CITY OF SOMERVILLE, TEXAS

Financial Statements

with

Report of Independent Auditor

For the Year Ended September 30, 2019

CITY OF SOMERVILLE, TEXAS
Financial Statements
For the Year Ended September 30, 2019

TABLE OF CONTENTS

SEIDEL
SCHROEDER
CERTIFIED PUBLIC ACCOUNTANTS / BUSINESS ADVISORS

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Somerville, Texas, (the "City") as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the

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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, 2019, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated September 4, 2020, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Somerville, Texas' internal control over financial reporting and compliance.

Seidel Schroeder

Brenham, Texas
September 4, 2020

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, 2019. 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 $6,015,241 (*net position*). Of this amount, $1,779,637 (*unrestricted net position*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's net position increased by $131,961.
- The City's governmental funds reported ending fund balances of $1,324,990, which was an increase of $245,848 from the prior year.
- The City's proprietary funds reported combined net position of $4,875,074, which was a decrease of $222,742 from the prior year.
- The City's long-term liabilities at year-end totaled $784,510, of which $128,529 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 increased by $354,703 from $785,464 in 2018 to $1,140,167 in 2019. The increase in the governmental activities net position was primarily due to the excess of revenues over expenses in order for the City to assign money for capital projects.

The net position of the business-type activities decreased by $222,742 from $5,097,816 in 2018 to $4,875,074 in 2019. The decrease in business-type net position was primarily due to the depreciation of capital assets.

Table 1

City of Somerville, Texas

Statement of Net Position

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Current and other assets	$ 1,546,027	$ 1,324,840	$ 683,959	$ 752,692	$ 2,229,986	$ 2,077,532
Capital assets	463,654	399,862	4,339,158	4,464,883	4,802,812	4,864,745
Total Assets	2,009,681	1,724,702	5,023,117	5,217,575	7,032,798	6,942,277
Deferred outflows of resources	53,151	19,318	35,484	12,138	88,635	31,456
Current liabilities	215,775	173,615	154,302	90,334	370,077	263,949
Non-current liabilities	669,793	743,340	4,459	7,701	674,252	751,041
Total Liabilities	885,568	916,955	158,761	98,035	1,044,329	1,014,990
Deferred infows of resources	37,097	41,601	24,766	33,862	61,863	75,463
Net Position:						
Net investment in capital assets	415,144	399,111	4,339,158	4,464,883	4,018,302	4,009,994
Restricted	217,302	134,714	-	-	217,302	134,714
Unrestricted	507,721	251,639	535,916	632,933	1,779,637	1,738,572
Total Net Position	$ 1,140,167	$ 785,464	$ 4,875,074	$ 5,097,816	$ 6,015,241	$ 5,883,280

As can be seen in Table 2 on the next page, total revenues (excluding transfers) from governmental activities decreased by $26,693 from $1,393,697 in 2018 to $1,367,004 in 2019 primarily due to a decrease in grant revenue as a result of less activity in 2019. Total expenses from governmental activities increased by $77,682, primarily due to increased personnel costs.

Total revenues (excluding transfers) from business-type activities decreased by $187,731 from $1,069,346 in 2018 to $881,615 in 2019. The decrease in revenue was primarily due to a reduction in grant revenue. Total expenses increased by $127,408 from $925,013 in 2018 to $1,052,421 in 2019. The increase in expense was primarily due to the contract with HDU for operational services of the City's water and wastewater operations.

Table 2

City of Somerville, Texas

Changes in Net Position

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Revenues						
Program Revenues						
Charges for services	$ 181,234	$ 204,962	$ 864,003	$ 885,545	$ 1,045,237	$ 1,090,507
Operating grants and contributions	6,771	28,152	-	-	6,771	28,152
Capital grants and contributions	77,135	99,420	14,965	180,183	92,100	279,603
General Revenues						
Property taxes	701,346	643,606	-	-	701,346	643,606
Sales taxes	260,775	248,637	-	-	260,775	248,637
Gross receipts	52,382	51,510	-	-	52,382	51,510
Hotel occupancy	17,567	24,320	-	-	17,567	24,320
Other	2,917	2,683	-	-	2,917	2,683
Transfers in (out)	51,936	38,005	(51,936)	(38,005)	-	-
Miscellaneous revenues	62,663	87,492	2,300	2,233	64,963	89,725
Investment earnings	4,214	2,915	347	1,385	4,561	4,300
Total Revenues	1,418,940	1,431,702	829,679	1,031,341	2,248,619	2,463,043
Expenses						
General government	560,314	434,295	-	-	560,314	434,295
Public safety	393,762	409,588	-	-	393,762	409,588
Highways and streets	44,371	37,091	-	-	44,371	37,091
Culture and recreation	42,709	79,596	-	-	42,709	79,596
Interest/cost on long-term debt	23,081	25,985	-	-	23,081	25,985
Water, sewer and sanitation	-	-	1,052,421	925,013	1,052,421	925,013
Total Expenses	1,064,237	986,555	1,052,421	925,013	2,116,658	1,911,568
Change in Net Position	354,703	445,147	(222,742)	106,328	131,961	551,475
Net Position, Beginning of Year	785,464	340,317	5,097,816	4,991,488	5,883,280	5,331,805
Net Position, End of Year	$ 1,140,167	$ 785,464	$ 4,875,074	$ 5,097,816	$ 6,015,241	$ 5,883,280

