



WATER DIVISION OF THE CITY OF ST. LOUIS, MISSOURI
(An Enterprise Fund of the City of St. Louis, Missouri)

Basic Financial Statements and Other Information

June 30, 2015

(With Independent Auditors' Report Thereon)

WATER DIVISION OF THE CITY OF ST. LOUIS, MISSOURI
(An Enterprise Fund of the City of St. Louis, Missouri)

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KPMG LLP
Suite 900
10 South Broadway
St. Louis, MO 63102-1761

Independent Auditors' Report

The Honorable Mayor and
Board of Aldermen
City of St. Louis, Missouri:

Report on the Financial Statements

We have audited the accompanying financial statements of the Water Division of the City of St. Louis, Missouri, an enterprise fund of the City of St. Louis, Missouri, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Water Division of the City of St. Louis, Missouri's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Water Division of the City of St. Louis, Missouri, as of June 30, 2015, and the changes in financial position and its cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.



Emphasis of Matters

As discussed in note 1, the basic financial statements of the Water Division of the City of St. Louis, Missouri present only the financial position and the changes in financial position and, where applicable, cash flows of the Water Division of the City of St. Louis, Missouri, an enterprise fund of the City of St. Louis, Missouri, and do not purport to, and do not, present fairly the financial position of the City of St. Louis, Missouri as of June 30, 2015, the changes in its financial position, or, where applicable, its cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

As discussed in note 1(n), effective July 1, 2014, the Water Division of the City of St. Louis, Missouri implemented Government Accounting Standards Board (GASB) No. 68, *Accounting and Financial Reporting for Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the information in the Management’s Discussion and Analysis on pages 3 through 12 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Water Division of the City of St. Louis, Missouri’s basic financial statements. The other information included in Schedules 1 and 2 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The other information in Schedules 1 and 2 has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

KPMG LLP

St. Louis, Missouri
December 11, 2015

WATER DIVISION OF THE CITY OF ST. LOUIS, MISSOURI

(An Enterprise Fund of the City of St. Louis, Missouri)

Management's Discussion and Analysis – Unaudited

June 30, 2015

(Dollars in thousands)

This section presents Management's Discussion and Analysis (MD&A) of the financial condition and activities of the Water Division of the City of St. Louis, Missouri (Water Division) for the City of St. Louis, Missouri (the City) as of and for the fiscal year ended June 30, 2015. This information should be read in conjunction with the financial statements that follow this section. All dollar amounts are in thousands.

Overview and Financial Highlights

The Water Division is an enterprise fund of the City. As such, its revenues are dedicated to the completion of its mission to provide the finest quality water and customer service at reasonable prices to the residents, businesses, and industry within the City, as well as to its wholesale customers.

The retail water billing system is split between flat rate and metered customers. Most residential customers (79,162) are billed quarterly on a flat rate basis. This flat rate system comprises charges for water-using devices such as toilets, bathtubs, showers, the number of rooms in the building, and a charge for outside water use. All businesses, industries, and some residential customers are charged on the metered rate structure. This is a declining block rate structure composed of a quantity charge and a readiness-to-serve charge that is tied to the meter size. Metered users (12,809) are read and billed quarterly.

At fiscal year-end, the Water Division supplied wholesale water to other water districts/political subdivisions through four separate contracts: one in St. Louis county and three in St. Charles county.

- The Water Division pumped 43.6 billion gallons of treated water in fiscal year 2015. This represents a 3.3% decrease from fiscal year 2014.
- Usage by metered customers decreased by 48.5 million gallons or 0.4% during fiscal year 2015 and metered revenue decreased by about 7%.
- The number of flat rate customers in fiscal year 2015 decreased by 97, or 0.12%, however, flat rate revenue remained fairly consistent during fiscal year 2015.
- Wholesale water revenue decreased by \$23, or 1%, during fiscal year 2015.
- Other revenue decreased by \$309, or 9%, during fiscal year 2015.
- Operating expenses decreased by \$3,219, or 6%, during fiscal year 2015.
- Operating income increased by \$1,244, or 20%, during fiscal year 2015.
- The overall change in net position for fiscal year 2015 was \$4,870, an increase of \$1,196, or 33%, compared to fiscal year 2014.

Overview of the Financial Statements

The MD&A section of this audit report is an overview of the basic financial statements presented herein. Supplementary or reformatted information is presented to better describe the financial condition and performance of the water system. The Water Division's financial statements are prepared on an accrual basis in accordance with U.S. generally accepted accounting principles set forth by the Government Accounting Standards Board (GASB).

WATER DIVISION OF THE CITY OF ST. LOUIS, MISSOURI
(An Enterprise Fund of the City of St. Louis, Missouri)

Management's Discussion and Analysis – Unaudited

June 30, 2015

(Dollars in thousands)

The Water Division is an enterprise fund of the City. As such, the Water Division relies entirely on the funds it generates and which are dedicated to its operation.

Revenues are recognized when earned and expenses are recognized when incurred. Capitalized assets (excluding land) are depreciated over their useful lives. Through the City, the Water Division has authority to issue revenue bonds, secured by the revenues of the water system.

The basic financial statements include a balance sheet; a statement of revenues, expenses, and changes in fund net position; a statement of cash flows; notes to the basic financial statements; and certain other schedules. The balance sheet provides information regarding the type and amount of resources and obligations at year-end. The statement of revenues, expenses, and changes in fund net position reflects the results of operation of the water system during the year, as well as how net position changed over the year. The statement of cash flows presents changes in cash and cash equivalents that resulted from operating, financing, or investing activities.

The notes to the basic financial statements contain important information including required disclosures and other information essential for a complete understanding of the financial data presented in the various statements and schedules.

Net Position

This table is a summary of the Water Division's net positions as of June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>	<u>Dollar change</u>	<u>Percentage change</u>
Assets:				
Other assets	\$ 54,398	54,965	(567)	(1)%
Capital assets	150,081	148,670	1,411	1%
Deferred outflow of resources	<u>1,545</u>	<u>—</u>	<u>1,545</u>	<u>100%</u>
Total assets and deferred outflow of resources	<u>\$ 206,024</u>	<u>203,635</u>	<u>2,389</u>	<u>1%</u>
Liabilities:				
Long-term liabilities	\$ 17,939	8,485	9,454	111%
Other liabilities	13,869	18,867	(4,998)	(26)%
Deferred inflow of resources	<u>766</u>	<u>—</u>	<u>766</u>	<u>100%</u>
Total liabilities and deferred inflow of resources	<u>\$ 32,574</u>	<u>27,352</u>	<u>5,222</u>	<u>19%</u>
Net position:				
Net investment in capital assets	\$ 147,793	143,910	3,883	3%
Restricted for debt service	966	4,612	(3,646)	(79)%
Unrestricted	<u>24,691</u>	<u>27,761</u>	<u>(3,070)</u>	<u>(11)%</u>
Total net position	<u>\$ 173,450</u>	<u>176,283</u>	<u>(2,833)</u>	<u>(2)%</u>

WATER DIVISION OF THE CITY OF ST. LOUIS, MISSOURI

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June 30, 2015

(Dollars in thousands)

Other assets decreased by \$567, or 1%, while capital assets increased by \$1,411, or 1%, due to an increase in spending of ordinance funds and capital projects for system improvements.

The increase in long-term liabilities of \$9,454, or 111%, is primarily due to the Water Division's implementation of Governmental Accounting Standard Board (GASB) Statement No. 68 in fiscal year 2015. This resulted in a net pension liability of \$9,007. Deferred outflow and inflow of resources increased by \$1,545 and \$766, or 100%, respectively, also as a result of GASB Statement No. 68 implementation.

The preceding table shows that 85.2% of Water Division net position in fiscal year 2015 are invested in capital assets such as land, buildings, reservoirs, basins, transmission and distribution mains, and equipment, less the related debt outstanding used to acquire those capital assets. These capital assets are used to provide water service to all customers of the Water Division. These capital assets were either cash financed, contributed capital, or acquired through the issuance of revenue bonds.

