

MURFREESBORO WATER
RESOURCES DEPARTMENT

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED
JUNE 30, 2018

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INTRODUCTORY SECTION

Board Members

Chairman.....John 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 Water Resources Department

We have audited the accompanying financial statements of the Murfreesboro Water Resources Department, City of Murfreesboro, Tennessee, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Murfreesboro Water Resources Department, City of Murfreesboro, Tennessee's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and 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 respective financial position of the Murfreesboro Water Resources Department, City of Murfreesboro, Tennessee, as of June 30, 2018, 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 Water Resources Department and do not purport to, and do not present fairly the financial position of the City of Murfreesboro, Tennessee, as of June 30, 2018, 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, pension data, and post-employment benefit data on pages 4-13 and 34-36 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 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 Water Resources Department's basic financial statements. The introductory section, and schedules on pages 37 through 45, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and is also not a required part of the basic financial statements.

The schedule of operating revenues, the schedule of operating expenses and the schedules of expenditures of state and federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of operating revenues, the schedule of operating expenses and the schedules of expenditures of state and federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory schedule, customers and rate schedule, schedule of unaccounted for water and the schedule of debt service requirements by fiscal year have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2018, on our consideration of the Murfreesboro Water Resources Department'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 Murfreesboro Water Resources Department's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering the Murfreesboro Water Resources Department's internal control over financial reporting and compliance.

Jobe, Hastings & Associates

Certified Public Accountants

Murfreesboro, Tennessee
December 20, 2018

MANAGEMENT DISCUSSION AND ANALYSIS

The following Management Discussion and Analysis (MD&A) of the Murfreesboro Water Resources Department (Department) activities and financial performance provides the reader with an introduction and overview to the financial statements of the Murfreesboro Water Resources Department for the year ended June 30, 2018. This information should be considered within the context of the accompanying financial statements and note disclosures.

FINANCIAL OPERATIONS HIGHLIGHTS

- ❖ The Department's capital assets, net of depreciation, increased by \$154,411 for the year ending June 30, 2018. This primarily resulted from utility and plant additions and current construction projects.
- ❖ The Department's net position increased by \$21,318,461 during the year ending June 30, 2018. Net position grew over last year due primarily to operating income and system connection fees.

OVERVIEW OF THE FINANCIAL STATEMENTS

Murfreesboro Water Resources Department (MWRD) is a proprietary fund of the City of Murfreesboro, Tennessee. Management Discussion and Analysis introduces the Department'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 the Department'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 the Department is improving or deteriorating. The majority of net position is invested in utility plant which is used to provide water and sewer service to the general public. Unrestricted net position gives a good indication of the earnings, exclusive of depreciation, that have been accumulated since inception that are available to support future operations, capital additions, or debt retirement.

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 the Department has successfully recovered all its costs through water, sewer and other 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 the Department's cash receipts and cash payments for the year. This statement reports how much cash was generated from operations and then reflects uses of cash related to Capital/Financing and Investing.

CONDENSED FINANCIAL INFORMATION

Summary information regarding the Department's financial position is as follows:

	June 30, 2018	June 30, 2017 as restated
Current Assets	\$ 101,122,393	\$ 84,357,612
Capital Assets	417,131,278	416,976,867
Non-Current Other Assets	86,799	123,647
Deferred Outflows	2,616,525	4,034,092
Total Assets and Deferred Outflows	<u>\$ 520,956,995</u>	<u>\$ 505,492,218</u>
Current Liabilities	\$ 16,573,301	\$ 15,514,994
Non-current Liabilities	122,557,631	129,947,706
Deferred Inflows	870,391	392,307
Total Liabilities and Deferred Inflows	<u>\$ 140,001,323</u>	<u>\$ 145,855,007</u>
Net investment in capital assets	\$ 307,032,011	\$ 300,550,306
Restricted	86,799	123,647
Unrestricted	73,836,862	58,963,258
Total Net Position	<u>\$ 380,955,672</u>	<u>\$ 359,637,211</u>
Total Liabilities, Deferred Inflows and Net Position	<u>\$ 520,956,995</u>	<u>\$ 505,492,218</u>

Assets

Capital Assets increased to \$417,131,278 for the year ending June 30, 2018, which is an increase of \$154,411 (.04 % increase) from the fiscal year ending June 30, 2017. Restricted cash at June 30, 2018 was \$86,799.

Liabilities

Long term liabilities total \$122,557,631 as of June 30, 2018, an decrease of \$7,390,075 (5.7%) from long-term liabilities as of June 30, 2017. This is primarily attributed to the debt principal payments during the year and a reduction in net pension liability.

CONDENSED FINANCIAL INFORMATION (CONTINUED)

Summary information regarding the Department's operations is as follows:

	June 30, 2018	June 30, 2017
Operating revenues	\$ 44,450,615	\$ 43,840,996
Non-operating revenues	152,446	405,678
	<u>\$ 44,603,061</u>	<u>\$ 44,246,674</u>
Operating expenses	\$ 21,921,958	\$ 21,340,482
Depreciation and amortization	15,805,845	13,790,895
Non-operating expenses	2,002,610	1,952,517
Loss (Gain) on disposal of utility plant assets	1,690,058	1,263,364
	<u>\$ 41,420,471</u>	<u>\$ 38,347,258</u>
Increase (decrease) in net position, before capital contributions	\$ 3,182,590	\$ 5,899,416
Tap fees and special assessments	\$ 9,251,048	\$ 10,207,972
Developer contributions of systems	8,884,823	7,976,002
Increase (decrease) in net assets	<u>\$ 21,318,461</u>	<u>\$ 24,083,390</u>
Net position, beginning of year	\$ 369,255,465	\$ 350,768,317
Prior Period Adjustment **	(9,618,254)	(5,596,242)
Net position, beginning of year, as restated	<u>\$ 359,637,211</u>	<u>\$ 345,172,075</u>
Net position, end of year	<u>\$ 380,955,672</u>	<u>\$ 369,255,465</u>

** June 30, 2018 Prior Period Adjustment related to a cumulative adjustment of Other Post-Employment Benefits (OPEB) liability through June 30, 2017, related to implementation of GASB 75.

** June 30, 2017 Prior Period Adjustment related to a cumulative adjustment of accumulated depreciation through June 30, 2016

Operating Revenues and Expenses

Operating revenues increased by \$609,619 (1.4%), over the previous year while operating expenses increased \$581,476 (2.7%). The increase in operating revenues is primarily attributed to increased growth in MWRD's sewer customer base. The increase in operating expenses can also primarily be attributed to sewer system operations. As seen in the next table, operating sales revenues exceeded FY18 budgeted amounts. Operating expenses exceeded FY18 budget amounts due to pension and Other Post-Employment Benefits expenses.

The increase in net position before capital contributions was \$3,182,590 for the year ending June 30, 2018, a decrease of \$2,716,826 from the year ending June 30, 2017. The decrease can be attributed to increased depreciation expense, interest expenses and loss on disposal of utility plant assets.

Non-operating revenue consists interest income (\$152,446) for the year ended June 30, 2018.

The capital contributions from developers, tap fees and special assessments total \$18,135,871 for the year ending June 30, 2018. This is a decrease from the year ending June 30, 2017 of \$48,103. This reflects continued strong economic conditions and construction activity during the current year.

CONDENSED FINANCIAL INFORMATION (CONTINUED)

Summary information regarding the Department's budget of revenues and expenses to actual operations is as follows:

	June 30, 2018	Budget	Over (Under)	%
Operating revenues	\$ 44,450,615	\$ 43,969,000	\$ 481,615	1.10%
Non-operating revenues	152,446	95,000	57,446	60.47%
	<u>\$ 44,603,061</u>	<u>\$ 44,064,000</u>	<u>\$ 539,061</u>	1.22%
Operating expenses	\$ 21,921,958	\$ 21,431,119	\$ 490,839	2.29%
Non-operating expenses	2,002,610	2,329,357	(326,747)	-14.03%
	<u>\$ 23,924,568</u>	<u>\$ 23,760,476</u>	<u>\$ 164,092</u>	0.69%
Increase in net assets, before capital contributions, loss on disposal of utility plant assets, and depreciation	<u>\$ 20,678,493</u>	<u>\$ 20,303,524</u>	<u>\$ 374,969</u>	1.85%

	June 30, 2018	June 30, 2017
Cash provided by operating activities	30,695,692	\$ 22,123,890
Cash used by capital and related financing activities	(8,834,870)	(10,360,788)
Cash provided by investing activities	152,446	105,223
Net increase in cash and equivalents	\$ 22,013,268	\$ 11,868,325
Cash and cash equivalents, beginning of year	75,567,904	63,699,579
Cash and cash equivalents, end of year	<u>\$ 97,581,172</u>	<u>\$ 75,567,904</u>

Cash flows from operating activities

The net cash provided from operating activities during the year ending June 30, 2018 totaled \$30,695,692, which was an increase of \$8,571,802 (39%) in comparison to the year ending June 30, 2017. The increase can be primarily attributed to funds transferred to MWRD from Murfreesboro Stormwater Fund (\$6,711,258).

Cash Flows from Capital and Related Financing Activities

The cash flow used by capital and related financing activities decreased by \$1,525,918, primarily due to lower capital asset acquisition/construction for the year ended June 30, 2018.

Cash flows from investing activities

Cash provided by investing activities includes interest income earned on cash and equivalents during the year ending June 30, 2018. There was an increase of \$47,223 in interest earned in comparison to year ending June 30, 2017 due to increased funds on hand and increased interest rates.

