

# **City Utilities of Springfield, Missouri (A Component Unit of the City of Springfield, Missouri)**

**Independent Auditor's Report and Financial Statements**

**September 30, 2017 and 2016**

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**City Utilities of Springfield, Missouri**  
**September 30, 2017 and 2016**

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## Independent Auditor's Report

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

We have audited the accompanying financial statements of City Utilities of Springfield, Missouri (City Utilities), a component unit of the City of Springfield, Missouri, as of and for the years ended September 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise City Utilities' basic financial statements, as listed in the table of contents.

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

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

### ***Auditor's Responsibility***

Our responsibility is to express an opinion 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of City Utilities of Springfield, Missouri as of September 30, 2017 and 2016, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### *Required Supplementary Information*

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

#### *Supplementary Information*

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City Utilities' basic financial statements. The accompanying supplementary information including the combining schedules of revenues, expenses and changes in net position for the years ended September 30, 2017 and 2016, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

**BKD, LLP**

**City Utilities of Springfield, Missouri**  
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**Management’s Discussion and Analysis**  
**September 30, 2017 and 2016**

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, 2017 and 2016. This analysis should be read in conjunction with the financial statements and notes thereto.

City Utilities is comprised of electric, natural gas, water, transportation and telecommunications/broadband. At September 30, 2017, City Utilities served approximately 115,000 electric, 83,000 natural gas and 82,000 water customers in the Springfield metropolitan area. This represents growth of approximately 0.5% for fiscal year 2017.

**Financial Highlights**

	<b>2017</b>	<b>2016</b>
Net position (equity)	\$1.1 billion	\$1.0 billion
Change in net position (net income)	\$34.9 million	\$41.4 million
Capital improvements	\$72.2 million	\$85.8 million
Peak demand		
Electric – maximum hourly peak demand	716 megawatts	782 megawatts
Natural gas – maximum daily throughput peak	114,509 dekatherms	116,767 dekatherms
Water – maximum daily pumpage	42.3 million gallons	39.9 million gallons
Credit rating – revenue bonds	AA	AA

**Financial Statements**

This report contains three basic financial statements and related notes. The *Statements of Revenues, Expenses and Changes in Net Position* present City Utilities’ results of operations and changes in net position for the fiscal years ended September 30, 2017 and 2016. The *Statements of Net Position* presents City Utilities’ financial condition, assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position at September 30, 2017 and 2016. The *Statements of Cash Flows* presents City Utilities’ sources and uses of cash for the fiscal years ended September 30, 2017 and 2016. 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.

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***Discussion and Analysis***

**Major Projects**

*Fiscal Year 2017*

The installation of automated meters and associated communication equipment continued in fiscal year 2017. Advanced metering infrastructure will allow two-way communication between meters and City Utilities. This technology will identify outages thereby reducing time to restore power to our customers as well as provide energy usage information to our customers. Total expenditures for 2017 were \$7.7 million. The projected completion date for the project is 2022 at an estimated cost for electric, natural gas and water over the next five years of \$34.2 million.

In 2017, we budgeted to replace approximately 12 miles of natural gas mains, including a minimum of six miles of Aldyl A plastic mains required by the Missouri Public Service Commission. During fiscal year 2017, total expenditures were \$2.4 million. The total project cost over the next five years is estimated at \$19.3 million.

The multiyear project for construction of a clearwell to comply with the Department of Natural Resources' recommendation continued in 2017. The clearwell will provide adequate disinfection, backwash volume and distribution flow and pressure. The project will be completed in 2018. Total expenditures for 2017 were \$3.9 million.

The replacement of water mains and associated services continued to be a priority in 2017. Upgrading the older mains and services will ultimately lead to a reduction in the number of main breaks. This project is funded on an annual basis and will continue beyond the five-year operating plan. Expenditures for the 2017 fiscal year were \$3.3 million. Funding over the next five years is estimated at \$32 million.

In 2017, City Utilities continued to acquire new rights-of-way to construct electric transmission facilities. Expansion of the transmission system will provide additional capacity to meet future load growth and improve reliability. The project had current year expenditures of \$1.4 million. Estimated completion date is 2019 with a budget of \$1.5 million over the next two years.

During fiscal year 2017, repairs to our 345 kV transmission line were required. Capital expenditures for restoration efforts to repair and replace approximately seven miles of transmission line and structures totaled \$5.4 million and were completed within four months.

The Coal Combustion Residual (CCR) rule went into effect in fiscal year 2015. To comply with the Environmental Protection Agency (EPA) requirements, well installations, ground water monitoring, statistical analysis and subsurface investigations were required for our ash ponds. Costs incurred to comply with the regulations totaled \$7.8 million in 2017. City Utilities expects to be in compliance with all requirements prior to the October 2018 deadline at an additional cost of \$1.0 million.

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*Fiscal Year 2016*

The installation of automated meters and associated communication equipment accelerated in fiscal year 2016. The automated meters will allow enhanced outage detection, remote connection and disconnection of meters, voltage monitoring, as well as energy usage information to customers. Total expenditures for 2016 were \$3.1 million. The estimated project cost for electric, natural gas and water over the next five years is estimated at \$40.5 million.

The replacement of Natural Gas Aldyl A plastic mains required by the Missouri Public Service Commission continued in 2016. The total project cost over the next five years is estimated at \$17.9 million. During fiscal year 2016 total expenditures were \$4.0 million.

The construction of a clearwell to comply with the Department of Natural Resources' recommendation continued in 2016. The clearwell will provide adequate disinfection, backwash volume and distribution flow and pressure. The project will be completed in 2018 at an estimated total cost of \$15.5 million. Total expenditures for 2016 were \$8.1 million.

The replacement of water mains and associated services continued in 2016. As the infrastructure ages, it is more prone to main breaks and service leaks. This project will continue beyond the five-year operating plan and has an estimated project cost of \$28.5 million. Expenditures for the 2016 fiscal year were \$3.4 million.

Expanding the transmission system to provide additional capacity to meet future load growth and relieve overloaded facilities continued by acquiring transmission line rights-of-way in 2016. The project had current year expenditures of \$1.6 million with a total budget of \$5.0 million.

The Environmental Regulatory Compliance project to reduce particulate matter and reduce mercury emissions was completed in 2016 with expenses of \$1.4 million. The total project cost was \$31.2 million.

The completion of an 11-mile, 48-inch raw water main from Fellows Lake to Black Water Treatment Plant to provide raw water supply will be completed in 2019. The budget for this project is \$7.6 million. Fiscal year 2016 expenditures were \$629,000.

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**Long-Term Obligation Activity**

During fiscal year 2017, City Utilities did not enter into any new long-term debt obligations.

During fiscal year 2016, the 2006 Lease Series A and B Certificates of Participation were refunded into a new lease financing agreement with a par amount of \$32.0 million and with a final maturity date of December 2021.

	<b>Net Position (Equity)</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
	<b>(In Thousands)</b>		
<b>Assets</b>			
Net capital assets	\$ 1,487,770	\$ 1,462,804	\$ 1,441,057
Current and other assets	<u>328,196</u>	<u>339,360</u>	<u>362,201</u>
Total assets	1,815,966	1,802,164	1,803,258
Deferred outflows of resources	<u>53,971</u>	<u>91,618</u>	<u>51,253</u>
Total assets and deferred outflows	<u>1,869,937</u>	<u>1,893,782</u>	<u>1,854,511</u>
<b>Less liabilities and deferred inflows of resources</b>			
Long-term obligations	603,996	636,995	668,656
Other liabilities	<u>155,929</u>	<u>184,101</u>	<u>162,891</u>
Total liabilities	759,925	821,096	831,547
Deferred inflows of resources	<u>34,988</u>	<u>32,522</u>	<u>24,197</u>
Total liabilities and deferred inflows	<u>794,913</u>	<u>853,618</u>	<u>855,744</u>
<b>Net position</b>			
Net investment in capital assets	836,066	785,375	736,515
Restricted for debt service	6,287	6,179	6,071
Unrestricted	<u>232,671</u>	<u>248,610</u>	<u>256,181</u>
Total net position	<u>\$ 1,075,024</u>	<u>\$ 1,040,164</u>	<u>\$ 998,767</u>

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**Operating Results – Revenues**

A 3.7% and a 3.9% electric rate increase were effective October 2016 and October 2015, respectively. These were the third and second of a series of three rate increases approved by Springfield City Council in 2013. A 9.0% water rate increase was effective October 2015. This was the third of a series of three rate increases approved by Springfield City Council in 2012.

During fiscal year 2017, City Utilities' customers experienced a mild winter followed by a slightly warmer than normal summer. A mild winter was also experienced in fiscal year 2016. City Utilities' budget is based on normal weather, and therefore, operating revenues were comparable to forecast for both 2017 and 2016.

*Fiscal Year 2017*

For fiscal year 2017, we experienced a mild winter. Heating degree days were 27% below normal for the year. Our summer was slightly warmer than normal, with 7% more cooling degree days than average. Since temperatures were near normal, revenues were within 1% of budget for all commodities except natural gas. Natural gas revenues were 3% below budget due to the mild winter.

We have experienced a slight increase in the number of customers. Total customers have increased by 1,400 customers which represents a 0.5% increase over 2016. Usage per customer, however, has continued to decline. Electric usage for residential customers decreased 3% as compared to 2016. Commercial and industrial electric usage declined 2% as compared to the prior year.

Heating degree days were below normal and below last year. The 8% decrease in heating degree days from prior year resulted in a decrease in usage per customer for natural gas of 5%. Commercial and industrial usage decreased 1% compared to 2016.

Rainfall was comparable to 2016. Water usage was also comparable to the prior year resulting in revenues within 1% of the prior year and budget.

*Fiscal Year 2016*

Warmer temperatures throughout the fiscal year resulted in cooling degree days 10% above 2015. Despite warmer temperatures, usage declined for both residential and commercial customers. Average electric residential use per customer is 3% lower than 2015, while commercial use per customer decreased 2%. Off-system sales decreased 1% from prior year. Electric revenues were within 1% of 2015.

A warmer than normal winter led to heating degree days 20% lower than 2015. Natural gas revenues were 18% below 2015. Average use per residential customer decreased 17% and average use per commercial customer decreased 11%. Interdepartmental usage increased 77% as more natural gas was used for generation due to the lower natural gas prices compared to fiscal year 2015.

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SpringNet/Trunked Radio System revenues decreased 11% from prior year due to a change in the classification of interdepartmental charges. Water usage was up 6% per residential customer and down 1% per commercial customer. Precipitation was 9% above normal but mostly occurred in November and December 2015. The increased usage, as well as the rate increase of 9.0%, led to an increase in water revenues of \$5.0 million.

The following table represents operating revenue information for City Utilities prior to interdepartmental eliminations.

	<b>Operating Revenues</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
	<b>(In Thousands)</b>		
Operating revenue			
Electric	\$ 302,835	\$ 291,243	\$ 290,587
Natural gas	79,909	78,879	96,212
Transportation	1,057	1,068	1,070
Telco/Broadband	13,927	13,316	15,001
Water	49,127	49,358	44,400
	<u>\$ 446,855</u>	<u>\$ 433,864</u>	<u>\$ 447,270</u>
Total operating revenues			

**Operating Results – Operating Expenses**

City Utilities' electric generation includes base load availability of 758 MW from two coal-fired and five natural gas-fired steam turbines and peak load availability of 359 MW from six combustion turbines. An additional 3 MW is available from the Noble Hill Landfill Renewable Energy Center. Supplementing this internal generating capacity, the Utility has contracted 50 MW from Southwest Power Administration (SWPA). The Utility also contracted 50 MW of intermittent renewable energy through the Smoky Hills Wind Project II and has rights to 50 MW of firm transmission capacity. Effective November 2015, City Utilities signed a purchased power agreement with Frontier Windpower. The 22-year agreement allows the purchase of power from the 200 MW wind generation facility. City Utilities entered into a contract with Strata Solar as of June 2014, to purchase all of the solar energy generated by the 4.95 MW unit at a fixed price of \$.08 per Kwh. In March 2014, City Utilities began participation in the Southwest Power Pool (SPP) Integrated Marketplace allowing the Utility to purchase and sell electricity within the SPP area. The Integrated Marketplace is designed to improve grid reliability and regional balancing of supply and demand. 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 55% and purchased 45% of its power needs in 2017 compared to generating 58% and purchasing 42% in 2016.

