

CITY OF SOMERVILLE, TEXAS

Financial Statements

with

Report of Independent Auditor

For the Year Ended September 30, 2014

CITY OF SOMERVILLE, TEXAS  
Financial Statements  
For the Year Ended September 30, 2014

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CERTIFIED PUBLIC ACCOUNTANTS / BUSINESS ADVISORS

## INDEPENDENT AUDITORS' REPORT

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Somerville, Texas, (the "City") as of and for the year ended September 30, 2014, and the related notes, which collectively comprise the City's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

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

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Somerville, Texas, as of September 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 9 and the Texas Municipal Retirement System Schedule of Funding Progress on page 36 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

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

The combining statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statement and certain additional procedures, including

comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

#### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued a report dated July 13, 2015, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Somerville, Texas' internal control over financial reporting and compliance.

Brenham, Texas  
July 13, 2015



## 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, 2014. Please read it in conjunction with the independent auditors' report and the City's basic financial statements.

### FINANCIAL HIGHLIGHTS

- The assets of the City of Somerville exceeded its liabilities at the close the most recent fiscal year by \$4,003,455, (*net position*). Of this amount \$57,400 (*unrestricted net position*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's net position increased by \$343,190.
- The City's governmental funds reported ending fund balances of \$339,320 which was an increase of \$43,601 from the prior year.
- The City's proprietary funds reported combined net position of \$4,734,025, which was an increase of \$1,544,207 from the prior year.
- The City's long-term liabilities at year-end totaled \$1,372,503, which \$167,346 represents debt due and payable in the next year.

### USING THIS ANNUAL REPORT

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

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

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

### Reporting the City as a Whole

#### *The Statement of Net Position and the Statement of Activities*

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

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

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

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

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

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

## **Reporting the City's Most Significant Funds**

### *Fund Financial Statements*

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

- Governmental funds – Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the City's general governmental operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in a 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 \$1,201,017 from \$470,447 in 2013 to (\$730,567) in 2014. The decrease in the governmental activities net position was primarily due to a substantial increase in the debt liability of the City. The net position of the business-type activities increased by \$1,544,207 from \$3,189,818 in 2013 to \$4,734,025 in 2014. The increase in business-type net position was due to transfers from the governmental activities of \$1,377,696.

**Table 1**

City of Somerville, Texas  
Statement of Net Position

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Current and other assets	\$ 522,187	\$ 475,616	\$ 1,099,255	\$ 206,695	\$ 1,621,442	\$ 682,311
Capital assets	163,231	150,686	3,733,279	3,638,987	3,896,510	3,789,673
Total Assets	685,418	626,302	4,832,534	3,845,682	5,517,952	4,471,984
Current liabilities	217,887	141,096	91,453	650,119	309,340	791,215
Non-current liabilities	1,198,101	14,759	7,056	5,745	1,205,157	20,504
Total Liabilities	1,415,988	155,855	98,509	655,864	1,514,497	811,719
Net Position:						
Invested in capital assets						
net of debt	100,046	72,745	3,733,279	3,129,152	3,833,325	3,201,897
Restricted	112,730	164,892	-	-	112,730	164,892
Unrestricted	(943,346)	232,810	1,000,746	60,666	57,400	293,476
Total Net Position	\$ (730,570)	\$ 470,447	\$ 4,734,025	\$ 3,189,818	\$ 4,003,455	\$ 3,660,265

As can be seen in Table 2 on the next page, total revenues (excluding transfers) from governmental activities increased by \$162,020 from \$942,726 in 2013 to \$1,104,746 in 2014 due to traffic fines, court fees, property taxes, grants, and contributions. Total expenses from governmental activities increased by \$35,963, primarily due to bond issuance costs of approximately \$54,000, abatement of condemned properties of approximately \$32,000, and increased street repairs of approximately \$25,000, offset by reduced personnel costs and audit expense.

Total revenues (excluding transfers) from business-type activities increased by \$286,121 from \$812,713 in 2013 to \$1,098,834 in 2014. Total expenses increased by \$99,398 from \$833,925 in 2013 to \$933,323 in 2014 primarily due to the replacement of a water well damaged by storm.

The change in net position was (\$1,201,017) for governmental activities and \$1,544,207 for business-type activities.

