



**CITY UTILITIES OF SPRINGFIELD, MISSOURI**

Compliance Reports

September 30, 2009

(With Independent Auditors' Reports Thereon)

# CITY UTILITIES OF SPRINGFIELD, MISSOURI

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**Independent Auditors' Report on Internal Control over Financial Reporting  
and on Compliance and Other Matters Based on an Audit of  
Financial Statements Performed in Accordance with  
*Government Auditing Standards***

The Honorable Mayor and Members of the City Council  
City of Springfield, Missouri:

We have audited the financial statements of City Utilities of Springfield, Missouri (City Utilities) as of and for the year ended September 30, 2009, and have issued our report thereon dated January 14, 2010. 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.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered City Utilities' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City Utilities' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of City Utilities' internal control over financial reporting.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether City Utilities' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the board, audit and finance committee, management, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

Kansas City, Missouri  
January 14, 2010



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**Independent Auditors' Report on Compliance with Requirements  
Applicable to Each Major Program and on Internal Control over  
Compliance in Accordance with OMB Circular A-133 and on the  
Schedule of Expenditures of Federal Awards**

The Honorable Mayor and Members of the City Council  
City of Springfield, Missouri:

**Compliance**

We have audited the compliance of City Utilities of Springfield, Missouri (City Utilities) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2009. City Utilities' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of City Utilities' management. Our responsibility is to express an opinion on City Utilities' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City Utilities' compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of City Utilities' compliance with those requirements.

In our opinion, City Utilities of Springfield, Missouri complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2009.

**Internal Control over Compliance**

The management of City Utilities is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered City Utilities' internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City Utilities' internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

#### **Schedule of Expenditures of Federal Awards**

We have audited the basic financial statements of City Utilities as of and for the year ended September 30, 2009, and have issued our report thereon dated January 14, 2010. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis, as required by OMB Circular A-133, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the board, city council, audit and finance committee, management, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

**KPMG LLP**

Kansas City, Missouri  
January 14, 2010

**CITY UTILITIES OF SPRINGFIELD, MISSOURI**

Schedule of Findings and Questioned Costs

Year ended September 30, 2009

**(1) Summary of Auditors' Results**

- (a) The type of report issued on the basic financial statements: **Unqualified opinion**
- (b) Significant deficiencies in internal control over financial reporting: **No**
- (c) Material weakness in internal control over financial reporting: **No**
- (d) Noncompliance that is material to the basic financial statements: **No**
- (e) Significant deficiencies in internal control over compliance: **None reported**
- (f) Material weaknesses in internal control over compliance: **No**
- (g) The type of report issued on compliance for major programs: **Unqualified opinion**
- (h) Any audit findings that are required to be reported under Section 510(a) of OMB Circular A-133: **No**
- (i) Major programs: **CFDA # 97.036: Department of Homeland Security Public Assistance Grants**
- (j) Dollar threshold used to distinguish between Type A and Type B programs: **\$300,000**
- (k) Auditee qualified as a low-risk auditee under Section 530 of OMB Circular A-133: **Yes**

**(2) Findings Relating to the Basic Financial Statements Reported in Accordance with *Government Auditing Standards***

None.

**(3) Findings and Questioned Costs Relating to Federal Awards**

None.

**CITY UTILITIES OF SPRINGFIELD, MISSOURI**

Schedule of Expenditures of Federal Awards

Year ended September 30, 2009

<u>Federal programs</u>	<u>CFDA number</u>	<u>Grant number</u>	<u>Balance of grant receivable at September 30, 2008</u>	<u>Expenditures</u>	<u>Receipts</u>	<u>Adjustments</u>	<u>Balance of grant receivable at September 30, 2009</u>
Federal transit administration:	20.507						
Operating		MO-90-X256	\$ —	874,465	848,875	—	25,590
Planning		MO-90-X256	—	82,000	82,000	—	—
Preventative maintenance		MO-90-X256	—	906,311	906,311	—	—
ADA Paratransit		MO-90-X256	—	216,701	216,701	—	—
Security, enhancements, and bus shelters		MO-90-X256	—	24,488	24,488	—	—
Capital grant		MO-90-X252	19,155	35,016	46,781	—	7,390
Operating grant		MO-90-X252	199,040	—	199,040	—	—
Capital grant		MO-90-X237	10,098	—	10,098	—	—
Capital grant		MO-04-0120	23,680	26,084	49,764	—	—
Capital grant		MO-03-0112	478	272,820	259,064	—	14,234
Operating grant		MO-37-X040	—	159,009	159,009	—	—
Capital grant		MO-57-X003	—	30,879	3,383	—	27,496
Total federal transit administration			252,451	2,627,773	2,805,514	—	74,710
Department of Homeland Security:	97.036						
Public assistance grant*		Project 778-0	2,155,562	—	2,043,219	112,343	—
Public assistance grant*		Project 202-0	18,673	—	18,673	—	—
Public assistance grant*		Project 203-0	727,976	—	727,848	128	—
Public assistance grant*		Project 209-0	1,854,578	—	1,850,857	3,721	—
Public assistance grant*		Project SU-005	—	9,708	—	—	9,708
Public assistance grant*		Project SU-007	—	8,111	—	—	8,111
Public assistance grant*		Project SPG-F01	—	668,098	—	—	668,098
Public assistance grant*		Project SPG-F02	—	4,609	—	—	4,609
Public assistance grant*		Project SPG-B01	—	72,077	—	—	72,077
Public assistance grant*		Project SU-004	—	19,437	—	—	19,437
Public assistance grant*		Project SU-001	—	13,006	—	—	13,006
Public assistance grant*		Project SU-003	—	17,500	—	—	17,500
Public assistance grant*		Project SU-0002	—	3,737	—	—	3,737
Public assistance grant*		Project SU-006	—	1,775	—	—	1,775
Total Department of Homeland Security			4,756,789	818,058	4,640,597	116,192	818,058
Total all federal grants			\$ 5,009,240	3,445,831	7,446,111	116,192	892,768

\* Passed through the Missouri State Emergency Management Agency.

See accompanying notes to schedule of expenditures of federal awards.

## **CITY UTILITIES OF SPRINGFIELD, MISSOURI**

### Notes to Schedule of Expenditures of Federal Awards

Year ended September 30, 2009

#### **(1) Organization and Basis of Presentation**

City Utilities of Springfield, Missouri (City Utilities) is the recipient of federal grants related to transportation and public assistance. The accompanying schedule of expenditures of federal awards presents the activity of all federal financial assistance programs of City Utilities. All federal awards received directly from federal agencies, as well as federal awards passed through other government agencies, are included on the schedule.

##### ***Basis of Presentation***

The accompanying schedule of expenditures of federal awards has been prepared in accordance with U.S. generally accepted accounting principles with expenditures presented on an accrual basis whereby they are recognized in the accounting period in which the liability is incurred. For reimbursement-type grants, only the reimbursable expenditures are shown as federal expenditures. The basis of presentation is the same as that for the basic financial statements.

#### **(2) Purpose of Programs**

A brief description of the purpose of the programs follows.

##### ***Federal Transit Administration Grants***

This program assists in financing the planning, acquisition, construction, preventative maintenance, and improvement of facilities and equipment in mass transportation services.

##### ***Department of Homeland Security Public Assistance Grants***

This program provides supplemental assistance to alleviate suffering and hardship resulting from major disasters or emergencies declared by the President of the United States of America.

#### **(3) Local Government Contributions**

Local cost sharing is required by certain federal grants. The amount of cost sharing varies by program. Only the federal share of expenditures is presented in the schedule of expenditures of federal awards.



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**Independent Auditors' Report on Compliance with  
Special Ordinance Number 25059**

The Honorable Mayor and Members of the City Council  
City of Springfield, Missouri:

We have audited, in accordance with auditing standards generally accepted in the United States of America, the basic financial statements of City Utilities of Springfield, Missouri (City Utilities) as of and for the year ended September 30, 2009, and have issued our report thereon dated January 14, 2010.

In connection with our audit, nothing came to our attention that caused us to believe City Utilities failed to comply with the terms, covenants, provisions, or conditions as set forth in Section 801 of Special Ordinance Number 25059, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such compliance.

This report is intended solely for the information and use of the board, audit and finance committee, management, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

**KPMG LLP**

Kansas City, Missouri  
January 14, 2010



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**Independent Auditors' Report on the Calculation of Under  
(Over) Recoveries of the Fuel Adjustment Clause**

The Honorable Mayor and Members of the City Council  
City of Springfield, Missouri:

We have audited the basic financial statements of City Utilities of Springfield, Missouri (City Utilities) as of and for the year ended September 30, 2009, and have issued our report thereon dated January 14, 2010. We have also audited City Utilities' calculation of under (over) recoveries of the fuel adjustment clause for the year ended September 30, 2009, as defined in the City of Springfield, Missouri, General Ordinance Number 3243. This calculation is the responsibility of City Utilities' management. Our responsibility is to express an opinion on this calculation 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of City Utilities' internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The calculation was prepared to present the under (over) recoveries of the fuel adjustment clause pursuant to City of Springfield, Missouri, General Ordinance Number 3243 following the basis of presentation described in the note to the calculations. The calculation is not intended to be a presentation in conformity with U.S. generally accepted accounting principles.

In our opinion, the calculation referred to above presents fairly, in all material respects, the information set forth herein for the year ended September 30, 2009 on the basis specified in the ordinance referred to above.

This report is intended solely for the information and use of the board, audit and finance committee, management, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

**KPMG LLP**

Kansas City, Missouri  
January 14, 2010

**CITY UTILITIES OF SPRINGFIELD, MISSOURI**

Calculation of Under (Over) Recoveries of the Fuel Adjustment Clause

Year ended September 30, 2009

	<b>A</b> <b>Eligible</b> <b>fuel costs</b> <b>incurred</b>	<b>B</b> <b>Fuel costs</b> <b>collected</b> <b>through</b> <b>base</b> <b>rates</b>	<b>C = (A-B)</b> <b>Eligible</b> <b>fuel costs</b> <b>incurred,</b> <b>net of</b> <b>fuel costs</b> <b>collected</b> <b>through</b> <b>base rates</b>	<b>D</b> <b>Fuel</b> <b>adjustment</b> <b>clause</b> <b>refunds</b>	<b>E = (C-D)</b> <b>Monthly</b> <b>under (over)</b> <b>recoveries</b> <b>of the fuel</b> <b>adjustment</b> <b>clause</b>	<b>Cumulative</b> <b>under (over)</b> <b>recoveries</b> <b>of the fuel</b> <b>adjustment</b> <b>clause</b>
September 30, 2008 balance						\$ (244,306)
October 2008	\$ 7,394,389	4,641,684	2,752,705	3,509,961	(757,256)	(1,001,562)
November 2008	6,968,653	4,425,711	2,542,942	3,346,647	(803,705)	(1,805,267)
December 2008	8,213,992	4,625,933	3,588,059	3,498,051	90,008	(1,715,259)
January 2009	8,215,739	5,423,959	2,791,780	4,101,504	(1,309,724)	(3,024,983)
February 2009	7,437,138	5,441,851	1,995,287	4,115,034	(2,119,747)	(5,144,730)
March 2009	7,489,880	4,817,406	2,672,474	3,642,840	(970,366)	(6,115,096)
April 2009	6,231,463	4,358,962	1,872,501	2,909,724	(1,037,223)	(7,152,319)
May 2009	6,622,818	4,210,234	2,412,584	2,810,445	(397,861)	(7,550,180)
June 2009	8,662,058	4,622,031	4,040,027	3,085,330	954,697	(6,595,483)
July 2009	8,639,055	5,985,657	2,653,398	3,995,587	(1,342,189)	(7,937,672)
August 2009	8,707,687	5,601,337	3,106,350	3,739,043	(632,693)	(8,570,365)
September 2009	6,746,224	5,256,496	1,489,728	3,508,853	(2,019,125)	(10,589,490)
<b>Total</b>	<b>\$ 91,329,096</b>	<b>59,411,261</b>	<b>31,917,835</b>	<b>42,263,019</b>	<b>74,180,854</b>	<b>\$ (10,589,490)</b>

Basis of presentation:

General Ordinance Number 3243 requires City Utilities to adjust monthly customer electric bills to compensate for changes in the cost of fuel and purchased power to the utility. The following define costs associated with the fuel adjustment clause:

- (A) As defined in General Ordinance Number 3243, eligible fuel costs incurred include only the cost of (a) coal (including freight) and natural gas burned in the generation of electricity, (b) fuel oil burned in the generation of electricity at the Main Avenue Power Plant, and (c) purchased power (excluding connect and capacity charges).
- (B) General Ordinance Number 3243 defines fuel costs collected through base rates as the product of the fuel base cost to City Utilities upon which the electric rates were designed (\$0.0186 per kilowatt-hour) and the appropriate volume of kilowatt-hour sales.



**CITY UTILITIES OF SPRINGFIELD, MISSOURI**  
(A Component Unit of the City of Springfield, Missouri)

Basic Financial Statements and Supplementary Information

September 30, 2009 and 2008

(With Independent Auditors' Report Thereon)

**CITY UTILITIES OF SPRINGFIELD, MISSOURI**  
(A Component Unit of the City of Springfield, Missouri)

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## **Independent Auditors' Report**

The Honorable Mayor and Members of the  
City Council of the City of Springfield, Missouri:

We have audited the accompanying balance sheets of the Public Utility, the Water Utility, and the total business-type activities of City Utilities of Springfield, Missouri (City Utilities), a component unit of the City of Springfield, Missouri, as of September 30, 2009 and 2008, and the related statements of revenues, expenses, and changes in net assets and of cash flows for the years then ended. These financial statements are the responsibility of City Utilities' management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of City Utilities' internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Public Utility, the Water Utility, and the total business-type activities of City Utilities of Springfield, Missouri as of September 30, 2009 and 2008, and the respective changes in their financial position and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 22, 2009 on our consideration of City Utilities' 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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Management's discussion and analysis on pages 3 through 16 and the Schedule of Missouri Local Government Employees Retirement System Funding Progress on page 46 are not required parts of the basic financial statements, but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming opinions on the basic financial statements taken as a whole. The supplementary combining schedules of revenues, expenses, and changes in net assets for the years ended September 30, 2009 and 2008 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

KPMG LLP

Kansas City, Missouri  
January 14, 2010

**CITY UTILITIES OF SPRINGFIELD, MISSOURI**  
(A Component Unit of the City of Springfield, Missouri)

Management's Discussion and Analysis

September 30, 2009 and 2008

City Utilities of Springfield, Missouri (City Utilities or the Utility) is a municipally owned utility, which is a component unit of the City of Springfield, Missouri (City). This discussion and analysis of the financial performance of City Utilities provides an overview of City Utilities' financial activities for the fiscal years ended September 30, 2009 and 2008. This analysis should be read in conjunction with the financial statements and notes thereto.

