

CITY OF SOMERVILLE, TEXAS  
Financial Statements  
with  
Report of Independent Auditor  
For the Year Ended September 30, 2023

INDEPENDENT AUDITOR'S REPORT

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

**Report on the Financial Statements**

*Opinions*

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Somerville, Texas, (the "City") as of and for the year ended September 30, 2023, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Somerville, Texas, as of September 30, 2023, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

*Basis for Opinions*

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

### *Responsibilities of Management for the Financial Statements*

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

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

### *Auditor's Responsibilities for the Audit of the Financial Statements*

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

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

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 10, the Texas Municipal Retirement System ("TMRS") schedule of changes in net pension liability (asset) and related ratios on page 45, the TMRS schedule of contributions on page 46, and the schedule of changes in total OPEB liability and related ratios on page 47, 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.

#### *Supplementary 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 combining fund statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements 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 accompanying 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 May 13, 2024, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City's internal control over financial reporting and compliance.

*Seidel Schaefer*

Brenham, Texas  
May 13, 2024

## 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, 2023. Please read it in conjunction with the independent auditors' report and the City's basic financial statements.

### FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of the City of Somerville exceeded its liabilities and deferred inflows of resources at the close the most recent fiscal year by \$7,930,260 (*net position*). Of this amount, \$1,357,289 (*unrestricted net position*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's net position increased by \$511,408.
- The City's governmental funds reported ending fund balances of \$836,565, which was a decrease of \$114,518 from the prior year.
- The City's proprietary funds reported combined net position of \$5,957,097, which was a decrease of \$35,590 from the prior 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 \$546,998 from \$1,426,165 in 2022 to \$1,973,163 in 2023. The increase in the governmental activities net position was primarily due to an increase in capital grants. Current assets decreased by \$655,862 primarily due to bond proceeds spent in the current year related to the City's street, water and sewer improvement project. Capital assets increased by \$593,951 primarily due to the completion of the street, water and sewer improvement projects. Total liabilities decreased by \$488,268 primarily due to a decrease in accounts payable related to the street improvement project and a decrease in unearned revenue related to COVID-19 grant funding received in prior years and expended in the current year.

**Table 1**  
City of Somerville, Texas  
Statement of Net Position

	Governmental Activities		Business-Type Activities		Total	
	2023	2022	2023	2022	2023	2022
Current and other assets	\$ 1,295,600	\$ 1,951,462	\$ 808,412	\$ 791,913	\$ 2,104,012	\$ 2,743,375
Capital assets	3,019,916	2,425,965	5,417,702	5,504,068	8,437,618	7,930,033
Total Assets	4,315,516	4,377,427	6,226,114	6,295,981	10,541,630	10,673,408
Deferred outflows of resources	106,376	24,667	44,658	6,547	151,034	31,214
Current liabilities	466,823	485,564	161,069	140,446	627,892	626,010
Non-current liabilities	1,919,166	2,388,693	145,244	142,769	2,064,410	2,531,462
Total Liabilities	2,385,989	2,874,257	306,313	283,215	2,692,302	3,157,472
Deferred inflows of resources	62,740	101,672	7,362	26,626	70,102	128,298
Net Position:						
Net investment in capital assets	2,105,586	1,459,791	5,293,776	5,365,593	6,338,026	5,653,234
Restricted	234,945	221,291	-	-	234,945	221,291
Unrestricted (deficit)	(367,368)	(254,917)	663,321	627,094	1,357,289	1,544,327
Total Net Position	\$ 1,973,163	\$ 1,426,165	\$ 5,957,097	\$ 5,992,687	\$ 7,930,260	\$ 7,418,852

As can be seen in Table 2 on the next page, total revenues (excluding transfers) from governmental activities increased by \$537,083 from \$1,520,328 in 2022 to \$2,057,411 in 2023 primarily due to an increase in grant revenues and an increase in property tax revenue.

Total revenues (excluding transfers) from business-type activities decreased by \$93,079 from \$1,134,138 in 2022 to \$1,041,059 in 2023. The decrease in revenue was primarily due to a decrease in capital grant revenue. Total expenses from business-type activities increased by \$65,785 from \$1,047,610 in 2022 to \$1,113,395 in 2023. The increase in expense was primarily due to an increase in supplies and repairs and maintenance expenses.

**Table 2**  
City of Somerville, Texas  
Changes in Net Position

	Governmental Activities		Business-Type Activities		Total	
	2023	2022	2023	2022	2023	2022
<b>Revenues</b>						
Program Revenues						
Charges for services	\$ 108,209	\$ 169,934	\$ 923,575	\$ 864,597	\$ 1,031,784	\$ 1,034,531
Operating grants and contributions	31,216	10,075	-	-	31,216	10,075
Capital grants and contributions	393,647	7,541	73,060	245,925	466,707	253,466
General Revenues						
Property taxes	1,019,020	821,876	-	-	1,019,020	821,876
Sales taxes	378,656	361,617	-	-	378,656	361,617
Gross receipts	55,086	53,370	-	-	55,086	53,370
Hotel occupancy	24,099	21,443	-	-	24,099	21,443
Other	4,952	4,714	-	-	4,952	4,714
Transfers in (out)	(36,746)	(802,208)	36,746	802,208	-	-
Miscellaneous revenues	39,289	57,601	2,557	21,549	41,846	79,150
Gain on sale of capital assets	-	6,596	40,835	-	40,835	6,596
Investment earnings	3,237	5,561	1,032	2,067	4,269	7,628
<b>Total Revenues</b>	<b>2,020,665</b>	<b>718,120</b>	<b>1,077,805</b>	<b>1,936,346</b>	<b>3,098,470</b>	<b>2,654,466</b>
<b>Expenses</b>						
General government	643,331	570,966	-	-	643,331	570,966
Public safety	620,169	646,791	-	-	620,169	646,791
Highways and streets	119,963	95,300	-	-	119,963	95,300
Culture and recreation	43,409	70,590	-	-	43,409	70,590
Interest/cost on long-term debt	46,796	58,763	4,518	529	51,314	59,292
Water, sewer and sanitation	-	-	1,108,877	1,047,081	1,108,877	1,047,081
<b>Total Expenses</b>	<b>1,473,668</b>	<b>1,442,410</b>	<b>1,113,395</b>	<b>1,047,610</b>	<b>2,587,063</b>	<b>2,490,020</b>
Change in Net Position	546,998	(724,290)	(35,590)	888,736	511,408	164,446
Net Position, Beginning of Year	1,426,165	2,150,455	5,992,687	5,103,951	7,418,852	7,254,406
Net Position, End of Year	<u>\$ 1,973,163</u>	<u>\$ 1,426,165</u>	<u>\$ 5,957,097</u>	<u>\$ 5,992,687</u>	<u>\$ 7,930,260</u>	<u>\$ 7,418,852</u>

## THE CITY'S FUNDS

As of September 30, 2023, the governmental funds reported a fund balance of \$836,565. This is a decrease of \$114,518 from \$951,083 on September 30, 2022.

### General Fund Budgetary Highlights

The City's Council annually adopts an operating budget. Total actual revenues were \$574,033 more than budgeted, primarily due to higher than anticipated property and sales tax revenues and unbudgeted grant revenue. Actual expenditures were over budget by \$345,686, primarily due to drainage and street improvements, a portion of which was funded by grants. Transfers out to close the capital projects fund were unbudgeted.

In total, the actual net decrease in fund balance was \$571,913 compared to a budgeted decrease of \$229,264 for 2023.

## Capital Assets

As of September 30, 2023, the City had \$8,437,618 invested in capital assets.

