



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, 2018

(With Independent Auditors' Report Thereon)

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

Table of Contents

	Page
Independent Auditors' Report	1
Management's Discussion and Analysis – Unaudited	3
Basic Financial Statements:	
Balance Sheet	13
Statement of Revenues, Expenses, and Changes in Fund Net Position	14
Statement of Cash Flows	15
Notes to Basic Financial Statements	16
Other Information – Unaudited	
Schedule 1 – Detailed Schedule of Certain Operating Expenses (Unaudited)	34
Schedule 2 – Schedule of Costs for Howard Bend Water Sales (Unaudited)	35



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, and enterprise fund of the City of St. Louis, Missouri, as of and for the year ended June 30, 2018, 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 Basic 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 and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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, 2018, and the changes in its financial position and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.



Emphasis of Matter

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 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, 2018, 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.

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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 26, 2018 on our consideration of the Water Division of the City of St. Louis, Missouri'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 Water Division of the City of St. Louis, Missouri's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Water Division of the City of St. Louis Missouri's internal control over financial reporting and compliance.

KPMG LLP

St. Louis, Missouri
November 26, 2018

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, 2018

(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, 2018. 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 (79,417) 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 (12,771) 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 43.5 billion gallons of treated water in fiscal year 2018. This represents a 2.1% increase from fiscal year 2017.
- Usage by metered customers increased by 233.1 million gallons or 2.18% during fiscal year 2018 and metered revenue increased by \$912 or 4%.
- The number of flat rate customers in fiscal year 2018 increased by 183, or 0.23%, but flat rate revenue decreased by \$41 or 0.2%.
- Wholesale water revenue decreased by \$264, or 7%, during fiscal year 2018.
- Other revenue increased by \$282, or 11%, during fiscal year 2018.
- Operating expenses increased by \$1,313, or 3%, during fiscal year 2018.
- Operating income decreased by \$424, or 9%, during fiscal year 2018.
- The overall change in net position for fiscal year 2018 was \$2,286, a decrease of \$435, or 16%, compared to fiscal year 2017.

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 Governmental Accounting Standards Board (GASB). 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.

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, 2018

(Dollars in thousands)

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 and notes to the basic financial statements. 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.

Net Position

This table is a summary of the Water Division's net positions as of June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>	<u>Dollar change</u>	<u>Percentage change</u>
Assets:				
Other assets	\$ 61,063	58,252	2,811	5 %
Capital assets	160,910	161,283	(373)	(0.2)
Deferred outflow of resources	<u>1,480</u>	<u>3,881</u>	<u>(2,401)</u>	<u>(62)</u>
Total assets and deferred outflow of resources	\$ <u>223,453</u>	<u>223,416</u>	<u>37</u>	<u>— %</u>
Liabilities:				
Long-term liabilities	\$ 23,943	26,801	(2,858)	(11)%
Other liabilities	16,008	15,432	576	4
Deferred inflow of resources	<u>406</u>	<u>373</u>	<u>33</u>	<u>9</u>
Total liabilities and deferred inflow of resources	\$ <u>40,357</u>	<u>42,606</u>	<u>(2,249)</u>	<u>(5)%</u>
Net position:				
Net investment in capital assets	\$ 152,847	152,798	49	0.03 %
Restricted for debt service	1,027	1,026	1	0.1
Unrestricted	<u>29,222</u>	<u>26,986</u>	<u>2,236</u>	<u>8</u>
Total net position	\$ <u>183,096</u>	<u>180,810</u>	<u>2,286</u>	<u>1 %</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, 2018

(Dollars in thousands)

Other assets increased by \$2,811, or 5%, while capital assets decreased by \$373, or 0.2%, due to completion of a valve assessment project totaling \$1,933 which is an intangible asset. In fiscal year 2017, this project was still in progress and was classified as nondepreciable capital asset. During fiscal year 2018, the trend continued in spending of ordinance funds and capital projects for system improvements and purchase of rolling stock and construction equipment.

A decrease in long-term liabilities of \$2,858, or 11%, is primarily due to a decrease in net pension liability of \$2,374, or 19%. Additionally, the water revenue bonds payable decreased due to principal payment of \$422. At June 30, 2018, the net pension liability is \$10,162. Deferred outflow of resources decreased by \$2,401, or 62%, while deferred inflow of resources increased by \$33, or 9%.

The preceding table shows that 83.5% of Water Division net position in fiscal year 2018 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, 2018 and 2017 are summarized as follows:

	<u>2018</u>	<u>2017</u>	<u>Dollar change</u>	<u>Percentage change</u>
Operating revenues	\$ 54,446	53,557	889	2 %
Operating expenses	<u>(50,036)</u>	<u>(48,723)</u>	<u>(1,313)</u>	<u>3</u>
Operating income	4,410	4,834	(424)	(9)
Nonoperating revenues, net	<u>998</u>	<u>879</u>	<u>119</u>	<u>14</u>
Income before capital contributions and transfers	5,408	5,713	(305)	(5)
Capital contributions	—	215	(215)	(100)
Transfers out	<u>(3,122)</u>	<u>(3,207)</u>	<u>85</u>	<u>(3)</u>
Increase in net position	\$ <u>2,286</u>	<u>2,721</u>	<u>(435)</u>	<u>(16)</u>
Net position, end of year	\$ 183,096	180,810	2,286	1 %

