



**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, 2014

(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**

	<b>Page</b>
Independent Auditors' Report	1
Management's Discussion and Analysis – Unaudited	3
Basic Financial Statements:	
Balance Sheet	14
Statement of Revenues, Expenses, and Changes in Fund Net Position	15
Statement of Cash Flows	16
Notes to Basic Financial Statements	17
Other Information – Unaudited	
Schedule 1 – Detailed Schedule of Certain Operating Expenses	31
Schedule 2 – Schedule of Costs for Howard Bend Water Sales	32



KPMG LLP  
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St. Louis, MO 63102-1761

## Independent Auditors' Report

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

### Report on the Financial Statements

We have audited the accompanying financial statements of the Water Division of the City of St. Louis, Missouri, an enterprise fund of the City of St. Louis, Missouri, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Water Division of the City of St. Louis, Missouri's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

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

### *Auditors' Responsibility*

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

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

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

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Water Division of the City of St. Louis, Missouri, as of June 30, 2014, and the respective changes in financial position and its cash flows thereof for the year then ended, in accordance with U.S. generally accepted accounting principles.



***Emphasis of Matters***

As discussed in note 1 to the basic financial statements, the basic financial statements 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, 2014, the changes in its financial position and its cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

Effective July 1, 2013 the Water Division of the City of St. Louis, Missouri implemented Government Accounting Standards Board (GASB) No. 65, *Items Previously Reported as Assets and Liabilities*. 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 13 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

***Other Information***

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

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

**KPMG LLP**

St. Louis, Missouri  
November 18, 2014

## **WATER DIVISION OF THE CITY OF ST. LOUIS, MISSOURI**

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

Management's Discussion and Analysis – Unaudited

June 30, 2014

(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, 2014. 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 (79,259) 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 (12,877) 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 45.1 billion gallons of treated water in fiscal year 2014. This represents a 0.4% increase from fiscal year 2013.
- The number of metered customers remained flat during fiscal year 2014.
- Usage by metered customers decreased by 204.2 million gallons or 1.8% during fiscal year 2014 and metered revenue decreased by about 0.1%.
- The number of flat rate customers in fiscal year 2014 increased by 33 or 0.04% however flat rate revenue decreased by 0.3% during fiscal year 2014.
- Wholesale water revenue increased by \$20 or 0.6% during fiscal year 2014.
- Other revenue increased by \$449 or 15.6% during fiscal year 2014.
- Operating expenses increased by \$4,233 or 9.3% during fiscal year 2014.
- Operating income decreased by \$3,874 or 38.5% during fiscal year 2014.
- The overall change in net position for fiscal year 2014 was \$3,674, a decrease of \$4,139 or 53% compared to fiscal year 2013.

**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, 2014

(Dollars in thousands)

**Overview of the Financial Statements**

The MD&A section of this audit report is an overview of the basic financial statements presented herein. Supplementary or reformatted information is presented to better describe the financial condition and performance of the water system. The Water Division's financial statements are prepared on an accrual basis in accordance with U.S. generally accepted accounting principles set forth by the Government Accounting Standards Board (GASB). The Water Division is an enterprise fund of the City. As such, the Water Division relies entirely on the funds it generates and which are dedicated to its operation.

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

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

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

**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, 2014

(Dollars in thousands)

**Net Position**

This table is a summary of the Water Division's net positions as of June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
Assets:				
Other assets	\$ 54,965	53,844	1,121	2%
Capital assets	<u>148,670</u>	<u>147,090</u>	<u>1,580</u>	<u>1%</u>
Total assets	<u>\$ 203,635</u>	<u>200,934</u>	<u>2,701</u>	<u>1%</u>
Liabilities:				
Long-term liabilities	\$ 8,485	11,729	(3,244)	-28%
Other liabilities	<u>18,867</u>	<u>16,596</u>	<u>2,271</u>	<u>14%</u>
Total liabilities	<u>\$ 27,352</u>	<u>28,325</u>	<u>(973)</u>	<u>-3%</u>
Net position:				
Net investment in capital assets	\$ 143,910	139,505	4,405	3%
Restricted for debt service	4,612	4,598	14	0%
Unrestricted	<u>27,761</u>	<u>28,506</u>	<u>(745)</u>	<u>-3%</u>
Total net position	<u>\$ 176,283</u>	<u>172,609</u>	<u>3,674</u>	<u>2%</u>

Other assets increased by \$1,121 or 2% while capital assets increased by \$1,580 or 1% due to an increase in ordinance funds and capital projects for system improvements. The decrease in long-term liabilities reflects the Water Division's debt service reduction.

The preceding table shows that 82% of Water Division net position in fiscal year 2014 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 or acquired through the issuance of revenue bonds. In any case, these assets were and continue to be paid from the revenues derived from the operation of the Water Division.

**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, 2014

(Dollars in thousands)

**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, 2014 and 2013 are summarized as follows:

	<u>2014</u>	<u>2013</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
Operating revenues	\$ 55,817	55,458	359	1%
Operating expenses	(49,615)	(45,382)	(4,233)	9%
Operating income	6,202	10,076	(3,874)	-38%
Nonoperating revenues, net	319	1,008	(689)	-68%
Income before capital contributions and transfers	6,521	11,084	(4,563)	-41%
Capital contributions	408	—	408	100%
Transfers out	(3,255)	(3,271)	16	0%
Increase in net position	3,674	7,813	(4,139)	-53%
Beginning net position	172,609	164,796	7,813	5%
Ending net position	\$ 176,283	172,609	3,674	2%

