

CITY OF LEONARD, TEXAS

Annual Financial Report

Year Ended September 30, 2015

CITY OF LEONARD, TEXAS
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September 30, 2015

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INDEPENDENT AUDITORS' REPORT

Honorable Mayor and Members
of the City Council
City of Leonard, Texas

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, the discretely presented component unit, and each major fund of the City of Leonard, Texas, as of and for the year ended September 30, 2015, and the related notes to financial statements which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting as described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the presentation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Honorable Mayor and Members
of the City Council
City of Leonard, Texas
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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, the business-type activities, the discretely presented component unit, and each major fund of the City of Leonard, Texas, as of September 30, 2015, and the respective changes in modified cash basis financial position and, where applicable, cash flows thereof for the year then ended in accordance with the modified cash basis of accounting described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Other Matters

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Leonard, Texas' basic financial statements. The budgetary comparison information, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

McClanahan and Holmes, LLP
Certified Public Accountants

Bonham, Texas
May 3, 2016

CITY OF LEONARD, TEXAS
Statement of Net Position - Modified Cash Basis
September 30, 2015

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Leonard Community Development Corporation
ASSETS				
Cash and Cash Equivalents	\$ 69,520	\$ -	\$ 69,520	\$ 24,805
Note Receivable - Current Portion	-	-	-	4,118
Due From Primary Government	-	-	-	15,314
Inventory	-	22,469	22,469	-
Internal Balances	18,310	(18,310)	-	-
Restricted Assets:				
Cash	-	25,353	25,353	25,657
Note Receivable - Long-Term Portion	-	-	-	6,744
Capital Assets Not Being Depreciated:				
Land	99,700	4,210	103,910	56,207
Capital Assets, Net of Accumulated Depreciation:				
Buildings and Improvements	1,217,505	-	1,217,505	197,445
Furniture, Equipment and Vehicles	231,355	41,334	272,689	-
Water and Sewer System	-	1,632,107	1,632,107	-
Total Assets	1,636,390	1,707,163	3,343,553	330,290
LIABILITIES				
Payroll Liabilities	3,063	1,897	4,960	-
Due to Component Unit - Taxes	15,314	-	15,314	-
Customers' Meter Deposits	-	60,536	60,536	-
Noncurrent Liabilities:				
Due Within One Year	265,421	7,631	273,052	6,587
Due in More than One Year	322,437	14,209	336,646	180,357
Total Liabilities	606,235	84,273	690,508	186,944
NET POSITION				
Net Investment in Capital Assets	960,702	1,655,811	2,616,513	10,501
Restricted for:				
Debt Service	52,281	-	52,281	-
Notes Receivable	-	-	-	25,657
Unrestricted	17,172	(32,921)	(15,749)	107,188
Total Net Position	\$ 1,030,155	\$ 1,622,890	\$ 2,653,045	\$ 143,346

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

CITY OF LEONARD, TEXAS
Statement of Activities - Modified Cash Basis
Year Ended September 30, 2015

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			Component Unit Leonard Community Development Corporation
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	
Primary Government								
Governmental Activities:								
General Government	\$ 579,326	\$ 253,417	\$ 29,000	\$ -	\$ (296,909)	\$ -	\$ (296,909)	\$ -
Law Enforcement	267,487	91,587	-	-	(175,900)	-	(175,900)	-
Courts	33,607	-	-	-	(33,607)	-	(33,607)	-
Fire	44,871	4,650	-	-	(40,221)	-	(40,221)	-
Library	33,761	-	-	-	(33,761)	-	(33,761)	-
Street	165,588	-	-	-	(165,588)	-	(165,588)	-
Parks and Recreation	2,556	-	-	-	(2,556)	-	(2,556)	-
Interest	44,290	-	-	-	(44,290)	-	(44,290)	-
Total Governmental Activities	1,171,486	349,654	29,000	-	(792,832)	-	(792,832)	-
Business-Type Activities:								
Water and Sewer	816,725	684,672	20,000	-	-	(112,053)	(112,053)	-
Total Primary Government	\$ 1,988,211	\$ 1,034,326	\$ 49,000	\$ -	(792,832)	(112,053)	(904,885)	-
Component Unit								
Leonard Community Development Corporation	\$ 69,071	\$ -	\$ -	\$ -				(69,071)
General Revenues								
Taxes:								
Property Tax					489,710	-	489,710	-
Franchise Tax					94,293	-	94,293	-
Sales Tax					231,905	-	231,905	46,381
Miscellaneous Revenue					42,948	-	42,948	150
Gain on Sale of Capital Assets					7,403	-	7,403	-
Interest on Investments					133	7	140	1,207
Total General Revenues and Transfers					866,392	7	866,399	47,738
Change in Net Position					73,560	(112,046)	(38,486)	(21,333)
Net Position - Beginning					956,595	1,734,936	2,691,531	164,679
Net Position - Ending					\$ 1,030,155	\$ 1,622,890	\$ 2,653,045	\$ 143,346

