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

## Independent Auditor's Report and Financial Statements

September 30, 2023

# City Utilities of Springfield, Missouri
## September 30, 2023

### Contents

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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

## *Opinion*

We have audited the financial statements of City Utilities of Springfield, Missouri (City Utilities), a component unit of the City of Springfield, Missouri, as of and for the year ended September 30, 2023, and the related notes to the financial statements, which collectively comprise City Utilities' basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of City Utilities, as of September 30, 2023, and the changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## *Basis for Opinion*

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are required to be independent of City Utilities, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## *Responsibilities of Management for the Financial Statements*

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about City Utilities' ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

### *Auditor's Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit 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 City Utilities' internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about City Utilities' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and pension information be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, 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 audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise City Utilities' basic financial statements. The accompanying supplementary information including the combining schedule of revenues, expenses, and changes in net position for the year ended September 30, 2023, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such 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. The 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.

FORVIS, LLP

Springfield, Missouri
January 10, 2024

# City Utilities of Springfield, Missouri
## (A Component Unit of the City of Springfield, Missouri)
## Management's Discussion and Analysis
## September 30, 2023

City Utilities of Springfield, Missouri (City Utilities or the "Utility" or "CU") 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 year ended September 30, 2023. 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. As of September 30, 2023, City Utilities served approximately 121,000 electric, 85,000 natural gas and 85,000 water customers in the Springfield metropolitan area. This represents customer growth of approximately 0.8% for fiscal year 2023. In addition, City Utilities provided transportation for over 1.0 million bus passengers and had over 1,800 telecommunication/broadband contracts.

### *Financial Highlights*

| | 2023 | 2022 |
|---|---|---|
| Net position (equity) | $1.4 billion | $1.4 billion |
| Change in net position (net income) | $31 million | $19 million |
| Capital expenditures | $74.4 million | $125.9 million |
| Peak demand | | |
| Electric – maximum hourly peak demand | 779 megawatts | 776 megawatts |
| Natural gas – maximum daily throughput peak | 129,376 dekatherms | 117,164 dekatherms |
| Water – maximum daily pumpage | 44.0 million gallons | 50.0 million gallons |
| Credit ratings as follows: | | |
| Fitch | AA | AA |
| S&P Global Ratings: | | |
| Revenue Bonds | AA+ | AA+ |
| Certificates of Participation | AA | AA |

### *Financial Statements*

This report contains three basic financial statements and related notes. The *Statement of Revenues, Expenses and Changes in Net Position* presents City Utilities' results of operations and changes in net position for fiscal year ended September 30, 2023. The *Statement of Net Position* presents City Utilities' financial condition, assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position as of September 30, 2023. The *Statement of Cash Flows* presents City Utilities' sources and uses of cash for the fiscal year ended September 30, 2023. The *Notes to Financial Statements* are an integral part of the basic financial statements and contain information on accounting principles and other matters necessary for a more complete understanding of City Utilities' financial position.

### *Discussion and Analysis*

**Major Projects**

Total capital spending for the fiscal year ended 2023 was $56.9 million in direct costs, excluding overheads. Investment in capital expenditures demonstrates the Utility's continued focus on community investments. The completion of the SpringNet Expansion Project, the Grant Avenue Parkway enhancements, and the Advanced Metering Infrastructure initiatives demonstrates this commitment. For 2023, the Utility continued to focus on replacing aging infrastructure. To ensure continued reliability, spending on electric infrastructure included pole and distribution transformer replacements. In addition, on-going investments were made for renewals of the natural gas and water mains and services during the year.

Major capital projects are those projects that are non-recurring, have fluctuations in spending from year to year, or are a new initiative. Each major project supports at least one strategic goal. The Utility focuses on the following strategic goals: Responsibility, Dependability, Excellence, Growth, Innovation, and Diversification.

### Electric

City Utilities is committed to investing in the Springfield community. One of the projects currently underway is the Grant Avenue Parkway Project. This project will create an off-street pedestrian and bicycle pathway connecting parks and recreation for residents and visitors. City Utilities is investing over $4.0 million in undergrounding of electric facilities along the three-mile corridor. In 2023, capital spending on this project was $1.5 million. Design and construction are expected to be completed in 2024. Upon completion of the project, partial reimbursement will be received from the City of Springfield.

Investment in electric infrastructure continued in fiscal year 2023 with the repair and replacement of 543 electric poles costing $2.2 million. To ensure continued reliability to our customers, $19.5 million is planned for pole replacement over the next five years as we move towards a 50-year pole replacement cycle.

During 2023, we invested $2.9 million in distribution transformers to support new capital projects, maintenance, and storm restoration. To continue to meet the reliability needs of our customers, an additional $10.0 million is expected to be spent through 2028. In addition, the substation transformer replacement project to replace substation transformers that are nearing or beyond their expected useful life will resume in 2024 with $8.2 million budgeted through 2028.

To responsibly serve our customers, a NOx emission reduction project was initiated in 2023. This multi-year project to purchase and install Selective Catalytic Reduction (SCR) systems will reduce oxides of nitrogen emissions for John Twitty Energy Center Units 1 and 2. During 2023, $1.2 million was spent on the purchase of the SCR module. Total estimated cost to complete this project to comply with NOx emission reduction environmental regulations is $3.8 million and will be completed in 2028.

## Natural Gas

The multi-year Advanced Metering Infrastructure (AMI) natural gas project reached 99% completion status at the end of fiscal year 2023 with spending of $1.4 million for the year. AMI allows for remote, two-way communication between natural gas meters and City Utilities. This infrastructure enables an array of advanced services including customer interval data which helps customers understand usage and promotes energy efficiency for our customers. This project will be completed in fiscal year 2024.

To ensure continued dependability and address aging natural gas piping systems, $4.9 million was invested in natural gas main and service renewals during the year. Natural gas mains are being renewed due to age, leak history, and risk potential. Through 2028, $37.2 million is planned for natural gas renewals which includes grant funding from the Pipeline and Hazardous Materials Safety Administration (PHMSA) of approximately $10.0 million for main renewals.

## Water

The water AMI project was completed in 2023 with current year expenditures of $900,000. This project allows for two-way communication between water meters and City Utilities. This initiative includes meters and associated communication equipment to encourage efficiency by providing customer interval data and conserves water resources by identifying and detecting water leaks.

Our water main and service renewal program replaces water mains that have a history of leaks or an increased risk for leaks in the future. Every year water mains break due to age, weather, corrosion, ground movement or damages. Water main renewal projects are coordinated with natural gas main renewals to reduce costs through joint trenching efforts. During 2023, $7.7 million was spent replacing or repairing water mains and services. Over the next five years, $49.4 million is budgeted to replace water distribution infrastructure to ensure dependability of water service to our customers.

City Utilities will receive a $3.5 million reimbursement through the Environmental Protection Agency (EPA) to complete the 12-mile 48" raw water main connecting Fellows Lake to Blackman Water Treatment Plant. This will provide redundancy to the existing infrastructure between Fellows Lake and Blackman Water Treatment Plant and is expected to be completed in 2024.

## SpringNet

The SpringNet Fiber Expansion Project was completed in fiscal year 2023. City Utilities provided access to highspeed broadband services by installing the backbone network so private telecommunication providers could offer gigabit internet access to the Springfield community. This project also supports future economic development efforts by offering gigabit internet access to current and future businesses. Costs incurred for the current year were $3.6 million. Total direct costs of the multi-year project were $147.8 million.

