

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

Independent Auditor's Report and Financial Statements

September 30, 2019 and 2018

City Utilities of Springfield, Missouri
September 30, 2019 and 2018

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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, 2019 and 2018, 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, 2019 and 2018, and the changes in financial position and 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, 2019 and 2018, 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 supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

BKD, LLP

Springfield, Missouri
January 16, 2020

City Utilities of Springfield, Missouri
(A Component Unit of the City of Springfield, Missouri)
Management’s Discussion and Analysis
September 30, 2019 and 2018

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, 2019 and 2018. 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, 2019, City Utilities served approximately 116,000 electric, 84,000 natural gas and 83,000 water customers in the Springfield metropolitan area. This represents growth of approximately 0.6% for fiscal year 2019.

Financial Highlights

	2019	2018	2017
Net position (equity)	\$1.2 billion	\$1.1 billion	\$1.1 billion
Change in net position (net income)	\$67 million	\$61 million	\$35 million
Capital improvements	\$61 million	\$68 million	\$72 million
Peak demand			
Electric – maximum hourly peak demand	727 megawatts	728 megawatts	716 megawatts
Natural gas – maximum daily throughput peak	115,225 dekatherms	120,026 dekatherms	114,509 dekatherms
Water – maximum daily pumpage	38.6 million gallons	43.1 million gallons	42.3 million gallons
Credit rating – revenue bonds	AA	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, 2019 and 2018. 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, 2019 and 2018. The *Statements of Cash Flows* presents City Utilities’ sources and uses of cash for the fiscal years ended September 30, 2019 and 2018. 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 2019



Electric

Installation of Advanced Metering Infrastructure (AMI) for Electric meters is expected to be completed in fiscal year 2020. AMI will eliminate the need for manual meter reading and will provide on-demand meter reads. In addition, this infrastructure will enable quicker restoration after storm outages. Two-way communication between electric meters and City Utilities will provide customer usage interval data and enable City Utilities to offer additional energy efficiency programs and rates. During fiscal year 2019, \$3.9 million was expended on the Electric AMI project. In 2020, \$3.4 million is budgeted to complete the project.

During 2019, \$1.6 million was expended for pole replacement for electric distribution infrastructure.

To maintain efficient operations of power generation equipment, ongoing hardware and software upgrades are required. Upgrades are necessary due to aging and regulatory requirements. During 2019, \$1.1 million was spent updating the power generation control systems. Over the next five years, an additional \$3.2 million is budgeted.



Natural Gas

Purchase and installation of AMI metering components and associated communication equipment for Natural Gas meters is expected to be completed in fiscal year 2023. This project allows for remote, two-way communication between natural gas meters and City Utilities. This infrastructure allows for an array of advanced services including remote meter reading and customer interval data.

Replacement of older natural gas infrastructure to reach a 100-year replacement cycle continues. On average, 13 miles of natural gas main is replaced per year. In 2019, \$5.2 million was spent for natural gas main renewal projects.

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Water

For 2019, \$2.5 million was spent on AMI water meters and associated communications equipment. The installation of AMI water meters will eliminate the need to estimate usage during inclement weather. These meters will also provide customer usage data and promote water conservation and efficiency programs.

The Blackman Water Treatment Plant clearwell project was completed in 2019 at a cost of \$3.9 million. This multi-year project totaling \$25 million, provides an additional component of water quality and safety by providing a buffer prior to the water supply entering the water distribution system at the Blackman Water Treatment Plant location.

In a continuing effort to reach a 100-year replacement cycle for water mains, \$5.9 million was spent on water main replacement and service renewals.



SpringNet

To support economic development efforts and respond to new service requests, \$6.5 million is budgeted over the 5-year Operating Plan for SpringNet revenue generation projects.

The SpringNet expansion project was kicked off in fiscal year 2019 at a cost of \$4 million. Over the next five years, \$112 million is projected to be spent to expand SpringNet's fiber optic network across Springfield. By expanding City Utilities fiber optic network throughout Springfield, gigabit broadband services will be within reach of everyone in our community. Improved broadband service will improve educational opportunities and promote economic expansion and growth.



Transportation

Over the 5-year planning horizon, seven buses will be purchased to replace buses that will have exceeded their useful lives beginning in fiscal year 2020. Two of the fixed-route replacement buses will be battery electric and will be acquired with Federal Grant and Missouri Department of Natural Resources funding with delivery anticipated in December 2020.

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Fiscal Year 2018



Electric

The Electric AMI project continued in fiscal year 2018. For the year, \$3.6 million was spent for the purchase of electric meters and associated communication and data management equipment. The Electric AMI project is projected to be completed in fiscal year 2020 at an additional cost of \$7.2 million.

Acquiring rights-of-way for new transmission lines to meet increasing demand and growth continued in 2018. The project had current year expenditures of \$370,000. Estimated completion date is 2020 with a budget of \$1.0 million over the next two years.

An autotransformer was installed at James River Power Station Substation for redundancy. This provides an in-service backup and will help prevent system overloads during peak periods. The project was completed in 2018 at a cost of \$2.2 million.

The Environmental Protection Agency (EPA) enacted the Coal Combustion Residual (CCR) rule in 2015. To comply with the rule, well installations, ground water monitoring, statistical analysis and subsurface investigations are required for ash landfills. The ash ponds at both JTEC and JRPS were cleaned and closed by the end of fiscal 2017. Costs incurred to comply with the regulations totaled \$2.0 million in 2018. Remaining efforts are associated with engineering certifications, groundwater monitoring and statistical analysis. Most of the deadlines for compliance occur before and including October 2018. Monitoring and closure plan requirements will extend several years beyond the October 2018 deadlines.



Natural Gas

The Natural Gas AMI project will allow for remote two-way communication between natural gas meters and City Utilities. This project will eliminate the need for manual meter reads and will provide customer interval data to promote energy efficiency programs. In fiscal year 2018, City Utilities spent \$1.4 million on natural gas meters and components. Over the next five years, \$7.4 million is estimated to complete the natural gas AMI project.

City Utilities continues to replace natural gas mains and services to reach a 100-year replacement cycle. During fiscal year 2018, total expenditures were \$3.7 million. The total project cost over the next five years is estimated at \$20 million.

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Water

Over the next five years, City Utilities has budgeted \$10.7 million for water meters and related communications equipment for the Water AMI project. During fiscal year 2018, City Utilities spent \$2.6 million for the water AMI project. The infrastructure will enable an array of advanced services.

Construction of a clearwell at Blackman Water Treatment Plant continued in 2018. A clearwell allows for efficient operations by providing a buffer prior to the water supply entering the distribution system. The project will be completed in 2019. Total expenditures for 2018 were \$1.0 million.

Water main renewals continue to be a priority for the Utility. The water distribution system has 40 miles of main over its serviceable life of 100 years and 350 miles between 50 and 100 years. Funding over the next five years is estimated at \$36.4 million to reach a 100-year replacement cycle. Expenditures for 2018 were \$4.6 million.



Transportation

In 2018, Transit replaced eleven of the oldest buses at a cost of \$4.5 million. Funding for this project was provided, in part, by the Federal Transit Authority (FTA). Purchases of additional buses will be completed in 2021 at a cost of \$2.5 million.

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	Net Position (Equity)		
	2019	2018	2017
	(In Thousands)		
Assets			
Net capital assets	\$ 1,520,223	\$ 1,509,217	\$ 1,487,770
Current and other assets	<u>361,642</u>	<u>342,759</u>	<u>328,196</u>
Total assets	1,881,865	1,851,976	1,815,966
Deferred outflows of resources	<u>36,189</u>	<u>35,485</u>	<u>53,971</u>
Total assets and deferred outflows	<u>1,918,054</u>	<u>1,887,461</u>	<u>1,869,937</u>
Less liabilities			
Long-term obligations	531,963	568,842	603,996
Other liabilities	<u>129,649</u>	<u>120,511</u>	<u>155,929</u>
Total liabilities	661,612	689,353	759,925
Deferred inflows of resources	<u>53,583</u>	<u>62,131</u>	<u>34,988</u>
Total liabilities and deferred inflows	<u>715,195</u>	<u>751,484</u>	<u>794,913</u>
Net position			
Net investment in capital assets	926,522	886,236	836,066
Restricted for debt service	6,422	6,398	6,287
Unrestricted	<u>269,915</u>	<u>243,343</u>	<u>232,671</u>
Total net position	<u>\$ 1,202,859</u>	<u>\$ 1,135,977</u>	<u>\$ 1,075,024</u>

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Long-Term Obligation Activity

During fiscal years 2019 and 2018 City Utilities did not enter into any new long-term debt obligations.

Operating Results – Revenues

A 2.2% natural gas and a 3.8% water rate increase were effective October 2018. These are the second of a series of three rate increases approved by Springfield City Council in 2016.

During fiscal year 2019, City Utilities' customers experienced a normal winter followed by a warmer than normal summer. A normal winter was also experienced in fiscal year 2018.

Fiscal 2019

Revenues are impacted by weather, usage, and customer growth. During fiscal year 2019, winter temperatures were within normal expectations. Heating degree days were within 2% of normal temperatures. Temperatures for the summer were above normal with cooling degree days 25% above normal. Rainfall for the year was 15% more than normal reducing the demand for water for summer irrigation.

Customer growth was above last year for Electric, Natural Gas and Water. In total, City Utilities added 1,679 customers or an increase of less than 1%. Usage, however, was down for electric and water systems. Electric usage decreased 1% from the previous year and water usage decreased 7% due to higher than average rainfall.