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

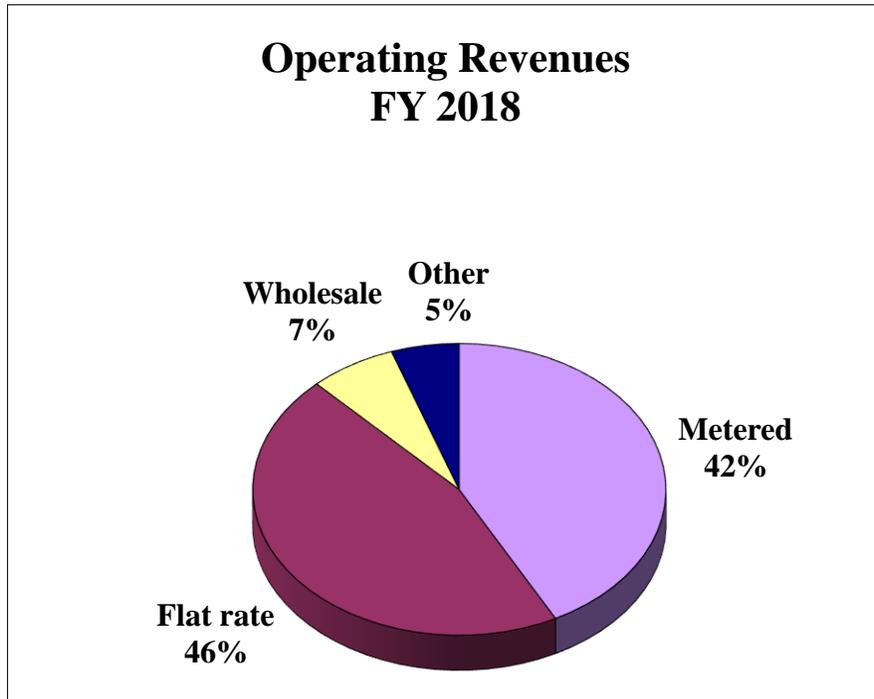
Management's Discussion and Analysis – Unaudited

June 30, 2018

(Dollars in thousands)

Revenues

The chart below depicts the four sources of operating revenue for the Water Division for fiscal year 2018 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, 2018

(Dollars in thousands)

The table below summarizes the sources of total revenues (operating and nonoperating) for the Water Division for fiscal years 2018 and 2017. This comparison details the change in dollars and percent between the two fiscal years by component revenue source.

	<u>2018</u>	<u>2017</u>	<u>Dollar change</u>	<u>Percentage change</u>
Operating revenues:				
Metered	\$ 23,020	22,108	912	4 %
Flat rate	24,817	24,858	(41)	(0.2)%
Wholesale	3,710	3,974	(264)	(7)
Other	<u>2,899</u>	<u>2,617</u>	<u>282</u>	<u>11</u>
Total operating revenues	<u>54,446</u>	<u>53,557</u>	<u>889</u>	<u>2</u>
Nonoperating revenues:				
Investment earnings, net	374	132	242	183
Miscellaneous, net	<u>959</u>	<u>1,063</u>	<u>(104)</u>	<u>(10)</u>
Total nonoperating revenues	<u>1,333</u>	<u>1,195</u>	<u>138</u>	<u>12</u>
Total revenues	\$ <u>55,779</u>	\$ <u>54,752</u>	<u>1,027</u>	<u>2 %</u>
Capital contributions	\$ —	215	(215)	100 %

Metered water revenues increased by \$912, or 4%, while flat rate revenue continued to decrease by \$41, or 0.2%. Metered customers decreased by 33 accounts, or 0.26% while flat rate customers increased by 183 accounts or 0.23%. Adjustments to the water bills due to change in number of rooms and canceled bills on vacant properties contributed to the decrease in flat rate revenue.

Wholesale revenue decreased by \$264, or 7%. The decrease is a result of the normalized usage of one of the wholesale water customers all throughout fiscal year 2018 compared to a slightly higher consumption in fiscal year 2017.

Other revenues increased by \$282, or 11%, compared to fiscal year 2017 as completed reimbursable projects increased in fiscal year 2018.

Investment earnings, net rose by \$242, or 183% as a result of increased investing activities in fiscal year 2018 compared to fiscal year 2017.

Miscellaneous revenues, (net) decreased by \$104, or 10%, due to decrease in revenues on delinquent bills.

