

**MURFREESBORO WATER**  
**RESOURCES DEPARTMENT**

**AUDITED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED**  
**JUNE 30, 2022**

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## **INTRODUCTORY SECTION**

**MURFREESBORO WATER RESOURCES DEPARTMENT**

**BOARD MEMBERS AND MANAGEMENT OFFICIALS**

**June 30, 2022**

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Board Members

Chairman.....John Sant Amour, Jr.  
Board Member .....Brian Kidd  
Board Member .....Dr. Alphonse Carter, Jr.  
Board Member .....Ron Crabtree  
Board Member .....Kathy Nobles  
Board Member .....Sandra Trail  
Board Member .....Madelyn Scales-Harris  
Board Member .....Kirt Wade

Management Officials

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

## **FINANCIAL SECTION**



# **JOB, HASTINGS & ASSOCIATES**

*Certified Public Accountants*

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## **INDEPENDENT AUDITOR'S REPORT**

Board of Directors  
Murfreesboro Water Resources Department  
Murfreesboro, Tennessee

### **Report on the Audit of the Financial Statements**

#### ***Opinion***

We have audited the accompanying financial statements of the Murfreesboro Water Resources Department, as of and for the year ended June 30, 2022, and the related notes to the financial statements, as listed in the table of contents.

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, as of June 30, 2022, and the changes in its financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### ***Basis for Opinion***

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Murfreesboro Water Resources Department and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### ***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, 2022, 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.

#### ***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Murfreesboro Water Resources Department's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Murfreesboro Water Resources Department's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Murfreesboro Water Resources Department's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### ***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 4-16 and 35-37 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements that comprise the Murfreesboro Water Resources Department's basic financial statements. The accompanying schedule of operating revenues, the schedule of operating expenses, the schedule of debt service requirements by fiscal year and the schedule of changes in long-term debt by individual issue are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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, the schedule of debt service requirements by fiscal year and the schedule of changes in long-term debt by individual issue are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

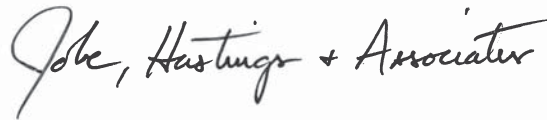
***Other Information***

Management is responsible for the other information included in the annual report. The other information comprises the introductory section and schedule of customers and rate structure but does not include the basic financial statements and our auditor's report thereon. Our opinion on the basic financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated January 27, 2023, 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 the 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 *Government Auditing Standards* in considering Murfreesboro Water Resources Department's internal control over financial reporting and compliance.



Certified Public Accountants

Murfreesboro, Tennessee  
January 27, 2023



## MANAGEMENT DISCUSSION AND ANALYSIS

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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, 2022. This information should be considered within the context of the accompanying financial statements and note disclosures.

### FINANCIAL OPERATIONS HIGHLIGHTS

- ❖ The Department's Total Assets and Deferred Outflows increased by \$26,871,375 for the year ended June 30, 2022. Of that increase, Current Assets increased by \$20,294,821 and Capital Assets, net of depreciation, decreased by \$1,514,285. These increases can be primarily attributed to proceeds from connection fees and contributed and acquired assets.
- ❖ The Department's net position increased by \$24,159,117 during the year ending June 30, 2022. Net position grew over last year due primarily to operating income, system connection fees, and contributed assets.

### 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, 2022	June 30, 2021
Current Assets	\$ 151,340,242	\$ 131,045,419
Capital Assets	432,333,840	433,848,125
Non-Current Other Assets	3,488,982	58,579
Deferred Outflows	7,976,025	3,315,591
Total Assets and Deferred Outflows	<u>\$ 595,139,089</u>	<u>\$ 568,267,714</u>
Current Liabilities	\$ 13,321,453	\$ 11,112,285
Non-current Liabilities	107,542,840	92,847,473
Deferred Inflows	25,606,291	4,073,767
Total Liabilities and Deferred Inflows	<u>\$ 146,470,584</u>	<u>\$ 108,033,525</u>
Net investment in capital assets	\$ 366,835,855	\$ 360,318,776
Restricted for net pension asset	3,423,532	-
Restricted for employee benefits	28,432	21,561
Restricted for matured bonds	37,018	37,018
Unrestricted	78,343,668	99,856,834
Total Net Position	<u>\$ 448,668,505</u>	<u>\$ 460,234,189</u>
Total Liabilities, Deferred Inflows and Net Position	<u>\$ 595,139,089</u>	<u>\$ 568,267,714</u>

### Assets

Current Assets increased to \$151,340,241 for the year ended June 30, 2022, an increase of \$20,294,822 (15.49%). This can be primarily attributed to cash generated by connection fees proceeds and an increase in accounts receivable. Capital Assets, net of depreciation, is \$432,333,840 for the year ending June 30, 2022, which is a decrease of \$1,514,285 (-.35%) from the fiscal year ending June 30, 2021. This is primarily due to less contributed assets.

### Liabilities

Current liabilities total \$13,321,453 at June 30, 2022, an increase of \$2,209,168 from June 30, 2021. The increase is primarily due to trade accounts payable. Long term liabilities total \$107,542,840 as of June 30, 2022, an increase of \$14,695,367 (15.83%) from long-term liabilities as of June 30, 2021. This is primarily attributed to an increase in Total Other Post Employment Benefits (OPEB) from June 30, 2021. Deferred inflows total \$25,606,291 at June 30, 2022, up from \$4,073,767 at June 30, 2021. This increase is primarily due to an increase in deferred inflows related to OPEB.

## CONDENSED FINANCIAL INFORMATION (CONTINUED)

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

	June 30, 2022	June 30, 2021
Operating revenues	\$ 49,823,561	\$ 47,658,031
Non-operating revenues	516,314	209,333
	<u>\$ 50,339,875</u>	<u>\$ 47,867,364</u>
Operating expenses	\$ 26,653,668	\$ 24,423,056
Depreciation and amortization	16,135,424	16,708,454
Non-operating expenses	943,137	1,129,518
Loss (Gain) on disposal of utility plant assets	7,948	13,217
	<u>\$ 43,740,177</u>	<u>\$ 42,274,245</u>
Increase (decrease) in net position, before capital contributions	\$ 6,599,698	\$ 5,593,119
Tap fees and special assessments	8,904,025	10,517,749
Developer contributions of systems	8,655,394	15,189,825
Increase (decrease) in net assets	<u>\$ 24,159,117</u>	<u>\$ 31,300,693</u>
Net position, beginning of year	\$ 460,234,189	\$ 428,933,496
Prior Period Adjustment	<u>\$ (35,724,801)</u>	<u>\$ -</u>
Net position, beginning of year, as restated	<u>\$ 424,509,388</u>	<u>\$ 428,933,496</u>
Net position, end of year	<u>\$ 448,668,505</u>	<u>\$ 460,234,189</u>

### Operating Revenues and Expenses

Operating revenues increased by \$2,165,530 (4.5%) over the previous year while operating expenses increased by \$3,501,015 (14.3%). The increase in operating revenues is primarily attributed to increased growth in MWRD's sewer customer base. The increase in operating expenses can be attributed to increased costs for both water and sewer systems operations, including increased personnel costs.

As seen in the following table, operating sales revenues exceeded FY22 budgeted revenue by \$1,012,561. This increase can be primarily attributed to growth in sewer customers. Operating expenses also exceeded FY22 budget amounts primarily due to water and sewer system costs, including personnel costs.

The increase in net position before capital contributions was \$5,329,294 for the year ending June 30, 2022 a decrease of \$263,825 from the year ending June 30, 2021. The decrease can be primarily attributed to an increase in water and sewer system operating costs, including personnel costs.

Non-operating revenue consists primarily of federal grant income related to the American Rescue Plan and interest income for the year ended June 30, 2022.

The capital contributions from developers, tap fees and special assessments total \$17,559,419 for the year ending June 30, 2022. This is a decrease of \$8,148,155 (32%) from the year ending June 30, 2021. Developer contributed assets decreased substantially from FY2021.

## CONDENSED FINANCIAL INFORMATION (CONTINUED)

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

	June 30, 2022	Budget	Over (Under)	%
Operating revenues	\$ 49,823,561	\$ 48,811,000	\$ 1,012,561	2.07%
Non-operating revenues	516,314	433,000	83,314	19.24%
	\$ 50,339,875	\$ 49,244,000	\$ 1,095,875	2.23%
Operating expenses	\$ 26,653,668	\$ 26,049,700	\$ 603,968	2.32%
Non-operating expenses	943,137	1,646,964	(703,827)	-42.73%
	\$ 27,596,805	\$ 27,696,664	\$ (99,859)	-0.36%
Increase in net assets, before capital contributions, loss on disposal of utility plant assets, and depreciation	\$ 22,743,070	\$ 21,547,336	\$ 1,195,734	5.55%

	June 30, 2022	June 30, 2021
Cash provided by operating activities	\$ 25,287,951	\$ 26,343,652
Cash provided from noncapital financing activities	285,272	779
Cash used by capital and related financing activities	(7,208,262)	(13,632,657)
Cash provided by investing activities	228,491	208,554
Net increase in cash and equivalents	\$ 18,593,452	\$ 12,920,328
Cash and cash equivalents, beginning of year	127,626,784	114,706,456
Cash and cash equivalents, end of year	\$ 146,220,236	\$ 127,626,784

### Cash flows from operating activities

The net cash provided from operating activities during the year ending June 30, 2022 totaled \$25,287,951, which was a decrease of \$1,055,701 (4.0%) in comparison to the year ending June 30, 2021. The decrease can primarily be attributed to the increase in water and sewer system operating costs, including personnel, for FY2022.

### Cash Flows from noncapital financing activities

The cash flows from noncapital financing activities increased by \$284,493 for the year ended June 30, 2022. The Department received grant proceeds from American Rescue Plan. Proceeds were used for personnel costs related to the COVID pandemic.

### Cash Flows from Capital and Related Financing Activities

The cash flow used by capital and related financing activities decreased by \$6,424,395, primarily due to reduction in principal on debt (\$7,346,620), a decrease in tap/special assessment proceeds (\$1,613,724), and a decrease in acquisition and construction costs of capital assets (\$4,263,906).

### Cash flows from investing activities

Cash provided by investing activities includes interest income earned on cash and equivalents during the year ending June 30, 2022. There was an increase of \$19,937 in interest earned in comparison to the year ending June 30, 2021. Earnings increase slightly in FY2022 based upon increased cash reserves.