City Utilities is comprised of the Public Utility (including electric, natural gas, transportation, and telecommunications) and the Water Utility. At September 30, 2009, City Utilities served approximately 109,000 electric, 83,000 natural gas, and 80,000 water customers in the Springfield metropolitan area. This represents growth of approximately 0.5% for fiscal year 2009.

**Financial Highlights**

	<u>Fiscal year 2009</u>	<u>Fiscal year 2008</u>
• Net assets (equity)	\$859.4 million	\$842.4 million
• Change in net assets (net income)	\$16.9 million	\$24.3 million
• Capital improvements	\$259 million	\$213 million
• Peak demand:		
Electric – maximum hourly peak demand	761 megawatts	790 megawatts
Natural gas – maximum daily throughput peak	119,596 dekatherms	87,740 dekatherms
Water – maximum daily pumpage	42.2 million gallons	46.3 million gallons
• Credit rating – Revenue Bonds:		
Public Utility	AA	AA
Water Utility	AA	AA

**Significant Items**

<u>Fiscal year 2009</u>	<u>Fiscal year 2008</u>
<ul style="list-style-type: none"> <li>• A 3% water rate increase was effective October 2008 with a 3% rate increase to follow in October 2009. Last fiscal year, a 5% water rate increase, of the same series, went into effect October 2007.</li> <li>• In fiscal year 2009, City Utilities received payments totaling \$5.0 million and \$2.9 million from Federal Emergency Management Administration (FEMA) and State Emergency Management Administration (SEMA) for the 2007 and 2008 ice storms, respectively. Final payments were received in May 2009 for the 2007 ice storm and in July 2009 for the 2008 ice storm.</li> </ul>	<ul style="list-style-type: none"> <li>• A 5% water rate increase was effective October 2007. Additional 3% rate increases are approved for October 2008 and 2009.</li> <li>• As of September 2008, \$3.0 million is due from the Federal Emergency Management Administration (FEMA) and State Emergency Management Administration (SEMA) for the 2008 ice storm. In addition, \$5.2 million remains outstanding from FEMA/SEMA for the 2007 ice storm. Payment is expected to be received in fiscal 2009.</li> </ul>

**CITY UTILITIES OF SPRINGFIELD, MISSOURI**  
(A Component Unit of the City of Springfield, Missouri)

Management's Discussion and Analysis

September 30, 2009 and 2008

**Significant Items**

<b>Fiscal year 2009</b>	<b>Fiscal year 2008</b>
<ul style="list-style-type: none"> <li>• An estimated \$0.9 million is due to City Utilities from the Federal Emergency Management Administration (FEMA) and State Emergency Management Administration (SEMA) for the 2009 May storm damage.</li> <li>• Continued construction of Southwest Power Station Unit 2 (SW2). Fiscal year 2009 expenditures were \$234.7 million; \$28.7 million in non capital expenditures and \$206.0 million in capital expenditures.</li> <li>• NOx emissions compliance under the Clean Air Interstate Rule necessitated projects at the power stations. Fiscal year 2009 capital expenditures included \$9.9 million for the engineering and procurement of Selective Catalytic Reduction (SCR) equipment at Southwest Power Station (SWPS).</li> <li>• James River Power Station cooling tower was retired in September 2008. A replacement costing \$3.7 million was constructed to meet load requirements during fiscal year 2009.</li> <li>• Continued various repair and component replacements for the Southwest Unit 1 (SW1). This is a multiyear initiative. In fiscal year 2009, capital expenditures totaled \$1.4 million.</li> <li>• Continued construction of the raw water pipeline from Fellows Lake to Blackman Water Treatment Plant (BWTP). Fiscal year 2009 capital expenditures totaled \$0.3 million. Construction will resume in 2014.</li> <li>• In fiscal 2009, construction costs of the Natural Gas Eastern Loop transmission system were \$6.8 million.</li> </ul>	<ul style="list-style-type: none"> <li>• Continued construction of Southwest Power Station Unit 2 (SW2). Fiscal year 2008 expenditures were \$154.1 million; \$28.7 million in noncapital expenditures, with the remaining \$125.4 million in capital expenditures.</li> <li>• NOx emissions compliance under the Clean Air Interstate Rule necessitated projects at the power stations. Fiscal year 2008 capital expenditures included \$33.7 million for the engineering and procurement of Selective Catalytic Reduction (SCR) equipment at Southwest Power Station (SWPS).</li> <li>• Low NOx burners were installed on Unit 5 at James River Power Station (JRPS) at a cost of \$1.4 million.</li> <li>• Continued various repair and component replacements for the Southwest Unit 1 (SW1). This is a multiyear initiative. In fiscal year 2008, capital expenditures totaled \$4.7 million.</li> <li>• Continued construction of the raw water pipeline from Fellows Lake to Blackman Water Treatment Plant (BWTP). Fiscal year 2008 capital expenditures totaled \$7.4 million.</li> <li>• Continued efforts to implement a graphic work design system. In 2008, project costs were \$3.2 million.</li> <li>• City Utilities entered into a Master Lease agreement for the Water Utility for various initiatives including Stockton Pump Station improvements and the Southwest Water Tank. During fiscal year 2008, the Utility received \$3.4 million in financing proceeds.</li> </ul>

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**Significant Items**

Fiscal year 2009	Fiscal year 2008
<ul style="list-style-type: none"> <li>• City Utilities entered into a Master Lease agreement for the Water Utility for various initiatives including Concrete Main Renewals, Stockton Pumps, BWTP Concrete Main, 48" Raw Water Main, and the Fellows Lake Spillway. During fiscal year 2009, City Utilities received \$5.7 million in financing proceeds.</li> </ul>	<ul style="list-style-type: none"> <li>• In August 2008, City Utilities reached a \$425,000 settlement agreement with the pump manufacturer for the failure of the pumps at the Stockton Pump Station. Two of the three pumps installed in September 1996 had failed and could not be repaired. Consequently, in September 2008, an asset impairment loss, net of the \$425,000 settlement, was recognized for \$3,000 for the Water Utility.</li> </ul>

**Financial Statements**

This report contains three basic financial statements and related notes. The statements of revenues, expenses, and changes in net assets present City Utilities' results of operations and changes in net assets for the fiscal years ended September 30, 2009 and 2008. The balance sheets present City Utilities' financial condition, assets, liabilities, and net assets at September 30, 2009 and 2008. The statements of cash flows present City Utilities' sources and uses of cash and cash equivalents for the fiscal years ended September 30, 2009 and 2008. The notes to financial statements are an integral part of the basic financial statements and contain information on accounting principles and other matters necessary for a more complete understanding of City Utilities' financial position.

**Discussion and Analysis**

***Major Projects***

Major projects in 2009 included continued efforts on the NOx emissions compliance project, replacing a cooling tower at James River Power Station, Concrete Main Renewal at the Blackman Water Treatment Plant, construction of Natural Gas Eastern Loop, and continued repairs and component replacements at SW1. Additionally, construction continued for SW2.

Major projects in 2008 included continued construction of the 48-inch raw water pipeline from Fellows Lake to the BWTP, NOx emissions compliance to the Clean Air Interstate Rule, new construction of the Southwest Water Tank, continued repairs and component replacements at SW1, and the graphic work design system. Also, two major projects related to Stockton Pump Station occurred in fiscal year 2008; one pertaining to intake improvements and the other new pump control valves. Additionally, construction continued for SW2.

***Long-Term Obligation Activity***

During fiscal year 2009, City Utilities entered into four Water Master Lease agreements. In December 2008, the Water Utility financed \$2.1 million for the Blackman Water Treatment Plant concrete main and the 48" raw water main. In April 2009, the Water Utility financed \$0.7 million for Alternative Disinfection, Fulbright switchgear, and the Fellows Lake Spillway. In July 2009, the Water Utility financed \$1.3 million for the

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Concrete Main Renewals and the Stockton Pumps. And lastly, in September 2009, the Water Utility financed \$1.6 million for Fellows Lake Spillway Phase II.

During fiscal year 2008, City Utilities entered into a Water Master Lease agreement. In June 2008, the Water Utility financed \$1.1 million for reimbursement of expenses for Stockton intake improvements and Stockton pump control valves. In August 2008, the Water Utility financed \$2.3 million for construction of the Southwest Water Tank.

**City Utilities' Net Assets (Equity)**

September 30, 2009, 2008, and 2007

(In thousands)

	<b>Public Utility</b>		<b>Water Utility</b>		<b>Total</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
<b>Assets:</b>						
Net utility plant	\$ 1,032,293	795,924	192,074	187,854	1,224,367	983,778
Current and other assets	533,425	766,992	16,861	15,511	550,286	782,503
Total assets	<u>1,565,718</u>	<u>1,562,916</u>	<u>208,935</u>	<u>203,365</u>	<u>1,774,653</u>	<u>1,766,281</u>
<b>Less liabilities:</b>						
Long-term debt outstanding	739,169	747,196	46,728	44,348	785,897	791,544
Other liabilities	126,531	130,101	2,873	2,218	129,404	132,319
Total liabilities	<u>865,700</u>	<u>877,297</u>	<u>49,601</u>	<u>46,566</u>	<u>915,301</u>	<u>923,863</u>
<b>Net assets:</b>						
Invested in capital assets, net of related debt	528,294	518,245	150,677	140,643	678,971	658,888
Restricted for debt service	—	—	4,207	4,193	4,207	4,193
Unrestricted	171,724	167,374	4,450	11,963	176,174	179,337
Total net assets	<u>\$ 700,018</u>	<u>685,619</u>	<u>159,334</u>	<u>156,799</u>	<u>859,352</u>	<u>842,418</u>
<b>Assets:</b>						
Net utility plant	\$ 795,924	618,060	187,854	173,374	983,778	791,434
Current and other assets	766,992	900,299	15,511	27,302	782,503	927,601
Total assets	<u>1,562,916</u>	<u>1,518,359</u>	<u>203,365</u>	<u>200,676</u>	<u>1,766,281</u>	<u>1,719,035</u>
<b>Less liabilities:</b>						
Long-term debt outstanding	747,196	754,947	44,348	43,500	791,544	798,447
Other liabilities	130,101	100,111	2,218	2,390	132,319	102,501
Total liabilities	<u>877,297</u>	<u>855,058</u>	<u>46,566</u>	<u>45,890</u>	<u>923,863</u>	<u>900,948</u>
<b>Net assets:</b>						
Invested in capital assets, net of related debt	518,245	468,524	140,643	142,773	658,888	611,297
Restricted for debt service	—	—	4,193	3,945	4,193	3,945
Unrestricted	167,374	194,777	11,963	8,068	179,337	202,845
Total net assets	<u>\$ 685,619</u>	<u>663,301</u>	<u>156,799</u>	<u>154,786</u>	<u>842,418</u>	<u>818,087</u>

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*Fiscal Year 2009*

To meet NOx emissions compliance under the Clean Air Interstate Rule, projects continued at the power stations. At SWPS, the engineering and procurement of Selective Catalytic Reduction equipment continued with fiscal year 2009 capital expenditures of \$9.9 million.

In fiscal year 2009, City Utilities financed \$5.7 million for the various construction projects, the largest being the lease for the concrete main at the Blackman Water Treatment Plant and the 48" raw water main with a \$2.1 million lease.

The Natural Gas Eastern Loop Extension will extend the 16-inch natural gas transmission line from McCartney Generating Station to the Barnes and Norton area. Installation was originally estimated at \$3.7 million but actual charges rose to \$6.8 million. Construction costs for the pipeline escalated beyond expectations due to nationwide demand for construction and welding crews. The demand was created by the interstate pipeline expansion projects and integrity management efforts.

The SW1 steam turbine has been in service for 30 years and requires various repair and component replacements. In fiscal year 2009, capital expenditures were \$1.4 million. Total project expenditures from fiscal year 2007 to 2009 were \$7.9 million.

In fiscal 2009, major projects in Operations Technology totaled \$1.8 million. Project costs for the noncapital items in 2009 totaled \$1.1 million, which included maintenance of GIS, vector migration, and the mobile work management system. Capital costs totaled \$0.7 million and included implementation of the mobile work management system and completion of mobile GIS.

Construction continued on SW2. Project costs were \$234.7 million for fiscal year 2009: \$206.0 million in capital expenditures, with the remaining \$28.7 million in noncapital charges.

*Fiscal Year 2008*

Water Supply expended \$7.4 million in fiscal year 2008 to continue work on a raw water pipeline from Fellows Lake to BWTP. The 2008 efforts resulted in the addition of 29,543 feet of 48-inch raw water main. The total project consists of 11 miles of 48-inch water main and is required to assure adequate delivery of the maximum day water supply to BWTP for treatment. Based upon studies by Black and Veatch, this phase will provide 10.5 million gallons per day (MGD) additional source capacity. The pipeline is scheduled to be complete by 2014.

To meet NOx emissions compliance under the Clean Air Interstate Rule, projects continued at the power stations. At SWPS, the engineering and procurement of Selective Catalytic Reduction equipment continued with fiscal year 2008 capital expenditures of \$33.7 million. Additionally, low NOx burners were installed on Unit 5 at JRPS at a cost of \$1.4 million.

In fiscal year 2008, City Utilities financed \$2.3 million for the construction of the Southwest Water Tank. Actual charges incurred in fiscal year 2008 were \$1.8 million.

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The SW1 steam turbine has been in service for 30 years and requires various repair and component replacements. In fiscal year 2008, \$4.7 million was expended for rotor forging and contour machining, as well as site delivery of all major components. Total project expenditures for this multiyear initiative are projected at \$8.3 million.

In order to maintain service, a barge and pumps were installed at the Stockton Pump Station. Pump control valves were also installed as well as other repairs. This was an interim solution. In fiscal year 2008, \$1.2 million was expended for the interim pump solution and control valves. Of this, \$1.1 million was financed by the 2008 Water Master Lease.

The Graphic Work Design project for the Electric department was completed in fiscal year 2008. Also, the field audit of the Electric System that began in 2007 was completed in fiscal year 2008. Project costs for efforts in 2008 totaled \$3.2 million.

Construction continued on SW2. As of September 2008, all major contracts were awarded except the balance of plant. SW2 project costs were \$154.1 million for fiscal year 2008: \$28.7 million in noncapital charges, with the remaining \$125.4 million in capital expenditures.

***Operating Results – Revenues***

Summer and winter weather patterns can have a significant impact on operating results. Even though the winter was slightly colder than the previous year, gas usage per customer decreased in fiscal year 2009. This resulted in lower gas sales volume compared to fiscal year 2008. The summer was cooler than the prior year. As a result, electric usage per customer decreased as compared with fiscal year 2008.