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

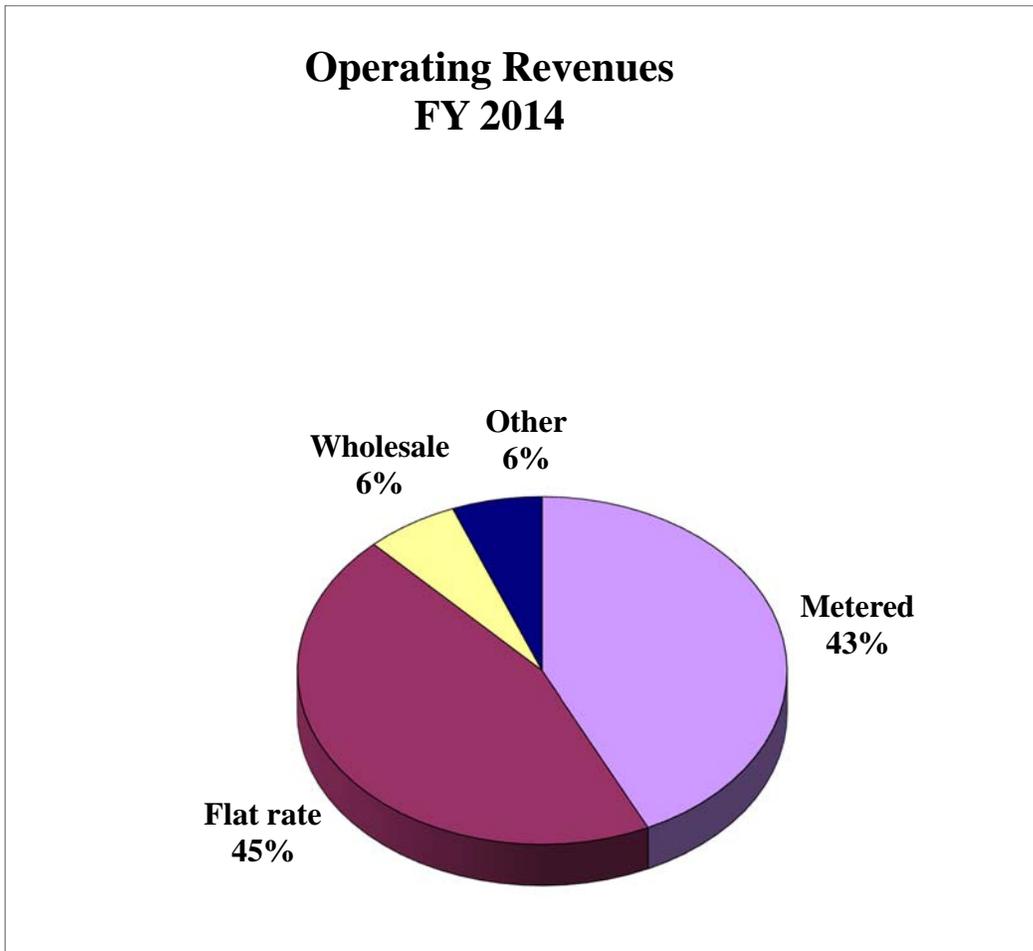
Management's Discussion and Analysis – Unaudited

June 30, 2014

(Dollars in thousands)

**Revenues**

The chart below depicts the four sources of operating revenue for the Water Division for fiscal year 2014 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, 2014

(Dollars in thousands)

The table below summarizes the sources of total revenues (operating and nonoperating) for the Water Division for fiscal years 2014 and 2013. This comparison details the change in dollars and percent between the two fiscal years by component revenue source.

	<u>2014</u>	<u>2013</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
Operating revenues:				
Metered	\$ 23,927	23,960	(33)	0%
Flat rate	25,151	25,228	(77)	0%
Wholesale	3,418	3,398	20	1%
Other	<u>3,321</u>	<u>2,872</u>	<u>449</u>	<u>16%</u>
Total operating revenues	<u>55,817</u>	<u>55,458</u>	<u>359</u>	<u>1%</u>
Nonoperating revenues:				
Investment earnings (loss)	58	(19)	77	-405%
Miscellaneous, net	<u>830</u>	<u>1,444</u>	<u>(614)</u>	<u>-43%</u>
Total nonoperating revenues	<u>888</u>	<u>1,425</u>	<u>(537)</u>	<u>-38%</u>
Total revenues	<u>\$ 56,705</u>	<u>56,883</u>	<u>(178)</u>	<u>0%</u>

Water revenues have remained relatively constant in fiscal year 2014 with both metered and flat rate revenue remaining relatively flat.

Wholesale revenue remained flat compared to fiscal year 2013. Other revenues increased by \$449 or 16% compared to fiscal year 2013 as reimbursable projects related to the new Mississippi River Bridge Interchange construction have been completed.

Miscellaneous revenues (net) decreased by \$614 or 43% due to receipt of settlement funds related to a class action suit involving the chemical atrazine.

