

**CITY OF DE LEON,  
DE LEON, TEXAS  
ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

City of De Leon  
Annual Financial Report  
for the Year Ended September 30, 2011

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## **Independent Auditor's Report**

To the Honorable Mayor  
And City Council  
City of De Leon  
De Leon, Texas

I have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of De Leon, Texas as of and for the year ended September 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of De Leon, Texas management. My responsibility is to express opinions 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. 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 includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of De Leon, Texas as of September 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued by report dated April 19, 2011, on my consideration of the City of De Leon's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in

accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.

As described in Note 1, The City has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements-and Management's Discussion and analysis-for State and Local Governments*, as of September 30, 2004.

The management's discussion and analysis and budgetary comparison information on pages 3 through 9, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries to management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of De Leon, Texas basic financial statements. The introductory section and combining and individual nonmajor fund financial statements, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, I express no opinion on them.

Respectively submitted,



Burl D. Lowery  
Certified Public Accountant

May 3, 2012

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of City of De Leon's annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year ended September 30, 2011. Please read it in conjunction with the City's financial statements, which follow this section.

### FINANCIAL HIGHLIGHTS

- The City's total combined net assets were \$3,099,805 at September 30, 2011 and \$2,887,455 at September 30, 2010.
- During the year, the City's expenses were \$230,142, more than the \$1,119,321 generated in taxes and other revenues for governmental activities before transfers from the Water and Sewer Fund.
- The total cost of the City's programs in the governmental activities was \$1,349,463.
- The general fund reported a fund balance this year of \$44,076.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts—*management's discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the City's overall financial status.
- The remaining statements are *fund financial statements* that focus on *individual* parts of the government, reporting the City's operations in more detail than the government-wide statements.
- The *governmental funds* statements tell how *general government* services were financed in the *short-term* as well as what remains for future spending.
- *Proprietary fund* statements offer *short-* and *long-term* financial information about the activities the government operates *like businesses*, such as water and sewer.
- *Fiduciary fund* statements provide information about the financial relationships in which the City acts solely as a *trustee* or *agent* for the benefit of others, to whom the resources in question belong.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements.

### Government-wide Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report information about the City's net assets and how they have changed. Net assets-the difference between the City's assets and liabilities- is one way to measure the City's financial health or *position*.

- Over time, increases or decreases in the City's net assets are an indicator of whether its financial health improving or deteriorating, respectively.
- To assess the overall health of the City, one needs to consider additional nonfinancial factors such as changes in the City's tax base.

The government-wide financial statements of the City include the *Governmental activities*. Most of the City's basic services are included here, such as fire, police and streets, and general administration. Property taxes and grants finance most of these activities.

### **Fund Financial Statements**

The fund financial statements provide more detailed information about the City's most significant *funds*-not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law and by bond covenants.
- The City Council establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The City has the following kinds of funds:

- *Governmental funds*-Most of the City's basic services are included in governmental funds, which focus on (1) how *cash* and *other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explain the relationship (or differences) between them.
- *Proprietary funds*-Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long-term and short-term financial information.
- *Fiduciary funds*-The City is the trustee, or *fiduciary*, for certain funds. It is also responsible for other assets that-because of a trust arrangement-can be used only for the trust beneficiaries. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the City's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. These funds consist of the Cemetery Trust Fund.

### **FINANCIAL ANALYSIS OF THE CITY AS A WHOLE**

Net assets. The City's combined net assets were \$3,099,805 at September 30,2011.

**Changes in net assets.** The City's total governmental revenues were \$1,120,405. A significant portion, 31%, of the City's revenue comes from property taxes and 28% relates to charges for services.

The total cost of all governmental type programs and services was \$1,420,464; 18% of these costs are for police and 12% are for general administration.

#### **Governmental Activities**

- Property tax values have remained fairly stable for the City. Revenues from property taxes were \$346,827 for the 2010-2011 fiscal year.
- Revenues of the Water and Sewer Fund from customers was \$1,000,762 for the 2010-2011 fiscal year.

### **FINANCIAL ANALYSIS OF THE CITY'S FUNDS**

Revenues from governmental fund types in the individual funds totaled \$1,120,405, and \$1,000,762 in the proprietary funds. The City's property tax base and number of utility customers has remained stable.

#### **General Fund Budgetary Highlights**

Over the course of the year, the City did revised its budget. Actual expenditures were \$32,632 more than the final budget amounts of the General Fund.

On the other hand, resources available were \$33,163 more than the final budgeted amount.

### **CAPITAL ASSETS AND DEBT ADMINISTRATION**

#### **Capital Assets**

At the end of 2011, the City had invested \$4,600,618 in a broad range of capital assets, including land, equipment buildings, and vehicles. There were \$99,788 of additions during the current year.

The City's fiscal year 2011-2012 general fund budget does not include any new construction contracts. However the City is building a wastewater treatment plant of approximately \$2.3 million funded with combination tax and revenue certificates of obligation.

#### **Long Term Debt**

At year-end the City had \$2,286,493 outstanding long-term debt including certificates of obligation of \$2,110,000 issued in the 2008-2009 year. More detailed information about the City's debt is presented in the notes to the financial statements.

### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

- Appraised value and utility customers used for the 2011-2012 budget preparation is approximately the same as the appraised value and number of utility customers for the 2010-2011 budget.
- General operating fund spending increases in the 2011-2012 budget from \$1,260,004 to \$1,263,376. This is an increase of 0.27%.

These indicators were taken into account when adopting the general fund budget for 2011-2012. Amounts available for appropriation in the general fund budget are \$981,369, a decrease of 2.6 percent over the final 2010-2012 budget of \$1,008,084.

If these estimates are realized, the City's budgetary general fund balance is not expected to materially change during the 2011-2012 fiscal year.

**CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City Administration.



City of De Leon

Management Discussion and Analysis - Tables

Financial Analysis for the City as a Whole

Table 1

City of De Leon's Net Assets

	Governmental Activities		Business-type Activities	
	9-30-11	9-30-010	9-30-11	9-30-10
<b>ASSETS</b>				
Current Assets:				
Cash and cash equivalents	\$151,386	\$200,144	\$673,376	\$590,232
Accounts Receivable:				
Ad valorem taxes net of uncollectible	\$30,076	\$32,621		
Customers and others	\$22,351	\$32,081	\$91,276	\$104,028
Other receivables	\$0	\$15,232		
Prepaid expense	\$0	\$30,860		
Inventories			\$8,889	\$9,406
Due from other funds	\$2,723	\$2,723		
<b>Total Current Assets</b>	<b>\$206,536</b>	<b>\$313,661</b>	<b>\$773,541</b>	<b>\$703,666</b>
Restricted Assets:				
Cash and investments - debt service			\$91,338	\$103,166
Cash and investments - construction			\$49,441	\$12,991
Escrow account - construction			\$2,090,365	\$2,194,165
<b>Total Restricted Assets:</b>			<b>\$2,231,144</b>	<b>\$2,310,322</b>
Capital Assets:				
Infrastructure	\$380,000	\$380,000	\$1,288,983	\$1,288,983
Buildings and improvement	\$1,956,415	\$1,956,415		
Machinery and equipment	\$725,318	\$692,880	\$127,243	\$127,243
Work in progress	\$0	\$0	\$122,659	\$55,309
Accumulated depreciation	(\$1,339,497)	(\$1,251,374)	(\$1,032,198)	(\$1,005,786)
<b>Total Capital Assets</b>	<b>\$1,722,236</b>	<b>\$1,777,921</b>	<b>\$506,687</b>	<b>\$465,749</b>
Tas anticipation note issuance cost net of amortization	\$3,214	\$6,428	\$77,370	\$81,598
<b>Total Assets</b>	<b>\$1,931,986</b>	<b>\$2,098,010</b>	<b>\$3,588,742</b>	<b>\$3,561,335</b>
<b>LIABILITIES</b>				
Acocunts payable & accrued expenses	\$93,185	\$111,214	\$12,913	\$48,989
Due to other funds	\$18,320	\$18,320		
Note payable - short-term		\$0		
Customer meter deposits			\$61,450	\$60,369
Deferred revenues		\$0		
Noncurrent liabilities:				
Due within one year	\$85,498	\$126,414	\$120,000	\$120,000
Due in more than one year	\$90,995	\$176,494	\$1,990,000	\$2,110,000
<b>Total Liabilities</b>	<b>\$287,998</b>	<b>\$432,442</b>	<b>\$2,184,363</b>	<b>\$2,339,358</b>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	\$1,545,743	\$1,475,013	(\$1,603,313)	(\$1,796,941)
Restricted for:				
Debt service			\$91,338	\$103,166
Construction			\$2,139,806	\$2,207,156
Unrestricted	\$149,683	\$190,555	\$776,548	\$708,596
<b>Total Net Assets</b>	<b>\$1,695,426</b>	<b>\$1,665,568</b>	<b>\$1,404,379</b>	<b>\$1,221,977</b>

