

**TOWN OF SOMERVILLE,
TENNESSEE**

ANNUAL FINANCIAL REPORT

JUNE 30, 2015

TOWN OF SOMERVILLE, TENNESSEE

ANNUAL FINANCIAL REPORT

YEAR ENDED JUNE 30, 2015

TABLE OF CONTENTS

INTRODUCTORY SECTION	Page
Roster of Publicly Elected and Management Officials	1
FINANCIAL SECTION	
Independent Auditor's Report.	2 – 3
Management's Discussion and Analysis (unaudited)	4 – 8
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position	9
Statement of Activities	10
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	11
Reconciliation of the Governmental Funds Balance Sheet to Statement of Net Position	12
Statement of Revenues, Expenditures, and Changes in Fund Balances	13
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	14
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund	15 – 19
Proprietary Funds:	
Statement of Net Position	20
Statement of Revenues, Expenses, and Changes in Net Position	21
Statement of Cash Flows	22
Notes to Basic Financial Statements	23 – 41
Required Supplementary Information:	
Schedule of Changes in Net Pension Liability (Asset) and Related Ratios Based on Participation in the Public Employee Pension Plan of TCRS	42
Schedule of Contributions Based on Participation in the Public Employee Pension Plan of TCRS	43
Notes to Required Supplementary Information	44

Other Supplemental Information

Combining and Individual Fund Financial Statements and Schedules:

Non-Major Governmental Funds:

Combining Balance Sheet	45
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	46

Schedules of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual:

State Street Aid	47
Drug Fund	48

AWWA WLCC Free Water Audit Software: Reporting Worksheet – “Unaudited”	49
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AWWA Free Water Audit Software: System Attributes and Performance Indicators	50
--	----

Schedule of Changes in Property Taxes Receivable	51
--	----

Schedule of Long-Term Debt Requirements

- General Long-Term Debt	52
- Water Fund	53
- Sewer Fund	54
- Natural Gas Fund	55

Schedule of Utility Rates in Force	56
--	----

Schedule of Expenditures of Federal Awards and State Financial Assistance	57
---	----

INTERNAL CONTROL AND COMPLIANCE SECTION

Independent Auditor’s Report on Internal Control over Financial Reporting And On Compliance and Other Matters Based On an Audit of Financial Statements Performed In Accordance with <i>Government Auditing Standards</i>	58 – 59
---	---------

Independent Auditor’s Report on Compliance for Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133	60 – 61
---	---------

Schedule of Prior Audit Findings	62
--	----

Schedule of Findings and Questioned Costs	63 – 64
---	---------

Corrective Action Plan	65
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**TOWN OF SOMERVILLE, TENNESSEE
ROSTER OF PUBLICLY ELECTED AND MANAGEMENT OFFICIALS
JUNE 30, 2015**

Elected Officials

Vacant	Mayor
Ronnie Neill	Vice Mayor
Mike French	Aldersperson
John David Douglas	Aldersperson
Jason Hamilton	Aldersperson
Sandra Meyers	Aldersperson
Judy Accardi	Aldersperson

Management Officials

Robert Turner	City Administrator
Amanda McClain	CMFOA Designee
Kel Blanton	Fire Chief
Ricky Hoskins	Police Chief
Bobby Nutt	Public Works Director

Counsel

Thomas Minor	Somerville, Tennessee
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Independent Auditor's Report

Board of Mayor and Aldermen
Somerville, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Somerville, Tennessee (the Town), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town as of June 30, 2015, 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.

Emphasis of Matter

As described in Note IV.D., the Town has adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement 27*. The Town also adopted the provisions of Governmental Accounting Standards Board (GASB) Statement 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement 68*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of changes in net pension liability (asset) and related ratios based on participation in the public employee pension plan of TCRS, and schedule of contributions based on participation in the public employee pension plan of TCRS on pages 4 through 8 and 42 through 43 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and schedules, and other supplemental information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards and state financial assistance is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and schedules, other supplemental information, and schedule of expenditures of federal awards and state financial assistance are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information, except for that which has been marked "unaudited", 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 combining and individual nonmajor fund financial statements and schedules, other supplemental information, except for that which has been marked "unaudited", and the schedule of expenditures of federal awards and state financial assistance are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section, the AWWA Free Water Audit Software: Reporting Worksheet, and the AWWA Free Water Audit Software: System Attributes and Performance Indicators – "unaudited" have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated December 9, 2015, on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 the Town's internal control over financial reporting and compliance.



John J. Schmitt, PLLC

December 9, 2015

**TOWN OF SOMERVILLE, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2015**

Our discussion and analysis of the Town of Somerville, Tennessee, will offer readers of the Town's financial statements a narrative overview and review of the financial activities of the Town for the fiscal year ended June 30, 2015. Readers are encouraged to consider the information presented here in conjunction with the Town's financial statements.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities (on pages 9 and 10) provide information about the activities of the Town as a whole and present a longer-term view of the Town's finances. Fund financial statements start on page 11. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the Town's operations in more detail than the government-wide statements by providing information about the Town's most significant funds.

Reporting the Town as a Whole

The Statement of Net Position and the Statement of Activities

Our analysis of the Town as a whole begins on page 9. The following is one of the most important questions asked about the Town's finances, "Is the Town as a whole better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the Town as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The *statement of net position* presents financial information on all of the Town's assets, liabilities, deferred inflows/outflows of resources, with the difference reported as net position. Over time, increases and decreases in net position may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

The *statement of activities* presents information showing how the Town's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported for some items that will only result in cash flows of future fiscal periods.

In the Statement of Net Position and the Statement of Activities, we divide the Town into two kinds of activities:

- Governmental activities – Most of the Town's basic services are reported here, including the general government; public safety; public works; health, welfare, and recreation; capital projects; and debt service. Property taxes, local sales taxes, and state shared revenue finance most of these activities.
- Business-type activities – The Town charges a fee to customers to help cover all or most of the cost of certain services it provides. The Town's gas, water, sewer, and solid waste operations are reported here.

Reporting the Town's Most Significant Funds

The fund financial statements begin on page 11 and provide detailed information about the most significant funds (not the Town as a whole). Some funds are required to be established by State law. The Town's two kinds of funds – governmental and proprietary – use different accounting approaches.

- *Governmental Funds* – Most of the Town's basic services are reported in governmental funds, which focuses 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 readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Town's general government 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 Town's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in a reconciliation at the bottom of the fund financial statements.
- *Proprietary Funds*
 - *Enterprise Funds* – When the Town charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. In fact, the Town's enterprise funds (a component of proprietary funds) are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows.
 - *Internal Service Funds* – An accounting device used to accumulate and allocate costs internally among a government's various functions. The Town currently has one internal service fund.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 23 - 41.

Other Information – In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Town's progress in funding its obligations to provide pension benefits to its employees. Required supplementary information can be found starting on page 42 of this report.

The combining statements referred to earlier in connection with non-major governmental funds are presented following the required supplementary information on pensions. Combining and individual statements and schedules can be found on pages 45 - 48 of this report.

THE TOWN AS A WHOLE

For the year ended June 30, 2015, net position changed as follows:

TOWN OF SOMERVILLE'S NET POSTION

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Current and other assets	\$ 1,964,456	\$ 1,575,196	\$ 10,704,180	\$ 12,193,160	\$ 12,668,636	\$ 13,768,356
Capital Assets	1,639,823	1,773,876	18,280,937	15,690,295	19,920,760	17,464,171
Total Assets	<u>3,604,279</u>	<u>3,349,072</u>	<u>28,985,117</u>	<u>27,883,455</u>	<u>32,589,396</u>	<u>31,232,527</u>
Total Deferred outflows of resources	<u>67,036</u>	<u>-</u>	<u>73,620</u>	<u>-</u>	<u>140,656</u>	<u>-</u>
Long term liabilities	558,567	585,449	4,930,031	5,093,207	5,488,598	5,678,656
Other liabilities	59,037	58,879	862,370	1,273,995	921,407	1,332,874
Total liabilities	<u>617,604</u>	<u>644,328</u>	<u>5,792,401</u>	<u>6,367,202</u>	<u>6,410,005</u>	<u>7,011,530</u>
Total deferred inflows of resources	<u>614,278</u>	<u>413,724</u>	<u>214,533</u>	<u>-</u>	<u>828,811</u>	<u>413,724</u>
Net Position						
Net investments in capital assets	1,081,256	1,188,427	13,426,662	10,666,270	14,507,918	11,854,697
Restricted	189,370	61,842	172,193	-	361,563	61,842
Unrestricted	1,168,807	1,040,751	9,452,948	10,849,983	10,621,755	11,890,734
Total Net Position	<u>\$ 2,439,433</u>	<u>\$ 2,291,020</u>	<u>\$ 23,051,803</u>	<u>\$ 21,516,253</u>	<u>\$ 25,491,236</u>	<u>\$ 23,807,273</u>

During the current fiscal year, the Town's total net position increased by \$1,861,170 compared to the prior year increase of \$2,078,594.

Governmental Activities

To aid in the understanding of the Statement of Activities some additional explanation is given. Of particular interest is the format that is significantly different than a typical Statement of Revenues, Expenses, and Changes in Fund Balance. You will notice that expenses are listed in the first column with revenues from that particular program reported to the right. The result is a Net (Expense)/Revenue. The reason for this kind of format is to highlight the relative financial burden of each of the functions on the Town's taxpayers. It also identifies how much each function draws from the general revenues or if it is self-financing through fees and grants.

Business-type Activities

The changes in business-type activities net position are described below:

- There were no significant changes in the operations of the business-type activities other than the decrease in gas revenues and expenses that is primarily due to decreased volume of gas sales.

	Governmental Activities		Business-type Activities		Totals	
	2015	2014	2015	2014	2015	2014
Revenues:						
Program Revenues:						
Fees, fines and charges for services	\$ 287,027	\$ 275,224	\$ 6,963,849	\$ 7,928,328	\$ 7,250,876	\$ 8,203,552
Operating grants and contributions	96,999	97,059	-	-	96,999	97,059
Capital grants and contributions	2,613	196,266	783,789	468,419	786,402	664,685
General Revenues:						
Property taxes	492,399	498,444	-	-	492,399	498,444
Sales taxes	1,087,240	1,028,948	-	-	1,087,240	1,028,948
Public service taxes	19,631	19,342	-	-	19,631	19,342
Investment earnings	9,403	10,298	43,506	46,426	52,909	56,724
Gain on sale of assets	18,212	4,400	34,740	1,900	52,952	6,300
Insurance recoveries	6,350	7,061	4,966	-	11,316	7,061
Pension income	15,227	-	16,495	-	31,722	-
Miscellaneous	120,490	98,181	-	-	120,490	98,181
Transfers	53,621	60,038	-	-	53,621	60,038
Total Revenues	2,209,212	2,295,261	7,847,345	8,445,073	10,056,557	10,740,334
Expenses:						
General government	118,836	127,354	-	-	118,836	127,354
Public safety	1,223,296	1,296,750	-	-	1,223,296	1,296,750
Public works	501,344	371,209	-	-	501,344	371,209
Health, welfare and recreation	62,072	57,374	-	-	62,072	57,374
Interest on long-term debt	18,099	30,648	-	-	18,099	30,648
Water	-	-	640,548	716,911	640,548	716,911
Sewer	-	-	652,805	710,784	652,805	710,784
Natural Gas	-	-	4,427,952	4,849,108	4,427,952	4,849,108
Solid Waste	-	-	496,507	441,564	496,507	441,564
Internal service	-	-	307	-	307	-
Transfers out	-	-	53,621	60,038	53,621	60,038
Total Expenses	1,923,647	1,883,335	6,271,740	6,778,405	8,195,387	8,661,740
Increase (decrease) in net position	285,565	411,926	1,575,605	1,666,668	1,861,170	2,078,594
Net position-beginning, as originally stated	2,291,020	1,879,094	21,516,253	19,849,585	23,807,273	21,728,679
Restatement - GASB No. 68	(36,972)	-	(40,055)	-	(77,027)	-
Prior period adjustments	(100,180)	-	-	-	(100,180)	-
Net position-beginning, as restated	2,153,868	1,879,094	21,476,198	19,849,585	23,630,066	21,728,679
Net position at end of year	\$ 2,439,433	\$ 2,291,020	\$ 23,051,803	\$ 21,516,253	\$ 25,491,236	\$ 23,807,273

THE TOWN'S FUNDS

As the Town completed the year, its governmental funds (as presented in the balance sheet on page 11) reported a combined fund balance of \$1,276,003, a 23% increase from last year's total of \$1,037,531.

The following schedule presents a summary of general and, special revenue funds' revenues and expenditures for the fiscal year ended June 30, 2015, and the amount and percentage of increases and decreases in relation to the prior year.

Revenues	June 30, 2015	Percent of Total	Increase (Decrease)
			from June 30, 2014
Taxes	\$ 1,283,324	60.17%	\$ 109,665
Intergovernmental	426,251	19.99%	(238,402)
Licenses and permits	12,824	0.60%	6,317
Charges for services	64,433	3.02%	679
Fines and forfeitures	209,770	9.84%	4,807
Other revenues	136,243	6.39%	20,703
Total Revenues	\$ 2,132,845	100.00%	\$ (96,231)

The intergovernmental decrease is due to decreased grant revenues.

<u>Expenditures</u>	<u>June 30, 2015</u>	<u>Percent of Total</u>	<u>Increase (Decrease) from June 30, 2014</u>
General government	\$ 102,992	5.21%	\$ (6,933)
Public Safety	1,125,266	56.91%	(13,233)
Public Works	439,577	22.23%	137,089
Health, welfare, and recreation	40,336	2.04%	(5,218)
Capital outlay	224,099	11.33%	(145,034)
Debt Service	44,835	2.27%	(429,626)
Total Expenditures	\$ 1,977,105	100.00%	\$ (462,955)

The Town's general government capital outlay expenditures decreased significantly due to the purchase of a fire truck in the prior year. The debt service expenditures decreased due to the recording of a debt refunding in the prior year.

