

ANNUAL FINANCIAL REPORT

City of Leonard, Texas

Fiscal Year Ended September 30, 2019

**CITY OF LEONARD, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

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INTRODUCTORY SECTION

City of Leonard, Texas
City Council
For the Year Ended September 30, 2019

Council Members:

Steven Bolin	Mayor
Jay Barker	Mayor Pro-Tem
Darrell Grintz	Council Member
Leonard Phillips	Council Member
Peyton Webster	Council Member
Andrew Shelton	Council Member

Administration:

Terry McCalpin	City Administrator
Leath Robinson	City Secretary

FINANCIAL SECTION

Mike Ward Accounting & Financial Consulting, PLLC

Mike Ward, CPA
266 RCR 1397
Point, Texas 75472

(903) 269-6211

mward@mikewardcpa.com

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council
City of Leonard, Texas
111 West Collin Street
Leonard, Texas 75452

I have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Leonard, Texas ("City") as of and for the year ended September 30, 2019, and the related notes to the 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

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my 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 I 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, I express no opinion. An audit also includes assessing 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and the aggregate remaining fund information of the City of Leonard, Texas as of September 30, 2019, and the respective changes in financial position, where applicable, and cash flows, thereof, and the respective budgetary comparison for the General

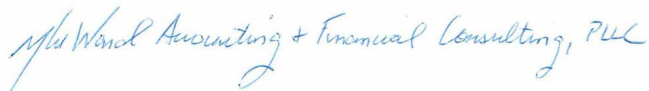
Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information 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. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Respectfully Submitted,

A handwritten signature in blue ink that reads "Mike Ward Accounting & Financial Consulting, PLLC". The signature is written in a cursive, flowing style.

Mike Ward Accounting & Financial Consulting, PLLC

Point, Texas
October 12, 2020

CITY OF LEONARD, TEXAS

MANAGEMENT DISCUSSION AND ANALYSIS

SEPTEMBER 30, 2019

Our discussion and analysis of the City of Leonard's ("City") financial performance provides an overview and analysis of the City's financial activities for the fiscal year ended September 30, 2019. Please read it in conjunction with the accompanying basic financial statements.

Financial Highlights

- The assets exceeded liabilities of the City at the close of the fiscal year by \$3,065,776 (net position).
- The City's total net position increased by \$174 at the close of the fiscal year.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balance of \$695,347, an increase of \$237,052, or 81% in comparison with the prior year. Approximately 84% of this total amount, or \$585,253, is available for spending at the City's discretion (unassigned).
- At the end of the current fiscal year, unassigned fund balance for the General Fund is \$475,105, or 32%, of total general fund expenditures.
- The City's total debt increased by \$123,190, or 21% during the current fiscal year.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements consist of three components; 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The basic financial statements present two different views of the City through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the City.

CITY OF LEONARD, TEXAS
MANAGEMENT DISCUSSION AND ANALYSIS (continued)
SEPTEMBER 30, 2019

NET POSITION

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Current and other assets	\$ 776,085	\$ 477,442	\$ 304,923	\$ 327,954	\$ 1,081,008	\$ 805,396
Capital assets	1,387,180	1,371,763	1,366,510	1,373,601	2,753,690	2,745,364
Total assets	2,163,265	1,849,205	1,671,433	1,701,555	3,834,698	3,550,760
Deferred outflows-pension	50,941	12,840	27,429	6,418	78,370	19,258
Current liabilities	167,215	242,541	77,765	13,890	244,980	256,431
Long-term liabilities	304,084	137,837	221,245	68,859	525,329	206,696
Total liabilities	471,299	380,378	299,010	82,749	770,309	463,127
Deferred inflows-pension	50,039	42,076	26,944	21,038	76,983	63,114
Net position:						
Net investment in capital assets	1,015,873	976,590	1,157,621	1,319,105	2,173,494	2,295,695
Restricted	110,094	143,031	62,556	54,496	172,650	197,527
Unrestricted	566,901	319,970	152,731	230,585	719,632	550,555
Total net position	\$ 1,692,868	\$ 1,439,591	\$ 1,372,908	\$ 1,604,186	\$ 3,065,776	\$ 3,043,777

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The net assets of the City exceeded liabilities by, \$3,065,776, as of September 30, 2019. Net position increased by \$21,999, or 1%, including prior period adjustment, for the fiscal year ended September 30, 2019.

Net investment in capital assets:

The largest portion of the City's net position, \$2,173,494, or 71%, reflects the City's investment in capital assets, (e.g. buildings, machinery and equipment) less any related debt still outstanding that was issued to acquire those items. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Leonard's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities.

Restricted net position:

Restricted net position in the amount of \$172,650, or 6%, represents external restrictions on how they may be used, or by enabling legislation.

Unrestricted net position:

The City has an unrestricted net position of \$719,632.

CITY OF LEONARD, TEXAS
MANAGEMENT DISCUSSION AND ANALYSIS (continued)
SEPTEMBER 30, 2019

CHANGES IN NET POSITION

	Governmental Activities		Business-type Activities		Totals	
	2019	2018	2019	2018	2019	2018
REVENUE						
Program Revenues						
Charge for Services	\$ 366,853	\$ 367,235	\$ 763,902	\$ 755,177	\$ 1,130,755	\$ 1,122,412
General Revenues						
Property Tax	527,165	556,330	-	-	527,165	556,330
Franchise Tax	94,856	92,587	-	-	94,856	92,587
Sales Tax	305,972	243,169	-	-	305,972	243,169
Investment Income	6,191	4,545	2,445	3,394	8,636	7,939
Miscellaneous	168,375	135,067	-	-	168,375	135,067
Total Revenues	1,469,412	1,398,933	766,347	758,571	2,235,759	2,157,504
EXPENSES						
Program Expenses						
General Government	545,135	515,774	-	-	545,135	515,774
Police	378,411	335,646	-	-	378,411	335,646
Court expenses	10,917	23,766	-	-	10,917	23,766
Streets	80,412	124,943	-	-	80,412	124,943
Parks and recreation	213,058	163,357	-	-	213,058	163,357
Fire	37,190	21,557	-	-	37,190	21,557
Library	28,819	27,696	-	-	28,819	27,696
Interest Expense	4,018	21,591	-	-	4,018	21,591
Water and sewer	-	-	937,625	853,294	937,625	853,294
Total Expenses	1,297,960	1,234,330	937,625	853,294	2,235,585	2,087,624
Increase (decrease) in net position	231,452	164,603	(231,278)	(94,723)	174	69,880
Net Position - October 1	1,439,591	1,616,142	1,604,186	1,752,981	3,043,777	3,369,123
Prior Period Adjustments	21,825	(341,154)	-	(54,072)	21,825	(395,226)
Net Position - September 30	\$ 1,692,868	\$ 1,439,591	\$ 1,372,908	\$ 1,604,186	\$ 3,065,776	\$ 3,043,777

The Governmental Activities reports an increase in net position during the 2019 fiscal year by \$226,391.

The Business-type Activities decreased by \$231,278.

**CITY OF LEONARD, TEXAS
MANAGEMENT DISCUSSION AND ANALYSIS (continued)
SEPTEMBER 30, 2019**

Financial Analysis of the City's Funds

As noted earlier, the City of Leonard uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds - The focus of the City of Leonard's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the City's financing requirements. Specifically, unassigned fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$475,105. As a measure of the general fund's liquidity, it may be useful to compare the unassigned fund balance to total fund expenditures. Unassigned fund balance represents 32% of total General Fund expenditures.

At September 30, 2019, the governmental funds of the City of Leonard reported a combined fund balance of \$695,347, a 59% increase from last year.

