

CITY OF SOMERVILLE, TEXAS
Financial Statements
with
Report of Independent Auditor
For the Year Ended September 30, 2022

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

Opinions

We have audited the 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, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements 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, 2022, 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.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

The City's management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 City's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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 41, the TMRS schedule of contributions on page 42, and the schedule of changes in total OPEB liability and related ratios on page 43, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic

financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated May 9, 2023, 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 solely 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 effectiveness of 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's internal control over financial reporting and compliance.

Brenham, Texas
May 9, 2023

Seidel Schuster

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, 2022. Please read it in conjunction with the independent auditors' report and the City's basic financial statements.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of the City of Somerville exceeded its liabilities and deferred inflows of resources at the close the most recent fiscal year by \$7,418,852 (*net position*). Of this amount, \$1,544,327 (*unrestricted net position*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's net position increased by \$164,446.
- The City's governmental funds reported ending fund balances of \$951,083, which was a decrease of \$1,781,932 from the prior year.
- The City's proprietary funds reported combined net position of \$5,992,687, which was an increase of \$888,736 from the prior year.
- The City's long-term liabilities of its governmental activities at year-end totaled \$2,168,468, of which \$163,436 represents debt due and payable in the next year. The City's business-type funds long-term liabilities at year-end totaled \$142,934, of which \$14,548 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, deferred outflows of resources, liabilities, and deferred inflows of resources, 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 decreased by \$724,290 from \$2,150,455 in 2021 to \$1,426,165 in 2022. The decrease in the governmental activities net position was primarily due to additional expenditures related to bond funds spent on water and sewer projects. Current assets decreased by \$1,252,918 primarily due to bond proceeds spent in the current year related to the City's street, water and sewer improvement project. Total liabilities increased by \$450,370 primarily due to an increase in accounts payable related to the street improvement project and an increase in unearned revenue related to COVID-19 grant funding received in the current year, but not yet expended.

Capital assets from the City's business type activities increased by \$1,089,539 primarily due to the City's ongoing water and sewer improvement project. Noncurrent liabilities increased \$138,310 primarily related to debt incurred on capital assets purchased in the current year.

Table 1
City of Somerville, Texas
Statement of Net Position

	Governmental Activities		Business-Type Activities		Total	
	2022	2021	2022	2021	2022	2021
Current and other assets	\$ 1,951,462	\$ 3,204,380	\$ 791,913	\$ 804,526	\$ 2,743,375	\$ 4,008,906
Capital assets	2,425,965	1,387,671	5,504,068	4,414,529	7,930,033	5,802,200
Total Assets	4,377,427	4,592,051	6,295,981	5,219,055	10,673,408	9,811,106
Deferred outflows of resources	24,667	18,116	6,547	8,006	31,214	26,122
Current liabilities	485,564	388,024	140,446	102,820	626,010	490,844
Non-current liabilities	2,388,693	2,035,863	142,769	4,459	2,531,462	2,040,322
Total Liabilities	2,874,257	2,423,887	283,215	107,279	3,157,472	2,531,166
Deferred inflows of resources	101,672	35,825	26,626	15,513	128,298	51,338
Net Position:						
Net investment in capital assets	1,459,791	1,151,442	5,365,593	4,414,529	5,653,234	4,958,541
Restricted	221,291	1,552,939	-	-	221,291	1,552,939
Unrestricted	(254,917)	(553,926)	627,094	689,422	1,544,327	742,926
Total Net Position	\$ 1,426,165	\$ 2,150,455	\$ 5,992,687	\$ 5,103,951	\$ 7,418,852	\$ 7,254,406

As can be seen in Table 2 on the next page, total revenues (excluding transfers) from governmental activities decreased by \$120,556 from \$1,640,884 in 2021 to \$1,520,328 in 2022 primarily due to a decrease in grant revenues offset by an increase in property tax revenue. Total expenses from governmental activities increased by \$113,636, primarily due to an increase in personnel expenses.

Total revenues (excluding transfers) from business-type activities increased by \$240,241 from \$893,897 in 2021 to \$1,134,138 in 2022. The increase in revenue was primarily due to an increase in capital grant revenue. Total expenses from business-type activities increased by \$142,524 from \$905,086 in 2021 to \$1,047,610 in 2022. The increase in expense was primarily due to an increase in supplies and repairs and maintenance expenses.

Table 2
City of Somerville, Texas
Changes in Net Position

	Governmental Activities		Business-Type Activities		Total	
	2022	2021	2022	2021	2022	2021
Revenues						
Program Revenues						
Charges for services	\$ 169,934	\$ 141,374	\$ 864,597	\$ 862,968	\$ 1,034,531	\$ 1,004,342
Operating grants and contributions	10,075	4,013	-	-	10,075	4,013
Capital grants and contributions	7,541	306,118	245,925	29,075	253,466	335,193
General Revenues						
Property taxes	821,876	738,560	-	-	821,876	738,560
Sales taxes	361,617	313,908	-	-	361,617	313,908
Gross receipts	53,370	51,085	-	-	53,370	51,085
Hotel occupancy	21,443	23,379	-	-	21,443	23,379
Other	4,714	5,917	-	-	4,714	5,917
Transfers in (out)	(802,208)	(8,733)	802,208	8,733	-	-
Miscellaneous revenues	57,601	52,403	21,549	289	79,150	52,692
Gain on sale of capital assets	6,596	-	-	-	6,596	-
Investment earnings	5,561	4,127	2,067	1,565	7,628	5,692
Total Revenues	718,120	1,632,151	1,936,346	902,630	2,654,466	2,534,781
Expenses						
General government	570,966	546,936	-	-	570,966	546,936
Public safety	646,791	569,307	-	-	646,791	569,307
Highways and streets	95,300	90,418	-	-	95,300	90,418
Culture and recreation	70,590	59,870	-	-	70,590	59,870
Interest/cost on long-term debt	58,763	62,243	529	-	59,292	62,243
Water, sewer and sanitation	-	-	1,047,081	905,086	1,047,081	905,086
Total Expenses	1,442,410	1,328,774	1,047,610	905,086	2,490,020	2,233,860
Change in Net Position	(724,290)	303,377	888,736	(2,456)	164,446	300,921
Net Position, Beginning of Year	2,150,455	1,847,078	5,103,951	5,106,407	7,254,406	6,953,485
Net Position, End of Year	<u>\$ 1,426,165</u>	<u>\$ 2,150,455</u>	<u>\$ 5,992,687</u>	<u>\$ 5,103,951</u>	<u>\$ 7,418,852</u>	<u>\$ 7,254,406</u>

THE CITY'S FUNDS

As of September 30, 2022, the governmental funds reported a fund balance of \$951,083. This is a decrease of \$1,781,932 from \$2,733,015 on September 30, 2021.

General Fund Budgetary Highlights

The City's Council annually adopts an operating budget. Total actual revenues were \$106,955 more than budgeted, primarily due to higher than anticipated sales tax revenue. Actual expenditures were over budget by \$371,235, primarily due to the purchase of equipment in the current year.

