



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, 2020

(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
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St. Louis, MO 63102-1761

Independent Auditors' Report

The Honorable Mayor and Members of
The Board of Aldermen of the
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, 2020, 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 respective financial position of the Water Division of the City of St. Louis, Missouri, as of June 30, 2020, and the changes in 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, 2020, the changes 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 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 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 20, 2020 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 20, 2020

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, 2020

(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, 2020. 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 (80,020) 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 (12,537) 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 40.9 billion gallons of treated water in fiscal year 2020. This represents a 1% increase from fiscal year 2019.
- Usage by metered customers decreased by 776 million gallons or 7% during fiscal year 2020 and metered revenue decreased by \$1,217 or 6%.
- The number of flat rate customers in fiscal year 2020 increased by 324, or 0.4%, and flat rate revenue increased by \$55 or 0.2%.
- Wholesale water revenue increased by \$146, or 4%, during fiscal year 2020.
- Other revenue increased by \$297, or 11%, during fiscal year 2020.
- Operating expenses increased by \$18, or 0.04%, during fiscal year 2020.
- Operating income decreased by \$737, or 19%, during fiscal year 2020.
- The overall change in net position for fiscal year 2020 was \$2,939, an increase of \$1,088 or 59%, compared to fiscal year 2019.

Overview of the Financial Statements

The MD&A section of this 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
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Management's Discussion and Analysis – Unaudited

June 30, 2020

(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 position as of June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>	<u>Dollar change</u>	<u>Percentage change</u>
Assets:				
Other assets	\$ 62,597	63,731	(1,134)	-2%
Capital assets	165,728	160,654	5,074	3%
Deferred outflow of resources	<u>2,966</u>	<u>1,420</u>	<u>1,546</u>	<u>109%</u>
Total assets and deferred outflow of resources	\$ <u>231,291</u>	<u>225,805</u>	<u>5,486</u>	<u>2%</u>
Liabilities:				
Long-term liabilities	\$ 23,600	22,491	1,109	5%
Other liabilities	19,054	17,505	1,549	9%
Deferred inflow of resources	<u>751</u>	<u>862</u>	<u>(111)</u>	<u>-13%</u>
Total liabilities and deferred inflow of resources	\$ <u>43,405</u>	<u>40,858</u>	<u>2,547</u>	<u>6%</u>
Net position:				
Net investment in capital assets	\$ 158,534	153,021	5,513	4%
Restricted for debt service	1,029	1,028	1	0%
Unrestricted	<u>28,323</u>	<u>30,898</u>	<u>(2,575)</u>	<u>-8%</u>
Total net position	\$ <u>187,886</u>	<u>184,947</u>	<u>2,939</u>	<u>2%</u>

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Management's Discussion and Analysis – Unaudited

June 30, 2020

(Dollars in thousands)

Other assets decreased by \$1,134, or 2%, while capital assets increased by \$5,074, or 3%. During fiscal year 2020, the trend continued in spending of ordinance funds and capital projects for system improvements and purchase of rolling stock and construction equipment.

An increase in long-term liabilities of \$1,109, or 5%, is mostly due to an increase in net pension liability of \$1,975, or 21%. Offsetting this increase were decreases totaling \$418 or 7% in customer deposits, sick leave liability and other liability to the City of St. Louis, MO. Additionally, the water revenue bonds payable decreased by 6% due to principal payment of \$439. At June 30, 2020, the net pension liability is \$11,575. Deferred outflow of resources increased by \$1,546 or 109%, while deferred inflow of resources decreased by \$111, or 13%.

The preceding table shows that 84.4% of Water Division net position in fiscal year 2020 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, 2020 and 2019 are summarized as follows:

	<u>2020</u>	<u>2019</u>	<u>Dollar change</u>	<u>Percentage change</u>
Operating revenues	\$ 51,901	52,620	(719)	-1%
Operating expenses	<u>(48,706)</u>	<u>(48,688)</u>	<u>(18)</u>	<u>0%</u>
Operating income	3,195	3,932	(737)	-19%
Nonoperating revenues, net	<u>918</u>	<u>1,149</u>	<u>(231)</u>	<u>-20%</u>
Income before capital contributions and transfers	4,113	5,081	(968)	-19%
Capital Contributions	1,963	—	1,963	100%
Transfers out	<u>(3,137)</u>	<u>(3,230)</u>	<u>93</u>	<u>-3%</u>
Increase in net position	<u>\$ 2,939</u>	<u>1,851</u>	<u>1,088</u>	<u>59%</u>
Net position, end of year	<u>\$ 187,886</u>	<u>184,947</u>	<u>2,939</u>	<u>2%</u>