**Table 3**  
City of Somerville, Texas  
Capital Assets

	Governmental Activities		Business-Type Activities		Total	
	2023	2022	2023	2022	2023	2022
Land	\$ 350,465	\$ 195,662	\$ -	\$ -	\$ 350,465	\$ 195,662
Buildings and improvements	251,523	251,523	17,298	17,298	268,821	268,821
Machinery and equipment	1,184,359	1,184,359	861,270	837,170	2,045,629	2,021,529
Streets and improvements	2,383,675	828,387	-	-	2,383,675	828,387
Software	28,318	28,318	-	-	28,318	28,318
Utility Plants	-	-	9,506,361	8,529,745	9,506,361	8,529,745
Construction in Progress	46,750	1,042,262	41,174	895,930	87,924	1,938,192
	4,245,090	3,530,511	10,426,103	10,280,143	14,671,193	13,810,654
Accumulated Depreciation	(1,225,174)	(1,104,546)	(5,008,401)	(4,776,075)	(6,233,575)	(5,880,621)
Net Capital Assets	<u>\$ 3,019,916</u>	<u>\$ 2,425,965</u>	<u>\$ 5,417,702</u>	<u>\$ 5,504,068</u>	<u>\$ 8,437,618</u>	<u>\$ 7,930,033</u>

This year's major additions included:

Drainage and street improvements	\$ 559,775
Purchase of land for City Hall	154,804
Sanitary and water improvements	148,390

## Debt

At year-end, the City had \$2,099,591 in notes and general obligation bonds payable with \$181,157 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	
	2023	2022	2023	2022	2023	2022
Notes payable	\$ 156,665	\$ 200,323	\$ 123,926	\$ 138,475	\$ 280,591	\$ 338,798
Bonds payable	1,819,000	1,938,000	-	-	1,819,000	1,938,000
Total	<u>\$ 1,975,665</u>	<u>\$ 2,138,323</u>	<u>\$ 123,926</u>	<u>\$ 138,475</u>	<u>\$ 2,099,591</u>	<u>\$ 2,276,798</u>



## **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City's business office, at the City of Somerville, 600 Memory Lane, Somerville, TX 77879.

**City of Somerville, Texas**  
**Statement of Net Position**  
**September 30, 2023**

	Primary Government		
	Governmental	Business-type	
	Activities	Activities	Totals
<b>Assets</b>			
Cash and cash equivalents	\$ 746,967	\$ 612,417	\$ 1,359,384
Receivables (net)	244,278	164,235	408,513
Lease receivable, current	10,537	-	10,537
Lease receivable, long term	32,158	-	32,158
Restricted assets:			
Cash and cash equivalents	198,177	-	198,177
Internal balances	(17,294)	17,294	-
Prepays	8,986	-	8,986
Other assets	7,022	-	7,022
Due from other governments	19,125	-	19,125
Right to use leased asset, net of amortization	45,644	14,466	60,110
Capital assets			
Non-depreciable	397,215	41,174	438,389
Depreciable, net	2,622,701	5,376,528	7,999,229
Total assets	4,315,516	6,226,114	10,541,630
<b>Deferred Outflows of Resources</b>			
Deferred amounts related to pensions	103,738	43,697	147,435
Deferred amounts related to OPEB	2,638	961	3,599
Total deferred outflows	106,376	44,658	151,034
<b>Liabilities</b>			
Accounts payable	39,461	61,034	100,495
Accrued liabilities	24,939	5,548	30,487
Accrued interest payable	8,946	-	8,946
Customer deposits	-	68,788	68,788
Unearned revenue	191,626	-	191,626
Bonds and note payable, due within one year	166,195	14,962	181,157
Lease liability, current	32,428	10,737	43,165
Other long-term payable, current	3,228	-	3,228
Other long-term payable, long-term	3,228	-	3,228
Bonds and note payable, long-term	1,809,471	108,964	1,918,435
Lease liability, long-term	9,995	3,646	13,641
Post employment benefits	46,779	17,050	63,829
Net pension liability	26,412	11,125	37,537
Compensated absences, long-term	23,281	4,459	27,740
Total liabilities	2,385,989	306,313	2,692,302
<b>Deferred inflows of resources</b>			
Deferred amounts related to pensions	986	415	1,401
Deferred amounts related to OPEB	19,059	6,947	26,006
Deferred amounts related to leases	42,695	-	42,695
Total deferred inflows	62,740	7,362	70,102
<b>Net Position</b>			
Net investment in capital assets	2,105,586	5,293,776	6,338,026
Restricted for:			
Debt service	166,463	-	166,463
Hotel/Motel	3,952	-	3,952
Municipal court	64,176	-	64,176
Somerville Parks Association	354	-	354
Unrestricted (deficit)	(367,368)	663,321	1,357,289
Total net position	\$ 1,973,163	\$ 5,957,097	\$ 7,930,260

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, 2023**

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	
					Governmental Activities	Business-type Activities
<b>Primary government</b>						
Governmental activities						
General government	\$ 643,331	\$ 52,359	\$ 3,396	\$ 6,273	\$ (581,303)	\$ -
Public safety	620,169	55,850	-	-	(564,319)	-
Highways and streets	119,963	-	-	387,374	267,411	-
Culture and recreation	43,409	-	27,820	-	(15,589)	-
Interest and costs on long-term debt	46,796	-	-	-	(46,796)	-
Total governmental activities	1,473,668	108,209	31,216	393,647	(940,596)	-
Business-type activities						
Proprietary fund	1,113,395	923,575	-	73,060	-	(116,760)
Total business-type activities	1,113,395	923,575	-	73,060	-	(116,760)
Total primary government	2,587,063	1,031,784	31,216	466,707	(940,596)	(1,057,356)
General revenues						
Taxes						
Property					1,019,020	-
Sales					378,656	-
Gross receipts					55,086	-
Hotel occupancy					24,099	-
Other					4,952	-
Investment income					-	4,952
Miscellaneous revenues					3,237	1,032
Gain on capital assets					39,289	2,557
Transfers					-	40,835
Total general revenues and transfers					(36,746)	36,746
Change in net position					1,487,593	81,170
Net position, beginning					546,998	(35,590)
Net position, ending					1,426,165	5,992,687
					\$ 1,973,163	\$ 5,957,097
						\$ 7,930,260