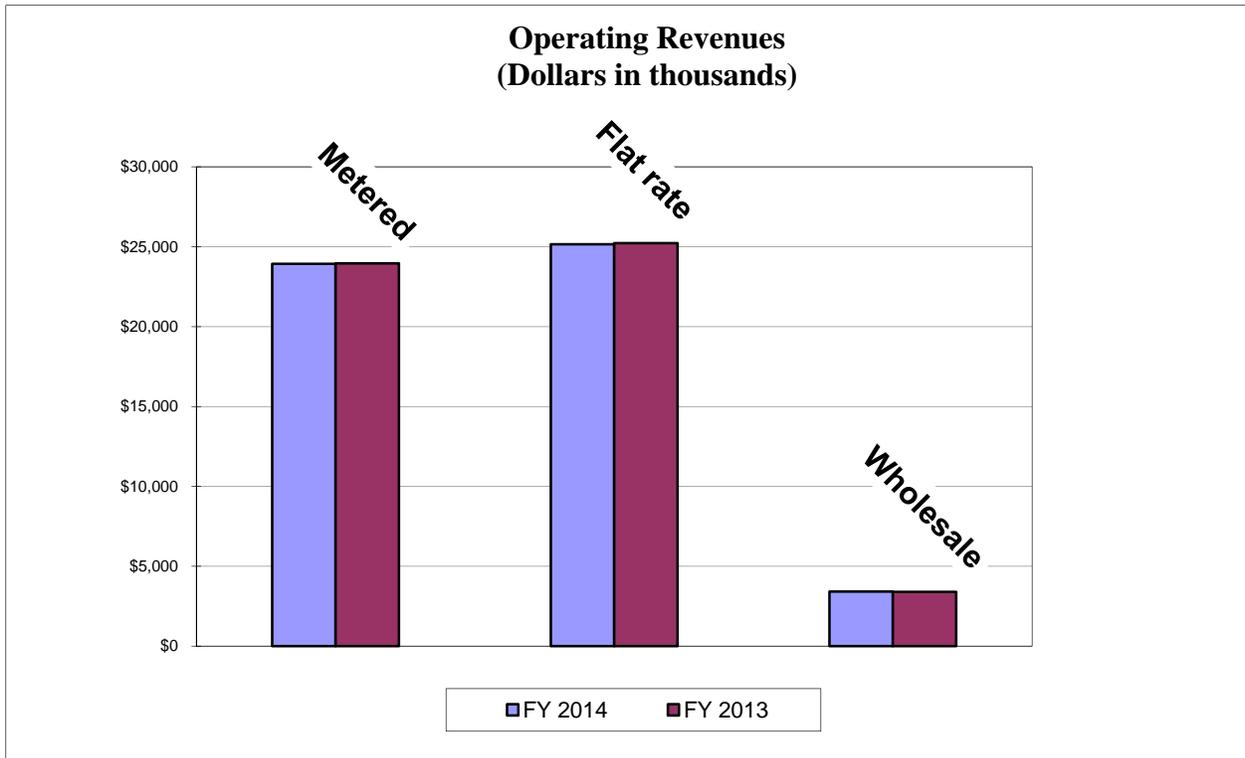
**WATER DIVISION OF THE CITY OF ST. LOUIS, MISSOURI**  
(An Enterprise Fund of the City of St. Louis, Missouri)

Management's Discussion and Analysis – Unaudited

June 30, 2014

(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 2013 to fiscal year 2014.



**WATER DIVISION OF THE CITY OF ST. LOUIS, MISSOURI**

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

Management's Discussion and Analysis – Unaudited

June 30, 2014

(Dollars in thousands)

**Expenses**

The table below summarizes the Water Division's expenses for fiscal years 2014 and 2013:

	<u>2014</u>	<u>2013</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
Operating expenses:				
Supply and purification	\$ 16,042	14,482	1,560	11%
Transmission and distribution	10,194	9,384	810	9%
Power and pumping	7,865	7,099	766	11%
Depreciation	4,970	4,792	178	4%
Administrative and general	3,156	2,800	356	13%
Interfund service used	3,472	2,833	639	23%
Customer accounting	1,832	1,844	(12)	-1%
Cost of service line maintenance	1,252	1,338	(86)	-6%
Cost of community service	19	13	6	46%
Collector of Revenue's fee, net	813	797	16	2%
Total operating expenses	<u>49,615</u>	<u>45,382</u>	<u>4,233</u>	<u>9%</u>
Nonoperating expenses:				
Interest expense on long-term obligations	502	338	164	49%
Loss on disposal of capital assets	67	79	(12)	-15%
Total nonoperating expenses	<u>569</u>	<u>417</u>	<u>152</u>	<u>36%</u>
Total expenses	<u>\$ 50,184</u>	<u>45,799</u>	<u>4,385</u>	<u>10%</u>
Transfers to City of St. Louis, Missouri	\$ 3,255	3,271	(16)	0%

Operating expenses in fiscal year 2014 compared to fiscal year 2013 increased by \$4,233 or 9%.

The significant increases in Supply and Purification occurred in two main areas. Support services increased by \$387 or 14% while Chemicals increased by \$702 or 13%. The increase in Support services reflects work performed by other sections of the Water Division in support of water production at the two treatment plants. The change in Chemicals is due to increased pumping by 0.2 billion gallons of treated water and marked difference in source water quality and condition in 2014 compared to 2013. An increase of \$180 in Salaries and wages is mostly due to the 2% merit increase.

Transmission and Distribution expenses increased by \$810 or 9%. The largest increase in these expenses occurred in Salaries and wages, which rose by \$611 or 9%. This increase was partially caused by a 2% merit salary adjustment but principally by increased usage of overtime due to numerous main breaks caused by extreme winter weather conditions. Offsetting the increase in operating expenses was the increase of \$591 in the amount capitalized or reallocated to other areas combined with a corresponding increase of \$740 in Other services, which netted an increase in expenses of \$149. This reflects the increase in billable work orders, primarily due to increased Missouri Department of Transportation (MoDOT) billings.

## **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, 2014

(Dollars in thousands)

Power and pumping expenses increased by \$766 or 11%. Other services increased by \$448 or 122% due to valves, pumps, and transformer repairs by outside contractors. Materials and supplies increased by \$94 or 55% while Support services increased by \$120 or 8% resulting from in-house repairs. Charges for Purchased power for pumping water reflects an increase of \$97 or 3% due to increased in pumping of treated water in fiscal year 2014.

Administrative and general expenses increased by \$356 or 13%. Salary and wages increased by \$33 or 2% due to the merit salary increase. Other services increased by \$419 or 74% due to an increase in pending litigations in which the City Counselor's Office identified the likelihood of liability as probable. Material and supplies decreased by \$43 or 47% for computer supplies. Bad debt expense also decreased by \$81 or 13% compared to fiscal year 2013.

