

**MURFREESBORO STORMWATER FUND**

**AUDITED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED**  
**JUNE 30, 2016**

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## **INTRODUCTORY SECTION**

**MURFREESBORO STORMWATER FUND**

**Board Members and Management Officials**

**June 30, 2016**

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Board Members

Chairman .....John Sant Amour, Jr.  
Board Member .....Clay Beach  
Board Member .....Alphonse Carter  
Board Member .....Ron Crabtree  
Board Member .....Kathy Nobles  
Board Member .....Sandra Trail  
Board Member .....Ron Washington

Management Officials

Director .....Darren Gore  
Assistant Director,  
Finance & Administration.....Doug Swann

## **FINANCIAL SECTION**



# **JOB, HASTINGS & ASSOCIATES**

*Certified Public Accountants*

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Donna K. Hastings, CPA, CSEP  
James R. Jobe, CPA  
Joel H. Jobe (1944 – 2006)

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## **INDEPENDENT AUDITOR'S REPORT**

Board of Directors  
Murfreesboro Stormwater Fund  
Murfreesboro, Tennessee

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Murfreesboro Stormwater Fund an enterprise fund of the City of Murfreesboro, Tennessee as of and for the year ended June 30, 2016, and the related notes to the financial statements, as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and 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 an opinion 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. 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 opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Murfreesboro Stormwater Fund as of June 30, 2016, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

As discussed in Note A, the financial statements present only the Murfreesboro Stormwater Fund and do not purport to, and do not present fairly the financial position of the City of Murfreesboro, Tennessee as of June 30, 2016, the changes in its financial position, or its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and pension data on pages 3-5 and 16-17 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Murfreesboro Stormwater Fund's basic financial statements. The introductory section is presented for purposes of additional analysis and is not a required part of the basic financial statements. The introductory section has 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 it.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2016, on our consideration of the Murfreesboro Stormwater Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Murfreesboro Stormwater Fund's internal control over financial reporting and compliance.

*Jobe, Hastings & Associates*

Certified Public Accountants

Murfreesboro, Tennessee  
December 7, 2016

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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The following Management Discussion and Analysis (MD & A) of Murfreesboro Stormwater Fund activities and financial performance provides the reader with an introduction and overview to the financial statements of the Murfreesboro Stormwater Fund (Stormwater) for the year ended June 30, 2016. This information should be considered within the context of the accompanying financial statements and note disclosures.

### FINANCIAL OPERATIONS HIGHLIGHTS

- ◆ Stormwater's net position increased to \$9,715,344, an increase of \$151,913 (1.6%) over the year ended June 30, 2015.
- ◆ The stormwater fund's Unrestricted Net Position as of June 30, 2016 is \$4,607,785, a decrease of \$129,823 (2.7%) over the year ended June 30, 2015. Unrestricted Net Position reserves is anticipated to fund future capital projects. A capital improvement plan (CIP) totaling \$6,425,000 was approved by the Water and Sewer Board and City Council in the FY17 budget.
- ◆ Payment of \$60,241 was made for City engineering and inspection services associated with drainage system maintenance, erosion prevention and sediment control. This resulted in an increase of approximately \$32,000 over the year ended June 30, 2015.
- ◆ Payment of approximately \$200,000 was reimbursed in FY15 for street sweeping operations. An additional crew to make storm sewer repairs has increased the reimbursement level to \$423,169 for FY16.
- ◆ Operating Revenue increased by \$44,705 (1.6%) due to continued development occurring within the City of Murfreesboro.
- ◆ The FY2016-2017 upcoming capital projects identified by City Engineering as funded in FY17, as tabulated below:

<b>PROJECT</b>	<b>2016 FY</b>
<b>Neighborhood Projects (NP)</b>	
Memorial Blvd / Haynes Dr. Drainage Improvements	\$75,000
Mitchell-Nielson Drainage Project	\$50,000
Huntwood/Leaf Ave Neighborhood Drainage Imp.	\$100,000
Southern Meadows / Kimbro Woods Drainage Imp.	\$200,000
Hardwood Drive Drainage Upgrade (Added)	\$100,000
<b>Water Quality Improvement (Compliance) Projects (WQ)</b>	
Rosebank Springs Constructed Wetlands	\$400,000
Bear Branch Water Quality Mitigation	\$50,000
Sinking Creek Headwater protection BMP	\$100,000
Hooper's Bottom Regional Water Quality Project	\$100,000
Spence Creek Restoration	\$100,000
<b>Public Drainage/Streets Participation Projects (PD)</b>	
Town Creek Conveyance (Murfree Springs to Cannonsburgh)	\$800,000
<b>TOTAL Projected FY17 Outlay</b>	<b>\$2,075,000</b>