To further support economic development, $1.5 million was spent on revenue generating projects for broadband services during the year. Additional investment of $6.5 million is planned to enable SpringNet to meet customer demand for broadband services and to generate additional revenues through growth.

# City Utilities of Springfield, Missouri
## (A Component Unit of the City of Springfield, Missouri)
## Management's Discussion and Analysis
## September 30, 2023

**Net Position (Equity)**
**(In Thousands)**

| | 2023 | 2022 |
|---|---|---|
| Assets | | |
| Net capital assets | $ 1,700,743 | $ 1,695,672 |
| Current and other assets | 591,691 | 545,098 |
| Total assets | 2,292,434 | 2,240,770 |
| Deferred outflows of resources | 51,319 | 53,501 |
| Total assets and deferred outflows | 2,343,753 | 2,294,271 |
| Less liabilities | | |
| Long-term obligations | 517,805 | 553,511 |
| Other liabilities | 120,779 | 119,756 |
| Total liabilities | 638,584 | 673,267 |
| Deferred inflows of resources | 272,514 | 219,089 |
| Total liabilities and deferred inflows | 911,098 | 892,356 |
| Net position | | |
| Net investment in capital assets | 1,074,666 | 1,044,412 |
| Restricted for debt service | 5,358 | 6,422 |
| Restricted for net pension asset | 31,248 | 60,551 |
| Unrestricted | 321,383 | 290,530 |
| Total net position | $ 1,432,655 | $ 1,401,915 |

### Long-Term Obligation Activity

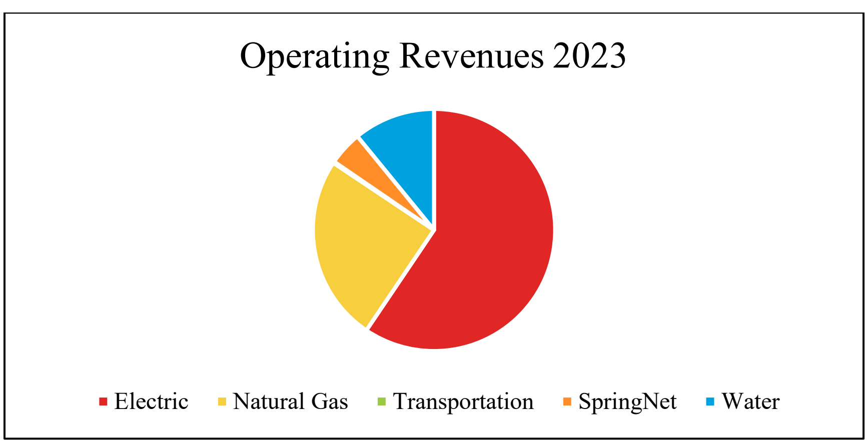
During fiscal year 2023, City Utilities did not enter any new long-term debt obligations. See Note 4, Long-Term Obligations, for additional information.

### Operating Results – Revenues

There were no base rate increases effective for electric, natural gas or water for fiscal year 2023. City Utilities' revenues are impacted by fuel costs, weather, customer usage, and customer growth. During fiscal year 2023, City Utilities' customers experienced a mild winter, lower natural gas prices during the latter half of the fiscal year, and a slightly warmer than normal summer. Electric off-system sales decreased in fiscal year 2023 compared to the prior year due to lower market prices. In comparison, during fiscal year 2022, natural gas prices were elevated resulting in higher-than-expected natural gas revenues despite a warmer than normal winter.

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

| | Operating Revenues (In Thousands) 2023 | 2022 |
|---|---|---|
| Operating revenue | | |
| Electric | $ 325,986 | $ 336,373 |
| Natural Gas | 136,716 | 151,141 |
| Transportation | 1,030 | 888 |
| SpringNet | 24,916 | 21,731 |
| Water | 59,800 | 58,278 |
| Total operating revenues | $ 548,448 | $ 568,411 |



In fiscal year 2023, our customers experienced a mild winter with heating degree days 6% below normal for the year. Warmer than normal summer weather resulted in cooling degree days 5% higher than normal. Total operating revenue was 4% or $19.9 million below the prior year due to the mild winter and lower natural gas pricing. Lower natural gas prices resulted in lower interdepartmental revenue for natural gas used for electric generation and were $14.0 million less than the prior year. The lower natural gas prices also resulted in lower margins for electric off-system sales resulting in a $2.3 million decrease year over year.

The mild winter weather was mostly offset by the warmer than normal summer, resulting in electric retail sales volumes just 1% lower than the prior year. Electric revenues for residential, commercial, and industrial customers were 2% or $5.3 million lower than the prior year. In addition to the lower retail revenues, off-system sales were lower by $2.3 million due to pricing in the integrated marketplace. Other electric revenues also declined $3.6 million due to the Southwest Power Pool Balance Portfolio contract that expired at the end of fiscal year 2022. In total, electric revenues were 3% below the prior year.

Natural gas revenues decreased $14.4 million due to lower natural gas prices which included a $14.0 million decrease in interdepartmental sales. Due to the lower pricing of natural gas during the year, sales of natural gas to the electric department decreased by 43% as compared to the prior year. Retail natural gas volumes were within 1% of the prior year resulting in retail revenues being comparable to the prior year after consideration of the natural gas fuel cost recovery.

Water operating revenues were up 3% or $1.5 million as compared to 2022 due to a 3% increase in sales volumes. While rainfall for the year was within the normal range, precipitation for April and June were significantly below normal, resulting in an increase in irrigation.

SpringNet revenues were 15% over the prior year due to an increase in lease revenue due to the SpringNet Fiber Expansion Project completed in 2023. Lease revenue increased $2.2 million over the prior year as a result of the completion of the infrastructure project which provides the backbone network for private telecommunication providers to offer highspeed internet access to their customers.

**Operating Results – Operating Expenses**

Total operating expenses decreased $2.6 million from the prior year due to lower generation fuel and purchased gas costs. This decrease was mostly offset by higher purchased power costs and increases in operating expenses and depreciation.

