

CITY OF SOMERVILLE, TEXAS

Financial Statements

with

Report of Independent Auditor

For the Year Ended September 30, 2016

CITY OF SOMERVILLE, TEXAS
Financial Statements
For the Year Ended September 30, 2016

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Somerville, Texas, (the "City") as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Somerville, Texas, as of September 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 9, the Texas Municipal Retirement System ("TMRS") schedule of changes in net pension liability (asset) and related ratios on page 40, and the TMRS schedule of contributions on page 41 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.


Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Somerville, Texas' basic financial statements. The other supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements.

The combining statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated April 7, 2017, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Somerville, Texas' internal control over financial reporting and compliance.



Brenham, Texas
April 7, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Somerville, we offer readers of the City of Somerville's financial statements this narrative overview and analysis of the financial activities of the City of Somerville for the fiscal year ended September 30, 2016. Please read it in conjunction with the independent auditors' report and the City's basic financial statements.

FINANCIAL HIGHLIGHTS

- The assets of the City of Somerville exceeded its liabilities at the close the most recent fiscal year by \$4,870,984, (*net position*). Of this amount \$265,901 (*unrestricted net position*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's net position increased by \$493,802.
- The City's governmental funds reported ending fund balances of \$693,078 which was an increase of \$187,654 from the prior year.
- The City's proprietary funds reported combined net position of \$4,896,761, which was an increase of \$154,732 from the prior year.
- The City's long-term liabilities at year-end totaled \$1,136,908, of which \$145,658 represents debt due and payable in the next year.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. For governmental funds, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for tax levies and the appropriations budget. For the proprietary fund, the financial statements tell how goods or services of the City were sold to customers and how the sales revenues covered the expenses of the goods or services.

The notes to the financial statements provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

Reporting the City as a Whole

The Statement of Net Position and the Statement of Activities

Our analysis of the City as a whole begins with the government-wide financial statements. Their primary purpose is to show whether the City is better off as a result of the year's activities. The

Statement of Net Position includes all of the City's assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies.

All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The Statement of Net Position and the Statement of Activities report the City's net position and changes in them. The City's net position (the difference between assets and liabilities) provide one measure of the City's financial health, or financial position. Over time, increases or decreases in the City's net position are one indicator of whether its financial health is improving or deteriorating.

In the Statement of Net Position and the Statement of Activities, we report the activities of the City as follows:

- Governmental activities – Most of the City's basic services are reported here. Property and sales taxes and state and federal grants finance most of these activities.
- Business-type activities – The City charges a fee to "customers" to help cover all or most of the cost of services it provides for water, sewer, and garbage services.

Reporting the City's Most Significant Funds

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds – not the City as a whole. The City establishes funds to help control and manage money for particular purposes. The City's two types of funds, governmental and proprietary, use different accounting approaches.

- Governmental funds – Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the City's general governmental operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in reconciliation at the bottom of the fund financial statements.
- Proprietary funds – The City reports the activities for which it charges users in proprietary funds using the same accounting methods employed in the Statement of Net Position and the Statement of Activities. The City's proprietary fund is included in the business-type activities reported in the government-wide statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Our analysis focuses on the Statement of Net Position (Table 1) and Changes in Net Position (Table 2) of the City's governmental and business-type activities.

As seen in Table 1, net position of the City's governmental activities increased by \$339,070 from (\$364,847) in 2015 to (\$25,777) in 2016. The increase in the governmental activities net position was primarily due to higher revenues from donations, grants, and sales taxes, lower than expected cost for removal of dilapidated houses in the Code Department, lower than expected fuel cost in all departments, and lower than expected legal cost in the Administrative, Code, and Municipal Court Departments. The net position of the business-type activities increased by \$154,732 from \$4,742,029 in 2015 to \$4,896,761 in 2016. The increase in business-type net position was primarily due to an increase of capital assets due to grant proceeds from the construction of a groundwater storage tank under a Texas Community Development Grant.

Table 1

City of Somerville, Texas
Statement of Net Position

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Current and other assets	\$ 877,848	\$ 709,478	\$ 748,843	\$ 768,402	\$ 1,626,691	\$ 1,477,880
Net pension asset	-	19,020	-	13,870	-	32,890
Capital assets	232,766	203,081	4,273,291	4,053,415	4,506,057	4,256,496
Total Assets	1,110,614	931,579	5,022,134	4,835,687	6,132,748	5,767,266
Deferred outflows of resources	56,911	19,549	36,382	14,256	93,293	33,805
Current liabilities	186,676	220,916	138,728	98,526	325,404	319,442
Non-current liabilities	998,438	1,091,860	17,675	7,056	1,016,113	1,098,916
Total Liabilities	1,185,114	1,312,776	156,403	105,582	1,341,517	1,418,358
Deferred infows of resources	8,189	3,199	5,352	2,332	13,541	5,531
Net Position:						
Net investment in						
capital assets	232,766	155,006	4,273,291	4,053,415	4,506,057	4,208,421
Restricted	99,026	85,259	-	-	99,026	85,259
Unrestricted	(357,569)	(605,112)	623,470	688,614	265,901	83,502
Total Net Position	\$ (25,777)	\$ (364,847)	\$ 4,896,761	\$ 4,742,029	\$ 4,870,984	\$ 4,377,182

As can be seen in Table 2 on the next page, total revenues (excluding transfers) from governmental activities increased by \$13,701 from \$1,221,587 in 2015 to \$1,235,288 in 2016 due to an increase in collections of ad valorem and sales taxes, and some FEMA and insurance proceeds compared to 2015. Total expenses from governmental activities increased by \$12,299, primarily due to higher administrative and public safety costs related to the upkeep of city-owned buildings.

Total revenues (excluding transfers) from business-type activities increased by \$256,291 from \$903,600 in 2015 to \$1,159,891 in 2016. Total expenses increased by \$84,725 from \$878,865 in 2015 to \$963,590 in 2016. The increased revenue was primarily due to capital grants for the construction of a groundwater storage tank and insurance proceeds for damages caused by the flood in May of 2016. The increase in expenditures was mainly due to increased solid waste collection costs and repairs to two water wells in 2016 that were not incurred in 2015.