General Fund Budgetary Highlights: During the fiscal year, the City revised the budget. Generally, budget amendments fall into one of three categories: (1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; (2) amendments made to recognize new funding amounts from external sources, such as Federal and State grants; and (3) increases in appropriations that become necessary to maintain services.

Total revenues were more than the budgeted amounts overall. Expenditures were also more than budget overall, especially in capital expenditures.

Proprietary Funds - The City's proprietary funds provide the same type of information found in the government-wide statements but in more detail. The unrestricted net position of the Proprietary Fund at the end of the fiscal year amounted to \$152,731.

Economic Factors and Next Year's Budgets and Rates

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

For the 2019-20 fiscal year, the City adopted a \$1,300,000 budget for the General Fund and a \$822,000 budget for the Enterprise Fund. It will be funded through property taxes based on a \$0.719330 property tax rate, a slight reduction from the 2018-19 fiscal year, and through water and sewer revenue.

Request for Information

This report is designed to provide a general overview of the City's finances for those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Leonard, 111 West Collin Street, Leonard, Texas 75452.

CITY OF LEONARD, TEXAS
MANAGEMENT DISCUSSION AND ANALYSIS (continued)
SEPTEMBER 30, 2019

Capital assets - The City of Leonard's capital assets for its governmental and business-type activities as of September 30, 2019, totals, \$2,753,690, net of accumulated depreciation. The capital assets include buildings, roads and bridges, machinery and equipment.

Capital Assets
As of September 30, 2019
(net of accumulated depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Infrastructure	\$ -		\$ 1,176,797	\$ 1,291,407	\$ 1,176,797	\$ 1,291,407
Buildings	941,604	1,010,579	-		941,604	1,010,579
Machinery & Equipment	345,876	187,426	185,503	150,329	531,379	337,755
Land	99,700	99,700	4,210	4,210	103,910	103,910
Total	\$ 1,387,180	\$ 1,297,705	\$ 1,366,510	\$ 1,445,946	\$ 2,753,690	\$ 2,743,651

More detailed information about the City's capital asset activity is presented in Note F to the financial statements.

Long-term Debt - As of September 30, 2019, the City of Campbell had total long-term debt outstanding of \$580,196 which increased \$123,189 from the previous year.

Outstanding Long-term Debt
As of September 30, 2019

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Notes payable	371,307	251,007	52,889	-	424,196	251,007
Bonds payable	-	-	156,000	206,000	156,000	206,000
Total	\$ 371,307	\$ 251,007	\$ 208,889	\$ 206,000	\$ 580,196	\$ 457,007

More detailed information about the City's long-term debt is presented in Note G to the financial statements.

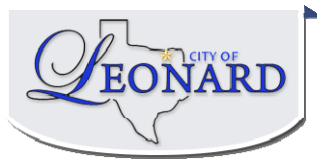
BASIC FINANCIAL STATEMENTS

CITY OF LEONARD, TEXAS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2019

Primary Government

	Governmental Activities	Business-type Activities	Total	Component Unit
ASSETS				
Cash and cash equivalents	\$ 534,422	\$ 197,060	\$ 731,482	\$ 309,127
Receivables (net of allowance for uncollectibles)	101,833	91,676	193,509	9,824
Net Pension Asset	29,736	16,187	45,923	-
Restricted assets:				
Cash and cash equivalents	110,094	-	110,094	-
Capital assets not being depreciated:				
Land	99,700	4,210	103,910	99,700
Capital assets, net of accumulated depreciation:				
Infrastructure	-	1,176,797	1,176,797	-
Buildings and improvements	941,604	-	941,604	168,194
Machinery and equipment	345,876	185,503	531,379	-
Total assets	2,163,265	1,671,433	3,834,698	586,845
DEFERRED OUTFLOW OF RESOURCES				
Deferred pension	50,941	27,429	78,370	-
LIABILITIES				
Current Liabilities:				
Accounts payable	46,962	9,419	56,381	5,200
Other liabilities	4,041	5,790	9,831	-
Deferred revenue	26,042	-	26,042	-
Deposits payable	-	62,556	62,556	-
Notes payable	90,170	4,282	94,452	-
Bonds payable	-	51,000	51,000	-
Noncurrent liabilities:				
Net OPEB liability	22,947	12,356	35,303	-
Notes payable	281,137	48,607	329,744	-
Bonds payable	-	105,000	105,000	-
Total liabilities	471,299	299,010	770,309	5,200
DEFERRED INFLOW OF RESOURCES				
Deferred pension	50,039	26,944	76,983	-
NET POSITION				
Net investment in capital assets	1,015,873	1,157,621	2,173,494	267,894
Restricted for:				
Debt service	110,094	-	110,094	-
Customer deposits	-	62,556	62,556	-
Unrestricted	566,901	152,731	719,632	313,751
Total net position	\$ 1,692,868	\$ 1,372,908	\$ 3,065,776	\$ 581,645
Total Liabilities and Net Position	\$ 2,164,167	\$ 1,671,918	\$ 3,836,085	\$ 586,845

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



CITY OF LEONARD, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2019

Function/Program Activities	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government				
Governmental activities:				
General government	\$ 545,135	\$ 314,151	\$ -	\$ -
Law Enforcement	378,411	-	-	-
Courts	10,917	52,485	-	-
Fire	37,190	-	-	-
Library	28,819	217	-	-
Streets	80,412	-	-	-
Parks	213,058	-	-	-
Interest	4,018	-	-	-
Total governmental activities	1,297,960	366,853	-	-
Business-type activities:				
Water and Sewer	937,625	763,902	-	-
Total business-type activities	937,625	763,902	-	-
Total primary government	\$ 2,235,585	\$ 1,130,755	\$ -	\$ -
Component Unit				
Community Development Corporation	\$ 10,874		\$ -	\$ -

General revenues:
Property taxes
Sales taxes
Franchise taxes
Investment income
Miscellaneous
Transfers
Total general revenues
Change in net position
Net position - beginning
Prior Period Adjustment
Net position - ending

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

Net (Expense) Revenue and Changes in Net Position			
Primary Government			
Governmental Activities	Business Activities	Total	Component Unit
\$ (230,984)	\$ -	\$ (230,984)	\$ -
(378,411)	-	(378,411)	-
41,568	-	41,568	-
(37,190)	-	(37,190)	-
(28,602)	-	(28,602)	-
(80,412)	-	(80,412)	-
(213,058)	-	(213,058)	-
(4,018)	-	(4,018)	-
(931,107)	-	(931,107)	-
-	(173,723)	(173,723)	-
-	(173,723)	(173,723)	-
\$ (931,107)	\$ (173,723)	\$ (1,104,830)	\$ -

(10,874)

\$ 527,165	\$ -	\$ 527,165	\$ -
305,972	-	305,972	66,031
94,856	-	94,856	-
6,191	2,445	8,636	3,526
168,375	-	168,375	-
60,000	(60,000)	-	-
1,162,559	(57,555)	1,105,004	69,557
231,452	(231,278)	174	58,683
1,439,591	1,604,186	3,043,777	379,718
21,825	-	21,825	143,244
\$ 1,692,868	\$ 1,372,908	\$ 3,065,776	\$ 581,645

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

CITY OF LEONARD, TEXAS
BALANCE SHEET - GOVERNMENTAL FUND
SEPTEMBER 30, 2019

	General Fund	Debt Service Fund	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 534,422	\$ 110,094	\$ 644,516
Receivables (net of allowance for uncollectibles)	101,780	54	101,834
Total assets	<u>636,202</u>	<u>110,148</u>	<u>746,350</u>
LIABILITIES			
Accounts payable	46,962	-	46,962
Other liabilities	4,041	-	4,041
Total liabilities	<u>51,003</u>	<u>-</u>	<u>51,003</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue-property taxes	-	-	-
Total deferred inflows of resources	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCE			
Restricted - Debt	110,094	-	110,094
Unassigned	475,105	110,148	585,253
Total fund balance	<u>585,199</u>	<u>110,148</u>	<u>695,347</u>
Total liabilities, deferred inflows of resources and fund balance	<u>\$ 636,202</u>	<u>\$ 110,148</u>	<u>\$ 746,350</u>