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

**City of Somerville, Texas**  
**Balance Sheet**  
**Governmental Funds**  
**September 30, 2023**

	General	Capital Projects	Debt Service	Other Governmental Funds	Total Governmental Fund
<b>Assets</b>					
Cash and cash equivalents	\$ 746,967	\$ -	\$ -	\$ -	\$ 746,967
Receivables (net of allowances for uncollectibles)					
Property tax	84,668	-	20,075	-	104,743
Sales tax	64,281	-	-	-	64,281
Municipal court	10,155	-	-	-	10,155
Grants	65,099	-	-	-	65,099
Lease receivable, current	10,537	-	-	-	10,537
Lease receivable, long term	32,158	-	-	-	32,158
Due from other governments	15,567	-	3,558	-	19,125
Due from other funds	52,232	-	-	15,767	67,999
Other assets	-	-	-	7,022	7,022
Cash, restricted	-	-	142,830	55,347	198,177
<b>Total assets</b>	<b>\$ 1,081,664</b>	<b>\$ -</b>	<b>\$ 166,463</b>	<b>\$ 78,136</b>	<b>\$ 1,326,263</b>
<b>Liabilities, deferred inflows of resources and fund balances</b>					
Liabilities:					
Accounts payable	\$ 38,509	-	-	\$ 952	\$ 39,461
Accrued liabilities	24,877	-	-	62	24,939
Unearned revenue	277,610	-	19,700	-	297,310
Due to other funds	64,150	-	-	21,143	85,293
Total liabilities	405,146	-	19,700	22,157	447,003
Deferred inflows of resources:					
Deferred amounts related to leases	42,695	-	-	-	42,695
Total deferred inflows of resources	42,695	-	-	-	42,695
Fund balances:					
Restricted for:					
Debt service	-	-	146,763	-	146,763
Hotel/Motel	-	-	-	3,952	3,952
Municipal court	-	-	-	64,176	64,176
Somerville Parks Association	-	-	-	354	354
Unassigned (deficit)	633,823	-	-	(12,503)	621,320
Total fund balances	633,823	-	146,763	55,979	836,565
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<b>\$ 1,081,664</b>	<b>\$ -</b>	<b>\$ 166,463</b>	<b>\$ 78,136</b>	<b>\$ 1,326,263</b>
Reconciliation of the balance sheet to the statement of net position:					
Fund balances of governmental funds					\$ 836,565
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			\$ 4,245,090		
Less accumulated depreciation			(1,225,174)		3,019,916
Leased assets and liabilities are not current financial resources.					3,221
Unavailable revenues reported in the governmental funds are not available to pay for current-period expenditures and, therefore, are deferred in the funds.					105,684
Prepaid assets in governmental activities are not financial resources and therefore are not reported in the governmental funds.					8,986
Deferred outflows are not receivable and deferred inflows, net pension liability, and OPEB are not payable in the current period and, therefore, are not reported in the governmental funds.					13,140
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.					
Notes and bonds payable			\$ (1,975,666)		
Other long term payable			(6,456)		
Accrued interest payable			(8,946)		
Compensated absences			(23,281)		(2,014,349)
Net position, governmental activities					<u>\$ 1,973,163</u>

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

**City of Somerville, Texas**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended September 30, 2023**

	General	Capital Projects	Debt Service	Other Governmental Funds	Total Governmental Funds
Revenues:					
Taxes					
Property	\$ 843,068	\$ -	\$ 166,156	\$ -	\$ 1,009,224
Sales	378,656	-	-	-	378,656
Gross receipts	55,086	-	-	-	55,086
Hotel/motel occupancy	-	-	-	24,099	24,099
Other	4,952	-	-	-	4,952
Licenses and permits	52,359	-	-	-	52,359
Fines and court costs	80,567	-	-	2,614	83,181
Investment income	2,867	-	276	94	3,237
Grant revenue	387,373	-	-	7,000	394,373
Donations	24,216	-	-	6,274	30,490
Other	39,289	-	-	-	39,289
Total revenues	<u>1,868,433</u>	<u>-</u>	<u>166,432</u>	<u>40,081</u>	<u>2,074,946</u>
Expenditures:					
Current:					
General government	600,767	-	-	2,009	602,776
Public safety	525,295	-	-	-	525,295
Highways and streets	31,567	928	-	-	32,495
Culture and recreation	1,854	-	-	29,086	30,940
Debt service:					
Principal	79,179	-	119,000	-	198,179
Interest	9,060	-	39,394	-	48,454
Capital outlay:					
General government	653,828	-	-	-	653,828
Highways and streets	-	60,751	-	-	60,751
Total expenditures	<u>1,901,550</u>	<u>61,679</u>	<u>158,394</u>	<u>31,095</u>	<u>2,152,718</u>
Excess (deficiency) of revenues over (under) expenditures	(33,117)	(61,679)	8,038	8,986	(77,772)
Other financing sources:					
Transfers in	49,123	587,919	-	-	637,042
Transfers out	(587,919)	(81,669)	-	(4,200)	(673,788)
Total other financing sources	<u>(538,796)</u>	<u>506,250</u>	<u>-</u>	<u>(4,200)</u>	<u>(36,746)</u>
Net change in fund balance	(571,913)	444,571	8,038	4,786	(114,518)
Fund balance, beginning	<u>1,205,736</u>	<u>(444,571)</u>	<u>138,725</u>	<u>51,193</u>	<u>951,083</u>
Fund balance, ending	<u>\$ 633,823</u>	<u>\$ -</u>	<u>\$ 146,763</u>	<u>\$ 55,979</u>	<u>\$ 836,565</u>

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

Net change in fund balances - total governmental funds	\$ (114,518)
Amounts reported for the governmental activities in the statement of activities are different because:	
Depreciation expense on capital assets and amortization on right of use assets are reported in the statement of activities, but they do not require the use of current financial resources. Therefore, depreciation and amortization expense are not reported as expenditures in governmental funds.	(154,558)
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the costs of these assets are depreciated and amortized over their estimated useful lives.	714,579
The repayment of the principal of long-term debt consumes current financial resources of governmental funds, yet has no effect on net position.	198,179
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.	(79,149)
Some revenues in the statement of activities do not provide current financial resources and, therefore, are not reported as revenues in the fund statements.	(17,535)
Change in net position, governmental activities	<u>\$ 546,998</u>

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

**City of Somerville, Texas**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Budget and Actual**  
**General Fund**  
**For the Year Ended September 30, 2023**

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Taxes				
Property	\$ 758,500	\$ 758,500	\$ 843,068	\$ 84,568
Sales	300,000	300,000	378,656	78,656
Gross receipts	64,700	64,700	55,086	(9,614)
Other	4,500	4,500	4,952	452
Licenses and permits	12,500	12,500	52,359	39,859
Fines and court costs	108,450	108,450	80,567	(27,883)
Investment income	1,000	1,000	2,867	1,867
Grant revenue	-	-	387,373	387,373
Donations	450	450	24,216	23,766
Other	44,300	44,300	39,289	(5,011)
Total revenues	<u>1,294,400</u>	<u>1,294,400</u>	<u>1,868,433</u>	<u>574,033</u>
Expenditures:				
Current:				
General government	606,686	689,134	600,767	88,367
Public safety	575,680	572,517	525,295	47,222
Highways and streets	60,000	81,600	31,567	50,033
Culture and recreation	750	750	1,854	(1,104)
Debt service:				
Principal	46,675	52,400	79,179	(26,779)
Interest	5,000	4,050	9,060	(5,010)
Capital outlay				
General government	-	155,413	653,828	(498,415)
Total expenditures	<u>1,294,791</u>	<u>1,555,864</u>	<u>1,901,550</u>	<u>(345,686)</u>
Excess (deficiency) of revenues over (under) expenditures	(391)	(261,464)	(33,117)	228,347
Other financing sources (uses):				
Transfers in	32,200	32,200	49,123	16,923
Transfers out	-	-	(587,919)	(587,919)
Total other financing sources and uses	<u>32,200</u>	<u>32,200</u>	<u>(538,796)</u>	<u>(570,996)</u>
Net change in fund balance	31,809	(229,264)	(571,913)	(342,649)
Fund balance, beginning	1,205,736	1,205,736	1,205,736	-
Fund balance, ending	<u>\$ 1,237,545</u>	<u>\$ 976,472</u>	<u>\$ 633,823</u>	<u>\$ (342,649)</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, 2023**

	Business Type Activities
Assets	
Current assets:	
Cash and cash equivalents	\$ 612,417
Receivables, net of allowance for uncollectibles	164,235
Due from other funds	17,294
Total current assets	<u>793,946</u>
Noncurrent assets:	
Right to use leased asset, net of amortization	14,466
Capital assets:	
Equipment and furniture	834,200
Water and wastewater distribution	9,533,431
Buildings and improvements	17,298
Construction in progress	41,174
Accumulated depreciation	(5,008,401)
Capital assets (net of accumulated depreciation)	<u>5,417,702</u>
Total noncurrent assets	<u>5,432,168</u>
Total assets	<u>\$ 6,226,114</u>
Deferred Outflows of Resources	
Deferred amounts related to pensions	43,697
Deferred amounts related to OPEB	961
Total deferred outflows	<u>44,658</u>
Liabilities	
Current liabilities:	
Accounts payable	\$ 61,034
Accrued liabilities	5,548
Note payable, due within one year	14,962
Lease liability, current	10,737
Customer deposits	68,788
Total current liabilities	<u>161,069</u>
Noncurrent liabilities:	
Net pension liability	11,125
Post employment benefits	17,050
Note payable, long-term	108,964
Lease liability, long-term	3,646
Compensated absences, long-term	4,459
Total noncurrent liabilities	<u>145,244</u>
Total liabilities	<u>306,313</u>
Deferred Inflows of Resources	
Deferred amounts related to pensions	415
Deferred amounts related to OPEB	6,947
Total deferred inflows	<u>7,362</u>
Net position	
Net investment in capital assets	5,293,776
Unrestricted	663,321
Total net position	<u>\$ 5,957,097</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, 2023**