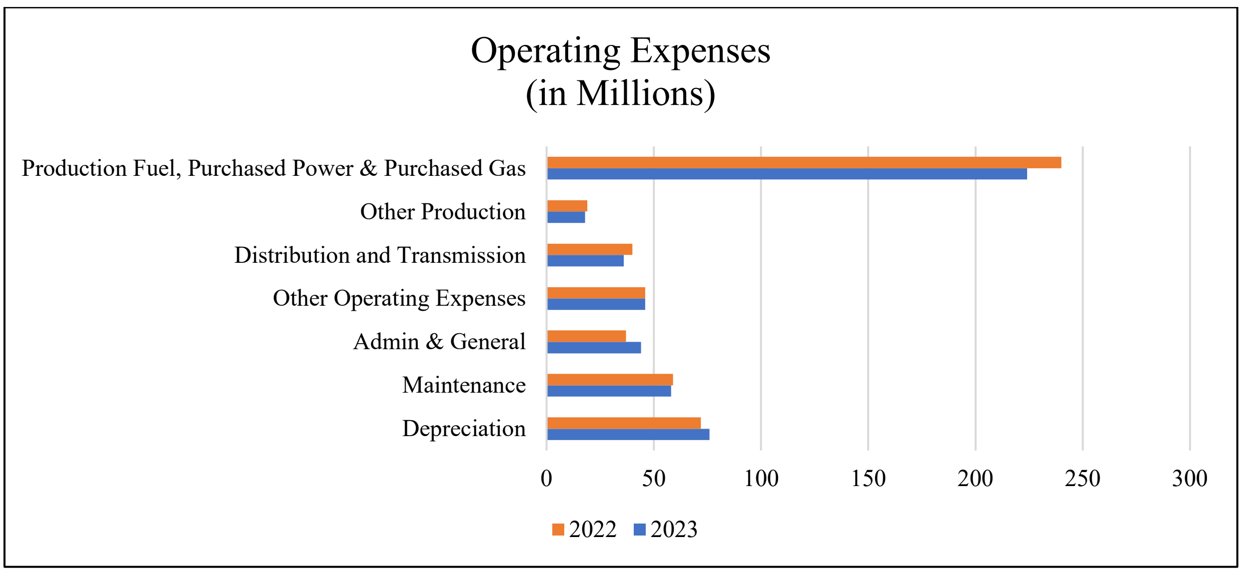
Fuel and purchased power account for 44% of total operating expenses for fiscal year 2023. During 2023, $224.0 million was incurred for generation fuel, purchased power, and natural gas, which is $16.1 million less than the prior year, primarily due to the lower cost of natural gas.

Maintenance expenses decreased 2% compared to the prior year due to a $3.2 million decrease in electric maintenance costs. Maintenance for the John Twitty Energy Center was down from the prior year due to fewer outages for the coal generation units and combustion turbines.

The following table represents City Utilities' operating expenses prior to interdepartmental eliminations:

**Operating Expenses (In Thousands)**

| | 2023 | 2022 |
|---|---|---|
| Operating expenses | | |
| Electric | $ 299,601 | $ 298,211 |
| Natural Gas | 130,786 | 143,387 |
| Transportation | 14,124 | 13,596 |
| SpringNet | 22,796 | 18,965 |
| Water | 44,958 | 40,682 |
| Total operating expenses | $ 512,265 | $ 514,841 |




Total operating expenses were $512.3 million, a decrease of less than 1% compared to the prior year. Lower fuel costs and lower generation resulted in a decrease of $14.2 million in production fuel and a reduction of $14.1 million in purchased gas costs. Lower fuel costs were partially offset by higher purchased power costs of $12.1 million.

Distribution and transmission costs for electric, natural gas, and water were $38.1 million, a decrease of 4% from the prior year. Electric and natural gas distribution and transmission costs decreased as compared to the prior year while water meter expenses resulted in a 4% increase in water distribution and transmission costs for 2023. In total, distribution and transmission costs were down $1.8 million as compared to the prior year.

Total maintenance costs were $58.3 million for 2023, a decrease of $1.3 million from the prior year. Electric maintenance was down as compared to the prior year due to a reduction in power generation outages. Natural gas maintenance costs increased $1.1 million due to an increase in maintenance of natural gas transmission mains. Water maintenance was up 9% mostly attributed to maintenance of water mains. City Utilities remains committed to infrastructure improvements to ensure reliability, safety, and conservation.

Increases to Operating Expenses year over year, included increases to Other Production expenses of $1.4 million, Depreciation of $4.1 million, Administrative and General expenditures of $7.9 million and Other Operating expenses of $2.8 million.

Other production expenses increased due to the increase in Water Other Production expenses due to increased costs for pumping and treatment of water. In addition, total water sales volumes increased 3% over the prior year.

Depreciation increased due to increases in plant, primarily in Electric and SpringNet. Electric experienced a $1.1 million increase in depreciation due to investment in distribution assets. SpringNet had a $2.6 million increase in depreciation due to the investment in the SpringNet Fiber Expansion project that was completed in fiscal year 2023.

Administrative and General expenses increased due to lower capitalization of Administrative and General overheads directly related to fewer capital expenditures. Additionally, significant inflation impacted all components of Administrative and General expenditures.

Operating expenses include Payments in Lieu of Taxes (PILOT) which totaled $18.0 million for the fiscal year ended 2023, a 2% increase over the prior year. City Utilities pays a percentage of billed operating revenues into the general revenue fund of the City of Springfield, as required by the City Charter. These payments are made monthly to the City at a rate of 3% of electric revenue and 4% of natural gas, and transit revenues for the fiscal year. In addition, water makes monthly payments to the City at a rate of 4% of revenue. SpringNet pays an annual right-of-way fee to the City based on linear feet of as-built fiber optic cable in the City's right-of-way.

# City Utilities of Springfield, Missouri
## (A Component Unit of the City of Springfield, Missouri)
## Management's Discussion and Analysis
## September 30, 2023

**Changes in Net Position (Equity)**
**(In Thousands)**

| | 2023 | 2022 |
|---|---|---|
| Operating revenues | $ 523,021 | $ 529,701 |
| Less operating expenses | 486,840 | 476,135 |
| Operating income | 36,181 | 53,566 |
| Nonoperating revenues (expenses) | | |
| Interest income | 7,879 | 4,775 |
| Interest income, leases | 4,184 | 2,747 |
| Investment income | 875 | 4,078 |
| Net decrease in fair market value of investments | (6,336) | (33,789) |
| Interest expense, net | (18,748) | (17,729) |
| Other items, net | 6,561 | 4,151 |
| Nonoperating revenues (expenses) | (5,585) | (35,767) |
| Change in net position before contributions | 30,596 | 17,799 |
| Capital contributions | | |
| Contributions in aid of construction | 4,753 | 3,164 |
| Donated property | 11,169 | 8,180 |
| Reduction of plant costs recovered through contributions | (15,778) | (10,593) |
| Net capital contributions | 144 | 751 |
| Change in net position | 30,740 | 18,550 |
| Net position (equity) | | |
| Beginning of year | 1,401,915 | 1,383,365 |
| End of year | $ 1,432,655 | $ 1,401,915 |

### Change in Net Position

The change in net position for fiscal year 2023 was $30.7 million, $12.2 million more than the prior year. With the increase in interest rates, interest income increased by $3.1 million over the prior year. In 2023, the decrease in fair market value adjustment was $6.3 million as compared to a decrease of $34.0 million in 2022. The Federal Reserve's increase of the federal funds rate negatively impacted our fair market value of investments. This market adjustment is an unrealized loss as City Utilities' investment strategy is to hold investments until maturity.

City Utilities continues to maintain a strong financial position with a net position increase of 2% over the prior year. City Utilities maintains AA credit rating from Fitch Ratings. Standard and Poor's ratings are AA+ for revenue bonds and AA for certificates of participation.

City Utilities continues to utilize available grants for transit operations. The Utility received $5.2 million in Transit Grants during fiscal year 2023, a $1.0 million increase over the prior year.