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

CITY OF LEONARD, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2019

Total fund balance - governmental funds balance sheet \$ 695,347

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. 3,492,589

Accumulated depreciation has not been included in governmental fund financial statements. (2,105,408)

Revenue reported as unavailable revenue in the governmental fund financial statements was recorded as revenue in the government-wide financial statement. (26,042)

Long-term liabilities, including notes payable, are not due and payable in the current period and therefore are not reported in the fund financial statements (371,307)

Net pension asset and OPEB liability is not due and payable within the current period 2,628

Net position of governmental activities - statement of net position \$ 1,687,807

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

CITY OF LEONARD, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - GOVERNMENTAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2019

	General Fund	Debt Service Fund	Total Governmental Funds
REVENUES			
Property taxes	\$ 396,196	\$ 137,824	534,020
Franchise taxes	94,856	-	94,856
Sales tax	305,972	-	305,972
Charges for services	288,764	-	288,764
Permits	25,605	-	25,605
Fines	52,485	-	52,485
Miscellaneous	142,255	-	142,255
Total revenues	1,306,133	137,824	1,443,957
EXPENDITURES			
Current:			
General government	551,098	-	551,098
Court	10,917	-	10,917
Library	28,819	-	28,819
Streets	80,412	-	80,412
Fire	37,190	-	37,190
Police	378,411	-	378,411
Parks	96,404	-	96,404
Capital outlays:			
Fire	206,127	-	206,127
Debt Service			
Principal Retirement	91,255	-	91,255
Interest and Fiscal Agent Fees	4,018	-	4,018
Total expenditures	1,484,651	-	1,484,651
Excess (Deficiency) of Revenues over Expenditures	(178,518)	137,824	(40,694)
OTHER FINANCING SOURCES (USES)			
Loan proceeds	211,555	-	211,555
Interest income	5,862	329	
Transfers	125,640	(65,640)	60,000
Total Other Financing Sources (Uses)	343,057	(65,311)	271,555
Net change in fund balance	164,539	72,513	237,052
Fund balance, beginning of year	293,439	143,031	436,470
Prior Period Adjustments	127,221	(105,396)	21,825
Fund balance, end of year	\$ 585,199	\$ 110,148	\$ 695,347

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

**CITY OF LEONARD, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

Net change in fund balance - total governmental funds	\$ 237,052
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reports as depreciation expense. This is the amount of capital in the current period.	206,127
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Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources.	(116,654)
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the fund financial statement.	20,166
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Loan proceeds are recognized as income within the governmental funds since it is a current inflow of resources	(211,555)
--	-----------

Current year debt principal payments on contractual obligations are expenditures in the fund financial statements but are shown as reductions in long-term debt in the government-wide financial statements	91,255
---	--------

Change in net position of governmental activities - statement of activities	<u>\$ 226,391</u>
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The accompanying notes to the basic financial statements are an integral part of this financial statement.

CITY OF LEONARD, TEXAS
STATEMENT OF FUND NET POSITION
PROPRIETARY FUND
SEPTEMBER 30, 2019

	Proprietary Fund
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 197,060
Receivables (net of allowance for uncollectible)	91,676
Restricted cash and cash equivalents	-
Total current assets	<u>288,736</u>
Noncurrent assets:	
Net pension asset	16,187
Capital assets:	
Land	4,210
Machinery & equipment	418,241
Infrastructure	4,848,221
Less: accumulated depreciation	<u>(3,904,162)</u>
Total noncurrent assets	<u>1,382,697</u>
Total assets	<u>1,671,433</u>
DEFERRED OUTFLOW OF REOURCES	
Deferred pension	<u>27,429</u>
LIABILITIES	
Current liabilities:	
Accounts payable	9,419
Other Liabilities	5,790
Payable from restricted assets:	
Customer deposits	62,556
Notes payable - current	48,000
Bonds payable	51,000
Net OPEB liability	<u>12,356</u>
Total current liabilities	<u>189,121</u>
Noncurrent Liabilities:	
Notes payable	4,889
Bonds payable	<u>105,000</u>
Total noncurrent liabilities	<u>109,889</u>
Total liabilities	<u>299,010</u>
DEFERRED INFLOW OF REOURCES	
Deferred pension	<u>26,944</u>
NET POSITION	
Net investment in capital assets	1,157,621
Restricted for:	
Customer deposits	62,556
Unrestricted	<u>152,731</u>
Total net position	<u>\$ 1,372,908</u>

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

**CITY OF LEONARD, TEXAS
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN FUND NET POSITION - PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

	Proprietary Fund
OPERATING REVENUES:	
Charges for services:	
Sewer fees	\$ 412,573
Water fees	351,329
Total operating revenues	<u>763,902</u>
OPERATING EXPENSES:	
Salaries and payroll expense	405,698
Supplies and materials	33,388
Maintenance and repair	234,645
Contractual services	114,061
Depreciation	144,958
Total operating expenses	<u>932,750</u>
Operating income (loss)	<u>(168,848)</u>
NON-OPERATING REVENUES (EXPENSES):	
Interest expense	(4,875)
Investment income	2,445
Total non-operating revenues (expenses)	<u>(2,430)</u>
Change in net position	(231,278)
Net position - beginning	1,604,186
Net position - ending	<u><u>\$ 1,372,908</u></u>

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

CITY OF LEONARD, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2019

	Proprietary Fund
Cash Flows from Operating Activities:	
Cash received from customers	\$ 780,742
Cash payments to employees for services	(412,309)
Cash payments to suppliers for goods and services	(382,095)
Net cash provided by (used in) operating activities	(13,662)
Cash Flows from Noncapital Financing Activities	
Transfers to other funds	(60,000)
Cash used in noncapital financing activities	(60,000)
Cash Flows from Capital and Related Financing Activities	
Interest and fiscal charges on debt	(4,876)
Acquisition of capital assets	(192,363)
Issuance of debt	208,889
Cash used in capital and related financing activities	11,650
Cash Flows from Investing Activities	
Investment earnings	2,445
Cash provided by (used in) investing activities	2,445
 Net increase (decrease) in cash and cash equivalents	 (59,567)
 Cash and cash equivalents at beginning of year	 256,627
Cash and cash equivalents at end of year	<u><u>\$ 197,060</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:	
Operating Income (Loss)	\$ (168,848)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:	
Depreciation	144,958
Change in assets and liabilities:	
Decrease (increase) in receivables	(12,232)
Increase (decrease) in accounts payable	(572)
Increase (decrease) in other liabilities	14,972
Total adjustments	155,186
Net cash provided by (used in) operating activities	<u><u>\$ (13,662)</u></u>

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

**CITY OF LEONARD, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The accounting and reporting policies of the City relating to the funds included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America ("GAAP"), applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board ("GASB"), the American Institute of Certified Public Accountants in the publication entitled *State and Local Governments-Audit and Accounting Guide*, and by the Financial Accounting Standards Board when applicable. The more significant accounting policies of the City are described below:

1. Reporting Entity

The City is a municipal corporation governed by an elected mayor and five-member council and has the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has the primary accountability for fiscal matters. Therefore, the City is a financial reporting entity as defined by GASB in its Statement No. 14, "The Financial Reporting Entity", as amended by GASB Statement No. 39 "Determining Whether Certain Organizations are Component Units".