City Utilities' budget is forecasted based on normal weather. With winter weather at average temperatures, natural gas revenues came in at forecast of \$99 million. Electric revenues totaled \$306 million and were within 1% of budget. Water revenues were below budget by 3% due to above normal precipitation.

Fiscal Year 2018

For fiscal year 2018, we experienced a normal winter. Heating degree days were within 7% of normal for the year. Our summer was warmer than normal, with 42% more cooling degree days than average. Since summer temperatures were above normal, revenues were 2% above budget.

We have experienced a slight increase in the number of customers. Total customers have increased by 1,250 customers. Usage per customer has increased due to the return to normal winter temperatures and a warmer summer. Electric usage for residential customers increased 10% as compared to 2017. Commercial and industrial electric usage increased 2% as compared to the prior year.

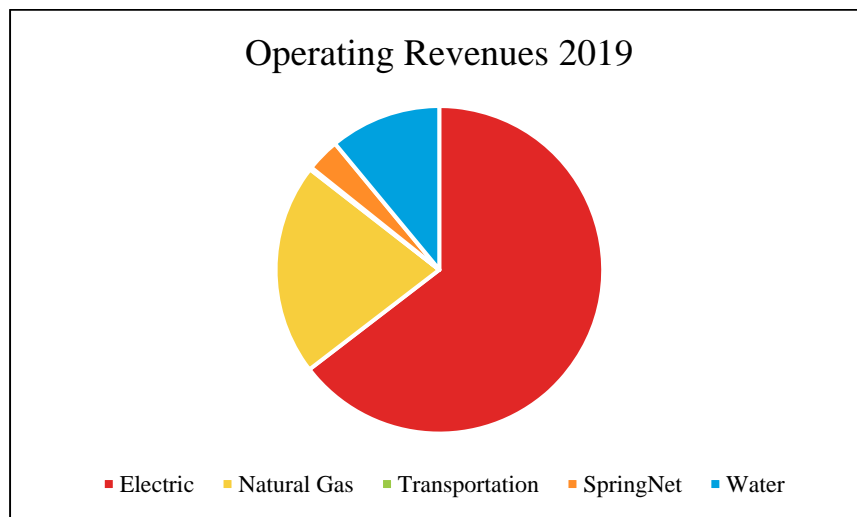
Heating degree days were slightly below normal but above last year. The 27% increase in heating degree days over last year resulted in an increase in usage per residential customer for natural gas of 23%. Commercial and industrial usage was 13% higher than 2017.

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Rainfall was 11 inches below the prior year. Water usage increased over the prior year. Residential usage per customer increased 6% over the prior year while commercial and industrial usage increased 5% over 2017.

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

	Operating Revenues		
	2019	2018	2017
	(In Thousands)		
Operating revenue			
Electric	\$ 306,218	\$ 316,278	\$ 302,835
Natural gas	99,207	90,519	79,909
Transportation	1,027	1,049	1,057
SpringNet	15,515	14,962	13,927
Water	52,159	53,328	49,127
	\$ 474,126	\$ 476,136	\$ 446,855
	\$ 474,126	\$ 476,136	\$ 446,855



Operating Results – Operating Expenses

City Utilities' electric generation includes base load availability of 668 MW from two coal-fired and two 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. Beginning January 2019, City Utilities signed a 20-year purchased power agreement with Diamond Vista for 97 MW of wind generation. 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

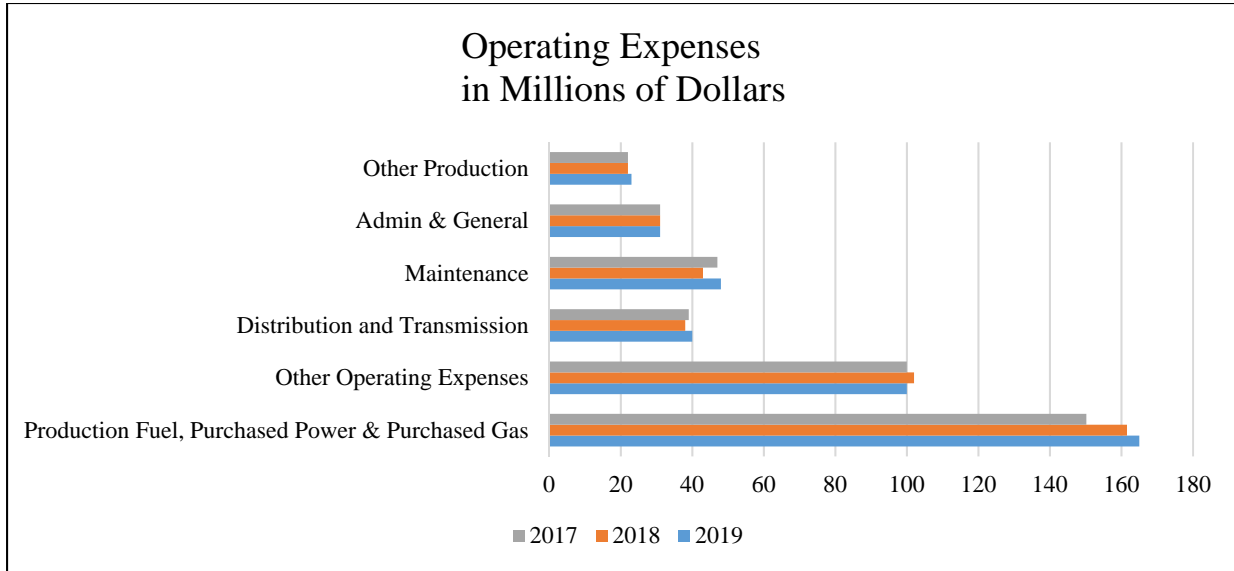
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facility. City Utilities entered into a contract with Strata Solar as of June 2014, to purchase all of the solar energy generated by the 4.95 MW unit at a fixed price of \$.08 per Kwh. In March 2014, City Utilities began participation in the Southwest 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 51% and purchased 49% of its power needs in 2019 compared to generating 64% and purchasing 36% in 2018.

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:

	Operating Expenses		
	2019	2018	2017
	(In Thousands)		
Operating expenses			
Electric	\$ 254,943	\$ 254,880	\$ 252,529
Natural gas	89,867	82,206	77,406
Transportation	12,245	11,446	12,245
SpringNet	12,253	11,424	11,410
Water	37,223	37,208	36,394
Total operating expenses	\$ 406,531	\$ 397,164	\$ 389,984

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Change in Net Position

Fiscal Year 2019

Change in net position for fiscal year 2019 was \$66.9 million, an increase of 9% over last year. Change in net position exceeded budget by \$11.6 million. Operating income was within 2% of budget but 14% below last year. A milder summer resulted in a 16% decrease in electric revenues as compared to the prior year. The decrease in operating revenues was offset by an increase in interest income and an increase in the fair market value of investments resulting in a positive change in net position for fiscal year 2019.

Results of operations have improved. Change in net position has increased the last two years. Net position (equity) has improved \$128 million since 2017, a 9% increase over this two-year timeframe. City Utilities maintains AA credit rating from Fitch Ratings and Standard & Poor’s rating agencies, demonstrating a strong financial position. City Utilities continues to be well positioned for the future.

Fiscal Year 2018

For fiscal year ended 2018, a reduction of \$52,000 in pension expense was recorded. Operating expenses were 2% above the prior year. An increase in fuel costs of \$9.5 million was partially offset by a decrease in purchased power of \$2.7 million. Maintenance costs were \$4.3 million below last year.

Interest income is up 5% as compared to the prior year. Interest expense is down \$1.4 million due to no new issuance of debt.

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	Net Position (Equity)		
	2019	2018	2017
	(In Thousands)		
Operating revenues	\$ 457,748	\$ 459,674	\$ 432,834
Less operating expenses	<u>390,187</u>	<u>380,723</u>	<u>375,964</u>
Operating income	<u>67,561</u>	<u>78,951</u>	<u>56,870</u>
Nonoperating revenues (expenses)			
Interest income	6,218	5,231	4,965
Investment loss	(1,314)	(1,317)	(1,380)
Net increase (decrease) in fair market value of investments	11,421	(7,250)	(5,346)
Interest expense, net	(21,997)	(23,586)	(24,704)
Other items, net	<u>4,942</u>	<u>4,342</u>	<u>4,335</u>
Nonoperating revenues (expenses)	<u>(730)</u>	<u>(22,580)</u>	<u>(22,130)</u>
Change in net position before contributions	<u>66,831</u>	<u>56,371</u>	<u>34,740</u>
Capital contributions			
Contributions in aid of construction	2,579	9,895	4,202
Donated property	914	1,205	1,112
Reduction of plant costs recovered through contribution	<u>(3,442)</u>	<u>(6,518)</u>	<u>(5,194)</u>
Net capital contributions	<u>51</u>	<u>4,582</u>	<u>120</u>
Change in net position	66,882	60,953	34,860
Net position (equity)			
Beginning of year	<u>1,135,977</u>	<u>1,075,024</u>	<u>1,040,164</u>
End of year	<u>\$ 1,202,859</u>	<u>\$ 1,135,977</u>	<u>\$ 1,075,024</u>

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Receipts and Disbursements Compared to Budget

Receipts and Disbursements Compared to Budget
September 30, 2019, 2018, and 2017
(In Thousands)

	<u>2019</u>		<u>2018</u>		<u>2017</u>	
	<u>Receipts</u>	<u>Disbursements</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Receipts</u>	<u>Disbursements</u>
Budget	\$ 567,834	\$ 594,126	\$ 567,562	\$ 582,478	\$ 536,731	\$ 578,143
Actual	<u>510,462</u>	<u>497,654</u>	<u>507,726</u>	<u>493,657</u>	<u>472,484</u>	<u>481,852</u>
Over (under) budget	<u>\$ (57,372)</u>	<u>\$ (96,472)</u>	<u>\$ (59,836)</u>	<u>\$ (88,821)</u>	<u>\$ (64,247)</u>	<u>\$ (96,291)</u>

Fiscal Year 2019

Receipts were under budget by \$57.4 million. Operating revenues were \$3.2 million under budget while other income was \$12.6 million over budget due to positive market value adjustment. Budgeted receipts include \$10 million in natural gas hedging receipts and \$35 million receipt contingency to offset business and fuel price volatility. The fuel contingency was not utilized due to the \$10.6 million underrun in fuels.