**City of De Leon**

**Management Discussion and Analysis - Tables**

**Financial Analysis for the City as a Whole**

**Table 3**

City of De Leon's Capital Assets

	Governmental Activities		Business-type Activities	
	9-30-11	9-30-10	9-30-11	9-30-10
Infrastructure	\$380,000	\$380,000	\$1,288,983	\$1,288,983
Buildings and improvements	\$1,956,415	\$1,956,415		
Machinery and equipment	\$725,318	\$692,880	\$127,243	\$127,243
Work in progress	\$0	\$0	\$122,659	\$55,309
Less accumulated depreciation	(\$1,339,497)	(\$1,251,374)	(\$1,032,198)	(\$1,005,786)
<b>Total Capital Assets</b>	<b>\$1,722,236</b>	<b>\$1,777,921</b>	<b>\$506,687</b>	<b>\$465,749</b>

**Table 4**

City of De Leon's Long-term Debt

	Governmental Activities		Business-type Activities	
	9-30-11	9-30-10	9-30-11	9-30-10
Tax anticipation note	\$155,000	\$230,000	\$0	\$0
Tax and revenue certificates			\$2,110,000	\$2,230,000
Capital leases payable	\$21,493	\$72,908	\$0	\$0
<b>Total Long-term Debt</b>	<b>\$176,493</b>	<b>\$302,908</b>	<b>\$2,110,000</b>	<b>\$2,230,000</b>

City of De Leon

Management Discussion and Analysis - Tables

Financial Analysis for the City as a Whole

Table 2

City of De Leon's Changes in Net Assets

	Governmental Activities		Business-type Activities	
	9-30-11	9-30-10	9-30-11	9-30-10
<b>Program Revenues:</b>				
Charges for services	\$319,012	\$278,576	\$968,486	\$920,918
Operating grants	\$4,753	\$5,650		
Capital grants	\$0	\$0		
<b>General Revenues:</b>				
Property taxes	\$345,743	\$335,600		
Other taxes	\$285,895	\$263,045		
Fines and forfeitures	\$34,045	\$24,946		
Investment earnings	\$3,059	\$4,810	\$1,826	\$1,796
Other revenues	\$126,814	\$79,488	\$30,450	\$32,193
Assets transferred in			\$0	\$0
Transfers in	\$260,000	\$350,000	\$0	\$104,211
<b>Total Revenues</b>	<b>\$1,379,321</b>	<b>\$1,342,115</b>	<b>\$1,000,762</b>	<b>\$1,059,118</b>
<b>Expenditures:</b>				
Central government	\$193,419	\$211,694		
Tax collection	\$23,880	\$15,065		
Animal shelter	\$15,762	\$19,989		
Solid waste	\$285,091	\$242,026		
City court	\$54,475	\$50,739		
Canine unit	\$1,176	\$1,128		
Police	\$254,351	\$274,250		
Highways and streets	\$276,857	\$207,491		
Dispatch service	\$57,940	\$55,460		
Code enforcement	\$183	\$109		
Library	\$56,712	\$56,043		
Fire department	\$23,071	\$54,732		
Fire marshal	\$491	\$1,901		
Cemetery maintenance	\$40,472	\$24,961		
Swimming pool	\$105	\$91		
Park	\$9,947	\$11,889		
Senior citizens	\$36,770	\$31,516		
De Leon Informaiton Center	\$3,600	\$3,600		
Police training	\$1,582	\$204		
Other	\$0	\$37,047		
Grants	\$0	\$0		
Water & sewer expenses			\$558,360	\$612,349
Amortization of loan issuance costs	\$3,214	\$2,143		
Debt service - interest expense	\$10,365	\$15,231		
Transfers out		\$104,211	\$260,000	\$350,000
<b>Total Expenditures</b>	<b>\$1,349,463</b>	<b>\$1,421,520</b>	<b>\$818,360</b>	<b>\$962,349</b>
<b>Change in Net Assets</b>	<b>\$29,858</b>	<b>(\$79,405)</b>	<b>\$182,402</b>	<b>\$96,769</b>
Prior period adjustments	\$0	\$0	\$0	(\$354)
<b>Net Assets Beginning of Year</b>	<b>\$1,665,568</b>	<b>\$1,744,973</b>	<b>\$1,221,977</b>	<b>\$1,125,562</b>
<b>Net Assets End of Year</b>	<b>\$1,695,426</b>	<b>\$1,665,568</b>	<b>\$1,404,379</b>	<b>\$1,221,977</b>

## **Basic Financial Statements**

City of De Leon  
Statement of Net Assets  
September 30, 2011

	Primary Government		Totals Primary Government
	Governmental Activities	Business-Type Activities	
<b>ASSETS</b>			
Cash and investments	\$151,386	\$673,376	\$824,762
Receivables (net of allowance for uncollectible taxes, where applicable)			\$0
Delinquent ad valorem taxes	\$30,076		\$30,076
Customers and other	\$22,351	\$91,276	\$113,627
Other receivables			\$0
Prepaid expenses			\$0
Inventories		\$8,889	\$8,889
Restricted Assets:			
Cash and investments		\$2,231,144	\$2,231,144
Internal balances	\$2,723		\$2,723
Capital assets:			\$0
Infrastructure	\$380,000	\$1,288,983	\$1,668,983
Buildings & improvements	\$1,956,415		\$1,956,415
Machinery & equipment	\$725,318	\$127,243	\$852,561
Work in progress - wastewater plant		\$122,659	\$122,659
Accumulated depreciation	(\$1,339,497)	(\$1,032,198)	(\$2,371,695)
Other assets:			
Debt issuance costs net of amortization	\$3,214	\$77,370	\$80,584
<b>Total Assets</b>	<b>\$1,931,986</b>	<b>\$3,588,742</b>	<b>\$5,520,728</b>
<b>LIABILITIES</b>			
Accounts payable and accrued expenses	\$41,747	\$12,913	\$54,660
Due to other funds	\$18,320		\$18,320
Note payable - short-term	\$0		\$0
Customer meter deposits		\$61,450	\$61,450
Deferred revenues	\$0		\$0
Noncurrent liabilities:			\$0
Due within one year	\$85,498	\$120,000	\$205,498
Due in more than one year	\$90,995	\$1,990,000	\$2,080,995
<b>Total Liabilities</b>	<b>\$236,560</b>	<b>\$2,184,363</b>	<b>\$2,420,923</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	\$1,545,743	(\$1,603,313)	(\$57,570)
Restricted for:			
Construction		\$2,139,806	\$2,139,806
Debt service		\$91,338	\$91,338
Cemetery care			
Unrestricted	\$149,683	\$776,548	\$926,231
<b>Total Net Assets</b>	<b>\$1,695,426</b>	<b>\$1,404,379</b>	<b>\$3,099,805</b>

The accompanying notes are an integral part of these financial statements.

Component Units		Totals Reporting Entity
De Leon Industrial Dev. Corp	De Leon Public Facilities Corporation	
\$67,855	\$106,661	\$999,278
		\$0
		\$0
		\$30,076
		\$113,627
		\$0
		\$0
	\$31,927	\$40,816
		\$2,723
		\$0
		\$0
		\$1,668,983
\$50,095	\$46,058	\$2,052,568
		\$852,561
		\$122,659
(\$2,839)	(\$27,900)	(\$2,402,434)
		\$80,584
<u>\$115,111</u>	<u>\$156,746</u>	<u>\$3,561,441</u>
		\$54,660
		\$18,320
		\$0
		\$61,450
		\$0
		\$0
\$2,858		\$208,356
\$29,905		\$2,110,900
<u>\$32,763</u>	<u>\$0</u>	<u>\$2,453,686</u>
\$14,466	\$18,158	(\$24,946)
		\$2,139,806
		\$91,338
	\$76,757	\$76,757
\$67,882	\$61,831	\$1,055,944
<u>\$82,348</u>	<u>\$156,746</u>	<u>\$3,338,899</u>

City of De Leon  
Statement of Activities  
For the Year Ended September 30, 2011