THE CITY'S FUNDS

As of September 30, 2019, the governmental funds reported a fund balance of $1,324,990. This is an increase of $245,848 from $1,079,142 on September 30, 2018.

General Fund Budgetary Highlights

The City's Council annually adopts an operating budget. Total actual revenues were $534,756 less than budgeted, primarily due to lower than expected grant revenue due to less activity in the current year.

Actual expenditures were under budget by $640,721, primarily due to construction projects that did not occur in 2019.

In total, the actual net increase in fund balance was $220,734 compared to a budgeted excess of $91,473 for 2019.

Capital Assets

As of September 30, 2019, the City had $4,802,812 invested in capital assets.

Table 3
City of Somerville, Texas
Capital Assets

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Land	$ 46,493	$ 46,493	$ -	$ -	$ 46,493	$ 46,493
Buildings and improvements	196,023	196,023	17,298	17,298	213,321	213,321
Machinery and equipment	907,957	885,733	691,573	691,573	1,599,530	1,577,306
Streets and improvements	160,703	160,703	-	-	160,703	160,703
Software	17,554	17,554	-	-	17,554	17,554
Utility Plants	-	-	7,725,931	7,678,797	7,725,931	7,678,797
Construction in Progress	51,622	-	64,297	23,600	115,919	23,600
	1,380,352	1,306,506	8,499,099	8,411,268	9,879,451	9,717,774
Accumulated Depreciation	(916,698)	(906,644)	(4,159,941)	(3,946,385)	(5,076,639)	(4,853,029)
Net Capital Assets	$ 463,654	$ 399,862	$ 4,339,158	$ 4,464,883	$ 4,802,812	$ 4,864,745

Debt

At year-end, the City had $784,510 in notes and general obligation bonds payable with $128,529 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	
	2019	2018	2019	2018	2019	2018
Notes payable	$ 48,510	$ 751	$ -	$ -	$ 48,510	$ 751
Bonds payable	736,000	854,000	-	-	736,000	854,000
Total	$ 784,510	$ 854,751	$ -	$ -	$ 784,510	$ 854,751

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

City of Somerville, Texas
Statement of Net Position
September 30, 2019

	Primary Government		
	Governmental Activities	Business-type Activities	Totals
Assets			
Cash and cash equivalents	$ 1,054,748	$ 495,554	$ 1,550,302
Receivables (net)	182,796	136,223	319,019
Other assets	5,181	-	5,181
Restricted assets:			
Cash and cash equivalents	210,169	32,962	243,131
Internal balances	55,642	(55,642)	-
Net pension asset	28,790	19,220	48,010
Due from other governments	8,701	-	8,701
Capital assets			
Non-depreciable	98,115	64,297	162,412
Depreciable, net	365,539	4,274,861	4,640,400
Total assets	2,009,681	4,967,475	6,977,156
Deferred Outflows of Resources			
Deferred amounts related to pensions	53,151	35,484	88,635
Liabilities			
Accounts payable	68,827	36,103	104,930
Accrued liabilities	12,179	4,373	16,552
Customer deposits	-	58,184	58,184
Bonds and note payable, due within one year	128,529	-	128,529
Bonds and note payable, long-term	655,981	-	655,981
Compensated absences, due within one year	6,240	-	6,240
Compensated absences, long-term	13,812	4,459	18,271
Total liabilities	885,568	103,119	988,687
Deferred inflows of resources			
Deferred amounts related to pensions	37,097	24,766	61,863
Net Position			
Net investment in capital assets	415,144	4,339,158	4,018,302
Restricted for:			
Debt service	97,780	-	97,780
Hotel/Motel occupancy tax	47,824	-	47,824
Municipal court	71,344	-	71,344
Somerville Parks Association	354	-	354
Unrestricted (deficit)	507,721	535,916	1,779,637
Total net position	$ 1,140,167	$ 4,875,074	$ 6,015,241

