

**TOWN OF SOMERVILLE,
TENNESSEE**

ANNUAL FINANCIAL REPORT

JUNE 30, 2018

TOWN OF SOMERVILLE, TENNESSEE

ANNUAL FINANCIAL REPORT

YEAR ENDED JUNE 30, 2018

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**TOWN OF SOMERVILLE, TENNESSEE
ROSTER OF PUBLICLY ELECTED AND MANAGEMENT OFFICIALS
JUNE 30, 2018**

Elected Officials

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

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, 2018, 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, 2018, 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 6, 2018, 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.



December 6, 2018

**TOWN OF SOMERVILLE, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2018**

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, 2018. 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, 2018, net position changed as follows:

TOWN OF SOMERVILLE'S NET POSTION

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Current and other assets	\$ 1,425,597	\$ 1,608,315	\$ 10,463,942	\$ 10,135,670	\$ 11,889,539	\$ 11,743,985
Capital Assets	9,056,247	9,057,071	19,861,103	19,658,627	28,917,350	28,715,698
Total Assets	<u>10,481,844</u>	<u>10,665,386</u>	<u>30,325,045</u>	<u>29,794,297</u>	<u>40,806,889</u>	<u>40,459,683</u>
Total Deferred outflows of resources	<u>218,878</u>	<u>271,761</u>	<u>250,974</u>	<u>312,292</u>	<u>469,852</u>	<u>584,053</u>
Long term liabilities	488,936	510,228	4,398,130	4,576,397	4,887,066	5,086,625
Other liabilities	89,694	536,381	939,369	1,079,031	1,029,063	1,615,412
Total liabilities	<u>578,630</u>	<u>1,046,609</u>	<u>5,337,499</u>	<u>5,655,428</u>	<u>5,916,129</u>	<u>6,702,037</u>
Total deferred inflows of resources	<u>476,758</u>	<u>482,578</u>	<u>45,190</u>	<u>44,220</u>	<u>521,948</u>	<u>526,798</u>
Net Position						
Net investments in capital assets	8,567,311	8,546,843	15,539,070	15,155,303	24,106,381	23,702,146
Restricted	100,769	106,040	-	-	100,769	106,040
Unrestricted	977,254	755,077	9,654,260	9,251,638	10,631,514	10,006,715
Total Net Position	<u>\$ 9,645,334</u>	<u>\$ 9,407,960</u>	<u>\$ 25,193,330</u>	<u>\$ 24,406,941</u>	<u>\$ 34,838,664</u>	<u>\$ 33,814,901</u>

During the current fiscal year, the Town's total net position increased by \$1,023,763 compared to the prior year increase of \$2,039,142. The primary reason for this decrease was due to the donation of funds for the UT building in the prior year.

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	
	2018	2017	2018	2017	2018	2017
Revenues:						
Program Revenues:						
Fees, fines and charges for services	\$ 334,700	\$ 332,788	\$ 6,802,831	\$ 5,732,211	\$ 7,137,531	\$ 6,064,999
Operating grants and contributions	121,431	110,286	-	-	121,431	110,286
Capital grants and contributions	57,603	8,082	101,281	171,764	158,884	179,846
General Revenues:						
Property taxes	501,004	496,608	-	-	501,004	496,608
Sales taxes	1,071,373	1,085,767	-	-	1,071,373	1,085,767
Public service taxes	18,626	20,393	-	-	18,626	20,393
Investment earnings	9,888	4,666	85,389	46,000	95,257	50,666
Gain on sale of assets	12,887	9,730	12,737	24,302	25,624	34,032
Insurance recoveries	2,740	-	8,262	6,500	11,002	6,500
Pension income	-	-	-	-	-	-
Negative pension expense	-	-	-	-	-	-
Contributions	131,669	1,304,666	-	-	131,669	1,304,666
Rent	358,852	107,760	-	-	358,852	107,760
Miscellaneous	1,491	2,479	-	-	1,491	2,479
Transfers	128,077	135,617	-	-	128,077	135,617
Total Revenues	2,750,341	3,618,842	7,010,480	5,980,777	9,760,821	9,599,619
Expenses:						
General government	386,818	344,361	-	-	386,818	344,361
Public safety	1,419,893	1,334,481	-	-	1,419,893	1,334,481
Public works	541,139	382,736	-	-	541,139	382,736
Health, welfare and recreation	150,478	129,071	-	-	150,478	129,071
Interest on long-term debt	14,639	15,981	-	-	14,639	15,981
Water	-	-	744,779	669,333	744,779	669,333
Sewer	-	-	763,699	720,943	763,699	720,943
Natural Gas	-	-	4,048,883	3,303,331	4,048,883	3,303,331
Solid Waste	-	-	538,653	524,623	538,653	524,623
Internal service	-	-	-	-	-	-
Transfers out	-	-	128,077	135,617	128,077	135,617
Total Expenses	2,512,967	2,206,630	6,224,091	5,353,847	8,737,058	7,560,477
Increase (decrease) in net position	237,374	1,412,212	786,389	626,930	1,023,763	2,039,142
Net position-beginning, as originally stated	9,407,960	7,995,748	24,406,941	23,780,011	33,814,901	31,775,759
Net position at end of year	\$ 9,645,334	\$ 9,407,960	\$ 25,193,330	\$ 24,406,941	\$ 34,838,664	\$ 33,814,901

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 \$925,741, a 31% increase from last year's total of \$704,352.

The following schedule presents a summary of general and, special revenue funds' revenues and expenditures for the fiscal year ended June 30, 2018, and the amount and percentage of increases and decreases in relation to the prior year.

Revenues	June 30, 2018	Percent of Total	Increase (Decrease) from June 30, 2017
Taxes	\$ 1,262,390	48.23%	\$ (22,911)
Intergovernmental	515,935	19.71%	61,656
Licenses and permits	24,476	0.94%	6,408
Charges for services	66,191	2.53%	13,462
Fines and forfeitures	240,283	9.18%	(15,742)
Other revenues	508,390	19.42%	(917,147)
Total Revenues	\$ 2,617,665	100.00%	\$ (874,274)

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

Expenditures	June 30, 2018	Percent of Total	Increase (Decrease) from June 30, 2017
General government	\$ 216,655	8.54%	\$ (2,915)
Public Safety	1,314,810	51.82%	100,922
Public Works	474,943	18.72%	158,409
Health, welfare, and recreation	127,746	5.03%	21,407
Capital outlay	359,949	14.19%	(2,410,145)
Debt Service	43,137	1.70%	(673)
Total Expenditures	\$ 2,537,240	100.00%	\$ (2,132,995)

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, 2018, the Town had invested \$28,917,350 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 \$201,652, or 0.70% above last year. Additional information on capital assets is on pages 32 - 33.

Debt

At year-end, the Town had \$4,887,066 in outstanding long-term debt compared to \$5,086,625 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 Administrator

TOWN OF SOMERVILLE, TENNESSEE
GOVERNMENT-WIDE STATEMENT OF NET POSITION
JUNE 30, 2018

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 350,910	\$ 3,965,519	\$ 4,316,429
Investments	812,865	5,551,323	6,364,188
Receivables:			
Property taxes	447,796	-	447,796
Accounts receivable, net of allowance	604	254,140	254,744
Grant receivables	-	21,884	21,884
Other receivables	-	444	444
Interest receivables	3,180	24,925	28,105
Internal balances	(409,690)	409,690	-
Due from other governments	187,562	-	187,562
Inventory	-	198,517	198,517
Prepaid expenses	32,370	37,500	69,870
Capital assets:			
Land, improvements and construction in progress	343,974	502,081	846,055
Other capital assets, net of depreciation	8,712,273	19,359,022	28,071,295
TOTAL ASSETS	10,481,844	30,325,045	40,806,889
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pensions	218,878	250,974	469,852
LIABILITIES			
Accounts payable and accrued expenses	52,647	267,717	320,364
Customer deposits	-	585,530	585,530
Unearned revenues - other	598	27,292	27,890
Net pension liability	36,449	58,830	95,279
Long-term liabilities:			
Due within one year	28,943	185,594	214,537
Due in more than one year	459,993	4,212,536	4,672,529
TOTAL LIABILITIES	578,630	5,337,499	5,916,129
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenues - property taxes	421,358	-	421,358
Deferred inflows related to pensions	55,400	45,190	100,590
DEFERRED INFLOWS OF RESOURCES	476,758	45,190	521,948
NET POSITION			
Net investment in capital assets	8,567,311	15,539,070	24,106,381
Restricted for:			
Restricted for pensions	-	-	-
State Street Aid Fund	59,762	-	59,762
Police Drug Fund	41,007	-	41,007
Unrestricted	977,254	9,654,260	10,631,514
TOTAL NET POSITION	\$ 9,645,334	\$ 25,193,330	\$ 34,838,664