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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 revenues for the period. In addition, water made payments to the City at a rate of 4%. The following table presents City Utilities' operating expenses prior to interdepartmental eliminations:

	<b>Operating Expenses</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
	<b>(In Thousands)</b>		
Operating expenses			
Electric	\$ 252,529	\$ 245,302	\$ 249,967
Natural gas	77,406	77,332	90,823
Transportation	12,245	11,940	10,809
Telco/Broadband	11,410	10,463	11,941
Water	36,394	35,911	32,957
Total operating expenses	\$ 389,984	\$ 380,948	\$ 396,497

*Fiscal Year 2017*

Electric operating expenses were 3% above 2016. Maintenance costs were above the prior year by 8% due to repairs on aging infrastructure. Production fuel for generation decreased 2% due to generating 2% less megawatt hours. Purchased power costs increased 15% as compared to the prior year due to a 2% increase in purchased energy cost and 13% increase in volume.

Natural gas operating expenses were comparable to 2016. While natural gas prices increased over 2016, volumes were down by 4% due to the mild winter. Purchased gas cost was, therefore, comparable to the prior year. Water operating expenses increased just 1% over the prior year. Total operating expenses were \$390 million, a 2% increase over the prior year.

*Fiscal Year 2016*

Electric operating expenses were comparable to 2015. Production fuel for generation decreased \$8.4 million. The amount expensed for coal decreased \$10.5 million while the amount of natural gas expensed for generation increased \$2.7 million. Transmission costs increased \$2.7 million. Purchased power costs decreased \$1.7 million as compared to the prior year due to lower market prices.

Natural gas operating expenses decreased \$13.5 million compared to fiscal year 2015. Natural gas prices decreased an average of 16% per DTH. Purchased gas cost for 2016 was \$48.0 million. Water operating expenses increased \$3.0 million due to increased distribution maintenance costs. Total operating expenses were \$35.9 million.

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**Change in Net Position**

*Fiscal Year 2017*

Results of operations continue to be positive and net position (equity) continues to grow. City Utilities maintains AA credit rating from Fitch Ratings and Standard & Poor's rating agencies, demonstrating a strong financial position. With credit ratings of AA category, the Utility continues to be well positioned for the future.

*Fiscal Year 2016*

Results of operations continue to be positive and net position (equity) continues to grow. City Utilities maintains AA credit rating from Fitch Ratings and Standard & Poor's rating agencies, demonstrating a strong financial position. With credit ratings of AA category, the Utility continues to be well positioned for the future.

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	<b>Changes in Net Position (Equity)</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
	<b>(In Thousands)</b>		
Operating revenues	\$ 432,834	\$ 417,586	\$ 431,482
Less operating expenses	<u>375,964</u>	<u>364,675</u>	<u>380,726</u>
Operating income	<u>56,870</u>	<u>52,911</u>	<u>50,756</u>
Nonoperating revenues (expenses)			
Interest income	4,965	7,232	7,337
Investment loss	(1,380)	(1,223)	(625)
Net increase (decrease) in fair market value of investments	(5,346)	2,260	1,861
Interest expense, net	(24,704)	(25,928)	(29,921)
Other items, net	4,335	4,341	2,618
Nonoperating revenues (expenses)	<u>(22,130)</u>	<u>(13,318)</u>	<u>(18,730)</u>
Change in net position before contributions and special items	<u>34,740</u>	<u>39,593</u>	<u>32,026</u>
Capital contributions			
Contributions in aid of construction	4,202	6,856	6,018
Donated property	1,112	374	221
Reduction of plant costs recovered through contributions	(5,194)	(5,426)	(4,724)
Net capital contributions	<u>120</u>	<u>1,804</u>	<u>1,515</u>
Change in net position before special items	<u>34,860</u>	<u>41,397</u>	<u>33,541</u>
Special items			
Surplusing of SpringNet Underground	-	-	3,518
Gas holder site remediation	-	-	(7,240)
Total special items	<u>-</u>	<u>-</u>	<u>(3,722)</u>
Change in net position	<u>34,860</u>	<u>41,397</u>	<u>29,819</u>
Net position (equity)			
Beginning of year, as previously reported	1,040,164	998,767	969,294
Cumulative effect of change in accounting principle	-	-	(346)
Beginning of year, as restated	<u>1,040,164</u>	<u>998,767</u>	<u>968,948</u>
End of year	<u>\$ 1,075,024</u>	<u>\$ 1,040,164</u>	<u>\$ 998,767</u>

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*Fiscal Year 2017*

Net income of \$34.9 million was \$6.5 million less than the prior year. Operating expenses were 2% above the prior year. An increase in purchased power costs of \$6.1 million was partially offset by a decrease in fuel costs for generation of \$1.2 million. Maintenance costs were \$2.7 million over last year due to overruns in the electric system. Tree trimming costs alone increased \$2.2 million over the prior year due to an increase in the number of spring storms this year.

Interest income is down \$2.3 million as compared to the prior year. Interest expense is down \$1.2 million from prior year due to no new issuance of debt.

*Fiscal Year 2016*

Electric operating income totaled \$45.9 million which was a \$5.3 million increase from the prior year due to decreased fuel costs. Natural gas operating income of \$1.5 million was 71% lower than last year due to a decrease in customer usage and lower natural gas prices. Water operating income increased by \$2.0 million to \$13.4 million due to a rate increase, funding infrastructure replacement and decreased operating expenses.

Net income of \$41.4 million was \$11.6 million above the prior year. Operating income was \$2.1 million above 2015 due to reduced operating expenses. An additional \$10.7 million of pension expense was recorded to comply with GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. The fair market value of investments was a \$399,000 variance over the prior year while the gain on fixed assets showed a \$693,000 positive variance. Interest expense was \$4.3 million lower than the prior year at \$27.5 million.

**Receipts and Disbursements Compared to Budget**

**Receipts and Disbursements Compared to Budget**  
**September 30, 2017, 2016 and 2015**  
(In Thousands)

	2017		2016		2015	
	Receipts	Disbursements	Receipts	Disbursements	Receipts	Disbursements
Budget	\$ 536,731	\$ 578,143	\$ 506,984	\$ 519,104	\$ 572,084	\$ 571,584
Actual	472,484	481,852	462,987	475,050	511,759	499,391
Under budget	\$ (64,247)	\$ (96,291)	\$ (43,997)	\$ (44,054)	\$ (60,325)	\$ (72,193)

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*Fiscal Year 2017*

Receipts were under budget by \$64 million. The budget includes a \$35.0 million receipt contingency to offset volatility of fuel prices. The fuel contingency was not utilized due to the \$3.9 million overrun in fuels being offset by an underrun of \$5.8 million in purchased power costs. A transfer from contingency to the operating fund, however, was utilized to cover expenditures for repairs to the 345kV transmission line and repairs for the James River Combustion Turbine 1.

Disbursements were under budget by \$96.3 million. Disbursements for capital projects were under budget \$16.2 million, noncapital projects were under budget by \$13.4 million and fuels were under budget by \$20.8 million. In September 2017, \$7 million was transferred from contingency to the operating fund to cover a shortfall due to unplanned expenditures for repairs to the 345 KV line and James River Combustion Turbine 1. The remaining \$28 million remained in contingency at year-end. The \$9.6 million TEA guarantee was also included in the budget but not utilized.

*Fiscal Year 2016*

Receipts were under budget by \$44.0 million. The budget includes a \$35.0 million receipt contingency to offset a spike in fuel prices. The fuel contingency was not utilized due to fuel costs being below budget.

Disbursements were under budget by \$44.1 million. Disbursements for capital projects were under budget \$14.7 million, noncapital projects were under budget by \$17.0 million and fuels were under budget by \$7.0 million. A \$35.0 million fuel contingency and a \$9.6 million TEA guarantee were also included in the budget but not utilized.

**Significant Future Items**

***Rate increases are as follows:***

- No new electric rate adjustments are forecasted until fiscal year 2021.
- The first of a series of three natural gas adjustments went into effect in October 2017. The 3.9% rate increase is to support the natural gas main replacement program and additional operation and maintenance costs.
- The first of a series of three water rate increases went into effect in October 2017. The 4.2% price adjustment will help fund the water main replacement program.
- No transit fare increases are scheduled for the next fiscal year.

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***Coal Combustion Residual (CCR) Rule:***

The Coal Combustion Residual (CCR) Rule was enacted by the EPA in 2015. The compliance requirements are staged over several years. City Utilities is in the process of performing preliminary compliance requirements, processing and interpreting the regulations and developing plans for compliance. The ash ponds at both JTEC and JRPS were cleaned and closed by the end of fiscal 2017. Remaining efforts are associated with engineering certifications, groundwater monitoring and statistical analysis. Costs through the five-year planning horizon are estimated at \$1.0 million.

***Transmission Line Right-of-Way Purchase:***

This project provides for purchase of right-of-way to construct a 161 kV transmission line for future expansion of the Transmission System on the perimeter of City Utilities' service territory. Acquisitions are anticipated to be completed in fiscal year 2019 at an expected additional cost of \$1.5 million.

***Natural Gas Main and Service Renewals:***

The replacement of mains and services project, with concentration on Aldyl A plastic mains installed prior to 1985 in high pressure districts continues. The budget for fiscal year 2018 is \$3.7 million. Estimated total cost for the project over the next five years is \$19.3 million.

***48-inch Raw Water Main:***

The remaining 2 miles of the 11-mile raw water main from Fellows Lake to the Blackman Water Treatment Plant is budgeted to be completed in fiscal year 2018 at an estimated cost of \$1.1 million. This project will provide additional and redundant raw water supply to the Blackman Water Treatment Plant.

***Water Main Renewals:***

This project will reinstate a sustained main renewal program. The level of funding increases over the five year operating plan to replace aging infrastructure. Expected expenditures total \$32 million over the next five years. The budget for fiscal year 2018 is \$5.5 million.

***Metering Technology:***

This project includes installation of automated metering infrastructure, meters and associated communication equipment. This will allow enhanced outage detection, automated meter reading, as well as remote connection and disconnection. It will also allow City Utilities to provide enhanced energy usage information. This project will be on-going for at least the next five years. Total project cost for electric, natural gas and water over the next five years is estimated at \$34.2 million. The budget for fiscal year 2018 is \$8.3 million.

**City Utilities of Springfield, Missouri**  
**(A Component Unit of the City of Springfield, Missouri)**  
**Management's Discussion and Analysis**  
**September 30, 2017 and 2016**

**Requests for Information**

This financial report is designed to provide our citizens, customers, creditors and other financial users with a general overview of City Utilities' finances. If you have questions about this report or need additional information, contact the Chief Financial Officer, City Utilities of Springfield, Missouri, P.O. Box 551, Springfield, Missouri 65801-0551.