### Receipts and Disbursements

**September 30, 2023 and 2022**
**(In Thousands)**

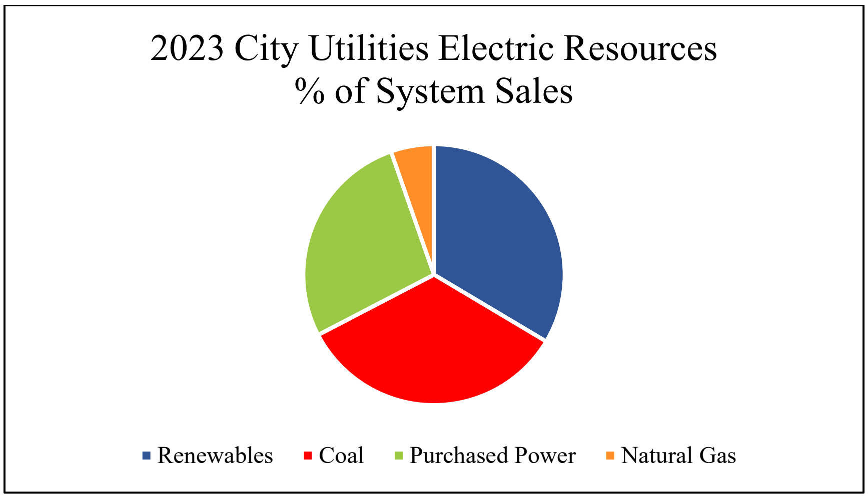
| | 2023 | 2022 |
|---|---|---|
| Receipts | $ 631,237 | $ 619,657 |
| Disbursements | 600,676 | 664,449 |
| Net Receipts (Disbursements) | $ 30,561 | $ (44,792) |

For fiscal year 2023, receipts were $631.2 million, $11.6 million over prior fiscal year due to increases in Collections, Other income, and Miscellaneous Billings. Collections for the City of Springfield for sewer revenue and sales tax were $5.6 million above 2022. Other income, excluding change in fair market value adjustments, increased $4.7 million. Miscellaneous Billings increased $2.3 million as compared to the prior year.

Disbursements were $600.7 million and $63.8 million below the prior year due primarily to decreases in expenditures for fuels and a reduction in capital spending. Production fuel decreased $14.2 million while purchased natural gas costs decreased $14.1 million from the previous year. Due to the completion of the SpringNet Fiber Expansion Project in 2023, capital expenditures decreased $28.5 million. In addition, Electric system capital spending decreased $16.2 million as compared to the prior year. Electric Power Generation capital project spending decreased from $9.2 million to $2.9 million in 2023. Electric Transmission and Distribution spending decreased from $25.5 million to $15.6 million for capital projects.

**Resource Planning and Generation**

City Utilities operates an integrated electric system including generation, transmission, and distribution facilities. City Utilities uses a diverse mix of generation resources including coal, natural gas, hydro, solar and wind to meet our customers' needs. Renewable energy was 34% of system sales in 2023 as compared to 39% for 2022 due to less available wind generation. Coal generation decreased from 40% in 2022 to 34% in 2023 of energy sources.




In 2023, City Utilities' electric generation includes base load availability of 503 MW from two coal-fired steam turbines, peak load availability of 359 MW from six combustion turbines, and 3 MW available from the Noble Hill Landfill Renewable Energy Center.

Supplementing this internal generating capacity, the Utility has contracted the following purchased power agreements:

- Southwest Power Administration (SWPA) - 50 MW
- Smoky Hills Wind Project II – 46.17 MW of wind generation and rights to 50 MW of firm transmission capacity
- Diamond Vista – 97.65 MW of wind generation
- Frontier Windpower – 201.3 MW of wind generation
- Strata Solar - 4.95 MW of solar energy

City Utilities participates in the Southwest Power Pool (SPP) Integrated Marketplace allowing the Utility to purchase and sell electricity within the SPP region. The Integrated Marketplace is designed to improve grid reliability and regional balancing of supply and demand. In addition, owner-membership in The Energy Authority (TEA) continues to prove beneficial for City Utilities' customers. This mix of generation resources allows City Utilities to maintain low prices, provide optimum reliability to customers, and to take advantage of off-system sales opportunities as market conditions allow. City Utilities generated approximately 55% and purchased 45% of its power supply in 2023 compared to generating 60% and purchasing 40% in 2022. Renewable contracts for solar and wind are included as purchased power.

**Significant Future Items**

## Electric

***Rates:***

- Electric rate increases for increased operations and maintenance costs, pole maintenance replacement program and investments in infrastructure have been approved by City Council. The rate increases will be effective for April of 2024, 2025, and 2026 for 4.8%, 4%, and 3.9%, respectively.

***Electric Distribution:***

- Over the next five years, \$19.5 million is budgeted to replace electric poles to increase reliability to our customers. This investment in infrastructure will assist City Utilities in moving towards a 50-year pole replacement cycle.

***Electric Generation:***

- To comply with environmental regulations at John Twitty Energy Center, \$3.8 million has been planned to install Selective Catalytic Reduction modules through 2028.

- Costs to complete planned overhauls at McCartney Generating Station for the combustion turbines are estimated at \$18.4 million over the next five years. These are the first overhauls since the units were placed in service in 2002. This investment in our combustion turbines will help these units in meeting future customer demand and improve the reliability of these generating units.

- To reduce the risk of power supply loss to the area, City Utilities plans to build a new 161kV transmission line from the Republic substation to the Partnership Industrial Center West substation. Completion of the transmission loop is planned for fiscal year 2025 at a cost of \$13.0 million which will increase dependability.

## Natural Gas

***Rates:***

- The Operating Plan projects requirements for natural gas rate increases for fiscal years 2027 and 2028. The rate adjustments will support increasing operations and maintenance costs. In addition, the planned increases will fund capital infrastructure costs.

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

- City Utilities has designated $37.2 million over the next five years for natural gas main and service renewals. This investment will enable City Utilities to continue providing safe, reliable natural gas service to our customers.

# Water

***Rates:***

- Water rate adjustments were approved for fiscal years 2024, 2025, and 2026 of 5.3%, 4.7% and 4%, respectively. These adjustments will support the water main replacement program, address inflationary pressures, and cover increased capital, operation, and maintenance costs. The base rate increase of 5.3% in October 2023 includes a 0.8% increase for a pass-through primacy fee imposed by the Missouri Department of Natural Resources. In addition, a water rate adjustment is proposed for fiscal year 2026 to fund the respective debt service for a water booster station to expand water service east of Springfield, along US Highway 60.

***Water Distribution:***

- To promote economic development and meet future customer demand, design, and construction of a booster pump station along the US Highway 60 corridor is planned at an initial cost of $7.7 million.

***Water Main Renewals:***

- Investments over the next five years are planned for water infrastructure improvements to ensure safe, reliable drinking water. Expenditures of $49.4 million through 2028 are planned for water main and service renewals.

***Water Supply and Treatment***

- To meet future water demand, a booster station is planned for 2028 at an estimated cost of $14.0 million. The booster pump would increase pumpage from 21 to 30 million gallons a day from Stockton Lake to Fellows Lake to maximize the water allocation from Stockton Lake when needed. The cost of this booster station would be eligible for reimbursement from the EPA.

## Transit

***Rates:***

- Transit fare increases are not planned in the upcoming five-year horizon.

***Bus Fleet:***

- To continue to provide reliable transportation services to Springfield and meet increasing demand, $7.6 million has been allocated to purchase six diesel fixed route buses through 2028. The purchase of an additional four electric buses are planned in 2026 which would reach City Utilities' goal of a 25% electric bus fleet.

- To improve the accessibility, functionality, and utility of the Transit system, $1.3 million is planned over the next three years to improve bus shelters and sidewalks to make them more accessible.

## SpringNet

***Revenue Generation:***

- To meet customer demand for broadband services and to promote City Utilities' growth strategy, $6.5 million is planned to respond to new service requests and promote economic development in Springfield through 2028.