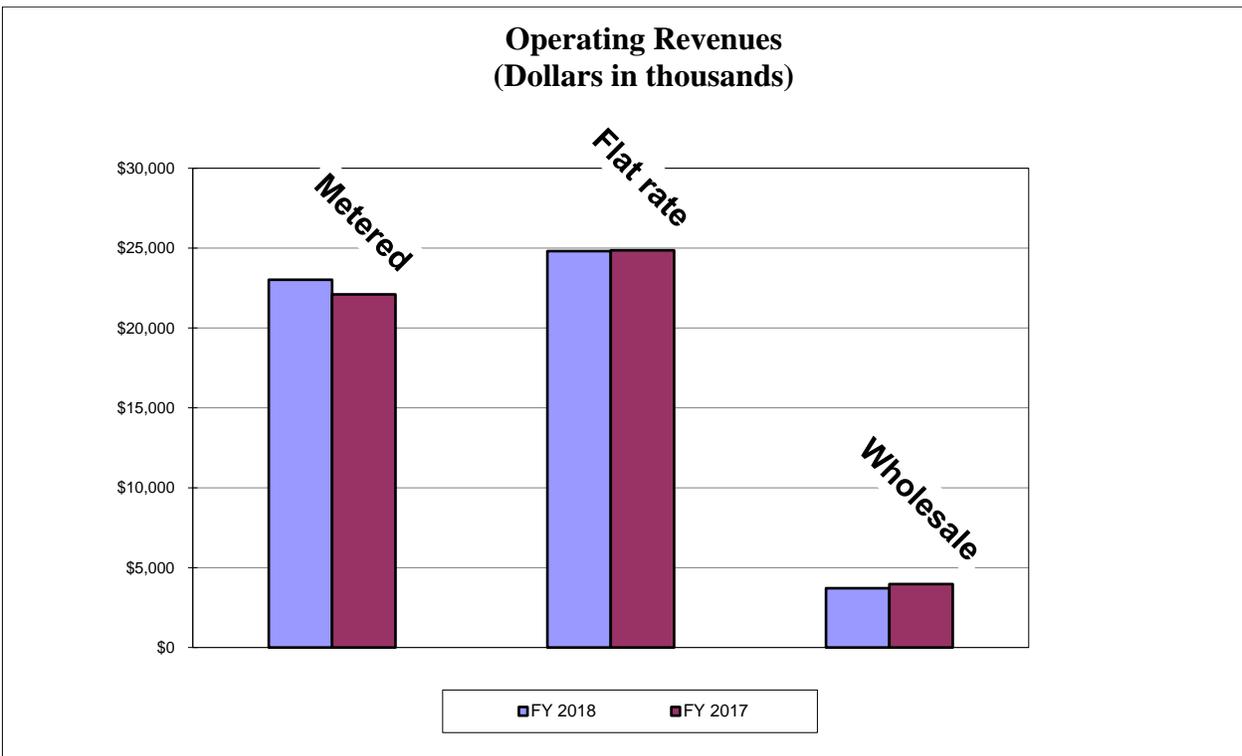
WATER DIVISION OF THE CITY OF ST. LOUIS, MISSOURI
(An Enterprise Fund of the City of St. Louis, Missouri)

Management's Discussion and Analysis – Unaudited

June 30, 2018

(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 2017 to fiscal year 2018.



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, 2018

(Dollars in thousands)

Expenses

The table below summarizes the Water Division's expenses for fiscal years 2018 and 2017:

	<u>2018</u>	<u>2017</u>	<u>Dollar change</u>	<u>Percentage change</u>
Operating expenses:				
Supply and purification	\$ 15,132	15,367	(235)	(2)%
Transmission and distribution	11,882	10,473	1,409	13
Power and pumping	8,165	7,579	586	8
Depreciation (not allocated to other operating expenses)	5,551	5,459	92	2
Administrative and general	3,498	3,062	436	14
Interfund service used	2,415	3,262	(847)	(26)
Customer accounting	1,753	1,862	(109)	(6)
Cost of service line maintenance	764	807	(43)	(5)
Collector of Revenue's fee, net	814	830	(16)	(2)
Cost of community service	62	22	40	182
Total operating expenses	<u>50,036</u>	<u>48,723</u>	<u>1,313</u>	<u>3 %</u>
Nonoperating expenses:				
Interest expense on long-term obligations	328	310	18	6 %
Loss on disposal of capital assets	7	6	1	17
Total nonoperating expenses	<u>335</u>	<u>316</u>	<u>19</u>	<u>6</u>
Total expenses	<u>\$ 50,371</u>	<u>49,039</u>	<u>1,332</u>	<u>3 %</u>
Transfers to City of St. Louis, Missouri	\$ 3,122	3,207	(85)	(3)%

Total operating expenses increased by \$1,313, or 3%, compared to fiscal year 2017. The extreme winter weather condition resulted to a significant number of main breaks and fire hydrant repairs in fiscal year 2018, which accounted for most of the increase. Additionally, increase in pumping to meet distribution demand requirements resulted to an increase in purchased power. Offsetting these increases are decreases in pension expenses of \$598 and \$865 in workmen's compensation expenses. The twenty seventh pay period in fiscal year 2017 and increase in vacant positions in fiscal year 2018 resulted in overall decrease in salaries and wages.

Supply and purification decreased by \$235 or 2%. The largest component of this section's decrease occurred in salaries, wages and benefits, which decreased by \$315, or 7%. Although pumping increased in fiscal year 2018, chemical costs fell by \$139, or 2%, due to difference in source water condition compared to fiscal year 2017. Support Services and other services increased by \$226, or 6%.

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, 2018

(Dollars in thousands)

Transmission and distribution expenses increased by \$1,409, or 13%. During fiscal year 2018, the number of distribution main breaks and fire hydrant repairs increased by 225, or 52% and 242 or 72%, respectively. Salaries and wages increased due to overtime pay increase of \$490, or 35%, to address the repair works. Consequently this resulted to increases in support services, other services, materials and supplies by \$1,965 or 31%. Depreciation increased by \$153, or 33%. Offsetting these increases is an increase in transfers out of operating expenses on completed projects that were allocated to capital assets or billable to customers and other accounts of \$1,066, or 27%. Pension expenses decreased by \$226, or 29%.