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, 2018

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	\$ 386,818	\$ 28,427	\$ 3,052	\$ -	\$ (355,339)	\$ -	\$ (355,339)
Public Safety	1,419,893	272,118	8,400	57,603	(1,081,772)	-	(1,081,772)
Public Works	541,139	18,825	109,979	-	(412,335)	-	(412,335)
Health, Welfare and Recreation	150,478	15,330	-	-	(135,148)	-	(135,148)
Interest on long-term debt	14,639	-	-	-	(14,639)	-	(14,639)
Business-type activities:							
Water Fund	744,779	909,546	-	-	-	164,767	164,767
Sewer Fund	763,699	786,235	-	78,011	-	100,547	100,547
Natural Gas Fund	4,048,883	4,556,247	-	12,972	-	520,336	520,336
Solid Waste	538,653	550,803	-	10,298	-	22,448	22,448
Internal Service Fund	-	-	-	-	-	-	-
Total business-type activities	6,096,014	6,802,831	-	101,281	-	808,098	808,098
Total government	\$ 8,608,981	\$ 7,137,531	\$ 121,431	\$ 158,884	(1,999,233)	808,098	(1,191,135)

General revenues:

Taxes:			
Property	465,920	-	465,920
In-lieu of taxes	35,084	-	35,084
Sales	1,071,373	-	1,071,373
Public service taxes	18,626	-	18,626
Investment earnings	9,888	85,369	95,257
Gain (loss) on sale/retirement of capital assets	12,887	12,737	25,624
Insurance recoveries	2,740	8,262	11,002
Rent	358,852	-	358,852
Contributions	131,669	-	131,669
Miscellaneous	1,491	-	1,491
Transfer out - in lieu of taxes	128,077	(128,077)	-
Total general revenues and transfers	2,236,607	(21,709)	2,214,898
Change in net position	237,374	786,389	1,023,763
Net position- beginning	9,407,960	24,406,941	33,814,901
Net position - ending	\$ 9,645,334	\$ 25,193,330	\$ 34,838,664

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

**TOWN OF SOMERVILLE, TENNESSEE
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2018**

	General	Other Nonmajor Governmental Funds	Total
ASSETS			
Cash and cash equivalents	\$ 266,699	\$ 84,211	\$ 350,910
Investments	812,865	-	812,865
Accounts receivable	604	-	604
Taxes receivable	447,796	-	447,796
Interest receivable	3,180	-	3,180
Receivables from other governments	168,308	19,254	187,562
Due from other funds	186	-	186
Prepaid expenses	32,370	-	32,370
	<u>\$ 1,732,008</u>	<u>\$ 103,465</u>	<u>\$ 1,835,473</u>
LIABILITIES			
Accounts payable	\$ 43,172	\$ 2,196	\$ 45,368
Accrued expenses	6,094	-	6,094
Unearned revenue - other	98	500	598
Due to other funds	12,932	-	12,932
Advance from other funds	396,944	-	396,944
Total liabilities	<u>459,240</u>	<u>2,696</u>	<u>461,936</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenues - property taxes	447,796	-	447,796
FUND BALANCE			
<i>Nonspendable</i>			
Prepaid items	32,370	-	32,370
<i>Restricted</i>			
State street aid	-	59,762	59,762
Drug	-	41,007	41,007
<i>Unassigned</i>			
General fund	792,602	-	792,602
Total fund balance	<u>824,972</u>	<u>100,769</u>	<u>925,741</u>
Total liabilities, deferred inflows of resources, and fund balance	<u>\$ 1,732,008</u>	<u>\$ 103,465</u>	<u>\$ 1,835,473</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, 2018

Total fund balance - total governmental funds	\$	925,741
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.		9,056,247
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		26,438
Net pension liability is not recorded on governmental fund balance sheet but is recorded for government-wide purposes.		(36,449)
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.		163,478
Accrued interest is not reported in the governmental funds balance sheet but is recorded for government-wide purposes.		(1,185)
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>(488,936)</u>
Net position of governmental activities	\$	<u>9,645,334</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, 2018

	<u>General</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues			
Taxes	\$ 1,262,390	\$ -	\$ 1,262,390
Intergovernmental revenues	405,956	109,979	515,935
Licenses and permits	24,476	-	24,476
Charges for services	66,191	-	66,191
Fines, forfeits, and penalties	223,695	16,588	240,283
Other revenues	508,345	45	508,390
Total Revenues	<u>2,491,053</u>	<u>126,612</u>	<u>2,617,665</u>
Expenditures			
Current			
General government	216,655	-	216,655
Public safety	1,308,907	5,903	1,314,810
Public works	364,184	110,759	474,943
Health, welfare, and recreation	127,746	-	127,746
Capital outlay	359,949	-	359,949
Debt service	27,916	15,221	43,137
Total Expenditures	<u>2,405,357</u>	<u>131,883</u>	<u>2,537,240</u>
Excess (deficiency) of revenues over (under) expenditures	<u>85,696</u>	<u>(5,271)</u>	<u>80,425</u>
Other financing sources (uses)			
Transfers in	128,077	-	128,077
Gain on sale of assets	12,887	-	12,887
Total other financing sources (uses)	<u>140,964</u>	<u>-</u>	<u>140,964</u>
Net change in fund balance	226,660	(5,271)	221,389
FUND BALANCE - beginning of year	<u>598,312</u>	<u>106,040</u>	<u>704,352</u>
FUND BALANCE - end of year	<u>\$ 824,972</u>	<u>\$ 100,769</u>	<u>\$ 925,741</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, 2018

Net change in fund balances - total governmental funds	\$	221,389
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.		359,949
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.		(367,786)
Effect of GASB 68 on retirement expense; reported on governmental funds but not on government-wide for 2017-2018 year		10,775
Principal paid on debt		28,263
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		(6,928)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(8,288)
Change in net position of governmental activities	<u>\$</u>	<u>237,374</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, 2018

Revenues	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Taxes				
Property taxes - current	\$ 410,000	\$ 410,000	\$ 450,436	\$ 40,436
Property taxes - delinquent	41,500	41,500	23,772	(17,728)
Local option sales taxes	500,000	500,000	513,198	13,198
Local wholesale beer taxes	180,000	180,000	163,809	(16,191)
Local wholesale liquor taxes	60,000	60,000	64,338	4,338
Business taxes	25,000	25,000	28,211	3,211
Cable TV franchise taxes	20,000	20,000	18,626	(1,374)
Total taxes	1,236,500	1,236,500	1,262,390	25,890
Intergovernmental				
State of Tennessee				
- TVA replacement tax	35,000	35,000	35,084	84
- Sales tax allocation	240,000	240,000	263,685	23,685
- Income tax allocation	30,000	30,000	12,358	(17,642)
- Beer tax allocation	1,500	1,500	1,443	(57)
- Telecommunication tax	300	300	3,530	3,230
- Alcoholic beverage tax	1,000	1,000	1,092	92
- Corporate excise tax	20,000	20,000	19,709	(291)
Department of agriculture grant	400,000	400,000	-	(400,000)
USDA grant	-	-	51,729	51,729
Police vest grant	5,000	5,000	-	(5,000)
Governor's highway safety grant	5,000	5,000	5,874	874
Fayette county playground	-	-	3,052	3,052
TML Safety grant	2,500	2,500	-	(2,500)
Police salary supplement	6,000	6,000	7,200	1,200
Fire salary supplement	3,000	3,000	1,200	(1,800)
Total intergovernmental revenues	749,300	749,300	405,956	(343,344)
Licenses and permits				
Beer permits	3,000	3,000	2,600	(400)
Liquor by the drink permits	1,200	1,200	600	(600)
Building permits	10,000	10,000	20,064	10,064
Sign permits	500	500	712	212
Site plan review	500	500	500	-
Zoning permits	250	250	-	(250)
Total licenses and permits	15,450	15,450	24,476	9,026
Charges for services				
Clerk fees	2,000	2,000	3,951	1,951
Special fire protection charges	25,000	25,000	31,250	6,250
Accident reports	500	500	585	85
Grave opening and closing fees	1,500	1,500	1,350	(150)
Street repairs	65,000	65,000	3,734	(61,266)
Mosquito abatement	10,000	10,000	9,941	(59)
Demolition fees	50	50	50	-
Arts and entertainment (theater)	10,000	10,000	15,330	5,330
Total charges for services	114,050	114,050	66,191	(47,859)
Fines, forfeits, and penalties				
City court fines	200,000	200,000	195,938	(4,062)
Sale of seized DUI vehicles	2,000	2,000	-	(2,000)
Court fines from County	10,000	10,000	27,757	17,757
Total fines, forfeits, and penalties	212,000	212,000	223,695	11,695