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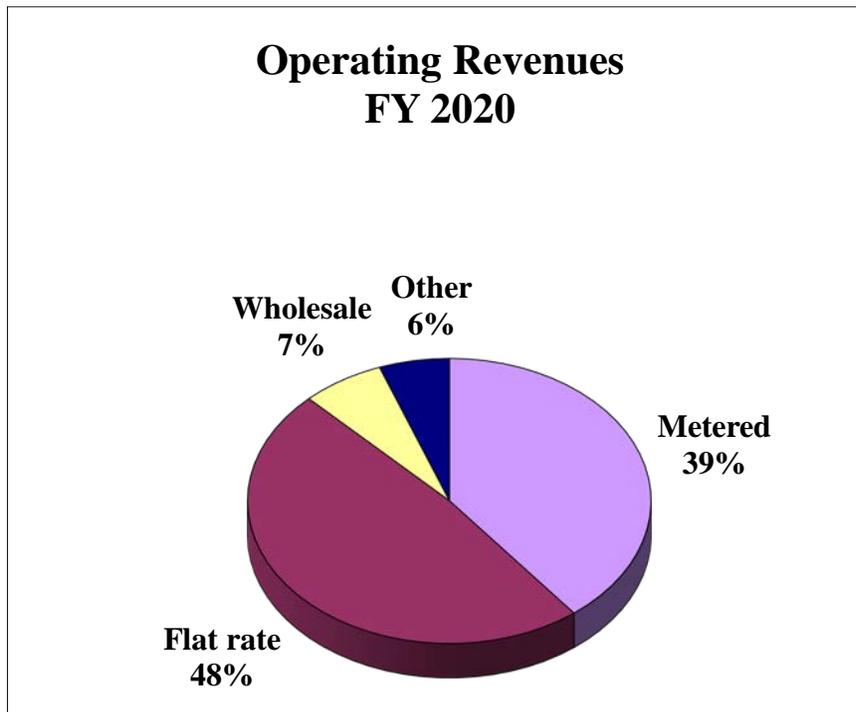
Management's Discussion and Analysis – Unaudited

June 30, 2020

(Dollars in thousands)

Revenues

The chart below depicts the four sources of operating revenue for the Water Division for fiscal year 2020 and each source's percentage contribution to total operating revenues:



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(Dollars in thousands)

The table below summarizes the sources of total revenues (operating and nonoperating) for the Water Division for fiscal years 2020 and 2019. This comparison details the change in dollars and percent between the two fiscal years by component revenue source.

	<u>2020</u>	<u>2019</u>	<u>Dollar change</u>	<u>Percentage change</u>
Operating revenues:				
Metered	\$ 20,456	21,673	(1,217)	-6%
Flat rate	25,078	25,023	55	0%
Wholesale	3,441	3,295	146	4%
Other	<u>2,926</u>	<u>2,629</u>	<u>297</u>	<u>11%</u>
Total operating revenues	<u>51,901</u>	<u>52,620</u>	<u>(719)</u>	<u>-1%</u>
Nonoperating revenues:				
Investment earnings, net	785	820	(35)	-4%
Miscellaneous, net	<u>428</u>	<u>649</u>	<u>(221)</u>	<u>-34%</u>
Total nonoperating revenues	<u>1,213</u>	<u>1,469</u>	<u>(256)</u>	<u>-17%</u>
Total revenues	<u>\$ 53,114</u>	<u>54,089</u>	<u>(975)</u>	<u>-2%</u>
Capital Contributions	1,963	—	1,963	100%

Metered water revenue decreased by \$1,217, or 6% as a result of shutdown of commercial and industrial accounts due to the COVID-19 pandemic. Flat rate revenue increased by \$55, or 0.2%. Metered customers decreased by 152 accounts, or 1.2% while flat rate customers increased by 324 accounts or 0.4%.

Wholesale revenue increased by \$146, or 4%. Although total consumption decreased by 4%, the increase is attributed to a higher rate of 17% in fiscal year 2020 compared to fiscal year 2019.

Other revenues increased by \$297, or 11%, compared to fiscal year 2019 as completed reimbursable projects increased in fiscal year 2020.

Investment earnings, net decreased by \$35, or 4% as a result of the drop-in interest rates during the last quarter of fiscal year 2020.

Miscellaneous revenues, net decreased by \$221, or 34%, due to a decrease in revenues on delinquent bills and miscellaneous sales and fees.

