, 2016, 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, 2016, 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 June 6, 2017 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
June 6, 2017

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, 2016. 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 \$250,922 as a result of the year's operations.

The City's general fund activities net position increased by \$234,914 as a result of this year's operations.

Total revenues from all sources were \$2,213,682, an increase of \$263,957 from the prior year. This was primarily due to increases in water & sewer revenues and property tax and sales tax income.

During the year, the City's cost of all programs was \$1,962,760, which represents a decrease of \$(25,451) from the prior year.

At September 30, 2016, the City's governmental funds reported an ending balance of \$133,785, of which \$106,608 is unreserved and \$27,177 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 of 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 \$3,064,597 as of September 30, 2016. When analyzing the net position and net expenses of governmental and business-type activities separately, the business type activities net position is \$1,719,883. 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	
	2016	2015	2016	2015	2016	2015
Current and other						
assets	\$ 200,449	\$ 87,830	\$ 244,644	\$ 22,469	\$ 445,093	\$ 110,299
Capital assets, net	1,454,004	1,548,560	1,556,016	1,677,651	3,010,020	3,226,211
Restricted assets	<u>27,177</u>	<u>-</u>	<u>-</u>	<u>25,353</u>	<u>27,177</u>	<u>25,353</u>
Total assets	<u>1,681,630</u>	<u>1,636,390</u>	<u>1,800,660</u>	<u>1,725,473</u>	<u>3,482,290</u>	<u>3,361,863</u>
Deferred Outflows of Resources	34,304	-	17,151	-	51,455	-
Current liabilities	258,162	283,798	26,206	27,838	284,368	311,636
Long-term liabilities	<u>107,910</u>	<u>322,437</u>	<u>69,148</u>	<u>74,745</u>	<u>177,058</u>	<u>397,182</u>
Total liabilities	<u>366,072</u>	<u>606,235</u>	<u>95,354</u>	<u>102,583</u>	<u>461,426</u>	<u>708,818</u>
Deferred Inflows of Resources	5,148	-	2,574	-	7,722	-
Net Position:						
Net Investment in Capital Assets	1,131,567	960,702	1,541,807	1,655,811	2,673,374	2,616,513
Restricted for:			-			
Debt service	223,320	52,281	-	-	223,320	52,281
Street maintenance	-	-	-	-	-	-
Other non-major funds	-	-	-	-	-	-
Unrestricted	<u>(10,173)</u>	<u>17,172</u>	<u>178,076</u>	<u>(32,921)</u>	<u>167,903</u>	<u>(15,749)</u>
Total net position	<u>1,344,714</u>	<u>1,030,155</u>	<u>1,719,883</u>	<u>1,622,890</u>	<u>3,064,597</u>	<u>2,653,045</u>

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

Table II
CHANGE IN NET POSITION

	Governmental		Business-type		Total	
	Activities		Activities		Primary	
	2016	2015	2016	2015	2016	2015
Revenues						
Program Revenues:						
Charges for services	\$ 294,187	\$ 349,654	\$ 769,376	\$ 684,672	\$ 1,063,563	\$ 1,034,326
General Revenues:						
Property tax	551,534	489,710	-	-	551,534	489,710
Sales tax	287,675	231,905	-	-	287,675	231,905
Franchise Tax	115,648	94,293	-	-	115,648	94,293
Gain on Sale of Asset	120,000	7,403	-	-	120,000	7,403
Court fines & fees	51,492	-	-	-	51,492	-
Grant income	-	29,000	-	20,000	-	49,000
Other income	22,696	42,948	-	-	22,696	42,948
Investment earnings	960	133	114	7	1,074	140
Total revenues	<u>1,444,192</u>	<u>1,245,046</u>	<u>769,490</u>	<u>704,679</u>	<u>2,213,682</u>	<u>1,949,725</u>
Expenses:						
General government	552,344	579,326	-	-	552,344	579,326
Police	320,361	267,487	-	-	320,361	267,487
Streets	191,244	165,588	-	-	191,244	165,588
Court expenses	35,412	33,607			35,412	33,607
Parks and recreation	4,877	2,556	-	-	4,877	2,556
Fire	32,700	44,871	-	-	32,700	44,871
Library	41,603	33,761			41,603	33,761
Interest expense	30,737	44,290			30,737	44,290
Water and sewer	-	-	753,482	816,725	753,482	816,725
Total expenses	<u>1,209,278</u>	<u>1,171,486</u>	<u>753,482</u>	<u>816,725</u>	<u>1,962,760</u>	<u>1,988,211</u>
Increase in net position						
Before transfer	234,914	73,560	16,008	(112,046)	250,922	(38,486)
Transfers	-	-	-	-	-	-
Increase in net position	234,914	73,560	16,008	(112,046)	250,922	(38,486)
Net position - beginning	1,030,155	956,595	1,622,890	1,734,936	2,653,045	2,691,531
Prior Period Adjustment	79,645	-	80,985	-	160,630	-
Net position - ending	<u>1,344,714</u>	<u>1,030,155</u>	<u>1,719,883</u>	<u>1,622,890</u>	<u>3,064,597</u>	<u>2,653,045</u>