Summary of Revenues, Expenses, and Changes in Fund Net Position

The Water Division's revenues, expenses, and changes in fund net position for the fiscal years ended June 30, 2015 and 2014 are summarized as follows:

	<u>2015</u>	<u>2014</u>	<u>Dollar change</u>	<u>Percentage change</u>
Operating revenues	\$ 53,842	55,817	(1,975)	(4)%
Operating expenses	(46,396)	(49,615)	3,219	(6)%
Operating income	7,446	6,202	1,244	20%
Nonoperating revenues, net	196	319	(123)	(39)%
Income before capital contributions and transfers	7,642	6,521	1,121	17%
Capital contributions	343	408	(65)	(16)%
Transfers out	(3,115)	(3,255)	140	(4)%
Increase in net position	4,870	3,674	1,196	33%
Net position, beginning of year	176,283	172,609	3,674	2%
Cumulative effect of change in accounting principle	(7,703)	—	(7,703)	(100)%
Net position, beginning of year, as adjusted	168,580	172,609	(4,029)	(2)%
Net position, end of year	<u>\$ 173,450</u>	<u>176,283</u>	<u>(2,833)</u>	<u>(2)%</u>

WATER DIVISION OF THE CITY OF ST. LOUIS, MISSOURI

(An Enterprise Fund of the City of St. Louis, Missouri)

Management's Discussion and Analysis – Unaudited

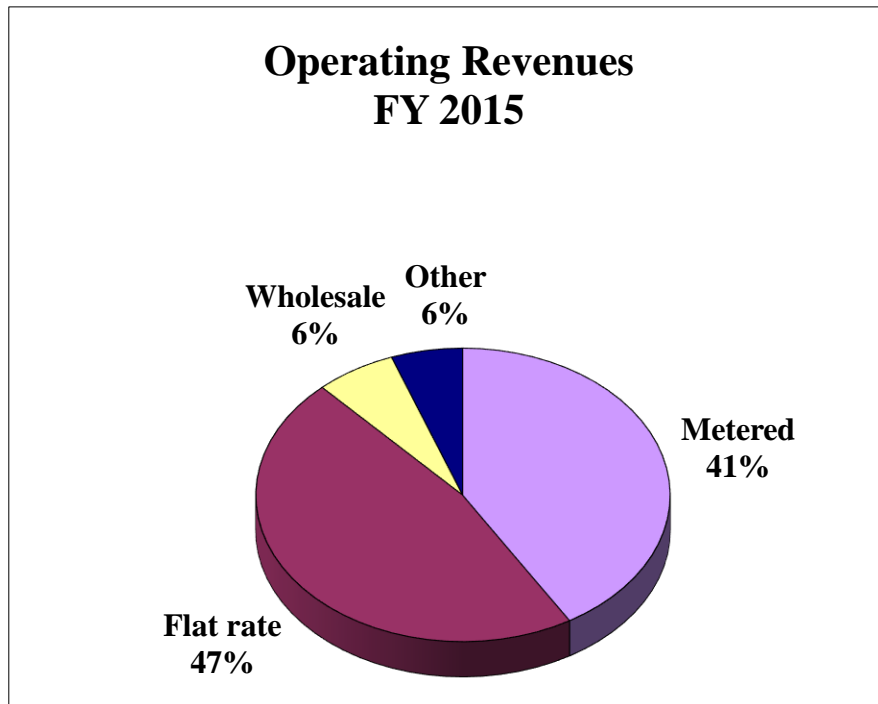
June 30, 2015

(Dollars in thousands)

The Water Division's change in net position increased by \$1,196, or 33%. However, a cumulative effect of change in accounting principle of \$7,703 from the implementation of GASB Statement No. 68 impacted net position for fiscal year 2015.

Revenues

The chart below depicts the four sources of operating revenue for the Water Division for fiscal year 2015 and each source's percentage contribution to total operating revenues:



WATER DIVISION OF THE CITY OF ST. LOUIS, MISSOURI

(An Enterprise Fund of the City of St. Louis, Missouri)

Management's Discussion and Analysis – Unaudited

June 30, 2015

(Dollars in thousands)

The table below summarizes the sources of total revenues (operating and nonoperating) for the Water Division for fiscal years 2015 and 2014. This comparison details the change in dollars and percent between the two fiscal years by component revenue source.

	<u>2015</u>	<u>2014</u>	<u>Dollar change</u>	<u>Percentage change</u>
Operating revenues:				
Metered	\$ 22,276	23,927	(1,651)	(7)%
Flat rate	25,159	25,151	8	—
Wholesale	3,395	3,418	(23)	(1)
Other	<u>3,012</u>	<u>3,321</u>	<u>(309)</u>	<u>(9)</u>
Total operating revenues	<u>53,842</u>	<u>55,817</u>	<u>(1,975)</u>	<u>(4)%</u>
Nonoperating revenues:				
Investment earnings	42	58	(16)	(28)%
Miscellaneous, net	<u>557</u>	<u>830</u>	<u>(273)</u>	<u>(33)</u>
Total nonoperating revenues	<u>599</u>	<u>888</u>	<u>(289)</u>	<u>(33)%</u>
Total revenues	<u>\$ 54,441</u>	<u>56,705</u>	<u>(2,264)</u>	<u>(4)%</u>
Capital contributions	\$ 343	408	(65)	(16)%

Metered water revenues declined by \$1,651, or 7%, while flat rate revenue remained relatively constant. Metered customers declined by 68 accounts or 0.53% and metered water consumption decreased by 0.4%.

Wholesale revenue decreased by \$23, or 1%. Other revenues decreased by \$309, or 9%, compared to fiscal year 2014 as completed reimbursable projects decreased in fiscal year 2015.

Both decreases in metered water and wholesale revenues are results from the extremely wet weather conditions experienced throughout the region last spring coupled with a mild summer.

Miscellaneous revenues, (net) decreased by \$273, or 33%, due to decrease in revenues on delinquent bills.

WATER DIVISION OF THE CITY OF ST. LOUIS, MISSOURI

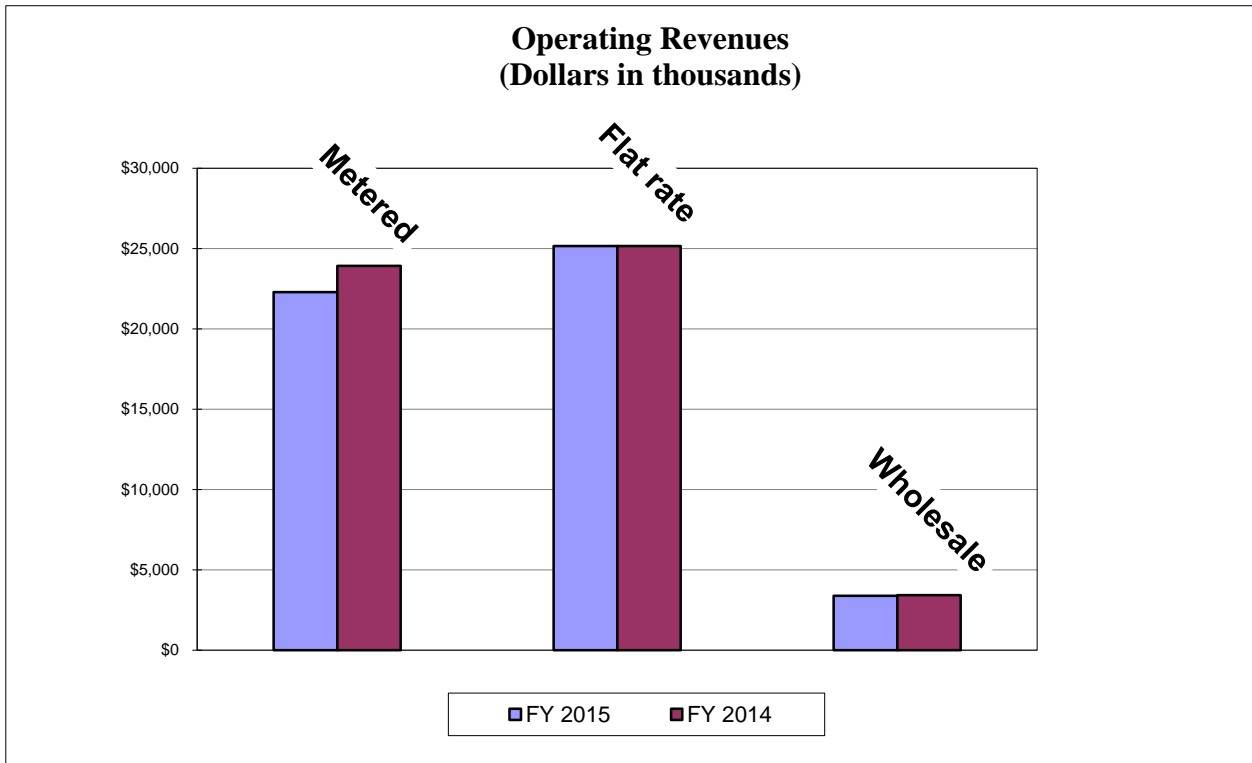
(An Enterprise Fund of the City of St. Louis, Missouri)

Management's Discussion and Analysis – Unaudited

June 30, 2015

(Dollars in thousands)

The chart below graphically displays the changes in the metered, flat rate, and wholesale revenue components of operating revenues from fiscal year 2014 to fiscal year 2015.