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

CITY OF LEONARD, TEXAS
Governmental Funds
Balance Sheet - Modified Cash Basis
September 30, 2015

	General Fund	Debt Service Fund	Total Governmental Funds
ASSETS			
Cash and Cash Equivalents	\$ 17,239	\$ 52,281	\$ 69,520
Due From Other Funds	18,310	-	18,310
Inventory	-	-	-
Total Assets	\$ 35,549	\$ 52,281	\$ 87,830
LIABILITIES			
Payroll Liabilities	\$ 3,063	\$ -	\$ 3,063
Payable to Component Unit - Sales Tax	15,314	-	15,314
Total Liabilities	18,377	-	18,377
FUND BALANCES			
Restricted Fund Balance:			
Debt Service	-	52,281	52,281
Unassigned Fund Balance	17,172	-	17,172
Total Fund Balances	17,172	52,281	69,453
Total Liabilities and Fund Balances	\$ 35,549	\$ 52,281	\$ 87,830
Fund Balance - Total Governmental Funds (above)			\$ 69,453
Amounts reported for governmental activities in the Statement of Net Position are different because:			
Capital assets used in government activities are not financial resources and therefore are not reported in the funds. The cost of the assets is \$3,173,034 and the accumulated depreciation is \$1,624,474.			
			1,548,560
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:			
Time Warrants Payable			(571,060)
Notes Payable			(16,798)
Net Position of Governmental Activities			\$ 1,030,155

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

CITY OF LEONARD, TEXAS
Governmental Funds
Statement of Revenues, Expenditures, and Changes in Fund Balances -
Modified Cash Basis
Year Ended September 30, 2015

	General Fund	Debt Service Fund	Total Governmental Funds
REVENUES			
Property Taxes	\$ 335,660	\$ 154,050	\$ 489,710
Sales Taxes	231,905	-	231,905
Franchise Taxes	94,293	-	94,293
Licenses and Permits	6,073	-	6,073
Intergovernmental	29,000	-	29,000
Charges for Services	212,592	-	212,592
Fines	91,587	-	91,587
Rents	45,475	-	45,475
Interest Income	46	87	133
Miscellaneous	36,874	-	36,874
Total Revenues	<u>1,083,505</u>	<u>154,137</u>	<u>1,237,642</u>
EXPENDITURES			
Current:			
General Government	513,947	-	513,947
Law Enforcement	251,435	-	251,435
Courts	33,607	-	33,607
Fire	15,160	-	15,160
Library	33,761	-	33,761
Streets	122,855	-	122,855
Parks and Recreation	2,556	-	2,556
Debt Service:			
Principal	30,582	111,101	141,683
Interest and Fees	5,823	38,466	44,289
Capital Outlay	32,399	-	32,399
Total Expenditures	<u>1,042,125</u>	<u>149,567</u>	<u>1,191,692</u>
Excess (Deficiency) of Revenues over Expenditures	<u>41,380</u>	<u>4,570</u>	<u>45,950</u>
OTHER FINANCING SOURCES (USES)			
Proceeds from Issuance of Long-Term Debt	25,010	-	25,010
Sale of General Capital Assets	7,403	-	7,403
Total Other Financing Sources (Uses)	<u>32,413</u>	<u>-</u>	<u>32,413</u>
Net Change in Fund Balances	73,793	4,570	78,363
Fund Balances (Deficit) - Beginning	<u>(56,621)</u>	<u>47,711</u>	<u>(8,910)</u>
Fund Balances (Deficit) - End	<u>\$ 17,172</u>	<u>\$ 52,281</u>	<u>\$ 69,453</u>
Net Change in Fund Balances - Total Governmental Funds (above)			\$ 78,363
Amounts reported for governmental activities in the statement of activities are different because:			
Proceeds from the issuance of debt is income in the Governmental Fund, but increases liabilities in the Statements of Net Assets.			
			(25,010)
Governmental Funds report capital outlays as expenditures. However, in the Government-Wide Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current year.			
Depreciation Expense		\$ (148,396)	
Capital Outlay		<u>26,920</u>	(121,476)
Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.			
			<u>141,683</u>
Change in Net Position - Governmental Activities			<u>\$ 73,560</u>

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

CITY OF LEONARD, TEXAS
Proprietary Fund
Statement of Net Position - Modified Cash Basis
September 30, 2015