**City Utilities of Springfield, Missouri**  
**(A Component Unit of the City of Springfield, Missouri)**  
**Statements of Net Position**  
**September 30, 2017 and 2016**  
(in Thousands)

**Assets and Deferred Outflows of Resources**

	<b>2017</b>	<b>2016</b>
<b>Noncurrent Assets</b>		
Capital Assets		
Land	\$ 53,033	\$ 51,422
Electric	1,522,713	1,511,339
Natural gas	235,380	226,912
Transportation	27,267	27,491
Water	323,164	312,591
Customer service	16,460	15,137
Telecom/Broadband	64,518	66,438
Common	50,898	53,840
Total	<u>2,293,433</u>	<u>2,265,170</u>
Less accumulated depreciation	(883,799)	(860,354)
Net total	<u>1,409,634</u>	<u>1,404,816</u>
Construction work in progress	78,136	57,988
Net capital assets	<u>1,487,770</u>	<u>1,462,804</u>
Investments		
Funds for bonded indebtedness	6,287	6,179
Designated improvement account	116,674	105,970
Working capital account	76,867	101,343
Price risk management assets	462	1,581
Other noncurrent assets	16,118	17,649
Total noncurrent assets	<u>1,704,178</u>	<u>1,695,526</u>
<b>Current Assets</b>		
Cash	36,351	32,057
Accounts receivable		
Customers, less allowance for doubtful accounts;		
2017 - \$326 and 2016 - \$333	21,383	21,847
Unbilled revenue	16,223	16,336
Other	2,631	2,661
Inventories		
Materials and supplies	23,876	25,139
Coal	3,894	2,159
Natural gas stored underground	5,935	5,165
Emissions consumables	69	80
Prepayments and other	1,426	1,194
Total current assets	<u>111,788</u>	<u>106,638</u>
Total assets	<u>1,815,966</u>	<u>1,802,164</u>
<b>Deferred Outflows of Resources</b>		
Electric fuel and purchased natural gas adjustment	702	1,698
Unamortized loss on reacquired debt	17,043	17,985
Pension related	34,686	71,421
Fair value adjustments in derivative instruments	1,540	514
Total deferred outflows of resources	<u>53,971</u>	<u>91,618</u>
Total assets and deferred outflows of resources	<u>\$ 1,869,937</u>	<u>\$ 1,893,782</u>

**City Utilities of Springfield, Missouri**  
**(A Component Unit of the City of Springfield, Missouri)**  
**Statements of Net Position**  
**September 30, 2017 and 2016**  
(in Thousands)

**Liabilities, Deferred Inflows of Resources and Net Position**

	<b>2017</b>	<b>2016</b>
<b>Net Position</b>		
Net investment in capital assets	\$ 836,066	\$ 785,375
Restricted for debt service	6,287	6,179
Unrestricted	232,671	248,610
Total net position	1,075,024	1,040,164
<b>Long-Term Obligations</b>		
Long-term obligations	558,860	588,185
Unamortized debt premium, net of debt discount	45,136	48,810
Total long-term obligations	603,996	636,995
<b>Other Noncurrent Liabilities</b>		
Vacation and sick leave	14,823	14,479
Net pension liability	49,605	77,869
Other	9,495	9,176
Total other noncurrent liabilities	73,923	101,524
<b>Current Liabilities</b>		
Current maturities of long-term obligations	29,325	27,655
Accounts payable		
Trade	16,299	16,781
Other	4,839	4,465
Accruals		
Interest	4,577	4,889
Salaries and wages	1,372	1,445
Pension contributions and other	2,350	1,913
Electric purchased power	2,393	3,400
Natural gas, coal and other fuels	5,137	6,073
Vacation and sick leave	9,914	9,787
Due to City of Springfield, Missouri in lieu of taxes	1,157	1,199
Customer deposits	4,643	4,970
Total current liabilities	82,006	82,577
Total liabilities	759,925	821,096
<b>Deferred Inflows of Resources</b>		
Contributions in aid of construction	28,143	23,945
Pension related	6,845	8,577
Total deferred inflows of resources	34,988	32,522
Total net position, liabilities and deferred inflows of resources	\$ 1,869,937	\$ 1,893,782

**City Utilities of Springfield, Missouri**  
**(A Component Unit of the City of Springfield, Missouri)**  
**Statements of Revenues, Expenses and Changes in Net Position**  
**Years Ended September 30, 2017 and 2016**  
(in Thousands)

	<u>2017</u>	<u>2016</u>
<b>Operating Revenues</b>		
Services	\$ 409,205	\$ 396,108
Other	23,629	21,478
Total operating revenues	<u>432,834</u>	<u>417,586</u>
<b>Operating Expenses</b>		
Production fuel and purchased power	94,117	86,393
Natural gas purchased for resale	48,526	47,981
Other production	19,401	20,397
Distribution and transmission	36,789	35,729
Bus and garage operations	6,435	6,450
Other services	4,659	4,230
Customer accounts	12,507	13,279
Administrative and general	30,732	29,687
Maintenance	47,372	45,617
Depreciation and amortization	60,923	61,457
Payments in lieu of taxes	14,021	13,291
Gain on other activities	-	(69)
Other taxes	482	233
Total operating expenses	<u>375,964</u>	<u>364,675</u>
Operating income	<u>56,870</u>	<u>52,911</u>
<b>Nonoperating Revenues (Expenses)</b>		
Interest income	4,965	7,232
Net (decrease) increase in fair value of investments	(5,346)	2,260
Investment loss	(1,380)	(1,223)
Interest expense, net	(24,704)	(25,928)
Operation of recreational facilities, net	(294)	(285)
Amortization of debt-related costs	2,354	2,346
Other, net	2,275	2,280
Net nonoperating revenues (expenses)	<u>(22,130)</u>	<u>(13,318)</u>
Change in net position before contributions	<u>34,740</u>	<u>39,593</u>
<b>Capital Contributions</b>		
Contributions in aid of construction	4,202	6,856
Donated property	1,112	374
Reduction of plant costs recovered through contributions	(5,194)	(5,426)
Net capital contributions	<u>120</u>	<u>1,804</u>
Change in net position	34,860	41,397
<b>Net Position</b>		
Beginning of year	<u>1,040,164</u>	<u>998,767</u>
End of year	<u>\$ 1,075,024</u>	<u>\$ 1,040,164</u>

**City Utilities of Springfield, Missouri**  
**(A Component Unit of the City of Springfield, Missouri)**  
**Statements of Cash Flows**  
**Years Ended September 30, 2017 and 2016**  
**(in Thousands)**

	<u>2017</u>	<u>2016</u>
<b>Cash Flows from Operating Activities</b>		
Receipts from customers	\$ 422,585	\$ 401,618
Payments to suppliers	(220,659)	(202,040)
Payments to employees	(60,642)	(64,474)
Payments in lieu of taxes	(13,936)	(13,128)
Claims paid	(797)	(466)
	<u>126,551</u>	<u>121,510</u>
<b>Cash Flows from Noncapital Financing Activities</b>		
Receipts from federal and state grants	<u>2,523</u>	<u>2,470</u>
	<u>2,523</u>	<u>2,470</u>
<b>Cash Flows from Capital and Related Financing Activities</b>		
Purchases of capital assets, net of removal	(82,481)	(76,499)
Proceeds from the issuance of long-term obligations	-	34,607
Debt issuance costs paid	-	128
Repayment of long-term obligations	(27,655)	(60,825)
Interest paid	(26,533)	(27,846)
	<u>(136,669)</u>	<u>(130,435)</u>
<b>Cash Flows from Investing Activities</b>		
Sale and maturities of investment securities	52,952	35,109
Purchase of investment securities	(45,387)	(31,226)
Interest received	5,716	7,716
Arbitrage	-	(15,735)
Equity investment in The Energy Authority, net	(1,347)	(868)
Equity investment in Partnership Industrial Center, net	(45)	148
	<u>11,889</u>	<u>(4,856)</u>
Net cash provided by (used in) investing activities	<u>11,889</u>	<u>(4,856)</u>
Net increase (decrease) in cash	4,294	(11,311)
<b>Cash, Beginning of Year</b>	<u>32,057</u>	<u>43,368</u>
<b>Cash, End of Year</b>	<u>\$ 36,351</u>	<u>\$ 32,057</u>

**City Utilities of Springfield, Missouri**  
**(A Component Unit of the City of Springfield, Missouri)**  
**Statements of Cash Flows**  
**Years Ended September 30, 2017 and 2016**  
**(in Thousands)**

	<b>2017</b>	<b>2016</b>
<b>Reconciliation of Operating Income to Net Cash</b>		
<b>Provided by Operating Activities</b>		
Operating income	\$ 56,870	\$ 52,911
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization expense	60,923	61,457
Auto depreciation included in vehicle expense	2,380	2,410
Miscellaneous income	369	120
Operation of recreational facilities	(294)	(285)
Change in assets and liabilities		
Customer and other accounts receivable	496	(1,373)
Unbilled revenues	113	(889)
Recoverable fuel costs	(30)	(5,426)
Price risk management assets	1,119	(1,386)
Inventories	(1,233)	10,713
Prepayments and prepaid insurance	(231)	184
Other noncurrent assets	(205)	(346)
Deferred outflows related to pensions	36,734	(41,453)
Accounts payable	(204)	695
Customer deposits	(327)	(631)
Accrued liabilities	(1,861)	2,697
Net pension liability	(28,264)	43,575
Deferred inflows related to pensions	(1,732)	8,577
Other noncurrent liabilities	1,928	(10,040)
	\$ 126,551	\$ 121,510
<b>Net cash provided by operating activities</b>		
<b>Noncash Capital Financing Activities</b>		
Capital assets acquired through contributions from developers	\$ 1,112	\$ 374
Capital assets acquisitions included in accounts payable	\$ 7,282	\$ 6,819
<b>Noncash Investing Activities</b>		
Net (decrease) increase in fair value of investments	\$ (5,346)	\$ 2,260

**City Utilities of Springfield, Missouri**  
**(A Component Unit of the City of Springfield, Missouri)**  
**Notes to Financial Statements**  
**September 30, 2017 and 2016**

**Note 1: Summary of Significant Accounting Policies**

***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 electric, natural gas, transportation, telecom/broadband and water departments. 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, 2017, City Utilities serves approximately 115,000 electric customers, 83,000 natural gas customers and 82,000 water customers in the Springfield metropolitan area.

For financial reporting purposes, City Utilities includes all funds 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.

***Basis of Accounting***

City Utilities activities are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. As required in Section 16.11 of the City Charter, City Utilities’ accounting records are maintained in accordance with accounting principles generally accepted in the United States of America for regulated utilities and generally follow 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 (NARUC).

The financial statements are prepared in accordance with generally accepted accounting principles and follow accounting guidance provided by the Governmental Accounting Standards Board (GASB) in the regulated operations provisions of GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which permit certain entities with cost-based rates to defer certain costs or income that would otherwise be recognized when incurred to the extent that the rate-regulated entity is recovering or expects to recover such amounts in future rates charged to its customers. 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 these regulated operations provisions, it would have to record the amounts of all regulatory assets and liabilities in the statements of revenues, expenses and changes in net position.

**City Utilities of Springfield, Missouri**  
**(A Component Unit of the City of Springfield, Missouri)**  
**Notes to Financial Statements**  
**September 30, 2017 and 2016**

***Net Position***

Net position is classified into three components – net investment in capital assets, restricted for debt service and unrestricted. These classifications are defined as follows:

- Net investment in capital assets - consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any debt that is attributable to those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt are included in this component of net position. If there are significant unspent related debt proceeds at year end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets.
- Restricted - 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 position is 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 position that does not meet the definition of restricted or net investment in capital assets.

***Revenues and Expenses***

Revenue is recognized as services are rendered and includes an estimate for electricity and natural gas delivered but unbilled at the end of each reporting period. An estimate for water service delivered but unbilled is recorded at year end. 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, telecom/broadband 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 position are shown net of discounts and estimated allowances for bad debts.

***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. Currently, City Utilities has a capitalization threshold of \$5,000 for plant assets.