	Business Type Activities
Operating revenues:	
Charges for water services	\$ 401,339
Charges for sewer services	265,766
Charges for solid waste services	256,470
Other revenue	2,557
Total operating revenue	<u>926,132</u>
Operating expenses:	
Salaries and wages	245,409
Purchased professional and technical services	317,717
Repairs and maintenance	103,070
Other operating expenses	81,829
Supplies	101,677
Depreciation and amortization	259,175
Total operating expenses	<u>1,108,877</u>
Operating income (loss)	<u>(182,745)</u>
Nonoperating revenues (expenses)	
Gain (loss) on capital assets	40,835
Grant proceeds	73,060
Interest income	1,032
Interest expense	(4,518)
Total nonoperating revenue	<u>110,409</u>
Change in net position before transfers	<u>(72,336)</u>
Transfers in	81,669
Transfers out	(44,923)
Total transfers	<u>36,746</u>
Change in net position	(35,590)
Net position, beginning	<u>5,992,687</u>
Net position, ending	<u><u>\$ 5,957,097</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, 2023**

	Business Type Activities
Cash flows from operating activities:	
Cash received from customers	\$ 923,094
Cash payments to suppliers for goods and services	(645,914)
Cash payments to employees for services	(230,436)
Net cash provided by (used in) operating activities	<u>46,744</u>
Cash flows from non-capital financing activities:	
Transfers in	81,669
Transfers out	(44,923)
Total transfers	<u>36,746</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(178,717)
Proceeds from disposal of capital assets	16,757
Grant proceeds	73,060
Principal paid on long-term debt	(14,548)
Interest paid	(4,518)
Principal paid on leases	(10,444)
Net cash provided (used) by capital and related financing activities	<u>(118,410)</u>
Cash flows from investing activities:	
Interest on cash and investments	<u>1,032</u>
Net increase (decrease) in cash and equivalents	(33,888)
Cash and equivalents, beginning of year	<u>646,305</u>
Cash and equivalents, end of year	<u><u>\$ 612,417</u></u>
Unrestricted cash	\$ 612,417
Restricted cash	-
	<u><u>\$ 612,417</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, 2023**

	Business Type Activities
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities	
Operating income (loss)	\$ (182,745)
Adjustments to reconcile to net cash provided by operating activities:	
Depreciation and amortization	259,175
Bad debt expense (recovery)	(611)
Increase (decrease) in cash resulting from changes in assets and liabilities:	
Accounts receivable	(10,448)
Net pension asset/ net pension liability	74,843
Post employment benefits	(2,094)
Deferred outflows related to pensions	(39,359)
Deferred outflows related to OPEB	1,248
Accounts payable	31,439
Accrued liabilities	(401)
Deferred inflows related to pensions	(23,980)
Deferred inflows related to OPEB	4,716
Customer deposits	8,021
Due from other funds	(17,294)
Due to other funds	(55,766)
Net cash provided by (used in) operating activities	<u>\$ 46,744</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, 2023**

**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

**CITY OF SOMERVILLE, TEXAS**  
**Notes to Basic Financial Statements**  
**September 30, 2023**

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.

*Capital Projects Fund*

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



**CITY OF SOMERVILLE, TEXAS**  
**Notes to Basic Financial Statements**  
**September 30, 2023**

**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

**CITY OF SOMERVILLE, TEXAS**  
**Notes to Basic Financial Statements**  
**September 30, 2023**

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

**CITY OF SOMERVILLE, TEXAS**  
**Notes to Basic Financial Statements**  
**September 30, 2023**

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.

**CITY OF SOMERVILLE, TEXAS**  
**Notes to Basic Financial Statements**  
**September 30, 2023**

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.

**CITY OF SOMERVILLE, TEXAS**  
**Notes to Basic Financial Statements**  
**September 30, 2023**

**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

**CITY OF SOMERVILLE, TEXAS**  
**Notes to Basic Financial Statements**  
**September 30, 2023**

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



**CITY OF SOMERVILLE, TEXAS**  
**Notes to Basic Financial Statements**  
**September 30, 2023**

recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**N. Leases**

Right-of-use asset and lease obligations are recognized upon lease commencement based on the present value of lease payments expected to be made during the remaining lease term. The incremental borrowing rate is used in determining the present value of lease payments unless an implicit rate is provided in the lease. Subsequent amortization of the right to-use asset is recognized as lease expense on a straight-line basis over the lease term, and accretion of the lease liability is recognized as interest expense using the effective interest method.

Right-of-use assets and lease liabilities are not recognized for leases with an initial term of twelve months or less. For these leases, lease expense is recognized on a straight-line basis over the lease term.

**O. Subscription-Based Information Technology Arrangements**

Effective October 1, 2022, the City implemented GASB Statement No. 96, Subscription-Based Information Technology Arrangements, which required the recognition of certain subscription assets and liabilities for subscriptions that previously were classified as operating expenses and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The City's subscription-based information technology arrangements are short-term, and as a result there are no assets or liabilities reported. The adoption of GASB No. 96 had no impact on the City's net position and no restatement of net position was made.

**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, 2023**

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 amended the budget. Total expenditures exceeded the general fund budget by \$345,686 primarily due to capital outlay of \$498,415.

### 3. Deposits and Investments

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. Of the bank balances, \$250,000 was covered by federal depository insurance at one institution and \$1,376,856 was collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.

### 4. Restricted Assets

At September 30, 2023, restrictions on cash and investments were as follows:

	Governmental Fund
<u>Cash and Investments</u>	
Restricted for:	
Senior citizens center	\$ 4,216
Somerville Park Association	354
Hotel/ Motel	2,368
Municipal court	48,409
Debt service	142,830
	<u>\$ 198,177</u>

### 5. Receivables

Receivables at September 30, 2023, consist of the following:

	Governmental Funds	Proprietary Funds	Total
Receivables:			
Taxes:			
Property	\$ 104,743	\$ -	\$ 104,743
Sales	64,281	-	64,281
Municipal court	10,155	-	10,155
Insurance	-	40,924	40,924
Grants	65,099	-	65,099
Utility revenue	-	124,284	124,284
Less:			
allowance for uncollectibles	-	(973)	(973)
Net total receivables	<u>\$ 244,278</u>	<u>\$ 164,235</u>	<u>\$ 408,513</u>

**CITY OF SOMERVILLE, TEXAS**  
**Notes to Basic Financial Statements**  
**September 30, 2023**

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

**6. Capital Assets**

Capital asset activity for the year ended September 30, 2023, was as follows:

	Beginning Balance	Additions/ Completions	Retirements/ Adjustments	Ending Balance
<u>Governmental activities</u>				
Capital assets not being depreciated				
Land	\$ 195,662	\$ 154,803	\$ -	\$ 350,465
Construction in progress	1,042,262	46,750	(1,042,262)	46,750
Total capital assets not being depreciated	<u>1,237,924</u>	<u>201,553</u>	<u>(1,042,262)</u>	<u>397,215</u>
Capital assets being depreciated				
Buildings and improvements	251,523	-	-	251,523
Streets and infrastructure	828,387	1,555,288	-	2,383,675
Software	28,318	-	-	28,318
Machinery and equipment	1,184,359	-	-	1,184,359
Total at historical cost	<u>2,292,587</u>	<u>1,555,288</u>	<u>-</u>	<u>3,847,875</u>
Less: accumulated depreciation for:				
Buildings and improvements	92,041	10,266	-	102,307
Streets and infrastructure	67,412	59,202	-	126,614
Software	18,181	1,076	-	19,257
Machinery and equipment	926,912	50,084	-	976,996
Total accumulated depreciation	<u>1,104,546</u>	<u>120,628</u>	<u>-</u>	<u>1,225,174</u>
Total capital assets being depreciated, net	<u>1,188,041</u>	<u>1,434,660</u>	<u>-</u>	<u>2,622,701</u>
Governmental activities capital assets, net	<u>\$ 2,425,965</u>	<u>\$ 1,636,213</u>	<u>\$ (1,042,262)</u>	<u>\$ 3,019,916</u>
<u>Business-type activities</u>				
Capital assets not being depreciated				
Construction in progress	\$ 895,930	\$ 41,174	\$ (895,930)	\$ 41,174
Total capital assets not being depreciated	<u>895,930</u>	<u>41,174</u>	<u>(895,930)</u>	<u>41,174</u>
Capital assets being depreciated				
Buildings and improvements	17,298	-	-	17,298
Machinery and equipment	837,170	29,787	(5,687)	861,270
Water and wastewater distribution	8,529,744	1,003,686	(27,070)	9,506,360
Total at historical cost	<u>9,384,212</u>	<u>1,033,473</u>	<u>(32,757)</u>	<u>10,384,928</u>
Less: accumulated depreciation for:				
Buildings and improvements	18,133	-	-	18,133
Machinery and equipment	437,569	35,815	(2,464)	470,920
Water and wastewater distribution	4,320,372	212,510	(13,535)	4,519,347
Total accumulated depreciation	<u>4,776,074</u>	<u>248,325</u>	<u>(15,999)</u>	<u>5,008,400</u>
Total capital assets being depreciated, net	<u>4,608,138</u>	<u>785,148</u>	<u>(16,758)</u>	<u>5,376,528</u>
Business-type activities capital assets, net	<u>\$ 5,504,068</u>	<u>\$ 826,322</u>	<u>\$ (912,688)</u>	<u>\$ 5,417,702</u>

**CITY OF SOMERVILLE, TEXAS**  
**Notes to Basic Financial Statements**  
**September 30, 2023**

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

General government	\$ 3,747
Public safety	38,319
Culture and recreation	4,500
Public works	11,020
Highway and streets	63,042
	<u>\$ 120,628</u>

**7. Risk Management**

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

**8. Long-term Liabilities**

Long-term liabilities outstanding at September 30, 2023 are comprised of the following:

<u>Long-term debt</u>	<u>Governmental activities</u>	<u>Business-type activities</u>
\$947,000, 2014 Combination Tax and Revenue Certificates of Obligation due in annual installments of \$52,000 to \$78,000 through February 15, 2029; interest rates 0.80% to 3.50%	\$ 429,000	\$ -
\$1,500,000 General Obligation Bonds due in annual installments of \$55,000 to \$78,000 through February 2036; interest rate 1.74%	1,390,000	-
\$48,510 note payable dated November 9, 2018, payable in annual payments \$11,780, maturing November 9, 2023; interest rate 4.64%, secured by police car	10,594	-
\$82,912 note payable dated October 12, 2021, payable in annual payments of \$13,193, maturing October 20, 2028; interest rate 2.77%, secured by dump truck	24,005	48,011
\$124,800 note payable dated October 12, 2021, payable in annual payments of \$14,570, maturing October 20, 2031; interest rate 2.92%, secured by backhoe	37,957	75,916

**CITY OF SOMERVILLE, TEXAS**  
**Notes to Basic Financial Statements**  
**September 30, 2023**

	Governmental activities	Business-type activities
\$57,245 note payable dated October 21, 2021, payable in annual payments of \$15,511, maturing December 3, 2025; interest rate 3.30%, secured by police car	43,623	-
\$53,108 note payable dated February 8, 2022, payable in annual payments of \$14,419, maturing March 11, 2026; interest rate of 3.384%, secured by police car	40,486	-
<u>Other long-term liabilities:</u>		
Compensated absences for accrued vacation	23,281	4,459
Other long-term payable	6,456	3,089
	<u>\$ 2,005,402</u>	<u>\$ 131,475</u>

Annual debt service requirements to maturity for the outstanding debt, including interest of \$273,322 are as follows:

Fiscal Year Ending September 30	Governmental activities		Business-type activities		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2024	\$ 166,195	\$ 41,538	\$ 14,962	\$ 3,547	\$ 181,157	\$ 45,085
2025	158,720	37,113	15,388	3,121	174,108	40,234
2026	166,875	32,818	15,826	2,683	182,701	35,501
2027	140,138	28,290	16,276	2,233	156,414	30,523
2028	143,370	24,552	16,739	1,770	160,109	26,322
2029-2033	740,366	73,902	44,734	2,916	785,100	76,818
2034-2036	460,000	12,093	-	-	460,000	12,093
Total	<u>\$ 1,975,665</u>	<u>\$ 250,305</u>	<u>\$ 123,926</u>	<u>\$ 16,270</u>	<u>\$ 2,099,591</u>	<u>\$ 266,575</u>

**Changes in Long-term Liabilities**

Long-term liability activity for the year ended September 30, 2023, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental activities</b>					
Long-term debt					
Notes payable	\$ 200,323	\$ -	\$ 43,658	\$ 156,665	\$ 45,195
Certificates of Obligation	493,000	-	64,000	429,000	66,000
General Obligation Bonds	1,445,000	-	55,000	1,390,000	55,000
Other long-term liabilities:					
Compensated absences	30,145	-	6,864	23,281	-
Other long-term payable	3,089	4,760	1,393	6,456	3,228
Governmental activities long-term liabilities	<u>\$ 2,171,557</u>	<u>\$ 4,760</u>	<u>\$ 170,915</u>	<u>\$ 2,005,402</u>	<u>\$ 169,423</u>
<b>Business-type activities</b>					
Notes payable	\$ 138,475	\$ -	\$ 14,549	\$ 123,926	\$ 14,962
Compensated absences	4,459	-	-	4,459	-
Business-type activities long-term liabilities	<u>\$ 142,934</u>	<u>\$ -</u>	<u>\$ 14,549</u>	<u>\$ 128,385</u>	<u>\$ 14,962</u>

**CITY OF SOMERVILLE, TEXAS**  
**Notes to Basic Financial Statements**  
**September 30, 2023**

**9. Leases**

*Lessee*

The City recognizes a lease liability and an intangible right-to-use lease asset (lease asset) in the government-wide funds financial statements. Key estimates and judgments related to leases include how the City determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term and (3) lease payments.