Disbursements were under budget by \$96.5 million. Disbursements for capital projects were under budget by \$12.8 million while non-capital projects were under budget by \$22.7 million. A fuel contingency of \$35 million is also budgeted in disbursements to offset fuel price volatility. The fuel contingency was not utilized in fiscal year 2019.

Fiscal Year 2018

Receipts were under budget by \$60 million. The budget includes a \$35.0 million receipt contingency to offset business and fuel price volatility. The fuel contingency was not utilized due to the \$10.4 million underrun in fuels.

Disbursements were under budget by \$88 million. Disbursements for capital projects were under budget \$15.6 million, noncapital projects were under budget by \$17.0 million. The \$9.6 million TEA guarantee was also included in the budget but not utilized.

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Significant Future Items



Electric

Rates:

- No electric rate adjustments are forecasted through fiscal year 2024.

Advanced Metering Infrastructure (AMI):

- The project to install Advanced Metering Infrastructure (AMI) is anticipated to be completed in fiscal year 2020. This multi-year project will have replaced all meters for our 116,000 electric customers allowing for remote meter reading and advanced infrastructure.

Electric Distribution:

- Over the next five years, City Utilities will spend approximately \$9.2 million for pole maintenance and replacement to reach a 50-year replacement cycle.



Natural Gas

Rates:

- The third of a series of three natural gas adjustments will go into effect in October 2019. The 2.0% rate increase is to support the natural gas main replacement program and additional operation and maintenance costs.

Advanced Metering Infrastructure (AMI):

- The Advanced Metering Infrastructure (AMI) project to replace natural gas meters is forecasted to be complete in fiscal year 2023. Over the next four years, City Utilities has budgeted \$5.9 million for purchase and installation of natural gas AMI metering components and associated communication equipment.

Natural Gas Main and Service Renewals:

- Over the next five years, \$21.9 million is budgeted to replace older natural gas mains and services. This funding, on average, will replace 13 miles of natural gas main per year over the planning horizon.

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Water

Rates:

- The third of a series of three water rate adjustments will go into effect in October 2019. The 3.6% rate increase is to support the water main replacement program and additional operation and maintenance costs.

Advanced Metering Infrastructure (AMI):

- The Advanced Metering Infrastructure (AMI) project to replace water meters is anticipated to be completed in fiscal year 2023. Over the next four years, City Utilities has budgeted \$8.2 million to complete the installation of water AMI meters. This enhanced infrastructure will eliminate the need for manual meter reads and promote water conservation and efficiency programs.

Water Main Renewals:

- In an effort to reach a 100-year replacement cycle on water mains, \$34.0 million has been budgeted over the next five years for water main and service renewals.



Transit

Rates:

- No transit fare increases are scheduled for the next fiscal year.

Fixed Route Bus Purchases:

- To continue to provide transportation services to Springfield, \$4.6 million is budgeted to purchase seven fixed route buses over the planning horizon. Two of the buses will be battery electric buses. These buses are zero emission buses with a useful life of 12 years and will be part of our fixed route fleet. The purchase of the electric buses is funded by the Federal Transit Authority and Missouri Department of Natural Resources.

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SpringNet

SpringNet:

- To meet customer demand for SpringNet broadband services and to support economic development for Springfield, \$111.8 million has been budgeted over the next five years for SpringNet network expansion. This project will expand City Utilities fiber optic network to enable affordable, reliable, high-speed broadband service to the Springfield community.

Trunked Radio:

- An upgrade to the City/County/City Utilities Trunked Radio System is planned through fiscal year 2021. This 2-year project will upgrade the Trunked Radio System electronics to the Association of Public Communication standards to ensure continued reliability.

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, 2019 and 2018
(in Thousands)

Assets and Deferred Outflows of Resources

	<u>2019</u>	<u>2018</u>
Noncurrent Assets		
Capital Assets		
Land	\$ 56,284	\$ 55,405
Electric	1,532,428	1,515,152
Natural gas	255,785	244,836
Transportation	32,067	32,702
Water	381,138	341,479
Customer service	16,244	16,431
SpringNet	66,521	64,223
Common	59,892	56,164
Total	<u>2,400,359</u>	<u>2,326,392</u>
Less accumulated depreciation	(948,086)	(895,693)
Net total	<u>1,452,273</u>	<u>1,430,699</u>
Construction work in progress	67,950	78,518
Net capital assets	<u>1,520,223</u>	<u>1,509,217</u>
Investments		
Funds for bonded indebtedness	6,422	6,398
Designated improvement account	140,596	143,378
Working capital account	77,977	75,239
Other noncurrent assets	14,889	14,611
Total noncurrent assets	<u>1,760,107</u>	<u>1,748,843</u>
Current Assets		
Cash	28,076	25,234
Short-term investments	9,986	-
Accounts receivable		
Customers, less allowance for doubtful accounts;		
2019 - \$408 and 2018 - \$305	25,923	26,186
Unbilled revenue	15,996	15,019
Other	1,326	1,879
Inventories		
Materials and supplies	25,732	24,323
Coal	9,088	4,067
Natural gas stored underground	4,033	5,001
Emissions consumables	103	76
Prepayments and other	1,495	1,348
Total current assets	<u>121,758</u>	<u>103,133</u>
Total assets	<u>1,881,865</u>	<u>1,851,976</u>
Deferred Outflows of Resources		
Electric fuel and purchased natural gas adjustment	2,637	-
Unamortized loss on reacquired debt	15,161	16,102
Pension related	14,124	15,648
Fair value adjustments in derivative instruments	4,267	3,735
Total deferred outflows of resources	<u>36,189</u>	<u>35,485</u>
Total assets and deferred outflows of resources	<u>\$ 1,918,054</u>	<u>\$ 1,887,461</u>

City Utilities of Springfield, Missouri
(A Component Unit of the City of Springfield, Missouri)
Statements of Net Position
September 30, 2019 and 2018
(in Thousands)

Net Position, Liabilities and Deferred Inflows of Resources

	<u>2019</u>	<u>2018</u>
Net Position		
Net investment in capital assets	\$ 926,522	\$ 886,236
Restricted for debt service	6,422	6,398
Unrestricted	<u>269,915</u>	<u>243,343</u>
Total net position	<u>1,202,859</u>	<u>1,135,977</u>
Long-Term Obligations		
Long-term obligations	494,175	527,380
Unamortized debt premium, net of debt discount	<u>37,788</u>	<u>41,462</u>
Total long-term obligations	<u>531,963</u>	<u>568,842</u>
Other Noncurrent Liabilities		
Vacation and sick leave	14,011	14,089
Net pension liability	17,957	16,554
Other	<u>10,735</u>	<u>9,113</u>
Total other noncurrent liabilities	<u>42,703</u>	<u>39,756</u>
Current Liabilities		
Current maturities of long-term obligations	33,205	31,480
Accounts payable		
Trade	16,075	13,950
Other	5,181	4,746
Accruals		
Interest	3,901	4,250
Salaries and wages	1,790	1,442
Pension contributions and other	2,177	2,091
Electric purchased power	4,147	3,552
Natural gas, coal and other fuels	3,882	3,117
Vacation and sick leave	10,552	10,163
Due to City of Springfield, Missouri in lieu of taxes	1,228	1,233
Customer deposits	<u>4,808</u>	<u>4,731</u>
Total current liabilities	<u>86,946</u>	<u>80,755</u>
Total liabilities	<u>661,612</u>	<u>689,353</u>
Deferred Inflows of Resources		
Contributions in aid of construction	35,681	33,594
Pension related	17,902	20,806
Electric fuel and purchased natural gas adjustment	<u>-</u>	<u>7,731</u>
Total deferred inflows of resources	<u>53,583</u>	<u>62,131</u>
Total net position, liabilities and deferred inflows of resources	<u>\$ 1,918,054</u>	<u>\$ 1,887,461</u>

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, 2019 and 2018
(in Thousands)

	<u>2019</u>	<u>2018</u>
Operating Revenues		
Services	\$ 431,283	\$ 433,293
Other	26,465	26,381
Total operating revenues	<u>457,748</u>	<u>459,674</u>
Operating Expenses		
Production fuel and purchased power	93,443	98,350
Natural gas purchased for resale	58,872	53,221
Other production	17,653	19,269
Distribution and transmission	36,173	36,165
Bus and garage operations	5,902	5,829
Other services	5,130	4,681
Customer accounts	12,751	12,053
Administrative and general	33,673	30,016
Maintenance	46,926	42,765
Depreciation and amortization	64,501	62,656
Payments in lieu of taxes	14,559	15,201
Other taxes	604	517
Total operating expenses	<u>390,187</u>	<u>380,723</u>
Operating income	<u>67,561</u>	<u>78,951</u>
Nonoperating Revenues (Expenses)		
Interest income	6,218	5,231
Net increase (decrease) in fair value of investments	11,421	(7,250)
Investment loss	(1,314)	(1,317)
Interest expense, net	(21,997)	(23,586)
Operation of recreational facilities, net	(312)	(318)
Amortization of debt-related costs	2,354	2,354
Other, net	2,900	2,306
Net nonoperating revenues (expenses)	<u>(730)</u>	<u>(22,580)</u>
Change in net position before contributions	<u>66,831</u>	<u>56,371</u>
Capital Contributions		
Contributions in aid of construction	2,579	9,895
Donated property	914	1,205
Reduction of plant costs recovered through contributions	(3,442)	(6,518)
Net capital contributions	<u>51</u>	<u>4,582</u>
Change in net position	66,882	60,953
Net Position		
Beginning of year	<u>1,135,977</u>	<u>1,075,024</u>
End of year	<u>\$ 1,202,859</u>	<u>\$ 1,135,977</u>