**Requests for Information**

This financial report is designed to provide our citizens, customers, creditors, and other stakeholders 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)

## Statement of Net Position

## September 30, 2023

## (in Thousands)

### Assets and Deferred Outflows of Resources

| | |
|---|---|
| **Noncurrent Assets** | |
| Capital Assets | |
| Land | $ 56,312 |
| Electric | 1,538,587 |
| Natural gas | 318,821 |
| Transportation | 34,062 |
| Water | 475,108 |
| Customer service | 17,526 |
| SpringNet | 195,275 |
| Common | 83,168 |
| Total | 2,718,859 |
| Less accumulated depreciation | (1,093,721) |
| Net total | 1,625,138 |
| Construction work in progress | 75,605 |
| Net capital assets | 1,700,743 |
| Leased and Subscription-Based IT Arrangement (SBITA) Assets | |
| Leased and SBITA assets | 2,277 |
| Less accumulated amortization | (965) |
| Net leased and SBITA assets | 1,312 |
| Investments | 181,066 |
| Price risk management assets | 2,703 |
| Unamortized debt expense | 3,071 |
| Net pension asset | 31,248 |
| Lease receivable | 123,080 |
| Other noncurrent assets | 29,272 |
| Total noncurrent assets | 2,072,495 |
| **Current Assets** | |
| Cash | 36,440 |
| Short-term investments | 55,599 |
| Accounts receivable | |
| Customers, less allowance for doubtful accounts of $356 | 31,396 |
| Unbilled revenue | 13,999 |
| Other | 9,689 |
| Lease and interest receivable | 8,497 |
| Inventories | |
| Materials and supplies | 39,643 |
| Coal | 16,833 |
| Natural gas stored underground | 5,285 |
| Emissions consumables | 130 |
| Prepayments and other | 2,428 |
| Total current assets | 219,939 |
| Total assets | 2,292,434 |
| **Deferred Outflows of Resources** | |
| Unamortized loss on reacquired debt | 11,477 |
| Pension related | 37,966 |
| Fair value adjustments in derivative instruments | 1,876 |
| Total deferred outflows of resources | 51,319 |
| Total assets and deferred outflows of resources | $ 2,343,753 |

# City Utilities of Springfield, Missouri
## (A Component Unit of the City of Springfield, Missouri)
## Statement of Net Position
## September 30, 2023
## (in Thousands)

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

| | | |
|---|---|---|
| **Net Position** | | |
| Net investment in capital assets | $ | 1,074,666 |
| Restricted for debt service | | 5,358 |
| Restricted for net pension asset | | 31,248 |
| Unrestricted | | 321,383 |
| Total net position | | 1,432,655 |
| **Long-Term Obligations** | | |
| Long-term obligations | | 492,385 |
| Unamortized debt premium, net of debt discount | | 25,420 |
| Total long-term obligations | | 517,805 |
| **Other Noncurrent Liabilities** | | |
| Vacation and sick leave | | 15,773 |
| Price risk management liabilities | | 1,866 |
| Leases and SBITAs payable | | 416 |
| Other | | 4,622 |
| Total other noncurrent liabilities | | 22,677 |
| **Current Liabilities** | | |
| Current maturities of long-term obligations | | 33,560 |
| Accounts payable | | |
| Trade | | 23,430 |
| Other | | 6,389 |
| Accruals | | |
| Interest | | 3,642 |
| Salaries and wages | | 1,607 |
| Pension contributions and other | | 2,825 |
| Electric purchased power | | 2,405 |
| Natural gas, coal and other fuels | | 5,073 |
| Vacation and sick leave | | 11,294 |
| Leases and SBITAs payable | | 868 |
| Due to City of Springfield, Missouri in lieu of taxes | | 1,470 |
| Customer deposits | | 5,539 |
| Total current liabilities | | 98,102 |
| Total liabilities | | 638,584 |
| **Deferred Inflows of Resources** | | |
| Contributions in aid of construction | | 79,795 |
| Pension related | | 54,764 |
| Leases | | 128,594 |
| Electric fuel and purchased natural gas adjustment | | 9,361 |
| Total deferred inflows of resources | | 272,514 |
| Total net position, liabilities and deferred of resources | $ | 2,343,753 |

# City Utilities of Springfield, Missouri

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

## Statement of Revenues, Expenses and Changes in Net Position

## Year Ended September 30, 2023

### (in Thousands)

| | |
|---|---|
| **Operating Revenues** | |
| Services | $ 488,900 |
| Other | 34,121 |
| Total operating revenues | 523,021 |
| **Operating Expenses** | |
| Production fuel and purchased power | 114,566 |
| Natural gas purchased for resale | 91,252 |
| Other production | 17,854 |
| Distribution and transmission | 35,865 |
| Bus and garage operations | 7,080 |
| Other services | 7,453 |
| Customer accounts | 14,935 |
| Administrative and general | 44,345 |
| Maintenance | 58,284 |
| Depreciation and amortization | 76,232 |
| Payments in lieu of taxes | 18,186 |
| Other taxes | 788 |
| Total operating expenses | 486,840 |
| Operating income | 36,181 |
| **Nonoperating Revenues (Expenses)** | |
| Interest income | 7,879 |
| Net decrease in fair value of investments | (6,336) |
| Investment income | 875 |
| Interest expense, net | (18,748) |
| Interest income from leases | 4,184 |
| Operation of recreational facilities, net | (331) |
| Amortization of debt-related costs | 1,003 |
| Other, net | 5,889 |
| Net nonoperating revenues (expenses) | (5,585) |
| Change in net position before contributions | 30,596 |
| **Capital Contributions** | |
| Contributions in aid of construction | 4,753 |
| Donated property | 11,169 |
| Reduction of plant costs recovered through contributions | (15,778) |
| Net capital contributions | 144 |
| Change in net position | 30,740 |
| **Net Position** | |
| Beginning of year | 1,401,915 |
| End of year | $ 1,432,655 |

# City Utilities of Springfield, Missouri
## (A Component Unit of the City of Springfield, Missouri)
## Statement of Cash Flows
## Year Ended September 30, 2023
## (in Thousands)

| | |
|---|---|
| **Cash Flows from Operating Activities** | |
| Receipts from customers | $ 547,786 |
| Payments to suppliers | (305,831) |
| Payments to employees | (77,513) |
| Payments in lieu of taxes | (18,103) |
| Claims paid | (1,116) |
| Net cash provided by operating activities | 145,223 |
| **Cash Flows from Noncapital Financing Activities** | |
| Receipts from federal and state grants | 5,252 |
| Net cash provided by noncapital financing activities | 5,252 |
| **Cash Flows from Capital and Related Financing Activities** | |
| Cash received from leases | 2,142 |
| Lease and other payments | (160) |
| Capital grants and contributions | 4,752 |
| Additions to utility plant, net of removal | (76,356) |
| Repayment of long-term obligations | (32,145) |
| Interest paid | (19,775) |
| Net cash used in capital and related financing activities | (121,542) |
| **Cash Flows from Investing Activities** | |
| Sale and maturities of investment securities | 447,531 |
| Purchase of investment securities | (473,159) |
| Interest received | 5,960 |
| Equity investment in The Energy Authority | (112) |
| Equity interest in TEA Solutions | (83) |
| Equity investment in Partnership Industrial Center | (39) |
| Distribution from Partnership Industrial Center | 317 |
| Net cash used in investing activities | (19,585) |
| Net increase in cash | 9,348 |
| **Cash, Beginning of Year** | 27,092 |
| **Cash, End of Year** | $ 36,440 |