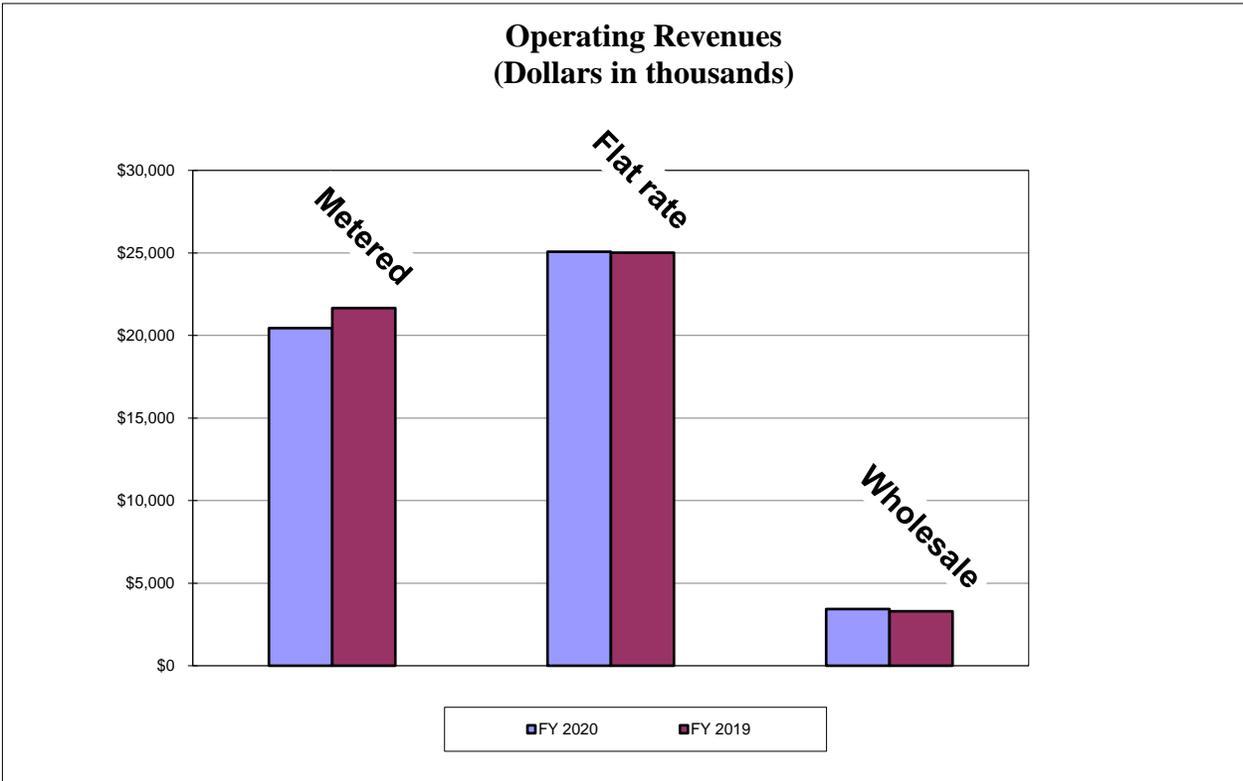
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(Dollars in thousands)

The chart below graphically displays the changes in the metered, flat rate, and wholesale revenue components of operating revenues from fiscal year 2019 to fiscal year 2020.



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(Dollars in thousands)

Expenses

The table below summarizes the Water Division's expenses for fiscal years 2020 and 2019:

	<u>2020</u>	<u>2019</u>	<u>Dollar change</u>	<u>Percentage change</u>
Operating expenses:				
Supply and purification	\$ 14,690	15,115	(425)	-3%
Transmission and distribution	9,916	10,126	(210)	-2%
Power and pumping	8,069	7,893	176	2%
Depreciation (not allocated to other operating expenses)	5,791	5,417	374	7%
Administrative and general	4,877	4,384	493	11%
Interfund service used	2,194	2,299	(105)	-5%
Customer accounting	1,684	1,540	144	9%
Cost of service line maintenance	553	865	(312)	-36%
Collector of Revenue's fee, net	901	916	(15)	-2%
Cost of community service	31	133	(102)	-77%
Total operating expenses	<u>48,706</u>	<u>48,688</u>	<u>18</u>	<u>0%</u>
Nonoperating expenses:				
Interest expense on long-term obligations	269	300	(31)	-10%
Loss on disposal of capital assets	26	20	6	30%
Total nonoperating expenses	<u>295</u>	<u>320</u>	<u>(25)</u>	<u>-8%</u>
Total expenses	<u>\$ 49,001</u>	<u>49,008</u>	<u>(7)</u>	<u>0%</u>
Transfers to City of St. Louis, Missouri	\$ 3,137	3,230	(93)	-3%

Total operating expenses remained flat in fiscal 2020 compared to fiscal year 2019. Although there was an increase in the minimum wage of \$15.00/hour at the beginning of the fiscal year, personnel services expense only increased by \$117, or 1%. The total vacant positions at the Water Division remained at 24%. The water treatment plants accounted for 55% of the vacancy and the Transmission and Distribution section at 35%. Other factors that affected the personnel services are an increase in pension expenses of \$323, or 21%.

In March 2020, a moratorium on water service shutoffs on delinquency or non-payment of water rates to help mitigate the COVID-19 pandemic, resulted in an increase in bad debt expense of \$954, or 87%.

Supply and purification decreased by \$425 or 3%. Although pumping increased by 0.5 billion gallons in fiscal year 2020, chemical costs decreased by \$255, or 4% due to flooding in fiscal year 2019 which required higher volume utilization of chemicals. Salaries, wages and benefits decreased by \$145, or 3%. Other Services increased by \$311, or 24% and materials and supplies decreased by \$334 or 39%.

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Management's Discussion and Analysis – Unaudited

June 30, 2020

(Dollars in thousands)

Transmission and distribution expenses decreased by \$210, or 2%. Salaries, wages and benefits increased by \$311, or 4%. Due to the nature of their work, most of the distribution crew reported to work during the stay at home order. Other services and materials and supplies increased by \$1,151, or 19%. Depreciation increased by \$77, or 10%. Transfers out of completed projects to capital assets or billable to customers increased by \$1,689, or 37%.

Power and pumping increased by \$176, or 2%. This is mostly due to an increase in support services of \$414, or 24%. Although pumping increased, purchased power decreased by \$78, or 2% due to increased pumping in lower pressure zone. Salaries, wages and benefits decreased by \$52, or 2%, other services and materials and supplies decreased by \$79, or 15% and \$32, or 11%, respectively.