General Fund Budgetary Highlights

The Town did have various budget amendments during the fiscal year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of June 30, 2015, the Town had invested \$19,920,760 net of accumulated depreciation in a broad range of capital assets, including police and fire equipment; buildings; parks facilities; water and sewer lines; natural gas lines; and equipment. This amount represents a net increase (including additions and deductions) of \$2,456,589, or 14% above last year. Additional information on capital assets is on pages 32 - 33.

Debt

At year-end, the Town had \$5,488,598 in outstanding long-term debt compared to \$5,678,656 last year. Of the total outstanding debt 12% belongs to the Governmental funds, less than 1% to the Solid Waste Fund, 14% to the Gas Fund, 21% to the Water Fund, and 52% to the Sewer Fund. Additional information on debt is on pages 35 - 37.

CONTACTING THE TOWN'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Town's finances and to show the Town's accountability for the money it receives. If you have any questions about this report or need additional information, contact the Mayor at Town of Somerville, 13085 N. Main Street, Somerville, Tennessee 38065.

Robert Turner
City Manager

TOWN OF SOMERVILLE, TENNESSEE
GOVERNMENT-WIDE STATEMENT OF NET POSITION
JUNE 30, 2015

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 1,100,611	\$ 5,797,179	\$ 6,897,790
Investments	110,371	3,999,167	4,109,538
Receivables:			
Property taxes	471,793	-	471,793
Accounts receivable, net of allowance	6,828	258,321	265,149
Grant receivables	-	43,605	43,605
Other receivables	-	50	50
Interest receivables	230	12,086	12,316
Internal balances	(96,949)	96,949	-
Due from other governments	185,872	-	185,872
Inventory	-	287,132	287,132
Prepaid expenses	26,753	37,498	64,251
Capital assets:			
Land, improvements and construction in progress	93,833	1,646,479	1,740,312
Other capital assets, net of depreciation	1,545,990	16,634,458	18,180,448
Net pension asset	158,947	172,193	331,140
TOTAL ASSETS	3,604,279	28,985,117	32,589,396
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pensions	67,036	73,620	140,656
LIABILITIES			
Accounts payable and accrued expenses	58,235	317,585	375,820
Customer deposits	-	511,364	511,364
Unearned revenues - other	802	33,421	34,223
Long-term liabilities:			
Due within one year	27,358	173,927	201,285
Due in more than one year	531,209	4,756,104	5,287,313
TOTAL LIABILITIES	617,604	5,792,401	6,410,005
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenues - property taxes	416,246	-	416,246
Deferred inflows related to pensions	198,032	214,533	412,565
DEFERRED INFLOWS OF RESOURCES	614,278	214,533	828,811
NET POSITION			
Net investment in capital assets	1,081,256	13,426,662	14,507,918
Restricted for:			
Restricted for pensions	158,947	172,193	331,140
State Street Aid Fund	15,031	-	15,031
Police Drug Fund	15,392	-	15,392
Unrestricted	1,168,807	9,452,948	10,621,755
TOTAL NET POSITION	\$ 2,439,433	\$ 23,051,803	\$ 25,491,236

The accompanying notes are an integral part of these financial statements.

**TOWN OF SOMERVILLE, TENNESSEE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015**

Program Activities	Expenses	PROGRAM REVENUES			NET (EXPENSES) REVENUE AND CHANGES IN NET POSITION		
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
General Government	\$ 118,836	\$ 16,527	\$ -	\$ -	\$ (102,309)	\$ -	\$ (102,309)
Public Safety	1,223,296	235,410	9,000	2,613	(976,273)	-	(976,273)
Public Works	501,344	18,340	87,999	-	(395,005)	-	(395,005)
Health, Welfare and Recreation	62,072	16,750	-	-	(45,322)	-	(45,322)
Interest on long-term debt	18,099	-	-	-	(18,099)	-	(18,099)
Business-type activities:							
Water Fund	640,548	754,851	-	-	-	114,303	114,303
Sewer Fund	652,805	724,405	-	718,982	-	790,582	790,582
Natural Gas Fund	4,427,952	4,972,840	-	64,807	-	609,695	609,695
Solid Waste	496,507	511,753	-	-	-	15,246	15,246
Internal Service Fund	307	-	-	-	-	(307)	(307)
Total business-type activities	6,218,119	6,963,849	-	783,789	-	1,529,519	1,529,519
Total government	\$ 8,141,766	\$ 7,250,876	\$ 96,999	\$ 786,402	(1,537,008)	1,529,519	(7,489)

General revenues:

Taxes:			
Property	456,539	-	456,539
In-lieu of taxes	35,860	-	35,860
Sales	1,087,240	-	1,087,240
Public service taxes	19,631	-	19,631
Investment earnings	9,403	43,506	52,909
Gain (loss) on sale/retirement of capital assets	18,212	34,740	52,952
Insurance recoveries	6,350	4,966	11,316
Pension income	15,227	16,495	31,722
Miscellaneous	120,490	-	120,490
Transfer out - in lieu of taxes	53,621	(53,621)	-
Total general revenues and transfers	1,822,573	46,086	1,868,659
Change in net position	285,565	1,575,605	1,861,170
Net position- beginning, as originally stated	2,291,020	21,516,253	23,807,273
Restatement - GASB Statement No. 68 implementation	(36,972)	(40,055)	(77,027)
Prior period adjustment	(100,180)	-	(100,180)
Net position - beginning, as restated	2,153,868	21,476,198	23,730,246
Net position - ending	\$ 2,439,433	\$ 23,051,803	\$ 25,491,236

The accompanying notes are an integral part of these financial statements.

**TOWN OF SOMERVILLE, TENNESSEE
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2015**

	General	Other Nonmajor Governmental Funds	Total
ASSETS			
Cash and cash equivalents	\$ 1,079,799	\$ 20,812	\$ 1,100,611
Investments	110,371	-	110,371
Accounts receivable	6,828	-	6,828
Taxes receivable	471,793	-	471,793
Interest receivable	230	-	230
Receivables from other governments	169,853	16,019	185,872
Due from other funds	28,359	-	28,359
Prepaid expenses	26,753	-	26,753
	<u>1,893,986</u>	<u>36,831</u>	<u>1,930,817</u>
Total assets	<u>\$ 1,893,986</u>	<u>\$ 36,831</u>	<u>\$ 1,930,817</u>
LIABILITIES			
Accounts payable	\$ 24,595	\$ 5,606	\$ 30,201
Accrued expenses	26,710	-	26,710
Unearned revenue - other	-	802	802
Due to other funds	17,816	-	17,816
Advance from other funds	107,492	-	107,492
Total liabilities	<u>176,613</u>	<u>6,408</u>	<u>183,021</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenues - property taxes	471,793	-	471,793
FUND BALANCE			
<i>Nonspendable</i>			
Prepaid items	26,753	-	26,753
<i>Restricted</i>			
State street aid	-	15,031	15,031
Drug	-	15,392	15,392
<i>Unassigned</i>			
General fund	1,218,827	-	1,218,827
Total fund balance	<u>1,245,580</u>	<u>30,423</u>	<u>1,276,003</u>
Total liabilities, deferred inflows of resources, and fund balance	<u>\$ 1,893,986</u>	<u>\$ 36,831</u>	<u>\$ 1,930,817</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF SOMERVILLE, TENNESSEE
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO STATEMENT OF NET
POSITION
JUNE 30, 2015

Total fund balance - total governmental funds	\$	1,276,003
Amounts reported for governmental activities in the statement 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.		1,639,823
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		55,547
Net pension asset is not recorded on governmental fund balance sheet but is recorded for government-wide purposes.		158,947
Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be amortized and recognized as components of pension expense in future years.		(130,996)
Accrued interest is not reported in the governmental funds balance sheet but is recorded for government-wide purposes.		(1,324)
Long-term liabilities are not due and payable in the current period and, therefore, they are not reported in the governmental funds balance sheet.		<u>(558,567)</u>
Net position of governmental activities	\$	<u><u>2,439,433</u></u>

The accompanying notes are an integral part of these financial statements.

TOWN OF SOMERVILLE, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2015

	<u>General</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues			
Taxes	\$ 1,283,324	\$ -	\$ 1,283,324
Intergovernmental revenues	338,252	87,999	426,251
Licenses and permits	12,824	-	12,824
Charges for services	64,433	-	64,433
Fines, forfeits, and penalties	199,802	9,968	209,770
Other revenues	134,830	1,413	136,243
Total Revenues	<u>2,033,465</u>	<u>99,380</u>	<u>2,132,845</u>
Expenditures			
Current			
General government	102,992	-	102,992
Public safety	1,113,266	12,000	1,125,266
Public works	335,990	103,587	439,577
Health, welfare, and recreation	40,336	-	40,336
Capital outlay	224,099	-	224,099
Debt service	29,623	15,212	44,835
Total Expenditures	<u>1,846,306</u>	<u>130,799</u>	<u>1,977,105</u>
Excess (deficiency) of revenues over (under) expenditures	<u>187,159</u>	<u>(31,419)</u>	<u>155,740</u>
Other financing sources (uses)			
Transfers in	53,621	-	53,621
Gain on sale of assets	29,111	-	29,111
Total other financing sources (uses)	<u>82,732</u>	<u>-</u>	<u>82,732</u>
Net change in fund balance	269,891	(31,419)	238,472
FUND BALANCE - beginning of year	<u>975,689</u>	<u>61,842</u>	<u>1,037,531</u>
FUND BALANCE - end of year	<u>\$ 1,245,580</u>	<u>\$ 30,423</u>	<u>\$ 1,276,003</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF SOMERVILLE, TENNESSEE
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2015

Net change in fund balances - total governmental funds	\$	238,472
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlay as expenditures. However, in the government-wide statement of activities, the cost of those assets is allocated over their useful lives as depreciation expense. This is the amount recorded in the current period.		
		224,099
Loss from removal of fixed assets		(10,899)
Depreciation expense on capital assets is reported in the government-wide statement of activities, but does not require the use of current financial resources. Therefore, depreciation expense is not reported as an expenditure in governmental funds.		
		(247,074)
Effect of GASB 68 on retirement expense; reported on governmental funds but not on government-wide for 2014-2015 year		49,697
Principal paid on debt		26,692
Some revenues reported in the statement of activities do not require the use of current resources and, therefore, are not reported as revenues in the government funds		
		15,227
Some expenses reported in the statement of activities do not require the use of current resources and, therefore, are not reported as expenditures in the government funds		
		44
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
		<u>(10,693)</u>
Change in net position of governmental activities	\$	<u><u>285,565</u></u>

The accompanying notes are an integral part of these financial statements.

TOWN OF SOMERVILLE, TENNESSEE
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCE - BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2015

Revenues	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Taxes				
Property taxes - current	\$ 410,000	\$ 410,000	\$ 434,838	\$ 24,838
Property taxes - delinquent	41,250	41,250	32,394	(8,856)
Local option sales taxes	405,000	472,500	536,987	64,487
Local wholesale beer taxes	175,000	175,000	178,606	3,606
Local wholesale liquor taxes	50,000	50,000	56,930	6,930
Business taxes	20,000	20,000	23,938	3,938
Cable TV franchise taxes	14,000	14,000	19,631	5,631
Total taxes	1,115,250	1,182,750	1,283,324	100,574
Intergovernmental				
State of Tennessee				
- TVA replacement tax	34,000	34,000	35,860	1,860
- Sales tax allocation	215,000	215,000	234,329	19,329
- Income tax allocation	25,000	109,796	32,876	(76,920)
- Beer tax allocation	1,500	1,500	1,480	(20)
- Telecommunication tax	250	250	303	53
- Alcoholic beverage tax	1,000	1,000	1,110	110
- Corporate excise tax	12,500	12,500	20,681	8,181
State and Federal grants	3,000	3,000	-	(3,000)
Governor's highway safety grant	5,000	5,000	2,613	(2,387)
Police salary supplement	-	-	6,600	6,600
Fire salary supplement	-	-	2,400	2,400
Total intergovernmental revenues	297,250	382,046	338,252	(43,794)
Licenses and permits				
Beer permits	3,000	3,000	1,750	(1,250)
Liquor by the drink permits	1,200	1,200	700	(500)
Building permits	2,000	2,000	9,374	7,374
Sign permits	250	250	250	-
Site plan review	250	250	250	-
Zoning permits	250	250	500	250
Total licenses and permits	6,950	6,950	12,824	5,874
Charges for services				
Clerk fees	1,750	1,750	3,703	1,953
Special fire protection charges	25,000	25,000	25,000	-
Accident reports	500	500	615	115
Grave opening and closing fees	1,500	1,500	1,875	375
Street repairs	19,000	19,000	2,987	(16,013)
Mosquito abatement	13,706	13,706	13,478	(228)
Demolition fees	50	50	25	(25)
Arts and entertainment (theater)	10,000	10,000	16,750	6,750
Total charges for services	71,506	71,506	64,433	(7,073)
Fines, forfeits, and penalties				
City court fines	190,000	190,000	178,430	(11,570)
Sale of seized DUI vehicles	2,000	2,000	10,295	8,295
Court fines from County	5,000	5,000	11,077	6,077
Total fines, forfeits, and penalties	197,000	197,000	199,802	2,802

The accompanying notes are an integral part of these financial statements.