## 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 increase revenues while consumption declines.

In preparing the fiscal year 2023 (FY23) 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.

\$2,875,000 of sinking funds are being earmarked to assign the excess revenue for future construction or repair and replacement; additionally, \$1,832,815 has been reserved for future unforeseen capital expense. The sinking funds identified below have been assigned rate revenue since FY12. The total FY23 earmarked amounts and FY12-22 “banked” amounts are as tabulated below:

**Table 1: Designated Sinking Funds FY12-22 and FY23 Budget**

Sinking Fund	FY12-22 Balance	FY23 Budget	
		Designated	Balance
<b>General</b>	1,400,000		1,400,000
<b>Lift Station Replacement</b>	1,401,232	250,000	1,651,232
<b>NE FM &amp; PS</b>	4,216,254	625,000	4,841,254
<b>WRRF Sludge/Biosolids</b>	3,700,000	500,000	4,200,000
<b>Sewer Rehab</b>	3,000,000	1,500,000	4,500,000
<b>Future Debt</b>	4,159,380		4,159,380
<b>Future Capital Expense</b>	9,017,393	1,832,815	10,850,208
<b>TOTALS</b>	<b>26,894,259</b>	<b>4,707,815</b>	<b>31,602,074</b>

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 FY2021. Jackson Thornton has also provided staff a pro forma for FY2026. The FY2026 pro forma was run using two scenarios:

- 1) Scenario “A” that assumes no new debt was added between FY21 and FY26. This assumes using reserves on hand to pay for \$45,000,000 in capital projects.
- 2) Scenario “B” where \$45,000,000 in debt (20-yr @ 4%) is incurred to pay for projects such as the Northeast Regional Pumping Station and Force Main and the full scale biosolids drying at the Water Resource Recovery Facility (WRRF).

The following chart summarizes the historical cost of service studies conducted by the Department from FY11 to FY21, illustrating the total rate revenue requirements and the actual rate revenue collected as an under or over recovery:

**Chart 1: Total Water and Sewer Rate Requirements and Actual Rate Revenue**



	2011 COSS	2013 COSS	2015 COSS	2017 COSS	2019 COSS	2021 COSS
Total Rate Requirement	\$31,328,535	\$31,244,197	\$35,175,522	\$38,816,282	\$38,916,760	\$38,186,393
Total Rate Revenue	\$29,507,833	\$34,353,148	\$38,243,420	\$41,639,144	\$43,247,652	\$44,960,656

Table 2 lists the over and under recovery for the cost-of-service study performed on FY21 and the pro forma projections for FY26. The table itemizes the added expenses, revenue and net recovery for water and sewer individually and in total, assuming no debt is incurred. As you can see, water revenue is expected to under-recover in FY26 but sewer is expected to over-recover in FY26. Sewer over-recovers to such a degree that it can effectively subsidize the water revenue shortfall. This is not ideal in one of the principles involved in cost of service, which is to have each fund have a rate design that covers all of its incurred expenses.

**Table 2: Added Expenses, Revenue and Associated Recovery %'s for Water and Sewer Fund (No Debt Scenario)**

Category	Water	Sewer	Total
Over/(Under) Recovery (FY21)	\$203,064	\$6,571,199	\$6,774,263
Over/Under Recovery % (FY21)	1.4%	27.8%	17.7%
Added Expenses (FY21-26)	\$2,221,376	\$3,129,981	\$5,351,357
Added Revenue (FY21-26)	\$433,877	\$4,103,823	\$4,537,700
Net Revenue/(Expense) (FY21-26)	(\$1,584,435)	\$7,545,041	\$5,960,606
Net Over/Under Recovery % (FY26)	-9.4%	28.2%	13.7%

Chart 2 is a graphic of the table above that illustrates the total water and sewer expenses and revenues. The most relevant number to note is the \$5,960,606 net over-recovery in FY26, or \$49,498,356 minus \$43,537,750 (on the upper right hand of the chart). The assumptions of the No Debt scenario demonstrate a 13.7% over-recovery in FY26.

**Chart 2: Historical COS Studies and FY26 Pro Forma (No Debt Scenario)**

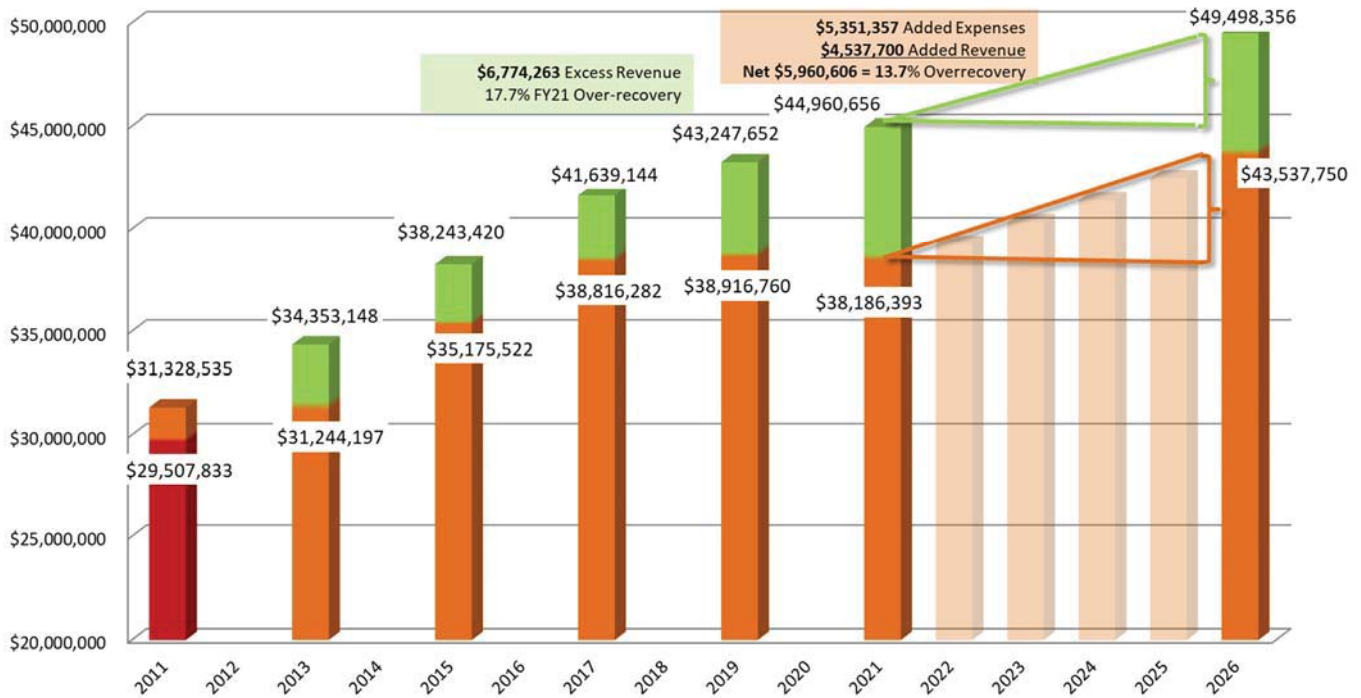


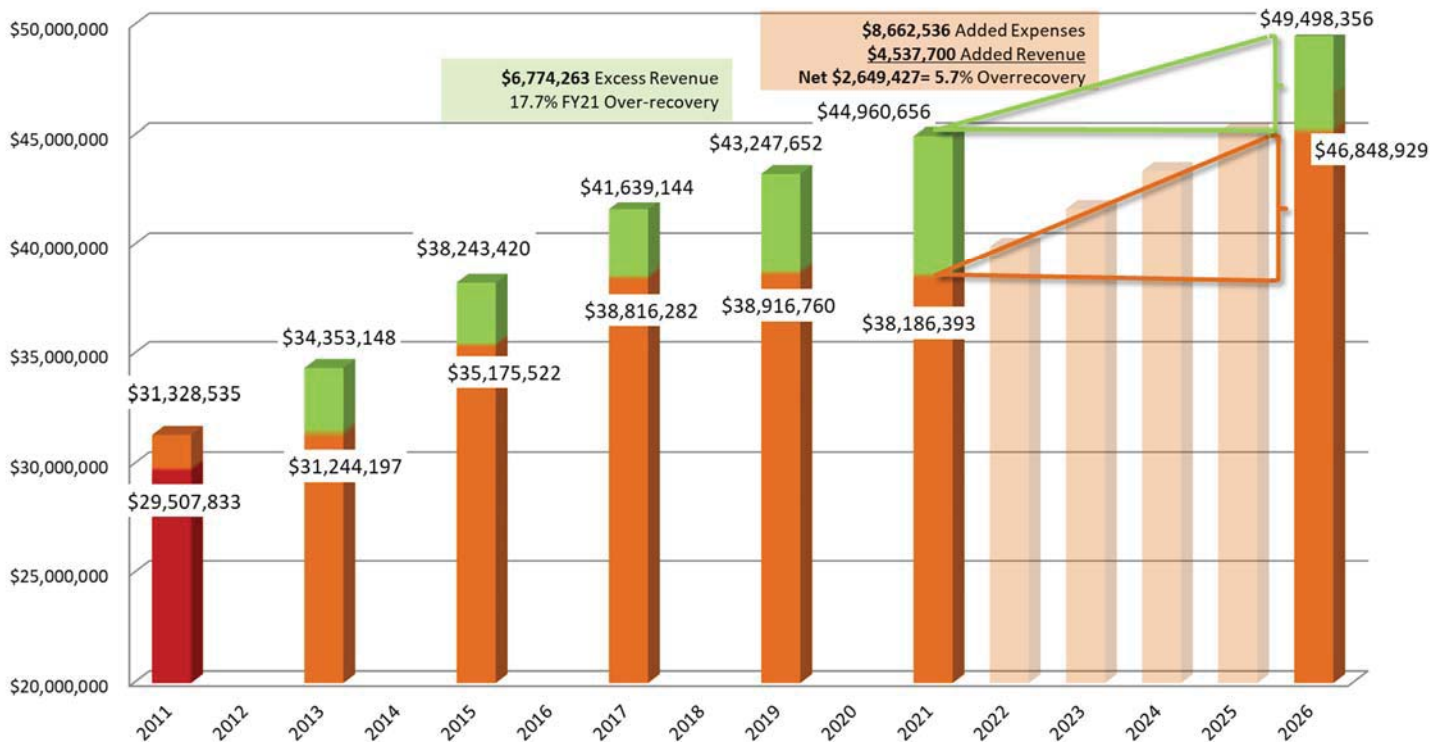
Table 3 lists the over and under recovery for the cost-of-service study performed on FY21 and the pro forma projections for FY26. The table itemizes the added expenses, revenue and net recovery for water and sewer individually and in total; assuming \$45,000,000 of debt is incurred over 20-yr at 4.0% fixed interest. As you can see, water revenue remains the same and is expected to under-recover in FY26 (as it incurs no debt), but sewer is expected to over-recover in FY26 but not to the same extent as the "no debt" scenario. Sewer still over-recovers to such a degree that it can effectively subsidize the water revenue shortfall.