Administrative and general expenses increased by \$493, or 11%. The majority of this increase was due to increases in bad debt expense of \$954, or 87%, and support services of \$75, or 59%. Offsetting these increases are decreases in salaries, wages and benefits of \$46, or 3%, other services of \$381, or 35% and materials and supplies of \$109, or 35%.

Interfund services used decreased by \$105, or 5%. 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 to workers' compensation expenses and IBNR plus reserve decreased by \$243, or 25%. Reimbursement to the City for services it provides to the Water Division through cost allocation increased by \$58 or 6%. Services provided by the Street Department increased by \$31 or 40%, while equipment repair services increased by \$47 or 26%.

Customer accounting expenses increased by \$144, or 9%, mostly due to increases in support services of \$72, or 25% and other services of \$20, or 41%. While the Water Division as a whole experienced an increase in vacant positions, the customer accounting section had successfully filled some of its vacant positions during the 3rd quarter of the fiscal year. This resulted to an overall increase in salaries, wages and benefits of \$49, or 4%.

Service line maintenance costs decreased by \$312, or 36%, as the number of service lines repaired decreased in fiscal year 2020 compared to fiscal year 2019.

The Collector of Revenue's fee decreased by \$15, 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 2020 was properly met.

WATER DIVISION OF THE CITY OF ST. LOUIS, MISSOURI
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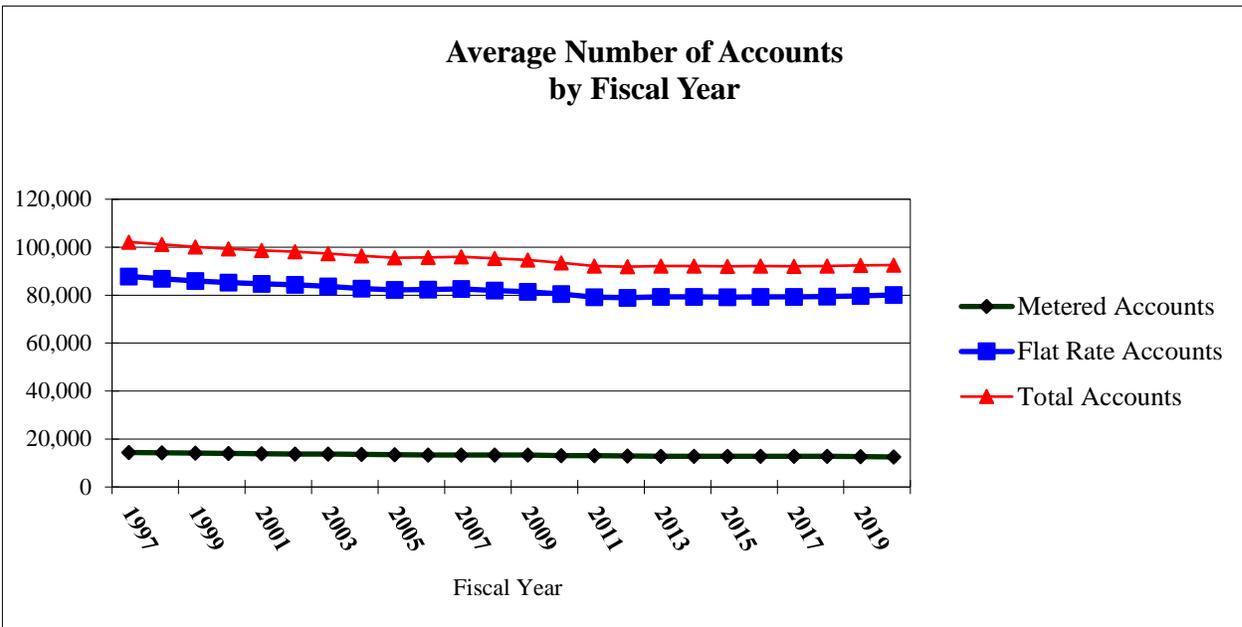
Management's Discussion and Analysis – Unaudited

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(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.

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Management's Discussion and Analysis – Unaudited

June 30, 2020

(Dollars in thousands)

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 2020 so that no water rate increase was required by the covenants.

Capital Assets and Long-Term Debt

Total capital assets being depreciated increased by \$20,468 or 6%, from fiscal year 2019 to fiscal year 2020. The increase mostly reflects completed improvement projects to pumping and purification equipment and building and structures of \$6,332. Additional net capital spending of \$11,011 and capital contributions of \$1,963 on water mains, lines, and accessories throughout the water distribution system also contributed to the increase. Capital assets also increased by \$1,162 due to purchases of replacement rolling stocks, construction and maintenance equipment.