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary Government:</b>				
<b>Governmental Activities:</b>				
Central government	\$193,419			
Tax collection	\$23,880			
Animal shelter	\$15,762			
Solid waste	\$285,091	\$319,012		
City court	\$54,475			
Canine unit	\$1,176			
Police	\$254,351		\$919	
Highways and streets	\$276,857			
Dispatch service	\$57,940			
Code enforcement	\$183			
Library	\$56,712		\$3,834	
Fire department	\$23,071			
Fire marshall	\$491			
Cemetery maintenance	\$40,472			
Swimming pool	\$105			
Park	\$9,947			
Senior citizens	\$36,770			
De Leon Infromation Center	\$3,600			
Police training	\$1,582			
Other				
Amortiazation of loan issuance costs	\$3,214			
Debt service - interest expense	\$10,365			
<b>Total Governmental Activities</b>	<b>\$1,349,463</b>	<b>\$319,012</b>	<b>\$4,753</b>	<b>\$0</b>
<b>Business-type Activities:</b>				
Water and sewer	\$558,360	\$968,486		
<b>Total Business-type Activities</b>	<b>\$558,360</b>	<b>\$968,486</b>	<b>\$0</b>	<b>\$0</b>
<b>Total Primary Government</b>	<b>\$1,907,823</b>	<b>\$1,287,498</b>	<b>\$4,753</b>	<b>\$0</b>
<b>Component Units:</b>				
De Leon Industrial Foundation	\$76,361	\$0		
De Leon Public Facilities Corporation	\$19,268	\$15,511		
<b>Total Component Unit</b>	<b>\$19,268</b>	<b>\$15,511</b>		<b>\$0</b>
<b>General Revenues:</b>				
Property taxes levied for general purposes				
Other taxes				
Fines and forfeitures				
Investment earnings				
Other revenues				
Transfers - net				
Assets transferred in				
Total general revenues and transfers				
Change in net assets				
Net Assets - Beginning of Year				
Prior period adjustments				
Net Assets - End of Year				

The accompanying notes are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Assets			Component Units		
Primary Government				De Leon Public Facilities Corporation	Total Reporting Entity
Governmental Activities	Business-type Activities	Total	De Leon Industrial Dev. Corp		
(\$193,419)		(\$193,419)			(\$193,419)
(\$23,880)		(\$23,880)			(\$23,880)
(\$15,762)		(\$15,762)			(\$15,762)
\$33,921		\$33,921			\$33,921
(\$54,475)		(\$54,475)			(\$54,475)
(\$1,176)		(\$1,176)			(\$1,176)
(\$253,432)		(\$253,432)			(\$253,432)
(\$276,857)		(\$276,857)			(\$276,857)
(\$57,940)		(\$57,940)			(\$57,940)
(\$183)		(\$183)			(\$183)
(\$52,878)		(\$52,878)			(\$52,878)
(\$23,071)		(\$23,071)			(\$23,071)
(\$491)		(\$491)			(\$491)
(\$40,472)		(\$40,472)			(\$40,472)
(\$105)		(\$105)			(\$105)
(\$9,947)		(\$9,947)			(\$9,947)
(\$36,770)		(\$36,770)			(\$36,770)
(\$3,600)		(\$3,600)			(\$3,600)
(\$1,582)		(\$1,582)			(\$1,582)
\$0		\$0			\$0
(\$3,214)		(\$3,214)			(\$3,214)
(\$10,365)		(\$10,365)			(\$10,365)
(\$1,025,698)	\$0	(\$1,025,698)	\$0	\$0	(\$1,022,484)
	\$410,126	\$410,126			\$410,126
	\$410,126	\$410,126	\$0	\$0	\$410,126
(\$1,025,698)	\$410,126	(\$615,572)	\$0	\$0	(\$612,358)
			(\$76,361)		(\$76,361)
				(\$3,757)	(\$3,757)
			(\$76,361)	(\$3,757)	(\$80,118)
\$345,743		\$345,743			\$345,743
\$285,895		\$285,895	\$39,058		\$324,953
\$34,045		\$34,045			\$34,045
					\$0
\$3,059	\$1,826	\$4,885	\$38	\$972	\$5,895
\$126,814	\$30,450	\$157,264	\$17,802		\$175,066
\$260,000	(\$260,000)	\$0			\$0
		\$0			\$0
\$1,055,556	(\$227,724)	\$827,832	\$56,898	\$972	\$885,702
\$29,858	\$182,402	\$212,260	(\$19,463)	(\$2,785)	\$273,344
\$1,665,568	\$1,221,977	\$2,887,545	\$101,811	\$159,531	\$3,148,887
\$0		\$0			\$0
\$1,695,426	\$1,404,379	\$3,099,805	\$82,348	\$156,746	\$3,422,231



City of De Leon  
Balance Sheet  
Governmental Funds  
September 30, 2011

<u>ASSETS</u>	<u>General</u>	<u>Other Governmental Funds</u>	<u>Totals (Memorandum Only)</u>
Cash and cash equivalents	\$67,249	\$84,137	\$151,386
Restricted cash and investments			
Accounts receivable ( net of allowance for uncollectible accounts, where applicable):			
Delinquent ad valorem taxes	\$30,076		\$30,076
Customers and others	\$22,351		\$22,351
Prepaid expense			\$0
Due from other funds		\$2,723	\$2,723
Due from other governments			
Other receivables			\$0
<b>Total Assets</b>	<b>\$119,676</b>	<b>\$86,860</b>	<b>\$206,536</b>
<u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Accounts payable customers and others	\$27,204		\$27,204
Note payable - short-term			\$0
Due to other funds	\$18,320		\$18,320
Deferred revenue	\$30,076		\$30,076
<b>Total Liabilities</b>	<b>\$75,600</b>	<b>\$0</b>	<b>\$75,600</b>
Fund Balances:			
Unreserved:			
Designated for other purposes	\$14,543	\$86,860	\$101,403
Unreserved	\$29,533	\$0	\$29,533
<b>Total Fund Balances</b>	<b>\$44,076</b>	<b>\$86,860</b>	<b>\$130,936</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$119,676</b>	<b>\$86,860</b>	<b>\$206,536</b>

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

City of De Leon  
 Reconciliation of the Governmental Funds Balance Sheet  
 To the Statement of Net Assets  
 September 30, 2011

**Total Fund Balance - Governmental Funds** \$130,936

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

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds.

Capital assets	\$3,061,733	
Accumulated depreciation	(\$1,339,497)	\$1,722,236

Property taxes receivable unavailable to pay for current period expenditures are deferred in the governmental funds.

Deferred revenue - ad valorem taxes	\$30,076
-------------------------------------	----------

Long-term liabilities including capital leases are not due and payable in the current period, and therefore are not reported as liabilities in the governmental funds.

(\$176,493)

Tax anticipation note issuance costs net of amortization. These costs are recorded as an expenditure in the governmental funds.

\$3,214

Accrued compensated absences are not reported as a liability in the governmental funds.

(\$14,543)

**Total Net Assets - Governmental Activities**

\$1,695,426

The accompanying notes are an integral part of this statement.

City of De Leon, Texas  
 Combined Statement of Revenues, Expenditures, and Changes in Fund Balance  
 All Governmental Fund Types  
 Year Ended September 30, 2011

	General	Other Government Funds	Totals (Memorandum Only)
<b>REVENUES:</b>			
Ad valorem taxes	\$336,325		\$336,325
Penalty and interest	\$10,502		\$10,502
Other taxes	\$252,532	\$33,363	\$285,895
Fines and forfeitures	\$34,045		\$34,045
Solid waste collection	\$319,012		\$319,012
Rents	\$7,064		\$7,064
Interest	\$812	\$2,247	\$3,059
Other	\$80,780	\$12,984	\$93,764
Police training grant			\$0
Contributions	\$175	\$1,515	\$1,690
Intergovernmental		\$24,296	\$24,296
Grant proceeds		\$4,753	\$4,753
<b>Total Revenues</b>	<b>\$1,041,247</b>	<b>\$79,158</b>	<b>\$1,120,405</b>
<b>EXPENDITURES:</b>			
General government	\$173,131		\$173,131
Tax office	\$23,880		\$23,880
Animal shelter	\$13,859		\$13,859
Solid waste	\$285,091		\$285,091
City court	\$47,898		\$47,898
Police - Canine Unit	\$1,176		\$1,176
Police	\$256,079		\$256,079
Highways and streets	\$175,576		\$175,576
Dispatch service	\$57,940		\$57,940
Code enforcement	\$183		\$183
Library	\$25,238		\$25,238
Fire department	\$23,071		\$23,071
Fire marshall	\$491		\$491
Cemetery	\$24,132		\$24,132
Swimming pool	\$105		\$105
Park	\$7,637		\$7,637
Senior citizens	\$36,770		\$36,770
De Leon Information Center	\$3,600		\$3,600
Maintenance		\$77,171	\$77,171
Parks Improvement		\$1,261	\$1,261
Debt Service - Capital Lease Principal	\$51,414		\$51,414
Debt Service - Capital Lease Interest	\$2,184		\$2,184
Debt Service - Tax Anticipation Note Principal	\$75,000		\$75,000
Debt Service - Tax Anticipation Note Interest	\$8,181		\$8,181
City County Library		\$31,474	\$31,474
Cemetery special projects fund		\$16,340	\$16,340
Police training		\$1,582	\$1,582
<b>Total Expenditures</b>	<b>\$1,292,636</b>	<b>\$127,828</b>	<b>\$1,420,464</b>
<b>EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES</b>	<b>(\$251,389)</b>	<b>(\$48,670)</b>	<b>(\$300,059)</b>
<b>OTHER FINANCING RESOURCES (USES):</b>			
Proceeds from capital leases			\$0
Transfers in	\$260,000	\$3,089	\$263,089
Transfers out	(\$3,089)		(\$3,089)
<b>Net Other Resources (Uses)</b>	<b>\$256,911</b>	<b>\$3,089</b>	<b>\$260,000</b>
<b>EXCESS (DEFICIT) OF REVENUES AND OTHER RESOURCES OVER EXPENDITURES AND OTHER USES</b>	<b>\$5,522</b>	<b>(\$45,581)</b>	<b>(\$40,059)</b>
<b>PRIOR PERIOD ADJUSTMENT</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
<b>FUND BALANCE BEGINNING OF YEAR</b>	<b>\$38,554</b>	<b>\$132,441</b>	<b>\$170,995</b>
<b>FUND BALANCE END OF YEAR</b>	<b>\$44,076</b>	<b>\$86,860</b>	<b>\$130,936</b>

The accompanying notes are an integral part of these financial statements.