**Table 3: Added Expenses, Revenue and Associated Recovery %'s for Water and Sewer Fund (\$45M, 20-yr @ 4% Scenario)**

Category	Water	Sewer	Total
Over/(Under) Recovery (FY21)	\$203,064	\$6,571,199	\$6,774,263
Over/Under Recovery % (FY21)	1.4%	27.8%	17.7%
Added Expenses (FY21-26)	\$2,221,376	\$6,441,160	\$8,662,536
Added Revenue (FY21-26)	\$433,877	\$4,103,823	\$4,537,700
Over/(Under) Recovery (FY26)	(\$1,584,435)	\$4,233,862	\$2,649,427
Over/Under Recovery % (FY26)	-9.4%	14.1%	5.7%

Chart 3 is also a combined look at both water and sewer revenues with the assumption of \$45,000,000 in debt service (20-yr @ 4% fixed interest). The most relevant number to note is the \$2,649,427 net over-recovery in FY26, or \$49,498,356 minus \$46,848,929 (on the upper right hand of the chart). The assumptions of the \$45M in debt scenario demonstrate a 5.7% over-recovery in FY26.

**Chart 3: Historical COS Studies and FY26 Pro Forma (\$45M Debt Scenario)**

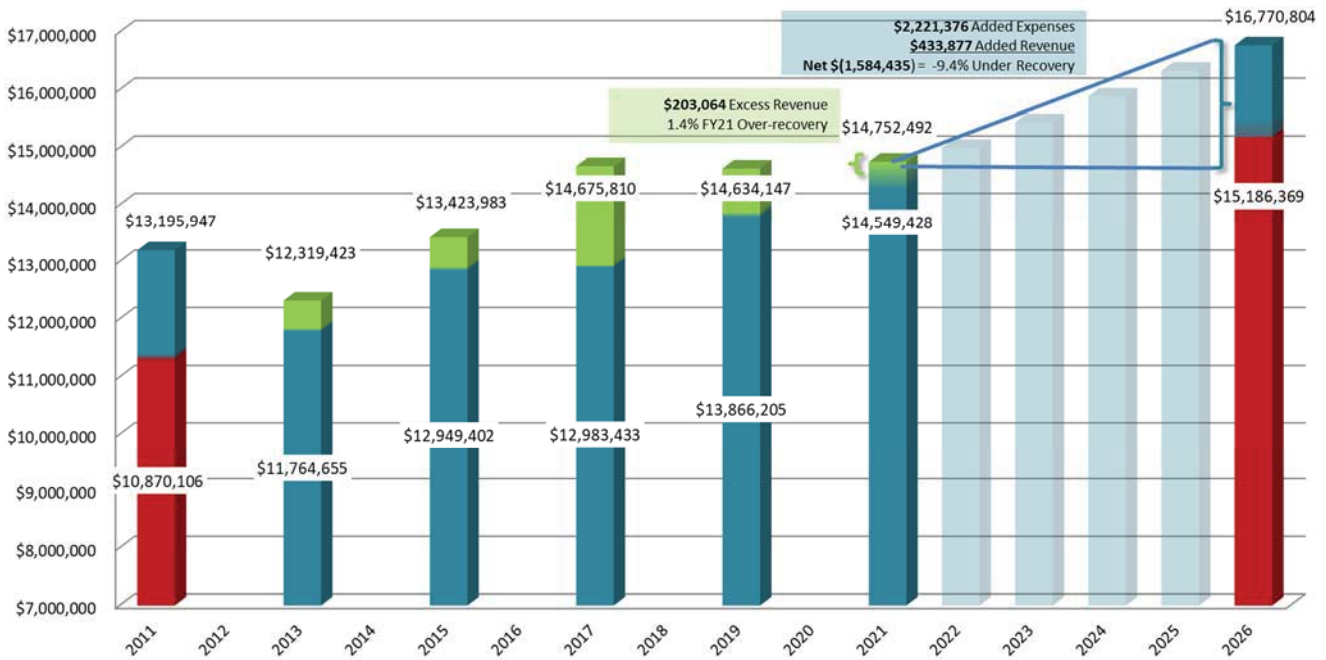


As previously mentioned, while both of these scenarios demonstrate an over-recovery of anticipated revenue to cost of service expenses, there is a small issue associated with water rates not fully supporting the cost of service associated with water related expenses in FY26. The over-recoveries charted above entail a subsidization of sewer related revenue covering water related expenses. From a cost of service standpoint, this is not an ideal position and staff recommends avoiding it from occurring.

Chart 4 looks at water revenues and cost of service only. No new debt is associated with water expenses during the timeframe between FY21 and FY26, so debt service does not affect increased expenses; therefore, the increase of \$2,221,376 is associated with operations and maintenance only. Also, MWRD's water system is encompassed by Consolidated Utility District of Rutherford County; therefore, minimal revenue derived from growth has been integrated into the FY26 pro forma, or \$433,877. Using these assumptions, the water revenues are expected to fall short in an amount of \$(1,584,435) as compared to expenses in FY26, under-recovering (9.4%).



**Chart 4: Historical COS Studies and FY26 Pro Forma (Water Only)**



A proposed rate design for meter sizes 5/8” to 2” below by adjusting the minimum annually as tabulated below recovers approximately 20% of the under-recovery anticipated for FY26. Making these adjustments over a 4-yr period in conjunction with FY22’s water rate increase would make up 95% of the “gap” of the anticipated (\$1,584,435) shortfall.

**Table 4: Proposed Minimum Monthly Charge Adjustments**

Meter Size (INCH)	FY22 Total minimum	FY23 Proposed minimum	Difference	# of Accounts	Added Revenue
5/8”	\$8.72	\$9.72	\$1.00	25,434	\$305,213
1”	\$20.71	\$21.54	\$0.83	689	\$6,851
1-1/2”	\$43.77	\$45.08	\$1.31	344	\$5,421
2”	\$69.05	\$70.77	\$1.72	437	\$9,052
3”	\$164.40	\$164.40	\$0.00	96	\$0.00
4”	\$328.80	\$328.80	\$0.00	26	\$0.00
> 6”	\$685.00	\$685.00	\$0.00	12	\$0.00
<b>Total</b>				<b>27,038</b>	<b>\$326,536</b>

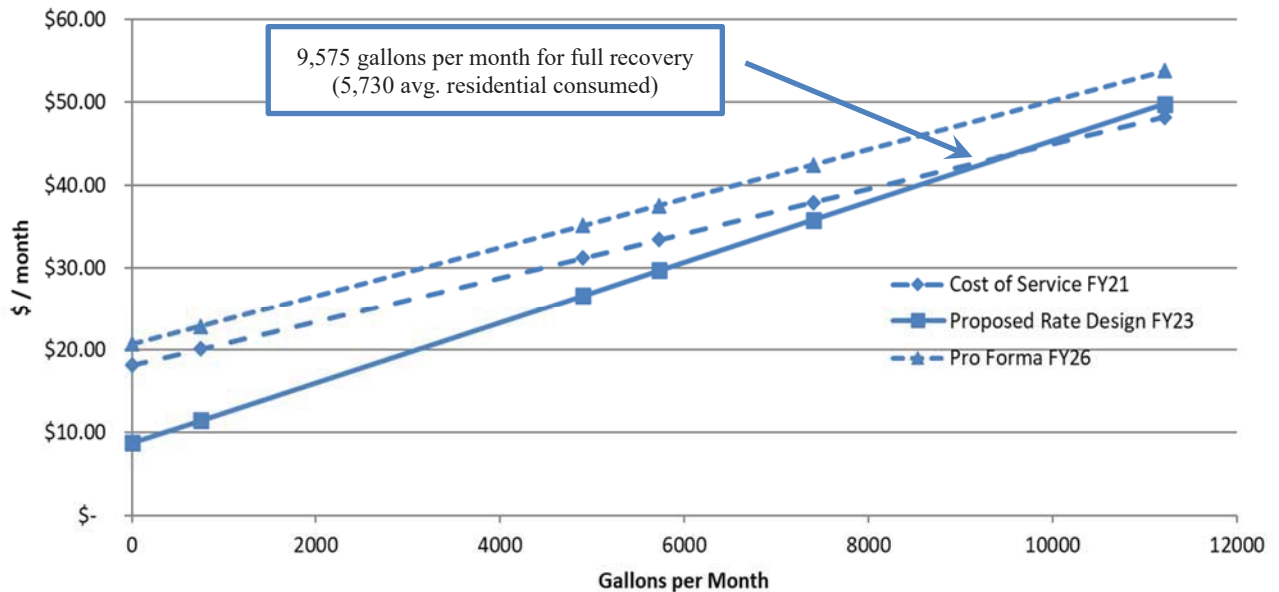
An alternative rate design schedule that affords a minimal increase in the average monthly combined water and sewer bill is detailed in Table 3. This more sophisticated rate design accomplishes 2 main goals – 1) gets the minimum monthly charges for water and sewer closer to the cost-of-service recovery levels and 2) lowers the sewer commodity rate so that we maintain the average monthly bill while lowering the subsidization of smaller sewer customers by larger sewer customers.