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, 2020

(Dollars in thousands)

Assets and Deferred Outflow of Resources

Current assets:	
Cash and cash equivalents:	
Restricted	\$ 804
Unrestricted	21,596
Investments-unrestricted	19,460
Accounts receivable, net	8,125
Unbilled water revenue	3,615
Unbilled revenue-other services	194
Supplies and materials	3,344
Other receivable	97
Due from the City of St. Louis, Missouri	710
Total current assets	<u>57,945</u>
Noncurrent assets:	
Cash and investments:	
Restricted cash	2,359
Capital assets, net:	
Nondepreciable	4,458
Depreciable	161,270
Intangible assets, net	2,293
Total noncurrent assets	<u>170,380</u>
Deferred outflow of resources – pension	<u>2,966</u>
Total assets and deferred outflow of resources	<u>\$ 231,291</u>

Liabilities, Deferred Inflow of Resources, and Net Position

Current liabilities:	
Payable from unrestricted assets:	
Accounts and wages payable	\$ 4,757
Other accrued liabilities	7,053
Unearned revenue	2,258
Due to City of St. Louis, Missouri	4,438
Total current liabilities payable from unrestricted assets	<u>18,506</u>
Payable from restricted assets:	
Current maturities of water revenue bonds payable	448
Accrued interest payable	100
Total current liabilities payable from restricted assets	<u>548</u>
Total current liabilities	<u>19,054</u>
Noncurrent liabilities:	
Water revenue bonds payable	6,746
Customer deposits – payable from restricted assets	1,609
Net pension liability	11,575
Other liability due to the City of St. Louis, Missouri	2,540
Sick leave liability	1,130
Total noncurrent liabilities	<u>23,600</u>
Deferred inflow of resources – pension	<u>751</u>
Total liabilities and deferred inflow of resources	<u>43,405</u>
Net position:	
Net investment in capital assets	158,534
Restricted for debt service	1,029
Unrestricted	28,323
Total net position	<u>187,886</u>
Total liabilities, deferred inflow of resources, and net position	<u>\$ 231,291</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, 2020

(Dollars in thousands)

Operating revenues:	
Metered	\$ 20,456
Flat rate	25,078
Wholesale	3,441
Other	2,926
	<hr/>
Total operating revenues	51,901
Operating expenses:	
Supply and purification	14,690
Transmission and distribution	9,916
Power and pumping	8,069
Depreciation (not allocated to other operating expenses)	5,791
Administrative and general	4,877
Interfund services used	2,194
Customer accounting	1,684
Cost of service line maintenance	553
Collector of Revenue's fee, net	901
Cost of community service	31
	<hr/>
Total operating expenses	48,706
Operating income	3,195
Nonoperating revenues (expenses):	
Investment earnings, net	785
Interest expense on long-term obligations	(269)
Miscellaneous, net	428
Loss on disposal of capital assets	(26)
	<hr/>
Total nonoperating revenues, net	918
Income before capital contributions and transfers	4,113
Capital contributions	1,963
Transfers to the City of St. Louis, Missouri	(3,137)
	<hr/>
Total capital contributions and transfers	(1,174)
Increase in net position	2,939
Total net position, beginning of year	184,947
Total net position, end of year	\$ <u>187,886</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 Cash Flows
Year ended June 30, 2020
(Dollars in thousands)

Cash flows from operating activities:	
Receipts from customers and users	\$ 50,544
Payments to suppliers of goods and services	(19,721)
Payments to employees	(16,265)
Payments for interfund services used	<u>(3,736)</u>
Net cash provided by operating activities	<u>10,822</u>
Cash flows from noncapital financing activities:	
Interest and principal paid on share of bond pension liability	(239)
Transfers to other funds of the City of St. Louis, Missouri	<u>(3,040)</u>
Net cash used in noncapital financial activities	<u>(3,279)</u>
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(10,583)
Acquisition and purchase of intangible assets	(712)
Interest paid on water revenue bonds	(114)
Principal paid on water revenue bonds	(439)
Other capital and financing activities	<u>1,131</u>
Net cash used in capital and related financing activities	<u>(10,717)</u>
Cash flows from investing activities:	
Purchase of investments	(41,593)
Proceeds from sales and maturities of investments	41,948
Interest income on cash and investments	<u>785</u>
Net cash provided by investing activities	<u>1,140</u>
Net decrease in cash and cash equivalents	<u>\$ (2,034)</u>
Cash and cash equivalents at beginning of year:	
Unrestricted	\$ 23,742
Restricted	<u>3,051</u>
	<u>\$ 26,793</u>
Cash and cash equivalents at end of year:	
Unrestricted	\$ 21,596
Restricted	<u>3,163</u>
	<u>\$ 24,759</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 3,195
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	6,740
Amortization	280
Changes in assets and liabilities:	
Accounts receivable, net	(584)
Unbilled revenue	1,125
Supplies and materials	(654)
Accounts and wages payable	329
Other accrued liabilities	647
Unearned revenue	371
Due to/from City of St. Louis, Missouri	(641)
Customer deposits	(216)
Net pension liability	318
Pension bond liability	<u>(88)</u>
Total adjustments	<u>7,627</u>
Net cash provided by operating activities	<u>\$ 10,822</u>
Supplemental disclosures of noncash activities:	
Loss on disposal of capital assets	\$ 26
Unrealized appreciation on investments	30
Capital contributions	1,963

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, 2020

(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, 2020 consist of \$13,585 due from metered and flat rate customers and \$766 due from other customers. Such amounts are recorded net of an allowance for uncollectible accounts of \$6,226.