- ◆ The Water and Sewer Board and City Council adopted the Murfreesboro Stormwater Fund Financial Management Policies in July 2013. The main financial management policies are categorized as follows:
  - General Financial Policies
    - Minimum Working Capital Reserve Balance of twelve (12) months operating expenses or \$1,721,536
    - Maximum Working Capital Reserve Balance of sixty (60) months operating expenses or \$8,607,680
    - "Growth shall pay for growth"

- Debt Management Policies
  - Goal is to have no debt associated with the stormwater enterprise fund
  - In the event that debt is incurred:
    - The minimum annual debt service coverage ratio shall be greater than 1.2
    - The City shall maintain debt service as a percent of revenue at or below 35% of revenues.
- Fund Participation Policy
  - Should the City choose to participate in supporting a project that serves a larger identified need, fulfills a public purpose or is in accordance with an approved Master Plan, then the City shall prepare a schedule that defines the level of stormwater fund participation by the City and submit the proposal to the Water and Sewer Board for recommendation and subsequent consideration by the City Council.

Rate adjustments for the stormwater fee are not anticipated. Operating expenses for the stormwater fund are adequately covered with the existing fee of \$3.25 per month per single family unit or equivalent. The fee rate is therefore controlled by the level of expenditures on capital improvements. If capital improvement outlays allow the reserve balance to reside within twelve (12) to sixty (60) months of operating expenses, the stormwater fee will likely remain the same.

## **OVERVIEW OF THE FINANCIAL STATEMENTS**

Stormwater is an enterprise fund of the City of Murfreesboro, Tennessee. MD & A introduces Stormwater's basic financial statements. The basic financial statements include the statement of net position, statement of revenue, expenses and changes in net position, statement of cash flow and notes to the financial statements.

The statement of net position reports all of Stormwater's assets and deferred outflows of resources, and liabilities and deferred inflows of resources, with the difference being reported as net position. Over time, increases or decreases typically give some indication of whether the financial position of Stormwater is improving or deteriorating.

The statement of revenues, expenses and changes in net position reports all revenues and expenses for the year, regardless of whether cash has been received or paid. This statement measures the success of operations over the past year and can be used to determine whether Stormwater has successfully recovered all its costs through charges to the public. The statement also reconciles the beginning and ending amounts of net position.

The last statement is the statement of cash flow. The primary purpose of this statement is to provide information about Stormwater's cash receipts and cash payments for the year. This statement reports how much cash was generated from operations and then shows how that cash was used to make capital additions and retire debt.

Summary information regarding Stormwater Fund's financial position is as follows:

	June 30, 2016	June 30, 2015	June 30, 2014
Utility Plant	\$ 5,107,559	\$ 4,825,823	\$ 4,546,895
Cash	7,904,930	6,122,246	5,660,118
Due from Murfreesboro Water and Sewer	-	-	2,723,248
Deferred Outflows	62,228		
Prepaid Expenses and Other Assets	18,736	23,204	11,854
Total Assets and Deferred Outflows of Resources	<u>\$ 13,093,453</u>	<u>\$ 10,971,273</u>	<u>\$ 12,942,115</u>
Trade Accounts Payable	\$ 45,540	\$ -	\$ 23,319
Other Liabilities	32,789	4,760	4,321
Deferred Inflows	15,646		
Due to City of Murfreesboro	465,989	940,071	539,626
Due to Murfreesboro Water and Sewer	2,723,605	463,011	2,746,734
Long-Term Liabilities	94,540		
Total Liabilities and Deferred Inflows of Resources	<u>\$ 3,378,109</u>	<u>\$ 1,407,842</u>	<u>\$ 3,314,000</u>
Net Assets			
Net Investment in Capital Assets	5,107,559	4,825,823	4,546,895
Unrestricted	4,607,785	4,737,608	5,081,220
Total Net Position	<u>9,715,344</u>	<u>9,563,431</u>	<u>9,628,115</u>
Total Liabilities, Deferred Inflows and Net Position	<u>\$ 13,093,453</u>	<u>\$ 10,971,273</u>	<u>\$ 12,942,115</u>