City of De Leon  
 Reconciliation of the Governmental Funds  
 Statement of Revenues, Expenditures, and Changes in Fund Balance  
 To the Statement of Activities  
 For the Year Ended September 30, 2011

**Total net change in fund balance - governmental funds** (\$40,059)

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

Capital outlays are reported in governmental funds as expenditures. In the Statement of Activities, the cost of these expenditures is capitalized. \$32,438

Depreciation is not recognized in the governmental funds. The Statement of Activities recognizes depreciation on all depreciable assets. (\$88,123)

Proceeds from capital leases are not recognized as revenue and other resources in the State of Net Assets \$0

Principal payments on capital leases are recognized as expenditures in the governmental funds. Principal payments are recognized as a reduction of liabilities in the Statement of Net Assets.

Fire Truck	\$18,911
Police Cars	\$32,503

Principal payments on tax anticipation notes are recognized as expenditures in the governmental funds. Principal payments are recognized as a reduction of liabilities in the Statement of Net Assets. \$75,000

Because some property taxes are not collected in the fiscal year assessed, the taxes are considered to be "available revenues in the year collected in the governmental funds. Deferred taxes increase by this amount. (\$1,085)

Tax anticipation note issuance costs are recorded as an expenditure in the governmental funds but are amortized in the Statement of activities:

Current year amortization	(\$3,214)
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Other reconciling items \$0

The change in accrued compensated absences is not reflected as an expense in the governmental funds, but is in the Statement of Activities \$3,486

**Change in net assets of governmental activities** \$29,857

The accompanying notes are an integral part of this statement.

City of De Leon  
Statement of Net Assets  
All Proprietary Fund Types  
September 30, 2011

	Water & Sewer Fund	Totals Memorandum Only
<b><u>ASSETS</u></b>		
Current Assets:		
Cash and investments:		
Cash and cash equivalents	\$673,376	\$673,376
Total Cash and Investments	\$673,376	\$673,376
Accounts receivable:		
Customers and others	\$91,276	\$91,276
Inventory of pipe and supplies	\$8,889	\$8,889
Due from other funds	\$0	\$0
Total Current Assets	\$773,541	\$773,541
Restricted Assets:		
Cash and investments - debt service	\$91,338	\$91,338
Cash and Investments - Construction	\$49,441	\$49,441
Escrow Account - Construction	\$2,090,365	\$2,090,365
Total Restricted Assets	\$2,231,144	\$2,231,144
Capital Assets:		
Distribution system	\$1,288,983	\$1,288,983
Machinery & equipment	\$127,243	\$127,243
Construction in progress	\$122,659	\$122,659
Accumulated depreciation	(\$1,032,198)	(\$1,032,198)
Total Capital Assets	\$506,687	\$506,687
Other Assets:		
Note issuance costs net of amortization	\$77,370	\$77,370
Total Other Assets	\$77,370	\$77,370
Total Assets	\$3,588,742	\$3,588,742
<b><u>LIABILITIES</u></b>		
Current Liabilities:		
Accounts payable & accrued expenses	\$12,913	\$12,913
Tax and revenue certificates due in one year	\$120,000	\$120,000
Customer meter deposits	\$61,450	\$61,450
Total Current Liabilities	\$194,363	\$194,363
Long-Term Liabilities:		
Tax and revenue certificates	\$1,990,000	\$1,990,000
Total Long-Term Liabilities	\$1,990,000	\$1,990,000
Total Liabilities	\$2,184,363	\$2,184,363
Net Assets:		
Invested in capital assets, net of related debt	(\$1,603,313)	(\$1,603,313)
Unrestricted:		
Restricted for construction	\$2,139,806	\$2,139,806
Restricted for debt service	\$91,338	\$91,338
Unrestricted	\$776,548	\$776,548
Total Net Assets	\$1,404,379	\$1,404,379
Total Liabilities and Net Assets	\$3,588,742	\$3,588,742

The accompanying notes are an integral part of this statement.

City of De Leon, Texas  
 Combined Statements of Revenues, Expenses, and Changes in  
 Retained Earnings - All Proprietary Fund Types  
 Year Ended September 30, 2011

	<u>Water and Sewer Fund</u>	<u>Totals (Memorandum Only) September 30, 2011</u>
REVENUES:		
Water Revenue	\$636,175	\$636,175
Sewer Revenue	\$332,311	\$332,311
Interest	\$1,826	\$1,826
Other Sales	\$30,450	\$30,450
Total Revenues	<u>\$1,000,762</u>	<u>\$1,000,762</u>
EXPENSES:		
Personal services	\$197,451	\$197,451
Contractual services	\$267,577	\$267,577
Supplies	\$18,468	\$18,468
Other operating costs	\$43,725	\$43,725
Debt issuance and fees	\$4,728	\$4,728
Depreciation	\$26,411	\$26,411
Total Expenses	<u>\$558,360</u>	<u>\$558,360</u>
NET INCOME BEFORE TRANSFERS	<u>\$442,402</u>	<u>\$442,402</u>
TRANSFERS AND OTHER:		
Operating transfers in	\$0	\$0
Operating transfers out	(\$260,000)	(\$260,000)
Total Transfers	<u>(\$260,000)</u>	<u>(\$260,000)</u>
NET INCOME	\$182,402	\$182,402
RETAINED EARNINGS BEGINNING OF YEAR	\$1,221,977	\$1,221,977
PRIOR PERIOD ADJUSTMENT	<u>                    </u>	<u>                    </u>
RETAINED EARNINGS END OF YEAR	<u>\$1,404,379</u>	<u>\$1,404,379</u>

The accompanying notes are an integral part of these financial statements.

City of De Leon, Texas  
 Combined Statements of Cash Flows - All Proprietary Fund Types  
 Year Ended September 30, 2011

	Water & Sewer Fund	Totals (Memorandum Only) September 30, 2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash received from customers	\$982,319	\$982,319
Other operating revenues	\$30,450	\$30,450
Cash payments for goods and services	(\$365,827)	(\$365,827)
Cash payments to employees	(\$197,451)	(\$197,451)
<b>Net Cash Provided by Operating Activities</b>	<u>\$449,491</u>	<u>\$449,491</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
Operating transfers-out	(\$260,000)	(\$260,000)
Operating transfers in	\$0	\$0
Principal payment of tax and revenue certificates	(\$120,000)	(\$120,000)
Decrease (increase) in restricted assets	\$79,178	\$79,178
Issuance costs for tax and revenue certificates	\$0	\$0
<b>Net Cash from Noncapital Financing Activities</b>	<u>(\$300,822)</u>	<u>(\$300,822)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Interest received	\$1,826	\$1,826
<b>CASH FLOW FROM CAPITAL AND RELATED ACTIVITIES:</b>		
Contributed capital		
Prior period adjustment	\$0	(\$351)
Acquisition of capital assets	(\$67,350)	(\$67,350)
<b>Net Cash Flow from Capital and Related Activities</b>	<u>(\$67,350)</u>	<u>(\$67,701)</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	\$83,145	\$82,794
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>\$590,231</u>	<u>\$590,231</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$673,376</u>	<u>\$673,025</u>
<b>RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>		
Operating income before operating transfers	\$442,402	\$442,402
Adjustments to reconcile net cash provided by operating activities:		
Depreciation expense	\$26,411	\$26,411
Amortization expense	\$4,728	\$4,728
(Increase) decrease in accounts receivable	\$12,752	\$12,752
(Increase) decrease in inventory	\$517	\$517
Increase (decrease) in accounts payable & accrued expense	(\$36,574)	(\$36,574)
Rounding		\$0
Increase in customer deposits	\$1,081	\$1,081
Interest income	(\$1,826)	(\$1,826)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>\$449,491</u>	<u>\$449,491</u>

The accompanying notes are an integral part of these financial statements.

City of De Leon  
Statement of Net Assets  
All Fiduciary Fund Types  
September 30, 2011

	Permanent Trust Funds Cemetery Trust Fund	Totals Memorandum Only
<b><u>ASSETS</u></b>		
Cash and cash equivalents	\$192,327	\$192,327
Due from other funds	\$15,597	\$15,597
Total Assets	\$207,924	\$207,924
<b><u>LIABILITIES</u></b>		
Due to Special Projects Fund	\$0	\$0
Total Liabilities	\$0	\$0
Net Assets:		
Restricted for cemetery care	\$207,924	\$207,924
Total Liabilities and Net Assets	\$207,924	\$207,924

The accompanying notes are an integral part of this statement.



