

MURFREESBORO STORMWATER FUND

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED
JUNE 30, 2017

CONTENTS

INTRODUCTORY SECTION

Board Members and Management Officials	Page	i
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FINANCIAL SECTION -

<i>Independent Auditor's Report</i>	Page	1-2
--	------	-----

<i>Management's Discussion and Analysis</i>		3-5
--	--	-----

Financial Statements -

Statement of Net Position		6
Statement of Revenues, Expenses, and Changes in Net Position.....		7
Statement of Cash Flows.....		8
Notes to Financial Statements		9-15

Required Supplementary Information -

Schedule of Murfreesboro Stormwater Fund's Proportionate Share of the Net Pension Liability		16
Schedule of Murfreesboro Stormwater Fund's Pension Contributions.....		17

INTERNAL CONTROL AND COMPLIANCE SECTION -

Independent Auditor's Report on Internal Control and on Compliance		18-19
Schedule of Audit Findings and Responses.....		20
Schedule of Prior Year Audit Findings and Responses		21

INTRODUCTORY SECTION

MURFREESBORO STORMWATER FUND

Board Members and Management Officials

June 30, 2017

Board Members

ChairmanJohn Sant Amour, Jr.
Board MemberBrian Kidd
Board MemberDr. Alphonse Carter, Jr.
Board MemberRon Crabtree
Board MemberKathy Nobles
Board MemberSandra Trail
Board MemberMadelyn Scales-Harris

Management Officials

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

FINANCIAL SECTION



JOB, HASTINGS & ASSOCIATES

Certified Public Accountants

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

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, 2017, 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, 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 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, City of Murfreesboro, Tennessee, as of June 30, 2017, 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, 2017, the changes in its financial position, or, where applicable, 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 5, 2017, 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 solely 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 the effectiveness of the Murfreesboro Stormwater Fund's 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 5, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2017. 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 \$10,457,867, an increase of \$742,523 (7.6%) over the year ended June 30, 2016.
- ◆ The stormwater fund's Unrestricted Net Position as of June 30, 2017 is \$4,114,981, a decrease of \$492,804 (10.7%) over the year ended June 30, 2016. Unrestricted Net Position reserves is anticipated to fund future capital projects. A capital improvement plan (CIP) totaling \$5,675,000 was approved by the Water Resources Board and City Council in the FY18 budget.
- ◆ Payment of \$331,953 was made for City engineering and inspection services associated with drainage system maintenance, erosion prevention and sediment control for year ending June 30, 2017.
- ◆ Payment of \$384,228 was reimbursed to the street department personnel involved with stormwater cleaning, repair and street sweeping operations in FY17.
- ◆ Operating Revenue increased by \$67,980 (2.4%) due to continued development occurring within the City of Murfreesboro.
- ◆ The FY2017-2018 upcoming capital projects identified by City Engineering as funded in FY18, as tabulated below:

PROJECT	2018 FY
Neighborhood Projects (NP)	
Memorial Blvd / Haynes Dr. Drainage Improvements	\$25,000
Huntwood/Leaf Ave Neighborhood Drainage Imp.	\$100,000
Southern Meadows / Kimbro Woods Drainage Imp.	\$200,000
Water Quality Improvement (Compliance) Projects (WQ)	
Town Creek Bioretention BMP's @ Cannonsburgh	\$75,000
Rosebank Springs Constructed Wetlands	\$150,000
Lee's Branch Stream Restoration	\$50,000
West Fork Stones River at Cason Trail; bank repair	\$100,000
Bear Branch Water Quality Mitigation	\$50,000
Todd's Lake Regional Wetlands Improvements	\$50,000
Hooper's Bottom Regional Water Quality Project	\$75,000
Spence Creek Restoration	\$25,000
Public Drainage/Streets Participation Projects (PD)	
Maney Avenue Phase 2	\$50,000
Town Creek Conveyance (Murfree Springs to Cannonsburgh)	\$250,000
Maple St. Alley Permeable Paver Project	\$75,000
TOTAL Projected FY18 Outlay	\$1,275,000

- ◆ The Water Resources 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 \$1,679,626

- Maximum Working Capital Reserve Balance of sixty (60) months operating expenses or \$8,398,130
 - “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 Resources Board for recommendation and subsequent consideration by the City Council.
- ◆ On May 4, 2017, the City Council amended a section of the approved Murfreesboro Stormwater Fund Financial Management Policies by lowering the minimum working capital reserve balance to three (3) months of operating expenses. For FY18 this amount is \$419,906.50.

