

TOWN OF SOMERVILLE

ANNUAL FINANCIAL REPORT

JUNE 30, 2016

TOWN OF SOMERVILLE, TENNESSEE

ANNUAL FINANCIAL REPORT

YEAR ENDED JUNE 30, 2016

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TOWN OF SOMERVILLE, TENNESSEE
ROSTER OF PUBLICLY ELECTED AND MANAGEMENT OFFICIALS
JUNE 30, 2016

Elected Officials

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

Management Officials

Robert Turner	City Administrator
Amanda McClain	CMFOA Designee
Kel Blanton	Fire Chief
David Webb	Police Chief

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, 2016, 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, 2016, 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. 82, *Pension Issues – an amendment of GASB Statement No. 67, No. 68, and No 73*. 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 8, 2016, 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.



December 8, 2016

**TOWN OF SOMERVILLE, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016**

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, 2016. 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, 2016, net position changed as follows:

TOWN OF SOMERVILLE'S NET POSITION

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Current and other assets	\$ 2,420,839	\$ 1,964,456	\$ 10,596,817	\$ 10,704,180	\$ 13,017,656	\$ 12,668,636
Capital Assets	6,631,795	1,639,823	18,850,512	18,280,937	25,482,307	19,920,760
Total Assets	9,052,634	3,604,279	29,447,329	28,985,117	38,499,963	32,589,396
Total Deferred outflows of resources	65,117	67,036	78,293	73,620	143,410	140,656
Long term liabilities	531,015	558,567	4,755,394	4,930,031	5,286,409	5,488,598
Other liabilities	75,987	59,037	883,233	862,370	959,220	921,407
Total liabilities	607,002	617,604	5,638,627	5,792,401	6,245,629	6,410,005
Total deferred inflows of resources	515,001	614,278	106,984	214,533	621,985	828,811
Net Position						
Net investments in capital assets	6,100,780	1,081,256	14,171,310	13,426,662	20,272,090	14,507,918
Restricted	196,180	189,370	146,316	172,193	342,496	361,563
Unrestricted	1,698,788	1,168,807	9,462,385	9,452,948	11,161,173	10,621,755
Total Net Position	\$ 7,995,748	\$ 2,439,433	\$ 23,780,011	\$ 23,051,803	\$ 31,775,759	\$ 25,491,236

During the current fiscal year, the Town's total net position increased by \$6,284,523 compared to the prior year increase of \$1,683,963. The primary reason for this increase was due to the donation of a hospital building.

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	
	2016	2015	2016	2015	2016	2015
Revenues:						
Program Revenues:						
Fees, fines and charges for services	\$ 286,824	\$ 287,027	\$ 5,712,184	\$ 6,963,849	\$ 5,999,008	\$ 7,250,876
Operating grants and contributions	99,761	96,999	-	-	99,761	96,999
Capital grants and contributions	5,626	2,613	40,906	783,789	46,532	786,402
General Revenues:						
Property taxes	500,573	492,399	-	-	500,573	492,399
Sales taxes	1,109,050	1,087,240	-	-	1,109,050	1,087,240
Public service taxes	20,503	19,631	-	-	20,503	19,631
Investment earnings	4,439	9,403	40,403	43,506	44,842	52,909
Gain on sale of assets	18,299	18,212	8,554	34,740	26,853	52,952
Insurance recoveries	-	6,350	-	4,966	-	11,316
Pension income	-	15,227	-	16,495	-	31,722
Negative pension expense	21,749	-	23,558	-	45,307	-
Contributions	5,396,194	-	-	-	5,396,194	-
Rent	102,721	-	-	-	102,721	-
Miscellaneous	439	120,490	107	-	546	120,490
Transfers	126,143	53,621	-	-	126,143	53,621
Total Revenues	<u>7,692,321</u>	<u>2,209,212</u>	<u>5,825,712</u>	<u>7,847,345</u>	<u>13,518,033</u>	<u>10,056,557</u>
Expenses:						
General government	423,412	118,836	-	-	423,412	118,836
Public safety	1,267,251	1,223,296	-	-	1,267,251	1,223,296
Public works	368,195	501,344	-	-	368,195	501,344
Health, welfare and recreation	60,083	62,072	-	-	60,083	62,072
Interest on long-term debt	17,065	18,099	-	-	17,065	18,099
Water	-	-	642,561	640,548	642,561	640,548
Sewer	-	-	734,133	652,805	734,133	652,805
Natural Gas	-	-	3,090,071	4,427,952	3,090,071	4,427,952
Solid Waste	-	-	504,596	496,507	504,596	496,507
Internal service	-	-	-	307	-	307
Transfers out	-	-	126,143	53,621	126,143	53,621
Total Expenses	<u>2,136,006</u>	<u>1,923,647</u>	<u>5,097,504</u>	<u>6,271,740</u>	<u>7,233,510</u>	<u>8,195,387</u>
Increase (decrease) in net position	<u>5,556,315</u>	<u>285,565</u>	<u>728,208</u>	<u>1,575,605</u>	<u>6,284,523</u>	<u>1,861,170</u>
Net position-beginning, as originally stated	2,439,433	2,291,020	23,051,803	21,516,253	25,491,236	23,807,273
Restatement - GASB No. 68	-	(36,972)	-	(40,055)	-	(77,027)
Prior period adjustments	-	(100,180)	-	-	-	(100,180)
Net position-beginning, as restated	<u>2,439,433</u>	<u>2,153,868</u>	<u>23,051,803</u>	<u>21,476,198</u>	<u>25,491,236</u>	<u>23,630,066</u>
Net position at end of year	<u>\$ 7,995,748</u>	<u>\$ 2,439,433</u>	<u>\$ 23,780,011</u>	<u>\$ 23,051,803</u>	<u>\$ 31,775,759</u>	<u>\$ 25,491,236</u>

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 \$1,737,301, a 36% increase from last year's total of \$1,276,003.

The following schedule presents a summary of general and, special revenue funds' revenues and expenditures for the fiscal year ended June 30, 2016, and the amount and percentage of increases and decreases in relation to the prior year.

Revenues	June 30, 2016	Percent of Total	Increase (Decrease) from June 30, 2015	
Taxes	\$ 1,268,774	16.86%	\$ (14,550)	
Intergovernmental	464,679	6.18%	38,428	
Licenses and permits	54,667	0.73%	41,843	
Charges for services	64,369	0.86%	(64)	
Fines and forfeitures	152,648	2.03%	(57,122)	
Other revenues	5,518,933	73.35%	5,382,690	
Total Revenues	\$ 7,524,070	100.00%	\$ 5,391,225	

The increase in other revenues is due to a contribution of the hospital building.

Expenditures	June 30, 2016	Percent of Total	Increase (Decrease) from June 30, 2015	
General government	\$ 300,365	4.17%	\$ 197,373	
Public Safety	1,179,854	16.37%	54,588	
Public Works	303,106	4.21%	(136,471)	
Health, welfare, and recreation	37,352	0.52%	(2,984)	
Capital outlay	5,341,968	74.12%	5,117,869	
Debt Service	44,569	0.62%	(266)	
Total Expenditures	\$ 7,207,214	100.00%	\$ 5,230,109	

The Town's general government capital outlay expenditures increased significantly due to the contribution of the hospital building.

General Fund Budgetary Highlights

The Town did not have any budget amendments during the fiscal year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of June 30, 2016, the Town had invested \$25,482,307 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 \$5,561,547, or 28% above last year. Additional information on capital assets is on pages 32 - 33.

Debt

At year-end, the Town had \$5,286,409 in outstanding long-term debt compared to \$5,488,598 last year. Of the total outstanding debt 10% belongs to the Governmental funds, less than 1% to the Solid Waste Fund, 14% to the Gas Fund, 21% to the Water Fund, and 54% to the Sewer Fund. Additional information on debt is on pages 38 - 39.

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, 2016

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 1,487,266	\$ 8,137,631	\$ 9,624,897
Investments	110,814	1,762,191	1,873,005
Receivables:			
Property taxes	473,748	-	473,748
Accounts receivable, net of allowance	597	231,945	232,542
Grant receivables	-	8,699	8,699
Other receivables	-	489	489
Interest receivables	433	6,880	7,313
Internal balances	(18,858)	18,858	-
Due from other governments	204,422	-	204,422
Inventory	-	245,573	245,573
Prepaid expenses	27,355	38,235	65,590
Capital assets:			
Land, improvements and construction in progress	191,153	2,610,555	2,801,708
Other capital assets, net of depreciation	6,440,642	16,239,957	22,680,599
Net pension asset	135,062	146,316	281,378
TOTAL ASSETS	9,052,634	29,447,329	38,499,963
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pensions	65,117	78,293	143,410
LIABILITIES			
Accounts payable and accrued expenses	75,297	312,459	387,756
Customer deposits	-	540,184	540,184
Unearned revenues - other	690	30,590	31,280
Long-term liabilities:			
Due within one year	27,588	174,729	202,317
Due in more than one year	503,427	4,580,665	5,084,092
TOTAL LIABILITIES	607,002	5,638,627	6,245,629
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenues - property taxes	416,246	-	416,246
Deferred inflows related to pensions	98,755	106,984	205,739
DEFERRED INFLOWS OF RESOURCES	515,001	106,984	621,985
NET POSITION			
Net investment in capital assets	6,100,780	14,171,310	20,272,090
Restricted for:			
Restricted for pensions	135,062	146,316	281,378
State Street Aid Fund	43,573	-	43,573
Police Drug Fund	17,545	-	17,545
Unrestricted	1,698,788	9,462,385	11,161,173
TOTAL NET POSITION	\$ 7,995,748	\$ 23,780,011	\$ 31,775,759