Under GASB Statement No. 14, component units are organizations for which the City is financially accountable and all organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Financial accountability exists if the City appoints a voting majority of an organization's governing board and is either able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the City. The City may be financially accountable for governmental organizations with a separately elected governing board, a governing board appointed by another government, or a jointly appointed board that is dependent on the City. The financial statements of the component units may be discretely presented in a separate column from the primary government, or blended with the financial statements of the primary government. GASB Statement No. 39 added clarification to GASB Statement No. 14 by including as component units entities which meet all three of the following requirements:

- the organization is legally separate (can sue and be sued in their own name);
- the City appoints a voting majority of the organization's board;
- the City is able to impose its will on the organization;
- the organization has the potential to impose a financial benefit/burden on the City; and
- there is fiscal dependency by the organization on the City.

Based upon the application of these tests, the City of Leonard has one component unit, the Leonard Community Development Corporation.

In addition, GASB Statement No. 61 considers an organization that does not meet the financial accountability criteria, may be included as a component unit if management's professional judgment determines it to be necessary and misleading if omitted. The evaluation includes consideration of whether a financial benefit or burden exists in the relationship between the entities. Management has not identified any additional organizations that fit this criteria.

2. Basis of Presentation

The basic financial statements are prepared in conformity with GAAP which requires the government-wide financial statements to be prepared using the accrual basis of accounting and the economic resources measurement focus. Government-wide financial statements do not provide information by fund, but distinguish between the City's governmental activities and business-type activities on the statement of net position and statement of activities. The City's statement of net position includes both noncurrent assets and noncurrent liabilities of the City. In addition, the government-wide statement of activities reflects depreciation expense on the City's capital assets, including infrastructure.

In addition to the government-wide financial statements, the City has prepared fund financial statements, which use the modified accrual basis of accounting and the current financial resources measurement focus for the government funds. The accrual basis of accounting is utilized by proprietary fund types. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Management's Discussion and Analysis provides an analytical overview of the City's financial activities. In addition, a budgetary comparison statement is prepared that compares the original adopted and final amended General Fund budget with actual results.

**CITY OF LEONARD, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2. Basis of Presentation (continued)

The City's basic financial statements include both government-wide (based on the City as a whole) and fund financial statements. The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely on fees and charges for support.

The government-wide statement of activities, demonstrates the degree to which the direct expenses of a functional category (Streets, Administrative Services, etc.) or program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, 2) grants and contributions that are restricted to meeting the operational requirements of a particular function or segment, and 3) grants and contributions that are restricted to meeting the capital requirements of a particular function or program. Taxes and other items properly excluded from program revenues are reported instead as general revenues.

The net cost by function is normally covered by general revenues (property and sales taxes, franchise taxes, and interest income).

Separate fund financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual proprietary funds are reported as separate columns in the fund financial statement. The major governmental fund is the General Fund and Debt Service Fund. The major proprietary fund is the Water and Sewer Fund. GASB Statement No. 34 sets forth minimum criteria (percentage of assets, liabilities, revenues or expenditures/expenses of either fund category for the governmental and proprietary combined) for the determination of major funds. The City does not have any nonmajor funds.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary fund is charges to customers for services. Operating expenses for the proprietary fund include the cost of sales and service, administrative expenses, and depreciation on assets. All revenues and expenses not meeting the definition are reported as non-operating revenues and expenses.

The government-wide focus is more on the sustainability of the City as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The focus of the fund financial statements is on major individual funds of the governmental and proprietary categories. Each presentation provides valuable information that can be analyzed and compared to enhance the usefulness of the information.

3. Measurement Focus, Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

Government fund level financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual, in other words, as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 30 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when the obligation has matured and is due and payable shortly after year-end as required by GASB Interpretation No. 6.

Ad valorem, franchise and sales tax revenues recorded in the General Fund and ad valorem tax revenues in the Proprietary Fund are recognized under the susceptible to accrual concept. Charges for services, contributions, and miscellaneous revenues are recorded as revenues when received in cash, as the resulting receivable is not measurable. Investment earnings are recorded as earned since they are both measurable and available. In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. Intergovernmental grant revenues are recognized when all eligibility requirements have been met.

**CITY OF LEONARD, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3. Measurement Focus, Basis of Accounting (continued)

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources, as needed.

Governmental funds are those through which most governmental functions of the City are financed. The acquisition, use, and balances of the City's expendable financial resources and the related liabilities (except for those accounted for in proprietary funds) are accounted for through governmental funds. The measurement focus is upon determination of changes in financial position, rather than upon net income determination. The following is a description of the governmental fund of the City:

The **General Fund** is the operating fund of the City. This fund is used to account for all financial resources not accounted for in other funds. All general tax revenues and other receipts that are not restricted by law or contractual agreements to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General 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 funds are accounted for on a flow of economic resources measurement focus. The accounting objectives are a determination of net income, financial position, and changes in cash flows. All assets and liabilities associated with a proprietary fund's activities are included on its statement of net position.

Proprietary funds are financed and operated in a manner similar to private business enterprises. The costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis are financed or recovered primarily through user charges. Periodic determination of revenues earned, expenses incurred, or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes. The City has one proprietary fund:

The **Water and Sewer Fund** accounts for the operations of the sanitary sewer and water utilities which is a self-supporting activity rendering services on a user-charge basis.

4. Financial Statement Amounts

a. Cash and Cash Equivalents

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

The City may invest in certificates of deposits, authorized investment pools and funds, U.S. Government Securities, commercial paper, and repurchase agreements.

b. Receivable and Payable Balances

The City believes that sufficient detail of receivable and payable balances is provided in the financial statements to avoid obscuring of significant components by aggregation.

Trade receivables are shown net of an allowance for uncollectible. The uncollectible amount of property tax receivables is recorded as an allowance.

c. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other governments, or are imposed by law through constitutional provisions or enabling legislation. Restricted assets in the proprietary fund represent cash and cash equivalents and investments set aside for bond covenants.

Customer deposits received for utility service are, by law, to be considered restricted assets. These activities are included in the Water and Sewer Fund.

CITY OF LEONARD, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4. Financial Statement Amounts (continued)

d. Capital Assets

Capital assets, which include land, buildings, equipment, and improvements, purchased or donated, are reported in the applicable governmental or business-type activities columns within the government-wide financial statements and proprietary fund financial statements. The City defines a capital asset as an item with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical if historical cost is not available. Contributed assets are recorded at fair market value as of the date donated. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Net interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. Construction in progress is not depreciated until the asset is placed in service. There was no interest capitalized in the current period.

Management elected not to retroactively report infrastructure assets within the scope of GASB 34.

Capital assets are being depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Infrastructure	7 - 40 years
Buildings	10 - 30 years
Building Improvements	5 - 10 years
Vehicles and Machinery	5 - 7 years

e. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditures) until then. The government has recorded a deferred outflow of resources related to its pension benefit.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an increase of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The governmental funds report a deferred inflow of resources related to its pension benefit. This amounts is deferred and recognized as an inflow of resources in the period that the amounts become available.

f. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types within the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Debt issuance costs are expensed during the year they are incurred in accordance year they are incurred in accordance with GASB Statement No. 65.

**CITY OF LEONARD, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4. Financial Statement Amounts (continued)

g. Fund Balance Policies

In the fund financial statements, governmental funds report fund balances as nonspendable, restricted, committed, assigned or unassigned based primarily on the extent to which the City is bound to honor constraints on how specific amounts can be spent.