In total, the actual net increase in fund balance was \$2,360 compared to a budgeted decrease of \$84,217 for 2022.

Capital Assets

As of September 30, 2022, the City had \$7,930,033 invested in capital assets.

Table 3
City of Somerville, Texas
Capital Assets

	Governmental Activities		Business-Type Activities		Total	
	2022	2021	2022	2021	2022	2021
Land	\$ 195,662	\$ 185,103	\$ -	\$ -	\$ 195,662	\$ 185,103
Buildings and improvements	251,523	196,023	17,298	17,298	268,821	213,321
Machinery and equipment	1,184,359	1,073,102	837,170	697,260	2,021,529	1,770,362
Streets and improvements	828,387	828,387	-	-	828,387	828,387
Software	28,318	17,554	-	-	28,318	17,554
Utility Plants	-	-	8,529,745	8,193,444	8,529,745	8,193,444
Construction in Progress	1,042,262	122,287	895,930	71,430	1,938,192	193,717
	3,530,511	2,422,456	10,280,143	8,979,432	13,810,654	11,401,888
Accumulated Depreciation	(1,104,546)	(1,034,785)	(4,776,075)	(4,564,903)	(5,880,621)	(5,599,688)
Net Capital Assets	<u>\$ 2,425,965</u>	<u>\$ 1,387,671</u>	<u>\$ 5,504,068</u>	<u>\$ 4,414,529</u>	<u>\$ 7,930,033</u>	<u>\$ 5,802,200</u>

This year's major additions included:

Drainage and street improvements	\$ 919,975
Sanitary and water improvements	844,500
Backhoe, paid for with General and Proprietary resources	126,960
Police department vehicles	110,353
Freightliner, paid for with General and Proprietary resources	82,905
Basketball court	55,500

Debt

At year-end, the City had \$2,276,798 in notes and general obligation bonds payable with \$177,984 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	
	2022	2021	2022	2021	2022	2021
Notes payable	\$ 200,323	\$ 85,179	\$ 138,475	\$ -	\$ 338,798	\$ 85,179
Bonds payable	1,938,000	2,056,000	-	-	1,938,000	2,056,000
Total	<u>\$ 2,138,323</u>	<u>\$ 2,141,179</u>	<u>\$ 138,475</u>	<u>\$ -</u>	<u>\$ 2,276,798</u>	<u>\$ 2,141,179</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, 600 Memory Lane, Somerville, TX 77879.

City of Somerville, Texas
Statement of Net Position
September 30, 2022

	Primary Government		
	Governmental Activities	Business-type Activities	Totals
Assets			
Cash and cash equivalents	\$ 1,201,011	\$ 646,305	\$ 1,847,316
Receivables (net)	166,512	112,341	278,853
Other assets	5,181	-	5,181
Restricted assets:			
Cash and cash equivalents	188,689	-	188,689
Internal balances	55,766	(55,766)	-
Prepays	7,290	-	7,290
Net pension asset	244,360	63,718	308,078
Due from other governments	3,078	-	3,078
Right to use leased asset, net of amortization	79,576	25,315	104,891
Capital assets			
Non-depreciable	1,237,924	895,930	2,133,854
Depreciable, net	1,188,041	4,608,138	5,796,179
Total assets	<u>4,377,427</u>	<u>6,295,981</u>	<u>10,673,408</u>
Deferred Outflows of Resources			
Deferred amounts related to pensions	16,636	4,338	20,974
Deferred amounts related to OPEB	8,032	2,209	10,241
Total deferred outflows	<u>24,667</u>	<u>6,547</u>	<u>31,214</u>
Liabilities			
Accounts payable	180,194	29,595	209,789
Accrued liabilities	24,503	5,949	30,452
Accrued interest payable	10,603	-	10,603
Customer deposits	-	60,766	60,766
Unearned revenue	341,235	-	341,235
Bonds and note payable, due within one year	163,436	14,548	177,984
Lease liability, current	34,128	10,444	44,572
Other long-term payable, current	3,089	-	3,089
Bonds and note payable, long-term	1,974,888	123,927	2,098,815
Lease liability, long-term	42,425	14,383	56,808
Post employment benefits	69,611	19,144	88,755
Compensated absences, long-term	30,145	4,459	34,604
Total liabilities	<u>2,874,257</u>	<u>283,215</u>	<u>3,157,472</u>
Deferred inflows of resources			
Deferred amounts related to pensions	93,558	24,395	117,953
Deferred amounts related to OPEB	8,114	2,231	10,345
Total deferred inflows	<u>101,672</u>	<u>26,626</u>	<u>128,298</u>
Net Position			
Net investment in capital assets	1,459,791	5,365,593	5,653,234
Restricted for:			
Debt service	158,257	-	158,257
Municipal court	62,680	-	62,680
Somerville Parks Association	354	-	354
Unrestricted (deficit)	(254,917)	627,094	1,544,327
Total net position	<u>\$ 1,426,165</u>	<u>\$ 5,992,687</u>	<u>\$ 7,418,852</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, 2022

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Government		
				Governmental Activities	Business-type Activities	Total
Primary government						
Governmental activities						
General government	\$ 570,966	\$ 32,773	\$ 4,242	\$ (526,410)	\$ -	\$ (526,410)
Public safety	646,791	137,161	-	(509,630)	-	(509,630)
Highways and streets	95,300	-	-	(95,300)	-	(95,300)
Culture and recreation	70,590	-	5,833	(64,757)	-	(64,757)
Interest and costs on long-term debt	58,763	-	-	(58,763)	-	(58,763)
Total governmental activities	1,442,410	169,934	10,075	(1,254,860)	-	(1,254,860)
Business-type activities						
Proprietary fund	1,047,610	864,597	-	-	62,912	62,912
Total business-type activities	1,047,610	864,597	-	-	62,912	62,912
Total primary government	2,490,020	1,034,531	10,075	(1,254,860)	62,912	(1,191,948)
General revenues						
Taxes						
Property				821,876	-	821,876
Sales				361,617	-	361,617
Gross receipts				53,370	-	53,370
Hotel occupancy				21,443	-	21,443
Other				4,714	-	4,714
Investment income				5,561	2,067	7,628
Miscellaneous revenues				57,601	21,549	79,150
Gain on sale of capital assets				6,596	-	6,596
Transfers				(802,208)	802,208	-
Total general revenues and transfers				530,570	825,824	1,356,394
Change in net position				(724,290)	888,736	164,446
Net position, beginning				2,150,455	5,103,951	7,254,406
Net position, ending				\$ 1,426,165	\$ 5,992,687	\$ 7,418,852