Table 2

City of Somerville, Texas
Changes in Net Position

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Revenues						
Program Revenues						
Charges for services	\$ 194,925	\$ 236,635	\$ 880,068	\$ 877,739	\$ 1,074,993	\$ 1,114,374
Operating grants and contributions	80,285	50,580	-	-	80,285	50,580
Capital grants and contributions	45,905	-	249,575	25,424	295,480	25,424
General Revenues						
Property taxes	545,716	538,182	-	-	545,716	538,182
Sales taxes	246,562	244,216	-	-	246,562	244,216
Gross receipts	50,748	54,399	-	-	50,748	54,399
Hotel occupancy	19,064	35,196	-	-	19,064	35,196
Other	3,132	4,130	-	-	3,132	4,130
Transfers in (out)	41,569	39,036	(41,569)	(39,036)	-	-
Miscellaneous revenues	48,068	57,724	29,657	80	77,725	57,804
Investment earnings	883	525	591	357	1,474	882
Total Revenues	<u>1,276,857</u>	<u>1,260,623</u>	<u>1,118,322</u>	<u>864,564</u>	<u>2,395,179</u>	<u>2,125,187</u>
Expenses						
General government	425,660	407,895	-	-	425,660	407,895
Public safety	407,908	415,541	-	-	407,908	415,541
Highways and streets	33,800	8,276	-	-	33,800	8,276
Culture and recreation	39,034	53,308	-	-	39,034	53,308
Interest/cost on long-term debt	31,385	40,468	-	-	31,385	40,468
Water and sewer	-	-	963,590	878,865	963,590	878,865
Total Expenses	<u>937,787</u>	<u>925,488</u>	<u>963,590</u>	<u>878,865</u>	<u>1,901,377</u>	<u>1,804,353</u>
Change in Net Position	339,070	335,135	154,732	(14,301)	493,802	320,834
Net Position, Beginning of Year	(364,847)	(730,570)	4,742,029	4,734,025	4,377,182	4,003,455
Cumulative effect of change in accounting principle	-	30,588	-	22,305	-	52,893
Net Position, Beginning of Year, Restated	<u>(364,847)</u>	<u>(699,982)</u>	<u>4,742,029</u>	<u>4,756,330</u>	<u>4,377,182</u>	<u>4,056,348</u>
Net Position, End of Year	<u>\$ (25,777)</u>	<u>\$ (364,847)</u>	<u>\$ 4,896,761</u>	<u>\$ 4,742,029</u>	<u>\$ 4,870,984</u>	<u>\$ 4,377,182</u>

THE CITY'S FUNDS

As of September 30, 2016, the governmental funds reported a fund balance of \$693,078. This is an increase of \$187,654 from \$505,424 on September 30, 2015.

General Fund Budgetary Highlights

The City's Council annually adopts an operating budget. Total actual revenues were \$126,414 more than budgeted, primarily due to FEMA and insurance proceeds due to the floods of May 2015 and May 2016, and higher than estimated sales tax revenues. Actual expenditures were under budget by \$106,229, primarily due to general government costing approximately \$70,000 less than budget and street repairs costing approximately \$54,000 less than budgeted. Capital outlay for the City was approximately \$60,000 over budget, and much of this was offset by donations, insurance proceeds, and FEMA proceeds. In total, the net increase in fund balance was \$157,715 compared to a budgeted deficit of \$53,600 for 2016.

Capital Assets

As of September 30, 2016, the City had \$4,506,057 invested in capital assets.

Table 3
City of Somerville, Texas
Capital Assets

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Land	\$ 26,261	\$ 26,261	\$ -	\$ -	\$ 26,261	\$ 26,261
Buildings and improvements	147,008	147,008	17,298	17,298	164,306	164,306
Machinery and equipment	829,989	818,492	687,074	687,074	1,517,063	1,505,566
Software	17,554	17,554	-	-	17,554	17,554
Utility Plants	-	-	6,889,821	6,562,005	6,889,821	6,562,005
Construction in Progress	49,015	-	214,809	132,336	263,824	132,336
	1,069,827	1,009,315	7,809,002	7,398,713	8,878,829	8,408,028
Accumulated Depreciation	(837,061)	(806,234)	(3,535,711)	(3,345,298)	(4,372,772)	(4,151,532)
Net Capital Assets	<u>\$232,766</u>	<u>\$203,081</u>	<u>\$ 4,273,291</u>	<u>\$ 4,053,415</u>	<u>\$ 4,506,057</u>	<u>\$ 4,256,496</u>

Debt

At year-end, the City had \$1,114,658 in notes and general obligation bonds payable with \$145,658 of long-term debt due within one year. More detailed information about the City's long-term liabilities is presented in the notes to the financial statements.

Table 4
City of Somerville Texas
Outstanding Debt at Year-end

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Notes payable	\$ 32,658	\$ 48,075	\$ -	\$ -	\$ 32,658	\$ 48,075
Bonds payable	1,082,000	1,191,000	-	-	1,082,000	1,191,000
Total	<u>\$ 1,114,658</u>	<u>\$ 1,239,075</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,114,658</u>	<u>\$ 1,239,075</u>

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City's business office, at the City of Somerville, 150 8th Street, Somerville, TX 77879.

City of Somerville, Texas
Statement of Net Position
September 30, 2016

	Primary Government		
	Governmental Activities	Business-type Activities	Totals
Assets			
Cash and cash equivalents	\$ 481,103	\$ 485,464	\$ 966,567
Receivables (net)	187,356	122,721	310,077
Other assets	4,604	-	4,604
Restricted assets:			
Cash and cash equivalents	187,893	152,134	340,027
Internal balances	11,476	(11,476)	-
Due from other governments	5,416	-	5,416
Capital assets			
Non-depreciable	75,276	214,809	290,085
Depreciable, net	157,490	4,058,482	4,215,972
Total assets	<u>1,110,614</u>	<u>5,022,134</u>	<u>6,132,748</u>
Deferred Outflows of Resources			
Deferred amounts related to pensions	56,911	36,382	93,293
Liabilities			
Accounts payable	34,672	73,566	108,238
Accrued liabilities	6,346	9,804	16,150
Customer deposits	-	55,358	55,358
Bonds and note payable, due within one year	145,658	-	145,658
Bonds and note payable, long-term	969,000	-	969,000
Net pension liability	16,372	8,491	24,863
Compensated absences, long-term	13,066	9,184	22,250
Total liabilities	<u>1,185,114</u>	<u>156,403</u>	<u>1,341,517</u>
Deferred inflows of resources			
Deferred amounts related to pensions	8,189	5,352	13,541
Net Position			
Net investment in capital assets	232,766	4,273,291	4,506,057
Restricted for:			
Debt service	44,129	-	44,129
Municipal court	54,897	-	54,897
Unrestricted (deficit)	(357,569)	623,470	265,901
Total net position	<u>\$ (25,777)</u>	<u>\$ 4,896,761</u>	<u>\$ 4,870,984</u>

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

City of Somerville, Texas
Statement of Activities
For the Year Ended September 30, 2016