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

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

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

The future principal and interest payments as of September 30, 2023 were as follows:

Governmental Activities			
Fiscal Year	Principal Payments	Interest Payments	Total Payments
2024	\$ 32,428	\$ 1,139	\$ 33,567
2025	9,995	122	10,117
	<u>\$ 42,423</u>	<u>\$ 1,261</u>	<u>\$ 43,684</u>

Business-Type Activities			
Fiscal Year	Principal Payments	Interest Payments	Total Payments
2024	\$ 10,737	\$ 263	\$ 11,000
2025	3,646	85	3,731
	<u>\$ 14,383</u>	<u>\$ 348</u>	<u>\$ 14,731</u>

**CITY OF SOMERVILLE, TEXAS**  
**Notes to Basic Financial Statements**  
**September 30, 2023**

Right to use assets are amortized on a straight-line basis over the terms of the related leases. Right to use asset balances as of September 30, 2023 were as follows:

Governmental Activities			
Asset Class	Lease Asset Value	Accumulated Amortization	Lease Asset, Net of Amortization
Equipment	\$ 21,784	\$ 11,151	\$ 10,633
Buildings	83,337	48,326	35,011
	<u>\$ 105,121</u>	<u>\$ 59,477</u>	<u>\$ 45,644</u>

  

Business-Type Activities			
Asset Class	Lease Asset Value	Accumulated Amortization	Lease Asset, Net of Amortization
Buildings	\$ 32,548	\$ 18,082	\$ 14,466
	<u>\$ 32,548</u>	<u>\$ 18,082</u>	<u>\$ 14,466</u>

*Lessor*

The City recognizes a lease receivable and deferred inflow of resources in the government-wide and fund financial statements. At the commencement of leases, the City initially measured the lease receivable at the present value of payments expected to be received during the lease term. Subsequently, the lease receivable is reduced by the principal portion of lease payments received. The deferred inflow of resources is initially measured as the initial amount of the lease receivable, adjusted for lease payments received at or before the lease commencement date. Subsequently, the deferred inflow of resources is recognized as revenue over the life of the lease term. Key estimates and judgments include how the City determines (1) the discount rate it uses to discount the expected lease receipts to present value, (2) lease term and (3) lease receipts. The City uses an estimated borrowing rate as the discount rate. The lease term includes the non-cancellable period of the lease and options to extend the lease if they are reasonably certain to be exercised. Lease receipts included in the measurement of the lease receivable is composed of fixed payments from the lessee.

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

**CITY OF SOMERVILLE, TEXAS**  
**Notes to Basic Financial Statements**  
**September 30, 2023**

During the year, the City leased land for four years. The City recognized \$2,000 in lease and interest revenue during the current fiscal year. As of September 30, 2023, the City's receivable for lease payments was \$42,695. Also, the City has a deferred inflow of resources associated with these leases that will be recognized as revenue over the lease term. As of September 30, 2023, the balance of the deferred inflow of resources was \$42,695.

The future amounts to be received under the lease agreements as of September 30, 2023 were as follows:

Fiscal year	Governmental Activities		
	Principal Payments	Interest Payments	Total Payments
2024	\$ 10,537	\$ 1,463	\$ 12,000
2025	10,951	1,049	12,000
2026	11,381	619	12,000
2027	9,826	174	10,000
	<u>\$ 42,695</u>	<u>\$ 3,305</u>	<u>\$ 46,000</u>

#### **10. Interfund Transfers**

Interfund transfers during the year ended September 30, 2023, were as follows:

Transfers In	Transfers Out			
	General	Proprietary	Capital Projects	Non-major Special Revenue
General	\$ -	\$ 44,923	\$ -	\$ 4,200
Capital Projects	506,250	-	-	-
Proprietary	-	-	81,669	-
Total	<u>\$ 506,250</u>	<u>\$ 44,923</u>	<u>\$ 81,669</u>	<u>\$ 4,200</u>

#### **11. Pension Plans**

##### **A. Plan Description**

The City participates as one of 901 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under 401(a) of the Internal Revenue Code. TMRS issues a publicly available annual



**CITY OF SOMERVILLE, TEXAS**  
**Notes to Basic Financial Statements**  
**September 30, 2023**

comprehensive financial report (ACFR) that can be obtained at [www.tmr.com](http://www.tmr.com). All eligible employees of the city are required to participate in TMRS.

**B. Benefits Provided**

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

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the city-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven 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	
	2021	2022
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, 2022 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	16
Inactive employees entitled to but not yet receiving benefits	29
Active employees	13

**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

**CITY OF SOMERVILLE, TEXAS**  
**Notes to Basic Financial Statements**  
**September 30, 2023**

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 4.64% and 6.51% in calendar years 2022 and 2023, respectively. The city's contributions to TMRS for the year ended September 30, 2023, were \$38,874.

**D. Net Pension Liability/Asset**

The City's Net Pension Liability/Asset (NPL/NPA) was measured as of December 31, 2022, 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, 2022 actuarial valuation was determined using the following actuarial assumptions:

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

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table, with male rates multiplied by 109% and female rates multiplied by 103%.

For cities with fewer than twenty employees, more conservative methods and assumptions are used. First, lower termination rates are used for smaller cities, with maximum multipliers of 75% for employers with less than 6 members, 85% for employers with 6 to 10 members, and 100% for employers with 11 to 15 members and 110% for employers with less than 100 members.

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

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

**CITY OF SOMERVILLE, TEXAS**  
**Notes to Basic Financial Statements**  
**September 30, 2023**

31, 2019 valuation. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimates of real rates of return for each major asset class in fiscal year 2019 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Global Equity	35.0%	7.55%
Core Fixed Income	6.0%	2.00%
Non-Core Fixed Income	20.0%	5.68%
Other Public and Private Markets	12.0%	7.22%
Real Estate	12.0%	6.85%
Hedge Funds	5.0%	5.35%
Private Equity	10.0%	10.00%
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

**CITY OF SOMERVILLE, TEXAS**  
**Notes to Basic Financial Statements**  
**September 30, 2023**

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.

<i>Changes in the Net Pension Liability</i>	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability/(Asset)
	(a)	(b)	(a) - (b)
Balance at 12/31/2021	\$ 1,407,546	\$ 1,715,624	\$ (308,078)
Changes for the year:			
Service Cost	76,223	-	76,223
Interest	101,560	-	101,560
Change of benefit terms	90,610	-	90,610
Difference between expected and actual experience	13,486	-	13,486
Changes of assumptions	-	-	-
Contributions - employer	-	29,448	(29,448)
Contributions - employee	-	31,733	(31,733)
Net investment income	-	(125,127)	125,127
Benefit payments, including refunds of employee contributions	(63,355)	(63,355)	-
Administrative expense	-	(1,084)	1,084
Other charges	-	1,293	(1,293)
Net changes	218,524	(127,091)	345,615
Balance at 12/31/2022	\$ 1,626,070	\$ 1,588,533	\$ 37,537

*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)	\$ 244,075	\$ 37,537	\$ (133,319)

*Pension Plan Fiduciary Net Position*

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

**CITY OF SOMERVILLE, TEXAS**  
**Notes to Basic Financial Statements**  
**September 30, 2023**

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

For the year ended September 30, 2023, the City recognized pension expense of \$141,410.

At September 30, 2023, 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	\$ 6,640	\$ 1,401
Difference between projected and actual investment earnings	110,038	-
Contributions subsequent to the measurement date	30,757	-
Total	<u>\$ 147,435</u>	<u>\$ 1,401</u>

Contributions of \$30,757 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, 2024. 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:	
2023	\$ 11,020
2024	26,861
2025	29,211
2026	48,184
Total	<u>\$ 115,276</u>

**12. Other Post-Employment Benefits**

**A. Plan Description**

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the Texas Municipal Retirement System ("TMRS") known as the Supplemental Death Benefits Fund ("SDBF"). The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

**CITY OF SOMERVILLE, TEXAS**  
**Notes to Basic Financial Statements**  
**September 30, 2023**

**B. Benefits Provided**

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

Employees covered by benefit terms.

At October 1, 2021, the effective date of the most recent OPEB valuation, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	12
Inactive employees entitled to but not yet receiving benefits	2
Active employees	13
	<hr/>
	27

Contributions and Actuarial Information

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

The total supplemental death benefit ("SDB") contribution rates were 0.42% for calendar years 2022 and 2023. The City's contributions for the year ended September 30, 2023 were \$3,883 and were equal to the required contributions.