**Table 2**

City of Somerville, Texas

Changes in Net Position

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
<b>Revenues</b>						
Program Revenues						
Charges for services	\$ 185,359	\$ 93,667	\$ 866,755	\$ 808,833	\$ 1,052,114	\$ 902,500
Operating grants and contributions	37,184	15,283	-	-	37,184	15,283
Capital grants and contributions	12,750	-	196,580	-	209,330	-
General Revenues						
Property taxes	517,332	496,709	-	-	517,332	496,709
Sales taxes	221,214	219,879	-	-	221,214	219,879
Gross receipts	52,834	48,283	-	-	52,834	48,283
Hotel occupancy	28,615	17,794	-	-	28,615	17,794
Other	8,885	8,383	-	-	8,885	8,383
Transfers in (out)	(1,377,696)	50,429	1,377,696	(50,429)	-	-
Miscellaneous revenues	39,978	42,025	35,251	3,763	75,229	45,788
Investment earnings	594	703	248	117	842	820
<b>Total Revenues</b>	<b>(272,951)</b>	<b>993,155</b>	<b>2,476,530</b>	<b>762,284</b>	<b>2,203,579</b>	<b>1,755,439</b>
<b>Expenses</b>						
General government	361,070	416,940	-	-	361,070	416,940
Public safety	397,083	382,031	-	-	397,083	382,031
Highways and streets	47,796	34,006	-	-	47,796	34,006
Culture and recreation	66,635	48,979	-	-	66,635	48,979
Interest/cost on long-term debt	55,482	10,147	-	-	55,482	10,147
Water and sewer	-	-	932,323	833,925	932,323	833,925
<b>Total Expenses</b>	<b>928,066</b>	<b>892,103</b>	<b>932,323</b>	<b>833,925</b>	<b>1,860,389</b>	<b>1,726,028</b>
<b>Change in Net Position</b>	<b>(1,201,017)</b>	<b>101,052</b>	<b>1,544,207</b>	<b>(71,641)</b>	<b>343,190</b>	<b>29,411</b>
<b>Net Position, Beginning of Year</b>	<b>470,447</b>	<b>369,395</b>	<b>3,189,818</b>	<b>3,261,459</b>	<b>3,660,265</b>	<b>3,630,854</b>
<b>Net Position, End of Year</b>	<b>\$ (730,570)</b>	<b>\$ 470,447</b>	<b>\$ 4,734,025</b>	<b>\$ 3,189,818</b>	<b>\$ 4,003,455</b>	<b>\$ 3,660,265</b>

## THE CITY'S FUNDS

As of September 30, 2014, the governmental funds reported a fund balance of \$339,320. This is an increase of \$43,601 from \$295,719 on September 30, 2013.

### General Fund Budgetary Highlights

The City's Council annually adopts an operating budget. Total actual revenues were \$30,921 more than budgeted, primarily due to traffic fines, court fees, and sales taxes exceeding budgeted revenues. Actual expenditures were under budget by \$70,818, primarily due to savings in supplies, materials, and personnel costs. In total, the net change in fund balance was \$94,571 compared to the budgeted deficit of \$32,147 for 2014.

### Capital Assets

As of September 30, 2014, the City had \$3,833,455 invested in capital assets.

**Table 3**

City of Somerville, Texas

#### Capital Assets

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Land	\$ 26,261	\$ 13,511	\$ -	\$ -	\$ 26,261	\$ 13,511
Buildings and improvements	112,413	92,308	17,298	17,298	129,711	109,606
Machinery and equipment	871,435	871,435	640,049	640,049	1,511,484	1,511,484
Software	17,554	17,554	-	-	17,554	17,554
Utility Plants	-	-	6,222,758	5,958,040	6,222,758	5,958,040
Construction in Progress	-	-	16,810	25,960	16,810	25,960
	1,027,663	994,808	6,896,915	6,641,347	7,924,578	7,636,155
Accumulated Depreciation	(864,430)	(844,122)	(3,163,636)	(3,002,360)	(4,028,066)	(3,846,482)
Net Capital Assets	<u>\$163,233</u>	<u>\$150,686</u>	<u>\$3,733,279</u>	<u>\$3,638,987</u>	<u>\$3,896,512</u>	<u>\$3,789,673</u>

### Debt

At year-end, the City had \$1,356,185 in notes, general obligation bonds, and capital leases payable with \$165,185 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	
	2014	2013	2014	2013	2014	2013
Notes and capital leases payable	\$ 63,185	\$ 77,941	\$ -	\$ 509,835	\$ 63,185	\$ 587,776
Bonds payable	1,293,000	-	-	-	1,293,000	-
Total	<u>\$1,356,185</u>	<u>\$ 77,941</u>	<u>\$ -</u>	<u>\$ 509,835</u>	<u>\$ 1,356,185</u>	<u>\$ 587,776</u>

### CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

**City of Somerville, Texas**  
**Statement of Net Position**  
**September 30, 2014**

	Primary Government		
	Governmental	Business-type	Totals
	Activities	Activities	
<b>Assets</b>			
Cash and cash equivalents	\$ 213,498	\$ 269,720	\$ 483,218
Receivables (net)	177,107	118,060	295,167
Other assets	10,102	-	10,102
Restricted assets:			
Cash and cash equivalents	116,029	715,154	831,183
Internal balances	3,679	(3,679)	-
Due from other governments	1,772	-	1,772
Capital assets			
Non-depreciable	26,261	16,810	43,071
Depreciable, net	136,970	3,716,469	3,853,439
Total assets	<u>\$ 685,418</u>	<u>\$ 4,832,534</u>	<u>\$ 5,517,952</u>
<b>Liabilities</b>			
Accounts payable	\$ 36,652	\$ 36,915	\$ 73,567
Accrued salaries	13,889	6,623	20,512
Customer deposits	-	47,915	47,915
Bond payable, due within one year	102,000	-	102,000
Bond payable, long-term	1,191,000	-	1,191,000
Notes payable, due within one year	63,185	-	63,185
Compensated absences, due within one year	2,161	-	2,161
Compensated absences, long-term	7,101	7,056	14,157
Total liabilities	<u>1,415,988</u>	<u>98,509</u>	<u>1,514,497</u>
<b>Net Position</b>			
Invested in capital assets, net of related debt	100,046	3,733,279	3,833,325
Restricted for:			
Code compliance	38,470	-	38,470
Debt service	29,177	-	29,177
Municipal court	45,083	-	45,083
Unrestricted	(943,346)	1,000,746	57,400
Total net position	<u>\$ (730,570)</u>	<u>\$ 4,734,025</u>	<u>\$ 4,003,455</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, 2014**

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions		Capital Grants and Contributions	Primary Government		
			Grants and Contributions			Governmental Activities	Business-type Activities	Total
<b>Primary government</b>								
Governmental activities								
General government	\$ 361,070	\$ 6,400	22,429	\$ 12,750	\$ (319,491)	\$ -	\$ -	\$ (319,491)
Public safety	397,083	178,959	3,614	-	(214,510)	-	-	(214,510)
Highways and streets	47,796	-	-	-	(47,796)	-	-	(47,796)
Culture and recreation	66,635	-	11,141	-	(55,494)	-	-	(55,494)
Interest and costs on long-term debt	55,482	-	-	-	(55,482)	-	-	(55,482)
Total governmental activities	928,066	185,359	37,184	12,750	(692,774)	-	-	(692,774)
Business-type activities								
Proprietary fund	932,323	866,755	-	196,580	-	131,012	131,012	131,012
Total business-type activities	932,323	866,755	-	196,580	-	131,012	131,012	131,012
Total primary government	1,860,389	1,052,114	37,184	209,330	(692,774)	131,012	131,012	(561,762)
General revenues								
Taxes								
Property					517,332	-	-	517,332
Sales					221,214	-	-	221,214
Gross receipts					52,834	-	-	52,834
Hotel occupancy					28,615	-	-	28,615
Other					8,885	-	-	8,885
Investment income					594	248	842	842
Other					39,979	35,251	75,230	75,230
Transfers					(1,377,696)	1,377,696	-	-
Total general revenues and transfers					(508,243)	1,413,195	904,952	904,952
Change in net position					(1,201,017)	1,544,207	343,190	343,190
Net position, beginning					470,447	3,189,818	3,660,265	3,660,265
Net position, ending					\$ (730,570)	\$ 4,734,025	\$ 4,003,455	\$ 4,003,455

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

City of Somerville, Texas  
Balance Sheet  
Governmental Funds  
September 30, 2014

	General	Debt Service	Other Governmental Funds	Total Governmental Fund
<b>Assets</b>				
Cash and cash equivalents	\$ 213,498	\$ -	\$ -	\$ 213,498
Receivables (net of allowances for uncollectibles)				
Property tax	67,175	32,618	-	99,793
Sales tax	35,585	-	-	35,585
Municipal court	28,654	-	-	28,654
Other	-	13,075	-	13,075
Due from other governments	1,268	504	-	1,772
Due from other funds	-	5,402	393	5,795
Other assets	-	-	8,385	8,385
Cash, restricted	9,190	10,196	96,643	116,029
<b>Total assets</b>	<u>\$ 355,370</u>	<u>\$ 61,795</u>	<u>\$ 105,421</u>	<u>\$ 522,586</u>
<b>Liabilities, deferred inflows of resources and fund balances</b>				
<b>Liabilities:</b>				
Accounts payable	\$ 36,521	-	\$ 131	\$ 36,652
Accrued salaries	13,889	-	-	13,889
Compensated absences	2,161	-	-	2,161
Due to other funds	1,723	-	393	2,116
Total liabilities	54,294	-	524	54,818
<b>Deferred inflows of resources:</b>				
Unavailable revenues	95,830	32,618	-	128,448
Total deferred inflows of resources	95,830	32,618	-	128,448
<b>Fund balances:</b>				
Restricted for:				
Code compliance	38,470	-	-	38,470
Debt service	-	29,177	-	29,177
Hotel/Motel occupancy tax	-	-	58,746	58,746
Municipal court	-	-	45,083	45,083
Assigned	8,877	-	-	8,877
Unassigned	157,899	-	1,068	158,967
Total fund balances	205,246	29,177	104,897	339,320
<b>Total liabilities and fund balances</b>	<u>\$ 355,370</u>	<u>\$ 61,795</u>	<u>\$ 105,421</u>	<u>\$ 522,586</u>