City Utilities of Springfield, Missouri
(A Component Unit of the City of Springfield, Missouri)
Statements of Cash Flows
Years Ended September 30, 2019 and 2018
(in Thousands)

	<u>2019</u>	<u>2018</u>
Cash Flows from Operating Activities		
Receipts from customers	\$ 437,680	\$ 454,419
Payments to suppliers	(240,207)	(230,230)
Payments to employees	(62,177)	(60,876)
Payments in lieu of taxes	(14,422)	(14,972)
Claims paid	(476)	(1,188)
	<u>120,398</u>	<u>147,153</u>
Cash Flows from Noncapital Financing Activities		
Receipts from federal and state grants	<u>2,652</u>	<u>2,405</u>
	<u>2,652</u>	<u>2,405</u>
Cash Flows from Capital and Related Financing Activities		
Purchases of capital assets, net of removal	(71,331)	(77,517)
Repayment of long-term obligations	(31,480)	(29,325)
Interest paid	(23,666)	(25,146)
	<u>(126,477)</u>	<u>(131,988)</u>
Cash Flows from Investing Activities		
Sale and maturities of investment securities	116,637	111,021
Purchase of investment securities	(115,209)	(143,686)
Interest received	6,245	5,459
Equity investment in The Energy Authority, net	(1,397)	(1,479)
Equity investment in Partnership Industrial Center, net	(7)	(2)
	<u>6,269</u>	<u>(28,687)</u>
Net cash provided by (used in) investing activities	<u>6,269</u>	<u>(28,687)</u>
Net increase (decrease) in cash	2,842	(11,117)
Cash, Beginning of Year	<u>25,234</u>	<u>36,351</u>
Cash, End of Year	<u>\$ 28,076</u>	<u>\$ 25,234</u>

City Utilities of Springfield, Missouri
(A Component Unit of the City of Springfield, Missouri)
Statements of Cash Flows
Years Ended September 30, 2019 and 2018
(in Thousands)

	2019	2018
Reconciliation of Operating Income to Net Cash		
Provided by Operating Activities		
Operating income	\$ 67,561	\$ 78,951
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization expense	64,501	62,656
Depreciation included in vehicle and power production	2,330	2,392
Miscellaneous income	162	190
Operation of recreational facilities	(312)	(318)
Change in assets, deferred outflows of resources, liabilities, and deferred inflows of resources		
Customer and other accounts receivable	817	(4,051)
Unbilled revenues	(977)	1,204
Recoverable fuel costs	(6,905)	6,237
Price risk management assets	1,028	2,501
Inventories	(5,487)	306
Prepayments and prepaid insurance	(146)	78
Other noncurrent assets	(325)	(367)
Deferred outflows related to pensions	1,523	19,039
Accounts payable	(278)	(348)
Customer deposits	77	88
Accrued liabilities	(1,830)	(699)
Net pension liability	1,404	(33,052)
Deferred inflows related to pensions	(2,904)	13,961
Other noncurrent liabilities	159	(1,615)
	<u>\$ 120,398</u>	<u>\$ 147,153</u>
Noncash Capital Financing Activities		
Capital assets acquired through contributions from developers	\$ 914	\$ 1,205
Capital assets acquisitions included in accounts payable	\$ 8,014	\$ 5,163
Noncash Investing Activities		
Net increase (decrease) in fair value of investments	\$ 11,421	\$ (7,250)

City Utilities of Springfield, Missouri
(A Component Unit of the City of Springfield, Missouri)
Notes to Financial Statements
September 30, 2019 and 2018

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, 2019, City Utilities serves approximately 116,000 electric customers, 84,000 natural gas customers and 83,000 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, 2019 and 2018

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 individual plant assets and no capitalization threshold for mass assets.

City Utilities of Springfield, Missouri
(A Component Unit of the City of Springfield, Missouri)
Notes to Financial Statements
September 30, 2019 and 2018

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:

	Average Composite Rates	
	2019	2018
Electric	2.2%	2.5%
Natural gas	2.8%	2.8%
Telecom/Broadband	6.7%	6.7%
Water	1.8%	1.9%

Transportation, office and computer equipment, vehicles and work 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:

	Estimated Lives (in Years)
Transportation	5 to 50
Common	5 to 50
Customer service	9 to 10

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, 2019 and 2018

Deferred Outflows and Inflows of Resources

Unamortized Loss in 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, 2019 and 2018, the unamortized loss balance of \$15.2 million and \$16.1 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, 2019, City Utilities had purchased financial instruments to reduce, or hedge, the volatility of natural gas costs for fiscal years 2019 through 2022. Through September 30, 2019 and 2018, 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 under-recovery of \$1.2 million and an over-recovery of \$8.4 million for electric fuel and an under-recovery of \$1.4 million and under-recovery of \$653,000 for purchased natural gas adjustment clauses were recorded at September 30, 2019 and 2018, respectively, as a net deferred outflow or inflow 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, 2019 and 2018

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 (in thousands):

	2019	2018
Interest expense, gross	\$ 23,317	\$ 24,819
Capitalized interest	(1,320)	(1,233)
Interest expense, net	\$ 21,997	\$ 23,586
Average interest rate	3.2%	3.2%

Cash and Short-Term Investments

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 or short-term investments. At September 30, 2019, City Utilities held \$10.0 million in short-term investments.

Environmental Matters

City Utilities accrues environmental costs based on expected cash flows when an obligating event occurs 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 in fiscal year 2015. 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 previously operated by Springfield Gas & Electric. City Utilities never operated the holder site.

City Utilities of Springfield, Missouri
(A Component Unit of the City of Springfield, Missouri)
Notes to Financial Statements
September 30, 2019 and 2018

The Final Remediation Action Plan was approved by Missouri Department of Natural Resources (MDNR) in January 2016. Initial site mobilization began in November 2015 and all remediation activities and site restoration were completed in fiscal year 2017. On November 26, 2018, City Utilities received final approval from MDNR for Removal Action Completion and Ambient Air Monitoring Reports. During fiscal year 2019, City Utilities briefly discussed with MDNR options toward next steps in upcoming fiscal years. However, no definite plans or actions are required at this time. As of September 30, 2019, total remediation costs for the project remained just over \$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 a 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, 2019 and 2018

New Accounting Pronouncements

GASB Statement No. 84, *Fiduciary Activities* was issued in January 2017. This statement describes four fiduciary funds that should be reported if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. The criteria for identifying fiduciary activities are established and the focus for the criteria is on (1) whether a government is controlling the assets of the activity and (2) the beneficiaries with whom a fiduciary relationship exists. The provisions of the statement are effective for financial statements for periods beginning after December 15, 2018. City Utilities has not elected early implementation of this standard and has not completed the process of evaluating the impact of this statement on its financial statements.

GASB Statement No. 87, *Leases* was issued in June 2017 and effective for periods starting after December 15, 2019. The requirements of this statement will increase the usefulness of governmental financial statements by requiring lessees and lessors to report leases under a single model. This statement will also provide useful information by requiring footnote disclosure related to the timing, significance, and purpose of the leasing arrangement. City Utilities is currently evaluating the impact to the financial statements but does not believe the impact will be material.

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* was issued June 2018 and is effective for periods starting after December 15, 2019 with earlier application encouraged. The objectives of this Statement are to enhance the relevance and comparability of information about capital assets and the cost of borrowing and to simplify accounting for interest cost incurred before the end of the construction period. This statement requires that the interest cost incurred before the end of the construction period be recognized as an expense in the period in which the cost is incurred and no longer included in the historical cost of a capital asset. City Utilities also follows the accounting guidance of the Federal Energy Regulatory Commission (FERC) which considers the interest cost incurred before the end of a construction period as part of the historical cost of the capital asset. City Utilities has elected to continue including the interest incurred before the end of a construction period in the historical cost of the capital asset for our FERC records. The interest amounts capitalized for rate-making purposes as part of the cost of acquiring the assets will be capitalized as a regulatory asset for financial reporting purposes in compliance with GASB Statement No. 62 – Regulated Operations.

GASB Statement No. 90, *Majority Equity Interests* was issued August 2018 and effective for periods starting after December 15, 2018. This statement will improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. City Utilities previously reported majority equity interests using the equity method as indicated by this standard so the implementation of this statement will not have a significant impact on City Utilities.