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, 2019

		Program Revenues			Net (Expense) Revenue and Changes in Net Position — Primary Government		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary government							
Governmental activities							
General government	$ 560,314	$ 14,207	$ 6,771	$ 77,135	$ (462,201)	$ -	$ (462,201)
Public safety	393,762	167,027	-	-	(226,735)	-	(226,735)
Highways and streets	44,371	-	-	-	(44,371)	-	(44,371)
Culture and recreation	42,709	-	-	-	(42,709)	-	(42,709)
Interest and costs on long-term debt	23,081	-	-	-	(23,081)	-	(23,081)
Total governmental activities	1,064,237	181,234	6,771	77,135	(799,097)	-	(799,097)
Business-type activities							
Proprietary fund	1,052,421	864,003	-	14,965	-	(173,453)	(173,453)
Total business-type activities	1,052,421	864,003	-	14,965	-	(173,453)	(173,453)
Total primary government	2,116,658	1,045,237	6,771	92,100	(799,097)	(173,453)	(972,550)
General revenues							
Taxes							
Property					701,346	-	701,346
Sales					260,775	-	260,775
Gross receipts					52,382	-	52,382
Hotel occupancy					17,567	-	17,567
Other					2,917	-	2,917
Investment income					4,214	347	4,561
Other					60,163	2,300	62,463
Gain on sale of capital assets					2,500	-	2,500
Transfers					51,936	(51,936)	-
Total general revenues and transfers					1,153,800	(49,289)	1,104,511
Change in net position					354,703	(222,742)	131,961
Net position, beginning					785,464	5,097,816	5,883,280
Net position, ending					$ 1,140,167	$ 4,875,074	$ 6,015,241

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

City of Somerville, Texas
Balance Sheet
Governmental Funds
September 30, 2019

	General	Debt Service	Other Governmental Funds	Total Governmental Fund
Assets				
Cash and cash equivalents	$ 1,054,748	$ -	$ -	$ 1,054,748
Receivables (net of allowances for uncollectibles)				
Property tax	70,518	27,645	-	98,163
Sales tax	50,062	-	-	50,062
Municipal court	13,078	-	-	13,078
Other	21,493	-	-	21,493
Due from other governments	6,413	2,288	-	8,701
Due from other funds	55,642	-	886	56,528
Other assets	-	-	5,181	5,181
Cash, restricted	-	95,492	114,677	210,169
Total assets	$ 1,271,954	$ 125,425	$ 120,744	$ 1,518,123
Liabilities, deferred inflows of resources and fund balances				
Liabilities:				
Accounts payable	$ 68,721	-	$ 106	$ 68,827
Accrued liabilities	12,179	-	-	12,179
Due to other funds	-	-	886	886
Total liabilities	80,900	-	992	81,892
Deferred inflows of resources:				
Unavailable revenues	83,596	27,645	-	111,241
Total deferred inflows of resources	83,596	27,645	-	111,241
Fund balances:				
Restricted for:				
Debt service	-	97,780	-	97,780
Hotel/Motel occupancy tax	-	-	47,824	47,824
Municipal court	-	-	71,344	71,344
Somerville Parks Association	-	-	354	354
Unassigned	1,107,458	-	230	1,107,688
Total fund balances	1,107,458	97,780	119,752	1,324,990
Total liabilities, deferred inflows of resources and fund balances	$ 1,271,954	$ 125,425	$ 120,744	$ 1,518,123

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

Fund balances of governmental funds		$ 1,324,990
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	$ 1,380,352	
Less accumulated depreciation	(916,698)	463,654
Unavailable revenues reported in the governmental funds are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		111,241
Deferred outflows are not receivable and deferred inflows and net pension asset are not payable in the current period and, therefore, are not reported in the governmental funds.		44,844
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.		
Notes and bonds payable	$ (784,510)	
Compensated absences	(20,052)	(804,562)
Net position, governmental activities		$ 1,140,167