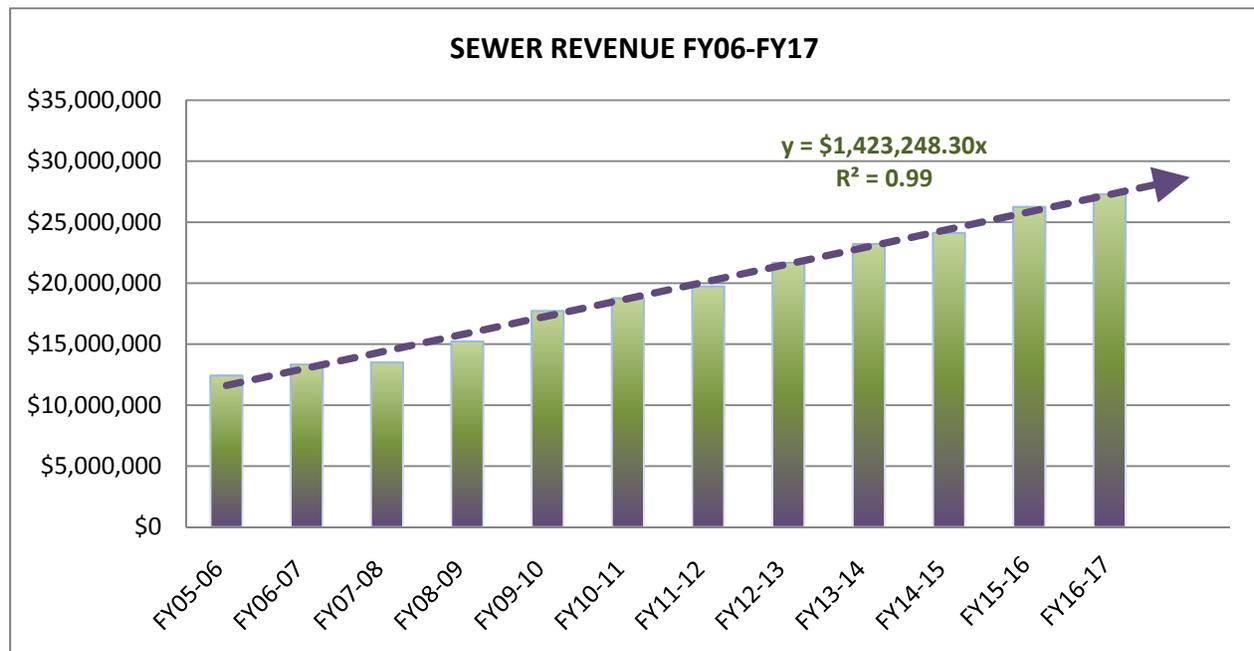
ECONOMIC FACTORS AND A PROSPECTIVE LOOK AT FUTURE NEEDS

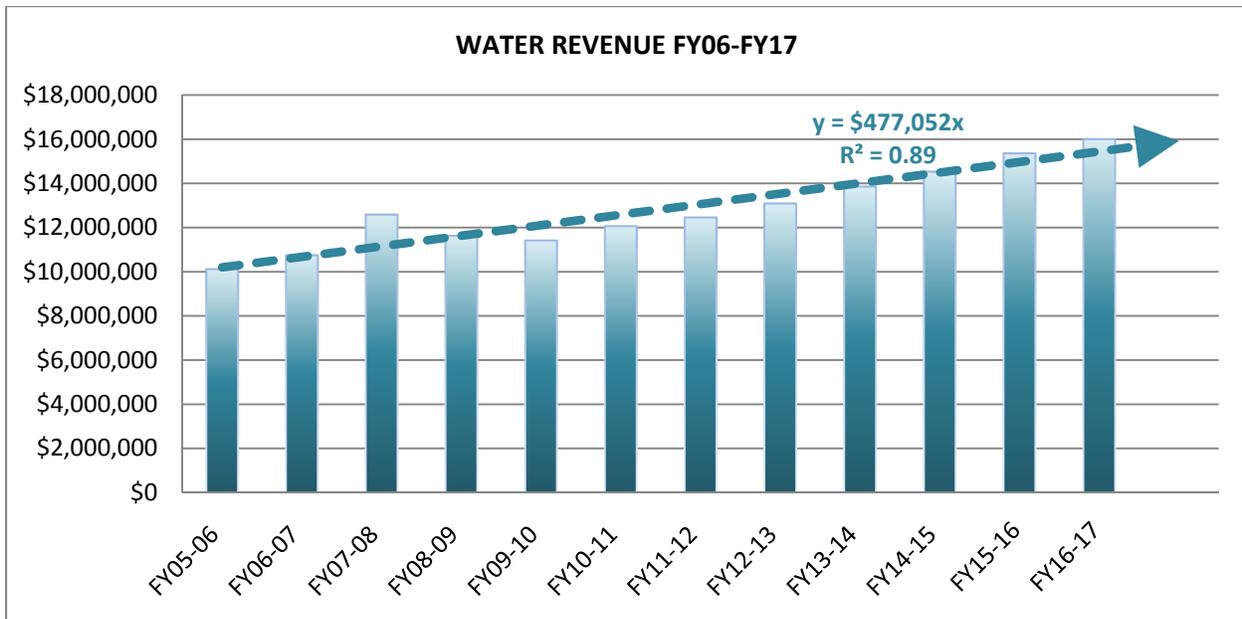
Several variables and factors influence the cost of water and sewer service which in turn results in increasing costs to customers. Commodity price increases in such items as electricity, chemicals, natural gas, and fuel continue. The rising cost for replacement of an aging infrastructure will continue to be a major liability. Pension and health care benefits increase labor costs.

All utilities incur a certain degree of expense just to operate, and will incur those expenses even if no water is sold. In general, usage is declining nationally as costs remain the same or increase. Most utility rate structures include a volume based charge. Declining usage revenues are being experienced as operating and capital expenses are increasing. The Department is realizing these pressures with declining water and sewer consumption usage resulting in less revenue as costs increase. However, the water and sewer rate designs have been modified to raise the minimum bill and reduce the minimum bill allowances over the past few years resulting in increased revenues while consumption declines and rates remain the same.

In preparing the fiscal year 2019 (FY19) budget, these trends were considered. Sales projections for water and sewer were shown to increase from the previous year. Growth within the City of Murfreesboro and Rutherford County has continued to afford MWRD a surplus in budgeted revenues. Because of sales revenue trends outpacing the increases expenses, no rate increases were recommended in developing the FY19 budget.

The \$1,414,000 increase in FY19 budget (totaling \$52,578,000) can be attributed to sewer and water revenue trends totaling approximately \$1,900,000 minus approximately \$450,000 that will not be realized because of previous allowance reductions for meter sizes greater than 1-inch.





\$2,791,701 of sinking funds are being earmarked to assign the excess revenue for future construction or repair and replacement. The sinking funds identified below have been assigned rate revenue since FY12. The total FY19 earmarked amounts and FY12-18 “banked” amounts are as tabulated below:

Table 1: Designated Sinking Funds FY12-18 and FY19 Budget

	FY12-18	FY19 Budget	
	Balance	Designated	Balance
General	1,400,000		1,400,000
Lift Station Replacement	626,232	250,000	876,232
NE FM & PS	2,391,254	500,000	2,891,254
WRRF Sludge/Biosolids	1,800,000	500,000	2,300,000
Walter Hill Dam Repairs	125,000	125,000	250,000
Sewer Rehab		1,000,000	1,000,000
Future Debt	4,159,380		4,159,380
Future Capital Expense	6,169,768	418,701	6,588,469
TOTALS	16,671,634	2,793,701	19,465,335

The use of sinking funds reduces the need to incur debt thereby alleviating the need for future rate increases.

The Murfreesboro Water Resources Department was provided a cost of service study (COSS) from Jackson Thornton Utilities Consultants for FY2017. That study was presented at the February 27, 2018 Board meeting. Jackson Thornton has since that time provided staff a pro forma for FY2022. The FY2022 pro forma was run using two scenarios:

- 1) A “Base” scenario assuming no new debt was added between FY17 and FY22. This assumes using reserves on hand to pay for \$35,000,000 in capital projects.
- 2) A scenario where \$35,000,000 in debt (20-yr @ 2%) is incurred to pay for the Northeast Regional Pumping Station and Force main as well as the necessary capital equipment to perform full scale biosolids drying at the Water Resource Recovery Facility (WRRF). Full payback of the total loan amount was assumed to start in FY2022.

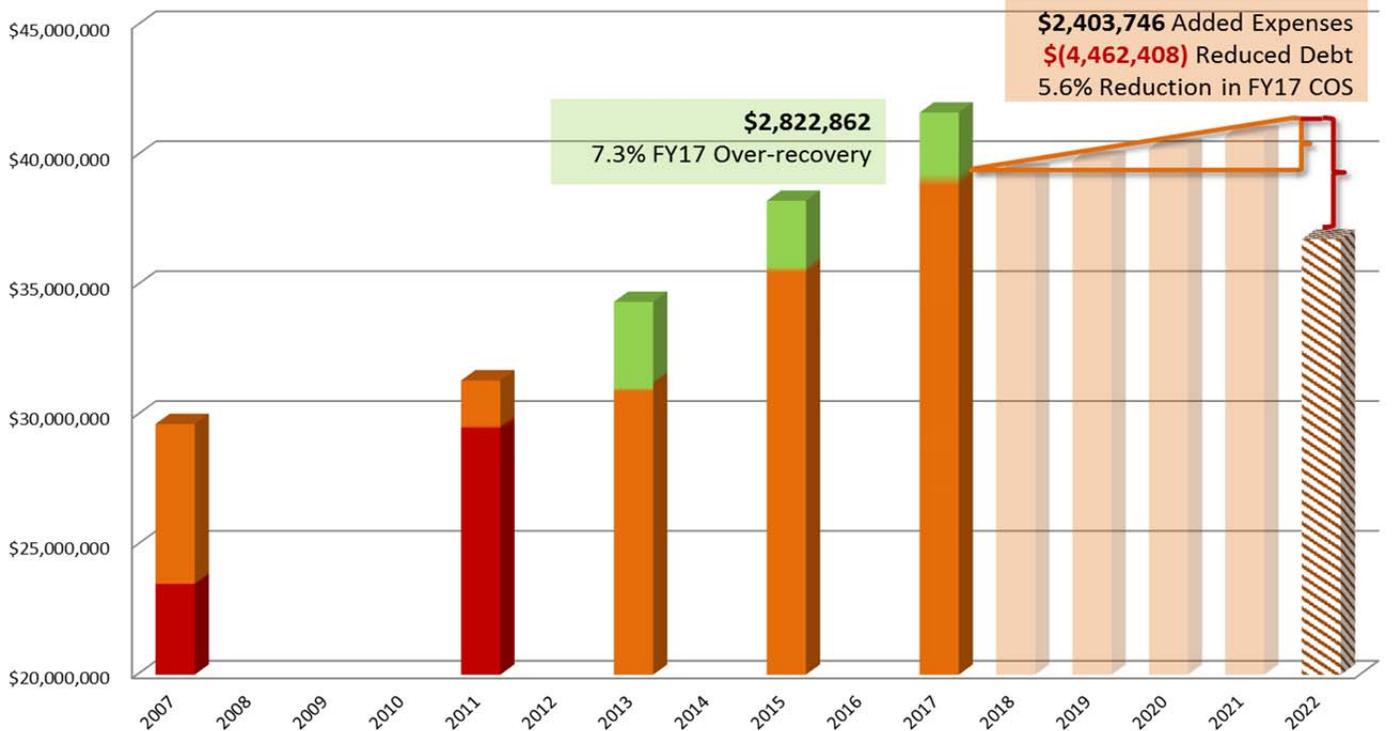
Table 2 compares the FY22 pro forma revenue requirements for the Water Resources fund to the FY17 actual rate revenue over-recovered. This scenario assumes no debt will be incurred within the five-year timeframe.

Table 2: FY17 Rate Revenue compared to FY22 Pro Forma (No Debt Scenario)

	Water	# Annual Billings	Sewer	# Annual Billings	Total
FY22 Pro Forma	\$13,937,439	313,554	\$22,820,180	518,318	\$36,757,619
FY17 Rate Revenue	\$14,675,810	313,554	\$26,963,334	518,318	\$41,639,144
Difference	\$(738,371)	0	\$(4,143,154)	0	\$(4,881,525)

The total difference of \$(4,881,525) is the “revenue surplus” that the Department’s anticipates over the five-year timeframe. Chart 2 below better illustrates the historical cost of service studies and the FY22 pro forma projected revenue requirements. The over-recovery of FY17 cost of service by \$2.8M covers the anticipated FY22 added expenses by approximately \$400k. Add the \$400k to a \$4.4M reduction in debt service equals the \$4.88M revenue surplus.