City of De Leon  
Statement of Reveneus, Expenditures, and Changes in Net Assets  
All Fiduciary Fund Types  
For the Year Ended September 30, 2011

	Permanent Trust Funds Cemetery Trust Fund	Totals Memorandum Only
Revenues:		
Interest earned	\$20	\$20
Other including lot sales	\$0	\$0
Donations	\$690	\$690
Total Revenues	\$710	\$710
Expenditures:		
Cemetery special projects fund	\$0	\$0
Total Expenditures	\$0	\$0
Excess (Deficit) of Revenues over Expenditures	\$710	\$710
Net Assets Beginning of Year	\$207,214	\$207,214
Net Assets End of Year	\$207,924	\$207,924

The accompanying notes are an integral part of these financial statements.

City of De Leon, Texas  
Notes to Financial Statements  
September 30, 2011

**Note 1 – Description of City and Reporting Entity**

The City of De Leon was incorporated under the provisions of the State of Texas. The City is a home rule city and operated under a Council-Mayor form of government and provides the following services as authorized by its charter: public safety (police and fire), streets, sanitation, health and social services, culture, recreation, public improvements, and general administrative services. Other services include utilities.

Financial Reporting Entity

As required by the accounting principles generally accepted in the United States of America, these financial statements present the primary government and its component units, entities for which the government is considered to be financially accountable. The discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize it is legally separate from the primary government.

**Component Units:**

The Comanche Gardens of Memory, Inc. transferred its privately owned cemetery, perpetual care fund, cash on hand, and equipment to the De Leon Public Facilities Corporation on February 13, 2001. The De Leon Public Facilities Corporation was created by the City of De Leon to own and operate the Gardens of Memory Cemetery. The City Council appoints the directors of the De Leon Public Facilities Corporation and oversees its operations. The fiscal year of the corporation is the same as the City's fiscal year. The De Leon Industrial Development Corporation collects sales taxes to promote Industrial development in the City of De Leon. The board of directors of the De Leon Industrial Development Corporation are appointed by the City Council of the City of De Leon. The fiscal year of the De Leon Industrial Development Corporation is the same as the City's fiscal year.

**Note 2 – Summary of Significant Accounting Policies**

The financial statements of the City of De Leon have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles. The City also applied Financial Accounting Standards Board (FASB) Statements issued on or before November 30, 1989 to its governmental and business-type activities and to its enterprise funds provided they do not conflict with or contradict GASB pronouncements. The City has elected not to apply FASB pronouncements issued after November 30, 1989 to its business-type activities or enterprise funds. The most significant of the City's accounting principles are described as follows:

City of De Leon, Texas  
Notes to Financial Statements  
September 30, 2011

A. Basis of Presentation

The City's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

**Government-wide Financial Statements**

The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities.

The statement of net assets presents the financial condition of the governmental and business-type activities of the City at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program of the City's governmental activities and for business-type activities of the City. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given program and (2) operating or capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues, which are not classified as program revenues, are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental program or business activity is self-financing or draws from the general revenues of the City.

**Fund Financial Statements**

The City segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at the more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

City of De Leon, Texas  
Notes to Financial Statements  
September 30, 2011

Governmental Funds

Governmental funds are those funds through which most governmental functions typically are financed. Governmental funds reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the City's major governmental funds:

General Fund – The General Fund is the main operating fund of the City. This fund is used to account for all financial resources not accounted for in the other funds.

Cemetery Trust Fund – The Cemetery Trust Fund is a permanent fund. The City in agreement with the De Leon Cemetery Association, a legally separate entity, has restricted the use of the Cemetery Trust Funds to only earnings and not principal. These earnings are transferred to a Cemetery Special Projects Fund for use in maintaining and improving the De Leon Cemetery.

Nonmajor funds are aggregated and presented in a single column. The City's nonmajor governmental funds are as follows:

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than expendable trusts and major capital projects) that are legally restricted to expenditures for specific purposes.

Proprietary Funds

Proprietary funds reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows. The City's proprietary funds are all classified as enterprise funds. Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods and services. All of the City's enterprise funds are major funds.

Water and Sewer Fund – The Water and Sewer Fund is used to account for operation of the water and sewer departments of the City. The fund's operations are financed primarily through user charges.

B. Measurement Focus

**Government-wide Financial Statements** – The government-wide financial statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the City are included on the statement of net assets. The statement of activities presents the operations of the City in a format that reports the net revenues (expenses) of its individual functions.

City of De Leon, Texas  
Notes to Financial Statements  
September 30, 2011

**Fund Financial Statements** – All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of the current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Therefore, governmental fund financial statements include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements of the governmental funds.

Like government-wide statements, all proprietary funds are accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of fund net assets. The statement of changes in revenues, expenses, and changes in fund net assets presents revenues and expenses in total net assets. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its proprietary activities.

When the City incurs an expenditure or expense for which both restricted and unrestricted resources may be used, it is the City's policy to use restricted resources first, then unrestricted resources.

C. Basis of Accounting

**Government-wide Financial Statements and Proprietary Fund Financial Statements**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting; proprietary and fiduciary funds also use the accrual basis of accounting.

Under the accrual basis of accounting, revenues are recognized when earned. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

City of De Leon, Texas  
Notes to Financial Statements  
September 30, 2011

**Governmental Fund Financial Statements**

Governmental fund 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: i.e., when they become both measurable and available. “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

Major revenue sources susceptible to accrual are property taxes, franchise taxes, special assessments, licenses, and charges for services. The City considers property taxes as available when they are collected. Fines and permits are recorded as revenues when received. Sales taxes are collected by the State of Texas and subsequently remitted to the City and are recognized as revenue when received by the City. Grant funds are earned to the extent of expenditures made under the provisions of the grant, and accordingly, when such funds are received, they are recorded as deferred revenue until earned.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

**D. Budget Process**

Prior to October 1 of each year the Mayor submits to the City Council a proposed operating budget for the upcoming fiscal year. The operating budget includes proposed expenditures and the means of financing them. The City holds a public hearing on the proposed budget at least ten days prior to adoption as required by law. Prior to October 1 each year the budget is legally enacted through the passage of an ordinance.

The City uses a modified accrual basis for budgeting in governmental funds. The major governmental fund – General Fund is presented in budgetary comparison schedules as required supplemental information. Nonmajor governmental funds that adopt budgets present budgetary comparison schedules in other supplemental information.

The budgetary comparison schedules shown in the accompanying supplemental information present comparisons of the legally adopted budget, as amended, with actual results. The originally adopted budget is presented for purposes of comparison to the final, amended budget.

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E. Cash and Cash Equivalents

For purposes of the statement of cash flows, the Proprietary Funds consider all highly liquid investments with a maturity of three months or less at the time of purchase as cash equivalents.

F. Inventories

The City uses the purchases method of accounting for inventories for all areas except the Water and Sewer Fund supplies. Under the purchases method materials and supplies are recorded as expenditures when purchased.

The supplies in the Water and Sewer Fund are expended when used. A physical inventory of the supplies is performed as of the end of the fiscal year. The inventory is valued at cost on the first-in first-out method.

G. Restricted Cash

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.

H. Capital Assets

General capital assets are capital assets that are associated with and generally arise from governmental activities. They generally result from expenditures in the governmental funds. General capital assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are reported at their fair market value as of the date received. The City's infrastructure consists of City streets, streetlights, and signs, and water and sewer systems. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. 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.

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All capital assets are depreciated, except for land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacements.

Capital outlays are recorded as expenditures of the General and Special Revenue Funds and as assets in the government-wide financial statements to the extent the City's capitalization threshold of \$5,000 is met. In accordance with GASB Statement No. 34, infrastructure has been capitalized retroactively. Depreciation is recorded on general fixed assets on a government-wide basis using the straight-line method.

To the extent the City's capitalization threshold of \$5,000 is met, capital outlays of the Proprietary Funds are recorded as fixed assets and depreciated over their estimated useful lives in both the fund financial statements and the government-wide financial statements using a straight-line method.

The following estimated useful lives in years are used in computing the straight-line depreciation:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>	<u>Business-Type Activities Estimated Lives</u>
Buildings and improvements	40	40
Machinery and equipment	5-10	5-10
Vehicles	5-10	5-10
Infrastructure	40	40

I. Long-term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the Government-wide financial statements. All payables, accrued liabilities, and long-term obligations payable from the proprietary fund types are reported on the proprietary fund financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current resources, are reported as obligations of the funds. Long-term loans and leases are recognized as a liability on the governmental fund financial statements when due.

J. Governmental Fund Designated Fund Balances

The City designates portions of fund balances which are legally segregated for a specific future use.



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K. Net Assets

Net assets represents the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement on their use through constitutional provisions or enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

L. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the City, these revenues are charges for services for water, sewer, and sanitation.