**Table 5: MWRD Water/Sewer Rate Design (Assuming \$45M in Debt) - Rates Adjusted thru FY26**

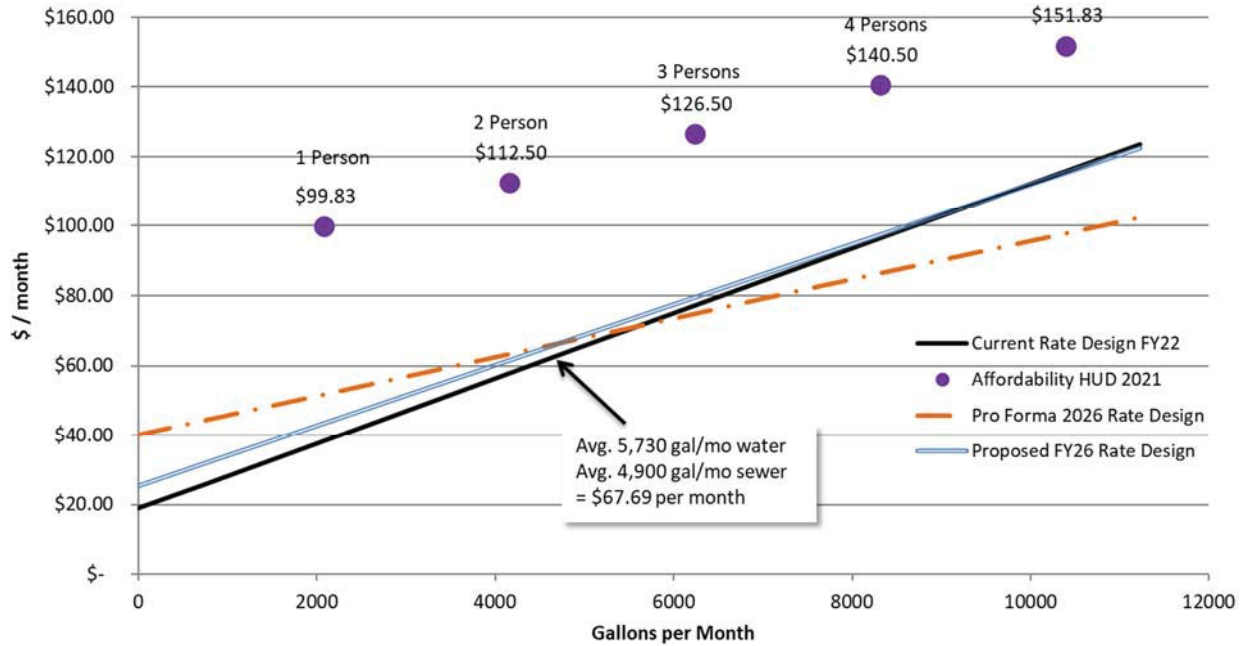
Fiscal Year	2022 Ex Rate	2023 PF	2024 PF	2025 PF	2026 PF
Sewer Residential Min. Monthly Charge	\$10.22	<b>\$10.22</b>	\$10.72	\$11.72	\$12.72
Sewer Commodity Charge (\$/kgal)	\$5.67	<b>\$5.67</b>	\$5.50	\$5.25	\$5.00
Over/Under Recovery		122.2%	116.9%	111.8%	106.9%
Avg Sewer Bill @ 4,900 gal/month		\$38.00	\$37.67	\$37.45	\$37.22
Water Residential Min. Monthly Charge	\$8.72	<b>\$9.72</b>	\$10.72	\$11.72	\$12.72
Water Commodity Charge (\$/kgal)	\$3.66	<b>\$3.66</b>	\$3.66	\$3.66	\$3.66
Over/Under Recovery		102.1%	100.7%	100.3%	99.9%
Avg Water Bill @ 5,730 gal/month		\$30.69	\$31.69	\$32.69	\$33.69
<b>Avg Combined Water/Sewer Bill</b>	<b>\$67.69</b>	<b>\$68.69</b>	<b>\$69.36</b>	<b>\$70.14</b>	<b>\$70.91</b>
% Increase		<b>1.48%</b>	<b>0.97%</b>	<b>1.12%</b>	<b>1.10%</b>
Combined Recovery		114.8%	111.0%	107.6%	104.4%

Current rate curves for water and sewer, as illustrated in Charts 5 and 6, show that 9,575 gallons of water per month are required to be sold to residential customers before full cost-of-service recovery; however, for sewer only 3,240 gallons of sewer are required to achieve full cost-recovery. Given the averages of 5,730 gallons per month of water consumed by residential customers and 4,900 gallons per month of sewer, one can see why the sewer fund is over-recovering and water fund is under-recovering.

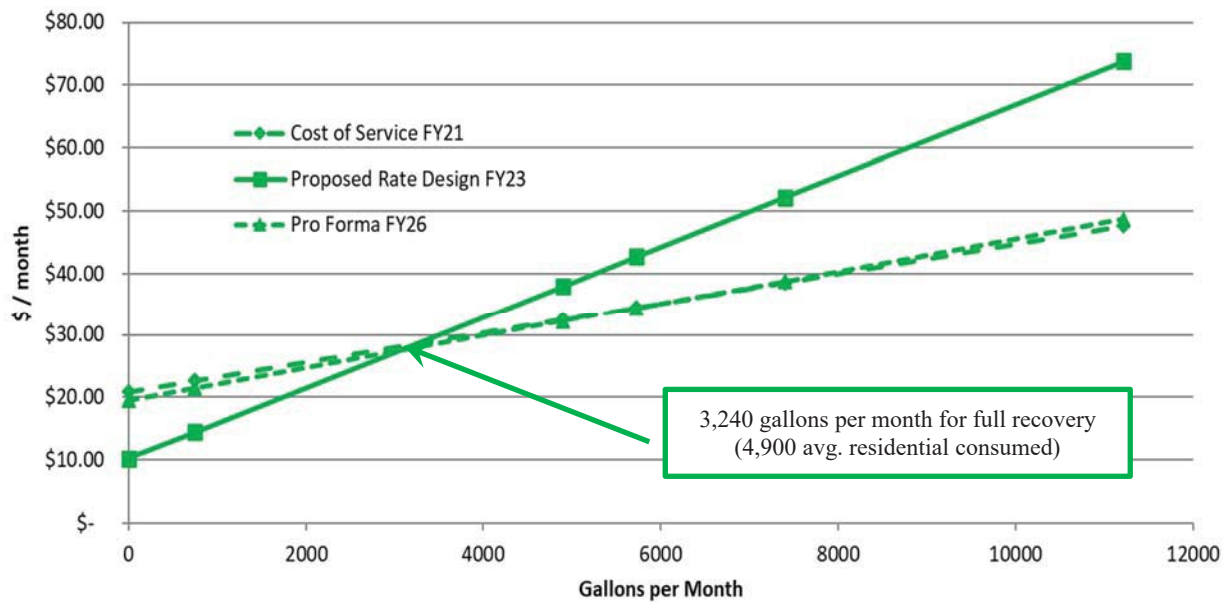
**Chart 5: Monthly Water Residential Cost Curve, FY21 COSS, FY23 Rate Design, and FY26 PF**



**Chart 6: Monthly Sewer Residential Cost Curve, FY21 COSS, FY23 Rate Design, and FY26 PF**



**Chart 7: Rate Design Curves – Existing, Proposed, and COSS and Pro Forma**



Given the above referenced averages, the combined monthly water and sewer bill is \$67.69. This falls between a 2- and 3-person family household and is well under the affordability indexes illustrated in Chart 6 above (purple dots). The rate design tabulated in Table 5, when plotted against the combined recovery curves in Chart 7 above demonstrates how the minimum fee is raised and the commodity fee slope is reduced.

Chart 7 also demonstrates that MWRD’s current rate design meets the affordability index for 1-person through 5-person homes. The good news is that the pro forma for FY26 also meets the current 2021 HUD affordability indexes. Note however that the cost of service for FY21 and pro forma for FY26 do show the need to increase the minimum monthly fees rather substantially and flatten out the commodity charges.

The affordability limits above represent 4% of a very low-income earner (50% of median income) in Murfreesboro. The table below illustrates 2021 HUD housing limits. Median family income of 4 is established at \$84,300 per year, so 50% of median for a family of four is established as \$42,150 per year.

**Table 7: HUD Very Low Income (50% Median) for 1-5 person households**

	<b>1 person</b>	<b>2 persons</b>	<b>3 persons</b>	<b>4 persons</b>	<b>5 persons</b>
50% Median Family Income	\$29,950	\$33,750	\$37,950	\$42,150	\$45,550
4% annual	\$1,198	\$1,350	\$1,518	\$1,686	\$1,822
4% monthly	\$99.83	\$112.50	\$126.50	\$140.50	\$151.83

Staff is not recommending any changes to the system development charges (a.k.a., connection fees) for residential or nonresidential uses.

The FY23 total operating expenses, including benefits and payroll, increased \$2,559,385 or 9.8% over the FY22 budgeted amount. Total expenses including transfer to reserves increased 1.2% (see table below).

**Table 8: Expense Categories % Change FY23 vs FY22**

<b>EXPENSE Category</b>	<b>% Change from FY22 budget</b>
<b>WATER, OPERATING &amp; MAINTENANCE</b>	8.0%
<b>SEWER, OPERATING &amp; MAINTENANCE</b>	11.7%
<b>CUSTOMER BILLING &amp; COLLECTION</b>	11.7%
<b>ADM &amp; GENERAL EXPENSES</b>	8.6%
<b>TOTAL OPERATING EXPENDITURES</b>	9.8%
<b>CAPITAL EXPENDITURES</b>	-24.4%
<b>DEBT SERVICE</b>	0.4%
<b>TRANSFERS TO RESERVES</b>	7.5%
<b>TOTAL EXPENDITURES/RESERVES</b>	1.2%

The FY23 budget staffing summary is as follows:

- Summary – Addition of 1 full-time equivalent and two promotions involving reassignment and reclassifications of job titles. The total net increase anticipated with the new personnel and promotion/reclassifications is \$75,000. If these positions are approved, the Water Resources Department will increase its current personnel total to 171 full time and 7 part time positions.
- Operations and Maintenance –
  - One new full-time CCTV technician
  - Reclassifying an Equipment Operator position to Heavy Equipment Operator and an accompanying promotion
  - Addition of one new full-time Foreman; being filled by a reassignment and promotion of an existing GIS Mapping Technician in Engineering.
- Engineering – A removal of an existing GIS Mapping Technician that is requested for reassignment and promoted to a Foreman at Operations and Maintenance.
- Administration – A removal of the Effective Utility Management (EUM) Coordinator position.

The total budgeted costs associated with salaries for FY23 is \$9,350,300. This salary budget represents a 6.9% increase from FY22. In March of 2022, a 7% Cost of Living Adjustment (COLA) was afforded all personnel across the organization by City Council to counter rising inflation costs. A 2.5% increase in salaries is programmed for July 1, 2022, in addition to the aforementioned COLA already provided to staff.

The rate funded capital budget is \$8,455,900, which is a decrease of \$2,730,155 from the FY22 budget. This amount is offset through an increase in the Department's expected operating expenditures in FY23, \$2,559,385. MWRD's goal is a minimum of \$5 million per year for routine rate-funded capital purchases (i.e., vehicles, equipment and repair/replacement projects). FY23's increase in rate funded capital expenditures will equate into staff having to request lesser funds being used from the Department's working capital reserve account.