# City Utilities of Springfield, Missouri
## (A Component Unit of the City of Springfield, Missouri)
## Statement of Cash Flows
## Year Ended September 30, 2023
## (in Thousands)

| | | |
|---|---|---|
| **Reconciliation of Operating Income to Net Cash Provided by Operating Activities** | | |
| Operating income | $ | 36,181 |
| Adjustments to reconcile operating income to net cash provided by operating activities | | |
| Depreciation and amortization expense | | 76,232 |
| Depreciation included in vehicle and power production | | 2,264 |
| Miscellaneous income | | 819 |
| Operation of recreational facilities | | (331) |
| Change in assets, deferred outflows of resources, liabilities, and deferred inflows of resources | | |
| Customer and other accounts receivable | | 2,800 |
| Unbilled revenues | | 629 |
| Recoverable fuel costs | | 27,432 |
| Price risk management assets | | 3,825 |
| Inventories | | (7,390) |
| Prepayments and prepaid insurance | | (268) |
| Other noncurrent assets | | (467) |
| Deferred outflows related to pensions | | (7,456) |
| Accounts payable | | 6,052 |
| Customer deposits | | 388 |
| Accrued liabilities | | (4,564) |
| Net pension asset | | 29,304 |
| Deferred inflows related to pensions | | (21,847) |
| Other noncurrent liabilities | | 1,620 |
| Net cash provided by operating activities | $ | 145,223 |
| **Noncash Capital Financing Activities** | | |
| Capital assets acquired through contributions from developers | $ | 11,169 |
| Capital assets acquisitions included in accounts payable | $ | 6,395 |
| **Noncash Investing Activities** | | |
| Net decrease in fair value of investments | $ | (6,336) |

## 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, telecommunications/broadband, and water departments. As of September 30, 2023, City Utilities serves approximately 121,000 electric customers, 85,000 natural gas customers and 85,000 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 Codification Section Re10, *Regulated Operations,* 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 the 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 Statement of Revenues, Expenses, and Changes in Net Position.

### *Net Position*

Net position is classified into three components – net investment in capital assets, restricted 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. Operating revenues reported in the Statement of Revenues, Expenses and Changes in Net Position are shown net of discounts and estimated allowances for bad debts.

Telecommunications/Broadband offers ethernet and broadband services over its fiber optic network. 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. SpringNet's Fiber Expansion Project provides the backbone network for private telecommunication providers to offer gigabit internet access to the Springfield community.

Operating expenses consist of costs incurred through the provision and delivery of electricity, natural gas, transportation, telecommunications/broadband, and water to customers.

### *Capital Assets and Depreciation*

The cost of additions and betterments of the utility plant is capitalized. Costs include materials, 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.

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 2023 |
|---|---|
| Electric | 2.3% |
| Natural gas | 3.0% |
| Telecommunications/Broadband (SpringNet) | 6.7% |
| Water | 2.0% |

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 40 |
| Common | 5 to 50 |
| Customer service | 9 to 11 |

### *Leased and SBITA Assets*

Lease and SBITA assets are initially recorded at the initial measurement of the lease and SBITA liability, plus pre-payments made at or before the commencement of the term, less any incentives received at or before commencement, plus initial direct costs that are ancillary to place the asset into service. Lease and SBITA assets are amortized on a straight-line basis over the shorter of the term or the useful life of the underlying asset.

### *Capital, Lease, and SBITA Asset Impairment*

City Utilities evaluates capital, lease, and SBITA assets for impairment whenever events or circumstances indicate a significant, unexpected decline in the service utility of a capital, lease, and SBITA asset has occurred. No asset impairment was recognized during the year ended September 30, 2023.

### *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 has adopted GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period* but has elected to continue including the interest incurred before the end of a construction period in the historical cost of the capital assets for our FERC records in accordance with regulatory accounting. Information regarding capitalized interest is as follows (in thousands):

| | |
|---|---|
| Interest expense, gross | $ 19,627 |
| Capitalized interest | (879) |
| Interest expense, net | $ 18,748 |
| Average interest rate | 3.1% |

### *Investments and Investment Income*

Investments in U.S. Treasury securities, Certificates of Deposit 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.

Investment income includes dividend and interest income, realized gains and losses on investments carried at other than fair value and the net change for the year in the fair value of investments carried at fair value.

### *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.

### *Deferred Outflows and Inflows of Resources*

**Unamortized Loss on Reacquired Debt**

Costs incurred in connection with the refinancing of various bond issuances are being amortized over the remaining life of the old bonds or the life of the new bonds, whichever is shorter. Amortization is recorded in nonoperating expenses. As of September 30, 2023, the unamortized loss balance of $11.5 million was recorded as a deferred outflow of resources in the Statement 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*).

**Leases**

Deferred inflows of resources related to leases are discussed in the Leases and SBITAs note (*Note 14)*.

**Fair Value Adjustments in Derivative Instruments**

As of September 30, 2023, City Utilities had purchased financial instruments to reduce, or hedge, the volatility of natural gas costs for fiscal years 2023 through 2027. As of September 30, 2023, the market value of the unexpired instruments was included as an asset and a liability on the Statement of Net Position with the offset of the monthly fair market value adjustment included as deferred inflows and outflows of resources 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. 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 nonoperating 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 billing components for changes between estimated and actual costs of electric fuel, purchased power and purchased natural gas to City Utilities. Such costs include amounts recognized in connection with financial instruments used to manage the overall cost of natural gas. An over-recovery of $10.0 million for electric fuel and under-recovery of $651,000 for purchased natural gas adjustment clauses were recorded as of September 30, 2023 as a net deferred outflow or inflow of resources in the Statement of Net Position. Per Board resolution dated February 25, 2021, and approval by City Council, the natural gas under-recovery related to the polar vortex in February 2021 shall be recovered over a 24-month period beginning April 2021. As of September 30, 2023, the under-recovered balance has been collected.

### *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. As of September 30, City Utilities held $55.6 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 No. 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. 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 the Removal Action Completion and Ambient Air Monitoring Reports. During fiscal year 2022, City Utilities submitted its well installation and groundwater sampling and analysis plan (SAP) to MDNR for approval. Installation of a monitoring well network to conduct a water quality assessment is the next step in finalizing closure for the site. In March 2023, City Utilities received MDNR approval of the SAP and work plan. The initial installation and development of the groundwater monitoring wells took place in April, and the first quarterly samples were collected in May. The first quarterly groundwater monitoring report was completed and submitted to MDNR during fiscal year 2023. As of September 30, 2023, total remediation costs for the project were just under $7.1 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 80 earned vacation hours with a maximum of 40 hours transferred as vacation and a maximum of 40 hours transferred to sick leave. Sick leave can be accumulated and paid, in the event of termination, at a rate of 60% of accumulated sick leave depending on hire date and reason for termination. The liability for accrued vacation and sick leave is presented as a current and as a noncurrent liability in the accompanying Statement of Net Position, representing the estimated amounts to be paid in future years to current employees for services rendered through the current year.

### *Agent Multiple Employer Defined Benefit Pension Plan*

City Utilities participates in an agent multiple-employer defined benefit pension plan. For purposes of measuring the net pension asset, 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, 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.