Summary information regarding Stormwater Fund's operations is as follows:

	June 30, 2016	June 30, 2015	June 30, 2014
Operating Revenues	\$ 2,815,808	\$ 2,771,103	\$ 2,720,680
Operating expenses	\$ 502,420	\$ 1,164,321	\$ 936,429
Payroll expenses	558,146	394,261	392,960
Maintenance expenses	437,564	201,684	2,352
Stormwater Project Participation	858,653	833,800	-
Loss on Disposition of utility plant assets			305
Depreciation expenses	320,913	252,921	199,283
	<u>\$ 2,677,696</u>	<u>\$ 2,846,987</u>	<u>\$ 1,531,329</u>
Other Revenue			
Interest Earned	13,801	11,200	16,091
Increase in net Position before Capital Contributions	\$ 151,913	\$ (64,684)	\$ 1,205,442
Capital Contributions			
Increase in Net Position	\$ 151,913	\$ (64,684)	\$ 1,205,442
Net Position, beginning of year	9,563,431	9,628,115	8,422,673
Net Position, end of year	<u>\$ 9,715,344</u>	<u>\$ 9,563,431</u>	<u>\$ 9,628,115</u>

**MURFREESBORO STORMWATER FUND**

**Statement of Net Position**

**June 30, 2016**

**ASSETS**

Current Assets -

Cash	\$ 7,904,930
Prepaid expenses	18,736

TOTAL CURRENT ASSETS \$ 7,923,666

Utility Plant -

Utility Plant not being depreciated	\$ 1,596,488
Utility Plant being depreciated	3,511,071

TOTAL UTILITY PLANT \$ 5,107,559

TOTAL ASSETS \$ 13,031,225

**DEFERRED OUTFLOWS OF RESOURCES**

Deferred outflows related to pensions	\$ 62,228
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TOTAL DEFERRED OUTFLOWS OF RESOURCES \$ 62,228

TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES \$ 13,093,453

**LIABILITIES**

Current Liabilities -

Trade accounts payable	\$ 45,540
Other liabilities	32,789
Due to other funds (City of Murfreesboro)	465,989
Due to other funds (Murfreesboro Water and Sewer Department)	2,723,605

Total Liabilities TOTAL CURRENT LIABILITIES \$ 3,267,923

Long-term Liabilities -

Net pension liability	\$ 94,540
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TOTAL LONG-TERM LIABILITIES \$ 94,540

TOTAL LIABILITIES \$ 3,362,463

**DEFERRED INFLOWS OF RESOURCES**

Deferred inflows related to pensions	\$ 15,646
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TOTAL DEFERRED INFLOWS OF RESOURCES \$ 15,646

**NET POSITION**

Net investment in capital assets	\$ 5,107,559
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Unrestricted	4,607,785
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Total Net Position \$ 9,715,344

TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION \$ 13,093,453

See notes to financial statements.

**MURFREESBORO STORMWATER FUND**

**Statement of Revenues, Expenses, and Changes in Net Position**

**Year Ended June 30, 2016**

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Operating Revenues	\$ <u>2,815,808</u>
Operating Expenses -	
Operating expenses	\$ 502,420
Payroll expenses	558,146
Stormwater project participation	858,653
Maintenance expenses	437,564
Depreciation	320,913
Total operating expenses	\$ <u>2,677,696</u>
Operating Income (Loss)	\$ <u>138,112</u>
Non-operating Revenues (Expenses) -	
Interest revenue	\$ <u>13,801</u>
Total non-operating revenues (expenses)	\$ <u>13,801</u>
Increase in net position	\$ 151,913
Net Position at beginning of year	<u>9,563,431</u>
Net Position at end of year	\$ <u><u>9,715,344</u></u>

See notes to financial statements.