	Water and Sewer Fund
ASSETS	
Current Assets	
Cash and Cash Equivalents	\$ -
Inventory	22,469
Restricted Cash	25,353
Total Current Assets	47,822
Noncurrent Assets	
Capital Assets, Net of Accumulated Depreciation	1,677,651
Total Noncurrent Assets	1,677,651
Total Assets	1,725,473
LIABILITIES	
Current Liabilities	
Payroll Liabilities	1,897
Capital Lease Obligation - Current	7,631
Customers' Meter Deposits	60,536
Due to Other Funds	18,310
Total Current Liabilities	88,374
Noncurrent Liabilities	
Capital Lease Obligation	14,209
Total Noncurrent Liabilities	14,209
Total Liabilities	102,583
NET POSITION	
Net Investment in Capital Assets	1,655,811
Unrestricted	(32,921)
Total Net Position	\$ 1,622,890

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

CITY OF LEONARD, TEXAS
 Proprietary Fund
 Statement of Revenues, Expenses, and Changes in Net Position -
 Modified Cash Basis
 Year Ended September 30, 2015

	Water and Sewer Fund
OPERATING REVENUES	
Charges for Services	\$ 647,755
Customer Charges - Taps and Other	36,917
Total Operating Revenues	684,672
OPERATING EXPENSES	
Salaries and Related Expenses	324,326
Repairs, Supplies and Other	269,648
Utilities	96,254
Depreciation	126,320
Total Operating Expenses	816,548
Operating Income (Loss)	(131,876)
NONOPERATING REVENUES (EXPENSES)	
Intergovernmental	20,000
Investment Income	7
Interest Expense	(177)
Total Nonoperating Revenues (Expenses)	19,830
Change in Net Position	(112,046)
Net Position - Beginning	1,734,936
Net Position - End	\$ 1,622,890

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

CITY OF LEONARD, TEXAS
Proprietary Fund
Statement of Cash Flows - Modified Cash Basis
Year Ended September 30, 2015

	Water and Sewer Fund
Cash Flows from Operating Activities	
Receipts from Customers	\$ 685,441
Receipts from Other Funds	18,310
Payments to Suppliers and Service Providers	(365,902)
Payments to Employees for Salaries and Benefits	(324,326)
Net Cash Provided by Operating Activities	13,523
Cash Flows from Noncapital Financing Activities	
Grants	20,000
Net Cash Provided by Noncapital Financing Activities	20,000
Cash Flows from Capital and Related Financing Activities	
Acquisition of Capital Assets	-
Proceeds from Note Payable	4,599
Principal Payments on Note Payable	(4,599)
Principal Payments on Capital Lease Obligation	(8,005)
Interest Paid on Debt	(177)
Net Cash Used for Capital and Related Financing Activities	(8,182)
Cash Flows from Investing Activities	
Proceeds from Interest Earnings	7
Net Cash Provided by Investing Activities	7
Net Increase in Cash and Cash Equivalents	25,348
Cash and Cash Equivalents, October 1	5
Cash and Cash Equivalents, September 30	\$ 25,353
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:	
Operating Income (Loss)	\$ (131,876)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:	
Depreciation	126,320
Increase (Decrease) in Payroll Liabilities	1,897
Increase (Decrease) in Customers' Deposits	(1,128)
Increase (Decrease) in Due To Other Funds	18,310
Total Adjustments	145,399
Net Cash Provided by Operating Activities	\$ 13,523
Schedule of Non-Cash Capital and Related Financing Activities:	
Purchase of Equipment through Capital Lease Obligation	\$ 29,845

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

CITY OF LEONARD, TEXAS
Notes to Financial Statements
September 30, 2015

Note 1: Summary of Significant Accounting Policies

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

As discussed further in Note 1.C, these financial statements are presented on a modified cash basis of accounting. The modified cash basis of accounting differs from accounting principles generally accepted in the United States of America. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled Audits of State and Local Governmental Units and by the Financial Accounting Standards Board (when applicable). The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this Note. The more significant accounting policies of the City are described below:

A. The Reporting Entity

In evaluating how to define the government for financial reporting purposes, management has considered all potential component units. The basic – but not the only – criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the government and/or its citizens, or whether the activity is conducted within the geographic boundaries of the government and is generally available to its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the government is able to exercise oversight responsibilities. Based upon the application of these criteria, a component unit is included in the accompanying financial statements.

The City of Leonard for financial purposes includes all of the funds relevant to the operations of the City. The discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City. The Leonard Community Development Corporation, Inc. does not issue separately audited financial statements.

The component unit referred to above was incorporated under the Texas Non-Profit Corporation Act. It operates without capital stock and was formed for the purpose of benefiting and accomplishing public purposes of, and to act on behalf of, the City of Leonard, Texas, to undertake, maintain and finance projects for the permitted purposes set forth in the act. The governing body of the Leonard Community Development Corporation is appointed by the City Council.