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

City of Somerville, Texas
Balance Sheet
Governmental Funds
September 30, 2022

	General	Capital Projects	Debt Service	Other Governmental Funds	Total Governmental Fund
Assets					
Cash and cash equivalents	\$ 1,201,011	\$ -	\$ -	\$ -	\$ 1,201,011
Receivables (net of allowances for uncollectibles)					
Property tax	74,895	-	21,248	-	96,143
Sales tax	59,573	-	-	-	59,573
Municipal court	10,796	-	-	-	10,796
Due from other governments	3,078	-	-	-	3,078
Due from other funds	416,375	-	-	15,570	431,945
Other assets	-	-	-	5,181	5,181
Cash, restricted	-	-	137,009	51,680	188,689
Total assets	<u>\$ 1,765,728</u>	<u>\$ -</u>	<u>\$ 158,257</u>	<u>\$ 72,431</u>	<u>\$ 1,996,416</u>
Liabilities, deferred inflows of resources and fund balances					
Liabilities:					
Accounts payable	\$ 34,252	145,714	-	\$ 231	\$ 180,197
Accrued liabilities	24,442	-	-	61	24,503
Unearned revenue	444,922	-	19,532	-	464,454
Due to other funds	56,376	298,857	-	20,946	376,179
Total liabilities	559,992	444,571	19,532	21,238	1,045,333
Fund balances:					
Restricted for:					
Debt service	-	-	138,725	-	138,725
Municipal court	-	-	-	62,680	62,680
Somerville Parks Association	-	-	-	354	354
Unassigned (deficit)	1,205,736	(444,571)	-	(11,841)	749,324
Total fund balances	1,205,736	(444,571)	138,725	51,193	951,083
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 1,765,728</u>	<u>\$ -</u>	<u>\$ 158,257</u>	<u>\$ 72,431</u>	<u>\$ 1,996,416</u>
Reconciliation of the balance sheet to the statement of net position:					
Fund balances of governmental funds					\$ 951,083
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			\$ 3,530,511		
Less accumulated depreciation			(1,104,546)		2,425,965
Leased assets and liabilities are not current financial resources.					3,023
Unavailable revenues reported in the governmental funds are not available to pay for current-period expenditures and, therefore, are deferred in the funds.					123,219
Prepaid assets in governmental activities are not financial resources and therefore are not reported in the governmental funds.					7,290
Deferred outflows and net pension asset are not receivable and deferred inflows and OPEB are not payable in the current period and, therefore, are not reported in the governmental funds.					97,746
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.					
Notes and bonds payable			\$ (2,138,324)		
Other long term payable			(3,089)		
Accrued interest payable			(10,603)		
Compensated absences			(30,145)		(2,182,161)
Net position, governmental activities					<u>\$ 1,426,165</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
Governmental Funds
For the Year Ended September 30, 2022

	General	Capital Projects	Debt Service	Other Governmental Funds	Total Governmental Funds
Revenues:					
Taxes					
Property	\$ 664,022	\$ -	\$ 164,549	\$ -	\$ 828,571
Sales	361,617	-	-	-	361,617
Gross receipts	53,370	-	-	-	53,370
Hotel/motel occupancy	-	-	-	21,444	21,444
Other	4,714	-	-	-	4,714
Licenses and permits	32,773	-	-	-	32,773
Fines and court costs	106,064	-	-	4,121	110,185
Investment income	4,872	-	482	208	5,562
Grant revenue	-	-	-	5,833	5,833
Donations	4,242	-	-	7,541	11,783
Other	57,836	-	-	-	57,836
Total revenues	1,289,510	-	165,031	39,147	1,493,688
Expenditures:					
Current:					
General government	545,790	-	-	13,442	559,232
Public safety	609,257	-	-	-	609,257
Highways and streets	38,486	-	-	-	38,486
Culture and recreation	14,416	-	-	47,480	61,896
Debt service:					
Principal	91,518	-	118,000	-	209,518
Interest	5,748	-	42,412	-	48,160
Capital outlay:					
General government	32,548	-	-	10,764	43,312
Highways and streets	86,229	919,975	-	-	1,006,204
Public safety	162,675	-	-	-	162,675
Culture and recreation	55,500	-	-	-	55,500
Total expenditures	1,642,167	919,975	160,412	71,686	2,794,240
Excess (deficiency) of revenues over (under) expenditures	(352,657)	(919,975)	4,619	(32,539)	(1,300,552)
Other financing sources:					
Proceeds from long-term debt	179,590	-	-	-	179,590
Proceeds from other liabilities	6,785	-	-	-	6,785
Proceeds from leases	83,336	-	-	-	83,336
Transfers in	46,492	12,303	-	-	58,795
Transfers out	(12,303)	(844,500)	-	(4,200)	(861,003)
Insurance proceeds	51,117	-	-	-	51,117
Total other financing sources	355,017	(832,197)	-	(4,200)	(481,380)
Net change in fund balance	2,360	(1,752,172)	4,619	(36,739)	(1,781,932)
Fund balance, beginning	1,203,376	1,307,601	134,106	87,932	2,733,015
Fund balance, ending	\$ 1,205,736	\$ (444,571)	\$ 138,725	\$ 51,193	\$ 951,083

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	\$ (1,781,932)
Amounts reported for the governmental activities in the statement of activities are different because:	
Depreciation expense on capital assets and amortization on right of use assets are reported in the statement of activities, but they do not require the use of current financial resources. Therefore, depreciation and amortization expense are not reported as expenditures in governmental funds.	(105,301)
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the costs of these assets are depreciated and amortized over their estimated useful lives.	1,267,690
The repayment of the principal of long-term debt consumes current financial resources of governmental funds, yet has no effect on net position.	209,518
Governmental funds report long-term debt proceeds as other financing sources, yet has no effect on net position.	(269,711)
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.	(20,315)
Some revenues in the statement of activities do not provide current financial resources and, therefore, are not reported as revenues in the fund statements.	(24,240)
Change in net position, governmental activities	\$ (724,290)

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, 2022

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
Revenues:				
Taxes				
Property	\$ 658,515	\$ 658,515	\$ 664,022	\$ 5,507
Sales	280,000	280,000	361,617	81,617
Gross receipts	63,700	63,700	53,370	(10,330)
Other	4,500	4,500	4,714	214
Licenses and permits	7,800	7,800	32,773	24,973
Fines and court costs	139,450	139,450	106,064	(33,386)
Investment income	1,000	1,000	4,872	3,872
Donations	550	550	4,242	3,692
Other	27,000	27,000	57,836	30,836
Total revenues	<u>1,182,515</u>	<u>1,182,515</u>	<u>1,289,510</u>	<u>106,995</u>
Expenditures:				
Current:				
General government	600,606	600,606	545,790	54,816
Public safety	581,033	581,033	609,257	(28,224)
Highways and streets	50,000	50,000	38,486	11,514
Culture and recreation	1,500	1,500	14,416	(12,916)
Debt service:				
Principal	33,878	33,878	91,518	(57,640)
Interest	3,915	3,915	5,748	(1,833)
Capital outlay				
General government	-	-	32,548	(32,548)
Highways and streets	-	-	86,229	(86,229)
Public safety	-	-	162,675	(162,675)
Culture and recreation	-	-	55,500	(55,500)
Total expenditures	<u>1,270,932</u>	<u>1,270,932</u>	<u>1,642,167</u>	<u>(371,235)</u>
Excess (deficiency) of revenues over (under) expenditures	(88,417)	(88,417)	(352,657)	(264,240)
Other financing sources (uses):				
Proceeds from long-term debt	-	-	179,590	179,590
Proceeds from other liabilities	-	-	6,785	6,785
Proceeds from leases	-	-	83,336	83,336
Transfers in	4,200	4,200	46,492	42,292
Insurance proceeds	-	-	51,117	51,117
Total other financing sources and uses	<u>4,200</u>	<u>4,200</u>	<u>355,017</u>	<u>350,817</u>
Net change in fund balance	(84,217)	(84,217)	2,360	86,577
Fund balance, beginning	<u>1,203,376</u>	<u>1,203,376</u>	<u>1,203,376</u>	<u>-</u>
Fund balance, ending	<u>\$ 1,119,159</u>	<u>\$ 1,119,159</u>	<u>\$ 1,205,736</u>	<u>\$ 86,577</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, 2022