- *Nonspendable fund balance* - amounts that cannot be spent because they are either (a) not spendable in form or (b) legally or contractually required to be maintained intact.
- *Restricted fund balance* - amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; (b) imposed by law through constitutional provisions or enabling legislation.
- *Committed fund balance* - amounts that can only be used for specific purposes determined by a resolution of the City Council. Commitments may be changed or lifted only by a resolution of the City Council. The resolution must be approved before the end of the fiscal year in which the commitment will be reflected on the financial statements.
- *Assigned fund balance* - amounts that are constrained by the City's *intent* to be used for specific purposes. The intent can be established by the City Council.
- *Unassigned fund balance* - the residual classification for the City General Fund that includes amounts not contained in the other classifications.

The City Council establishes, modifies or rescinds fund balance commitments and assignments by passage of an ordinance or resolution. This is done through adoption of the budget and subsequent budget amendments that occur throughout the year. Committed funds will be used first followed by assigned funds.

When both restricted and unassigned resources are available for use, it is the City's policy to use restricted resources first, followed by the unassigned resources as they are needed.

h. Comparative Data

Comparative total data for the current year to budget have been presented in the supplementary section of the financial statement in order to provide an understanding of budget to actual. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

i. Interfund Activity

Interfund activity results from loans, services provided, reimbursements or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers In and Transfers Out are netted and presented as a single "Transfers" line on the government-wide statement of activities. Similarly, interfund receivables and payables are netted and presented as a single "Internal Balances" line of the government-wide statement of net position.

j. Use of Estimates

The preparation of financial statements in conformity with GAAP requires the use of management's estimates.

B. COMPLIANCE AND ACCOUNTABILITY

1. Finance-Related Legal and Contractual Provisions

In accordance with GASB Statement No. 38, "Certain Financial Statement Note Disclosures," violations of finance-related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

<u>Violation</u>	<u>Action Taken</u>
None reported	Not applicable

CITY OF LEONARD, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

B. COMPLIANCE AND ACCOUNTABILITY(continued)

1. Finance-Related Legal and Contractual Provisions

2. Deficit Fund Balance or Fund Net Position of Individual Funds

Following are funds having deficit fund balances or fund net position at year end, if any, along with remarks which address such deficits:

<u>Fund Name</u>	<u>Deficit Amount</u>
None reported	Not applicable

3. Budgets and Budgetary Accounting

The City adopts an "appropriated budget" of governmental fund types on the modified accrual basis of accounting by department. The City is required to present the adopted and final amended budgeted revenues and expenditures. The City compares the final amended budget to actual revenues and expenditures.

The following procedures are followed in establishing the budgetary data:

- No later than the first City Council meeting each August, the Mayor submits to the City Council a proposed operating budget for the fiscal year commencing October 1. The operating budget includes proposed expenditures and the means of financing them.
- Public hearings are conducted to obtain taxpayer comments.
- Prior to September 30, the budget is legally enacted through passage of an ordinance.
- Total estimated expenditures of the General Fund are to be budgeted.
- The level of control (the level at which expenditures may not exceed budget) is the fund level. The Mayor and Mayor Pro-tem approval is required to approve a transfer of budgeted amounts within accounts; however, any revisions that alter the total of any fund must be approved by the City Council.

Budgets for the General Fund are legally adopted on a modified accrual basis of accounting.

C. DEPOSITS AND INVESTMENTS

The City's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the City's agent bank approved pledged securities in an amount sufficient to protect the City funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository banks dollar amount of Federal Deposit Insurance Corporation ("FDIC").

Cash Deposits:

At September 30, 2019, the carrying amount of the City's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$841,576 and the bank balance was \$866,365. The City's cash deposits at September 30, 2019, and during the year ended September 30, 2019, were entirely covered by FDIC or additional pledged securities.

Cash and investments as of September 30, 2019 consist of and are classified as follows:

Statement of net position:

Primary Government:

Cash and cash equivalents	\$ 731,482
Restrict cash and cash equivalents	110,094
Total cash and cash equivalents	\$ 841,576

Governmental restricted cash:

Debt service	110,094
Total governmental restricted cash and cash equivalents	\$ 110,094

Business-type restricted cash

Customer deposits	\$ -
Total business-type restricted cash and cash equivalents	\$ -

Total restricted cash and cash equivalents	\$ 110,094
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**CITY OF LEONARD, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

C. DEPOSITS AND INVESTMENTS (continued)

Investments:

The Public Funds Investment Act ("Act") requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the general purpose financial statements disclosed that in the areas of investment practices, management and establishment of appropriate policies, the City adhered to the requirements of the Act. Additionally, investment practices of the City were in accordance with local policies.

Investment Accounting Policy

The City's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized costs and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments which have a remaining term of one year or less at time of purchase. The term "non-participating" means that the investment values vary with market interest rate changes. Non-negotiable certificates of deposits are examples of nonparticipating interest-earning investment contracts.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investments or collateral securities that are in possession of another party. The Public Funds Act and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provisions for deposits: The Public Funds Investment Act requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state or local governmental units by pledging unit. The market value of the pledged securities in the collateral pool must equal at least the bank balance less the FDIC insurance at all times.

Interest Rate Risk

As a means of limiting its exposure to fair value losses arising from increasing interest rates, the City manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to less than one year from the time of purchase.

D. PROPERTY TAXES

Property tax is levied each October 1 on the assessed value listed as of the prior January 1 for all real and personal property located in the City. Assessed value represents the appraisal value less applicable exemptions authorized by the City Council. The Appraisal Board of Review establishes appraised value at 100% of estimated market value. A tax lien attaches to the property on January 1 of each year, to secure the payment of all taxes, penalties and interest ultimately imposed for the year on that property, whether or not the taxes are imposed in the year the lien attaches.

Taxes are due October 1 (immediately following the levy date) and are delinquent after the following January 31st. Revenues are recognized as the related ad valorem taxes are collected. Additional delinquent property taxes estimated to be collectable within 30 days following the close of the fiscal year have been recognized as a revenue at fund level.

In Texas, county-wide central appraisal districts are required under the Property Tax Code to assess all property within the appraisal district on the basis of 100% of its market value and are prohibited from applying any assessment ratios. The value of property within the appraisal district must be reviewed every five years, however, the City may, at its own expense, require annual reviews of appraisal values. The City may challenge appraised values established by the appraisal district through various appeals, and, if necessary, take legal action. Under this legislation, the City continues to set tax rates on City property. However, if the effective tax rate, including tax rates for bonds and other contractual obligations, adjusted for new improvements, exceeds the rate for the previous year by more than 8%, qualified voters of the City may petition for an election to determine whether to limit the tax rate to no more than 8% above the tax rate of the previous years.

CITY OF LEONARD, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

E. RECEIVABLES

Receivables at September 30, 2019 for the government's individual major funds, including the applicable allowances for uncollectable accounts are as follows:

	General	Proprietary	Total
Receivables:			
Taxes	\$ 78,237	\$ -	\$ 78,237
Fees & Services	37,559	92,701	130,260
Allowance for uncollectibles	(13,963)	(1,025)	(14,988)
Net Receivables	<u>\$ 101,833</u>	<u>\$ 91,676</u>	<u>\$ 193,509</u>

F. CAPITAL ASSETS

Capital asset activity for the period ended September 30, 2019 was as follows:

	Beginning Balances	Additions	Decreases	Ending Balances
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 99,700	\$ -	\$ -	\$ 99,700
Total capital assets, not being depreciated	<u>99,700</u>	<u>-</u>	<u>-</u>	<u>99,700</u>
Capital assets, being depreciated:				
Buildings & Improvements	2,045,706	-	-	2,045,706
Machinery & Equipment	1,141,057	206,127	-	1,347,184
Total capital assets being depreciated	<u>3,186,763</u>	<u>206,127</u>	<u>-</u>	<u>3,392,890</u>
Less accumulated depreciation for:				
Buildings & Improvements	(1,035,124)	(68,975)	-	(1,104,099)
Machinery & Equipment	(953,631)	(47,679)	-	(1,001,310)
Total accumulated depreciation	<u>(1,988,755)</u>	<u>(116,654)</u>	<u>-</u>	<u>(2,105,409)</u>
Total capital assets being depreciated, net	<u>1,198,008</u>	<u>89,473</u>	<u>-</u>	<u>1,287,481</u>
Governmental activities capital assets, net	<u>\$ 1,297,708</u>	<u>\$ 89,473</u>	<u>\$ -</u>	<u>\$ 1,387,181</u>

CITY OF LEONARD, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

F. CAPITAL ASSETS (continued)

	Beginning Balances	Additions	Decreases	Ending Balances
Capital assets, not being depreciated:				
Total capital assets, not being depreciated	4,210	-	-	4,210
Capital assets, being depreciated				
Infrastructure	4,848,221	-	-	4,848,221
Equipment	352,719	65,522	-	418,241
Total assets being depreciated	5,200,940	65,522	-	5,266,462
Less accumulated depreciation for:				
Infrastructure	(3,556,814)	(114,610)	-	(3,671,424)
Equipment	(202,390)	(30,348)	-	(232,738)
Total accumulated depreciation	(3,759,204)	(144,958)	-	(3,904,162)
Total capital assets, being depreciated, net	1,441,736	(79,436)	-	1,362,300
Business-type activities capital assets, net	<u>\$ 1,445,946</u>	<u>\$ (79,436)</u>	<u>\$ -</u>	<u>\$ 1,366,510</u>

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

Governmental activities:	
General Government	\$ 31,425
Law enforcement and fire	17,377
Parks and Library	9,376
Streets	58,476
Total depreciation expense - governmental activities	<u>\$ 116,654</u>
Business-type activities:	
Water and Sewer Fund	<u>\$ 144,958</u>

G. LONG-TERM OBLIGATIONS

A summary of long-term debt transactions for the year ended September 30, 2019, follows:

Primary Government:

Governmental Activities:

Description	Interest Rate Payable	Amounts Original Issue	Amounts Outstanding September 30, 2018	Issued	Retired	Amounts Outstanding September 30, 2019	Due Within One Year
Series 2016	4.500%	\$ 319,719	\$ 184,822	\$ -	\$ (64,551)	\$ 120,271	\$ 67,546
Series 2017	3.286%	43,257	14,182	-	(14,182)	-	-
Series 2018	5.214%	52,002	52,002	-	(12,521)	39,481	12,497
Series 2019	4.581%	211,555	-	211,555	-	211,555	17,127
Total		<u>\$ 626,533</u>	<u>\$ 251,006</u>	<u>\$ 211,555</u>	<u>\$ (91,254)</u>	<u>\$ 371,307</u>	<u>\$ 97,170</u>

Debt service requirements are as follows:

Year Ending September 30:	Principal	Interest	Total Requirements
2020	97,170	15,872	113,042
2021	83,814	11,318	95,132
2022	32,595	8,806	41,401
2023	19,621	7,226	26,847
2024	20,519	6,327	26,846
2025-32	117,588	16,642	134,230
Totals	<u>\$ 371,307</u>	<u>\$ 66,191</u>	<u>\$ 437,498</u>

CITY OF LEONARD, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

G. LONG-TERM OBLIGATIONS (continued)

Business-Type Activities:

Description	Interest Rate Payable	Amounts Original Issue	Amounts Outstanding September 30, 2018	Issued	Retired	Amounts Outstanding September 30, 2019	Due Within One Year
Series 2016	2.500%	\$ 254,000	\$ 206,000	\$ -	\$ (50,000)	\$ 156,000	\$ 51,000
Series 2019	4.581%	52,889	-	52,889	-	52,889	4,282
Total		<u>\$ 306,889</u>	<u>\$ 206,000</u>	<u>\$ 52,889</u>	<u>\$ (50,000)</u>	<u>\$ 208,889</u>	<u>\$ 55,282</u>

Debt service requirements are as follows:

Year Ending September 30:	Principal	Interest	Total Requirements
2020	55,282	5,692	60,974
2021	56,484	4,202	60,686
2022	57,690	3,346	61,036
2023	4,905	1,806	6,711
2024	5,130	1,582	6,712
2025-32	29,398	4,161	33,559
Totals	<u>\$ 208,889</u>	<u>\$ 20,789</u>	<u>\$ 229,678</u>

\$319,719 Series 2016 notes payable was issued for the purpose of refinancing past debt issuances previously used purchasing machinery for the street department.

\$43,257 Series 2017 notes payable issued to purchase a 2017 Ford police vehicle. The loan was paid in full during the 2019 fiscal year.

\$52,002 Series 2018 notes payable issued to purchase a 2018 Ford police car and related police equipment.

\$211,555 Series 2019 notes payable issued to purchase a Ford Skeeter 2-door 600 gallon fire truck.

\$254,000 Series 2016 combination tax and surplus revenue refunding bonds used to pay in full Series 2000 "Greater Texoma Utility Authority Contract Revenue Bonds" in the original amount of \$40,000, and Series 2002 "Greater Texoma Utility Authority Contract Revenue Bonds" in original amount of \$305,000.

\$52,889 Series 2019 notes payable issued to purchase utility pipe bursting equipment.

**CITY OF LEONARD, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

H. INSURANCE COVERAGE & RISK MANAGEMENT

In accordance with state statute, the City was protected against unanticipated catastrophic individual or aggregate loss by stop-loss coverage carried through Texas Municipal League Intergovernment Risk Pool ("TMLIRP"), a commercial insurer licensed or eligible to do business in Texas in accordance with the Texas Insurance Code.

The City is exposed to various risks of loss related to torts: theft, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The City has general liability coverage at a cost that is considered to be economically justifiable. TMLIRP is a self-funded pool operating as a common risk management and insurance program.

GASB No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. There were no liabilities incurred at the end of the current fiscal period.

There were no significant reductions in insurance coverage from the prior year. There have been no claim settlements in excess of insurance coverage in the last four years.

I. DEFINED BENEFIT PENSION PLANS

A. Plan Description

The City of Leonard participates as one of 887 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.tmrs.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 contribution, 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 deposit and interest.

Employees covered by benefit terms

At the December 31, 2018 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	7
Inactive employees entitled to but not yet receiving benefits	22
Active employees	16
	<hr/>
	45

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.

**CITY OF LEONARD, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

I. DEFINED BENEFIT PENSION PLANS

C: Contributions (Continued)

Employees of the City of Leonard were required to contribute 5% of their annual gross earnings during the fiscal year. The contribution rates of the City of Leonard were 1.21% and 2.54% in calendar years 2017 and 2018, respectively. The City's contributions to TMRS for the fiscal year ended September 30, 2019 was \$15,353, and was equal to the required contribution.

D. Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2018, 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, 2018 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50%
Overall payroll growth	3.50% to 10.50% including inflation
Investment Rate of Return	6.75%

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 Tables with Blue Collar Adjustments, with male rates multiplied by 109%, and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account of future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustments are used with males rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

Actuarial assumptions used in the December 31, 2018, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. 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. 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 need of TMRS.

CITY OF LEONARD, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

I. DEFINED BENEFIT PENSION PLANS

D. Net Pension Liability (Continued)

Projected benefit payments are required to be discounted to their actuarial present values using a single discount rate that reflects (1) a long-term expected rate of return on pension plan investments (to the extent that the plan's fiduciary net position is projected to be sufficient to pay benefits) and (2) tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the plan's projected fiduciary net position is not sufficient to pay benefits).