Power and pumping increased by \$586, or 8%. The increase in pumping of 0.9 billion gallons which represents 2.1% increase from fiscal year 2017, accounted for an increase in purchased power of \$257, or 7%, in fiscal year 2018. Support services and other services increased by \$261, or 18% and \$203, or 65%, respectively, as labor workforce and contract services continued to service construction projects and performed equipment repairs. Offsetting these increases is a decrease in salaries, wages and benefits of \$135, or 7%, due to a decrease in pension expenses and an increase in vacant positions.

Administrative and general expenses increased by \$436, or 14%. The majority of this increase was due to an increase in Other Services of \$304, or 46%, for damage claims and probable settlement of pending litigation. Salaries, wages and benefits increased by \$79, or 5% as a result in filled positions to support the Geographic Information System (GIS) and CityWorks implementation. Support services increased by \$10, or 8% and materials and supplies by \$34 or 33%.

Interfund services used decreased by \$847, or 26%. This 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 \$865, or 50%. Reimbursement to the City for services it provides to the Water Division through cost allocation increased by \$132, or 16%. Services provided by the Street Department increased by \$33, or 21%, while equipment repair services decreased by \$149, or 30%.

Customer accounting expenses remained relatively unchanged, decreasing by only \$109, or 6%, mostly due to decreases in support services of \$39, or 8% and salaries and wages of \$75, or 6%.

Service line maintenance costs decreased by \$43, or 5%, as the number of service lines repaired decreased in fiscal year 2018 compared to 2017.

The Collector of Revenue's fee decreased by \$16, or 2%.

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 2018 was properly met.

WATER DIVISION OF THE CITY OF ST. LOUIS, MISSOURI

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

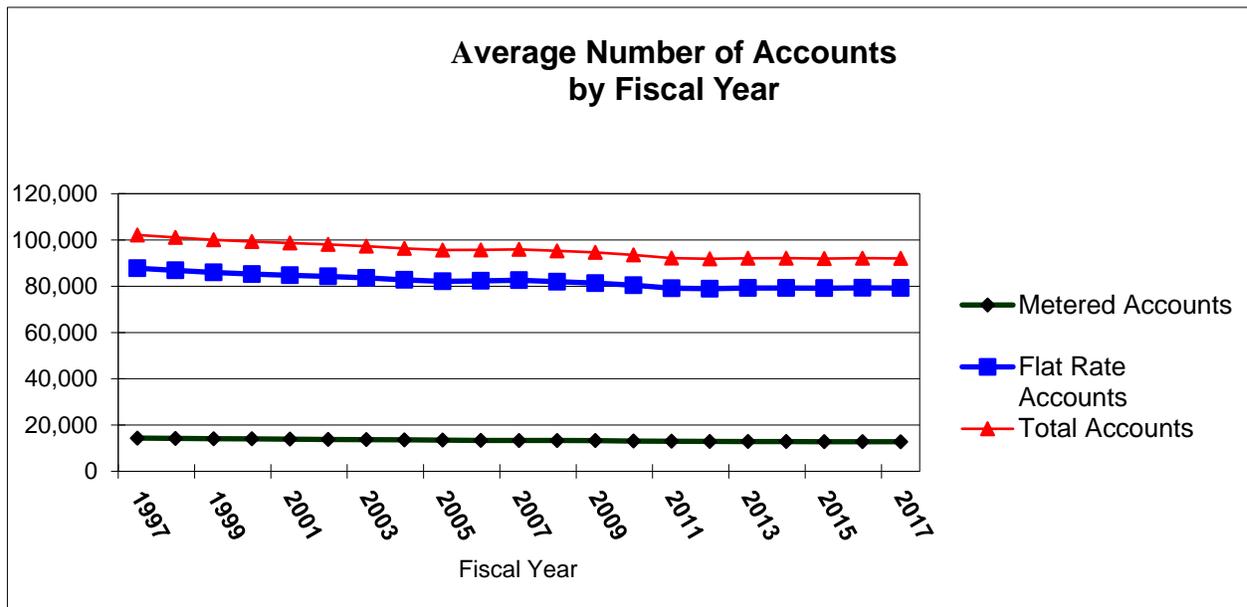
Management's Discussion and Analysis – Unaudited

June 30, 2018

(Dollars in thousands)

In July 2017, the City passed Ordinance 70579, which authorized the City to increase the charge from \$11.00 to \$14.00 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 account. The rate increase for the solid waste service has no impact on the Water Division's revenue.

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 2013 Water Revenue Refunding Bonds (Series 2013 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. A water rate study was completed in November 2017. The completed water rate study and the current net revenue calculation both indicated that water revenues were sufficient in fiscal year 2018 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, 2018

(Dollars in thousands)

Capital Assets and Long-Term Debt

Total capital assets being depreciated increased by \$4,330 or 1%, from fiscal year 2017 to fiscal year 2018. The increase primarily reflects additional net capital spending of \$2,329 on water mains, lines, and accessories throughout the water distribution system. Capital assets also increased by \$2,001 due to purchases of replacement rolling stocks, construction and maintenance equipment and various completed projects.

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%. The final drawdown was completed in fiscal year 2017.