**MURFREESBORO STORMWATER FUND**

**Statement of Cash Flows**

**Year Ended June 30, 2016**

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Cash Flows from Operating Activities -	
Cash transferred from Murfreesboro Water and Sewer Department	\$ <u>1,770,262</u>
Net Cash Provided by Operating Activities	\$ <u>1,770,262</u>
Cash Flows From Investing Activities -	
Interest revenue received	\$ <u>12,422</u>
Net Cash Provided by Investing Activities	\$ <u>12,422</u>
Net Increase in cash	\$ 1,782,684
Cash at beginning of year	<u>6,122,246</u>
Cash at end of year	<u>\$ 7,904,930</u>
Reconciliation of Operating Income to Net Cash -	
Provided by Operating Activities:	
Operating income	\$ 138,112
Adjustments to reconcile operating income to net	
cash provided by operating activities -	
Depreciation	320,913
Construction in progress expensed in current year	123,618
Changes in assets and liabilities -	
(Increase) decrease in prepaid expenses	4,468
(Increase) decrease in deferred outflows of resources	(62,228)
Increase (decrease) in accounts payable	45,540
Increase (decrease) in other liabilities	28,029
Increase (decrease) in due to other funds	1,061,624
Increase (decrease) in net pension liability	94,540
Increase (decrease) in deferred inflows of resources	<u>15,646</u>
Net Cash Provided by Operating Activities	<u>\$ 1,770,262</u>
Non-Cash Capital and Related Financing Activities -	
Interest revenue due from Murfreesboro Water and Sewer Department	\$ (1,379)
For the year ended June 30, 2016, the Fund acquired assets through the	
the increase in Due to Murfreesboro Water and Sewer Department and	
Due to the City of Murfreesboro	<u>1,061,624</u>
	<u>\$ 1,060,245</u>

See notes to financial statements.

# MURFREESBORO STORMWATER FUND

## Notes to Financial Statements

June 30, 2016

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### **Note A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

This summary of significant accounting policies of the Murfreesboro Stormwater Fund (the Fund) is presented to assist in understanding the Fund's financial statements. The financial statements and notes are representations of the Fund's management who is responsible for their integrity and objectivity. These accounting policies conform to generally accepted accounting principles.

Organization - The Fund was formed on August 3, 2007 by Ordinance of the City of Murfreesboro (the City) in accordance with T.C.A. Section 68-221-1101 to facilitate municipal compliance with the Water Quality Act of 1977, and applicable EPA regulations. The purpose of the stormwater fund is to account for stormwater management functions such as regulating stormwater discharges, establishment of a system of drainage facilities, construction and operation of a system of stormwater management and flood control facilities. The fund is funded by a stormwater user fee which is billed to property owners of record in conjunction with the Water and Sewer Department's monthly billing cycles. The fees were set in such a manner as to fully recover its costs, including capital costs (such as depreciation or debt service).

Financial Reporting - The Fund is considered a proprietary fund of the City and its financial statements are included in the general purpose financial statements of the City.

Murfreesboro Water and Sewer Department maintains all financial records and activity for the Fund. All cash transactions are processed through Murfreesboro Water and Sewer Department's accounts and are treated as Due to/from on the books of the Fund.

Basis of Presentation - The Fund is an enterprise and utilizes the accrual basis of accounting. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the Fund's assets, liabilities, net position, revenues and expenses. Enterprise Funds account for activities (i) that are financed with debt that is secured by a pledge of the net revenues from fees and charges of the activity, or (ii) that are required by laws or regulations that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues; or (iii) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

The accounting and financial reporting treatment applied to the Fund is determined by its measurement focus. The transactions of the Fund are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the balance sheet. Net position (i.e. total assets plus net deferred outflows net of total liabilities and net deferred inflows) is segregated into net investment in capital assets, restricted for capital project, and unrestricted components.

When both restricted and unrestricted resources are available for use, it is the Fund's policy to use restricted resources first and then unrestricted resources as they are needed.

Revenue Recognition - Revenue is recognized at the time that bills are processed and mailed. Bills are batched in several cycles each month. Operating revenues are fees generated from stormwater services provided to the general public.

Operating Revenues and Expenses - The Fund's operating revenues and expenses consist of revenues earned and expenses incurred relating to the operation and maintenance of its principal ongoing operations. All other revenues and expenses are reported as non-operating revenues and expenses and consist of those revenues and expenses that are related to financing and investing types of activities and result from non-exchange transactions or ancillary activities.