**Operating Revenues**

Years ended September 30, 2009 and 2008

(In thousands)

	<b>Public Utility</b>		<b>Water Utility</b>		<b>Total</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
Operating revenue:						
Electric	\$ 205,404	221,613	—	—	205,404	221,613
Natural gas	94,335	127,922	—	—	94,335	127,922
Transportation	1,017	1,003	—	—	1,017	1,003
Telecom/Broadband	14,694	13,198	—	—	14,694	13,198
Water Utility	—	—	29,190	29,643	29,190	29,643
Total operating revenues	<u>\$ 315,450</u>	<u>363,736</u>	<u>29,190</u>	<u>29,643</u>	<u>344,640</u>	<u>393,379</u>

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**Operating Revenues**

Years ended September 30, 2008 and 2007

(In thousands)

	<b>Public Utility</b>		<b>Water Utility</b>		<b>Total</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Operating revenue:						
Electric	\$ 221,613	217,453	—	—	221,613	217,453
Natural gas	127,922	112,608	—	—	127,922	112,608
Transportation	1,003	799	—	—	1,003	799
Telecom/Broadband	13,198	11,316	—	—	13,198	11,316
Water Utility	—	—	29,643	29,808	29,643	29,808
Total operating revenues	<u>\$ 363,736</u>	<u>342,176</u>	<u>29,643</u>	<u>29,808</u>	<u>393,379</u>	<u>371,984</u>

*Fiscal Year 2009*

Electric revenue is comprised of sales to City Utilities' customers (system sales) and sales to other utilities (off-system sales). Cooling degree days in fiscal year 2009 were 13% lower than fiscal year 2008 and 17% lower than normal. The number of residential customers increased by 1% and commercial and industrial customers increased by 1% as compared to fiscal year 2008. Electric unit sales to customers decreased 3%. In fiscal year 2009, revenues from electric retail sales increased 3% or \$5 million over the previous year. The revenues from electric retail sales totaled \$197 million for fiscal year 2009. Additionally, fiscal year 2009 off-system sales volumes declined 45%, leaving off-system sales revenues \$9.6 million below last year. Revenues from off-system sales in fiscal year 2009 were \$11.7 million.

Heating degree days in fiscal year 2009 were 1% higher than in fiscal year 2008, and were normal. Total unit gas sales decreased 1% from the previous year. Gas usage per residential customer decreased 3% while the average gas usage for commercial and industrial decreased 1%. Natural gas revenues decreased 32% to \$83 million as a result of decreased sales volume and lower gas prices.

Fiscal year 2009 brought 45.02 inches of precipitation which approximated normal precipitation. This is reflected in a decline in average water usage per customer and in gallons billed for the year. Water sales revenues of \$27.8 million were consistent with fiscal year 2008 of \$27.5 million. Total revenues were \$29.2 million in 2009 as compared to \$29.6 million in 2008.

Telecom/Broadband benefited from new SpringNet customer contracts during the fiscal year. External revenues reached \$9.7 million, up 19% over fiscal year 2008.

*Fiscal Year 2008*

Electric revenue is comprised of sales to City Utilities' customers (system sales) and sales to other utilities (off-system sales). Cooling degree days in fiscal year 2008 were 24% lower than fiscal year 2007, yet 5% higher than normal. The number of residential customers increased by 2% and commercial and industrial customers increased by 1% as compared to fiscal year 2007. Electric unit sales to customers increased 1%. As a result, fiscal year 2008 revenues from electric retail sales increased 1% or \$1.7 million over the previous year. The revenues from electric retail sales totaled \$192.5 million for fiscal year 2008. Additionally, fiscal year 2008

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off-system sales volumes declined 20%, leaving off-system sales revenues \$5.2 million below last year. Revenues from off-system sales in fiscal year 2008 were \$21.2 million.

Heating degree days in fiscal year 2008 were 11% higher than in fiscal year 2007, and 1% below normal. Total unit gas sales rose 5% from the previous year. Gas usage per residential customer rose 7% while the average gas usage for commercial and industrial rose 2%. As a result, natural gas revenues increased 17% to \$122.9 million.

Fiscal year 2008 brought 60.91 inches of precipitation, 13 inches above 2007 levels. This is reflected in a decline in average water usage per customer and in gallons billed for the year. Water sales revenues of \$27.6 million were consistent with fiscal year 2007 of \$27.3 million. Total revenues were \$29.6 million in 2008 as compared to \$29.8 million in 2007.

Telecom/Broadband benefited from new SpringNet customer contracts during the fiscal year. External revenues reached \$8.2 million, up 30% over fiscal year 2007.

***Operating Results – Operating Expenses***

City Utilities' electric generation includes base load availability of 450 MW from six coal-fired steam turbines and peak load availability of 370 MW from seven combustion turbines. An additional 3 MW became available from the Noble Hill Landfill Renewable Energy Center. Supplementing this internal generating capacity, the Utility has contracted a total of 101 MW through Kansas City Power and Light (KCPL) and Southwest Power Administration (SWPA). The Utility also contracted 50 MW of renewable energy through the Smoky Hills Wind Project II, of which, City Utilities has rights to 25 MW of firm transmission capacity to our system. In addition, owner-membership in The Energy Authority (TEA) continues to prove beneficial for City Utilities' customers. This mix of generation resources allows City Utilities to maintain low prices, provide optimum reliability to customers, and to take advantage of off-system sales opportunities as market conditions allow. City Utilities generated approximately 69% and purchased 31% of its power needs in 2009 compared to generating 81% and purchasing 19% in 2008.

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City Utilities pays a percentage of its operating revenues into the general revenue fund of the City, as required by City Charter. These Payments in Lieu of Taxes are made to the City at a rate of 3% of electric revenue and 4% of natural gas and transit revenue for the period. Additionally, the Water Utility made payments to the City at a rate of 4%.

**Operating Expenses**

Years ended September 30, 2009, 2008, and 2007

(In thousands)

	<b>Public Utility</b>		<b>Water Utility</b>		<b>Total</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
Operating expense:						
Electric	\$ 198,008	204,376	—	—	198,008	204,376
Natural gas	92,325	127,424	—	—	92,325	127,424
Transportation	7,911	8,245	—	—	7,911	8,245
Telecom/Broadband	12,853	11,674	—	—	12,853	11,674
Water Utility	—	—	25,763	27,214	25,763	27,214
<b>Total operating expense</b>	<b>\$ 311,097</b>	<b>351,719</b>	<b>25,763</b>	<b>27,214</b>	<b>336,860</b>	<b>378,933</b>
	<b>Public Utility</b>		<b>Water Utility</b>		<b>Total</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Operating expense:						
Electric	\$ 204,376	203,740	—	—	204,376	203,740
Natural gas	127,424	112,570	—	—	127,424	112,570
Transportation	8,245	7,375	—	—	8,245	7,375
Telecom/Broadband	11,674	10,136	—	—	11,674	10,136
Water Utility	—	—	27,214	27,952	27,214	27,952
<b>Total operating expense</b>	<b>\$ 351,719</b>	<b>333,821</b>	<b>27,214</b>	<b>27,952</b>	<b>378,933</b>	<b>361,773</b>

*Fiscal Year 2009*

Fiscal year 2009 operating expenses included May 2009 storm costs of \$0.9 million, which is expected to be reimbursed by FEMA and SEMA.

Fiscal year 2009 electric operating expenses decreased 3% as compared to fiscal year 2008. Fiscal year 2008 was affected by the 2008 ice storm and increased coal prices. Purchased power increased by approximately \$9.0 million as compared to fiscal year 2008, of that, \$6.0 million was green power from Smoky Hills Wind Project II. Also, coal prices increased from \$39.41 per ton in fiscal year 2008 to \$41.30 per ton in fiscal year 2009, which is a 4.8% increase. Offsetting the increase in purchased power is the \$14.7 million decrease in production fuel expenses.

In fiscal year 2009, operating expenses for Natural gas decreased by \$33.0 million, or 28%, compared to fiscal year 2008. Gas supply expenses make up \$31.9 million of the total decrease in operating expenses. The ending inventory price for natural gas decreased from \$8.35 per Dth at the end of fiscal year 2008 to \$3.07 per Dth in fiscal year 2009.

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Overall, Water operating expenses in fiscal year 2009 decreased approximately \$960,000. Maintenance expenses made up almost half of the decrease at \$404,000 compared to fiscal year 2008. Also, administrative and general expenses were \$233,000 less than the prior year.

*Fiscal Year 2008*

Fiscal year 2008 operating expenses included 2008 ice storm costs of \$3.5 million, of which \$3.0 million is expected to be reimbursed by FEMA and SEMA. In addition, \$5.2 million remains outstanding from FEMA/SEMA for the 2007 ice storm. Payment is expected to be received in fiscal year 2009.

Although fiscal year 2008 electric operating expenses only increased 0.3% over fiscal year 2007, it was still an 8% increase when compared to fiscal year 2006. Fiscal year 2007 operating expenses involved increased purchase power costs, maintenance costs, and 2007 ice storm expenditures. Fiscal year 2008 was affected by the 2008 ice storm and increased coal prices. As of September 2008, \$3.5 million was expended related to the 2008 ice storm. Purchased coal expenses increased by approximately \$4.1 million as compared to fiscal year 2007. Coal prices increased from \$33.29 per ton in fiscal year 2007 to \$39.41 per ton in fiscal year 2008, which is an 18% increase.

In fiscal year 2008, operating expenses for Natural gas increased by \$14.9 million, or 13%, compared to fiscal year 2007. Gas supply expenses make up \$12.6 million of the total increase in operating expenses. The ending inventory price for natural gas increased from \$5.55 per Dth at the end of fiscal year 2007 to \$8.35 per Dth in fiscal year 2008.

Overall, Water operating expenses in fiscal year 2008 decreased \$738,000. Maintenance expenses decreased \$233,000 compared to fiscal year 2007. Distribution maintenance expenses increased \$639,000, or 27%, over fiscal year 2007, while maintenance on the Stockton reservoirs and maintenance of the pumping equipments at Stockton decreased \$630,000 and \$502,000, respectively. Reservoir maintenance expenses in fiscal year 2007 were higher due to the rental payments for the temporary pumps and the repairs to the Stockton pumps. Administrative and general expenses decreased \$310,000 as compared to fiscal year 2007. Part of the decrease from fiscal year 2007 is related to outside consulting services. CU expended more in fiscal year 2007 for consulting services related to the Stockton Pump Station.

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***Change in Net Assets***

Results of operations continued to be positive. Net assets continued to grow. The Public Utility and the Water Utility maintain AA credit ratings from Fitch Ratings and Standard & Poor's rating agencies, demonstrating strong financial positions. With credit ratings of AA category, the utilities are well positioned for the future.

**Change in Net Assets (Equity)**

Years ended September 30, 2009 and 2008

(In thousands)

	<b>Public Utility</b>		<b>Water Utility</b>		<b>Total</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
Operating revenues	\$ 315,450	363,736	29,190	29,643	344,640	393,379
Less operating expenses	<u>311,097</u>	<u>351,719</u>	<u>25,763</u>	<u>27,214</u>	<u>336,860</u>	<u>378,933</u>
Operating income	4,353	12,017	3,427	2,429	7,780	14,446
Nonoperating revenues and expenses:						
Interest income	23,417	32,891	567	869	23,984	33,760
Loss on sale of investments	(910)	(769)	(7)	(10)	(917)	(779)
Net decrease in fair market value of investments	5,044	3,476	365	275	5,409	3,751
Interest expense, net	(19,786)	(28,172)	(1,634)	(1,363)	(21,420)	(29,535)
Other items, net	<u>2,281</u>	<u>2,875</u>	<u>(183)</u>	<u>(187)</u>	<u>2,098</u>	<u>2,688</u>
Total nonoperating revenues and expenses	<u>10,046</u>	<u>10,301</u>	<u>(892)</u>	<u>(416)</u>	<u>9,154</u>	<u>9,885</u>
Change in net assets	14,399	22,318	2,535	2,013	16,934	24,331
Net assets (equity):						
Beginning of year	<u>685,619</u>	<u>663,301</u>	<u>156,799</u>	<u>154,786</u>	<u>842,418</u>	<u>818,087</u>
End of year	<u>\$ 700,018</u>	<u>685,619</u>	<u>159,334</u>	<u>156,799</u>	<u>859,352</u>	<u>842,418</u>

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**Change in Net Assets (Equity)**

Years ended September 30, 2008 and 2007

(In thousands)

	<b>Public Utility</b>		<b>Water Utility</b>		<b>Total</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Operating revenues	\$ 363,736	342,176	29,643	29,808	393,379	371,984
Less operating expenses	351,719	333,821	27,214	27,952	378,933	361,773
Operating income	12,017	8,355	2,429	1,856	14,446	10,211
Nonoperating revenues and expenses:						
Interest income	32,891	34,833	869	1,370	33,760	36,203
(Loss) gain on sale of investments	(769)	(735)	(10)	27	(779)	(708)
Net decrease in fair market value of investments	3,476	392	275	62	3,751	454
Interest expense, net	(28,172)	(30,475)	(1,363)	(1,608)	(29,535)	(32,083)
Other items, net	2,875	2,996	(187)	(175)	2,688	2,821
Total nonoperating revenues and expenses	10,301	7,011	(416)	(324)	9,885	6,687
Change in net assets before special items	22,318	15,366	2,013	1,532	24,331	16,898
Special items:						
Gain on sale of excess emission allowances	—	—	—	—	—	—
Change in net assets	22,318	15,366	2,013	1,532	24,331	16,898
Net assets (equity):						
Beginning of year	663,301	647,935	154,786	153,254	818,087	801,189
End of year	\$ 685,619	663,301	156,799	154,786	842,418	818,087

*Fiscal Year 2009*

For fiscal year 2009, Electric operating income of \$7.4 million reflected a \$9.8 million decrease from 2008. Natural gas operating income increased to \$2.0 million in fiscal year 2009, as compared to \$0.5 million in fiscal year 2008. Water operating income for fiscal year 2009 is \$3.4 million, up \$1.0 million from fiscal year 2008. Total operating income for the Utility is \$7.8 million as compared to \$14.4 million in fiscal year 2008. Net income for fiscal year 2009 is \$16.9 million, down \$7.4 million from last year. The market value adjustment of City Utilities' investment portfolio was positive in the amount of \$5.4 million compared to a positive adjustment of \$3.8 million for fiscal year 2008.

*Fiscal Year 2008*

For fiscal year 2008, Electric operating income of \$17.2 million reflected a \$3.5 million increase from 2007. Telecom/Broadband benefited from new SpringNet customer contracts and reported \$1.5 million of operating income, an increase of \$0.3 million from the previous year. Water operating income for fiscal year 2008 is

**CITY UTILITIES OF SPRINGFIELD, MISSOURI**  
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Management's Discussion and Analysis

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\$2.4 million, up \$0.5 million from fiscal year 2007. Total operating income for the Utility is \$14.4 million as compared to \$10.2 million in fiscal year 2007. Net income for fiscal year 2008 is \$24.3 million, up \$7.4 million from last year. The market value adjustment of City Utilities' investment portfolio was positive in the amount of \$3.8 million compared to a positive adjustment of \$0.5 million for fiscal year 2007.