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, 2018

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues (continued)				
Other revenues				
Insurance recoveries	7,000	7,000	2,740	(4,260)
Sales of cemetery lots	7,500	7,500	3,750	(3,750)
Contributions	2,000	2,000	278	(1,722)
Donations FCHEC	76,333	76,333	131,391	55,058
Penalties and interest	10,200	10,200	9,843	(357)
Rent	239,633	239,633	358,852	119,219
Miscellaneous	575	575	1,491	916
Total other revenues	<u>343,241</u>	<u>343,241</u>	<u>508,345</u>	<u>165,104</u>
Total revenues	<u>2,670,541</u>	<u>2,670,541</u>	<u>2,491,053</u>	<u>(179,488)</u>
Expenditures				
General government				
Legislative				
Mayor and board members	10,530	10,530	10,530	-
Payroll taxes	806	806	805	1
Election officials	300	300	-	300
Memberships	250	250	766	(516)
Telephone and internet	-	-	743	(743)
Legal services	1,500	1,500	-	1,500
Travel	200	200	933	(733)
Operating supplies	-	-	1,072	(1,072)
Professional services	500	500	-	500
Total legislative	<u>14,086</u>	<u>14,086</u>	<u>14,849</u>	<u>(763)</u>
Building department				
Salaries	15,747	15,747	18,334	(2,587)
Payroll taxes	1,205	1,205	1,395	(190)
Workers compensation	75	75	-	75
Hospital and health	-	-	423	(423)
Retirement	-	-	385	(385)
Contract labor	6,000	6,000	9,030	(3,030)
Postage, box rental, etc...	-	-	43	(43)
Publication of notices	-	-	780	(780)
Memberships	1,500	1,500	2,858	(1,358)
Professional services	2,000	2,000	1,863	137
Legal services	1,000	1,000	1,726	(726)
Repair and maintenance - vehicles	250	250	910	(660)
Operating supplies	750	750	492	258
Gas, oil, and grease	500	500	452	48
Total building department	<u>29,027</u>	<u>29,027</u>	<u>38,691</u>	<u>(9,664)</u>
General government buildings				
Utility services	10,000	10,000	11,185	(1,185)
Telephone services	6,500	6,500	6,271	229
Professional services	1,000	1,000	-	1,000
Legal services	1,500	1,500	-	1,500
Repairs and maintenance	32,500	32,500	56,824	(24,324)
Operating supplies	9,500	9,500	11,880	(2,380)
Insurance on buildings	7,500	7,500	11,182	(3,682)
Liability insurance	2,500	2,500	2,411	89
Donations	500	500	-	500
Capital outlay	-	-	1,136	(1,136)
Total general government buildings	<u>71,500</u>	<u>71,500</u>	<u>100,889</u>	<u>(29,389)</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 (continued)
YEAR ENDED JUNE 30, 2018

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures (continued)				
General government (continued)				
City recorder				
Salaries	44,154	44,154	43,902	252
Salaries - overtime	500	500	795	(295)
Deferred compensation expense	469	469	526	(57)
OASI	3,416	3,416	3,114	302
Hospital and health	6,752	6,752	5,765	987
Retirement	2,719	2,719	2,669	50
Workers compensation	75	75	29	46
Unemployment	125	125	104	21
Postage and box rental	100	100	99	1
Publication of notices	65	65	547	(482)
Memberships, fees, tuition	1,000	1,000	800	200
Telephone	200	200	96	104
Professional services	200	200	126	74
Legal services	150	150	240	(90)
Accounting and auditing	2,000	2,000	1,469	531
Collection expense - delinquent taxes	1,250	1,250	315	935
Travel	750	750	763	(13)
Operating supplies	2,500	2,500	1,461	1,039
Clothing allowance	213	213	201	12
Insurance - commercial property	75	75	75	-
Liability insurance	500	500	266	234
Total city recorder	67,213	67,213	63,362	3,851
Total general government	181,826	181,826	217,791	(35,965)
Public safety				
Police department				
Salaries	589,960	589,960	573,936	16,024
Salaries - overtime	20,000	20,000	10,864	9,136
Salaries - ghso grant	6,000	6,000	4,589	1,411
Deferred compensation expense	4,225	4,225	6,075	(1,850)
Court salaries - overtime	500	500	-	500
Payroll taxes	47,159	47,159	42,611	4,548
Hospital and health	75,714	75,714	73,379	2,335
Retirement	37,542	37,542	33,124	4,418
Workers compensation	24,310	24,310	23,742	568
Unemployment	125	125	104	21
Postage and box rental	150	150	237	(87)
Publication of notices	1,000	1,000	938	62
Memberships, fees, tuition	10,000	10,000	8,464	1,536
Utility services	5,500	5,500	4,860	640
Telephone	6,500	6,500	7,937	(1,437)
Professional service	4,000	4,000	2,957	1,043
Legal service	7,000	7,000	7,482	(482)
Accounting and auditing	2,000	2,000	1,469	531
Other professional services	1,000	1,000	443	551
Repair and maintenance	1,000	1,000	548	452
Repair and maintenance - vehicles	15,000	15,000	23,371	(8,371)
Repair and maintenance - equipment	5,000	5,000	3,749	1,251
Repair and maintenance - buildings	10,000	10,000	6,099	3,901
Travel	5,000	5,000	3,263	1,737
Operating supplies	15,000	15,000	11,407	3,593
Clothing and uniforms	6,125	6,125	5,986	139
Fire arm supplies	2,500	2,500	2,198	302
Gas, oil, and diesel	40,000	40,000	41,809	(1,809)
Vehicle towing	500	500	150	350
Insurance commercial	1,200	1,200	1,170	30
Insurance on vehicles and equipment	7,000	7,000	7,211	(211)
Liability insurance	12,000	12,000	13,574	(1,574)
Small items of equipment	8,500	8,500	1,728	6,772
Capital outlay	60,000	60,000	77,249	(17,249)
Total police department	1,031,510	1,031,510	1,002,729	28,781

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, 2018

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures (continued)				
Public safety (continued)				
Fire department				
Salaries	192,428	192,428	186,095	6,333
Salaries - overtime	30,000	30,000	40,543	(10,543)
Deferred compensation	650	650	1,300	(650)
Payroll taxes	18,240	18,240	18,000	240
Hospital and health	18,989	18,989	14,796	4,193
Retirement	13,546	13,546	13,600	(54)
Workers compensation	7,150	7,150	6,171	979
Unemployment	125	125	104	21
Volunteer firemen	16,000	16,000	16,000	-
Postage and box rental	100	100	112	(12)
Publication of notices	300	300	393	(93)
Memberships, fees, tuition	20,000	20,000	9,837	10,163
Utility services	9,500	9,500	9,461	39
Telephone	3,000	3,000	3,396	(396)
Professional services	1,000	1,000	2,569	(1,569)
Legal services	200	200	240	(40)
Accounting and auditing	2,000	2,000	1,469	531
Repair and maintenance	500	500	311	189
Repair and maintenance - vehicles	10,000	10,000	11,416	(1,416)
Repair and maintenance - equipment	5,000	5,000	6,430	(1,430)
Repair and maintenance - buildings	5,000	5,000	3,553	1,447
Travel	500	500	-	500
Office supplies	250	250	-	250
Operating supplies	15,000	15,000	3,285	11,715
Uniforms	3,000	3,000	6,349	(3,349)
Gas, oil and diesel	6,000	6,000	7,628	(1,628)
Small items of equipment	25,000	25,000	7,815	17,185
Insurance commercial	2,100	2,100	2,052	48
Insurance on vehicles and equipment	7,500	7,500	7,016	484
Liability insurance	3,750	3,750	3,486	264
Debt service - principal	15,114	15,114	15,113	1
Debt service - interest	12,806	12,806	12,776	30
Paying agent fees	27	27	27	-
Capital outlay	15,000	15,000	70,114	(55,114)
Total fire department	459,775	459,775	481,457	(21,682)
Total public safety	1,491,285	1,491,285	1,484,166	7,099
Public works				
Streets and highways				
Salaries	144,202	144,202	131,608	12,594
Salaries - overtime	1,500	1,500	4,937	(3,437)
Deferred compensation expense	-	-	439	(439)
Payroll taxes	11,146	11,146	10,141	1,005
Hospital and health	17,398	17,398	15,913	1,485
Retirement	8,873	8,873	6,575	2,298
Workers compensation	3,660	3,660	6,835	(3,175)
Unemployment	125	125	104	21
Postage and box rental	100	100	99	1
Publication of notices	1,000	1,000	945	55
Memberships, fees, tuition	1,000	1,000	262	738
Utility services	900	900	342	558
Street sweeping	85,000	85,000	3,734	81,266
Telephone	600	600	769	(169)
Professional services	1,000	1,000	6,220	(5,220)
Legal services	1,000	1,000	77	923
Accounting and auditing	2,000	2,000	1,469	531
Mosquito spraying	10,000	10,000	8,515	1,485
Repair and maintenance	4,000	4,000	-	4,000
Repair and maintenance - vehicles	2,000	2,000	5,542	(3,542)
Repair and maintenance - equipment	5,000	5,000	5,768	(768)
Repair and maintenance - traffic signal	10,000	10,000	15,772	(5,772)
Repair and maintenance - building	2,500	2,500	4,678	(2,178)
Repair and maintenance - streets	30,000	30,000	12,085	17,915
Street overlay	56,700	56,700	80,368	(23,668)
Travel	500	500	256	244
Operating supplies	5,000	5,000	2,117	2,883
Uniforms	2,556	2,556	3,429	(873)
Gas, oil and diesel	6,500	6,500	7,819	(1,319)
Sign parts	-	-	212	(212)
Small items of equipment	5,000	5,000	14,073	(9,073)
Insurance commercial	1,900	1,900	1,815	85
Insurance on vehicles and equipment	400	400	808	(203)
Liability insurance	1,500	1,500	1,278	222
Debt service - interest	562	562	351	211
Bad debts - mosquito abatement	125	125	65	60
Capital outlay	581,000	581,000	85,856	495,144
Total streets and highways	984,747	984,747	441,076	543,671