**MURFREESBORO WATER RESOURCES DEPARTMENT**

**Statement of Net Position**

**June 30, 2022**

**ASSETS**

Current Assets -

Cash	\$ 146,154,786
Accounts receivable - net	2,035,756
Other receivables	730,663
Grants receivable - net	9,389
Due from other funds	392,248
Material and supply inventories	1,497,449
Prepaid and other assets	519,951

TOTAL CURRENT ASSETS \$ 151,340,242

Noncurrent Assets -

Restricted cash	\$ 65,450
Net pension asset	3,423,532
	<u>\$ 3,488,982</u>

Capital assets -

Land and construction in progress	\$ 21,387,891
Other capital assets, net of depreciation	410,945,949
	<u>\$ 432,333,840</u>

TOTAL NONCURRENT ASSETS \$ 435,822,822

TOTAL ASSETS \$ 587,163,064

**DEFERRED OUTFLOWS OF RESOURCES**

Deferred outflows on refunding	\$ 193,548
Deferred outflows of resources related to pensions	1,185,286
Deferred outflows of resources related to OPEB	6,597,191

TOTAL DEFERRED OUTFLOWS OF RESOURCES \$ 7,976,025

TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES \$ 595,139,089

**LIABILITIES**

Current Liabilities -

Accounts payable	\$ 2,212,119
Accrued and withheld liabilities	766,371
Due to other funds	572,968
Developer deposits	1,673,621
Compensated absences - current	412,710
Current maturities of long-term debt	7,683,664

TOTAL CURRENT LIABILITIES \$ 13,321,453

Noncurrent Liabilities -

Compensated absences	\$ 1,961,963
Total OPEB liability	47,573,008
Bonds payable	23,008,696
Notes from direct borrowings and direct placements	42,682,837
Less: current maturities of long-term debt	(7,683,664)

TOTAL NONCURRENT LIABILITIES \$ 107,542,840

TOTAL LIABILITIES \$ 120,864,293

**DEFERRED INFLOWS OF RESOURCES**

Deferred inflows of resources related to pensions	\$ 4,680,296
Deferred inflows of resources related to OPEB	20,925,995

TOTAL DEFERRED INFLOWS OF RESOURCES \$ 25,606,291

**NET POSITION**

Net investment in capital assets	\$ 366,835,855
Restricted for net pension asset	3,423,532
Restricted for employee benefits	28,432
Restricted for matured bonds	37,018
Unrestricted	78,343,668

TOTAL NET POSITION \$ 448,668,505

TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION \$ 595,139,089

**MURFREESBORO WATER RESOURCES DEPARTMENT**

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

**Year Ended June 30, 2022**

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Operating Revenues	\$ <u>49,823,561</u>
Operating Expenses -	
Administrative and general	\$ 10,007,224
Water	8,338,166
Sewer	8,079,836
Repurified	228,442
Depreciation	16,135,424
Total operating expenses	\$ <u>42,789,092</u>
Operating Income	\$ <u>7,034,469</u>
Non-operating Revenues (Expenses) -	
Interest revenue	\$ 228,491
Grant revenue	287,823
Loss on disposal of utility plant assets	(7,948)
Bond costs	(816)
Interest expense	(942,321)
Total non-operating revenues (expenses)	\$ <u>(434,771)</u>
Increase in net position, before capital contributions	\$ <u>6,599,698</u>
Capital contributions -	
Tap fees and special assessments	\$ 8,904,025
Developer contributions of systems	8,655,394
Total capital contributions	\$ <u>17,559,419</u>
Increase in net position	\$ <u>24,159,117</u>
Net Position at beginning of year, as previously reported	\$ 460,234,189
Prior period adjustment	(35,724,801)
Net Position at beginning of year, as restated	\$ <u>424,509,388</u>
Net Position at end of year	\$ <u><u>448,668,505</u></u>

See notes to financial statements.

**MURFREESBORO WATER RESOURCES DEPARTMENT**

**Statement of Cash Flows**

**Year Ended June 30, 2022**

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Cash Flows from Operating Activities -	
Receipts from customers	\$ 49,462,790
Reimbursements from the Murfreesboro Stormwater Fund	350,956
Payments to suppliers	(10,856,939)
Payments to employees	(13,078,126)
Transfer of stormwater fees to the Murfreesboro Stormwater Fund	(590,730)
Net Cash Provided by Operating Activities	<u>\$ 25,287,951</u>
Cash Flows From Noncapital Financing Activities -	
Proceeds from grant	\$ 285,272
Net Cash Provided by Noncapital Financing Activities	<u>\$ 285,272</u>
Cash Flows from Capital and Related Financing Activities -	
Principal paid on bonds and notes	\$ (7,346,620)
Interest paid on bonds and notes	(1,646,419)
Proceeds from tap fees and special assessments	8,904,025
Proceeds from sale of capital assets	14,336
Bond costs and debt service expenses	(816)
Acquisition and construction of capital assets	(7,132,768)
Net Cash Used by Capital and Related Financing Activities	<u>\$ (7,208,262)</u>
Cash Flows From Investing Activities -	
Interest revenue	\$ 228,491
Net Cash Provided by Investing Activities	<u>\$ 228,491</u>
Net increase in cash	\$ 18,593,452
Cash at beginning of year	127,626,784
Cash at end of year	<u>\$ 146,220,236</u>
Reconciliation to Cash Presented in Statement of Net Position -	
Cash	\$ 146,154,786
Cash - Restricted	65,450
	<u>\$ 146,220,236</u>

(continued)



**MURFREESBORO WATER RESOURCES DEPARTMENT**

**Statement of Cash Flows (continued)**

**Year Ended June 30, 2022**

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Reconciliation of Operating Income to Net Cash	
Provided by Operating Activities:	
Operating income	\$ 7,034,469
Adjustments to reconcile operating income to net cash provided by operating activities -	
Depreciation	16,135,424
Provision for doubtful accounts	140,000
Construction in progress expensed in current year	2,204,471
Changes in assets and liabilities -	
(Increase) decrease in accounts receivable	(441,293)
(Increase) decrease in other receivable	(665,116)
(Increase) decrease in due from other funds	(392,248)
(Increase) decrease in material and supplies inventory	(361,518)
(Increase) decrease in prepaid and other assets	14,484
(Increase) decrease in net pension asset	(3,423,532)
(Increase) decrease in deferred outflows of resources related to pensions	1,776,329
(Increase) decrease in deferred outflows of resources related to OPEB	(6,597,191)
Increase (decrease) in accounts payable	192,325
Increase (decrease) in accrued and withheld liabilities	99,803
Increase (decrease) in due to other funds	(164,496)
Increase (decrease) in developer deposits	605,638
Increase (decrease) in compensated absences	332,124
Increase (decrease) in net pension liability	(2,911,318)
Increase (decrease) in total OPEB liability	(9,822,928)
Increase (decrease) in deferred inflows of resources related to pensions	2,880,994
Increase (decrease) in deferred inflows of resources related to OPEB	18,651,530
Net Cash Provided by Operating Activities	\$ <u><u>25,287,951</u></u>
Non-Cash Capital and Related Financing Activities -	
Developer contributions of systems	\$ 8,655,394
Construction in progress included in accounts payable	1,429,662
	\$ <u><u>10,085,056</u></u>

See notes to financial statements.

## MURFREESBORO WATER RESOURCES DEPARTMENT

### Notes to Financial Statements

June 30, 2022

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#### **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, deferred outflows of resources, liabilities, deferred inflows of resources, 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 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, 2022 the Department has estimated the allowance to be \$188,743.

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.

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.

**MURFREESBORO WATER RESOURCES DEPARTMENT**

**Notes to Financial Statements (continued)**

**June 30, 2022**

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

Utility Plant (continued) - 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.

Interest cost incurred and expensed during the year ended June 30, 2022 was \$942,321.

Pensions - For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the 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 outflows 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 and related to other post-employment benefits (OPEB). 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 and deferred outflows related to OPEB are discussed in detail in Note N.

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 two types of items for reporting in this category. The Department reports deferred inflows relating to pensions and OPEB. Deferred inflows related to pension plans are discussed in detail in Note G. Deferred inflows related to OPEB are discussed in detail in Note N.

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 and Other Long-Term Obligations - 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.

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 a long-term obligation in the Department's financial statements. The current portion of this long-term obligation 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.

**MURFREESBORO WATER RESOURCES DEPARTMENT**

**Notes to Financial Statements (continued)**

**June 30, 2022**

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

Implementation of GASB Statement No. 87 - During the fiscal year ended June 30, 2022, the Department implemented GASB Statement No. 87, *Leases*. The Statement establishes a single model for lease accounting based on the foundational principal that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The new Statement did not have a material effect on the Department's financial statements.

Implementation of GASB Statement No. 89 - During the fiscal year ended June 30, 2022, the Department implemented GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The Statement establishes accounting requirements for interest costs incurred before the end of a construction period. The new Statement did not have a material effect on the Department's financial statements.

**Note B - UTILITY PLANT**

Components of utility plant at June 30, 2022 are summarized as follows:

	<u>Balance</u> <u>June 30, 2021</u>	<u>Increases</u>	<u>Adjustments</u> <u>Decreases</u>	<u>Balance</u> <u>June 30, 2022</u>
Utility plant not being depreciated -				
Land and land rights	\$ 13,908,888			\$ 13,908,888
Construction in progress	8,246,232	\$ 15,256,871	\$ (16,024,100)	7,479,003
Subtotal	<u>\$ 22,155,120</u>	<u>\$ 15,256,871</u>	<u>\$ (16,024,100)</u>	<u>\$ 21,387,891</u>
Utility plant being depreciated -				
Structures and improvements	\$ 124,612,168	\$ 426,880		\$ 125,039,048
Transmission and distribution mains	424,905,733	12,879,923	\$ (16,164)	437,769,492
Equipment	95,896,866	2,103,847	(465,068)	97,535,645
Subtotal	<u>\$ 645,414,767</u>	<u>\$ 15,410,650</u>	<u>\$ (481,232)</u>	<u>\$ 660,344,185</u>
Less accumulated depreciation for -				
Structures and improvements	\$ (51,055,093)	\$ (2,911,770)		\$ (53,966,863)
Transmission and distribution mains	(132,172,575)	(8,809,055)	\$ 8,545	(140,973,085)
Equipment	(50,494,094)	(4,414,599)	450,405	(54,458,288)
Subtotal	<u>\$ (233,721,762)</u>	<u>\$ (16,135,424)</u>	<u>\$ 458,950</u>	<u>\$ (249,398,236)</u>
Utility plant, being depreciated, net	<u>\$ 411,693,005</u>	<u>\$ (724,774)</u>	<u>\$ (22,282)</u>	<u>\$ 410,945,949</u>
Utility plant, net	<u>\$ 433,848,125</u>	<u>\$ 14,532,097</u>	<u>\$ (16,046,382)</u>	<u>\$ 432,333,840</u>

**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, 2022, the Department had the following restricted cash:

Restricted for employee benefits	\$ 28,432
Cash held by fiscal agent for matured bonds	37,018
	<u>\$ 65,450</u>

**MURFREESBORO WATER RESOURCES DEPARTMENT**

**Notes to Financial Statements (continued)**

**June 30, 2022**

**Note D - DESIGNATED CASH AND UNRESTRICTED NET POSITION**

The Department has designated certain funds for planning purposes. Designated cash and net position consists of the following as of June 30, 2022:

Water and sewer connection fees	\$	24,869,133
Reserve sinking fund		549,984
Interest income reserve		3,493,284
Future debt reserve		4,450,000
Repair and replacement sinking fund		8,242,424
	\$	<u>41,604,825</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.