	Business Type Activities
Assets	
Current assets:	
Cash and cash equivalents	\$ 646,305
Receivables, net of allowance for uncollectibles	112,341
Total current assets	<u>758,646</u>
Noncurrent assets:	
Net pension asset	63,718
Right to use leased asset, net of amortization	25,315
Capital assets:	
Equipment and furniture	837,170
Water and wastewater distribution	8,529,745
Buildings and improvements	17,298
Construction in progress	895,930
Accumulated depreciation	<u>(4,776,075)</u>
Capital assets (net of accumulated depreciation)	<u>5,504,068</u>
Total noncurrent assets	<u>5,593,101</u>
Total assets	<u>\$ 6,351,747</u>
Deferred Outflows of Resources	
Deferred amounts related to pensions	4,338
Deferred amounts related to OPEB	<u>2,209</u>
Total deferred outflows	<u>6,547</u>
Liabilities	
Current liabilities:	
Accounts payable	\$ 29,595
Accrued liabilities	5,949
Due to other funds	55,766
Note payable, due within one year	14,548
Lease liability, current	10,444
Customer deposits	<u>60,766</u>
Total current liabilities	<u>177,068</u>
Noncurrent liabilities:	
Post employment benefits	19,144
Note payable, long-term	123,927
Lease liability, long-term	14,383
Compensated absences, long-term	<u>4,459</u>
Total noncurrent liabilities	<u>161,913</u>
Total liabilities	<u>338,981</u>
Deferred Inflows of Resources	
Deferred amounts related to pensions	24,395
Deferred amounts related to OPEB	<u>2,231</u>
Total deferred inflows	<u>26,626</u>
Net position	
Net investment in capital assets	5,365,593
Unassigned	<u>627,094</u>
Total net position	<u>\$ 5,992,687</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, 2022

	Business Type Activities
Operating revenues:	
Charges for water services	\$ 355,715
Charges for sewer services	254,230
Charges for solid waste services	254,652
Other revenue	21,549
Total operating revenue	<u>886,146</u>
Operating expenses:	
Salaries and wages	233,997
Purchased professional and technical services	335,017
Repairs and maintenance	94,735
Other operating expenses	81,068
Supplies	83,859
Depreciation and amortization	218,405
Total operating expenses	<u>1,047,081</u>
Operating income (loss)	(160,935)
Nonoperating revenues (expenses)	
Grant proceeds	245,925
Interest income	2,067
Interest expense	(529)
Total nonoperating revenue	<u>247,463</u>
Change in net position before transfers	86,528
Transfers in	844,500
Transfers out	(42,292)
Total transfers	<u>802,208</u>
Change in net position	888,736
Net position, beginning	<u>5,103,951</u>
Net position, ending	<u><u>\$ 5,992,687</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, 2022

	Business Type Activities
Cash flows from operating activities:	
Cash received from customers	\$ 871,804
Cash payments to suppliers for goods and services	(607,013)
Cash payments to employees for services	(210,750)
Net cash provided by (used in) operating activities	<u>54,041</u>
Cash flows from non-capital financing activities:	
Transfers in	844,500
Transfers out	(42,292)
Total transfers	<u>802,208</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(1,300,711)
Grant proceeds	245,925
Proceeds from long-term debt	138,475
Interest paid	(529)
Principal paid on leases	(7,720)
Net cash provided (used) by capital and related financing activities	<u>(924,560)</u>
Cash flows from investing activities:	
Interest on cash and investments	<u>2,067</u>
Net increase (decrease) in cash and equivalents	(66,244)
Cash and equivalents, beginning of year	<u>712,549</u>
Cash and equivalents, end of year	<u><u>\$ 646,305</u></u>
Unrestricted cash	\$ 646,305
Restricted cash	-
	<u><u>\$ 646,305</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, 2022

	Business Type Activities
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities	
Operating income (loss)	\$ (160,935)
Adjustments to reconcile to net cash provided by operating activities:	
Depreciation and amortization	218,405
Bad debt expense (recovery)	(483)
Increase (decrease) in cash resulting from changes in assets and liabilities:	
Accounts receivable	(14,811)
Net pension asset	(10,782)
Post employment benefits	19,144
Deferred outflows related to pensions	3,668
Deferred outflows related to OPEB	(2,209)
Accounts payable	(10,094)
Accrued liabilities	2,631
Deferred inflows related to pensions	8,564
Deferred inflows related to OPEB	2,231
Customer deposits	952
Due to other funds	(2,240)
Net cash provided by (used in) operating activities	<u>\$ 54,041</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, 2022

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

CITY OF SOMERVILLE, TEXAS
Notes to Basic Financial Statements
September 30, 2022

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

Capital Projects Fund

The Capital Projects fund is used to account for the acquisition and construction of capital assets financed with general obligation debt.

Proprietary Fund

Water, Sewer and Sanitation Fund

The Water, Sewer, and Sanitation 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 appropriate for capital maintenance, public policy, management control, accountability or other purposes.

CITY OF SOMERVILLE, TEXAS
Notes to Basic Financial Statements
September 30, 2022

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.

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.

CITY OF SOMERVILLE, TEXAS
Notes to Basic Financial Statements
September 30, 2022

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.

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.

CITY OF SOMERVILLE, TEXAS
Notes to Basic Financial Statements
September 30, 2022

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

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.

CITY OF SOMERVILLE, TEXAS
Notes to Basic Financial Statements
September 30, 2022

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. Net investment in capital assets – 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.
- 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

CITY OF SOMERVILLE, TEXAS
Notes to Basic Financial Statements
September 30, 2022

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.

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/asset, 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.

CITY OF SOMERVILLE, TEXAS
Notes to Basic Financial Statements
September 30, 2022

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 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.

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. Of the bank balances, \$250,000 was covered by federal depository insurance at one institution and \$1,866,472 was collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.

4. Restricted Assets

At September 30, 2022, restrictions on cash and investments were as follows:

	Governmental Fund
<u>Cash and Investments</u>	
Restricted for:	
Senior citizens center	\$ 4,216
Somerville Park Association	354
Municipal court	47,110
Debt service	137,009
	<u>\$ 188,689</u>

CITY OF SOMERVILLE, TEXAS
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5. Receivables

Receivables at September 30, 2022, consist of the following:

	Governmental Funds	Proprietary Funds	Total
Receivables:			
Taxes:			
Property	\$ 96,143	\$ -	\$ 96,143
Sales	59,573	-	59,573
Municipal court	10,796	-	10,796
Utility revenue	-	113,314	113,314
Less:			
allowance for uncollectibles	-	(973)	(973)
Net total receivables	<u>\$ 166,512</u>	<u>\$ 112,341</u>	<u>\$ 278,853</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.