Chart 2: Historical COS Studies and FY22 Pro Forma (No Debt Scenario)



	2007 COSS	2007 Recov	2011 COSS	2011 Recov	2013 COSS	2013 Recov	2015 COSS	2015 Recov	2017 COSS	2017 Recov	2018 Pro Forma	2019 Pro Forma	2020 Pro Forma	2021 Pro Forma	2022 Pro Forma
Total	\$29,650,005	\$23,498,628	\$31,328,535	\$29,507,833	\$31,244,197	\$34,353,148	\$35,175,522	\$38,243,420	\$38,816,282	\$41,639,144	\$39,297,129	\$39,777,976	\$40,258,823	\$40,739,670	\$36,757,619

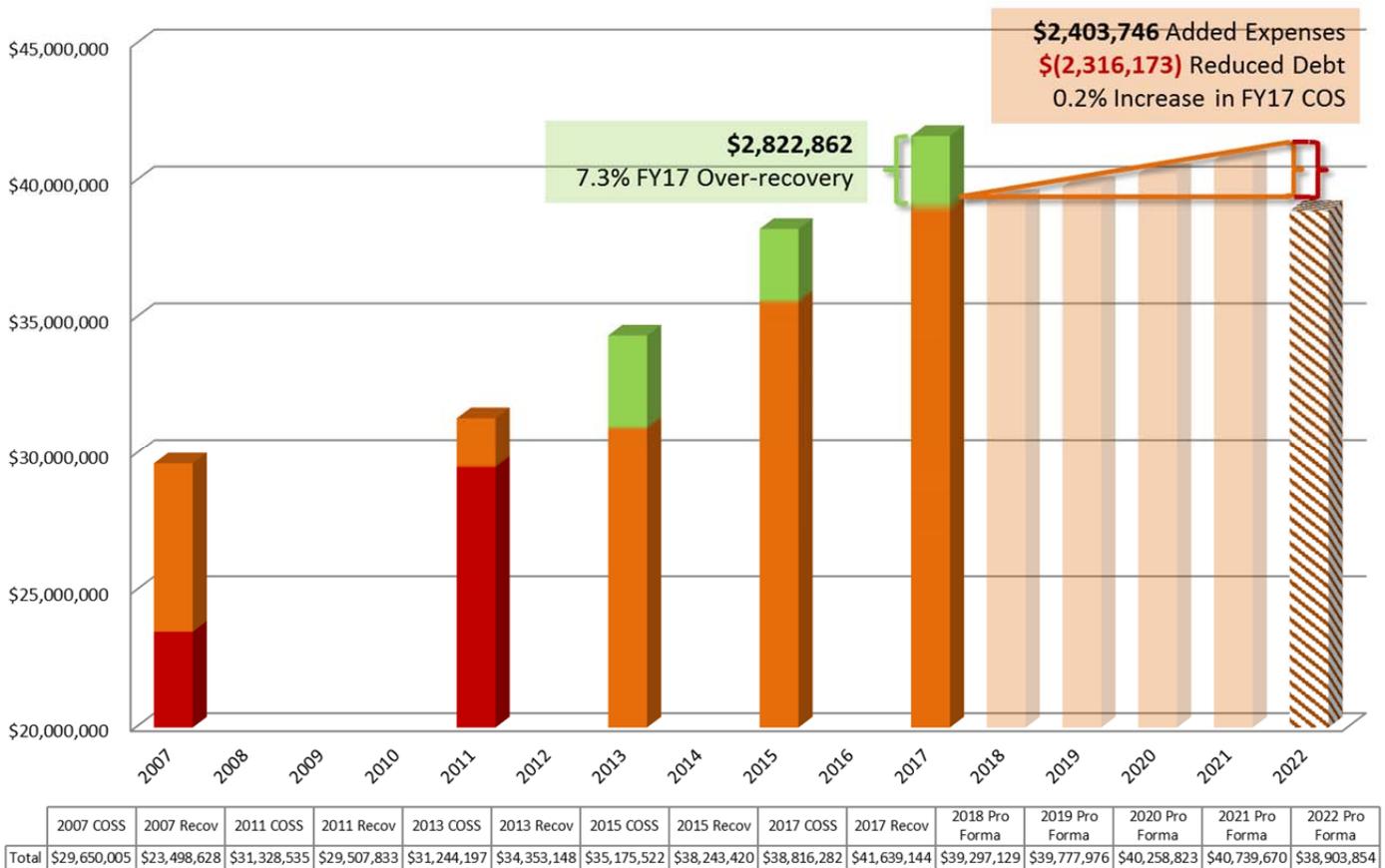
Table 3 compares the FY22 pro forma revenue requirements for the Water Resources fund to the FY17 actual rate revenue over-recovered. This scenario assumes \$35,000,000 will be incurred within the five-year timeframe to pay for the Northeast Regional Pumping Station and Force main and the capital equipment for full scale biosolids drying at the Water Resource Recovery Facility (WRRF).

Table 3: FY17 Rate Revenue compared to FY22 Pro Forma (\$35M Debt Scenario)

	Water	# Annual Billings	Sewer	# Annual Billings	Total
FY22 Pro Forma	\$13,937,439	313,554	\$24,966,415	518,318	\$38,903,854
FY17 Rate Revenue	\$14,675,810	313,554	\$26,963,334	518,318	\$41,639,144
Difference	\$(738,371)	0	\$(1,996,919)	0	\$(2,735,290)

The total difference of \$(2,735,290) is the “revenue surplus” that the Department’s anticipates over the five-year timeframe while incurring \$35,000,000 in debt. Chart 3 below better illustrates the historical cost of service studies and the FY22 pro forma projected revenue requirements. The over-recovery of FY17 cost of service by \$2.8M covers the anticipated FY22 added expenses by approximately \$400k. Add the \$400k to a \$4.4M reduction in debt service subtracting a \$2.1M addition to debt service equals the \$2.7M revenue surplus.

Chart 3: Historical COS Studies and FY22 Pro Forma (\$35M Debt Scenario)



Based on the debt service coming off the rate revenue requirements for sewer and the over-recovery witnessed in FY17 that will cover the next five (5) years of anticipated expenses, staff does not recommend a rate increase for FY19.

The water rate is recommended to remain at \$3.66 per 1,000 gallons (\$0.00366 per gallon) and the sewer rate is recommended to remain at \$5.67 per 1,000 gallons (\$.00567 per gallon). The average monthly bill for an MWRD customer that uses 5,700 gallons per month for water and 4,700 gallons per month of sewer will remain the same, or \$65.50 per month.

Staff is recommending changes to the system development charges (a.k.a., connection fees) for different nonresidential uses. Restaurants, Hotel/motel, hospitals and nursing homes and schools are assessed per seat, per room, per bed and per student, respectively. The water and sewer connection fees for these uses are being recommended as essentially doubled. This recommendation is estimated to increase the Department's working capital reserves by approximately \$215,000 annually.

The FY19 total operating expenses, including benefits and payroll, increased \$920,623 or 4.29% over the FY18 budgeted amount.

The FY19 budget includes five (5) additional staffing requests; four (4) for the water resources department and one (1) for the stormwater department) and three (3) reclassifications resulting in promotions, one (1) full-time position requested as being split into two (2) part-time positions, and one (1) vacant reclassification request. The total net increase anticipated in the personnel budget is \$313,345 representing a 2.9% increase. There are a total of 172 full time and six (6) part time positions budgeted for FY19. Included in the full-time positions are nine (9) positions in the stormwater department.

1. Administration/Finance – One (1) new full-time position is requested for a Senior Accountant (CPA/CMFO). This position is intended for succession planning of the CFO position currently filled by Mr. Doug Swann.
2. Engineering – Two (2) new full-time positions are requested for the Engineering Division. One (1) full-time Water/Wastewater Project Inspector and one (1) Stormwater Project Inspector. These two positions are requested due to growth and maintaining a level of service for inspections as projects continue to be constructed in the Department's service areas. Projects are back to the level that supported five W/WW project inspectors in 2007, and stormwater projects are at a level that support two (3) stormwater inspectors.
3. Operations & Maintenance – O&M is requesting one (1) new full-time CCTV Technician position. This position is also a growth-related position to maintain levels of service in inspecting the sanitary sewer system.
4. Water Plant – the Cross Connection subdivision based at the water plant is requesting an additional Cross Connection Technician. This position is also growth related and is required to inspect and test all backflow prevention devices in commercial and industrial customers' facilities. Current levels of inspection support a fourth (4) Cross Connection Technician.
5. Three (3) internal promotions are requested due to duties commensurate with other job classifications.
 - a. Two (2) promotions from Equipment Operator to Heavy Equipment Operator at Operations and Maintenance division are requested.
 - b. One (1) promotion from Accounting Specialist to Accountant is requested in the Admin/Finance division.
6. The Water Resource Recovery Facility (WRRF) has one vacant operator position in the current FY18 personnel budget that it would request to split into two (2) part-time operator positions as part of the FY19 personnel budget. This would afford the WRRF at least two (2) operators per shift for safety purposes but not increase the payroll budget by having to hire two (2) full-time operators.
7. In last year's budget, staff requested an Engineer-in-Training (EIT) with the option of splitting that full-time position into two (2) engineering co-ops. This position was never filled. The request for an EIT was due to the lack of ability to recruit a Professional Engineer (PE) at the proper annual salary. With the new classification/compensation study being developed internally to the City, staff would like to request approval in the FY19 budget to have the option of hiring a PE or EIT, depending on the market availability of either of these positions and the ability to attract a candidate based on the City's new compensation plan.

8. The Department has had a vacant Engineering Support Specialist since November 2017. The primary function of that position is to review CCTV footage and recommend remediation techniques for repair, replacement and rehabilitation of the sewer system. As part of the FY19 personnel budget, staff would like to expand this position to a GIS mapping technician to cover the aforementioned duties plus incorporating this work into our GIS system. Our next large Information Technology enterprise endeavor is to begin implementing a Computerized Maintenance Management System (CMMS). The horizontal CMMS systems we are looking at will integrate with ArcGIS and create a more sophisticated process to determine consequence and likelihood of failure, which will prioritize MWSD's repair and rehab efforts in both the Department's sewer and water systems.

The rate funded capital budget is \$6,206,340, which is an increase of \$277,720 from the FY18 budget. MWRD's goal is a minimum of \$5 million per year in rate-funded capital purchases. With increased projected revenues from FY18 factored into the FY19 budget, staff is investing more into the Department's sinking funds for future major repair and replacement projects. Debt service expense increased \$527,204 as compared to the FY18 budget. This increase is due to the Murfreesboro Water Resources Recovery Facility (WRRF) expansion coming into the full debt service of the \$30.5M SRF loan used to fund the improvements.

MURFREESBORO WATER RESOURCES DEPARTMENT

Statement of Net Position

June 30, 2018

ASSETS

Current Assets -

Cash	\$ 97,494,373
Accounts receivable - net	1,739,787
Due from other funds	510,689
Material and supply inventories	785,398
Prepaid insurance and maintenance fees	592,146
TOTAL CURRENT ASSETS	\$ <u>101,122,393</u>

Noncurrent Assets -

Restricted cash	\$ 86,799
Capital assets -	
Land and construction in progress	\$ 20,868,083
Other capital assets, net of depreciation	396,263,195
TOTAL NONCURRENT ASSETS	\$ <u>417,131,278</u>
TOTAL ASSETS	\$ <u>518,340,470</u>

DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows on refunding	\$ 1,092,141
Deferred outflows of resources related to pensions	1,524,384
TOTAL DEFERRED OUTFLOWS OF RESOURCES	\$ <u>2,616,525</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ <u>520,956,995</u>

LIABILITIES

Current Liabilities -

Accounts payable	\$ 1,385,941
Accrued and withheld liabilities	596,634
Due to other funds	239,309
Developer deposits	1,423,890
Compensated absences - current	1,297,935
Bonds and loans payable - current	11,629,592
TOTAL CURRENT LIABILITIES	\$ <u>16,573,301</u>

Noncurrent Liabilities -

Compensated absences	\$ 600,040
Net pension liability	2,270,524
Total OPEB liability	20,125,251
Payable from restricted assets - waterworks and sewer improvement bonds	36,000
State of Tennessee revolving loans	53,328,452
Revenue and tax refunding bonds	30,380,000
Tennessee municipal bond fund loans	25,748,000
Premium on the issuance of revenue and tax refunding bonds	1,698,956
Less: current maturities of long-term debt	(11,629,592)
TOTAL NONCURRENT LIABILITIES	\$ <u>122,557,631</u>
TOTAL LIABILITIES	\$ <u>139,130,932</u>

DEFERRED INFLOWS OF RESOURCES

Deferred inflows of resources related to pensions	\$ 870,391
TOTAL DEFERRED INFLOWS OF RESOURCES	\$ <u>870,391</u>

NET POSITION

Net investment in capital assets	\$ 307,032,011
Restricted for capital activity	28,414
Restricted for employee benefits	21,368
Restricted for matured bonds	37,017
Unrestricted	73,836,862
TOTAL NET POSITION	\$ <u>380,955,672</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ <u>520,956,995</u>

See notes to financial statements.