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, 2016

Program Activities	PROGRAM REVENUES				NET (EXPENSES) REVENUE AND CHANGES IN NET POSITION		
	Expenses	Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
General Government	\$ 423,412	\$ 69,852	\$ -	\$ -	\$ (353,560)	\$ -	\$ (353,560)
Public Safety	1,267,251	178,083	8,400	5,626	(1,075,142)	-	(1,075,142)
Public Works	368,195	19,939	91,361	-	(256,895)	-	(256,895)
Health, Welfare and Recreation	60,083	18,950	-	-	(41,133)	-	(41,133)
Interest on long-term debt	17,065	-	-	-	(17,065)	-	(17,065)
Business-type activities:							
Water Fund	642,561	899,418	-	8,028	-	264,885	264,885
Sewer Fund	734,133	791,920	-	27,081	-	84,868	84,868
Natural Gas Fund	3,090,071	3,511,252	-	5,797	-	426,978	426,978
Solid Waste	504,596	509,594	-	-	-	4,998	4,998
Internal Service Fund	-	-	-	-	-	-	-
Total business-type activities	4,971,361	5,712,184	-	40,906	-	781,729	781,729
Total government	\$ 7,107,367	\$ 5,999,008	\$ 99,761	\$ 46,532	(1,743,795)	781,729	(962,066)
 General revenues:							
Taxes:							
Property				464,265	-	464,265	
In-lieu of taxes				36,308	-	36,308	
Sales				1,109,050	-	1,109,050	
Public service taxes				20,503	-	20,503	
Investment earnings				4,439	40,403	44,842	
Gain (loss) on sale/retirement of capital assets				18,299	8,554	26,853	
Negative pension expense				21,749	23,558	45,307	
Rent				102,721	-	102,721	
Contributions				5,396,194	-	5,396,194	
Miscellaneous				439	107	546	
Transfer out - in lieu of taxes				126,143	(126,143)	-	
Total general revenues and transfers				7,300,110	(53,521)	7,246,589	
Change in net position				5,556,315	728,208	6,284,523	
Net position- beginning				2,439,433	23,051,803	25,491,236	
Net position - ending				\$ 7,995,748	\$ 23,780,011	\$ 31,775,759	

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

TOWN OF SOMERVILLE, TENNESSEE
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2016

	Other Nonmajor Governmental Funds			Total
	General			
ASSETS				
Cash and cash equivalents	\$ 1,439,868	\$ 47,398		\$ 1,487,266
Investments	110,814	-		110,814
Accounts receivable	597	-		597
Taxes receivable	473,748	-		473,748
Interest receivable	433	-		433
Receivables from other governments	187,895	16,527		204,422
Due from other funds	36,933	-		36,933
Prepaid expenses	<u>27,335</u>	<u>-</u>		<u>27,335</u>
Total assets	<u>\$ 2,277,623</u>	<u>\$ 63,925</u>		<u>\$ 2,341,548</u>
LIABILITIES				
Accounts payable	\$ 34,488	\$ 2,117		\$ 36,605
Accrued expenses	37,413	-		37,413
Unearned revenue - other	-	690		690
Due to other funds	3,024	-		3,024
Advance from other funds	52,767	-		52,767
Total liabilities	<u>127,692</u>	<u>2,807</u>		<u>130,499</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenues - property taxes	<u>473,748</u>	<u>-</u>		<u>473,748</u>
FUND BALANCE				
<i>Nonspendable</i>				
Prepaid items	27,335	-		27,335
<i>Restricted</i>				
State street aid	-	43,573		43,573
Drug	-	17,545		17,545
<i>Unassigned</i>				
General fund	<u>1,648,848</u>	<u>-</u>		<u>1,648,848</u>
Total fund balance	<u>1,676,183</u>	<u>61,118</u>		<u>1,737,301</u>
Total liabilities, deferred inflows of resources, and fund balance	<u>\$ 2,277,623</u>	<u>\$ 63,925</u>		<u>\$ 2,341,548</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, 2016

Total fund balance - total governmental funds	\$ 1,737,301
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.	6,631,795
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	57,502
Net pension asset is not recorded on governmental fund balance sheet but is recorded for government-wide purposes.	135,062
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.	(33,638)
Accrued interest is not reported in the governmental funds balance sheet but is recorded for government-wide purposes.	(1,279)
Long-term liabilities are not due and payable in the current period and, therefore, they are not reported in the governmental funds balance sheet.	(531,015)
Net position of governmental activities	<u>\$ 7,995,728</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, 2016

	General	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenues			
Taxes	\$ 1,268,774	\$ -	\$ 1,268,774
Intergovernmental revenues	373,318	91,361	464,679
Licenses and permits	54,667	-	54,667
Charges for services	64,369	-	64,369
Fines, forfeits, and penalties	148,711	3,937	152,648
Other revenues	<u>5,518,916</u>	<u>17</u>	<u>5,518,933</u>
Total Revenues	<u>7,428,755</u>	<u>95,315</u>	<u>7,524,070</u>
Expenditures			
Current			
General government	300,365	-	300,365
Public safety	1,174,448	5,406	1,179,854
Public works	255,028	48,078	303,106
Health, welfare, and recreation	37,352	-	37,352
Capital outlay	5,341,968	-	5,341,968
Debt service	<u>29,347</u>	<u>15,222</u>	<u>44,569</u>
Total Expenditures	<u>7,138,508</u>	<u>68,706</u>	<u>7,207,214</u>
Excess (deficiency) of revenues over (under) expenditures	<u>290,247</u>	<u>26,609</u>	<u>316,856</u>
Other financing sources (uses)			
Transfers in	126,143	-	126,143
Gain on sale of assets	<u>14,213</u>	<u>4,086</u>	<u>18,299</u>
Total other financing sources (uses)	<u>140,356</u>	<u>4,086</u>	<u>144,442</u>
Net change in fund balance	<u>430,603</u>	<u>30,695</u>	<u>461,298</u>
FUND BALANCE - beginning of year	<u>1,245,580</u>	<u>30,423</u>	<u>1,276,003</u>
FUND BALANCE - end of year	<u>\$ 1,676,183</u>	<u>\$ 61,118</u>	<u>\$ 1,737,301</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, 2016

Net change in fund balances - total governmental funds	\$ 461,298
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.	5,341,968
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.	(349,994)
Effect of GASB 68 on retirement expense; reported on governmental funds but not on government-wide for 2015-2016 year	51,726
Principal paid on debt	27,358
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	21,749
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	150
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	<u>2,060</u>
Change in net position of governmental activities	<u>\$ 5,556,315</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, 2016

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Taxes				
Property taxes - current	\$ 410,000	\$ 410,000	\$ 438,765	\$ 28,765
Property taxes - delinquent	41,250	41,250	23,440	(17,810)
Local option sales taxes	475,000	475,000	514,538	39,538
Local wholesale beer taxes	175,000	175,000	183,764	8,764
Local wholesale liquor taxes	50,000	50,000	65,784	15,784
Business taxes	25,000	25,000	21,980	(3,020)
Cable TV franchise taxes	19,000	19,000	20,503	1,503
Total taxes	1,195,250	1,195,250	1,268,774	73,524
Intergovernmental				
State of Tennessee				
- TVA replacement tax	34,000	34,000	36,308	2,308
- Sales tax allocation	230,000	230,000	250,254	20,254
- Income tax allocation	25,000	25,000	52,928	27,928
- Beer tax allocation	1,500	1,500	1,511	11
- Telecommunication tax	250	250	263	13
- Alcoholic beverage tax	1,000	1,000	1,219	219
- Corporate excise tax	12,500	12,500	16,809	4,309
State and Federal grants	430,500	430,500	-	(430,500)
Governor's highway safety grant	5,000	5,000	4,888	(112)
TML Safety grant	-	-	738	738
Police salary supplement	6,000	6,000	6,000	-
Fire salary supplement	3,000	3,000	2,400	(600)
Total intergovernmental revenues	748,750	748,750	373,318	(375,432)
Licenses and permits				
Beer permits	3,000	3,000	2,850	(150)
Liquor by the drink permits	1,200	1,200	1,200	-
Building permits	2,000	2,000	48,585	46,585
Sign permits	250	250	532	282
Site plan review	250	250	1,250	1,000
Zoning permits	250	250	250	-
Total licenses and permits	6,950	6,950	54,667	47,717
Charges for services				
Clerk fees	2,000	2,000	3,245	1,245
Special fire protection charges	25,000	25,000	25,000	-
Accident reports	500	500	435	(65)
Grave opening and closing fees	1,500	1,500	1,500	-
Street repairs	65,000	65,000	5,228	(59,772)
Mosquito abatement	10,000	10,000	9,936	(64)
Demolition fees	50	50	75	25
Arts and entertainment (theater)	10,000	10,000	18,950	8,950
Total charges for services	114,050	114,050	64,369	(49,681)
Fines, forfeits, and penalties				
City court fines	160,000	160,000	135,225	(24,775)
Sale of seized DUI vehicles	2,000	2,000	2,000	-
Court fines from County	7,000	7,000	11,486	4,486
Total fines, forfeits, and penalties	169,000	169,000	148,711	(20,289)