### *New Accounting Pronouncements*

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* was issued May 2020 and is effective for fiscal years beginning after June 15, 2022. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended. City Utilities implemented this Statement as of October 1, 2022. The implementation of this Statement resulted in the recognition of Subscription-Based Information Technology Arrangement assets and liabilities in the amount of $1.6 million, with $200,000 of SBITAs entered during the fiscal year ended September 30, 2023. City Utilities did not restate the prior year information and elected to present single year financial statements for fiscal year 2023.

GASB Statement No. 99, *Omnibus 2022* was issued April 2022 and is effective for fiscal years beginning after June 15, 2022. The objectives of this Statement are to enhance the comparability in accounting and financial reporting and to improve consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting of financial guarantees. This Statement provides clarification of provisions in Statement No. 87, *Leases* and Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITA)*. This Statement also provides classification and reporting of derivative instruments within the scope of Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments,* that do not meet the definition of either an investment derivative instrument or a hedging derivative instrument. The adoption of this guidance did not have a material impact on our financial position, results of operations, or cash flows.

GASB Statement No. 100, *Accounting Changes and Error Corrections,* an amendment of GASB Statement No. 62 is effective for fiscal years beginning after June 15, 2023. The objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. The adoption of this guidance did not have a material impact on our financial position, results of operations, or cash flows.

GASB Statement No. 101, *Compensated Absences* is effective for fiscal years beginning after December 15, 2023. The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. Implementation of this Statement will result in a liability for compensated absences that more appropriately reflects when a government incurs an obligation. In addition, the model can be applied consistently to any type of compensated absence and will eliminate potential comparability issues between governments that offer different types of leave. The model also will result in a more robust estimate of the amount of compensated absences that a government will pay or settle, which will enhance the relevance and reliability of information about the liability for compensated absences. City Utilities previously recorded compensated absences and the adoption of this guidance is not expected to have a material impact on our financial position, results of operations, or cash flows.

# City Utilities of Springfield, Missouri
## (A Component Unit of the City of Springfield, Missouri)
## Notes to Financial Statements
## September 30, 2023

### Note 2: Capital, Leased, and SBITA Assets

Capital, leased, and SBITA asset activity for the year ended September 30, 2023, is as follows (in thousands):

| | September 30, 2022 | Increases | Decreases | September 30, 2023 |
|---|---|---|---|---|
| Public utility | | | | |
| Nondepreciable assets | | | | |
| Land | $ 56,312 | $ - | $ - | $ 56,312 |
| Construction work in progress | 102,555 | 71,789 | (98,739) | 75,605 |
| Depreciable assets | | | | |
| Electric | 1,507,554 | 35,958 | (4,925) | 1,538,587 |
| Natural gas | 303,784 | 15,562 | (525) | 318,821 |
| Transportation | 34,046 | 16 | - | 34,062 |
| Water | 447,087 | 28,386 | (365) | 475,108 |
| Customer service | 17,615 | 98 | (187) | 17,526 |
| Telcommunications/Broadband | 167,453 | 35,756 | (7,934) | 195,275 |
| Common | 81,403 | 2,415 | (650) | 83,168 |
| Total capital assets | 2,717,809 | 189,980 | (113,325) | 2,794,464 |
| Less accumulated depreciation | (1,022,137) | (77,738) | 6,154 | (1,093,721) |
| Net capital assets | $ 1,695,672 | $ 112,242 | $ (107,171) | $ 1,700,743 |
| Leased and SBITA assets | $ 445 | $ 1,832 | $ - | $ 2,277 |
| Less accumulated amortization | (147) | (818) | - | (965) |
| Net leased and SBITA assets | $ 298 | $ 1,014 | $ - | $ 1,312 |

For the year ended September 30, 2023, depreciation expense was reduced by $2.2 million for the recognition of the deferred inflow of resources related to contributions in aid of construction and regulatory accounting treatment of allowance for funds used during construction (AFUDC).

## 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 investments.

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, regardless of classification on the Statement of Net Position, as of September 30, 2023 (in thousands):

| | |
|---|---|
| U.S. Treasury notes | $ 41,237 |
| Mortgage-backed securities | 139,829 |
| Total long-term investments | 181,066 |
| U.S. Treasury bills | 54,798 |
| Certificate of Deposit | 250 |
| Accrued interest | 551 |
| Total short-term investments | 55,599 |
| Cash | 36,440 |
| Total cash and investments | $ 273,105 |

Cash and investments are included in the following accounts as of September 30, 2023 (in thousands):

| | |
|---|---|
| Funds for bonded indebtedness | $ 5,358 |
| Designated improvement accounts | 148,486 |
| Investments - Operating | 27,222 |
| Cash | 36,440 |
| Short-term investments | 55,599 |
| Total cash and investments | $ 273,105 |

As of September 30, 2023, City Utilities held cash and investments for restricted and designated purposes as follows (in thousands):

| | |
|---|---|
| Funds for bonded indebtedness | $ 5,358 |
| Designated funds | |
| Board authorized | |
| Disaster, contingency and pollution reserve funds | 81,364 |
| Trunked radio system reserve | 897 |
| Fuel over-recovery | 8,352 |
| Chief Financial Officer authorized | 57,872 |
| Total reserved | 153,843 |
| Unreserved | 119,262 |
| Total cash and investments | $ 273,105 |

*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 the 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, 2023. Investments greater than 5% of total cash and investments as of September 30, 2023, were as follows:

| | |
|---|---|
| Federal National Mortgage Association - Mortgage Backed Securities | 20% |
| Federal Home Loan Mortgage Corporation - Mortgage Backed Securities | 29% |
| U.S. Treasury Bills and Notes | 35% |
| Cash | 13% |

*Interest Rate Risk* – Interest rate risk is the risk that the fair value of City Utilities' fixed income investments will decrease because of increases in interest rates. As a means of limiting its exposure to interest rate risk, City Utilities' investment policy prohibits investments that are highly sensitive to interest rate changes.

As of September 30, 2023, 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 bills | $ 54,798 | $ 54,798 | $ - | $ - | $ - |
| Certificate of Deposit | 250 | 250 | - | - | - |
| U.S. Treasury notes | 41,237 | 9,893 | 18,621 | 12,722 | - |
| Mortgage-backed securities | 139,829 | 10,754 | 19,179 | 16,646 | 93,251 |
| Accrued interest | 551 | 551 | - | - | - |
| Total investments | $ 236,665 | $ 76,246 | $ 37,800 | $ 29,368 | $ 93,251 |

*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, 2023, City Utilities' investments in mortgage-backed securities were all assigned long-term ratings of Aaa by Moody's Investors Service.