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, 2019

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes				
Property	$ 519,518	$ 168,462	$ -	$ 687,980
Sales	260,775	-	-	260,775
Gross receipts	52,382	-	-	52,382
Hotel/motel occupancy	-	-	17,567	17,567
Other	2,917	-	-	2,917
Licenses and permits	14,207	-	-	14,207
Fines and court costs	199,853	-	9,938	209,791
Investment income	4,080	57	77	4,214
Grant revenue	77,135	-	6,771	83,906
Donations	5,563	-	3,999	9,562
Miscellaneous	-	-	3,150	3,150
Other	49,952	-	-	49,952
Total revenues	1,186,382	168,519	41,502	1,396,403
Expenditures:				
Current:				
General government	550,054	-	3,011	553,065
Public safety	374,637	-	-	374,637
Highways and streets	36,475	-	-	36,475
Culture and recreation	4,600	-	36,965	41,565
Debt service:				
Principal	752	118,000	-	118,752
Interest	-	23,081	-	23,081
Capital outlay:				
Highways and streets	51,622	-	-	51,622
Public safety	51,804	-	-	51,804
Total expenditures	1,069,944	141,081	39,976	1,251,001
Excess (deficiency) of revenues over (under) expenditures	116,438	27,438	1,526	145,402
Other financing sources:				
Proceeds from long-term debt	48,510	-	-	48,510
Transfers in	55,786	-	-	55,786
Transfers out	-	-	(3,850)	(3,850)
Total other financing sources	104,296	-	(3,850)	100,446
Net change in fund balance	220,734	27,438	(2,324)	245,848
Fund balance, beginning	886,724	70,342	122,076	1,079,142
Fund balance, ending	$ 1,107,458	$ 97,780	$ 119,752	$ 1,324,990

fund balance
$970,000 / year

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	$ 245,848
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.	(39,634)
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.	103,426
The repayment of the principal of long-term debt consumes current financial resources of governmental funds, yet has no effect on net position.	118,752
Governmental funds report long-term debt proceeds as other financing sources, yet has no effect on net position.	(48,510)
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.	4,219
Some revenues in the statement of activities do not provide current financial resources and, therefore, are not reported as revenues in the fund statements.	(29,399)
Change in net position, governmental activities	$ 354,703

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, 2019

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
Revenues:				
Taxes				
Property	$ 533,358	$ 533,358	$ 519,518	$ (13,840)
Sales	257,000	257,000	260,775	3,775
Gross receipts	63,950	63,950	52,382	(11,568)
Other	3,000	3,000	2,917	(83)
Licenses and permits	6,000	6,000	14,207	8,207
Fines and court costs	171,950	171,950	199,853	27,903
Investment income	1,200	1,200	4,080	2,880
Grant revenue	580,000	580,000	77,135	(502,865)
Donations	2,000	2,000	5,563	3,563
Other	102,680	102,680	49,952	(52,728)
Total revenues	1,721,138	1,721,138	1,186,382	(534,756)
Expenditures:				
Current:				
General government	1,161,667	1,161,667	550,054	611,613
Public safety	446,682	446,682	374,637	72,045
Highways and streets	85,000	85,000	36,475	48,525
Culture and recreation	1,000	1,000	4,600	(3,600)
Debt service:				
Principal	16,316	16,316	752	15,564
Capital outlay				
Highways and streets	-	-	51,622	(51,622)
Public safety	-	-	51,804	(51,804)
Total expenditures	1,710,665	1,710,665	1,069,944	640,721
Excess (deficiency) of revenues over (under) expenditures	10,473	10,473	116,438	105,965
Other financing sources (uses):				
Proceeds from long-term debt	-	-	48,510	48,510
Transfers in	81,000	81,000	55,786	(25,214)
Total other financing sources and uses	81,000	81,000	104,296	23,296
Net change in fund balance	91,473	91,473	220,734	129,261
Fund balance, beginning	886,724	886,724	886,724	-
Fund balance, ending	$ 978,197	$ 978,197	$1,107,458	$ 129,261

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

City of Somerville, Texas
Statement of Net Position
Proprietary Fund Utilities
September 30, 2019

	Business Type Activities
Assets	
Current assets:	
Cash and cash equivalents	$ 495,554
Receivables, net of allowance for uncollectibles	136,223
Total current assets	631,777
Restricted assets:	
Cash and cash equivalents	32,962
Total restricted assets	32,962
Noncurrent assets:	
Net pension asset	19,220
Capital assets:	
Equipment and furniture	691,573
Water and wastewater distribution	7,725,931
Buildings and improvements	17,298
Construction in progress	64,297
Accumulated depreciation	(4,159,941)
Capital assets (net of accumulated depreciation)	4,339,158
Total noncurrent assets	4,358,378
Total assets	$ 5,023,117
Deferred Outflows of Resources	
Deferred amounts related to pensions	35,484
Liabilities	
Current liabilities:	
Accounts payable	$ 36,103
Accrued liabilities	4,373
Due to other funds	55,642
Customer deposits	58,184
Total current liabilities	154,302
Noncurrent liabilities:	
Compensated absences, long-term	4,459
Total noncurrent liabilities	4,459
Total liabilities	158,761
Deferred Inflows of Resources	
Deferred amounts related to pensions	24,766
Net position	
Net investment in capital assets	4,339,158
Unassigned	535,916
Total net position	$ 4,875,074