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions		Capital Grants and Contributions	Primary Government		
			Grants and Contributions			Governmental Activities	Business-type Activities	Total
Primary government								
Governmental activities								
General government	\$ 425,660	\$ 5,556	64,529	\$ 45,905	\$ (309,670)	\$ -	\$ -	\$ (309,670)
Public safety	407,908	189,369	-	-	(218,539)	-	-	(218,539)
Highways and streets	33,800	-	-	-	(33,800)	-	-	(33,800)
Culture and recreation	39,034	-	15,756	-	(23,278)	-	-	(23,278)
Interest and costs on long-term debt	31,385	-	-	-	(31,385)	-	-	(31,385)
Total governmental activities	937,787	194,925	80,285	45,905	(616,672)	-	-	(616,672)
Business-type activities								
Proprietary fund	963,590	880,068	-	249,575	-	166,053	166,053	166,053
Total business-type activities	963,590	880,068	-	249,575	-	166,053	166,053	166,053
Total primary government	1,901,377	1,074,993	80,285	295,480	(616,672)	166,053	166,053	(450,619)
General revenues								
Taxes								
Property					545,716	-	-	545,716
Sales					246,562	-	-	246,562
Gross receipts					50,748	-	-	50,748
Hotel occupancy					19,064	-	-	19,064
Other					3,132	-	-	3,132
Investment income					883	591	591	1,474
Other					48,068	29,657	29,657	77,725
Transfers					41,569	(41,569)	-	-
Total general revenues and transfers					955,742	(11,321)	944,421	944,421
Change in net position					339,070	154,732	493,802	493,802
Net position, beginning					(364,847)	4,742,029	4,377,182	4,377,182
Net position, ending					\$ (25,777)	\$ 4,896,761	\$ 4,870,984	\$ 4,870,984

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

City of Somerville, Texas

Balance Sheet

Governmental Funds

September 30, 2016

	General	Debt Service	Other Governmental Funds	Total Governmental Fund
Assets				
Cash and cash equivalents	\$ 481,103	\$ -	\$ -	\$ 481,103
Receivables (net of allowances for uncollectibles)				
Property tax	55,524	24,690	-	80,214
Sales tax	43,603	-	-	43,603
Municipal court	63,539	-	-	63,539
Due from other governments	3,974	1,442	-	5,416
Due from other funds	10,063	5,402	393	15,858
Other assets	-	-	4,604	4,604
Cash, restricted	7,946	37,285	142,662	187,893
Total assets	\$ 665,752	\$ 68,819	\$ 147,659	\$ 882,230
Liabilities, deferred inflows of resources and fund balances				
Liabilities:				
Accounts payable	\$ 34,584	-	\$ 88	\$ 34,672
Accrued liabilities	6,346	-	-	6,346
Due to other funds	-	-	4,381	4,381
Total liabilities	40,930	-	4,469	45,399
Deferred inflows of resources:				
Unavailable revenues	119,063	24,690	-	143,753
Total deferred inflows of resources	119,063	24,690	-	143,753
Fund balances:				
Restricted for:				
Debt service	-	44,129	-	44,129
Hotel/Motel occupancy tax	-	-	78,698	78,698
Municipal court	-	-	54,897	54,897
Somerville Parks Association	-	-	12,592	12,592
Assigned	4,982	-	-	4,982
Unassigned (deficit)	500,777	-	(2,997)	497,780
Total fund balances	505,759	44,129	143,190	693,078
Total liabilities, deferred inflows of resources and fund balances	\$ 665,752	\$ 68,819	\$ 147,659	\$ 882,230

Reconciliation of the balance sheet to the statement of net position:

Fund balances of governmental funds \$ 693,078

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

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

Governmental capital assets	\$ 1,069,827	
Less accumulated depreciation	(837,061)	232,766

Unavailable revenues reported in the governmental funds are not available to pay for current-period expenditures and, therefore, are deferred in the funds. 143,753

Deferred outflows are not receivable and deferred inflows and net pension liability are not payable in the current period and, therefore, are not reported in the governmental funds. 32,350

Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.

Notes and bonds payable	\$ (1,114,658)	
Compensated absences	(13,066)	(1,127,724)

Net position, governmental activities \$ (25,777)

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

City of Somerville, Texas
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2016

	General	Debt Service	Other Governmental Funds	Total Governmental Fund
Revenues:				
Taxes				
Property	\$ 412,323	\$ 147,386	\$ -	\$ 559,709
Sales	246,562	-	-	246,562
Gross receipts	50,748	-	-	50,748
Hotel/motel occupancy	-	-	19,064	19,064
Other	3,132	-	-	3,132
Licenses and permits	5,556	-	-	5,556
Fines and court costs	162,933	-	8,903	171,836
Investment income	641	60	182	883
Grant revenue	38,905	-	7,000	45,905
Donations	60,792	-	19,493	80,285
Miscellaneous	-	51	2,135	2,186
Other	45,882	-	-	45,882
Total revenues	<u>1,027,474</u>	<u>147,497</u>	<u>56,777</u>	<u>1,231,748</u>
Expenditures:				
Current:				
General government	415,520	-	3,249	418,769
Public safety	383,985	-	-	383,985
Highways and streets	28,671	-	-	28,671
Culture and recreation	-	-	37,924	37,924
Debt service:				
Principal	15,417	109,000	-	124,417
Interest	926	30,459	-	31,385
Capital outlay:				
Police department	11,497	-	-	11,497
Culture and recreation	49,015	-	-	49,015
Total expenditures	<u>905,031</u>	<u>139,459</u>	<u>41,173</u>	<u>1,085,663</u>
Excess (deficiency) of revenues over (under)	122,443	8,038	15,604	146,086
Other financing sources:				
Transfers in	45,769	-	10,497	56,266
Transfers out	(10,497)	-	(4,200)	(14,697)
Total other financing sources	<u>35,272</u>	<u>-</u>	<u>6,297</u>	<u>41,569</u>
Net change in fund balance	<u>157,715</u>	<u>8,038</u>	<u>21,901</u>	<u>187,654</u>
Fund balance, beginning	<u>348,044</u>	<u>36,091</u>	<u>121,289</u>	<u>505,424</u>
Fund balance, ending	<u>\$ 505,759</u>	<u>\$ 44,129</u>	<u>\$ 143,190</u>	<u>\$ 693,078</u>

Reconciliation of the statement of revenues, expenditures and changes in fund balances
of the governmental funds to the statement of activities:

Net change in fund balances - total governmental funds	\$ 187,654
Amounts reported for the governmental activities in the statement of activities are different because:	
Depreciation expense on capital assets is reported in the statement of activities, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as an expenditure in governmental funds.	(30,826)
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the costs of these assets are depreciated over their estimated useful lives.	60,512
The repayment of the principal of long-term debt consumes current financial resources of governmental funds, yet has no effect on net position.	124,417
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	(6,227)
Some revenues in the statement of activities do not provide current financial resources and, therefore, are not reported as revenues in the fund statements.	3,540
Change in net position, governmental activities	<u>\$ 339,070</u>

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

City of Somerville, Texas
Statement of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual
General Fund
For the Year Ended September 30, 2016