MURFREESBORO WATER RESOURCES DEPARTMENT

Statement of Revenues, Expenses, and Changes in Net Position

Year Ended June 30, 2018

Operating Revenues	\$ <u>44,450,615</u>
Operating Expenses -	
Administrative	\$ 7,565,965
Water	7,332,351
Sewer	6,747,736
Repurified	275,906
Depreciation	15,805,845
Total operating expenses	\$ <u>37,727,803</u>
Operating Income	\$ <u>6,722,812</u>
Non-operating Revenues (Expenses) -	
Interest revenue	\$ 152,446
Bond costs	(25,838)
Interest expense	(1,976,772)
Loss on disposal of utility plant assets	(1,690,058)
Total non-operating revenues (expenses)	\$ <u>(3,540,222)</u>
Increase in net position, before capital contributions	\$ <u>3,182,590</u>
Capital contributions -	
Tap fees and special assessments	\$ 9,251,048
Developer contributions of systems	8,884,823
Total capital contributions	\$ <u>18,135,871</u>
Increase in net position	\$ <u>21,318,461</u>
Net Position at beginning of year, as previously reported	\$ 369,255,465
Prior period adjustment	(9,618,254)
Net Position at beginning of year, as restated	\$ <u>359,637,211</u>
Net Position at end of year	\$ <u><u>380,955,672</u></u>

See notes to financial statements.

MURFREESBORO WATER RESOURCES DEPARTMENT

Statement of Cash Flows

Year Ended June 30, 2018

Cash Flows from Operating Activities -	
Receipts from customers	\$ 45,195,297
Reimbursements from the Murfreesboro Stormwater Fund	6,711,258
Payments to suppliers	(8,126,118)
Payments to employees	(10,998,964)
Transfer of stormwater fees to the Murfreesboro Stormwater Fund	(2,085,781)
Net Cash Provided by Operating Activities	<u>\$ 30,695,692</u>
Cash Flows from Capital and Related Financing Activities -	
Proceeds from state revolving loans	\$ 4,776,960
Principal paid on bonds and notes	(10,825,996)
Interest paid on bonds and notes	(2,269,252)
Proceeds from tap fees and special assessments	9,251,048
Proceeds from sale of capital assets	48,624
Costs paid to abandon capital assets	(195,003)
Bond costs and debt service expenses	(25,838)
Acquisition and construction of capital assets	(9,595,413)
Net Cash Used by Capital and Related Financing Activities	<u>\$ (8,834,870)</u>
Cash Flows From Investing Activities -	
Interest revenue	\$ 152,446
Net Cash Provided by Investing Activities	<u>\$ 152,446</u>
Net Increase in cash	\$ 22,013,268
Cash at beginning of year	75,567,904
Cash at end of year	<u>\$ 97,581,172</u>
Reconciliation to Cash Presented in Statement of Net Position -	
Cash	\$ 97,494,373
Cash - Restricted	86,799
	<u>\$ 97,581,172</u>

(continued)

MURFREESBORO WATER RESOURCES DEPARTMENT

Statement of Cash Flows (continued)

Year Ended June 30, 2018

Reconciliation of Operating Income to Net Cash	
Provided by Operating Activities:	
Operating income	\$ 6,722,812
Adjustments to reconcile operating income to net cash provided by operating activities -	
Depreciation	15,805,845
Provision for doubtful accounts	165,014
Construction in progress expensed in current year	625,969
Changes in assets and liabilities -	
(Increase) decrease in accounts receivable	(147,728)
(Increase) decrease in due from other funds	5,204,096
(Increase) decrease in material and supplies inventory	3,410
(Increase) decrease in prepaid insurance and maintenance fees	60,543
(Increase) decrease in deferred outflows of resources related to pensions	1,151,641
Increase (decrease) in accounts payable	(129,346)
Increase (decrease) in accrued and withheld liabilities	(54,151)
Increase (decrease) in due to other funds	103,477
Increase (decrease) in developer deposits	727,396
Increase (decrease) in compensated absences	119,284
Increase (decrease) in net pension liability	(1,393,587)
Increase (decrease) in total OPEB liability	1,252,933
Increase (decrease) in deferred inflows of resources related to pensions	478,084
Net Cash Provided by Operating Activities	<u>\$ 30,695,692</u>
Non-Cash Capital and Related Financing Activities -	
Developer contributions of systems	\$ 8,884,823
Construction in progress included in accounts payable	485,559

See notes to financial statements.

MURFREESBORO WATER RESOURCES DEPARTMENT

Notes to Financial Statements

June 30, 2018

Note A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Financial Reporting - The Murfreesboro Water Resources Department is considered a proprietary fund of the City of Murfreesboro (the City) and its financial statements are included in the general purpose financial statements of the City. The Department was created to provide water and sewer services to the residents of the City.

Basis of Presentation - The Department is an enterprise fund 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 Department'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 Department is determined by its measurement focus. The transactions of the Department 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, and unrestricted components.

Operating Revenues and Expenses - The Department'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.

Contributed Capital - Construction and acquisition of water and sewer systems are financed in part by contributions in aid of construction from property owners and developers. Contributed capital represents the total value of donated water systems.

Cash and Equivalents - For purposes of the statement of cash flows, the Department considers all demand deposits to be either cash for operations or restricted cash.

Accounts Receivable - Accounts receivable primarily consist of amounts due from the customers of the Department which under normal terms require payment within 30 days from the billing date with invoice dates over 30 days are considered past due accounts. The Department charges a late payment fee and charges interest on past due accounts. An allowance for uncollectible accounts receivable balances is estimated and recorded based on the Department's historical bad debt experience and management's judgment. As of June 30, 2018 the Department has estimated the allowance to be \$139,101.

Material and Supply Inventories - Inventories are stated at average cost on a first-in, first-out basis. Inventories consist of various pipes and chemicals utilized in the plant maintenance and operations.

Utility Plant - Utility plant in service is recorded on the basis of cost. Cost includes material, direct labor, and other indirect items such as engineering, supervision, and transportation expenses. The threshold for capital assets is \$5,000. The cost of repairs and maintenance is charged to expense when incurred whereas the cost of renewals and betterments is capitalized.

MURFREESBORO WATER RESOURCES DEPARTMENT

Notes to Financial Statements (continued)

June 30, 2018

Note A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Interest costs incurred that relate to construction of capital assets acquired with tax-exempt debt are capitalized. There was no interest cost charged to capital assets in the fiscal year ended June 30, 2018.

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. The estimated useful lives by general classification are as follows:

Structures and improvements	20-50 years
Transmissions and distribution mains	15-50 years
Equipment	4-20 years

When depreciable assets are disposed of, the related costs and accumulated depreciation are removed from the respective accounts. 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 Department's participation in the City of Murfreesboro Employees' Pension Plan (the Pension Plan), and additions to/deductions from the Pension Plan's fiduciary net position have been determined on the same basis as they are reported by the Pension Plan. For this purpose, benefits (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms of the Pension Plan. Investments are reported at fair value.

Deferred inflows/outflows of resources - In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflow of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Department reports deferred charges on refunding and deferred outflows related to pensions. A deferred charge on refunding results from the difference in the carrying amount of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt using the effective interest method. Deferred outflows related to pension plans are discussed in detail in Note G.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Department has one type of item applying for reporting in this category. This item relates to certain amounts related to pensions that must be deferred. Deferred inflows related to pension plans are discussed in detail in Note G.

Net Position Flow Assumption - When both restricted and unrestricted resources are available for use, it is the Department's policy to use restricted resources first and then unrestricted resources as they are needed.

Long-term Debt - Long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Bond premiums are amortized over the life of the bonds using the effective interest method. Issuance costs are reported as expenditures when incurred.

MURFREESBORO WATER RESOURCES DEPARTMENT

Notes to Financial Statements (continued)

June 30, 2018

Note A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Compensated absences - Department employees accrue personal leave, sick leave or compensated absences, by prescribed formulas based on length of service. The value of accumulated benefits earned by employees, that may be used in subsequent years or paid upon resignation, termination or retirement, is recorded as long-term debt in the Department's financial statements. The current portion of this debt is estimated based on historical trends.

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 - UTILITY PLANT

Components of utility plant at June 30, 2018 are summarized as follows:

	Balance June 30, 2017	Increases	Adjustments Decreases	Balance June 30, 2018
Utility plant not being depreciated -				
Land and land rights	\$ 14,481,847	\$ 41,532		\$ 14,523,379
Construction in progress	39,425,954	16,844,412	\$ 49,925,662	6,344,704
Subtotal	<u>\$ 53,907,801</u>	<u>\$ 16,885,944</u>	<u>\$ 49,925,662</u>	<u>\$ 20,868,083</u>
Utility plant being depreciated -				
Structures and improvements	\$ 111,304,428	\$ 8,567,187	\$ (47,890)	\$ 119,919,505
Transmission and distribution mains	360,721,858	13,279,237	1,953,379	372,047,716
Equipment	63,942,254	28,695,585	2,101,218	90,536,621
Subtotal	<u>\$ 535,968,540</u>	<u>\$ 50,542,009</u>	<u>\$ 4,006,707</u>	<u>\$ 582,503,842</u>
Less accumulated depreciation for -				
Structures and improvements	\$ (38,699,275)	\$ (3,125,705)		\$ (41,824,980)
Transmission and distribution mains	(101,078,294)	(7,488,163)	\$ (700,724)	(107,865,733)
Equipment	(33,121,905)	(5,191,977)	(1,763,948)	(36,549,934)
Subtotal	<u>\$ (172,899,474)</u>	<u>\$ (15,805,845)</u>	<u>\$ (2,464,672)</u>	<u>\$ (186,240,647)</u>
Utility plant, being depreciated, net	\$ 363,069,066	\$ 34,736,164	\$ 1,542,035	\$ 396,263,195
Utility plant, net	<u>\$ 416,976,867</u>	<u>\$ 51,622,108</u>	<u>\$ 51,467,697</u>	<u>\$ 417,131,278</u>

MURFREESBORO WATER RESOURCES DEPARTMENT

Notes to Financial Statements (continued)

June 30, 2018

Note C – RESTRICTED CASH

Certain amounts received from outside sources whose use is limited by that source or amounts required to be deposited in a separate bank account for a specific use by an outside party have been classified as restricted assets. At June 30, 2018, the Department had the following restricted cash.

Restricted for employee benefits	\$ 21,368
Restricted for capital project	28,414
Cash held by fiscal agent for matured bonds	<u>37,017</u>
	<u>\$ 86,799</u>

Note D - DESIGNATED CASH AND UNRESTRICTED NET POSITION

The Department has designated certain funds for planning purposes. Designated cash consists of the following as of June 30, 2018:

Water and sewer connection fees	\$ 20,226,959
Reserve sinking fund	427,984
Interest income reserve	2,811,072
Repair and replacement sinking fund	4,450,000
Future debt reserve	<u>5,773,099</u>
	<u>\$ 33,689,114</u>

The Department's management has established a repair and replacement sinking fund to be used for specifically approved capital improvements, both current and anticipated expansions, and major repairs and replacements of existing plant to include emergency contingencies for major catastrophes and acts of God (lightning, wind, etc.). The water and sewer connection fees as set up by February 13, 1987 amendments to the City Code are designated for new development and construction. The funds are to be appropriated at the recommendation by the Water Resources Board to the City Council. The reserve sinking fund represents amounts set aside by management related to future costs anticipated to be paid to the Corp of Engineers to pump water from Percy Priest Lake.