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, 2016

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues (continued)				
Other revenues				
Insurance recoveries	7,000	7,000	11,940	4,940
Sales of cemetery lots	10,000	10,000	3,200	(6,800)
Contributions	1,500	1,500	1,774	274
Donations FCHEC	250,000	5,397,420	5,394,420	(3,000)
Penalties and interest	9,200	9,200	4,422	(4,778)
Rent	102,721	102,721	102,721	-
Miscellaneous	-	-	439	439
Total other revenues	380,421	5,527,841	5,518,916	(8,925)
Total revenues	2,614,421	7,761,841	7,428,755	(333,086)
Expenditures				
General government				
Legislative				
Mayor and board members	10,296	10,296	6,442	3,854
Payroll taxes	788	788	485	303
Retirement	627	627	75	552
Memberships	-	-	475	(475)
Publications	300	300	-	300
Operating supplies	5,000	5,000	4,283	717
Legal services	5,000	5,000	1,480	3,520
Travel	-	-	250	(250)
Professional services	500	500	684	(184)
Capital outlay	5,000	5,000	-	5,000
Total legislative	27,511	27,511	14,174	13,337
Building department				
Salaries	12,100	12,100	1,749	10,351
Payroll taxes	926	926	135	791
Retirement	147	147	13	134
Workers compensation	75	75	-	75
Contract labor	1,500	1,500	3,490	(1,990)
Postage, box rental, etc...	50	50	129	(79)
Publication of notices	750	750	931	(181)
Memberships	200	200	50	150
Professional services	3,000	3,000	468	2,532
Legal services	1,500	1,500	666	834
Repair and maintenance - vehicles	-	-	375	(375)
Operating supplies	750	750	1,645	(895)
Gas, oil, and grease	-	-	191	(191)
Total building department	20,998	20,998	9,842	11,156
General government buildings				
Salaries	-	-	4,690	(4,690)
Payroll taxes	-	-	307	(307)
Utility services	10,000	10,000	69,805	(59,805)
Telephone services	6,000	6,000	5,010	990
Professional services	-	-	1,600	(1,600)
Legal services	-	-	1,644	(1,644)
Repairs and maintenance	38,000	38,000	59,994	(21,994)
Small equipment	-	-	9,199	(9,199)
Operating supplies	4,000	4,000	6,951	(2,951)
Insurance on buildings	1,250	1,250	8,907	(7,657)
Liability insurance	450	450	263	187
Donations	-	-	35,000	(35,000)
Capital outlay	255,000	5,402,420	5,200,356	202,064
Total general government buildings	314,700	5,462,120	5,403,726	58,394

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, 2016

	Budgeted Amounts			Variance with Final Budget Positive (Negative)	
	Original	Final	Actual		
Expenditures (continued)					
General government (continued)					
City recorder					
Salaries	43,105	43,105	45,116	(2,011)	
Salaries - overtime	250	250	607	(357)	
OASI	3,317	3,317	3,308	9	
Hospital and health	6,560	6,560	8,436	(1,876)	
Retirement	2,512	2,512	2,739	(227)	
Workers compensation	60	60	102	(42)	
Unemployment	100	100	96	4	
Postage and box rental	100	100	93	7	
Publication of notices	100	100	102	(2)	
Memberships, fees, tuition	1,000	1,000	578	422	
Utility services	200	200	33	167	
Telephone	200	200	116	84	
Professional services	200	200	-	200	
Legal services	150	150	183	(33)	
Accounting and auditing	1,800	1,800	3,326	(1,526)	
Collection expense - delinquent taxes	900	900	1,112	(212)	
Other professional	-	-	52	(52)	
Repair and maintenance - equipment	100	100	63	37	
Travel	250	250	287	(37)	
Operating supplies	2,000	2,000	5,038	(3,038)	
Clothing allowance	1,500	1,500	1,223	277	
Insurance - commercial property	72	72	72	-	
Liability insurance	300	300	297	3	
Total city recorder	64,776	64,776	72,979	(8,203)	
Total general government	427,985	5,575,405	5,500,721	74,684	
Public safety					
Police department					
Salaries	516,750	516,750	500,400	16,350	
Salaries - overtime	10,000	10,000	12,881	(2,881)	
Salaries - ghso grant	5,000	5,000	3,512	1,488	
Court salaries - overtime	5,500	5,500	101	5,399	
Payroll taxes	41,100	41,100	37,267	3,833	
Hospital and health	75,064	75,064	61,638	13,426	
Retirement	32,719	32,719	32,301	418	
Workers compensation	25,113	25,113	19,618	5,495	
Unemployment	100	100	96	4	
Postage and box rental	250	250	355	(105)	
Publication of notices	250	250	1,389	(1,139)	
Memberships, fees, tuition	9,000	9,000	14,918	(5,918)	
Utility services	5,500	5,500	4,778	722	
Telephone	7,500	7,500	6,399	1,101	
Professional service	1,500	1,500	2,512	(1,012)	
Legal service	5,000	5,000	11,827	(6,827)	
Accounting and auditing	1,800	1,800	1,566	234	
Other professional services	-	-	52	(52)	
Repair and maintenance	1,000	1,000	5,745	(4,745)	
Repair and maintenance - vehicles	17,500	17,500	13,492	4,008	
Repair and maintenance - equipment	4,000	4,000	14,060	(10,060)	
Repair and maintenance - buildings	1,000	1,000	5,460	(4,460)	
Donations	-	-	85	(85)	
Travel	5,000	5,000	3,038	1,962	
Operating supplies	25,000	25,000	12,997	12,003	
Clothing and uniforms	12,000	12,000	14,004	(2,004)	
Fire arm supplies	5,000	5,000	1,854	3,146	
Gas, oil, and diesel	55,000	55,000	29,626	25,374	
Vehicle towing	500	500	-	500	
Insurance commercial	1,095	1,095	1,156	(61)	
Insurance on vehicles and equipment	6,600	6,600	6,053	547	
Liability insurance	15,800	15,800	14,740	1,060	
Small items of equipment	11,000	11,000	806	10,194	
Debt service - interest	198	198	197	1	
Capital outlay	68,000	68,000	86,227	(18,227)	
Total police department	970,839	970,839	921,150	49,689	

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, 2016

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Expenditures (continued)				
Public safety (continued)				
Fire department				
Salaries	167,800	167,800	172,446	(4,646)
Salaries - overtime	10,000	10,000	22,298	(12,298)
Payroll taxes	13,602	13,602	15,459	(1,857)
Hospital and health	26,162	26,162	17,592	8,570
Retirement	10,828	10,828	10,515	313
Workers compensation	6,330	6,330	7,752	(1,422)
Unemployment	100	100	96	4
Volunteer firemen	16,000	16,000	16,000	-
Postage and box rental	100	100	113	(13)
Publication of notices	300	300	205	95
Memberships, fees, tuition	10,000	10,000	4,918	5,082
Utility services	10,000	10,000	8,441	1,559
Telephone	1,800	1,800	2,409	(609)
Professional services	750	750	1,076	(326)
Legal services	216	216	146	70
Accounting and auditing	1,800	1,800	1,566	234
Other professional services	-	-	51	(51)
Repair and maintenance	2,000	2,000	919	1,081
Repair and maintenance - vehicles	5,000	5,000	4,978	22
Repair and maintenance - equipment	13,500	13,500	13,904	(404)
Repair and maintenance - buildings	-	-	1,235	(1,235)
Containers for training	8,000	8,000	3,499	4,501
Travel	2,500	2,500	458	2,042
Office supplies	2,000	2,000	1,937	63
Operating supplies	12,000	12,000	10,228	1,772
Uniforms	2,500	2,500	2,067	433
Gas, oil and diesel	8,000	8,000	5,355	2,645
Small items of equipment	-	-	60	(60)
Insurance commercial	1,940	1,940	1,932	8
Insurance on vehicles and equipment	10,060	10,060	8,570	1,490
Liability insurance	3,000	3,000	3,497	(497)
Debt service - principal	14,720	14,720	14,718	2
Debt service - interest	13,485	13,485	13,483	2
Paying agent fees	-	-	27	(27)
Capital outlay	10,000	10,000	-	10,000
Total fire department	384,493	384,493	367,950	16,543
Total public safety	1,355,332	1,355,332	1,289,100	66,232
Public works				
Streets and highways				
Salaries	108,480	108,480	112,883	(4,403)
Salaries - overtime	1,000	1,000	2,311	(1,311)
Payroll taxes	8,375	8,375	8,422	(47)
Hospital and health	18,967	18,967	12,909	6,058
Retirement	6,667	6,667	6,083	584
Workers compensation	3,330	3,330	2,933	397
Unemployment	100	100	96	4
Postage and box rental	100	100	81	19
Publication of notices	1,000	1,000	686	314
Memberships, fees, tuition	1,000	1,000	444	556
Utility services	750	750	552	198
Street sweeping	65,000	65,000	4,481	60,519
Telephone	600	600	574	26
Professional services	1,000	1,000	4,226	(3,226)
Legal services	1,500	1,500	460	1,040
Accounting and auditing	1,800	1,800	1,566	234
Mosquito spraying	9,170	9,170	7,860	1,310
Other professional services	-	-	51	(51)
Repair and maintenance	100	100	535	(435)
Repair and maintenance - vehicles	2,600	2,600	2,437	163
Repair and maintenance - equipment	5,000	5,000	1,449	3,551
Repair and maintenance - traffic signal	15,000	15,000	14,298	702
Repair and maintenance - building	15,000	15,000	21,584	(6,584)
Repair and maintenance - streets	20,000	20,000	4,455	15,545
Street overlay	42,000	42,000	1,770	40,230
Travel	500	500	50	450
Office supplies	700	700	-	700
Operating supplies	4,000	4,000	7,177	(3,177)
Uniforms	1,750	1,750	1,970	(220)
Gas, oil and diesel	8,000	8,000	4,716	3,284
Sign parts	500	500	-	500
Small items of equipment	500	500	5,089	(4,589)
Insurance commercial	1,700	1,700	1,765	(65)
Insurance on vehicles and equipment	1,200	1,200	696	504
Liability insurance	900	900	1,925	(1,025)
Debt service - interest	922	922	922	-
Bad debts - mosquito abatement	125	125	61	64
Capital outlay	462,500	462,500	55,385	407,115
Total streets and highways	811,836	811,836	292,902	518,934