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 three (3) 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, 2017	June 30, 2016	June 30, 2015
Utility Plant	\$ 6,342,886	\$ 5,107,559	\$ 4,825,823
Cash	10,469,071	7,904,930	6,122,246
Deferred Outflows	166,627	62,228	
Prepaid Expenses and Other Assets	<u>39,018</u>	<u>18,736</u>	<u>23,204</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 17,017,602</u>	<u>\$ 13,093,453</u>	<u>\$ 10,971,273</u>
Trade Accounts Payable	\$ 64,703	\$ 45,540	\$ -
Other Liabilities	61,907	32,789	4,760
Deferred Inflows	24,428	15,646	
Due to City of Murfreesboro	465,760	465,989	940,071
Due to Murfreesboro Water Resources Dept	5,714,785	2,723,605	463,011
Long-Term Liabilities	<u>228,152</u>	<u>94,540</u>	
Total Liabilities and Deferred Inflows of Resources	\$ 6,559,735	\$ 3,378,109	\$ 1,407,842
Net Assets			
Net Investment in Capital Assets	6,342,886	5,107,559	4,825,823
Unrestricted	<u>4,114,951</u>	<u>4,607,785</u>	<u>4,737,608</u>
Total Net Position	<u>10,457,837</u>	<u>9,715,344</u>	<u>9,563,431</u>
Total Liabilities, Deferred Inflows and Net Position	<u>\$ 17,017,572</u>	<u>\$ 13,093,453</u>	<u>\$ 10,971,273</u>

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

	June 30, 2017	June 30, 2016	June 30, 2015
Operating Revenues	\$ 2,883,788	\$ 2,815,808	\$ 2,771,103
Operating expenses	\$ 594,612	\$ 502,420	\$ 1,164,321
Payroll expenses	656,661	558,146	394,261
Maintenance expenses	122,762	437,564	201,684
Stormwater Project Participation	331,953	858,653	833,800
Loss on Disposition of utility plant assets			
Depreciation expenses	<u>452,447</u>	<u>320,913</u>	<u>252,921</u>
	\$ 2,158,435	\$ 2,677,696	\$ 2,846,987
Other Revenue			
Interest Earned	<u>17,170</u>	<u>13,801</u>	<u>11,200</u>
Increase in net Position before Capital Contributions	\$ 742,523	\$ 151,913	\$ (64,684)
Capital Contributions			
Increase in Net Position	\$ 742,523	\$ 151,913	\$ (64,684)
Net Position, beginning of year	<u>9,715,344</u>	<u>9,563,431</u>	<u>9,628,115</u>
Net Position, end of year	<u>\$ 10,457,867</u>	<u>\$ 9,715,344</u>	<u>\$ 9,563,431</u>

MURFREESBORO STORMWATER FUND

Statement of Net Position

June 30, 2017

ASSETS

Current Assets -

Cash	\$ 10,469,071
Prepaid expenses	39,018
TOTAL CURRENT ASSETS	<u>\$ 10,508,089</u>

Utility Plant -

Utility Plant not being depreciated	\$ 2,534,534
Utility Plant being depreciated	3,808,352
TOTAL UTILITY PLANT	<u>\$ 6,342,886</u>
TOTAL ASSETS	<u>\$ 16,850,975</u>

DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows related to pensions	\$ 166,627
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 166,627</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 17,017,602</u>

LIABILITIES

Current Liabilities -

Trade accounts payable	\$ 64,703
Other liabilities	61,907
Due to other funds	6,180,545
TOTAL CURRENT LIABILITIES	<u>\$ 6,307,155</u>

Long-term Liabilities -

Net pension liability	\$ 228,152
TOTAL LONG-TERM LIABILITIES	<u>\$ 228,152</u>
TOTAL LIABILITIES	<u>\$ 6,535,307</u>

DEFERRED INFLOWS OF RESOURCES

Deferred inflows related to pensions	\$ 24,428
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>\$ 24,428</u>

NET POSITION

Net investment in capital assets	\$ 6,342,886
Unrestricted	4,114,981
Total Net Position	<u>\$ 10,457,867</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>\$ 17,017,602</u>

See notes to financial statements.