Total OPEB Liability. The City's total OPEB liability of \$63,829 was measured as of December 31, 2022, and was determined by an actuarial valuation as of December 31, 2022.

Actuarial Assumptions. The total OPEB in the December 31, 2022 actuarial valuation was determined using the following actuarial assumptions as of the December 31, 2022 measurement date:

Inflation	2.5% per year
Salary Increases	3.5% to 11.5% including inflation
Discount Rate	4.05%

Salary increases were based on a service-related table. Mortality rates for service retirees are based on the 2019 Municipal Retirees of Texas Mortality Tables. Mortality rates for healthy retirees and beneficiaries are based on the Gender-distinct 2019 Municipal Retirees of Texas mortality tables. The rates are projected on a fully

**CITY OF SOMERVILLE, TEXAS**  
**Notes to Basic Financial Statements**  
**September 30, 2023**

generational basis by Scale UMP to account for future mortality improvements. For disabled annuitants, the same mortality tables for healthy retirees is used with a 4-year set forward for males and a 3-year set-forward for females. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.

Actuarial assumptions used in the December 31, 2022 valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2014 through December 31, 2018.

Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at 12/31/2021	\$ 88,755
Changes for the year:	
Service Cost	3,046
Interest	1,644
Change of benefit terms	-
Difference between expected and actual experience	(639)
Changes of assumptions	(27,073)
Benefit payments, including refunds of employee contributions	(1,904)
Net changes	(24,926)
Balance at 12/31/2022	<u>\$ 63,829</u>

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

The following presents the total OPEB liability of the City, calculated using the discount rate of 4.05%, as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (3.05%) or 1 percentage point higher (5.05%) than the current rate.

	1% Decrease in Discount Rate (3.05%)	Discount Rate (4.05%)	1% Increase in Discount Rate (5.05%)
City's total OPEB liability	\$ 74,513	\$ 63,829	\$ 55,176

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

For the year ended September 30, 2023, the City recognized OPEB expense of \$162. At September 30, 2023, the City reported deferred outflows and inflows of resources related to OPEB from the following sources:

**CITY OF SOMERVILLE, TEXAS**  
**Notes to Basic Financial Statements**  
**September 30, 2023**

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 6,192
Changes in actuarial assumptions	1,615	19,814
Contributions subsequent to the measurement date	1,984	-
Total	<u>\$ 3,599</u>	<u>\$ 26,006</u>

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

Year ended December 31:	
2023	\$ (10,090)
2024	(8,882)
2025	(5,419)
	<u>\$ (24,391)</u>

### **13. Contingent Liabilities**

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

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

### **14. Related Party Transactions**

In 2023, the City paid \$13,031 to a Council member's business.

### **15. Net Investment in Capital Assets**

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

### **16. Deficit Fund Balance**

A deficit unassigned fund balance of \$3,638 and \$8,866 exists in the Senior Citizens Center and Court Technology special revenue funds, respectively.



**CITY OF SOMERVILLE, TEXAS**  
**Notes to Basic Financial Statements**  
**September 30, 2023**

**17. Commitments**

In September 2023, the City entered into a construction agreement with Solid Bridge for \$247,520 for Street and Drainage improvements to begin in December 2024. The CDBG Community Development grant will cover the funds of the improvements.

**18. Subsequent Events**

Subsequent to year end, the City demolished the old City Hall for \$108,444 in preparation to build a new City Hall.

In November 2023, the City of entered into an agreement to finance the purchase of a vehicle for the police department for approximately \$69,000.

## REQUIRED SUPPLEMENTARY INFORMATION

**City of Somerville, Texas**  
**Texas Municipal Retirement System**

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

	2022	2021	2020	2019	2018	2017	2016	2015	2014
<b>Total pension liability</b>									
Service Cost	\$ 76,223	\$ 67,590	\$ 67,626	\$ 63,462	\$ 59,444	\$ 56,728	\$ 57,277	\$ 54,444	\$ 47,522
Interest (on the Total Pension Liability)	101,560	90,822	85,950	78,809	77,444	76,568	71,304	70,898	67,553
Changes of benefit terms	90,610	-	-	-	-	-	-	-	-
Difference between expected and actual experience	13,486	(32,575)	(23,831)	15,545	(66,500)	(59,289)	12,088	(14,413)	(7,897)
Change of assumptions	-	-	-	985	-	-	-	4,621	-
Benefit payments, including refunds of employee contributions	(63,355)	(60,021)	(55,077)	(55,095)	(49,259)	(75,506)	(49,310)	(97,571)	(28,153)
<b>Net Change in Total Pension Liability</b>	218,524	65,816	74,668	103,706	21,129	(1,499)	91,359	17,979	79,025
<b>Total Pension Liability - Beginning</b>	1,407,546	1,341,730	1,267,062	1,163,356	1,142,227	1,143,726	1,052,367	1,034,388	955,363
<b>Total Pension Liability - Ending (a)</b>	<u>\$ 1,626,070</u>	<u>\$ 1,407,546</u>	<u>\$ 1,341,730</u>	<u>\$ 1,267,062</u>	<u>\$ 1,163,356</u>	<u>\$ 1,142,227</u>	<u>\$ 1,143,726</u>	<u>\$ 1,052,367</u>	<u>\$ 1,034,388</u>
<b>Plan Fiduciary Net Position</b>									
Contributions - Employer	29,448	32,529	27,038	31,884	\$ 31,470	\$ 29,258	\$ 30,794	\$ 30,437	\$ 27,266
Contributions - Employee	31,733	32,464	31,809	30,599	27,752	27,091	28,513	26,793	25,200
Net Investment Income	(125,127)	197,106	106,583	187,153	(37,090)	153,187	69,377	1,574	56,476
Benefit payments, including refunds of employee contributions	(63,355)	(60,021)	(55,077)	(55,095)	(49,259)	(75,506)	(49,310)	(97,571)	(28,153)
Administrative expense	(1,084)	(914)	(690)	(1,058)	(717)	(794)	(784)	(959)	(590)
Other	1,293	6	(27)	(32)	(37)	(40)	(42)	(47)	(48)
<b>Net Change in Plan Fiduciary Net Position</b>	(127,091)	201,171	109,636	193,451	(27,882)	133,196	78,548	(39,773)	80,151
<b>Plan Fiduciary Net Position - Beginning</b>	1,715,624	1,514,453	1,404,817	1,211,366	1,239,248	1,106,052	1,027,504	1,067,277	987,126
<b>Plan Fiduciary Net Position - Ending (b)</b>	<u>1,588,533</u>	<u>1,715,624</u>	<u>1,514,453</u>	<u>1,404,817</u>	<u>\$ 1,211,366</u>	<u>\$ 1,239,248</u>	<u>\$ 1,106,052</u>	<u>\$ 1,027,504</u>	<u>\$ 1,067,277</u>
<b>Net Pension Liability (Asset) - Ending (a) - (b)</b>	<u>\$ 37,537</u>	<u>\$ (308,078)</u>	<u>\$ (172,723)</u>	<u>\$ (137,755)</u>	<u>\$ (48,010)</u>	<u>\$ (97,021)</u>	<u>\$ 37,674</u>	<u>\$ 24,863</u>	<u>\$ (32,889)</u>
<b>Plan Fiduciary Net Position as a Percentage of Total Pension Liability</b>	97.69%	121.89%	112.87%	110.87%	104.13%	108.49%	96.71%	97.64%	103.18%
<b>Covered Employee Payroll</b>	634,663	649,282	636,183	611,975	555,031	541,818	552,866	535,868	504,001
<b>Net Pension Liability (Asset) as a Percentage of Covered Employee Payroll</b>	5.91%	-47.45%	-27.15%	-22.51%	-8.65%	-17.91%	6.81%	4.64%	-6.53%

**Notes to Schedule:**

GASB 68 requires 10 fiscal years of data to be provided in this schedule. As GASB 68 has been initially adopted for the 2014 plan year, historical data is presented beginning that period.