TOWN OF SOMERVILLE, TENNESSEE
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCE - BUDGET AND ACTUAL (continued)
YEAR ENDED JUNE 30, 2015

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues (continued)				
Other revenues				
Insurance recoveries	5,000	5,000	6,350	1,350
Sales of cemetery lots	3,000	3,000	9,550	6,550
Contributions	750	750	1,767	1,017
Donations FCHEC	-	21,000	30,800	9,800
Penalties and interest	9,500	9,500	9,390	(110)
Rent	-	76,737	76,736	(1)
Miscellaneous	-	-	237	237
Total other revenues	18,250	115,987	134,830	18,843
Total revenues	1,706,206	1,956,239	2,033,465	77,226
Expenditures				
General government				
Legislative				
Mayor and board members	10,296	10,296	8,895	1,401
Payroll taxes	788	788	704	84
Retirement	627	627	128	499
Election costs	-	-	290	(290)
Publications	300	300	-	300
Operating supplies	5,000	10,000	4,261	5,739
Legal services	5,000	5,000	1,554	3,446
Professional services	-	-	5,831	(5,831)
Capital outlay	-	56,000	59,725	(3,725)
Total legislative	22,011	83,011	81,388	1,623
Building department				
Salaries	677	677	681	(4)
Payroll taxes	52	52	47	5
Retirement	41	41	41	-
Workers compensation	75	75	-	75
Contract labor	1,000	1,000	2,180	(1,180)
Postage, box rental, etc...	150	150	48	102
Publication of notices	1,000	1,000	980	20
Memberships	200	200	606	(406)
Professional services	3,000	3,000	1,591	1,409
Legal services	1,500	1,500	956	544
Travel	-	-	38	(38)
Operating supplies	250	250	452	(202)
Total building department	7,945	7,945	7,620	325
General government buildings				
Utility services	5,000	10,000	8,605	1,395
Telephone services	-	6,000	5,050	950
Repairs and maintenance	200	7,000	988	6,012
Operating supplies	3,500	4,000	4,004	(4)
Insurance on buildings	1,120	1,600	1,164	436
Liability insurance	525	525	441	84
Capital outlay	-	60,000	63,426	(3,426)
Total general government buildings	10,345	89,125	83,678	5,447

The accompanying notes are an integral part of these financial statements.

TOWN OF SOMERVILLE, TENNESSEE
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCE - BUDGET AND ACTUAL (continued)
YEAR ENDED JUNE 30, 2015

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget Positive (Negative)
Expenditures (continued)				
General government (continued)				
City recorder				
Salaries	34,236	34,236	33,394	842
Salaries - overtime	250	250	221	29
Deferred compensation	-	-	-	-
OASI	2,638	2,638	2,366	272
Hospital and health	5,800	5,800	5,557	243
Retirement	2,100	2,100	1,960	140
Workers compensation	54	54	59	(5)
Unemployment	100	100	75	25
Postage and box rental	100	100	93	7
Publication of notices	100	100	81	19
Memberships, fees, tuition	1,000	1,000	602	398
Utility services	150	150	206	(56)
Telephone	200	200	78	122
Professional services	100	100	164	(64)
Legal services	150	150	159	(9)
Accounting and auditing	2,716	2,716	3,252	(536)
Collection expense - delinquent taxes	900	900	1,194	(294)
Other professional	211	211	86	125
Repair and maintenance services	-	-	37	(37)
Repair and maintenance - equipment	-	-	65	(65)
City hall improvements	2,460	2,460	-	2,460
Travel	250	250	194	56
Office supplies	-	-	-	-
Operating supplies	2,000	2,000	1,799	201
Clothing allowance	1,500	1,500	1,455	45
Insurance - commercial property	70	70	66	4
Liability insurance	386	386	294	92
Capital outlay	1,681	1,681	-	1,681
Total city recorder	59,152	59,152	53,457	5,695
Total general government	99,453	239,233	226,143	13,090
Public safety				
Police department				
Salaries	512,700	512,700	505,611	7,089
Salaries - overtime	5,000	5,000	3,391	1,609
Salaries - ghso grant	5,000	5,000	2,427	2,573
Court salaries - overtime	5,500	5,500	1,101	4,399
Payroll taxes	40,407	40,407	36,952	3,455
Hospital and health	70,000	70,000	69,188	812
Retirement	32,167	32,167	31,088	1,079
Workers compensation	21,200	21,200	20,636	564
Unemployment	100	100	75	25
Postage and box rental	400	400	300	100
Publication of notices	250	250	315	(65)
Memberships, fees, tuition	2,000	2,000	2,398	(398)
Utility services	5,500	5,500	5,253	247
Telephone	7,000	7,000	6,914	86
Professional service	1,500	1,500	1,120	380
Legal service	5,000	5,000	5,643	(643)
Accounting and auditing	1,398	1,398	1,603	(205)
Other professional services	211	211	86	125
Repair and maintenance	1,000	1,000	648	352
Repair and maintenance - vehicles	17,500	17,500	18,132	(632)
Repair and maintenance - equipment	4,000	4,000	2,076	1,924
Repair and maintenance - buildings	1,000	1,000	-	1,000
City hall improvements	2,460	2,460	-	2,460
Travel	4,000	4,000	3,843	157
Operating supplies	30,000	30,000	15,494	14,506
Clothing and uniforms	12,000	12,000	5,927	6,073
Fire arm supplies	2,000	2,000	1,959	41
Gas, oil, and diesel	60,000	60,000	44,459	15,541
Vehicle towing	-	-	510	(510)
Insurance commercial	1,008	1,008	1,077	(69)
Insurance on vehicles and equipment	6,959	6,959	6,485	474
Liability insurance	24,963	24,963	15,777	9,186
Small items of equipment	-	-	5,600	(5,600)
Debt service - interest	391	391	391	-
Capital outlay	30,681	30,681	28,990	1,691
Total police department	913,295	913,295	845,469	67,826

The accompanying notes are an integral part of these financial statements.

TOWN OF SOMERVILLE, TENNESSEE
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCE - BUDGET AND ACTUAL (continued)
YEAR ENDED JUNE 30, 2015

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures (continued)				
Public safety (continued)				
Fire department				
Salaries	163,000	163,000	163,651	(651)
Salaries - overtime	1,000	1,000	8,410	(7,410)
Payroll taxes	12,546	12,546	13,884	(1,338)
Hospital and health	14,500	14,500	14,683	(183)
Retirement	9,988	9,988	10,396	(408)
Workers compensation	6,279	6,279	6,329	(50)
Unemployment	100	100	75	25
Volunteer firemen	16,000	16,000	16,000	-
Postage and box rental	100	100	99	1
Publication of notices	300	300	296	4
Memberships, fees, tuition	2,000	2,000	4,728	(2,728)
Utility services	10,000	10,000	10,055	(55)
Telephone	1,800	1,800	1,760	40
Professional services	750	750	1,253	(503)
Legal services	216	216	159	57
Accounting and auditing	1,398	1,398	1,603	(205)
Other professional services	211	211	86	125
Repair and maintenance	1,000	1,000	197	803
Repair and maintenance - vehicles	5,000	5,000	3,396	1,604
Repair and maintenance - equipment	2,500	2,500	3,145	(645)
City hall improvements	2,460	2,460	-	2,460
Containers for training	8,000	8,000	-	8,000
Travel	500	500	857	(357)
Operating supplies	15,000	15,000	11,963	3,037
Uniforms	2,500	2,500	2,339	161
Gas, oil and diesel	7,500	7,500	7,076	424
Insurance commercial	1,792	1,792	1,911	(119)
Insurance on vehicles and equipment	8,241	8,241	9,957	(1,716)
Liability insurance	3,465	3,465	2,843	622
Debt service - principal	20,359	20,359	14,301	6,058
Debt service - interest	12,077	12,077	13,834	(1,757)
Paying agent fees	-	-	27	(27)
Capital outlay	1,681	1,681	5,977	(4,296)
Total fire department	332,263	332,263	331,290	973
Total public safety	1,245,558	1,245,558	1,176,759	68,799
Public works				
Streets and highways				
Salaries	101,250	106,000	103,084	2,916
Salaries - overtime	500	500	822	(322)
Payroll taxes	7,784	7,784	7,696	88
Hospital and health	11,715	11,715	11,851	(136)
Retirement	6,197	6,197	6,082	115
Workers compensation	2,730	2,730	3,326	(596)
Unemployment	100	100	84	16
Postage and box rental	200	200	96	104
Publication of notices	1,000	1,000	489	511
Memberships, fees, tuition	1,000	1,000	663	337
Utility services	950	950	860	90
Street sweeping	5,000	5,000	4,481	519
Telephone	650	650	451	199
Professional services	6,000	6,000	1,242	4,758
Legal services	1,500	1,500	344	1,156
Accounting and auditing	1,398	1,398	1,603	(205)
Mosquito spraying	13,706	13,706	11,107	2,599
Other professional services	211	211	87	124
Repair and maintenance	-	-	4,197	(4,197)
Repair and maintenance - vehicles	2,600	2,600	1,110	1,490
Repair and maintenance - equipment	5,000	5,000	7,689	(2,689)
Repair and maintenance - traffic signal	11,500	11,500	6,454	5,046
Repair and maintenance - building	14,100	14,100	55	14,045
Repair and maintenance - streets	10,000	10,000	8,421	1,579
Street overlay	86,000	116,600	116,600	-
City hall improvements	2,760	-	-	-
Travel	500	500	239	261
Office supplies	700	700	131	569
Operating supplies	2,500	2,500	6,171	(3,671)
Uniforms	1,750	1,750	1,737	13
Gas, oil and diesel	6,150	6,150	6,600	(450)
Sign parts	-	-	355	(355)
Insurance commercial	1,456	1,456	1,636	(180)
Insurance on vehicles and equipment	953	953	1,185	(232)
Liability insurance	945	945	884	61
Debt service - interest	1,097	1,097	1,097	-
Bad debts - mosquito abatement	125	125	72	53
Capital outlay	8,681	72,681	65,981	6,700
Total streets and highways	318,708	415,298	384,982	30,316

The accompanying notes are an integral part of these financial statements.

TOWN OF SOMERVILLE, TENNESSEE
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCE - BUDGET AND ACTUAL (continued)
YEAR ENDED JUNE 30, 2015

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures (continued)				
Public works (continued)				
Cemetery				
Postage and box rental	20	20	11	9
Newspaper advertisements	200	200	10	190
Memberships, fees, tuition	100	100	71	29
Utility services	20	20	-	20
Telephone	50	50	8	42
Legal services	50	50	19	31
Accounting and auditing	170	170	195	(25)
Other professional services	-	-	9	(9)
Repair and maintenance	25,000	25,000	16,336	8,664
Travel	75	75	18	57
Office supplies	50	50	-	50
Operating supplies	500	500	333	167
Uniforms	410	410	10	400
Gas, oil and diesel	1,700	1,700	611	1,089
Insurance commercial	292	292	317	(25)
Liability insurance	142	142	138	4
Capital outlay	505	505	-	505
Total cemetery	<u>29,284</u>	<u>29,284</u>	<u>18,086</u>	<u>11,198</u>
Total public works	<u>347,992</u>	<u>444,582</u>	<u>403,068</u>	<u>41,514</u>
Health, welfare, and recreation				
Culture and the arts				
Postage and box rental	-	-	-	-
Newspaper advertisements	500	500	1,319	(819)
Utility services	5,800	5,800	6,622	(822)
Repair and maintenance	500	500	2,001	(1,501)
Operating supplies	10,000	10,000	18,871	(8,871)
Signs	5,000	5,000	1,523	3,477
Total culture and the arts	<u>21,800</u>	<u>21,800</u>	<u>30,336</u>	<u>(8,536)</u>
Libraries				
Grants and donations	10,000	10,000	10,000	-
Total health, welfare, and recreation	<u>31,800</u>	<u>31,800</u>	<u>40,336</u>	<u>(8,536)</u>
Total expenditures	<u>1,724,803</u>	<u>1,961,173</u>	<u>1,846,306</u>	<u>114,867</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(18,597)</u>	<u>(4,934)</u>	<u>187,159</u>	<u>192,093</u>
Other financing sources (uses)				
Transfers in	48,399	48,399	53,621	5,222
Gain on sale of assets	-	-	29,111	29,111
Total other financing sources (uses)	<u>48,399</u>	<u>48,399</u>	<u>82,732</u>	<u>34,333</u>
Net change in fund balance	29,802	43,465	269,891	226,426
Fund balance, beginning of year	<u>975,689</u>	<u>975,689</u>	<u>975,689</u>	<u>-</u>
Fund balance, end of year	<u>\$ 1,005,491</u>	<u>\$ 1,019,154</u>	<u>\$ 1,245,580</u>	<u>\$ 226,426</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF SOMERVILLE, TENNESSEE
 PROPRIETARY FUNDS
 STATEMENT OF NET POSITION
 JUNE 30, 2015