Interfund service used increased by \$639 or 23%. This increase was mainly due to changes in payments to Workers' compensation insurance and administration. Workers' compensation costs are managed by the Public Facilities Protection Corporation (PFPC). The Water Division reimburses PFPC for these paid claims on a cost-reimbursement basis. Payments to PFPC for workers' compensation expenses increased by \$689 or 65%. Reimbursement to the Street Department for services it provides to the Water Division decreased by \$110 or 36%. Cost allocation increased by \$77 or 9%.

Customer accounting expenses remained relatively unchanged, decreasing by only \$12 or under 1%.

Service line maintenance costs decreased \$86 or 6% as the number of service lines repaired decreased by 79 in 2014 compared to 2013.

The Collector of Revenue's fee increased 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 2014 was properly met.

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

**WATER DIVISION OF THE CITY OF ST. LOUIS, MISSOURI**

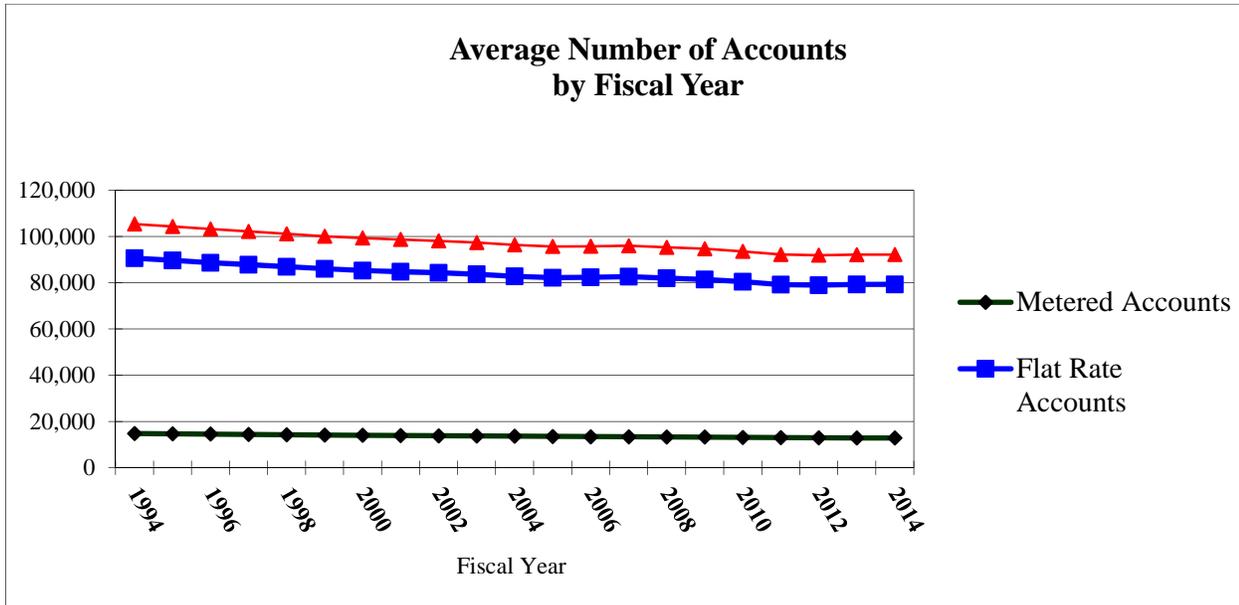
(An Enterprise Fund of the City of St. Louis, Missouri)

Management’s Discussion and Analysis – Unaudited

June 30, 2014

(Dollars in thousands)

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



**Rate Covenant**

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

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

If the study indicates that a rate adjustment is necessary to comply with the rate covenants, the City agrees to make the necessary adjustments. As there has been no water rate change since July 2010, a water rate study was completed in fiscal year 2014 per the requirement. The completed water rate study and the current net revenue calculation both indicated that water revenues were sufficient so that no water rate increase was required by the covenants.

## **WATER DIVISION OF THE CITY OF ST. LOUIS, MISSOURI**

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

Management's Discussion and Analysis – Unaudited

June 30, 2014

(Dollars in thousands)

### **Capital Assets and Long-Term Debt**

Total capital assets being depreciated increased \$4,031 or 1.4% from fiscal year 2013 to fiscal year 2014. The increase primarily reflects additional net capital spending of \$3,616 on water mains, lines, and accessories throughout the water distribution system. Capital assets also increased by \$415 due to purchases of replacement rolling stocks and construction and maintenance equipment.

During fiscal year 2012, and pursuant to authority granted in Ordinance 68947, the City authorized and issued the Refunding Bonds in the amount of \$11,480 at an interest rate of 1.5%. Proceeds from the Refunding Bonds were used to prepay the Series 1998 Water Revenue Refunding Bonds, which were redeemed on October 31, 2011. The Refunding Bonds mature annually through fiscal year 2015 with interest coupons of 1.5%. The balance outstanding at June 30, 2014 is \$3,820.

During fiscal year 2014, and pursuant to authority granted in Ordinance 69504, the City authorized the Water Revenue Refunding Bonds (State of Missouri-Direct Loan Program) Series 2013, in an aggregate principal amount to not exceed \$9,500. This drawdown loan is used to fund projects associated with the extension, improvement, purchase, acquisition, construction, and enlargement of the City's Waterworks System. The revenue bonds mature annually through fiscal year 2034 with a fixed rate of 1.56%. At June 30, 2014, the Water Division has drawn down \$940 of the loan.