B. Basis of Presentation

Government-Wide Statements

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

CITY OF LEONARD, TEXAS
Notes to Financial Statements (Continued)
September 30, 2015

Note 1: Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation (Continued)

Fund Financial Statements

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

The City has the following major funds:

Governmental Funds

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

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

Proprietary Fund

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

C. Measurement Focus and Basis of Accounting

Measurement Focus

In the government-wide Statement of Net Position and the Statement of Activities, both governmental and business-like activities are presented using the economic resources measurement focus, within the limitations of the modified cash basis of accounting, as defined below:

In the fund financial statements, the “current financial resources” measurement focus, as applied to the modified cash basis of accounting, is used.

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

CITY OF LEONARD, TEXAS
Notes to Financial Statements (Continued)
September 30, 2015

Note 1: Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting (Continued)

Basis of Accounting

The City of Leonard prepares its financial statements on the modified cash basis. The modified cash basis recognizes revenue when collected rather than when it is earned, and expenses are generally recognized when paid rather than when the obligation is incurred. Therefore, the financial statements do not reflect receivables, payables, and accrued items. Depreciation of fixed assets is presented in the government-wide statements and the proprietary fund statements. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

D. Assets, Liabilities, and Equity

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash includes all cash on hand, demand deposits, and time deposits and other highly liquid investments with maturity of three months or less.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for the proprietary fund. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance on these assets are recorded as expenses. Renewals and betterments are capitalized. The City has elected not to report major general infrastructure assets retroactively. Infrastructure assets acquired since October 1, 2003 are recorded at cost.

Assets capitalized have an original cost of \$5,000 and useful life in excess of one year. Depreciation on capital assets has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Buildings	20-40 Years
Furniture, Equipment, and Vehicles	5-10 Years
Water and Sewer System	30-40 Years
Infrastructure	20-35 Years

Inventories

Inventories are stated at cost using the first-in, first-out method. Inventory in the governmental fund is recorded as an expense at the time individual inventory items are consumed. Reported inventories are equally offset by a fund balance reserve showing that they do not constitute available expendable resources. Inventory in the proprietary fund is recorded as an expense at the time individual inventory items are consumed.

CITY OF LEONARD, TEXAS
Notes to Financial Statements (Continued)
September 30, 2015

Note 1: Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Equity (Continued)

Long-Term Debt

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

Long-term debt arising from cash basis transactions of governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures. The accounting for proprietary funds is the same in the fund financial statements as the treatment in the government-wide statements.

Capital Leases

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

Net Position/Fund Balance

Net position represents the difference between assets and liabilities. Net investment in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvements of those assets, and adding back unspent proceeds. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislations adopted by the City or through external restrictions imposed by creditors, grantors, or laws and regulations of other governments. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

As of September 30, 2015, fund balances of the governmental funds are classified as follows:

Non-Spendable – Amounts that cannot be spent either because they are in non-spendable form or because they are legally or contractually required to be maintained intact.

Restricted – Amounts that can be spent only for specific purposes because of constitutional provisions, charter requirements or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments. The City does not have any restricted fund balances by enabling legislation.

Committed – Amounts that can be used only for specific purposes determined by a formal action of the City Council. The City Council is the highest level of decision making authority for the City. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the City Council.

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

Unassigned – All other spendable amounts.

CITY OF LEONARD, TEXAS
Notes to Financial Statements (Continued)
September 30, 2015

Note 1: Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Equity (Continued)

Net Position/Fund Balance (Continued)

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the City Council has provided otherwise in its commitment or assignment actions.

E. Revenues, Expenditures, and Expenses

Program Revenues

In the Statement of Activities, modified cash basis revenues that are derived directly from each activity or from parties outside the City's taxpayers are reported as program revenues. These include fine and sanitation revenue, Fannin County Fire Department runs, operating grants and contributions, and capital grants and contributions. All other governmental revenues are reported as general. All taxes are classified as general revenue even if restricted for a specific purpose.

Operating Revenue and Expenses

Operating revenues and expenses for the proprietary fund result from providing services and producing and delivering goods and/or services. They also include all revenues and expenses not related to capital and related financing, noncapital financing, or investing activities.

F. Interfund Activity

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues. Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the year is recorded as "Amounts Due To" and "Amounts Due From" other funds appropriately. The Proprietary Fund owes the General Fund \$18,310 at September 30, 2015.

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenue/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

Resource flows between the City and the discretely presented component unit are reported as if they were external transactions and are classified separately from internal balances and activities within the primary government.