Management's Discussion and Analysis
City of Leonard, Texas

GOVERNMENT-WIDE FINANCIAL ANALYSIS (continued)

A large portion of the City's net position (87%) 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 (7%) represents resources that are subject to external restrictions on how they may be used. The balance of *unrestricted net position*, \$167,903, may be used to meet the government's ongoing obligations to citizens and suppliers.

For the fiscal year 2016, revenues from governmental activities totaled \$1,444,192. Property taxes and sales taxes are the largest components of revenue 58%.

For fiscal year 2016, expenses for governmental activities totaled \$1,209,278. The City's two largest funded programs are public safety and general government.

Revenues of the city's business-type activities were \$769,490 for the fiscal year ending September 30, 2016. Expenses for the City's business-type activities were \$753,482. 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 \$133,785, which is more than last year's total of \$69,453.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2016, the city has invested \$3,010,020 in capital assets, including equipment and land. This amount represents a net decrease of \$(216,191) due to current year additions and less depreciation. This year's major additions included:

General Fund equipment \$36,775
Water Sewer equipment \$23,785.

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 \$336,646 in long-term debt outstanding, versus \$609,698 last year. This decrease is due to principle payments in fiscal year 2016.

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 2017 fiscal year, the City adopted a \$1,183,489 budget for the General Fund and a \$741,100 budget for the Enterprise Fund. It will be funded through property taxes via a \$0.75 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, 2016

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Leonard Community Development Corporation
ASSETS				
Cash and Cash Equivalents	\$ 88,648	\$ 163,983	\$ 252,631	\$ 101,505
Ad Valorem Taxes receivable	33,823		33,823	
Sales Tax Receivable	22,642		22,642	
Accounts and Franchise Fee receivable	34,794	76,628	111,422	
Note Receivable - Current Portion	-	-	-	4,063
Due From Primary Government	-	-	-	-
Net Pension Position	16,383	8,192	24,575	-
Internal Balances	4,159	(4,159)	-	-
Restricted Assets:				
Cash	27,177	-	27,177	10,807
Note Receivable - Long-Term Portion	-	-	-	6,744
Capital Assets Not Being Depreciated:				
Land	99,700	4,210	103,910	56,207
Capital Assets, Net of Accumulated Depreciation:				
Buildings and Improvements	1,148,530	-	1,148,530	190,132
Furniture, Equipment and Vehicles	205,774	36,082	241,856	-
Water and Sewer System	-	1,515,724	1,515,724	-
Total Assets	<u>1,681,630</u>	<u>1,800,660</u>	<u>3,482,290</u>	<u>369,458</u>
Deferred Outflows of Resources	34,304	17,151	51,455	
LIABILITIES				
Accounts Payable	30,528	12,547	43,075	-
Accrued expenses	13,107	6,554	19,661	-
Customers' Meter Deposits	-	62,044	62,044	-
Noncurrent Liabilities:				
Due Within One Year	214,527	7,105	221,632	6,551
Due in More that One Year	107,910	7,104	115,014	173,806
Total Liabilities	<u>366,072</u>	<u>95,354</u>	<u>461,426</u>	<u>180,357</u>
Deferred Inflows of Resources	5,148	2,574	7,722	
NET POSITION				
Net Investment in Capital Assets	1,131,567	1,541,807	2,673,374	9,775
Restricted for:				
Debt Service	223,320	-	223,320	-
Notes Receivable	-	-	-	10,807
Unrestricted	<u>(10,173)</u>	<u>178,076</u>	<u>167,903</u>	<u>168,519</u>
Total Net Position	<u>\$ 1,344,714</u>	<u>\$ 1,719,883</u>	<u>\$ 3,064,597</u>	<u>\$ 189,101</u>