WATER DIVISION OF THE CITY OF ST. LOUIS, MISSOURI
 (An Enterprise Fund of the City of St. Louis, Missouri)

Management's Discussion and Analysis – Unaudited

June 30, 2015

(Dollars in thousands)

Expenses

The table below summarizes the Water Division's expenses for fiscal years 2015 and 2014:

	<u>2015</u>	<u>2014</u>	<u>Dollar change</u>	<u>Percentage change</u>
Operating expenses:				
Supply and purification	\$ 15,179	16,042	(863)	(5)%
Transmission and distribution	9,617	10,194	(577)	(6)
Power and pumping	7,902	7,865	37	—
Depreciation	5,039	4,970	69	1
Administrative and general	2,978	3,156	(178)	(6)
Interfund service used	2,020	3,472	(1,452)	(42)
Customer accounting	1,843	1,832	11	1
Cost of service line maintenance	1,033	1,252	(219)	(17)
Cost of community service	18	19	(1)	(5)
Collector of revenue's fee, net	767	813	(46)	(6)
Total operating expenses	<u>46,396</u>	<u>49,615</u>	<u>(3,219)</u>	<u>(6)%</u>
Nonoperating expenses:				
Interest expense on long-term obligations	233	502	(269)	(54)%
Loss on disposal of capital assets	170	67	103	154
Total nonoperating expenses	<u>403</u>	<u>569</u>	<u>(166)</u>	<u>(29)%</u>
Total expenses	<u>\$ 46,799</u>	<u>50,184</u>	<u>(3,385)</u>	<u>(7)%</u>
Transfers to City of St. Louis, Missouri	\$ 3,115	3,255	(140)	(4)%

Operating expenses in fiscal year 2015 compared to fiscal year 2014 decreased by \$3,219, or 6%. Although there was a 2% merit increase in salaries and wages in fiscal year 2015, an adjustment of \$881 for pension expense as a result of the implementation of GASB 68, accounted for a decrease of \$902, or 42%, in pension cost.

The decrease in supply and purification occurred in two main areas. Support services decreased by \$359, or 11.2%, while other services decreased by \$271, or 15.8%. The decrease in support services and other services reflect completion of repair work done at Stacy Park Reservoir in fiscal year 2014. Materials and supplies decreased by \$54, or 7%, due to replacement of various laboratory tools in fiscal year 2014.

WATER DIVISION OF THE CITY OF ST. LOUIS, MISSOURI

(An Enterprise Fund of the City of St. Louis, Missouri)

Management's Discussion and Analysis – Unaudited

June 30, 2015

(Dollars in thousands)

Transmission and distribution expenses decreased by \$577, or 6%. A significant decrease in these expenses occurred in salaries and wages, which went down by \$541, or 7.2%. The decrease was due to the \$343 adjustment in pension expense and a drop of \$179 in overtime due to a slightly mild winter weather conditions in fiscal year 2015. Offsetting the decrease in operating expenses were the increases in support services, other services, materials and supplies amounting to \$791, or 11.3%, to support various projects. This increase was offset by completed projects, which increased by \$884 in the amount capitalized or reallocated to other areas. Depreciation increased by \$57, or 27.6%, due to an increase in replacement of rolling stocks and other capital assets in fiscal year 2014.

Interfund service used decreased by \$1,452, or 42%. This decrease was mainly due to a decrease in payments to workers' compensation insurance and administration. Workers' compensation costs are managed by the Public Facilities Protection Corporation (PFPC), an internal service-fund of the City of St. Louis, Missouri. The Water Division reimburses PFPC for these paid claims on a cost-reimbursement basis. Payments to PFPC for workers' compensation expenses and IBNR plus reserve decreased by \$1,372, or 67.1%. Reimbursement to the Street Department for services it provides to the Water Division decreased by \$98, or 50.8%. Equipment repair services increased by \$28, or 5.1%.

Customer accounting expenses remained relatively unchanged, increasing by only \$11, or 1%. This increase was mostly increase in support services related to concerted effort to terminate water service and/or collect bills from accounts, which requires digging of stop boxes or valve replacement. Personnel from the water plants were utilized to perform this work in fiscal year 2015.

Service line maintenance costs decreased \$219, or 17%, as the number of service lines repaired decreased by 74, or 25.6%, in 2015 compared to 2014.

The collector of revenue's fee increased by \$46, or 6%.

General Trends and Significant Events

Ordinance 68694 authorized a 12% across-the-board water rate increase that became effective July 1, 2010. There has been no rate adjustment since then. This increase, coupled with continuing cost containment efforts, has helped ensure that the net revenues test required by the Indenture of Trust for fiscal year 2015 was properly met.

In July 2010, the City passed Ordinance 68698, which authorized the City to charge \$11 per month per dwelling unit for residential solid waste service. The Water Division's billing system continues to be used to invoice the solid waste charge on a combined utility bill that includes the solid waste charge and water service charge. All payments are kept separate and distinct. Payments for the solid waste charge are never deposited into water revenue.

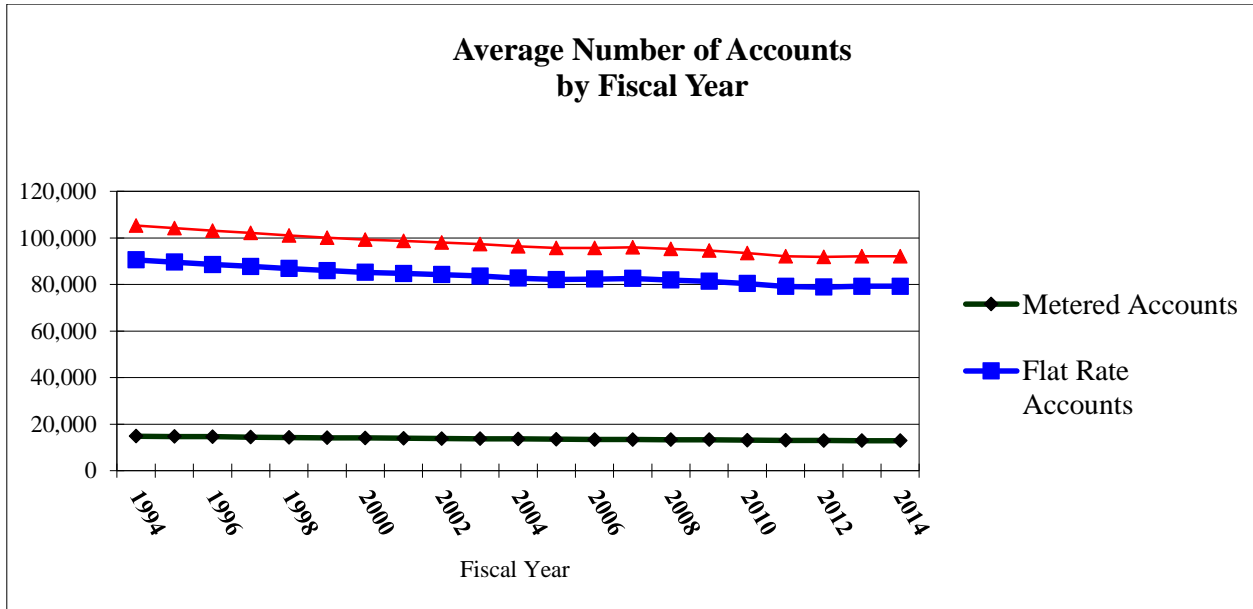
WATER DIVISION OF THE CITY OF ST. LOUIS, MISSOURI
(An Enterprise Fund of the City of St. Louis, Missouri)

Management's Discussion and Analysis – Unaudited

June 30, 2015

(Dollars in thousands)

The chart below depicts the number of flat rate and metered accounts over the last 20 years.



Rate Covenant

In the Indenture of Trust pertaining to the Series 2011 Water Revenue Refunding Bonds (Series 2011 Bonds) of the Water Division, the City covenants that as long as bonds remain outstanding, the City will adopt or continue in effect water rates at least sufficient to produce net revenues for the next succeeding fiscal year at least equal to one hundred ten percent (110%) of the amount of the principal and interest coming due on all bonds during the next succeeding fiscal year.

Additionally, if the City has not adjusted water rates within a 24-month period since the last adjustment, the City covenants that it shall engage a consulting engineer to perform a water rate study for the purpose of determining net revenues for the next succeeding two-year period.

If the study indicates that a rate adjustment is necessary to comply with the rate covenants, the City agrees to make the necessary adjustments. As there has been no water rate change since July 2010, a water rate study was completed in fiscal year 2015 per the requirement. The completed water rate study and the current net revenue calculation both indicated that water revenues were sufficient so that no water rate increase was required by the covenants.

WATER DIVISION OF THE CITY OF ST. LOUIS, MISSOURI

(An Enterprise Fund of the City of St. Louis, Missouri)

Management's Discussion and Analysis – Unaudited

June 30, 2015

(Dollars in thousands)

Capital Assets and Long-Term Debt

Total capital assets being depreciated increased \$5,566, or 1.9%, from fiscal year 2014 to fiscal year 2015. The increase primarily reflects additional net capital spending of \$4,315, of which \$343 is contributed capital on water mains, lines, and accessories throughout the water distribution system. Capital assets also increased by \$1,251 due to purchases of replacement rolling stocks, construction and maintenance equipment, and various completed projects throughout the water plants.