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, 2016

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Expenditures (continued)				
Public works (continued)				
Cemetery				
Telephone	-	-	1	(1)
Other professional services	-	-	2,250	(2,250)
Repair and maintenance	25,000	25,000	15,286	9,714
Repair and maintenance - equipment	-	-	300	(300)
Operating supplies	300	300	217	83
Insurance commercial	340	340	352	(12)
Liability insurance	140	140	27	113
Total cemetery	25,780	25,780	18,433	7,347
Total public works	837,616	837,616	311,335	526,281
Health, welfare, and recreation				
Culture and the arts				
Newspaper advertisements	1,500	1,500	566	934
Utility services	5,800	5,800	5,502	298
Repair and maintenance	2,000	2,000	1,650	350
Operating supplies	25,000	25,000	15,056	9,944
Signs	5,000	5,000	4,078	922
Total culture and the arts	39,300	39,300	26,852	12,448
Libraries				
Grants and donations	10,000	10,000	10,500	(500)
Total health, welfare, and recreation	49,300	49,300	37,352	11,948
Total expenditures	2,670,233	7,817,653	7,138,508	679,145
Excess (deficiency) of revenues over (under) expenditures	(55,812)	(55,812)	290,247	346,059
Other financing sources (uses)				
Transfers in	47,694	47,694	126,143	78,449
Gain on sale of assets	10,000	10,000	14,213	4,213
Total other financing sources (uses)	57,694	57,694	140,356	82,662
Net change in fund balance	1,882	1,882	430,603	428,721
Fund balance, beginning of year	1,245,580	1,245,580	1,245,580	-
Fund balance, end of year	\$ 1,247,462	\$ 1,247,462	\$ 1,676,183	\$ 428,721

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

TOWN OF SOMERVILLE, TENNESSEE
PROPRIETARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2016

	Water	Sewer	Natural Gas	Solid Waste	Total	Internal Service Fund
ASSETS						
CURRENT ASSETS						
Cash and cash equivalents	\$ 1,665,029	\$ 1,131,058	\$ 4,800,945	\$ 374,302	\$ 7,971,334	\$ 166,297
Investments	-	-	1,762,191	-	1,762,191	-
Receivables:						
Accounts receivable, net of allowance	40,251	42,315	115,690	28,840	227,096	4,849
Grant receivables	2,405	3,756	2,538	-	8,699	-
Other	489	-	-	-	489	-
Interest	-	-	6,880	-	6,880	-
Inventory	23,146	-	222,427	-	245,573	-
Due from other funds	11,608	13,055	37,810	7,663	70,136	-
Prepaid expenses	12,037	6,912	15,834	3,452	38,235	-
TOTAL CURRENT ASSETS	1,754,965	1,197,096	6,964,315	414,257	10,330,633	171,146
NONCURRENT ASSETS						
Capital assets, net	2,891,405	8,377,238	7,468,485	113,384	18,850,512	-
Net pension asset	19,696	22,510	92,855	11,255	146,316	-
Advances to other funds	-	-	52,767	-	52,767	-
TOTAL NONCURRENT ASSETS	2,911,101	8,399,748	7,614,107	124,639	19,049,595	-
TOTAL ASSETS	4,666,066	9,596,844	14,578,422	538,896	29,380,228	171,146
DEFERRED OUTFLOWS						
Deferred outflows related to pensions	11,699	11,655	48,140	6,799	78,293	-
LIABILITIES						
CURRENT LIABILITIES						
Accounts payable	47,379	2,159	198,130	337	248,005	-
Accrued expenses	8,989	6,065	21,775	4,066	40,895	12,766
Accrued interest	-	8,042	2,751	-	10,793	-
Customer deposits	65,215	52,381	422,588	-	540,184	-
Deferred revenue	-	-	-	-	-	30,590
Due to other funds	-	-	-	-	-	104,045
Current portion of long-term debt	43,493	108,919	22,317	-	174,729	-
TOTAL CURRENT LIABILITIES	165,076	177,566	667,561	4,403	1,014,606	147,401
LONG-TERM LIABILITIES						
Compensated absences	12,359	14,526	41,295	8,012	76,192	-
Bonds and notes payable(net of unamortized premium)	1,089,818	2,729,400	685,255	-	4,504,473	-
TOTAL LONG-TERM LIABILITIES	1,102,177	2,743,926	726,550	8,012	4,580,665	-
TOTAL LIABILITIES	1,267,253	2,921,492	1,394,111	12,415	5,595,271	147,401
DEFERRED INFLOWS						
Deferred inflows related to pensions	14,401	16,459	67,894	8,230	106,984	-
NET POSITION						
Net investment in capital assets	1,758,094	5,538,919	6,760,913	113,384	14,171,310	-
Restricted for pension	19,696	22,510	92,855	11,255	146,316	-
Unrestricted	1,618,321	1,109,119	6,310,789	400,411	9,438,640	23,745
TOTAL NET POSITION	\$ 3,396,111	\$ 6,670,548	\$ 13,164,557	\$ 525,050	\$ 23,756,266	\$ 23,745

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, 2016

	Water	Sewer	Natural Gas	Solid Waste	Total	Internal Service Fund
OPERATING REVENUES						
Utility sales and services	\$ 888,089	\$ 781,528	\$ 3,230,213	\$ 498,834	\$ 5,398,664	\$ -
Uncollectible accounts	(2,768)	(4,658)	(9,320)	(3,969)	(20,715)	-
Service charges and fees	13,524	14,147	284,278	14,505	326,454	-
Other income	573	903	6,081	224	7,781	107
TOTAL OPERATING REVENUES	899,418	791,920	3,511,252	509,594	5,712,184	107
OPERATING EXPENSES						
Cost of natural gas sold	-	-	1,485,235	-	1,485,235	-
Personal services	192,449	192,750	781,750	109,702	1,276,651	-
Contractual services	9,759	44,470	106,012	337,352	497,593	-
Utility services	59,764	25,930	19,108	1,276	106,078	-
Supplies	48,564	26,586	64,755	10,587	150,492	-
Office expenses	14,884	13,930	46,136	5,905	80,855	-
Insurance	31,301	13,893	30,971	10,402	86,567	-
Repairs and maintenance	127,772	40,492	135,332	6,514	310,110	-
Small items of equipment	-	5,583	22,025	-	27,608	-
Rent	12,374	14,024	68,787	7,536	102,721	-
Miscellaneous	87	196	523	5	811	-
Travel	436	320	4,060	238	5,054	-
Depreciation	105,879	257,553	291,212	15,079	669,723	-
TOTAL OPERATING EXPENSES	603,269	635,727	3,055,906	504,596	4,799,498	-
OPERATING INCOME	296,149	156,193	455,346	4,998	912,686	107
NONOPERATING REVENUES (EXPENSES)						
Interest income	5,034	2,319	31,593	1,448	40,394	9
Gain/(loss) on sale of capital assets	2,459	-	6,095	-	8,554	-
Negative pension expense	3,171	3,624	14,951	1,812	23,558	-
Interest expense	(39,292)	(98,406)	(34,165)	-	(171,863)	-
NET NONOPERATING EXPENSES	(28,628)	(92,463)	18,474	3,260	(99,357)	9
NET INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	267,521	63,730	473,820	8,258	813,329	116
Capital contributions	8,028	27,081	5,797	-	40,906	-
Transfers out	(10,610)	(33,347)	(82,186)	-	(126,143)	-
TOTAL CONTRIBUTIONS AND TRANSERS	(2,582)	(6,266)	(76,389)	-	(85,237)	-
CHANGE IN NET POSITION	264,939	57,464	397,431	8,258	728,092	116
NET POSITION - BEGINNING OF YEAR	3,131,172	6,613,084	12,767,126	516,792	23,028,174	23,629
NET POSITION - END OF YEAR	\$ 3,396,111	\$ 6,670,548	\$ 13,164,557	\$ 525,050	\$ 23,756,266	\$ 23,745