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
Revenues:				
Taxes				
Property	\$ 392,500	\$ 392,500	\$ 412,323	\$ 19,823
Sales	237,000	237,000	246,562	9,562
Gross receipts	65,150	65,150	50,748	(14,402)
Other	2,400	2,400	3,132	732
Licenses and permits	8,800	8,800	5,556	(3,244)
Fines and court costs	168,610	168,610	162,933	(5,677)
Investment income	-	-	641	641
Grant revenue	-	-	38,905	38,905
Donations	4,600	4,600	60,792	56,192
Other	22,000	22,000	45,882	23,882
Total revenues	<u>901,060</u>	<u>901,060</u>	<u>1,027,474</u>	<u>126,414</u>
Expenditures:				
Current:				
General government	482,825	482,825	415,520	(67,305)
Public safety	429,035	429,035	383,985	(45,050)
Highways and streets	83,000	83,000	28,671	(54,329)
Culture and recreation	-	-	-	-
Debt service:				
Principal	12,700	12,700	15,417	2,717
Interest	3,700	3,700	926	(2,774)
Capital outlay				
General government	-	-	11,497	11,497
Culture and recreation	-	-	49,015	49,015
Total expenditures	<u>1,011,260</u>	<u>1,011,260</u>	<u>905,031</u>	<u>(106,229)</u>
Excess (deficiency) of revenues over (under) expenditures	(110,200)	(110,200)	122,443	232,643
Other financing sources (uses):				
Transfers in	32,600	32,600	45,769	13,169
Transfers out	-	-	(10,497)	(10,497)
Proceeds from sale of capital assets	24,000	24,000	-	(24,000)
Total other financing sources and uses	<u>56,600</u>	<u>56,600</u>	<u>35,272</u>	<u>(21,328)</u>
Net change in fund balance	(53,600)	(53,600)	157,715	211,315
Fund balance, beginning	<u>348,044</u>	<u>348,044</u>	<u>348,044</u>	<u>-</u>
Fund balance, ending	<u>\$ 294,444</u>	<u>\$ 294,444</u>	<u>\$ 505,759</u>	<u>\$ 211,315</u>

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

City of Somerville, Texas
Statement of Net Position
Proprietary Fund
September 30, 2016

	Business Type Activities
Assets	
Current assets:	
Cash and cash equivalents	\$ 485,464
Receivables, net of allowance for uncollectibles	122,721
Total current assets	<u>608,185</u>
Restricted assets:	
Cash and cash equivalents	152,134
Total restricted assets	<u>152,134</u>
Noncurrent assets:	
Equipment and furniture	687,074
Water and wastewater distribution	6,889,821
Buildings and improvements	17,298
Construction in progress	214,809
Accumulated depreciation	(3,535,711)
Capital assets (net of accumulated depreciation)	<u>4,273,291</u>
Total noncurrent assets	<u>4,273,291</u>
Total assets	<u>\$ 5,033,610</u>
Deferred Outflows of Resources	
Deferred amounts related to pensions	36,382
Liabilities	
Current liabilities:	
Accounts payable	\$ 73,566
Accrued liabilities	9,804
Due to other funds	11,476
Customer deposits	55,358
Total current liabilities	<u>150,204</u>
Noncurrent liabilities:	
Net pension liability	8,491
Compensated absences, long-term	9,184
Total noncurrent liabilities	<u>17,675</u>
Total liabilities	<u>167,879</u>
Deferred Inflows of Resources	
Deferred amounts related to pensions	5,352
Net position	
Net investment in capital assets	4,273,291
Unassigned	623,470
Total net position	<u>\$ 4,896,761</u>

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

City of Somerville, Texas
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Fund
September 30, 2016

	Business Type Activities
Operating revenues:	
Charges for water services	\$ 349,190
Charges for sewer services	269,086
Charges for solid waste services	261,792
Other revenue	29,657
Total operating revenue	<u>909,725</u>
Operating expenses:	
Salaries and wages	333,568
Purchased professional and technical services	241,103
Purchased property services	87,809
Other operating expenses	47,438
Supplies	63,259
Depreciation	190,413
Total operating expenses	<u>963,590</u>
Operating income (loss)	<u>(53,865)</u>
Nonoperating revenues (expenses)	
Grant proceeds	249,575
Interest income	591
Total nonoperating revenue	<u>250,166</u>
Change in net position before transfers	<u>196,301</u>
Transfers out	<u>(41,569)</u>
Change in net position	154,732
Net position, beginning	<u>4,742,029</u>
Net position, ending	<u><u>\$ 4,896,761</u></u>

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

City of Somerville, Texas
Statement of Cash Flows
Proprietary Fund
For the Year Ended September 30, 2016

	Business Type Activities
Cash flows from operating activities:	
Cash received from customers	\$ 910,660
Cash payments to suppliers for goods and services	(399,519)
Cash payments to employees for services	(330,867)
Net cash provided by (used in) operating activities	<u>180,274</u>
Cash flows from non-capital financing activities:	
Transfers out	(41,569)
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(410,289)
Grant proceeds	249,575
Net cash provided (used) by capital and related financing activities	<u>(160,714)</u>
Cash flows from investing activities:	
Interest on cash and investments	<u>591</u>
Net increase (decrease) in cash and equivalents	(21,418)
Cash and equivalents, beginning of year	<u>659,016</u>
Cash and equivalents, end of year	<u><u>\$ 637,598</u></u>
Unrestricted cash	\$ 485,464
Restricted cash	<u>152,134</u>
	<u><u>\$ 637,598</u></u>

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

City of Somerville, Texas
Statement of Cash Flows
Proprietary Fund
September 30, 2016

	<u>Business Type Activities</u>
Reconciliation of operating income (loss) to net cash provided by (used in)	
operating activities	
Operating income (loss)	\$ (53,865)
Adjustments to reconcile to net cash provided by operating activities:	
Depreciation	190,413
Bad debt expense	(463)
Increase (decrease) in cash resulting from changes in assets	
and liabilities:	
Accounts receivable	(9,193)
Deferred outflows related to pensions	(22,126)
Accounts payable	40,090
Compensated absences	2,128
Accrued liabilities	(2,682)
Deferred inflows related to pensions	3,020
Net pension asset	13,870
Net pension liability	8,491
Customer deposits	2,794
Due to other funds	7,797
Net cash provided by (used in) operating activities	<u>\$ 180,274</u>

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

City of Somerville, Texas
Notes to Basic Financial Statements
September 30, 2016

Note 1. Summary of Significant Accounting Policies

The City of Somerville, Texas, is a municipal corporation incorporated under Article XI, Section 4 of the Constitution of the State of Texas. The City provides the following services: public safety (police and fire), public works, community services, water and sewer services, solid waste and general administrative services.

The City's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The more significant policies established in GAAP and used by the City are discussed below.

A. Financial Reporting Entity

In evaluating how to define the City for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GASB Statement No. 61. As defined by GASB 61, component units are legally separate entities that are included in the City's reporting entity because the City is financially accountable or closely related.

