

**TOWN OF SOMERVILLE,
TENNESSEE**

ANNUAL FINANCIAL REPORT

JUNE 30, 2017

TOWN OF SOMERVILLE, TENNESSEE

ANNUAL FINANCIAL REPORT

YEAR ENDED JUNE 30, 2017

TABLE OF CONTENTS

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

Other Supplemental Information

Combining and Individual Fund Financial Statements and Schedules:

Non-Major Governmental Funds:

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

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

State Street Aid	47
Drug Fund	48

AWWA WLCC Free Water Audit Software: Reporting Worksheet – “Unaudited”	49
--	----

AWWA Free Water Audit Software: Performance Indicators – “Unaudited”	50
--	----

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

Schedule of Long-Term Debt Requirements

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

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

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

INTERNAL CONTROL AND COMPLIANCE SECTION

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

Schedule of Disposition of Prior Audit Findings	60
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**TOWN OF SOMERVILLE, TENNESSEE
ROSTER OF PUBLICLY ELECTED AND MANAGEMENT OFFICIALS
JUNE 30, 2017**

Elected Officials

Ronnie Neill	Mayor
Sandra Myers	Vice-Mayor
Mike French	Aldersperson
John David Douglas	Aldersperson
Jason Hamilton	Aldersperson
James Lofties	Aldersperson
Judy Accardi	Aldersperson

Management Officials

Robert Turner	City Administrator
Amanda Stout	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, 2017, 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, 2017, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, 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 44 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 combining and individual nonmajor fund financial statements and schedules, and other supplemental information 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: 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 14, 2017, 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 solely to describe the scope of our testing of the effectiveness 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.

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

December 14, 2017

**TOWN OF SOMERVILLE, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2017**

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, 2017. 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, 2017, net position changed as follows:

TOWN OF SOMERVILLE'S NET POSTION

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Current and other assets	\$ 1,608,315	\$ 2,420,839	\$ 10,135,670	\$ 10,596,817	\$ 11,743,985	\$ 13,017,656
Capital Assets	9,057,071	6,631,795	19,658,627	18,850,512	28,715,698	25,482,307
Total Assets	<u>10,665,386</u>	<u>9,052,634</u>	<u>29,794,297</u>	<u>29,447,329</u>	<u>40,459,683</u>	<u>38,499,963</u>
Total Deferred outflows of resources	<u>271,761</u>	<u>65,117</u>	<u>312,292</u>	<u>78,293</u>	<u>584,053</u>	<u>143,410</u>
Long term liabilities	510,228	531,015	4,576,397	4,755,394	5,086,625	5,286,409
Other liabilities	536,381	75,987	1,079,031	883,233	1,615,412	959,220
Total liabilities	<u>1,046,609</u>	<u>607,002</u>	<u>5,655,428</u>	<u>5,638,627</u>	<u>6,702,037</u>	<u>6,245,629</u>
Total deferred inflows of resources	<u>482,578</u>	<u>515,001</u>	<u>44,220</u>	<u>106,984</u>	<u>526,798</u>	<u>621,985</u>
Net Position						
Net investments in capital assets	8,546,843	6,100,780	15,155,303	14,171,310	23,702,146	20,272,090
Restricted	106,040	196,180	-	146,316	106,040	342,496
Unrestricted	<u>755,077</u>	<u>1,698,788</u>	<u>9,251,638</u>	<u>9,462,385</u>	<u>10,006,715</u>	<u>11,161,173</u>
Total Net Position	<u>\$ 9,407,960</u>	<u>\$ 7,995,748</u>	<u>\$ 24,406,941</u>	<u>\$ 23,780,011</u>	<u>\$ 33,814,901</u>	<u>\$ 31,775,759</u>

During the current fiscal year, the Town's total net position increased by \$2,039,142 compared to the prior year increase of \$6,284,523. The primary reason for this decrease from the prior year 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	
	2017	2016	2017	2016	2017	2016
Revenues:						
Program Revenues:						
Fees, fines and charges for services	\$ 332,788	\$ 286,824	\$ 5,732,211	\$ 5,712,184	\$ 6,064,999	\$ 5,999,008
Operating grants and contributions	110,286	99,761	-	-	110,286	99,761
Capital grants and contributions	8,082	5,626	171,764	40,906	179,846	46,532
General Revenues:						
Property taxes	496,608	500,573	-	-	496,608	500,573
Sales taxes	1,085,767	1,109,050	-	-	1,085,767	1,109,050
Public service taxes	20,393	20,503	-	-	20,393	20,503
Investment earnings	4,666	4,439	46,000	40,403	50,666	44,842
Gain on sale of assets	9,730	18,299	24,302	8,554	34,032	26,853
Insurance recoveries	-	-	6,500	-	6,500	-
Pension income	-	-	-	-	-	-
Negative pension expense	-	21,749	-	23,558	-	45,307
Contributions	1,304,666	5,396,194	-	-	1,304,666	5,396,194
Rent	107,760	102,721	-	-	107,760	102,721
Miscellaneous	2,479	439	-	107	2,479	546
Transfers	135,617	126,143	-	-	135,617	126,143
Total Revenues	3,618,842	7,692,321	5,980,777	5,825,712	9,599,619	13,518,033
Expenses:						
General government	344,361	423,412	-	-	344,361	423,412
Public safety	1,334,481	1,267,251	-	-	1,334,481	1,267,251
Public works	382,736	368,195	-	-	382,736	368,195
Health, welfare and recreation	129,071	60,083	-	-	129,071	60,083
Interest on long-term debt	15,981	17,065	-	-	15,981	17,065
Water	-	-	669,333	642,561	669,333	642,561
Sewer	-	-	720,943	734,133	720,943	734,133
Natural Gas	-	-	3,303,331	3,090,071	3,303,331	3,090,071
Solid Waste	-	-	524,623	504,596	524,623	504,596
Internal service	-	-	-	-	-	-
Transfers out	-	-	135,617	126,143	135,617	126,143
Total Expenses	2,206,630	2,136,006	5,353,847	5,097,504	7,560,477	7,233,510
Increase (decrease) in net position	1,412,212	5,556,315	626,930	728,208	2,039,142	6,284,523
Net position-beginning, as originally stated	7,995,748	2,439,433	23,780,011	23,051,803	31,775,759	25,491,236
Net position at end of year	\$ 9,407,960	\$ 7,995,748	\$ 24,406,941	\$ 23,780,011	\$ 33,814,901	\$ 31,775,759

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 \$704,352, a 59% decrease from last year's total of \$1,737,301.

The following schedule presents a summary of general and, special revenue funds' revenues and expenditures for the fiscal year ended June 30, 2017, and the amount and percentage of increases and decreases in relation to the prior year.

Revenues	June 30, 2017	Percent of Total	Increase (Decrease) from June 30, 2016
Taxes	\$ 1,285,301	36.81%	\$ 16,527
Intergovernmental	454,279	13.01%	(10,400)
Licenses and permits	18,068	0.52%	(36,599)
Charges for services	52,729	1.51%	(11,640)
Fines and forfeitures	256,025	7.33%	103,377
Other revenues	1,425,537	40.82%	(4,093,396)
Total Revenues	\$ 3,491,939	100.00%	\$ (4,032,131)

The decrease in other revenues is due to a contribution of the hospital building in the prior year.

Expenditures	June 30, 2017	Percent of Total	Increase (Decrease) from June 30, 2016
General government	\$ 219,570	4.70%	\$ (80,795)
Public Safety	1,213,888	25.99%	34,034
Public Works	316,534	6.78%	13,428
Health, welfare, and recreation	106,339	2.28%	68,987
Capital outlay	2,770,094	59.31%	(2,571,874)
Debt Service	43,810	0.94%	(759)
Total Expenditures	\$ 4,670,235	100.00%	\$ (2,536,979)

The Town's general government capital outlay expenditures increased in the prior year 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, 2017, the Town had invested \$28,715,698 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 \$3,233,391, or 13% above last year. Additional information on capital assets is on pages 32 - 33.