In addition, the governing board has established the following fund designations in connection with the rate setting process. The interest income reserve was set up by the Water Resources Board to reserve interest earned on non-operational funds so it would not be used in the rate structure and can be used to fund future construction upon board approval. The amount of future debt reserve was established by the Water Resources Board for payments of principal and interest on debt.

Designated net position takes into account amounts accrued at year end to be paid in the following fiscal year. Designated net position consists of the following as of June 30, 2018.

Water and sewer connection fees	\$ 19,948,462
Reserve sinking fund	427,984
Interest income reserve	2,811,072
Repair and replacement sinking fund	4,450,000
Future debt reserve	<u>5,773,099</u>
	<u>\$ 33,410,617</u>

MURFREESBORO WATER RESOURCES DEPARTMENT

Notes to Financial Statements (continued)

June 30, 2018

Note D - DESIGNATED CASH AND UNRESTRICTED NET POSITION (continued)

Unrestricted net position at June 30, 2018 consists of the following:

Designated net position	\$	33,410,617
Undesignated net position		<u>40,426,245</u>
Total unrestricted net position	\$	<u><u>73,836,862</u></u>

Note E - PUBLIC FUNDS COLLATERALIZED BY FINANCIAL INSTITUTIONS

Interest rate risk - The Department 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 Department's deposits may not be returned to it. The Department 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 Department's name or Federal Depository Insurance. As of June 30, 2018, the carrying amount of the Department's deposits and bank balances were as follows:

	<u>Book Balance</u>	<u>Bank Balance</u>
Unrestricted deposits	\$ 97,492,036	\$ 98,145,142
Restricted deposits	86,799	85,164
Cash on hand	<u>2,337</u>	
	<u>\$ 97,581,172</u>	<u>\$ 98,230,306</u>

At year end, the Department's bank balances were fully collateralized.

Credit Risk - The Department 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 Department will do business; diversifying the investment portfolio so that potential losses on individual securities will be minimized.

Investments - State statutes authorize the Department 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 Department has no such investments at June 30, 2018.

MURFREESBORO WATER RESOURCES DEPARTMENT

Notes to Financial Statements (continued)

June 30, 2018

Note F - LONG-TERM DEBT

The long-term debt consists of the following as of June 30, 2018:

Matured bonds payable - 1959	\$	1,000
Matured bonds payable - 1972		15,000
Matured bonds payable - 1972		20,000
Total bonds payable	\$	<u>36,000</u>
State revolving loans		53,328,452
Revenue and tax refunding bonds		30,380,000
Tennessee Municipal Bond Fund loans		25,748,000
Total long-term debt	\$	<u><u>109,492,452</u></u>

State Revolving Loans - The Department has five revolving loan agreements with the State of Tennessee for various capital projects. During the year ended June 30, 2018, the Department borrowed a total of \$4,776,960 from the State of Tennessee on one of these revolving loans. The total outstanding balance of the revolving loans at June 30, 2018 is \$53,328,452. These loans bear interest at annual interest rates ranging from .93% to 1.30%. Interest is due and payable on a monthly basis. Under terms of the revolving loans the Department has agreed to defer principal payments until the projects are substantially completed.

Annual principal maturities and interest payments, related to the State of Tennessee revolving loans are due as follows:

<u>State Revolving Loans</u>			
<u>Year Ended</u>			
<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 2,738,592	\$ 637,224	\$ 3,375,816
2020	2,770,236	605,580	3,375,816
2021	2,802,264	573,552	3,375,816
2022	2,834,688	541,128	3,375,816
2023	2,867,472	508,344	3,375,816
2024 - 2028	14,843,160	2,035,920	16,879,080
2029 - 2033	15,723,504	1,155,576	16,879,080
2034 - 2035	8,748,536	243,274	8,991,810
	<u>\$ 53,328,452</u>	<u>\$ 6,300,598</u>	<u>\$ 59,629,050</u>

Revenue and tax refunding bonds - Revenue and tax refunding bonds are collateralized by an irrevocable first lien on and pledge of the income and revenues derived and to be derived from the operation of the system after deducting them from the amount necessary to pay all operating, maintenance, replacement, and betterment charges of the system as required by the applicable bond ordinances. The system is also required to maintain rates sufficient to: (a) pay all maintenance, replacement, betterments, and interest charges; (b) to establish and maintain bond funds; (c) to pay in addition all outstanding debt against the system other than bonds.

Advance Refunding/Defeasance - During the year ended June 30, 2010 the Department refinanced certain of its Tennessee Municipal Bonds by issuing \$40,860,000 in tax and refunding bonds (2009 Tax and Revenue Refunding Bonds) in conjunction with the City of Murfreesboro with maturity dates the same dates as the original bonds ranging from 2015 through 2026 and bear interest rates ranging from 2.00% to 4.00%. These refunding bonds (2009 Tax and Revenue Refunding Bonds) were partially refunded in advance on June 15, 2016 with a 2016 Tax and Refunding Bonds in the amount of \$17,015,000 leaving an unrefunded balance on the 2009 Tax and Revenue Refunding Bonds of \$7,105,000 which mature in the fiscal year end 2019.

MURFREESBORO WATER RESOURCES DEPARTMENT

Notes to Financial Statements (continued)

June 30, 2018

Note F - LONG-TERM DEBT (continued)

During the year ended June 30, 2013, the Department borrowed \$28,610,000 in revenue and tax refunding bonds and paid off State of Tennessee revolving loans. The 2013 revenue and refunding bonds are payable through 2021 at a fixed rate of 1.31%.

The future maturities dates for the Department's revenue and tax refunding bonds are as follows:

Revenue and Tax Refunding Bonds				
Year Ended June 30,	2009 Series	2013 Series	2016 Series	Total
Principal				
2019	\$ 2,475,000	\$ 3,650,000	\$ 100,000	\$ 6,225,000
2020		3,695,000	2,470,000	6,165,000
2021		3,745,000	2,585,000	6,330,000
2022			2,705,000	2,705,000
2023			2,830,000	2,830,000
2024 - 2026			6,125,000	6,125,000
	<u>\$ 2,475,000</u>	<u>\$ 11,090,000</u>	<u>\$ 16,815,000</u>	<u>\$ 30,380,000</u>

Annual interest payments for the Revenue and Tax Refunding Bonds are as follows:

Revenue and Tax Refunding Bonds				
Year Ended June 30,	2009 Series	2013 Series	2016 Series	Total
Interest				
2019	\$ 123,750	\$ 145,279	\$ 657,000	\$ 926,029
2020		97,464	652,000	749,464
2021		49,060	528,500	577,560
2022			399,250	399,250
2023			264,000	264,000
2024 - 2026			217,800	217,800
	<u>\$ 123,750</u>	<u>\$ 291,803</u>	<u>\$ 2,718,550</u>	<u>\$ 3,134,103</u>

Tennessee Municipal Bond Fund Loans - The Department had two 15 year variable rate loans from the Tennessee Municipal Bond Fund Loan Program as of June 30, 2018. The interest rate on these loans are variable and are set by the remarketing agent and are based on the market price of the bonds underlying the note.

The Department participated in the Tennessee Municipal Bond Fund Loan program and entered in to loan agreements from the Public Building Authority of the City of Clarksville, Tennessee.

MURFREESBORO WATER RESOURCES DEPARTMENT

Notes to Financial Statements (continued)

June 30, 2018

Note F - LONG-TERM DEBT (continued)

Annual debt service requirements to maturity are as follows:

Tennessee Municipal Bond Fund Loans			
Year Ended June 30,	Principal	Interest	Total Principal and Interest
2019	\$ 2,630,000	\$ 336,981	\$ 2,966,981
2020	2,742,000	302,141	3,044,141
2021	2,859,000	265,818	3,124,818
2022	2,980,000	227,947	3,207,947
2023	3,108,000	188,469	3,296,469
2024 - 2027	11,429,000	372,895	11,801,895
	\$ 25,748,000	\$ 1,694,251	\$ 27,442,251

Maturities dates for the Tennessee Municipal Bond Fund Loans are as follows:

Year Ended June 30,	2003 Series	2006 Series	Total
Principal			
2019	\$ 486,000	\$ 2,144,000	\$ 2,630,000
2020	502,000	2,240,000	2,742,000
2021	518,000	2,341,000	2,859,000
2022	534,000	2,446,000	2,980,000
2023	552,000	2,556,000	3,108,000
2024 - 2027	11,429,000	11,429,000	11,429,000
	\$ 2,592,000	\$ 23,156,000	\$ 25,748,000

Annual interest payments for the Tennessee Municipal Bond Fund Loans are as follows:

Year Ended June 30,	2003 Series	2006 Series	Total
Interest			
2019	\$ 33,680	\$ 303,301	\$ 336,981
2020	27,247	274,894	302,141
2021	20,603	245,215	265,818
2022	13,748	214,199	227,947
2023	6,679	181,790	188,469
2024 - 2027	372,895	372,895	372,895
	\$ 101,957	\$ 1,592,294	\$ 1,694,251

MURFREESBORO WATER RESOURCES DEPARTMENT

Notes to Financial Statements (continued)

June 30, 2018

Note F - LONG-TERM DEBT (continued)

Long-term liability activity for the year ended June 30, 2018, was as follows:

	Balance June 30, 2017	Increases	Decreases	Balance June 30, 2018	Due Within One Year
Matured bonds payable	\$ 36,000			\$ 36,000	\$ 36,000
Revenue and tax refunding bonds	36,450,000		\$ 6,070,000	30,380,000	6,225,000
Add: premium on refunding	2,243,140		544,184	1,698,956	
	\$ 38,729,140		\$ 6,614,184	\$ 32,114,956	\$ 6,261,000
State revolving loans Tennessee Municipal Bond Fund Loans	50,785,488	\$ 4,776,960	2,233,996	53,328,452	2,738,592
Compensated absences	28,270,000		2,522,000	25,748,000	2,630,000
Total OPEB liability *	1,778,691	532,552	413,268	1,897,975	1,297,935
	18,872,318	1,619,895	366,962	20,125,251	
	<u>\$ 138,435,637</u>	<u>\$ 6,929,407</u>	<u>\$ 12,150,410</u>	<u>\$ 133,214,634</u>	<u>\$ 12,927,527</u>

* The total OPEB liability at June 30, 2017 has been restated for the adoption of GASB 75, see Note N

Note G - PENSION PLAN

General Information about the Pension Plan

Plan Description - Employees of the Department 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 resource 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.

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, 2018 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.

MURFREESBORO WATER RESOURCES DEPARTMENT

Notes to Financial Statements (continued)

June 30, 2018

Note G - PENSION PLAN (continued)

General Information about the Pension Plan (continued)

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 his late 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.

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, 2017, the actuarial valuation date, was 12.32%. The contribution rate for the fiscal year ended June 30, 2018 was 12.32%.

MURFREESBORO WATER RESOURCES DEPARTMENT

Notes to Financial Statements (continued)

June 30, 2018

Note G - PENSION PLAN (continued)

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, 2018, the Department reported liability of \$2,270,524 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, 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 Department of which the Stormwater Fund is part and all other city employees. The Department's proportion of the net pension liability was based on the Department's contributions to the pension plan relative to the contributions of the Murfreesboro Stormwater Fund. At the measurement date of June 30, 2017, the Department's proportion relative to the Murfreesboro Stormwater Fund was 94.33 percent. The proportion measured as of June 30, 2016 was 94.14 percent.

Pension Expense - For the year ended June 30, 2018, the Department recognized pension expense of \$815,776.