***Receipts and Disbursements Compared to Budget***

**Receipts and Disbursements Compared to Budget**

Years ended September 30, 2009, 2008, and 2007

(In thousands)

		<b>2009</b>		<b>2008</b>	
		<b>Receipts</b>	<b>Disbursements</b>	<b>Receipts</b>	<b>Disbursements</b>
Budget	\$	456,730	722,479	493,386	697,538
Actual		421,313	641,684	464,686	612,947
Variance	\$	(35,417)	(80,795)	(28,700)	(84,591)
		<b>2008</b>		<b>2007</b>	
		<b>Receipts</b>	<b>Disbursements</b>	<b>Receipts</b>	<b>Disbursements</b>
Budget	\$	493,386	697,538	567,959	583,118
Actual		464,686	612,947	547,239	496,197
Variance	\$	(28,700)	(84,591)	(20,720)	(86,921)

***Fiscal Year 2009***

The variance in receipts, as compared to budget, can be attributed in large part to operating revenues coming in below budgeted amounts by \$23.9 million.

For disbursements (excluding those associated with SW2), noncapital expenditures were under budget by \$20.2 million and capital expenditures were under budget by \$7.8 million. Expenditures for fuel were under budget by \$22.8 million. Additionally, the budget assumes an expenditure of \$9.6 million for trade guarantees; this payment was not required.

***Fiscal Year 2008***

The variance in receipts, as compared to budget, can be attributed in large part to operating revenues coming in below budgeted amounts by \$27.8 million.

For disbursements (excluding those associated with SW2), noncapital expenditures were under budget by \$7.2 million and capital expenditures were under budget by \$14.2 million. Expenditures for fuel were under budget by \$18.0 million. Additionally, the budget assumes an expenditure of \$9.6 million for trade guarantees; this payment was not required.

**CITY UTILITIES OF SPRINGFIELD, MISSOURI**  
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***Significant Future Items***

Rate increases are as follows:

- An electric rate increase was approved by the Springfield City Council in March 2006 to support debt service for the Series 2006 Public Utility Revenue Bonds issued in connection with the construction of SW2. The rate increase is effective for fiscal year 2011. Base electric rates were last changed in 2006.
- A series of 2.5% and 2.0% gas rate increases are scheduled for the first billing cycle of October 2009 and October 2010, respectively. A 2.5% gas rate increase went into effect April 2009, which was a part of the same series. Prior to this series of rate increases, base natural gas rates were last changed in 2006. An additional adjustment was approved affecting the calculation of the purchased gas cost in the first billing of November 2008 for transmission and storage capacity charges.
- A 3% water rate increase is scheduled for the first billing cycle of October 2009. A 5% and 3% water rate increase went into effect October 2007 and 2008, respectively, which was a part of the same series.
- A second series of water rate increases was approved September 2009 by the Springfield City Council. The 8% water rate increases go into effect the first billing cycle of October 2010, 2011, and 2012.
- A \$0.15 transit adult fare increase was approved to be effective October 1 of 2009, with other transit fares to increase proportionately. A series of \$0.25 and \$0.10 adult fare increases went into effect in October 2007 and 2008, respectively. All three fare increases are part of the same series.

***Southwest Power Station Unit 2***

Construction of a 300 MW coal-fired power station is underway. Construction began in 2006, upon approval of the issuance of bonds to finance the construction. Total construction costs for the project are estimated at \$555.0 million including \$519.1 million for construction, \$3.6 million for transmission additions, and internal costs of \$32.3 million. Major contracts were awarded for construction during 2007. Project to date construction charges through September 2009 were \$458.2 million. This project spans from late 2006 with completion planned by the end of 2010.

***Operations Technology***

This project began in 2004 and will continue beyond 2014. This project will replace aging technologies for graphical work design, geographic information systems, facilities inspection maintenance, and a work management system. Estimated costs for 2010 – 2014 time frame are projected at \$10.2 million.

***Raw Water Main from Fellows Lake to Blackman Water Treatment Plant***

This multiyear project will ultimately consist of 11 miles of 48-inch water main. Construction is phased to parallel capacity increases at BWTP. Total project costs are budgeted at \$22 million. Estimated costs for 2014 are projected at \$8.6 million to install the final three miles of pipeline.

**CITY UTILITIES OF SPRINGFIELD, MISSOURI**  
(A Component Unit of the City of Springfield, Missouri)

Balance Sheets

September 30, 2009 and 2008

(In thousands)

Assets	2009			2008		
	Public Utility	Water Utility	Total	Public Utility	Water Utility	Total
Noncurrent assets:						
Capital assets:						
Land	\$ 27,824	11,620	39,444	26,763	11,592	38,355
Electric	795,374	—	795,374	709,036	—	709,036
Natural gas	181,834	—	181,834	167,035	—	167,035
Transportation	3,440	—	3,440	3,410	—	3,410
Water	—	241,121	241,121	—	230,926	230,926
Customer service	13,712	—	13,712	13,546	—	13,546
Telecom/Broadband	52,159	—	52,159	50,205	—	50,205
Common	55,743	—	55,743	52,461	—	52,461
Total	1,130,086	252,741	1,382,827	1,022,456	242,518	1,264,974
Less accumulated depreciation	(494,742)	(66,711)	(561,453)	(477,200)	(63,053)	(540,253)
Net total	635,344	186,030	821,374	545,256	179,465	724,721
Construction work in progress	396,949	6,044	402,993	250,668	8,389	259,057
Net capital assets	1,032,293	192,074	1,224,367	795,924	187,854	983,778
Investments:						
Funds for bonded indebtedness	52,813	7,746	60,559	52,813	7,732	60,545
Designated improvement account	156,957	1,857	158,814	325,898	1,143	327,041
Prepaid pension asset	4,588	—	4,588	6,014	—	6,014
Price risk management assets	190	—	190	45	—	45
Other noncurrent assets	14,375	1,987	16,362	14,680	2,113	16,793
Total noncurrent assets	1,261,216	203,664	1,464,880	1,195,374	198,842	1,394,216
Current assets:						
Cash and cash equivalents	22,262	—	22,262	29,921	—	29,921
Short-term investments	215,929	3,781	219,710	261,547	2,663	264,210
Total cash, cash equivalents, and short-term investments	238,191	3,781	241,972	291,468	2,663	294,131
Accounts receivable:						
Customers, less allowance for doubtful accounts of \$255 in 2009 and \$235 in 2008	13,015	—	13,015	14,168	—	14,168
Unbilled revenue	7,470	1,490	8,960	8,770	1,860	10,630
Other	3,818	—	3,818	10,103	—	10,103
Inventories:						
Materials and supplies	18,239	—	18,239	18,260	—	18,260
Coal	9,746	—	9,746	5,351	—	5,351
Natural gas stored underground	6,755	—	6,755	18,778	—	18,778
Prepayments	6,579	—	6,579	—	—	—
Unexpired insurance	689	—	689	644	—	644
Total current assets	304,502	5,271	309,773	367,542	4,523	372,065
Total assets	\$ 1,565,718	208,935	1,774,653	1,562,916	203,365	1,766,281

**CITY UTILITIES OF SPRINGFIELD, MISSOURI**  
(A Component Unit of the City of Springfield, Missouri)

Balance Sheets

September 30, 2009 and 2008

(In thousands)

Liabilities and Net Assets	2009			2008		
	Public Utility	Water Utility	Total	Public Utility	Water Utility	Total
Net assets:						
Invested in capital assets, net of related debt	\$ 528,294	150,677	678,971	518,245	140,643	658,888
Restricted for debt service	—	4,207	4,207	—	4,193	4,193
Unrestricted	171,724	4,450	176,174	167,374	11,963	179,337
Total net assets	700,018	159,334	859,352	685,619	156,799	842,418
Long-term obligations:						
Long-term obligations	730,851	43,118	773,969	739,169	41,061	780,230
Unamortized debt premium, net of debt discount	13,772	1,136	14,908	14,366	1,268	15,634
Total long-term obligations	744,623	44,254	788,877	753,535	42,329	795,864
Other noncurrent liabilities:						
Vacation and sick leave	21,674	—	21,674	20,796	—	20,796
Other	13,695	150	13,845	10,896	156	11,052
Total other noncurrent liabilities	35,369	150	35,519	31,692	156	31,848
Current liabilities:						
Current maturities of long-term obligations	8,318	3,610	11,928	8,027	3,287	11,314
Accounts payable:						
Trade	40,556	845	41,401	49,973	—	49,973
Other	3,588	—	3,588	3,358	—	3,358
Accruals:						
Interest	6,536	742	7,278	6,645	794	7,439
Salaries and wages	1,684	—	1,684	1,458	—	1,458
Pension contributions and other	1,465	—	1,465	1,687	—	1,687
Electric purchased power	2,895	—	2,895	2,196	—	2,196
Natural gas, coal, and other fuels	5,300	—	5,300	7,184	—	7,184
Electric fuel and purchased natural gas adjustment	10,918	—	10,918	6,888	—	6,888
Due to City of Springfield, Missouri in lieu of taxes	796	—	796	957	—	957
Customer deposits	3,652	—	3,652	3,697	—	3,697
Total current liabilities	85,708	5,197	90,905	92,070	4,081	96,151
Total liabilities	865,700	49,601	915,301	877,297	46,566	923,863
Total liabilities and net assets	\$ 1,565,718	208,935	1,774,653	1,562,916	203,365	1,766,281

See accompanying notes to financial statements.

**CITY UTILITIES OF SPRINGFIELD, MISSOURI**  
(A Component Unit of the City of Springfield, Missouri)  
Statements of Revenues, Expenses, and Changes in Net Assets  
Years ended September 30, 2009 and 2008  
(In thousands)

	2009			2008		
	Public Utility	Water Utility	Total	Public Utility	Water Utility	Total
Operating revenues:						
Services	\$ 300,397	27,509	327,906	349,762	27,559	377,321
Other	15,053	1,681	16,734	13,974	2,084	16,058
Total operating revenues	315,450	29,190	344,640	363,736	29,643	393,379
Operating expenses:						
Production fuel and purchased power	102,318	—	102,318	107,960	—	107,960
Natural gas purchased for resale	68,452	—	68,452	100,305	—	100,305
Other production	11,310	5,329	16,639	11,162	5,649	16,811
Distribution and transmission	17,609	3,237	20,846	18,119	3,325	21,444
Bus and garage operations	4,405	—	4,405	4,797	—	4,797
Other services	6,459	—	6,459	5,799	—	5,799
Customer accounts	7,365	2,718	10,083	7,770	2,841	10,611
Administrative and general	25,164	4,767	29,931	23,719	4,978	28,697
Maintenance	29,425	4,416	33,841	30,281	4,634	34,915
Depreciation and amortization	29,675	4,118	33,793	30,359	4,601	34,960
Impairment of capital assets	—	—	—	—	3	3
Payments in lieu of taxes	9,875	1,178	11,053	11,613	1,183	12,796
Gain on other activities	(960)	—	(960)	(165)	—	(165)
Total operating expenses	311,097	25,763	336,860	351,719	27,214	378,933
Operating income	4,353	3,427	7,780	12,017	2,429	14,446
Nonoperating revenues (expenses):						
Interest income	23,417	567	23,984	32,891	869	33,760
Loss on sale of investments	(910)	(7)	(917)	(769)	(10)	(779)
Net increase in fair value of investments	5,044	365	5,409	3,476	275	3,751
Interest expense, net	(19,786)	(1,634)	(21,420)	(28,172)	(1,363)	(29,535)
Operation of recreational facilities, net	(175)	—	(175)	(260)	—	(260)
Amortization of debt-related costs	198	(1)	197	198	(1)	197
Other, net	2,258	(182)	2,076	2,937	(186)	2,751
Total nonoperating revenues (expenses), net	10,046	(892)	9,154	10,301	(416)	9,885
Change in net assets	14,399	2,535	16,934	22,318	2,013	24,331
Net assets:						
Beginning of year	685,619	156,799	842,418	663,301	154,786	818,087
End of year	\$ 700,018	159,334	859,352	685,619	156,799	842,418

See accompanying notes to financial statements.

**CITY UTILITIES OF SPRINGFIELD, MISSOURI**  
(A Component Unit of the City of Springfield, Missouri)

Statements of Cash Flows

Years ended September 30, 2009 and 2008

(In thousands)

	2009			2008		
	Public Utility	Water Utility	Total	Public Utility	Water Utility	Total
Cash flows from operating activities:						
Receipts from customers	\$ 312,276	29,454	341,730	352,082	29,566	381,648
Payments to suppliers	(198,366)	(16,051)	(214,417)	(241,879)	(17,247)	(259,126)
Payments to employees	(53,178)	(4,550)	(57,728)	(52,140)	(4,425)	(56,565)
Payments in lieu of taxes	(9,982)	(1,178)	(11,160)	(11,540)	(1,183)	(12,723)
Claims paid	(548)	(75)	(623)	(527)	(118)	(645)
Net cash provided by operating activities	50,202	7,600	57,802	45,996	6,593	52,589
Cash flows from noncapital financing activities:						
Interfund transfers	(180)	180	—	(3,549)	3,549	—
Net cash provided by (used in) noncapital financing activities	(180)	180	—	(3,549)	3,549	—
Cash flows from capital and related financing activities:						
Capital grants and contributions	4,587	361	4,948	1,135	887	2,022
Purchases of capital assets, net of removal	(265,497)	(7,568)	(273,065)	(180,597)	(19,386)	(199,983)
Issuance of long-term obligations	—	5,729	5,729	—	3,442	3,442
Repayment of long-term obligations	(8,027)	(3,349)	(11,376)	(7,752)	(2,594)	(10,346)
Interest paid	(34,142)	(1,852)	(35,994)	(34,437)	(1,763)	(36,200)
Net cash used in capital and related financing activities	(303,079)	(6,679)	(309,758)	(221,651)	(19,414)	(241,065)
Cash flows from investing activities:						
Sale and maturities of investment securities	219,078	—	219,078	144,738	8,726	153,464
Purchase of investment securities	—	(1,661)	(1,661)	—	—	—
Interest received	26,575	567	27,142	36,941	869	37,810
Equity investment in Electric Power Alliance, net	(193)	—	(193)	(106)	—	(106)
Equity investment in Partnership Industrial Center, net	(62)	(7)	(69)	(149)	(323)	(472)
Net cash provided by (used in) investing activities	245,398	(1,101)	244,297	181,424	9,272	190,696
Net (decrease) increase in cash and cash equivalents	(7,659)	—	(7,659)	2,220	—	2,220
Cash and cash equivalents at beginning of year	29,921	—	29,921	27,701	—	27,701
Cash and cash equivalents at end of year	\$ 22,262	—	22,262	29,921	—	29,921
Reconciliation of operating income to net cash provided by operating activities:						
Operating income	\$ 4,353	3,427	7,780	12,017	2,429	14,446
Adjustments to reconcile operating income to net cash provided by operating activities:						
Depreciation and amortization expense	29,675	4,118	33,793	30,359	4,601	34,960
Impairment of capital assets	—	—	—	—	3	3
Auto depreciation included in vehicle expense	(626)	(173)	(799)	2,256	389	2,645
Common depreciation charged (from) to Water Utility	(52)	52	—	613	(613)	—
Miscellaneous income (expense)	1,348	(188)	1,160	2,161	(196)	1,965
Operation of recreational facilities	(175)	—	(175)	(260)	—	(260)
Change in assets and liabilities:						
Customer and other accounts receivable	7,437	—	7,437	481	—	481
Unbilled revenues	1,300	370	1,670	(340)	(20)	(360)
Recoverable fuel costs	4,031	—	4,031	2,445	—	2,445
Price risk management assets	(145)	—	(145)	723	—	723
Inventories	7,649	—	7,649	(4,165)	—	(4,165)
Prepayments and prepaid insurance	(6,624)	—	(6,624)	(48)	—	(48)
Other noncurrent assets	(85)	—	(85)	(1,070)	—	(1,070)
Prepaid pension assets	1,427	—	1,427	1,427	—	1,427
Accounts payable	758	—	758	(1,224)	—	(1,224)
Customer deposits	(45)	—	(45)	31	—	31
Accrued liabilities	(1,341)	—	(1,341)	(981)	—	(981)
Other noncurrent liabilities	1,317	(6)	1,311	1,571	—	1,571
Net cash provided by operating activities	\$ 50,202	7,600	57,802	45,996	6,593	52,589
Noncash capital financing activities:						
Capital assets acquired through contributions from developers	\$ 337	919	1,256	890	1,989	2,879
Noncash investing activities:						
Increase in fair value of investments	5,044	365	5,409	3,476	275	3,751

See accompanying notes to financial statements.