Debt

At year-end, the Town had \$5,086,625 in outstanding long-term debt compared to \$5,286,409 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, 2017

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 1,553,710	\$ 7,067,494	\$ 8,621,204
Investments	111,647	1,775,443	1,887,090
Receivables:			
Property taxes	468,267	-	468,267
Accounts receivable, net of allowance	594	264,389	264,983
Grant receivables	-	-	-
Other receivables	-	4,230	4,230
Interest receivables	536	8,518	9,054
Internal balances	(734,854)	734,854	-
Due from other governments	175,967	-	175,967
Inventory	-	240,097	240,097
Prepaid expenses	32,448	40,645	73,093
Capital assets:			
Land, improvements and construction in progress	2,796,199	1,180,271	3,976,470
Other capital assets, net of depreciation	6,260,872	18,478,356	24,739,228
TOTAL ASSETS	10,665,386	29,794,297	40,459,683
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pensions	271,761	312,292	584,053
LIABILITIES			
Accounts payable and accrued expenses	435,751	355,295	791,046
Customer deposits	-	561,914	561,914
Unearned revenues - other	1,174	29,033	30,207
Net pension liability	99,456	132,789	232,245
Long-term liabilities:			
Due within one year	28,263	180,138	208,401
Due in more than one year	481,965	4,396,259	4,878,224
TOTAL LIABILITIES	1,046,609	5,655,428	6,702,037
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenues - property taxes	426,700	-	426,700
Deferred inflows related to pensions	55,878	44,220	100,098
DEFERRED INFLOWS OF RESOURCES	482,578	44,220	526,798
NET POSITION			
Net investment in capital assets	8,546,843	15,155,303	23,702,146
Restricted for:			
Restricted for pensions	-	-	-
State Street Aid Fund	75,753	-	75,753
Police Drug Fund	30,287	-	30,287
Unrestricted	755,077	9,251,638	10,006,715
TOTAL NET POSITION	\$ 9,407,960	\$ 24,406,941	\$ 33,814,901

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, 2017**

Program Activities	Expenses	PROGRAM REVENUES			NET (EXPENSES) REVENUE AND CHANGES IN NET POSITION		
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
General Government	\$ 344,361	\$ 22,464	\$ 10,000	\$ -	\$ (311,897)	\$ -	\$ (311,897)
Public Safety	1,334,481	281,620	8,400	8,082	(1,036,379)	-	(1,036,379)
Public Works	382,736	21,167	91,886	-	(269,683)	-	(269,683)
Health, Welfare and Recreation	129,071	7,537	-	-	(121,534)	-	(121,534)
Interest on long-term debt	15,981	-	-	-	(15,981)	-	(15,981)
Business-type activities:							
Water Fund	669,333	900,718	-	-	-	231,385	231,385
Sewer Fund	720,943	769,742	-	171,764	-	220,563	220,563
Natural Gas Fund	3,303,331	3,531,570	-	-	-	228,239	228,239
Solid Waste	524,623	530,181	-	-	-	5,558	5,558
Internal Service Fund	-	-	-	-	-	-	-
Total business-type activities	5,218,230	5,732,211	-	171,764	-	685,745	685,745
Total government	\$ 7,424,860	\$ 6,064,999	\$ 110,286	\$ 179,846	(1,755,474)	685,745	(1,069,729)

General revenues:

Taxes:			
Property	461,699	-	461,699
In-lieu of taxes	34,909	-	34,909
Sales	1,085,767	-	1,085,767
Public service taxes	20,393	-	20,393
Investment earnings	4,666	46,000	50,666
Gain (loss) on sale/retirement of capital assets	9,730	24,302	34,032
Insurance recoveries	-	6,500	6,500
Rent	107,760	-	107,760
Contributions	1,304,666	-	1,304,666
Miscellaneous	2,479	-	2,479
Transfer out - in lieu of taxes	135,617	(135,617)	-
Total general revenues and transfers	3,167,686	(58,815)	3,108,871
Change in net position	1,412,212	626,930	2,039,142
Net position- beginning	7,995,748	23,780,011	31,775,759
Net position - ending	\$ 9,407,960	\$ 24,406,941	\$ 33,814,901

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

**TOWN OF SOMERVILLE, TENNESSEE
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2017**

	<u>General</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 1,460,183	\$ 93,527	\$ 1,553,710
Investments	111,647	-	111,647
Accounts receivable	594	-	594
Taxes receivable	468,267	-	468,267
Interest receivable	536	-	536
Receivables from other governments	160,039	15,928	175,967
Due from other funds	91	-	91
Prepaid expenses	32,448	-	32,448
	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 2,233,805</u>	<u>\$ 109,455</u>	<u>\$ 2,343,260</u>
LIABILITIES			
Accounts payable	\$ 426,939	\$ 2,241	\$ 429,180
Accrued expenses	5,342	-	5,342
Unearned revenue - other	-	1,174	1,174
Due to other funds	57	-	57
Advance from other funds	734,888	-	734,888
Total liabilities	<u>1,167,226</u>	<u>3,415</u>	<u>1,170,641</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenues - property taxes	468,267	-	468,267
FUND BALANCE			
<i>Nonspendable</i>			
Prepaid items	32,448	-	32,448
<i>Restricted</i>			
State street aid	-	75,753	75,753
Drug	-	30,287	30,287
<i>Unassigned</i>			
General fund	565,864	-	565,864
Total fund balance	<u>598,312</u>	<u>106,040</u>	<u>704,352</u>
	<u> </u>	<u> </u>	<u> </u>
Total liabilities, deferred inflows of resources, and fund balance	<u>\$ 2,233,805</u>	<u>\$ 109,455</u>	<u>\$ 2,343,260</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, 2017

Total fund balance - total governmental funds	\$	704,352
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.		9,057,071
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		41,567
Net pension liability is not recorded on governmental fund balance sheet but is recorded for government-wide purposes.		(99,456)
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.		215,883
Accrued interest is not reported in the governmental funds balance sheet but is recorded for government-wide purposes.		(1,229)
Long-term liabilities are not due and payable in the current period and, therefore, they are not reported in the governmental funds balance sheet.		<u>(510,228)</u>
Net position of governmental activities	<u>\$</u>	<u>9,407,960</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, 2017

	<u>General</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues			
Taxes	\$ 1,285,301	\$ -	\$ 1,285,301
Intergovernmental revenues	362,393	91,886	454,279
Licenses and permits	18,068	-	18,068
Charges for services	52,729	-	52,729
Fines, forfeits, and penalties	247,783	8,242	256,025
Other revenues	<u>1,425,517</u>	<u>20</u>	<u>1,425,537</u>
Total Revenues	<u>3,391,791</u>	<u>100,148</u>	<u>3,491,939</u>
Expenditures			
Current			
General government	219,570	-	219,570
Public safety	1,211,438	2,450	1,213,888
Public works	272,049	44,485	316,534
Health, welfare, and recreation	106,339	-	106,339
Capital outlay	2,770,094	-	2,770,094
Debt service	<u>28,589</u>	<u>15,221</u>	<u>43,810</u>
Total Expenditures	<u>4,608,079</u>	<u>62,156</u>	<u>4,670,235</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,216,288)</u>	<u>37,992</u>	<u>(1,178,296)</u>
Other financing sources (uses)			
Transfers in	135,617	-	135,617
Gain on sale of assets	<u>2,800</u>	<u>6,930</u>	<u>9,730</u>
Total other financing sources (uses)	<u>138,417</u>	<u>6,930</u>	<u>145,347</u>
Net change in fund balance	(1,077,871)	44,922	(1,032,949)
FUND BALANCE - beginning of year	<u>1,676,183</u>	<u>61,118</u>	<u>1,737,301</u>
FUND BALANCE - end of year	<u>\$ 598,312</u>	<u>\$ 106,040</u>	<u>\$ 704,352</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, 2017

Net change in fund balances - total governmental funds	\$ (1,032,949)
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.	2,770,094
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.	(342,156)
Effect of GASB 68 on retirement expense; reported on governmental funds but not on government-wide for 2015-2016 year	53,054
Principal paid on debt	27,588
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	(38,223)
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	(6,752)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	<u>(18,444)</u>
Change in net position of governmental activities	<u><u>\$ 1,412,212</u></u>

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

**TOWN OF SOMERVILLE, TENNESSEE
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCE - BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2017**

Revenues	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Taxes				
Property taxes - current	\$ 410,000	\$ 410,000	\$ 433,437	\$ 23,437
Property taxes - delinquent	41,500	41,500	46,706	5,206
Local option sales taxes	480,000	480,000	518,132	38,132
Local wholesale beer taxes	180,000	180,000	182,149	2,149
Local wholesale liquor taxes	60,000	60,000	59,637	(363)
Business taxes	25,000	25,000	24,847	(153)
Cable TV franchise taxes	19,000	19,000	20,393	1,393
Total taxes	1,215,500	1,215,500	1,285,301	69,801
Intergovernmental				
State of Tennessee				
- TVA replacement tax	34,000	34,000	34,909	909
- Sales tax allocation	230,000	230,000	256,425	26,425
- Income tax allocation	40,000	40,000	21,674	(18,326)
- Beer tax allocation	1,500	1,500	1,494	(6)
- Telecommunication tax	300	300	313	13
- Alcoholic beverage tax	1,000	1,000	509	(491)
- Corporate excise tax	20,000	20,000	20,587	587
Department of agriculture grant	104,000	104,000	864	(103,136)
Police vest grant	5,000	5,000	2,872	(2,128)
Governor's highway safety grant	5,000	5,000	3,246	(1,754)
Federal and state grants	129,375	129,375	-	(129,375)
Fayette county healthy environment grant	-	-	10,000	10,000
TML Safety grant	1,500	1,500	1,100	(400)
Police salary supplement	6,000	6,000	6,000	-
Fire salary supplement	3,000	3,000	2,400	(600)
Total intergovernmental revenues	580,675	580,675	362,393	(218,282)
Licenses and permits				
Beer permits	3,000	3,000	3,000	-
Liquor by the drink permits	1,200	1,200	-	(1,200)
Building permits	3,000	3,000	14,451	11,451
Sign permits	500	500	277	(223)
Site plan review	500	500	340	(160)
Zoning permits	250	250	-	(250)
Total licenses and permits	8,450	8,450	18,068	9,618
Charges for services				
Clerk fees	2,000	2,000	3,555	1,555
Special fire protection charges	25,000	25,000	25,000	-
Accident reports	500	500	595	95
Grave opening and closing fees	1,500	1,500	1,575	75
Street repairs	65,000	65,000	4,481	(60,519)
Mosquito abatement	10,000	10,000	9,936	(64)
Demolition fees	50	50	50	-
Arts and entertainment (theater)	10,000	10,000	7,537	(2,463)
Total charges for services	114,050	114,050	52,729	(61,321)
Fines, forfeits, and penalties				
City court fines	160,000	160,000	234,232	74,232
Sale of seized DUI vehicles	2,000	2,000	676	(1,324)
Court fines from County	12,500	12,500	12,875	375
Total fines, forfeits, and penalties	174,500	174,500	247,783	73,283