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, 2019

	Business Type Activities
Operating revenues:	
Charges for water services	$ 349,693
Charges for sewer services	256,940
Charges for solid waste services	257,370
Other revenue	2,300
Total operating revenue	866,303
Operating expenses:	
Salaries and wages	298,614
Purchased professional and technical services	319,303
Purchased property services	26,506
Other operating expenses	63,880
Supplies	130,562
Depreciation	213,556
Total operating expenses	1,052,421
Operating income (loss)	(186,118)
Nonoperating revenues (expenses)	
Grant proceeds	14,965
Interest income	347
Total nonoperating revenue	15,312
Change in net position before transfers	(170,806)
Transfers out	(51,936)
Total transfers	(51,936)
Change in net position	(222,742)
Net position, beginning	5,097,816
Net position, ending	$ 4,875,074

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, 2019

		Business Type Activities
Cash flows from operating activities:		
Cash received from customers	$	847,344
Cash payments to suppliers for goods and services		(476,374)
Cash payments to employees for services		(310,136)
Net cash provided by (used in) operating activities		60,834
Cash flows from non-capital financing activities:		
Transfers out		(51,936)
Cash flows from capital and related financing activities:		
Acquisition of capital assets		(87,831)
Grant proceeds		14,965
Net cash provided (used) by capital and related financing activities		(72,866)
Cash flows from investing activities:		
Interest on cash and investments		347
Net increase (decrease) in cash and equivalents		(63,621)
Cash and equivalents, beginning of year		592,137
Cash and equivalents, end of year	$	528,516
Unrestricted cash	$	495,554
Restricted cash		32,962
	$	528,516

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, 2019

		Business Type Activities
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities		
Operating income (loss)	$	(186,118)
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation		213,556
Bad debt expense (recovery)		(471)
Increase (decrease) in cash resulting from changes in assets and liabilities:		
Accounts receivable		(19,399)
Net pension asset		24,982
Deferred outflows related to pensions		(23,346)
Accounts payable		8,235
Compensated absences		(3,242)
Accrued liabilities		(820)
Deferred inflows related to pensions		(9,096)
Customer deposits		911
Due to other funds		55,642
Net cash provided by (used in) operating activities	$	60,834

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

Note 1. Summary of Significant Accounting Policies

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

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

A. Financial Reporting Entity

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

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

B. Basis of Presentation

Government-wide financial statements

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given program and 2) operating or capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Fund financial statements

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

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

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

The funds of the financial reporting entity are described below:

Governmental Funds

General Fund

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

Debt Service Fund

The Debt 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.

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.

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.

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.

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.

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 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 in accordance with the benefit terms. Investments are reported at fair value.

Note 2. Legal Compliance – Budgets

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

Note 3. Deposits and Investments

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. Deposits of the City are insured or collateralized with securities held by the City, its agent, or by the pledging financial institution's trust department or agent in the name of the City or applicable public trust. Deposits were adequately covered at September 30, 2019.

Note 4. Restricted Assets

At September 30, 2019, restrictions on cash and investments were as follows:

	Governmental Fund	Proprietary Fund
Cash and Investments		
Restricted for:		
Senior citizens center	$ 230	$ -
Somerville Park Association	354	-
Hotel/ Motel occupancy tax	42,749	-
Municipal court	71,344	-
Debt service	95,492	-
Equipment and improvements	-	32,962
	$ 210,169	$ 32,962

Note 5. Receivables

Receivables at September 30, 2019, consist of the following:

	Governmental Funds	Proprietary Funds	Total
Receivables:			
Taxes:			
Property	$ 98,164	$ -	$ 98,164
Sales	50,061	-	50,061
Municipal court	13,078	-	13,078
Grant	21,493	14,965	36,458
Utility revenue	-	122,231	122,231
Less:			
allowance for uncollectibles	-	(973)	(973)
Net total receivables	$ 182,796	$ 136,223	$ 319,019

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.