For the purpose of this valuation, the expected rate of return on pension plan investments is 6.75%; the municipal bond rate is 3.78% (based on weekly rate closest to, but not later than the measurement date of the 20-year Bond Buyer Index as published by the Federal Reserve). A single discount rate of 6.75% was used to measure the total pension liability as of December 31, 2018. This single discount rate was based on the expected rate of return on pension plan investments of 6.75%. Based on the stated assumptions, and the projection of cash flows, the City's fiduciary net position, and future contributions were sufficient to finance the future benefit payments of the current plan members for all projection years. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of the projected benefit payments to determine the total pension plan liability of the City. The projection of cash flows used to determine the single discount rate for the City assumed that the funding policy adopted by the TMRS board will remain in effect for all future years. Under this funding policy, the City will finance the unfunded actuarial accrued liability over the years remaining for the closed period existing for each base in addition to the employer portion of all future benefit accruals (i.e. the employer normal costs).

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balance as 12/31/2017	\$ 778,563	\$ 854,666	\$ (76,103)
Changes for the year:			
Service cost	60,947	-	60,947
Interest	52,872	-	52,872
Changes in current period benefits	-	-	-
Difference between expected and actual experience	(48,600)	-	(48,600)
Changes in assumptions	-	-	-
Contributions - employer	-	15,353	(15,353)
Contributions - employee	-	45,776	(45,776)
Net investment income	-	(25,569)	25,569
Benefit payments, including refunds of employee contributions	(51,507)	(51,507)	-
Administrative expense	-	(495)	495
Other changes	-	(26)	26
Net changes	\$ 13,712	\$ (16,468)	\$ 30,180
Balance as 12/31/2018	<u>\$ 792,275</u>	<u>\$ 838,198</u>	<u>\$ (45,923)</u>

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	<u>\$ 66,803</u>	<u>\$ (45,923)</u>	<u>\$ (137,477)</u>

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.tmrs.com.

CITY OF LEONARD, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

I. DEFINED BENEFIT PENSION PLANS (Continued)

E. Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended September 30, 2019, the city recognized pension expense of \$7,589.

At September 30, 2019, the city reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual economic experience	-	(36,144)
Changes in actuarial assumptions	-	-
Difference between projected and actual investment earnings	44,745	-
Contributions subsequent to the measurement date	-	-
Total	44,745	(36,144)

A total of \$0.00 was reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended Dec 31:		
2019	\$	(3,725)
2020		(9,843)
2021		5,518
2022		16,651
2023		-
Thereafter		-
Total	\$	8,601

F. Group-term Life Insurance

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

G. Total OPEB Liability

The City of Leonard's total OPEB liability of \$35,303 was measured as of December 31, 2018, and was determined by an actuarial valuation as of that date.

The total OPEB liability in the December 31, 2018 actuarial valuation was determined using the following actuarial assumptions and other inputs applied to all periods included in the measurement, unless otherwise specified:

CITY OF LEONARD, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

I. DEFINED BENEFIT PENSION PLANS

G. Total OPEB Liability (Continued)

Inflation	2.50%
Salary increases	3.50% to 10.5% including inflation
Discount rate*	3.71%

* The discount rate was based on the Fidelity Index's "20-Year Municipal GO AA index" rate as of December 31, 2018.

Mortality rates - service retirees:

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.

Mortality rates - disabled retirees:

RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% with a 3 year set-forward for both males and females. The rates are projected on a fully generational basis with scale BB to account for future mortality improvements subject to the 3% floor.

The actuarial assumptions used in the December 31, 2018 valuation were based on the results of an actuarial experience study for the period December 31, 2010 to December 31, 2014.

Membership

Number of:

-Inactive employees currently receiving benefits	5
-Inactive employees entitled to but not yet receiving benefits	4
-Active employees	16
Total	<u>25</u>

Changes in the Total OPEB Liability:

Total OPEB Liability - beginning of year	\$ 43,089
Changes for the year:	
Service costs	2,681
Interest on Total OPEB Liability	1,465
Changes in benefit terms	-
Differences between expected and actual experience	(8,944)
Changes in assumptions or other inputs	(2,661)
Benefit payments	(327)
Total OPEB Liability - end of year	<u>\$ 35,303</u>

The following presents the Total OPEB Liability of the City of Campbell, Texas, 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 percent) or 1-percentage-point higher (4.31%) than the current discount rate.

	1% Decrease (2.71%)	Current Discount (3.71)	1% Increase (4.71%)
Total OPEB Liability	\$ 42,647	\$ 35,303	\$ 29,769

Deferred (Inflows)/Outflows of Resources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ (7,190)
Changes in assumptions and other inputs	-	(24)
Contributions made subsequent to measurement date	-	-
Total	<u>\$ -</u>	<u>\$ (7,214)</u>

Amounts reported as deferred outflows of resources and deferred inflow of resources related to OPEB will be recognized in OPEB expense follows:

CITY OF LEONARD, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

I. DEFINED BENEFIT PENSION PLANS

G. Total OPEB Liability (Continued)

	Net Deferred Outflows (Inflows) of Resources
2019	\$ (1,593)
2020	(1,593)
2021	(1,593)
2022	(2,210)
2023	(225)
Thereafter	-
Total	<u>\$ (7,214)</u>

J. LITIGATION

Currently, management is unaware of significant pending litigation against the City of Leonard, Texas.

K. SUBSEQUENT EVENTS

The City has evaluated all events or transactions that occurred after September 30, 2019 up through October 12, 2020, the date the financial statements were available to be issued. During this period, management was unaware of subsequent events requiring disclosure.

L. PRIOR PERIOD ADJUSTMENTS

Opening asset balances were mistated in the fiscal year ending September 30, 2018 resulting in a \$127,221 positive prior period adjustment within the General Fund, and by (\$105,396) within the Debt Service fund. Together, the net effect of these prior period adjustments total a positive \$21,825 within the Governmental Funds.

M. ECONOMIC DEVELOPMENT CORPORATION

The Leonard Community Development Corporation (LCDC) is financed with a voter approved 1/6 of one percent sales tax to aid, promote, and further the economic development within the City.

1. Stewardship, Compliance and Contractual Provisions

a. Finance-related Legal and Contractual Provisions

In accordance with GASB Statement No. 38, "Certain Financial Statement Note Disclosures", violation of finance-related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations.

Violation	Actions Taken
N/A	N/A

b. Deficit Fund Balance of Fund Net Position of Individual Funds

Following are funds having deficit fund balances or fund net position at fiscal year-end, if any along with remarks which address such deficits:

Violation	Actions Taken
N/A	N/A

2. Deposits and Investments

Cash Deposits

At September 30, 2019, the carrying amount of the LCDC's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$309,127 and the bank balance was \$309,492. LCDC's cash deposits at September 30, 2019 and during the year ended September 30, 2019 were entirely covered by FDIC.

Cash and investments, as of September 30, 2019, consist of and are classified in the accompanying financial statements as follows:

Statement of net position:

Leonard Community Development Corporation	
Cash and Cash Equivalents	<u>\$ 309,127</u>

Investments

The Public Funds Investment Act ("Act") requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the general purpose financial statements disclosed that in the areas of investment practices, management reports, and establishment of appropriate policies, the LCDC adheres to the requirements of the Act.

CITY OF LEONARD, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

M. ECONOMIC DEVELOPMENT CORPORATION (continued)

3. Receivables

Accounts receivable at the end of the fiscal year is due from the City in the amount of \$9,824 for collection of sales tax revenues. No allowance for uncollectible is calculated since there is a minimal chance that the entire amount will not be collected.

4. Subsequent Events

The LCDC has evaluated all events or transactions that occurred after September 30, 2019 up through October 12, 2020, the date the financial statements were available to be issued. Management noted no subsequent events requiring disclosure.