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

Fund balances of governmental funds \$ 339,320  
Amounts reported for governmental activities in the statements of net position are different because:

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

Governmental capital assets	1,027,663	
Less accumulated depreciation	(864,432)	163,231

Unavailable revenues reported in the governmental funds are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		128,448
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Long-term liabilities, including notes and bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.		(1,363,285)
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Net position, governmental activities		<u>\$ (730,570)</u>
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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, 2014

	General	Debt Service	Other Governmental Funds	Total Governmental Fund
<b>Revenues:</b>				
<b>Taxes</b>				
Property	\$ 369,603	\$ 139,563	\$ -	\$ 509,166
Sales	221,214	-	-	221,214
Gross receipts	52,834	-	-	52,834
Hotel/motel occupancy	-	-	28,615	28,615
Other	8,885	-	-	8,885
Licenses and permits	6,400	-	-	6,400
Fines and court costs	163,221	-	9,741	172,962
Investment income	265	125	204	594
Grant revenue	-	-	6,417	6,417
Donations	26,044	-	4,724	30,768
Miscellaneous	-	-	9,736	9,736
Other	30,285	-	-	30,285
<b>Total revenues</b>	<b>878,751</b>	<b>139,688</b>	<b>59,437</b>	<b>1,077,876</b>
<b>Expenditures:</b>				
<b>Current:</b>				
General government	360,378	-	1,650	362,028
Public safety	385,632	-	-	385,632
Highways and streets	43,976	-	-	43,976
Culture and recreation	-	-	67,776	67,776
<b>Debt service:</b>				
Principal	14,580	-	-	14,580
Interest	1,763	-	-	1,763
Bond issuance cost	53,719	-	-	53,719
<b>Capital outlay:</b>				
General government	20,105	-	-	20,105
<b>Total expenditures</b>	<b>880,153</b>	<b>-</b>	<b>69,426</b>	<b>949,579</b>
Excess (deficiency) of revenues over (under)	(1,402)	139,688	(9,989)	128,297
<b>Other financing sources:</b>				
Proceeds from long-term debt	1,293,000	-	-	1,293,000
Transfers in	-	-	12,521	12,521
Transfers out	(1,197,027)	(168,885)	(24,305)	(1,390,217)
<b>Total other financing sources</b>	<b>95,973</b>	<b>(168,885)</b>	<b>(11,784)</b>	<b>(84,696)</b>
<b>Net change in fund balance</b>	<b>94,571</b>	<b>(29,197)</b>	<b>(21,773)</b>	<b>43,601</b>
<b>Fund balance, beginning</b>	<b>110,675</b>	<b>58,374</b>	<b>126,670</b>	<b>295,719</b>
<b>Fund balance, ending</b>	<b>\$ 205,246</b>	<b>\$ 29,177</b>	<b>\$ 104,897</b>	<b>\$ 339,320</b>

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	\$ 43,601
Amounts reported for the governmental activities in the statement of activities are different because:	
Depreciation expense on capital assets is reported in the statement of activities, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as an expenditure in governmental funds.	(20,310)
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the costs of these assets are depreciated over their estimated useful lives.	20,105
The repayment of the principal of long-term debt consumes current financial resources of governmental funds, yet has no effect on net position.	14,580
Governmental funds report long-term debt proceeds as other financing sources, yet has no effect on net position.	(1,293,000)
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.	7,137
Some revenues in the statement of activities do not provide current financial resources and, therefore, are not reported as revenues in the fund statements.	26,870
<b>Change in net position, governmental activities</b>	<b>\$ (1,201,017)</b>

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, 2014

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
Revenues:				
Taxes				
Property	\$ 369,200	\$ 369,200	\$ 369,603	\$ 403
Sales	189,500	189,500	221,214	31,714
Gross receipts	53,500	53,500	52,834	(666)
Other	7,000	7,000	8,885	1,885
Licenses and permits	5,300	5,300	6,400	1,100
Fines and court costs	140,600	140,600	163,221	22,621
Investment income	150	150	265	115
Donations	39,570	39,570	26,044	(13,526)
Other	43,010	43,010	30,285	(12,725)
Total revenues	<u>847,830</u>	<u>847,830</u>	<u>878,751</u>	<u>30,921</u>
Expenditures:				
Current:				
General government	425,202	425,202	360,378	(64,824)
Public safety	396,632	396,632	385,632	(11,000)
Highways and streets	46,000	46,000	43,976	(2,024)
Debt service:				
Principal	12,601	12,601	14,580	1,979
Interest	3,742	3,742	1,763	(1,979)
Bond issuance cost	-	66,794	53,719	(13,075)
Capital outlay	-	-	20,105	20,105
Total expenditures	<u>884,177</u>	<u>950,971</u>	<u>880,153</u>	<u>(70,818)</u>
Excess (deficiency) of revenues over (under) expenditures	(36,347)	(103,141)	(1,402)	101,739
Other financing sources (uses):				
Transfers out	-	(1,226,206)	(1,201,227)	24,979
Transfers in	4,200	4,200	4,200	-
Proceeds from long-term debt	-	1,293,000	1,293,000	-
Total other financing sources and uses	<u>4,200</u>	<u>70,994</u>	<u>95,973</u>	<u>24,979</u>
Net change in fund balance	(32,147)	(32,147)	94,571	126,718
Fund balance, beginning	110,675	110,675	110,675	-
Fund balance, ending	<u>\$ 78,528</u>	<u>\$ 78,528</u>	<u>\$ 205,246</u>	<u>\$ 126,718</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, 2014