M. Contributions of Capital

Contributions of capital in the proprietary fund financial statements arise from outside contributions of capital assets or from grants or outside contributions of resources restricted to capital acquisition and construction.

N. Interfund Receivables and Payables

During the course of operations, many transactions occur between individual funds for various reasons. The short-term receivables and payables between the individual funds are classified as "Interfund Receivables" and "Interfund Payables".

Permanent transfers of revenues between funds are classified as "Transfers in" and "Transfers out" in the individual funds. The Council approves the permanent transfers of funds at the Council meetings. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds.

Transfers between governmental and business-type activities on the government-wide statement of activities are reported in the same manner as general revenues. Any residual balances outstanding between the governmental activities and the business-type activities are reported in the statement of net assets as "internal balances".

O. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported

City of De Leon, Texas  
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amounts of revenues and expenditures/expenses during the reporting period. As such, actual results could differ from those estimates.

P. Compensated Absences

Vacation and sick leave benefits are accrued monthly as earned. The liability for these accrued benefits is reported as accrued compensated balances. This liability is reported as a current liability in the proprietary fund types, and as a general long-term liability in the governmental funds, except for the portion deemed to be current, if any.

Q. Risk Management

The City is exposed to various risks related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During the fiscal year 2011, the City purchased insurance coverage to cover potential risks. There were no significant reductions in coverage in the past fiscal year and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

**Note 3 – Deposits and Investments**

Primary Government

The City maintains a cash pool, which includes the cash balances of the General Fund, Water and Sewer Fund and Municipal Court Fund. The Cemetery Trust Fund and the remaining Special Revenue Funds maintain their separate bank accounts and banking records.

Deposits – State statutes require that all deposits in financial institutions be fully collateralized by U. S. Government obligations or its agencies and instrumentalities or direct obligations of Texas or its agencies and instrumentalities that have a market value of not less than the principal amount of the deposits. The Farmers and Merchants Bank of De Leon, Texas is the primary depository of the City.

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At September 30, 2011, the City had the following cash and investments:

	<u>Carrying Amount</u>	<u>Bank Balances</u>
Primary Government:		
Petty Cash	\$807	
Cash in Bank:		
Governmental Activities	75,401	103,048
Business-type Activities	306,149	327,003
Investments:		
Governmental Activities:		
Certificates of Deposit	75,732	75,732
TEXPOOL	1,291	1,291
Business-type Activities:		
Certificates of Deposit	158,352	158,352
TEXPOOL	208,321	208,321
Restricted for Debt Service	91,338	91,338
Restricted for Construction		
Cash in Bank	49,441	49,441
US Bank Construction Escrow	2,090,365	2,090,365
 Total Primary Government	 <u><u>\$3,057,197</u></u>	 <u><u>3,104,891</u></u>

As of September 30, 2011, the total bank balance above was covered by FDIC coverage in the amount of \$250,000 and pledged securities with a market value of \$1,748,896 which were pledged by the Farmers and Merchants Bank to the City.

The City's deposits are categorized to give an indication of the level of risk assumed by the City at year-end.

Category 1 includes deposits that are insured or registered of for which the securities held by the City or its agent in the City's name.

Category 2 includes uninsured and unregistered deposits for which securities are held by the counterpart's trust department or agent in the City's name.

Category 3 includes uninsured and unregistered deposits for which the securities are held by the counterparty, or by its trust department or agent but not in the City's name.

Based on these levels of risk, all of the City's deposits are classified as Category 1.

Deposits – Component Units

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The Farmers and Merchants Bank is the authorized depository for the De Leon Public Facilities Corporation and the Industrial Development Corporation.

At September 30, 2011, cash and investments were invested as follows:

	<u>Carrying Amount</u>	<u>Bank Balances</u>
Component Unit:		
Cash in Bank	\$ 98,690	116,810
Certificates of Deposit	75,826	75,826
 Total Cash and Investments	 <u>\$174,516</u>	 <u>192,636</u>

The De Leon Public Facilities Corporation and the Industrial Development Corporation are also categorized to give an indication of the level of risk assumed by the Corporation at year-end. Based on the three levels of risk discussed above, all of the Corporation's deposits are classified as Category 1.

Investments – Primary Government

The City is required by Government Code Chapter 2256, Public Funds Investment Act, to adopt, implement, and publicize an investment policy. The Public Funds Investment Act requires an annual audit of the 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 on investment practices, management reports and establishment of appropriate policies, the City adhered to the requirements of the Act.

The Act determines the types of investment, which are allowable for the City. These include, with certain restrictions, (1) obligations of the U. S. Treasury, certain U.S. agencies, and the State of Texas, (2) certificates of deposit, (3) municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, and (10) common trust funds.

The City's investments consist of certificates of deposit and deposits with TEXPOOL. All of the certificates of deposit are fully collateralized with FDIC coverage and pledged securities.

The carrying amount by type of investment is classified into the following three categories of credit risk:

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Category 1 – Insured, registered, or securities held by the entity or its agent in the entity’s name.

Category 2 – Uninsured or unregistered, with securities held by the counterparty’s trust department or agent in the City’s name.

Category 3 – Uninsured and unregistered, with the securities held by the counterparty, or by its trust department or agent but not in the City’s name.

The City’s investments at September 30, 2011 are as follows:

	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Reported Amount</u>	<u>Fair Value</u>
Primary Government:					
Time Deposits	\$234,084			234,084	234,084
TEXPOOL				209,612	209,612
Total Primary Government	<u>\$234,084</u>	<u>                    </u>	<u>                    </u>	<u>443,696</u>	<u>443,696</u>
Component Units:					
Time Deposits	<u>\$75,826</u>	<u>                    </u>	<u>                    </u>	<u>75,826</u>	<u>75,826</u>

Public Funds Investment Pool – Public funds investment pools in Texas are established under the authority of the Interlocal Cooperation Act, Chapter 79 of the Texas Government Code, and are subject to the provisions of the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. In addition to other provisions of the Act designed to promote liquidity and safety of principal, the Act requires Pools to: (1) have an advisory board composed of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool; (2) maintain a continuous rating of no lower than AAA or AAA-m or an equivalent rating by at least one nationally recognized rating service; (3) maintain a market value of its underlying investment portfolio within one half of one percent of its shares.

The City’s investment in Pools are reported at an amount determined to be fair value per share of the pool’s underlying portfolio, unless the pool is a 2a-7 like, in which case they are reported at share value. A 2a-7 like pool is one which is not registered with the Securities and Exchange Commission as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with SEC’s Rule 2a7 of the Investment Company Act of 1940.

Analysis of Specific Deposit and Investment Risks

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GASB Statement No. 40 requires a determination as to whether the City was exposed to the following specific investment risks at year end and if so, the reporting of certain disclosures:

a. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At year end, the City was not significantly exposed to credit risk, but had these investments:

TEXPOOL \$209,612      AAA Rated

b. Custodial Risk

Deposits are exposed to custodial risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the City's name.

Investment securities are exposed to custodial risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent in the City's name.

At year end, the City was not exposed to custodial credit risk.

c. Concentration of Credit Risk

The risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At year end, the City was not exposed to concentration of credit risk.

d. Interest Rate Risk

This is the risk that changes in interest rates will adversely affect the fair value of an investment. At year end the City was not exposed to interest rate risk.

c. Foreign Currency Risk

This is the risk that exchange rates will adversely affect the fair value of an investment. At year end, the City was not exposed to foreign currency risk.

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**Note 5 – Property Taxes**

Taxes are levied each October 1 and the tax rate is set by the Council. Taxes are based on the assessed (appraised) value listed as of the prior January 1 for all real and business personal property located in the City. Taxable assessed value represents the appraisal value less applicable exemptions authorized by the City.

Taxes are due on October 1, the levy date, and are delinquent after the following January 31. Tax liens are automatic on January 1 each year. All uncollected taxes are reclassified as delinquent as of July 1 each year. At that time, 15% collection costs may be added to all delinquent accounts.

Property taxes are recorded as receivables and deferred revenues at the time the taxes are assessed. In governmental funds, revenues are recognized as the related ad valorem taxes are collected. In the government-wide financial statements, the entire levy is recognized as revenue, net of estimated uncollectible amounts, at the time of the levy.

Taxes are collected by the City’s tax office which operates jointly with the De Leon Independent School District.

**Note 6 – Receivables**

The receivables of the City of De Leon as of September 30, 2011 are as follows:

	<u>General</u>	<u>Special Revenue</u>	<u>Business-Type Activities Water &amp; Sewer</u>	<u>Total</u>
Delinquent ad valorem taxes	\$40,643			40,643
Customers and other	22,351		91,276	113,627
Other				
 Total Gross Receivables	 <u>\$62,994</u>	 <u>          </u>	 <u>91,276</u>	 <u>154,270</u>
Less allowance for uncollectible accounts	10,567			10,567
 Net Receivables	 <u><u>\$52,427</u></u>	 <u><u>          </u></u>	 <u><u>91,276</u></u>	 <u><u>143,703</u></u>

Governmental Activities ( General Fund) recognize an allowance for uncollectible taxes based on historical tax collection data. The City’s Water and Sewer Fund utilizes the direct charge-off method with no allowance for uncollectible accounts.