MURFREESBORO STORMWATER FUND

Statement of Revenues, Expenses, and Changes in Net Position

Year Ended June 30, 2017

Operating Revenues	\$ <u>2,883,788</u>
Operating Expenses -	
Operating expenses	\$ 594,612
Payroll expenses	656,661
Stormwater project participation	331,953
Maintenance expenses	122,762
Depreciation	452,447
Total operating expenses	\$ <u>2,158,435</u>
Operating Income (Loss)	\$ <u>725,353</u>
Non-operating Revenues (Expenses) -	
Interest revenue	\$ <u>17,170</u>
Total non-operating revenues (expenses)	\$ <u>17,170</u>
Increase in net position	\$ 742,523
Net Position at beginning of year	<u>9,715,344</u>
Net Position at end of year	\$ <u><u>10,457,867</u></u>

See notes to financial statements.

MURFREESBORO STORMWATER FUND

Statement of Cash Flows

Year Ended June 30, 2017

Cash Flows from Operating Activities -	
Cash transferred from Murfreesboro Water and Sewer Department	\$ 2,546,971
Net Cash Provided by Operating Activities	<u>\$ 2,546,971</u>
Cash Flows From Investing Activities -	
Interest revenue received	\$ 17,170
Net Cash Provided by Investing Activities	<u>\$ 17,170</u>
Net increase in cash	\$ 2,564,141
Cash at beginning of year	7,904,930
Cash at end of year	<u><u>\$ 10,469,071</u></u>
Reconciliation of Operating Income to Net Cash -	
Provided by Operating Activities:	
Operating income	\$ 725,353
Adjustments to reconcile operating income to net	
cash provided by operating activities -	
Depreciation	452,447
Changes in assets and liabilities -	
(Increase) decrease in prepaid expenses	(20,282)
(Increase) decrease in deferred outflows of resources	(104,399)
Increase (decrease) in accounts payable	19,163
Increase (decrease) in other liabilities	29,118
Increase (decrease) in due to other funds	1,303,177
Increase (decrease) in net pension liability	133,612
Increase (decrease) in deferred inflows of resources	8,782
Net Cash Provided by Operating Activities	<u>\$ 2,546,971</u>
Non-Cash Capital and Related Financing Activities -	
For the year ended June 30, 2017, the Fund acquired assets through the	
the increase in Due to Murfreesboro Water and Sewer Department and	
Due to the City of Murfreesboro	\$ 1,687,774
	<u>\$ 1,687,774</u>

See notes to financial statements.

MURFREESBORO STORMWATER FUND

Notes to Financial Statements

June 30, 2017

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, Tennessee (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, 2017

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.

Note B - PUBLIC FUNDS COLLATERALIZED BY FINANCIAL INSTITUTIONS

Interest rate risk - The Fund has adopted a policy to minimize the risk that the market value of securities in the portfolio will fall due to changes in general interest rate by: structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations thereby avoiding the need to sell securities on the open market prior to maturity and investing operating funds primarily in short-term securities, money market mutual funds, or similar investment pools.

Custodial credit risk - deposits and investments - This is the risk that in the event of a bank failure, the Fund's deposits may not be returned to it. The Fund has adopted a deposit and investment policy for custodial credit risk, which allows for deposits and investments to only be held with authorized financial dealers and institutions. All financial institutions who desire to become qualified for investment transactions must supply annual audited financial statements or be an active member of the State Collateral Pool. If the financial institution is not an active member of the State Collateral Pool, the deposits must be covered by either collateral securities held by the institution in the Fund's name or Federal Depository Insurance. At June 30, 2017, the carrying amount and the bank balance of cash deposits was \$10,469,071. At June 30, 2017, the entire bank balance was covered by federal depository insurance or by collateral held by the Tennessee Bank Collateral Pool.

Credit Risk - The Fund has adopted a policy to minimize the risk of loss due to the failure of the security issuer or backer by: limiting investments to the safest types of securities; pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisers with which the Fund will do business; diversifying the investment portfolio so that potential losses on individual securities will be minimized.