During fiscal year 2012, and pursuant to authority granted in Ordinance 68947, the City authorized and issued the Refunding Bonds in the amount of \$11,480 at an interest rate of 1.5%. Proceeds from the Refunding Bonds were used to prepay the Series 1998 Water Revenue Refunding Bonds, which were redeemed on October 31, 2011. The Refunding Bonds mature annually through fiscal year 2015 with interest coupons of 1.5%. In July 1, 2014, the Series 2011 Bonds matured and the last principal payment of \$3,820 was made. As of June 30, 2015, no defeased Series 2011 Bonds remained outstanding.

During fiscal year 2014, and pursuant to authority granted in Ordinance 69504, the City authorized the Water Revenue Refunding Bonds (State of Missouri-Direct Loan Program) Series 2013, in an aggregate principal amount to not exceed \$9,500. This drawdown loan is used to fund projects associated with the extension, improvement, purchase, acquisition, construction, and enlargement of the City's Waterworks System. The revenue bonds mature annually through fiscal year 2034 with a fixed rate of 1.56%. At June 30, 2015, the Water Division drew down \$2,487 of the loan.

Requests for Additional Information

The financial information presented in this document is intended to provide a general overview of the Water Division's finances. Any questions regarding the information provided in this report should be addressed to the Finance Office, City of St. Louis Water Division, 1640 South Kingshighway, St. Louis, Missouri 63110

WATER DIVISION OF THE CITY OF ST. LOUIS, MISSOURI
(An enterprise fund of the City of St. Louis, Missouri)

Balance Sheet

June 30, 2015

(Dollars in thousands)

Assets and Deferred Outflow of Resources

Current assets:	
Cash and investments:	
Restricted cash	\$ 216
Unrestricted cash	15,340
Unrestricted investments	11,976
Accounts receivable, net	5,971
Unbilled water revenue	5,404
Supplies and materials	2,275
Other receivable	12
Total current assets	41,194
Noncurrent assets:	
Cash and investments:	
Restricted cash	3,283
Unrestricted cash	1,901
Unrestricted investments	7,202
Capital assets, net:	
Nondepreciable	4,859
Depreciable	145,222
Proceeds from maturities of investments	818
Total noncurrent assets	163,285
Deferred outflow of resources	1,545
Total assets and deferred outflow of resources	\$ 206,024

Liabilities, Deferred Inflow of Resources, and Net Position

Current liabilities:	
Payable from unrestricted assets:	
Accounts and wages payable	\$ 4,020
Other accrued liabilities	3,697
Unearned revenue	1,869
Due to City of St. Louis, Missouri	3,829
Total current liabilities payable from unrestricted assets	13,415
Payable from restricted assets:	
Current maturities of water revenue bonds payable	404
Accrued interest payable	50
Total current liabilities payable from restricted assets	454
Total current liabilities	13,869
Noncurrent liabilities:	
Water revenue bonds payable	1,884
Customer deposits – payable from restricted assets	2,533
Net pension liability	9,007
Other liability to the City of St. Louis, Missouri	2,934
Sick leave liability	1,581
Total noncurrent liabilities	17,939
Deferred inflow of resources	766
Total liabilities and deferred inflow of resources	32,574
Net position:	
Net investment in capital assets	147,793
Restricted for debt service	966
Unrestricted	24,691
Total net position	173,450
Total liabilities, deferred inflow of resources, and net position	\$ 206,024

See accompanying notes to basic financial statements.

WATER DIVISION OF THE CITY OF ST. LOUIS, MISSOURI
(An enterprise fund of the City of St. Louis, Missouri)

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

Year ended June 30, 2015

(Dollars in thousands)

Operating revenues:	
Metered	\$ 22,276
Flat rate	25,159
Wholesale	3,395
Other	3,012
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Total operating revenues	53,842
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Operating expenses:	
Supply and purification	15,179
Transmission and distribution	9,617
Power and pumping	7,902
Depreciation (not allocated to other operating expenses)	5,039
Administrative and general	2,978
Interfund services used	2,020
Customer accounting	1,843
Cost of service line maintenance	1,033
Collector of revenue's fee, net	767
Cost of community service	18
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Total operating expenses	46,396
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Operating income	7,446
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Nonoperating revenues (expenses):	
Investment earnings	42
Interest expense on long-term obligations	(233)
Miscellaneous, net	557
Loss on disposal of capital assets	(170)
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Total nonoperating revenues, net	196
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Income before capital contributions and transfers	7,642
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Capital contributions	343
Transfers to the City of St. Louis, Missouri	(3,115)
	<hr/>
Total capital contributions and transfers, net	(2,772)
	<hr/>
Increase in net position	4,870
	<hr/>
Total net position, beginning of year	176,283
Cumulative effect of change in accounting principle	(7,703)
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Total net position, beginning of year, as adjusted	168,580
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Total net position, end of year	\$ 173,450
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See accompanying notes to basic financial statements.

WATER DIVISION OF THE CITY OF ST. LOUIS, MISSOURI
(An enterprise fund of the City of St. Louis, Missouri)

Statement of Cash Flows

Year ended June 30, 2015

(Dollars in thousands)

Cash flows from operating activities:	
Receipts from customers and users	\$ 53,792
Payments to suppliers of goods and services	(22,755)
Payments to employees	(16,378)
Payments for interfund services used	(3,833)
Net cash provided by operating activities	<u>10,826</u>
Cash flows from noncapital financing activities:	
Interest and principal paid on share of bond pension liability	(264)
Transfers to other funds of the City of St. Louis, Missouri	(3,129)
Net cash used in noncapital financial activities	<u>(3,393)</u>
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(6,639)
Interest paid on water revenue bonds	(30)
Principal paid on water revenue bonds	(4,019)
Proceeds from DNR reimbursements relating to revenue bond series 2013	1,547
Other capital and financing activities	737
Net cash used in capital and related financing activities	<u>(8,404)</u>
Cash flows from investing activities:	
Purchase of investments	(21,163)
Proceeds from maturities of investments	1,985
Interest expense on cash and investments	30
Net cash used in investing activities	<u>(19,148)</u>
Net decrease in cash and cash equivalents	<u>\$ (20,119)</u>
Cash and cash equivalents at beginning of year:	
Unrestricted	\$ 34,447
Restricted	6,412
	<u>\$ 40,859</u>
Cash and cash equivalents at end of year:	
Unrestricted	\$ 17,241
Restricted	3,499
	<u>\$ 20,740</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 7,446
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	5,383
Changes in assets and liabilities:	
Accounts receivable, net	(278)
Unbilled water revenue	(170)
Supplies and materials	(94)
Accounts and wages payable	(108)
Other accrued liabilities	(103)
Unearned revenue	9
Due to/from City of St. Louis, Missouri	(1,046)
Customer deposits	733
Increase in net pension liability	525
Net pension obligation	(1,406)
Pension bond liability	(65)
Total adjustments	<u>3,380</u>
Net cash provided by operating activities	<u>\$ 10,826</u>
Supplemental disclosures of noncash activities:	
Loss on disposal of capital assets	\$ 170
Capital contributions	343

See accompanying notes to basic financial statements.

WATER DIVISION OF THE CITY OF ST. LOUIS, MISSOURI
(An Enterprise Fund of the City of St. Louis, Missouri)

Notes to the Basic Financial Statements

June 30, 2015

(Dollars in thousands)

(1) Summary of Significant Accounting Policies

(a) Reporting Entity

The basic financial statements include only the Water Division of the City of St. Louis, Missouri (the Water Division). The Water Division represents a separate enterprise fund of the City of St. Louis, Missouri (the City), and therefore, the basic financial statements of the Water Division are not intended to present the financial position, changes in financial position, and cash flows of the City as a whole in conformity with U.S. generally accepted accounting principles.

(b) Basis of Accounting

Governmental enterprise funds are used to account for operations of governmental entities that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that costs (expenses, including depreciation) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges.

The Water Division prepares its basic financial statements in accordance with U.S. generally accepted accounting principles for governmental enterprise funds that are similar to those for commercial enterprises. Accordingly, the economic resources measurement focus and accrual basis of accounting are used, whereby expenses are recorded when incurred and revenues when earned. Unbilled water revenues are accrued based on estimated billings for service provided through the end of the current fiscal year. In reporting its financial activity, the Water Division applies all applicable Government Accounting Standards Board (GASB) pronouncements.

Enterprise funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's ongoing operations. The principal operating revenues of the Water Division are charges to customers for water service. Operating expenses include the cost of services, administrative expenses, and depreciation. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

(c) Accounts Receivable

Accounts receivable at June 30, 2015 consist of \$8,290 due from metered and flat rate customers and \$1,048 due from other customers. Such amounts are recorded net of an allowance for uncollectible accounts of \$3,367.