Cash and Equivalents - For purposes of the statement of cash flows, the Fund considers all cash to be cash for operations.

**MURFREESBORO STORMWATER FUND**

**Notes to Financial Statements (continued)**

**June 30, 2016**

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**Note A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Utility Plant - Utility plant in service is valued at historical cost. Cost includes material direct labor, and other indirect items such as engineering, supervision, and transportation expenses. The cost of repairs and maintenance is charged to expense when incurred whereas the cost of renewals and betterments is capitalized. The Fund capitalizes assets using a \$5,000 capitalization threshold.

Depreciation expense is provided for functional groups of plant accounts on the straight-line method. Rates assigned to utility plant are intended to distribute the cost of the depreciable property over their estimated useful lives ranging from 5 to 20 years.

The cost of depreciable, functional utility plant retired in the ordinary course of business plus removal costs, less salvage, is charged to accumulated depreciation. Gain or loss is generally recognized on the disposition or retirement of transportation equipment equal to the differences in the proceeds from sale, if any, and the net book value of the individual item. When portions of utility plant as a whole are retired, sold or abandoned, a gain or loss is recognized equal to the difference in the net book value and sales price or estimated realizable value.

Pensions – For purposes of measuring the net pension liability (asset), deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense (income), information about the fiduciary net position of the Fund's participation in the City's Revised Employees' Pension Plan (the Plan), and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, benefits (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms of the Plan. Investments are reported at fair value.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications – Certain reclassifications have been made to the prior year financial statements in order to conform to the current year presentation.

**Note B – CASH**

At June 30, 2016, the carrying amount and the bank balance of cash deposits was \$7,904,930. At June 30, 2016, the entire bank balance was covered by federal depository insurance or by collateral held by the Tennessee Bank Collateral Pool.

**MURFREESBORO STORMWATER FUND**

**Notes to Financial Statements (continued)**

**June 30, 2016**

**Note C - UTILITY PLANT**

Components of utility plant at June 30, 2016 are summarized as follows:

	Balance June 30, 2015	Increases	Adjustments Decreases	Balance June 30, 2016
Utility plant not being depreciated -				
Land	\$ 681,900	\$ 280,064		\$ 961,964
Construction in progress	1,226,795	176,375	(768,646)	634,524
Subtotal	<u>\$ 1,908,695</u>	<u>\$ 456,439</u>	<u>\$ (768,646)</u>	<u>\$ 1,596,488</u>
Utility plant being depreciated -				
Structure and improvements	\$ 2,960,642	\$ 366,623		\$ 3,327,265
Vehicles	848,477	543,188		1,391,665
Equipment	182,139	6,705	\$ (1,770)	187,074
Subtotal	<u>\$ 3,991,258</u>	<u>\$ 916,516</u>	<u>\$ (1,770)</u>	<u>\$ 4,906,004</u>
Less accumulated depreciation for -				
Structure and improvements	\$ (507,690)	\$ (148,032)		\$ (655,722)
Vehicles	(460,524)	(149,939)		(610,463)
Equipment	(105,916)	(22,942)	\$ 110	(128,748)
Subtotal	<u>\$ (1,074,130)</u>	<u>\$ (320,913)</u>	<u>\$ 110</u>	<u>\$ (1,394,933)</u>
Utility plant, being depreciated, net	<u>\$ 2,917,128</u>	<u>\$ 595,603</u>	<u>\$ (1,660)</u>	<u>\$ 3,511,071</u>
Utility plant, net	<u>\$ 4,825,823</u>	<u>\$ 1,052,042</u>	<u>\$ (770,306)</u>	<u>\$ 5,107,559</u>

The retirements above reflect amounts that were included in construction in progress in a previous year and expensed in the current year.

**Note D - PENSION PLAN**

**General Information about the Pension Plan**

Plan Description – Employees of the Fund, are provided a defined benefit pension plan through the City’s Pension Plan (the Plan). The defined benefit pension plan covers all City employees except those employees of the school system, the Evergreen Cemetery Commission and electric department. All other departments of the City, including the Water and Sewer Department and the Fund, are covered by the Plan. The funds of the Plan are invested in trust funds managed by Pinnacle Financial Partners who serves as trustee for the Plan.