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, 2016

Functions / Programs	Program Revenues					Net (Expense) Revenue and Changes in Net Position	
	Primary Government			Leonard		Component Unit	
	Expenses	Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
General Government	\$ 552,344	\$ 294,187	\$ -	\$ -	\$ (258,157)	\$ -	\$ (258,157)
Law Enforcement	320,361	-	-	-	(320,361)	-	(320,361)
Courts	35,412	51,492	-	-	16,080	-	16,080
Fire	32,700	-	-	-	(32,700)	-	(32,700)
Library	41,603	-	-	-	(41,603)	-	(41,603)
Street	191,244	-	-	-	(191,244)	-	(191,244)
Parks & Recreation	4,877	-	-	-	(4,877)	-	(4,877)
Interest	30,737	-	-	-	(30,737)	-	(30,737)
Total Governmental Activities	1,209,278	345,679	-	-	(863,599)	-	(863,599)
Business-Type Activities:							
Water and Sewer	753,482	769,376	-	-	-	15,894	15,894
Total Primary Government	\$ 1,962,760	\$ 1,115,055	\$ -	\$ -	(863,599)	15,894	(847,705)
Component Unit							
Leonard Community Development Corporation	\$ 25,074	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (25,074)
General Revenues							
Taxes:							
Property Tax					551,534	-	551,534
Franchise Tax					115,648	-	115,648
Sales Tax					287,675	-	287,675
Miscellaneous Revenue					22,696	-	22,696
Gain on Sale of Capital Assets					120,000	-	120,000
Interest on Investments					960	114	1,074
Total General Revenues and Transfers					1,098,513	114	1,098,627
Change in Net Position					234,914	16,008	250,922
Net Position - Beginning					1,030,155	1,622,890	2,653,045
Prior Period Adjustment					79,645	80,985	160,630
Net Position - Ending					\$ 1,344,714	\$ 1,719,883	\$ 3,064,597

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, 2016

	General Fund	Debt Service Fund	Total Governmental Funds
ASSETS			
Cash and Cash Equivalents	\$ 88,648	\$ 27,177	\$ 115,825
Due From Other Funds	4,159	-	4,159
Receivables	91,259	-	91,259
Total Assets	\$ 184,066	\$ 27,177	\$ 211,243
LIABILITIES			
Accounts payable & accrued expenses	43,635	-	43,635
Unearned Revenue	33,823	-	33,823
Total Liabilities	77,458	-	77,458
FUND BALANCES			
Restricted Fund Balance:			
Debt Service	-	27,177	27,177
Unassigned Fund Balance	106,608	-	106,608
Total Fund Balances	106,608	27,177	133,785
Total Liabilities and Fund Balances	\$ 184,066	\$ 27,177	\$ 211,243
Fund Balance - Total Governmental Funds (above)			133,785
Deferred Outflows are not recognized in governmental funds			34,304
Amounts reported for governmental activities in the Statement of Net Position are different because:			
Net Pension Position is not considered in governmental funds			16,383
Capital assets used in government activities are not financial resources and therefore are not reported in the funds.			1,454,004
Unearned revenue not recognized in governmental activities			33,823
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			(322,437)
Deferred Inflows are not recognized in Governmental funds			(5,148)
Net Position of Governmental Activities			\$ 1,344,714

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, 2016

	General Fund	Debt Service Fund	Total Governmental Funds
REVENUES	\$ 383,506	\$ 168,100	\$ 551,606
Property Taxes	287,675	-	287,675
Sales Taxes	115,648	-	115,648
Licenses & Permits	3,969	-	3,969
Intergovernmental	-	-	-
Charges for Services	280,700	-	280,700
Fines	-	-	-
Rents	61,010	-	61,010
Interest Income	960	211	1,171
Miscellaneous	22,696	-	22,696
Total Revenues	<u>1,156,164</u>	<u>168,311</u>	<u>1,324,475</u>
EXPENDITURES			
Current:			
General Government	504,680	-	504,680
Law Enforcement	304,309	-	304,309
Courts	35,412	-	35,412
Fire	32,700	-	32,700
Library	20,550	-	20,550
Streets	144,682	-	144,682
Parks & Recreation	4,877	-	4,877
Debt Service			-
Principal	-	265,421	265,421
Interest & Fees	-	30,737	30,737
Capital Outlay	36,775	-	36,775
Total Expenditures	<u>1,083,985</u>	<u>296,158</u>	<u>1,380,143</u>
Excess (Deficiency) of Revenues over Expenditures	<u>72,179</u>	<u>(127,847)</u>	<u>(55,668)</u>
OTHER FINANCING SOURCES (USES)			
Transfers	(102,743)	102,743	-
Sale of General Capital Assets	120,000	-	120,000
Total Other Financing Sources (Uses)	<u>17,257</u>	<u>102,743</u>	<u>120,000</u>
Net Change in Fund Balances	89,436	(25,104)	64,332
Fund Balances (Deficit) - Beginning	17,172	52,281	69,453
Fund Balances (Deficit) - End	<u>\$ 106,608</u>	<u>\$ 27,177</u>	<u>\$ 133,785</u>
Net Change in Fund Balances - Total Governmental Funds (above)			\$ 64,332
Amounts reported for governmental activities in the statement of activities are different because:			
Various differences			-283
Unearned ad valorem taxes			-
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		\$ (131,331)	
Capital Outlay		<u>36,775</u>	(94,556)
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>265,421</u>
Change in Net Position - Governmental Activities			234,914