6. Capital Assets

Capital asset activity for the year ended September 30, 2022, was as follows:

	Beginning Balance	Additions/ Completions	Retirements/ Adjustments	Ending Balance
<u>Governmental activities</u>				
Capital assets not being depreciated				
Land	\$ 185,103	\$ 10,559	\$ -	\$ 195,662
Construction in progress	122,287	919,975	-	1,042,262
Total capital assets not being depreciated	<u>307,390</u>	<u>930,534</u>	<u>-</u>	<u>1,237,924</u>
Capital assets being depreciated				
Buildings and improvements	196,023	55,500	-	251,523
Streets and infrastructure	828,387	-	-	828,387
Software	17,554	10,764	-	28,318
Machinery and equipment	1,073,102	187,556	(76,299)	1,184,359
Total at historical cost	<u>2,115,066</u>	<u>253,820</u>	<u>(76,299)</u>	<u>2,292,587</u>
Less: accumulated depreciation for:				
Buildings and improvements	82,932	9,109	-	92,041
Streets and infrastructure	36,294	31,118	-	67,412
Software	17,114	1,067	-	18,181
Machinery and equipment	898,445	43,389	(14,922)	926,912
Total accumulated depreciation	<u>1,034,785</u>	<u>84,683</u>	<u>(14,922)</u>	<u>1,104,546</u>
Total capital assets being depreciated, net	<u>1,080,281</u>	<u>169,137</u>	<u>(61,377)</u>	<u>1,188,041</u>
Governmental activities capital assets, net	<u>\$ 1,387,671</u>	<u>\$ 1,099,671</u>	<u>\$ (61,377)</u>	<u>\$ 2,425,965</u>

CITY OF SOMERVILLE, TEXAS
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	Beginning Balance	Additions/ Completions	Retirements/ Adjustments	Ending Balance
<u>Business-type activities</u>				
Capital assets not being depreciated				
Construction in progress	\$ 71,430	\$ 844,500	\$ (20,000)	\$ 895,930
Total capital assets not being depreciated	71,430	844,500	(20,000)	895,930
Capital assets being depreciated				
Buildings and improvements	17,298	-	-	17,298
Machinery and equipment	697,260	139,910	-	837,170
Water and wastewater distribution	8,193,444	336,300	-	8,529,744
Total at historical cost	8,908,002	476,210	-	9,384,212
Less: accumulated depreciation for:				
Buildings and improvements	18,133	-	-	18,133
Machinery and equipment	413,499	24,070	-	437,569
Water and wastewater distribution	4,133,271	187,101	-	4,320,372
Total accumulated depreciation	4,564,903	211,171	-	4,776,074
Total capital assets being depreciated, net	4,343,099	265,039	-	4,608,138
Business-type activities capital assets, net	\$ 4,414,529	\$ 1,109,539	\$ (20,000)	\$ 5,504,068

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

General government	\$ 4,813
Public safety	28,850
Culture and recreation	3,344
Public works	12,968
Highway and streets	34,708
	<u>\$ 84,683</u>

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.

8. Long-term Liabilities

Long-term liabilities outstanding at September 30, 2022 are comprised of the following:

<u>Long-term debt</u>	<u>Governmental activities</u>	<u>Business-type activities</u>
\$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%	\$ 493,000	\$ -
\$1,500,000 General Obligation Bonds due in annual installments of \$55,000 to \$78,000 through February 2036; interest rate 1.74%	1,445,000	-
\$48,510 note payable dated November 9, 2018, payable in annual payments \$11,780, maturing November 9, 2023; interest rate 4.64%, secured by police car	20,733	-

CITY OF SOMERVILLE, TEXAS
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\$82,912 note payable dated October 12, 2021, payable in annual payments of \$13,193, maturing October 20, 2028; interest rate 2.77%, secured by dump truck	27,637	55,275
\$124,800 note payable dated October 12, 2021, payable in annual payments of \$14,570, maturing October 20, 2031; interest rate 2.92%, secured by backhoe	41,600	83,200
\$57,245 note payable dated October 21, 2021, payable in annual payments of \$15,511, maturing December 3, 2025; interest rate 3.30%, secured by police car	57,245	-
\$53,108 note payable dated February 8, 2022, payable in annual payments of \$14,419, maturing March 11, 2026; interest rate of 3.384%, secured by police car	53,108	-
<u>Other long-term liabilities:</u>		
Compensated absences for accrued vacation	30,145	4,459
	<u>\$ 2,168,468</u>	<u>\$ 142,934</u>

Annual debt service requirements to maturity for the outstanding debt, including interest of \$315,596 are as follows:

Fiscal Year Ending September 30	Governmental activities		Business-type activities		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2023	\$ 163,436	\$ 45,415	\$ 14,548	\$ 3,961	\$ 177,984	\$ 49,376
2024	165,417	41,182	14,962	3,547	180,379	44,729
2025	158,720	37,113	15,388	3,121	174,108	40,234
2026	166,875	32,818	15,826	2,683	182,701	35,501
2027	140,138	28,290	16,276	2,233	156,414	30,523
2028-2032	733,737	89,145	61,475	4,686	795,212	93,831
2033-2036	610,000	21,402	-	-	610,000	21,402
Total	<u>\$ 2,138,323</u>	<u>\$ 295,365</u>	<u>\$ 138,475</u>	<u>\$ 20,231</u>	<u>\$ 2,276,798</u>	<u>\$ 315,596</u>

Changes in Long-term Liabilities

Long-term liability activity for the year ended September 30, 2022, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities					
Notes payable	\$ 85,179	\$ 179,590	\$ 64,446	\$ 200,323	\$ 44,436
Certificates of Obligation	556,000	-	63,000	493,000	64,000
General Obligation Bonds	1,500,000	-	55,000	1,445,000	55,000
Compensated absences	23,963	6,182	-	30,145	-
Governmental activities long-term liabilities	<u>\$ 864,716</u>	<u>\$ 185,772</u>	<u>\$ 182,446</u>	<u>\$ 2,168,468</u>	<u>\$ 163,436</u>
Business-type activities					
Notes payable	\$ -	138,475	\$ -	\$ 138,475	\$ 14,548
Compensated absences	4,459	-	-	4,459	-
Business-type activities long-term liabilities	<u>\$ 7,701</u>	<u>\$ 138,475</u>	<u>\$ -</u>	<u>\$ 142,934</u>	<u>\$ 14,548</u>

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9. Leases

Effective October 1, 2021, the City implemented GASB Statement No. 87, *Leases*, which required the recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The adoption of GASB No. 87 has no impact on the City's net position as of the effective date and no restatement of net position was made.

Lessee

The City recognizes a lease liability and an intangible right-to-use lease asset (lease asset) in the government-wide funds financial statements.