CITY OF LEONARD, TEXAS
Notes to Financial Statements (Continued)
September 30, 2015

Note 2: Stewardship, Compliance and Accountability

By its nature as a local government unit, the City and its component unit are subject to various federal, state, and local laws and contractual regulations.

Budgetary Noncompliance

For the year ended September 30, 2015, expenditures exceeded appropriations at the legal level of control in the General Fund as follows:

<u>Department/Object Category</u>	<u>Expenditures Exceeding Appropriations</u>
General Government	\$ 21,047
Courts	33,607
Library	3,261
Parks and Recreation	2,556
Principal	30,582
Interest	5,823
Capital Outlay	32,399

The over-expenditures were funded by available fund balance.

Note 3: Deposits and Investments

Primary Government

The City has not adopted formal deposit and investment policies other than that of the State of Texas.

Custodial credit risk for deposits is the risk that in the event of a bank failure, the City's deposits may not be returned or the City will not be able to recover collateral securities in the possession of an outside party. The City's policy requires deposits to be secured by collateral valued at market or par, whichever is lower, less the amount of the Federal Deposit Insurance Corporation insurance (FDIC). Deposited funds may be invested in certificates of deposits in institutions that are domiciled in the State of Texas. Collateral agreements must be approved prior to deposit of funds as provided by law.

At September 30, 2015, the carrying amount of deposits was \$94,873 and the bank balance was \$114,209. The City was not exposed to custodial credit risk as its deposits were fully insured with FDIC insurance at year-end.

Component Unit

The bank balance and carrying amount of the Leonard Community Development Corporation's deposits was \$50,462 at September 30, 2015. The component unit was not exposed to custodial credit risk as its deposits were fully insured with FDIC insurance at year-end.

CITY OF LEONARD, TEXAS
Notes to Financial Statements (Continued)
September 30, 2015

Note 4: Property Taxes

Property taxes are levied by October 1 in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Tax rates per \$100 valuation for the 2015 levy amounted to .5393 for maintenance and operation and .2377 for the interest and sinking fund.

Note 5: Capital Assets

Primary Government

Capital asset activity for the year ended September 30, 2015, was as follows:

	<u>Balance</u> <u>9/30/14</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>9/30/15</u>
Governmental Activities:				
Capital Assets, not being Depreciated:				
Land	\$ 99,700	\$ -	\$ -	\$ 99,700
Capital Assets being Depreciated:				
Buildings and Improvements	2,045,703	-	-	2,045,703
Furniture, Equipment and Vehicles	<u>1,027,711</u>	<u>26,920</u>	<u>(27,000)</u>	<u>1,027,631</u>
	<u>3,073,414</u>	<u>26,920</u>	<u>(27,000)</u>	<u>3,073,334</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	759,221	68,977	-	828,198
Furniture, Equipment and Vehicles	<u>743,857</u>	<u>79,419</u>	<u>(27,000)</u>	<u>796,276</u>
	<u>1,503,078</u>	<u>148,396</u>	<u>(27,000)</u>	<u>1,624,474</u>
Capital Assets being Depreciated, Net	<u>1,570,336</u>	<u>(121,476)</u>	<u>-</u>	<u>1,448,860</u>
Governmental Activities Capital Assets, Net	<u>\$ 1,670,036</u>	<u>\$ (121,476)</u>	<u>\$ -</u>	<u>\$ 1,548,560</u>
Business-Type Activities Capital Assets, not being Depreciated:				
Land	\$ 4,210	\$ -	\$ -	\$ 4,210
Capital Assets being Depreciated:				
Furniture, Equipment and Vehicles	176,946	29,845	(12,875)	193,916
Water and Sewer System	<u>4,846,976</u>	<u>-</u>	<u>-</u>	<u>4,846,976</u>
	<u>5,023,922</u>	<u>29,845</u>	<u>(12,875)</u>	<u>5,040,892</u>

CITY OF LEONARD, TEXAS
Notes to Financial Statements (Continued)
September 30, 2015

Note 5: Capital Assets (Continued)

Primary Government (Continued)

	<u>Balance</u> <u>9/30/14</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>9/30/15</u>
Less Accumulated Depreciation for: Furniture, Equipment and Vehicles	156,951	8,506	(12,875)	152,582
Water and Sewer System	<u>3,097,055</u>	<u>117,814</u>	<u>-</u>	<u>3,214,869</u>
	<u>3,254,006</u>	<u>126,320</u>	<u>(12,875)</u>	<u>3,367,451</u>
Capital Assets being Depreciated, Net	<u>1,769,916</u>	<u>(96,475)</u>	<u>-</u>	<u>1,673,441</u>
Business-Type Activities Capital Assets, Net	<u>\$ 1,774,126</u>	<u>\$(96,475)</u>	<u>\$ -</u>	<u>\$ 1,677,651</u>