MURFREESBORO STORMWATER FUND

Notes to Financial Statements (continued)

June 30, 2017

Note B - PUBLIC FUNDS COLLATERALIZED BY FINANCIAL INSTITUTIONS (continued)

Investments - State statutes authorize the Fund to invest operating funds in bonds, notes, or treasury bills of the United States or any of its agencies, certificates of deposit at Tennessee state chartered banks and savings and loan associations, repurchase agreements utilizing the obligations of the United States or its agencies as the underlying securities, and state pooled investment fund. Statutes also require that securities underlying repurchase agreements must have a market value at least equal to the amount of funds invested in the repurchase transaction. The Fund has no such investments at June 30, 2017.

Note C - UTILITY PLANT

Components of utility plant at June 30, 2017 are summarized as follows:

	Balance <u>June 30, 2016</u>	<u>Increases</u>	Adjustments <u>Decreases</u>	Balance <u>June 30, 2017</u>
Utility plant not being depreciated -				
Land	\$ 961,964		\$ 63,921	\$ 1,025,885
Construction in progress	634,524	\$ 938,046	(63,921)	1,508,649
Subtotal	<u>\$ 1,596,488</u>	<u>\$ 938,046</u>	<u>\$ -</u>	<u>\$ 2,534,534</u>
Utility plant being depreciated -				
Structure and improvements	\$ 3,327,265			\$ 3,327,265
Vehicles	1,391,665	\$ 728,387		2,120,052
Equipment	187,074	21,341		208,415
Subtotal	<u>\$ 4,906,004</u>	<u>\$ 749,728</u>		<u>\$ 5,655,732</u>
Less accumulated depreciation for -				
Structure and improvements	\$ (655,722)	\$ (166,363)		\$ (822,085)
Vehicles	(610,463)	(263,477)		(873,940)
Equipment	(128,748)	(22,607)		(151,355)
Subtotal	<u>\$ (1,394,933)</u>	<u>\$ (452,447)</u>		<u>\$ (1,847,380)</u>
Utility plant, being depreciated, net	<u>\$ 3,511,071</u>	<u>\$ 297,281</u>		<u>\$ 3,808,352</u>
Utility plant, net	<u>\$ 5,107,559</u>	<u>\$ 1,235,327</u>	<u>\$ -</u>	<u>\$ 6,342,886</u>

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 of Murfreesboro Employees' Pension Plan (the Pension Plan). The 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 stormwater fund, are covered by the Pension Plan. The funds of the Pension Plan are invested in trust funds managed by Pinnacle Financial Partners who serves as trustees for the Pension Plan.

In accordance with the City Code, subject to approval by the City Council, Pension 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 Pension 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.

MURFREESBORO STORMWATER FUND

Notes to Financial Statements (continued)

June 30, 2017

Note D - PENSION PLAN (continued)

General Information about the Pension Plan (continued)

The City issues a publicly available financial report that includes the required supplementary information for the Pension Plan. For more information regarding this Pension 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

The June 30, 2017 City of Murfreesboro comprehensive audited financial statements, including the Pension Plan, will be posted to the City's website at www.murfreesborotn.gov, once it is available.

Employees who were regularly employed for at least 30 hours per week for at least six months of the year became eligible to participate upon completion of ninety days of employment.

Employees hired after June 30, 2010 are not eligible to participate in this plan.

Employment shall be the period of a participant's continuous and uninterrupted employment since their latest date of employment with the City; certain authorized leaves of absence do not interrupt continuous employment.

Benefits Provided - The Pension 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 65th 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 55th 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.

MURFREESBORO STORMWATER FUND

Notes to Financial Statements (continued)

June 30, 2017

Note D - PENSION PLAN (continued)

Contributions - The Pension Plan was amended on July 1, 1988 to make it noncontributory whereby the employer contributes the entire amount necessary to fund the Pension 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, 2016, the actuarial valuation date, was 12.32%. The contribution rate for the fiscal year ended June 30, 2017 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, 2017, the Fund reported liability of \$228,152 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, 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 the Fund's contributions to the Pension Plan relative to the contributions of the Murfreesboro Water and Sewer Department. At the measurement date of June 30, 2016, the Fund's proportion relative to the Murfreesboro Water and Sewer Department was 5.86 percent. The proportion measured as of June 30, 2015 was 4.54 percent.

Pension Expense - For the year ended June 30, 2017, the Fund recognized pension expense of \$60,489.