Note 6. Capital Assets

Capital asset activity for the year ended September 30, 2019, was as follows:

	Beginning Balance	Additions/ Completions	Retirements/ Adjustments	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	$ 46,493	$ -	$ -	$ 46,493
Construction in progress	-	51,622	-	51,622
Total capital assets not being depreciated	46,493	51,622	-	98,115
Capital assets being depreciated				
Buildings and improvements	196,023	-	-	196,023
Streets and infrastructure	160,703	-	-	160,703
Software	17,554	-	-	17,554
Machinery and equipment	885,733	51,804	29,580	907,957
Total at historical cost	1,260,013	51,804	29,580	1,282,237
Less: accumulated depreciation for:				
Buildings and improvements	60,459	8,031	-	68,490
Streets and infrastructure	5,017	5,909	-	10,926
Software	11,849	1,755	-	13,604
Machinery and equipment	829,319	23,939	29,580	823,678
Total accumulated depreciation	906,644	39,634	29,580	916,698
Total capital assets being depreciated, net	353,369	12,170	-	365,539
Governmental activities capital assets, net	$ 399,862	$ 63,792	$ -	$ 463,654

	Beginning Balance	Additions/ Completions	Retirements/ Adjustments	Ending Balance
Business-type activities				
Capital assets not being depreciated				
Construction in progress	$ 23,600	$ 40,697		$ 64,297
Total capital assets not being depreciated	23,600	40,697	-	64,297
Capital assets being depreciated				
Buildings and improvements	17,298	-	-	17,298
Machinery and equipment	691,573	-	-	691,573
Water and wastewater distribution	7,678,797	47,134	-	7,725,931
Total at historical cost	8,387,668	47,134	-	8,434,802
Less: accumulated depreciation for:				
Buildings and improvements	18,133	-	-	18,133
Machinery and equipment	355,163	25,156	-	380,319
Water and wastewater distribution	3,573,089	188,400	-	3,761,489
Total accumulated depreciation	3,946,385	213,556	-	4,159,941
Total capital assets being depreciated, net	4,441,283	(166,422)	-	4,274,861
Business-type activities capital assets, net	$ 4,464,883	$ (125,725)	$ -	$ 4,339,158

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

General government	$ 5,077
Public safety	23,390
Culture and recreation	1,725
Public works	3,533
Highway and streets	5,909
	$ 39,634

Note 7. Risk Management

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

Note 8. Long-term Liabilities

Long-term liabilities outstanding at September 30, 2019 are comprised of the following:

	Governmental activities	Business-type activities
Long-term debt		
$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%	$ 666,000	$ -
$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%	70,000	-
$48,510 note payable dated November 9, 2018, payable in annual payments of $11,780, maturing November 9, 2023; interest rate 4.64%, secured by police car	48,510	-
Other long-term liabilities:		
Compensated absences for accrued vacation	20,052	4,459
	$ 804,562	$ 4,459

Annual debt service requirements to maturity for the outstanding debt, including interest of $120,360 are as follows:

Fiscal Year Ending September 30	Principal	Interest
2020	$ 128,530	$ 22,456
2021	70,971	19,797
2022	73,434	17,774
2023	74,918	15,591
2024	73,657	13,247
2025 - 2029	363,000	31,495
Total	$ 784,510	$ 120,360

Changes in Long-term Liabilities

Long-term liability activity for the year ended September 30, 2019, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities					
Certificates of obligation	$ 725,000	$ -	$ 59,000	$ 666,000	$ 59,000
General obligations	129,000	-	59,000	70,000	60,000
Notes payable	751	48,510	751	48,510	9,529
Compensated absences	9,965	10,087	-	20,052	6,240
Governmental activities long-term liabilities	$ 864,716	$ 58,597	$ 118,751	$ 804,562	$ 134,769
Business-type activities					
Compensated absences	7,701	-	3,242	4,459	-
Business-type activities long-term liabilities	$ 7,701	$ -	$ 3,242	$ 4,459	$ -

Note 9. Interfund Transfers

Interfund transfers during the year ended September 30, 2019, were as follows:

	Transfers Out		
Transfers In	General	Proprietary	Non-major Special Revenue
General	$ -	$ 51,936	$ 3,850
Total	$ -	$ 51,936	$ 3,850

Note 10. Pension Plans

A Plan Description

The City participates as one of 887 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the

State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmrs.com.

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

B. Benefits Provided

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

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

Plan provisions for the City were as follows:

	Plan Year	
	2017	2018
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, 2018 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	13
Inactive employees entitled to but not yet receiving benefits	16
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 5.67% and 5.21% in calendar years 2018 and 2019, respectively. The city's contributions to TMRS for the year ended September 30, 2019, were $32,052, 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, 2018, 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.