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, 2016

	Water	Sewer	Natural Gas	Solid Waste	Total	Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES						
Cash receipts from customers	\$ 904,177	\$ 796,167	\$ 3,543,051	\$ 512,248	\$ 5,755,643	\$ 686
Cash receipts from other funds for services	6,583	-	40,532	2,599	49,714	73,325
Other operating cash receipts	573	903	6,081	224	7,781	107
Cash payments to suppliers for goods and services	(277,436)	(199,307)	(1,957,170)	(295,590)	(2,729,503)	-
Cash payments to other funds for services	(28,735)	(38,483)	(17,206)	(22,349)	(106,773)	-
Cash payments for personnel services	(199,576)	(198,321)	(827,141)	(194,503)	(1,419,541)	-
CASH PROVIDED (USED) BY OPERATING ACTIVITIES	405,586	360,959	788,147	2,629	1,557,321	74,118
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Amounts paid to other funds	(10,610)	(33,347)	(82,186)	-	(126,143)	-
CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	(10,610)	(33,347)	(82,186)	-	(126,143)	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Acquisitions/disposals of fixed assets	(313,082)	(110,710)	(785,506)	(30,000)	(1,239,298)	-
Gain on sale of capital assets	2,459	-	6,095	-	8,554	-
Contributions from customers	-	-	310	-	310	-
Contributions from grants	5,623	23,325	46,554	-	75,502	-
Proceeds from advances from other funds	-	-	54,725	-	54,725	-
Bond issue premiums	(309)	(774)	-	-	(1,083)	-
Principal payments on long-term debt	(43,559)	(109,084)	(21,347)	-	(173,990)	-
Interest paid on long-term debt	(39,292)	(98,692)	(34,165)	-	(172,149)	-
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(388,160)	(295,935)	(733,334)	(30,000)	(1,447,429)	-
CASH FLOWS FROM INVESTING ACTIVITIES						
Acquisitions and redemptions of investments	850,772	329,645	1,056,559	-	2,236,976	-
Interest earned	6,925	2,319	34,908	1,448	45,600	9
NET CASH PROVIDED BY INVESTING ACTIVITIES	857,697	331,964	1,091,467	1,448	2,282,576	9
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	864,513	363,641	1,064,094	(25,923)	2,266,325	74,127
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	800,516	767,417	3,736,851	400,225	5,705,009	92,170
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 1,665,029	\$ 1,131,058	\$ 4,800,945	\$ 374,302	\$ 7,971,334	\$ 166,297
RECONCILIATION OF INCOME FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES						
Operating income	\$ 296,149	\$ 156,193	\$ 455,346	\$ 4,998	\$ 912,686	\$ 107
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:						
Depreciation and amortization	105,879	257,553	291,212	15,079	669,723	-
Gasb 68 adjustments related to pensions	(13,004)	(13,765)	(54,714)	(7,181)	(88,664)	-
Changes in Assets and Liabilities:						
(Increase) decrease in accounts receivable	3,406	3,550	13,025	2,878	22,859	3,517
(Increase) decrease in other receivable	(439)	-	-	-	(439)	-
(Increase) decrease in due from other funds	6,583	(3,650)	40,532	2,599	46,064	42,826
(Increase) decrease in inventory	4,666	-	36,893	-	41,559	-
(Increase) decrease in prepaids	2,082	596	(4,581)	1,166	(737)	(2,831)
(Increase) decrease in net pension assets	3,484	3,981	16,421	1,991	25,877	-
Increase (decrease) in accounts payable	20,425	(14,479)	(6,538)	11	(581)	37,599
Increase (decrease) in accrued liabilities	332	769	615	1,125	2,841	-
Increase (decrease) in due to other funds	(28,735)	(34,833)	(17,206)	(22,349)	(103,123)	-
Increase (decrease) in deferred revenues	-	-	-	-	-	(7,100)
Increase (decrease) in compensated absences	2,393	3,444	(7,713)	2,312	436	-
Increase (decrease) in customer deposits	2,365	1,600	24,855	-	28,820	-
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 405,586	\$ 360,959	\$ 788,147	\$ 2,629	\$ 1,557,321	\$ 74,118

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

TOWN OF SOMERVILLE, TENNESSEE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

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

TOWN OF SOMERVILLE, TENNESSEE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

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.

Major and Nonmajor Funds

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

Fund	Brief Description
Major: General	See above for description.
Proprietary Funds: Water Fund	Accounts for the activities associated with the water treatment and water distribution system.

TOWN OF SOMERVILLE, TENNESSEE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

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.
<i>Nonmajor:</i>	
<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.

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*.

TOWN OF SOMERVILLE, TENNESSEE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

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.

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

TOWN OF SOMERVILLE, TENNESSEE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

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

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 represent 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

TOWN OF SOMERVILLE, TENNESSEE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

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 consider 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, by adoption of an ordinance prior to the end of the fiscal year, commit fund 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.

TOWN OF SOMERVILLE, TENNESSEE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

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 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.

TOWN OF SOMERVILLE, TENNESSEE
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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.

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.

**TOWN OF SOMERVILLE, TENNESSEE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

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, 2016.

E. BUDGET APPROPRIATIONS

The Town operated within approved budgets the year ended June 30, 2016.

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".

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).

TOWN OF SOMERVILLE, TENNESSEE
NOTES TO BASIC FINANCIAL STATEMENTS
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2. Change in Capital Assets:

Depreciation was charged to various functions and activities as follows:

Governmental activities			
General government	\$	125,874	
Public safety		130,217	
Public works		71,172	
Health, welfare and recreation		22,731	
Total governmental activities	\$	<u>349,994</u>	
Business-type activities			
Water	\$	105,879	
Sewer		257,553	
Natural gas		291,213	
Solid Waste		15,079	
Total business-type	\$	<u>669,724</u>	

During the fiscal year ended June 30, 2016, the following changes in capital assets occurred:

	<u>Balance 7/1/15</u>	<u>Increases/ Adjustments</u>	<u>Decreases/ Adjustments</u>	<u>Balance 6/30/16</u>
Governmental activities:				
Capital assets not being depreciated	\$ 93,833	\$ 97,320	\$ -	\$ 191,153
Construction in progress				
Capital assets being depreciated				
Buildings and improvements	1,131,596	5,147,420	-	6,279,016
Infrastructure	955,314	-	-	955,314
Machinery and equipment	1,105,165	7,926	548,234	564,857
Vehicles	521,259	637,534	34,902	1,123,891
Subtotal	<u>3,713,334</u>	<u>5,792,880</u>	<u>583,136</u>	<u>8,923,078</u>
Less accumulated depreciation for:				
Buildings and improvements	549,487	146,195	-	695,682
Infrastructure	477,506	57,268	-	534,774
Machinery and equipment	864,188	34,938	490,017	409,109
Vehicles	276,163	601,610	34,902	842,871
Subtotal	<u>\$ 2,167,344</u>	<u>\$ 840,011</u>	<u>\$ 524,919</u>	<u>2,482,436</u>
Total capital assets, being depreciated, net				6,440,642
Governmental activities capital assets, net				<u>\$ 6,631,795</u>

TOWN OF SOMERVILLE, TENNESSEE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

	Balance 7/1/15	Increases/ Adjustments	Decreases/ Adjustments	Balance 6/30/16
Business-type activities:				
Capital assets not being depreciated				
Land	\$ 61,907	\$ -	\$ -	\$ 61,907
Construction in Progress	1,584,572	1,014,446	50,370	2,548,648
Subtotal	<u>1,646,479</u>	<u>1,014,446</u>	<u>50,370</u>	<u>2,610,555</u>
Capital assets being depreciated				
Buildings	5,038,309	62,000	-	5,100,309
Improvements	3,972,797	19,000	-	3,991,797
Equipment	2,116,960	56,542	43,693	2,129,809
Plant	16,039,004	138,312	-	16,177,316
Subtotal	<u>27,167,070</u>	<u>275,854</u>	<u>43,693</u>	<u>27,399,231</u>
Less accumulated depreciation for:				
Buildings	2,785,203	153,238	-	2,938,441
Improvements	2,133,719	75,739	-	2,209,458
Equipment	1,473,866	102,914	43,061	1,533,719
Plant	4,139,824	337,832	-	4,477,656
Total accumulated depreciation	<u>\$ 10,532,612</u>	<u>\$ 669,723</u>	<u>\$ 43,061</u>	<u>\$ 11,159,274</u>
Total capital assets, being depreciated, net				<u>16,239,957</u>
Business-type activities capital assets, net				<u>\$ 18,850,512</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 publicly 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

TOWN OF SOMERVILLE, TENNESSEE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same 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, 2015, 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	37
Active employees	<u>42</u>
	<u>111</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
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The actuarial assumptions used in the June 30, 2015 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, 2016

Changes in the Net Pension Liability (Asset)

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) -(b)
Balance at 6/30/13	\$ 6,205,594	\$ 6,536,734	\$ (331,140)
Changes for the year:			
Service cost	124,561		124,561
Interest	462,754		462,754
Differences between expected and actual experience	(150,148)		(150,148)
Contributions- employer		104,534	(104,534)
Contributions- employees		85,824	(85,824)
Net investment income		199,291	(199,291)
Benefit payments, including refunds of employee contributions	(320,192)	(320,192)	-
Administrative expense		(2,243)	2,243
Net changes	116,975	67,214	49,761
Balance at 6/30/14	\$ 6,322,569	\$ 6,603,948	\$ (281,379)

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)	\$ 519,148	\$ (281,379)	\$ (944,722)

TOWN OF SOMERVILLE, TENNESSEE
NOTES TO BASIC FINANCIAL STATEMENTS
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Pension Expense (Income) and Deferred Outflows of Resources and Deferred Inflows Of Resources Related to Pensions

Pension income. For the year ended June 30, 2016, Somerville recognized negative pension expense of \$45,307.

Deferred outflows of resources and deferred inflows of resources. For the year ended June 30, 2016, Somerville reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 28,897	\$ 125,123
Net difference between projected and actual earnings on pension plan investments	228,809	309,425
Contributions subsequent to the measurement date of June 30, 2015	<u>114,513</u>	<u>(not applicable)</u>
	<u>\$ 372,219</u>	<u>\$ 434,548</u>

The amount shown above for "Contributions subsequent to the measurement date of June 30, 2015," 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:

2017	\$ (63,739)
2018	(63,739)
2019	(63,739)
2020	39,402
2021	(25,025)
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, 2016, Somerville had a payable of \$17,767 to the pension plan for the year ended June 30, 2016.

TOWN OF SOMERVILLE, TENNESSEE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

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 \$188,928 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.