(d) Unbilled Water Revenue

The Water Division records the estimated amount of accrued, but unbilled, water revenue. This is a result of the Water Division billing its metered customers after the three-month billing cycle of water usage. At June 30, 2015, unbilled water revenue amounted to \$5,404.

(e) Supplies and Materials

Supplies and materials are valued using a moving average cost.

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(f) Capital Assets

Capital assets were originally recorded in the accounts in 1958 and were based on an engineering study of the historical cost of properties constructed by employees of the Water Division. Accumulated depreciation, at the date the assets were recorded, was established after a review by a consulting firm.

Additions to capital assets subsequent to 1958 are recorded at historical cost. Provisions for depreciation of the capital assets are computed on a straight-line basis over the estimated useful lives of the assets and are charged to operating expenses. The estimated useful lives of depreciable assets are as follows:

	<u>Years</u>
Buildings and structures	44–55
Pumping equipment	28–44
Hydrants, transmission mains, and lines	50–100
Meters	33
Other equipment	5–25

Net interest costs on funds borrowed to finance the construction are capitalized and depreciated over the life of the related asset.

(g) Intangible Assets

Intangible assets consist of software development costs and are amortized on the straight-line method over five years.

(h) Accounts and Wages Payable

Accounts and wages payable at June 30, 2015 comprises \$2,813 of accrued salaries and benefits and \$1,207 due to vendors and contractors.

(i) Vacation and Sick Leave Benefits

Under the terms of the City's personnel policy, employees of the City are granted vacation and sick leave. The vacation liability reflects the amounts attributable to employee services already rendered and are cumulative. The liability totaled \$1,858 as of June 30, 2015 and is included in accounts and wages payable.

Employees who have unused sick leave balances may, at retirement, elect to receive payment for one-half of the sick leave balance. As an estimate of the portion of sick leave that will result in termination payments, a liability has been recorded on the accompanying basic financial statements and represents one-half of the accumulated sick leave balances for those employees who will be eligible to retire within five years. The liability totaled \$1,581 as of June 30, 2015 and is classified as a noncurrent liability.

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(j) Unearned Revenue

The Water Division recognizes revenue associated with a service line maintenance surcharge in the period the related costs are incurred. Accordingly, the Water Division recognized surcharge revenue of \$1,033 during the year ended June 30, 2015, which is reported within other operating revenues. Unearned service line maintenance revenue amounted to \$321 at June 30, 2015.

The Water Division maintains a restricted cash account for amounts collected for service line maintenance. Interest earned is recorded in this cash account and the account balance is restricted solely for service line maintenance.

The Water Division records unearned revenue for amounts billed but not yet earned. This is the result of the Water Division billing its flat rate customers in advance of actual water usage. Revenue billed but not yet earned amounted to \$1,548 at June 30, 2015.

(k) Customer Deposits

The Water Division requires that metered customers deposit an amount approximately equal to an estimated billing for one cycle. These deposits are refunded to the customer, along with accrued interest on the deposits, when certain criteria have been met. The Water Division also holds deposits for construction-related work that are applied against the billing for work performed.

(l) Net Position

Net Position is displayed in three components as follows:

(1) Net Investment in Capital Assets

This consists of capital assets, net of accumulated depreciation, less the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition and construction of those assets.

(2) Restricted

This consists of net position that is legally restricted by outside parties or by law through constitutional provisions or enabling legislation. Net Position restricted by statutory restrictions represents tax and other revenue sources that are required by statute to be expended only for specific purpose or purposes.

(3) Unrestricted

This consists of net position that does not meet the definition of “restricted” or “net investment in capital assets.” Included within unrestricted assets are the following components, which have been approved by City ordinance:

- (a) *Construction Funds* – City ordinances provide that amounts appropriated from the Water Contingent Account shall be held in the Construction Fund from which they shall be

WATER DIVISION OF THE CITY OF ST. LOUIS, MISSOURI
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disbursed for the purposes contemplated in these ordinances. The balance of this fund as of June 30, 2015 is \$17,103, which funds are designated for capital projects and have been approved by City ordinances.

- (b) *Customer Deposits* – City ordinances provide that amounts paid by customers as deposits on metered water accounts, construction, and unclaimed meter deposits be held in escrow until such time as they are returned to customers in the form of cash or as a credit on the applicable customer’s water bill. The balance of customer deposits as of June 30, 2015 is \$2,533.
- (c) *Service Line Maintenance* – City ordinances provide that the Water Division collects a \$3.00 (in whole dollars) per quarter surcharge from flat rate and metered residential customers having six or less dwelling units. These funds are deposited in the Service Line Maintenance Account. This account, including interest earned, is used to pay for the repair of certain portions of the water lines for these customers.

(m) *Statement of Cash Flows*

For purposes of the statement of cash flows, cash and cash equivalents are defined as all highly liquid investments with a maturity of 3 months or less when purchased.

(n) *New Accounting Pronouncements*

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment to GASB Statement No. 27*, which enhances accounting and financial reporting by state and local governments for pensions and improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. In adopting these standards, the Water Division recognized the effect of a change in accounting principle in the amount of \$7,703 for the net pension liability at the beginning of fiscal year 2015. The Water Division will now recognize a long-term liability for the net pension liability in the balance sheet. The Water Division will continue to report pension expense as a component of salaries and wages. The amount of expense reported now includes the overall change in the pension liability.

GASB Statement No. 72, *Fair Value Measurement and Application*, was issued in February 2015. This statement addresses accounting and financial reporting issues related to fair value measurements. The statement requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. The requirements of this statement are effective for the Water Division for the year ending June 30, 2016. The Water Division has not evaluated the impact of this statement.

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB 68 and Amendments to Certain Provisions of GASB Statements 67 and 68*, was issued in June 2015. The objective of this statement is to improve the usefulness of information about pensions and clarifies the application of certain provisions of Statements No. 67 and

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68. The requirements of this statement are effective for the Water Division for the year ending June 30, 2017. The Water Division has not evaluated the impact of this statement.

GASB 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, was issued in June 2015. The objective of this statement is to improve the usefulness of information about postemployment benefits other than pensions included in the general purpose external financial reports of state and local governmental other postemployment benefit plans for making decisions and assessing accountability. The requirements of this statement are effective for the Water Division for the year ending June 30, 2016. The Water Division has not evaluated the impact of this statement.

GASB 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, was issued in June 2015. The objective of this statement is to identify the hierarchy of generally accepted accounting principles. This statement reduces the generally accepted accounting principles (GAAP) hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified with a source of authoritative GAAP. The requirements of this statement are effective for the Water Division for the year ending June 30, 2016. The Water Division has not evaluated the impact of this statement.

(o) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires the Water Division to make estimates and assumptions that affect the reported amounts of assets and liabilities at fiscal year-end and revenues and expenses during the reporting period. Actual results could differ from those estimates.

(2) Cash and Investments

Investments are recorded at fair value, which is determined by closing market prices at year-end as reported by the investment custodian.

The Water Division deposits all cash with the Office of the Treasurer of the City, which maintains all banking relationships for the Water Division.

As of June 30, 2015, the Water Division had the following cash deposits and investments:

U.S. Treasuries	\$	6,002
Certificates of deposit		1,987
Federal Home Loan Mortgage Corporation		1,200
Commercial paper		9,989
Cash deposits		20,740
Total cash and investments	\$	39,918

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State statutes and City investment policies authorize the deposit of funds in financial institutions. For City funds, investments may be made in obligations of the U.S. government or any agency or instrumentality thereof, bonds of the State of Missouri or any city within the state with a population of 400,000 inhabitants or more, or time certificates of deposit; provided, however, that no such investment shall be purchased at a price in excess of par. In addition, the City may enter into repurchase agreements maturing and becoming payable within 90 days secured by U.S. Treasury obligations, obligations of the U.S. government agencies, or instrumentalities of any maturity as provided by law. The City's funds in the form of cash on deposit or time certificates of deposit are required to be insured or collateralized by authorized investments held in the City's name. Actual investment decisions are made by the Treasurer and the City's fiscal agents

(a) Interest Rate Risk

The Water Division seeks to minimize its exposure to fair value losses arising from changes in interest rates by selecting investments in adherence to the Investment Policy for the City of St. Louis, Missouri (the Investment Policy). The Investment Policy provides that, to the extent possible, the City shall attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the City will not directly invest in securities or make a time deposit with a stated maturity of more than five years from the date of purchase. The average maturity for collateral provided to the City for deposits in connection with a repurchase agreement shall not exceed five years without the written approval of the Treasurer. In connection with any outstanding bond issue, debt service reserve funds may be invested to a maximum maturity of 15 years and up to 30 years with the written approval of the Treasurer.