In 2016, Somerville Parks Association, a non-profit organization was formed as a 501(c)(3) organization to support the City of Somerville in implementing and conducting its charitable and educational projects to raise funds for community projects. For financial reporting purposes, Somerville Parks Association is reported as a blended component unit and non-major special revenue fund in the governmental funds.

B. Basis of Presentation

Government-wide financial 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 except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. 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

City of Somerville, Texas
Notes to Basic Financial Statements
September 30, 2016

particular program. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Fund financial statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into two major categories: governmental and proprietary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The funds of the financial reporting entity are described below:

Governmental Funds

General Fund

The General Fund is the primary operating fund. It accounts for all financial resources of the general government, except those legally or administratively required to be accounted for in other funds.

Debt Service Fund

The Debt Fund is used to account for the accumulation of resources for and the payment of general long-term debt principal, interest and related costs.

Proprietary Fund

Water and Sewer Fund

The Water and Sewer Fund is used to account for operations (a) that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenue earned, expenses incurred and/or net income is

City of Somerville, Texas
Notes to Basic Financial Statements
September 30, 2016

appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for the proprietary funds include the cost of personal and contractual services, supplies and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Special Revenue Funds

The Special Revenue Funds are used to account for revenue sources that are legally restricted to expenditures for specific purposes. The City's non-major special revenue funds include Senior Citizens Center, Hotel/Motel, Court Technology, Court Security, and Senior Citizens Activity.

C. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

Measurement Focus

On 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 as defined in item b. below.

In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus is used as appropriate:

- 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 (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net position.

City of Somerville, Texas
Notes to Basic Financial Statements
September 30, 2016

Basis of Accounting

In the government-wide Statement of Net Position and Statement of Activities, both governmental and business-like activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when “measurable and available.” Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

The proprietary fund utilizes the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset is used.

D. Budgets

Annual appropriated budgets are adopted for the general and enterprise funds. The budget for the general fund is prepared and adopted on a basis consistent with generally accepted accounting principles, which is the same basis of accounting used for financial reporting in these financial statements. Budgets are adopted by passage of a budget ordinance. All annual budget appropriations lapse at fiscal year-end.

Encumbrance accounting is a system under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded to reserve that portion of the applicable appropriation. Encumbrances are reported as reservations of fund balances since they do not constitute expenditures or liabilities. The City does not employ encumbrance accounting as it feels its current system is adequate to assure effective budgetary control and accountability and to facilitate effective cash planning and control.

E. Cash and Investments

For the purpose of the Statement of Net Position and the Statement of Cash Flows, “Cash and cash equivalents” consists of cash on hand, amounts in demand deposit accounts and interest-bearing checking accounts, as well as certificates of deposits with maturities of three months or less.

City of Somerville, Texas
Notes to Basic Financial Statements
September 30, 2016

State statutes authorize the City to invest in time deposits of its designated depositories, U.S. Government Securities, and investment pools managed by the state. Investments are carried at fair value which is based on quoted market prices. Interest income and changes in fair value are reported as investment income.

F. Short-Term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. Any residual balances are classified as “due from other funds” and “due to other funds,” respectively, on the balance sheet and statement of Net Position.

G. Restricted Assets

Amounts in governmental funds which are legally identified for specific purposes either by City ordinance or contractual obligation are reflected as restricted assets. When an expense is incurred for purposes for which both restricted and unrestricted net position are available, restricted resources are used first to fund the expense.

H. Capital Assets

The accounting treatment over property, plant, and equipment (capital assets) depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-wide statements

All capital assets are valued at historical cost or estimated historical cost if actual is unavailable, except for donated capital assets which are recorded at their estimated fair value at the date of donation. Interest incurred during construction is not capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable. Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided over the assets’ estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Buildings and improvements	20 - 50 years
Utility lines/water wells	40 years
Infrastructure	40 - 50 years
Machinery and equipment	5 - 10 years

City of Somerville, Texas
Notes to Basic Financial Statements
September 30, 2016

When capital assets are disposed of, the cost and related accumulated depreciation are removed from the accounts and the appropriate gain or loss is recognized.

Fund financial statements

In the fund financial statements, capital assets used in governmental operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

I. Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the City does not have a policy to pay any amounts when employees separate from service with the City. All vacation pay is accrued when incurred in the government-wide financial statements.

J. Long-term Obligations

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business-type resources is reported as liabilities in the government-wide statements. The long-term debt consists primarily of bonds payable, notes payable, leases payable, and compensated absences.

Long-term debt for 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 the proprietary fund is the same in the fund statements as it is in the government-wide statements.

K. Fund Equity

Government-wide statements

Equity is classified as Net Position and displayed in three components:

- a. Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

City of Somerville, Texas
Notes to Basic Financial Statements
September 30, 2016

b. Restricted Net Position – consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulation of other governments; or (2) law through constitutional provisions or enabling legislation.

c. Unrestricted Net Position – all other net position that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Classification of fund balances

The *nonspendable* fund balance includes the portion of net resources that cannot be spent because of their form or because they must be maintained intact. Resources not in spendable form include supplies inventories and prepaid items, long-term advances to other funds net of deferred interest revenue, long-term receivable net of deferred interest revenue, nonfinancial assets held for resale, and unrealized change in the fair value of investments.

Some resources are spendable but are legally or contractually required to be maintained intact. Such resources include the principal of an endowment.

The *restricted* fund balance includes net resources that can be spent only for the specific purposes stipulated by constitution, external resource providers (creditors, grantors, contributors), laws and regulations of other governments, or through enabling legislation. The enabling legislation authorizes the City to assess, levy, charge or otherwise mandate payment of resources from external resource providers; those resources can be used only for the specific purposes stipulated in the legislation. The City’s revenue generated through enabling legislation includes certain municipal court fees.

The *committed* fund balance includes spendable net resources that can only be used for specific purposes pursuant to constraints imposed by formal Council actions, no later than the close of the fiscal year. Those constraints remain binding unless removed or changed in the same manner employed to previously commit those resources.

The *assigned* fund balance includes amounts that are constrained by the City’s intent to be used for specific purposes, but are neither restricted nor committed. Such intent should be expressed by the City Council or its designated officials to assign amounts to be used for specific purposes, but are neither restricted nor committed. Constraints imposed on the use of assigned amounts can be removed with no formal Council actions. The assigned fund balance is only reported in the General Fund.

The *unassigned* fund balance represents spendable net resources that have not been restricted, committed, or assigned to specific purposes.

City of Somerville, Texas
Notes to Basic Financial Statements
September 30, 2016

Spending Prioritization in Using Available Resources

When both restricted resources and other resources (i.e., committed, assigned, and unassigned) can be used for the same purpose, the City budget considers restricted resources to be spent first.