At implementation of GASB Statement No. 87 and the commencement of leases beginning after October 1, 2021, the City initially measured the lease liability at the present value of payments expected to be made during the remaining lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease right-to-use asset was initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease right-to-use asset is amortized on a straight-line basis over its useful life.

Key estimates and judgments related to leases include how the City determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term and (3) lease payments.

The City uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the City generally uses its estimated incremental borrowing rate as the discount rate for leases. The lease term includes the noncancellable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and a purchase option price that the City is reasonably certain to exercise.

The City monitors changes in circumstances that would require a re-measurement of its lease and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

Leased assets are reported on the government-wide Statement of Net Position and lease liabilities are reported as current and long-term liabilities on the Statement of Net Position.

Prior to the beginning of the current fiscal year, the City entered into a lease agreement as lessee for the acquisition and use of office equipment. The lease term is for sixty months. At the beginning of the fiscal year the initial lease liability was recorded in the amount of \$16,356.

During the current fiscal year, the City entered into a lease agreement as lessee for the acquisition and use of building space for City Hall. The lease term is for two years, with an option to extend the term for one additional year.

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During the current fiscal year, the City entered into a lease agreement as lessee for the acquisition and use of building space for the police department. The lease term is for one year, with an option to extend the term for one additional year.

As of September 30, 2022, the total recorded amount of the lease liability was \$101,380.

The future principal and interest payments as of September 30, 2022 were as follows:

Governmental Activities			
Fiscal Year	Principal Payments	Interest Payments	Total Payments
2023	\$ 34,129	\$ 2,439	\$ 36,568
2024	32,429	1,139	33,568
2025	9,995	122	10,117
	<u>\$ 76,553</u>	<u>\$ 3,700</u>	<u>\$ 80,253</u>

Business-Type Activities			
Fiscal Year	Principal Payments	Interest Payments	Total Payments
2023	\$ 10,444	\$ 556	\$ 11,000
2024	10,737	263	11,000
2025	3,646	21	3,667
	<u>\$ 24,827</u>	<u>\$ 840</u>	<u>\$ 25,667</u>

Right to use assets are amortized on a straight-line basis over the terms of the related leases. Right to use asset balances as of September 30, 2022 were as follows:

Governmental Activities			
Asset Class	Lease Asset Value	Accumulated Amortization	Lease Asset, Net of Amortization
Equipment	\$ 21,784	\$ 8,039	\$ 13,745
Buildings	83,337	17,506	65,831
	<u>\$ 105,121</u>	<u>\$ 25,545</u>	<u>\$ 79,576</u>

Business-Type Activities			
Asset Class	Lease Asset Value	Accumulated Amortization	Lease Asset, Net of Amortization
Buildings	\$ 32,548	\$ 7,233	\$ 25,315
	<u>\$ 32,548</u>	<u>\$ 7,233</u>	<u>\$ 25,315</u>

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10. Interfund Transfers

Interfund transfers during the year ended September 30, 2022, were as follows:

Transfers In	Transfers Out			
	General	Proprietary	Capital Projects	Non-major Special Revenue
General	\$ -	\$ 42,292	\$ -	\$ 4,200
Capital Projects	12,303	-	-	-
Proprietary	-	-	844,500	-
Total	<u>\$ 12,303</u>	<u>\$ 42,292</u>	<u>\$ 844,500</u>	<u>\$ 4,200</u>

11. Pension Plans

A. Plan Description

The City participates as one of 901 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 annual comprehensive financial report (ACFR) 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.

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Plan provisions for the City were as follows:

	Plan Year	
	2020	2021
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.
The Service Retirement Eligibilities for the City are: 5 years/age 60, 25 years/any age.

Employees covered by benefit terms.

At the December 31, 2021 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	16
Inactive employees entitled to but not yet receiving benefits	24
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 rate 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 5.48% and 4.64% in calendar years 2021 and 2022, respectively. The city's contributions to TMRS for the year ended September 30, 2022, were \$32,710, and were equal to the required contributions.

D. Net Pension Liability/Asset

The City's Net Pension Liability/Asset (NPL/NPA) was measured as of December 31, 2021, and the Total Pension Liability/Asset (TPL) used to calculate the Net Pension Liability/Asset was determined by an actuarial valuation as of that date.

CITY OF SOMERVILLE, TEXAS
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Actuarial assumptions:

The Total Pension Liability in the December 31, 2021 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3.5% to 11.5% including inflation
Investment rate of return	6.75%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality 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 110% 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, 2019, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2014 through December 31, 2018, first used in the December 31, 2019 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. 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 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. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation

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portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimates of real rates of return for each major asset class in fiscal year 2019 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Global Equity	30.0%	5.30%
Core Fixed Income	10.0%	1.25%
Non-Core Fixed Income	20.0%	4.14%
Real Return	10.0%	3.85%
Real Estate	10.0%	4.00%
Absolute Return	10.0%	3.48%
Private Equity	10.0%	7.75%
Total	100.0%	

Discount Rate

The discount rate used to measure the Total Pension Liability/Asset 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/Asset.

Changes in the Net Pension Liability	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability/(Asset) (a) - (b)
Balance at 12/31/2020	\$ 1,341,730	\$ 1,514,453	\$ (172,723)
Changes for the year:			
Service Cost	67,590	-	67,590
Interest	90,822	-	90,822
Change of benefit terms	-	-	-
Difference between expected and actual experience	(32,575)	-	(32,575)
Changes of assumptions	-	-	-
Contributions - employer	-	32,529	(32,529)
Contributions - employee	-	32,464	(32,464)
Net investment income	-	197,106	(197,106)
Benefit payments, including refunds of employee contributions	(60,021)	(60,021)	-
Administrative expense	-	(914)	914
Other charges	-	6	(6)
Net changes	65,816	201,171	(135,355)
Balance at 12/31/2021	\$ 1,407,546	\$ 1,715,624	\$ (308,078)

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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)	\$ (131,171)	\$ (308,078)	\$ (454,375)

Pension Plan Fiduciary Net Position

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

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

For the year ended September 30, 2022, the City recognized pension expense/(benefit) of (\$31,638).

At September 30, 2022, 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	\$ -	\$ 16,988
Difference between projected and actual investment earnings	-	100,965
Contributions subsequent to the measurement date	20,974	-
Total	<u>\$ 20,974</u>	<u>\$ 117,953</u>

Contributions of \$20,974 made subsequent to the measurement date are reported as deferred outflows of resources related to pensions and will be recognized as a reduction of the net pension liability for the year ending September 30, 2023. 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:	
2022	\$ (33,844)
2023	(43,807)
2024	(21,326)
2025	(18,976)
Total	<u>\$ (117,953)</u>

CITY OF SOMERVILLE, TEXAS
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12. Other Post-Employment Benefits

A. Plan Description

The City provides post-employment medical benefits (OPEB) to eligible City employees and their eligible dependents and retirees and their eligible dependents. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 75. The single-employer defined benefit plan provides medical and prescription benefit coverage.