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, 2016

	Water and Sewer Fund
ASSETS	
Current Assets	
Cash and Cash Equivalents	\$ 163,983
Net Pension Position	8,192
Accounts Receivable	76,628
Total Current Assets	248,803
Noncurrent Assets	
Capital Assets, Net of Accumulated Depreciation	1,556,016
Total Noncurrent Assets	1,556,016
Total Assets	1,804,819
Deferred Outflows of Resources	17,151
LIABILITIES	
Current Liabilities	
Accounts Payable & Accrued Expenses	19,101
Capital Lease Obligation - Current	7,105
Customers' Meter Deposits	62,044
Due to Other Funds	4,159
Total Current Liabilities	92,409
Noncurrent Liabilities	
Capital Lease Obligation	7,104
Total Noncurrent Liabilities	7,104
Total Liabilities	99,513
Deferred Inflows of Resources	2,574
NET POSITION	
Net Investment in Capital Assets	1,541,807
Unrestricted	178,076
Total Net Position	\$ 1,719,883

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, 2016

	Water and Sewer Fund
OPERATING REVENUES	
Charges for Services	726,063
Customer Charges - Taps and Other	43,313
Total Operating Revenues	769,376
OPERATING EXPENSES	
Salaries and Related Expenses	275,046
Repairs, Supplies and Other	222,034
Utilities & Administration	123,306
Depreciation	132,545
Total Operating Expenses	752,931
Operating Income (Loss)	16,445
NONOPERATING REVENUES (EXPENSES)	
Intergovernmental	-
Investment Income	114
Interest Expense	(551)
Total nonoperating Revenues (Expenses)	(437)
Change in Net Position	16,008
Prior Period Adjustment	80,985
Net Position - Beginning	1,622,890
Net Position - End	\$ 1,719,883

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, 2016

	Water and Sewer Fund
Cash Flows from Operating Activities	
Receipts from Customers	\$ 685,441
Receipts from Other Funds	4,159
Payments to Suppliers and Service Providers	(365,902)
Payments to Employees for Salaries and Benefits	(275,046)
Net Cash Provided by Operating Activities	99,392
Cash Flows from Noncapital Financing Activities	
Prior Period Adjustment	80,985
Net Cash Provided by Noncapital Financing Activities	80,985
Cash Flows from Capital and Related Financing Activities	
Acquisition of Capital Assets	(23,785)
Proceeds from Note Payable	-
Principal Payments on Note Payable	(9,894)
Principal Payments on Capital Lease Obligation	(7,631)
Interest Paid on Debt	(551)
Net Cash Used for Capital and Related Financing Activities	(41,861)
Cash Flows from Investing Activities	
Proceeds from Interest Earnings	114
Net Cash Provided by Investing Activities	114
Net Increase in Cash and Cash Equivalents	138,630
Cash and Cash Equivalents, October 1	25,353
Cash and Cash Equivalents, September 30	\$ 163,983
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:	
Operating Income (Loss)	\$ 16,445
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:	
Depreciation	132,545
(Increase)/Decrease in Accounts Receivable	(76,628)
(Increase) Decrease in Inventory	22,469
Increase (Decrease) in Accounts Payable & accrued	17,204
Increase (Decrease) in Customers' Deposits	1,508
Increase (Decrease) in Due to Other Funds	(14,151)
Total Adjustments	82,947
Net Cash Provided by Operating Activities	\$ 99,392

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

CITY OF LEONARD, TEXAS
Notes to Financial Statements
September 30, 2016

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, 2016

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, 2016

- 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, 2016

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, 2016, 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, 2016

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. The Proprietary Fund owes the General Fund \$ 4,159 at September 30, 2016.