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, 2018

(Dollars in thousands)

Assets and Deferred Outflow of Resources

Current assets:

Cash and investments:

Restricted cash	\$ 399
Unrestricted cash	7,020
Unrestricted investments	31,653
Accounts receivable, net	9,183
Unbilled water revenue	5,415
Unbilled revenue-other services	244
Supplies and materials	2,309
Other receivable	74
Total current assets	<u>56,297</u>

Noncurrent assets:

Cash and investments:

Restricted cash	2,902
Capital assets, net:	
Nondepreciable	16,705
Depreciable	144,205
Intangible assets, net	1,864
Total noncurrent assets	<u>165,676</u>

Deferred outflow of resources – pension

Total assets and deferred outflow of resources	<u>\$ 223,453</u>
--	-------------------

Liabilities, Deferred Inflow of Resources, and Net Position

Current liabilities:

Payable from unrestricted assets:

Accounts and wages payable	\$ 3,686
Other accrued liabilities	5,447
Unearned revenue	1,800
Due to City of St. Louis, Missouri	4,540
Total current liabilities payable from unrestricted assets	<u>15,473</u>

Payable from restricted assets:

Current maturities of water revenue bonds payable	430
Accrued interest payable	105
Total current liabilities payable from restricted assets	<u>535</u>
Total current liabilities	<u>16,008</u>

Noncurrent liabilities:

Water revenue bonds payable	7,633
Customer deposits – payable from restricted assets	2,152
Net pension liability	10,162
Other liability to the City of St. Louis, Missouri	2,712
Sick leave liability	1,284
Total noncurrent liabilities	<u>23,943</u>

Deferred inflow of resources – pension

Total liabilities and deferred inflow of resources	<u>40,357</u>
--	---------------

Net position:

Net investment in capital assets	152,847
Restricted for debt service	1,027
Unrestricted	29,222
Total net position	<u>183,096</u>
Total liabilities, deferred inflow of resources, and net position	<u>\$ 223,453</u>

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, 2018

(Dollars in thousands)

Operating revenues:		
Metered	\$	23,020
Flat rate		24,817
Wholesale		3,710
Other		2,899
Total operating revenues		54,446
Operating expenses:		
Supply and purification		15,132
Transmission and distribution		11,882
Power and pumping		8,165
Depreciation (not allocated to other operating expenses)		5,551
Administrative and general		3,498
Interfund services used		2,415
Customer accounting		1,753
Cost of service line maintenance		764
Collector of Revenue's fee, net		814
Cost of community service		62
Total operating expenses		50,036
Operating income		4,410
Nonoperating revenues (expenses):		
Investment earnings, net		374
Interest expense on long-term obligations		(328)
Miscellaneous, net		959
Loss on disposal of capital assets		(7)
Total nonoperating revenues, net		998
Income before transfers		5,408
Transfers to the City of St. Louis, Missouri		(3,122)
Total transfers		(3,122)
Increase in net position		2,286
Total net position, beginning of year		180,810
Total net position, end of year	\$	183,096

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, 2018

(Dollars in thousands)

Cash flows from operating activities:	
Receipts from customers and users	\$ 51,416
Payments to suppliers of goods and services	(21,465)
Payments to employees	(17,200)
Payments for interfund services used	<u>(3,546)</u>
Net cash provided by operating activities	<u>9,205</u>
Cash flows from noncapital financing activities:	
Interest and principal paid on share of bond pension liability	(275)
Transfers to other funds of the City of St. Louis, Missouri	<u>(3,091)</u>
Net cash used in noncapital financial activities	<u>(3,366)</u>
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(5,907)
Acquisition and purchase of intangible assets	(1,933)
Interest paid on water revenue bonds	(127)
Principal paid on water revenue bonds	(422)
Other capital and financing activities	<u>956</u>
Net cash used in capital and related financing activities	<u>(7,433)</u>
Cash flows from investing activities:	
Purchase of investments	(49,742)
Proceeds from maturities of investments	37,459
Interest income on cash and investments	<u>364</u>
Net cash used in investing activities	<u>(11,919)</u>
Net decrease in cash and cash equivalents	<u>(13,513)</u>
Cash and cash equivalents at beginning of year:	
Unrestricted	20,727
Restricted	<u>3,107</u>
	<u>23,834</u>
Cash and cash equivalents at end of year:	
Unrestricted	7,020
Restricted	<u>3,301</u>
	<u>\$ 10,321</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 4,410
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	6,273
Amortization	360
Changes in assets and liabilities:	
Accounts receivable, net	(2,460)
Unbilled revenue	(211)
Supplies and materials	213
Accounts and wages payable	(437)
Other accrued liabilities	1,164
Unearned revenue	44
Due to/from City of St. Louis, Missouri	(317)
Customer deposits	106
Net pension liability	<u>60</u>
Total adjustments	<u>4,795</u>
Net cash provided by operating activities	<u>\$ 9,205</u>
Supplemental disclosures of noncash activities:	
Loss on disposal of capital assets	\$ 7

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, 2018

(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 Governmental 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, Net

Accounts receivable at June 30, 2018 consist of \$11,872 due from metered and flat rate customers and \$1,678 due from other customers. Such amounts are recorded net of an allowance for uncollectible accounts of \$4,367.

(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, 2018, unbilled water revenue amounted to \$5,415.