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, 2017

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues (continued)				
Other revenues				
Insurance recoveries	7,000	7,000	841	(6,159)
Sales of cemetery lots	10,000	10,000	5,125	(4,875)
Contributions	2,000	2,000	788	(1,212)
Donations FCHEC	1,280,000	1,280,000	1,303,878	23,878
Penalties and interest	9,700	9,700	4,646	(5,054)
Rent	107,760	107,760	107,760	-
Miscellaneous	75	75	2,479	2,404
Total other revenues	1,416,535	1,416,535	1,425,517	8,982
Total revenues	3,509,710	3,509,710	3,391,791	(117,919)
Expenditures				
General government				
Legislative				
Mayor and board members	10,296	10,296	7,977	2,319
Payroll taxes	788	788	651	137
Retirement	627	627	-	627
Election officials	-	-	290	(290)
Memberships	-	-	165	(165)
Legal services	2,500	2,500	-	2,500
Travel	200	200	362	(162)
Professional services	500	500	-	500
Total legislative	14,911	14,911	9,445	5,466
Building department				
Salaries	10,192	10,192	16,194	(6,002)
Payroll taxes	780	780	1,290	(510)
Workers compensation	75	75	-	75
Contract labor	2,000	2,000	25,770	(23,770)
Postage, box rental, etc...	100	100	52	48
Publication of notices	1,000	1,000	527	473
Memberships	200	200	1,400	(1,200)
Professional services	45,000	45,000	1,325	43,675
Legal services	1,000	1,000	2,648	(1,648)
Repair and maintenance - vehicles	500	500	43	457
Operating supplies	750	750	750	-
Gas, oil, and grease	500	500	342	158
Total building department	62,097	62,097	50,341	11,756
General government buildings				
Utility services	10,000	10,000	10,043	(43)
Telephone services	6,000	6,000	6,245	(245)
Professional services	-	-	6,653	(6,653)
Legal services	-	-	909	(909)
Repairs and maintenance	38,000	38,000	46,275	(8,275)
Operating supplies	4,500	4,000	6,761	(2,761)
Insurance on buildings	1,250	1,250	4,282	(3,032)
Liability insurance	450	450	2,177	(1,727)
Donations	-	-	500	(500)
Capital outlay	90,000	90,000	77,301	12,699
Total general government buildings	150,200	149,700	161,146	(11,446)

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, 2017

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures (continued)				
General government (continued)				
City recorder				
Salaries	50,211	50,211	50,466	(255)
Salaries - overtime	250	250	294	(44)
Deferred compensation expense	250	250	282	(32)
OASI	3,879	3,879	4,365	(486)
Hospital and health	8,046	8,046	8,212	(166)
Retirement	3,088	3,088	3,388	(300)
Workers compensation	50	50	83	(33)
Unemployment	100	100	105	(5)
Postage and box rental	100	100	105	(5)
Publication of notices	100	100	58	42
Memberships, fees, tuition	1,000	1,000	596	404
Utility services	200	200	-	200
Telephone	200	200	162	38
Professional services	200	200	148	52
Legal services	150	150	65	85
Accounting and auditing	1,500	1,500	1,837	(337)
Collection expense - delinquent taxes	900	900	1,630	(730)
Repair and maintenance - equipment	100	100	-	100
Travel	250	250	450	(200)
Operating supplies	2,000	2,000	1,943	57
Clothing allowance	1,500	1,500	1,373	127
Insurance - commercial property	72	72	74	(2)
Liability insurance	300	300	303	(3)
Total city recorder	74,446	74,446	75,939	(1,493)
Total general government	301,654	301,154	296,871	4,283
Public safety				
Police department				
Salaries	505,653	505,653	495,223	10,430
Salaries - overtime	10,000	10,000	16,085	(6,085)
Salaries - ghso grant	5,000	5,000	2,561	2,439
Deferred compensation expense	2,500	2,500	1,125	1,375
Court salaries - overtime	1,000	1,000	-	1,000
Payroll taxes	40,098	40,098	38,612	1,486
Hospital and health	66,052	66,052	67,329	(1,277)
Retirement	31,921	31,921	29,461	2,460
Workers compensation	20,000	20,000	24,916	(4,916)
Unemployment	100	100	105	(5)
Postage and box rental	250	250	185	65
Publication of notices	1,000	1,000	833	167
Memberships, fees, tuition	18,000	18,000	8,301	9,699
Utility services	5,500	5,500	4,734	766
Telephone	6,000	6,000	6,159	(159)
Professional service	1,500	1,500	4,639	(3,139)
Legal service	5,000	5,000	7,546	(2,546)
Accounting and auditing	1,500	1,500	1,837	(337)
Other professional services	-	-	599	(599)
Repair and maintenance	1,000	1,000	73	927
Repair and maintenance - vehicles	15,000	15,000	14,050	950
Repair and maintenance - equipment	4,000	4,000	7,250	(3,250)
Repair and maintenance - buildings	10,000	10,000	9,422	578
Travel	5,000	5,000	1,664	3,336
Operating supplies	17,500	17,500	15,914	1,586
Clothing and uniforms	12,000	12,000	6,925	5,075
Fire arm supplies	5,000	5,000	617	4,383
Gas, oil, and diesel	45,000	45,000	37,427	7,573
Vehicle towing	500	500	285	215
Insurance commercial	1,100	1,100	1,147	(47)
Insurance on vehicles and equipment	6,600	6,600	7,048	(448)
Liability insurance	15,800	15,800	11,940	3,860
Small items of equipment	1,000	1,000	7,696	(6,696)
Capital outlay	68,000	68,000	65,465	2,535
Total police department	928,574	928,574	897,173	31,401

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, 2017

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures (continued)				
Public safety (continued)				
Fire department				
Salaries	171,387	171,387	185,277	(13,890)
Salaries - overtime	30,000	30,000	33,253	(3,253)
Deferred compensation	1,100	1,100	550	550
Payroll taxes	16,630	16,630	17,961	(1,331)
Hospital and health	24,023	24,023	15,655	8,368
Retirement	12,264	12,264	12,984	(720)
Workers compensation	6,250	6,250	7,533	(1,283)
Unemployment	100	100	105	(5)
Volunteer firemen	16,000	16,000	16,000	-
Postage and box rental	100	100	94	6
Publication of notices	300	300	58	242
Memberships, fees, tuition	10,000	10,000	15,426	(5,426)
Utility services	9,000	9,000	9,321	(321)
Telephone	2,500	2,500	3,760	(1,260)
Professional services	500	500	809	(309)
Legal services	200	200	65	135
Accounting and auditing	1,500	1,500	1,837	(337)
Repair and maintenance	500	500	-	500
Repair and maintenance - vehicles	5,000	5,000	1,248	3,752
Repair and maintenance - equipment	3,000	3,000	4,252	(1,252)
Repair and maintenance - buildings	250	250	2,778	(2,528)
Travel	1,000	1,000	19	981
Office supplies	250	250	-	250
Operating supplies	10,000	10,000	5,264	4,736
Uniforms	2,500	2,500	8,481	(5,981)
Gas, oil and diesel	7,000	7,000	5,278	1,722
Small items of equipment	250	250	18,892	(18,642)
Insurance commercial	1,940	1,940	2,021	(81)
Insurance on vehicles and equipment	10,060	10,060	7,236	2,824
Liability insurance	3,000	3,000	3,573	(573)
Debt service - principal	14,967	14,967	14,696	271
Debt service - interest	13,125	13,125	13,123	2
Paying agent fees	27	27	27	-
Capital outlay	36,500	36,500	25,391	11,109
Total fire department	411,223	411,223	432,967	(21,744)
Total public safety	1,339,797	1,339,797	1,330,140	9,657
Public works				
Streets and highways				
Salaries	122,214	122,214	120,469	1,745
Salaries - overtime	1,500	1,500	3,644	(2,144)
Deferred compensation expense	1,000	1,000	6	994
Payroll taxes	9,464	9,464	9,267	197
Hospital and health	17,040	17,040	13,474	3,566
Retirement	7,534	7,534	7,221	313
Workers compensation	2,500	2,500	4,256	(1,756)
Unemployment	100	100	105	(5)
Postage and box rental	100	100	84	16
Publication of notices	1,000	1,000	794	206
Memberships, fees, tuition	1,000	1,000	495	505
Utility services	900	900	330	570
Street sweeping	65,000	65,000	4,481	60,519
Telephone	600	600	354	246
Professional services	1,000	1,000	744	256
Legal services	1,000	1,000	65	935
Accounting and auditing	1,500	1,500	1,837	(337)
Mosquito spraying	9,170	9,170	7,860	1,310
Repair and maintenance	2,000	2,000	2,809	(809)
Repair and maintenance - vehicles	2,000	2,000	3,661	(1,661)
Repair and maintenance - equipment	5,000	5,000	3,905	1,095
Repair and maintenance - traffic signal	15,000	15,000	6,441	8,559
Repair and maintenance - building	2,500	2,500	609	1,891
Repair and maintenance - streets	15,000	15,000	30,252	(15,252)
Street overlay	58,000	58,000	-	58,000
Travel	500	500	134	366
Operating supplies	7,500	7,500	5,545	1,955
Uniforms	1,750	1,750	2,221	(471)
Gas, oil and diesel	7,000	7,000	6,696	304
Sign parts	-	-	6,911	(6,911)
Small items of equipment	1,000	1,000	6,067	(5,067)
Insurance commercial	1,700	1,700	1,818	(118)
Insurance on vehicles and equipment	1,200	1,200	390	810
Liability insurance	900	900	1,325	(425)
Debt service - interest	744	744	743	1
Bad debts - mosquito abatement	125	125	45	80
Capital outlay	331,000	331,000	50,614	280,386
Total streets and highways	695,541	695,541	305,672	389,869