**City Utilities of Springfield, Missouri**  
**(A Component Unit of the City of Springfield, Missouri)**  
**Notes to Financial Statements**  
**September 30, 2017 and 2016**

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>2017</b>	<b>2016</b>
Electric	2.5%	2.7%
Natural gas	2.8%	2.8%
Telecom/Broadband	6.8%	6.8%
Water	1.9%	1.9%

Transportation, office and computer equipment and certain other administrative assets are depreciated using the specific-identification method. When assets depreciated using the specific-identification method are retired, a gain or loss is recorded. The estimated useful lives for these assets are as follows:

	<b>Estimated Lives (in Years)</b>
Transportation	10 to 40
Common	15 to 20
Customer services	10 to 25

***Investments***

Investments in U.S. Treasury securities, U.S. government agency securities and mortgage-backed securities are reported at fair value based on quoted market prices, plus accrued interest. All investments are held in City Utilities' name.

***Inventories***

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

**City Utilities of Springfield, Missouri**  
**(A Component Unit of the City of Springfield, Missouri)**  
**Notes to Financial Statements**  
**September 30, 2017 and 2016**

***Deferred Outflows and Inflows of Resources***

**Unamortized Loss on Reacquired Debt**

Costs incurred in connection with the refinancing of various bond issuances are being amortized over the remaining life of the old bonds or the life of the new bonds, whichever is shorter. Amortization is recorded in nonoperating expenses. At September 30, 2017 and 2016, the unamortized loss balance of \$17.0 million and \$18.0 million, respectively, was recorded as a deferred outflow of resources in the Statements of Net Position.

**Pension Related**

Deferred outflows and deferred inflows of resources related to pensions are discussed in the Defined Benefit Pension Plan note (*Note 5*).

**Fair Value Adjustments in Derivative Instruments**

As of September 30, 2017, City Utilities had purchased financial instruments to reduce, or hedge, the volatility of natural gas costs for fiscal years 2017 through 2022. Through September 30, 2017 and 2016, the market value of the unexpired instruments were included as an asset and a liability on the Statements of Net Position with the offset of the monthly fair market value adjustment included as a deferred outflow until the hedging instruments are matched with the corresponding monthly purchased natural gas costs.

**Contributions in Aid of Construction (CIAC)**

Capital contributions are received from developers and other third parties primarily to offset the costs associated with expansion of the system. City Utilities follows FERC guidelines for Electric and Natural Gas and NARUC guidelines for Water in the recording of CIAC. These guidelines direct the utility to record these contributions as a contra asset in the Utility's accounting records. In order to comply with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, while continuing to follow the FERC and NARUC guidelines, CIAC is recorded as other income and offset by a regulatory deferral in the same amount. As the Transportation utility does not follow FERC guidelines, capital contributions are recorded as revenue without an offsetting regulatory deferral.

**Electric Fuel and Purchased Natural Gas Adjustments**

General Ordinance Numbers 6139 and 5780 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 \$190,000 and an under-recovery of \$2.2 million for electric fuel and an under-recovery of \$892,000 and over-recovery of \$541,000 for purchased natural gas adjustment clauses were recorded at September 30, 2017 and 2016, respectively, as a net deferred outflow of resources in the Statements of Net Position.

**City Utilities of Springfield, Missouri**  
**(A Component Unit of the City of Springfield, Missouri)**  
**Notes to Financial Statements**  
**September 30, 2017 and 2016**

**Capitalization of Interest**

Net interest costs related to acquiring or constructing certain utility plant 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 GASB Statement No. 62. Information regarding capitalized interest is as follows (dollar amounts in thousands):

	<b>2017</b>	<b>2016</b>
Interest expense, gross	\$ 26,221	\$ 27,544
Capitalized interest	(1,517)	(1,616)
Interest expense, net	\$ 24,704	\$ 25,928
Average interest rate	3.2%	3.1%

**Cash**

City Utilities has securities pledged by Bank of America, to cover certain deposits in excess of Federal Deposit Insurance Corporation (FDIC) insurance levels. These securities have a fair value of at least 100% of the amount of total deposits in excess of \$250,000 in accordance with the City Charter, Section 19.13. City Utilities considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. At September 30, 2017 and 2016, City Utilities held no cash equivalents.

**Environmental Matters**

City Utilities accrues environmental costs based on expected cash flows when an obligating event is 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.

In accordance with *GASB Statement 49-Accounting and Financial Reporting for Pollution Remediation Obligations*, City Utilities recorded a liability for estimated remediation costs for a former manufactured gas holder site. City Utilities' property at 320 N. Main in Springfield is the site of a former gas holder and cleaning house that served a manufactured gas plant (MGP). City Utilities never operated the holder site. In 2013, City Utilities, along with the City of Springfield, participated in a site characterization study due to a redevelopment effort in downtown Springfield. The final study report and draft remediation action plan were completed by December 2014. Following review of the final documents and subsequent conversations with MDNR, City Utilities decided to move forward with cleanup activities at 320 N. Main.

On July 10, 2015, City Utilities submitted a Remediation Action Plan (RAP) and application for enrollment in the Missouri Department of Natural Resources (MDNR) Brownfields/Voluntary Cleanup Program. In August 2015, MDNR accepted City Utilities' enrollment of the site into the BVCP.

**City Utilities of Springfield, Missouri**  
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**Notes to Financial Statements**  
**September 30, 2017 and 2016**

On October 23, 2015, City Utilities received conditional MDNR approval of the RAP that allowed work to begin in November 2015. Complete and final RAP approval was granted on January 5, 2016. Excavate soils and subsurface structures relating to the former gas holder site were removed down to depths ranging from 3 feet to 30 feet below grade surface over a five-month period (February - June 2016). A total of approximately 39,000 tons of source and impacted materials were removed and disposed of in the City of Springfield's Sanitary Landfill. Final land disturbance and restoration, including reseeding of the site was completed in early 2017. In 2017, perimeter fencing along Jordan Creek was installed for public safety purposes. City Utilities anticipates receiving feedback from the MDNR on the status of the project in fiscal year 2018 or early 2019. As of September 30, 2017, total remediation costs for the project exceeded \$6.8 million.

***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 hours 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 a current and as an other noncurrent liability in the accompanying statements of net position, representing the estimated amounts to be paid in future years to current employees for services rendered through the current year.

***Defined Benefit Pension Plan***

City Utilities participates in an agent multiple-employer defined benefit pension plan. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Missouri Local Government Employees Retirement System (LAGERS) and additions to/deductions from LAGERS fiduciary net position have been determined on the same basis as they are reported by LAGERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

***Management's Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities and deferred inflows of resources, and 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, 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.

**City Utilities of Springfield, Missouri**  
**(A Component Unit of the City of Springfield, Missouri)**  
**Notes to Financial Statements**  
**September 30, 2017 and 2016**

***New Accounting Pronouncements***

In 2016, City Utilities adopted GASB Statement No. 72, *Fair Value Measurement and Application* as issued in February 2015 and effective for periods starting after June 15, 2015. The requirements of this statement will enhance the comparability of governmental financial statements by using consistent definitions and accepted techniques to measure the fair value of governmental investments. This statement also provides additional fair value application guidance and enhances disclosures about fair value measurements. The implementation of this statement did not have a significant impact on City Utilities as FASB guidance was previously applied and was similar to the GASB guidance.

***Subsequent Events***

Subsequent events have been evaluated through December 20, 2017, which is the date the financial statements were issued.

**Note 2: Capital Assets**

Capital asset activity for the year ended September 30, 2017, is as follows (in thousands):

	<b>September 30, 2016</b>	<b>Increases</b>	<b>Decreases</b>	<b>September 30, 2017</b>
Public utility				
Nondepreciable assets				
Land	\$ 51,422	\$ 1,611	\$ -	\$ 53,033
Construction work in progress	57,988	78,288	(58,140)	78,136
Depreciable assets				
Electric	1,511,339	32,410	(21,036)	1,522,713
Natural gas	226,912	9,900	(1,432)	235,380
Transportation	27,491	638	(862)	27,267
Water	312,591	11,372	(799)	323,164
Customer service	15,137	1,388	(65)	16,460
Telecom/Broadband	66,438	2,508	(4,428)	64,518
Common	53,840	1,276	(4,218)	50,898
Total capital assets	2,323,158	139,391	(90,980)	2,371,569
Less accumulated depreciation	(860,354)	(64,187)	40,742	(883,799)
Net capital assets	<u>\$ 1,462,804</u>	<u>\$ 75,204</u>	<u>\$ (50,238)</u>	<u>\$ 1,487,770</u>

**City Utilities of Springfield, Missouri**  
**(A Component Unit of the City of Springfield, Missouri)**  
**Notes to Financial Statements**  
**September 30, 2017 and 2016**

Capital asset activity for the year ended September 30, 2016, is as follows (in thousands):

	<b>September 30, 2015</b>	<b>Increases</b>	<b>Decreases</b>	<b>September 30, 2016</b>
Public utility				
Nondepreciable assets				
Land	\$ 48,045	\$ 3,377	\$ -	\$ 51,422
Construction work in progress	55,537	85,133	(82,682)	57,988
Depreciable assets				
Electric	1,490,285	41,158	(20,104)	1,511,339
Natural gas	218,375	9,578	(1,041)	226,912
Transportation	21,372	6,686	(567)	27,491
Water	299,398	14,387	(1,194)	312,591
Customer service	13,994	1,160	(17)	15,137
Telecom/Broadband	61,468	6,229	(1,259)	66,438
Common	53,705	1,447	(1,312)	53,840
Total capital assets	<u>2,262,179</u>	<u>169,155</u>	<u>(108,176)</u>	<u>2,323,158</u>
Less accumulated depreciation	<u>(821,122)</u>	<u>(64,575)</u>	<u>25,343</u>	<u>(860,354)</u>
Net capital assets	<u>\$ 1,441,057</u>	<u>\$ 104,580</u>	<u>\$ (82,833)</u>	<u>\$ 1,462,804</u>

As of September 30, 2017 and 2016, depreciation expense was reduced by \$975,000 and \$796,000, respectively, for the recognition of the deferred inflow of resources related to contributions in aid of construction.

**Note 3: Investments**

City Utilities maintains cash and investment securities. The 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.

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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.

The following represents City Utilities' total cash and investments at September 30, 2017 and 2016, (in thousands):

	<b>2017</b>	<b>2016</b>
U.S. Treasury securities	\$ 60,117	\$ 53,243
U.S. government agencies	25,259	33,860
Mortgage-backed securities	113,761	125,584
Accrued interest	691	805
	<hr/>	<hr/>
Total investments	199,828	213,492
Cash	36,351	32,057
	<hr/>	<hr/>
Total cash and investments	<u>\$ 236,179</u>	<u>\$ 245,549</u>

Cash and investments are included in the following statement of net position accounts at September 30, 2017 and 2016, (in thousands):

	<b>2017</b>	<b>2016</b>
Funds for bonded indebtedness	\$ 6,287	\$ 6,179
Designated improvement accounts	116,674	105,970
Working capital account	76,867	101,343
Cash	36,351	32,057
	<hr/>	<hr/>
Total cash and investments	<u>\$ 236,179</u>	<u>\$ 245,549</u>

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As of September 30, 2017 and 2016, City Utilities held cash and investments for restricted and designated purposes as follows (in thousands):

	<b>2017</b>	<b>2016</b>
Funds for bonded indebtedness - other	\$ 6,287	\$ 6,179
Designated funds		
Board authorized		
Disaster and contingency reserve funds	59,594	62,262
Trunked radio system reserve	3,632	2,717
Fuel over recovery	190	541
CFO authorized	<u>53,258</u>	<u>40,450</u>
Total reserved	122,961	112,149
Undesignated	<u>113,218</u>	<u>133,400</u>
Total cash and investments	<u><u>\$ 236,179</u></u>	<u><u>\$ 245,549</u></u>

*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.