**CITY UTILITIES OF SPRINGFIELD, MISSOURI**  
(A Component Unit of the City of Springfield, Missouri)

Notes to Financial Statements

September 30, 2009 and 2008

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

**(a) Reporting Entity**

City Utilities of Springfield, Missouri (City Utilities) is a municipally owned utility, which is a component unit of the City of Springfield, Missouri (the City), as provided for in the City Charter. City Utilities is comprised of the Public Utility (including the electric, natural gas, transportation, and telecommunications departments) and the Water Utility. As permitted by Section 16.1 of the City Charter, City Utilities provides certain telecommunications services to the medical, education, utility, and government communities in the Springfield metropolitan area. As of September 30, 2009, City Utilities serves approximately 109,000 electric customers, 83,000 natural gas customers, and 80,000 water customers in the Springfield metropolitan area.

For financial reporting purposes, City Utilities includes all funds (Public Utility and Water Utility) that are controlled by the Board of Public Utilities, as determined on the basis of financial interdependency, selection of management, ability to influence operations, and budget adoption. No other funds or entities met any of these criteria.

**(b) Basis of Accounting**

City Utilities consists of two enterprise funds: Public Utility and Water Utility. As required in Section 16.11 of the City Charter, City Utilities follows, in all significant respects, accounting policies and procedures established for investor-owned natural gas and electric utilities by the Federal Energy Regulatory Commission (FERC) and for investor-owned water utilities by the National Association of Regulatory Utility Commissioners. City Utilities utilizes the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded as incurred. Revenue billing collections and all other cash transactions are made by the Public Utility on behalf of the Water Utility. At month-end, a settlement is determined and reflected in the Water Utility's short-term investment balance.

The financial statements have been prepared in conformity with the pronouncements of the Governmental Accounting Standards Board (GASB), including GASB Statement No. 14, *The Financial Reporting Entity*, which defines City Utilities as a component unit of the City. Accordingly, the financial statements of City Utilities are included in the comprehensive annual financial report of the City. City Utilities has elected to apply all Financial Accounting Standards Board statements and interpretations except for those that conflict with GASB pronouncements in accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*.

City Utilities applies the provisions of FASB ASC Topic 980 (Formerly FASB Statement No. 71), *Accounting for the Effects of Certain Types of Regulation*. In accordance with FASB ASC Topic 980, regulatory assets and liabilities are recorded in the balance sheets. Regulatory assets are the deferral of costs expected to be recovered in future customer rates and regulatory liabilities represent current recovery of expected future costs. If City Utilities was required to terminate the application of FASB ASC Topic 980 it would have to record the amounts of all regulatory assets and liabilities in the statements of revenues, expenses, and changes in net assets.

**CITY UTILITIES OF SPRINGFIELD, MISSOURI**  
(A Component Unit of the City of Springfield, Missouri)

Notes to Financial Statements

September 30, 2009 and 2008

City Utilities records the present value of the estimated future cost to retire assets. As of September 30, 2009, asset retirement obligations are recorded for the landfill closure costs of \$475,000 for the James River Power Station and \$300,000 for the Southwest Power Station.

**(c) Net Assets**

Net assets are classified into three components – invested in capital assets, net of related debt; restricted for debt service; and unrestricted. These classifications are defined as follows:

- Invested in capital assets, net of related debt – consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any debt that is attributable to those assets.
- Restricted for debt service – consists of assets that have constraints placed upon their use imposed either by creditors (such as through debt covenants) or through laws, regulations, or constraints imposed by law through constitutional provisions or enabling legislation, reduced by any liabilities to be paid from these assets. When an obligation is incurred for which both restricted and unrestricted net assets are available, it is City Utilities' policy first to apply restricted resources in satisfying that obligation, followed by the utilization of unrestricted resources.
- Unrestricted – consists of net assets that do not meet the definition of restricted for debt service or invested in capital assets, net of related debt.

**(d) Revenues**

Revenue is recognized as services are rendered and includes an estimate for electricity, natural gas, and water delivered but unbilled at the end of each reporting period. Operating revenues include revenues from the provision and delivery of services to customers and also include amounts billed and collected from customers, which are subsequently remitted to the City of Springfield, Missouri as payments in lieu of taxes.

Operating expenses consist of costs incurred through the provision and delivery of electricity, natural gas, transportation, other services, and water to customers, net of proceeds received from the sale of surplus clean air allowances in the normal course of business. Operating revenues reported in the statements of revenues, expenses, and changes in net assets are shown net of discounts and estimated allowances for bad debts.

City Utilities recognizes inter-utility and intra-utility revenue between funds. The Public Utility recognized inter-utility sales revenue for the years ended September 30, 2009 and 2008 of \$12,295,000 and \$14,343,000, respectively. The Water Utility recognized inter-utility sales revenue for the years ended September 30, 2009 and 2008 of \$106,000 and \$56,000, respectively. The net effect on operating income related to the recognition of inter-utility sales was an increase of \$2,710,000 and \$2,788,000 for the Public Utility and a decrease of \$2,710,000 and \$2,788,000 for the Water Utility for the years ended September 30, 2009 and 2008, respectively.

**CITY UTILITIES OF SPRINGFIELD, MISSOURI**  
(A Component Unit of the City of Springfield, Missouri)

Notes to Financial Statements  
September 30, 2009 and 2008

(e) **Capital Assets and Depreciation**

The cost of additions and betterments of the utility plant is capitalized. Cost includes material, labor, vehicle and equipment usage, related overhead items, capitalized interest, and certain administrative and general expenses. Contributions in aid of construction (capital grants and contributions) are recorded as reductions to the property accounts.

Costs for maintenance and renewals of items not considered to be units of property are charged to operating expense as incurred. When composite units of depreciable property are retired, the original cost and removal cost, less salvage, are charged to accumulated depreciation. The composite rates used are as follows:

	<b>Average composite rates</b>	
	<b>2009</b>	<b>2008</b>
Public Utility:		
Electric	2.9%	3.0%
Natural gas	2.4	2.6
Telecom/Broadband	6.6	6.6
Water Utility	1.8	1.8

In 2009, City Utilities changed the accounting method used for depreciating transportation, office, and computer equipment and certain other administrative assets. Management determined it was preferable to depreciate these assets using the specific-identification method. Prior to this change, these assets were depreciated on a composite basis. Since the impact of this change was not material, the cumulative impact of the change was recorded as a part of depreciation and amortization expense in 2009. This change in depreciation method resulted in depreciation and amortization expense being reduced by \$4.3 million for the Public Utility and \$1.2 million for the Water Utility. When assets depreciated using the specific-identification method are retired, a gain or loss is recorded. The useful lives estimated for these assets depreciated on the specific-identification method are as follows:

	<b>Estimated lives</b>
	(in years)
Transportation	12
Common	17
Customer service	20

(f) **Investments**

Investments in U.S. government securities, U.S. government agency securities, and mortgage-backed securities are reported at fair value based on quoted market prices, plus accrued interest. Investments in repurchase agreements and forward delivery agreements are reported at cost, plus accrued interest.

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All investments, including repurchase agreements and forward delivery agreements, are either held in City Utilities' name or are fully collateralized by the financial institution.

**(g) Inventories**

Materials and supplies inventories and natural gas stored underground are stated at the lower of average cost or market. Coal inventory is stated at the lower of cost (last-in, first-out) or market.

**(h) Electric Fuel and Purchased Natural Gas Adjustments**

General Ordinance Numbers 5331 and 4335 require City Utilities to adjust customers' electric and natural gas bills, respectively, for changes between estimated and actual costs of electric fuel, purchased power, and purchased natural gas to City Utilities. Such cost includes amounts recognized in connection with financial instruments used to manage the overall cost of natural gas. An over-recovery of \$10,589,000 and \$244,000 for electric fuel and an over-recovery of \$419,000 and \$6,706,000 for purchased natural gas adjustment clauses were recorded at September 30, 2009 and 2008, respectively. An under-recovery of \$90,000 and \$62,000 for costs associated with financial instruments was recorded at September 30, 2009 and 2008, respectively.

**(i) Capitalization of Interest**

Net interest costs related to acquiring or constructing certain utility plants are capitalized as a part of the cost of the related asset. City Utilities capitalizes interest on construction projects financed with revenue bonds, commercial paper, and renewal and replacement funds in accordance with FASB ASC Topic 835 (previously, FASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and FASB Statement No. 62, *Capitalization of Interest Cost in Situations Involving Certain Tax-Exempt Borrowings and Certain Gifts and Grants—an amendment of FASB Statement No. 34*). Information regarding capitalized interest is as follows (dollar amounts in thousands):

	<b>2009</b>		
	<b>Public Utility</b>	<b>Water Utility</b>	<b>Total</b>
Interest expense, gross	\$ 34,033	1,799	35,832
Capitalized interest	(14,247)	(165)	(14,412)
Interest expense, net	\$ 19,786	1,634	21,420
Average interest rate	4.5%	3.8%	—

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		<b>2008</b>		
		<b>Public Utility</b>	<b>Water Utility</b>	<b>Total</b>
Interest expense, gross	\$	34,330	1,724	36,054
Capitalized interest		(6,158)	(361)	(6,519)
Interest expense, net	\$	28,172	1,363	29,535
Average interest rate		4.5%	3.8%	—

**(j) Budgeting**

Section 16.8 of the City Charter requires City Utilities to prepare and submit an annual operating budget showing estimated revenues and expenses for approval by the City Council. The City Charter requires the budget to conform to the method of accounting used for financial reporting. Requests for expenses exceeding the original amount authorized must be submitted to the City Council for approval.

**(k) Cash and Cash Equivalents**

City Utilities has securities pledged by Bank of America of Springfield, Missouri to cover certain deposits in excess of Federal Deposit Insurance Corporation (FDIC) insurance levels. These securities have a fair value of at least 102% of the amount of total deposits in excess of \$100,000 in accordance with the City Charter, Section 19.13.

For purposes of the statements of cash flows, City Utilities considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

**(l) Environmental Matters**

City Utilities accrues environmental costs based on expected cash flows when an obligating event has been incurred and at least one component of the liability can be reasonably estimated. Such accruals are adjusted as additional information becomes known or circumstances change.

**(m) Vacation and Sick Leave**

Under the terms of City Utilities' personnel policy, employees are granted vacation and sick leave. In the event of termination, an employee is paid for accumulated vacation days. Employees may carry over, from year to year, a maximum of 40 earned vacation hours. Sick leave can be accumulated up to 1,040 for nonunion employees and 1,200 hours for union employees. In the event of termination, an employee is paid for 60% of accumulated sick leave. The liability for accrued vacation and sick leave is presented as other noncurrent liability in the accompanying balance sheets, representing the estimated amounts to be paid in future years to current employees for services rendered through such dates.

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**(n) Management's Estimates**

The preparation of 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, the disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant items subject to such estimates and assumptions include the useful lives of fixed assets; allowances for doubtful accounts, fixed assets, inventory, investments, notes receivable; and reserve for employee benefit obligations, environmental liabilities, and other contingencies. The current economic environment has increased the degree of uncertainty inherent in those estimates and assumptions.

**(2) New Accounting Pronouncements**

**(a) Pollution Remediation Obligations**

In November 2006, the GASB issued its GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. GASB Statement No. 49 establishes accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. Upon occurrence of an obligating event, a government is required to estimate the components of expected pollution remediation outlays and determine whether such components should be accrued as a liability, or if appropriate, capitalized when goods and services are acquired. This statement is effective for financial statements for periods beginning after December 15, 2007 and did not have a significant impact on the financial statements.

**(b) Derivative Instruments**

In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This statement is intended to improve how state and local governments report information about derivative instruments, financial arrangements used by governments to manage specific risks, or make investments, in their financial statements. The statement specifically requires governments to measure most derivative instruments at fair value in their financial statements. The guidance in this statement also addresses hedge accounting requirements. This statement is effective for City Utilities for the year ending September 30, 2010. Adoption of this statement is not expected to have a significant impact on the financial statements.

**(3) Southwest Power Station Unit 2**

Construction of Southwest Power Station Unit 2 (SW2), a 300 megawatt coal-fired power plant, began in 2006, upon approval of the issuance of bonds to finance the construction. Total construction costs for the project were originally estimated to be \$541,240,000. Current estimated construction costs total \$555,000,000. Funding of the project in excess of bond proceeds will be financed by internally generated funds, including interest earnings on the SW2 funds. Completion is currently estimated in December 2010. At September 30, 2009, construction work in progress related to SW2 approximated \$385 million. The

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bonds used to finance the construction are described in note 8 to the financial statements. Investment of the bond proceeds from the issuance of such bonds is presented in note 5 to the financial statements.