The Water Division's investments (excluding cash deposits) had the following maturities (in years) on June 30, 2015:

	Fair value	Less than 1	1-5
U.S. Treasuries	\$ 6,002	—	6,002
Certificates of deposit	1,987	1,987	—
Federal Home Loan Mortgage Corporation	1,200	—	1,200
Commercial paper	9,989	9,989	—
	\$ 19,178	11,976	7,202

(b) Credit Risk

The City's Investment Policy limits the types of securities available for investment to collateralized public deposits, obligations of the U.S. government or its agencies, obligations of government-sponsored corporations, banker's acceptances, and commercial paper. Banker's acceptances must be rated with the highest short-term credit rating of any two Nationally Recognized Statistical Rating Organizations (NRSROs) at the time of purchase. Investments in commercial paper are limited to issuing corporations that have a total commercial paper program size in excess of \$250,000,000 and have long-term debt ratings "AA" or better from at least one NRSRO.

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The Water Division's investments in U.S. Treasuries are explicitly guaranteed by the U.S. government and, therefore, do not require a rating. At June 30, 2015, the Federal Home Loan Mortgage Corporation investments were rated Aa2 and Aaa, respectively, by Moody. Water Division's holdings in commercial paper were rated A-1/P-1/F1 as of June 30, 2015 by Standard & Poor's, Moody's, and Fitch, respectively.

(c) Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of a counterparty, the Water Division will not be able to recover the value of the investments or collateral securities that are in the possession of an outside party.

The City's Investment Policy requires that all cash deposits, time certificates of deposit, deposits with listed institutions, and repurchase agreements be covered by adequate pledged collateral. Acceptable collateral includes U.S. Treasury obligations, other interest-bearing securities guaranteed as to principal and interest by the U.S. government or an agency or instrumentality of the U.S. government, bonds of the State of Missouri, or bonds of the City. The market value of the principal and accrued interest of the collateral must equal 103% of the deposits secured, less any amount subject to federal deposit insurance. All City securities and securities pledged as collateral must be held in a segregated account on behalf of the City by an independent third party with whom the City has a current custodial agreement and has been designated by the Treasurer and Funds Committee as eligible to serve in such a capacity.

At June 30, 2015, all Water Division investments and all securities pledged as collateral are held by the counterparty's trust department or agent in the City's name.

(d) Concentration of Credit Risk

The Investment Policy provides that, with the exception of U.S. Treasury Securities and cash deposits, no more than 35% of the City's total investment portfolio will be invested in a single security type or with a single financial institution. The Water Division does not have a separate investment policy.

At June 30, 2015, the concentration of the Water Division's investments (excluding cash deposits) was as follows:

U.S. Treasuries	31%
Certificates of deposit	10
Federal Home Loan Mortgage Corporation	6
Commercial paper	53
	<hr/>
	100%
	<hr/> <hr/>

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June 30, 2015

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(3) Restricted Assets

Cash restricted in accordance with bond provisions and City ordinances at June 30, 2015 is as follows:

Bond funds:		
Waterworks bond fund	\$	216
Water replacement and improvement account		750
Total bond funds		966
Customer deposits		2,533
Total restricted cash	\$	3,499

Bond fund provisions require that revenues derived from the operation of the Waterworks System be deposited in the Waterworks Revenue Account. From this account, the following allocations are made on the first business day of each month in the following order of priority:

Series 2011 Water Revenue Refunding Bond Funds

- (1) To the unrestricted Waterworks Operations and Maintenance Fund, an amount sufficient to pay the estimated operation and maintenance expenses during the next month.
- (2) To the Waterworks Bond Fund, an amount at least equal to 1/6 of the amount of interest that will come due on the next interest payment date, plus an amount at least equal to 1/12 of the aggregate principal amount of bonds that will come due on the next bond maturity date. This account shall be used only for the payment of bond principal and interest, as the same shall become due.
- (3) To the Water Revenue Debt Service Reserve Account, a sum equal to the Debt Service Reserve Fund Requirement or a debt service reserve fund policy or a surety bond shall be provided by a Bond Insurer in such amount or a letter of credit shall be provided by a bank acceptable to the City in such amount. All amounts paid and credited to this account shall be used solely to prevent any default in the payment of the principal of and interest on the Bonds.
- (4) To the Water Replacement and Improvement Fund, an amount equal to \$25 per month until the account balance aggregates \$750. This account shall be used for making replacements, extensions, and improvements to the Waterworks System, and for the purpose of meeting unforeseen contingencies and emergencies arising in the operation of the Waterworks System of the City.
- (5) The remaining balance in the Waterworks Revenue Fund is deposited into the unrestricted Water Contingent Fund. This money shall be used for paying the cost of the operation, maintenance, and repair of the Waterworks System; paying the cost of extending, improving, or making replacements to the Waterworks System; preventing default in, anticipating payments into, or increasing the amounts in the other accounts; paying any gross receipts tax now or hereafter levied by the City; paying the

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principal or the interest on any subordinate or junior lien bonds; paying any redemption premium due on the bonds; or any other lawful purpose for use by the Waterworks System.

Series 2013 Water Revenue Bond Funds

To the Waterworks Bond Fund, an amount at least equal to the calculated 1/4 amount of interest that will come due on the next interest payment date, plus an amount at least equal to 1/4 of the aggregate principal amount of bonds that will come due on the next bond maturity date. This account shall be used only for the payment of bond principal and interest, as the same shall become due.

(4) Capital Assets

The following table shows the changes in capital assets for the fiscal year ended June 30, 2015:

	Balances June 30, 2014	Additions	Retirements	Transfers	Balances June 30, 2015
Capital assets being depreciated:					
Buildings and structures	\$ 42,155	—	—	—	42,155
Reservoirs	34,513	—	—	659	35,172
Boiler plant equipment	661	—	—	—	661
Pumping equipment	10,923	—	—	—	10,923
Purification basins and equipment	43,679	9	—	65	43,753
Water mains, lines, and accessories	130,147	3,435	(923)	1,803	134,462
Equipment	17,575	405	(231)	166	17,915
Motor vehicle equipment	9,046	717	(639)	100	9,224
Total capital assets being depreciated	<u>288,699</u>	<u>4,566</u>	<u>(1,793)</u>	<u>2,793</u>	<u>294,265</u>
Less accumulated depreciation:					
Buildings and structures	(26,338)	(662)	—	—	(27,000)
Reservoirs	(11,964)	(665)	—	—	(12,629)
Boiler plant equipment	(644)	(3)	—	—	(647)
Pumping equipment	(9,183)	(233)	—	—	(9,416)
Purification basins and equipment	(17,468)	(929)	—	—	(18,397)
Water mains, lines, and accessories	(59,429)	(1,675)	786	—	(60,318)
Equipment	(14,280)	(781)	231	—	(14,830)
Motor vehicle equipment	(5,978)	(435)	607	—	(5,806)
Total accumulated depreciation	<u>(145,284)</u>	<u>(5,383)</u>	<u>1,624</u>	<u>—</u>	<u>(149,043)</u>
	<u>143,415</u>	<u>(817)</u>	<u>(169)</u>	<u>2,793</u>	<u>145,222</u>

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	<u>Balances June 30, 2014</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>Balances June 30, 2015</u>
Capital assets not being depreciated:					
Land	\$ 1,238	—	—	—	1,238
Construction in progress	<u>4,017</u>	<u>2,417</u>	<u>—</u>	<u>(2,813)</u>	<u>3,621</u>
Total capital assets not being depreciated	<u>5,255</u>	<u>2,417</u>	<u>—</u>	<u>(2,813)</u>	<u>4,859</u>
	<u>\$ 148,670</u>	<u>1,600</u>	<u>(169)</u>	<u>(20)</u>	<u>150,081</u>

Construction in progress consists primarily of various improvements to the Waterworks System.

(5) Employees' Retirement System of the City of St. Louis

The Water Division participates in the Employees Retirement System of the City of St. Louis (Employees System), a cost-sharing, multiple-employer public defined benefit pension plan.

(a) Plan Description

All Water Division employees become members of the Employees System upon employment, with the exception of employees hired after attaining age 60.

The Employees System issues a publicly available financial report that includes financial statements and required supplementary information. The Employees System financial statements are prepared using the accrual basis of accounting. That report may be obtained by writing to the Employees Retirement System of the City of St. Louis; 1114 Market Street, Suite 900; St. Louis, Missouri 63101.

The Employees System provides for defined benefit payments for retirement, death, or disability to eligible employees or their beneficiaries based upon creditable service, final average compensation, and a benefit compensation base. Benefits vest to employees covered by the Employees System after the employee has attained five years of creditable service. Employees retire with full retirement benefits after the age of 65 or if the employee's age and creditable service combined equal or exceed 85 years. Employees may retire and receive a reduced benefit after age 60 with five years of creditable service; age 55 with at least 20 years of creditable service; or at any age with 30 years of creditable service. The monthly pension benefits of all retirees or their beneficiaries are adjusted according to the changes in the Consumer Price Index of the U.S. Department of Labor. Increases are limited each year, with total increases to retirees or their beneficiaries limited to 25%.