City Utilities of Springfield, Missouri
(A Component Unit of the City of Springfield, Missouri)
Notes to Financial Statements
September 30, 2019 and 2018

Note 2: Capital Assets

Capital asset activity for the year ended September 30, 2019, is as follows (in thousands):

	September 30, 2018	Increases	Decreases	September 30, 2019
Public utility				
Nondepreciable assets				
Land	\$ 55,405	\$ 879	\$ -	\$ 56,284
Construction work in progress	78,518	73,437	(84,005)	67,950
Depreciable assets				
Electric	1,515,152	22,193	(4,917)	1,532,428
Natural gas	244,836	12,314	(1,365)	255,785
Transportation	32,702	382	(1,017)	32,067
Water	341,479	42,602	(2,943)	381,138
Customer service	16,431	171	(358)	16,244
SpringNet	64,223	4,174	(1,876)	66,521
Common	56,164	3,725	3	59,892
	<u>2,404,910</u>	<u>159,877</u>	<u>(96,478)</u>	<u>2,468,309</u>
Total capital assets				
Less accumulated depreciation	<u>(895,693)</u>	<u>(68,003)</u>	<u>15,610</u>	<u>(948,086)</u>
Net capital assets	<u>\$ 1,509,217</u>	<u>\$ 91,874</u>	<u>\$ (80,868)</u>	<u>\$ 1,520,223</u>

City Utilities of Springfield, Missouri
(A Component Unit of the City of Springfield, Missouri)
Notes to Financial Statements
September 30, 2019 and 2018

Capital asset activity for the year ended September 30, 2018, is as follows (in thousands):

	September 30, 2017	Increases	Decreases	September 30, 2018
Public utility				
Nondepreciable assets				
Land	\$ 53,033	\$ 2,372	\$ -	\$ 55,405
Construction work in progress	78,136	78,339	(77,957)	78,518
Depreciable assets				
Electric	1,522,713	37,702	(45,263)	1,515,152
Natural gas	235,380	10,211	(755)	244,836
Transportation	27,267	5,461	(26)	32,702
Water	323,164	19,661	(1,346)	341,479
Customer service	16,460	495	(524)	16,431
SpringNet	64,518	2,958	(3,253)	64,223
Common	50,898	6,715	(1,449)	56,164
Total capital assets	<u>2,371,569</u>	<u>163,914</u>	<u>(130,573)</u>	<u>2,404,910</u>
Less accumulated depreciation	<u>(883,799)</u>	<u>(65,930)</u>	<u>54,036</u>	<u>(895,693)</u>
Net capital assets	<u>\$ 1,487,770</u>	<u>\$ 97,984</u>	<u>\$ (76,537)</u>	<u>\$ 1,509,217</u>

Effective August 1, 2019, City Utilities changed its depreciation rates based upon the results of a depreciation rate study performed by an outside consultant. The rate changes were accounted for as a change in estimate. The change reduced depreciation expense by \$505,000 for City Utilities for the year ended September 30, 2019.

As of September 30, 2019 and 2018, depreciation expense was reduced by \$1,288,000 and \$1,000,000, respectively, for the recognition of the deferred inflow of resources related to contributions in aid of construction.

In 2017, City Utilities and The Energy Authority (TEA) completed an Integrated Resource Plan (IRP). The IRP forecasts future demand and supply requirements for a 10-20 year timeframe to determine the optimal mix of resources to minimize future costs while meeting reliability and regulatory requirements. As a result of this study, it was recommended that James River Power Station units #1-#3 be retired. Upon approval by Southwest Power Pool, these units were retired as of December 31, 2017. Further, it was recommended that units #4 and #5 be fueled only by natural gas to comply with EPA's Mercury and Air Toxics (MATS) standard. To meet reliability and capacity requirements, units #4 and #5 were not retired in 2017. These generating units will be evaluated based on regulatory and reliability requirements, operation and maintenance costs and market conditions to determine when best to retire these units. Retirement is subject to approval by Southwest Power Pool. City Utilities plans to seek regulatory recovery for amounts that would not be otherwise recovered when these assets are retired.

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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. The intention of the investment portfolio is to hold until maturity so any maturities within the year are reinvested and not reclassified as current, other than short term maturities.

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, 2019 and 2018 (in thousands):

	2019	2018
U.S. Treasury securities	\$ 60,665	\$ 82,041
U.S. government agencies	15,234	14,732
Mortgage-backed securities	148,337	127,508
Accrued interest	759	734
	<hr/>	<hr/>
Total investments	224,995	225,015
Cash	28,076	25,234
Short-term investments	9,986	-
	<hr/>	<hr/>
Total cash and investments	<u>\$ 263,057</u>	<u>\$ 250,249</u>

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Cash and investments are included in the following statements of net position accounts at September 30, 2019 and 2018 (in thousands):

	2019	2018
Funds for bonded indebtedness	\$ 6,422	\$ 6,398
Designated improvement accounts	140,596	143,378
Working capital account	77,977	75,239
Cash	28,076	25,234
Short-term investments	9,986	-
	<hr/>	<hr/>
Total cash and investments	<u>\$ 263,057</u>	<u>\$ 250,249</u>

As of September 30, 2019 and 2018, City Utilities held cash and investments for restricted and designated purposes as follows (in thousands):

	2019	2018
Funds for bonded indebtedness	\$ 6,422	\$ 6,398
Designated funds		
Board authorized		
Disaster and contingency reserve funds	76,873	71,675
Trunked radio system reserve	4,895	4,356
Fuel over-recovery	-	8,383
Chief Financial Officer authorized	58,828	58,964
	<hr/>	<hr/>
Total reserved	147,018	149,776
Unreserved	<hr/> 116,039	<hr/> 100,473
	<hr/>	<hr/>
Total cash and investments	<u>\$ 263,057</u>	<u>\$ 250,249</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.

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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, 2019 and 2018. Investments greater than 5% of total investments as of September 30, 2019 and 2018, were as follows:

	2019	2018
Federal Home Loan Mortgage Corporation	6%	6%
Federal National Mortgage Association - Mortgage Backed Securities	31%	23%
U.S. Treasury Bills and Notes	27%	33%
Federal Home Loan Mortgage Corporation - Mortgage Backed Securities	22%	24%

As of September 30, 2019, City Utilities’ investment portfolio matures as follows (in thousands):

	Recorded Value	Less than 1 Year	2-3 Years	4-5 Years	More than 5 Years
U.S. Treasury securities	\$ 60,665	\$ 10,012	\$ 10,100	\$ 20,343	\$ 20,210
U.S. government agencies	15,234	-	15,234	-	-
Mortgage-backed securities	148,337	24,212	30,570	22,339	71,216
Accrued interest	759	759	-	-	-
Total investments	<u>\$ 224,995</u>	<u>\$ 34,983</u>	<u>\$ 55,904</u>	<u>\$ 42,682</u>	<u>\$ 91,426</u>

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As of September 30, 2018, City Utilities' investment portfolio matures as follows (in thousands):

	Recorded Value	Less than 1 Year	2-3 Years	4-5 Years	More than 5 Years
U.S. Treasury securities	\$ 82,041	\$ 24,840	\$ 19,678	\$ 9,486	\$ 28,037
U.S. government agencies	14,732	-	-	14,732	-
Mortgage-backed securities	127,508	11,935	23,783	18,375	73,415
Accrued interest	734	734	-	-	-
Total investments	<u>\$ 225,015</u>	<u>\$ 37,509</u>	<u>\$ 43,461</u>	<u>\$ 42,593</u>	<u>\$ 101,452</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, 2019 and 2018, 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>2019</u>	<u>2018</u>
Board of Public Utilities obligations under the June 2012 lease financing agreement; 2.00% to 5.00%; due December 1, 2017 to 2021	\$ 19,880	\$ 25,875
Board of Public Utilities obligations under the October 2014 lease financing agreement; 3.00% to 5.00%; due September 1, 2018 to September 1, 2029	27,440	29,565
Public Utility Refunding Revenue Bonds, Series 2015; 3.25% to 5.00% due August 1, 2018 to 2036	467,885	485,760
Board of Public Utilities obligations under the October 2015 lease financing agreement; at 5.00% due December 1, 2017 to December 1, 2021	<u>12,175</u>	<u>17,660</u>
Total	527,380	558,860
Current maturities of long-term obligations	<u>(33,205)</u>	<u>(31,480)</u>
Total long-term obligations outstanding, net of current maturities	494,175	527,380
Unamortized debt premium, net of debt discount	<u>37,788</u>	<u>41,462</u>
Total long-term obligations	<u>\$ 531,963</u>	<u>\$ 568,842</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, 2019, was as follows (in thousands):

	Bonds and Obligations Payable September 30, 2018	Additions	Reductions	Bonds and Obligations Payable September 30, 2019	Amount Due in One Year
Revenue bonds - public utility	\$ 485,760	\$ -	\$ (17,875)	\$ 467,885	\$ 18,910
Other obligations	73,100	-	(13,605)	59,495	14,295
Total	<u>558,860</u>	<u>-</u>	<u>(31,480)</u>	<u>527,380</u>	<u>33,205</u>
Less unamortized debt premium, net of debt discount	41,462	-	(3,674)	37,788	-
Total	<u>\$ 600,322</u>	<u>\$ -</u>	<u>\$ (35,154)</u>	<u>\$ 565,168</u>	<u>\$ 33,205</u>
Other long-term liabilities					
Vacation and sick leave	24,252	\$ 11,708	\$ (11,397)	\$ 24,563	\$ 10,552
Net pension liability	16,554	18,249	(16,846)	17,957	-
Other	9,113	1,622	-	10,735	-
Total	<u>\$ 49,919</u>	<u>\$ 31,579</u>	<u>\$ (28,243)</u>	<u>\$ 53,255</u>	<u>\$ 10,552</u>

Long-term debt and other long-term liabilities activity for the year ended September 30, 2018, was as follows (in thousands):