### **Requests for Additional Information**

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

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

Balance Sheet

June 30, 2014

(Dollars in thousands)

**Assets**

Current assets:	
Cash:	
Restricted	\$ 3,862
Unrestricted	19,962
Accounts receivable, net	5,693
Unbilled water revenue	5,234
Supplies and materials	2,181
	36,932
Total current assets	
Noncurrent assets:	
Cash:	
Restricted	2,550
Unrestricted	14,485
Capital assets, net:	
Nondepreciable	5,255
Depreciable	143,415
Intangible assets, net	998
	166,703
Total noncurrent assets	166,703
Total assets	\$ 203,635

**Liabilities and Net Position**

Current liabilities:	
Payable from unrestricted assets:	
Accounts and wages payable	\$ 4,170
Other accrued liabilities	3,800
Unearned revenue	1,860
Due to City of St. Louis, Missouri	4,950
	14,780
Total current liabilities payable from unrestricted assets	
Payable from restricted assets:	
Current maturities of water revenue bonds payable	4,019
Accrued interest payable	68
	4,087
Total current liabilities payable from restricted assets	
Total current liabilities	18,867
Noncurrent liabilities:	
Water revenue bonds payable	741
Customer deposits – payable from restricted assets	1,800
Net pension obligation	1,406
Other liability to the City of St. Louis, Missouri	2,999
Sick leave liability	1,539
	8,485
Total noncurrent liabilities	
Total liabilities	27,352
Net position:	
Net investment in capital assets	143,910
Restricted for debt service	4,612
Unrestricted	27,761
	176,283
Total net position	176,283
Total liabilities and net position	\$ 203,635

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, 2014

(Dollars in thousands)

Operating revenues:	
Metered	\$ 23,927
Flat rate	25,151
Wholesale	3,418
Other	3,321
	55,817
Operating expenses:	
Supply and purification	16,042
Transmission and distribution	10,194
Power and pumping	7,865
Depreciation (not allocated to other operating expenses)	4,970
Administrative and general	3,156
Interfund services used	3,472
Customer accounting	1,832
Cost of service line maintenance	1,252
Collector of Revenue's fee, net	813
Cost of community service	19
	49,615
Total operating expenses	49,615
Operating income	6,202
Nonoperating revenues (expenses):	
Investment earnings	58
Interest expense on long-term obligations	(502)
Miscellaneous, net	830
Loss on disposal of capital assets	(67)
	319
Total nonoperating revenues, net	319
Income before capital contributions and transfers	6,521
Capital contributions	408
Transfers to other funds of the City of St. Louis, Missouri	(3,255)
	(2,847)
Total capital contributions and transfers, net	(2,847)
Increase in net position	3,674
Total net position, beginning of year	172,609
Total net position, end of year	\$ 176,283

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, 2014

(Dollars in thousands)

Cash flows from operating activities:	
Receipts from customers and users	\$ 54,106
Payments to suppliers of goods and services	(22,068)
Payments to employees	(16,408)
Payments for interfund services used	(3,283)
Net cash provided by operating activities	<u>12,347</u>
Cash flows from noncapital financing activities:	
Interest and principal paid on share of bond pension liability	(256)
Transfers to other funds of the City of St. Louis, Missouri	(3,217)
Net cash used in noncapital financial activities	<u>(3,473)</u>
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(6,483)
Principal paid on water revenue bonds	(3,765)
Other capital and financing activities	1,817
Net cash used in capital and related financing activities	<u>(8,431)</u>
Cash flows from investing activities:	
Interest expense on cash and investments	58
Net cash provided by investing activities	<u>58</u>
Net increase in cash and cash equivalents	<u>501</u>
Cash and cash equivalents at beginning of year:	
Unrestricted	33,756
Restricted	6,602
	<u>40,358</u>
Cash and cash equivalents at end of year:	
Unrestricted	34,447
Restricted	6,412
	<u>\$ 40,859</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 6,202
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	5,243
Changes in assets and liabilities:	
Accounts receivable, net	(471)
Unbilled water revenue	(527)
Supplies and materials	51
Accounts and wages payable	365
Other accrued liabilities	715
Unearned revenue	(98)
Due to/from City of St. Louis, Missouri	1,002
Customer deposits	(54)
Net pension obligation	(20)
Pension bond liability	(61)
Total adjustments	<u>6,145</u>
Net cash provided by operating activities	<u>\$ 12,347</u>
Supplemental disclosure of noncash activities:	
Loss on disposal of capital assets	\$ 67

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 Basic Financial Statements

June 30, 2014

(Dollars in thousands)

**(1) Summary of Significant Accounting Policies**

**(a) Reporting Entity**

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

**(b) Basis of Accounting**

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

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

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

**(c) Accounts Receivable**

Accounts receivable at June 30, 2014 consists of \$7,907 due from metered and flat rate customers and \$1,147 due from other customers. Such amounts are recorded net of an allowance for uncollectible accounts of \$3,361.

**(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, 2014, unbilled water revenue amounted to \$5,234.

**(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 Basic Financial Statements

June 30, 2014

(Dollars in thousands)

**(f) Capital Assets**

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

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

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

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

**(g) Intangible Assets**

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

**(h) Accounts and Wages Payable**

Accounts and wages payable at June 30, 2014 comprises \$2,706 of accrued salaries and benefits and \$1,464 due to vendors and contractors.

**(i) Vacation and Sick Leave Benefits**

Under the terms of the City’s personnel policy, employees of the City are granted vacation and sick leave. The vacation liability reflects the amounts attributable to employee services already rendered and are cumulative. The liability totaled \$1,816 as of June 30, 2014 and is included in accounts and wages payable.