Governmental Activities

As of June 30, 2016, 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%	\$ 482,212
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Other liabilities

Unamortized debt premiums	2,903
Compensated absences	<u>45,900</u>

Total General Long-Term Liabilities	<u>\$ 531,015</u>
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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	\$ 3,947,788
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Gas Revenue and Tax Bonds, Series 1998, 4.75%, payable monthly through November 2036	<u>707,572</u>
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Total Revenue and Tax Bonds	<u>4,655,360</u>
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Other Liabilities

Unamortized debt premiums	23,842
Compensated absences	<u>76,192</u>

Total Business-Type Activities	<u>\$ 4,755,394</u>
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Change in Long-term liabilities

TOWN OF SOMERVILLE, TENNESSEE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

	Beginning Balance	Additions	Retirements	Ending Balance	Due within one year
Governmental Type Activities					
General Obligation Bonds	\$ 509,570	\$ -	\$ 27,358	\$ 482,212	\$ 27,588
Compensated absences	45,904	-	4	45,900	-
Unamortized debt premiums	3,093	-	190	2,903	-
Total governmental activities	<u>558,567</u>	<u>-</u>	<u>27,552</u>	<u>531,015</u>	<u>27,588</u>
Business Type Activities					
Revenue and Tax Bonds	728,920	-	21,348	707,572	22,317
General Obligation Bonds	4,100,429	-	152,641	3,947,788	152,412
Compensated absences	75,756	436	-	76,192	-
Unamortized debt premiums	24,926	-	1,084	23,842	-
Total business type activities	<u>4,930,031</u>	<u>436</u>	<u>175,073</u>	<u>4,755,394</u>	<u>174,729</u>
Total government	<u>\$ 5,488,598</u>	<u>\$ 436</u>	<u>\$ 202,625</u>	<u>\$ 5,286,409</u>	<u>\$ 202,317</u>

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, 2016, are as follows:

Year Ending June 30,	<i>General Obligation Bonds</i>	
	<i>Governmental Activities</i>	
	<i>Principal</i>	<i>Interest</i>
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
2022-2026	113,337	52,626
2027-2031	88,827	37,606
2032-2036	94,984	19,140
2037-2038	<u>40,233</u>	<u>2,280</u>
	<u>\$ 482,212</u>	<u>\$ 182,486</u>

Year Ending June 30,	<i>General Obligation Bonds</i>		<i>Revenue and Tax Bonds</i>	
	<i>Business-type Activities</i>		<i>Business-type Activities</i>	
	<i>Principal</i>	<i>Interest</i>	<i>Principal</i>	<i>Interest</i>
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	169,590	121,094	26,978	28,534
2022-2026	876,223	533,926	155,853	121,707
2027-2031	916,610	362,390	197,540	80,020
2032-2036	985,014	113,264	231,217	27,282
2037-2038	<u>364,773</u>	<u>16,756</u>	<u>-</u>	<u>-</u>
	<u>\$ 3,947,788</u>	<u>\$ 1,668,978</u>	<u>\$ 707,572</u>	<u>\$ 383,607</u>

TOWN OF SOMERVILLE, TENNESSEE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE IV. – OTHER NOTES

A. INTERFUND TRANSACTIONS AND BALANCES

DUE FROM:	DUE TO:					Internal Service Fund	Totals
	General	Water	Sewer	Gas	Solid Waste		
General	\$ -	\$ -	\$ -	\$ 3,024	\$ -	\$ -	\$ 3,024
Internal Service Fund	36,933	11,608	13,055	34,786	7,663	-	104,045
	<u>\$ 36,933</u>	<u>\$ 11,608</u>	<u>\$ 13,055</u>	<u>\$ 37,810</u>	<u>\$ 7,663</u>	<u>\$ -</u>	<u>\$ 107,069</u>

The Gas Fund made a transfer to the General Fund during the year in the amount of \$82,186 and the Water Fund made one to the General Fund in the amount of \$10,610 and the Sewer Fund made one to the General Fund in the amount of \$33,347 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 a couple 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, 2016. Commitments for these projects are described below.

The Gas Fund has a Gas Building Rehab Project with an estimated cost of \$596,347 which will be funded with Gas Fund reserves. The Town has recorded \$596,347 as construction in process on the Gas Fund as of June 30, 2016.

The Gas Fund has an AMR/AMI meter change out project with an estimated cost of \$1,143,098 which will be funded with Gas Fund reserves. The Town has recorded \$1,143,098 as construction in process as of June 30, 2016.

The Water Fund has an AMR/AMI meter change out project with an estimated cost of \$556,447 which will be funded with Water Fund reserves. The Town has recorded \$556,447 as construction in process as of June 30, 2016.

TOWN OF SOMERVILLE, TENNESSEE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

D. IMPACT OF RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In March 2016, the GASB issued Statement 82, *Pension Issues – an amendment of GASB Statement 67, Financial Reporting for Pension Plans, GASB Statement 68, Accounting and Financial Reporting for Pensions, and GASB Statement 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68*, effective for fiscal years beginning after June 15, 2016. This Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classifications of payments made by the employer to satisfy employee (plan member) contribution requirements.

Presentation of Payroll-Related Measures in Required Supplementary Information

Prior to the issuance of this Statement, Statements 67 and 68 required presentation of covered-employee payroll, which is payroll of employees that are provided with pension through the pension plan, and ratios that use that measure, in schedules of required supplementary information. This Statement amends 67 and 68 to instead require the presentation of covered payroll, defined as payroll on which contributions to a pension plan are based, and ratios that use that measure.

Selection of Assumptions

This Statement clarifies that a deviation, as the term is used in Actuarial Standards Practice issued by the Actuarial Standards Board, from the guidance in an Actuarial Standard of Practice is not considered to be in conformity with the requirements of Statement 67, Statement 68, or Statement 73 for the selection of assumptions used in determining the total pension liability and related measures.

Classification of Employer-Paid Member Contributions

This Statement clarifies that payments that are made by an employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements should be classified as plan member contributions for purposes of Statement 67 and as employee contributions for purposes of Statement 68. It also requires that an employer's expense and expenditures for those amounts be recognized in the period for which the contribution is assessed and classified in the same manner as the employer classifies similar compensation other than pensions (for example, as salaries and wages or as fringe benefits).

The City has opted to early implement this Statement.

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	2015
Total pension liability		
Service Cost	\$ 124,168	\$ 124,561
Interest	440,568	462,754
Changes in benefit terms	-	-
Differences between actual and expected experience	43,347	(150,148)
Change of assumptions	-	-
Benefit payments, including refunds of employee contributions	(305,112)	(320,192)
Net change in total pension liability	302,971	116,975
Total pension liability - beginning	5,902,623	6,205,594
Total pension liability - ending (a)	\$ 6,205,594	\$ 6,322,569
Plan fiduciary net position		
Contributions - employer	\$ 115,547	\$ 104,534
Contributions - employee	78,283	85,824
Net investment income	939,722	199,291
Benefit payments, including refunds of employee contributions	(305,112)	(320,192)
Administrative expense	(1,756)	(2,243)
Net change in plan fiduciary net position	826,684	67,214
Plan fiduciary net position - beginning	5,710,050	6,536,734
Plan fiduciary net position - ending (b)	\$ 6,536,734	\$ 6,603,948
Net pension liability (asset) - ending (a) - (b)	\$ (331,140)	\$ (281,379)
Plan fiduciary net position as a percentage of total pension liability	105.34%	104.45%
Covered payroll	\$ 1,565,674	\$ 1,716,486
Net pension liability (asset) as a percentage of covered payroll	21.15%	16.39%

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

	2014	2015	2016
Actuarially determined contribution	\$ 115,547	\$ 104,534	\$ 114,700
Contributions in relation to the actuarially determined contribution	<u>115,547</u>	<u>104,534</u>	<u>114,700</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 1,565,674	\$ 1,716,486	1,883,424
Contributions as a percentage to covered payroll	7.38%	6.09%	6.09%

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, 2016

Notes to Schedule

Valuation date: Actuarially determined contribution rates for 2016 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
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, 2016

	SPECIAL REVENUE		Total Other Nonmajor Governmental Funds
	State Street Aid Fund	Drug Fund	
ASSETS			
Cash and cash equivalents	\$ 29,163	\$ 18,235	\$ 47,398
Receivables from other governments	<u>16,527</u>	<u>-</u>	<u>16,527</u>
Total Assets	<u><u>\$ 45,690</u></u>	<u><u>\$ 18,235</u></u>	<u><u>\$ 63,925</u></u>
 LIABILITIES			
Accounts payable	\$ 2,117	\$ -	\$ 2,117
Accrued expenses	<u>-</u>	<u>-</u>	<u>-</u>
Unearned revenues - other	<u>-</u>	<u>690</u>	<u>690</u>
Total liabilities	<u><u>2,117</u></u>	<u><u>690</u></u>	<u><u>2,807</u></u>
 FUND BALANCES			
Restricted			
State street aid	43,573	<u>-</u>	43,573
Drug	<u>-</u>	17,545	17,545
Total fund balances	<u><u>43,573</u></u>	<u><u>17,545</u></u>	<u><u>61,118</u></u>
Total liabilites and fund balances	<u><u>\$ 45,690</u></u>	<u><u>\$ 18,235</u></u>	<u><u>\$ 63,925</u></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, 2016