*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 targets a concentration of less than 40% in any one agency, and will include a minimum of 10% Treasury securities on a book value basis. City Utilities met this target as of September 30, 2017 and 2016. Investments greater than 5% of total investments at September 30, 2017 and 2016, were as follows:

	<b>2017</b>	<b>2016</b>
Government National Mortgage Association - Mortgage Backed Securities	6%	6%
Federal Home Loan Mortgage Corporation	6%	7%
Federal National Mortgage Association - Mortgage Backed Securities	12%	10%
U.S. Treasury Notes	26%	22%
Federal Home Loan Mortgage Corporation - Mortgage Backed Securities	31%	34%

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As of September 30, 2017, City Utilities' investment portfolio matures as follows (in thousands):

	<b>Recorded Value</b>	<b>Less than 1 Year</b>	<b>2 - 3 Years</b>	<b>4 - 5 Years</b>	<b>More than 5 Years</b>
U.S. Treasury securities	\$ 60,117	\$ -	\$ 20,018	\$ 10,184	\$ 29,915
U.S. government agencies	25,259	9,976	-	15,283	-
Mortgage-backed securities	113,761	16,121	22,204	17,060	58,376
Accrued interest	691	691	-	-	-
Total investments	<u>\$ 199,828</u>	<u>\$ 26,788</u>	<u>\$ 42,222</u>	<u>\$ 42,527</u>	<u>\$ 88,291</u>

As of September 30, 2016, City Utilities' investment portfolio matures as follows (in thousands):

	<b>Recorded Value</b>	<b>Less than 1 Year</b>	<b>2 - 3 Years</b>	<b>4 - 5 Years</b>	<b>More than 5 Years</b>
U.S. Treasury securities	\$ 53,243	\$ 12,159	\$ 10,002	\$ 20,857	\$ 10,225
U.S. government agencies	33,860	8,065	10,006	-	15,789
Mortgage-backed securities	125,584	25,622	28,318	19,156	52,488
Accrued interest	805	805	-	-	-
Total investments	<u>\$ 213,492</u>	<u>\$ 46,651</u>	<u>\$ 48,326</u>	<u>\$ 40,013</u>	<u>\$ 78,502</u>

*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, 2017 and 2016, City Utilities' investments in U.S. government agencies and mortgage-backed securities were all assigned long-term ratings of Aaa by Moody's Investors Service and AA+ by Standard and Poor's.

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**Note 4: Long-Term Obligations**

The following is a summary of long-term obligations outstanding (in thousands) as of September 30:

	<u>2017</u>	<u>2016</u>
Board of Public Utilities obligations under the June 2012 lease financing agreement; 2.00% to 5.00%; due December 1, 2016 to 2021	\$ 31,575	\$ 37,345
Board of Public Utilities obligations under the October 2014 lease financing agreement; 3.00% to 5.00%; due September 1, 2017 to September 1, 2029	31,585	33,510
Public Utility Refunding Revenue Bonds, Series 2015; 3.25% to 5.00% due August 1, 2017 to 2036	502,150	517,140
Board of Public Utilities obligations under the October 2015 lease financing agreement; at 5.00% due December 1, 2016 to December 1, 2021	<u>22,875</u>	<u>27,845</u>
Total	588,185	615,840
Current maturities of long-term obligations	<u>(29,325)</u>	<u>(27,655)</u>
Total long-term obligations outstanding, net of current maturities	558,860	588,185
Unamortized debt premium, net of debt discount	<u>45,136</u>	<u>48,810</u>
Total long-term obligations	<u>\$ 603,996</u>	<u>\$ 636,995</u>

All long-term debt obligations are collateralized by the change in net position and revenues of City Utilities.

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Long-term debt and other long-term liabilities activity for the year ended September 30, 2017, was as follows (in thousands):

	<b>Bonds and Obligations Payable September 30, 2016</b>	<b>Additions</b>	<b>Reductions</b>	<b>Bonds and Obligations Payable September 30, 2017</b>	<b>Amount Due in One Year</b>
Revenue bonds - public utility	\$ 517,140	\$ -	\$ (14,990)	\$ 502,150	\$ 16,390
Other obligations	98,700	-	(12,665)	86,035	12,935
Total	<u>615,840</u>	<u>-</u>	<u>(27,655)</u>	<u>588,185</u>	<u>29,325</u>
Less unamortized debt premium, net of debt discount	<u>48,810</u>	<u>-</u>	<u>(3,674)</u>	<u>45,136</u>	<u>-</u>
Total	<u>\$ 664,650</u>	<u>\$ -</u>	<u>\$ (31,329)</u>	<u>\$ 633,321</u>	<u>\$ 29,325</u>
Other long-term liabilities					
Vacation and sick leave	\$ 24,266	\$ 12,035	\$ (11,564)	\$ 27,737	\$ 9,914
Net pension liability	77,869	24,344	(52,608)	49,605	-
Other	<u>9,176</u>	<u>319</u>	<u>-</u>	<u>9,495</u>	<u>-</u>
Total	<u>\$ 111,311</u>	<u>\$ 36,698</u>	<u>\$ (64,172)</u>	<u>\$ 86,837</u>	<u>\$ 9,914</u>

Long-term debt and other long-term liabilities activity for the year ended September 30, 2016, was as follows (in thousands):

	<b>Bonds and Obligations Payable September 30, 2015</b>	<b>Additions</b>	<b>Reductions</b>	<b>Bonds and Obligations Payable September 30, 2016</b>	<b>Amount Due in One Year</b>
Revenue bonds - public utility	\$ 530,800	\$ -	\$ (13,660)	\$ 517,140	\$ 14,990
Other obligations	113,880	31,985	(47,165)	98,700	12,665
Total	<u>644,680</u>	<u>31,985</u>	<u>(60,825)</u>	<u>615,840</u>	<u>27,655</u>
Less unamortized debt premium, net of debt discount	<u>50,131</u>	<u>3,258</u>	<u>(4,579)</u>	<u>48,810</u>	<u>-</u>
Total	<u>\$ 694,811</u>	<u>\$ 35,243</u>	<u>\$ (65,404)</u>	<u>\$ 664,650</u>	<u>\$ 27,655</u>
Other long-term liabilities					
Vacation and sick leave	\$ 23,765	\$ 11,393	\$ (10,892)	\$ 24,266	\$ 9,787
Net pension liability	34,294	69,136	(25,561)	77,869	-
Other	<u>7,265</u>	<u>1,911</u>	<u>-</u>	<u>9,176</u>	<u>-</u>
Total	<u>\$ 65,324</u>	<u>\$ 82,440</u>	<u>\$ (36,453)</u>	<u>\$ 111,311</u>	<u>\$ 9,787</u>

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The debt service to maturity on the outstanding bonds and obligations as of September 30, 2017, is summarized in the following table (in thousands):

	<u>Principal</u>	<u>Interest</u>
2018	\$ 29,325	\$ 25,146
2019	31,480	23,666
2020	33,205	22,077
2021	34,875	20,568
2022	30,610	18,958
2023 - 2027	135,040	74,391
2028 - 2032	153,800	45,453
2033 - 2036	<u>139,850</u>	<u>14,259</u>
Total	<u>\$ 588,185</u>	<u>\$ 244,518</u>

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, 2017 and 2016, is as follows (in thousands):

	<u>2017</u>	<u>2016</u>
Fair value of long-term debt	<u>\$ 678,346</u>	<u>\$ 740,334</u>

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, 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):

<u>Issue</u>	<u>Type of Revenue Pledged</u>	<u>Amount of Pledge</u>	<u>Term of Commitment</u>	<u>Percentage of Revenue Pledged</u>	<u>Principal and Interest for the Year Ended 2017</u>
City Utilities Debt Obligations	Operating Revenue	\$ 832,703	Through 2036	12%	\$ 54,188

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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, 2017 and 2016.

**Note 5: Defined Benefit Pension Plan**

***Plan Description***

City Utilities’ defined benefit pension plan provides certain retirement, disability and death benefits to plan members and beneficiaries. City Utilities participates in the Missouri Local Government Employees Retirement System (LAGERS). LAGERS is an agent multiple-employer, statewide public employee pension plan established in 1967 and administered in accordance with RSMo. 70.600-70.755. As such, it is LAGERS responsibility to administer the law in accordance with the expressed intent of the General Assembly. The plan is qualified under the Internal Revenue Code Section 401(a) and is tax exempt. The responsibility for the operations and administration of LAGERS is vested in the LAGERS Board of Trustees consisting of seven persons. LAGERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained by accessing the LAGERS website at [www.molagers.org](http://www.molagers.org).

***Benefits Provided***

LAGERS provides retirement, death and disability benefits. Benefit provisions are adopted by the governing body of City Utilities, within the options available in the state statutes governing LAGERS. All benefits vest after five years of credited service. Employees who retire on or after age 60 with five or more years of service are entitled to an allowance for life based upon the benefit program information provided below. Employees may retire with an early retirement benefit with a minimum of five years of credited service and after attaining age 55 and receive a reduced allowance.

	<b>2017</b>	<b>2016</b>
Benefit multiplier	2%	2%
Final average salary	3 years	3 years
Member contribution	0%	0%

Benefit terms provide for annual postretirement adjustments to each member’s retirement allowance subsequent to the member’s retirement date. The annual adjustment is based on the increase in the Consumer Price Index and is limited to 4% per year.

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***Employees Covered by Benefit Terms***

At June 30, 2017 and 2016, the measurement date for the net pension liability at September 30, 2017 and 2016, the following employees were covered by the benefit terms:

	<b>2017</b>	<b>2016</b>
Inactive employees or beneficiaries currently receiving benefits	845	837
Inactive employees entitled to but not yet receiving benefits	67	68
Active employees	934	935
	1,846	1,840

***Contributions***

City Utilities is required to contribute amounts at least equal to the actuarially determined rate, as established by LAGERS. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance an unfunded accrued liability. Full-time employees of the employer do not contribute to the pension. City Utilities' contribution rate is 21.8% and 22% of annual covered payroll during fiscal years 2017 and 2016, respectively. City Utilities contributed \$17.3 million and \$17.2 million during fiscal years 2017 and 2016, respectively.

***Net Pension Liability***

City Utilities' net pension liability as of September 30, 2017 and 2016, was measured as of June 30, 2017 and 2016, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of February 28, 2017, and February 29, 2016, respectively. The roll-forward of total pension liability from February 28, 2017, and February 29, 2016, to June 30, 2017 and 2016, respectively, reflects expected service costs and interest reduced by actual benefit payments and administrative expenses.

***Actuarial Assumptions***

The total pension liability in the February 28, 2017, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25% wage inflation, 2.5% price inflation
Salary increase	3.25% to 6.55% including wage inflation
Investment rate of return	7.25%

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Mortality rates were determined by applying the MP-2015 mortality improvement scale to the RP-2014 mortality tables. The actuarial assumptions used in the February 28, 2017, valuation were based on the results of the five-year experience study for the period March 1, 2010, through February 28, 2015.

The total pension liability in the February 29, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

Inflation	3.25% wage inflation, 2.5% price inflation
Salary increase	3.25% to 6.55% including wage inflation
Investment rate of return	7.25%

Mortality rates were determined by applying the MP-2015 mortality improvement scale to the RP-2014 mortality tables. The actuarial assumptions used in the February 29, 2016, valuation were based on the results of the actuarial experience study for the period March 1, 2010, through February 28, 2015.

The long-term expected rate of return on pension plan investments was determined using a model method in which the best-estimate ranges of expected future real rates of return (expected returns, net of investment and administrative expenses and inflation) were developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
Equity	43.00%	5.29%
Fixed income	26.00%	2.93%
Real assets	21.00%	3.31%
Strategic assets	10.00%	5.73%

***Discount Rate***

The discount rate used to measure the total pension liability is 7.25% for 2017 and 2016. The projection of cash flows used to determine the discount rate assumes that employer contributions will be made at the actuarially determined rates for employers. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payment to determine the total pension liability.