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

Governmental Activities:	
General Government	\$ 65,379
Law Enforcement	16,052
Fire	29,711
Street	<u>37,254</u>
Total Depreciation Expense-Governmental Activities	<u>\$ 148,396</u>

Business-Type Activities:	
Water and Sewer	<u>\$ 126,320</u>

Component Unit

Capital asset activity for the year ended September 30, 2015, was as follows:

	<u>Balance</u> <u>9/30/14</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>9/30/15</u>
Capital Assets, not being Depreciated:				
Land	<u>\$ 56,207</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 56,207</u>
Capital Assets being Depreciated:				
Buildings and Improvements	<u>219,384</u>	<u>-</u>	<u>-</u>	<u>219,384</u>
Less Accumulated Depreciation for: Buildings	<u>14,626</u>	<u>7,313</u>	<u>-</u>	<u>21,939</u>
Capital Assets being Depreciated, Net	<u>204,758</u>	<u>(7,313)</u>	<u>-</u>	<u>197,445</u>
Governmental Activities Capital Assets, Net	<u>\$ 260,965</u>	<u>\$ (7,313)</u>	<u>\$ -</u>	<u>\$ 253,652</u>

CITY OF LEONARD, TEXAS
Notes to Financial Statements (Continued)
September 30, 2015

Note 6: Long-Term Debt

A summary of long-term debt transactions for the year ended September 30, 2015, follows:

	Balance October 1, 2014	Additions	Retirements	Balance September 30, 2015	Due Within One Year
<u>Primary Government:</u>					
Governmental Activities:					
Time Warrants	\$ 682,160	\$ -	\$(111,100)	\$ 571,060	\$ 248,623
Note Payable	-	25,010	(25,010)	-	-
Credit Card Payable	<u>22,371</u>	<u>-</u>	<u>(5,573)</u>	<u>16,798</u>	<u>16,798</u>
Total	<u>\$ 704,531</u>	<u>\$ 25,010</u>	<u>\$(141,683)</u>	<u>\$ 587,858</u>	<u>\$ 265,421</u>
Business-Type Activities:					
Capital Lease	\$ -	\$ 29,845	\$(8,005)	\$ 21,840	\$ 7,631
Installment Loan	<u>-</u>	<u>4,599</u>	<u>(4,599)</u>	<u>-</u>	<u>-</u>
Total	<u>\$ -</u>	<u>\$ 34,444</u>	<u>\$(12,604)</u>	<u>\$ 21,840</u>	<u>\$ 7,631</u>
<u>Component Unit:</u>					
Note Payable	<u>\$ 192,580</u>	<u>\$ -</u>	<u>\$(5,636)</u>	<u>\$ 186,944</u>	<u>\$ 6,587</u>

Long-term debt is comprised of the following:

Primary Government:

Governmental Activities

\$236,505, Time Warrants, dated September 1, 1997 due in monthly installments of \$956, through 2016, interest at 7.25%.	\$ 11,992
\$442,838, Time Warrants, dated February 1, 1998 due in monthly installments of \$1,886, through 2016 (when debt balloons), interest at 6.0%.	143,053
\$150,000, Time Warrants, dated January 11, 2002 due in monthly installments of \$1,001, through 2019, interest at 5.0%.	43,386
\$125,000, Time Warrants, dated August 3, 2005, due in monthly installments of \$618, through 2018, (when debt balloons), interest at 6.0%. Proceeds were used to purchase a building located at 118 W. Collin Street.	48,403
\$160,196, Time Warrants, dated September 14, 2005, due in monthly installments of \$408, through 2017 (when debt balloons), interest at 6.0%. Proceeds were used to purchase equipment.	31,722
\$180,000, Time Warrants, dated February 3, 2006, due in monthly installments of \$335, through 2018 (when debt balloons), interest at 6.0%. Proceeds were used to purchase a 2005 fire truck.	26,403

CITY OF LEONARD, TEXAS
Notes to Financial Statements (Continued)
September 30, 2015

Note 6: Long-Term Debt (Continued)

Primary Government: (Continued)

Governmental Activities (Continued)

\$500,887, Time Warrants, dated December 27, 2011, due in monthly installments of \$7,339, through 2016 (when debt balloons), interest at 6.00%.	<u>266,101</u>
	<u>\$ 571,060</u>

The City incurred charges on a credit card in prior years and continues to make efforts toward paying the balance. The balance at September 30, 2015 amounted to \$16,798. The City is required to make minimum monthly payments and the interest rate for the year ended September 30, 2015 approximated 30%.