**(4) Capital Assets**

Capital asset activity for the year ended September 30, 2009 is as follows (in thousands):

	<u>September 30, 2008</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers/ adjustments</u>	<u>September 30, 2009</u>
Public Utility:					
Nondepreciable assets:					
Land	\$ 26,763	1,061	—	—	27,824
Construction work in progress	250,668	264,596	—	(118,315)	396,949
Depreciable assets:					
Electric	709,036	91,045	(8,703)	3,997	795,375
Natural gas	167,035	15,248	(741)	292	181,834
Transportation	3,410	35	(5)	—	3,440
Customer service	13,546	497	(193)	(138)	13,712
Telecom/Broadband	50,205	2,106	(153)	—	52,158
Common	52,461	4,139	(885)	28	55,743
Total capital assets	<u>1,273,124</u>	<u>378,727</u>	<u>(10,680)</u>	<u>(114,136)</u>	<u>1,527,035</u>
Less accumulated depreciation	<u>(477,200)</u>	<u>(28,841)</u>	<u>8,727</u>	<u>2,572</u>	<u>(494,742)</u>
Net capital assets	<u>\$ 795,924</u>	<u>349,886</u>	<u>(1,953)</u>	<u>(111,564)</u>	<u>1,032,293</u>
Water Utility:					
Nondepreciable assets:					
Land	\$ 11,592	28	—	—	11,620
Construction work in progress	8,389	8,136	—	(10,481)	6,044
Depreciable assets:					
Source of supply	63,452	2,924	—	(387)	65,989
Pumping	11,005	361	(8)	—	11,358
Water treatment	19,568	908	(8)	—	20,468
Water transmission and distribution	131,923	6,673	(108)	(210)	138,278
General	4,978	185	(139)	4	5,028
Total capital assets	<u>250,907</u>	<u>19,215</u>	<u>(263)</u>	<u>(11,074)</u>	<u>258,785</u>
Less accumulated depreciation	<u>(63,053)</u>	<u>(3,997)</u>	<u>295</u>	<u>44</u>	<u>(66,711)</u>
Net capital assets	<u>\$ 187,854</u>	<u>15,218</u>	<u>32</u>	<u>(11,030)</u>	<u>192,074</u>
Total:					
Nondepreciable assets	\$ 297,412	273,821	—	(128,796)	442,437
Depreciable assets	1,226,619	124,121	(10,943)	3,586	1,343,383
Total capital assets	1,524,031	397,942	(10,943)	(125,210)	1,785,820
Less accumulated depreciation	(540,253)	(32,838)	9,022	2,616	(561,453)
Net capital assets	<u>\$ 983,778</u>	<u>365,104</u>	<u>(1,921)</u>	<u>(122,594)</u>	<u>1,224,367</u>

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Capital asset activity for the year ended September 30, 2008 is as follows (in thousands):

	<u>September 30, 2007</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers/ adjustments</u>	<u>September 30, 2008</u>
<b>Public Utility:</b>					
Nondepreciable assets:					
Land	\$ 26,209	558	(4)	—	26,763
Construction work in progress	80,378	210,587	—	(40,297)	250,668
Depreciable assets:					
Electric	688,578	25,495	(4,361)	(676)	709,036
Natural gas	163,108	14,374	(580)	(9,867)	167,035
Transportation	3,410	—	—	—	3,410
Customer service	13,039	706	(13)	(186)	13,546
Telecom/Broadband	44,871	5,430	(96)	—	50,205
Common	49,799	4,087	(1,824)	399	52,461
Total capital assets	1,069,392	261,237	(6,878)	(50,627)	1,273,124
Less accumulated depreciation	(451,332)	(30,359)	5,288	(797)	(477,200)
Net capital assets	\$ <u>618,060</u>	<u>230,878</u>	<u>(1,590)</u>	<u>(51,424)</u>	<u>795,924</u>
<b>Water Utility:</b>					
Nondepreciable assets:					
Land	\$ 11,302	290	—	—	11,592
Construction work in progress	8,825	19,268	—	(19,704)	8,389
Depreciable assets:					
Source of supply	49,619	14,019	(593)	407	63,452
Pumping	10,991	32	(28)	10	11,005
Water treatment	18,572	60	—	936	19,568
Water transmission and distribution	128,471	5,303	(139)	(1,712)	131,923
General	4,836	338	(196)	—	4,978
Total capital assets	232,616	39,310	(956)	(20,063)	250,907
Less accumulated depreciation	(59,242)	(4,601)	482	308	(63,053)
Net capital assets	\$ <u>173,374</u>	<u>34,709</u>	<u>(474)</u>	<u>(19,755)</u>	<u>187,854</u>
<b>Total:</b>					
Nondepreciable assets	\$ 126,714	230,703	(4)	(60,001)	297,412
Depreciable assets	1,175,294	69,844	(7,830)	(10,689)	1,226,619
Total capital assets	1,302,008	300,547	(7,834)	(70,690)	1,524,031
Less accumulated depreciation	(510,574)	(34,960)	5,770	(489)	(540,253)
Net capital assets	\$ <u>791,434</u>	<u>265,587</u>	<u>(2,064)</u>	<u>(71,179)</u>	<u>983,778</u>

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During 2008, City Utilities reached a settlement agreement for failure of the pumps at the Stockton Pumping Station. Two of the three pumps installed in 1996 had failed and could not be repaired. In accordance with GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, an asset impairment loss, net of the \$425,000 settlement, of approximately \$3,000 was recognized for the year ended September 30, 2008.

During 2009, City Utilities changed depreciation methods from the composite method of computing depreciation to the specific-identification method on certain administrative assets. The effect of the adjustment was not considered material and was recorded as a reduction to current year depreciation expense.

**(5) Investments**

City Utilities maintains cash and investment securities. The Public Utility and Water Utility bond ordinances permit investments only in direct obligations of the U.S. government such as bills, notes, or bonds, and any other obligations guaranteed as to payment of principal and interest by the U.S. government or any agency or instrumentality thereof. City Utilities is also authorized to invest in interest-earning investment contracts for which the underlying securities must be U.S. Treasury notes, bonds, bills, or other obligations guaranteed by the U.S. government or any agency or instrumentality thereof. Funds in the form of overnight bank deposits and cash on deposit are required to be insured by the FDIC or collateralized by permitted investments held by City Utilities' agents in City Utilities' name.

City Utilities' investment portfolio includes securities that are either insured or registered, or for which the securities are held by City Utilities' agents in City Utilities' name.

For reporting purposes, pooled investments are allocated between the Public Utility and the Water Utility. The Water Utility's investments represent short-term investments and securities held as funds for bonded indebtedness, plus the allocation of accrued interest for these investments. City Utilities investments are all held at market value with readily determinable quoted prices. The following represents City Utilities' total cash and investments at September 30, 2009 and 2008 (in thousands):

	<b>2009</b>	<b>2008</b>
U.S. government	\$ 12,075	12,146
U.S. government agencies	73,992	83,389
Mortgage-backed securities	81,355	54,721
Overnight bank deposits	1,781	21,408
Interest-earning investment contracts:		
Repurchase agreements	214,356	423,781
Forward delivery agreement	52,813	52,813
Accrued interest	2,711	3,538
Total investments	439,083	651,796
Cash	22,262	29,921
Total cash and investments	\$ 461,345	681,717

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Cash and investments are included in the following balance sheet accounts at September 30, 2009 and 2008 (in thousands):

	<b>2009</b>			<b>2008</b>		
	<b>Public Utility</b>	<b>Water Utility</b>	<b>Total</b>	<b>Public Utility</b>	<b>Water Utility</b>	<b>Total</b>
Funds for bonded indebtedness	\$ 52,813	7,746	60,559	52,813	7,732	60,545
Designated improvement account	156,957	1,857	158,814	325,898	1,143	327,041
Cash and cash equivalents	22,262	—	22,262	29,921	—	29,921
Short-term investments	215,929	3,781	219,710	261,547	2,663	264,210
Total	<u>\$ 447,961</u>	<u>13,384</u>	<u>461,345</u>	<u>670,179</u>	<u>11,538</u>	<u>681,717</u>

As of September 30, 2009 and 2008, City Utilities had committed cash and investments as follows (in thousands):

	<b>September 30, 2009</b>		
	<b>Public Utility</b>	<b>Water Utility</b>	<b>Total</b>
Funds for bonded indebtedness –			
Southwest Power Station Unit 2	\$ 52,813	—	52,813
Funds for bonded indebtedness – other	—	7,746	7,746
Designated funds – board authorized:			
Southwest Power Station Unit 2 funds	214,356	—	214,356
Other construction funds	5,638	—	5,638
Fuel over recovery	11,008	—	11,008
Electric Power Alliance guarantees	9,643	—	9,643
Accounts payable reserve	—	1,781	1,781
SO <sub>2</sub> allowance proceeds	13,281	—	13,281
Disaster and contingency reserve funds	36,513	—	36,513
Funds designated for Southwest Power Station Unit 2 and other	16,269	—	16,269
Total restricted	<u>359,521</u>	<u>9,527</u>	<u>369,048</u>
Unrestricted	<u>88,440</u>	<u>3,857</u>	<u>92,297</u>
Total cash and investments	<u>\$ 447,961</u>	<u>13,384</u>	<u>461,345</u>

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	<b>September 30, 2008</b>		
	<b>Public Utility</b>	<b>Water Utility</b>	<b>Total</b>
Funds for bonded indebtedness –			
Southwest Power Station Unit 2	\$ 52,813	—	52,813
Funds for bonded indebtedness – other	—	7,732	7,732
Designated funds – board authorized:			
Southwest Power Station Unit 2 funds	423,782	—	423,782
Other construction funds	27,990	663	28,653
Electric Power Alliance guarantees	9,643	—	9,643
SO <sub>2</sub> allowance proceeds	19,902	—	19,902
Disaster and contingency reserve funds	28,645	—	28,645
Funds designated for Southwest Power Station Unit 2 and other	15,549	—	15,549
Total restricted	578,324	8,395	586,719
Unrestricted	91,855	3,143	94,998
Total cash and investments	\$ 670,179	11,538	681,717

*Interest Rate Risk* – Interest rate risk is the risk that the fair value of City Utilities’ fixed income investments will decrease as a result of increases in interest rates. As a means of limiting its exposure to interest rate risk, City Utilities’ investment policy prohibits investments that are highly sensitive to interest rate changes. As of September 30, 2009, City Utilities’ investment portfolio matures as follows (in thousands):

	<b>Recorded value</b>	<b>Investment maturities (in years)</b>			
		<b>Less than 1</b>	<b>2 – 3</b>	<b>4 – 5</b>	<b>More than 5</b>
U.S. government	\$ 12,075	7,262	—	2,227	2,586
U.S. government agencies	73,992	—	22,752	31,619	19,621
Mortgage-backed securities	81,355	30	18,457	15,959	46,909
Overnight bank deposits	1,781	1,781	—	—	—
Interest-earning investment contracts*:					
Repurchase agreements	214,356	214,356	—	—	—
Forward delivery agreement	52,813	—	—	—	52,813
Accrued interest	2,711	2,711	—	—	—
Total investments	439,083	226,140	41,209	49,805	121,929
Cash	22,262	22,262	—	—	—
Total cash and investments	\$ 461,345	248,402	41,209	49,805	121,929

\* Maturities for interest-earning investment contracts are based on the estimated timing of the withdrawal of funds for the construction and debt service of the Southwest Power Station Unit 2 project.

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As of September 30, 2008, City Utilities' investment portfolio matures as follows (in thousands):

	Recorded value	Investment maturities (in years)			
		Less than 1	2 – 3	4 – 5	More than 5
U.S. government	\$ 12,146	—	7,457	—	4,689
U.S. government agencies	83,389	6,195	13,818	29,833	33,543
Mortgage-backed securities	54,721	5,705	9,385	7,396	32,235
Overnight bank deposits	21,408	21,408	—	—	—
Interest-earning investment contracts*:					
Repurchase agreements	423,781	225,170	198,611	—	—
Forward delivery agreement	52,813	—	—	—	52,813
Accrued interest	3,538	3,538	—	—	—
<b>Total investments</b>	<b>651,796</b>	<b>262,016</b>	<b>229,271</b>	<b>37,229</b>	<b>123,280</b>
Cash	29,921	29,921	—	—	—
<b>Total cash and investments</b>	<b>\$ 681,717</b>	<b>291,937</b>	<b>229,271</b>	<b>37,229</b>	<b>123,280</b>

\* Maturities for interest-earning investment contracts are based on the estimated timing of the withdrawal of funds for the construction and debt service of the Southwest Power Station Unit 2 project.

The cost of interest-earning investment contracts approximates fair value as of September 30, 2009 and 2008.

Interest-earning investment contracts earn a fixed rate of interest ranging from 4.9% to 5.2%.

*Credit Risk* – Credit risk is the risk that City Utilities will not recover its investment due to the inability of the counterparty to fulfill its obligations. As a means of limiting credit risk, City Utilities' investment policy permits investments in U.S. government-backed securities or in investment contracts collateralized by U.S. government-backed securities. As of September 30, 2009 and 2008, City Utilities' investments in U.S. government agencies and mortgage-backed securities were all rated as investment grade by Standard and Poor's and Moody's Investors Service. Interest-earning investment contracts were unrated as of September 30, 2009 and 2008.

*Concentration of Credit Risk* – Concentration of credit risk is the risk of loss attributed to the magnitude of City Utilities' investment in a single issuer. As a means of limiting concentration of credit risk, City Utilities' investment policy prohibits concentration of more than 40% in any one U.S. government agency security. No securities held by City Utilities exceeded this threshold at September 30, 2009.

At September 30, 2009, 5% or more of City Utilities' investments are in a repurchase agreement with Citigroup Global Markets, a repurchase agreement with Trinity Plus Funding Company, LLC, and a forward delivery agreement with The Bank of New York Trust Company, N.A. These investments are 41%, 6%, and 12%, respectively; of City Utilities' total investments as of September 30, 2009. At September 30, 2008, 5% or more of City Utilities' investments are in a repurchase agreement with

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Earnings resulting from investments acquired with the proceeds of the Series 2006 Public Utility Revenue bonds are limited to the tax-exempt interest rate of such bonds, as defined within the related tax declaration dated September 27, 2006. Any excess investment earnings must be rebated to the federal government. A rebate of \$9.2 million is included in other noncurrent liabilities – other in the accompanying September 30, 2009 balance sheet.

**(6) Funds for Bonded Indebtedness**

*Electric, Natural Gas, and Transportation Utilities (the Public Utility)* – Special Ordinance Number 25059, dated August 14, 2006, authorized the issuance of the Public Utility Revenue Bonds, Series 2006. The ordinance established certain account requirements that the Public Utility is obligated to fund out of its revenues after paying operating expenses.

*Water Utility* – Special Ordinance Number 24353, dated May 19, 2003, authorized the issuance of the Waterworks Refunding and Improvement Revenue Bonds, Series 2003. The ordinance also established certain account requirements that the Water Utility is obligated to fund out of its revenues after paying operating expenses.