Employees who have unused sick leave balances may, at retirement, elect to receive payment for one-half of the sick leave balance. As an estimate of the portion of sick leave that will result in termination payments, a liability has been recorded on the accompanying basic financial statements and represents one-half of the accumulated sick leave balances for those employees who will be

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

Notes to Basic Financial Statements

June 30, 2014

(Dollars in thousands)

eligible to retire within five years. The liability totaled \$1,539 as of June 30, 2014 and is classified as a noncurrent liability.

**(j) Unearned Revenue**

The Water Division recognizes revenue associated with a service line maintenance surcharge in the period the related costs are incurred. Accordingly, the Water Division recognized surcharge revenue of \$1,252 during the year ended June 30, 2014, which is reported within other operating revenues. Unearned service line maintenance revenue amounted to \$292 at June 30, 2014.

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 \$1,568 at June 30, 2014.

**(k) Customer Deposits**

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

**(l) Net position**

Net Position is displayed in three components as follows:

**(1) Net investment in capital assets**

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

**(2) Restricted**

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

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

Notes to Basic Financial Statements

June 30, 2014

(Dollars in thousands)

**(3) Unrestricted**

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

- (a) *Construction Funds* – City ordinances provide that the principal proceeds from the sale of Series 2011 Water Revenue Refunding Bonds and 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, 2014 is \$19,485, 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, 2014 is \$1,800.
- (c) *Service Line Maintenance* – City ordinances provide that the Water Division collects a \$3.00 (in whole dollars) per quarter surcharge from flat rate and metered residential customers having six or less dwelling units. These funds are deposited in the Service Line Maintenance Account. This account, including interest earned, is used to pay for the repair of certain portions of the water lines for these customers.

**(m) Statement of Cash Flows**

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

**(n) New Accounting Pronouncements**

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The objective of this Statement is to establish accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. Adoption of GASB Statement No. 65 had an immaterial effect on the Water Division’s financial statements. Future bond issue costs will be included in interest expense when incurred. The Statement also limited the use of the term deferred to deferred inflow and outflow of resources.

Effective for fiscal year 2014, the Water Division adopted GASB Statement No. 66, *Technical Corrections – 2012*, which intends to improve financial reporting by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statement No. 54, *Fund Balance Reporting*

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

Notes to Basic Financial Statements

June 30, 2014

(Dollars in thousands)

*and Governmental Fund Type Definitions, and Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.* Adoption of GASB Statement No. 66 had no effect on the Water Division's financial statements.

(o) *Use of Estimates*

The preparation of the basic financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

(2) **Cash**

The Office of the Treasurer of the City (Treasurer) manages all cash and investments of the Water Division. State statutes and the City's investment policies authorize the deposit of funds in financial institutions and trust companies or the investment of funds in obligations of the U.S. government or any agency or instrumentality thereof; bonds of the State of Missouri, the City, or any city within the state with a population of 400,000 inhabitants or more; or time certificates of deposit; provided, however, that no such investment shall be purchased at a price in excess of par. In addition, the City may enter into repurchase agreements maturing and becoming payable within 90 days, secured by U.S. Treasury obligations or 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.

As of June 30, 2014, the Water Division had cash deposits of \$40,859. The Water Division did not hold any investments as of June 30, 2014.

(3) **Restricted Assets**

Cash restricted in accordance with bond provisions and City ordinances at June 30, 2014 is as follows:

Bond funds:		
Waterworks bond fund	\$	3,862
Water replacement and improvement account		<u>750</u>
Total bond funds		4,612
Customer deposits		<u>1,800</u>
Total restricted cash	\$	<u><u>6,412</u></u>

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

Notes to Basic Financial Statements

June 30, 2014

(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 2011 Water Revenue Refunding Bond Funds***

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

***Series 2013 Water Revenue Bond Funds***

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

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

Notes to Basic Financial Statements

June 30, 2014

(Dollars in thousands)

**(4) Capital Assets**

The following table shows the changes in capital assets for the fiscal year ended June 30, 2014:

	<b>Balances June 30, 2013</b>	<b>Additions</b>	<b>Retirements</b>	<b>Transfers</b>	<b>Balances June 30, 2014</b>
Capital assets being depreciated:					
Buildings and structures	\$ 42,155	—	—	—	42,155
Reservoirs	34,513	—	—	—	34,513
Boiler plant equipment	661	—	—	—	661
Pumping equipment	10,923	—	—	—	10,923
Purification basins and equipment	43,679	—	—	—	43,679
Water mains, lines, and accessories	126,531	3,098	(139)	657	130,147
Equipment	17,509	112	(122)	76	17,575
Motor vehicle equipment	8,697	1,275	(926)	—	9,046
Total capital assets being depreciated	<u>284,668</u>	<u>4,485</u>	<u>(1,187)</u>	<u>733</u>	<u>288,699</u>
Less accumulated depreciation:					
Buildings and structures	(25,676)	(662)	—	—	(26,338)
Reservoirs	(11,299)	(665)	—	—	(11,964)
Boiler plant equipment	(641)	(3)	—	—	(644)
Pumping equipment	(8,950)	(233)	—	—	(9,183)
Purification basins and equipment	(16,540)	(928)	—	—	(17,468)
Water mains, lines, and accessories	(57,900)	(1,626)	97	—	(59,429)
Equipment	(13,641)	(761)	122	—	(14,280)
Motor vehicle equipment	(6,515)	(364)	901	—	(5,978)
Total accumulated depreciation	<u>(141,162)</u>	<u>(5,242)</u>	<u>1,120</u>	<u>—</u>	<u>(145,284)</u>
	<u>143,506</u>	<u>(757)</u>	<u>(67)</u>	<u>733</u>	<u>143,415</u>
Capital assets not being depreciated:					
Land	1,238	—	—	—	1,238
Construction in progress	2,346	2,404	—	(733)	4,017
Total capital assets not being depreciated	<u>3,584</u>	<u>2,404</u>	<u>—</u>	<u>(733)</u>	<u>5,255</u>
	<u>\$ 147,090</u>	<u>1,647</u>	<u>(67)</u>	<u>—</u>	<u>148,670</u>

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 Basic Financial Statements

June 30, 2014

(Dollars in thousands)

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

All employees of the Water Division are covered by the Employees' Retirement System of the City of St. Louis, Missouri (the Employees' System), a cost-sharing, multiple-employer, and public defined benefit pension plan (the Plan).