In accordance with the City Code, subject to approval by the City Council, the Plan provisions may be established or amended by the pension committee. The pension committee is an eight-member board appointed by City Council to oversee the City’s pension plan. At least two of the board members must be participants in the Plan. The current pension committee is comprised of three City employees, and one City Council member. The remaining board members have backgrounds in banking, investment advising and insurance.

The City issues a publicly available financial report that includes the required supplementary information for the Plan. For more information regarding this plan contact the City Recorder’s office:

Melissa B. Wright  
City Recorder/Finance Director  
111 West Vine Street, P.O. Box 1139  
Murfreesboro, TN 37133-1139  
615-893-5210  
[mwright@murfreesborotn.gov](mailto:mwright@murfreesborotn.gov)

**MURFREESBORO STORMWATER FUND**

**Notes to Financial Statements (continued)**

**June 30, 2016**

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**Note D - PENSION PLAN (continued)**

**General Information about the Pension Plan (continued)**

Benefits Provided - The Plan provides for a basic monthly pension beginning at normal retirement age which is based upon the monthly compensation of the participant. The normal retirement date for general employees is the participant's 65<sup>th</sup> birthday or the participant's attainment of age 55 and completion of 30 years of service. The normal retirement date for firefighters and police officers is the participant's 55<sup>th</sup> birthday.

The normal retirement benefit, one twelfth of which is payable monthly for life, with the first 60 payments guaranteed, is equal to 2% of average earnings, multiplied by the total years of employment not in excess of 30 years. "Average earnings" is the average annual basic earnings of a participant for the five consecutive years of employment which produce the highest average.

A participant other than a firefighter or police officer may retire early after attaining age 55 and completion of 25 years of credited service, or upon attaining age 62 and completion of 20 years of credited service. The early retirement benefit, to commence immediately, is computed in the same manner as the normal retirement above using compensation and credited service to the date of early retirement, but is reduced actuarially for each year the participant's date of early retirement precedes his normal retirement date.

A participant may postpone their retirement beyond their normal retirement date provided that participant is physically and mentally capable of performing the duties and responsibilities of the participant's job. The benefit is computed in the same manner as for normal retirement, with the compensation being made as the participant's actual retirement date.

In the event of the death of a married participant after becoming vested, a monthly survivorship benefit shall be paid to the participant's surviving spouse. In the event of the death of a single participant after becoming vested, a lump sum benefit shall be payable to the participant's beneficiary.

In the event of the death of a married vested former employee before age 65 with the spouse surviving, a monthly survivorship benefit shall be payable to the participant's surviving spouse.

If the employment of a participant is terminated after completing at least 5 years of participation, the participant is entitled to a deferred vested benefit. The deferred benefit, to commence at age 65, is computed in the same manner as in normal retirement using compensation and credited service to the date of termination. The participant shall be vested in his accrued benefit. A participant may elect to receive a return of employee contributions accumulated with interest at a rate of 7.5% per annum in lieu of a deferred vested benefit.

Contributions - The Plan was amended on July 1, 1988 to make the Plan noncontributory whereby the employer contributes the entire amount necessary to fund the Plan. Contribution rates are recommended by the pension committee based on the annual actuarial valuation report, and must also be approved by City Council. The contribution rate for the fiscal year ended June 30, 2015, the actuarial valuation date, was 12.18%. The contribution rate for the fiscal year ended June 30, 2016 was 12.32%.

**Net Pension Liabilities (Assets), Pension Expense (Income) and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

Pension Liability - At June 30, 2016, the Fund reported liability of \$94,540 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of that date. The actuarial report is divided into two parts, one representing the Murfreesboro Water and Sewer Department of which the Fund is part and all other City employees. The Fund's proportion of the net pension liability was based on Fund's contributions to the Plan relative to the contributions of the Murfreesboro Water and Sewer Department. At the measurement date of June 30, 2015, the Fund's proportion relative to the Murfreesboro Water and Sewer Department was 4.54 percent.

**MURFREESBORO STORMWATER FUND**

**Notes to Financial Statements (continued)**

**June 30, 2016**

**Note D - PENSION PLAN (continued)**

**Net Pension Liabilities (Assets), Pension Expense (Income) and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)**

Pension Expense - For the year ended June 30, 2016, the Fund recognized pension expense of \$22,173.