	Water	Sewer	Natural Gas	Solid Waste	Total	Internal Service Fund
ASSETS						
CURRENT ASSETS						
Cash and cash equivalents	\$ 800,516	\$ 767,417	\$ 3,736,851	\$ 400,225	\$ 5,705,009	\$ 92,170
Investments	850,772	329,645	2,818,750	-	3,999,167	-
Receivables:						
Accounts receivable, net of allowance	43,657	45,865	128,715	31,718	249,955	8,366
Grant receivables	-	-	43,605	-	43,605	-
Other	50	-	-	-	50	-
Interest	1,891	-	10,195	-	12,086	-
Inventory	27,812	-	259,320	-	287,132	-
Due from other funds	18,191	9,405	78,342	10,262	116,200	42,826
Prepaid expenses	14,119	7,508	11,253	4,618	37,498	-
TOTAL CURRENT ASSETS	<u>1,757,008</u>	<u>1,159,840</u>	<u>7,087,031</u>	<u>446,823</u>	<u>10,450,702</u>	<u>143,362</u>
NONCURRENT ASSETS						
Capital assets, net	2,684,202	8,524,081	6,974,192	98,462	18,280,937	-
Net pension asset	23,180	26,491	109,276	13,246	172,193	-
Advances to other funds	-	-	107,492	-	107,492	-
TOTAL NONCURRENT ASSETS	<u>2,707,382</u>	<u>8,550,572</u>	<u>7,190,960</u>	<u>111,708</u>	<u>18,560,622</u>	<u>-</u>
TOTAL ASSETS	<u>4,464,390</u>	<u>9,710,412</u>	<u>14,277,991</u>	<u>558,531</u>	<u>29,011,324</u>	<u>143,362</u>
DEFERRED OUTFLOWS						
Deferred outflows related to pensions	10,002	10,812	46,728	6,078	73,620	-
LIABILITIES						
CURRENT LIABILITIES						
Accounts payable	26,954	16,638	204,669	326	248,587	-
Accrued expenses, net	8,657	5,296	21,160	2,940	38,053	19,866
Accrued interest	-	8,328	2,751	-	11,079	-
Customer deposits	62,850	50,781	397,733	-	511,364	-
Deferred revenue	-	-	-	-	-	33,421
Due to other funds	28,735	34,833	17,206	22,349	103,123	66,446
Current portion of long-term debt	43,559	109,083	21,285	-	173,927	-
TOTAL CURRENT LIABILITIES	<u>170,755</u>	<u>224,959</u>	<u>664,804</u>	<u>25,615</u>	<u>1,086,133</u>	<u>119,733</u>
LONG-TERM LIABILITIES						
Compensated absences	9,966	11,082	49,008	5,700	75,756	-
Bonds and notes payable(net of unamortized premium)	1,133,620	2,839,094	707,634	-	4,680,348	-
TOTAL LONG-TERM LIABILITIES	<u>1,143,586</u>	<u>2,850,176</u>	<u>756,642</u>	<u>5,700</u>	<u>4,756,104</u>	<u>-</u>
TOTAL LIABILITIES	<u>1,314,341</u>	<u>3,075,135</u>	<u>1,421,446</u>	<u>31,315</u>	<u>5,842,237</u>	<u>119,733</u>
DEFERRED INFLOWS						
Deferred inflows related to pensions	28,879	33,005	136,147	16,502	214,533	-
NET POSITION						
Net investment in capital assets	1,507,023	5,575,904	6,245,273	98,462	13,426,662	-
Restricted for pension	23,180	26,491	109,276	13,246	172,193	-
Unrestricted	1,600,969	1,010,689	6,412,577	405,084	9,429,319	23,629
TOTAL NET POSITION	<u>\$ 3,131,172</u>	<u>\$ 6,613,084</u>	<u>\$ 12,767,126</u>	<u>\$ 516,792</u>	<u>\$ 23,028,174</u>	<u>\$ 23,629</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF SOMERVILLE, TENNESSEE
 PROPRIETARY FUNDS
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
 FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	Water	Sewer	Natural Gas	Solid Waste	Total	Internal Service Fund
OPERATING REVENUES						
Utility sales and services	\$ 742,942	\$ 713,004	\$ 4,705,758	\$ 501,272	\$ 6,662,976	\$ -
Recovery of uncollectible accounts	100	244	2,747	349	3,440	-
Uncollectible accounts	(538)	(1,501)	(4,141)	(2,759)	(8,939)	-
Service charges and fees	9,881	11,338	264,354	12,891	298,464	-
Other income	2,466	1,320	4,122	-	7,908	-
TOTAL OPERATING REVENUES	<u>754,851</u>	<u>724,405</u>	<u>4,972,840</u>	<u>511,753</u>	<u>6,963,849</u>	<u>-</u>
OPERATING EXPENSES						
Cost of natural gas sold	-	-	2,938,523	-	2,938,523	-
Personal services	168,822	167,353	766,819	101,518	1,204,512	-
Contractual services	14,127	13,120	67,128	344,017	438,392	-
Utility services	63,487	30,525	13,948	1,091	109,051	-
Supplies	51,984	24,333	69,208	13,740	159,265	-
Office expenses	19,369	16,263	49,546	7,347	92,525	-
Insurance	29,404	12,710	20,116	9,154	71,384	-
Repairs and maintenance	141,580	45,005	143,871	6,292	336,748	-
Rent	8,968	11,860	50,300	5,609	76,737	-
Miscellaneous	78	197	509	1	785	307
Travel	2,174	1,639	3,619	585	8,017	-
Depreciation	100,302	228,989	269,289	7,153	605,733	-
TOTAL OPERATING EXPENSES	<u>600,295</u>	<u>551,994</u>	<u>4,392,876</u>	<u>496,507</u>	<u>6,041,672</u>	<u>307</u>
OPERATING INCOME	<u>154,556</u>	<u>172,411</u>	<u>579,964</u>	<u>15,246</u>	<u>922,177</u>	<u>(307)</u>
NONOPERATING REVENUES (EXPENSES)						
Interest income	5,408	2,216	34,413	1,460	43,497	9
Gain(loss) on sale of capital assets	1,870	(592)	33,462	-	34,740	-
Pension income	2,220	2,538	10,468	1,269	16,495	-
Insurance recoveries	-	4,966	-	-	4,966	-
Interest expense	(40,253)	(100,811)	(35,076)	-	(176,140)	-
NET NONOPERATING EXPENSES	<u>(30,755)</u>	<u>(91,683)</u>	<u>43,267</u>	<u>2,729</u>	<u>(76,442)</u>	<u>9</u>
NET INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS						
	<u>123,801</u>	<u>80,728</u>	<u>623,231</u>	<u>17,975</u>	<u>845,735</u>	<u>(298)</u>
CONTRIBUTIONS AND TRANSFERS						
Capital contributions	-	718,982	64,807	-	783,789	-
Transfers in	-	-	-	-	-	-
Transfers out	(9,601)	(30,684)	(13,336)	-	(53,621)	-
TOTAL CONTRIBUTIONS AND TRANSERS	<u>(9,601)</u>	<u>688,298</u>	<u>51,471</u>	<u>-</u>	<u>730,168</u>	<u>-</u>
CHANGE IN NET POSITION	<u>114,200</u>	<u>769,026</u>	<u>674,702</u>	<u>17,975</u>	<u>1,575,903</u>	<u>(298)</u>
NET POSITION- BEGINNING OF YEAR	3,022,364	5,850,221	12,117,843	501,898	21,492,326	23,927
RESTATEMENT - GASB Statement No. 68 implementation	<u>(5,392)</u>	<u>(6,163)</u>	<u>(25,419)</u>	<u>(3,081)</u>	<u>(40,055)</u>	<u>-</u>
NET POSITION- BEGINNING OF YEAR, as restated	<u>3,016,972</u>	<u>5,844,058</u>	<u>12,092,424</u>	<u>498,817</u>	<u>21,452,271</u>	<u>23,927</u>
NET POSITION - END OF YEAR	<u>\$ 3,131,172</u>	<u>\$ 6,613,084</u>	<u>\$ 12,767,126</u>	<u>\$ 516,792</u>	<u>\$ 23,028,174</u>	<u>\$ 23,629</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF SOMERVILLE, TENNESSEE
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 YEAR ENDED JUNE 30, 2015

	Water	Sewer	Natural Gas	Solid Waste	Total	Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES						
Cash receipts from customers	\$ 743,034	\$ 725,314	\$ 4,969,416	\$ 511,438	\$ 6,949,202	\$ 64,138
Cash receipts from other funds for services	4,754	9,533	-	12,163	26,450	-
Other operating cash receipts	2,466	1,320	4,122	-	7,908	-
Cash payments to suppliers for goods and services	(284,301)	(690,723)	(3,250,151)	(388,669)	(4,613,844)	(307)
Cash payments to other funds for services	-	-	(91,074)	(102,838)	(193,912)	(32,512)
Cash payments for personnel services	(176,839)	(178,418)	(784,256)	-	(1,139,513)	-
CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>289,114</u>	<u>(132,974)</u>	<u>848,057</u>	<u>32,094</u>	<u>1,036,291</u>	<u>31,319</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Amounts paid to other funds	(9,601)	(30,684)	(13,336)	-	(53,621)	-
CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	<u>(9,601)</u>	<u>(30,684)</u>	<u>(13,336)</u>	<u>-</u>	<u>(53,621)</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Acquisitions/disposals of fixed assets	(386,951)	(910,706)	(1,799,877)	(81,311)	(3,178,845)	-
Gain on sale of capital assets	1,870	290	15,050	-	17,210	-
Contributions from customers	-	3,774	18,976	-	22,750	-
Contributions from grants	-	881,697	2,226	-	883,923	-
Insurance recoveries	-	4,966	-	-	4,966	-
Bond issue premiums	-	(774)	-	-	(774)	-
Principal payments on long-term debt	(42,631)	(105,986)	(20,359)	-	(168,976)	-
Interest paid on long-term debt	(40,253)	(100,811)	(35,152)	-	(176,216)	-
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(467,965)</u>	<u>(227,550)</u>	<u>(1,819,136)</u>	<u>(81,311)</u>	<u>(2,595,962)</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES						
Acquisitions and redemptions of investments	(5,031)	(2,341)	(12,969)	-	(20,341)	-
Interest earned	5,956	2,847	32,954	1,460	43,217	9
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>925</u>	<u>506</u>	<u>19,985</u>	<u>1,460</u>	<u>22,876</u>	<u>9</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(187,527)</u>	<u>(390,702)</u>	<u>(964,430)</u>	<u>(47,757)</u>	<u>(1,590,416)</u>	<u>31,328</u>
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>988,043</u>	<u>1,158,119</u>	<u>4,701,281</u>	<u>447,982</u>	<u>7,295,425</u>	<u>60,842</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 800,516</u>	<u>\$ 767,417</u>	<u>\$ 3,736,851</u>	<u>\$ 400,225</u>	<u>\$ 5,705,009</u>	<u>\$ 92,170</u>
RECONCILIATION OF INCOME FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES						
Operating income	\$ 154,556	\$ 172,411	\$ 579,964	\$ 15,246	\$ 922,177	\$ (307)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:						
Depreciation and amortization	100,302	228,989	269,289	7,153	605,733	-
Gasb 68 adjustments related to pensions	(7,474)	(7,922)	(34,808)	(4,633)	(54,837)	-
Changes in Assets and Liabilities:						
(Increase) decrease in accounts receivable	(13,258)	(1,252)	(22,637)	(315)	(37,462)	(2,361)
(Increase) decrease in other receivable	(50)	-	-	-	(50)	-
(Increase) decrease in due from other funds	(9,213)	(830)	(57,053)	(4,076)	(71,172)	(38,704)
(Increase) decrease in inventory	28,738	-	99,677	-	128,415	-
(Increase) decrease in prepaids	(1,751)	(1,451)	(2,497)	(1,022)	(6,721)	-
Increase (decrease) in accounts payable	18,301	(533,620)	9,437	189	(505,693)	-
Increase (decrease) in accrued liabilities	1,582	2,127	7,419	878	12,006	17,941
Increase (decrease) in due to other funds	13,967	10,363	(34,021)	16,239	6,548	(11,749)
Increase (decrease) in deferred revenues	-	-	-	-	-	66,499
Increase (decrease) in compensated absences	(543)	(5,270)	9,952	2,435	6,574	-
Increase (decrease) in customer deposits	3,957	3,481	23,335	-	30,773	-
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 289,114</u>	<u>\$ (132,974)</u>	<u>\$ 848,057</u>	<u>\$ 32,094</u>	<u>\$ 1,036,291</u>	<u>\$ 31,319</u>
NONCASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Gain(loss) on sale/disposal of capital assets	\$ 1,870	\$ (592)	\$ 33,462	\$ -	\$ 34,740	\$ -
Net book value of asset sold	-	882	-	-	882	-
Trade-in value received on fully depreciated assets	-	-	(27,000)	-	(27,000)	-
Loss on capital assets scrapped	-	-	8,588	-	8,588	-
Actual amount of cash received for sale of capital assets	<u>\$ 1,870</u>	<u>\$ 290</u>	<u>\$ 15,050</u>	<u>\$ -</u>	<u>\$ 17,210</u>	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF SOMERVILLE, TENNESSEE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE I. - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Town complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this Note.

A. REPORTING ENTITY

The Town is a Tennessee municipal corporation with a seven-member Town governing body comprised of the Mayor and six aldermen. In evaluating the Town as a reporting entity, management has addressed all potential component units (traditionally separate reporting entities) for which the Town may or may not be financially accountable and, as such, be includable within the Town's financial statements. Blended component units are, in substance, part of the primary government's operations, even though they are legally separate entities. Thus, blended component units are appropriately presented as funds of the primary government. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that is legally separate from the government. Currently, the Town has no blended or discretely presented component units.

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, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments for in lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the government's utility functions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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 expenditure/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. 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 Town or meets the following criteria:

TOWN OF SOMERVILLE, TENNESSEE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

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 expenditure/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. 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 Town 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 following fund types are used by the Town:

Governmental Funds

General Fund

The General Fund is the primary operating fund of the Town and is always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Special Revenue Funds

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for certain purposes.

Proprietary Funds

Enterprise Funds

Enterprise funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector.

Internal Service Fund

The internal service fund is used to collect all service revenues and to make all accounts payable accruals and payments. The Town uses interfund receivable accounts to record these collections and payments on the correct funds. The Town has included this fund within business-type activities in the government-wide financial statements.

**TOWN OF SOMERVILLE, TENNESSEE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

Major and Nonmajor Funds

The funds are further classified as major or nonmajor as follows:

Fund	Brief Description
Major:	
General	See above for description.
 <u>Proprietary Funds:</u>	
Water Fund	Accounts for the activities associated with the water treatment and water distribution system.
 Sewer Fund	 Accounts for the activities associated with the sewage treatment plant, sewage pumping stations and collection systems.
 Solid Waste Fund	 Accounts for the solid waste revenue and expenditures related to disposal services.
 Natural Gas Fund	 Accounts for activities associated with the gas distribution system.
 Nonmajor:	
<u>Special Revenue Funds:</u>	
State Street Aid	Accounts for the state gas tax revenue and the expenditures legally restricted to street maintenance.
 Drug Fund	 Accounts for revenues and expenditures on drug fines and enforcement costs.

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates timing transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital lease are reported as other financing sources.

TOWN OF SOMERVILLE, TENNESSEE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

Property taxes, sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of yearend). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of yearend). All other revenue items are considered to be measurable and available only when the cash is received by the government.

The proprietary funds are reported using the *economic resources measurement focus* and the *accrual basis of accounting*.

The Town does not allocate indirect costs.

Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all governmental funds.

The Town adopts its budget in accordance with the State's legal requirement which is the level of classification detail at which expenditures may not legally exceed appropriations.

The Town follows these procedures in establishing the budgetary data reflected in the financial statements:

- Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Funds. These budgets are adopted on a basis consistent with generally accepted accounting principles.
- Unused appropriations for each of the annually budgeted funds lapse at the end of the year.
- Revisions to the budget may be made throughout the year in accordance with governing statutes and consistent with generally accepted accounting principles.

Budgeted amounts of the revenues and expenditures presented for the General and Special Revenue Funds are shown as originally adopted and after final amendments by the Board of Aldermen. Budget appropriations lapse at year end. A comparison of the budget with statements of actual revenues and expenditures, including budget variances, of the all funds are presented as fund financial statements.

D. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, AND NET POSITION/FUND BALANCE

Cash and Cash Equivalents

The Town has defined cash and cash equivalents to include cash on hand, demand deposits, and cash with fiscal agent. The Town considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased, to be cash equivalents.

TOWN OF SOMERVILLE, TENNESSEE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable. Major receivable balances for the governmental activities include property taxes, sales taxes, and grants. Business-type activities report utilities as their major receivables. No allowance account was deemed necessary for utility receivables.

Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Those related to goods and services type transactions are classified as "due to and from other funds." Short-term interfund loans are reported as "interfund receivables and payables." Long-term interfund loans (noncurrent portion) are reported as "advances from and to other funds." Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Position. See Note IV - A. for details of interfund transactions, including receivables and payables at year-end.

Inventories and Prepaid Expenses

Inventories consist primarily of supplies, valued at cost, which approximates market. Cost is determined using an average-cost method. All Town inventories are maintained on a consumption basis of accounting where items are purchased for inventory and charged to the budgetary accounts as the items are consumed. Prepaid expenses are also maintained on the consumptive basis of accounting.

Capital Assets

Capital assets, including property; plant; equipment; and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. In May 2009, the Town established new thresholds for capitalization. Capital assets are defined by the government as assets with an initial cost of more than \$500 for land; \$10,000 for buildings and infrastructure; \$5,000 for improvements other than buildings; and \$5,000 for equipment. All land, construction in progress, and works of art will be included. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets of the Town are depreciated using the straight-line basis over the following estimated useful lives:

	<u>Years</u>
Buildings	30-40
Improvements other than buildings	30-40
Machinery & equipment	5-20
Furniture & fixtures	10
Infrastructure	25-50
Distribution plant	20-50
General plant	20-50
Treatment plant	20-50

TOWN OF SOMERVILLE, TENNESSEE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The City has items that qualify for reporting in this category. Accordingly, the items are reported in the government-wide Statement of Net Position and the proprietary Statement of Net Position. These items are for pension changes in experience, changes in pension proportionate share of contributions, as well as employer contributions made to the pension plan after the measurement date.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The City has items that qualify for reporting in this category. Accordingly, the items, are reported in the government-wide Statement of Net Position and the proprietary Statement of Net Position. These items are from the following sources: current and delinquent property taxes, pension changes in experience, and changes in pension investment earnings. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Net Position Flow Assumption

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which resources are considered applied. It is the government's policy to considered restricted – net position to have been depleted before unrestricted – net position is applied.

Net position is 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 improvements 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 regulations 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 "net investment in capital assets."

Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision making authority. The Board of Aldermen is the government's highest level of decision-making authority for the government that can, be adoption of an ordinance prior to the end of the fiscal year, commit fund

TOWN OF SOMERVILLE, TENNESSEE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The governing board has by resolution authorized the finance director to assign fund balance. The board may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

Nonspendable fund balance is associated with inventories, prepaids, long-term loans and notes receivable, and property held for resale (unless the proceeds are restricted, committed or assigned).

Restricted fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.

The Town has not yet adopted an order of fund balance spending policy. It considers that committed amounts would be reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

Compensated Absences

The Town accrues accumulated unpaid vacation when earned by the employee.

E. PENSIONS

For the purpose of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the City's participation in the Public Employee Retirement Plan of the Tennessee Consolidated Retirement System (TCRS), and additions to/deductions from the City's net position have been determined on the same basis as they are reported by the TCRS for the Public Employee Retirement Plan. For this purpose, benefits (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms of the Public Employee Retirement Plan of TCRS. Investments are reported at fair value.

F. REVENUES, EXPENDITURES AND EXPENSES

Program Revenues & Grant Revenues

Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

Property Tax

Substantially all governmental fund revenues except for accrued property taxes are billed and collected within the same period the taxes are levied. Subsidies and grants to proprietary funds, which finance either capital or current operations, are reported as nonoperating revenue based on GASB No. 33. In

TOWN OF SOMERVILLE, TENNESSEE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

applying GASB No. 33 to grant revenues, the provider recognizes liabilities and expenses and the recipient recognizes receivables and revenue when the applicable eligibility requirements are met; otherwise they are reported as advances by the provider and deferred revenue by the recipient.

Operating Revenues and Expenses

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* 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. It also includes all revenue and expenses not related to capital and related financing, noncapital financing, or investing activities. All revenues that are not generated from the daily operations are defined as non-operating.

Expenditures/Expenses

In the government-wide financial statements, expenses are classified by function for both governmental and business-type activities.

In the fund financial statements, expenditures are classified as follows:

Governmental funds – by Character:	Current (further classified by function)
	Debt Service
	Capital Outlay

Proprietary Fund – By Operating and Non-operating

In the fund financial statements, governmental funds report expenditures of financial resources. Proprietary funds report expenses relating to use of economic resources.

Interfund Transactions

Quasi-external transactions are accounted for as fund revenues, expenditures, or expenses (as appropriate). Transactions that constitute reimbursements to a fund for expenditures (expenses) initially made are recorded as expenditures or expenses (as appropriate) in the reimbursing fund and as reductions of the expenditures (expenses) in the reimbursed fund. All interfund transactions except advances, quasi-external transactions, and reimbursements are accounted for as transfers. Nonrecurring or non-routine transfers of equity between funds (or between the primary government and discretely presented component units) are considered residual or capital equity transfers. Non-operating capital transfers are routine budgeted transactions between funds for capital purposes where the recipient fund (proprietary funds only) records an addition to contributed equity. All other interfund transactions are treated as operating transfers.

For the purposes of the Statement of Activities, all interfund transfers between individual governmental funds have been eliminated.

NOTE II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

By its nature as a local government unit, the Town and its component units are subject to various federal, state, and local laws and contractual regulations. An analysis of the Town's compliance with significant laws and regulations and demonstration of its stewardship over Town resources follows.

**TOWN OF SOMERVILLE, TENNESSEE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

A. FUND ACCOUNTING REQUIREMENTS

Fund	Required By
Police Drug Fund	State Law

B. DEPOSITS AND INVESTMENTS LAWS AND REGULATIONS

In accordance with state law, all uninsured deposits of municipal funds in financial institutions must be secured with acceptable collateral valued at the lower of market or par. Acceptable collateral includes certain U.S. Government or Government Agency securities, certain State of Tennessee or political subdivision debt obligations, or surety bonds. As required by 12 U.S.C.A., Section 1823(e), all financial institutions pledging collateral to the Town must have a written collateral agreement approved by the board of directors or loan committee.

C. REVENUE RESTRICTIONS

The Town has various restrictions placed over certain revenue sources from state or local requirements. The primary restricted revenue sources include:

Revenue Source	Legal Restrictions of Use
Gasoline Excise Tax	Street purposes
Drug fines	Drug fund expenditures

D. FUND EQUITY RESTRICTIONS

Deficit Prohibition

Tennessee Statutes prohibits the creation of a deficit fund balance in any individual fund. The Town had no deficit fund balances at June 30, 2015.

E. BUDGET APPROPRIATIONS

The Town had no funds which had expenditures exceeding appropriations for the year ended June 30, 2015.

NOTE III. - DETAIL NOTES - ALL FUNDS AND ACCOUNT GROUPS

A. ASSETS

1. Cash and Investments:

The Town maintains checking and collection accounts with local banks.

The Town's investment policies are governed by State statute. Permissible investments include direct obligations of the U.S. Government and agency securities, certificates of deposit, and savings accounts. Collateral is required for demand deposits, certificates of deposit, and repurchase agreements at 105% of all amounts not covered by federal deposit insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of the State and its subdivisions.

Custodial credit risk-deposits

Deposits are carried at cost plus accrued interest. The carrying amount of deposits is separately displayed on the balance sheet as "Cash and cash equivalents" and "Investments".

TOWN OF SOMERVILLE, TENNESSEE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

The Town's deposits at year-end were not exposed to custodial credit risk due to being entirely covered by depository insurance (a combination of federal depository insurance with the excess covered by the State's Bank Collateral Pool).

Custodial credit risk-investments

For an investment, this is the risk that, in the event of the failure of the counterparty, the System will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investments consist of certificates of deposits held at local banks that are not exposed to custodial credit risk due to being entirely covered by depository insurance (a combination of federal depository insurance with the excess covered by the State's Bank Collateral Pool).

2. Change in Capital Assets:

Depreciation was charged to various functions and activities as follows:

Governmental activities	
General government	\$ 17,974
Public safety	139,515
Public works	67,849
Health, welfare and recreation	21,736
Total governmental activities	<u>\$ 247,074</u>
Business-type activities	
Water	\$ 100,302
Sewer	228,989
Natural gas	269,289
Solid Waste	7,153
Total business-type	<u>\$ 605,733</u>

During the fiscal year ended June 30, 2015, the following changes in capital assets occurred:

	Balance 7/1/14	Increases/ Adjustments	Decreases/ Adjustments	Balance 6/30/15
Governmental activities:				
Capital assets not being depreciated				
Construction in progress	\$ 80,221	\$ 13,612	\$ -	\$ 93,833
Capital assets being depreciated				
Buildings and improvements	1,114,711	47,885	31,000	1,131,596
Infrastructure	1,065,693	-	110,379	955,314
Machinery and equipment	1,441,523	133,611	469,969	1,105,165
Vehicles	1,121,208	28,990	628,939	521,259
Subtotal	<u>4,743,135</u>	<u>210,486</u>	<u>1,240,287</u>	<u>3,713,334</u>
Less accumulated depreciation for:				-
Buildings and improvements	526,975	44,068	21,556	549,487
Infrastructure	428,433	59,273	10,200	477,506
Machinery and equipment	1,264,819	67,884	468,515	864,188
Vehicles	829,253	75,849	628,939	276,163
Subtotal	<u>\$ 3,049,480</u>	<u>\$ 247,074</u>	<u>\$ 1,129,210</u>	<u>2,167,344</u>
Total capital assets, being depreciated, net				<u>1,545,990</u>
Governmental activities capital assets, net				<u>\$ 1,639,823</u>

**TOWN OF SOMERVILLE, TENNESSEE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

	Balance 7/1/14	Increases/ Adjustments	Decreases/ Adjustments	Balance 6/30/15
Business-type activities:				
Capital assets not being depreciated				
Land	\$ 114,576	\$ -	\$ 52,669	\$ 61,907
Construction in Progress	1,220,929	1,482,648	1,119,005	1,584,572
Subtotal	<u>1,335,505</u>	<u>1,482,648</u>	<u>1,171,674</u>	<u>1,646,479</u>
Capital assets being depreciated				
Distribution plant	22,626,288	2,593,947	273,566	24,946,669
Equipment	1,132,015	508,147	290,223	1,349,939
Vehicles	834,266	120,371	110,171	844,466
Subtotal	<u>24,592,569</u>	<u>3,222,465</u>	<u>673,960</u>	<u>27,141,074</u>
Less accumulated depreciation for:				
Distribution plant	8,626,735	522,476	64,774	9,084,437
Equipment	823,631	58,663	163,107	719,187
Vehicles	787,413	24,594	109,015	702,992
Total accumulated depreciation	<u>\$ 10,237,779</u>	<u>\$ 605,733</u>	<u>\$ 336,896</u>	<u>10,506,616</u>
Total capital assets, being depreciated, net				<u>16,634,458</u>
Business-type activities capital assets, net				<u>\$ 18,280,937</u>

3. Property Taxes:

Property taxes are levied annually on the first of January. The taxes are due and payable from the following October through February in the year succeeding the tax levy. An unperfected lien attaches by statute to property on March 1 for unpaid taxes from the prior year's levy. Taxes uncollected for one year past the due date are submitted to the Chancery Court for collection. Tax liens become perfected at the time the court enters judgment.

B. LIABILITIES

1. General Information about the Pension Plan

Plan description. Employees of Somerville are provided a defined benefit pension plan through the Public Employee Retirement Plan, an agent multiple-employer pension plan administered by the TCRS. The TCRS was created by state statute under Tennessee Code Annotated Title 8, Chapters 34-37. The TCRS Board of Trustees is responsible for the proper operation and administration of the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the plans of the TCRS. The TCRS issues a publically available financial report that can be obtained at www.treasury.tn.gov/tcrs. The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPP. That report may be obtained by writing to Tennessee Treasury Department, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at www.treasury.state.tn.us.

Benefits provided. Tennessee Code Annotated Title 8, Chapters 34-37 establishes the benefit terms and can be amended only by the Tennessee General Assembly. The chief legislative body may adopt the benefit terms permitted by statute. Members are eligible to retire with an unreduced benefit at age 60 with 5 years of service credit or after 30 years of service credit regardless of age. Benefits are determined by a formula using the member's highest five consecutive year average compensation and the member's years of service credit. Reduced benefits for early retirement are available at age 55 and vested. Members vest with five years of service credit. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same

TOWN OF SOMERVILLE, TENNESSEE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

manner as a service retirement benefit but are reduced 10 percent and include projected service credits. A variety of death benefits are available under various eligibility criteria.

Member and beneficiary annuitants are entitled to automatic cost of living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to the 2nd of July of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3 percent, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half percent and one percent. A member who leaves employment may withdraw their employee contributions, plus any accumulated interest.