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***Changes in the Net Pension Liability (in Thousands)***

	<b>Total Pension Liability (a)</b>	<b>2017 Increase (Decrease) Plan Fiduciary Net Position (b)</b>	<b>Net Pension Liability (a) - (b)</b>
Balances at beginning of year	\$ 586,753	\$ 508,884	\$ 77,869
Changes for the year			
Service cost	9,198	-	9,198
Interest	41,854	-	41,854
Difference between expected and actual experience	(460)	-	(460)
Contributions - employer	-	17,583	(17,583)
Contributions - employee	-	349	(349)
Net investment income	-	59,811	(59,811)
Benefit payments, including refunds	(28,445)	(28,445)	-
Administrative expense	-	(157)	157
Other changes	-	1,270	(1,270)
Net changes	<u>22,147</u>	<u>50,411</u>	<u>(28,264)</u>
Balances at end of year	<u>\$ 608,900</u>	<u>\$ 559,295</u>	<u>\$ 49,605</u>

	<b>Total Pension Liability (a)</b>	<b>2016 Increase (Decrease) Plan Fiduciary Net Position (b)</b>	<b>Net Pension Liability (a) - (b)</b>
Balances at beginning of year	\$ 555,207	\$ 520,913	\$ 34,294
Changes for the year			
Service cost	9,188	-	9,188
Interest	39,582	-	39,582
Difference between expected and actual experience	(10,678)	-	(10,678)
Assumption changes	21,480	-	21,480
Contributions - employer	-	16,984	(16,984)
Contributions - employee	-	119	(119)
Net investment income (loss)	-	(993)	993
Benefit payments, including refunds	(28,026)	(28,026)	-
Administrative expense	-	(155)	155
Other changes	-	42	(42)
Net changes	<u>31,546</u>	<u>(12,029)</u>	<u>43,575</u>
Balances at end of year	<u>\$ 586,753</u>	<u>\$ 508,884</u>	<u>\$ 77,869</u>

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***Sensitivity of the Net Pension Liability to Changes in the Discount Rate***

The following represents the Net Pension Liability of City Utilities, calculated using the discount rate of 7.25%, as well as what City Utilities' Net Pension Liability would be using a discount rate that is one percentage point lower (6.25%) or one percentage point higher (8.25%) than the current rate (in thousands).

	<b>1% Decrease 6.25%</b>	<b>Current Single Discount Rate Assumption 7.25%</b>	<b>1% Increase 8.25%</b>
Total Pension Liability (TPL)	\$ 687,993	\$ 608,900	\$ 543,048
Plan Fiduciary Net Position	559,295	559,295	559,295
Net Pension Liability/(Asset) (NPL)	\$ 128,698	\$ 49,605	\$ (16,247)

***Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension***

For the year ended September 30, 2017, City Utilities recognized pension expense of \$24.3 million. City Utilities reported deferred outflows and inflows of resources related to the pension plan from the following sources (in thousands):

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences in experience	\$ 1,685	\$ (6,845)
Differences in assumptions	13,029	-
Net difference between projected and actual earnings on pension plan investments	15,362	-
Contributions subsequent to the measurement date*	4,610	-
	<u>\$ 34,686</u>	<u>\$ (6,845)</u>

\*The amount reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the Net Pension Liability for the year ending September 30, 2018.

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For the year ended September 30, 2016, City Utilities recognized pension expense of \$27.4 million. City Utilities reported deferred outflows and inflows of resources related to the pension from the following sources (in thousands):

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences in experience	\$ 2,470	\$ (8,577)
Differences in assumptions	17,255	-
Net difference between projected and actual earnings on pension plan investments	47,108	-
Contributions subsequent to the measurement date*	4,588	-
	<u>\$ 71,421</u>	<u>\$ (8,577)</u>

\*The amount reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the Net Pension Liability for the year ending September 30, 2017.

Amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows (in thousands):

2018	\$ 11,313
2019	11,313
2020	5,172
2021	(4,565)
2022	(2)
Total	<u>\$ 23,231</u>

***Payable to the Pension Plan***

At September 30, 2017 and 2016, City Utilities reported a payable of \$2.0 and \$1.7 million, respectively, for the outstanding amount of contributions to the pension plan required for the year end.

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**Note 6: Purchase Obligations**

***Obligations to Purchase Electric Power and Energy***

**Frontier Windpower**

Effective November 2015, City Utilities signed a purchased power agreement with Frontier Windpower. The 22-year agreement allows City Utilities to purchase power from the 200 MW wind generation facility at an annual fixed price. For fiscal year ended September 30, 2017, the average cost was \$796,000 per month.

**Southwestern Power Administration**

City Utilities has a purchased power agreement with the Southwestern Power Administration (SWPA) effective through June 30, 2020. Under this agreement, City Utilities purchases 50 MW of generation and transmission 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. For fiscal year ended September 30, 2017, the cost of peaking capacity was \$2.7 million and the minimum for peaking energy was \$1.0 million for the year. The peaking rate is periodically adjusted.

**Southwest Power Pool**

In March 2014, City Utilities began buying and selling power in the Southwest Power Pool (SPP) Integrated Marketplace. As a Regional Transmission Operator (RTO), SPP is mandated by FERC to ensure reliable supplies of power, adequate transmission infrastructure and competitive wholesale prices of electricity. SPP maintains a bid-based energy market, in which City Utilities offers essentially all of its generation and purchases much of its load requirement from the SPP market in accordance with the SPP Tariff. During fiscal year ended September 30, 2017, City Utilities had sales of \$15 million and purchased power of \$24 million. City Utilities participates in the ancillary services market operated by SPP. The ancillary market is an extension of the existing energy market in which SPP assumes the responsibility of maintaining sufficient generation reserves. In the ancillary services market, SPP provides the reserves for City Utilities' load, and City Utilities may offer to sell reserves from its generating units.

**Strata Power**

As of June 2014, City Utilities began receiving solar power from Strata Solar based on a 25-year agreement, signed in October 2013 that allows City Utilities to purchase all of the energy generated at a fixed price of \$.08 per Kwh. The 4.95 MW solar farm known as the CU Solar Farm was constructed on City Utilities property but is owned by Strata Solar with an option for City Utilities to purchase in the future.

**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 2017 of \$706,000 per month.

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***Obligations to Purchase Coal***

**Cloud Peak Energy Resources LLC**

On October 18, 2004, City Utilities entered into a Master Coal Purchase and Sale Agreement with Kennecott Coal Sales Company. On January 12, 2010, the agreement was amended with Cloud Peak Energy Resources LLC, as successor to Kennecott Coal Sales Company. On September 19, 2014, a Confirmation Letter Agreement was executed for the purchase of coal from the Cordero Rojo Mine during the period of January 1, 2015, through December 31, 2017. On May 23, 2016, and October 25, 2016, amendments were made to the agreement. Under the terms of this agreement, City Utilities' coal purchase obligation is \$2.7 million and \$3.7 million for calendar years 2016 and 2017, respectively. As of September 30, 2017, City Utilities had purchased \$4.6 million of coal for the contract period ending December 31, 2017.

**Peabody Coal Sales LLC**

On August 28, 2013, City Utilities entered into a Master Coal Purchase and Sale Agreement with Peabody Coal Sales LLC. On September 25, 2014, a Confirmation Letter Agreement was executed for the purchase of coal from the North Antelope Rochelle Mine during the period of October 1, 2014, through December 31, 2017. On October 20, 2015, an amendment was made to the agreement. Under the terms of this agreement, City Utilities' coal purchase obligation is \$7.2 million and \$5.9 million for calendar years 2016 and 2017, respectively. As of September 30, 2017, City Utilities had purchased \$4.9 million of coal for the contract period ending December 31, 2017, management believes the minimum tonnage requirement will be met for calendar year 2017.

On January 21, 2016, a Confirmation Letter Agreement was executed for the purchase of coal from the North Antelope Rochelle Mine during the period of January 1, 2016, through December 31, 2018. Under the terms of this agreement, City Utilities' coal purchase obligation is \$2.9 million, \$3.1 million and \$3.4 million for calendar years 2016, 2017 and 2018, respectively. As of September 30, 2017, City Utilities had purchased \$3.1 million of coal for the contract period ending December 31, 2017.

**Arch Coal Sales Company, Inc.**

On December 17, 2008, City Utilities entered into a Master Coal Purchase and Sale Agreement with Arch Coal Sales Company, Inc. On November 3, 2017, a Confirmation Letter Agreement was executed for the purchase of coal from the Black Thunder Mine during the period of November 1, 2017, through December 31, 2019. Under the terms of this agreement, City Utilities' coal purchase obligation is \$1.9 million, \$10.7 million and \$6.2 million for calendar years 2017, 2018 and 2019, respectively. Management believes the minimum tonnage requirement will be met for calendar year 2017.

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***Obligations to Purchase Rail Services***

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

Effective December 17, 2014, City Utilities entered into an agreement with Burlington Northern and Santa Fe Railway Co. to purchase rail services for transporting coal to both City Utilities' power stations, terminating on December 31, 2019. On October 16, 2015, and July 1, 2017, amendments were made to the agreement. Under the terms of the agreement, City Utilities declared a tonnage nomination of 811,000 for calendar year 2017. As of September 30, 2017, City Utilities had tendered coal tonnage of 884,000 tons for the agreement period ending December 31, 2017.

***Obligations for Transportation and Storage Services of Natural Gas***

**Southern Star Central Gas Pipeline, Inc. and Enable Gas Transmission, LLC**

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

**Note 7: 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, 2017, TEA was comprised of eight municipal utilities with equity interests, including five large partners with ownership interests of 16.67% 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), Nebraska Public Power District and American Municipal Power Inc. City Utilities, the Gainesville Regional Utilities (Florida), and the Cowlitz County Public Utility District (Washington) are medium equity partners with ownership interests of 5.56% 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 statement of net position. 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 \$8.6 million to secure power-marketing transactions. Total guarantees including a letter of credit are \$9.6 million. City Utilities' guarantees are effective until its participation in the joint venture ends. The membership agreement provides for the addition of new members with a 75% approval of the existing members voting rights.

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For the year ended September 30, 2017, total net position of TEA was approximately \$38 million, unchanged from the prior year.

Complete separate financial statements for TEA may be obtained at The Energy Authority, 301 W. Bay St., Suite 2600, Jacksonville, Florida 32202.

**Note 8: 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. At September 30, 2017, the estimated cost of providing such services was \$9.0 million.

City Utilities participated 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 an industrial center in the City. Under this agreement, City Utilities is responsible for utilities consisting of natural gas, water, electricity and fiber optic telecommunication services. 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, 2017, City Utilities had incurred \$2.2 million for land and improvements, recognized losses of \$145,000 and received \$184,000 in distributions, for a net equity balance of \$1.9 million.

During 2006, 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.

**Note 9: Planned Construction**

As of September 30, 2017, anticipated capital expenditures for improvements during the 2018 fiscal year are estimated to be approximately \$89.1 million. Major capital initiatives include installation of advanced metering infrastructure, replacement of natural gas mains and water mains, replacement of fixed route fleet buses and the installation of an autotransformer at JRPS.

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**Note 10: Air Quality Standards**

The Clean Air Act Amendments of 1990 (the “Act”) mandated reduced sulfur dioxide (SO<sub>2</sub>) and nitrogen dioxide (NO<sub>x</sub>) emissions from electric utility power plants. The Act established a market based compliance program which 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. Management believes that City Utilities is in full compliance with the emissions standards under the Act. No allowances were sold during the fiscal year ended September 30, 2017. City Utilities accounts for its allowances under the inventory method.

In 2005, the Environmental Protection Agency (EPA) promulgated the Clean Air Interstate Rule (CAIR), to further restrict power plant SO<sub>2</sub> and NO<sub>x</sub> emissions, and the Clean Air Mercury Rule (CAMR) to impose power plant mercury controls for the first time. Both of these rules were vacated by a federal appeals court in 2008. However, the court allowed CAIR provisions to stand while EPA drafted a replacement rule for regional SO<sub>2</sub> and NO<sub>x</sub> emission controls. CAIR required 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>. As recommended by a compliance study, City Utilities successfully installed NO<sub>x</sub> controls at JRPS in fiscal years 2007 and 2008 and at JTEC in fiscal year 2008. CAIR implementation ended December 31, 2014, and was supplanted by the Cross-State Air Pollution Rule (CSAPR). Management believes that City Utilities is in full compliance with the CAIR requirements that ended in 2014.