B. Benefits Provided

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death); retired employees are insured for \$7,500; this coverage is an "other postemployment benefit", or "OPEB".

Employees covered by benefit terms.

At October 1, 2020, the effective date of the most recent OPEB valuation, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	12
Inactive employees entitled to but not yet receiving benefits	2
Active employees	15
	<hr/> 29

Contributions and Actuarial Information

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year, the intent is to pre-fund retiree term life insurance during employees' entire careers. No assets are accumulated in a trust as defined by paragraph 4 of GASB Statement No. 75.

The total supplemental death benefit ("SDB") contribution rates were 0.47% and 0.42% for calendar years 2021 and 2022, respectively. The City's contributions for the year ended September 30, 2022 were \$2,679 and were equal to the required contributions.

Total OPEB Liability. The City's total OPEB liability of \$88,755 was measured as of December 31, 2021, and was determined by an actuarial valuation as of December 31, 2019.

Actuarial Assumptions. The total OPEB in the December 31, 2019 actuarial valuation was determined using the following actuarial assumptions as of the December 31, 2021 measurement date:

Inflation	2.5% per year
Salary Increases	3.5% to 11.5% including inflation
Discount Rate	1.84%

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Salary increases were based on a service-related table. Mortality rates for service retirees are based on the 2019 Municipal Retirees of Texas Mortality Tables. Mortality rates for healthy retirees and beneficiaries are based on the Gender-distinct 2019 Municipal Retirees of Texas mortality tables. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements. For disabled annuitants, the same mortality tables for healthy retirees is used with a 4-year set forward for males and a 3-year set-forward for females. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.

Actuarial assumptions used in the December 31, 2019 valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2014 through December 31, 2018. 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.

Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at 12/31/2020	\$ 95,794
Changes for the year:	
Service Cost	3,961
Interest	1,935
Change of benefit terms	-
Difference between expected and actual experience	(13,357)
Changes of assumptions	2,435
Benefit payments, including refunds of employee contributions	(2,013)
Net changes	(7,039)
Balance at 12/31/2021	<u>\$ 88,755</u>

Sensitivity of the total OPEB liability to changes in the discount rate.

The following presents the total OPEB liability of the City, calculated using the discount rate of 1.84%, as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (0.84%) or 1 percentage point higher (2.84%) than the current rate.

	1% Decrease in Discount Rate (0.84%)	Discount Rate (1.84%)	1% Increase in Discount Rate (2.84%)
City's total OPEB liability	\$ 106,231	\$ 88,755	\$ 74,842

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C. Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended September 30, 2022, the City recognized OPEB expense of \$5,200. At September 30, 2022, the City reported deferred outflows and inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 10,345
Changes in actuarial assumptions	8,342	-
Contributions subsequent to the measurement date	1,899	-
Total	<u>\$ 10,241</u>	<u>\$ 10,345</u>

Amounts reported as deferred outflows and inflows of resources related to other postemployment benefits will be recognized in OPEB expense as follows:

Year ended December 31:		
2022	\$	2,107
2023		(2,659)
2024		(1,451)
	<u>\$</u>	<u>(2,003)</u>

13. 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.

14. Related Party Transactions

In 2022, the City paid \$6,441 to a Council member's business.

15. Net Investment in Capital Assets

Long-term debt has been issued by the General fund for the purchase and construction of Enterprise fund capital assets. The portion of debt related to the Enterprise fund capital assets is not deducted in the calculation of the amount of net investment in capital assets for governmental or business-type activities. However, this amount is included in the calculation of net investment in capital assets for the primary government as a whole.

CITY OF SOMERVILLE, TEXAS
Notes to Basic Financial Statements
September 30, 2022

16. Deficit Fund Balance

A deficit unassigned fund balance of \$1,600, \$2,177 and \$8,065 exists in the Senior Citizens Center, Hotel/Motel and Court Technology special revenue funds, respectively.

17. Commitments

In July 2021, the City approved a contract for the street, water, and sewer bond improvements. As of September 30, 2022, the approximate balance remaining to complete the project is \$126,000.

18. Subsequent Events

In September 2022, the Council approved the purchase of property in the amount of \$150,000.

In October 2022 the Council approved a contract for approximately \$306,000 related to the 8th Street and Switchback Road water line project. The City was awarded a grant for approximately \$167,000 for this project.

REQUIRED SUPPLEMENTARY INFORMATION

City of Somerville, Texas
Texas Municipal Retirement System

Schedule of Changes in Net Pension Liability (Asset) And Related Ratios
Last 10 years
(unaudited)

	2021	2020	2019	2018	2017	2016	2015	2014
Total pension liability								
Service Cost	\$ 67,590	\$ 67,626	\$ 63,462	\$ 59,444	\$ 56,728	\$ 57,277	\$ 54,444	\$ 47,522
Interest (on the Total Pension Liability)	90,822	85,950	78,809	77,444	76,568	71,304	70,898	67,553
Changes of benefit terms	(32,575)	(23,831)	15,545	(66,500)	(59,289)	12,088	(14,413)	(7,897)
Difference between expected and actual experience	-	-	-	-	-	-	4,621	-
Change of assumptions	(60,021)	(55,077)	(55,095)	(49,259)	(75,506)	(49,310)	(97,571)	(28,153)
Benefit payments, including refunds of employee contributions	65,816	74,668	103,706	21,129	(1,499)	91,359	17,979	79,025
Net Change in Total Pension Liability	1,341,730	1,267,062	1,163,356	1,142,227	1,143,726	1,052,367	1,034,388	955,363
Total Pension Liability - Beginning	\$ 1,407,546	\$ 1,341,730	\$ 1,267,062	\$ 1,163,356	\$ 1,142,227	\$ 1,143,726	\$ 1,052,367	\$ 1,034,388
Total Pension Liability - Ending (a)								
Plan Fiduciary Net Position								
Contributions - Employer	32,529	27,038	31,884	31,470	29,258	30,794	30,437	27,266
Contributions - Employee	32,464	31,809	30,599	27,752	27,091	28,513	26,793	25,200
Net Investment Income	197,106	106,583	187,153	(37,090)	153,187	69,377	1,574	56,476
Benefit payments, including refunds of employee contributions	(60,021)	(55,077)	(55,095)	(49,259)	(75,506)	(49,310)	(97,571)	(28,153)
Administrative expense	(914)	(690)	(1,058)	(717)	(794)	(784)	(959)	(590)
Other	6	(27)	(32)	(37)	(40)	(42)	(47)	(48)
Net Change in Plan Fiduciary Net Position	201,171	109,636	193,451	(27,882)	133,196	78,548	(39,773)	80,151
Plan Fiduciary Net Position - Beginning	1,514,453	1,404,817	1,211,366	1,239,248	1,106,052	1,027,504	1,067,277	987,126
Plan Fiduciary Net Position - Ending (b)	1,715,624	1,514,453	1,404,817	\$ 1,211,366	\$ 1,239,248	\$ 1,106,052	\$ 1,027,504	\$ 1,067,277
Net Pension Liability (Asset) - Ending (a) - (b)	\$ (308,078)	\$ (172,723)	\$ (137,755)	\$ (48,010)	\$ (97,021)	\$ 37,674	\$ 24,863	\$ (32,889)
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	121.89%	112.87%	110.87%	104.13%	108.49%	96.71%	97.64%	103.18%
Covered Employee Payroll	649,282	636,183	611,975	555,031	541,818	552,866	535,868	504,001
Net Pension Liability (Asset) as a Percentage of Covered Employee Payroll	-47.45%	-27.15%	-22.51%	-8.65%	-17.91%	6.81%	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
Texas Municipal Retirement System