Unrestricted net position at June 30, 2022 consists of the following:

Designated net position	\$	41,604,825
Undesignated net position		36,738,843
Total unrestricted net position	\$	<u>78,343,668</u>

**Note E - DEPOSITS AND INVESTMENTS**

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, 2022, the carrying amount of the Department's deposits and bank balances were as follows:

	<u>Book Balance</u>	<u>Bank Balance</u>
Unrestricted deposits	\$ 146,152,793	\$ 147,157,713
Restricted deposits	65,450	65,450
Cash on hand	1,993	
	<u>\$ 146,220,236</u>	<u>\$ 147,223,163</u>

**MURFREESBORO WATER RESOURCES DEPARTMENT**

**Notes to Financial Statements (continued)**

**June 30, 2022**

**Note E - DEPOSITS AND INVESTMENTS (continued)**

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, 2022.

**Note F - LONG-TERM OBLIGATIONS**

The long-term debt consists of the following as of June 30, 2022:

Matured bonds payable - 1959	\$	1,000
Matured bonds payable - 1972		15,000
Matured bonds payable - 1975		20,000
Revenue and tax refunding bonds		21,050,000
Total bonds	\$	<u>21,086,000</u>
 State revolving loans	\$	<u>42,682,837</u>
Notes from direct borrowings and direct placements	\$	<u>42,682,837</u>
Total long-term debt	\$	<u><u>63,768,837</u></u>

State Revolving Loans - The Department has five revolving loan agreements with the State of Tennessee for various capital projects. The state revolving loans are collateralized by revenues of the system and the City's state shared taxes. The total outstanding balance of the revolving loans at June 30, 2022 is \$42,682,837. These loans bear interest at annual interest rates ranging from .93% to 1.30%. Interest is due and payable on a monthly basis.

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>
2023	\$ 2,732,664	\$ 479,604	\$ 3,212,268
2024	2,764,104	448,164	3,212,268
2025	2,795,892	416,376	3,212,268
2026	2,828,076	384,192	3,212,268
2027	2,860,608	351,660	3,212,268
2028 - 2032	14,804,904	1,256,436	16,061,340
2033 - 2037	13,337,257	400,669	13,737,926
2038	559,332	1,517	560,849
	<u>\$ 42,682,837</u>	<u>\$ 3,738,618</u>	<u>\$ 46,421,455</u>

**MURFREESBORO WATER RESOURCES DEPARTMENT**

**Notes to Financial Statements (continued)**

**June 30, 2022**

**Note F - LONG-TERM OBLIGATIONS (continued)**

**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; and (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 5.00%. 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 matured in the fiscal year ended 2019.

**General Obligation Refunding Bonds** - On June 25, 2020, the Department issued \$15,890,000 in General Obligation Refunding Bonds, Series 2020B at a premium of \$2,980,137 to refund \$18,772,000 in Tennessee Municipal Bond Fund Loan, Series 2006. The new bonds have a coupon rate of 5.00% with a true interest cost of .50% with premium received. These general obligation bonds have maturity dates ranging from 2021 through 2027.

Annual principal maturities related to the Department's revenue and tax refunding bonds are as follows:

Year Ended <u>June 30,</u>	<u>2016 Refunding</u>	<u>Series 2020B</u>	<u>Total</u>
<b>Principal</b>			
2023	\$ 2,830,000	\$ 2,085,000	\$ 4,915,000
2024	2,960,000	2,240,000	5,200,000
2025	1,565,000	2,410,000	3,975,000
2026	1,600,000	2,585,000	4,185,000
2027		2,775,000	2,775,000
	<u>\$ 8,955,000</u>	<u>\$ 12,095,000</u>	<u>\$ 21,050,000</u>

Annual interest payments related to the Department's revenue and tax refunding bonds are as follows:

Year Ended <u>June 30,</u>	<u>2016 Refunding</u>	<u>Series 2020B</u>	<u>Total</u>
<b>Interest</b>			
2023	\$ 264,000	\$ 604,750	\$ 868,750
2024	122,500	500,500	623,000
2025	63,300	388,500	451,800
2026	32,000	268,000	300,000
2027		138,750	138,750
	<u>\$ 481,800</u>	<u>\$ 1,900,500</u>	<u>\$ 2,382,300</u>

**MURFREESBORO WATER RESOURCES DEPARTMENT**

**Notes to Financial Statements (continued)**

**June 30, 2022**

**Note F - LONG-TERM OBLIGATIONS (continued)**

Long-term debt activity for the year ended June 30, 2022, was as follows:

	<u>Balance</u> <u>June 30, 2021</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2022</u>	<u>Due Within</u> <u>One Year</u>
Bonds -					
Matured bonds payable	\$ 36,000			\$ 36,000	\$ 36,000
Revenue and tax refunding bonds	25,695,000		\$ 4,645,000	21,050,000	4,915,000
Add: premium on refunding	2,767,868		845,172	1,922,696	
Total bonds	<u>\$ 28,498,868</u>		<u>\$ 5,490,172</u>	<u>\$ 23,008,696</u>	<u>\$ 4,951,000</u>
Notes from Direct Borrowings and Direct Placements -					
State revolving loans	\$ 45,384,457		\$ 2,701,620	\$ 42,682,837	\$ 2,732,664
Total notes from direct borrowings and direct placements	<u>\$ 45,384,457</u>		<u>\$ 2,701,620</u>	<u>\$ 42,682,837</u>	<u>\$ 2,732,664</u>
Total debt	<u>\$ 73,883,325</u>		<u>\$ 8,191,792</u>	<u>\$ 65,691,533</u>	<u>\$ 7,683,664</u>

Other long-term obligations activity for the year ended June 30, 2022, was as follows:

	<u>Balance</u> <u>June 30, 2021</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2022</u>	<u>Due Within</u> <u>One Year</u>
Compensated absences	\$ 2,042,549	\$ 992,895	\$ 660,771	\$ 2,374,673	\$ 412,710
Total OPEB liability	<u>57,395,936</u>	<u>12,512,852</u>	<u>22,335,780</u>	<u>47,573,008</u>	
	<u>\$ 59,438,485</u>	<u>\$ 13,505,747</u>	<u>\$ 22,996,551</u>	<u>\$ 49,947,681</u>	<u>\$ 412,710</u>

**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, and the Evergreen Cemetery Commission. 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 trustee 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:

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

The June 30, 2022 City of Murfreesboro comprehensive audited financial statements, including the Pension Plan, will be posted to the City's website at [www.murfreesborotn.gov](http://www.murfreesborotn.gov), once it is available.



**MURFREESBORO WATER RESOURCES DEPARTMENT**

**Notes to Financial Statements (continued)**

**June 30, 2022**

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**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.

Each employee shall be classified as a general employee or as a firefighter or police officer.

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 last 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 65<sup>th</sup> birthday or the participant's attainment of age 55 and completion of 30 years of service. The normal retirement date for firefighters and police officers is the participant's 55th birthday and 5 years of participation.

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 computation 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 7.50% 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, 2021 the actuarial valuation date, was 18.16%. The contribution rate for the fiscal year ended June 30, 2022 was 18.73%.

**MURFREESBORO WATER RESOURCES DEPARTMENT**

**Notes to Financial Statements (continued)**

**June 30, 2022**

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

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

Pension Liability - At June 30, 2022, the Department reported an asset of \$3,423,532 for its proportionate share of the City's net pension liability. The net pension asset was measured as of June 30, 2021, 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 asset 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, 2021, the Department's proportion relative to the Murfreesboro Stormwater Fund was 94.79 percent. The proportion measured as of June 30, 2020 was 94.86 percent.

Pension Expense - For the year ended June 30, 2022, the Department recognized pension expense of \$792,513.

Deferred Outflows of Resources and Deferred Inflows of Resources - For the year ended June 30, 2022, the Department reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 75,269	\$ 2,197,995
Net difference between projected and actual earnings on pension plan investments		2,482,301
Changes in assumptions	226,407	
Contributions subsequent to the measurement date of June 30, 2021	883,610	
Total	<u>\$ 1,185,286</u>	<u>\$ 4,680,296</u>

The Department's employer contributions of \$883,610, reported as pension related deferred outflows of resources subsequent to the measurement date, will be recognized as a reduction of net pension liability (asset) in the following measurement period.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30:</u>	
2023	\$ (1,202,856)
2024	(1,130,104)
2025	(1,090,714)
2026	(954,946)
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, 2021 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	7.00%
Cost-of-Living Adjustment	None
Mortality	RP 2014 Combined Mortality Table with the current generational mortality improvement Scale MP as of the valuation date (MP-2020)

**MURFREESBORO WATER RESOURCES DEPARTMENT**

**Notes to Financial Statements (continued)**

**June 30, 2022**

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

Actuarial Assumptions (continued) - The City selected the assumptions and funding methods described above based on a review of plan experience in conjunction with the July 1, 2018 actuarial valuation report. The actuary annually reviews the assumptions and methods for reasonableness.

Investment Rate of Return - The investment rate of return is 7.00% per annum, compounded annually. The long-term expected rate of return of 7.00% on pension plan investments was determined using a mix of forward-looking capital market assumptions and historical return.