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, 2018

	<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	-	-	58	(58)
Repair and maintenance	25,000	25,000	5,319	19,681
Operating supplies	100	100	3,230	(3,130)
Insurance commercial	355	355	357	(2)
Total cemetery	<u>25,455</u>	<u>25,455</u>	<u>8,964</u>	<u>16,491</u>
Total public works	<u>1,010,202</u>	<u>1,010,202</u>	<u>450,040</u>	<u>560,162</u>
Health, welfare, and recreation				
Culture and the arts				
Newspaper advertisements	1,500	1,500	1,438	62
Utility services	5,200	5,200	1,338	3,862
Repair and maintenance	20,000	20,000	1,096	18,904
Operating supplies	25,500	25,500	35,651	(10,151)
Signs	5,000	5,000	45	4,955
Total culture and the arts	<u>57,200</u>	<u>57,200</u>	<u>39,568</u>	<u>17,632</u>
UT Martin building				
Utility services	15,000	15,000	13,073	1,927
Repair and maintenance	25,000	25,000	47,772	(22,772)
Education supplies	-	-	5,919	(5,919)
Property insurance	15,000	15,000	4,803	10,197
Interest	6,950	6,950	6,611	339
Capital outlay	432,500	432,500	125,594	306,906
Total culture and the arts	<u>494,450</u>	<u>494,450</u>	<u>203,772</u>	<u>290,678</u>
Libraries				
Grants and donations	10,000	10,000	10,000	(500)
Total health, welfare, and recreation	<u>561,650</u>	<u>561,650</u>	<u>253,340</u>	<u>307,810</u>
Total expenditures	<u>3,244,963</u>	<u>3,244,963</u>	<u>2,405,357</u>	<u>839,106</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(574,422)</u>	<u>(574,422)</u>	<u>85,696</u>	<u>659,618</u>
Other financing sources (uses)				
Transfers in	135,617	135,617	128,077	(7,540)
Gain on sale of assets	5,000	5,000	12,887	7,887
Total other financing sources (uses)	<u>140,617</u>	<u>140,617</u>	<u>140,964</u>	<u>347</u>
Net change in fund balance	<u>(433,805)</u>	<u>(433,805)</u>	<u>226,660</u>	<u>659,965</u>
Fund balance, beginning of year	<u>598,312</u>	<u>598,312</u>	<u>598,312</u>	<u>-</u>
Fund balance, end of year	<u>\$ 164,507</u>	<u>\$ 164,507</u>	<u>\$ 824,972</u>	<u>\$ 659,965</u>

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

TOWN OF SOMERVILLE, TENNESSEE
 PROPRIETARY FUNDS
 STATEMENT OF NET POSITION
 JUNE 30, 2018

	Water	Sewer	Natural Gas	Solid Waste	Total	Internal Service Fund
ASSETS						
CURRENT ASSETS						
Cash and cash equivalents	\$ 493,025	\$ 568,496	\$ 2,670,189	\$ 163,239	\$ 3,894,949	\$ 70,570
Investments	868,317	604,716	3,794,809	283,481	5,551,323	-
Receivables:						
Accounts receivable, net of allowance	47,731	49,212	119,198	32,804	248,945	5,195
Other	280	-	-	-	280	164
Grant	-	21,884	-	-	21,884	-
Interest	2,840	2,065	19,092	928	24,925	-
Inventory	27,993	-	170,524	-	198,517	-
Due from other funds	4,486	7,729	25,028	2,462	39,705	5,519
Prepaid expenses	12,394	5,787	13,539	5,780	37,500	-
TOTAL CURRENT ASSETS	1,457,066	1,259,889	6,812,379	488,694	10,018,028	81,448
NONCURRENT ASSETS						
Capital assets, net	3,443,103	8,457,129	7,867,230	93,641	19,861,103	-
Advances to other funds	-	-	396,944	-	396,944	-
TOTAL NONCURRENT ASSETS	3,443,103	8,457,129	8,264,174	93,641	20,258,047	-
TOTAL ASSETS	4,900,169	9,717,018	15,076,553	582,335	30,276,075	81,448
DEFERRED OUTFLOWS						
Deferred outflows related to pensions	34,974	45,988	145,243	24,769	250,974	-
LIABILITIES						
CURRENT LIABILITIES						
Accounts payable	8,498	108,975	100,852	29,591	247,916	-
Accrued expenses	4,038	529	2,569	416	7,552	2,054
Accrued interest	-	8,042	2,153	-	10,195	-
Customer deposits	68,751	55,852	460,927	-	585,530	-
Deferred revenue	-	-	-	-	-	27,292
Due to other funds	766	432	2,203	720	4,121	28,357
Current portion of long-term debt	45,960	115,097	24,537	-	185,594	-
TOTAL CURRENT LIABILITIES	128,013	288,927	593,241	30,727	1,040,908	57,703
LONG-TERM LIABILITIES						
Compensated absences	13,174	12,282	45,013	5,628	76,097	-
Net pension liability	11,955	14,735	21,495	10,645	58,830	-
Bonds and notes payable(net of unamortized premium)	998,512	2,500,745	637,182	-	4,136,439	-
TOTAL LONG-TERM LIABILITIES	1,023,641	2,527,762	703,690	16,273	4,271,366	-
TOTAL LIABILITIES	1,151,654	2,816,689	1,296,931	47,000	5,312,274	57,703
DEFERRED INFLOWS						
Deferred inflows related to pensions	923	8,672	33,277	2,318	45,190	-
NET POSITION						
Net investment in capital assets	2,398,631	5,841,287	7,205,511	93,641	15,539,070	-
Unrestricted	1,383,935	1,096,358	6,686,077	464,145	9,630,515	23,745
TOTAL NET POSITION	\$ 3,782,566	\$ 6,937,645	\$ 13,891,588	\$ 557,786	\$ 25,169,585	\$ 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, 2018**

	Water	Sewer	Natural Gas	Solid Waste	Total	Internal Service Fund
OPERATING REVENUES						
Utility sales and services	\$ 895,083	\$ 773,154	\$ 4,223,625	\$ 535,619	\$ 6,427,481	\$ -
Recovery of uncollectible accounts	253	295	1,148	545	2,241	-
Uncollectible accounts	(1,771)	(3,326)	(5,134)	(2,223)	(12,454)	-
Service charges and fees	15,666	15,327	335,413	16,851	383,257	-
Other income	315	785	1,195	11	2,306	-
TOTAL OPERATING REVENUES	<u>909,546</u>	<u>786,235</u>	<u>4,556,247</u>	<u>550,803</u>	<u>6,802,831</u>	<u>-</u>
OPERATING EXPENSES						
Cost of natural gas sold	-	-	2,260,103	-	2,260,103	-
Personal services	243,279	207,912	893,020	107,831	1,452,042	-
Contractual services	9,401	8,549	55,819	377,315	451,084	-
Utility services	62,131	35,147	21,320	1,458	120,056	-
Supplies	42,367	30,214	48,705	7,399	128,685	-
Office expenses	17,824	16,014	57,843	6,290	97,971	-
Insurance	32,213	13,338	33,356	10,539	89,446	-
Repairs and maintenance	132,745	59,111	144,638	2,175	338,669	-
Small items of equipment	-	12,244	29,567	-	41,811	-
Rent	13,112	14,861	72,893	7,985	108,851	-
Miscellaneous	75	189	-	-	264	-
Travel	4,190	4,553	5,097	396	14,236	-
Depreciation	149,777	267,235	394,913	17,265	829,190	-
TOTAL OPERATING EXPENSES	<u>707,114</u>	<u>669,367</u>	<u>4,017,274</u>	<u>538,653</u>	<u>5,932,408</u>	<u>-</u>
OPERATING INCOME	<u>202,432</u>	<u>116,868</u>	<u>538,973</u>	<u>12,150</u>	<u>870,423</u>	<u>-</u>
NONOPERATING REVENUES (EXPENSES)						
Interest income	9,918	5,953	66,328	3,172	85,369	-
Gain(loss) on sale of capital assets	-	1,502	11,235	-	12,737	-
Insurance recoveries	-	-	8,262	-	8,262	-
Interest expense	(37,665)	(94,332)	(31,609)	-	(163,606)	-
NET NONOPERATING EXPENSES	<u>(27,749)</u>	<u>(86,877)</u>	<u>54,216</u>	<u>3,172</u>	<u>(57,238)</u>	<u>-</u>
NET INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	<u>174,683</u>	<u>29,991</u>	<u>593,189</u>	<u>15,322</u>	<u>813,185</u>	<u>-</u>
Capital contributions	-	78,011	12,972	10,298	101,281	-
Transfers out	(12,853)	(31,248)	(83,976)	-	(128,077)	-
TOTAL CONTRIBUTIONS AND TRANSFERS	<u>(12,853)</u>	<u>46,763</u>	<u>(71,004)</u>	<u>10,298</u>	<u>(26,796)</u>	<u>-</u>
CHANGE IN NET POSITION	<u>161,830</u>	<u>76,754</u>	<u>522,185</u>	<u>25,620</u>	<u>786,389</u>	<u>-</u>
NET POSITION - BEGINNING 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>
NET POSITION - END OF YEAR	<u>\$ 3,782,566</u>	<u>\$ 6,937,645</u>	<u>\$ 13,891,588</u>	<u>\$ 557,786</u>	<u>\$ 25,169,585</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, 2018