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With each series, the funding of the account requirements occurs within the Public Utility and within the Water Utility for the described purposes as listed below (in thousands):

<u>Account</u>	<u>September 30</u>		<u>Purpose</u>
	<u>2009</u>	<u>2008</u>	
Public Utility Revenue Bonds, Series 2006 reserve account	\$ 52,813	52,813	Fund for 125% of average annual debt service requirements over the term of the bonds
Total Public Utility	<u>52,813</u>	<u>52,813</u>	
Waterworks refunding and improvement revenue bonds, series 2003:			
Sinking fund	1,434	1,446	Fund for principal and interest requirements
Reserve fund	3,539	3,539	Fund for greatest subsequent-year debt service requirements
Maintenance and repair account	2,573	2,547	Fund for repair and maintenance expenses or, if necessary, for payment of principal and interest
Emergency improvement account	200	200	Fund for operating emergencies or contingencies or, if necessary, for payment of principal and interest
Total Water Utility	<u>7,746</u>	<u>7,732</u>	
Total City Utilities	<u>\$ 60,559</u>	<u>60,545</u>	

The funds in these accounts are invested in U.S. government obligations, U.S. government agency obligations, and forward delivery agreements.

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**(7) Designated Improvement Account Investments**

Rates enacted by City Ordinance Number 4125, dated June 4, 1990, established electric, natural gas, and water revenue adjustment schedules. The revenues generated will contribute to the funding of major capital projects relating to Clean Air Act Amendments of 1990 requirements and natural gas transmission and supply. Other designated funds include funds set aside for self-insurance reserves and for future major project funding. A summary of the designated improvement account, which consists of U.S. government obligations, U.S. government agency obligations, repurchase agreements, and mortgage-backed securities, is as follows (in thousands):

Funds held for future improvements/working capital:

		<b>September 30</b>	
		<b>2009</b>	<b>2008</b>
<b>Public Utility:</b>			
Funds restricted for Clean Air Act SO2 allowance proceeds	\$	13,281	19,902
<b>Other designated funds:</b>			
Southwest Power Station Unit 2 construction account		6,895	161,844
Southwest Power Station Unit 2 capitalized interest fund		1,408	24,459
Southwest Power Station Unit 2 equity fund		22,862	14,072
Reserve funds		59,361	39,766
Funds held for future improvements		53,150	65,855
Total Public Utility		156,957	325,898
<b>Water Utility:</b>			
Reserve funds		1,857	1,143
Total Water Utility		1,857	1,143
Total City Utilities	\$	158,814	327,041

**CITY UTILITIES OF SPRINGFIELD, MISSOURI**  
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**(8) Long-Term Obligations**

The following is a summary of long-term obligations outstanding (in thousands):

	<b>September 30</b>	
	<b>2009</b>	<b>2008</b>
Public Utility Revenue Bonds, Series 2006; 4.00% to 5.00%; due August 1, 2012 to 2036	\$ 615,000	615,000
Public Utility obligation under the February 2006 lease financing agreement; 3.25% to 5.00%; due December 1, 2009 to 2021	56,615	59,835
Public Utility obligation under the February 1, 2001 financing agreement; 3.75% to 4.85%; due January 1, 2010 to 2016	5,865	6,560
Public Utility obligation under the 2006 Master Lease financing agreement; 3.60% to 3.81% due; October 6, 2009 to October 6, 2021	4,471	5,024
Public Utility obligation under the 2007 Master Lease financing agreement; 3.60% to 3.80%; due February 22, 2010 to February 22, 2022	57,217	60,777
Total Public Utility	<u>739,168</u>	<u>747,196</u>
Waterworks Refunding and Improvement Revenue Bonds, Series 2003; 2.00% to 5.00%; due May 1, 2018	24,195	26,580
Water Utility obligation under the 2007 Master Lease financing agreement; 3.80%; due February 22, 2010 to February 22, 2022	13,540	14,335
Water Utility obligation under the 2008 Master Lease financing agreement; 4.63% to 4.67%; due June 17, 2028 to September 13, 2029	8,993	3,433
Total Water Utility	<u>46,728</u>	<u>44,348</u>
Total City Utilities	785,896	791,544
Current maturities of long-term obligations	<u>(11,928)</u>	<u>(11,314)</u>
Total long-term obligations outstanding, net of current maturities	773,968	780,230
Unamortized debt premium net of debt discount	<u>14,907</u>	<u>15,634</u>
Total long term obligations	<u>\$ 788,875</u>	<u>795,864</u>

The Public Utility revenue bonds are collateralized by the revenues of the Public Utility. The Public Utility obligations under the financing agreements are subordinated to the Public Utility revenue bonds as to revenues. The Waterworks Refunding and Improvement Revenue Bonds, Series 2003 are collateralized by the revenues of the Water Utility. Assets financed by the financing agreements are pledged as collateral for those agreements.

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Long-term debt and other long-term liabilities activity for the year ended September 30, 2009 were as follows (in thousands):

	<u>September 30,</u> <u>2008</u>	<u>Additions</u>	<u>Reductions</u>	<u>September 30,</u> <u>2009</u>	<u>Principal due</u> <u>in one year</u>
Public Utility:					
Revenue bonds	\$ 615,000	—	—	615,000	—
Other obligations	132,196	—	(8,027)	124,169	8,318
Water Utility:					
Revenue bonds	26,580	—	(2,385)	24,195	2,475
Other obligations	17,768	5,729	(964)	22,533	1,135
Total City Utilities	791,544	5,729	(11,376)	785,897	\$ 11,928
Less unamortized debt premium net of debt discount	15,634	—	(726)	14,908	
	<u>\$ 807,178</u>	<u>5,729</u>	<u>(12,102)</u>	<u>800,805</u>	
Other long-term liabilities:					
Long term arbitrage payable	\$ 6,744	2,454	—	9,198	
Vacation and sick leave	20,796	10,569	(9,691)	21,674	
Other	4,308	339	—	4,647	
Total City Utilities	<u>\$ 31,848</u>	<u>13,362</u>	<u>(9,691)</u>	<u>35,519</u>	

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September 30, 2009 and 2008

Long-term debt and other long-term liabilities activity for the year ended September 30, 2008 were as follows (in thousands):

	<u>September 30, 2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>September 30, 2008</u>	<u>Principal due in one year</u>
Public Utility:					
Revenue bonds	\$ 615,000	—	—	615,000	—
Other obligations	139,947	—	(7,751)	132,196	8,027
Water Utility:					
Revenue bonds	28,400	—	(1,820)	26,580	2,385
Other obligations	15,100	3,442	(774)	17,768	902
Total City Utilities	798,447	3,442	(10,345)	791,544	\$ 11,314
Less unamortized debt premium net of debt discount	16,361	—	(727)	15,634	
	<u>\$ 814,808</u>	<u>3,442</u>	<u>(11,072)</u>	<u>807,178</u>	
Other long-term liabilities:	\$				
Long term arbitrage payable	3,463	3,281	—	6,744	
Vacation and sick leave	19,547	10,151	(8,902)	20,796	
Other	3,752	556	—	4,308	
Total City Utilities	<u>\$ 26,762</u>	<u>13,988</u>	<u>(8,902)</u>	<u>31,848</u>	

The debt service to maturity on the outstanding bonds and obligations as of September 30, 2009 is summarized in the following table (in thousands):

	<u>Principal</u>			<u>Interest</u>		
	<u>Public Utility</u>	<u>Water Utility</u>	<u>Total</u>	<u>Public Utility</u>	<u>Water Utility</u>	<u>Total</u>
2010	\$ 8,318	3,610	11,928	33,836	1,845	35,681
2011	8,636	3,759	12,395	33,518	1,702	35,220
2012	14,240	3,895	18,135	33,188	1,578	34,766
2013	14,849	4,038	18,887	32,554	1,450	34,004
2014	16,151	4,243	20,394	31,857	1,263	33,120
2015 – 2019	102,039	18,215	120,254	146,776	3,749	150,525
2020 – 2038	574,936	8,967	583,903	289,340	1,387	290,727
Total	<u>\$ 739,169</u>	<u>46,727</u>	<u>785,896</u>	<u>601,069</u>	<u>12,974</u>	<u>614,043</u>

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The Public Utility obligation under the February 1, 2001 financing agreement is callable on January 1, 2011 at par. City Utilities' long-term debt is publicly traded infrequently; therefore, a current market price is not readily available for these bonds and leases. The fair value of long-term debt is estimated based upon market prices for similar issues or on the current rates offered for instruments of the same remaining maturities. The estimated fair value of long-term debt at September 30, 2009 and 2008 is as follows (in thousands):

	September 30	
	2009	2008
Public Utility	\$ 806,448	707,949
Water Utility	50,555	44,531
Total City Utilities	\$ 857,003	752,480

City Utilities has pledged specific revenue streams to secure the repayment of certain outstanding debt issues. The following table lists those revenues and the corresponding debt issue along with the purpose of the debt, the amount and term of pledge remaining, the current year principal and interest on the debt, the amount of pledged revenue recognized during the current fiscal year, and the approximate percentage of the revenue stream that has been committed if estimable (dollars in thousands):

Issue	Type revenue pledged	Amount of pledge	Term of commitment	Percentage of revenue pledged	Principal and interest for the year ended 2009	Pledged revenue recognized for the year ended 2009
Public Utility debt obligations	Public Utility operating revenue	\$ 1,340,238	Through 2036	13%	\$ 42,169	42,169
Water Utility debt obligations	Water Utility operating revenue	59,701	Through 2029	18	5,200	5,200

Certain of City Utilities' long-term obligations contain restrictions that require the maintenance of coverage ratios as defined in the related agreements. City Utilities' calculations of these ratios are performed in accordance with the long-term obligation agreements and are used solely to determine compliance with such covenants. City Utilities was in compliance with these covenants as of September 30, 2009 and 2008.

**(9) Defined Benefit Pension Plan**

**(a) Plan Description**

City Utilities participates in LAGERS, an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for local government entities in Missouri. LAGERS is a defined benefit pension plan that provides retirement, disability, and death benefits to plan members and beneficiaries. LAGERS was created and is governed by statute, Section RSMo 70.600-70-755. As such, it is the system's responsibility to administer the law in

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accordance with the expressed intent of the General Assembly. The plan is qualified under the Internal Revenue Code Section 401(a) and it is tax-exempt.

LAGERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to LAGERS, P.O. Box 1665, Jefferson City, Missouri 65102 or by calling 1-800-447-4334.

**(b) Funding Policy**

City Utilities' full-time employees do not contribute to the pension plan. City Utilities is required by state statute to contribute at an actuarially determined rate; the current rate is 20.1% of annual covered payroll.

The contribution requirements of plan members are determined by the governing body of City Utilities. The contribution provisions of City Utilities are established by state statute.

**(c) Annual Pension Cost**

For 2009 and 2008, City Utilities' annual pension expense of \$13,611,000 and \$13,823,000 was equal to the required and actual contributions. To reduce future fixed costs, two payments of \$18.0 million and \$3.4 million were made to LAGERS in November 1997 and September 1998, respectively. These payments reduced the past unfunded pension liability. The payments will be amortized to pension expense over 15 years. Giving effect to this payment in the actuarial studies that set the pension contribution rate will lower pension costs in future years, with savings currently estimated in excess of \$1.5 million per year.

**(d) Plan Assumptions**

The required contribution was determined as part of the February 29, 2008 annual actuarial contributions. The actuarial assumptions as of February 29, 2008 and February 28, 2009 included (a) a rate of return on the investment of present and future assets of 7.5% per year, compounded annually; (b) projected salary increases of 4.0% per year, compounded annually, attributable to inflation; (c) additional projected salary increases ranging from 0.0% to 6.0% per year, depending on age, attributable to seniority/merit; (d) pre-retirement mortality based on the RP-2000 Combined Healthy Table; and (e) postretirement mortality based on the 1971 Group Annuity Mortality table projected to 2000, set back one year for men and seven years for women. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The amortization period at February 29, 2008 was 15 years.

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Historical trend information (dollars in thousands):

	<b>Annual pension cost (APC)</b>	<b>Percentage of APC contributed</b>	<b>Net pension obligation</b>
Fiscal year ending June 30:			
2007	\$ 13,411	100%	—
2008	13,823	100	—
2009	13,611	100	—

Funding status of the plan (dollars in thousands):

<b>Actuarial valuation date</b>	<b>(a) Actuarial value of assets</b>	<b>(b) Entry age actuarial accrued liability</b>	<b>(b-a) Unfunded accrued liability (UAL)</b>	<b>(a/b) Funded ratio</b>	<b>(c) Annual covered payroll</b>	<b>[(b-a)/c] UAL as a percentage of covered payroll</b>
February 28, 2009	\$ 116,903	213,273	96,370	55%	\$ 65,570	147%

See Schedule of Missouri Local Government Employees Retirement System Funding Progress contained in the Required Supplementary Information. The schedule presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

**(10) Purchase Obligations**

**(a) Obligations to Purchase Electric Power and Energy**

**Southwestern Power Administration**

City Utilities has a purchased power agreement with the Southwestern Power Administration (SWPA) effective through June 30, 2015. Under this agreement, City Utilities purchases 50 MW of capacity and must take a minimum of 3,000 MWh of peaking energy each month. City Utilities must also purchase a minimum of 60,000 MWh for the year plus transmission service. For fiscal year ended September 30, 2009, the cost of peaking capacity each month was \$176,000 and the monthly minimum for peaking energy was \$58,000 per month. The peaking rate is periodically adjusted.

**Kansas City Power & Light**

City Utilities has a purchased power agreement with Kansas City Power & Light Company (KCPL) that runs through May 31, 2013. Under this agreement, City Utilities purchases 17 MW of capacity from three of KCPL's Montrose Power Station turbines (51 MW total). The capacity charge is \$75 per kW per year, which equals \$319,000 per month. The contract provides that KCPL will furnish City Utilities with 380,000 MWh of electricity annually (using an 85% availability factor) with the energy charge based on the actual production costs of the Montrose units.

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**Smoky Hills Wind Project II**

City Utilities has a purchased power agreement with Smoky Hills Wind Project II (Smoky Hills) to receive power through December 31, 2028. City Utilities will purchase 33.67% of the total energy output of phase II of the Smoky Hills wind energy project at an average cost during fiscal year 2009 of \$648,000 per month.

**(b) *Obligations to Purchase Coal***

**Arch Coal Sales Company, Inc.**

On December 17, 2008, City Utilities entered into a new agreement with Arch Coal Sales Company, Inc. effective until terminated by either party. Under the terms of the extended agreement, City Utilities' coal purchase obligation is \$14,361,021, \$15,451,200, \$12,950,000, and \$12,000,000 for calendar years 2009, 2010, 2011, and 2012, respectively. As of September 30, 2009, City Utilities had purchased \$8,871,472 of coal for the contract period ending December 31, 2009. Management believes the minimum tonnage requirement will be met for calendar year 2009.