	Business Type Activities
Assets	
Current assets:	
Cash and cash equivalents	\$ 269,720
Receivables, net of allowance for uncollectibles	118,060
Total current assets	<u>387,780</u>
Restricted assets:	
Cash and cash equivalents	715,154
Total restricted assets	<u>715,154</u>
Noncurrent assets:	
Equipment and furniture	640,049
Water and wastewater distribution	6,222,758
Buildings and improvements	17,298
Construction in progress	16,810
Accumulated depreciation	(3,163,636)
Capital assets (net of accumulated depreciation)	<u>3,733,279</u>
Total noncurrent assets	<u>3,733,279</u>
Total assets	<u>\$ 4,836,213</u>
Liabilities	
Current liabilities:	
Accounts payable	\$ 36,915
Accrued liabilities	6,623
Due to other funds	3,679
Customer deposits	47,915
Total current liabilities	<u>95,132</u>
Noncurrent liabilities:	
Compensated absences, long-term	7,056
Total noncurrent liabilities	<u>7,056</u>
Total liabilities	<u>102,188</u>
Net position	
Invested in capital assets, net of related debt	3,733,279
Unassigned	1,000,746
Total net position	<u><u>\$ 4,734,025</u></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, 2014

	Business Type Activities
Operating revenues:	
Charges for water services	\$ 340,900
Charges for sewer services	264,975
Charges for solid waste services	260,880
Other revenue	35,251
Total operating revenue	<u>902,006</u>
Operating expenses:	
Salaries and wages	291,358
Purchased professional and technical services	215,672
Purchased property services	121,050
Other operating expenses	57,817
Supplies	75,671
Depreciation	161,276
Total operating expenses	<u>922,844</u>
Operating income (loss)	(20,838)
Nonoperating revenues (expenses)	
Grant proceeds	196,580
Interest income	248
Interest expense	(9,479)
Total nonoperating revenue	<u>187,349</u>
Change in net position before transfers	166,511
Transfers in	<u>1,377,696</u>
Change in net position	1,544,207
Net position, beginning	3,189,818
Net position, ending	<u><u>\$ 4,734,025</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, 2014

	Business Type Activities
Cash flows from operating activities:	
Cash received from customers	\$ 890,045
Cash payments to suppliers for goods and services	(520,138)
Cash payments to employees for services	(290,890)
Net cash provided by (used in) operating activities	<u>79,017</u>
Cash flows from non-capital financing activities:	
Transfers in	<u>1,377,696</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(255,568)
Grant proceeds	196,580
Principal paid on long-term debt	(509,835)
Interest paid	(9,479)
Net cash provided (used) by capital and related financing activities	<u>(578,302)</u>
Cash flows from investing activities:	
Interest on cash and investments	<u>248</u>
Net increase (decrease) in cash and equivalents	878,659
Cash and equivalents, beginning of year	<u>106,215</u>
Cash and equivalents, end of year	<u><u>\$ 984,874</u></u>
Unrestricted cash	\$ 269,720
Restricted cash	715,154
	<u><u>\$ 984,874</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, 2014

	Business Type Activities
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities	
Operating income (loss)	\$ (20,838)
Adjustments to reconcile to net cash provided by operating activities:	
Depreciation	161,276
Increase (decrease) in cash resulting from changes in assets and liabilities:	
Accounts receivable	(13,901)
Accounts payable	(49,928)
Compensated absences	1,311
Accrued liabilities	(843)
Customer deposits	1,940
Net cash provided by (used in) operating activities	<u>\$ 79,017</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, 2014**

**Note 1. Summary of Significant Accounting Policies**

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

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

**A. Financial Reporting Entity**

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

**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, 2014**

*Fund financial statements*

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

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

The funds of the financial reporting entity are described below:

**Governmental Funds**

*General Fund*

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

**Debt Service Fund**

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

**Proprietary Fund**

*Water and Sewer Fund*

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

**City of Somerville, Texas**  
**Notes to Basic Financial Statements**  
**September 30, 2014**

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

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

**Special Revenue Funds**

The Special Revenue Funds are used to account for revenue sources that are legally restricted to expenditures for specific purposes.