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, 2017

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Expenditures (continued)				
Public works (continued)				
Cemetery				
Advertising	-	-	741	(741)
Legal services	-	-	56	(56)
Repair and maintenance	25,000	25,000	16,600	8,400
Operating supplies	300	300	-	300
Insurance commercial	340	340	337	3
Insurance vehicles	140	140	-	140
Capital outlay	50,000	50,000	32,636	17,364
Total cemetery	<u>75,780</u>	<u>75,780</u>	<u>50,370</u>	<u>25,410</u>
Total public works	<u>771,321</u>	<u>771,321</u>	<u>356,042</u>	<u>415,279</u>
Health, welfare, and recreation				
Culture and the arts				
Newspaper advertisements	1,500	1,500	1,140	360
Utility services	5,800	5,800	3,854	1,946
Repair and maintenance	20,000	20,000	12,810	7,190
Operating supplies	25,500	25,500	16,653	8,847
Signs	5,000	5,000	824	4,176
Total culture and the arts	<u>57,800</u>	<u>57,800</u>	<u>35,281</u>	<u>22,519</u>
UT Martin building				
Utility services	50,000	50,000	28,418	21,582
Repair and maintenance	100	100	22,642	(22,542)
Education supplies	-	-	39	(39)
Property insurance	13,000	13,000	9,459	3,541
Capital outlay	2,475,000	2,475,000	2,518,687	(43,687)
Total culture and the arts	<u>2,538,100</u>	<u>2,538,100</u>	<u>2,579,245</u>	<u>(41,145)</u>
Libraries				
Grants and donations	10,000	10,000	10,500	(500)
Total health, welfare, and recreation	<u>2,605,900</u>	<u>2,605,900</u>	<u>2,625,026</u>	<u>(19,126)</u>
Total expenditures	<u>5,018,672</u>	<u>5,018,172</u>	<u>4,608,079</u>	<u>410,093</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,508,962)</u>	<u>(1,508,462)</u>	<u>(1,216,288)</u>	<u>292,174</u>
Other financing sources (uses)				
Transfers in	126,143	126,143	135,617	9,474
Proceeds from note	695,000	695,000	-	(695,000)
Gain on sale of assets	5,000	5,000	2,800	(2,200)
Total other financing sources (uses)	<u>826,143</u>	<u>826,143</u>	<u>138,417</u>	<u>(687,726)</u>
Net change in fund balance	<u>(682,819)</u>	<u>(682,319)</u>	<u>(1,077,871)</u>	<u>(395,552)</u>
Fund balance, beginning of year	<u>1,676,183</u>	<u>1,676,183</u>	<u>1,676,183</u>	<u>-</u>
Fund balance, end of year	<u>\$ 993,364</u>	<u>\$ 993,864</u>	<u>\$ 598,312</u>	<u>\$ (395,552)</u>

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

TOWN OF SOMERVILLE, TENNESSEE
 PROPRIETARY FUNDS
 STATEMENT OF NET POSITION
 JUNE 30, 2017

	Water	Sewer	Natural Gas	Solid Waste	Total	Internal Service Fund
ASSETS						
CURRENT ASSETS						
Cash and cash equivalents	\$ 1,342,222	\$ 1,230,900	\$ 3,918,110	\$ 388,383	\$ 6,879,615	\$ 187,879
Investments	-	-	1,775,443	-	1,775,443	-
Receivables:						
Accounts receivable, net of allowance	48,055	50,153	130,573	31,555	260,336	4,053
Other	3,970	-	-	-	3,970	260
Interest	-	-	8,518	-	8,518	-
Inventory	37,445	-	202,652	-	240,097	-
Due from other funds	5,475	4,674	103,386	4,249	117,784	75
Prepaid expenses	12,017	6,066	16,878	5,684	40,645	-
TOTAL CURRENT ASSETS	1,449,184	1,291,793	6,155,560	429,871	9,326,408	192,267
NONCURRENT ASSETS						
Capital assets, net	3,398,307	8,352,566	7,810,766	96,988	19,658,627	-
Advances to other funds	-	-	734,888	-	734,888	-
TOTAL NONCURRENT ASSETS	3,398,307	8,352,566	8,545,654	96,988	20,393,515	-
TOTAL ASSETS	4,847,491	9,644,359	14,701,214	526,859	29,719,923	192,267
DEFERRED OUTFLOWS						
Deferred outflows related to pensions	45,839	49,259	189,960	27,234	312,292	-
LIABILITIES						
CURRENT LIABILITIES						
Accounts payable	73,036	3,363	238,907	300	315,606	-
Accrued expenses	4,038	529	2,569	316	7,452	21,609
Accrued interest	-	8,042	2,586	-	10,628	-
Customer deposits	66,767	54,318	440,829	-	561,914	-
Deferred revenue	-	-	-	-	-	29,033
Due to other funds	7	-	-	6	13	117,880
Current portion of long-term debt	44,727	112,009	23,402	-	180,138	-
TOTAL CURRENT LIABILITIES	188,575	178,261	708,293	622	1,075,751	168,522
LONG-TERM LIABILITIES						
Compensated absences	13,174	9,258	45,013	5,628	73,073	-
Net pension liability	24,282	24,322	68,062	16,123	132,789	-
Bonds and notes payable(net of unamortized premium)	1,044,782	2,616,617	661,787	-	4,323,186	-
TOTAL LONG-TERM LIABILITIES	1,082,238	2,650,197	774,862	21,751	4,529,048	-
TOTAL LIABILITIES	1,270,813	2,828,458	1,483,155	22,373	5,604,799	168,522
DEFERRED INFLOWS						
Deferred inflows related to pensions	1,781	4,269	38,616	(446)	44,220	-
NET POSITION						
Net investment in capital assets	2,308,798	5,623,940	7,125,577	96,988	15,155,303	-
Unrestricted	1,311,938	1,236,951	6,243,826	435,178	9,227,893	23,745
TOTAL NET POSITION	\$ 3,620,736	\$ 6,860,891	\$ 13,369,403	\$ 532,166	\$ 24,383,196	\$ 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, 2017**