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On June 8, 2000, the Mayor of the City approved an ordinance passed by the Board of Aldermen, authorizing a Deferred Retirement Option Plan (DROP), which became effective January 1, 2001. This plan states that when members reach retirement age, they are allowed to work for five additional years and defer receipt of their retirement allowance. The calculation of average salary for retirement benefits will not include the additional years of service after normal retirement age. The amount that would have been received as retirement benefit is put in a special DROP account monthly. The DROP account will not be adjusted for cost of living increases. The DROP account earns interest at the actuarial valuation rate of return and at the 10-year U.S. Treasury Bond yield as of September 30 for DROP participants enrolling February 1, 2003 and thereafter. After the members completely terminate employment, the member can withdraw amounts from the DROP account in a lump sum or according to a deferred retirement payment plan.

(b) Funding Policy

The Employees System's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate assets to pay benefits due. If contributions are necessary, level percentage of payroll employer contribution rates are determined using the projected unit credit actuarial cost method.

Employer contribution rates are established annually by the Board of Trustees of the Employees System based on an actuarial study. The Board of Trustees established the required employer contributions rate based on active member payroll of 15.17% effective July 1, 2014.

Employees who became members of the Employees System prior to October 14, 1977, and continued to make contributions, may make voluntary contributions to the Employees System equal to 3% of their compensation until the employee's compensation equals the maximum annual taxable earnings under the Federal Social Security Act. Thereafter, employees may contribute 6% of their compensation for the remainder of the calendar year.

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(Dollars in thousands)

(c) **Net Pension Liability**

The Water Division's net pension liability as of June 30, 2015 was measured as of September 30, 2014 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of October 1, 2014. The Water Division's proportion of the net pension liability was based on the Water Division's share of contributions to the Employees System relative to the contributions of all Employees System participating employers. At June 30, 2015, the Water Division's collective proportion was 5.83 percent.

	Total Pension Liability (TPL) (a)	Fiduciary Net Position (FNP) (b)	Net Pension Liability (NPL) (a) – (b)
Balances at July 1, 2014	\$ 53,539	42,861	10,678
Changes for the year:			
Service cost	617	—	617
Interest	4,195	—	4,195
Difference between expected and actual experience	(213)	—	(213)
Difference in proportion	(76)	—	(76)
Benefit payments	(3,281)	—	(3,281)
Contributions – employer	—	2,143	(2,143)
Contributions – employee	—	7	(7)
Net investment income	—	4,083	(4,083)
Benefit payments	—	(3,281)	3,281
Administrative expenses	—	(39)	39
Net changes	1,242	2,913	(1,671)
Balances at June 30, 2015	\$ 54,781	45,774	9,007

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(Dollars in thousands)

(d) Actuarial Methods and Assumptions

The following were some of the significant actuarial assumptions used in the valuation of the Employees System:

Valuation date	October 1, 2014
Actuarial cost method	Entry age normal
Amortization method	Rolling 30-year level dollar amortization of unfunded liability
Remaining amortization period	30 years as of October 1, 2014
Asset valuation method	5-year smoothed market
Inflation rate	3.125%
Discount rate	8.09%
Projected salary increases	3.50% to 7.02%
Mortality	1994 Group Annuity Mortality Table

The discount rate used to measure the total pension liability was 8.09%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rate. Based on those assumptions, the pension plans fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. 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. For the October 1, 2014 actuarial valuation, an 8.09% discount rate was used. The sensitivity of the net pension liability to changes in the discount rate for the year ended June 30, 2015 for the Water Division is as follows:

	<u>Rate</u>		<u>Net pension liability</u>
1% decrease	7.09%	\$	14,457
Current rate	8.09		9,007
1% increase	9.09		4,343

WATER DIVISION OF THE CITY OF ST. LOUIS, MISSOURI
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Notes to the Basic Financial Statements

June 30, 2015

(Dollars in thousands)

(e) Pension Expense

For the fiscal year ended June 30, 2015, the Water Division recognized pension expense of \$1,238. Annual pension expense consists of service cost, interest, and administrative expenses on the pension liability less employee contributions and projected earnings on pension plan investments. The difference between actual and expected earnings is recorded as a deferred outflow/inflow of resources recognized in pension expense over a five-year period. The pension expense for the fiscal year ended June 30, 2015 is summarized as follows:

Service cost	\$	617
Interest		4,195
Administrative expenses		39
Recognized portion of current-period difference between expected and actual experience		(53)
Contributions – employee		(7)
Projected earnings on pension plan investments		(3,397)
Recognized portion of change in proportion		(19)
Recognized portion of current-period difference between projected and actual earnings on pension plan investments		(137)
Pension expense for year ended June 30, 2015	\$	<u><u>1,238</u></u>

(f) Deferred Outflows/Inflows of Resources Related to Pension

In accordance with GASB Statements No. 67 and 68, the Water Division recognizes differences between actual and expected experience with regard to economic or demographic factors, changes of assumptions about future economic or demographic factors, the difference between actual and expected investment returns, changes in proportion, and contributions subsequent to the measurement date as deferred outflows/inflows of resources. At June 30, 2015, the Water Division reported deferred outflows of resources and inflows of resources related to pensions from the following sources as follows:

	Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	\$ —	(160)
Net difference between projected and actual earnings on pension plan investments	—	(549)
Changes in proportion	—	(57)
Water Division contributions subsequent to the measurement date	<u>1,545</u>	<u>—</u>
Total	<u><u>\$ 1,545</u></u>	<u><u>(766)</u></u>

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The Water Division recognizes differences between actual and expected investment performance included in deferred outflows/inflows of resources on a straight-line basis over five years. Differences between expected and actual experience on actuarial assumptions are amortized over the average expected remaining service life of the Employee System's employees. The following table summarizes the future recognition of these items:

Year ended June 30	Recognition
2015	\$ 1,335
2016	(209)
2017	(209)
2018	(138)
2019	—
Thereafter	—
	\$ 779

During fiscal year 2008, the City of St. Louis Municipal Finance Corporation issued \$46,700,000 in Taxable Leasehold Revenue and Refunding Bonds Series 2007 (Pension Funding Project) to fund the Employees System. While the Water Division is not legally responsible for these bonds, \$3,269 of the proceeds was allocated to the Water Division. A \$2,934 liability is reflected as an other liability on the balance sheet and is payable to the City of St. Louis by June 30, 2037.

(6) Change in Noncurrent Liabilities

The following table shows the changes in noncurrent liabilities for the fiscal year ended June 30, 2015:

	Balance June 30, 2014	Additions	Reductions	Balance June 30, 2015	Due within one year
Revenue bonds payable (see note 7) \$	4,760	1,547	(4,019)	2,288	404
Net pension liability (see note 5)	—	10,678	(1,671)	9,007	—
Net pension obligation (see note 5)	1,406	—	(1,406)	—	—
Customer deposits	1,800	733	—	2,533	—
Other liability to the City of St. Louis, Missouri (note 5)	2,999	—	(65)	2,934	—
Accrued vacation, and sick time benefits	3,355	285	(201)	3,439	1,858
Total	\$ 14,320	13,243	(7,362)	20,201	2,262

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Notes to the Basic Financial Statements

June 30, 2015

(Dollars in thousands)

(7) Water Revenue Refunding Bonds

Water revenue bonds outstanding at June 30, 2015 are payable solely from and secured by, a pledge of net revenues from the operation of the Water Division and are as follows:

Series 2013 Water Revenue Refunding Bonds, 1.56%, drawdown loan, payable in varying amounts through January 1, 2034	\$ 2,288
Less current maturities	<u>(404)</u>
	<u>\$ 1,884</u>

(a) Series 2011 Water Revenue Refunding Bonds

In September 2011, the Water Division issued \$11,480 in Water Revenue Refunding Bonds (Series 2011 Bonds) with an interest rate of 1.50% to advance refund \$12,260 of the outstanding Series 1998 Bonds, maturing on July 1, 2014. The net proceeds of \$11,273 (after the subtraction of payment of \$207 in issuance costs) were deposited in an irrevocable trust with an escrow agent. The net proceeds and the balance of \$1,207 from the Series 1998 Debt Service Reserve Fund, totaling \$12,480, provided payment on the \$12,260 principal of the Series 1998 Bonds. As a result, Series 1998 Bonds were considered to be defeased and the liability for those bonds has been removed from the basic financial statements. At June 30, 2014, no defeased Series 1998 Bonds remained outstanding. In July 1, 2014, the Series 2011 Bonds matured and the last principal payment of \$3,820 was made. As of June 30, 2015, no defeased Series 2011 Bonds remained outstanding.