5. Capital Assets

	Beginning Balances	Additions	Decreases	Ending Balances
Capital assets, not being depreciated:				
Land	\$ 99,700	\$ -	\$ -	\$ 99,700
Total capital assets, not being depreciated	99,700	-	-	99,700
Capital assets, being depreciated				
Buildings & Improvements	219,384	-	-	219,384
Total assets being depreciated	219,384	-	-	219,384
Less accumulated depreciation for:				
Buildings & Improvements	(43,878)	(7,312)	-	(51,190)
Total accumulated depreciation	(43,878)	(7,312)	-	(51,190)
Total capital assets, being depreciated, net	175,506	(7,312)	-	168,194
Business-type activities capital assets, net	\$ 275,206	\$ (7,312)	\$ -	\$ 267,894

6. Prior Period Adjustment

The opening cash balance from the fiscal year ending September 30, 2018 was off resulting in a \$143,244 prior period adjustment.



REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF LEONARD, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

**SCHEDULE OF CONTRIBUTIONS
LAST FISCAL YEAR (UNAUDITED)**

	2018
Actuarially determined contribution	\$ 15,353
Contributions in relation to the actuarially determined contribution	15,353
Contributions deficiency (excess)	\$ -
Covered employee payroll	\$ 653,941
Contributions as a percentage of covered employee payroll	2.35%

NOTES TO SCHEDULE OF CONTRIBUTIONS

Valuation Date:

Notes Actuarially determined contribution rates are calculated as of December 31 and become 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	2.50%
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

Other Information:

Notes There were no benefit changes during the year.

**CITY OF LEONARD, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

**SCHEDULE OF CHANGES IN NET PENSION LIABILITY
AND RELATED RATIOS-TMRS**

	<u>12/31/2018</u>
Total pension liability	
Service cost	\$ 60,947
Interest (on the Total Pension Liability)	52,872
Changes of benefit terms	-
Difference between expected and actual experience	(48,600)
Change of assumptions	-
Benefit payments, including refunds of employee contributions	(51,507)
Net Change in Total Pension Liability	<u>13,712</u>
Total Pension Liability - Beginning	<u>778,563</u>
Total Pension Liability - Ending	<u><u>\$ 792,275</u></u>
 Plan Fiduciary Net Position	
Contribution - employer	\$ 15,353
Contribution - employee	45,776
Net investment income	(25,569)
Benefit payments, including refunds of employee contributions	(51,507)
Administrative expense	(495)
Other	(26)
Net Change in Plan Fiduciary Net Position	<u>(16,468)</u>
Plan Fiduciary Net Position - Beginning	<u>854,666</u>
Plan Fiduciary Net Position - Ending	<u><u>\$ 838,198</u></u>
Net Pension Liability - Ending	\$ (45,923)
 Plan Fiduciary Net Position as a percentage of Total Pension Liability	 105.80%
 Covered employee payroll	 \$ 653,941
 Net Pension Liability as a percentage of covered employee payroll	 -7.02%

CITY OF LEONARD, TEXAS
SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY
AND RELATED RATIOS-TMRS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

	<u>12/31/2018</u>
Total OPEB liability	
Service cost	\$ 2,681
Interest (on the Total OPEB Liability	1,465
Changes of benefit terms	-
Difference between expected and actual experience	(8,944)
Change of assumptions	(2,661)
Benefit payments, including refunds of employee contributions	<u>(327)</u>
Net Change in Total Pension Liability	<u>(7,786)</u>
Total OPEB Liability - Beginning	43,089
Total OPEB Liability - Ending	<u><u>\$ 35,303</u></u>

Covered employee payroll	\$ 653,941
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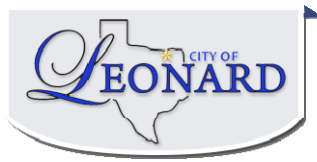
Total OPEB Liability as a percentage of covered employee payroll	5.40%
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Note: Years will continue to be added until there are 10 years for comparison

CITY OF LEONARD, TEXAS
GENERAL FUND-STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE-BUDGET AND ACTUAL
MODIFIED ACCRUAL BASIS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
REVENUE				
Property taxes	\$ 414,386	\$ 414,386	\$ 396,196	\$ (18,190)
Franchise taxes	89,300	89,300	94,856	5,556
Sales tax	191,500	191,500	305,972	114,472
Fines	50,000	50,000	52,485	2,485
Sanitation revenues	248,086	248,086	288,764	40,678
Permits	9,000	9,000	25,605	16,605
Miscellaneous	107,152	107,152	142,255	35,103
Total revenues	1,109,424	1,109,424	1,306,133	196,709
EXPENDITURES				
Current:				
General government	483,661	483,661	551,098	(67,437)
Court	19,875	19,875	10,917	8,958
Library	33,339	33,339	28,819	4,520
Streets	120,000	120,000	80,412	39,588
Fire	27,350	37,350	37,190	160
Police	360,498	360,498	378,411	(17,913)
Parks	50,875	50,875	96,404	(45,529)
				-
Capital outlays:				-
Fire	-	-	206,127	(206,127)
Debt Service				-
Principal Retirement	-	-	91,255	(91,255)
Interest and Fiscal Agent Fees	-	-	4,018	(4,018)
Total expenditures	1,095,598	1,105,598	1,484,651	(379,053)
Excess (deficiency) of revenues over (under) expenditures	13,826	3,826	(178,518)	575,762
OTHER FINANCING SOURCES (USES)				
Loan proceeds	-	-	211,555	211,555
Interest income	5,000	5,000	5,862	862
Transfers	-	-	125,640	125,640
Total other financing sources (uses)	5,000	5,000	343,057	338,057
Net change in Fund Balance	18,826	8,826	164,539	
Fund Balance/Equity, October 1	293,439	293,439	293,439	
Prior Period Adjustments	-	-	127,221	
Fund Balance/Equity, September 30	\$ 312,265	\$ 302,265	\$ 585,199	

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



OTHER MATTERS

**CITY OF LEONARD, TEXAS
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

Financial Statement Findings

2019-1

Criteria:

Basic internal control procedures require accurate financial reporting in accordance with Governmental Accounting Standards.

Condition:

During the audit, I noted the following condition:

Prior year audit adjustments had not been recorded, thus requiring an audit adjustment to reconcile opening fund balances.

Cause:

Audit adjustments had not made because of a significant change in management and lack of professional accounting guidance.

Effect or potential effect:

The potential effect from these conditions, if not corrected, include the risk of error in financial reporting, and the risk of fraud going undetected.

Recommendation:

I recommend that 2019 audit adjustments, including audit adjustments prior to 2019, be recorded at conclusion of the 2019 audit.

Management's Response:

Management understands the importance of recording prior year audit adjustments and plans to have all past audit adjustments recorded upon acceptance of the 2019 audit.

**CITY OF LEONARD, TEXAS
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

Financial Statement Findings

2019-2

Criteria:

Basic internal control procedures require accurate financial reporting in accordance with Governmental Accounting Standards.

Condition:

During the audit, I noted the following condition:

Normal accounting processes were not being applied, such as monthly bank reconciliations, comparing the bank balances to the general ledger, and monthly reconciliations of subsidiary ledgers to the general ledger, such as accounts payable, and debt schedules.

Cause:

Based on a lack of accounting expertise or training.

Effect or potential effect:

The potential effect from these conditions is an increased level of risk potential for fraud going undetected and a potential for misleading internal financial information.

Recommendation:

I recommend that the City continue to use a third-party accounting firm to assist in both performing basic accounting functions, and provide accounting training to City management.

Management's Response:

Management understands the importance of this matter and is currently utilizing the services of a third-party accounting firm.