	Water	Sewer	Natural Gas	Solid Waste	Total	Internal Service Fund
OPERATING REVENUES						
Utility sales and services	\$ 888,674	\$ 758,391	\$ 3,230,365	\$ 516,953	\$ 5,394,383	\$ -
Uncollectible accounts	(3,026)	(2,971)	(7,542)	(1,566)	(15,105)	-
Service charges and fees	14,755	13,542	307,536	14,789	350,622	-
Other income	315	780	1,211	5	2,311	-
TOTAL OPERATING REVENUES	<u>900,718</u>	<u>769,742</u>	<u>3,531,570</u>	<u>530,181</u>	<u>5,732,211</u>	<u>-</u>
OPERATING EXPENSES						
Cost of natural gas sold	-	-	1,656,301	-	1,656,301	-
Personal services	210,111	206,979	756,059	127,352	1,300,501	-
Contractual services	11,745	14,285	69,270	343,571	438,871	-
Utility services	60,655	24,023	18,893	1,363	104,934	-
Supplies	35,664	22,852	37,478	7,898	103,892	-
Office expenses	16,351	15,659	54,259	6,259	92,528	-
Insurance	31,321	12,963	33,270	10,234	87,788	-
Repairs and maintenance	120,827	47,746	173,166	3,256	344,995	-
Small items of equipment	-	3,543	33,440	-	36,983	-
Rent	12,981	14,712	72,161	7,906	107,760	-
Miscellaneous	-	189	-	-	189	-
Travel	1,873	522	5,827	388	8,610	-
Depreciation	129,195	260,960	360,243	16,396	766,794	-
TOTAL OPERATING EXPENSES	<u>630,723</u>	<u>624,433</u>	<u>3,270,367</u>	<u>524,623</u>	<u>5,050,146</u>	<u>-</u>
OPERATING INCOME	<u>269,995</u>	<u>145,309</u>	<u>261,203</u>	<u>5,558</u>	<u>682,065</u>	<u>-</u>
NONOPERATING REVENUES (EXPENSES)						
Interest income	5,386	2,553	36,503	1,558	46,000	-
Gain(loss) on sale of capital assets	(744)	-	25,046	-	24,302	-
Insurance recoveries	-	-	6,500	-	6,500	-
Interest expense	(38,610)	(96,510)	(32,964)	-	(168,084)	-
NET NONOPERATING EXPENSES	<u>(33,968)</u>	<u>(93,957)</u>	<u>35,085</u>	<u>1,558</u>	<u>(91,282)</u>	<u>-</u>
NET INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	<u>236,027</u>	<u>51,352</u>	<u>296,288</u>	<u>7,116</u>	<u>590,783</u>	<u>-</u>
Capital contributions	-	171,764	-	-	171,764	-
Transfers out	(11,402)	(32,773)	(91,442)	-	(135,617)	-
TOTAL CONTRIBUTIONS AND TRANSFERS	<u>(11,402)</u>	<u>138,991</u>	<u>(91,442)</u>	<u>-</u>	<u>36,147</u>	<u>-</u>
CHANGE IN NET POSITION	<u>224,625</u>	<u>190,343</u>	<u>204,846</u>	<u>7,116</u>	<u>626,930</u>	<u>-</u>
NET POSITION - BEGINNING OF YEAR	<u>3,396,111</u>	<u>6,670,548</u>	<u>13,164,557</u>	<u>525,050</u>	<u>23,756,266</u>	<u>23,745</u>
NET POSITION - END OF YEAR	<u>\$ 3,620,736</u>	<u>\$ 6,860,891</u>	<u>\$ 13,369,403</u>	<u>\$ 532,166</u>	<u>\$ 24,383,196</u>	<u>\$ 23,745</u>

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

TOWN OF SOMERVILLE, TENNESSEE
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 YEAR ENDED JUNE 30, 2017

	Water	Sewer	Natural Gas	Solid Waste	Total	Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES						
Cash receipts from customers	\$ 890,670	\$ 763,061	\$ 3,536,255	\$ 527,461	\$ 5,717,447	\$ (1,021)
Cash receipts from other funds for services	6,140	8,381	(65,576)	3,420	(47,635)	22,603
Other operating cash receipts	315	780	1,211	5	2,311	-
Cash payments to suppliers for goods and services	(284,990)	(154,444)	(2,094,557)	(303,517)	(2,837,508)	-
Cash payments to other funds for services	-	-	-	-	-	-
Cash payments for personnel services	(212,078)	(220,745)	(781,728)	(214,846)	(1,429,397)	-
CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>400,057</u>	<u>397,033</u>	<u>595,605</u>	<u>12,523</u>	<u>1,405,218</u>	<u>21,582</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Amounts paid to other funds	(11,402)	(32,773)	(91,442)	-	(135,617)	-
CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	<u>(11,402)</u>	<u>(32,773)</u>	<u>(91,442)</u>	<u>-</u>	<u>(135,617)</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Acquisitions/disposals of fixed assets	(636,097)	(64,524)	(702,524)	-	(1,403,145)	-
Gain on sale of capital assets	(744)	-	25,046	-	24,302	-
Contributions from customers	-	-	6,500	-	6,500	-
Contributions from grants	2,405	3,756	-	-	6,161	-
Proceeds from advances from other funds	-	-	12,879	-	12,879	-
Advances to other funds	-	-	(695,000)	-	(695,000)	-
Bond issue premiums	(309)	(774)	-	-	(1,083)	-
Principal payments on long-term debt	(43,493)	(108,919)	(22,383)	-	(174,795)	-
Interest paid on long-term debt	(38,610)	(96,510)	(33,129)	-	(168,249)	-
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(716,848)</u>	<u>(266,971)</u>	<u>(1,408,611)</u>	<u>-</u>	<u>(2,392,430)</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES						
Acquisitions and redemptions of investments	-	-	(13,252)	-	(13,252)	-
Interest earned	5,386	2,553	34,865	1,558	44,362	-
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>5,386</u>	<u>2,553</u>	<u>21,613</u>	<u>1,558</u>	<u>31,110</u>	<u>-</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(322,807)</u>	<u>99,842</u>	<u>(882,835)</u>	<u>14,081</u>	<u>(1,091,719)</u>	<u>21,582</u>
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>1,665,029</u>	<u>1,131,058</u>	<u>4,800,945</u>	<u>374,302</u>	<u>7,971,334</u>	<u>166,297</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 1,342,222</u>	<u>\$ 1,230,900</u>	<u>\$ 3,918,110</u>	<u>\$ 388,383</u>	<u>\$ 6,879,615</u>	<u>\$ 187,879</u>
RECONCILIATION OF INCOME FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES						
Operating income	\$ 269,995	\$ 145,309	\$ 261,203	\$ 5,558	\$ 682,065	\$ -
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:						
Depreciation and amortization	129,195	260,960	360,243	16,396	766,794	-
Gasb 68 adjustments related to pensions	(46,760)	(49,794)	(171,098)	(29,111)	(296,763)	-
Changes in Assets and Liabilities:						
(Increase) decrease in accounts receivable	(7,804)	(7,838)	(14,883)	(2,715)	(33,240)	796
(Increase) decrease in other receivable	(3,481)	-	-	-	(3,481)	(260)
(Increase) decrease in grant receivables	-	-	2,538	-	2,538	-
(Increase) decrease in due from other funds	6,133	8,381	(65,576)	3,414	(47,648)	(75)
(Increase) decrease in inventory	(14,299)	-	19,775	-	5,476	-
(Increase) decrease in prepaids	20	846	(1,044)	(2,232)	(2,410)	(1,557)
(Increase) decrease in net pension assets	19,696	22,510	92,855	11,255	146,316	-
Increase (decrease) in accounts payable	25,657	1,204	40,777	(37)	67,601	13,835
Increase (decrease) in accrued liabilities	(4,951)	(5,536)	(19,206)	(3,750)	(33,443)	-
Increase (decrease) in due to other funds	7	24,322	-	6	24,335	-
Increase (decrease) in net pension liability	24,282	-	68,062	16,123	108,467	-
Increase (decrease) in deferred revenues	-	-	-	-	-	8,843
Increase (decrease) in compensated absences	815	(5,268)	3,718	(2,384)	(3,119)	-
Increase (decrease) in customer deposits	1,552	1,937	18,241	-	21,730	-
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 400,057</u>	<u>\$ 397,033</u>	<u>\$ 595,605</u>	<u>\$ 12,523</u>	<u>\$ 1,405,218</u>	<u>\$ 21,582</u>
NONCASH TRANSACTIONS						
Capital asset additions	\$ -	\$ 236,288	\$ -	\$ -	\$ -	\$ -
Capital assets obtained through Hardeman County CDBG passthrough grant	-	(171,764)	-	-	-	-
Net cash paid for capital asset additions	<u>\$ -</u>	<u>\$ 64,524</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

TOWN OF SOMERVILLE, TENNESSEE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

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, 2017

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.
<u>Proprietary Funds:</u> 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, 2017**

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>	
<i>Special Revenue Funds:</i>	
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, 2017

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, 2017**

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, 2017

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

Net Position Flow Assumption

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

Net position is displayed in three components:

- a. Net investment in capital assets – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.
- b. Restricted net position – Consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net position – All other net position that do not meet the definition of “restricted” or “net investment in capital assets.”

Fund Balance Policies

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

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government’s highest level of decision making authority. The Board of Aldermen is the government’s highest level of decision-making authority for the government that can, 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, 2017

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
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

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, 2017**

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, 2017.

E. BUDGET APPROPRIATIONS

The Town operated within approved budgets the year ended June 30, 2017.