Deferred Outflows of Resources and Deferred Inflows of Resources - For the year ended June 30, 2016, the Fund reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b><u>Outflows of Resources</u></b>	<b><u>Inflows of Resources</u></b>
Differences between expected and actual experience	\$ 4,798	\$ 15,646
Net difference between projected and actual earnings on pension plan investments	21,122	
Contributions subsequent to the measurement date of June 30, 2015	<u>36,308</u>	
Total	<u>\$ 62,228</u>	<u>\$ 15,646</u>

The Fund's employer contributions of \$36,308, reported as pension related deferred outflows of resources subsequent to the measurement date, will be recognized as an increase of net pension liability (asset) in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<b><u>Year Ended June 30:</u></b>	
2017	\$ (530)
2018	(530)
2019	(530)
2020	15,480
2021	(1,808)
Thereafter	(1,808)

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

Actuarial Assumptions - The total pension liability as of the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial cost method	Entry age normal
Inflation	None
Salary Increases	4.00%
Investment Rate of Return	7.25 percent, net of pension plan investment expenses, including inflation
Cost-of-Living Adjustment	None
Mortality	RP 2000 Combined Mortality Table with mortality improvement through the valuation date

The actuarial assumptions used in the June 30, 2015 actuarial valuation were based on the review of plan experience in conjunction with the July 1, 2011 actuarial valuation report. The actuary annually reviews the assumptions and methods for reasonableness.

**MURFREESBORO STORMWATER FUND**

**Notes to Financial Statements (continued)**

**June 30, 2016**

**Note D - PENSION PLAN (continued)**

Investment Rate of Return – The investment rate of return is 7.25% per annum, compounded annually. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce a 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. Best estimates of forward-looking rates of return for each major asset class included in the Plan’s target asset allocation are summarized in the following table:

<u>Asset Class</u>	<u>Real Rate of Return</u>
Domestic Equity - Small Cap	9.23%
Domestic Equity - Large Cap	7.92%
Domestic Equity - Mid Cap	8.71%
International Equity	7.80%
International Equity - Emerging Markets	9.66%
Fixed Income	3.13%
Cash	2.49%

Discount Rate - the discount rate used is 7.25% per annum, compounded annually.

Paragraph 29 of GASB Statement 68 provides for an alternative method to be used other than the projection of the pension plan’s fiduciary net position based on projected contributions, benefit payments and investment earnings. The current contribution policy requires contributions of normal cost plus a closed amortization of the unfunded liabilities (not to exceed 30 years from when the unfunded liability was created). Based on these assumptions and the actuarial methodology adopted, the employer’s fiduciary net position is expected to remain positive and to be available to make projected future benefit payments of current active and inactive members and to cover administrative expenses. 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.

Sensitivity of the Proportionate Share of Net Pension Liability (Asset) to Changes in the Discount Rate - The following presents the Fund’s proportionate share of the net pension liability (asset) of the Murfreesboro Water and Sewer Department calculated using the discount rate of 7.25 percent, as well as what the Fund’s proportionate share of 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:

	<u>1% Decrease</u>	<u>Discount Rate</u>	<u>1% Increase</u>
	<u>(6.25%)</u>	<u>(7.25%)</u>	<u>(8.25%)</u>
Murfreesboro Stormwater Fund's proportionate share of the net pension liability (asset)	\$ 224,513	\$ 94,540	\$ (16,233)

Pension Plan Fiduciary Net Position - Detailed information about the Plan’s fiduciary net position is available in the separately issued City’s report.

**Payable to the Pension Plan**

At June 30, 2016, the Fund reported no outstanding contributions to the Plan required at the year ended June 30, 2016.

**MURFREESBORO STORMWATER FUND**

**Notes to Financial Statements (continued)**

**June 30, 2016**

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**Note E – DEFINED CONTRIBUTION PLAN**

Effective July 1, 2010, a defined contribution plan has been implemented by the City in accordance with the Murfreesboro City Code. Plan provisions (including contribution requirements) may be established or amended by the pension committee.