In November 2013, the Water Division issued \$9,500 (not to exceed) in Water Revenue Bonds (Series 2013 Bonds) through the Missouri Department of Natural Resources Direct Loan Program. This bond issue is a drawdown loan with a fixed interest rate of 1.56% to fund various projects at the water treatment plants and throughout the distribution system. In total, as of June 30, 2015, the Water Division has drawn down a total of \$2,487 of the loan.

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Notes to the Basic Financial Statements

June 30, 2015

(Dollars in thousands)

Debt Service Requirements

Debt service requirements to maturity of the 2013 Series Water Revenue Bonds are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
For the year ending June 30:			
2016	\$ 404	36	440
2017	412	29	441
2018	422	23	445
2019	430	16	446
2020	439	10	449
2021	181	3	184
	<u>\$ 2,288</u>	<u>117</u>	<u>2,405</u>

Principal and Interest payments are due semiannually on January 1 and July 1.

(8) Transactions with the City

During the fiscal year ended June 30, 2015, the City charged the Water Division \$2,020 for services rendered by various City departments. This amount is included in the Water Division's operating expenses as interfund services used. At June 30, 2015, \$730 was due to the City for services rendered. The Water Division also furnishes water to the fire department, parks department, and most other departments at no charge; while the related cost of all of the water cannot be determined since most of the water provided is not metered, those City buildings that are metered used \$595 worth of service for the year ended June 30, 2015. No reduction from the amount the Water Division owed to the City for services rendered was allowed for this water service provided by the Water Division to the City.

In addition, throughout the year, the Collector of Revenue of the City of St. Louis, Missouri (the Collector) deducts a 4% gross receipts charge from collections made on behalf of the Water Division. At June 30, 2015, \$179 was due to the City. Each year, the Collector computes actual costs incurred relating to services that it provided to the Water Division and refunds any excess deduction. During the year ended June 30, 2015, the Water Division paid \$767, net of refunds to the Collector for services rendered.

The Water Division also pays a 6% tax on monthly gross receipts, which is applicable to all public utilities. During the year ended June 30, 2015, the Water Division recorded amounts accrued or paid to the City of \$3,115. This amount is reflected as transfers to the City in the accompanying basic financial statements. No payment in lieu of property taxes is made. At June 30, 2015, \$278 was due to the City for gross receipts tax.

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Notes to the Basic Financial Statements

June 30, 2015

(Dollars in thousands)

(9) Contingencies

The Water Division has identified certain of its structures as having asbestos in place. As part of its continuing process of upgrading facilities, the costs for removal of the asbestos material and restoration or replacement of the affected areas are being included in budgets for capital projects. No mandatory time requirement is in effect. The removal plan would be accelerated by changes in plans for remodeling, if any.

There is an aggregate of general liability claims outstanding of \$140, which the City Counselor's office has determined there is a reasonable possibility that a loss contingency may be incurred but no accrual has been made within the basic financial statements because the loss is not probable.

At June 30, 2015, the Water Division has \$511 in gain contingencies related to damages caused by others to Water Division properties that are not reflected within the basic financial statements because such transactions may not be recognized as revenue prior to realization.

(10) Risk Management

The Water Division is exposed 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 Water Division participates in the Public Facilities Protection Corporation (PFPC), an internal service fund of the City. The purpose of PFPC is to account for risks in which the City is self-insured, primarily workers' compensation, unemployment benefits, certain general liability, and various other claims and legal actions. All self-insured workers' compensation claims liabilities and payments are recorded in PFPC. The Water Division reimburses PFPC for workers' compensation claims on a cost-reimbursement basis. At June 30, 2015, the Water Division owed the PFPC \$2,642 for unreimbursed workers' compensation claims and is included in Due to City of St. Louis, Missouri on the balance sheet.

(11) Wholesale Water Contracts

The Water Division has entered into contracts for the sale of water to the following parties: the cities of St. Charles, Missouri and St. Peters, Missouri; the Missouri American Water Company (the Company); and the Public Water Supply District No. 2 of St. Charles County, Missouri. The parties have agreed to pay for water at a rate based on certain costs incurred at the Howard Bend Water Treatment Plant.

Additionally, the Water Division and the Company have amended their agreement whereby the Company has agreed to purchase a minimum quantity of water per month from the Water Division. The Water Division renewed this contract, which is effective December 2015 and will expire in 2045.

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Notes to the Basic Financial Statements

June 30, 2015

(Dollars in thousands)

(12) Pledged Revenue

The Water Division has pledged specific revenue streams to secure the repayment of the Series 2013 Bonds. The following table lists those revenues along with the purpose of the debt, the term of the commitment, the approximate proportion of the pledged revenue to revenue collected of the revenue stream as estimated at June 30, 2015, the current fiscal year principal and interest on the debt and the amount of pledged revenue earned during the current fiscal year:

<u>Type of revenue pledged</u>	<u>General purpose for debt</u>	<u>Term of pledged commitment</u>	<u>Proportion of pledged revenue to revenue collected</u>	<u>Principal and interest for the year ended June 30, 2015</u>	<u>Revenue recognized for the year ended June 30, 2015</u>
All Water Division revenues	Funding of various water division infrastructures	through 2015	7.5%	\$ 4,062	53,842

As of June 30, 2015, the remaining principal and interest requirement is \$2,405 payable through January 2021 (fiscal year 2021). The proportion of pledged revenue to revenue collected is estimated at 7.5% at June 30, 2015.

(13) Subsequent Event

In September 2015, the Water Division drew down an additional \$210 of the Series 2013 Water Revenue Refunding Bonds.

OTHER INFORMATION – UNAUDITED

WATER DIVISION OF THE CITY OF ST. LOUIS, MISSOURI

(An enterprise fund of the City of St. Louis, Missouri)

Detailed Schedule of Certain Operating Expenses – Unaudited

Year ended June 30, 2015

(Dollars in thousands)

Supply and purification:		
Salaries and wages	\$	4,058
Support services		2,848
Other services		1,440
Materials and supplies		717
Depreciation		44
Chemicals		6,072
		<u>15,179</u>
Less amounts capitalized or allocated to other accounts		—
Total supply and purification	\$	<u>15,179</u>
Transmission and distribution:		
Salaries and wages	\$	7,028
Support services		1,001
Other services		3,451
Materials and supplies		3,367
Depreciation		265
		<u>15,112</u>
Less amounts capitalized or allocated to other accounts		(5,495)
Proceeds fr Total transmission and distribution	\$	<u>9,617</u>
Power and pumping:		
Salaries and wages	\$	2,013
Support services		1,721
Other services		621
Materials and supplies		333
Depreciation		12
Purchased power		3,202
		<u>7,902</u>
Less amounts capitalized or allocated to other accounts		—
Total power and pumping	\$	<u>7,902</u>
Administrative and general:		
Salaries and wages	\$	1,318
Support services		180
Other services		1,000
Materials and supplies		136
Depreciation		3
Bad debt expense		344
		<u>2,981</u>
Less amounts allocated to other accounts		(3)
Total administrative and general	\$	<u>2,978</u>
Customer accounting:		
Salaries and wages	\$	1,165
Support services		569
Other services		31
Materials and supplies		66
Depreciation		20
		<u>1,851</u>
Less amounts capitalized or allocated to other accounts		(8)
Total customer accounting	\$	<u>1,843</u>

See accompanying independent auditors' report.

WATER DIVISION OF THE CITY OF ST. LOUIS, MISSOURI

(An enterprise fund of the City of St. Louis, Missouri)

Schedule of Costs for Howard Bend Water Sales – Unaudited

Year ended June 30, 2015

(Dollars in thousands)

I. Direct Costs of Supply and Purification – Howard Bend	
Labor	\$ 1,965
Chemicals	1,978
Support services	826
Other materials and services	946
	<u>\$ 5,715</u>
II. Direct Costs of Power and Pumping – Howard Bend	
Power	\$ 1,332
Labor	579
Support services	417
Other materials and services	454
	<u>\$ 2,782</u>
III. General Office Expenses – Power and Pumping	\$ 846
IV. General Office Expenses – Supply and Purification	\$ 678
V. Reservoir Maintenance	\$ 41
VI. Administration and Finance Costs	
City services	\$ 923
Labor	1,318
Other services and miscellaneous	1,139
Support services	180
	<u>\$ 3,560</u>
VII. Specified Labor Costs	
Transmission and distribution	\$ 7,028
Supply and purification	4,058
Power and pumping	2,013
Customer accounting	1,165
	<u>\$ 14,264</u>

Note: The Water Division of the City of St. Louis, Missouri has entered into contracts for the sale of water to the following parties: the cities of St. Charles, Missouri, and St. Peters, Missouri, the Missouri American Water Company and the Public Water Supply District No. 2 of St. Charles County, Missouri. Under the terms of these agreement, the parties have agreed to pay for water at a rate based on certain costs incurred by the Water Division as its Howard Bend Water Treatment Plant. This information is presented in accordance with the requirements of the contracts and is included for use by the parties in determining water rates charged.

See accompanying independent auditors' report.