	Water	Sewer	Natural Gas	Solid Waste	Total	Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES						
Cash receipts from customers	\$ 915,229	\$ 787,925	\$ 4,588,525	\$ 549,543	\$ 6,839,222	\$ (2,787)
Cash receipts from other funds for services	1,748	(2,623)	80,561	2,501	82,187	(114,522)
Other operating cash receipts	6	11	1,195	11	1,223	-
Cash payments to suppliers for goods and services	(369,521)	(88,330)	(2,831,929)	(284,281)	(3,574,061)	-
Cash payments to other funds for services	-	-	-	-	-	-
Cash payments for personnel services	(245,599)	(206,801)	(900,209)	(208,061)	(1,560,670)	-
CASH PROVIDED (USED) BY OPERATING ACTIVITIES	301,863	490,182	936,143	59,713	1,787,901	(117,309)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Amounts paid to other funds	(12,853)	(31,248)	(83,976)	-	(128,077)	-
CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	(12,853)	(31,248)	(83,976)	-	(128,077)	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Acquisitions/disposals of fixed assets	(194,573)	(371,798)	(451,377)	(13,918)	(1,031,666)	-
Gain on sale of capital assets	-	1,502	11,235	-	12,737	-
Insurance reimbursements	-	-	8,262	-	8,262	-
Contributions from grants	-	56,127	12,972	10,298	79,397	-
Proceeds from advances from other funds	-	-	337,944	-	337,944	-
Advances to other funds	-	-	-	-	-	-
Bond issue premiums	-	-	-	-	-	-
Bond proceeds	-	-	-	-	-	-
Principal payments on long-term debt	(44,728)	(112,010)	(23,470)	-	(180,208)	-
Interest paid on long-term debt	(37,665)	(94,332)	(32,042)	-	(164,039)	-
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(276,966)	(520,511)	(136,476)	(3,620)	(937,573)	-
CASH FLOWS FROM INVESTING ACTIVITIES						
Acquisitions and redemptions of investments	(868,317)	(604,716)	(2,019,366)	(283,481)	(3,775,880)	-
Interest earned	7,076	3,888	55,754	2,244	68,962	-
NET CASH PROVIDED BY INVESTING ACTIVITIES	(861,241)	(600,828)	(1,963,612)	(281,237)	(3,706,918)	-
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(849,197)	(662,405)	(1,247,921)	(225,144)	(2,984,667)	(117,309)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	1,342,222	1,230,900	3,918,110	388,383	6,879,615	187,679
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 493,025	\$ 568,495	\$ 2,670,189	\$ 163,239	\$ 3,894,948	\$ 70,570
RECONCILIATION OF INCOME FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES						
Operating income	\$ 202,432	\$ 116,868	\$ 538,973	\$ 12,150	\$ 870,423	\$ -
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:						
Depreciation and amortization	149,468	266,461	394,913	17,265	828,107	-
Gasb 68 adjustments related to pensions	10,007	7,674	39,378	5,229	62,288	-
Changes in Assets and Liabilities:						
(Increase) decrease in accounts receivable	324	941	11,375	(1,249)	11,391	(1,142)
(Increase) decrease in other receivable	3,690	-	-	-	3,690	(260)
(Increase) decrease in grant receivables	-	-	-	-	-	-
(Increase) decrease in due from other funds	999	(2,623)	78,358	1,787	78,511	(5,154)
(Increase) decrease in inventory	9,452	-	32,128	-	41,580	-
(Increase) decrease in prepaids	(377)	279	3,339	(96)	3,145	(1,741)
(Increase) decrease in net pension assets	-	-	-	-	-	-
Increase (decrease) in accounts payable	(64,538)	105,611	(138,055)	29,291	(67,691)	(89,812)
Increase (decrease) in accrued liabilities	-	-	-	100	100	-
Increase (decrease) in due to other funds	759	(9,587)	2,203	714	(5,911)	-
Increase (decrease) in net pension liability	(12,327)	-	(46,567)	(5,478)	(64,372)	-
Increase (decrease) in deferred revenues	-	-	-	-	-	(19,556)
Increase (decrease) in compensated absences	-	3,024	-	-	3,024	-
Increase (decrease) in customer deposits	1,984	1,534	20,098	-	23,616	-
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 301,863	\$ 490,182	\$ 936,143	\$ 59,713	\$ 1,787,901	\$ (117,665)
NONCASH TRANSACTIONS						
Capital asset additions	\$ -	\$ 42,574	\$ -	\$ -	\$ -	\$ -
Capital assets obtained through Hardeman County CDBG passthrough grant	-	(38,803)	-	-	-	-
Net cash paid for capital asset additions	\$ -	\$ 3,771	\$ -	\$ -	\$ -	\$ -

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

TOWN OF SOMERVILLE, TENNESSEE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

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, 2018

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, 2018**

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, 2018

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, 2018**

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, 2018

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, 2018

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, 2018**

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, 2018**

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, 2018.

E. BUDGET APPROPRIATIONS

The Town operated within approved budgets the year ended June 30, 2018.

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, 2018**

2. Change in Capital Assets:

Depreciation was charged to various functions and activities as follows:

Governmental activities	
General government	\$ 170,747
Public safety	106,854
Public works	67,453
Health, welfare and recreation	22,732
Total governmental activities	<u>\$ 367,786</u>
Business-type activities	
Water	\$ 149,777
Sewer	267,235
Natural gas	394,913
Solid Waste	17,265
Total business-type	<u>\$ 829,190</u>

During the fiscal year ended June 30, 2018, the following changes in capital assets occurred:

	<u>Balance 7/1/17</u>	<u>Increases/ Adjustments</u>	<u>Decreases/ Adjustments</u>	<u>Balance 6/30/18</u>
Governmental activities:				
Capital assets not being depreciated				
Land	\$ 77,301	\$ 40,114	\$ -	\$ 117,415
Construction in progress	2,718,898	142,321	2,634,660	226,559
Subtotal	<u>2,796,199</u>	<u>182,435</u>	<u>2,634,660</u>	<u>343,974</u>
Capital assets being depreciated				
Buildings and improvements	6,279,016	2,634,660	-	8,913,676
Infrastructure	987,950	56,347	-	1,044,297
Machinery and equipment	622,408	-	-	622,408
Vehicles	1,156,327	121,167	33,750	1,243,744
Subtotal	<u>9,045,701</u>	<u>2,812,174</u>	<u>33,750</u>	<u>11,824,125</u>
Less accumulated depreciation for:				
Buildings and improvements	845,093	193,322	-	1,038,415
Infrastructure	587,405	48,759	-	636,164
Machinery and equipment	442,598	38,644	-	481,242
Vehicles	909,733	87,061	33,750	963,044
Subtotal	<u>\$ 2,784,829</u>	<u>\$ 367,786</u>	<u>\$ 33,750</u>	<u>3,118,865</u>
Total capital assets, being depreciated, net				<u>8,705,260</u>
Governmental activities capital assets, net				<u>\$ 9,049,234</u>