(e) Supplies and Materials

Supplies and materials are valued using a moving average cost.

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, 2018

(Dollars in thousands)

(f) Capital Assets, Net

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, Net

Intangible assets consist of software development costs and a valve assessment project. These assets are amortized on the straight-line method over five years and ten years, respectively.

(h) Accounts and Wages Payable

Accounts and wages payable at June 30, 2018 comprises \$2,219 of accrued salaries and benefits and \$1,467 due to vendors and contractors.

(i) Other Accrued Liabilities

Other accrued liabilities at June 30, 2018 primarily comprises \$4,125 of refuse charge, which is a pass-through account as all payments are kept separate and are not deposited into the water revenue account.

(j) 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 \$1,818 as of June 30, 2018 and is included in accounts and wages payable.

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, 2018

(Dollars in thousands)

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 \$1,284 of June 30, 2018 and is classified as a noncurrent liability.

(k) 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 \$764 during the year ended June 30, 2018, which is reported within other operating revenues. Unearned service line maintenance revenue amounted to \$302 at June 30, 2018.

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 \$1,498 at June 30, 2018.

(l) 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.

(m) Net Position

Net position is displayed in three components as follows:

(i) 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.

(ii) 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.

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, 2018

(Dollars in thousands)

(iii) *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 disbursed for the purposes contemplated in these ordinances. The balance of this fund as of June 30, 2018 is \$3,871, 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, 2018 is \$2,152.
- (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. The balance of service line maintenance fund as of June 30, 2018 is \$122.

(n) *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.

(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**

The Water Division applies the provisions of GASB Statement No. 72 for fair value measurements of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the financial statements on a recurring basis. GASB Statement No. 72 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving

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, 2018

(Dollars in thousands)

significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets that the Water Division has the ability to access at the measurement date. Level 1 investments include U.S. treasury obligations.
- Level 2 inputs are observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 investments include commercial paper.
- Level 3 inputs are significant unobservable inputs for the asset. The Water Division had no Level 3 investments as of June 30, 2018.

The following table presents assets that are measured at fair value on a recurring basis at June 30, 2018:

	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets:				
U.S. Treasury obligations	\$ 9,676	9,676	—	—
Commercial paper	21,977	—	21,977	—
Total	\$ 31,653	9,676	21,977	—

Investments are recorded at fair value, which is determined by quoted market prices using other observable inputs at year-end as reported by the investment custodian.

Purchases and sales of investments are recorded on a trade date basis.

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

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, 2018

(Dollars in thousands)

As of June 30, 2018, the Water Division had the following cash, cash equivalents, and investments:

U.S. Treasury obligations	\$	9,676
Commercial paper		21,977
Cash deposits		<u>10,321</u>
Total cash and investments	\$	<u><u>41,974</u></u>

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. 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, 2018:

	<u>Fair value</u>	<u>Less than 1 year</u>	<u>1-5 years</u>
U.S. Treasury obligations	\$ 9,676	9,676	—
Commercial paper	<u>21,977</u>	<u>21,977</u>	—
	\$ <u><u>31,653</u></u>	<u><u>31,653</u></u>	<u>—</u>

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, 2018

(Dollars in thousands)

(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 and have long-term debt ratings "AA" or better from at least one NRSRO.

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, 2018, the Water Division's holdings in commercial paper were rated A-1/P-1/F1+ as of June 30, 2018 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, 2018, 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.

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, 2018

(Dollars in thousands)

(d) Concentration of Credit Risk

The City's Investment Policy indicates that in order to reduce overall risks while maintaining market average rates of return, the minimum diversification standards by security type shall be as follows:

	<u>Maximum percentage of portfolio</u>	<u>Maximum maturity</u>
U.S. Treasury securities	100 %	5 years
U.S. government agency obligations	100	5 years
Obligations of the State of Missouri	25	5 years
Collateralized certificates of deposits	50	5 years
Collateralized repurchase agreements	25	90 days
Commercial paper	25	180 days
Banker's acceptance	25	180 days

The Water Division does not have a separate investment policy.

At June 30, 2018, the concentration of the Water Division's investments (excluding cash deposits) was as follows:

U.S. Treasuries obligations	31 %
Commercial paper	<u>69</u>
	<u><u>100 %</u></u>

(3) Restricted Assets

Cash restricted in accordance with bond provisions and City ordinances at June 30, 2018 is as follows:

Bond funds:	
Waterworks bond fund	\$ 277
Water replacement and improvement account	<u>750</u>
Total bond funds	1,027
Customer deposits	2,152
Service line maintenance	<u>122</u>
Total restricted cash	<u><u>\$ 3,301</u></u>

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, 2018

(Dollars in thousands)

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 2013 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 the calculated 1/6 amount of interest that will come due on the next interest payment date, plus an amount at least equal to 1/6 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 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.
- (4) 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 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.