	Bonds and Obligations Payable September 30, 2017	Additions	Reductions	Bonds and Obligations Payable September 30, 2018	Amount Due in One Year
Revenue bonds - public utility	\$ 502,150	\$ -	\$ (16,390)	\$ 485,760	\$ 17,875
Other obligations	86,035	-	(12,935)	73,100	13,605
Total	<u>588,185</u>	<u>-</u>	<u>(29,325)</u>	<u>558,860</u>	<u>31,480</u>
Less unamortized debt premium, net of debt discount	45,136	-	(3,674)	41,462	-
Total	<u>\$ 633,321</u>	<u>\$ -</u>	<u>\$ (32,999)</u>	<u>\$ 600,322</u>	<u>\$ 31,480</u>
Other long-term liabilities					
Vacation and sick leave	\$ 24,737	\$ 13,006	\$ (13,491)	\$ 24,252	\$ 10,163
Net pension liability	49,605	18,042	(51,093)	16,554	-
Other	9,495	-	(382)	9,113	-
Total	<u>\$ 83,837</u>	<u>\$ 31,048</u>	<u>\$ (64,966)</u>	<u>\$ 49,919</u>	<u>\$ 10,163</u>

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The debt service to maturity on the outstanding bonds and obligations as of September 30, 2019, is summarized in the following table (in thousands):

	<u>Principal</u>	<u>Interest</u>
2020	\$ 33,205	\$ 22,077
2021	34,875	20,568
2022	30,610	18,958
2023	24,470	17,444
2024	25,695	16,221
2025 - 2029	147,105	62,166
2030 - 2034	158,755	33,883
2035 - 2036	<u>72,665</u>	<u>4,389</u>
Total	<u>\$ 527,380</u>	<u>\$ 195,706</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, 2019 and 2018, is as follows (in thousands):

	<u>2019</u>	<u>2018</u>
Fair value of long-term debt	<u>\$ 631,842</u>	<u>\$ 614,247</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 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 2019</u>
City Utilities Debt Obligations	Operating Revenue	\$ 723,086	Through 2036	12%	\$ 55,146

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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, 2019 and 2018.

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.

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 5 years of credited service. Employees who retire on or after age 60 with 5 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 5 years of credited service and after attaining age 55 and receive a reduced allowance.

	2019	2018
Benefit multiplier	2%	2%
Final average salary	3 years	3 years
Member contribution	0%	0%

Benefit terms provide for annual post-retirement 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, 2019 and 2018, the measurement date for the net pension liability at September 30, 2019 and 2018, the following employees were covered by the benefit terms:

	2019	2018
Inactive employees or beneficiaries currently receiving benefits	897	870
Inactive employees entitled to but not yet receiving benefits	76	73
Active employees	914	924
	1,887	1,867

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 generally do not contribute to the pension. City Utilities' contribution rate is 22.7% and 22.8% of annual covered payroll during fiscal years 2019 and 2018, respectively. City Utilities contributed \$18.2 million and \$18.1 million during fiscal years 2019 and 2018, respectively.

Net Pension Liability

City Utilities' net pension liability as of September 30, 2019 and 2018, was measured as of June 30, 2019 and 2018, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of February 28, 2019 and 2018, respectively. The roll-forward of total pension liability from February 28, 2019 and 2018, to June 30, 2019 and 2018, 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, 2019, 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%, net of investment expenses

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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, 2019, valuation were based on the results of the 5-year experience study for the period March 1, 2010 through February 28, 2015.

The total pension liability in the February 28, 2018, 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 28, 2018, 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:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Alpha	15.00%	3.67%
Equity	35.00%	4.78%
Fixed income	31.00%	1.41%
Real assets	36.00%	3.29%
Strategic Assets	8.00%	5.25%
Cash	10.00%	0.00%
Leverage	-35.00%	-0.51%

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Discount Rate

The discount rate used to measure the total pension liability is 7.25% for 2019 and 2018. 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.

Changes in the Net Pension Liability (in Thousands)

	Total Pension Liability (a)	2019 Increase (Decrease) Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at beginning of year	\$ 631,883	\$ 615,329	\$ 16,554
Changes for the year			
Service cost	9,418	-	9,418
Interest	44,968	-	44,968
Difference between expected and actual experience	4,707	-	4,707
Assumption changes	-	-	-
Contributions - employer	-	18,199	(18,199)
Contributions - employee	-	-	-
Net investment income	-	39,757	(39,757)
Benefit payments, including refunds	(33,103)	(33,103)	-
Administrative expense	-	(229)	229
Other changes	-	(37)	37
Net changes	<u>25,990</u>	<u>24,587</u>	<u>1,403</u>
Balances at end of year	<u>\$ 657,873</u>	<u>\$ 639,916</u>	<u>\$ 17,957</u>

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	Total Pension Liability (a)	2018 Increase (Decrease) Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at beginning of year	\$ 608,900	\$ 559,295	\$ 49,605
Changes for the year			
Service cost	9,355	-	9,355
Interest	43,369	-	43,369
Difference between expected and actual experience	1,420	-	1,420
Assumption changes	-	-	-
Contributions - employer	-	17,893	(17,893)
Contributions - employee	-	215	(215)
Net investment income	-	68,867	(68,867)
Benefit payments, including refunds	(31,161)	(31,161)	-
Administrative expense	-	(159)	159
Other changes	-	379	(379)
Net changes	22,983	56,034	(33,051)
Balances at end of year	\$ 631,883	\$ 615,329	\$ 16,554

Sensitivity of the Net Pension Liability to Changes in the Discount Rate (in thousands)

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.

	1% Decrease 6.25%	Current Single Discount Rate Assumption 7.25%	1% Increase 8.25%
Total Pension Liability	\$ 741,785	\$ 657,873	\$ 587,941
Plan Fiduciary Net Position	639,916	639,916	639,916
Net Pension Liability/(Asset)	\$ 101,869	\$ 17,957	\$ (51,975)

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

For the year ended September 30, 2019, City Utilities recognized pension expense of \$18.2 million dollars. City Utilities reported deferred outflows and inflows of resources related to the pension plan from the following sources (in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 4,710	\$ (2,461)
Assumption changes	4,577	-
Net difference between projected and actual earnings on pension plan investments	-	(15,441)
Contributions subsequent to the measurement date*	<u>4,837</u>	<u>-</u>
	<u><u>\$ 14,124</u></u>	<u><u>\$ (17,902)</u></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 Total Pension Liability for the year ending September 30, 2020.

For the year ended September 30, 2018, City Utilities recognized pension expense of \$18.0 million dollars. City Utilities reported deferred outflows and inflows of resources related to the pension from the following sources (in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 2,035	\$ (4,653)
Assumption changes	8,803	-
Net difference between projected and actual earnings on pension plan investments	-	(16,153)
Contributions subsequent to the measurement date*	<u>4,810</u>	<u>-</u>
	<u><u>\$ 15,648</u></u>	<u><u>\$ (20,806)</u></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 Total Pension Liability for the year ending September 30, 2019.

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

2020		\$	1,526
2021			(8,211)
2022			(3,656)
2023			1,726
2024			-
			-
Total		\$	(8,615)

Payable to the Pension Plan

At September 30, 2019 and 2018, City Utilities reported a payable of \$1.8 and \$1.7 million, respectively, for the outstanding amount of contributions to the pension plan required for the year end.

Note 6: Purchase Obligations

Obligations to Purchase Electric Power and Energy

Diamond Vista Wind Project

Effective January 10, 2018, City Utilities has a purchased power agreement with Diamond Vista Wind Project to receive power through January 10, 2038. CU agrees to purchase power from the 97.65 MW capacity wind generation facility at a fixed price. The average cost was \$360,000 per month for fiscal year ended September 30, 2019.

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, 2019 and 2018, the average cost was \$921,000 and \$1,034,000, respectively, 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, 2019 and 2018, the cost of peaking capacity was \$2.7 million and \$2.7 million, respectively, and the minimum for peaking energy was \$946,000 and \$1.0 million, respectively, for the year. The peaking rate is periodically adjusted.

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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, 2019 and 2018, City Utilities had sales of \$14.9 million and \$26.3 million, respectively, and purchased power of \$25.3 million and \$18.4 million, respectively. 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 2019 and 2018 of \$663,000 and \$711,000, respectively, per month.

Obligations to Purchase Coal

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 \$10.7 million, and \$6.2 million for calendar years 2018 and 2019, respectively. As of September 30, 2019, City Utilities had purchased \$7.3 million of coal for the contract period ending December 31, 2019. Management does not believe the minimum tonnage requirement will be met for calendar year 2019 and plans to exercise its option to defer 100,000 tons of coal into 2020. A liability will be recorded upon delivery of the coal or if management determines we will not meet contract requirements.

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On August 23, 2018, an additional Confirmation Letter Agreement was executed for the purchase of coal from the Black Thunder Mine during the period of August 1, 2018 through December 31, 2020. Under the terms of this agreement, City Utilities' coal purchase obligation is \$7.1 million, \$8.3 million, and \$7.4 million for calendar years 2018, 2019, and 2020, respectively. As of September 30, 2019, City Utilities had purchased \$5.5 million of coal for the contract period ending December 31, 2019. Management believes the minimum tonnage requirement will be met for calendar year 2019.

Obligations to Purchase Rail Services

BNSF Railway Company

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, and October 8, 2018 amendments were made to the agreement. Under the terms of these agreements, City Utilities declared a tonnage nomination of 811,000 during the period of January 2, 2015 through August 14, 2018, then 900,000 tons for August 15, 2018 through December 31, 2022. As of September 30, 2019, City Utilities had tendered coal tonnage of 805,663 tons for the agreement period ending December 31, 2019. Management believes the minimum tonnage requirement will be met for calendar year 2019.