When committed, assigned, and unassigned resources can be used for the same purpose, the flow assumption in the City budget is to spend in the sequence of committed resources first, assigned second, and unassigned last.

L. Interfund Transfers

Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions in expenditures/expenses in the fund that is reimbursed.

All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

M. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pension expense, information about the Fiduciary Net Position of the Texas Municipal Retirement System (TMRS) and additions to/deductions from TMRS's Fiduciary Net Position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Note 2. Legal Compliance – Budgets

The City's Mayor has ultimate responsibility for the budget and formulates the budget goals for the City under the direction of the City Council. In compliance with the state's uniform budget law, the Mayor files the proposed budget with the City Secretary and City Council before the 30th day prior to the date the City adopts its tax levy for the fiscal year. The City is required to publish a notice of a public hearing regarding the proposed budget and then hold that public hearing not less than 15 days after the budget is filed with the City Secretary and prior to the date the Council makes the tax levy. Once the hearing is concluded and before adoption of the proposed budget, the Council may make any changes

City of Somerville, Texas
Notes to Basic Financial Statements
September 30, 2016

it considers warranted by law or in the best interest of the taxpayers. The annual operating budget is then adopted through passage of an annual budget ordinance. Upon approval by the Council, the annual budget document becomes a matter of public record and is filed with the City Secretary.

The legal level of budgetary control is the fund; therefore, expenditures may not legally exceed budget appropriations at the fund level. To amend the total of a fund or to reclass line items within the fund, a budget amendment approved by the Council is required. The general fund, debt service fund, and the enterprise fund have legally adopted annual budgets. During the year, the City did not amend the budget. General Fund and Debt service fund expenditures/expenses did not exceed appropriations.

Note 3. Deposits and Investments

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. Deposits of the City are insured or collateralized with securities held by the City, its agent, or by the pledging financial institution's trust department or agent in the name of the City or applicable public trust. Deposits were adequately covered at September 30, 2016.

Note 4. Restricted Assets

At September 30, 2016, restrictions on cash and investments were as follows:

	Governmental Fund	Proprietary Fund
<u>Cash and Investments</u>		
Restricted for:		
Senior citizens center	\$ 1,079	\$ -
Hotel/ Motel occupancy tax	74,094	-
Municipal court	54,897	-
Somerville Parks Association	12,592	-
Debt service	37,285	-
Equipment and improvements	7,946	152,134
	<u>\$ 187,893</u>	<u>\$ 152,134</u>

City of Somerville, Texas
Notes to Basic Financial Statements
September 30, 2016

Note 5. Receivables

Receivables at September 30, 2016, consist of the following:

	Governmental Funds	Proprietary Funds	Total
Receivables:			
Taxes:			
Property	\$ 80,214	\$ -	\$ 80,214
Sales	43,603	-	43,603
Municipal court	63,539	-	63,539
Grant	-	7,546	7,546
Utility revenue	-	116,148	116,148
Less:			
allowance for uncollectibles	-	(973)	(973)
Net total receivables	<u>\$ 187,356</u>	<u>\$ 122,721</u>	<u>\$ 310,077</u>

Property taxes attach as an enforceable lien on property as of February 1. Taxes are levied on October 1 and are payable by January 31, after which time they become delinquent and penalties and interest may be assessed by the City.

City of Somerville, Texas
Notes to Basic Financial Statements
September 30, 2016

Note 6. Capital Assets

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

	Beginning Balance	Additions/ Completions	Retirements/ Adjustments	Ending Balance
<u>Governmental activities</u>				
Capital assets not being depreciated				
Land	\$ 26,261	\$ -	\$ -	\$ 26,261
Construction in progress	-	49,015	-	49,015
Total capital assets not being depreciated	26,261	49,015	-	75,276
Capital assets being depreciated				
Buildings and improvements	147,008	-	-	147,008
Software	17,554	-	-	17,554
Machinery and equipment	818,492	11,497	-	829,989
Total at historical cost	983,054	11,497	-	994,551
Less: accumulated depreciation for:				
Buildings and improvements	40,131	6,265	-	46,396
Software	6,583	1,755	-	8,338
Machinery and equipment	759,520	22,807	-	782,327
Total accumulated depreciation	806,234	30,827	-	837,061
Total capital assets being depreciated, net	176,820	(19,330)	-	157,490
Governmental activities capital assets, net	\$ 203,081	\$ 29,685	\$ -	\$ 232,766
	Beginning Balance	Additions/ Completions	Retirements/ Adjustments	Ending Balance
<u>Business-type activities</u>				
Capital assets not being depreciated				
Construction in progress	\$ 132,336	\$ 169,598	\$ 87,125	\$ 214,809
Total capital assets not being depreciated	132,336	169,598	87,125	214,809
Capital assets being depreciated				
Buildings and improvements	17,298	-	-	17,298
Machinery and equipment	687,074	-	-	687,074
Water and wastewater distribution	6,562,005	327,816	-	6,889,821
Total at historical cost	7,266,377	327,816	-	7,594,193
Less: accumulated depreciation for:				
Buildings and improvements	17,298	835	-	18,133
Machinery and equipment	270,576	29,903	-	300,479
Water and wastewater distribution	3,057,424	159,675	-	3,217,099
Total accumulated depreciation	3,345,298	190,413	-	3,535,711
Total capital assets being depreciated, net	3,921,079	137,403	-	4,058,482
Business-type activities capital assets, net	\$ 4,053,415	\$ 307,001	\$ 87,125	\$ 4,273,291

City of Somerville, Texas
Notes to Basic Financial Statements
September 30, 2016

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

General government	\$ 4,517
Public safety	21,153
Culture and recreation	675
Highway and streets	4,482
	<u>\$ 30,827</u>

Note 7. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters for which the City carries commercial insurance.

Note 8. Long-term Liabilities

Long-term liabilities outstanding at September 30, 2016 are comprised of the following:

	Governmental activities	Business-type activities
\$947,000, 2014 Combination Tax and Revenue Certificates of Obligation due in annual installments of \$52,000 to \$78,000 through February 15, 2029; interest rates 0.80% to 3.50%	\$ 840,000	\$ -
\$346,000, 2014 General Obligation Refunding Bonds due in annual installments of \$10,000 to \$60,000 through February 15, 2021; interest rate 2.85%	242,000	-
\$197,202 note payable dated December 16, 2003 due on demand, payable in monthly payments of \$1,362, maturing December 15, 2018; interest rate 3.00%, secured by fire truck	32,658	-
Compensated absences for accrued vacation	13,066	9,184
	<u>\$ 1,127,724</u>	<u>\$ 9,184</u>

Annual debt service requirements to maturity for the outstanding debt, including interest of \$191,403 are as follows:

Fiscal Year Ending September 30	Principal	Interest
2017	\$ 145,658	\$ 28,812
2018	115,000	25,773
2019	118,000	23,081
2020	119,000	20,205
2021	61,000	17,989
2022 - 2026	331,000	63,706
2027 - 2029	225,000	11,838
Total	<u>\$ 1,114,658</u>	<u>\$ 191,403</u>

City of Somerville, Texas
Notes to Basic Financial Statements
September 30, 2016

Changes in Long-term Liabilities

Long-term liability activity for the year ended September 30, 2016, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities					
Certificates of obligation	\$ 895,000	\$ -	\$ 55,000	\$ 840,000	\$ 57,000
General obligations	296,000	-	54,000	242,000	56,000
Notes payable	48,075	-	15,417	32,658	32,658
Compensated absences	9,860	3,206	-	13,066	-
Governmental activities long-term liabilities	<u>\$ 1,248,935</u>	<u>\$ 3,206</u>	<u>\$ 124,417</u>	<u>\$ 1,127,724</u>	<u>\$ 145,658</u>
Business-type activities					
Compensated absences	7,056	2,128	-	9,184	-
Business-type activities long-term liabilities	<u>\$ 7,056</u>	<u>\$ 2,128</u>	<u>\$ -</u>	<u>\$ 9,184</u>	<u>\$ -</u>

Note 9. Interfund Receivables, Payables and Transfers

The composition of interfund balances as of September 30, 2016, is as follows:

Due to/from other funds:

Receivable Fund	Payable Fund	Amount
<i>General</i>	Proprietary	\$ 5,681
		<u>\$ 5,681</u>
<i>Debt Service</i>	Proprietary	\$ 5,402
		<u>\$ 5,402</u>
<i>Other Governmental Funds</i>	Proprietary	\$ 393
		<u>\$ 393</u>

The outstanding balances between funds result from management moving money between funds for cash flow management and are expected to be repaid within one year's time.

City of Somerville, Texas
Notes to Basic Financial Statements
September 30, 2016

Note 10. Interfund Transfers

Interfund transfers during the year ended September 30, 2016, were as follows:

Transfers In	Transfers Out		
	General	Proprietary	Non-major Special Revenue
General	\$ -	\$ 41,569	\$ 4,200
Non-major Special Revenue	10,497	-	-
Total	\$ 10,497	\$ 41,569	\$ 4,200

Note 11. Pension Plans

A Plan Description

The City 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 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmrs.com.

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

B. Benefits Provided

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

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

City of Somerville, Texas
Notes to Basic Financial Statements
September 30, 2016

Plan provisions for the City were as follows:

	Plan Year	
	2015	2016
Employee Deposit Rate	5%	5%
Matching Ratio (City to Employee)	1.5 to 1	1.5 to 1
A member is vested after	5 years	5 years
Service retirement eligibility (expressed as age/years of service)	60/5, 0/25	60/5, 0/25
Updated Service Credit	100% repeating, transfers	100% repeating, transfers
Annuity Increase (to retirees)	70% of CPI repeating	70% of CPI repeating

Members can retire at certain ages, based on the years of service with the City.

Employees covered by benefit terms.

At the December 31, 2015 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	11
Inactive employees entitled to but not yet receiving benefits	10
Active employees	15

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 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 were required to contribute 5% of their annual gross earnings during the fiscal year. The contribution rates for the City were 5.68% and 5.40% in calendar years 2015 and 2016, respectively. The city's contributions to TMRS for the year ended September 30, 2016, were \$32,331, and were equal to the required contributions.

City of Somerville, Texas
Notes to Basic Financial Statements
September 30, 2016

D. Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2015, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial assumptions:

The Total Pension Liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3.0% per year
Investment rate of return	6.75%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table, with male rates multiplied by 109% and female rates multiplied by 103%. For cities with fewer than twenty employees, more conservative methods and assumptions are used. First, lower termination rates are used for smaller cities, with maximum multipliers of 75% for employers with less than 6 members, 85% for employers with 6 to 10 members, and 100% for employers with 11 to 15 members and 115% for employers with less than 100 members.

There is also a load on the life expectancy for employers with less than 15 active members. The life expectancy will be loaded by decreasing the mortality rates by 1% for every active member less than 15. For example, an employer with 5 active members will have the baseline mortality tables multiplied by 90% (10 active members times 1%). The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Disabled Retiree Mortality Table is used, with slight adjustments.

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

City of Somerville, Texas
Notes to Basic Financial Statements
September 30, 2016

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

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.10%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	3.65%
Real Return	10.0%	4.03%
Real Estate	10.0%	5.00%
Absolute Return	10.0%	4.00%
Private Equity	5.0%	8.00%
Total	100.0%	

Discount Rate

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

City of Somerville, Texas
Notes to Basic Financial Statements
September 30, 2016

<i>Changes in the Net Pension Liability</i>	Increase (Decrease)		
	Plan		
	Total Pension Liability (a)	Fiduciary Net Position (b)	Net Pension Liability/(Asset) (a) - (b)
Balance at 12/31/2014	\$ 1,034,388	\$ 1,067,277	\$ (32,889)
Changes for the year:			
Service Cost	54,444	-	54,444
Interest	70,898	-	70,898
Change of benefit terms	-	-	-
Difference between expected and actual experience	(14,413)	-	(14,413)
Changes of assumptions	4,621	-	4,621
Contributions - employer	-	30,437	(30,437)
Contributions - employee	-	26,793	(26,793)
Net investment income	-	1,574	(1,574)
Benefit payments, including refunds of employee contributions	(97,571)	(97,571)	-
Administrative expense	-	(959)	959
Other charges	-	(47)	47
Net changes	17,979	(39,773)	57,752
Balance at 12/31/2015	\$ 1,052,367	\$ 1,027,504	\$ 24,863

Sensitivity of the net position liability (asset) to changes in the discount rate

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

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's net pension liability/(asset)	\$ 170,814	\$ 24,863	\$ (94,498)

Pension Plan Fiduciary Net Position

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

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

For the year ended September 30, 2016, the City recognized pension expense of \$35,626.

City of Somerville, Texas
Notes to Basic Financial Statements
September 30, 2016

At September 30, 2016, the city reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 13,541
Changes in actuarial assumptions	3,327	-
Difference between projected and actual investment earnings	66,081	-
Contributions subsequent to the measurement date	23,885	-
Total	<u>\$ 93,293</u>	<u>\$ 13,541</u>

\$23,885 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	
2016	\$ 12,043
2017	13,610
2018	15,587
2019	14,627
Total	<u>\$ 55,867</u>

Note 12. Contingent Liabilities

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

In the course of operations, the City is subject to litigation from time to time. Although the amount of any liability with respect to such litigation cannot be determined, in the opinion of management, such liability will not have a material adverse effect on the City's financial condition.

City of Somerville, Texas
Notes to Basic Financial Statements
September 30, 2016

Note 13. Deficit Fund Balance

A deficit unassigned fund balance of \$4,423 exists in the Senior Citizens Activity special revenue fund.