**City of Somerville, Texas**  
**Texas Municipal Retirement System**

Schedule of Contributions  
Last 10 Fiscal Years  
(unaudited)

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Actuarially Determined Contribution Contributions in relation to the actuarially determined contributions	\$ 38,971	\$ 29,448	\$ 32,529	\$ 27,038	\$ 31,884	\$ 31,470	\$ 29,258	\$ 30,794	\$ 30,437	\$ 28,319
	38,874	29,024	32,710	31,519	30,599	32,052	30,938	31,322	32,152	27,266
Contribution deficiency (excess)	\$ 97	\$ 424	\$ (181)	\$ (4,481)	\$ 1,285	\$ (582)	\$ (1,680)	\$ (528)	\$ (1,715)	\$ 1,053
Covered employee payroll	\$ 649,491	\$ 634,663	\$ 649,282	\$ 636,183	\$ 611,975	\$ 555,031	\$ 541,818	\$ 552,866	\$ 535,868	\$ 504,001
Contributions as a percentage of covered employee payroll	5.99%	4.57%	5.04%	4.95%	5.00%	5.77%	5.71%	5.67%	6.00%	5.41%

**Notes to Schedule of Contributions**

**Valuation Date:**

Notes

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

**Methods and Assumptions Used to Determine Contribution Rates:**

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	N/A
Asset Valuation Method	10 year smoothed market; 12% soft corridor
Inflation	2.50%
Salary Increases	3.5% to 11.5% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2019 valuation pursuant to an experience study of the period 2014-2018

Mortality

Post retirement; 2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP.  
Pre-retirement: PUB(10) mortality tables, with the Public Safety table used for males and the General Employee table used for females. The rates are projected on a fully generational basis with scale UMP.

**Other Information:**

Notes

The City changed the matching ratio from 1.5:1 to 2:1 effective January 1, 2023.  
Adopted restricted prior service credit.  
Increased statutory max to 11.50% due to plan changes.

**City of Somerville, Texas**  
**Required Supplementary Information**

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

	2022	2021	2020	2019	2018	2017
<b>Total OPEB Liability</b>						
Service Cost	\$ 3,046	\$ 3,961	\$ 4,262	\$ 3,366	\$ 5,162	\$ 4,605
Interest (on total OPEB liability)	1,644	1,935	2,254	2,398	1,954	1,854
Changes of benefit terms	-	-	-	-	-	-
Difference between expected and actual experience	(639)	(13,357)	(1,752)	(1,135)	4,066	-
Change of assumptions	(27,073)	2,435	11,604	13,037	(4,052)	3,738
Benefit payments	(1,904)	(2,013)	(827)	(734)	(500)	(488)
<b>Net Change in Total OPEB Liability</b>	<b>(24,926)</b>	<b>(7,039)</b>	<b>15,541</b>	<b>16,932</b>	<b>6,630</b>	<b>9,709</b>
<b>Total OPEB Liability - Beginning</b>	<b>88,755</b>	<b>95,794</b>	<b>80,253</b>	<b>63,321</b>	<b>56,691</b>	<b>46,982</b>
<b>Total OPEB Liability - Ending</b>	<b>\$ 63,829</b>	<b>\$ 88,755</b>	<b>\$ 95,794</b>	<b>\$ 80,253</b>	<b>\$ 63,321</b>	<b>\$ 56,691</b>

**Related Ratios**

Covered Employee Payroll	634,663	649,282	636,183	611,975	555,031	541,818
Total OPEB Liability as a Percentage of Covered Employee Payroll	10.06%	13.67%	15.06%	13.11%	11.41%	10.46%

**Notes to the Schedule of Changes in OPEB Liability**

Assumptions Used to Determine Contribution Rates

Inflation	2.50%
Salary Increases	3.50% to 11.50% including inflation
Discount Rate	4.05%
Mortality Rates- Service Retirees	2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP.
Mortality Rates - Disabled Retirees	2019 Municipal Retirees of Texas Mortality Tables with a 4 year set forward for males and a 3 year set-forward for females. In addition, a 3.5% and 4% minimum mortality rate will be applied to reflect the impairment for younger members who become disabled for males and females, respectively. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.

Other information

Notes

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

Presentation of Schedule

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

## OTHER SUPPLEMENTARY INFORMATION

City of Somerville, Texas  
Combining Balance Sheet  
Non-major Governmental Funds  
September 30, 2023

		Special Revenue						Total
		Senior Citizens Center	Hotel/ Motel	Court Technology	Court Security	Senior Citizens Activity	Somerville Parks Association	Non-major Governmental Funds
<b>Assets</b>								
Cash, restricted	\$	4,215	\$ 2,368	\$ -	\$ 48,409	\$ 1	\$ 354	\$ 55,347
Other assets		-	7,022	-	-	-	-	7,022
Due from other funds		-	-	-	15,767	-	-	15,767
Total assets	\$	4,215	\$ 9,390	\$ -	\$ 64,176	\$ 1	\$ 354	\$ 78,136
<b>Liabilities and fund balances</b>								
Liabilities:								
Accounts payable	\$	952	\$ -	\$ -	\$ -	\$ -	-	\$ 952
Accrued liabilities		-	62	-	-	-	-	62
Due to other funds		6,901	5,376	8,866	-	-	-	21,143
Total liabilities		7,853	5,438	8,866	-	-	-	22,157
Fund balances:								
Restricted for:								
Hotel/Motel		-	3,952	-	-	-	-	3,952
Municipal court		-	-	-	64,176	-	-	64,176
Somerville Parks Association		-	-	-	-	-	354	354
Unassigned (deficit)		(3,638)	-	(8,866)	-	1	-	(12,503)
Total fund balances		(3,638)	3,952	(8,866)	64,176	1	354	55,979
Total liabilities and fund balances	\$	4,215	\$ 9,390	\$ -	\$ 64,176	\$ 1	\$ 354	\$ 78,136

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, 2023

	Special Revenue							Total Non-major Governmental Funds
	Senior Citizens Center	Hotel/ Motel	Court Technology	Court Security	Senior Citizens Activity	Somerville Parks Association		
Revenues:								
Hotel/motel occupancy taxes	\$ -	\$ 24,099	\$ -	\$ -	\$ -	\$ -	\$	24,099
Fines and court costs	-	-	1,208	1,406	-	-	-	2,614
Investment income	-	4	-	90	-	-	-	94
Grant revenue	7,000	-	-	-	-	-	-	7,000
Donations	6,274	-	-	-	-	-	-	6,274
Total revenues	13,274	24,103	1,208	1,496	-	-	-	40,081
Expenditures:								
Current:								
Culture and recreation	11,112	17,974	-	-	-	-	-	29,086
General government	-	-	2,009	-	-	-	-	2,009
Total expenditures	11,112	17,974	2,009	-	-	-	-	31,095
Excess (deficiency) of revenues over (under) expenditures	2,162	6,129	(801)	1,496	-	-	-	8,986
Other financing sources (uses):								
Transfers out	(4,200)	-	-	-	-	-	-	(4,200)
Total other financing sources (uses)	(4,200)	-	-	-	-	-	-	(4,200)
Net change in fund balances	(2,038)	6,129	(801)	1,496	-	-	-	4,786
Fund balances (deficit) at beginning of year	(1,600)	(2,177)	(8,065)	62,680	1	354		51,193
Fund balances (deficit) at end of year	\$ (3,638)	\$ 3,952	\$ (8,866)	\$ 64,176	\$ 1	\$ 354	\$	55,979