Actuarial assumptions:

The Total Pension Liability in the December 31, 2018 actuarial valuation was determined using the following actuarial assumptions:

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

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

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

Actuarial assumptions used in the December 31, 2018, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014, first used in the December 31, 2015 valuation. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. 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 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)
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.35%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	3.90%
Real Return	10.0%	3.80%
Real Estate	10.0%	4.50%
Absolute Return	10.0%	3.75%
Private Equity	5.0%	7.50%
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 12/31/2017	$ 1,142,227	$ 1,239,248	$ (97,021)
Changes for the year:			
Service Cost	59,444	-	59,444
Interest	77,444	-	77,444
Change of benefit terms	-	-	-
Difference between expected and actual experience	(66,500)	-	(66,500)
Changes of assumptions	-	-	-
Contributions - employer	-	31,470	(31,470)
Contributions - employee	-	27,752	(27,752)
Net investment income	-	(37,090)	37,090
Benefit payments, including refunds of employee contributions	(49,259)	(49,259)	-
Administrative expense	-	(717)	717
Other charges	-	(37)	37
Net changes	21,129	(27,882)	49,010
Balance at 12/31/2018	$ 1,163,356	$ 1,211,366	$ (48,010)

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)	$ 103,284	$ (48,010)	$ (172,739)

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, 2019, the City recognized pension expense of $7,693.

At September 30, 2019, 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	$ 1,327	$ 61,863
Difference between projected and actual investment earnings	64,095	-
Contributions subsequent to the measurement date	23,213	-
Total	$ 88,635	$ 61,863

Contributions of $23,213 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, 2020. 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:	
2019	$ (22,349)
2020	(6,684)
2021	8,444
2022	24,148
Thereafter	-
Total	$ 3,559

Note 11. 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.

Note 12. Commitments

In 2015, the City entered into a 60-month rental agreement for a copier. Rental expense for the copier was $5,685 in 2019. Future rental expense for the copier is estimated to be $1,913 for the year ending September 30, 2020.The rental agreement is classified as an operating lease.

In July 2019, the City entered into a construction agreement for street repairs and drainage improvements at a cost of approximately $479,000. As of September 30, 2019, approximately $52,000 of the project was complete. As of September 4, 2020, the date of which the report was issued, approximately $169,000 of work was still left to be finished.

Note 13. Related Party Transactions

In 2019, the City paid $16,488 to a Council member's business.

Note 14. Net Investment in Capital Assets

In the prior years, long-term debt was 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.

Note 15. Subsequent Events

In February 2020, the Council approved a contract for approximately $334,000 for phase II of the water line replacement.

In March 2020, the Council approved a contract for approximately $25,000 to repair the City's storm sewer system on Rosa Lee Lane.

Subsequent to year-end, the Coronavirus (COVID-19) pandemic impacted the nation as a whole, leading to consumer uncertainties and financial setbacks for many businesses and individuals. COVID-19 may have a continued material adverse impact on economic and market conditions, triggering a period of global economic slowdown. Management continues to monitor and evaluate the continually evolving environment associated with the virus. While it is not possible at this time to estimate the impact that COVID-19 will have on the City's operations, the pandemic could adversely affect the City's financial position and activities.

REQUIRED SUPPLEMENTARY INFORMATION

City of Somerville
Texas Municipal Retirement System

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

	2018	2017	2016	2015	2014
Total pension liability					
Service Cost	$ 59,444	$ 56,728	$ 57,277	$ 54,444	$ 47,522
Interest (on the Total Pension Liability)	77,444	76,568	71,304	70,898	67,553
Changes of benefit terms	-	-	-	-	-
Difference between expected and actual experience	(66,500)	(59,289)	12,088	(14,413)	(7,897)
Change of assumptions	-	-	-	4,621	-
Benefit payments, including refunds of employee contributions	(49,259)	(75,506)	(49,310)	(97,571)	(28,153)
Net Change in Total Pension Liability	21,129	(1,499)	91,359	17,979	79,025
Total Pension Liability - Beginning	1,142,227	1,143,726	1,052,367	1,034,388	955,363
Total Pension Liability - Ending (a)	$ 1,163,356	$ 1,142,227	$ 1,143,726	$ 1,052,367	$ 1,034,388
Plan Fiduciary Net Position					
Contributions - Employer	$ 31,470	$ 29,258	$ 30,794	$ 30,437	$ 27,266
Contributions - Employee	27,752	27,091	28,513	26,793	25,200
Net Investment Income	(37,090)	153,187	69,377	1,574	56,476
Benefit payments, including refunds of employee contributions	(49,259)	(75,506)	(49,310)	(97,571)	(28,153)
Administrative expense	(717)	(794)	(784)	(959)	(590)
Other	(37)	(40)	(42)	(47)	(48)
Net Change in Plan Fiduciary Net Position	(27,882)	133,196	78,548	(39,773)	80,151
Plan Fiduciary Net Position - Beginning	1,239,248	1,106,052	1,027,504	1,067,277	987,126
Plan Fiduciary Net Position - Ending (b)	$ 1,211,366	$ 1,239,248	$ 1,106,052	$ 1,027,504	$ 1,067,277
Net Pension Liability (Asset) - Ending (a) - (b)	$ (48,010)	$ (97,021)	$ 37,674	$ 24,863	$ (32,889)
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	104.13%	108.49%	96.71%	97.64%	103.18%
Covered Employee Payroll	555,031	541,818	552,866	535,868	504,001
Net Pension Liability (Asset) as a Percentage of Covered Employee Payroll	-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 Municipal Retirement System