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Historically write-offs of bad debts in the Water and Sewer Fund have not been material.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. Deferred revenues in the governmental funds at September 30, 2011 consisted of the following:

Unavailable:	
Delinquent property taxes, net	\$30,076
Total Deferred Revenue	<u>\$30,076</u>

**Note 7 – Interfund Receivables and Payables**

Fund Financial Statements

The interfund receivables and payables at September 30, 2011 are as follows:

Due to: Cemetery Trust Fund	\$15,597
Road Maintenance Fund	2,723
	-----
Total Due to	<u>\$18,320</u>
Due from: General Fund	\$18,320
	-----
Total Due from	<u>\$18,320</u>

These interfund balances will be paid within the current year.

During the year ended September 30, 2011, the City made the following permanent transfers between funds:

Transfers from:	
Enterprise Fund:	
Water and Sewer Fund	\$260,000
Governmental Funds:	
General Fund	3,089
Total Transfers from	<u>\$263,089</u>



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Transfers to:	
Governmental Activities:	
General Fund	\$260,000
Proprietary Fund:	
Special Revenue Fund	3,089
Total Transfers to	<u>\$263,089</u>

Permanent transfers between the Water and Sewer Fund and the General Fund are made annually to supplement the General Fund's resources. Transfers between the Water and Sewer Fund and the Special Revenue – Wastewater Improvement Fund are made monthly to provide resources to improve the City's wastewater treatment plant.

**Note 8 – Capital Assets**

Capital assets activity for the year ended September 30, 2011 is as follows:

	<u>Balance</u> <u>10-1-2010</u>	<u>Additions/</u> <u>Adjustments</u>	<u>Retirement/</u> <u>Adjustments</u>	<u>Balance</u> <u>9-30-2011</u>
<b>Governmental Activities</b>				
Infrastructure	\$380,000			380,000
Buildings & improvements	1,956,415			1,956,415
Machinery & equipment	692,880	32,438		725,318
<hr/>				
Total Assets Being Depreciated	3,029,295	32,438		3,061,733
Less accumulated Depreciation	1,251,374		88,123	1,339,497
Net Governmental Assets	<u>1,777,921</u>	<u>32,438</u>	<u>88,123</u>	<u>1722,236</u>
<hr/>				
<b>Business-type Activities</b>				
Infrastructure	\$1,288,983			1,288,983
Machinery & equipment	127,243			127,243
<hr/>				
Total Assets Being Depreciated	1,416,226			1,416,226
Less accumulated Depreciation	1,005,786		26,411	1,032,197
Net Business-Type Assets	<u>\$410,440</u>		<u>26,411</u>	<u>384,029</u>

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Wastewater plant construction in progress at September 30, 2011 was \$122,659.

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

Governmental Activities:	
General Administration	\$23,774
Street Department	24,110
Police Department	30,710
Municipal Court	6,577
Animal shelter	1,903
Park	1,049
	-----
Total Governmental Activities	\$88,123
	=====
Business-type Activities:	
Water and Sewer Department	\$26,411
	-----
Total Business-type Activities	\$26,411
	=====

**Note – Long-term Debt**

At September 30, 2011 the City's long-term debt consisted of the following:

<u>Capital Leases</u>	<u>Governmental</u>
Capital lease purchase – fire truck October, 2005 for \$118,260 Annual installment of \$19,710 including 4% interest.	-0-
Capital lease purchase – police cars January 2011 for \$63,475 Annual installment of \$22,413 including 6% interest	-0-
Capital lease purchase – police car September 2011 for 32,863 Annual installment of \$11,519 including 4.75% Interest	21,494
Total Capital Leases	\$21,494

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**Tax Anticipation Note**

Tax anticipation note – parks improvement  
Series 2006 October 2006 for \$500,000  
7 year note  
4.15% Interest

Total Tax Anticipation Notes \$155,000

A summary of changes in long-term debt is as follows:

	Balance 10-1-2010	Issued/ Adjustments	Retired	Balance 9-30-2011
Capital Leases	\$ 72,908		51,414	21,494
Tax Anticipation Note	230,000		75,000	155,000
<b>Total Long-term Debt</b>	<b>\$302,908</b>	_____	<b>126,414</b>	<b>176,494</b>

The annual requirements on all debt outstanding as of September 30, 2011 are as follows:

**Governmental Activities**

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year Ended September 30:			
2012	85,498	5,897	91,395
2013	90,996	2,188	93,184
<b>Total Requirements</b>	<b>\$ 176,494</b>	<b>8,085</b>	<b>184,578</b>

**Business-type Activities**

The City issued Combination Tax and Revenue Certificates of Obligation July 29, 2011 in the amount of \$2,350,000 to fund the construction of a wastewater treatment plant. The Certificates are to be repaid over a twenty year period and have zero interest. The City bills each wastewater customer \$10 per month to service this debt and does not levy any debt service taxes.

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A summary of changes in the business-type long-term debt is as follows:

	Balance 10-1-2010	Issued	Retired	Balance 9-30-2011
	-----	-----	-----	-----
Tax & Revenue Certificates	\$2,230,00		120,000	2,110,000
	=====	=====	=====	=====

Future payment requirements are as follows:

Principal payment only:

2012	120,000
2013	120,000
2014	120,000
2015	120,000
2016	120,000
2017-2021	590,000
2022-2026	575,000
2027-2029	435,000

Total                    \$2,110,000

**Note 10 – Assets and Obligations Under Lease**

The City has equipment under capital leases. The leases are capitalized and are considered financing sources and are disclosed under the Long-term Debt section of the Notes.

**Note 11 – Fund Balance Designations**

The total fund balance in the Special Revenue Funds and the Cemetery Trust Fund are designated for specific purposes internally but are not restricted externally.

**Note 12 – Pension Plan**

Plan Description

The City provides benefits for all of its full-time employees through a nontraditional, joint contributory, defined contribution plan in the state-wide Texas Municipal Retirement System (TMRS), one of over 811 administered by TMRS, an agent multiple-employer public employee retirement system. It is the opinion of TMRS management that the plans in TMRS are substantially defined contribution plans but

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they have elected to provide voluntary additional disclosure to help foster a better understanding of some of the nontraditional characteristics of the plan.

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City financed monetary credits, with interest. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to the establishment of the plan. Monetary credits for service since the plan began are a percent (100%, 150%, or 200%) of the employee's accumulated contributions. In addition, the City can grant as often as annually another type of monetary credit referred to as an updated service credit which is theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and City matching had always been in existence and if the employee's salary had always been the average of his salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum if the employee's accumulate contributions with interest and the employer-financed credits with interest were used to purchase an annuity.

Members can retire at ages 60 and above with 10 or more years of service or with 25 years of service regardless of age. The plan also provides death and disability benefits. A member is vested after 5 years, but he must leave his accumulated benefits in the plan. If a member withdraws his own money, he is not entitled to the employer-financed monetary credits, even if he was vested. The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS and with the actuarial constraints also in the statutes.

### Contributions

The contribution rate for the employees is 5%, and the City contribution rate is 3.47%, both as adopted by the governing body of the City. Under state law governing TMRS the City contribution rate is annually determined by the actuary. The rate consists of the normal cost contribution rate and the prior service contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to City matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time his retirement becomes effective. The prior service contribution rate amortizes the unfunded actuarial liability over the remainder of the plan's 25 year amortization period. When the City periodically adopts updated service credits and increases in annuities in effect, the increased unfunded actuarial liability is amortized over a new 25 year period.

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Currently, the unfunded actuarial liability is being amortized over a 25 year period which began October, 1994. The unit credit actuarial cost method is being used for determining the city contribution rate. Contributions are made monthly by both the employees and the City. Since the City needs to know its contribution rate in advance to budget for it, there is a one-year lag between the actuarial valuation that is the basis for the rate and the calendar year when the rate goes into effect.

The City's total payroll in fiscal year 2010-2011 was \$474,547, and the City's contributions were based on a payroll of \$424,379. Both the City and the covered employees made required contributions amounting to \$13,935 (3.73% of the covered payroll for the months in calendar 2010 and 3.47% for the months in calendar 2011 for the City and 5% for the employees). There were no-related party transactions.

Schedule of Actuarial Liabilities and Funding Progress

Actuarial Valuation Date 12/31/10

Actuarial Value of Assets	\$454,823
Actuarial Accrued Liability	484,357
Percentage Funded	93.9%
Unfunded Actuarial Accrued Liability	29,534
Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll	7.05%
Calendar 2010 Covered Payroll	418,689
Net Pension Obligation at the Beginning of Period	-0-
Annual Required Contribution	13,935
Contributions Made	13,935
Net Pension Obligation at the End of Period	-0-

**Note 13 – Contingencies and Commitments**

Federal and State Programs Contingencies

The City participates in various federal and state assisted grant programs which are subject to financial and compliance audits. Such audits could lead to a request for

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reimbursement of the grantor agency for expenditure disallowed under terms of the grant. Management believes such disallowance, if any, would be immaterial.