The defined contribution plan covers all full-time employees hired on or after July 1, 2010. The provisions of this plan require a 3% mandatory employee contribution. The Stormwater Fund will match 100% of the employee contributions up to 8%. Employees are immediately vested in the employee contributions plus actual earnings thereon. Employees become 100% invested in the match contribution after 5 years of full-time employment. Employer contributions and expense for the year ended June 30, 2016 totaled \$1,361.

**Note F – SUBSEQUENT EVENT**

In September 2016, three parcels of land located at the corner of Southeast Broad Street and South Church Street were purchased by the Stormwater Fund in the amount of \$700,000 plus closing costs for future improvements to the City's stormwater system.

**REQUIRED SUPPLEMENTARY INFORMATION**

**MURFREESBORO STORMWATER FUND**

**Required Supplementary Information**

**Schedule of Murfreesboro Stormwater Fund's  
Proportionate Share of the Net Pension Liability  
Participation in the City of Murfreesboro Employees' Pension Plan  
Last 10 Fiscal Years ending June 30 (1)\***

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	<u>2015</u>
Murfreesboro Stormwater Fund's proportion of the net pension liability	0.70%
Murfreesboro Stormwater Fund's proportionate share of the net pension liability	\$ 94,540
Murfreesboro Stormwater Fund's covered payroll	\$ 282,767
Murfreesboro Stormwater Fund's proportionate share of the net pension liability as a percentage of its covered payroll	33.43%
Plan fiduciary net position as a percentage of the total pension liability	89.96%

*\* The amounts presented were determined as of June 30 of the prior fiscal year.*

*(1) 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.*

**MURFREESBORO STORMWATER FUND**

**Required Supplementary Information**

**Schedule of Murfreesboro Stormwater Fund's Pension Contributions**  
**City of Murfreesboro Employees' Pension Plan**  
**Last 10 Fiscal Years ending June 30 (1)**

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	<u>2015</u>	<u>2016</u>
Actuarially determined contribution (ADC)	\$ 34,441	\$ 33,694
Contributions in relation to the actuarially determined contribution	<u>34,441</u>	<u>36,328</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ (2,634)</u>
Covered payroll	\$ 282,767	\$ 297,122
Contributions as a percentage of covered payroll	12.18%	12.23%

**Notes to Schedule -**

Valuation date: Actuarially determined contribution rates for 2016 were calculated based on the July 1, 2015 actuarial valuation.

Methods and assumptions used to determine contribution rates are:

Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed, not to exceed 30 years
Remaining amortization period	27 years
Asset valuation method	Five year smoothing method
Inflation	None
Salary increases	4.00%
Investment rate of return	7.25%, net of investment expense, including inflation
Retirement age	Graded scale starting at age 55 with 100% at age 67
Mortality	RP2000 Combined Mortality Table with Mortality Improvement to the Valuation Date
Cost of living adjustments	None

(1) *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.*

**INTERNAL CONTROL  
AND COMPLIANCE SECTION**



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James R. Jobe, CPA

Joel H. Jobe (1944 – 2006)

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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*

To the Board of Directors  
Murfreesboro Stormwater Fund  
Murfreesboro, 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 Murfreesboro Stormwater Fund as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Murfreesboro Stormwater Fund's basic financial statements, and have issued our report thereon dated December 7, 2016.

### **Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Murfreesboro Stormwater Fund'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 Murfreesboro Stormwater Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Murfreesboro Stormwater Fund'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 Murfreesboro Stormwater Fund's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed 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.

*Jobe, Hastings & Associates*

Certified Public Accountants

Murfreesboro, Tennessee

December 7, 2016

**MURFREESBORO STORMWATER FUND**

**Schedule of Audit Findings and Responses**  
**June 30, 2016**

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**A - SUMMARY OF AUDITOR'S RESULTS**

1. The auditor's report expresses an unmodified opinion on the financial statements of the Murfreesboro Stormwater Fund
2. No significant deficiencies relating to the audit of the financial statements are reported in the *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*.
3. No instances of noncompliance material to the financial statements of the Murfreesboro Stormwater Fund, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.

**B - FINDINGS - FINANCIAL STATEMENT AUDIT**

**CURRENT YEAR FINDINGS**

**None**

**MURFREESBORO STORMWATER FUND**

**Schedule of Prior Year Audit Findings and Responses**  
**June 30, 2016**

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**A - SUMMARY OF AUDITOR'S RESULTS**

No prior year findings.