Employees covered by benefit terms. At the measurement date of June 30, 2014, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	32
Inactive employees entitled to but not yet receiving benefits	35
Active employees	39
	<u>106</u>

Contributions. Contributions for employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Employees contribute 5 percent of salary. Somerville makes employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. For the year ended June 30, 2015, employer contributions for Somerville were \$104,534 based on a rate of 7.38 percent of covered payroll. By law, employer contributions are required to be paid. The TCRS may intercept Somerville's state shared taxes if required employer contributions are not remitted. The employer's actuarially determined contribution (ADC) and member contributions are expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

Net Pension Liability (Asset)

Somerville's net pension liability (asset) was measured as of June 30, 2014, and the total pension liability used to calculate net pension liability (asset) was determined by an actuarial valuation as of that date.

Actuarial assumptions. The total pension liability as of June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	Graded salary ranges from 8.97 to 3.71 percent based on age, including inflation, averaging 4.35 percent.
Investment rate of return	7.5 percent, net of pension plan investment expenses, including inflation
Cost-of-Living Adjustment	2.5 percent

Mortality rates were based on actual experience from the June 30, 2012 actuarial experience study adjusted for some of the expected future improvement in life expectancy.

**TOWN OF SOMERVILLE, TENNESSEE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

The actuarial assumptions used in the June 30, 2014 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2008 through June 30, 2012. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2012 actuarial experience study by considering the following three techniques: (1) the 25-year historical return of the TCRS at June 30, 2012, (2) the historical market returns of asset classes from 1926 to 2012 using the TCRS investment policy asset allocation, and (3) capital market projections that were utilized as 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. Four sources of capital market projections were blended and utilized in the third technique. The blended capital market projection established 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 inflation of 3 percent. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return	Target Allocation
U.S. equity	6.46%	33%
Developed market international equity	6.26%	17%
Emerging market international equity	6.40%	5%
Private equity and strategic lending	4.61%	8%
U.S. fixed income	0.98%	29%
Real estate	4.73%	7%
Short-term securities	0.00%	1%
		100%

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.5 percent based on a blending of the three factors described above.

Discount rate. The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from Somerville will be made at the actuarially determined contribution rate pursuant to an actuarial valuation in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. 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.

**TOWN OF SOMERVILLE, TENNESSEE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

Changes in the Net Pension Liability (Asset)

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
	(a)	(b)	(a) -(b)
Balance at 6/30/13	\$ 5,902,623	\$ 5,710,050	\$ 192,573
Changes for the year:			
Service cost	124,168		124,168
Interest	440,568		440,568
Differences between expected and actual experience	43,347		43,347
Contributions- employer		115,547	(115,547)
Contributions- employees		78,283	(78,283)
Net investment income		939,722	(939,722)
Benefit payments, including refunds of employee contributions	(305,112)	-305,112	-
Administrative expense		(1,756)	1,756
Net changes	302,971	826,684	(523,713)
Balance at 6/30/14	\$ 6,205,594	\$ 6,536,734	\$ (331,140)

Sensitivity of the net pension liability (asset) to changes in the discount rate. The following presents the net position liability (asset) of Somerville calculated using the discount rate of 7.5 percent, as well as what the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
	_____	_____	_____
Somerville's net pension liability (asset)	\$ 439,195	\$ (331,140)	\$ (970,201)

**TOWN OF SOMERVILLE, TENNESSEE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

Pension Expense (Income) and Deferred Outflows of Resources and Deferred Inflows Of Resources Related to Pensions

Pension income. For the year ended June 30, 2015, Somerville recognized pension income of \$31,722.

Deferred outflows of resources and deferred inflows of resources. For the year ended June 30, 2015, Somerville 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 experience	\$ 36,122	\$ -
Net difference between projected and actual earnings on pension plan investments	-	412,566
Contributions subsequent to the measurement date of June 30, 2014	104,534	(not applicable)
	\$ 140,656	\$ 412,566

The amount shown above for "Contributions subsequent to the measurement date of June 30, 2014," will be recognized as a reduction (increase) to net pension liability (asset) in the following measurement period.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:

2016	\$ (95,916)
2017	(95,916)
2018	(95,916)
2019	(95,916)
2020	7,225
Thereafter	-

In the table shown above, positive amounts will increase pension expense while negative amounts will decrease pension expense.

Payable to the Pension Plan

At June 30, 2015, Somerville did not report a payable to the pension plan for the year ended June 30, 2015.

2. Long-Term Obligations:

The Town's long-term debt is segregated between amounts to be repaid from governmental activities and amounts to be repaid from business-type activities. During the year, the Town paid \$194,239 in interest costs all of which was charged to interest expenditures/expense and none being capitalized. Most of the governmental long-term debts have, in prior years, been liquidated by the general fund.

**TOWN OF SOMERVILLE, TENNESSEE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

Governmental Activities

As of June 30, 2015, the governmental long-term liabilities of the Town consisted of the following:

General Long-Term Liabilities

General Obligation Bonds

General Obligation Bonds Series 2013, due in annual installments through 2038, interest 2.00% - 4.25% \$ 509,570

Other liabilities

Unamortized debt premiums 3,093
Compensated absences 45,904

Total General Long-Term Liabilities \$ 558,567

Business-Type Activities

Revenue and Tax Bonds

General Obligation Bonds Series 2013, due in annual installments through 2038, interest 2.00% - 4.25% - Water & Sewer \$ 4,100,429

Gas Revenue and Tax Bonds, Series 1998, 4.75%, payable monthly through November 2036 728,920

Total Revenue and Tax Bonds 4,829,349

Other Liabilities

Unamortized debt premiums 24,926
Compensated absences 75,756

Total Business-Type Activities \$ 4,930,031

Change in Long-term liabilities

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>	<u>Due within one year</u>
Governmental Type Activities					
General Obligation Bonds	\$ 536,262	\$ -	\$ 26,692	\$ 509,570	\$ 27,358
Compensated absences	45,904	-	-	45,904	-
Unamortized debt premiums	3,283	-	190	3,093	-
Total governmental activities	<u>585,449</u>	<u>-</u>	<u>26,882</u>	<u>558,567</u>	<u>27,358</u>
Business Type Activities					
Revenue and Tax Bonds	749,278	-	20,358	728,920	21,285
General Obligation Bonds	4,248,737	-	148,308	4,100,429	152,642
Compensated absences	69,182	6,574	-	75,756	-
Unamortized debt premiums	26,010	-	1,084	24,926	-
Total business type activities	<u>5,093,207</u>	<u>6,574</u>	<u>169,750</u>	<u>4,930,031</u>	<u>173,927</u>
Total government	<u>\$ 5,678,656</u>	<u>\$ 6,574</u>	<u>\$ 196,632</u>	<u>\$ 5,488,598</u>	<u>\$ 201,285</u>

**TOWN OF SOMERVILLE, TENNESSEE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

Other Long-term liabilities

Governmental-type compensated absences have been paid in prior years by the General Fund.

Annual Requirements to Retire Debt Outstanding

The annual aggregate maturities for each debt type for years subsequent to June 30, 2015, are as follows:

General Obligation Bonds

Year Ending June 30,	Governmental Activities	
	Principal	Interest
2016	\$ 27,358	\$ 15,888
2017	27,588	15,342
2018	28,263	14,790
2019	28,943	14,226
2020	29,627	13,646
2021-2025	126,597	56,150
2026-2030	87,508	40,714
2031-2035	95,863	23,098
2036-2038	57,823	4,520
	<u>\$ 509,570</u>	<u>\$ 198,374</u>

Year Ending June 30,	Business-type Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2016	\$ 152,642	\$ 138,098	\$ 21,285	\$ 34,227
2017	152,412	135,046	22,317	33,195
2018	156,736	131,998	23,402	32,110
2019	161,057	128,862	24,537	30,975
2020	165,373	125,642	25,728	29,784
2021-2025	863,403	558,514	148,637	128,923
2026-2030	907,490	422,212	188,394	89,166
2031-2035	994,134	136,696	238,786	38,774
2036-2038	547,182	30,008	35,834	680
	<u>\$ 4,100,429</u>	<u>\$ 1,807,076</u>	<u>\$ 728,920</u>	<u>\$ 417,834</u>

NOTE IV. – OTHER NOTES

A. INTERFUND TRANSACTIONS AND BALANCES

DUE FROM:	DUE TO:					Internal Service Fund	
	General	Water	Sewer	Gas	Solid Waste		
Sewer	\$ 25,835	\$ -	\$ -	\$ 1,850	\$ -	\$ 7,148	\$ 34,833
Water	2,505	-	-	18,075	-	8,155	28,735
Solid Waste	-	-	-	14,800	-	7,549	22,349
General	-	-	-	9,545	4,455	3,816	17,816
Gas	-	1,048	-	-	-	16,158	17,206
Internal Service Fund	19	17,143	9,405	34,072	5,807	-	66,446
	<u>\$ 28,359</u>	<u>\$ 18,191</u>	<u>\$ 9,405</u>	<u>\$ 78,342</u>	<u>\$ 10,262</u>	<u>\$ 42,826</u>	<u>\$ 187,385</u>

TOWN OF SOMERVILLE, TENNESSEE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

The Gas Fund made an operating transfer to the General Fund during the year in the amount of \$13,336 and the Water Fund made one to the General Fund in the amount of \$9,601 and the Sewer Fund made one to the General Fund in the amount of \$30,684 for in-lieu-of tax payments.

B. INSURANCE

The Town is exposed to various risks of loss related to torts; damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Commercial insurance is carried for employees bonds and certain property destruction and employee health and accident claims. The Town also participates in the Tennessee Municipal League Risk Management Pool, a public entity risk pool, for errors and omissions; automobile liability and physical damage; workers compensation; and employees' liability. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the three past fiscal years. The Tennessee Municipal League Risk Management Pool has been self-sustaining through member premiums. Members consist of local jurisdiction municipalities and utility districts in the State. Members are responsible for a pro-rata portion of claims that exceed the Pool's reserves. No additional assessments have ever been made by the Pool to its members as a result of losses experienced.

C. COMMITMENTS AND CONTINGENCIES

The Town is a defendant in various lawsuits brought against it. The Town cannot predict the outcome of these cases and it is possible losses could be incurred. The amount of such possible losses cannot be determined.

The Town has several construction projects in process at June 30, 2015. Commitments for these projects are described below.

The Gas Fund has a Gas Building Rehab Project with an estimated cost of \$526,400 which will be funded with Gas Fund reserves. The Town has recorded \$516,691 as construction in process on the Gas Fund as of June 30, 2015.

The Gas Fund has an AMR/AMI meter change out project with an estimated cost of \$1,093,640 which will be funded with Gas Fund reserves. The Town has recorded \$624,718 as construction in process as of June 30, 2015.

The Water Fund has an AMR/AMI meter change out project with an estimated cost of \$480,466 which will be funded with Water Fund reserves. The Town has recorded \$297,479 as construction in process as of June 30, 2015.

D. CHANGE IN ACCOUNTING PRINCIPLE

In June 2012, the GASB issued Statement 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement 25*, and Statement 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. Statement 67, effective for fiscal years beginning after June 15, 2013, revises existing standards of financial reporting by state and local government pension plans and will be adopted by the pension plan itself. Statement 68 will affect the governments that participate as employers in these plans and is effective for fiscal years beginning after June 15, 2014. For governments to adopt Statement 68, the underlying pension plans must first adopt Statement 67. These statements establish a definition of a pension plan that reflects the primary activities associated with the pension arrangement – determining pensions, accumulated and managing assets dedicated for pensions, and paying benefits to plan members as they come due. Statement 68 details the recognition and disclosure requirements for employers with liabilities (payables) to a defined benefit pension plan and for employers whose employees are provided with defined contribution pensions. The objective of Statement 68 is to improve accounting and financial reporting by state and local governments for

TOWN OF SOMERVILLE, TENNESSEE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

pensions. These pension standards include significant changes to how governmental employers will report liabilities related to pension obligations.

In November 2013, the GASB issued Statement 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No 68*. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement 68.

E. PRIOR PERIOD ADJUSTMENT

A prior period adjustment was made to the general fund for street light project that was incorrectly recorded as capital assets in the prior year. These street lights became property of the electric system at the time of installation. A debit in the amount of \$100,180 was made to net position.

F. RESTATEMENTS

In prior years, the government was not required to recognize a liability for its defined benefit pension plans. However, with the implementation of GASB Statement No. 68, government employers are required to recognize a net pension liability in their Statement of Net Position. Therefore, a restatement decreasing the government-wide beginning net position by \$36,972 has been recognized on the Statement of Activities. In addition, a restatement decreasing the proprietary funds' beginning net positions by the amounts listed below have been recognized on the Statement of Activities:

Water Fund	\$ 5,392
Sewer Fund	\$ 6,163
Natural Gas Fund	\$25,416
Solid Waste Fund	\$ 3,081

**TOWN OF SOMERVILLE
SCHEDULE OF CHANGES IN NET PENSION LIABILITY (ASSET) AND RELATED RATIOS BASED ON
PARTICIPATION IN THE PUBLIC EMPLOYEE PENSION PLAN OF TCRS
FISCAL YEAR ENDING JUNE 30**

	2014
Total pension liability	
Service Cost	\$ 124,168
Interest	440,568
Changes in benefit terms	-
Differences between actual and expected experience	43,347
Change of assumptions	-
Benefit payments, including refunds of employee contributions	(305,112)
Net change in total pension liability	302,971
Total pension liability - beginning	5,902,623
Total pension liability - ending (a)	\$ 6,205,594
Plan fiduciary net position	
Contributions - employer	\$ 115,547
Contributions - employee	78,283
Net investment income	939,722
Benefit payments, including refunds of employee contributions	(305,112)
Administrative expense	(1,756)
Net change in plan fiduciary net position	826,684
Plan fiduciary net position - beginning	5,710,050
Plan fiduciary net position - ending (b)	\$ 6,536,734
Net pension liability (asset) - ending (a) - (b)	\$ (331,140)
Plan fiduciary net position as a percentage of total pension liability	105.34%
Covered-employee payroll	\$ 1,565,674
Net pension liability (asset) as a percentage of covered-employee payroll	21.15%

This is a 10-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

The accompanying notes are an integral part of these financial statements.