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, 2016

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, 2016, expenditures exceeded appropriations at the legal level of control in the General Fund as follows:

	Expenditures Exceeding Appropriations
General	8,737
Police	8,934
Courts	6,012
Fire	12,121

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, 2016, the carrying amount of deposits was \$279,808 and the bank balance was \$309,691. 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 \$101,505 at September 30, 2016. 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, 2016

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 2016 levy amounted to .5393 for maintenance and operation and .2377 for the interest and sinking fund. Current property taxes receivable were \$9,733 and Delinquent taxes receivable were \$24,090.

Note 5: Capital Assets

Primary Government

Capital asset activity for the year ended September 30, 2016, was as follows:

	Balance 9/30/15	Additions	Retirements	Balance 9/30/16
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	1,027,631	36,775	(60,000)	1,004,406
	<u>3,073,334</u>	<u>36,775</u>	<u>(60,000)</u>	<u>3,050,109</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	828,198	68,975	-	897,173
Furniture, Equipment and Vehicles	796,276	62,356	(60,000)	798,632
	<u>1,624,474</u>	<u>131,331</u>	<u>(60,000)</u>	<u>1,695,805</u>
Capital Assets being Depreciated, Net	<u>1,448,860</u>	<u>(94,556)</u>	<u>-</u>	<u>1,354,304</u>
Governmental Activities Capital Assets, Net	<u>\$ 1,548,560</u>	<u>\$ (94,556)</u>	<u>\$ -</u>	<u>\$ 1,454,004</u>
Business-Type Activities Capital Assets, not being Depreciated:				
Land	\$ 4,210	\$ -	\$ -	\$ 4,210
Capital Assets being Depreciated:				
Furniture, Equipment and Vehicles	193,916	23,785	-	217,701
Water and Sewer System	4,846,976	-	-	4,846,976
	<u>5,040,892</u>	<u>23,785</u>	<u>-</u>	<u>5,064,677</u>

CITY OF LEONARD, TEXAS
Notes to Financial Statements (Continued)
September 30, 2016

Note 5: Capital Assets (Continued)

Primary Government (Continued)

	Balance 9/30/15	Additions	Retirements	Balance 9/30/16
Governmental Activities:				
Less Accumulated Depreciation for:				
Furniture, Equipment and Vehicles	165,457	16,162	-	181,619
Water and Sewer System	3,214,869	116,383	-	3,331,252
	<u>3,380,326</u>	<u>132,545</u>	<u>-</u>	<u>3,512,871</u>
Capital Assets being Depreciated, Net	<u>1,660,566</u>	<u>(108,760)</u>	<u>-</u>	<u>1,551,806</u>
Business-Type Activities Capital Assets, Net	<u>\$ 1,664,776</u>	<u>\$ (108,760)</u>	<u>\$ -</u>	<u>\$ 1,556,016</u>

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

Governmental Activities	
General Government	\$ 47,664
Law Enforcement & Fire	16,052
Parks & Library	21,053
Street	46,562
Total Depreciation Expense - Governmental Activities	<u>\$ 131,331</u>
Business-Type Activities:	
Water and Sewer	<u>\$ 132,545</u>

Component Unit

Capital asset activity for the year ended September 30, 2016, was as follows:

	Balance 9/30/2015	Additions	Retirements	Balance 9/30/2016
Capital Assets, not being Depreciated:				
Land	\$ 56,207	\$ -	\$ -	\$ 56,207
Capital Assets being Depreciated:				
Buildings & Improvements	219,384	-	-	219,384
Less Accumulated Depreciation for:				
Buildings	21,939	7,313	-	29,252
Capital Assets being Depreciated, Net	<u>197,445</u>	<u>(7,313)</u>	<u>-</u>	<u>190,132</u>
Governmental Activities Capital Assets, Net	<u>\$ 253,652</u>	<u>\$ (7,313)</u>	<u>\$ -</u>	<u>\$ 246,339</u>

CITY OF LEONARD, TEXAS
Notes to Financial Statements (Continued)
September 30, 2016

Note 6: Long-Term Debt

A summary of long-term debt transactions for the year ended September 30, 2016, follows:

	Balance October 1, 2015	Additions	Retirements	Balance September 30, 2016	Due Within One Year
<u>Primary Government:</u>					
Governmental Activities:					
Time Warrants	\$ 571,060	\$ -	\$ (248,623)	\$ 322,437	\$ 214,527
Note Payable	-			-	-
Credit Card Payable	16,798	-	(16,798)	-	-
Total	<u>\$ 587,858</u>	<u>\$ -</u>	<u>\$ (265,421)</u>	<u>\$ 322,437</u>	<u>\$ 214,527</u>
Business-Type Activities:					
Capital Lease	21,840	-	(7,631)	14,209	7,105
Installment Loan	-		-	-	-
Total	<u>\$ 21,840</u>	<u>\$ -</u>	<u>\$ (7,631)</u>	<u>\$ 14,209</u>	<u>\$ 7,105</u>
<u>Component Unit:</u>					
Note Payable	<u>\$ 186,944</u>	<u>\$ -</u>	<u>\$ (6,587)</u>	<u>\$ 180,357</u>	<u>\$ 6,551</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%	33,543
\$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	42,199
\$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.	28,729
\$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.	23,967
\$500,887, Time Warrants dated 12/27/2011, due in monthly installments of \$7,339, through 2016 (when debt balloons), interest at 6.00%	<u>193,999</u>
	<u>\$ 322,437</u>