Deferred Outflows of Resources and Deferred Inflows of Resources - For the year ended June 30, 2018, the Department 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	\$ 66,526	\$ 870,391
Net difference between projected and actual earnings on pension plan investments	875,465	
Contributions subsequent to the measurement date of June 30, 2017	<u>582,393</u>	
Total	<u>\$ 1,524,384</u>	<u>\$ 870,391</u>

The Department's employer contributions of \$582,393, reported as pension related deferred outflows of resources subsequent to the measurement date, will be recognized as a decrease of net pension liability (asset) in the year ended June 30, 2019. 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>	
2019	\$ 75,588
2020	408,605
2021	49,015
2022	(350,423)
2023	(111,185)
Thereafter	-

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, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial cost method	Entry age normal
Inflation	2.25%
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

MURFREESBORO WATER RESOURCES DEPARTMENT

Notes to Financial Statements (continued)

June 30, 2018

Note G - PENSION PLAN (continued)

Actuarial Assumptions (continued) - The actuarial assumptions used in the June 30, 2017 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>	<u>Target Allocation</u>
US Small/MidCap Equity	8.40%	10%
US Large Cap Equity	7.83%	18%
International Equity	7.64%	16%
Emerging Markets Equity	8.69%	6%
Cash Equivalent	3.23%	1%
Core US Bonds	4.42%	18%
Global Bonds	3.47%	12%
High Yield Bonds	6.20%	7%
Natural Resources	5.02%	5%
Global Real Estate	6.69%	7%
		<u>100%</u>

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 Department'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 Department'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 Department'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 (6.25%)</u>	<u>Discount Rate (7.25%)</u>	<u>1% Increase (8.25%)</u>
Murfreesboro Water Resources Department's proportionate share of the net pension liability (asset)	\$ 5,092,372	\$ 2,270,524	\$ (141,292)

Pension Plan Fiduciary Net Position - Detailed information about the pension plan's fiduciary net position is available in a separately issued City of Murfreesboro report.

MURFREESBORO WATER RESOURCES DEPARTMENT

Notes to Financial Statements (continued)

June 30, 2018

Note G - PENSION PLAN (continued)

Payable to the Pension Plan

At June 30, 2018, the Department reported no outstanding contributions to the Pension Plan required at the year ended June 30, 2018.

Note H - 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, 2018, arising from these transactions were as follows:

	<u>Due From</u>	<u>Due To</u>
Water Resources Department -		
General fund		\$ 238,924
Insurance fund		385
Stormwater fund	\$ 510,689	
Total	<u>\$ 510,689</u>	<u>\$ 239,309</u>

Note I - DEFINED CONTRIBUTION PLAN

Effective July 1, 2010, a defined contribution plan has been implemented by the City. In accordance with the City of Murfreesboro's city code, pension 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 Department 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% vested in the match contribution after 5 years of full-time employment. Employer contributions and expense for the year ended June 30, 2018 totaled \$97,446. During the fiscal year ended June 30, 2018, employees made \$149,363 in contributions to the plan. For the year ended June 30, 2018, forfeited balances of terminated participant's nonvested accounts were used to reduce the Department's contributions in the amount of \$25,611.

Note J - CAPITAL CONTRIBUTIONS

The Department receives contributions from contractors/developers who bear the costs of laying water and sewer lines to newly developed areas. These assets become the property of the Department. Total contributions received in the years ended June 30, 2018 totaled \$8,884,823.

Note K - CURRENT YEAR WATER AND SEWER TAPS CONTRIBUTIONS

Fees related to the physical connection to the utility system were recorded by the Department as operating income determined by related costs, which were expensed.

Note L - FINANCIAL INSTRUMENTS

The carrying values of the Department's financial instruments (cash and cash equivalents, investments, receivables, notes and accounts payable, and accrued expenses) approximate fair value due to their current availability, relatively short maturities and/or current market interest rates.

MURFREESBORO WATER RESOURCES DEPARTMENT

Notes to Financial Statements (continued)

June 30, 2018

Note M - RISK MANAGEMENT

The Department is subject to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Department participates in the City of Murfreesboro Risk Management Fund in which workers compensation, general liability, property and automobile claims are self-insured. The Department pays an annual premium to the risk management fund. The risk of loss is transferred to the risk management fund.

Note N - OTHER POST-EMPLOYMENT BENEFITS (OPEB)

General Information about the OPEB Plan

Plan Description - Each year, as part of the budgeting process, the City Council decides whether to provide eligible retiree and dependent medical coverage for the upcoming fiscal year. It adopts a resolution describing the benefit it intends to provide. Whether the benefit is offered, and the value and terms of the benefit, are subject to change at any time as the benefit has never been adopted by ordinance, including the ordinance establishing the Employees' Revised Pension Trust Agreement, or by contract with any employee group so as to create any vested right to it. The City may alter, amend or discontinue this benefit at any time.

The Department employees are eligible to retire at age 65 with a minimum of five (5) years of participation in the medical plan, or at 55 with thirty (30) years of pension eligible service, or at age 62 with twenty (20) years of pension eligible service, or at age 55 with twenty-five (25) years of pension eligible service with actuarially reduced retirement benefits.

If an employee has met one of these standards and retired, and has 15 years of continuous service with the City with 5 years of continuous coverage in a City health insurance plan, the retired employee is currently eligible to continue such health insurance coverage until the retired employee is eligible for Medicare.

The OPEB Plan does not have assets set aside in a trust to fund benefits as the plan is funded on a pay-as-you-go basis.

Total OPEB Liabilities, OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources

OPEB Liability - The plan's total OPEB liability was measured as of June 30, 2018 and was determined by an actuarial valuation as of July 1, 2018.

At June 30, 2018, the Department reported liability of \$20,125,251 for its proportionate share of the total OPEB liability. The total OPEB liability was measured as of June 30, 2018. The actuarial report is divided into two parts, one representing the Department of which the Stormwater Fund is part and all other city employees. The Department's proportion of the total OPEB liability was based on the number of active employees of the Department currently receiving health insurance benefits relative to the number of active employees of the Murfreesboro Stormwater Fund currently receiving health insurance benefits. At the measurement date of June 30, 2018, the Department's proportion relative to the Murfreesboro Stormwater Fund was 95.17 percent.

OPEB Expense - For the year ended June 30, 2018, the Department recognized OPEB expense of \$1,252,932.

Deferred Outflows of Resources and Deferred Inflows of Resources - At June 30, 2018, there were no deferred outflows of resources or deferred inflows of resources related to the OPEB Plan.

MURFREESBORO WATER RESOURCES DEPARTMENT

Notes to Financial Statements (continued)

June 30, 2018

Note N - OTHER POST-EMPLOYMENT BENEFITS (OPEB) (continued)

Actuarial Assumptions and methods - The total OPEB liability on the June 30, 2018, measurement date was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Actuarial Cost Method	Entry Age Normal
Discount Rate	2.98%
Inflation Rate	2.5%
Salary Increases	4.00%
Healthcare Cost Trend Rate	
Medical	8.00% graded down to 5.00% over 10 years
Administrative Fees	5.00% increase per annum
Stop Loss	10.00% increase per annum
Retirees share of Benefit	
Related Cost	20%
Future Participation Rates	95 % of future eligible employees are assumed to elect medical coverage upon retirement and 95% are assumed to elect coverage for a spouse upon retirement

The discount rate was based on the S&P Municipal Bond 20 Year High Grade Rate Index as of June 30, 2018.

Mortality rates for the plan were based on the Mortality Table RP-2000 projected to 2018.

The actuarial assumptions used for the June 30, 2018 fiscal year end were based on plan data and costs presented by the City of Murfreesboro with concurrence by the actuary.

Sensitivity of the Proportionate Share of total OPEB Liability to changes in the Discount Rate - The following presents the Department's proportionate share of the total OPEB liability (asset) of the City's total OPEB Plan calculated using the discount rate of 2.98 percent, as well as what the Department'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 (1.98 percent) or 1-percentage-point higher (3.98 percent) than the current rate:

	<u>1% Decrease</u>	<u>Current</u>	<u>1% Increase</u>
	<u>(1.98%)</u>	<u>Discount Rate</u>	<u>(2.98%)</u>
		<u>(2.98%)</u>	<u>(3.98%)</u>
Murfreesboro Water Resources Department's proportionate share of the total OPEB liability	\$ 24,103,966	\$ 20,125,251	\$ 16,836,977

Sensitivity of the Proportionate Share of Total OPEB Liability to changes in the healthcare cost trend rate - The following presents the Department's proportionate share of the total OPEB liability of the City's total OPEB Plan calculated using a healthcare cost trend rate that is 1-percentage-point lower (7% decreasing to 4%) or a rate of 1-percentage-point higher (9% decreasing to 6%), than the current healthcare cost trend rate:

	<u>1% Decrease</u>	<u>Current</u>	<u>1% Increase</u>
	<u>7% decreasing to</u>	<u>8% decreasing to</u>	<u>9% decreasing to</u>
	<u>4% over 10 years</u>	<u>5% over 10 years</u>	<u>6% over 10 years</u>
Murfreesboro Water Resources Department's proportionate share of the total OPEB liability	\$ 16,321,955	\$ 20,125,251	\$ 24,979,238

Payable to the OPEB Plan

At June 30, 2018, the Department reported no outstanding contributions to the OPEB Plan required at the year ended June 30, 2018.

MURFREESBORO WATER RESOURCES DEPARTMENT

Notes to Financial Statements (continued)

June 30, 2018

Note O - COMMITMENTS

The Department has commitments for construction contracts at June 30, 2018 in the amount of \$7,575,960.

Note P - CHANGE IN ACCOUNTING PRINCIPLE AND PRIOR PERIOD ADJUSTMENT

During the year ended June 30, 2018, the Department implemented GASB Statement 75, "*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*". The object of this statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions. The implementation of Statement 75 resulted in restatement of the beginning net position in the amount of (\$9,618,254).

REQUIRED SUPPLEMENTARY INFORMATION

MURFREESBORO WATER RESOURCE DEPARTMENT

Required Supplementary Information

**Schedule of Murfreesboro Water Resource Department'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>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Murfreesboro Water Resource Department's proportion of the net pension liability	17.83%	14.83%	14.49%	11.10%
Murfreesboro Water Resource Department's proportionate share of the net pension liability	\$ 920,819	\$ 1,990,075	\$ 3,664,111	\$ 2,270,524
Murfreesboro Water Resource Department's covered payroll	\$ 5,910,336	\$ 6,786,642	\$ 6,254,427	\$ 4,761,010
Murfreesboro Water Resource Department's proportionate share of the net pension liability as a percentage of its covered payroll	15.58%	29.32%	58.58%	47.69%
Plan fiduciary net position as a percentage of the total pension liability	95.93%	89.96%	82.25%	86.40%

** 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 WATER RESOURCE DEPARTMENT

Required Supplementary Information

Schedule of Murfreesboro Water Resource Department's Pension Contributions
City of Murfreesboro Employees' Pension Plan
Last 10 Fiscal Years ending June 30 (1)

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Actuarially determined contribution (ADC)	\$ 838,821	\$ 769,605	\$ 709,252	\$ 557,514	\$ 579,327
Contributions in relation to the actuarially determined contribution	838,821	769,605	764,291	586,557	582,393
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (55,039)</u>	<u>\$ (29,043)</u>	<u>\$ (3,066)</u>
Covered payroll	\$ 5,910,336	\$ 6,786,642	\$ 6,254,427	\$ 4,761,010	\$ 4,725,339
Contributions as a percentage of covered payroll	14.19%	11.34%	12.22%	12.32%	12.32%

Notes to Schedule -

Valuation date: Actuarially determined contribution rates for 2018 were calculated based on the July 1, 2016 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	25 years
Asset valuation method	Five year smoothing method
Inflation	2.25%
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	RP 2000 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.*

MURFREESBORO WATER RESOURCE DEPARTMENT

Required Supplementary Information

**Schedule of Murfreesboro Water Resource Department's
Proportionate Share of the Collective Total OPEB Liability
Participation in the City of Murfreesboro Employees' OPEB Plan
Last 10 Fiscal Years ending June 30 (1)**

	<u>2018</u>
Murfreesboro Water Resource Department's proportion of the total OPEB liability	15.64%
Murfreesboro Water Resource Department's proportionate share of the collective total OPEB liability	\$ 20,125,251
Murfreesboro Water Resource Department's covered payroll	\$ 6,538,371
Murfreesboro Water Resource Department's proportionate share of the total OPEB liability as a percentage of its covered-employee payroll	307.80%

Notes to Schedule

There are no assets accumulating, in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75, related to this OPEB plan.