**TOWN OF SOMERVILLE, TENNESSEE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

	Balance 7/1/17	Increases/ Adjustments	Decreases/ Adjustments	Balance 6/30/18
Business-type activities:				
Capital assets not being depreciated				
Land	\$ 61,907	\$ -	\$ -	\$ 61,907
Construction in Progress	1,118,364	841,673	1,519,863	440,174
Subtotal	<u>1,180,271</u>	<u>841,673</u>	<u>1,519,863</u>	<u>502,081</u>
Capital assets being depreciated				
Buildings	5,100,309	-	-	5,100,309
Improvements	6,278,087	784,806	22,991	7,039,902
Equipment	2,304,843	191,889	19,588	2,477,144
Plant	16,645,378	735,057	-	17,380,435
Subtotal	<u>30,328,617</u>	<u>1,711,752</u>	<u>42,579</u>	<u>31,997,790</u>
Less accumulated depreciation for:				
Buildings	3,094,263	155,823	-	3,250,086
Improvements	2,369,915	189,407	21,095	2,538,227
Equipment	1,560,617	118,731	19,588	1,659,760
Plant	4,825,466	365,229	-	5,190,695
Total accumulated depreciation	<u>\$ 11,850,261</u>	<u>\$ 829,190</u>	<u>\$ 40,683</u>	<u>12,638,768</u>
Total capital assets, being depreciated, net				<u>19,359,022</u>
Business-type activities capital assets, net				<u>\$ 19,861,103</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.

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

**TOWN OF SOMERVILLE, TENNESSEE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

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, 2017, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	36
Inactive employees entitled to but not yet receiving benefits	34
Active employees	<u>44</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, 2018, employer contributions for Somerville were \$121,529 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, 2017, 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, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5 percent
Salary increases	Graded salary ranges from 8.75 to 3.45 percent based on age, including inflation, averaging 4.00 percent.
Investment rate of return	7.25 percent, net of pension plan investment expenses, including inflation
Cost-of-Living Adjustment	2.25 percent

Mortality rates were based on actual experience including an adjustment for some of the anticipated improvement.

The actuarial assumptions used in the June 30, 2017 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2012 through June 30, 2016. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

**TOWN OF SOMERVILLE, TENNESSEE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

Changes in assumptions. In 2017, the following assumptions were changed: decreased inflation rate from 3.00 percent to 2.50 percent; decreased investment rate of return from 7.50 percent to 7.25 percent; decreased the cost-of-living adjustment from 2.50 percent to 2.25 percent; decreased salary growth graded ranges from an average of 4.25 percent to an average of 4.00 percent; and modified mortality assumptions.

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, 2016 actuarial experience study. A blend of future capital market projections and historical market returns was used in a building-block method in which a best-estimate of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) is developed for each major asset class. These best estimates are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation of 2.5 percent. The 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	5.69%	31%
Developed market international equity	5.29%	14%
Emerging market international equity	6.36%	4%
Private equity and strategic lending	5.79%	20%
U.S. fixed income	2.01%	20%
Real estate	4.32%	10%
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 7.25 percent based on a blending of the three factors described above.

Discount rate. The discount rate used to measure the total pension liability was 7.25 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, 2018**

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 6/30/16	\$ 6,837,946	\$ 6,605,701	\$ 232,245
Changes for the year:			
Service cost	146,161		146,161
Interest	506,981		506,981
Differences between expected and actual experience	(30,620)		(30,620)
Changes in assumptions	179,145		179,145
Contributions- employer		114,008	(114,008)
Contributions- employees		93,602	(93,602)
Net investment income		734,668	(734,668)
Benefit payments, including refunds of employee contributions	(448,726)	(448,726)	-
Administrative expense		(3,646)	3,646
Net changes	<u>352,941</u>	<u>489,906</u>	<u>(136,965)</u>
Balance at 6/30/17	<u>\$ 7,190,887</u>	<u>\$ 7,095,607</u>	<u>\$ 95,280</u>

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 7.25 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 (6.25 percent) or 1-percentage-point higher (8.25 percent) than the current rate:

	1% Increase	Current	1% Increase
	(6.25%)	Discount Rate (7.25%)	(8.25%)
Somerville's net pension liability (asset)	\$ 1,049,848	\$ 95,280	\$ (692,447)

**TOWN OF SOMERVILLE, TENNESSEE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

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

Pension expense (negative pension expense). For the year ended June 30, 2018, Somerville recognized pension expense of \$97,083.

Deferred outflows of resources and deferred inflows of resources. For the year ended June 30, 2018, Somerville reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 196,914	\$ 100,590
Net difference between projected and actual earnings on pension plan investments	2,118	-
Change in assumptions	149,287	
Contributions subsequent to the measurement date of June 30, 2017	121,529	(not applicable)
	\$ 469,848	\$ 100,590

The amount shown above for "Contributions subsequent to the measurement date of June 30, 2017, 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	\$ 20,146
2018	123,287
2019	58,860
2020	20,688
2021	24,755
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, 2018, Somerville reported a payable of \$0 for the outstanding amount of contributions to the pension plan required at June 30, 2018.

**TOWN OF SOMERVILLE, TENNESSEE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

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, 2018, 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%	\$ 426,361
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Other liabilities

Unamortized debt premiums	2,519
Compensated absences	<u>60,056</u>

Total General Long-Term Liabilities	<u>\$ 488,936</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	\$ 3,638,638
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Gas Revenue and Tax Bonds, Series 1998, 4.75%, payable monthly through November 2036	<u>661,719</u>
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Total Revenue and Tax Bonds	<u>4,300,357</u>
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Other Liabilities

Unamortized debt premiums	21,676
Compensated absences	<u>76,097</u>

Total Business-Type Activities	<u>\$ 4,398,130</u>
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Change in Long-term liabilities

**TOWN OF SOMERVILLE, TENNESSEE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

	Beginning Balance	Additions	Retirements	Ending Balance	Due within one year
Governmental Type Activities					
General Obligation Bonds	\$ 454,624	\$ -	\$ 28,263	\$ 426,361	\$ 28,943
Compensated absences	52,893	7,163	-	60,056	-
Unamortized debt premiums	2,711	-	192	2,519	-
Total governmental activities	<u>510,228</u>	<u>7,163</u>	<u>28,455</u>	<u>488,936</u>	<u>28,943</u>
Business Type Activities					
Revenue and Tax Bonds	685,189	-	23,470	661,719	24,537
General Obligation Bonds	3,795,376	-	156,738	3,638,638	162,289
Compensated absences	73,073	3,024	-	76,097	-
Unamortized debt premiums	22,759	-	1,083	21,676	-
Total business type activities	<u>4,576,397</u>	<u>3,024</u>	<u>181,291</u>	<u>4,398,130</u>	<u>186,826</u>
Total government	<u>\$ 5,086,625</u>	<u>\$ 10,187</u>	<u>\$ 209,746</u>	<u>\$ 4,887,066</u>	<u>\$ 215,769</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, 2018, are as follows:

Year Ending June 30,	<u>General Obligation Bonds</u>	
	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
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
2024-2028	85,310	46,374
2029-2033	93,224	30,870
2034-2038	95,641	11,274
	<u>\$ 426,361</u>	<u>\$ 152,354</u>

Year Ending June 30,	<u>General Obligation Bonds</u>		<u>Revenue and Tax Bonds</u>	
	<u>Business-type Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
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	177,996	111,652	29,661	25,851
2024-2028	884,689	480,926	171,353	106,207
2029-2033	966,772	247,350	217,186	60,374
2034-2038	939,364	69,980	137,989	9,352
	<u>\$ 3,638,639</u>	<u>\$ 1,401,934</u>	<u>\$ 661,719</u>	<u>\$ 318,302</u>

**TOWN OF SOMERVILLE, TENNESSEE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE IV. – OTHER NOTES

A. INTERFUND TRANSACTIONS AND BALANCES

	DUE TO:					Internal Service Fund	Totals
	General	Water	Sewer	Gas	Solid Waste		
DUE FROM:							
General	\$ -	\$ -	\$ 3,400	\$ 8,134	\$ -	\$ 1,398	\$ 12,932
Solid Waste	-	-	-	-	-	720	720
Water Fund	-	-	-	-	-	766	766
Sewer Fund	-	-	-	-	-	432	432
Gas Fund	-	-	-	-	-	2,203	2,203
Internal Service Fund	186	4,486	4,329	16,894	2,462	-	28,357
	<u>\$ 186</u>	<u>\$ 4,486</u>	<u>\$ 7,729</u>	<u>\$ 25,028</u>	<u>\$ 2,462</u>	<u>\$ 5,519</u>	<u>\$ 45,410</u>

The Gas Fund made a transfer to the General Fund during the year in the amount of \$83,976 and the Water Fund made one to the General Fund in the amount of \$12,853 and the Sewer Fund made one to the General Fund in the amount of \$31,248 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, 2018**

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 – Actual cost was \$2,613,512 and was recorded in the 2018 fiscal year. \$695,000 of this project was borrowed from the Gas Fund through and inter-fund loan. UT Martin has been making monthly installments in the amount of \$16,666.66 of which \$6,731.79 is the minimum payment due and \$9,934.87 is going toward reducing the debt as soon as possible. If they continue at the current rate of payment and if Fayette County and the UT Foundation make annual payments as indicated by them, it is anticipated that this loan will be paid off by August 2019.