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%.	<u>180,357</u>
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CITY OF LEONARD, TEXAS
Notes to Financial Statements (Continued)
September 30, 2016

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, 2016, are as follows:

Year Ending, September 30,	Governmental Activities		Business-Type Activities		Total
	Principal	Interest	Principal	Interest	
2017	214,527	8,793	-	-	223,320
2018	96,294	3,536	-	-	99,830
2019	11,616	315	-	-	11,931
	<u>\$ 322,437</u>	<u>\$ 12,644</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$335,081</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.

Year ending September 30,	Component Unit		Total
	Principal	Interest	
2017	6,551	10,643	17,194
2018	173,806	6,024	179,830
	<u>\$ 180,357</u>	<u>\$ 16,667</u>	<u>\$197,024</u>

Year ending September 30,	Component Unit		Total
	Principal	Interest	
2016	6,587	11,024	17,611
2017	6,551	10,643	17,194
2018	173,806	6,024	179,830
	<u>\$ 186,944</u>	<u>\$ 27,691</u>	<u>\$214,635</u>

CITY OF LEONARD, TEXAS
Notes to Financial Statements (Continued)
September 30, 2016

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:

	9/30/15
Capital Lease Equipment, at Cost	\$ 29,845
Less Accumulated Amortization	(5,969)
Capital Lease Equipment, Net	\$ 23,876

The Future minimum lease payments required under the capital leases and the present value of the net minimum lease payments as of September 30, 2016 are as follows:

Year Ending September 30,	Amount
2017	8,182
2018	8,183
Total Minimum Lease Payments	16,365
Less Amount Representing Interest	(2,707)
Present Value of Net Minimum Lease Payments	13,658
Less Current Maturities of Capital Lease Obligations	(7,105)
	\$ 6,553

Note 8: Interfund Balances

Due To/Due From's for the year ended September 30, 2016 consisted of the following:

Due to General Fund From:	
Water Sewer	\$ 4,159
Total Due to General Fund	\$ 4,159

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, 2016, 819 customers were connected to the water system and 764 to the sewer system.

Note 10: **PRIOR PERIOD ADJUSTMENT**

The prior period audit was reported on the modified cash basis of accounting, which is incorrect. An audit should be reported using the accrual basis of accounting. To adjust the financial statements for the City of Leonard to be on the accrual basis of accounting, unrestricted fund balance was increased \$79,645 in the General Fund and \$80,985 in the Enterprise Fund. The prior period audit also did not include a Management Discussion & Analysis section, and also did not include all of the required information and schedules regarding the changes implemented by GASB 68.

CITY OF LEONARD, TEXAS
Notes to Financial Statements (Continued)
September 30, 2016

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, 2015 valuation and measurement date, the following employees were covered by the benefit terms.

Inactive employees or beneficiaries currently receiving benefits	4
Inactive employees entitled to but not yet receiving benefits	22
Active employees	14
Total	40

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 0.85% and 0.86% in calendar years 2015 and 2016, respectively. The City's contributions to TMRS for the year ended September 30, 2016, were \$28,992 and were equal to the required contributions.

CITY OF LEONARD, TEXAS
Notes to Financial Statements (Continued)
September 30, 2016

Note 11: Pension Plan (Continued)

D. Net Pension Liability

The city's Net Pension Liability (NPL) was measured as of December 31, 2015, 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, 2015 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, 2015, 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, 2016