(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, 2020, unbilled water revenue amounted to \$3,615.

(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, 2020

(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, 2020 comprises \$2,457 of accrued salaries and benefits and \$2,300 due to vendors and contractors.

(i) Other Accrued Liabilities

Other accrued liabilities at June 30, 2020 primarily comprises \$5,478 of refuse charges, 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 \$1,905 as of June 30, 2020 and is included in accounts and wages payable.

WATER DIVISION OF THE CITY OF ST. LOUIS, MISSOURI
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(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 \$1,130 of June 30, 2020 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 \$553 during the year ended June 30, 2020, which is reported within other operating revenues. Unearned service line maintenance revenue amounted to \$767 at June 30, 2020.

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 \$1,491 at June 30, 2020.

(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.

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Notes to the Basic Financial Statements

June 30, 2020

(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, 2020 is \$2,817, 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, 2020 is \$1,609.
- (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, 2020 is \$525.

(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
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Notes to the Basic Financial Statements

June 30, 2020

(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 includes certificates of deposit.
- Level 3 inputs are significant unobservable inputs for the asset. The Water Division had no Level 3 investments as of June 30, 2020.

The following table presents assets that are measured at fair value on a recurring basis at June 30, 2020:

	<u>Total</u>	<u>Quoted prices in active markets for identical assets (Level 1)</u>	<u>Significant other observable inputs (Level 2)</u>	<u>Significant unobservable inputs (Level 3)</u>
Assets:				
U.S. Treasury obligations	\$ 1,352	1,352	—	—
Certificates of deposit	<u>18,108</u>	<u>—</u>	<u>18,108</u>	<u>—</u>
Total	<u>\$ 19,460</u>	<u>1,352</u>	<u>18,108</u>	<u>—</u>

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. Money market deposit accounts (MMDAs) are classified as cash and cash equivalents on the statement of net position, but as investments for custodial and other risk disclosure.

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, 2020

(Dollars in thousands)

As of June 30, 2020, the Water Division had the following cash, cash equivalents, and investments:

U.S. Treasury obligations	\$	1,352
Certificates of deposit		18,108
Total investments		19,460
Money market deposit accounts		21,415
Cash deposits		3,344
Total cash, cash equivalents, and investments	\$	44,219

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.

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

Notes to the Basic Financial Statements

June 30, 2020

(Dollars in thousands)

The Water Division's investments (excluding cash deposits) had the following maturities (in years) on June 30, 2020:

	<u>Fair value</u>	<u>Less than 1 year</u>	<u>1–5 years</u>
U.S. Treasury obligations	\$ 1,352	1,352	—
Certificates of deposit	18,108	18,108	—
Money market deposit accounts	<u>21,415</u>	<u>21,415</u>	<u>—</u>
	<u>\$ 40,875</u>	<u>40,875</u>	<u>—</u>

(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. At June 30, 2020, the Water Division did not have any banker's acceptance or commercial papers in its portfolio.

The Water Division's investments in U.S. Treasuries and Money market deposit accounts (Insured Cash Sweep) are explicitly guaranteed by the U.S. government and, therefore, do not require ratings. Additionally, investments in certificates of deposit are collateralized at 105% and do not require a rating.

(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.

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

June 30, 2020

(Dollars in thousands)

At June 30, 2020, 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 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:

	Maximum percentage of portfolio	Maximum maturity
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, 2020, the concentration of the Water Division's investments (excluding cash deposits) was as follows:

U.S. Treasuries obligations	3 %
Certificates of deposit	44
Money market deposit accounts	53
	100 %

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Notes to the Basic Financial Statements

June 30, 2020

(Dollars in thousands)

(3) Restricted Assets

Cash restricted in accordance with bond provisions and City ordinances at June 30, 2020 is as follows:

Bond funds:	
Waterworks bond fund	\$ 279
Water replacement and improvement account	<u>750</u>
Total bond funds	1,029
Customer deposits	1,609
Service line maintenance	<u>525</u>
Total restricted cash	<u><u>\$ 3,163</u></u>

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
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Notes to the Basic Financial Statements

June 30, 2020

(Dollars in thousands)

(4) Capital Assets

The following table shows the changes in capital assets for the fiscal year ended June 30, 2020:

	Balances June 30, 2019	Additions	Retirements	Transfers	Balances June 30, 2020
Capital assets being depreciated:					
Buildings and structures	\$ 43,017	—	—	903	43,920
Reservoirs	35,277	—	—	75	35,352
Boiler plant equipment	661	—	—	—	661
Pumping equipment	14,277	—	—	3,464	17,741
Purification basins and equipment	45,841	—	—	1,172	47,013
Water mains, lines, and accessories	146,026	5,588	(138)	7,524	159,000
Equipment	18,637	230	(54)	542	19,355
Motor vehicle equipment	12,381	1,232	(600)	530	13,543
	<u>316,117</u>	<u>7,050</u>	<u>(792)</u>	<u>14,210</u>	<u>336,585</u>
Total capital assets being depreciated					
Less accumulated depreciation:					
Buildings and structures	(29,673)	(730)	—	—	(30,403)
Reservoirs	(15,562)	(738)	—	—	(16,300)
Boiler plant equipment	(659)	—	—	—	(659)
Pumping equipment	(10,432)	(377)	—	—	(10,809)
Purification basins and equipment	(22,183)	(1,082)	—	—	(23,265)
Water mains, lines, and accessories	(67,115)	(1,962)	131	—	(68,946)
Equipment	(17,620)	(641)	54	—	(18,207)
Motor vehicle equipment	(6,098)	(1,209)	581	—	(6,726)
	<u>(169,342)</u>	<u>(6,739)</u>	<u>766</u>	<u>—</u>	<u>(175,315)</u>
	<u>146,775</u>	<u>311</u>	<u>(26)</u>	<u>14,210</u>	<u>161,270</u>
Capital assets not being depreciated:					
Land	1,238	—	—	—	1,238
Construction in progress	12,641	5,963	—	(15,384)	3,220
	<u>13,879</u>	<u>5,963</u>	<u>—</u>	<u>(15,384)</u>	<u>4,458</u>
	<u>\$ 160,654</u>	<u>6,274</u>	<u>(26)</u>	<u>(1,174)</u>	<u>165,728</u>

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

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

June 30, 2020

(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.

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(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 12.26% effective July 2019 through June 2020. The previous contribution rate was 12.36% effective July 2018 through June 2019.

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, 2020 were \$1,553.

(c) Net Pension Liability

The Water Division reported a liability of \$11,575 for its proportionate share of the net pension liability as of June 30, 2020. The net pension liability was measured as of September 30, 2019 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of October 1, 2019. 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, 2019, the Water Division's collective proportion was 5.32%, which was a decrease of 0.35% from its proportion as of September 30, 2018.

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

Date of actuarial valuation	October 1, 2019
Actuarial cost method	Entry age normal
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%
Long-term rate of return	7.50%
Projected salary increases	3.00% plus merit component based on employee's years of service
Mortality Healthy	RP-2000 Healthy Mortality with 3 year set-forward and generational projections using Scale AA
Mortality Disabled	RP-2000 Disabled Mortality with 3 year set-forward and generational projections using Scale AA

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June 30, 2020

(Dollars in thousands)

The actuarial assumptions used in the October 1, 2019 actuarial valuation were based on the results of an actuarial experience study performed in 2015 which reviewed all the economic and demographic assumptions.

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 pension plan's target asset allocation as of September 30, 2019, these best estimates are summarized in the following table:

<u>Asset class</u>	<u>Target allocation</u>	<u>Long-term expected real rate of return</u>
Large cap	25.00 %	7.27 %
Mid cap	7.50	7.60
Small cap	7.50	7.90
International large cap	12.00	7.47
Emerging markets	3.00	8.10
Bank loans	5.00	6.10
Fixed income	10.00	3.30
International fixed income	5.00	5.80
Core real estate	10.00	6.60
Infrastructure	5.00	7.50
Private equity	5.00	10.80
Hedge funds	5.00	6.70
Total/Average	<u>100.00 %</u>	<u>7.68 %</u>

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 pension plan 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, 2019 actuarial valuation, a 7.50% long-term rate of return was

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used. The sensitivity of the net pension liability to changes in the discount rate for the year ended June 30, 2020 for the Water Division is as follows:

	Discount rate	Net pension liability
1% decrease	6.50 %	\$ 16,827
Current rate	7.50	11,575
1% increase	8.50	7,074

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, 2020, the Water Division recognized pension expense of \$1,870. 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, 2020, the Water Division reported deferred outflow of resources and deferred inflow of resources related to pensions from the following sources as follows:

	Deferred outflow of resources	Deferred inflow of resources
Differences between expected and actual experience	\$ 25	(230)
Net difference between projected and actual earnings on pension plan investments	1,750	—
Changes in proportion	—	(521)
Water Division contributions subsequent to the measurement date	1,191	—
Total	\$ 2,966	(751)

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The \$1,191 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, 2020.

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 ending June 30	Recognition
2021	\$ (327)
2022	144
2023	662
2024	545
	\$ 1,024

(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 \$2,540 liability is reflected as noncurrent liabilities – other liability to the City of St. Louis, Missouri on the balance sheet and is payable to the City of St. Louis by June 30, 2037. A \$88 liability is reflected in current liabilities – other accrued liabilities and is payable to the City of St. Louis by June 30, 2021.

(6) Change in Noncurrent Liabilities

The following table shows the changes in noncurrent liabilities for the fiscal year ended June 30, 2020:

	Balance June 30, 2019	Additions	Reductions	Balance June 30, 2020	Due within one year
Water revenue bonds payable (note 7) \$	7,633	—	(439)	7,194	448
Net pension liability (note 5)	9,600	1,975	—	11,575	—
Customer deposits	1,825	725	(941)	1,609	—
Other liability due to the City of St. Louis, Missouri (note 5)	2,712	—	(84)	2,628	88
Accrued vacation and sick leave liability	3,053	194	(212)	3,035	1,905
Total	\$ 24,823	2,894	(1,676)	26,041	2,441

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(7) Water Revenue Refunding Bonds Payable

Water revenue bonds (direct placement debt) outstanding at June 30, 2020 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	\$	7,194
Less current maturities		448
	\$	6,746

(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:

	Principal	Interest	Total
Year ending June 30:			
2021	\$ 448	110	558
2022	458	103	561
2023	467	96	563
2024	477	89	566
2025	486	81	567
2026–2034	4,858	371	5,229
	\$ 7,194	850	8,044

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, 2020, the City charged the Water Division \$2,194 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, 2020, \$602 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, 2020. 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.