City Hall Renovation Project – The low bid for this project was \$225,500 of which \$1,136 was paid in the 2018 fiscal year. The balance is due in fiscal year 2019.

2017 CDBG Sewer Project – The Town was awarded a \$451,000 Community Development Block Grant for sewer system rehabilitation. The total cost of the project will be \$512,500. The Town will be responsible for the difference. The Town has further committed an additional \$59,445 to complete an expanded project increasing the cost to \$571,945. A total of \$43,611 was paid in the 2018 fiscal year leaving \$528,334 to be paid in 2019. The additional costs will be paid for from Sewer Fund reserves.

Gas Reliability Phase 5 – The bid for this project was \$393,442.35 of which \$45,612 was recorded in the 2018 fiscal year. This amount is entirely made up of engineering costs. The remainder will be paid for from Gas Fund reserves in 2019.

TOWN OF SOMERVILLE, TENNESSEE
SCHEDULE OF CHANGES IN NET PENSION LIABILITY (ASSET) AND RELATED RATIOS BASED ON PARTICIPATION IN THE PUBLIC EMPLOYEE
PENSION PLAN OF TCRS
JUNE 30, 2018

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Total pension liability				
Service Cost	\$ 124,188	\$ 124,561	\$ 149,887	\$ 146,161
Interest	440,568	462,754	471,199	506,981
Changes in benefit terms	-	-	-	(30,620)
Differences between actual and expected experience	43,347	(150,148)	273,701	
Change of assumptions	-	-	-	179,145
Benefit payments, including refunds of employee contributions	(305,112)	(320,192)	(379,210)	(448,726)
Net change in total pension liability	<u>302,971</u>	<u>116,975</u>	<u>515,377</u>	<u>352,941</u>
Total pension liability - beginning	<u>5,902,623</u>	<u>6,205,594</u>	<u>6,322,569</u>	<u>6,837,946</u>
Total pension liability - ending (a)	<u>\$ 6,205,594</u>	<u>\$ 6,322,569</u>	<u>\$ 6,837,946</u>	<u>\$ 7,190,887</u>
Plan fiduciary net position				
Contributions - employer	\$ 115,547	\$ 104,534	\$ 114,701	\$ 114,008
Contributions - employee	78,283	85,824	96,553	93,602
Net investment income	939,722	199,291	172,893	734,668
Benefit payments, including refunds of employee contributions	(305,112)	(320,192)	(379,210)	(448,726)
Administrative expense	(1,756)	(2,243)	(3,184)	(3,646)
Net change in plan fiduciary net position	<u>826,684</u>	<u>67,214</u>	<u>1,753</u>	<u>489,906</u>
Plan fiduciary net position - beginning	<u>5,710,050</u>	<u>6,536,734</u>	<u>6,603,948</u>	<u>6,605,701</u>
Plan fiduciary net position - ending (b)	<u>\$ 6,536,734</u>	<u>\$ 6,603,948</u>	<u>\$ 6,605,701</u>	<u>\$ 7,095,607</u>
Net pension liability (asset) - ending (a) - (b)	<u>\$ (331,140)</u>	<u>\$ (281,379)</u>	<u>\$ 232,245</u>	<u>\$ 95,280</u>
Plan fiduciary net position as a percentage of total pension liability	105.34%	104.45%	96.60%	98.67%
Covered payroll	\$ 1,565,674	\$ 1,716,466	\$ 1,863,424	\$ 1,872,052
Net pension liability (asset) as a percentage of covered payroll	21.15%	16.39%	12.33%	5.09%

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, TENNESSEE
SCHEDULE OF CONTRIBUTIONS BASED ON PARTICIPATION IN THE PUBLIC EMPLOYEE PENSION PLAN OF TCRS
JUNE 30, 2018

	2014	2015	2016	2017	2018
Actuarially determined contribution	\$ 115,547	\$ 104,534	\$ 114,700	\$ 73,759	\$ 121,529
Contributions in relation to the actuarially determined contribution	<u>115,547</u>	<u>104,534</u>	<u>114,700</u>	<u>114,008</u>	<u>121,529</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (40,249)</u>	<u>\$ -</u>
Covered payroll	\$ 1,565,674	\$ 1,716,486	1,883,424	1,872,052	1,996,967
Contributions as a percentage to covered payroll	7.38%	6.09%	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, TENNESSEE
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2018**

Notes to Schedule

Valuation date: Actuarially determined contribution rates for fiscal year 2018 were calculated based on the June 30, 2017 actuarial valuation.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age Normal
Amortization method	Level dollar, closed (not to exceed 20 years)
Remaining amortization period	Varies by 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, 2018**

	<u>SPECIAL REVENUE</u>		Total Other Nonmajor Governmental Funds
	State Street Aid Fund	Drug Fund	
ASSETS			
Cash and cash equivalents	\$ 42,704	\$ 41,507	\$ 84,211
Receivables from other governments	19,254	-	19,254
Total Assets	<u>\$ 61,958</u>	<u>\$ 41,507</u>	<u>\$ 103,465</u>
LIABILITIES			
Accounts payable	\$ 2,196	\$ -	\$ 2,196
Unearned revenues - other	-	500	500
Total liabilities	<u>2,196</u>	<u>500</u>	<u>2,696</u>
FUND BALANCES			
Restricted			
State street aid	59,762	-	59,762
Drug	-	41,007	41,007
Total fund balances	<u>59,762</u>	<u>41,007</u>	<u>100,769</u>
Total liabilities and fund balances	<u>\$ 61,958</u>	<u>\$ 41,507</u>	<u>\$ 103,465</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, 2018

	SPECIAL REVENUE		Total Other Nonmajor Governmental Funds
	State Street Aid Fund	Drug Fund	
Revenues:			
Intergovernmental revenues	\$ 109,979	\$ -	\$ 109,979
Fines and forfeitures	-	13,596	13,596
Sale of seized property	-	2,992	2,992
Interest income	10	35	45
Total revenues	109,989	16,623	126,612
Expenditures:			
Public works	110,759	-	110,759
Public safety	-	5,903	5,903
Debt service:			
Principal	13,150	-	13,150
Interest	2,062	-	2,062
Paying agent fees	9	-	9
Total expenditures	125,980	5,903	131,883
Excess (deficiency) of revenues over (under) expenditures	(15,991)	10,720	(5,271)
Other financing sources (uses):			
Sale of capital assets	-	-	-
Total other financing sources (uses)	-	-	-
Net change in fund balances	(15,991)	10,720	(5,271)
Fund Balance, beginning of the year	75,753	30,287	106,040
Fund Balance, end of the year	\$ 59,762	\$ 41,007	\$ 100,769

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, 2018

	<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	\$ 106,000	\$ 106,000	\$ 62,462	\$ (43,538)
Gas 3 cent tax	-	-	17,517	17,517
Gas 1989 tax	-	-	9,450	9,450
Gas 2017 tax	-	-	14,325	14,325
Petroleum special	6,300	6,300	6,225	(75)
Other revenues				
Interest revenue	-	-	10	10
Total revenues	<u>112,300</u>	<u>112,300</u>	<u>109,989</u>	<u>(2,311)</u>
Expenditures				
Street lighting	33,500	33,500	25,893	7,607
Repair and maintenance	79,300	79,300	75,095	4,205
Signs	10,000	10,000	5,107	4,893
Street light retro fit	500	500	4,664	(4,164)
Debt service - principal	13,150	13,150	13,150	-
Debt service - interest	2,063	2,063	2,062	1
Debt service - paying agent fees	10	10	9	1
Total expenditures	<u>138,523</u>	<u>138,523</u>	<u>125,980</u>	<u>12,543</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(26,223)</u>	<u>(26,223)</u>	<u>(15,991)</u>	<u>10,232</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	(26,223)	(26,223)	(15,991)	10,232
Fund Balance, beginning of the year	<u>75,753</u>	<u>75,753</u>	<u>75,753</u>	<u>-</u>
Fund Balance, end of the year	<u>\$ 49,530</u>	<u>\$ 49,530</u>	<u>\$ 59,762</u>	<u>\$ 10,232</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, 2018**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Intergovernment revenue				
Unauthorized substance abuse tax	\$ -	\$ -	\$ -	\$ -
Other revenues				
Sale of seized property	6,000	6,000	2,992	(3,008)
Fines and forfeitures	2,000	2,000	13,596	11,596
Interest income	15	15	35	20
Miscellaneous	-	-	-	-
Total revenues	<u>8,015</u>	<u>8,015</u>	<u>16,623</u>	<u>8,608</u>
Expenditures:				
Operating supplies	500	500	5,903	(5,403)
Miscellaneous equipment	10,000	10,000	-	10,000
Total expenditures	<u>10,500</u>	<u>10,500</u>	<u>5,903</u>	<u>4,597</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(2,485)</u>	<u>(2,485)</u>	<u>10,720</u>	<u>13,205</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	(2,485)	(2,485)	10,720	13,205
Fund Balance, beginning of the year	<u>30,287</u>	<u>30,287</u>	<u>30,287</u>	<u>-</u>
Fund Balance, end of the year	<u>\$ 27,802</u>	<u>\$ 27,802</u>	<u>\$ 41,007</u>	<u>\$ 13,205</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, 2018