Note 14. Commitments

In 2015, the City entered into a 60-month rental agreement for a copier. Rental expense for the copier was \$4,591 in 2016 and \$2,737 in 2015. Future rental expense for the copier is estimated to be \$4,591 annually for the years ending September 30, 2017 through September 30, 2019, and \$1,913 for the year ending September 30, 2020. The rental agreement is classified as an operating lease.

REQUIRED SUPPLEMENTARY INFORMATION

**City of Somerville
Texas Municipal Retirement System**

*Schedule of Changes in Net Pension Liability (Asset) and Related Ratios
Last 10 Years
(unaudited)*

	2015	2014
Total pension liability		
Service Cost	\$ 54,444	\$ 47,522
Interest (on the Total Pension Liability)	70,898	67,553
Changes of benefit terms	-	-
Difference between expected and actual experience	(14,413)	(7,897)
Change of assumptions	4,621	-
Benefit payments, including refunds of employee contributions	(97,571)	(28,153)
Net Change in Total Pension Liability	17,979	79,025
Total Pension Liability - Beginning	1,034,388	955,363
Total Pension Liability - Ending (a)	<u>\$ 1,052,367</u>	<u>\$ 1,034,388</u>
 Plan Fiduciary Net Position		
Contributions - Employer	\$ 30,437	\$ 27,266
Contributions - Employee	26,793	25,200
Net Investment Income	1,574	56,476
Benefit payments, including refunds of employee contributions	(97,571)	(28,153)
Administrative expense	(959)	(590)
Other	(47)	(48)
Net Change in Plan Fiduciary Net Position	(39,773)	80,151
Plan Fiduciary Net Position - Beginning	1,067,277	987,126
Plan Fiduciary Net Position - Ending (b)	<u>\$ 1,027,504</u>	<u>\$ 1,067,277</u>
 Net Pension Liability (Asset) - Ending (a) - (b)	<u>\$ 24,863</u>	<u>\$ (32,889)</u>
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	97.64%	103.18%
Covered Employee Payroll	535,868	504,001
Net Pension Liability as a Percentage of Covered Employee Payroll	4.64%	-6.53%

Notes to Schedule:

GASB 68 requires 10 fiscal years of data to be provided in this schedule.

As GASB 68 has been initially adopted for the 2014 plan year, historical data is presented beginning that period.

**City of Somerville
Texas Municipal Retirement System**

*Schedule of Contributions
Last 10 Fiscal Years
(unaudited)*

	2015	2014
Actuarially Determined Contribution	\$ 30,437	\$ 28,319
Contributions in relation to the actuarially determined contributions	<u>32,152</u>	<u>27,266</u>
Contribution deficiency (excess)	\$ (1,715)	\$ 1,053
Covered employee payroll	\$ 535,868	\$504,001
Contributions as a percentage of covered employee payroll	6.00%	5.41%

Notes to Schedule of Contributions

Valuation Date:

Notes Actuarially determined contribution rates are calculated as of December 31 and become effective in January 13 months later.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	25 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	2.5%
Salary Increases	3.50% to 10.5% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2014
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB

Other Information:

Notes There were no benefit changes during the year.

GASB 68 requires 10 fiscal years of data to be provided in this schedule. As GASB 68 has been initially adopted for the 2014 plan year, historical data is not presented.

OTHER SUPPLEMENTARY INFORMATION

City of Somerville, Texas
Combining Balance Sheet
Non-major Governmental Funds
September 30, 2016

	Special Revenue						Total
	Senior Citizens Center	Hotel/ Motel	Court Technology	Court Security	Senior Citizens Activity	Somerville Parks Association	Non-major Governmental Funds
Assets							
Cash, restricted	\$ 1,079	\$ 74,094	\$ 13,346	\$ 41,551	\$ -	\$ 12,592	\$ 142,662
Other assets	-	4,604	-	-	-	-	4,604
Due from other funds	393	-	-	-	-	-	393
Total assets	\$ 1,472	\$ 78,698	\$ 13,346	\$ 41,551	\$ -	\$ 12,592	\$ 147,659
Liabilities and fund balances							
Liabilities:							
Accounts payable	46	-	-	-	42	-	88
Due to other funds	-	-	-	-	4,381	-	4,381
Total liabilities	46	-	-	-	4,423	-	4,469
Fund balances:							
Restricted for:							
Hotel/Motel occupancy tax	-	78,698	-	-	-	-	78,698
Municipal court	-	-	13,346	41,551	-	-	54,897
Somerville Parks Association	-	-	-	-	-	12,592	12,592
Unassigned (deficit)	1,426	-	-	-	(4,423)	-	(2,997)
Total fund balances	1,426	78,698	13,346	41,551	(4,423)	12,592	143,190
Total liabilities and fund balances	\$ 1,472	\$ 78,698	\$ 13,346	\$ 41,551	\$ -	\$ 12,592	\$ 147,659

City of Somerville, Texas
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Non-major Governmental Funds
For the fiscal year ended September 30, 2016

	Special Revenue						Total
	Senior Citizens Center	Hotel/ Motel	Court Technology	Court Security	Senior Citizens Activity	Somerville Parks Association	Non-major Governmental Funds
Revenues:							
Hotel/motel occupancy taxes	\$ -	\$ 19,064	\$ -	\$ -	\$ -	\$ -	\$ 19,064
Fines and court costs	-	-	4,455	4,448	-	-	8,903
Investment income	1	106	17	58	-	-	182
Grant revenue	7,000	-	-	-	-	-	7,000
Donations	3,737	-	-	-	-	15,756	19,493
Miscellaneous	-	-	-	-	2,135	-	2,135
Total revenues	10,738	19,170	4,472	4,506	2,135	15,756	56,777
Expenditures:							
Current:							
Culture and recreation	6,254	14,027	-	-	14,479	3,164	37,924
General government	-	-	2,010	1,239	-	-	3,249
Capital outlay	-	-	-	-	-	-	-
Total expenditures	6,254	14,027	2,010	1,239	14,479	3,164	41,173
Excess (deficiency) of revenues over (under) expenditures	4,484	5,143	2,462	3,267	(12,344)	12,592	15,604
Other financing sources (uses):							
Transfer in	-	-	-	-	10,497	-	10,497
Transfers out	(4,200)	-	-	-	-	-	(4,200)
Total other financing sources (uses)	(4,200)	-	-	-	10,497	-	6,297
Net change in fund balances	284	5,143	2,462	3,267	(1,847)	12,592	21,901
Fund balances (deficit) at beginning of year	1,142	73,555	10,884	38,284	(2,576)	-	121,289
Fund balances (deficit) at end of year	\$ 1,426	\$ 78,698	\$ 13,346	\$ 41,551	\$ (4,423)	\$ 12,592	\$ 143,190