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
JUNE 30, 2017**

2. Change in Capital Assets:

Depreciation was charged to various functions and activities as follows:

Governmental activities	
General government	\$ 125,964
Public safety	125,315
Public works	68,145
Health, welfare and recreation	22,732
Total governmental activities	<u>\$ 342,156</u>
Business-type activities	
Water	\$ 129,195
Sewer	260,960
Natural gas	360,243
Solid Waste	16,396
Total business-type	<u>\$ 766,794</u>

During the fiscal year ended June 30, 2017, the following changes in capital assets occurred:

	<u>Balance 7/1/16</u>	<u>Increases/ Adjustments</u>	<u>Decreases/ Adjustments</u>	<u>Balance 6/30/17</u>
Governmental activities:				
Capital assets not being depreciated				
Land	\$ -	\$ 77,301	\$ -	\$ 77,301
Construction in progress	191,153	2,527,745	-	2,718,898
Subtotal	<u>191,153</u>	<u>2,605,046</u>	<u>-</u>	<u>2,796,199</u>
Capital assets being depreciated				
Buildings and improvements	6,279,016	-	-	6,279,016
Infrastructure	955,314	32,636	-	987,950
Machinery and equipment	564,857	57,551	-	622,408
Vehicles	1,123,891	74,860	42,424	1,156,327
Subtotal	<u>8,923,078</u>	<u>165,047</u>	<u>42,424</u>	<u>9,045,701</u>
Less accumulated depreciation for:				
Buildings and improvements	695,682	149,411	-	845,093
Infrastructure	534,774	52,631	-	587,405
Machinery and equipment	409,109	33,489	-	442,598
Vehicles	842,871	106,625	39,763	909,733
Subtotal	<u>\$ 2,482,436</u>	<u>\$ 342,156</u>	<u>\$ 39,763</u>	<u>2,784,829</u>
Total capital assets, being depreciated, net				<u>6,260,872</u>
Governmental activities capital assets, net				<u>\$ 9,057,071</u>

**TOWN OF SOMERVILLE, TENNESSEE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

	<u>Balance 7/1/16</u>	<u>Increases/ Adjustments</u>	<u>Decreases/ Adjustments</u>	<u>Balance 6/30/17</u>
Business-type activities:				
Capital assets not being depreciated				
Land	\$ 61,907	\$ -	\$ -	\$ 61,907
Construction in Progress	2,548,648	950,307	2,380,591	1,118,364
Subtotal	<u>2,610,555</u>	<u>950,307</u>	<u>2,380,591</u>	<u>1,180,271</u>
Capital assets being depreciated				
Buildings	5,100,309	-	-	5,100,309
Improvements	3,991,797	2,286,290	-	6,278,087
Equipment	2,129,809	175,034	-	2,304,843
Plant	16,177,316	554,746	86,684	16,645,378
Subtotal	<u>27,399,231</u>	<u>3,016,070</u>	<u>86,684</u>	<u>30,328,617</u>
Less accumulated depreciation for:				
Buildings	2,938,441	155,822	-	3,094,263
Improvements	2,209,458	160,457	-	2,369,915
Equipment	1,533,719	102,705	75,807	1,560,617
Plant	4,477,656	347,810	-	4,825,466
Total accumulated depreciation	<u>\$ 11,159,274</u>	<u>\$ 766,794</u>	<u>\$ 75,807</u>	<u>11,850,261</u>
Total capital assets, being depreciated, net				<u>18,478,356</u>
Business-type activities capital assets, net				<u>\$ 19,658,627</u>

3. Property Taxes:

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

B. LIABILITIES

1. General Information about the Pension Plan

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

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

**TOWN OF SOMERVILLE, TENNESSEE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

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, 2016, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	34
Inactive employees entitled to but not yet receiving benefits	37
Active employees	<u>40</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, 2017, employer contributions for Somerville were \$116,196 based on a rate of 6.09 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, 2016, 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, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

**TOWN OF SOMERVILLE, TENNESSEE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

The actuarial assumptions used in the June 30, 2016 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, 2017**

Changes in the Net Pension Liability (Asset)

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
	(a)	(b)	(a) -(b)
Balance at 6/30/15	\$ 6,322,569	\$ 6,603,948	\$ (281,379)
Changes for the year:			
Service cost	149,687		149,687
Interest	471,199		471,199
Differences between expected and actual experience	273,701		273,701
Contributions- employer		114,701	(114,701)
Contributions- employees		96,553	(96,553)
Net investment income		172,893	(172,893)
Benefit payments, including refunds of employee contributions	(379,210)	(379,210)	-
Administrative expense		(3,184)	3,184
Net changes	515,377	1,753	513,624
Balance at 6/30/16	\$ 6,837,946	\$ 6,605,701	\$ 232,245

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%)
	<u> </u>	<u> </u>	<u> </u>
Somerville's net pension liability (asset)	\$ 1,111,539	\$ 232,245	\$ (494,727)

**TOWN OF SOMERVILLE, TENNESSEE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

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

Pension income. For the year ended June 30, 2017, Somerville recognized pension expense of \$83,714.

Deferred outflows of resources and deferred inflows of resources. For the year ended June 30, 2017, 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	\$ 249,746	\$ (100,098)
Net difference between projected and actual earnings on pension plan investments	218,111	-
Contributions subsequent to the measurement date of June 30, 2015	<u>116,196</u>	<u>(not applicable)</u>
	<u>\$ 584,053</u>	<u>\$ (100,098)</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	\$ 45,075
2018	45,075
2019	148,216
2020	83,789
2021	45,617
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, 2017, Somerville had a payable of \$23,522 to the pension plan for the year ended June 30, 2017.

**TOWN OF SOMERVILLE, TENNESSEE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

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 \$184,195 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%	\$ 454,624
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Other liabilities

Unamortized debt premiums	2,711
Compensated absences	52,893

Total General Long-Term Liabilities	<u>\$ 510,228</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	\$ 3,795,376
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Gas Revenue and Tax Bonds, Series 1998, 4.75%, payable monthly through November 2036	685,189
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Total Revenue and Tax Bonds	<u>4,480,565</u>
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Other Liabilities

Unamortized debt premiums	22,759
Compensated absences	73,073

Total Business-Type Activities	<u>\$ 4,576,397</u>
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Change in Long-term liabilities

**TOWN OF SOMERVILLE, TENNESSEE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

	Beginning Balance	Additions	Retirements	Ending Balance	Due within one year
Governmental Type Activities					
General Obligation Bonds	\$ 482,212	\$ -	\$ 27,588	\$ 454,624	\$ 28,263
Compensated absences	45,900	6,993	-	52,893	-
Unamortized debt premiums	2,903	-	192	2,711	-
Total governmental activities	<u>531,015</u>	<u>6,993</u>	<u>27,780</u>	<u>510,228</u>	<u>28,263</u>
Business Type Activities					
Revenue and Tax Bonds	707,572	-	22,383	685,189	23,402
General Obligation Bonds	3,947,788	-	152,412	3,795,376	156,736
Compensated absences	76,192	-	3,119	73,073	-
Unamortized debt premiums	23,842	-	1,083	22,759	-
Total business type activities	<u>4,755,394</u>	<u>-</u>	<u>178,997</u>	<u>4,576,397</u>	<u>180,138</u>
Total government	<u>\$ 5,286,409</u>	<u>\$ 6,993</u>	<u>\$ 206,777</u>	<u>\$ 5,086,625</u>	<u>\$ 208,401</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, 2017, are as follows:

Year Ending June 30,	General Obligation Bonds	
	Governmental Activities	
	Principal	Interest
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
2023-2027	100,604	49,364
2028-2032	89,706	34,332
2033-2037	93,226	15,194
2038	22,643	766
	<u>\$ 454,624</u>	<u>\$ 167,144</u>

Year Ending June 30,	General Obligation Bonds		Revenue and Tax Bonds	
	Business-type Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
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	173,798	116,428	28,287	27,225
2023-2027	889,395	508,076	163,419	114,141
2028-2032	930,291	304,124	207,131	70,429
2033-2037	966,773	89,912	185,707	17,214
2038	182,363	7,796	-	-
	<u>\$ 3,795,376</u>	<u>\$ 1,533,932</u>	<u>\$ 685,189</u>	<u>\$ 350,412</u>

**TOWN OF SOMERVILLE, TENNESSEE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE IV. – OTHER NOTES

A. INTERFUND TRANSACTIONS AND BALANCES

	DUE TO:					Internal Service Fund	Totals
	General	Water	Sewer	Gas	Solid Waste		
DUE FROM:							
General	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 57	\$ 57
Solid Waste	-	-	-	-	-	6	6
Water Fund	-	-	-	-	-	7	7
Internal Service Fund	91	5,475	4,674	103,386	4,249	5	117,880
	<u>\$ 91</u>	<u>\$ 5,475</u>	<u>\$ 4,674</u>	<u>\$ 103,386</u>	<u>\$ 4,249</u>	<u>\$ 75</u>	<u>\$ 117,950</u>

The Gas Fund made a transfer to the General Fund during the year in the amount of \$91,442 and the Water Fund made one to the General Fund in the amount of \$11,402 and the Sewer Fund made one to the General Fund in the amount of \$32,773 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.

TOWN OF SOMERVILLE, TENNESSEE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

C. COMMITMENTS AND CONTINGENCIES

The Town has one ongoing Lawsuit, Miller vs. the Town of Somerville and a Counter-Suit, the Town of Somerville vs. Miller. This situation has been ongoing for more than 10 years. The Town cannot predict the outcome of this case and it is possible a loss could be incurred. The amount of such possible loss cannot be determined.

PROJECTS:

UT Martin Somerville Center Renovation – Has a total estimated cost of \$2,613,512 of which \$2,509,066 was recorded in FY17. The balance will be paid by General Fund Reserves. \$695,000 of this project was borrowed from the Gas Fund through an inter-fund loan. UT Martin is paying additional rent to offset the cost of this loan and, if they continue at the current rate of payment, it is anticipated that this loan will be paid off by December 2019. They are currently paying more to eliminate this payment as soon as possible.