**C. Measurement Focus and Basis of Accounting**

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

**Measurement Focus**

On the government-wide Statement of Net Position and the Statement of Activities, both governmental and business-like activities are presented using the economic resources measurement focus as defined in item b. below.

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

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



**City of Somerville, Texas**  
**Notes to Basic Financial Statements**  
**September 30, 2014**

**Basis of Accounting**

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

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

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

**D. Budgets**

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

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

**E. Cash and Investments**

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

**City of Somerville, Texas**  
**Notes to Basic Financial Statements**  
**September 30, 2014**

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

**F. Short-Term Interfund Receivables/Payables**

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

**G. Restricted Assets**

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

**H. Capital Assets**

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

*Government-wide statements*

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

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

**City of Somerville, Texas**  
**Notes to Basic Financial Statements**  
**September 30, 2014**

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

*Fund financial statements*

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

**I. Compensated Absences**

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

**J. Long-term Obligations**

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

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

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

**K. Fund Equity**

*Government-wide statements*

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

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

**City of Somerville, Texas**  
**Notes to Basic Financial Statements**  
**September 30, 2014**

- b. Restricted Net Position – consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulation of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted Net Position – all other net position that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

*Classification of fund balances*

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

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

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

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

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

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

**City of Somerville, Texas**  
**Notes to Basic Financial Statements**  
**September 30, 2014**

*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.

**Note 2. Legal Compliance – Budgets**

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

**City of Somerville, Texas**  
**Notes to Basic Financial Statements**  
**September 30, 2014**

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

**Note 3. Deposits and Investments**

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. Deposits of the City are insured or collateralized with securities held by the City, its agent, or by the pledging financial institution's trust department or agent in the name of the City or applicable public trust. Deposits exceeded coverage at September 30, 2014 by approximately \$599,000.

**Note 4. Restricted Assets**

At September 30, 2014, restrictions on cash and investments were as follows:

	<u>Governmental Fund</u>	<u>Proprietary Fund</u>
<u>Cash and Investments</u>		
Restricted for:		
Senior citizens center	\$ 1,199	\$ -
Hotel/ Motel occupancy tax	50,361	-
Municipal court	45,083	-
Debt service	10,196	-
Equipment and improvements	<u>9,190</u>	<u>715,154</u>
	<u>\$ 116,029</u>	<u>\$ 715,154</u>

**City of Somerville, Texas**  
**Notes to Basic Financial Statements**  
**September 30, 2014**

**Note 5. Receivables**

Receivables at September 30, 2014, consist of the following:

	Governmental Funds	Proprietary Funds	Total
Receivables:			
Taxes:			
Property	\$ 99,793	\$ -	\$ 99,793
Sales	35,585	-	35,585
Municipal court	28,654	-	28,654
Other	13,075	-	13,075
Utility revenue	-	119,448	119,448
Less:			
allowance for uncollectibles	-	(1,388)	(1,388)
Net total receivables	<u>\$ 177,107</u>	<u>\$ 118,060</u>	<u>\$ 295,167</u>

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

**City of Somerville, Texas**  
**Notes to Basic Financial Statements**  
**September 30, 2014**

**Note 6. Capital Assets**

Capital asset activity for the year ended September 30, 2014, was as follows:

	Beginning Balance	Additions/ Completions	Retirements/ Adjustments	Ending Balance
<u>Governmental activities</u>				
Capital assets not being depreciated				
Land	\$ 13,511	\$ 12,750	\$ -	\$ 26,261
Total capital assets not being depreciated	13,511	12,750	-	26,261
Capital assets being depreciated				
Buildings and improvements	92,308	20,105	-	112,413
Software	17,554	-	-	17,554
Machinery and equipment	871,435	-	-	871,435
Total at historical cost	981,297	20,105	-	1,001,402
Less: accumulated depreciation for:				
Buildings and improvements	32,628	2,308	-	34,936
Software	3,071	1,755	-	4,826
Machinery and equipment	808,423	16,245	-	824,668
Total accumulated depreciation	844,122	20,308	-	864,430
Total capital assets being depreciated, net	137,175	(203)	-	136,972
Governmental activities capital assets, net	\$ 150,686	\$ 12,547	\$ -	\$ 163,233
	Beginning Balance	Additions/ Completions	Retirements/ Adjustments	Ending Balance
<u>Business-type activities</u>				
Capital assets not being depreciated				
Construction in progress	\$ 25,960	\$ 16,810	\$ 25,960	16,810
Total capital assets not being depreciated	25,960	16,810	25,960	16,810
Capital assets being depreciated				
Buildings and improvements	\$ 17,298	\$ -	\$ -	\$ 17,298
Machinery and equipment	640,049	-	-	640,049
Water and wastewater distribution	5,958,040	264,718	-	6,222,758
Total at historical cost	6,615,387	264,718	-	6,880,105
Less: accumulated depreciation for:				
Buildings and improvements	17,298	-	-	17,298
Machinery and equipment	217,392	22,491	-	239,883
Water and wastewater distribution	2,767,670	138,785	-	2,906,455
Total accumulated depreciation	3,002,360	161,276	-	3,163,636
Total capital assets being depreciated, net	3,613,027	103,442	-	3,716,469
Business-type activities capital assets, net	\$ 3,638,987	\$ 120,252	\$ 25,960	\$ 3,733,279