Schedule of Contributions
Last 10 Fiscal Years
(unaudited)

	2018	2017	2016	2015	2014
Actuarially Determined Contribution	$ 31,470	$ 29,258	$ 30,794	$ 30,437	$ 28,319
Contributions in relation to the actuarially determined contributions	32,052	30,938	31,322	32,152	27,266
Contribution deficiency (excess)	$ (582)	$ (1,680)	$ (528)	$ (1,715)	$ 1,053
Covered employee payroll	$ 555,031	$ 541,818	$ 552,866	$ 535,868	$ 504,001
Contributions as a percentage of covered employee payroll	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	25 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	2.5%
Salary Increases	3.50% to 10.5% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2014
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB

Other Information:

Notes	There were no benefit changes during the year.

OTHER SUPPLEMENTARY INFORMATION

City of Somerville, Texas
Combining Balance Sheet
Non-major Governmental Funds
September 30, 2019

	Special Revenue: Senior Citizens Center	Hotel/ Motel	Court Technology	Court Security	Senior Citizens Activity	Somerville Parks Association	Total Non-major Governmental Funds
Assets							
Cash, restricted	$ -	42,749	$ 15,224	$ 56,120	$ 230	$ 354	$ 114,677
Other assets	-	5,181	-	-	-	-	5,181
Due from other funds	-	-	-	-	886	-	886
Total assets	$ -	$ 47,930	$ 15,224	$ 56,120	$ 1,116	$ 354	$ 120,744
Liabilities and fund balances							
Liabilities:							
Accrued liabilities	$ -	106	$ -	$ -	$ -	$ -	$ 106
Due to other funds	886	-	-	-	-	-	886
Total liabilities	886	106	-	-	-	-	992
Fund balances:							
Restricted for:							
Hotel/Motel occupancy tax	-	47,824	-	-	-	-	47,824
Municipal court	-	-	15,224	56,120	-	-	71,344
Somerville Parks Association	-	-	-	-	-	354	354
Unassigned (deficit)	(886)	-	-	-	1,116	-	230
Total fund balances	(886)	47,824	15,224	56,120	1,116	354	119,752
Total liabilities and fund balances	$ -	$ 47,930	$ 15,224	$ 56,120	$ 1,116	$ 354	$ 120,744

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, 2019

	Special Revenue						
	Senior Citizens Center	Hotel/ Motel	Court Technology	Court Security	Senior Citizens Activity	Somerville Parks Association	Total Non-major Governmental Funds
Revenues:							
Hotel/motel occupancy taxes	$ -	$ 17,567	$ -	$ -	$ -	$ -	$ 17,567
Fines and court costs	-	-	4,970	4,968	-	-	9,938
Investment income	-	32	10	35	-	-	77
Grant revenue	6,417	-	-	-	-	354	6,771
Donations	3,999	-	-	-	-	-	3,999
Miscellaneous	1,047	-	-	-	2,103	-	3,150
Total revenues	11,463	17,599	4,980	5,003	2,103	354	41,502
Expenditures:							
Current:							
Culture and recreation	8,197	27,675	-	-	1,093	-	36,965
General government	-	-	3,011	-	-	-	3,011
Capital outlay	-	-	-	-	-	-	-
Total expenditures	8,197	27,675	3,011	-	1,093	-	39,976
Excess (deficiency) of revenues over (under) expenditures	3,266	(10,076)	1,969	5,003	1,010	354	1,526
Other financing sources (uses):							
Transfers out	(3,850)	-	-	-	-	-	(3,850)
Total other financing sources (uses)	(3,850)	-	-	-	-	-	(3,850)
Net change in fund balances	(584)	(10,076)	1,969	5,003	1,010	354	(2,324)
Fund balances (deficit) at beginning of year	(302)	57,900	13,255	51,117	106	-	122,076
Fund balances (deficit) at end of year	$ (886)	$ 47,824	$ 15,224	$ 56,120	$ 1,116	$ 354	$ 119,752