There were no changes in assumptions during the measurement period.

There were no benefit changes during the measurement period.

(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.*

SUPPLEMENTAL SECTION

MURFREESBORO WATER RESOURCES DEPARTMENT

Schedule of Operating Revenues

Year Ended June 30, 2018

	<u>Combined</u>	<u>Water</u>	<u>Sewer</u>
Metered sales and charges to general customers	\$ 42,229,386	\$ 14,414,743	\$ 27,814,643
Tap fees - operations	253,160	130,878	122,282
Private fire protection service	111,037	111,037	
Forfeited discounts	717,245	717,245	
Other revenue	540,144	206,955	333,189
Extra surcharge	335,765	231,851	103,914
Returned check charges	9,720	9,720	
Cross connection fees	126,570	126,570	
Repurified water sales	30,632	30,632	
Miscellaneous income	235,893	82,815	153,078
Less: allowances and adjustments	(138,937)	(22,621)	(116,316)
	<u>\$ 44,450,615</u>	<u>\$ 16,039,825</u>	<u>\$ 28,410,790</u>

MURFREESBORO WATER RESOURCES DEPARTMENT

Schedule of Operating Expenses

Year Ended June 30, 2018

	<u>Water</u>	<u>Sewer</u>	<u>Repurified</u>	<u>Administrative and General</u>	<u>Total</u>
Treatment	\$ 3,810,083	\$ 2,468,947	\$ 67,642		\$ 6,346,672
General administration				\$ 4,520,943	4,520,943
Administration	665,222	879,792			1,545,014
Collections		1,504,347			1,504,347
Transmission and distribution	1,285,014				1,285,014
Billing and collections				1,254,292	1,254,292
Operations and maintenance administration				992,606	992,606
Engineering				798,124	798,124
Pump stations		739,502			739,502
Disposal		584,102	148,226		732,328
Meter field services	658,204				658,204
Field Inspectors	362,128				362,128
Industrial surveillance		283,982			283,982
Taps	130,878	122,282			253,160
Cross connection	229,925				229,925
Rehabilitation		154,373			154,373
Source operations	141,854				141,854
Distribution			60,038		60,038
Storage	49,043				49,043
House services		8,721			8,721
Private laterals		1,688			1,688
	<u>\$ 7,332,351</u>	<u>\$ 6,747,736</u>	<u>\$ 275,906</u>	<u>\$ 7,565,965</u>	<u>\$ 21,921,958</u>

MURFREESBORO WATER RESOURCES DEPARTMENT

Schedule of Debt Service Requirements by Fiscal Year

June 30, 2018

<u>Fiscal Year Ended June 30,</u>	<u>Issue</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Principal and Interest</u>	
2019	Tennessee Municipal Bond Fund (1)		\$ 486,000	\$ 33,680	\$ 519,680	
2020			502,000	27,247	529,247	
2021			518,000	20,603	538,603	
2022			534,000	13,748	547,748	
2023			552,000	6,679	558,679	
			<u>\$ 2,592,000</u>	<u>\$ 101,957</u>	<u>\$ 2,693,957</u>	
2019	Tennessee Municipal Bond Fund (1)		\$ 2,144,000	\$ 303,301	\$ 2,447,301	
2020			2,240,000	274,894	2,514,894	
2021			2,341,000	245,215	2,586,215	
2022			2,446,000	214,199	2,660,199	
2023			2,556,000	181,790	2,737,790	
2024			2,671,000	147,925	2,818,925	
2025			2,792,000	112,534	2,904,534	
2026			2,917,000	75,543	2,992,543	
2027			3,049,000	36,893	3,085,893	
			<u>\$ 23,156,000</u>	<u>\$ 1,592,294</u>	<u>\$ 24,748,294</u>	
2019	2009 Tax and Revenue Refunding Bonds	2.00-5.00 %	\$ 2,475,000	\$ 123,750	\$ 2,598,750	
				<u>\$ 2,475,000</u>	<u>\$ 123,750</u>	<u>\$ 2,598,750</u>
2019	2013 Tax and Revenue Refunding Bonds	1.31 %	\$ 3,650,000	\$ 145,279	\$ 3,795,279	
2020				3,695,000	97,464	3,792,464
2021				3,745,000	49,060	3,794,060
			<u>\$ 11,090,000</u>	<u>\$ 291,803</u>	<u>\$ 11,381,803</u>	
2019	2016 Tax and Revenue Refunding Bonds	2.00-5.00 %	\$ 100,000	\$ 657,000	\$ 757,000	
2020				2,470,000	652,000	3,122,000
2021				2,585,000	528,500	3,113,500
2022				2,705,000	399,250	3,104,250
2023				2,830,000	264,000	3,094,000
2024				2,960,000	122,500	3,082,500
2025				1,565,000	63,300	1,628,300
2026				1,600,000	32,000	1,632,000
			<u>\$ 16,815,000</u>	<u>\$ 2,718,550</u>	<u>\$ 19,533,550</u>	

(Continued)

MURFREESBORO WATER RESOURCES DEPARTMENT

Schedule of Debt Service Requirements by Fiscal Year (continued)

June 30, 2018

<u>Fiscal Year Ended June 30,</u>	<u>Issue</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Principal and Interest</u>
2019	State Revolving Loans - CW1 13-317	0.93 %	\$ 170,124	\$ 27,204	\$ 197,328
2020			171,708	25,620	197,328
2021			173,316	24,012	197,328
2022			174,936	22,392	197,328
2023			176,568	20,760	197,328
2024			178,212	19,116	197,328
2025			179,880	17,448	197,328
2026			181,560	15,768	197,328
2027			183,252	14,076	197,328
2028			184,968	12,360	197,328
2029			186,696	10,632	197,328
2030			188,436	8,892	197,328
2031			190,200	7,128	197,328
2032			191,976	5,352	197,328
2033			193,764	3,564	197,328
2034			195,576	1,752	197,328
2035			82,038	197	82,235
			<u>\$ 3,003,210</u>	<u>\$ 236,273</u>	<u>\$ 3,239,483</u>
2019	State Revolving Loans - CW0 12-303	0.93 %	\$ 344,112	\$ 59,700	\$ 403,812
2020			347,328	56,484	403,812
2021			350,568	53,244	403,812
2022			353,844	49,968	403,812
2023			357,144	46,668	403,812
2024			360,480	43,332	403,812
2025			363,852	39,960	403,812
2026			367,248	36,564	403,812
2027			370,680	33,132	403,812
2028			374,136	29,676	403,812
2029			377,640	26,172	403,812
2030			381,156	22,656	403,812
2031			384,720	19,092	403,812
2032			388,320	15,492	403,812
2033			391,944	11,868	403,812
2034			395,604	8,208	403,812
2035			399,300	4,512	403,812
2036	268,382	936	269,318		
			<u>\$ 6,576,458</u>	<u>\$ 557,664</u>	<u>\$ 7,134,122</u>

(Continued)

MURFREESBORO WATER RESOURCES DEPARTMENT

Schedule of Debt Service Requirements by Fiscal Year (continued)

June 30, 2018

Fiscal Year Ended June 30,	Issue	Interest Rate	Principal	Interest	Total Principal and Interest
2019	State Revolving Loans - SRF 12-306	0.93 %	\$ 597,504	\$ 103,668	\$ 701,172
2020			603,084	98,088	701,172
2021			608,712	92,460	701,172
2022			614,400	86,772	701,172
2023			620,136	81,036	701,172
2024			625,932	75,240	701,172
2025			631,776	69,396	701,172
2026			637,680	63,492	701,172
2027			643,632	57,540	701,172
2028			649,644	51,528	701,172
2029			655,716	45,456	701,172
2030			661,836	39,336	701,172
2031			668,016	33,156	701,172
2032			674,256	26,916	701,172
2033			680,556	20,616	701,172
2034			686,916	14,256	701,172
2035			693,324	7,848	701,172
2036	466,153	1,635	467,788		
			\$ <u>11,419,273</u>	\$ <u>968,439</u>	\$ <u>12,387,712</u>
2019	State Revolving Loans - CG2 14-338	1.30 %	\$ 182,100	\$ 45,132	\$ 227,232
2020			184,476	42,756	227,232
2021			186,888	40,344	227,232
2022			189,336	37,896	227,232
2023			191,808	35,424	227,232
2024			194,328	32,904	227,232
2025			196,860	30,372	227,232
2026			199,440	27,792	227,232
2027			202,044	25,188	227,232
2028			204,684	22,548	227,232
2029			207,360	19,872	227,232
2030			210,072	17,160	227,232
2031			212,820	14,412	227,232
2032			215,604	11,628	227,232
2033			218,424	8,808	227,232
2034			221,280	5,952	227,232
2035			224,184	3,048	227,232
2036	113,260	401	113,661		
			\$ <u>3,554,968</u>	\$ <u>421,637</u>	\$ <u>3,976,605</u>

(Continued)

MURFREESBORO WATER RESOURCES DEPARTMENT

Schedule of Debt Service Requirements by Fiscal Year (continued)

June 30, 2018

Fiscal Year Ended June 30,	Issue	Interest Rate	Principal	Interest	Total Principal and Interest
2019	State Revolving Loans - SRF 14-339	1.30 %	\$ 1,444,752	\$ 401,520	\$ 1,846,272
2020			1,463,640	382,632	1,846,272
2021			1,482,780	363,492	1,846,272
2022			1,502,172	344,100	1,846,272
2023			1,521,816	324,456	1,846,272
2024			1,541,724	304,548	1,846,272
2025			1,561,884	284,388	1,846,272
2026			1,582,308	263,964	1,846,272
2027			1,602,996	243,276	1,846,272
2028			1,623,960	222,312	1,846,272
2029			1,645,200	201,072	1,846,272
2030			1,666,716	179,556	1,846,272
2031			1,688,508	157,764	1,846,272
2032			1,710,600	135,672	1,846,272
2033			1,732,968	113,304	1,846,272
2034			1,755,624	90,648	1,846,272
2035			1,778,592	67,680	1,846,272
2036	1,468,303	36,201	1,504,504		
			<u>\$ 28,774,543</u>	<u>\$ 4,116,585</u>	<u>\$ 32,891,128</u>
Total			<u>\$ 109,456,452</u>	<u>\$ 11,128,952</u>	<u>\$ 120,585,404</u>

(1) Interest payments are subject to fluctuation since interest is accrued based on an adjustable rate. For purposes of this schedule, an interest rate of 1.32% was used.

ORGANIZATIONAL DATA

MURFREESBORO WATER RESOURCES DEPARTMENT

Schedule of Customers and Rate Structure

Year Ended June 30, 2018

As of June 30, 2018, Murfreesboro Water Resources Department serves approximately 26,361 water customers and 45,179 sewer customers of which 19,458 are in the Consolidated Utility District (“CUD”) water service area. The following rate structure was in place during the 2017/2018 fiscal year:

Water:

The water rate is \$3.66 per 1,000 gallons (\$0.00366 per gallon) of consumption over the stated allowances per meter size. The minimum monthly bills applicable to all customers are based upon the following table:

<u>Meter Size (")</u>	<u>Charge (\$)</u>
5/8	8.22
1	19.18
1 1/2	41.10
2	65.76
3	164.40
4	328.80
6 and greater	685.00

Sewer:

The sewer rate is \$5.67 per 1,000 gallon (\$0.00567 per gallon) of consumption. The minimum monthly bills applicable to all customers are based upon the following table:

<u>Meter Size (")</u>	<u>Charge (\$)</u>
5/8	10.22
1	27.98
1 1/2	61.90
2	100.06
3	252.70
4	507.10
6 and greater	1,058.30

The above rates are net. The gross rate, 10% higher, will apply to accounts not paid by the due date. Rates for service outside the City limits are 50% higher than the above inside City limit rates. Each residential sewer customer utilizing an unmetered water supply shall be charged a \$19.70 flat monthly rate. Effective on bills printed July 1, 2017.