	SPECIAL REVENUE		Total Other Nonmajor Governmental Funds
	State Street Aid Fund	Drug Fund	
Revenues:			
Intergovernmental revenues	\$ 91,361	\$ -	\$ 91,361
Fines and forfeitures	-	2,480	2,480
Sale of seized property	-	1,457	1,457
Miscellaneous	-	-	-
Interest income	-	17	17
Total revenues	91,361	3,954	95,315
Expenditures:			
Public works	48,078	-	48,078
Public safety	-	5,406	5,406
Debt service:			
Principal	12,640	-	12,640
Interest	2,573	-	2,573
Paying agent fees	9	-	9
Total expenditures	63,300	5,406	68,706
Excess (deficiency) of revenues over (under) expenditures	28,061	(1,452)	26,609
Other financing sources (uses):			
Sale of capital assets	481	3,605	4,086
Total other financing sources (uses)	481	3,605	4,086
Net change in fund balances	28,542	2,153	30,695
Fund Balance, beginning of the year	15,031	15,392	30,423
Fund Balance, end of the year	\$ 43,573	\$ 17,545	\$ 61,118

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, 2016

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Intergovernmental revenue				
Gasoline and motor fuel tax	\$ 80,000	\$ 80,000	\$ 58,461	\$ (21,539)
Gas 3 cent tax	-	-	17,290	17,290
Gas 1989 tax	-	-	9,315	9,315
Petroleum special	6,300	6,340	6,295	(45)
Other revenue				
Interest income	-	-	-	-
Total revenues	<u>86,300</u>	<u>86,340</u>	<u>91,361</u>	<u>5,021</u>
Expenditures				
Street lighting	25,000	25,000	23,933	1,067
Professional services	-	-	1,456	(1,456)
Repair and maintenance	10,000	10,000	7,427	2,573
Signs	10,000	10,000	4,442	5,558
Street light retro fit	25,000	25,000	10,820	14,180
Debt service - principal	12,640	12,640	12,640	-
Debt service - interest	2,573	2,573	2,573	-
Debt service - paying agent fees	.10	10	9	1
Total expenditures	<u>85,223</u>	<u>85,223</u>	<u>63,300</u>	<u>21,923</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,077</u>	<u>1,117</u>	<u>28,061</u>	<u>26,944</u>
Other financing sources (uses):				
Sale of capital assets	-	-	481	481
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>481</u>	<u>481</u>
Net change in fund balances	1,077	1,117	28,542	27,425
Fund Balance, beginning of the year	<u>15,031</u>	<u>15,031</u>	<u>15,031</u>	<u>-</u>
Fund Balance, end of the year	<u>\$ 16,108</u>	<u>\$ 16,148</u>	<u>\$ 43,573</u>	<u>\$ 27,425</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, 2016

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues:				
Intergovernment revenue				
Unauthorized substance abuse tax	\$ -	\$ -	\$ -	\$ -
Other revenues				
Sale of seized property	15,000	15,000	1,457	(13,543)
Fines and forfeitures	1,000	1,000	2,480	1,480
Interest income	10	10	17	7
Miscellaneous	2,000	2,000	-	(2,000)
Total revenues	<u>18,010</u>	<u>18,010</u>	<u>3,954</u>	<u>(14,056)</u>
Expenditures:				
Operating supplies	500	500	2,985	(2,485)
Repair and maintenance	-	-	2,421	(2,421)
Capital outlay	10,000	10,000	-	10,000
Total expenditures	<u>10,500</u>	<u>10,500</u>	<u>5,406</u>	<u>5,094</u>
Excess (deficiency) of revenues over (under) expenditures	<u>7,510</u>	<u>7,510</u>	<u>(1,452)</u>	<u>(8,962)</u>
Other financing sources (uses):				
Sale of capital assets	-	-	3,605	3,605
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>3,605</u>	<u>3,605</u>
Net change in fund balances	7,510	7,510	2,153	(5,357)
Fund Balance, beginning of the year	<u>15,392</u>	<u>15,392</u>	<u>15,392</u>	<u>-</u>
Fund Balance, end of the year	<u>\$ 22,902</u>	<u>\$ 22,902</u>	<u>\$ 17,545</u>	<u>\$ (5,357)</u>

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

TOWN OF SOMERVILLE, TENNESSEE
AWWA WLCC FREE WATER AUDIT SOFTWARE: REPORTING WORKSHEET - "UNAUDITED"
JUNE 30, 2016

AWWA Free Water Audit Software: Reporting Worksheet									
<input style="border: 1px solid black; padding: 2px; margin-right: 5px;" type="button" value="?"/> Click to access definition <input style="border: 1px solid black; padding: 2px; margin-right: 5px;" type="button" value="+"/> Click to add a comment		WAS v5.0 American Water Works Association <small>Copyright © 2014. All Rights Reserved.</small>							
Water Audit Report for: Town Of Somerville (0000641) Reporting Year: 2016 7/2015 - 6/2016									
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.									
Master Meter and Supply Error Adjustments									
Enter grading in column 'E' and 'J' Pcnt: Value:									
Volume from own sources: <input type="text" value="+ ? 9"/> 183.966 MG/Yr <input type="text" value="+ ? 7"/> -0.40% <input type="radio"/> <input type="radio"/> MG/Yr Water imported: <input type="text" value="+ ? 7"/> MG/Yr <input type="text" value="+ ? 7"/> MG/Yr Water exported: <input type="text" value="+ ? 7"/> MG/Yr <input type="text" value="+ ? 7"/> MG/Yr									
Enter negative % or value for under-registration Enter positive % or value for over-registration									
WATER SUPPLIED									
WATER SUPPLIED: <input type="text" value="184.705"/> MG/Yr									
AUTHORIZED CONSUMPTION									
Billed metered: <input type="text" value="+ ? 9"/> 144.440 MG/Yr Billed unmetered: <input type="text" value="+ ? 7"/> MG/Yr Unbilled metered: <input type="text" value="+ ? 7"/> MG/Yr Unbilled unmetered: <input type="text" value="+ ? 7"/> 2.309 MG/Yr									
Click here: <input type="button" value="?"/> for help using option buttons below Pcnt: <input type="text" value="1.25%"/> <input type="radio"/> <input type="radio"/> MG/Yr Value: <input type="text"/>									
Enter buttons to select percentage of water supplied OR value									
AUTHORIZED CONSUMPTION: <input type="text" value="146.749"/> MG/Yr									
WATER LOSSES (Water Supplied - Authorized Consumption) <input type="text" value="37.956"/> MG/Yr									
Apparent Losses									
Unauthorized consumption: <input type="text" value="+ ? 7"/> 0.462 MG/Yr FALSE Customer metering inaccuracies: <input type="text" value="+ ? 8"/> 0.000 MG/Yr Systematic data handling errors: <input type="text" value="+ ? 7"/> 0.361 MG/Yr									
Apparent Losses: <input type="text" value="0.823"/> MG/Yr Pcnt: <input type="text" value="0.25%"/> <input type="radio"/> <input type="radio"/> MG/Yr Value: <input type="text" value="0.25%"/> <input type="radio"/> <input type="radio"/> MG/Yr									
Real Losses (Current Annual Real Losses or CARL) Real Losses = Water Losses - Apparent Losses: <input type="text" value="37.133"/> MG/Yr									
WATER LOSSES: <input type="text" value="37.956"/> MG/Yr									
NON-REVENUE WATER									
NON-REVENUE WATER: <input type="text" value="40.265"/> MG/Yr = Water Losses + Unbilled Metered + Unbilled Unmetered									
SYSTEM DATA									
Length of mains: <input type="text" value="+ ? 7"/> 76.0 miles Number of active AND inactive service connections: <input type="text" value="+ ? 9"/> 2,089 Service connection density: <input type="text" value="+ ? 7"/> 27 conn./mile main									
Are customer meters typically located at the curbstop or property line? <input type="text" value="Yes"/> Average length of customer service line: <input type="text" value="+ ? 7"/> Average length of customer service line has been set to zero and a data grading score of 10 has been applied Average operating pressure: <input type="text" value="+ ? 7"/> 100.0 psi									
COST DATA									
Total annual cost of operating water system: <input type="text" value="+ ? 9"/> \$651,360 \$/Year Customer retail unit cost (applied to Apparent Losses): <input type="text" value="+ ? 9"/> \$10.29 \$/1000 gallons (US) Variable production cost (applied to Real Losses): <input type="text" value="+ ? 9"/> \$500.77 \$/Million gallons <input type="checkbox"/> Use Customer Retail Unit Cost to value real losses									
WATER AUDIT DATA VALIDITY SCORE:									
*** YOUR SCORE IS: 83 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, 2016