The annual requirements to amortize the long-term loans and warrants outstanding as of September 30, 2015, are as follows:

<u>Year Ending</u> <u>September 30,</u>	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2016	\$ 265,421	\$ 30,737	\$ -	\$ -	\$ 296,158
2017	214,527	8,793	-	-	223,320
2018	96,294	3,536	-	-	99,830
2019	11,616	315	-	-	11,931
	<u>\$ 587,858</u>	<u>\$ 43,381</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 631,239</u>

The ordinance authorizing the issuance of the Construction Time Warrants pledge the proceeds of the lease contract with the U. S. Postal Service.

The warrants may be redeemed at any time without penalty.

Component Unit

\$200,000, Note Payable, dated April 23, 2013, due in monthly installments of \$1,433, through 2018 (when debt balloons), interest at 6.00%.	<u>\$ 186,944</u>
--	-------------------

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

CITY OF LEONARD, TEXAS
Notes to Financial Statements (Continued)
September 30, 2015

Note 7: Capital Leases

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

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

The future minimum lease payments required under the capital leases and the present value of the net minimum lease payments as of September 30, 2015 are as follows:

<u>Year Ending September 30,</u>	<u>Amount</u>
2016	\$ 8,182
2017	8,182
2018	<u>8,183</u>
Total Minimum Lease Payments	24,547
Less Amount Representing Interest	<u>(2,707)</u>
Present Value of Net Minimum Lease Payments	21,840
Less Current Maturities of Capital Lease Obligations	<u>(7,631)</u>
	<u>\$ 14,209</u>

Note 8: Interfund Balances

Due To/Due From's for the year ended September 30, 2015 consisted of the following:

Due to General Fund From:	
Water Sewer	\$ 18,310
Total Due to General Fund	<u>\$ 18,310</u>

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

Note 9: Number of Water and Sewer System Customers

At September 30, 2015, 819 customers were connected to the water system and 764 to the sewer system.

CITY OF LEONARD, TEXAS
Notes to Financial Statements (Continued)
September 30, 2015

Note 10: Pension Plan

A. Plan Description

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

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

B. Benefits Provided

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

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

Employees covered by benefit terms.

At the December 31, 2014 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	4
Inactive employees entitled to but not yet receiving benefits	20
Active employees	<u>14</u>
Total	38

C. Contributions

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

Employees for the City of Leonard were required to contribute 5% of their annual gross earnings during the fiscal year. The full contribution rates for the City of Leonard were 0.85% and 0.86% in calendar years 2015 and 2016, respectively. The City's contributions to TMRS for the year ended September 30, 2015, were \$1,772 and were equal to the required contributions.

CITY OF LEONARD, TEXAS
Notes to Financial Statements (Continued)
September 30, 2015

Note 10: Pension Plan (Continued)

Contributions (Continued)

The funded status as of December 31, 2014, the most recent actuarial valuation date, is as follows:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Funded Ratio</u>	<u>Unfunded AAL (UAAL)</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
12/31/2014	\$ 674,026	\$ 617,215	109.2%	\$ (56,811)	\$ 553,718	(10.3)%

Note 11: Federal Grants

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

Note 12: Commitments

On December 20, 1999, the City entered into an agreement with the Greater Texoma Utility Authority (GTUA), a political subdivision of the State of Texas serving as a conservation and reclamation authority, for the purpose of providing sanitary sewer collection and treatment facilities for use by the City and an additional supply of water to the City and certain water supply facilities in order to store and transport such water to the City. Under the terms of the Contract for Water Supply and Sewer Service, GTUA issued \$150,000 in 2000 City of Leonard Contract Revenue Bonds to be used, together with funds provided by the City, for the construction of water and sewer improvements. The City is required to make monthly payments to GTUA equal to one-twelfth of the annual bond payment. In addition, the City is required to pay to GTUA an amount equal to the Reserve Fund Payment required under the Bond Resolution. The bonds are due in annual installments of \$5,000 to \$10,000 through September 30, 2021, and bear interest at 4.5% to 6.35%. During the term of the Contract, GTUA has an undivided interest in the project equivalent to the percentage of the total cost of the project provided by GTUA through the issuance and sale of its bonds. The City's obligations to make any and all payments and the ownership interest of GTUA will terminate when all of the bonds have been paid in full and retired and are no longer outstanding.