Water Audit Report for: Town Of Somerville
 Reporting Year: 2018 7/2017 - 6/2018

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

WATER SUPPLIED

<< Enter grading in column 'E'

Volume from own sources:	9	190.706	Million gallons (US)/yr (MG/Yr)	
Master meter error adjustment (enter positive value):	7	0.020	under-registered	MG/Yr
Water imported:			MG/Yr	
Water exported:			MG/Yr	
WATER SUPPLIED:		190.726	MG/Yr	

AUTHORIZED CONSUMPTION

Billed metered:	9	160.171	MG/Yr	
Billed unmetered:			MG/Yr	
Unbilled metered:			MG/Yr	Pcnt: 1.25%
35637		2.384	MG/Yr	

Click here: for help using option buttons below Value:

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

AUTHORIZED CONSUMPTION: 162.555 MG/Yr

WATER LOSSES (Water Supplied - Authorized Consumption) 28.171 MG/Yr

Apparent Losses

Unauthorized consumption:		0.477	MG/Yr	Pcnt: 0.25%
---------------------------	--	-------	-------	-------------

Value:

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

Customer metering inaccuracies:	9	0.000	MG/Yr
Systematic data handling errors:	5	0.361	MG/Yr

Apparent Losses: 0.838

Real Losses (Current Annual Real Losses or CARL)

Real Losses = Water Losses - Apparent Losses:		27.333	MG/Yr
WATER LOSSES:		28.171	MG/Yr

NON-REVENUE WATER

NON-REVENUE WATER: 30.555 MG/Yr

= Total Water Loss + Unbilled Metered + Unbilled Unmetered

SYSTEM DATA

Length of mains:	7	78.0	miles
Number of active AND inactive service connections:	9	2,132	
Connection density:		27	conn./mile main
Average length of customer service line:	10		ft
Average operating pressure:	7	100.0	psi (pipe length between curb/cop and customer meter or property boundary)

COST DATA

Total annual cost of operating water system:	9	\$702,918	\$/Year
Customer retail unit cost (applied to Apparent Losses):	9	\$9.11	\$/1000 gallons (US)
Variable production cost (applied to Real Losses):	9	\$498.04	\$/Million gallons

WATER AUDIT DATA VALIDITY SCORE:

***** YOUR SCORE IS: 80 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

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

**TOWN OF SOMERVILLE
 AWWA FREE WATER AUDIT SOFTWARE: PERFORMANCE INDICATORS - "UNAUDITED"
 JUNE 30, 2018**

Water Audit Report for: Town of Somerville (0000641)

Reporting Year: **2018** **7/2017 - 6/2018**

Financial Indicators

Non-revenue water as percent by volume of Water Supplied:	16.0%
Non-revenue water as percent by cost of operating system:	3.2%
Annual cost of Apparent Losses:	\$7,632
Annual cost of Real Losses:	\$13,613

Operational Efficiency Indicators

Apparent Losses per service connection per day:	1.08 gallons/connection/day
Real Losses per service connection per day*:	n/a gallons/connection/day
Real Losses per length of main per day*:	960.07 gallons/mile/day
Real Losses per service connection per day per psi pressure:	gallons/connection/day/psi
[?] Unavoidable Annual Real Losses (UARL):	27.07 million gallons/year
From Above, Real Losses = Current Annual Real Losses (CARL):	27.33 million gallons/year
[?] Infrastructure Leakage Index (ILI) [CARL/UARL]:	1.01

* 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, 2018**

<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>
2018	0.68	\$ 421,358	\$ -	\$ 421,358	\$ -	\$ 421,358	\$ -
2017	0.68	465,781	426,700	38,613	450,222	15,091	-
2016	0.71	461,106	25,537	(8)	18,258	7,271	7,271
2015	0.71	462,011	3,940	-	2,081	1,859	3,940
2014	0.71	459,489	1,178	-	35	1,143	1,143
2013	0.71	453,286	212	45	-	257	257
2012	0.67	445,350	145	26	-	171	171
2011	0.67	433,474	276	71	-	347	347
2010	0.57	358,633	223	10	-	233	233
2009	0.57	352,558	421	-	402	19	19
2008	0.57	305,031	223	-	176	47	47
2007	0.57	291,191	8,495	(8,495)	-	-	-
2006	0.57	274,716	917	(917)	-	-	-
2005	0.57	261,025	-	-	-	-	-
			<u>\$ 468,267</u>	<u>\$ 450,703</u>	<u>\$ 471,174</u>	<u>\$ 447,796</u>	<u>\$ 13,428</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, 2018**

Year Ending	General Obligation Bonds	
	Series 2013	
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>\$ 426,361</u>	<u>\$ 152,354</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, 2018**

Year Ending June 30,	2013 Series Refunding	
	Principal	Interest
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>\$ 1,038,287</u>	<u>\$ 434,192</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, 2018**

Year	2013 Series	
	Refunding	
Ending June 30,	Principal	Interest
2019	\$ 115,097	\$ 92,092
2020	118,181	89,790
2021	121,195	86,540
2022	124,202	83,206
2023	127,202	79,792
2024	120,583	76,612
2025	123,842	72,994
2026	130,360	68,968
2027	133,619	64,732
2028	123,842	60,390
2029	127,101	56,364
2030	133,619	51,280
2031	136,878	18,342
2032	143,396	16,156
2033	149,914	13,864
2034	156,432	11,320
2035	123,842	8,666
2036	130,360	6,626
2037	130,360	4,480
2038	130,327	5,528
	<u>\$ 2,600,352</u>	<u>\$ 967,742</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, 2018

Year Year Ending	Tax and Revenue Bonds	
	RED Gas Bond	
	Series 1998	
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	35,637	680
	<u>\$ 661,719</u>	<u>\$ 318,302</u>

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

**TOWN OF SOMERVILLE, TENNESSEE
SCHEDULE OF UTILITY RATES IN FORCE
JUNE 30, 2018**

WATER RATES				
Minimum		11.92	Minimum	\$ 14.70
per 1,000 gallons		2.02	per 1,000 gallons	2.12
Inside Commercial			Outside Commercial	
Minimum	\$	14.70	Minimum	\$ 17.47
per 1,000 gallons		2.12	per 1,000 gallons	2.58
Number of customers: 1,841				

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: 1,498										

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	0.48

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

Number of customers: 6,852

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, 2018

2019 Through Grantor/ Program Title	Federal CFDA Number	Through Grantor's Number	Expenditures
<u>FEDERAL AWARDS</u>			
Department of Housing and Urban Development:			
Passed-through State Department of Economic and Community Development/ Fayette County, Tennessee: Community Development Block Grants/State Program 2015 Sewer System Improvements	14.228	45442	38,803
Sewer System Improvements	14.228	Edison #4125	39,208
		Total for 14.228	<u>78,011</u>
Department of Agriculture			
Community Facilities Grant	10.766	unavailable	75,000
Department of Transportation			
Highway Safety Cluster - Alcohol Open Container Requirements- High Visibility Law Enforcement Campaigns	20.607	Z17THS301	4,295
Requirements- High Visibility Law Enforcement Campaigns	20.607	Z18THS290	1,579
		Total for 20.607	<u>5,874</u>
TOTAL FEDERAL AWARDS			<u>158,885</u>
<u>STATE FINANCIAL ASSISTANCE</u>			
State Fire Enforcement Supplement	-	-	1,200
State Law Enforcement Supplement	-	-	7,200
TOTAL STATE AWARDS			<u>8,400</u>
TOTAL FEDERAL AND STATE AWARDS			<u>\$ 167,285</u>

Basis of Presentation

Note 1: The accompanying 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, 2018. The schedule is presented using the modified accrual basis of accounting.

Note 2 - The Town elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

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, 2018, 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 6, 2018.

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 Standards*.

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.

Modwin & Associates, PLLC

December 6, 2018

TOWN OF SOMERVILLE, TENNESSEE
SCHEDULE OF DISPOSITION OF PRIOR YEAR FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

There were no finding in the prior year.