**Note 14 – Negative Budget Variances**

The City had the following negative budget variances in the General Fund by department:

Solid Waste	\$27,491
City Court	4,008
Highways & Streets	1,076
Park	1,271
Senior Citizens	4,389
Debt Service	41,023

**Note 15-Cemetery Trust Fund**

The Cemetery Trust Fund is reported as a trust fund in the 2010-2011 financial statements and is not included in the government-wide financial statements.

**Note 16- De Leon Industrial Development Corporation – A Component Unit**

The De Leon Industrial Development Corporation owns real estate that is being rented to promote community Industrial development. The building is financed and subject to depreciation expense. Depreciation is as follows:

	Balance 10-01-10	Additions	Retirements	Balance 9-30-11
Building	\$50,095	-0-	-0-	\$50,095
Accumulated Depreciation	1,837	-0-	1,002	2,859
Net Depreciable Assets	48,258	-0-	1,002	\$47,236

The building purchase was financed with a note payable to the Farmers & Merchants Bank in the amount of \$40,000. The note is payable in monthly payments of \$369.96 including interest at 5 %.

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Future requirements are as follows for the years ended September 30:

	Principal	Interest	Total
2012	\$2,858	\$1,581	\$4,439
2013	3,005	1,434	4,439
2014	3,160	1,279	4,449
2015	3,322	1,117	4,439
2016	3,493	946	4,439
2011-2021	16,923	1,902	18,825
Total	\$32,761	8,259	41,020



**Required Supplementary Information Other Than MD&A**

City of De Leon, Texas  
 Combined Statement of Revenues, Expenditures, and Changes in Fund Balance  
 Budget and Actual - General Fund  
 Year Ended September 30, 2011

	Budget		Actual	Variance
	Original	Final		Favorable (Unfavorable)
<b>REVENUES:</b>				
Ad valorem taxes	\$366,093	\$366,093	\$336,325	(\$29,768)
Penalty and interest	\$8,000	\$8,000	\$10,502	\$2,502
Other taxes	\$253,200	\$253,200	\$252,532	(\$668)
Fines and forfeitures	\$27,305	\$27,305	\$34,045	\$6,740
Solid waste collection	\$313,000	\$313,000	\$319,012	\$6,012
Rents	\$11,010	\$11,010	\$7,064	(\$3,946)
Interest	\$305	\$305	\$812	\$507
Other	\$29,171	\$29,171	\$80,955	\$51,784
Other grants	\$0		\$0	\$0
Police training grant	\$0		\$0	\$0
<b>Total Revenues</b>	<u>\$1,008,084</u>	<u>\$1,008,084</u>	<u>\$1,041,247</u>	<u>\$33,163</u>
<b>EXPENDITURES:</b>				
General government	\$179,930	\$179,930	\$173,131	\$6,799
Tax office	\$26,133	\$26,133	\$23,880	\$2,253
Animal shelter	\$18,515	\$18,515	\$13,859	\$4,656
Solid waste	\$257,600	\$257,600	\$285,091	(\$27,491)
City court	\$43,890	\$43,890	\$47,898	(\$4,008)
Canine unit	\$1,802	\$1,802	\$1,176	\$626
Police	\$249,533	\$251,333	\$256,079	(\$4,746)
Highways and streets	\$174,500	\$174,500	\$175,576	(\$1,076)
Dispatch service	\$54,038	\$54,038	\$57,940	(\$3,902)
Code enforcement	\$236	\$236	\$183	\$53
Library	\$31,443	\$31,443	\$25,238	\$6,205
Fire department	\$54,872	\$54,872	\$23,071	\$31,801
Fire marshal	\$2,469	\$2,469	\$491	\$1,978
Cemetery	\$25,045	\$25,045	\$24,132	\$913
Swimming pool	\$95	\$95	\$105	(\$10)
Park	\$6,366	\$6,366	\$7,637	(\$1,271)
Senior citizens	\$32,381	\$32,381	\$36,770	(\$4,389)
De Leon Information Center	\$3,600	\$3,600	\$3,600	\$0
Debt service principal	\$70,000	\$70,000	\$75,000	(\$5,000)
Debt service interest	\$14,237	\$14,237	\$8,181	\$6,056
Capital lease principal	\$11,416	\$11,416	\$51,414	(\$39,998)
Capital lease interest	\$103	\$103	\$2,184	(\$2,081)
<b>Total Expenditures</b>	<u>\$1,258,204</u>	<u>\$1,260,004</u>	<u>\$1,292,636</u>	<u>(\$32,632)</u>
<b>EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES</b>	<u>(\$250,120)</u>	<u>(\$251,920)</u>	<u>(\$251,389)</u>	<u>\$531</u>
<b>OTHER FINANCING RESOURCES (USES):</b>				
Capital lease proceeds	\$0	\$0	\$0	\$0
Transfers in	\$0	\$0	\$260,000	\$260,000
Transfers out	\$0	\$0	(\$3,089)	(\$3,089)
<b>Net Other Resources (Uses)</b>	<u>\$0</u>	<u>\$0</u>	<u>\$256,911</u>	<u>\$256,911</u>
<b>EXCESS (DEFICIT) OF REVENUES AND OTHER RESOURCES OVER EXPENDITURES AND OTHER USES</b>	<u>(\$250,120)</u>	<u>(\$251,920)</u>	<u>\$5,522</u>	<u>\$257,442</u>
<b>PRIOR PERIOD ADJUSTMENT</b>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<b>FUND BALANCE BEGINNING OF YEAR</b>	<u>\$38,554</u>	<u>\$38,554</u>	<u>\$38,554</u>	<u>\$0</u>
<b>FUND BALANCE END OF YEAR</b>	<u>(\$211,566)</u>	<u>(\$213,366)</u>	<u>\$44,076</u>	<u>\$257,442</u>

The accompanying notes are an integral part of these financial statements.

**BURL D. LOWERY**  
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## **Independent Auditor's Report**

Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed In Accordance with *Government Auditing Standards*

To the Honorable Mayor  
And City Council  
City of De Leon  
De Leon, Texas

I have audited the basic financial statements of the City of De Leon, Texas as of and for the year ended September 30, 2011, and have issued my report thereon dated May 3, 2012. 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 the **Government Auditing Standards**, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

In planning and performing my audit, I considered the City of De Leon's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the City of De Leon's internal control over financial reporting.

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

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above. However, I identified certain deficiencies in internal control over

financial reporting, described in the accompanying schedule of findings and questioned costs as item 2011-1, that I consider to be a significant deficiency in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of De Leon's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2011-1.

The City of De Leon's response to the findings identified in my audit is described in the accompanying schedule of findings and questioned costs. I did not audit the City's response and, accordingly, I express no opinion on it.

This report is intended solely for the information and use of management, others within the organization and the City Council and is not intended to be and should not be used by anyone other than those specified parties.

Respectfully submitted,



Burl D. Lowery  
Certified Public Accountant

May 3, 2012

City of De Leon, Texas  
 Schedule of Findings and Questioned Costs  
 For the Year Ended September 30, 2011

A. Summary of Auditor's Results

1. Financial Statements

Type of auditor's report issued:	<u>Unqualified</u>	
Internal control over financial reporting:		
Material weakness(es) identified?	___ Yes	_X_ No
Reportable condition(s) identified that are not considered to be material weaknesses?	_X_ Yes	___ No
Noncompliance material to financial statements noted?	___ Yes	_X_ No

B. Financial Statement Findings

Finding 2011-1: Negative Budget Variances

Condition: The City's actual expenditures exceed the budgeted amounts in several departments.

Criteria: Expenditures of the City are required to be budgeted before the expenditure is incurred. The negative variances indicate expenditures in excess of amounts authorized in the City's general fund operating budget.

Effect: The City has incurred expenditures that were not authorized in its budget.

Recommendation: I recommend that management more closely monitor the budget in the future and obtain budget amendments when needed. The budget should also be reviewed before expenditures are incurred to make certain the expenditures are within the budgeted amounts.

City of De Leon  
Corrective Action Plan  
For the Year Ended September 30, 2011

Finding 2011-1: Negative Budget Variances.

The Mayor and City Secretary will monitor the budget status on a regular basis in the future and obtain budget amendments as needed.

Contact Person:

Danny Owens, Mayor  
City of De Leon  
(254) 893-2065

City of De Leon, Texas  
Status of Prior Audit Findings  
For the Year Ended September 30, 2011

Finding 2010-1 - Negative Budget Variances

The City had negative budget variances in the year ended September 30, 2010. The City also had negative budget variances in the current year as noted on the Schedule of Findings and Questioned Costs.