Deferred Outflows of Resources and Deferred Inflows of Resources - For the year ended June 30, 2017, the Fund reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Outflows of Resources</u>	<u>Inflows of Resources</u>
Differences between expected and actual experience	\$ 5,168	\$ 24,428
Net difference between projected and actual earnings on pension plan investments	124,937	
Contributions subsequent to the measurement date of June 30, 2016	36,522	
Total	<u>\$ 166,627</u>	<u>\$ 24,428</u>

The Fund's employer contributions of \$36,522, 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 following measurement period. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30:</u>	
2018	\$ 22,621
2019	22,621
2020	43,316
2021	20,969
2022	(3,850)
Thereafter	-

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

MURFREESBORO STORMWATER FUND

Notes to Financial Statements (continued)

June 30, 2017

Note D - PENSION PLAN (continued)

Actuarial Assumptions - The total pension liability as of the June 30, 2016 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 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, 2016 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.

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 modified 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 pension plan's target asset allocation are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
US Small/MidCap Equity	8.40%
US Large Cap Equity	7.83%
International Equity	7.64%
Emerging Markets Equity	8.69%
Cash Equivalent	3.23%
Core US Bonds	4.42%
Global Bonds	3.47%
High Yield Bonds	6.20%
Natural Resources	5.02%
Global Real Estate	6.69%

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

Paragraph 29 of Statement No. 68 *Accounting and Financial Reporting for Pensions* 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 the 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 Fund'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.

MURFREESBORO STORMWATER FUND

Notes to Financial Statements (continued)

June 30, 2017

Note D - PENSION PLAN (continued)

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 City's Pension Plan 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>(6.25%)</u>	<u>Current</u> <u>Discount Rate</u> <u>(7.25%)</u>	<u>1% Increase</u> <u>(8.25%)</u>
Murfreesboro Stormwater Fund's proportionate share of the net pension liability (asset)	\$ 402,192	\$ 228,152	\$ 79,558

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, 2017, the Fund reported no outstanding contributions to the Plan required at the year ended June 30, 2017.

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, 2017 totaled \$5,540. During the fiscal year ended June 30, 2017, employees made \$5,540 in contributions to the plan.

Note F - INTERFUND TRANSACTIONS

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) the payments between funds are made.

Interfund receivable and payable balances at June 30, 2017, arising from these transactions were as follows:

	<u>Due From</u>	<u>Due To</u>
Murfreesboro Stormwater Fund -		
General fund		\$ 465,760
Water and sewer department		<u>5,714,785</u>
Total		<u>\$ 6,180,545</u>

Note G - COMMITMENTS

The Fund has commitments for construction contracts at June 30, 2017 in the amount of \$233,731.

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)***

	<u>2015</u>	<u>2016</u>
Murfreesboro Stormwater Fund's proportion of the net pension liability	0.70%	0.90%
Murfreesboro Stormwater Fund's proportionate share of the net pension liability	\$ 94,540	\$ 228,152
Murfreesboro Stormwater Fund's covered payroll	\$ 282,767	\$ 296,452
Murfreesboro Stormwater Fund's proportionate share of the net pension liability as a percentage of its covered payroll	33.43%	76.96%
Plan fiduciary net position as a percentage of the total pension liability	89.96%	82.25%

** 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)

	<u>2015</u>	<u>2016</u>	<u>2017</u>
Actuarially determined contribution (ADC)	\$ 34,441	\$ 33,694	\$ 36,522
Contributions in relation to the actuarially determined contribution	34,441	36,328	36,522
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ (2,634)</u>	<u>\$ -</u>
Covered payroll	\$ 282,767	\$ 297,122	\$ 296,452
Contributions as a percentage of covered payroll	12.18%	12.23%	12.32%

Notes to Schedule -

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

Methods and assumptions used to determine contribution rates are:

Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed, not to exceed 30 years
Remaining amortization period	26 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**



JOB, HASTINGS & ASSOCIATES

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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, 2017, 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 5, 2017.

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 5, 2017

MURFREESBORO STORMWATER FUND

Schedule of Audit Findings and Responses

June 30, 2017

A - SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unmodified opinion on the financial statements of the Murfreesboro Stormwater Fund, City of Murfreesboro, Tennessee.
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, 2017

A - SUMMARY OF AUDITOR'S RESULTS

No prior year findings.