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, 2018

(Dollars in thousands)

(4) Capital Assets

The following table shows the changes in capital assets for the fiscal year ended June 30, 2018:

	Balances June 30, 2017	Additions	Retirements	Transfers	Balances June 30, 2018
Capital assets being depreciated:					
Buildings and structures	\$ 42,283	92	(9)	186	42,552
Reservoirs	35,172	105	—	—	35,277
Boiler plant equipment	661	—	—	—	661
Pumping equipment	11,215	466	(30)	—	11,651
Purification basins and equipment	43,753	—	—	413	44,166
Water mains, lines, and accessories	140,946	2,397	(68)	—	143,275
Equipment	17,861	295	(18)	135	18,273
Motor vehicle equipment	11,806	1,141	(775)	—	12,172
Total capital assets being depreciated	303,697	4,496	(900)	734	308,027
Less accumulated depreciation:					
Buildings and structures	(28,324)	(666)	9	—	(28,981)
Reservoirs	(14,091)	(735)	—	—	(14,826)
Boiler plant equipment	(653)	(3)	—	—	(656)
Pumping equipment	(9,899)	(270)	30	—	(10,139)
Purification basins and equipment	(20,272)	(936)	—	—	(21,208)
Water mains, lines, and accessories	(63,594)	(1,830)	66	—	(65,358)
Equipment	(16,149)	(882)	18	—	(17,013)
Motor vehicle equipment	(5,460)	(951)	770	—	(5,641)
Total accumulated depreciation	(158,442)	(6,273)	893	—	(163,822)
	145,255	(1,777)	(7)	734	144,205
Capital assets not being depreciated:					
Land	1,238	—	—	—	1,238
Construction in progress	14,790	1,420	—	(743)	15,467
Total capital assets not being depreciated	16,028	1,420	—	(743)	16,705
Total	\$ 161,283	(357)	(7)	(9)	160,910

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

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, 2018

(Dollars in thousands)

(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%.

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 or 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.

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, 2018

(Dollars in thousands)

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 12.22% effective July 2017 and 12.51% effective July 2016.

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.

The Water Division's contributions to the Employees System for the year ended June 30, 2018 were \$1,678.

(c) Net Pension Liability

The Water Division reported a liability of \$10,162 for its proportionate share of the net pension liability as of June 30, 2018. The net pension liability was measured as of September 30, 2017 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of October 1, 2017. 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. As of September 30, 2017, the Water Division's collective proportion was 5.85%, which was an increase of 0.14% from its proportion as of September 30, 2016.

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

Valuation date	October 1, 2017
Actuarial cost method	Entry age normal cost method
Amortization method	Fixed 20 year period as of October 1, 2015 as a level percentage of payroll
Remaining amortization period	20 years as of October 1, 2015
Asset valuation method	5-year smoothed market
Inflation rate	2.50%
Discount rate	7.50%
Projected salary increases	3.00% plus merit component based on employee's years of service
Mortality	RP-2000 Healthy Mortality with 3 year set-forward and generational projections using Scale AA

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, 2018

(Dollars in thousands)

The long-term expected rate of return on the Employees System investments was determined using a building-block approach and a forward-looking model in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These rates of return are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. For each major asset class that is included in the Employee System's target asset allocation as of September 30, 2017, these best estimates are summarized in the following table:

Asset class	Target allocation	Long-term expected real rate of return
Large cap	17.00 %	7.30 %
Small cap	4.00	7.00
International large cap	15.30	7.30
Emerging markets	6.20	9.30
High yield	5.00	5.30
Master limited partnerships	7.50	10.80
Private equity	5.00	9.80
Core fixed income	12.50	3.80
International fixed income	4.00	3.50
Core real estate	10.00	6.50
Treasury inflation protected securities	3.50	3.50
Hedge funds	10.00	5.00
	100.00 %	

The discount rate used to measure the total pension liability was 7.50%. 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 Employees System 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, 2017 actuarial valuation, a 7.50% discount rate was used. The

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, 2018

(Dollars in thousands)

sensitivity of the net pension liability to changes in the discount rate for the year ended June 30, 2018 for the Water Division is as follows:

	<u>Discount rate</u>	<u>Net pension liability</u>
1% decrease	6.50 %	\$ 15,950
Current rate	7.50	10,162
1% increase	8.50	5,210

Pension Plan Fiduciary Net Position – Detailed information about the pension plan’s fiduciary net position is available in the separately issued Employees System financial report.

(d) Pension Expense

For the year ended June 30, 2018, the Water Division recognized pension expense of \$1,738. 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 and recognized in pension expense over a five-year period.

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

In accordance with GASB Statement No. 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, 2018, the Water Division reported deferred outflow of resources and deferred inflow of resources related to pensions from the following sources as follows:

	<u>Deferred outflow of resources</u>	<u>Deferred inflow of resources</u>
Differences between expected and actual experience	\$ —	(241)
Net difference between projected and actual earnings on pension plan investments	111	—
Changes of assumptions	—	—
Changes in proportion	83	(165)
Water Division contributions subsequent to the measurement date	<u>1,286</u>	<u>—</u>
Total	<u>\$ 1,480</u>	<u>(406)</u>

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, 2018

(Dollars in thousands)

The \$1,286 reported as deferred outflows of resources related to pensions resulting from the Water Division's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2019.