AWWA Free Water Audit Software: Reporting Worksheet

WAS v5.0
American Water Works Association
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? Click to access definition
+ Click to add a comment

Water Audit Report for: Murfreesboro Water Resources Department
Reporting Year: 2018 7/2017 - 6/2018

Please enter data in the white cells below. Where available, metered values should be used; if metered values are unavailable please estimate a value. Indicate your confidence in the accuracy of the input data by grading each component (n/a or 1-10) using the drop-down list to the left of the input cell. Hover the mouse over the cell to obtain a description of the grades

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

To select the correct data grading for each input, determine the highest grade where the utility meets or exceeds all criteria for that grade and all grades below it.

WATER SUPPLIED

----- Enter grading in column 'E' and 'J' ----->

Volume from own sources:	+ ?	9	3,996.390	MG/Yr
Water imported:	+ ?	10	0.000	MG/Yr
Water exported:	+ ?	10	0.000	MG/Yr

Master Meter and Supply Error Adjustments

Pcnt:	Value:	MG/Yr
+ ? 7	<input checked="" type="radio"/> <input type="radio"/>	
+ ?	<input type="radio"/> <input checked="" type="radio"/>	
+ ?	<input type="radio"/> <input checked="" type="radio"/>	

Enter negative % or value for under-registration
Enter positive % or value for over-registration

WATER SUPPLIED: **3,996.390** MG/Yr

AUTHORIZED CONSUMPTION

Billed metered:	+ ?	8	2,985.500	MG/Yr
Billed unmetered:	+ ?	9	0.000	MG/Yr
Unbilled metered:	+ ?	8	159.830	MG/Yr
Unbilled unmetered:	+ ?		49.955	MG/Yr

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

AUTHORIZED CONSUMPTION: **3,195.285** MG/Yr

Click here: ?
for help using option buttons below

Pcnt:	Value:	MG/Yr
1.25%	<input checked="" type="radio"/> <input type="radio"/>	

Use buttons to select percentage of water supplied OR value

Pcnt:	Value:	MG/Yr
0.25%	<input checked="" type="radio"/> <input type="radio"/>	

1.50%	<input checked="" type="radio"/> <input type="radio"/>	MG/Yr
0.25%	<input checked="" type="radio"/> <input type="radio"/>	MG/Yr

WATER LOSSES (Water Supplied - Authorized Consumption)

801.105 MG/Yr

Apparent Losses

Unauthorized consumption: + ? **9.991** MG/Yr

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

Customer metering inaccuracies:	+ ?	9	47.898	MG/Yr
Systematic data handling errors:	+ ?		7.464	MG/Yr

Default option selected for Systematic data handling errors - a grading of 5 is applied but not displayed

Apparent Losses: **65.353** MG/Yr

Real Losses (Current Annual Real Losses or CARL)

Real Losses = Water Losses - Apparent Losses: **735.752** MG/Yr

WATER LOSSES: **801.105** MG/Yr

NON-REVENUE WATER

NON-REVENUE WATER: **1,010.890** MG/Yr

= Water Losses + Unbilled Metered + Unbilled Unmetered

SYSTEM DATA

Length of mains:	+ ?	9	443.0	miles
Number of <u>active AND inactive</u> service connections:	+ ?	9	26,818	
Service connection density:	?		61	conn./mile main

Are customer meters typically located at the curbside or property line? No
Average length of customer service line: + ? 10 3.0 ft (length of service line, beyond the property boundary, that is the responsibility of the utility)

Average operating pressure: + ? 10 68.0 psi

COST DATA

Total annual cost of operating water system:	+ ?	8	\$17,093,219	\$/Year
Customer retail unit cost (applied to Apparent Losses):	+ ?	10	\$3.66	\$/1000 gallons (US)
Variable production cost (applied to Real Losses):	+ ?	8	\$947.69	\$/Million gallons <input type="checkbox"/> Use Customer Retail Unit Cost to value real losses

WATER AUDIT DATA VALIDITY SCORE:

***** YOUR SCORE IS: 83 out of 100 *****

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

PRIORITY AREAS FOR ATTENTION:

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

- 1: Volume from own sources
- 2: Unauthorized consumption
- 3: Systematic data handling errors



AWWA Free Water Audit Software: System Attributes and Performance Indicators

WAS v5.0

American Water Works Association.
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Water Audit Report for: Murfreesboro Water Resources Department
 Reporting Year: 2018 7/2017 - 6/2018

*** YOUR WATER AUDIT DATA VALIDITY SCORE IS: 83 out of 100 ***

System Attributes:

	Apparent Losses:	65.353	MG/Yr
+	Real Losses:	735.752	MG/Yr
=	Water Losses:	801.105	MG/Yr

? Unavoidable Annual Real Losses (UARL): 162.16 MG/Yr

Annual cost of Apparent Losses: \$239,193

Annual cost of Real Losses: \$697,265 Valued at **Variable Production Cost**

Return to Reporting Worksheet to change this assumption

Performance Indicators:

Financial: { Non-revenue water as percent by volume of Water Supplied: 25.3%
 Non-revenue water as percent by cost of operating system: 6.6% Real Losses valued at Variable Production Cost

Operational Efficiency: { Apparent Losses per service connection per day: 6.68 gallons/connection/day
 Real Losses per service connection per day: 75.16 gallons/connection/day
 Real Losses per length of main per day*: N/A
 Real Losses per service connection per day per psi pressure: 1.11 gallons/connection/day/psi

From Above, Real Losses = Current Annual Real Losses (CARL): 735.75 million gallons/year

? Infrastructure Leakage Index (ILI) [CARL/UARL]: 4.54

* This performance indicator applies for systems with a low service connection density of less than 32 service connections/mile of pipeline

SINGLE AUDIT SECTION

MURFREESBORO WATER RESOURCES DEPARTMENT

Schedule of Expenditures of Federal Awards

June 30, 2018

<u>Program Name</u>	<u>CFDA Number</u>	<u>Contract/Grant Number</u>	<u>Balance June 30, 2017 (Receivable)/ Deferred Revenue</u>	<u>Receipts</u>	<u>Expenditures</u>	<u>Balance June 30, 2018 (Receivable)/ Deferred Revenue</u>
ENVIRONMENTAL PROTECTION AGENCY						
Passed through the Tennessee Department of Environment & Conservation						
Capitalization Grants for Clean Water State Revolving Funds	66.458	CS470001 SRF 14-339		\$ 871,908	\$ 871,908	
			\$ <u>- 0 -</u>	\$ <u>871,908</u>	\$ <u>871,908</u>	\$ <u>- 0 -</u>

See notes to the schedule of expenditures of federal awards.

MURFREESBORO WATER RESOURCES DEPARTMENT

Schedule of Expenditures of State Awards

June 30, 2018

<u>Program Name</u>	<u>Contract/Grant Number</u>	<u>Balance June 30, 2017 (Receivable)/ Deferred Revenue</u>	<u>Receipts</u>	<u>Expenditures</u>	<u>Balance June 30, 2018 (Receivable)/ Deferred Revenue</u>
TENNESSEE DEPARTMENT OF TRANSPORTATION					
Capitalization Grants for Clean Water State Revolving Funds	CS470001	\$ (2,963,842)	\$ 3,905,053	\$ 952,916	\$ (11,705)
	SRF-14-339	\$ (2,963,842)	\$ 3,905,053	\$ 952,916	\$ (11,705)

See notes to the schedule of expenditures of state awards.

MURFREESBORO WATER RESOURCES DEPARTMENT

Notes to Schedules of Federal and State Awards

June 30, 2018

Note A - BASIS OF PRESENTATION

The accompanying schedules of expenditures of federal and state awards include the grant activity of the Murfreesboro Water Resources Department.

The receivable balance accrued June 30, 2017, represents grant funds earned during the prior period, but not received prior to the end of that period.

Cash receipts represent the actual cash received from the grantor agency during the current period.

Federal and state expenditures represent current period expenses charged to the grant as well as current period revenues recognized from the grant, recorded on the accrual basis of accounting.

The receivable balance accrued June 30, 2018, represents grant revenue earned which was not received from the grantor agency during the current period. The receivable balance on the schedule of expenditures of state awards includes a receivable to be drawn from loan proceeds as well as an amount to be forgiven by the grantor. The grants receivable reported on the Statement of Net Position only includes the amount to be forgiven by the grantor and not the amount reimbursable from loan proceeds in accordance with generally accepted accounting principles.



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Joel H. Jobe (1944 – 2006)

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT
AUDITING STANDARDS**

Board of Directors
Murfreesboro Water Resources Department

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 business-type activities of the Murfreesboro Water Resources Department, as of and for the year ended June 30, 2018 and the related notes to the financial statements, which collectively comprise the Murfreesboro Water Resources Department's basic financial statements and have issued our report thereon dated December 20, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Murfreesboro Water Resources Department'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Murfreesboro Water Resources Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Murfreesboro Water Resources Department'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 Water Resources Department'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 20, 2018



JOB, HASTINGS & ASSOCIATES

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Board of Directors
Murfreesboro Water Resources Department

Report on Compliance for Each Major Federal Program

We have audited the Murfreesboro Water Resources Department's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Murfreesboro Water Resources Department's major federal programs for the year ended June 30, 2018. The Murfreesboro Water Resources Department's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Murfreesboro Water Resources Department's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Murfreesboro Water Resources Department's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Murfreesboro Water Resources Department's compliance.

Opinion on the Major Federal Program

In our opinion, the Murfreesboro Water Resources Department, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2018.

Report on Internal Control over Compliance

Management of the Murfreesboro Water Resources Department, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Murfreesboro Water Resources Department's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Murfreesboro Water Resources Department's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Jobe, Hastings & Associates

Certified Public Accountants

Murfreesboro, Tennessee
December 20, 2018

MURFREESBORO WATER RESOURCES DEPARTMENT

Schedule of Audit Findings and Questioned Costs

June 30, 2018

A - SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unmodified opinion on whether the financial statements of the Murfreesboro Water Resources Department were prepared in accordance with GAAP.
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 Water Resources Department, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs are reported in the *Independent Auditor's Report On Compliance For Each Major Program And On Internal Control Over Compliance Required By The Uniform Guidance*.
5. The auditor's report on compliance for the major federal award programs for the Murfreesboro Water and Resources Department expresses an unmodified opinion on its major federal program.
6. No audit findings that are required to be reported in accordance with 2 CFR section 200.516(a) are reported in this Schedule.
7. The program tested as a major program was the Capitalization Grants for Clean Water State Revolving Loans CFDA No. 66.458.
8. The threshold used for distinguishing between Type A and B programs was \$750,000.
9. The Murfreesboro Water Resources Department did not qualify as a low-risk auditee.

B - FINDINGS - FINANCIAL STATEMENT AUDIT

CURRENT YEAR FINDINGS

No matters were reported.

C - FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAM AUDIT

No matters were reported.

MURFREESBORO WATER RESOURCES DEPARTMENT

Schedule of Prior Audit Findings and Questioned Costs

June 30, 2018

FINDINGS - FINANCIAL STATEMENT AUDIT

2017-001 Capital Asset Records

Current Status: Resolved

2017-002 Material Journal Entries

Current Status: Resolved