Schedule of Contributions
Last 10 Fiscal Years
(unaudited)

	2021	2020	2019	2018	2017	2016	2015	2014
Actuarially Determined Contribution	\$ 32,529	\$ 27,038	\$ 31,884	\$ 31,470	\$ 29,258	\$ 30,794	\$ 30,437	\$ 28,319
Contributions in relation to the actuarially determined contributions	32,710	31,519	30,599	32,052	30,938	31,322	32,152	27,266
Contribution deficiency (excess)	\$ (181)	\$ (4,481)	\$ 1,285	\$ (582)	\$ (1,680)	\$ (528)	\$ (1,715)	\$ 1,053
Covered employee payroll	\$ 649,282	\$ 636,183	\$ 611,975	\$ 555,031	\$ 541,818	\$ 552,866	\$ 535,868	\$ 504,001
Contributions as a percentage of covered employee payroll	5.04%	4.95%	5.00%	5.77%	5.71%	5.67%	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	N/A
Asset Valuation Method	10 year smoothed market; 12% soft corridor
Inflation	2.50%
Salary Increases	3.5% to 11.5% 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 2019 valuation pursuant to an experience study of the period 2014-2018

Mortality

Post retirement; 2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP.

Pre-retirement: PUB(10) mortality tables, with the Public Safety table used for males and the General Employee table used for females. The rates are projected on a fully generational basis with scale UMP.

Other Information:

Notes

There were no benefit changes during the year.

City of Somerville, Texas
Required Supplementary Information

Schedule of Changes in Total OPEB Liability and Related Ratios
Last 10 years (will ultimately be displayed)

	2021	2020	2019	2018	2017
Total OPEB Liability					
Service Cost	\$ 3,961	\$ 4,262	\$ 3,366	\$ 5,162	\$ 4,605
Interest (on total OPEB liability)	1,935	2,254	2,398	1,954	1,854
Changes of benefit terms	-	-	-	-	-
Difference between expected and actual experience	(13,357)	(1,752)	(1,135)	4,066	-
Change of assumptions	2,435	11,604	13,037	(4,052)	3,738
Benefit payments	(2,013)	(827)	(734)	(500)	(488)
Net Change in Total OPEB Liability	(7,039)	15,541	16,932	6,630	9,709
Total OPEB Liability - Beginning	95,794	80,253	63,321	56,691	46,982
Total OPEB Liability - Ending	\$ 88,755	\$ 95,794	\$ 80,253	\$ 63,321	\$ 56,691

Related Ratios

Covered Employee Payroll	649,282	636,183	611,975	555,031	541,818
Total OPEB Liability as a Percentage of Covered Employee Payroll	13.67%	15.06%	13.11%	11.41%	10.46%

Notes to the Schedule of Changes in OPEB Liability

Assumptions Used to Determine Contribution Rates

Inflation	2.50%
Salary Increases	3.50% to 11.50% including inflation
Discount Rate	1.84%
Mortality Rates- Service Retirees	2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP.
Mortality Rates - Disabled Retirees	2019 Municipal Retirees of Texas Mortality Tables with a 4 year set forward for males and a 3 year set-forward for females. In addition, a 3.5% and 4% minimum mortality rate will be applied to reflect the impairment for younger members who become disabled for males and females, respectively. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.

Other information

Notes

No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75 to pay related benefits.

Presentation of Schedule

In accordance with GASB standards, the City has elected to present data calculated at the actuarial valuation/measurement date, which occurs during each fiscal year on December 31.

OTHER SUPPLEMENTARY INFORMATION

City of Somerville, Texas
Combining Balance Sheet
Non-major Governmental Funds
September 30, 2022

	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	\$ 4,215	\$ -	\$ -	\$ 47,110	\$ 1	\$ 354	\$ 51,680
Other assets	-	5,181	-	-	-	-	5,181
Due from other funds	-	-	-	15,570	-	-	15,570
Total assets	<u>\$ 4,215</u>	<u>\$ 5,181</u>	<u>\$ -</u>	<u>\$ 62,680</u>	<u>\$ 1</u>	<u>\$ 354</u>	<u>\$ 72,431</u>
Liabilities and fund balances							
Liabilities:							
Accounts payable	\$ 231	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 231
Accrued liabilities	-	61	-	-	-	-	61
Due to other funds	5,584	7,297	8,065	-	-	-	20,946
Total liabilities	<u>5,815</u>	<u>7,358</u>	<u>8,065</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>21,238</u>
Fund balances:							
Restricted for:							
Municipal court	-	-	-	62,680	-	-	62,680
Somerville Parks Association	-	-	-	-	-	354	354
Unassigned (deficit)	(1,600)	(2,177)	(8,065)	-	1	-	(11,841)
Total fund balances	<u>(1,600)</u>	<u>(2,177)</u>	<u>(8,065)</u>	<u>62,680</u>	<u>1</u>	<u>354</u>	<u>51,193</u>
Total liabilities and fund balances	<u>\$ 4,215</u>	<u>\$ 5,181</u>	<u>\$ -</u>	<u>\$ 62,680</u>	<u>\$ 1</u>	<u>\$ 354</u>	<u>\$ 72,431</u>

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, 2022

	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	\$ -	\$ 21,444	\$ -	\$ -	\$ -	\$ -	\$ 21,444
Fines and court costs	-	-	1,891	2,230	-	-	4,121
Investment income	-	31	18	159	-	-	208
Grant revenue	5,833	-	-	-	-	-	5,833
Donations	7,541	-	-	-	-	-	7,541
Total revenues	13,374	21,475	1,909	2,389	-	-	39,147
Expenditures:							
Current:							
Culture and recreation	7,859	39,621	-	-	-	-	47,480
General government	-	-	13,442	-	-	-	13,442
Capital outlay	-	-	10,764	-	-	-	10,764
Total expenditures	7,859	39,621	24,206	-	-	-	71,686
Excess (deficiency) of revenues over (under) expenditures	5,515	(18,146)	(22,297)	2,389	-	-	(32,539)
Other financing sources (uses):							
Transfers out	(4,200)	-	-	-	-	-	(4,200)
Total other financing sources (uses)	(4,200)	-	-	-	-	-	(4,200)
Net change in fund balances	1,315	(18,146)	(22,297)	2,389	-	-	(36,739)
Fund balances (deficit) at beginning of year	(2,915)	15,969	14,232	60,291	1	354	87,932
Fund balances (deficit) at end of year	\$ (1,600)	\$ (2,177)	\$ (8,065)	\$ 62,680	\$ 1	\$ 354	\$ 51,193