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	7.04%	12%
US Large Cap Equity	6.65%	18%
International Equity	7.14%	6%
Emerging Markets Equity	7.81%	6%
Private Equity	9.65%	0%
Cash Equivalent	1.90%	1%
Core US Bonds	3.23%	30%
High Yield Bonds	4.98%	4%
Natural Resources	3.96%	6%
Global Real Estate	6.21%	17%
Private Real Estate	6.21%	0%
		<u>100%</u>

Discount rate - The discount rate used is 7.00% 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 7.00 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 (6.00 percent) or 1-percentage-point higher (8.00 percent) than the current rate:

	<u>1% Decrease (6.00%)</u>	<u>Current Discount Rate (7.00%)</u>	<u>1% Increase (8.00%)</u>
Murfreesboro Water Resources Department's proportionate share of the net pension liability (asset) \$	(312,131)	(3,423,532)	(6,079,849)

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.

The Department reported no outstanding contributions to the Pension Plan required at the year ended June 30, 2022.

**MURFREESBORO WATER RESOURCES DEPARTMENT**

**Notes to Financial Statements (continued)**

**June 30, 2022**

**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, 2022, arising from these transactions were as follows:

	<u>Due From</u>	<u>Due To</u>
Water Resources Department -		
General fund		\$ 572,348
Insurance fund		620
Stormwater fund	\$ 392,248	
Total	<u>\$ 392,248</u>	<u>\$ 572,968</u>

**Note I - DEFINED CONTRIBUTION PLAN**

Effective July 1, 2010, a defined contribution plan was implemented by the City, which is administered by ICMA-RC. 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, 2022 totaled \$162,051. During the fiscal year ended June 30, 2022, employees made \$291,690 in contributions to the plan. For the year ended June 30, 2022, forfeited balances of terminated participant's nonvested accounts were used to reduce the Department's contributions in the amount of \$49,457.

**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 year ended June 30, 2022 totaled \$8,655,394.

**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. This income totaled \$518,312 for the year ended June 30, 2022.

**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.

**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 were self-insured through June 30, 2019. As of July 1, 2019, commercial insurance coverage was purchased with various deductibles to mitigate the City's risk of loss. The Department pays an annual premium to the Risk Management Fund. The risk of loss is transferred to the Risk Management Fund.

**MURFREESBORO WATER RESOURCES DEPARTMENT**

**Notes to Financial Statements (continued)**

**June 30, 2022**

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

**General Information about the OPEB Plan**

Plan Description - Each year, as part of the annual 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 for life.

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, 2022 and was determined by an actuarial valuation as of July 1, 2022. At June 30, 2022, the Department reported a liability of \$47,573,008 for its proportionate share of the total OPEB liability. The total OPEB liability was measured as of June 30, 2022. 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, 2022, the Department's proportion relative to the Murfreesboro Stormwater Fund was 97.4%. The proportion measured as of June 30, 2021 was 95.2%

OPEB Expense - For the year ended June 30, 2022, the Department recognized OPEB expense of \$3,134,313.

Deferred Outflows of Resources and Deferred Inflows of Resources - For the year ended June 30, 2022, the Department reported deferred outflows of resources and deferred inflows of resources related to the OPEB Plan from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 6,597,191	
Changes in assumptions		\$ 20,925,995
Total	<u>\$ 6,597,191</u>	<u>\$ 20,925,995</u>

Amounts reported as deferred outflows of resources deferred and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year Ended June 30:</u>	
2023	\$ (1,847,962)
2024	(1,847,962)
2025	(1,847,962)
2026	(1,847,962)
2027	(1,847,962)
Thereafter	(5,088,994)

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

**MURFREESBORO WATER RESOURCES DEPARTMENT**

**Notes to Financial Statements (continued)**

**June 30, 2022**

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

Actuarial Assumptions and methods - The total OPEB liability on the June 30, 2022, 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	4.09%
Salary increases	4.00%
Healthcare cost trend rate	
Medical	6.00% graded down to 5.50% over 2 years. Thereafter, trend is assumed to follow the Getzen model
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, 2022.

Mortality rates for the plan were based on the Mortality Table RP-2014 with improvement scale MP2021.

The actuarial assumptions used for the June 30, 2022 fiscal year end were based on plan data and costs presented by the City of Murfreesboro with concurrence by the actuary.

Additionally, during the performance of the June 30, 2022 actuarial valuation it was discovered that pharmacy costs provided for retirees under the plan had not been included in the prior valuations. This error was recorded as a prior period adjustment in the financial statements and has been disclosed in Note P.

Sensitivity of the Proportionate Share of total OPEB Liability to changes in the Discount Rate - The following represents the Department's proportionate share of the total OPEB liability (asset) of the City's total OPEB Plan calculated using the discount rate of 4.09 percent, as well as what the Department's proportionate share of the total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (3.09 percent) or 1-percentage-point higher (5.09 percent) than the current rate:

	<u>1% Decrease</u> <u>(3.09%)</u>	<u>Current</u> <u>Discount Rate</u> <u>(4.09%)</u>	<u>1% Increase</u> <u>(5.09%)</u>
Murfreesboro Water Resources Department's proportionate share of the total OPEB liability	\$ 56,968,423	\$ 47,573,008	\$ 40,190,716

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 (6.25% decreasing to 3%) or a rate of 1-percentage-point higher (8.25% decreasing to 5%), than the current healthcare cost trend rate:

	<u>1% Decrease</u> <u>5.0% decreasing</u> <u>to 4.5%</u>	<u>Current</u> <u>6.0% decreasing</u> <u>to 5.5%</u>	<u>1% Increase</u> <u>7.0% decreasing</u> <u>to 6.5%</u>
Murfreesboro Water Resources Department's proportionate share of the total OPEB liability	\$ 39,314,189	\$ 47,573,008	\$ 58,476,786

**MURFREESBORO WATER RESOURCES DEPARTMENT**

**Notes to Financial Statements (continued)**

**June 30, 2022**

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

Changes in assumptions - In 2022, the following assumptions were changed: the discount rate increased to 4.09% based on the S&P Municipal Bond 20 year high grade rate index as of June 30, 2022; the mortality improvement assumption was updated from improvement scale MP2019 to improvement scale MP2021; medical health care cost trend was updated to follow the Getzen model after a two year transition period starting at 6.00% and grading to 5.50%; Murfreesboro Electric Department retirees were added to the plan at the beginning of the fiscal year 2022.

Payable to the OPEB Plan – The Department reported no outstanding contributions to the OPEB Plan required at the year ended June 30, 2022.

**Note O - COMMITMENTS**

The Department has commitments for construction contracts at June 30, 2022 in the amount of \$20,636,123.

**Note P - PRIOR PERIOD ADJUSTMENT**

A prior period adjustment to the financial statements was required to restate the beginning OPEB liability for the Department's participation in the City's OPEB plan due to pharmacy costs not being included in the previous actuarial valuations in error. The effect on net position is as follows:

Restatement of OPEB liability	\$ <u>35,724,801</u>
Prior period adjustment - decrease in beginning net position	\$ <u><u>35,724,801</u></u>

**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)**

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	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Murfreesboro Water Resource Department's proportion of the net pension liability	17.83%	14.83%	14.49%	11.10%	4.62%	6.15%	6.65%	-26.63%
Murfreesboro Water Resource Department's proportionate share of the net pension liability (asset)	\$ 920,819	\$ 1,990,075	\$ 3,664,111	\$ 2,270,524	\$ 1,348,496	\$ 2,042,309	\$ 2,911,318	\$ (3,423,532)
Murfreesboro Water Resource Department's covered payroll	\$ 5,910,336	\$ 6,786,642	\$ 6,254,427	\$ 4,761,010	\$ 4,725,339	\$ 4,685,524	\$ 4,768,489	\$ 4,654,734
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%	28.54%	43.59%	61.05%	-73.55%
Plan fiduciary net position as a percentage of the total pension liability	95.93%	89.96%	82.25%	86.40%	82.60%	80.34%	76.25%	93.26%

(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>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
Actuarially determined contribution (ADC)	\$ 838,821	\$ 769,605	\$ 709,252	\$ 557,514	\$ 579,327	\$ 603,027	\$ 778,694	\$ 845,300	\$ 883,610
Contributions in relation to the actuarially determined contribution	<u>838,821</u>	<u>769,605</u>	<u>764,291</u>	<u>586,557</u>	<u>582,393</u>	<u>603,027</u>	<u>780,330</u>	<u>843,635</u>	<u>883,610</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (55,039)</u>	<u>\$ (29,043)</u>	<u>\$ (3,066)</u>	<u>\$ -</u>	<u>\$ (1,636)</u>	<u>\$ 1,665</u>	<u>\$ -</u>
Covered payroll	\$ 5,910,336	\$ 6,786,642	\$ 6,254,427	\$ 4,761,010	\$ 4,725,339	\$ 4,685,524	\$ 4,768,489	\$ 4,654,734	\$ 4,717,615
Contributions as a percentage of covered payroll	14.19%	11.34%	12.22%	12.32%	12.32%	12.87%	16.33%	18.16%	18.73%

**Notes to Schedule -**

Valuation date: July 1, 2021

Methods and assumptions used to determine contribution rates are:

Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed, not to exceed 40 years
Remaining amortization period	20 years
Asset valuation method	Five year smoothing method
Inflation	2.25%
Salary increases	4.00%
Investment rate of return	7.00%
Retirement age	Based on plan experience
Mortality	RP 2014 Combined Mortality Table with the current generational mortality improvement under Mortality Improvement Scale MP as of the valuation date (MP-2020)
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>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
Murfreesboro Water Resource Department's proportion of the total OPEB liability	15.64%	15.56%	13.88%	13.74%	14.22%
Murfreesboro Water Resource Department's proportionate share of the collective total OPEB liability	\$ 20,125,251	\$ 21,485,174	\$ 20,142,741	\$ 21,671,135	\$ 47,573,008
Murfreesboro Water Resource Department's covered payroll	\$ 6,538,371	\$ 6,799,906	\$ 8,176,642	\$ 8,411,882	\$ 8,323,403
Murfreesboro Water Resource Department's proportionate share of the total OPEB liability as a percentage of its covered-employee payroll	307.80%	315.96%	246.34%	257.63%	571.56%

**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.

Changes in assumptions during the measurement period included: the discount rate increased to 4.09% based on the S&P Municipal Bond 20 year high grade rate index as of June 30, 2022; the mortality improvement assumption was updated from improvement scale MP2019 to improvement scale MP2021; medical health care cost trend was updated to follow the Getzen model after a two year transition period starting at 6.00% and grading to 5.50%; Murfreesboro Electric Department retirees were added to the plan at the beginning of the fiscal year 2022.

There were no benefit changes during the measurement period that affected the Murfreesboro Water Resources Department.