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.

Obligations for Purchased Natural Gas

Public Energy Authority of Kentucky (PEAK)

During the fourth quarter of 2018, City Utilities entered into a 30-year gas supply contract with the Public Energy Authority of Kentucky (PEAK) for approximately 17 percent of our annual gas requirements. PEAK completed a 30-year natural gas pre-pay transaction using tax exempt bond financing that closed on September 25, 2018; City Utilities was a participant in the deal. Gas flows began on April 1, 2019, and City Utilities will achieve total gas costs savings of \$4 million versus market prices over the initial term of the deal. The last date of gas flow in the initial term of the deal is November 30, 2024, which is approximately 5.67 years. At the conclusion of the initial 5.67 year term, PEAK, and the counterparty to the transaction, will negotiate an extension of the contractual gas discounts based on future interest rate levels at that time. City Utilities is not required to purchase gas after the initial term unless the discount to market is \$0.20 per Dth or greater; parties to the agreement believe that it is probable that volumes will be taken for the full 30-year duration of the agreement.

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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, 2019, TEA was comprised of seven municipal utilities with equity interests, including five large partners with ownership interests of 17.65% 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 and the Gainesville Regional Utilities (Florida) are medium equity partners with ownership interests of 5.88% each. Effective January 1, 2019, Public Utility District No. 1 of Cowlitz County, Washington, withdrew membership from TEA, which increased City Utilities equity interest from 5.56% to 5.88%. 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.

For the year ended September 30, 2019, total net position of TEA was approximately \$40 million, a decrease of \$1 million 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 City Utilities 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, 2019 and 2018, the estimated cost of providing such services was \$12.4 million and \$12.0 million, respectively.

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 broadband services. Amounts expended for the industrial centers are accounted for using the equity method and are recorded in other noncurrent

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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, 2019, City Utilities had incurred \$2.2 million for land and improvements, recognized losses of \$147,000 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, 2019, anticipated capital expenditures for improvements during the 2020 fiscal year are estimated to be approximately \$110.0 million. Major capital initiatives include installation of Advanced Metering Infrastructure, replacement of natural gas mains and water mains, and the SpringNet network expansion.

Note 10: Air Quality Standards

The Clean Air Act Amendments of 1990 (the Act) mandated reduced sulfur dioxide (SO₂) and nitrogen dioxide (NO_x) emissions from electric utility power plants. The Act established a market-based compliance program which allows the selling and trading of SO₂ 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, 2019. 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 SO₂ and NO_x 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 SO₂ and NO_x 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_x and 2010 and 2015 for SO₂. As recommended by a compliance study, City Utilities successfully installed NO_x 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

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CAIR requirements that ended in 2014. In 2018, the CAIR rules were rescinded by Missouri Department of Natural Resources (MDNR) and approved by Missouri Air Conservation Commission (MACC). MDNR requested EPA remove these rules from the State Implementation Plan (SIP) since compliance under the regulations are no longer enforceable.

In July 2011, EPA promulgated the Cross-State Air Pollution Rule (CSAPR) to replace CAIR. CSAPR 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 CSAPR, 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 CSAPR. The D.C. Circuit Court of Appeals ordered that EPA's motion to lift the stay of CSAPR was approved on October 23, 2014. Following the Court's order, EPA issued an administrative rule that tolls CSAPR compliance schedules by three (3) years.

Phase 1 of CSAPR began January 1, 2015, and Phase 2 implementation began on January 1, 2017. Further, based on the "good neighbor" policy under the Act, Missouri's CSAPR ozone season (OS) NO_x allowances were reduced an additional 27 percent from the original Phase 2 emission levels that began May 1, 2017. Although the "CSAPR Update" was challenged in the D.C. Circuit, these additional reductions are deemed necessary for downwind regions of the U.S. to meet the 2008 National Ambient Air Quality Standard (NAAQS) for ozone. Based on expected unit allocations (i.e., SO₂, NO_x, and OS NO_x) and operational forecasts, City Utilities holds sufficient allowances for its generating assets. Management believes that City Utilities is in full compliance with 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, our analysis indicated the need to install new capital control equipment totaling \$33 million spread over fiscal years 2013-2016 to 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' upgrades were completed in September 2015. Additionally, semi-continuous mercury monitoring equipment was procured, installed and certified at JTEC ahead of the compliance deadline. In 2015, prior to the effective date of impending more 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 removed the units as affected sources under MATS and the industrial boiler MACT provisions. These changes were approved by MDNR and codified in the Title V Operating Permit for JRPS (OP2016-003) dated January 29, 2016. 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 regulate power plants under Section 112(n)(1)(A) of the Act. 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

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ultimate fate of the rule. In February 2019, the current administration made efforts in a proposed rulemaking to address the Court's finding of "appropriate and necessary" that would include cost considerations. Currently, the rule remains in effect. Management believes that City Utilities is fully compliant with the MATS monitoring, reporting, and notification requirements.

Other Standards

In June 2014, EPA proposed regulations to govern emissions of carbon dioxide (CO₂) from fossil fuel power plants. In August 2015, EPA finalized regulations referred to as the Clean Power Plan (CPP) for the sole purpose of reducing carbon dioxide emissions from the utility sector. On October 23, 2015, the final rule was published in the Federal Register requiring States to cut their CO₂ emissions 32% from 2005 levels by 2030. The rule became effective December 22, 2015. In February 2016, the United States Supreme Court stayed implementation of the CPP rule until after all legal challenges were satisfied. In September 2016, the U.S. Court of Appeals for the District of Columbia Circuit heard oral arguments on the merits of the CPP. However, 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 Act. 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. The Court paused ruling on the litigation until EPA has time to revise the regulation.

On August 21, 2018, the EPA proposed the Affordable Clean Energy (ACE) rule that would curb CO₂ emissions from existing sources but not to the extent and levels proposed under the CPP. On July 8, 2019, EPA published in the *Federal Register* the proposed rule repealing the CPP, provided emission guidelines for controlling CO₂ emissions from existing Electric Generating Units by finalizing the ACE rule, including revisions to the state implementing regulations. The rule became effective on September 6, 2019. The rule was legally challenged by environmental and public health groups, 21 state attorney generals, including the District of Columbia. City Utilities is closely following the comment process at both the state and federal levels to affect positive regulatory changes impacting the utility industry.

In addition to uncertainties over future SO₂ and NO_x 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 EPA 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 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 (2) years, as 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 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

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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 soils have been capped with a vegetative cover. Groundwater monitoring provisions under the rule were met in October 2017. The initial annual report was certified in January 2018. CU continues to conduct required sampling, analyses and validation of the groundwater monitoring data. Currently, City Utilities is under assessment monitoring provisions for both its JRPS and JTEC utility waste landfills. Management expects to fully meet the on-going compliance schedule outlined in the federal regulation for CCR landfills.

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.

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, 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 had only one property insurance recovery over the past three years.

City Utilities has self-insured retention of \$300,000 for Director's and Officer's Liability with a limit of \$20,000,000. Additionally, CU carries a Fiduciary and Employee Benefits Liability limit of \$10,000,000 over its self-insured retention of \$25,000. For Employment Practices Liability, City Utilities purchases a limit of \$10,000,000 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 \$1,650,000 per employee.

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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.

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.

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Recurring Measurements

The following table presents the fair value measurement of assets 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, 2019 and 2018 (in thousands):

	2019			Total
	Level 1	Level 2	Level 3	
Investments by Fair Value Level				
Debt securities				
U.S. Treasury securities	\$ -	\$ 70,651	\$ -	\$ 70,651
U.S. agency securities	-	15,234	-	15,234
Mortgage-backed securities	-	148,337	-	148,337
Total debt securities	<u>\$ -</u>	<u>\$ 234,222</u>	<u>\$ -</u>	<u>\$ 234,222</u>
Derivative Instruments				
Price risk management assets				
Natural gas options - long	\$ 1,119	\$ -	\$ -	\$ 1,119
Natural gas futures - long	(4,187)	-	-	(4,187)
Total price risk management assets	<u>(3,068)</u>	<u>-</u>	<u>-</u>	<u>(3,068)</u>
Total derivative instruments	<u>\$ (3,068)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (3,068)</u>
	2018			Total
	Level 1	Level 2	Level 3	
Investments by Fair Value Level				
Debt securities				
U.S. Treasury securities	\$ -	\$ 82,041	\$ -	\$ 82,041
U.S. agency securities	-	14,732	-	14,732
Mortgage-backed securities	-	127,508	-	127,508
Total debt securities	<u>\$ -</u>	<u>\$ 224,281</u>	<u>\$ -</u>	<u>\$ 224,281</u>
Derivative Instruments				
Price risk management assets				
Natural gas options - long	\$ 730	\$ -	\$ -	\$ 730
Natural gas futures - long	(2,769)	-	-	(2,769)
Total price risk management assets	<u>(2,039)</u>	<u>-</u>	<u>-</u>	<u>(2,039)</u>
Total derivative instruments	<u>\$ (2,039)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (2,039)</u>

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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.

As of September 30, 2019, City Utilities held financial instruments that were purchased to reduce or hedge the volatility of natural gas costs for fiscal years 2019 through 2022. At September 30 2019, 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. At September 30, 2019 and 2018, the net value of these financial instruments were (\$3.1 million) and (\$2.0 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, 2019 and 2018, TCR's were used as factors in the cost of transmission and met the normal purchase and normal sales scope exception.