Williston Water Project – Has a total estimated cost of \$692,130 of which \$574,469 was recorded in FY17. The balance will be paid by Water Fund Reserves.

2015 CDBG Fayette County Lagoon Project – This project was funded through Fayette County's CDBG eligibility in cooperation with Fayette County. The estimated total for this project is \$237,335 of which \$196,988 has been recorded. The remainder will be paid by Sewer Fund Reserves with a grant reimbursement of 80% of the total remaining on this project.

Gas Reliability Phase 4 – Has an estimated cost of \$540,000 of which \$178,202 was recorded in FY17. The remainder will be by Gas Fund Reserves.

Gas Reliability Phase 5 – Has an estimated cost of \$552,000 of which just \$648 was recorded in FY17. The remainder will be paid by Gas Fund Reserves.

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

	<u>2014</u>	<u>2015</u>	<u>2016</u>
Total pension liability			
Service Cost	\$ 124,168	\$ 124,561	\$ 149,687
Interest	440,568	462,754	471,199
Changes in benefit terms	-	-	-
Differences between actual and expected experience	43,347	(150,148)	273,701
Change of assumptions	-	-	-
Benefit payments, including refunds of employee contributions	<u>(305,112)</u>	<u>(320,192)</u>	<u>(379,210)</u>
Net change in total pension liability	302,971	116,975	515,377
Total pension liability - beginning	<u>5,902,623</u>	<u>6,205,594</u>	<u>6,322,569</u>
Total pension liability - ending (a)	<u>\$ 6,205,594</u>	<u>\$ 6,322,569</u>	<u>\$ 6,837,946</u>
Plan fiduciary net position			
Contributions - employer	\$ 115,547	\$ 104,534	\$ 114,701
Contributions - employee	78,283	85,824	96,553
Net investment income	939,722	199,291	172,893
Benefit payments, including refunds of employee contributions	(305,112)	(320,192)	(379,210)
Administrative expense	<u>(1,756)</u>	<u>(2,243)</u>	<u>(3,184)</u>
Net change in plan fiduciary net position	826,684	67,214	1,753
Plan fiduciary net position - beginning	<u>5,710,050</u>	<u>6,536,734</u>	<u>6,603,948</u>
Plan fiduciary net position - ending (b)	<u>\$ 6,536,734</u>	<u>\$ 6,603,948</u>	<u>\$ 6,605,701</u>
Net pension liability (asset) - ending (a) - (b)	<u>\$ (331,140)</u>	<u>\$ (281,379)</u>	<u>\$ 232,245</u>
Plan fiduciary net position as a percentage of total pension liability	105.34%	104.45%	96.60%
Covered payroll	\$ 1,565,674	\$ 1,716,486	\$ 1,883,424
Net pension liability (asset) as a percentage of covered payroll	21.15%	16.39%	12.33%

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

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

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

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Actuarially determined contribution	\$ 115,547	\$ 104,534	\$ 114,700	\$ 114,008
Contributions in relation to the actuarially determined contribution	<u>115,547</u>	<u>104,534</u>	<u>114,700</u>	<u>114,008</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 1,565,674	\$ 1,716,486	1,883,424	1,872,452
Contributions as a percentage to covered payroll	7.38%	6.09%	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, 2017**

Notes to Schedule

Valuation date: Actuarially determined contribution rates for 2017 were calculated based on the July 1, 2015 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, 2017**

	<u>SPECIAL REVENUE</u>		Total Other Nonmajor Governmental Funds
	State Street Aid Fund	Drug Fund	
ASSETS			
Cash and cash equivalents	\$ 62,066	\$ 31,461	\$ 93,527
Receivables from other governments	15,928	-	15,928
Total Assets	<u>\$ 77,994</u>	<u>\$ 31,461</u>	<u>\$ 109,455</u>
LIABILITIES			
Accounts payable	\$ 2,241	\$ -	\$ 2,241
Unearned revenues - other	-	1,174	1,174
Total liabilities	<u>2,241</u>	<u>1,174</u>	<u>3,415</u>
FUND BALANCES			
Restricted			
State street aid	75,753	-	75,753
Drug	-	30,287	30,287
Total fund balances	<u>75,753</u>	<u>30,287</u>	<u>106,040</u>
Total liabilities and fund balances	<u>\$ 77,994</u>	<u>\$ 31,461</u>	<u>\$ 109,455</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, 2017**

	SPECIAL REVENUE		Total Other Nonmajor Governmental Funds
	State Street Aid Fund	Drug Fund	
Revenues:			
Intergovernmental revenues	\$ 91,886	\$ -	\$ 91,886
Fines and forfeitures	-	4,522	4,522
Sale of seized property	-	3,720	3,720
Interest income	-	20	20
Total revenues	<u>91,886</u>	<u>8,262</u>	<u>100,148</u>
Expenditures:			
Public works	44,485	-	44,485
Public safety	-	2,450	2,450
Debt service:			
Principal	12,892	-	12,892
Interest	2,320	-	2,320
Paying agent fees	9	-	9
Total expenditures	<u>59,706</u>	<u>2,450</u>	<u>62,156</u>
Excess (deficiency) of revenues over (under) expenditures	<u>32,180</u>	<u>5,812</u>	<u>37,992</u>
Other financing sources (uses):			
Sale of capital assets	-	6,930	6,930
Total other financing sources (uses)	<u>-</u>	<u>6,930</u>	<u>6,930</u>
Net change in fund balances	32,180	12,742	44,922
Fund Balance, beginning of the year	<u>43,573</u>	<u>17,545</u>	<u>61,118</u>
Fund Balance, end of the year	<u>\$ 75,753</u>	<u>\$ 30,287</u>	<u>\$ 106,040</u>

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

TOWN OF SOMERVILLE, TENNESSEE
STATE STREET AID FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental revenue				
Gasoline and motor fuel tax	\$ 80,000	\$ 80,000	\$ 58,536	\$ (21,464)
Gas 3 cent tax	-	-	17,612	17,612
Gas 1989 tax	-	-	9,489	9,489
Petroleum special	6,300	6,300	6,249	(51)
Total revenues	<u>86,300</u>	<u>86,300</u>	<u>91,886</u>	<u>5,586</u>
Expenditures				
Street lighting	26,000	26,000	26,081	(81)
Repair and maintenance	27,000	27,000	9,510	17,490
Signs	10,000	10,000	8,715	1,285
Street light retro fit	5,000	5,000	179	4,821
Debt service - principal	12,983	12,983	12,892	91
Debt service - interest	2,063	2,063	2,320	(257)
Debt service - paying agent fees	10	10	9	1
Total expenditures	<u>83,056</u>	<u>83,056</u>	<u>59,706</u>	<u>23,350</u>
Excess (deficiency) of revenues over (under) expenditures	<u>3,244</u>	<u>3,244</u>	<u>32,180</u>	<u>28,936</u>
Other financing sources (uses):				
Sale of capital assets	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	3,244	3,244	32,180	28,936
Fund Balance, beginning of the year	<u>43,573</u>	<u>43,573</u>	<u>43,573</u>	<u>-</u>
Fund Balance, end of the year	<u>\$ 46,817</u>	<u>\$ 46,817</u>	<u>\$ 75,753</u>	<u>\$ 28,936</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, 2017**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Intergovernment revenue				
Unauthorized substance abuse tax	\$ -	\$ -	\$ -	\$ -
Other revenues				
Sale of seized property	6,000	6,000	3,720	(2,280)
Fines and forfeitures	2,000	2,000	4,522	2,522
Interest income	15	15	20	5
Miscellaneous	1,000	1,000	-	(1,000)
Total revenues	<u>9,015</u>	<u>9,015</u>	<u>8,262</u>	<u>(753)</u>
Expenditures:				
Operating supplies	500	500	-	500
Miscellaneous equipment	10,700	10,700	2,450	8,250
Total expenditures	<u>11,200</u>	<u>11,200</u>	<u>2,450</u>	<u>8,750</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(2,185)</u>	<u>(2,185)</u>	<u>5,812</u>	<u>7,997</u>
Other financing sources (uses):				
Sale of capital assets	<u>2,500</u>	<u>2,500</u>	<u>6,930</u>	<u>4,430</u>
Total other financing sources (uses)	<u>2,500</u>	<u>2,500</u>	<u>6,930</u>	<u>4,430</u>
Net change in fund balances	315	315	12,742	12,427
Fund Balance, beginning of the year	<u>17,545</u>	<u>17,545</u>	<u>17,545</u>	<u>-</u>
Fund Balance, end of the year	<u>\$ 17,860</u>	<u>\$ 17,860</u>	<u>\$ 30,287</u>	<u>\$ 12,427</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, 2017

Water Audit Report for: Town Of Somerville
 Reporting Year: 2017 7/2016 - 6/2017

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

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

WATER SUPPLIED

<< Enter grading in column 'E'