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:

<u>Year ending June 30</u>	<u>Recognition</u>
2019	\$ 261
2020	386
2021	(506)
2022	(353)
2023	—
Thereafter	—
	<u>\$ (212)</u>

(f) Pension Funding Project

During fiscal year 2008, the City of St. Louis Municipal Finance Corporation issued \$46,700 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 \$2,791 liability is reflected as other noncurrent long-term liabilities 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, 2018:

	<u>Balance June 30, 2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2018</u>	<u>Due within one year</u>
Water revenue bonds payable (note 7)	\$ 8,485	—	(422)	8,063	430
Net pension liability (note 5)	12,536	—	(2,374)	10,162	—
Customer deposits	2,046	1,081	(975)	2,152	—
Other liability to the City of St. Louis, Missouri (note 5)	2,865	—	(74)	2,791	79
Accrued vacation and sick leave liability	3,212	48	(158)	3,102	1,818
Total	<u>\$ 29,144</u>	<u>1,129</u>	<u>(4,003)</u>	<u>26,270</u>	<u>2,327</u>

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, 2018

(Dollars in thousands)

(7) Water Revenue Refunding Bonds Payable

Water revenue bonds outstanding at June 30, 2018 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	\$	8,063
Less current maturities		<u>430</u>
	\$	<u><u>7,633</u></u>

(a) Series 2013 Water Revenue Refunding Bonds

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. The final drawdown relating to the program was completed in fiscal year 2017.

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
2019	\$ 430	124	554
2020	439	117	556
2021	448	110	558
2022	458	103	561
2023	467	96	563
2024–2035	<u>5,821</u>	<u>541</u>	<u>6,362</u>
	\$ <u><u>8,063</u></u>	<u><u>1,091</u></u>	<u><u>9,154</u></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, 2018, the City charged the Water Division \$2,415 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, 2018, \$563 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 \$783 worth of service for the year ended June 30,

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, 2018

(Dollars in thousands)

2018. 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, 2018, \$395 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, 2018, the Water Division paid \$814, 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, 2018, the Water Division recorded amounts transferred to the City of \$3,122. 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, 2018, \$236 was due to the City for gross receipts tax.

(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 \$310, 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. Additionally, there is a \$250 claim accrued within other accrued liabilities, which the City Counselor's office has determined is probable that a loss contingency may be incurred.

At June 30, 2018, the Water Division has \$1,298 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, 2018, the Water Division owed the PFPC \$3,346 for unreimbursed workers' compensation claims and is included in Due to City of St. Louis, Missouri on the balance sheet.

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, 2018

(Dollars in thousands)

(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.

(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, 2018, 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, 2018</u>	<u>Revenue recognized for the year ended June 30, 2018</u>
All Water Division revenues	Funding of various water division infrastructures	Through 2018	1.0 % \$	553	54,446

As of June 30, 2018, the remaining principal and interest requirement is \$9,154 payable through January 2034 (fiscal year 2034). The proportion of pledged revenue to revenue collected is estimated at 1% at June 30, 2018.

(13) Subsequent Events

In connection with the preparation of the financial statements, the Water Division evaluated subsequent events, and noted no additional items to disclose through November 26, 2018, which was the date the financial statements were issued.

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, 2018

(Dollars in thousands)

Supply and purification:		
Salaries and wages	\$	4,230
Support services		2,361
Other services		1,427
Materials and supplies		626
Depreciation		70
Chemicals		6,418
		<u>15,132</u>
		15,132
Less amounts capitalized or allocated to other accounts		<u>—</u>
Total supply and purification	\$	<u><u>15,132</u></u>
Transmission and distribution:		
Salaries and wages	\$	8,074
Support services		922
Other services		3,571
Materials and supplies		3,762
Depreciation		625
		<u>16,954</u>
		16,954
Less amounts capitalized or allocated to other accounts		<u>(5,072)</u>
Total transmission and distribution	\$	<u><u>11,882</u></u>
Power and pumping:		
Salaries and wages	\$	1,896
Support services		1,749
Other services		518
Materials and supplies		260
Depreciation		5
Purchased power		3,737
		<u>8,165</u>
		8,165
Less amounts capitalized or allocated to other accounts		<u>—</u>
Total power and pumping	\$	<u><u>8,165</u></u>
Administrative and general:		
Salaries and wages	\$	1,738
Support services		141
Other services		971
Materials and supplies		139
Depreciation		3
Bad debt expense		509
		<u>3,501</u>
		3,501
Less amounts allocated to other accounts		<u>(3)</u>
Total administrative and general	\$	<u><u>3,498</u></u>
Customer accounting:		
Salaries and wages	\$	1,201
Support services		434
Other services		44
Materials and supplies		55
Depreciation		19
		<u>1,753</u>
		1,753
Less amounts capitalized or allocated to other accounts		<u>—</u>
Total customer accounting	\$	<u><u>1,753</u></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, 2018

(Dollars in thousands)

I. Direct Costs of Supply and Purification – Howard Bend		
Labor	\$	2,043
Chemicals		2,435
Support services		704
Other materials and services		844
	\$	<u>6,026</u>
II. Direct Costs of Power and Pumping – Howard Bend		
Power	\$	1,665
Labor		467
Support services		425
Other materials and services		222
	\$	<u>2,779</u>
III. General Office Expenses – Power and Pumping	\$	935
IV. General Office Expenses – Supply and Purification		831
V. Reservoir Maintenance		23
VI. Administration and Finance Costs		
City services	\$	980
Labor		1,738
Other services and miscellaneous		1,113
Support services		141
	\$	<u>3,972</u>
VII. Specified Labor Costs		
Transmission and distribution	\$	8,074
Supply and purification		4,230
Power and pumping		1,896
Customer accounting		1,201
	\$	<u>15,401</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.