**(a) Plan Description**

The Plan is administered by a separate board of trustees as provided by Missouri state statute and implemented by applicable City ordinance. All employees become members 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 supplementary information. That report may be obtained by writing to the Employees' Retirement System of the City of St. Louis, Missouri; 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. Employees may retire and receive a reduced benefit after age 60 with five years of creditable service; after 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%.

The Deferred Retirement Option Plan (DROP) 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 as the normal retirement benefits are. The DROP account earns interest at the actuarial valuation rate of return and at the 10-year U.S. Treasury Bond yield as of September 30 for DROP participants enrolling February 1, 2003 and thereafter. After the members completely terminate employment, the member can withdraw amounts from the DROP account in a lump sum or according to a deferred retirement payment plan.

**(b) Funding Policy**

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

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

Notes to Basic Financial Statements

June 30, 2014

(Dollars in thousands)

Employer contribution rates are established annually by the Board of Trustees based on an actuarial study. Deductions from plan net assets are financed from plan additions. The Board of Trustees established the required employer contributions rate based on active member payroll of 15.56% effective October 1, 2012.

At September 30, 2013, the actuarial accrued liability of the Employees' System was \$889,449 and the actuarial value of assets was \$685,397. However, a determination of the actuarial status is not made for individual funds.

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. These voluntary contributions vest immediately.

(c) ***Annual Pension Cost and Net Pension Obligation***

The Water Division's annual pension cost and net pension obligation to the Employees' System, as allocated by the City, for the year ended June 30, 2014 are as follows:

Annual required contribution	\$	2,151
Interest on net pension obligation		114
Adjustment to annual required contribution		(127)
Annual pension cost		2,138
Contributions made		(2,158)
Decrease in net pension obligation		(20)
Net pension obligation, beginning of year		1,426
Net pension obligation, end of year	\$	1,406

In fiscal year 2008, the City of St. Louis Municipal Finance Corporation issued \$140,030 in Taxable Leasehold Revenue and Refunding Bonds Series 2007 (Pension Funding Project) of which \$46,700 was used to fund the Employees' System. While the Water Division is not legally responsible for these bonds, \$3,269 of the bond proceeds contributed to the Employees' System were allocated to the Water Division. As of June 30, 2014, the amount of \$61 is due on June 30, 2015. The amount of \$2,999 is reflected as an other noncurrent liability to the City in the financial statements and is payable to the City by June 30, 2037.

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

Notes to Basic Financial Statements

June 30, 2014

(Dollars in thousands)

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

Date of actuarial valuation	October 1, 2013
Actuarial cost method	Projected unit credit actuarial cost method
Amortization method	Level dollar amount for unfunded liability, open
Remaining amortization period	30 years as of October 1, 2013
Asset valuation method	5-year smoothed market
Inflation rate	3.125%
Investment rate of return	8.000%
Projected salary increases	Varies by age, ranging from 3.500% to 7.017%
Cost of living adjustments	3.125% simple with a 25% lifetime cap

(d) *Trend Information*

Fiscal year	Three-year trend information		
	Annual pension cost (APC)	Percentage of APC contributed	Net pension obligation
2014	\$ 2,138	100.94%	\$ 1,406
2013	1,952	100.92	1,426
2012	1,727	100.35	1,444

(6) **Change in Noncurrent Liabilities**

The following table shows the changes in noncurrent liabilities for the fiscal year ended June 30, 2014:

	Balance June 30, 2013	Additions	Reductions	Balance June 30, 2014	Due within one year
Revenue bonds payable (note 7)	\$ 7,585	940	(3,765)	4,760	4,019
Net pension obligation (note 5)	1,426	2,138	(2,158)	1,406	—
Customer deposits	1,854	—	(54)	1,800	—
Other liability to the City of St. Louis, Missouri (note 5)	3,060	—	(61)	2,999	—
Accrued vacation, and sick time benefits	3,312	43	—	3,355	1,816
Total	\$ 17,237	3,121	(6,038)	14,320	5,835

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

Notes to Basic Financial Statements

June 30, 2014

(Dollars in thousands)

**(7) Water Revenue Refunding Bonds**

Water revenue bonds outstanding at June 30, 2014 are payable solely from and secured by, a pledge of net revenues from the operation of the Water Division and are as follows:

Series 2011 Water Revenue Refunding Bonds, 1.50%, payable in varying amounts through July 1, 2014	\$ 3,820
Series 2013 Water Revenue Refunding Bonds, 1.56%, drawdown loan, payable in varying amounts through January 1, 2034	940
Less current maturities	(4,019)
	\$ 741

**(a) Series 2011 Water Revenue Refunding Bonds**

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

**(b) Series 2013 Water Revenue 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. At June 30, 2014, the Water Division has drawn down \$940 of the loan.

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

Notes to Basic Financial Statements

June 30, 2014

(Dollars in thousands)

**(c) Debt Service Requirements**

Debt service requirements to maturity of the 2011 and 2013 Series Water Revenue Bonds are as follows:

	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
For the year ending June 30:			
2015	\$ 4,019	44	4,063
2016	404	15	419
2017	337	15	352
	\$ 4,760	74	4,834

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, 2014, the City charged the Water Division \$3,472 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, 2014, \$1,093 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 \$368 worth of service for the year ended June 30, 2014. 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, 2014, \$193 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, 2014, the Water Division paid \$813, 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, 2014, the Water Division recorded amounts accrued or paid to the City of \$3,255. 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, 2014, \$317 was due to the City for gross receipts tax.