**City of Somerville, Texas**  
**Notes to Basic Financial Statements**  
**September 30, 2014**

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

General government	\$ 2,082
Public safety	13,731
Culture and recreation	675
Highway and streets	<u>3,820</u>
	<u><u>\$ 20,308</u></u>

**Note 7. Risk Management**

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

**Note 8. Long-term Debt**

Debt outstanding at September 30, 2014 is comprised of the following:

	<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%	\$ 947,000	\$ -
\$346,000, 2014 General Obligation Refunding Bonds due in annual installments of \$10,000 to \$60,000 through February 15, 2021; interest rate 2.85%	346,000	-
\$197,202 note payable dated December 16, 2003 due in monthly payments of \$1,362, maturing December 15, 2018; interest rate 3.00%, secured by fire truck	63,185	-
Compensated absences for accrued vacation	<u>9,262</u>	<u>7,056</u>
	<u><u>\$ 1,365,447</u></u>	<u><u>\$ 7,056</u></u>

**City of Somerville, Texas**  
**Notes to Basic Financial Statements**  
**September 30, 2014**

**Changes in Long-term Liabilities**

Long-term liability activity for the year ended September 30, 2014, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities					
Certificates of obligation	\$ -	\$ 947,000	\$ -	\$ 947,000	\$ 52,000
General obligations	-	346,000	-	346,000	50,000
Notes payable	77,765	-	14,580	63,185	63,185
Compensated absences	14,759	-	5,497	9,262	2,161
Governmental activities long-term liabilities	<u>\$ 92,524</u>	<u>\$ 1,293,000</u>	<u>\$ 20,077</u>	<u>\$ 1,365,447</u>	<u>\$ 167,346</u>
Business-type activities					
Notes payable	\$ 509,835	\$ -	\$ 509,835	\$ -	\$ -
Compensated absences	5,745	1,311	-	7,056	-
Business-type activities long-term liabilities	<u>\$ 515,580</u>	<u>\$ 1,311</u>	<u>\$ 509,835</u>	<u>\$ 7,056</u>	<u>\$ -</u>

**Note 9. Interfund Receivables, Payables and Transfers**

The composition of interfund balances as of September 30, 2014, is as follows:

Receivable Fund	Payable Fund	Amount
General	Proprietary	\$ 837
Debt Service	Proprietary	2,842
Total		<u>\$ 3,679</u>

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

**Note 10. Interfund Transfers**

Interfund transfers during the year ended September 30, 2014, were as follows:

Transfers In	Transfers Out		
	General	Debt Service	Non-major Special Revenue
General	\$ -	\$ -	\$ -
Proprietary	1,197,027	168,885	11,784
Non-major Special Revenue	-	-	-
Total	<u>\$ 1,197,027</u>	<u>\$ 168,885</u>	<u>\$ 11,784</u>

**City of Somerville, Texas**  
**Notes to Basic Financial Statements**  
**September 30, 2014**

**Note 11. Pension Plans**

**Pension Plan**

*Plan Description.* The City provides pension benefits for all of its full-time employees through a nontraditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the city are within the options available in the governing state statutes of TMRS.

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the System. This report may be obtained by writing to P.O. Box 149153, Austin, Texas 78714-9153 or by calling 800-924-8677; in addition, the report is available on TMRS' website at [www.TMRS.com](http://www.TMRS.com).

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing. Plan provisions for the City were as follows:

	Plan Year	
	2013	2014
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.

*Contributions.* Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded

**City of Somerville, Texas**  
**Notes to Basic Financial Statements**  
**September 30, 2014**

(overfunded) actuarial liability (asset) over the applicable period for that city. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

The City contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year lag between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect.

The required contribution rates for fiscal year 2014 were determined as part of the December 31, 2012 actuarial valuation. Additional information as of the latest actuarial valuation, December 31, 2013 also follows:

Actuarial Valuation Date	2011	December 31, 2012	2013
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Entry Age Normal
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
GASB 25 Equivalent Single Amortization Period	29.3 years; closed period	24.5 years; closed period	11.0 years; closed period
Amortization Period for new Gains/Losses	23 years	25 years	24 years
Asset Valuation Method	10-year Smoothed Market	10-year Smoothed Market	10-year Smoothed Market
Actuarial Assumptions:			
Investment Rate of Return*	7.0%	7.0%	7.0%
Projected Salary Increases*	Varies by age and service	Varies by age and service	Varies by age and service
*Includes inflation at	3.0%	3.0%	3.0%
Cost of Living Adjustments	2.1%	2.1%	2.1%

**City of Somerville, Texas**  
**Notes to Basic Financial Statements**  
**September 30, 2014**

The funded status as of December 31, 2013, the most recent actuarial valuation date is as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/2013	\$931,148	\$ 955,363	97.5%	\$ 24,215	\$ 534,871	4.5%

**Note 12. Contingent Liabilities**

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

**Note 13. Deficit Fund Balance**

A deficit unassigned fund balance of \$435 exists in the Senior Citizens Activity special revenue fund. The deficit results from the donation expense for the Senior Citizen Center salaries.