(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, 2022**

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	<u>Combined</u>	<u>Water</u>	<u>Sewer</u>
Metered sales and charges to general customers	\$ 46,584,181	\$ 15,196,664	\$ 31,387,517
Tap fees - operations	518,312	215,719	302,593
Private fire protection service	119,828	119,828	
Forfeited discounts	870,644	870,644	
Other revenue	874,601	319,440	555,161
Extra surcharge	426,467	237,693	188,774
Returned check charges	6,330	6,330	
Cross connection fees	202,980	202,980	
Repurified water sales	39,857	39,857	
Miscellaneous income	297,718	82,815	214,903
Less: allowances and adjustments	<u>(117,357)</u>	<u>(19,924)</u>	<u>(97,433)</u>
	<u>\$ 49,823,561</u>	<u>\$ 17,272,046</u>	<u>\$ 32,551,515</u>

**MURFREESBORO WATER RESOURCES DEPARTMENT**

**Schedule of Operating Expenses**

**Year Ended June 30, 2022**

	<u>Administrative and General</u>	<u>Water</u>	<u>Sewer</u>	<u>Repurified</u>	<u>Total</u>
General administration	\$ 7,403,745				\$ 7,403,745
Treatment		\$ 3,919,674	\$ 2,720,015	\$ 1,361	6,641,050
Administration		782,654	1,123,744		1,906,398
Collections			1,892,580		1,892,580
Transmission and distribution		1,659,813			1,659,813
Billing and collections	1,212,207				1,212,207
Disposal			708,497	224,479	932,976
Pump stations			922,823		922,823
Meter field services		884,487			884,487
Engineering	865,952				865,952
Operations and maintenance administration	525,320				525,320
Taps		215,719	302,593		518,312
Field inspectors		371,753			371,753
Cross connection		300,426			300,426
Industrial surveillance			268,369		268,369
Source operations		153,457			153,457
Rehabilitation			128,475		128,475
Storage		50,183			50,183
House services			12,740		12,740
Distribution				2,602	2,602
	<u>\$ 10,007,224</u>	<u>\$ 8,338,166</u>	<u>\$ 8,079,836</u>	<u>\$ 228,442</u>	<u>\$ 26,653,668</u>
			Add: depreciation expense		<u>16,135,424</u>
			Total operating expenses		<u>\$ 42,789,092</u>

**MURFREESBORO WATER RESOURCES DEPARTMENT**

**Schedule of Debt Service Requirements by Fiscal Year**

**June 30, 2022**

Fiscal Year Ended June 30,	Issue	Interest Rate	Principal	Interest	Total Principal and Interest
<b>Bonds -</b>					
2023	2016 Tax and Revenue Refunding Bonds	2.00-5.00 %	\$ 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>\$ 8,955,000</u>	<u>\$ 481,800</u>	<u>\$ 9,436,800</u>
2023	General Obligation Refunding Bonds, Series 2020B	5.00 %	\$ 2,085,000	\$ 604,750	\$ 2,689,750
2024			2,240,000	500,500	2,740,500
2025			2,410,000	388,500	2,798,500
2026			2,585,000	268,000	2,853,000
2027			2,775,000	138,750	2,913,750
			<u>\$ 12,095,000</u>	<u>\$ 1,900,500</u>	<u>\$ 13,995,500</u>
Total Bonds			<u>\$ 21,050,000</u>	<u>\$ 2,382,300</u>	<u>\$ 23,432,300</u>
<b>Notes from Direct Borrowings and Direct Placements -</b>					
2023	State Revolving Loans - CW1 13-317	0.93 %	\$ 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>\$ 2,313,126</u>	<u>\$ 137,045</u>	<u>\$ 2,450,171</u>
2023			State Revolving Loans - CW0 12-303	0.93 %	\$ 357,144
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>\$ 5,180,606</u>	<u>\$ 338,268</u>	<u>\$ 5,518,874</u>		

(Continued)

**MURFREESBORO WATER RESOURCES DEPARTMENT**

**Schedule of Debt Service Requirements by Fiscal Year (continued)**

**June 30, 2022**

Fiscal Year Ended June 30,	Issue	Interest Rate	Principal	Interest	Total Principal and Interest
<b>Notes from Direct Borrowings and Direct Placements (continued) -</b>					
2023	State Revolving Loans - SRF 12-306	0.93 %	\$ 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>\$ 8,995,573</u>	<u>\$ 587,451</u>	<u>\$ 9,583,024</u>
2023	State Revolving Loans - CG2 14-338	1.30 %	\$ 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>\$ 2,812,168</u>	<u>\$ 255,509</u>	<u>\$ 3,067,677</u>
2023	State Revolving Loans - SRF 14-339	1.30 %	\$ 1,387,008	\$ 295,716	\$ 1,682,724
2024			1,405,152	277,572	1,682,724
2025			1,423,524	259,200	1,682,724
2026			1,442,148	240,576	1,682,724
2027			1,461,000	221,724	1,682,724
2028			1,480,104	202,620	1,682,724
2029			1,499,460	183,264	1,682,724
2030			1,519,080	163,644	1,682,724
2031			1,538,940	143,784	1,682,724
2032			1,559,064	123,660	1,682,724
2033			1,579,452	103,272	1,682,724
2034			1,600,116	82,608	1,682,724
2035			1,621,032	61,692	1,682,724
2036			1,642,236	40,488	1,682,724
2037			1,663,716	19,008	1,682,724
2038			559,332	1,517	560,849
			<u>\$ 23,381,364</u>	<u>\$ 2,420,345</u>	<u>\$ 25,801,709</u>
			<u>\$ 42,682,837</u>	<u>\$ 3,738,618</u>	<u>\$ 46,421,455</u>
			<u>\$ 63,732,837</u>	<u>\$ 6,120,918</u>	<u>\$ 69,853,755</u>
	Total Notes from Direct Borrowings and Direct Placements				
	Total Long-Term Debt				



**MURFREESBORO WATER RESOURCES DEPARTMENT**

**Schedule of Changes in Long-term Debt by Individual Issue**

**June 30, 2022**

<u>Description of Indebtedness</u>	<u>Original Amount of Issue</u>	<u>Interest Rate</u>	<u>Date of Issue</u>	<u>Last Maturity Date</u>	<u>Outstanding 7/1/2021</u>	<u>Issued During Period</u>	<u>Paid and/or Matured During Period</u>	<u>Outstanding 6/30/2022</u>
<b><u>BONDS PAYABLE</u></b>								
(1) Matured Bonds Payable, Series 1959		N/A	%		\$ 1,000			\$ 1,000
(1) Matured Bonds Payable, Series 1972		N/A			15,000			15,000
(1) Matured Bonds Payable, Series 1975		N/A			20,000			20,000
Tax and Revenue Refunding, Series 2016	\$ 17,015,000	2 to 5		6/15/2016	6/1/2026		\$ 2,705,000	8,955,000
General Obligation Refunding Bonds, Series 2020B	<u>15,890,000</u>	5.00		6/25/2020	6/30/2027		<u>1,940,000</u>	<u>12,095,000</u>
	<u>\$ 32,905,000</u>				<u>\$ 25,731,000</u>		<u>\$ 4,645,000</u>	<u>\$ 21,086,000</u>
<b><u>NOTES FROM DIRECT BORROWINGS AND DIRECT PLACEMENTS</u></b>								
(2) State Revolving Loan - CWI 13-317	\$ 4,000,000	0.93	%	12/1/2014	11/1/2034	\$ 2,488,062	\$ 174,936	\$ 2,313,126
(3) State Revolving Loan - CWO 12-303	9,793,184	0.93		3/1/2016	2/1/2036	5,534,450	353,844	5,180,606
State Revolving Loan - SRF 12-306	13,220,773	0.93		3/1/2016	2/1/2036	9,609,973	614,400	8,995,573
State Revolving Loan - CG2 14-338	4,000,000	1.30		1/1/2016	12/1/2035	3,001,504	189,336	2,812,168
State Revolving Loan - SRF 14-339	<u>29,739,040</u>	1.30		11/1/2017	10/1/2037	<u>24,750,468</u>	<u>1,369,104</u>	<u>23,381,364</u>
	<u>\$ 60,752,997</u>				<u>\$ 45,384,457</u>		<u>\$ 2,701,620</u>	<u>\$ 42,682,837</u>

(1) Original amount of issue, interest rate, date of issue and last maturity date was not located for matured bonds

(2) Original amount of issue includes \$400,000 which was forgiven.

(3) Original amount of issue includes \$2,418,916 which was forgiven.

## **ORGANIZATIONAL DATA**

**MURFREESBORO WATER RESOURCES DEPARTMENT**

**Schedule of Customers and Rate Structure**

**Year Ended June 30, 2022**

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As of June 30, 2022, Murfreesboro Water Resources Department serves approximately 27,374 water customers and 51,782 sewer customers of which 24,983 are in the Consolidated Utility District (“CUD”) water service area. The following rate structure was in place during the 2021/2022 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	8.72
1	20.71
1 1/2	43.77
2	69.05
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 before any late fees. A 10% fee is assessed on bills 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.

**INTERNAL CONTROL AND COMPLIANCE SECTION**



# JOB, HASTINGS & ASSOCIATES

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

Board of Directors  
Murfreesboro Water Resources Department  
Murfreesboro, Tennessee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Murfreesboro Water Resources Department, as of and for the year ended June 30, 2022 and the related notes to the financial statements, which comprise the Murfreesboro Water Resources Department's basic financial statements and have issued our report thereon dated January 27, 2023.

### **Report on 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) as a basis for designing 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.

### **Report on 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 financial statements. 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.

A handwritten signature in black ink that reads "Jobe, Hastings + Associates". The signature is written in a cursive, flowing style.

Certified Public Accountants

Murfreesboro, Tennessee  
January 27, 2023

**MURFREESBORO WATER RESOURCES DEPARTMENT**

**Schedule of Audit Findings and Responses**

**June 30, 2022**

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

1. The auditor's report expresses an unmodified opinion on the financial statements of the Murfreesboro Water Resources Department.
2. No significant deficiencies or material weaknesses relating to the audit of the financial statements are reported in the *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*.
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.

**B - FINDINGS - FINANCIAL STATEMENT AUDIT**

**CURRENT YEAR FINDINGS**

**None**

**MURFREESBORO WATER RESOURCES DEPARTMENT**

**Schedule of Prior Audit Findings**

**June 30, 2022**

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**FINDINGS - FINANCIAL STATEMENT AUDIT**

**No prior year audit findings.**