TOWN OF SOMERVILLE
SCHEDULE OF CONTRIBUTIONS BASED ON PARTICIPATION IN THE PUBLIC EMPLOYEE PENSION PLAN OF
TCRS
FISCAL YEAR ENDING JUNE 30

	<u>2014</u>	<u>2015</u>
Actuarially determined contribution	\$ 115,547	\$ 104,534
Contributions in relation to the actuarially determined contribution	<u>115,547</u>	<u>104,534</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 1,565,674	\$ 1,416,450
Contributions as a percentage to covered payroll	7.38%	7.38%

This is a 10-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

The accompanying notes are an integral part of these financial statements.

**TOWN OF SOMERVILLE
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2015**

Notes to Schedule

Valuation date: Actuarially determined contribution rates for were calculated based on the July 1, 2013 actuarial valuation.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Frozen initial liability
Amortization method	Level dollar, closed (not to exceed 20 years)
Remaining amortization period	1 year
Asset valuation	10-year smoothed within a 20 percent corridor to market value
Inflation	3.0 percent
Salary increases	Graded salary ranges from 8.97 to 3.71 percent based on age, including inflation, averaging 4.25 percent
Investment Rate of Return	7.5 percent, net of investment expense, including inflation
Retirement age	Pattern of retirement determined by experience study
Mortality	Customized table based on actual experience including an adjustment for some anticipated improvement
Cost of living adjustments	2.5 percent

The accompanying notes are an integral part of these financial statements.

**TOWN OF SOMERVILLE, TENNESSEE
COMBINING BALANCE SHEET
OTHER GOVERNMENTAL FUNDS
JUNE 30, 2015**

	<u>SPECIAL REVENUE</u>		Total Other Nonmajor Governmental Funds
	<u>State Street Aid Fund</u>	<u>Drug Fund</u>	
ASSETS			
Cash and cash equivalents	\$ 4,618	\$ 16,194	\$ 20,812
Receivables from other governments	16,019	-	16,019
Total Assets	<u>\$ 20,637</u>	<u>\$ 16,194</u>	<u>\$ 36,831</u>
LIABILITIES			
Accounts payable	\$ 5,606	\$ -	\$ 5,606
Accrued expenses	-	-	-
Unearned revenues - other	-	802	802
Total liabilities	<u>5,606</u>	<u>802</u>	<u>6,408</u>
FUND BALANCES			
Restricted			
State street aid	15,031	-	15,031
Drug	-	15,392	15,392
Total fund balances	<u>15,031</u>	<u>15,392</u>	<u>30,423</u>
Total liabilities and fund balances	<u>\$ 20,637</u>	<u>\$ 16,194</u>	<u>\$ 36,831</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF SOMERVILLE, TENNESSEE
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
OTHER GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2015

	<u>SPECIAL REVENUE</u>		Total Other Nonmajor Governmental Funds
	State Street Aid Fund	Drug Fund	
Revenues:			
Intergovernmental revenues	\$ 87,999	\$ -	\$ 87,999
Fines and forfeitures	-	1,633	1,633
Sale of seized property	-	8,335	8,335
Miscellaneous	-	1,400	1,400
Interest income	-	13	13
Total revenues	<u>87,999</u>	<u>11,381</u>	<u>99,380</u>
Expenditures:			
Public works	103,587	-	103,587
Public safety	-	12,000	12,000
Debt service:			
Principal	14,474	-	14,474
Interest	738	-	738
Total expenditures	<u>118,799</u>	<u>12,000</u>	<u>130,799</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(30,800)</u>	<u>(619)</u>	<u>(31,419)</u>
Other financing sources (uses):			
Transfer in	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	(30,800)	(619)	(31,419)
Fund Balance, beginning of the year	<u>45,831</u>	<u>16,011</u>	<u>61,842</u>
Fund Balance, end of the year	<u>\$ 15,031</u>	<u>\$ 15,392</u>	<u>\$ 30,423</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF SOMERVILLE, TENNESSEE
STATE STREET AID FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2015

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Intergovernmental revenue				
Gasoline and motor fuel tax	\$ 80,000	\$ 80,000	\$ 56,005	\$ (23,995)
Gas 3 cent tax	-	-	16,690	16,690
Gas 1989 tax	-	-	8,992	8,992
Petroleum special	6,300	6,340	6,312	(28)
Other revenue				
Interest income	-	-	-	-
Total revenues	<u>86,300</u>	<u>86,340</u>	<u>87,999</u>	<u>1,659</u>
Expenditures				
Street lighting	22,000	22,000	26,430	(4,430)
Repair and maintenance	42,500	42,500	38,595	3,905
Signs	5,000	5,000	3,668	1,332
Street light retro fit	-	34,894	34,894	-
Debt service - principal	12,257	12,257	14,474	(2,217)
Debt service - interest	2,790	2,790	738	2,052
Total expenditures	<u>84,547</u>	<u>119,441</u>	<u>118,799</u>	<u>642</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,753</u>	<u>(33,101)</u>	<u>(30,800)</u>	<u>2,301</u>
Other financing sources (uses):				
Transfer in	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	1,753	(33,101)	(30,800)	2,301
Fund Balance, beginning of the year	<u>45,831</u>	<u>45,831</u>	<u>45,831</u>	<u>-</u>
Fund Balance, end of the year	<u>\$ 47,584</u>	<u>\$ 12,730</u>	<u>\$ 15,031</u>	<u>\$ 2,301</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF SOMERVILLE, TENNESSEE
 DRUG FUND
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL
 YEAR ENDED JUNE 30, 2015

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Intergovernment revenue				
Unauthorized substance abuse tax	\$ -	\$ -	\$ -	\$ -
Other revenues				
Sale of seized property	-	-	8,335	8,335
Fines and forfeitures	500	500	1,633	1,133
Interest income	10	10	13	3
Miscellaneous	-	-	1,400	1,400
Total revenues	<u>510</u>	<u>510</u>	<u>11,381</u>	<u>10,871</u>
Expenditures:				
Operating supplies	12,000	12,000	-	12,000
Office supplies	500	500	-	500
Small items of equipment	-	-	12,000	(12,000)
Total expenditures	<u>12,500</u>	<u>12,500</u>	<u>12,000</u>	<u>500</u>
Net change in fund balances	(11,990)	(11,990)	(619)	11,371
Fund Balance, beginning of the year	<u>16,011</u>	<u>16,011</u>	<u>16,011</u>	<u>-</u>
Fund Balance, end of the year	<u>\$ 4,021</u>	<u>\$ 4,021</u>	<u>\$ 15,392</u>	<u>\$ 11,371</u>

The accompanying notes are an integral part of these financial statements.

**AWWA Free Water Audit Software:
 Reporting Worksheet**

Click to access definition
 Click to add a comment

Water Audit Report for: **Somerville Utilities (0000641)**
 Reporting Year: **2015** / 7/2014 - 6/2015

Please enter data in the white cells below. Where available, metered values should be used; if metered values are unavailable please estimate a value. Indicate your confidence in the accuracy of the input data by grading each component (n/a or 1-10) using the drop-down list to the left of the input cell. Hover the mouse over the cell to obtain a description of the grades

All volumes to be entered as: MILLION GALLONS (US) PER YEAR

To select the correct data grading for each input, determine the highest grade where the utility meets or exceeds all criteria for that grade and all grades below it.

WATER SUPPLIED

Enter grading in column 'E' and 'J'

Master Meter and Supply Error Adjustments

Pcnt: Value:

Volume from own sources: 9 219.812 MG/Yr
 Water imported: n/a 0.000 MG/Yr
 Water exported: n/a 0.000 MG/Yr

7

-0.50% Value: 0.000

WATER SUPPLIED: 220.917 MG/Yr

Enter negative % or value for under-registration
 Enter positive % or value for over-registration

AUTHORIZED CONSUMPTION

Billed metered: 8 147.462 MG/Yr
 Billed unmetered: 7 0.954 MG/Yr
 Unbilled metered: n/a 0.000 MG/Yr
 Unbilled unmetered: 5 2.761 MG/Yr

Default option selected for Unbilled unmetered - a grading of 5 is applied but not displayed

AUTHORIZED CONSUMPTION: 151.177 MG/Yr

Click here for help using option buttons below

Pcnt: 1.25% Value: 0.000

Use buttons to select percentage of water supplied OR value

WATER LOSSES (Water Supplied - Authorized Consumption)

69.739 MG/Yr

Apparent Losses

Unauthorized consumption: 2 0.552 MG/Yr

Default option selected for unauthorized consumption - a grading of 5 is applied but not displayed

Customer metering inaccuracies: 8 7.761 MG/Yr

Systematic data handling errors: 2 0.369 MG/Yr

Default option selected for Systematic data handling errors - a grading of 5 is applied but not displayed

Apparent Losses: 8.682 MG/Yr

Pcnt: 0.25% Value: 0.000

5.00% Value: 0.000
 0.25% Value: 0.000

Real Losses (Current Annual Real Losses or CARL)

Real Losses = Water Losses - Apparent Losses: 2 **61.057 MG/Yr**

WATER LOSSES: 69.739 MG/Yr

NON-REVENUE WATER

NON-REVENUE WATER: 7 72.501 MG/Yr

= Water Losses + Unbilled Metered + Unbilled Unmetered

SYSTEM DATA

Length of mains: 7 75.0 miles
 Number of active AND inactive service connections: 9 2,050
 Service connection density: 27 conn./mile main

Are customer meters typically located at the curbstop or property line? Yes (length of service line, beyond the property boundary, that is the responsibility of the utility)

Average length of customer service line has been set to zero and a data grading score of 10 has been applied

Average operating pressure: 7 100.0 psi

COST DATA

Total annual cost of operating water system: 9 \$651,537 \$/Year
 Customer retail unit cost (applied to Apparent Losses): 9 \$8.61 \$/1000 gallons (US)
 Variable production cost (applied to Real Losses): 9 \$394.56 \$/Million gallons Use Customer Retail Unit Cost to value real losses

WATER AUDIT DATA VALIDITY SCORE:

*** YOUR SCORE IS: 82 out of 100 ***

A weighted scale for the components of consumption and water loss is included in the calculation of the Water Audit Data Validity Score

PRIORITY AREAS FOR ATTENTION:

Based on the information provided, audit accuracy can be improved by addressing the following components:

- 1: Volume from own sources
- 2: Unauthorized consumption
- 3: Systematic data handling errors

TOWN OF SOMERVILLE
AWWA FREE WATER AUDIT SOFTWARE: SYSTEM ATTRIBUTES AND PERFORMANCE INDICATORS
JUNE 30, 2015

AWWA Free Water Audit Software: System Attributes and Performance Indicators		WAS v5.0 American Water Works Association Copyright © 2014, All Rights Reserved.																																
Water Audit Report for: Somerville Utilities (0000641)																																		
Reporting Year: 2015 7/2014 - 6/2015																																		
*** YOUR WATER AUDIT DATA VALIDITY SCORE IS: 82 out of 100 ***																																		
System Attributes:	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="padding: 2px;">Apparent Losses:</td> <td style="border: 1px solid black; text-align: right; padding: 2px;">8.682</td> <td style="padding: 2px;">MG/Yr</td> </tr> <tr> <td style="padding: 2px;">+ Real Losses:</td> <td style="border: 1px solid black; text-align: right; padding: 2px;">61.057</td> <td style="padding: 2px;">MG/Yr</td> </tr> <tr> <td style="padding: 2px;">= Water Losses:</td> <td style="border: 1px solid black; text-align: right; padding: 2px;">69.739</td> <td style="padding: 2px;">MG/Yr</td> </tr> <tr> <td style="padding: 2px;">? Unavoidable Annual Real Losses (UARL):</td> <td style="border: 1px solid black; text-align: right; padding: 2px;">26.03</td> <td style="padding: 2px;">MG/Yr</td> </tr> <tr> <td style="padding: 2px;">Annual cost of Apparent Losses:</td> <td style="border: 1px solid black; text-align: right; padding: 2px;">\$ 74,753</td> <td></td> </tr> <tr> <td style="padding: 2px;">Annual cost of Real Losses:</td> <td style="border: 1px solid black; text-align: right; padding: 2px;">\$ 24,091</td> <td></td> </tr> </table>	Apparent Losses:	8.682	MG/Yr	+ Real Losses:	61.057	MG/Yr	= Water Losses:	69.739	MG/Yr	? Unavoidable Annual Real Losses (UARL):	26.03	MG/Yr	Annual cost of Apparent Losses:	\$ 74,753		Annual cost of Real Losses:	\$ 24,091		Valued at Variable Production Cost Return to Reporting Worksheet to change this assumption														
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* This performance indicator applies for systems with a low service connection density of less than 32 service connections/mile of pipeline																																		

**TOWN OF SOMERVILLE, TENNESSEE
SCHEDULE OF CHANGES IN PROPERTY TAXES RECEIVABLE
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

<u>Tax Levy for Year</u>	<u>Tax Rate</u>	<u>Tax Levy</u>	<u>Beginning Outstanding Taxes</u>	<u>Additions and Adjustments</u>	<u>Collections</u>	<u>Ending Outstanding Taxes</u>	<u>Delinquent Taxes Filed in Chancery Court</u>
2015	0.71	\$ 416,246	\$ -	\$ 416,246	\$ -	\$ 416,246	\$ -
2014	0.71	459,489	413,724	45,194	429,765	29,153	-
2013	0.71	453,286	30,204	(142)	20,781	9,281	9,281
2012	0.67	445,350	13,979	-	11,294	2,685	2,685
2011	0.67	433,474	4,905	-	3,814	1,091	1,091
2010	0.57	358,633	1,467	-	1,243	224	224
2009	0.57	352,558	1,057	-	118	939	939
2008	0.57	305,031	212	15	-	227	227
2007	0.57	291,191	8,503	-	-	8,503	8,503
2006	0.57	274,716	1,279	-	-	1,279	1,279
2005	0.57	261,025	2,165	-	-	2,165	2,165
2004	0.57	252,017	458	(458)	-	-	-
2003	0.57	251,131	755	(755)	-	-	-
2002	0.54	215,497	1,549	(1,549)	-	-	-
			<u>\$ 480,257</u>	<u>\$ 458,551</u>	<u>\$ 467,015</u>	<u>\$ 471,793</u>	<u>\$ 26,394</u>

The accompanying notes are an integral part of these financial statements.