Volume from own sources:	<input type="text" value="9"/>	185.110	Million gallons (US)/yr (MG/Yr)	
Master meter error adjustment (enter positive value):	<input type="text" value="7"/>	0.020	under-registered	MG/Yr
Water imported:	<input type="text" value=""/>		MG/Yr	
Water exported:	<input type="text" value=""/>		MG/Yr	
WATER SUPPLIED:		185.130	MG/Yr	

AUTHORIZED CONSUMPTION

Billed metered:	<input type="text" value="9"/>	160.953	MG/Yr
Billed unmetered:	<input type="text" value=""/>		MG/Yr
Unbilled metered:	<input type="text" value=""/>		MG/Yr
Unbilled unmetered:	<input type="text" value=""/>	2.314	MG/Yr

Pcnt: 1.25% Value: 24061

Click here: for help using option buttons below

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

AUTHORIZED CONSUMPTION: 163.267 MG/Yr

WATER LOSSES (Water Supplied - Authorized Consumption)

21.863 MG/Yr

Apparent Losses

Unauthorized consumption: 0.463 MG/Yr

Pcnt: 0.25% Value:

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

Customer metering inaccuracies:	<input type="text" value="9"/>	0.000	MG/Yr
Systematic data handling errors:	<input type="text" value="5"/>	0.361	MG/Yr

Apparent Losses: 0.824

Choose this option to enter a percentage of billed metered consumption. This is NOT a default value

Real Losses (Current Annual Real Losses or CARL)

Real Losses = Water Losses - Apparent Losses: 21.039 MG/Yr
WATER LOSSES: 21.863 MG/Yr

NON-REVENUE WATER

NON-REVENUE WATER: 24.177 MG/Yr

= Total Water Loss + 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"/>	2,102	
Connection density:		28	conn./mile main
Average length of customer service line:	<input type="text" value="10"/>		ft (pipe length between curbstop and customer meter or property boundary)
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"/>	\$665,244	\$/Year
Customer retail unit cost (applied to Apparent Losses):	<input type="text" value="9"/>	\$8.96	\$/1000 gallons (US)
Variable production cost (applied to Real Losses):	<input type="text" value="9"/>	\$494.39	\$/Million gallons

WATER AUDIT DATA VALIDITY SCORE:

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

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

PRIORITY AREAS FOR ATTENTION:

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

- 1: Master meter error adjustment
- 2: Volume from own sources
- 3: Unauthorized consumption

For more information, click here to see the Grading Matrix worksheet

**TOWN OF SOMERVILLE
AWWA FREE WATER AUDIT SOFTWARE: PERFORMANCE INDICATORS - "UNAUDITED"
JUNE 30, 2017**

Water Audit Report for: Town of Somerville (0000641)

Reporting Year: 2016 7/2016 - 6/2017

Financial Indicators

Non-revenue water as percent by volume of Water Supplied:	13.1%
Non-revenue water as percent by cost of operating system:	2.8%
Annual cost of Apparent Losses:	\$7,381
Annual cost of Real Losses:	\$10,401

Operational Efficiency Indicators

Apparent Losses per service connection per day:	1.07 gallons/connection/day
Real Losses per service connection per day*:	n/a gallons/connection/day
Real Losses per length of main per day*:	758.44 gallons/mile/day
Real Losses per service connection per day per psi pressure:	gallons/connection/day/psi
Unavoidable Annual Real Losses (UARL):	26.52 million gallons/year
From Above, Real Losses = Current Annual Real Losses (CARL):	21.04 million gallons/year
Infrastructure Leakage Index (ILI) [CARL/UARL]:	0.79

* only the most applicable of these two indicators will be calculated

**TOWN OF SOMERVILLE, TENNESSEE
SCHEDULE OF CHANGES IN PROPERTY TAXES RECEIVABLE
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

<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>
2017	0.68	\$ 426,700	\$ -	\$ 426,700	\$ -	\$ 426,700	\$ -
2016	0.71	461,106	416,624	44,317	435,404	25,537	-
2015	0.71	462,011	19,839	-	15,899	3,940	3,940
2014	0.71	459,489	20,791	-	19,613	1,178	1,178
2013	0.71	453,286	1,648	-	1,436	212	212
2012	0.67	445,350	976	-	831	145	145
2011	0.67	433,474	1,081	-	805	276	276
2010	0.57	358,633	214	9	-	223	223
2009	0.57	352,558	433	-	12	421	421
2008	0.57	305,031	219	4	-	223	223
2007	0.57	291,191	8,495	-	-	8,495	8,495
2006	0.57	274,716	1,271	-	354	917	917
2005	0.57	261,025	2,157	(142)	2,015	-	-
			<u>\$ 473,748</u>	<u>\$ 470,888</u>	<u>\$ 476,369</u>	<u>\$ 468,267</u>	<u>\$ 16,030</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, 2017**

Year Ending June 30,	General Obligation Bonds	
	Series 2013	
	Principal	Interest
2018	\$ 28,263	\$ 14,790
2019	28,943	14,226
2020	29,627	13,646
2021	30,410	12,830
2022	31,202	11,996
2023	32,004	11,138
2024	16,271	10,337
2025	16,710	9,849
2026	17,590	9,306
2027	18,029	8,734
2028	16,710	8,148
2029	17,150	7,606
2030	18,029	6,920
2031	18,469	6,198
2032	19,348	5,460
2033	20,228	4,686
2034	21,108	3,826
2035	16,710	2,928
2036	17,590	2,240
2037	17,590	1,514
2038	22,643	766
	<u>\$ 454,624</u>	<u>\$ 167,144</u>

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

**TOWN OF SOMERVILLE, TENNESSEE
SCHEDULE OF LONG-TERM DEBT REQUIREMENTS
WATER FUND
JUNE 30, 2017**

Year Ending June 30,	2013 Series Refunding	
	Principal	Interest
2018	\$ 44,727	\$ 37,666
2019	45,960	36,770
2020	47,192	35,852
2021	48,395	34,554
2022	49,596	33,222
2023	50,794	31,860
2024	48,146	30,590
2025	49,448	29,144
2026	52,050	27,538
2027	53,351	25,846
2028	49,448	24,112
2029	50,749	22,506
2030	53,351	20,476
2031	54,652	18,342
2032	57,255	16,156
2033	59,857	13,864
2034	62,460	11,320
2035	49,448	8,666
2036	52,050	6,626
2037	52,050	4,480
2038	52,035	2,268
	<u>\$ 1,083,014</u>	<u>\$ 471,858</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, 2017**

Year Ending June 30,	2013 Series Refunding	
	Principal	Interest
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	130,328	5,528
	<u>\$ 2,712,362</u>	<u>\$ 1,062,074</u>

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

**TOWN OF SOMERVILLE, TENNESSEE
SCHEDULE OF LONG-TERM DEBT REQUIREMENTS
NATURAL GAS FUND
JUNE 30, 2017**

Year Year Ending June 30,	Tax and Revenue Bonds	
	RED Gas Bond	
	Series 1998	
	Principal	Interest
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	35,705	680
	<u>\$ 685,189</u>	<u>\$ 350,412</u>

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

**TOWN OF SOMERVILLE, TENNESSEE
SCHEDULE OF UTILITY RATES IN FORCE
JUNE 30, 2017**

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	\$ 24.00	\$ 40.00	\$ 128.00	\$ 700.00	\$ 900.00
Every 1,000 gallons	1.55	1.55	1.55	1.55	1.55

Number of customers: 1,501

GAS RATES

	Customer Charge
Inside Residential	\$ 12.75
Outside Residential	14.00
Inside Commercial	19.60
Outside Commercial	21.00
Inside Industrial	25.00
Outside Industrial	27.00
All customer per 100 cu feet	0.54

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: 1,316

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, 2017

Federal Grantor/Pass- Through Grantor/ Program Title	Federal CFDA Number	Pass- Through Grantor's Number	Expenditures
<u>FEDERAL AWARDS</u>			
Department of Justice Bullet Proof Vest Grant	16.607	2014BUBX14073201	2,872
Department of Housing and Urban Development: Passed-through State Department of Economic and Community Development/ Fayette County, Tennessee: Coummunity Development Block Grants/State Program 2015 Sewer System Improvements	14.228	45442	<u>171,764</u>
Department of Agriculture Drug Take-Back Kiosks	10.766	00-17	864
Department of Transportation Highway Safety Cluster - Alcohol Open Container Requirements- High Visibility Law Enforcement Campaigns	20.607	Z16GHS328	<u>3,246</u>
TOTAL FEDERAL AWARDS			<u>178,746</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>\$ 187,146</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, 2017. 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, 2017, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements and have issued our report thereon dated December 14, 2017.

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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*.

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.

December 14, 2017

Handwritten signature in black ink that reads "Joelquin & Associates, PLLC". The signature is written in a cursive, flowing style.

TOWN OF SOMERVILLE, TENNESSEE

SCHEDULE OF DISPOSITION OF PRIOR YEAR FINDINGS

FOR THE FISCAL YEAR ENDED JUNE 30, 2017

Financial Statement Findings

Finding Number	Finding Title	Status
2016 - 001	Purchase Orders	Corrected
2016 - 002	General Ledger Materially Misstated Before Audit Adjustment	Corrected
2016 - 003	Accounts Reconciled	Corrected