On September 17, 2002, the City entered into an agreement with the Greater Texoma Utility Authority (GTUA), a political subdivision of the State of Texas serving as a conservation and reclamation authority, for the construction acquisition and improvement of wastewater system facilities and necessary appurtenances for use by the City. Under the terms of the Contract for Water Supply and Sewer Service, GTUA issued \$865,000 in 2002 City of Leonard Contract Revenue Bonds to be used, together with funds provided by the City, for the construction of water and sewer improvements. The City is required to make monthly payments to GTUA equal to one-twelfth of the annual bond payment. In addition, the City is required to pay to GTUA an amount equal to the Reserve Fund Payment required under the Bond Resolution. The bonds are due in annual installments of \$35,000 to \$75,000 through October 1, 2021, and bear interest at 0.8% to 4.05%. During the term of the Contract, GTUA has an undivided interest in the project equivalent to the percentage of the total cost of the project provided by GTUA through the issuance and sale of its bonds. The City's obligations to make any and all payments and the ownership interest of GTUA will terminate when all of the bonds have been paid in full and retired and are no longer outstanding.

CITY OF LEONARD, TEXAS
Notes to Financial Statements (Continued)
September 30, 2015

Note 12: Commitments (Continued)

The debt obligations for GTUA's revenue bonds are not reflected in the City's financial statements and are presented for disclosure purposes only. The liabilities for the debt obligations, however, are separately presented in the publicly available September 30, 2015 financial statements of GTUA.

Note 13: Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employee's health and life; and natural disasters. The City purchases insurance coverage through the Texas Municipal League Intergovernmental Risk Pool to limit the risk of loss in these areas. Management believes such coverage is sufficient to preclude any significant uninsured losses to the City. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years.

Note 14: Subsequent Events

- A. In May 2015, a grand jury returned 39 indictments against the former City Manager for theft of property, forgery of a financial instrument, tampering with governmental records, and credit card abuse, among others. The former City Manager pleaded guilty and accepted a plea deal from the District Attorney's Office, which included restitution to the City in the amount of \$80,000. The City received the restitution subsequent to year-end. \$17,000 of the restitution was directed to Leonard Community Development for a check that was earmarked to buy a tractor but deposited into the former City Manager's personal bank account.
- B. In October 2015, the City paid off a time warrant with a balance at September 30, 2015 of \$11,992.
- C. In December 2015, the City paid off three time warrants with balances at September 30, 2015 of \$43,386, \$31,722 and \$26,403.
- D. In January 2016, the City sold an asphalt paver for \$120,000.
- E. In April 2016, the City paid off a time warrant with a balance at September 30, 2015 of \$48,403.

CITY OF LEONARD, TEXAS
General Fund
Budgetary Comparison Schedule - Modified Cash Basis
Year Ended September 30, 2015

	Original Budget	Final Budget	Actual Amounts	Variance Favorable (Unfavorable)
Revenues:				
Property Taxes	\$ 322,000	\$ 322,000	\$ 335,660	\$ 13,660
Sales Taxes	200,250	200,250	231,905	31,655
Franchise Taxes	90,300	90,300	94,293	3,993
Licenses and Permits	3,600	3,600	6,073	2,473
Intergovernmental	-	-	29,000	29,000
Charges for Services	208,950	208,950	212,592	3,642
Fines	45,000	45,000	91,587	46,587
Rents	45,600	45,600	45,475	(125)
Interest Income	-	-	46	46
Miscellaneous	34,300	34,300	36,874	2,574
Total Revenues	<u>950,000</u>	<u>950,000</u>	<u>1,083,505</u>	<u>133,505</u>
Expenditures:				
General Government	492,900	492,900	513,947	(21,047)
Law Enforcement	273,200	273,200	251,435	21,765
Courts	-	-	33,607	(33,607)
Fire	17,000	17,000	15,160	1,840
Library	30,500	30,500	33,761	(3,261)
Streets	136,400	136,400	122,855	13,545
Parks and Recreation	-	-	2,556	(2,556)
Debt Service:				
Principal	-	-	30,582	(30,582)
Interest	-	-	5,823	(5,823)
Capital Outlay	-	-	32,399	(32,399)
Total Expenditures	<u>950,000</u>	<u>950,000</u>	<u>1,042,125</u>	<u>(92,125)</u>
Excess (Deficiency) of Revenues over Expenditures	<u>-</u>	<u>-</u>	<u>41,380</u>	<u>41,380</u>
Other Financing Sources (Uses)				
Proceeds from Issuance of Long-Term Debt	-	-	25,010	25,010
Sale of General Capital Assets	-	-	7,403	7,403
Total Other Sources (Uses)	<u>-</u>	<u>-</u>	<u>32,413</u>	<u>32,413</u>
Net Change in Fund Balances	-	-	73,793	73,793
Fund Balances - Beginning of Year	<u>(56,621)</u>	<u>(56,621)</u>	<u>(56,621)</u>	<u>-</u>
Fund Balances - End of Year	<u>\$ (56,621)</u>	<u>\$ (56,621)</u>	<u>\$ 17,172</u>	<u>\$ 73,793</u>