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, 2016			
A.	Total pension liability		
	1. Service Cost	\$	34,127
	2. Interest (on the Total Pension Liability)		41,480
	3. Changes of benefit terms		-
	4. Difference between expected and actual experience		102
	5. Changes of assumptions		-
	6. Benefit payments, including refunds of employee contributions		(67,996)
	7. Net change in total pension liability	\$	7,713
	8. Total pension liability - beginning		609,502
	9. Total pension liability - ending	\$	617,215
B.	Plan fiduciary net position		
	1. Contributions - employer	\$	1,306
	2. Contributions - employee		27,686
	3. Net investment income		40,227
	4. Benefit payments, including refunds of employee contributions		(67,996)
	5. Administrative Expense		(420)
	6. Other		(35)
	7. Net change in plan fiduciary net position	\$	768
	8. Plan fiduciary net position - beginning		703,153
	9. Plan fiduciary net position - ending	\$	703,921
C.	Net pension liability [A.9-B.9]	\$	(86,706)
D.	Plan fiduciary net position as a percentage of the total pension liability [B.9 / A.9]		114.05%
E.	Covered-employee payroll	\$	553,718
F.	Net pension liability as a percentage of covered employee payroll [C / E]		-15.66%

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	\$70,980	\$(24,575)	\$(102,975)
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, 2016

1.	Total Service Cost	\$ 35,099
2.	Interest on the Total Pension Liability	43,411
3.	Current Period Benefit Changes	-
4.	Employee Contributions (Reduction of Expense)	(28,035)
5.	Projected Earnings on Plan Investments (Reduction of Expense)	(49,274)
6.	Administrative Expense	633
7.	Other Changes in Fiduciary Net Position	31
8.	Recognition of Current Year Outflow (Inflow) of Resources - Liabilities	5,059
9.	Recognition of Current Year Outflow (Inflow) of Resources - Assets	9,647
10.	Amortization of Prior Year Outflows (Inflows) of Resources - Liabilities	28
11.	Amortization of Prior Year Outflows (Inflows) of Resources - Assets	1,799
12.	Total Pension Expense	\$ 18,398

CITY OF LEONARD
SCHEDULE OF OUTFLOWS AND INFLOWS - CURRENT AND FUTURE EXPENSE
SEPTEMBER 30, 2016

	Recognition Period (or amortization yrs)	Total (Inflow) or Outflow of Resources	2015 Recognized in current pension expense	Deferred (Inflow) Outflow in future expense
Due to Liabilities:				
Difference in expected and actual experience [actuarial (gains) or losses]	3.1200	\$ (8,310)	\$ (2,663)	\$ (5,647)
Difference in assumption changes [actuarial (gains) or losses]	3.1200	\$ 24,093	\$ 7,722	\$ 16,371
			<u>\$ 5,059</u>	<u>\$ 10,724</u>
Due to Assets:				
Difference in projected and actual earnings on pension plan investments [actuarial (gains) or losses]	5.0000	\$ 48,236	\$ 9,647	\$ 38,589
			<u>\$ 9,647</u>	<u>\$ 38,589</u>
Total:				<u>\$ 49,313</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
2016	\$ 16,533
2017	16,523
2018	12,051
2019	9,648
2020	-
Thereafter	-
Total	<u>\$ 54,755</u>

CITY OF LEONARD, TEXAS
Notes to Financial Statements (Continued)
September 30, 2016

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, 2016

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, 2016 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 year.

Note 15: Subsequent Events

- A. 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 former City Manager pleaded guilty and accepted a plea deal from the District Attorney's Office, which included restitution to the City in the amount of \$80,000. The City received the restitution subsequent to year-end. \$17,000 of the restitution was directed to Leonard Community Development for a check that was earmarked to buy a tractor but deposited into the former City Manager's personal bank account.

**REQUIRED
SUPPLEMENTARY
INFORMATION**

CITY OF LEONARD, TEXAS
General Fund
Budgetary Comparison Schedule
Year Ended September 30, 2016