**Note 14. Commitments**

A contract for construction of a chlorine contact basin at the wastewater treatment plant was awarded in August, 2014, with subsequent commitments related to the project of approximately \$300,000.

**Note 15. Subsequent Events**

In October, 2014, the City approved an emergency construction contract for a new lift station at Anita Heights for an approximate cost of \$59,000.

REQUIRED SUPPLEMENTARY INFORMATION

**City of Somerville  
Schedule of Funding Progress  
Texas Municipal Retirement System  
For the Year Ended September 30, 2014**

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/2013	\$931,148	\$ 955,363	97.5%	\$ 24,215	\$ 534,871	4.5%
12/31/2012	846,446	838,657	100.9%	(7,789)	494,110	-1.6%
12/31/2011	787,486	807,777	97.5%	20,291	449,836	4.5%

OTHER SUPPLEMENTARY INFORMATION



City of Somerville, Texas  
Combining Balance Sheet  
Non-major Governmental Funds  
September 30, 2014

	Special Revenue						Total
	Senior Citizens Center	Hotel/ Motel	Court Technology	Court Security	Senior Citizens Activity	Non-major Governmental Funds	
<b>Assets</b>							
Cash, restricted	\$ 1,199	\$ 50,361	\$ 7,584	\$ 37,499	\$ -	\$ -	\$ 96,643
Other assets	-	8,385	-	-	-	-	8,385
Due from other funds	393	-	-	-	-	-	393
<b>Total assets</b>	<u>\$ 1,592</u>	<u>\$ 58,746</u>	<u>\$ 7,584</u>	<u>\$ 37,499</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 105,421</u>
<b>Liabilities and fund balances</b>							
<b>Liabilities:</b>							
Accounts payable	\$ 89	-	\$ -	\$ -	\$ 42	\$ -	\$ 131
Due to other funds	-	-	-	-	393	-	393
<b>Total liabilities</b>	<u>89</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>435</u>	<u>-</u>	<u>524</u>
<b>Fund balances:</b>							
Restricted for:							
Hotel/Motel occupancy tax	-	58,746	-	-	-	-	58,746
Municipal court	-	-	7,584	37,499	-	-	45,083
Unassigned (deficit)	1,503	-	-	-	(435)	-	1,068
<b>Total fund balances</b>	<u>1,503</u>	<u>58,746</u>	<u>7,584</u>	<u>37,499</u>	<u>(435)</u>	<u>-</u>	<u>104,897</u>
<b>Total liabilities and fund balances</b>	<u>\$ 1,592</u>	<u>\$ 58,746</u>	<u>\$ 7,584</u>	<u>\$ 37,499</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 105,421</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, 2014

	Special Revenue					Total Non-major Governmental Funds
	Senior Citizens Center	Hotel/ Motel	Court Technology	Court Security	Senior Citizens Activity	
Revenues:						
Hotel/motel occupancy taxes	\$ -	\$ 28,615	\$ -	\$ -	\$ -	\$ 28,615
Fines and court costs	-	-	4,885	4,856	-	9,741
Investment income	5	129	10	59	1	204
Grant revenue	6,417	-	-	-	-	6,417
Donations	4,724	-	-	-	-	4,724
Miscellaneous	3,241	-	-	-	6,495	9,736
Total revenues	14,387	28,744	4,895	4,915	6,496	59,437
Expenditures:						
Current:						
Community services	6,876	39,233	-	-	21,667	67,776
General government	-	-	1,650	-	-	1,650
Total expenditures	6,876	39,233	1,650	-	21,667	69,426
Excess (deficiency) of revenues over (under) expenditures	7,511	(10,489)	3,245	4,915	(15,171)	(9,989)
Other financing sources (uses):						
Transfer in	-	-	-	-	12,521	12,521
Transfers out	(4,200)	(20,105)	-	-	-	(24,305)
Total other financing sources (uses)	(4,200)	(20,105)	-	-	12,521	(11,784)
Net change in fund balances	3,311	(30,594)	3,245	4,915	(2,650)	(21,773)
Fund balances (deficit) at beginning of year	(1,808)	89,340	4,339	32,584	2,215	126,670
Fund balances (deficit) at end of year	\$ 1,503	\$ 58,746	\$ 7,584	\$ 37,499	\$ (435)	\$ 104,897