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Note 14: Subsequent Events

SpringNet Expansion

In November 2019, a financing agreement to fund the SpringNet Expansion Project was completed. City Utilities will expand its fiber optic network to enable affordable, reliable high-speed broadband service to the Springfield Community. The investment to support economic development and provide gigabit broadband services to our customers is estimated at \$120 million over the next four years. The financing agreement is for a three-and-a-half year lease facility to borrow up to \$90.0 million. No rate increases will be implemented to fund the network expansion.

Retirement of James River Power Station

In December 2019, City Utilities Board of Public Utilities approved the retirement of James River Power Station units #4 & #5, subject to approval by the Southwest Power Pool. City Utilities plans to seek regulatory recovery for amounts that have not been previously recovered when these assets are retired. Retirements of these units are planned for December 2020, subject to approval by Southwest Power Pool.

Required Supplementary Information

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Required Supplementary Information

Schedule of City Utilities' Changes in Net Pension Liability and Related Ratios
September 30, 2019 and 2018
(In Thousands)

	2019	2018	2017	2016	2015
Total Pension Liability					
Service cost	\$ 9,418	\$ 9,355	\$ 9,198	\$ 9,188	\$ 8,936
Interest on the total pension liability	44,968	43,369	41,854	39,582	37,903
Difference between expected and actual experience	4,707	1,420	(460)	(10,678)	4,040
Assumption changes	-	-	-	21,480	-
Benefit payments, including refunds	(33,103)	(31,161)	(28,445)	(28,026)	(27,684)
Net Change in Total Pension Liability	<u>25,990</u>	<u>22,983</u>	<u>22,147</u>	<u>31,546</u>	<u>23,195</u>
Total Pension Liability, beginning of year	<u>631,883</u>	<u>608,900</u>	<u>586,753</u>	<u>555,207</u>	<u>532,012</u>
Total pension liability, end of year	<u>657,873</u>	<u>631,883</u>	<u>608,900</u>	<u>586,753</u>	<u>555,207</u>
Plan Fiduciary Net Position					
Contributions - employer	18,199	17,893	17,583	16,984	17,178
Contributions - employee	-	215	349	119	-
Pension plan net investment income	39,757	68,867	59,811	(993)	10,265
Benefit payments, including refunds	(33,103)	(31,161)	(28,445)	(28,026)	(27,684)
Pension plan administrative expense	(229)	(159)	(157)	(155)	(170)
Other	(37)	379	1,270	42	(5,652)
Net Change in Plan Fiduciary Net Position	<u>24,587</u>	<u>56,034</u>	<u>50,411</u>	<u>(12,029)</u>	<u>(6,063)</u>
Plan Fiduciary Net Position, Beginning of Year	<u>615,329</u>	<u>559,295</u>	<u>508,884</u>	<u>520,913</u>	<u>526,976</u>
Plan Fiduciary Net Position, End of year	<u>639,916</u>	<u>615,329</u>	<u>559,295</u>	<u>508,884</u>	<u>520,913</u>
City Utilities Net Pension Liability - Ending	<u>\$ 17,957</u>	<u>\$ 16,554</u>	<u>\$ 49,605</u>	<u>\$ 77,869</u>	<u>\$ 34,294</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	97.27%	97.38%	91.85%	86.73%	93.82%
Covered Employee Payroll	\$ 78,710	\$ 78,335	\$ 77,436	\$ 75,517	\$ 74,330
Net Pension Liability as a Percentage of Covered Employee Payroll	22.81%	21.13%	64.06%	103.11%	46.14%

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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Required Supplementary Information
Schedule of City Utilities' Contributions
September 30, 2019 and 2018
(In Thousands)

Fiscal Year	Actuarially Determined Contribution	Contribution in Relation	Contribution Deficiency*	Covered Employee Payroll	Contribution as Percentage
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	(0)	79,356,369	21.80%
2018	18,092,034	18,092,036	(2)	79,351,026	22.80%
2019	18,150,142	18,150,143	(1)	79,956,573	22.70%

* 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, 2019

Notes:

The roll-forward of total pension liability from February 28, 2019, to June 30, 2019, 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 10 to 16 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
Conditions

Experience-based table of rates that are specific to the type of eligibility

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Required Supplementary Information
Schedule of City Utilities' Contributions
September 30, 2019 and 2018
(In Thousands)

Mortality

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

Both the post-retirement and pre-retirement 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.

Other Information

None

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
(A Component Unit of the City of Springfield, Missouri)
Combining Schedule of Revenues, Expenses and Changes in Net Position
Year Ended September 30, 2019
(In Thousands)

	Electric	Natural Gas	Trans- portation	SpringNet	Water	Eliminations	Total
Operating revenues	\$ 306,218	\$ 99,207	\$ 1,027	\$ 15,515	\$ 52,159	\$ (16,378)	\$ 457,748
Operating expenses							
Production fuel and purchased power	103,577	-	-	-	-	(10,134)	93,443
Natural gas purchased for resale	-	58,872	-	-	-	-	58,872
Other production	13,162	-	-	-	7,069	(2,578)	17,653
Distribution and transmission	25,193	8,662	-	-	4,581	(2,263)	36,173
Bus and garage operations	-	-	6,207	-	-	(305)	5,902
Other services	10	-	-	5,417	-	(297)	5,130
Customer accounts	5,806	3,562	-	18	3,552	(187)	12,751
Administrative and general	19,245	4,564	1,935	2,668	5,840	(579)	33,673
Maintenance	34,406	3,946	1,491	-	7,084	(1)	46,926
Depreciation and amortization	44,662	6,702	2,571	3,552	7,014	-	64,501
Payments in lieu of taxes	8,882	3,553	41	-	2,083	-	14,559
Other taxes	-	6	-	598	-	-	604
Total operating expenses	<u>254,943</u>	<u>89,867</u>	<u>12,245</u>	<u>12,253</u>	<u>37,223</u>	<u>(16,344)</u>	<u>390,187</u>
Operating income	<u>51,275</u>	<u>9,340</u>	<u>(11,218)</u>	<u>3,262</u>	<u>14,936</u>	<u>(34)</u>	<u>67,561</u>
Nonoperating revenues (expenses)							
Interest income							6,218
Net increase in fair value of investments							11,421
Investment loss							(1,314)
Interest expense, net							(21,997)
Operation of recreational facilities, net						34	(312)
Amortization of debt-related costs							2,354
Other, net							2,900
Net nonoperating revenues (expenses)						<u>34</u>	<u>(730)</u>
Change in net position before contributions						<u>-</u>	<u>66,831</u>
Capital contributions							
Contributions in aid of construction	454	680	51	402	992	-	2,579
Donated property	530	190	-	-	194	-	914
Reduction of plant costs recovered through contributions	(984)	(870)	-	(402)	(1,186)	-	(3,442)
Net capital contributions	<u>-</u>	<u>-</u>	<u>51</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>51</u>
Change in net position							66,882
Net position							
Beginning of year							<u>1,135,977</u>
End of year							<u>\$ 1,202,859</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, 2018
(In Thousands)

	Electric	Natural Gas	Trans- portation	SpringNet	Water	Eliminations	Total
Operating revenues	\$ 316,278	\$ 90,519	\$ 1,049	\$ 14,962	\$ 53,328	\$ (16,462)	\$ 459,674
Operating expenses							
Production fuel and purchased power	108,327	-	-	-	-	(9,977)	98,350
Natural gas purchased for resale	-	53,221	-	-	-	-	53,221
Other production	14,415	-	-	-	7,769	(2,915)	19,269
Distribution and transmission	25,495	8,291	-	-	4,521	(2,142)	36,165
Bus and garage operations	-	-	6,140	-	-	(311)	5,829
Other services	1	-	-	4,981	-	(301)	4,681
Customer accounts	5,391	3,380	-	14	3,447	(179)	12,053
Administrative and general	17,673	3,894	1,544	2,402	5,118	(615)	30,016
Maintenance	30,224	3,682	1,421	-	7,439	(1)	42,765
Depreciation and amortization	43,571	6,476	2,299	3,520	6,790	-	62,656
Payments in lieu of taxes	9,783	3,252	42	-	2,124	-	15,201
Other taxes	-	10	-	507	-	-	517
Total operating expenses	<u>254,880</u>	<u>82,206</u>	<u>11,446</u>	<u>11,424</u>	<u>37,208</u>	<u>(16,441)</u>	<u>380,723</u>
Operating income	<u>61,398</u>	<u>8,313</u>	<u>(10,397)</u>	<u>3,538</u>	<u>16,120</u>	<u>(21)</u>	<u>78,951</u>
Nonoperating revenues (expenses)							
Interest income							5,231
Net increase in fair value of investments							(7,250)
Investment loss							(1,317)
Interest expense, net							(23,586)
Operation of recreational facilities, net						21	(318)
Amortization of debt-related costs							2,354
Other, net							2,306
Net nonoperating revenues (expenses)						<u>21</u>	<u>(22,580)</u>
Change in net position before contributions						<u>-</u>	<u>56,371</u>
Capital contributions							
Contributions in aid of construction	2,658	893	4,582	494	1,268	-	9,895
Donated property	510	252	-	-	443	-	1,205
Reduction of plant costs recovered through contributions	<u>(3,168)</u>	<u>(1,145)</u>	<u>-</u>	<u>(494)</u>	<u>(1,711)</u>	<u>-</u>	<u>(6,518)</u>
Net capital contributions	<u>-</u>	<u>-</u>	<u>4,582</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,582</u>
Change in net position							60,953
Net position							
Beginning of year							<u>1,075,024</u>
End of year							<u>\$ 1,135,977</u>