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

Notes to Basic Financial Statements

June 30, 2014

(Dollars in thousands)

**(9) Contingencies**

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

There is an aggregate of general liability claims outstanding of \$737, 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, 2014, the Water Division has \$364 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, 2014, the Water Division owed the PFPC \$3,347 for unreimbursed workers' compensation claims and is included in Due to City of St. Louis, Missouri on the balance sheet.

**(11) Wholesale Water Contracts**

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

Additionally, the Water Division and the Company have amended their agreement whereby the Company has agreed to purchase a minimum quantity of water per month from the Water Division. The Water Division may terminate this contract in 2015. If the Water Division does not exercise this option, the contract will expire in 2025.

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

Notes to Basic Financial Statements

June 30, 2014

(Dollars in thousands)

**(12) Pledged Revenue**

The Water Division has pledged specific revenue streams to secure the repayment of the Series 2011 and 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, 2014, the current fiscal year principal and interest on the debt and the amount of pledged revenue earned during the current fiscal year:

Type of revenue pledged	General purpose for debt	Term of pledged commitment	Proportion of pledged revenue to revenue collected	Principal and interest for the year ended June 30, 2014	Revenue recognized for the year ended June 30, 2014
All Water Division revenues	Funding of various water division infrastructures	through 2015	6.9%	\$ 3,851	55,817

As of June 30, 2014, the remaining principal and interest requirement is \$4,834 payable through January 2017 (fiscal year 2017). The proportion of pledged revenue to revenue collected is estimated at 6.9% at June 30, 2014.

**(13) Future Accounting Pronouncements**

In June 2012, GASB issued GASB Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*, which intends to improve financial reporting by state and local governmental pension plans. Also, in June 2012, GASB issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment to GASB Statement No. 27*, which will enhance accounting and financial reporting by state and local governments for pensions and improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. The adoption of Statements No. 67 and No. 68 will require the Water Division to record a Net Pension Liability on its Statement of Net Position. The Water Division has determined adoption will have a significant impact on its financial statements and reduce its unrestricted net position when implemented.

In January 2013, GASB issued GASB Statement No. 69, *Government Combinations and Disposals of Government Operations* effective for financial statements for periods beginning after December 15, 2013, which intends to improve financial reporting by establishing standards for reporting government combinations and disposals of governmental operations. The Water Division has not yet determined the effect that adoption of GASB Statement No. 69 will have on its financial statements.

**(14) Subsequent Event**

In July and November 2014, the Water Division drew down an additional \$411 and \$249, respectively, of the Series 2013 Water Revenue Bonds.

## **OTHER INFORMATION**

## Schedule 1

## 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, 2014

(Dollars in thousands)

Supply and purification:		
Salaries and wages	\$	4,245
Support services		3,207
Other services		1,711
Materials and supplies		770
Depreciation		31
Chemicals		6,078
		<u>16,042</u>
		16,042
Less amounts capitalized or allocated to other accounts		<u>—</u>
Total supply and purification	\$	<u><u>16,042</u></u>
Transmission and distribution:		
Salaries and wages	\$	7,569
Support services		985
Other services		2,954
Materials and supplies		3,089
Depreciation		208
		<u>14,805</u>
		14,805
Less amounts capitalized or allocated to other accounts		<u>(4,611)</u>
Total transmission and distribution	\$	<u><u>10,194</u></u>
Power and pumping:		
Salaries and wages	\$	2,021
Support services		1,699
Other services		816
Materials and supplies		266
Depreciation		13
Purchased power		3,050
		<u>7,865</u>
		7,865
Less amounts capitalized or allocated to other accounts		<u>—</u>
Total power and pumping	\$	<u><u>7,865</u></u>
Administrative and general:		
Salaries and wages	\$	1,391
Support services		173
Other services		987
Materials and supplies		48
Depreciation		3
Bad debt expense		561
		<u>3,163</u>
		3,163
Less amounts allocated to other accounts		<u>(7)</u>
Total administrative and general	\$	<u><u>3,156</u></u>
Customer accounting:		
Salaries and wages	\$	1,248
Support services		456
Other services		33
Materials and supplies		84
Depreciation		19
		<u>1,840</u>
		1,840
Less amounts capitalized or allocated to other accounts		<u>(8)</u>
Total customer accounting	\$	<u><u>1,832</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, 2014

(Dollars in thousands)

I.	Direct Costs of Supply and Purification—Howard Bend	
	Labor	\$ 2,022
	Chemicals	1,978
	Support services	1,138
	Other materials and services	943
		<u>6,081</u>
		<u>\$ 6,081</u>
II.	Direct Costs of Power and Pumping—Howard Bend	
	Power	\$ 1,238
	Labor	612
	Support services	482
	Other materials and services	449
		<u>2,781</u>
		<u>\$ 2,781</u>
III.	General Office Expenses—Power and Pumping	\$ 1,107
IV.	General Office Expenses—Supply and Purification	\$ 1,105
V.	Reservoir Maintenance	\$ 417
VI.	Administration and Finance Costs	
	City services	\$ 936
	Labor	1,391
	Other services and miscellaneous	1,038
	Support services	173
		<u>3,538</u>
		<u>\$ 3,538</u>
VII.	Specified Labor Costs	
	Transmission and distribution	\$ 7,569
	Supply and purification	4,245
	Power and pumping	2,021
	Customer accounting	1,248
		<u>15,083</u>
		<u>\$ 15,083</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.