In July 2011, the Environmental Protection Agency (EPA) promulgated the Cross State Air Pollution Rule (CSAPR) to replace CAIR. CSAPR further restricted emissions in the original 28 CAIR states and added three more states to the control region. In August 2012, the federal appeals court vacated and remanded the CSAPR rule, this time for being too restrictive. The court allowed EPA to leave the flawed CAIR program in place until replaced with a suitable program. In 2014, the U.S. Supreme Court overturned the vacatur and remanded the case to the appellate court for final disposition. On June 26, 2014, the EPA filed a motion to lift the stay of the CSAPR. The D.C. Circuit Court of Appeals ordered that EPA’s motion to lift the stay of CSAPR on October 23, 2014. Following the Court’s order, EPA issued an administrative rule that tolls CSAPR compliance Phase 1 and 2 schedules three years.

Phase 1 of CSAPR began January 1, 2015, and Phase 2 began implementation on January 1, 2017. Further, based on the “good neighbor” policy under the CAA, Missouri’s CSAPR ozone season (OS) NO<sub>x</sub> allowances were reduced an additional 27% from the original Phase 2 emission levels that began May 1, 2017. These additional reductions are deemed necessary for regions of the U.S. to meet the 2008 National Ambient Air Quality Standard (NAAQS) for ozone. Based on expected unit allocations, *i.e.*, SO<sub>2</sub>, NO<sub>x</sub> and OS NO<sub>x</sub>, and operational forecasts, City Utilities holds sufficient allowances for its generating assets. Management believes that City Utilities is in full compliance with the current CSAPR requirements.

EPA published the Mercury and Air Toxics Standard (MATS) in 2012. City Utilities examined the impacts of this rule along with promulgated rules pertaining to industrial boiler emissions and National Ambient Air Quality Standards. At that time, City Utilities analysis indicated the need to install new capital control equipment totaling \$33 million spread over fiscal years 2013 - 2016 to

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comply with these measures. The MATS compliance date began April 2015, however, utilities were afforded a one-year compliance extension to allow time for equipment installation. A contract to procure and install this equipment was awarded in fiscal 2013. JTEC completed installation of the control equipment in early 2015. JRPS units completed the upgrades in September 2015. Additional semicontinuous mercury monitoring equipment was procured, installed and certified at JTEC ahead of the compliance deadline. On June 29, 2015, the Supreme Court in a 5-4 decision (*Michigan v. EPA*), decided that cost should be considered when EPA deemed it “appropriate and necessary” to regulated power plants under Section 112(n)(1)(A) of the CAA. In so doing, the Court remanded EPA’s MATS rule back to the United States Circuit Court of Appeals for the District of Columbia to decide the ultimate fate of the rule. Currently, the rule is still in effect. However, with other standard requirements and impending stringent regulations, City Utilities decided to cease burning coal at JRPS. This allowed the facility to become an area (minor) source of hazardous air pollutant (HAP) emissions and remove the units as affected sources under MATS and the industrial boiler MACT provisions. These changes were approved by the MDNR and codified in the most recently issued Title V Operating Permit for JRPS (OP2016-003) dated January 29, 2016. Management believes that City Utilities is fully compliant with MATS monitoring, reporting and notification requirements.

**Other Standards**

In June 2014, EPA proposed regulations to govern emissions of carbon dioxide (CO<sub>2</sub>) from fossil fuel power plants. In August 2015, the EPA finalized regulations referred to as the Clean Power Plan for the sole purpose of reducing carbon dioxide emissions from the utility sector. The regulation would have a significant impact on coal burning power plants across the nation, including City Utilities. On October 23, 2015, the final rule was published in the Federal Register requiring States to cut their CO<sub>2</sub> emissions 32% from 2005 levels by 2030. Missouri and other coal-intensive States are required to absorb the greatest reductions (~37% from 2012 levels). The rule became effective December 22, 2015. States (including Missouri) and other entities announced pending legal challenges to the rule. Additionally, on October 10, 2017, the EPA Administrator signed an advanced notice of proposed rulemaking (ANPRM) to repeal the final rule regulating greenhouse gas emissions from existing power plants under Section 111(d) of the CAA. The proposed rule was published in the Federal Register on October 16, 2017. The ANPRM and other rule reviews are consistent with Executive Order 13783 that was issued by the President on March 28, 2017. City Utilities is engaged in this review and comment process at both the State and Federal levels to affect positive regulatory changes impacting the utility industry.

The ultimate outcome of the proposed rule and Executive Order 13783 cannot be determined by City Utilities, at this time, in part due to EPA’s reconsideration of the final rule and pending legal challenges. In February 2016, the United States Supreme Court stayed implementation of the CPP rule until after all legal challenges were satisfied.

In addition to uncertainties over future SO<sub>2</sub> and NO<sub>x</sub> rules, City Utilities is monitoring regulations on power plant waste disposal and effluent water quality. EPA proposed revisions to water effluent discharge guidelines in June 2013. The Administrator signed the final rule for the Effluent Limitation Guidelines (ELG) for Steam Electric Generation Point Sources on September 30, 2015. The rule became effective 60 days after publication in the Federal Register. The rule required the

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dry handling of both bottom and fly ash from exiting coal-fired boilers with generation capacity greater than 50 MW. City Utilities addressed the ELG rule by designing and constructing a self-supporting, impervious basin, i.e., Bottom Ash Dewatering Tank, at its John Twitty Energy Center (JTEC). Bottom ash is sluiced from JTEC Unit 1 to the holding tank and dewatered prior to removal to the permitted onsite landfill. Fly ash has been handled dry for some time at both power stations. In April 2017, EPA paused future compliance dates under the rule for two years, as the EPA reconsiders the best available technology economically achievable (BAT) limits. City Utilities has positioned itself to meet current and future compliance technology/limits when issued by the EPA. Further, EPA finalized the Coal Combustion Residuals (CCR) rule in April 2015. The rule extended the effective date until October 19, 2015, with compliance provisions beginning on the effective date. City Utilities determined to discontinue operation of its surface impoundments at both power stations. City Utilities awarded a consultant contract to assist with the multi-year, multifaceted provisions of the rule pertaining to the CCR landfills. At minimum, costs were incurred to investigate stability, location restrictions and install groundwater monitoring systems. Compliance with the rule began October 19, 2015. As of June 2017, the surface impoundments at both locations were completely empty of all remaining ash and have been capped with a vegetative cover. Management expects to fully meet the compliance schedule outlined in the regulation.

**Note 11: Legal Proceedings**

Through the performance of operations, City Utilities is sometimes named as a defendant in litigation, usually relating to claims for personal injury or property damage. Insurance coverage is maintained for such claims to the extent deemed prudent by management. Although the outcome of the claims and proceedings against City Utilities cannot be predicted with certainty, management believes that there are no existing claims or proceedings that are likely to have a material adverse effect on City Utilities' financial position, results of operations or cash flows.

***Smoky Hills Wind Farm LLC (Enel Green Power North America, Inc.)***

City Utilities purchases wind-generated electric power from Smoky Hills Wind Farm, LLC. Smoky Hills has sued City Utilities for failing to pay for lost production due to what Smoky Hills claims were economic curtailments for a total claim of \$1.7 million. City Utilities denies Smoky Hills' claims. Until the lawsuit is finally resolved, City Utilities is unable to render an opinion as to the ultimate financial liability, if any, arising from Smoky Hills' claims.

***Risk Management***

City Utilities is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; directors' or officers' liabilities; fiduciary and employee benefits responsibilities; employment practices; errors and omissions; injuries to employees and the public; and acts of God. For risks of loss related to property and general liability, City Utilities has self-insured retentions of \$2,000,000 and Excess Property and Liability Insurance at \$1 billion and \$135,000,000 in limits,

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respectively. There were no liability insurance recoveries in the current year, and settled claims have not exceeded coverage in any of the past three fiscal years. City Utilities reported four losses to the property carrier and expects recovery for damages in excess of per-occurrence and aggregate deductibles.

City Utilities has self-insured retentions for Director's and Officer's Liability and Fiduciary and Employee Benefits Liability of \$300,000 and \$25,000, respectively, as well as excess coverage for both at \$10,000,000 in limits. City Utilities has a limit of \$10,000,000 in Employment Practices Liability with self-insured retention of \$150,000. There were no insurance recoveries in the current or past three fiscal years.

City Utilities has a self-insured retention for Workers' Compensation exposures up to \$750,000 for each accident and excess Workers' Compensation Insurance at statutory limits. City Utilities also has a self-insured retention of \$350,000 per employee for medical and health claims and underlying Stop Loss Insurance of \$2,000,000 per employee.

City Utilities analyzes its exposures for self-insured risks on an incurred loss basis. In connection with this analysis, City Utilities estimates the outstanding liabilities for the current year end and forecasts ultimate incurred losses and incurred but not reported losses for future years based on historical data.

**Note 12: Disclosure About the Fair Value of Financial Instruments**

Fair value is the exchange price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date.

GASB Statement No. 72, *Fair Value Measurement and Application*, establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in an active market for identical assets or liabilities and the lowest priority to unobservable inputs. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The three levels of fair value hierarchy defined in GASB Statement No. 72 are as follows:

*Level 1* – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

*Level 2* – Pricing inputs are other than quoted market prices in the active markets included in Level 1, which are either directly or indirectly observable for the asset or liability as of the reporting date. Level 2 inputs include the following:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability; or
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

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Level 2 assets and liabilities primarily include U.S. Treasury, federal agency securities and other U.S. government secured mortgage bonds, held in City Utilities funds and certain investments in current assets.

*Level 3* – Pricing inputs include significant inputs that are unobservable and cannot be corroborated by market data. Level 3 assets and liabilities are valued based on internally developed models and assumptions or methodologies using significant unobservable inputs. City Utilities currently does not have Level 3 assets or liabilities.

City Utilities performs an analysis annually to determine the appropriate hierarchy level classification of the assets and liabilities that are included within the scope of GASB Statement No. 72. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to their fair value measurement.

**Recurring Measurements**

The following tables present the fair value measurement of assets and liabilities recognized in the accompanying statements of net position measured at fair value on a recurring basis and the level within the fair value hierarchy in which fair value measurements fall at September 30, 2017 and 2016:

	2017			Total
	Level 1	Level 2	Level 3	
<b>Investments by Fair Value Level</b>				
Debt securities				
U.S. Treasury securities	\$ -	\$ 60,117	\$ -	\$ 60,117
U.S. agency securities	-	25,259	-	25,259
Mortgage-backed securities	-	113,761	-	113,761
Total debt securities	<u>\$ -</u>	<u>\$ 199,137</u>	<u>\$ -</u>	<u>\$ 199,137</u>
<b>Derivative Instruments</b>				
Price risk management assets				
Natural gas options - long	\$ 1,226	\$ -	\$ -	\$ 1,226
Natural gas futures - long	(764)	-	-	(764)
Total price risk management assets	<u>462</u>	<u>-</u>	<u>-</u>	<u>462</u>
Price risk management liabilities				
Natural gas options - short	<u>(35)</u>	<u>-</u>	<u>-</u>	<u>(35)</u>
Total derivative instruments	<u>\$ 427</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 427</u>

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	2016			Total
	Level 1	Level 2	Level 3	
<b>Investments by Fair Value Level</b>				
Debt securities				
U.S. Treasury securities	\$ -	\$ 53,243	\$ -	\$ 53,243
U.S. agency securities	-	33,860	-	33,860
Mortgage-backed securities	-	125,584	-	125,584
Total debt securities	<u>\$ -</u>	<u>\$ 212,687</u>	<u>\$ -</u>	<u>\$ 212,687</u>
<b>Derivative Instruments</b>				
Price risk management assets				
Natural gas options - long	\$ 2,277	\$ -	\$ -	\$ 2,277
Natural gas futures - long	(696)	-	-	(696)
Total price risk management assets	<u>1,581</u>	<u>-</u>	<u>-</u>	<u>1,581</u>
Price risk management liabilities				
Natural gas options - short	<u>(305)</u>	<u>-</u>	<u>-</u>	<u>(305)</u>
Total derivative instruments	<u>\$ 1,276</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,276</u>

**Investments and Financial Derivatives**

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

**Note 13: Financial Derivatives**

City Utilities engages in hedging activities in an effort to minimize risk from volatile natural gas prices and power cost risk associated with exposure to congestion costs. Derivative instruments are recognized at fair value on the statements of net position and the unrealized gains or losses recorded in regulatory assets or liabilities in accordance with GASB Statement No. 62, or GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, unless an exception to this accounting is met.