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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, 2020, \$517 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, 2020, the Water Division paid \$901 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, 2020, the Water Division recorded amounts transferred to the City of \$3,137. 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, 2020, \$401 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 \$825, 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, 2020, the Water Division has \$1,360 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, 2020, the Water Division owed the PFPC \$2,918 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.

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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 became effective in 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, 2020, 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, 2020</u>	<u>Revenue recognized for the year ended June 30, 2020</u>
All Water Division revenues	Funding of various water division infrastructures	Through 2034	1.0% \$	556	51,901

As of June 30, 2020, the remaining principal and interest requirement is \$8,044 payable through January 2034 (fiscal year 2034). The proportion of pledged revenue to revenue collected is estimated at 1.0% at June 30, 2020.

(13) Subsequent Events

In connection with the preparation of the basic financial statements, the Water Division evaluated subsequent events through November 20, 2020, which was the date the basic financial statements were issued. On March 11, 2020, the World Health Organization declared Coronavirus (COVID-19) a pandemic. The continued spread of COVID-19, or any similar outbreaks in the future, may adversely impact the local, regional, national and global economies. With the need of constant hand washing, cleaning and disinfecting to help mitigate the spread of COVID-19, the Water Division continues its commitment to provide customers with plentiful supply of the highest quality water possible.

The impact of the COVID-19 pandemic to the Water Division is still emerging. One area that has become evident indicates that residential water demand has increased while non-residential demand has decreased. The decrease in metered revenue is expected to continue, reflecting activities on businesses that are shut down or operating in limited capacity. The decrease in cash receipts is also expected to continue. The moratorium on water shutoffs is expected to last through the duration of the pandemic.

OTHER INFORMATION – UNAUDITED

WATER DIVISION OF THE CITY OF ST. LOUIS, MISSOURI
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Detailed Schedule of Certain Operating Expenses – Unaudited

Year ended June 30, 2020

(Dollars in thousands)

Supply and purification:		
Salaries and wages	\$	4,034
Support services		2,286
Other services		1,601
Materials and supplies		514
Depreciation		71
Chemicals		6,184
		<u>14,690</u>
Less amounts capitalized or allocated to other accounts		<u>—</u>
Total supply and purification	\$	<u><u>14,690</u></u>
Transmission and distribution:		
Salaries and wages	\$	7,628
Support services		576
Other services		3,554
Materials and supplies		3,595
Depreciation		826
		<u>16,179</u>
Less amounts capitalized or allocated to other accounts		<u>(6,263)</u>
Total transmission and distribution	\$	<u><u>9,916</u></u>
Power and pumping:		
Salaries and wages	\$	2,065
Support services		2,105
Other services		461
Materials and supplies		245
Depreciation		8
Purchased power		3,185
		<u>8,069</u>
Less amounts capitalized or allocated to other accounts		<u>—</u>
Total power and pumping	\$	<u><u>8,069</u></u>
Administrative and general:		
Salaries and wages	\$	1,722
Support services		201
Other services		697
Materials and supplies		204
Depreciation		3
Bad debt expense		2,053
		<u>4,880</u>
Less amounts allocated to other accounts		<u>(3)</u>
Total administrative and general	\$	<u><u>4,877</u></u>
Customer accounting:		
Salaries and wages	\$	1,173
Support services		357
Other services		69
Materials and supplies		44
Depreciation		41
		<u>1,684</u>
Less amounts capitalized or allocated to other accounts		<u>—</u>
Total customer accounting	\$	<u><u>1,684</u></u>

See accompanying independent auditors' report.

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Schedule of Costs for Howard Bend Water Sales – Unaudited

Year ended June 30, 2020

(Dollars in thousands)

I. Direct Costs of Supply and Purification – Howard Bend	
Labor	\$ 1,948
Chemicals	2,368
Support services	669
Other materials and services	891
	<u>5,876</u>
	<u>\$ 5,876</u>
II. Direct Costs of Power and Pumping – Howard Bend	
Power	\$ 1,265
Labor	586
Support services	543
Other materials and services	396
	<u>2,790</u>
	<u>\$ 2,790</u>
III. General Office Expenses – Power and Pumping	\$ 805
IV. General Office Expenses – Supply and Purification	\$ 722
V. Reservoir Maintenance	\$ 54
VI. Administration and Finance Costs	
City services	\$ 1,057
Labor	1,722
Other services and miscellaneous	903
Support services	201
	<u>3,883</u>
	<u>\$ 3,883</u>
VII. Specified Labor Costs	
Transmission and distribution	\$ 7,628
Supply and purification	4,034
Power and pumping	2,065
Customer accounting	1,173
	<u>14,900</u>
	<u>\$ 14,900</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.