**TOWN OF SOMERVILLE, TENNESSEE
SCHEDULE OF LONG-TERM DEBT REQUIREMENTS
GENERAL LONG TERM DEBT
JUNE 30, 2015**

Year Ending June 30,	General Obligation Bonds	
	Series 2013	
	Principal	Interest
2016	\$ 27,358	\$ 15,888
2017	27,588	15,342
2018	28,263	14,790
2019	28,943	14,226
2020	29,627	13,646
2021	30,410	12,830
2022	31,202	11,996
2023	32,004	11,138
2024	16,271	10,337
2025	16,710	9,849
2026	17,590	9,306
2027	18,029	8,734
2028	16,710	8,148
2029	17,150	7,606
2030	18,029	6,920
2031	18,469	6,198
2032	19,348	5,460
2033	20,228	4,686
2034	21,108	3,826
2035	16,710	2,928
2036	17,590	2,240
2037	17,590	1,514
2038	22,643	766
	<u>\$ 509,570</u>	<u>\$ 198,374</u>

The accompanying notes are an integral part of these financial statements.

**TOWN OF SOMERVILLE, TENNESSEE
SCHEDULE OF LONG-TERM DEBT REQUIREMENTS
WATER FUND
JUNE 30, 2015**

Year Ending June 30,	2013 Series Refunding	
	Principal	Interest
2016	\$ 43,559	\$ 39,406
2017	43,493	38,536
2018	44,727	37,666
2019	45,960	36,770
2020	47,192	35,852
2021	48,395	34,554
2022	49,596	33,222
2023	50,794	31,860
2024	48,146	30,590
2025	49,448	29,144
2026	52,050	27,538
2027	53,351	25,846
2028	49,448	24,112
2029	50,749	22,506
2030	53,351	20,476
2031	54,652	18,342
2032	57,255	16,156
2033	59,857	13,864
2034	62,460	11,320
2035	49,448	8,666
2036	52,050	6,626
2037	52,050	4,480
2038	52,035	2,268
	<u>\$ 1,170,066</u>	<u>\$ 549,800</u>

The accompanying notes are an integral part of these financial statements.

**TOWN OF SOMERVILLE, TENNESSEE
SCHEDULE OF LONG-TERM DEBT REQUIREMENTS
SEWER FUND
JUNE 30, 2015**

Year Ending June 30,	2013 Series Refunding	
	Principal	Interest
2016	\$ 109,083	\$ 98,692
2017	108,919	96,510
2018	112,009	94,332
2019	115,097	92,092
2020	118,181	89,790
2021	121,195	86,540
2022	124,202	83,206
2023	127,202	79,792
2024	120,583	76,612
2025	123,842	72,994
2026	130,360	68,968
2027	133,619	64,732
2028	123,842	60,390
2029	127,101	56,364
2030	133,619	51,280
2031	136,878	18,342
2032	143,396	16,156
2033	149,914	13,864
2034	156,432	11,320
2035	123,842	8,666
2036	130,360	6,626
2037	130,360	4,480
2038	130,327	5,528
	<u>\$ 2,930,363</u>	<u>\$ 1,257,276</u>

The accompanying notes are an integral part of these financial statements.

**TOWN OF SOMERVILLE, TENNESSEE
SCHEDULE OF LONG-TERM DEBT REQUIREMENTS
NATURAL GAS FUND
JUNE 30, 2015**

Year Year Ending June 30,	Tax and Revenue Bonds	
	RED Gas Bond	
	Series 1998	
	Principal	Interest
2016	\$ 21,285	\$ 34,227
2017	22,317	33,195
2018	23,402	32,110
2019	24,537	30,975
2020	25,728	29,784
2021	26,978	28,534
2022	28,287	27,225
2023	29,661	25,851
2024	31,101	24,411
2025	32,610	22,902
2026	34,194	21,318
2027	35,853	19,659
2028	37,595	17,917
2029	39,419	16,093
2030	41,333	14,179
2031	43,340	12,172
2032	45,444	10,068
2033	47,650	7,862
2034	49,963	5,549
2035	52,389	3,123
2036	35,834	680
	<u>\$ 728,920</u>	<u>\$ 417,834</u>

The accompanying notes are an integral part of these financial statements.

**TOWN OF SOMERVILLE, TENNESSEE
SCHEDULE OF UTILITY RATES IN FORCE
JUNE 30, 2015**

WATER RATES

Inside Residential Minimum per 1,000 gallons	\$ 11.35 1.92	Outside Residential Minimum per 1,000 gallons	\$ 14.00 2.02
Inside Commercial Minimum per 1,000 gallons	\$ 14.00 2.02	Outside Commercial Minimum per 1,000 gallons	\$ 16.64 2.45

Number of customers: 1,823

SEWER RATES

1" Meter	3/4" Meter	1" Meter	2" Meter	4" Meter	6" Meter
Customer charge	\$ 24.00	\$ 40.00	\$ 128.00	\$ 700.00	\$ 900.00
Every 1,000 gallons	1.55	1.55	1.55	1.55	1.55

Number of customers: 1,482

GAS RATES

	Customer Charge
Inside Residential	\$ 12.75
Outside Residential	14.00
Inside Commercial	19.60
Outside Commercial	21.00
Inside Industrial	25.00
Outside Industrial	27.00
All customer per 100 cu feet	0.67

Number of customers: 6,330

GARBAGE RATES

	Monthly Rate
Residential	\$ 18.10
Small Business	25.50 - 73.44
Commercial	90.09 - 385.15

Number of customers: 1,293

The accompanying notes are an integral part of these financial statements.

TOWN OF SOMERVILLE, TENNESSEE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE
JUNE 30, 2015

Federal Grantor/Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Expenditures
<u>FEDERAL AWARDS</u>			
Department of Housing and Urban Development			
Community Development Block Grants Disaster Recovery	14.228	unavailable	\$ 345,985
2013 CDBG Sewer System Improvements	14.228	unavailable	<u>369,253</u>
		Total for 14.228	<u>715,238</u>
Department of Transportation			
Highway Safety Cluster - Alcohol Open Container Requirements- High Visibility Law Enforcement Campaigns	20.607	Z13GHS288	<u>2,613</u>
TOTAL FEDERAL AWARDS			<u>717,851</u>
<u>STATE FINANCIAL ASSISTANCE</u>			
State Fire Enforcement Supplement	-	-	2,400
State Law Enforcement Supplement	-	-	<u>6,600</u>
TOTAL STATE AWARDS			<u>9,000</u>
TOTAL FEDERAL AND STATE AWARDS			<u>\$ 726,851</u>

Basis of Presentation

Note 1: The accompany schedule of Expenditures of Federal Awards and State Financial Assistance summarizes the expenditures of the Town under programs of the federal and state governments for the year ended June 30, 2015. The schedule is presented using the modified accrual basis of accounting.

The accompanying notes are an integral part of these financial statements.



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Mayor and Aldermen
Somerville, Tennessee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Town of Somerville, Tennessee (the Town), as of and for the year ended June 30, 2015, and the relate notes to the financial statements, which collectively comprise the Town's basic financial statements and have issued our report thereon dated December 9, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2015-001, 2015-002, 2015-003, and 2015-004 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of

noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as 2015-005.

Town's Response to Findings

The Town's response to the findings identified in our audit is described above. The Town's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

PRIOR YEAR DISPOSITIONS

2014-002 Capital Assets Accounting (original finding #2011-04) – corrected.

2014-004 Building Permits (original finding #2011-08) – corrected.

A handwritten signature in black ink that reads "Godwin & Associates, PLLC". The signature is written in a cursive, flowing style.

December 9, 2015



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY OMB CIRCULAR A-133**

To the Mayor and Board of Aldermen
Somerville, Tennessee

Report on Compliance for Each Major Federal Program

We have audited the Town of Somerville, Tennessee's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Town's major federal programs for the year ended June 30, 2015. The Town's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Town's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on the Town's compliance.

Opinion on Each Major Federal Program

In our opinion, the Town complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

Report on Internal Control Over Compliance

Management of the Town is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Town's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Goodwin & Associates, PLLC

December 9, 2015

**TOWN OF SOMERVILLE, TENNESSEE
SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2015**

Financial Statement Findings

Finding Number	Finding Title	Status
2014 - 001	Purchase Orders (original finding #2011-02)	Repeated
2014 - 002	Capital Assets Accounting (original finding #2011-04)	Corrected
2014 - 003	Financial Statements Materially Misstated Before Audit Adjustments (original finding #2011-05)	Repeated
2014 - 004	Building Permits (original finding #2011-08)	Corrected

Federal Award Findings and Questioned Costs

There were no prior findings reported.

**TOWN OF SOMERVILLE, TENNESSEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2015**

SECTION I – Summary of Auditor’s Results

- (a) Type of report issued on the financial statements:
Unqualified
- (b) The audit of the financial statements did disclose weaknesses in internal control which were all considered material weaknesses and no significant deficiencies.
- (c) The audit of the financial statements disclosed one instance of noncompliance which was material to the financial statements.
- (d) The audit did not disclose any significant deficiencies or material weaknesses in internal control over major programs.
- (e) Type of report issued on compliance for major programs:
Unqualified
- (f) The audit did not disclose any findings required to be reported under Circular A-133, Section 510(a).
- (g) Major programs:
CFDA 14.228 – Community Development Block Grants/State’s Program
- (h) Dollar threshold used to distinguish between Type A and Type B programs:
\$300,000
- (i) The auditee did not qualify as a low-risk auditee.

SECTION II – Financial Statement Findings

2015 – 001 Purchase Orders (original finding #2011-02)

The Town does not use purchase orders properly. We noted some that were issued after the purchase date and there were some expenditures that did not have a purchase order.

Recommendation: We recommend that the Town follow its purchasing policy for all purchases and Title 5, Chapter 18 of the *Internal Control and Compliance Manual for Tennessee Municipalities*.

2015 – 002 Financial Statements Materially Misstated Before Audit Adjustments (original finding #2011-05)

The Town had materially misstated its financial statements.

Recommendation: We recommend the Town make the necessary adjustments to reconcile its accounts prior to year end.

TOWN OF SOMERVILLE, TENNESSEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
YEAR ENDED JUNE 30, 2015

2015 – 003 ACCOUNTS NOT RECONCILED

The Town had several accounts which were not reconciled properly including prepaid insurance, accounts receivable and customer deposits. Title 5, Chapter 2, Section 1 of the *Internal Control and Compliance Manual for Tennessee Municipalities* states that the municipal officials should ensure that a management level employee reviews cash receipts journals, cash disbursements journal, general ledger, and subsidiary ledgers to ensure that they are in balance.

Recommendation: We recommend the Town's officials ensure that there is a management level employee who reviews and reconciles these journals and ledgers.

2015 – 004 MISCLASSIFIED EXPENDITURES/EXPENSES

Several expenditures/expenses were misclassified. Title 4, Chapter 3 of the *Internal Control and Compliance Manual for Tennessee Municipalities* states that in addition to expenditures being classified by function (or program) and character(e.g., current, capital outlay, debt service and intergovernmental expenditures) as required by generally accepted accounting principles, expenditures should be further detailed by object classes.

Recommendation: We recommend the Town classify all expenditures/expense according to the proper function, character and object class.

2015 – 005 COMPETITIVE BIDDING

The Town did not follow the competitive bidding procedures for the purchase of a vehicle as required by the *Internal Control and Compliance Manual for Tennessee Municipalities* in Title 5, Chapter 18.

Recommendation: We recommend the Town follow the proper bidding procedures.

SECTION III – Federal Award Findings and Questioned Costs

NONE

**TOWN OF SOMERVILLE, TENNESSEE
CORRECTIVE ACTION PLAN
JUNE 30, 2015**

2015 – 001 PURCHASE ORDERS

Corrective action planned: We concur with the finding that not all purchases have been issued a purchase order. In the broader context, management has revised the purchasing policy and will ensure that purchasing agents understand and follow the policy.

Anticipated completion date: We have fully implemented this policy at this time.

2015 – 002 FINANCIAL STATEMENTS MATERIALLY MISSTATED BEFORE AUDIT ADJUSTMENTS

Corrective action planned: We will strive for greater accuracy in the initial input of data thereby reducing the number of adjustment entries that need to be made.

Anticipated completion date: We should be fully implemented prior to end of fiscal year ending June 30, 2016.

2015 – 003 ACCOUNTS NOT RECONCILED

Corrective action planned: The Town will ensure that the CMFO, billing office manager, and/or other management and/or other management level employees will review and reconcile these journals and ledgers.

Anticipated completion date: We recently switched to a new software company and fully anticipate having this implemented prior to physical year ending June 30, 2016.

2015 – 004 MISCLASSIFIED EXPENDITURES/EXPENSES

Corrective action planned: The Town will utilize every effort possible to ensure that generally accepted accounting principles are utilized to classify all expenditures/expenses according to the proper functions, character and object class.

Anticipated completion date: This should be fully implemented prior to physical year ending June 30, 2016.

2015 – 005 COMPETITIVE BIDDING

Corrective action planned: The Town will ensure that all purchases that require competitive bids will be purchased through the proper process as required by the Internal Control and Compliance Manual for Tennessee Municipalities in Title 5 Chapter 18 and per our purchasing policy.

Anticipated completion date: We should be fully implemented prior to end of fiscal year ending June 30, 2016.