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As of September 30, 2017, City Utilities held financial instruments that were purchased to reduce, or hedge the volatility of natural gas costs for fiscal years 2017 through 2022. At September 30, 2017, the market values of the unexpired instruments were included as an asset and a liability on the statements of net position with the offset of the monthly fair market value adjustment included as a deferred outflow until the hedging instruments are matched with the corresponding monthly purchased natural gas costs. At September 30, 2017 and 2016, the net value of these financial instruments were \$427,000 and \$1.3 million, respectively.

Beginning in 2014, City Utilities acquired Transmission Congestion Rights (TCR) in the SPP Integrated Marketplace to manage price risk related to electricity transmission congestion costs. A TCR is a financial instrument that entitles its holder to receive compensation or requires its holder to remit payment for congestion-related transmission charges.

For fiscal years ended September 30, 2017 and 2016, TCR's were used as factors in the cost of transmission and met the normal purchase and normal sales scope exception under GASB Statement No. 53, and thus amounts were not recorded in the statement of net position for the estimated fair value of the TCR's.

## **Required Supplementary Information**

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**Required Supplementary Information**

**Schedule of City Utilities' Changes in Net Position Liability and Related Ratios**  
**September 30, 2017 and 2016**

	<b>2017</b>	<b>2016</b>
<b>Total Pension Liability</b>		
Service cost	\$ 9,198	\$ 9,188
Interest on the total pension liability	41,854	39,582
Difference between expected and actual experience	(460)	(10,678)
Assumption changes	-	21,480
Benefit payments, including refunds	(28,445)	(28,026)
<b>Net Change in Total Pension Liability</b>	22,147	31,546
<b>Total Pension Liability, Beginning</b>	586,753	555,207
Total pension liability, end	608,900	586,753
<b>Plan Fiduciary Net Position</b>		
Contributions - employer	17,583	16,984
Contributions - employee	349	119
Pension plan net investment income	59,811	(993)
Benefit payments, including refunds	(28,445)	(28,026)
Pension plan administrative expense	(157)	(155)
Other	1,270	42
<b>Net Change in Plan Fiduciary Net Position</b>	50,411	(12,029)
<b>Plan Fiduciary Net Position, Beginning</b>	508,884	520,913
<b>Plan Fiduciary Net Position, End</b>	559,295	508,884
<b>City Utilities Net Pension Liability - Ending</b>	\$ 49,605	\$ 77,869
<b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>	91.85%	86.73%
<b>Covered Employee Payroll</b>	\$ 77,436	\$ 75,517
<b>City Utilities' Net Pension Liability as a Percentage of the Covered Employee Payroll</b>	64.06%	103.11%

This schedule presents the information available to City Utilities and will include ten-year trend information once available.

In accordance with GASB 68, information presented in this schedule was determined as of the measurement date (June 30) of the net pension liability.

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**Schedule of City Utilities' Contributions**  
**September 30, 2017 and 2016**

Fiscal Year	Actuarially Determined Contribution	Contribution in Relation	Contribution Deficiency*	Covered Employee Payroll	Contribution as Percentage
2008	\$ 14,613,361	\$ 14,170,531	\$ 442,830	\$ 63,261,304	22.40%
2009	13,363,998	13,364,000	(2)	66,487,556	20.10%
2010	12,891,964	12,891,965	(1)	67,852,442	19.00%
2011	16,086,504	14,110,968	1,975,536	70,554,841	20.00%
2012	15,650,432	14,672,279	978,152	69,867,997	21.00%
2013	16,369,192	15,389,838	979,354	69,953,809	22.00%
2014	16,977,181	16,903,685	73,495	73,494,286	23.00%
2015	17,250,031	17,250,032	(1)	75,327,646	22.90%
2016	17,224,630	17,224,628	2	78,293,772	22.00%
2017	17,299,688	17,299,689	-	79,356,369	21.80%

\* Deficiency is a result of the limitation of Missouri State Statute 70.730, which limits increases to the contribution percentage to 1% per year.

**Notes to Schedule of Contributions**

Valuation Date February 28, 2017

Notes The roll-forward of total pension liability from February 28, 2017, to June 30, 2017, reflects expected service cost and interest reduced by actual benefit payments.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method Entry Age Normal and Modified Terminal Funding

Amortization Method Level Percentage of Payroll, Closed

Remaining Amortization Period Multiple bases from 12 to 18 years

Asset Valuation Method 5-year smoothed market; 20% corridor

Inflation 3.25% wage inflation; 2.50% price inflation

Salary Increases 3.25% to 6.55% including wage inflation

Investment Rate of Return 7.25%, net of investment expenses

Retirement Age Experience-based table of rates that are specific to the type of eligibility conditions.

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Mortality

The healthy retiree mortality tables, for postretirement mortality, were the RP-2014 Healthy Annuitant mortality table for males and females. The disabled retiree mortality tables, for postretirement mortality, were the RP-2014 disabled mortality tables for males and females. The preretirement mortality tables used were the RP-2014 employees' mortality table for males and females.

Both the postretirement and preretirement tables were adjusted for mortality improvement back to the observation period base year of 2006. The base year for males was then established to be 2017. Mortality rates for a particular calendar year are determined by applying the MP-2015 mortality improvement scale to the above described tables.

In accordance with GASB 68, information presented in this schedule was determined as of City Utilities' fiscal year end (September 30).

## **Supplementary Information**

**City Utilities of Springfield, Missouri**  
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**Combining Schedule of Revenues, Expenses and Changes in Net Position**  
**Year Ended September 30, 2017**

	<u>Electric</u>	<u>Natural Gas</u>	<u>Trans- portation</u>	<u>Telecom/ Broadband</u>	<u>Water</u>	<u>Eliminations</u>	<u>Total</u>
Operating revenues	\$ 302,835	\$ 79,909	\$ 1,057	\$ 13,927	\$ 49,127	\$ (14,021)	\$ 432,834
Operating expenses							
Production fuel and purchased power	101,668	-	-	-	-	(7,551)	94,117
Natural gas purchased for resale	-	48,526	-	-	-	-	48,526
Other production	14,349	-	-	-	7,910	(2,858)	19,401
Distribution and transmission	25,881	8,394	-	-	4,712	(2,198)	36,789
Bus and garage operations	-	-	6,730	-	-	(295)	6,435
Other services	-	-	-	4,975	-	(316)	4,659
Customer accounts	5,609	3,510	-	10	3,543	(165)	12,507
Administrative and general	17,472	4,270	1,670	2,479	5,477	(636)	30,732
Maintenance	35,470	3,791	1,657	-	6,455	(1)	47,372
Depreciation and amortization	42,915	6,049	2,146	3,474	6,339	-	60,923
Payments in lieu of taxes	9,165	2,856	42	-	1,958	-	14,021
Other taxes	-	10	-	472	-	-	482
Total operating expenses	<u>252,529</u>	<u>77,406</u>	<u>12,245</u>	<u>11,410</u>	<u>36,394</u>	<u>(14,020)</u>	<u>375,964</u>
Operating income	<u>50,306</u>	<u>2,503</u>	<u>(11,188)</u>	<u>2,517</u>	<u>12,733</u>	<u>(1)</u>	<u>56,870</u>
Nonoperating revenues (expenses)							
Interest income						-	4,965
Net decrease in fair value of investments						-	(5,346)
Investment loss						-	(1,380)
Interest expense, net						-	(24,704)
Operation of recreational facilities, net						1	(294)
Amortization of debt-related costs						-	2,354
Other, net						-	2,275
Net nonoperating revenues (expenses)						<u>1</u>	<u>(22,130)</u>
Change in net position before contributions and special items						<u>-</u>	<u>34,740</u>
Capital contributions							
Contributions in aid of construction	1,288	955	120	631	1,208	-	4,202
Donated property	192	281	-	-	639	-	1,112
Reduction of plant costs recovered through contributions	(1,480)	(1,236)	-	(631)	(1,847)	-	(5,194)
Net capital contributions	<u>-</u>	<u>-</u>	<u>120</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>120</u>
Change in net position							34,860
Net position							
Beginning of year							<u>1,040,164</u>
End of year							<u>\$ 1,075,024</u>

**City Utilities of Springfield, Missouri**  
**(A Component Unit of the City of Springfield, Missouri)**  
**Combining Schedule of Revenues, Expenses and Changes in Net Position**  
**Year Ended September 30, 2016**

	Electric	Natural Gas	Trans- portation	Telecom/ Broadband	Water	Eliminations	Total
Operating revenues	\$ 291,243	\$ 78,879	\$ 1,068	\$ 13,316	\$ 49,358	\$ (16,278)	\$ 417,586
Operating expenses							
Production fuel and purchased power	96,662	-	-	-	-	(10,269)	86,393
Natural gas purchased for resale	-	47,981	-	-	-	-	47,981
Other production	15,874	-	-	-	7,020	(2,497)	20,397
Distribution and transmission	24,662	8,477	-	-	4,705	(2,115)	35,729
Bus and garage operations	-	-	6,740	-	-	(290)	6,450
Other services	-	-	-	4,539	-	(309)	4,230
Customer accounts	5,782	3,827	-	8	3,847	(185)	13,279
Administrative and general	17,353	4,309	1,471	2,134	5,027	(607)	29,687
Maintenance	32,730	3,969	1,698	-	7,221	(1)	45,617
Depreciation and amortization	43,796	5,988	1,988	3,563	6,122	-	61,457
Payments in lieu of taxes	8,512	2,767	43	-	1,969	-	13,291
Gain on other activities	(69)	-	-	-	-	-	(69)
Other taxes	-	14	-	219	-	-	233
Total operating expenses	<u>245,302</u>	<u>77,332</u>	<u>11,940</u>	<u>10,463</u>	<u>35,911</u>	<u>(16,273)</u>	<u>364,675</u>
Operating income	<u>45,941</u>	<u>1,547</u>	<u>(10,872)</u>	<u>2,853</u>	<u>13,447</u>	<u>(5)</u>	<u>52,911</u>
Nonoperating revenues (expenses)							
Interest income						-	7,232
Net increase in fair value of investments						-	2,260
Investment loss						-	(1,223)
Interest expense, net						-	(25,928)
Operation of recreational facilities, net						5	(285)
Amortization of debt-related costs						-	2,346
Other, net						-	2,280
Net nonoperating revenues (expenses)						<u>5</u>	<u>(13,318)</u>
Change in net position before contributions and special items						<u>-</u>	<u>39,593</u>
Capital contributions							
Contributions in aid of construction	525	903	1,804	2,422	1,202	-	6,856
Donated property	363	-	-	-	11	-	374
Reduction of plant costs recovered through contributions	(888)	(903)	-	(2,422)	(1,213)	-	(5,426)
Net capital contributions	<u>-</u>	<u>-</u>	<u>1,804</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,804</u>
Change in net position							41,397
Net position							
Beginning of year							<u>998,767</u>
End of year							<u>\$ 1,040,164</u>