**Kennecott Coal Sales Company**

On October 18, 2004, City Utilities entered into an agreement with Kennecott Coal Sales Company. On June 27, 2008, the agreement was extended through December 31, 2010. Under the terms of the agreement, City Utilities' coal purchase obligation is \$7,665,000 and \$7,865,000 for calendar years 2009 and 2010, respectively. As of September 30, 2009, City Utilities had purchased \$5,685,406 of coal for the contract period ending December 31, 2009. Management believes the minimum tonnage requirement will be met for calendar year 2009.

**(c) *Obligations to Purchase Rail Services***

**Burlington Northern and Santa Fe Railway Co.**

City Utilities has an agreement with Burlington Northern and Santa Fe Railway Co. to purchase rail services for transporting coal to both City Utilities' power stations. As of September 30, 2009, City Utilities had tendered coal tonnage of 1,002,201 tons. Under the terms of a new contract, no minimum nomination applied to calendar year 2009.

**(d) *Obligations for Transportation and Storage Services of Natural Gas***

**Southern Star Central Gas Pipeline, Inc. and CenterPoint Energy Gas Transportation Company**

City Utilities has signed agreements with Southern Star Central Gas Pipeline, Inc. (formerly Williams Gas Pipelines Central) and CenterPoint Energy Gas Transmission Company (formerly Reliant Energy Gas Transmission Company) for transportation and/or storage services of natural gas, with various terms expiring in 1 to 20 years.

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Notes to Financial Statements

September 30, 2009 and 2008

**(11) Equity Interest in The Energy Authority**

City Utilities is an equity member of The Energy Authority (TEA), a power marketing joint venture based in Jacksonville, Florida and incorporated in Georgia. As of September 30, 2009, TEA was comprised of six municipal utilities with equity interests, including four large partners with ownership interests of 21.43% each. The large partners are JEA (formerly the Jacksonville Energy Authority) of Florida, the Municipal Energy Authority of Georgia (MEAG Power), The South Carolina Public Service Authority (a.k.a. Santee Cooper), and the Nebraska Public Power District. City Utilities and the Gainesville Regional Utilities (Florida) are medium equity partners with ownership interests of 7.14% each. As a member of TEA, City Utilities benefits from the risk management strategies maintained by TEA that seek to avoid financial losses by limiting financial exposure as a result of unexpected unit outages and volatile market prices. City Utilities also receives resource management services from TEA. City Utilities uses the equity method of accounting to record its investment in TEA. The investment is recorded within other noncurrent assets on the balance sheet. In accordance with the membership agreement between City Utilities and its joint venture members, City Utilities has provided TEA with guarantees that result in a maximum exposure of \$9.6 million to secure power-marketing transactions. City Utilities' guarantees are effective until its participation in the joint venture ends.

**(12) Related-Party Transactions**

City Utilities is required by the City Charter to make certain payments and provide certain services to the City. The operations of the Public Utility reflect payments in lieu of taxes to the City.

City Utilities also provided services, such as energy for street lighting and other electric, natural gas, and water services, without charge to the City. The estimated cost of providing such services was as follows (in thousands):

	<b>September 30</b>	
	<b>2009</b>	<b>2008</b>
Public Utility	\$ 6,407	6,576
Water Utility	2,562	2,539
Total City Utilities	\$ 8,969	9,115

City Utilities participates in a partnership agreement with the City, the Springfield Area Chamber of Commerce, and the Springfield Business and Industrial Development Corporation, a Missouri not-for-profit corporation, to govern the process of development, management, and selling of industrial centers in the City. Under these agreements, City Utilities is responsible for utilities service consisting of natural gas, water, electricity, and fiber optic telecommunication. Amounts expended for the industrial centers are accounted for using the equity method and are recorded in other noncurrent assets. The net profits or net losses of the partnership are allocated based upon each partner's percentage of the partnership's capital accounts. For the industrial park located on the west side of the city, as of September 30, 2009, the Public Utility had incurred \$763,000 for land and improvements and recognized income of \$3,000, for a net equity balance of \$766,000. The Water Utility had incurred \$841,000 for improvements and recognized losses of \$2,000, for a net equity balance of \$839,000.

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September 30, 2009 and 2008

The City and City Utilities agreed to a joint venture to develop a landfill gas project at the City's Noble Hill Landfill. The project includes an Electric Generation System (EGS) and a Gas Collection and Condensate Treatment System (GCCTS). City Utilities constructed and owns the EGS that includes power generation equipment with a target capacity of 3.2 MW with a total project cost of \$3.7 million. City Utilities also constructed transmission lines with a total project cost of \$1.1 million. City Utilities paid the City \$1.5 million for the initial construction of GCCTS. The City will retain ownership of all assets associated with the GCCTS.

**(13) Planned Construction**

As of September 30, 2009, anticipated capital expenditures for improvements during the 2010 fiscal year are estimated to be approximately \$61.7 million excluding expenditures for Southwest Power Station Unit 2 (SW2). Expenditures for SW2 are anticipated at \$123.1 million for the 2010 fiscal year.

**(14) Air Quality Standards**

The Clean Air Act Amendments of 1990 (the Act) include requirements to reduce sulfur dioxide (SO<sub>2</sub>) and nitrogen dioxide (NO<sub>x</sub>) emissions from electric utility sources. The Act established a market-based compliance program that allows the selling and trading of SO<sub>2</sub> allowances. An "allowance" is the authorization to emit one ton of sulfur dioxide in a given year. City Utilities is in full compliance with the emissions standards under the Act. No allowances were sold during the fiscal years ended September 30, 2008 and 2009. City Utilities accounts for its allowances under the inventory method.

In March 2005, the Environmental Protection Agency (EPA) promulgated new regulations to further restrict emissions of power plant SO<sub>2</sub> and NO<sub>x</sub>. The Clean Air Interstate Rule (CAIR) would require 28 eastern states, including Missouri, to reduce emissions by nearly 70% in two phases, beginning in 2009 and 2015 for NO<sub>x</sub> and 2010 and 2015 for SO<sub>2</sub>. In addition, EPA's Clean Air Mercury Rule (CAMR) established a phased 70% reduction requirement for power plant emissions of this heavy metal, also beginning in 2010. The Missouri Department of Natural Resources adopted these rules with few changes from their federal counterparts. As recommended by a compliance study, City Utilities successfully installed NO<sub>x</sub> controls on two units at JRPS in fiscal year 2007 and on JRPS 5 and SW 1 in fiscal year 2008. These controls would result in full compliance with Phase 1 of the new requirements. In 2009, a federal appeals court struck down both the CAIR and CAMR regulations. Accordingly, future compliance requirements are now uncertain, but the utility industry firmly anticipates that both programs will be repromulgated, possibly in a more stringent form. City Utilities will join the rest of the industry in reassessing compliance measures for adequacy at that time. During 2009, the Appeals Court issued an order to retain the compliance framework of the CAIR until EPA can draft a replacement regulation. The successful deployment of NO<sub>x</sub> control equipment at JRPS and SWPS allowed City Utilities to sell excess NO<sub>x</sub> allowances during 2009.

**(15) Legal Proceedings**

In the normal course of business, City Utilities is involved in various legal proceedings and is subject to audits by granting authorities from which it receives grant money. Legal liabilities recorded at September 30, 2009 reflect routine litigation.

**CITY UTILITIES OF SPRINGFIELD, MISSOURI**  
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Notes to Financial Statements

September 30, 2009 and 2008

**(16) Water Storage**

In October 1993, City Utilities entered into a contract with the federal government to utilize 7.63% (estimated at 50,000 acre-feet) of the usable storage space at Stockton Lake. The storage space is to be used in two stages: 25,000 acre-feet initially, and an additional 25,000 acre-feet when required by future demand. Payment on the first 25,000 acre-feet of approximately \$4.8 million was made September 30, 1995. Payment on the second 25,000 acre-feet, which is estimated at \$4.6 million and is payable in annual installments over a 30-year period, begins from the due date of the first annual payment for the initial 25,000 acre-feet of storage.

**(17) Ice Storm**

In January 2007, an ice storm damaged City Utilities service territory, resulting in service disruption to approximately 70% of electric customers. The severity of the damage resulted in the President of the United States, the Governor of the State of Missouri, and the Mayor of the City of Springfield, declaring a disaster and emergency in the communities City Utilities provides electric service. As such, \$29.5 million of storm-related costs have been identified as eligible for reimbursement from federal and state agencies. A Federal Emergency Management Administration (FEMA) reimbursement of \$20.2 million was received in 2007. Another \$5.0 million was received during fiscal year 2009. Total public assistance for this event was \$25.2 million.

An ice storm of lesser magnitude damaged City Utilities' service territory in February 2008. Storm-related costs of \$3.5 million have been identified as eligible for reimbursement from federal and state agencies. A FEMA reimbursement of \$23,500 was received in 2008. Another \$2.9 million was received during fiscal year 2009. Total public assistance for this event was \$3.0 million.

During May 2009, another storm event (tornados and high winds) resulted in a declaration for public assistance. Total eligible costs have been determined to be \$1.1 million. An estimated \$930,000 is included in accounts receivable – other in the accompanying September 30, 2009 balance sheet for the expected reimbursable costs of this storm.

**(18) Subsequent Event – Consolidation**

Effective October 1, 2009, City Utilities consolidated the Water Utility System with the Public Utility System. Subsequent year reporting will be combined into a single Public Utility System per Board Resolution. The outstanding 2003 Waterworks Revenue Bonds and 2006 Public Utility Revenue Bonds both allowed for consolidation, and all requirements have been met.

**CITY UTILITIES OF SPRINGFIELD, MISSOURI**  
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Required Supplementary Information

Schedule of Missouri Local Government Employees  
Retirement System Funding Progress

September 30, 2009

<b>Actuarial valuation date</b>	<b>(a) Actuarial value of assets</b>	<b>(b) Entry age actuarial accrued liability</b>	<b>(b-a) Unfunded accrued liability (UAL)</b>	<b>(a/b) Funded ratio</b>	<b>(c) Annual covered payroll</b>	<b>((b-a)/c) UAL as a percentage of covered payroll</b>
February 28, 2007	\$ 127,343,000	203,500,000	76,157,000	63%	\$ 62,031,000	123%
February 29, 2008	141,230,000	207,979,000	66,749,000	68	62,553,000	107
February 28, 2009	116,903,000	213,273,000	96,370,000	55	65,570,000	147

See accompanying independent auditors' report.

**CITY UTILITIES OF SPRINGFIELD, MISSOURI**  
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Combining Schedule of Revenues, Expenses, and Changes in Net Assets  
Year ended September 30, 2009  
(In thousands)

	Public Utility				Total	Water Utility	Total City Utilities
	Electric	Natural Gas	Trans- portation	Telecom/ Broadband			
Operating revenues	\$ 205,404	94,335	1,017	14,694	315,450	29,190	344,640
Operating expenses:							
Production fuel and purchased power	102,318	—	—	—	102,318	—	102,318
Natural gas purchased for resale	—	68,452	—	—	68,452	—	68,452
Other production	11,310	—	—	—	11,310	5,329	16,639
Distribution and transmission	10,540	7,069	—	—	17,609	3,237	20,846
Bus and garage operations	—	—	4,405	—	4,405	—	4,405
Other services	10	—	—	6,449	6,459	—	6,459
Customer accounts	4,306	2,999	—	60	7,365	2,718	10,083
Administrative and general	16,496	3,913	1,702	3,053	25,164	4,767	29,931
Maintenance	25,745	2,220	1,460	—	29,425	4,416	33,841
Depreciation and amortization	21,801	4,280	303	3,291	29,675	4,118	33,793
Impairment of capital assets	—	—	—	—	—	—	—
Payments in lieu of taxes	6,442	3,392	41	—	9,875	1,178	11,053
Gain on other activities	(960)	—	—	—	(960)	—	(960)
Total operating expenses	198,008	92,325	7,911	12,853	311,097	25,763	336,860
Operating income (loss)	\$ 7,396	2,010	(6,894)	1,841	4,353	3,427	7,780
Nonoperating revenues (expenses):							
Interest income					23,417	567	23,984
(Loss) gain on sale of investments					(910)	(7)	(917)
Net increase in fair value of investments					5,044	365	5,409
Interest expense, net					(19,786)	(1,634)	(21,420)
Operation of recreational facilities, net					(175)	—	(175)
Amortization of debt-related costs					198	(1)	197
Other, net					2,258	(182)	2,076
Total nonoperating revenues (expenses), net					10,046	(892)	9,154
Change in net assets					14,399	2,535	16,934
Net assets:							
Beginning of year					685,619	156,799	842,418
End of year					700,018	159,334	859,352

See accompanying independent auditors' report.

**CITY UTILITIES OF SPRINGFIELD, MISSOURI**  
(A Component Unit of the City of Springfield, Missouri)

Combining Schedule of Revenues, Expenses, and Changes in Net Assets

Year ended September 30, 2008

(In thousands)

	Public Utility				Total	Water Utility	Total City Utilities
	Electric	Natural Gas	Trans- portation	Telecom/ Broadband			
Operating revenues	\$ 221,613	127,922	1,003	13,198	363,736	29,643	393,379
Operating expenses:							
Production fuel and purchased power	107,960	—	—	—	107,960	—	107,960
Natural gas purchased for resale	—	100,305	—	—	100,305	—	100,305
Other production	11,162	—	—	—	11,162	5,649	16,811
Distribution and transmission	11,034	7,085	—	—	18,119	3,325	21,444
Bus and garage operations	—	—	4,797	—	4,797	—	4,797
Other services	5	—	—	5,794	5,799	—	5,799
Customer accounts	4,457	3,303	—	10	7,770	2,841	10,611
Administrative and general	15,633	3,859	1,563	2,664	23,719	4,978	28,697
Maintenance	25,668	3,147	1,466	—	30,281	4,634	34,915
Depreciation and amortization	22,047	4,727	379	3,206	30,359	4,601	34,960
Impairment of capital assets	—	—	—	—	—	3	3
Payments in lieu of taxes	6,575	4,998	40	—	11,613	1,183	12,796
Gain on other activities	(165)	—	—	—	(165)	—	(165)
Total operating expenses	204,376	127,424	8,245	11,674	351,719	27,214	378,933
Operating income (loss)	\$ 17,237	498	(7,242)	1,524	12,017	2,429	14,446
Nonoperating revenues (expenses):							
Interest income					32,891	869	33,760
(Loss) gain on sale of investments					(769)	(10)	(779)
Net increase in fair value of investments					3,476	275	3,751
Interest expense, net					(28,172)	(1,363)	(29,535)
Operation of recreational facilities, net					(260)	—	(260)
Amortization of debt-related costs					198	(1)	197
Other, net					2,937	(186)	2,751
Total nonoperating revenues (expenses), net					10,301	(416)	9,885
Change in net assets					22,318	2,013	24,331
Net assets:							
Beginning of year					663,301	154,786	818,087
End of year					685,619	156,799	842,418

See accompanying independent auditors' report.