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:				
Property Taxes	\$ 356,238	\$ 356,238	\$ 383,506	\$ 27,268
Sales Taxes	267,666	267,666	287,675	20,009
Franchise Taxes	91,650	91,650	115,648	23,998
Licenses and Permits	3,600	3,600	3,969	369
Intergovernmental	(44,667)	(44,667)	-	44,667
Charges for Services	188,000	188,000	280,700	92,700
Fines	75,000	75,000	-	(75,000)
Rents	57,100	57,100	61,010	3,910
Interest Income	-	-	960	960
Miscellaneous	54,950	54,950	22,696	(32,254)
Total Revenues	<u>1,049,537</u>	<u>1,049,537</u>	<u>1,156,164</u>	<u>106,627</u>
Expenditures:				
General Government	495,943	495,943	504,680	(8,737)
Law Enforcement	295,375	295,375	304,309	(8,934)
Courts	29,400	29,400	35,412	(6,012)
Fire	20,579	20,579	32,700	(12,121)
Library	40,860	40,860	20,550	20,310
Streets	158,880	158,880	144,682	14,198
Parks & Recreation	8,500	8,500	4,877	3,623
Debt Service:				
Principal	-	-	102,743	(102,743)
Interest Income	-	-	-	-
Capital Outlay	-	-	36,775	(36,775)
Total Expenditures	<u>1,049,537</u>	<u>1,049,537</u>	<u>1,186,728</u>	<u>(137,191)</u>
Excess (Deficiency) of Revenues over Expenditures	<u>-</u>	<u>-</u>	<u>(30,564)</u>	<u>(30,564)</u>
Other Financing Sources (Uses)				
Proceeds from Insurance of Long-Term Debt	-	-	-	-
Sale of General Capital Assets	-	-	120,000	120,000
Total Other Sources (Uses)	<u>-</u>	<u>-</u>	<u>120,000</u>	<u>120,000</u>
Net Change in Fund Balances	<u>-</u>	<u>-</u>	<u>89,436</u>	<u>89,436</u>
Fund Balances - Beginning of Year	<u>17,172</u>	<u>17,172</u>	<u>17,172</u>	<u>-</u>
Fund Balances - End of Year	<u>\$ 17,172</u>	<u>\$ 17,172</u>	<u>\$ 106,608</u>	<u>\$ 89,436</u>

City of Leonard				
Schedule of Changes in Net Pension Liability and Related Ratios				
Last ten years (will ultimately be displayed)				
	2014	2015	2016	2017
Total pension liability				
1. Service Cost	\$ 34,127	35,099	xxxx	xxxx
2. Interest (on the Total Pension Liability)	41,480	43,411	xxxx	xxxx
3. Changes of benefit terms	-			
4. Difference between expected and actual experience	102	(8,310)	xxxx	xxxx
5. Changes of assumptions	-	24,093		
6. Benefit payments, including refunds of employee contributions	(67,996)	(29,223)	xxxx	xxxx
7. Net change in total pension liability	\$ 7,713	65,070	xxxx	xxxx
8. Total pension liability - beginning	609,502	617,215	xxxx	xxxx
9. Total pension liability - ending	<u>\$ 617,215</u>	<u>682,285</u>	xxxx	xxxx
Plan fiduciary net position				
1. Contributions - employer	\$ 1,306	3,753	xxxx	xxxx
2. Contributions - employee	27,686	28,035	xxxx	xxxx
3. Net investment income	40,227	1,039	xxxx	xxxx
4. Benefit payments, including refunds of employee contributions	(67,996)	(29,223)	xxxx	xxxx
5. Administrative Expense	(420)	(633)	xxxx	xxxx
6. Other	(35)	(32)	xxxx	xxxx
7. Net change in plan fiduciary net position	\$ 768	2,939	xxxx	xxxx
8. Plan fiduciary net position - beginning	703,153	703,921	xxxx	xxxx
9. Plan fiduciary net position - ending	<u>\$ 703,921</u>	<u>706,860</u>	xxxx	xxxx
Net pension liability [A.9-B.9]	<u>\$ (86,706)</u>	<u>(24,575)</u>	xxxx	xxxx
Plan fiduciary net position as a percentage of the total pension liability [B.9 / A.9]	114.05%	103.60%	xxx	xxx
Covered-employee payroll	\$ 553,718	\$ 560,693	xxx	xxx
Net pension liability as a percentage of covered employee payroll [C / E]	-15.66%	-4.38%	xxxx	xxx

City of Leonard

Schedule of Contributions

Last 10 Fiscal Years (will ultimately be displayed)

September 30, 2016

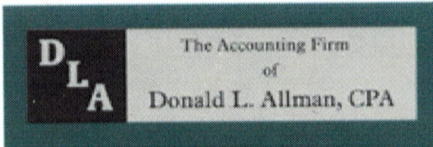
	2014	2015	2016	2017
Actually Determined Contribution	\$ 617,215	\$ 682,285	\$xxx,xxx	\$xxx,xxx
Contributions in relation to the actuarially determined contribution	<u>703,921</u>	<u>706,860</u>	<u>xxx,xxx</u>	<u>xxx,xxx</u>
	-		xxx,xxx	xxx,xxx
Contribution deficiency (excess)	(86,706)	(24,575)	xxx,xxx	xxx,xxx
Covered employee payroll	\$ 553,718	\$ 560,693	\$xxx,xxx	\$xxx,xxx
Contributions as a percentage of covered employee payroll	5.74%	5.17%	xx.xx%	xx.xx%
Noes to Schedule of Contributions				
Valuation Date determined	12/31/2015			
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 specific 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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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, 2016, 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 June 6, 2017.

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
June 6, 2017