AWWA Free Water Audit Software: System Attributes and Performance Indicators		WAS v5.0 American Water Works Association. Copyright © 2014. All Rights Reserved.										
<p>Water Audit Report for: Town Of Somerville (0000641)</p> <p>Reporting Year: 2016 7/2015 - 6/2016</p> <p style="text-align: center;">*** YOUR WATER AUDIT DATA VALIDITY SCORE IS: 83 out of 100 ***</p>												
<p>System Attributes:</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 15%;">Apparent Losses:</td> <td style="width: 15%;"><input type="text" value="0.823"/></td> <td style="width: 15%;">MG/Yr</td> </tr> <tr> <td>+ Real Losses:</td> <td><input type="text" value="37.133"/></td> <td>MG/Yr</td> </tr> <tr> <td>= Water Losses:</td> <td><input type="text" value="37.956"/></td> <td>MG/Yr</td> </tr> </table> <p style="margin-top: 10px;"> <input type="checkbox"/> Unavoidable Annual Real Losses (UARL): <input type="text" value="26.44"/> MG/Yr </p> <p> Annual cost of Apparent Losses: <input type="text" value="\$8,467"/> </p> <p> Annual cost of Real Losses: <input type="text" value="\$18,595"/> Valued at Variable Production Cost <small>Return to Reporting Worksheet to change this assumption</small> </p>			Apparent Losses:	<input type="text" value="0.823"/>	MG/Yr	+ Real Losses:	<input type="text" value="37.133"/>	MG/Yr	= Water Losses:	<input type="text" value="37.956"/>	MG/Yr	
Apparent Losses:	<input type="text" value="0.823"/>	MG/Yr										
+ Real Losses:	<input type="text" value="37.133"/>	MG/Yr										
= Water Losses:	<input type="text" value="37.956"/>	MG/Yr										
<p>Performance Indicators:</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 15%; vertical-align: top;">Financial:</td> <td style="width: 85%;"> <div style="display: flex; justify-content: space-between;"> <div style="flex: 1;"> <p>Non-revenue water as percent by volume of Water Supplied: <input type="text" value="21.8%"/></p> <p>Non-revenue water as percent by cost of operating system: <input type="text" value="4.3%"/> Real Losses valued at Variable Production Cost</p> </div> </div> </td> </tr> <tr> <td style="vertical-align: top;">Operational Efficiency:</td> <td> <div style="display: flex; justify-content: space-between;"> <div style="flex: 1;"> <p>Apparent Losses per service connection per day: <input type="text" value="1.08"/> gallons/connection/day</p> <p>Real Losses per service connection per day: <input type="text" value="N/A"/> gallons/connection/day</p> <p>Real Losses per length of main per day*: <input type="text" value="1,338.61"/> gallons/mile/day</p> <p>Real Losses per service connection per day per psi pressure: <input type="text" value="N/A"/> gallons/connection/day/psi</p> </div> </div> </td> </tr> <tr> <td colspan="2"></td> <td style="text-align: center; padding: 10px;"> From Above, Real Losses = Current Annual Real Losses (CARL): <input type="text" value="37.13"/> million gallons/year </td> </tr> <tr> <td colspan="2"></td> <td style="text-align: center; padding: 10px;"> <input type="checkbox"/> Infrastructure Leakage Index (ILI) [CARL/UARL]: <input type="text" value="1.40"/> </td> </tr> </table>			Financial:	<div style="display: flex; justify-content: space-between;"> <div style="flex: 1;"> <p>Non-revenue water as percent by volume of Water Supplied: <input type="text" value="21.8%"/></p> <p>Non-revenue water as percent by cost of operating system: <input type="text" value="4.3%"/> Real Losses valued at Variable Production Cost</p> </div> </div>	Operational Efficiency:	<div style="display: flex; justify-content: space-between;"> <div style="flex: 1;"> <p>Apparent Losses per service connection per day: <input type="text" value="1.08"/> gallons/connection/day</p> <p>Real Losses per service connection per day: <input type="text" value="N/A"/> gallons/connection/day</p> <p>Real Losses per length of main per day*: <input type="text" value="1,338.61"/> gallons/mile/day</p> <p>Real Losses per service connection per day per psi pressure: <input type="text" value="N/A"/> gallons/connection/day/psi</p> </div> </div>			From Above, Real Losses = Current Annual Real Losses (CARL): <input type="text" value="37.13"/> million gallons/year			<input type="checkbox"/> Infrastructure Leakage Index (ILI) [CARL/UARL]: <input type="text" value="1.40"/>
Financial:	<div style="display: flex; justify-content: space-between;"> <div style="flex: 1;"> <p>Non-revenue water as percent by volume of Water Supplied: <input type="text" value="21.8%"/></p> <p>Non-revenue water as percent by cost of operating system: <input type="text" value="4.3%"/> Real Losses valued at Variable Production Cost</p> </div> </div>											
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		<input type="checkbox"/> Infrastructure Leakage Index (ILI) [CARL/UARL]: <input type="text" value="1.40"/>										
<p>* This performance indicator applies for systems with a low service connection density of less than 32 service connections/mile of pipeline</p>												

TOWN OF SOMERVILLE, TENNESSEE
SCHEDULE OF CHANGES IN PROPERTY TAXES RECEIVABLE
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

<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>
2016	0.71	\$ 416,246	\$ -	\$ 416,624	\$ -	\$ 416,624	\$ -
2015	0.71	416,246	416,246	45,374	441,781	19,839	-
2014	0.71	459,489	29,153	(442)	7,920	20,791	20,791
2013	0.71	453,286	9,281	(376)	7,257	1,648	1,648
2012	0.67	445,350	2,685	-	1,709	976	976
2011	0.67	433,474	1,091	-	10	1,081	1,081
2010	0.57	358,633	224	-	10	214	214
2009	0.57	352,558	939	-	506	433	433
2008	0.57	305,031	227	-	8	219	219
2007	0.57	291,191	8,503	-	8	8,495	8,503
2006	0.57	274,716	1,279	-	8	1,271	1,279
2005	0.57	261,025	2,165	-	8	2,157	2,165
2004	0.57	252,017	-	-	-	-	-
2003	0.57	251,131	-	-	-	-	-
2002	0.54	215,497	-	-	-	-	-
			<u>\$ 471,793</u>	<u>\$ 461,180</u>	<u>\$ 459,225</u>	<u>\$ 473,748</u>	<u>\$ 37,309</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, 2016

Year Ending June 30,	General Obligation Bonds	
	Series 2013	
	Principal	Interest
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
	\$ 482,212	\$ 182,486

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, 2016

Year Ending <u>June 30,</u>	2013 Series Refunding	
	Principal	Interest
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	52,036	2,268
	<u>\$ 1,126,508</u>	<u>\$ 510,394</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, 2016

Year Ending June 30,	2013 Series Refunding	
	Principal	Interest
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
	\$ 2,821,280	\$ 1,158,584

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, 2016

Year Year Ending June 30,	Tax and Revenue Bonds	
	RED Gas Bond	
	Series 1998	
	Principal	Interest
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	35,771	680
	<u>\$ 707,572</u>	<u>\$ 383,607</u>

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

TOWN OF SOMERVILLE, TENNESSEE
SCHEDULE OF UTILITY RATES IN FORCE
JUNE 30, 2016

WATER RATES

Inside Residential Minimum per 1,000 gallons	\$ 11.92 2.02	Outside Residential Minimum per 1,000 gallons	\$ 14.70 2.12
Inside Commercial Minimum per 1,000 gallons	\$ 14.70 2.12	Outside Commercial Minimum per 1,000 gallons	\$ 17.47 2.58

Number of customers: 1,837

SEWER RATES

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

Number of customers: 1,488

GAS RATES

	Customer Charge
Inside Residential	\$ 12.75
Outside Residential	\$ 14.00
Inside Commercial	\$ 19.60
Outside Commerical	\$ 21.00
Inside Industrial	\$ 25.00
Outside Industrial	\$ 27.00
All customer per 100 cu feet	0.39

Number of customers: 6,483

GARBAGE RATES

	Monthly Rate
Residential	\$ 18.36
Small Business	\$ 25.86 - 74.47
Commercial	\$ 91.36 - 390.55

Number of customers: 1,299

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, 2016

Federal Grantor/Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass- Through Grantor's Number	Expenditures
<u>FEDERAL AWARDS</u>			
Department of Transportation			
SR-460 Water Project	N/A	24092-2203-14	\$ 8,028
SR-460 Sewer Project	N/A	24092-2203-14	8,766
SR-460 Gas Project	N/A	24092-2203-14	5,486
Total Department of Transportation			<u>22,280</u>
Department of Housing and Urban Development:			
Passed-through State Department of Economic and Community Development/ Fayette County, Tennessee: Community Development Block Grants/State Program 2015 Sewer System Improvements	14.228	unavailable	<u>18,314</u>
Department of Transportation			
Highway Safety Cluster - Alcohol Open Container Requirements- High Visibility Law Enforcement Campaigns	20.607	Z15GHS328	<u>4,888</u>
TOTAL FEDERAL AWARDS			<u>45,482</u>
<u>STATE FINANCIAL ASSISTANCE</u>			
State Fire Enforcement Supplement	-	-	2,400
State Law Enforcement Supplement	-	-	<u>6,000</u>
TOTAL STATE AWARDS			<u>8,400</u>
TOTAL FEDERAL AND STATE AWARDS			<u>\$ 53,882</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, 2016. 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, 2016, 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 8, 2016.

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.

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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. We did identify certain deficiencies in internal control, described below that we consider to be material weaknesses.

2016 – 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*.

Management's Response: Management continues to attempt to adhere to the Purchasing Policy. We have taken corrective measures in purchasing inventory and ordering repairs on vehicles so we do not have this issue in the future. We now have one individual who does all of the purchasing of inventory and repairs are now unofficially required to have a purchase order. We discuss the Purchasing Policy on a regular basis with supervisors at our weekly staff meetings. We hope these measures will stop this issue.

2016 – 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 yearend.

Management's Response: We will strive for greater accuracy in the initial input of data thereby reducing the number of adjustment entries that need to be made.

2016 – 003 ACCOUNTS NOT RECONCILED (original finding 2015-003)

The Town had several accounts which were not reconciled properly including prepaid insurance, capital assets 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.

Management's Response: The Town will ensure that the CMFO, Utility Billing Office Manager and/or other management level employees will review and reconcile these journals and ledgers.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free of 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standard*.

Town's Response to Findings

The Town's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. 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.

Morlun & Associates, PLLC

December 8, 2016

TOWN OF SOMERVILLE, TENNESSEE
SCHEDULE OF DISPOSITION OF PRIOR YEAR FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Financial Statement Findings

Finding Number	Finding Title	Status
2015-001	Purchase Orders	Repeated
2015-002	General Ledger Materially Misstated Before Audit Adjustment	Repeated
2015-003	Accounts Reconciled	Repeated
2015-004	Misclassified Expenditures/Expenses	Corrected
2015-005	Competitive Bidding	Corrected