## Note 4: Long-Term Obligations

The following is a summary of long-term obligations outstanding (in thousands) as of September 30, 2023:

| | | |
|---|---|---|
| Board of Public Utilities obligations under the October 2014 lease financing agreement; 3.00% to 5.00%; due September 1, 2015 to September 1, 2029 | $ | 17,835 |
| Public Utility Refunding Revenue Bonds, Series 2015; 3.25% to 5.00% due August 1, 2015 to 2036 | | 386,385 |
| Board of Public Utilities taxable obligations under the October 2021 lease financing agreement; at 0.45% to 2.50%; due November 1, 2021 to November 1, 2036 | | 121,725 |
| Total | | 525,945 |
| Current maturities of long-term obligations | | (33,560) |
| Total long-term obligations outstanding, net of current maturities | | 492,385 |
| Unamortized debt premium, net of debt discount | | 25,420 |
| Total long-term obligations | $ | 517,805 |

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

Long-term debt and other long-term liabilities activity for the year ended September 30, 2023, were as follows (in thousands):

| | Bonds and Obligations Payable September 30, 2022 | Additions | Reductions | Bonds and Obligations Payable September 30, 2023 | Amount Due in One Year |
|---|---|---|---|---|---|
| Revenue bonds - public utility | $ 408,275 | $ - | $ (21,890) | $ 386,385 | $ 22,985 |
| Other obligations | 149,815 | - | (10,255) | 139,560 | 10,575 |
| Total | 558,090 | - | (32,145) | 525,945 | 33,560 |
| Less unamortized debt premium, net of debt discount | 27,566 | - | (2,146) | 25,420 | - |
| Total | $ 585,656 | $ - | $ (34,291) | $ 551,365 | $ 33,560 |
| Other long-term liabilities | | | | | |
| Vacation and sick leave | $ 25,781 | $ 14,624 | $ 13,338 | $ 27,067 | $ 11,294 |
| Price Risk Management | 303 | 1,909 | 346 | 1,866 | |
| Other | 5,558 | - | 936 | 4,622 | |
| Total | $ 31,642 | $ 16,533 | $ 14,620 | $ 33,555 | $ 11,294 |

The debt service to maturity on the outstanding bonds and obligations as of September 30, 2023, is summarized in the following table (in thousands):

| | Principal | Interest |
|---|---|---|
| 2024 | $ 33,560 | $ 18,509 |
| 2025 | 34,895 | 17,163 |
| 2026 | 36,255 | 15,732 |
| 2027 | 37,705 | 14,243 |
| 2028 | 38,780 | 13,162 |
| 2029-2033 | 199,505 | 46,874 |
| 2034-2037 | 145,245 | 10,577 |
| Total | $ 525,945 | $ 136,260 |

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 as of September 30, 2023, is as follows (in thousands):

| | |
|---|---|
| Fair value of long-term debt | $ 511,352 |

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):

| Issue | Type Revenue Pledged | Amount of Pledge | Term of Commitment | Percentage of Revenue Pledged | Principal and Interest for the Year Ended 2023 |
|---|---|---|---|---|---|
| City Utilities Debt Obligations | Operating Revenue | $ 662,204 | Through 2037 | 9% | $ 51,920 |

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, 2023.

## 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 five years of credited service. Employees who retire on or after age 60 with five or more years of service are entitled to an allowance for life based upon the benefit program information provided below. Employees may retire with an early retirement benefit with a minimum of five years of credited service and after attaining age 55 and receive a reduced allowance.

| | |
|---|---|
| Benefit multiplier | 2% |
| Final average salary | 3 years |
| Member contribution | 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.

### *Employees Covered by Benefit Terms*

As of June 30, 2023, the measurement date for the net pension asset as of September 30, 2023, the following employees were covered by the benefit terms:

| | |
|---|---|
| Inactive employees or beneficiaries currently receiving benefits | 1,009 |
| Inactive employees entitled to but not yet receiving benefits | 97 |
| Active employees | 889 |
| Total | 1,995 |

### *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 24.0% of annual covered payroll during fiscal year 2023. City Utilities contributed $21.1 million during fiscal year 2023.

### *Net Pension Asset*

City Utilities' net pension asset as of September 30, 2023, was measured as of June 30, 2023, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of February 28, 2023. The roll-forward of total pension liability from February 28, 2023, to June 30, 2023, reflects expected service costs and interest reduced by actual benefit payments and administrative expenses.

### *Actuarial Assumptions*

The total pension liability in the February 28, 2023, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---|---|
| Inflation | 2.75% wage inflation, 2.25% price inflation |
| Salary increases | 2.75% to 6.75% including wage inflation |
| Investment rate of return | 7.00%, net of investment expenses |

Mortality rates were determined by applying the MP-2020 mortality improvement scale to 115% of the PubG-2010 Retiree mortality tables.

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/Leverage | -25.00% | -0.29% |

### *Discount Rate*

The discount rate used to measure the total pension liability is 7% for 2023, which was unchanged from the prior year. 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 Asset (in Thousands)*

| | Total Pension Liability (a) | Increase (Decrease) Plan Fiduciary Net Position (b) | Net Pension Asset (a) - (b) |
|---|---|---|---|
| Balances at beginning of year | $ 707,432 | $ 767,983 | $ (60,551) |
| Changes for the year | | | |
| Service cost | 9,787 | - | 9,787 |
| Interest | 48,314 | - | 48,314 |
| Difference between expected and actual experience | 18,863 | - | 18,863 |
| Assumption changes | - | - | - |
| Contributions - employer | - | 21,089 | (21,089) |
| Contributions - employee | - | - | - |
| Net investment income | - | 26,713 | (26,713) |
| Benefit payments, including refunds | (44,849) | (44,849) | - |
| Administrative expense | - | (305) | 305 |
| Other changes | - | 164 | (164) |
| Net changes | 32,115 | 2,812 | 29,303 |
| Balances at end of year | $ 739,547 | $ 770,795 | $ (31,248) |

### *Sensitivity of the Net Pension Asset to Changes in the Discount Rate (in thousands)*

The following represents the Net Pension Asset of City Utilities, calculated using the discount rate of 7.00%, as well as what City Utilities' Net Pension Asset would be using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate.

| | 1% Decrease 6.00% | Current Single Discount Rate Assumption 7.00% | 1% Increase 8.00% |
|---|---|---|---|
| Total Pension Liability | $ 828,981 | $ 739,547 | $ 664,516 |
| Plan Fiduciary Net Position | 770,795 | 770,795 | 770,795 |
| Net Pension (Asset) Liability | $ 58,186 | $ (31,248) | $ (106,279) |

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

For the year ended September 30, 2023, City Utilities elected to use regulatory accounting and deferred $45.0 million in pension income to future years. We recognized $20.9 million in pension expense through contributions paid and accrued. 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 | $ 21,634 | $ (3,229) |
| Assumption changes | - | (6,495) |
| Net difference between projected and actual earnings on pension plan investments | 10,625 | - |
| Contributions subsequent to the measurement date* | 5,707 | - |
| Regulatory accounting - deferred pension income | - | (45,040) |
| | $ 37,966 | $ (54,764) |

*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, 2023.

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

| | |
|---|---|
| 2024 | $ 448 |
| 2025 | (7,293) |
| 2026 | 21,613 |
| 2027 | 7,767 |
| 2028 | - |
| Thereafter | - |
| Total | $ 22,535 |

### *Payable to the Pension Plan*

As of September 30, 2023, City Utilities reported a payable of $2.4 million 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**

City Utilities has a purchased power agreement with Diamond Vista Wind Project to receive power through January 10, 2038. City Utilities agrees to purchase power from the 97.65 MW capacity wind generation facility at a fixed price. The average cost was $431,000 per month for the fiscal year ended September 30, 2023.

**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 201.3 MW wind generation facility at an annual fixed price. For the fiscal year ended September 30, 2023, the average cost was $951,000 per month.

**Southwestern Power Administration**

City Utilities has a purchased power agreement with the Southwestern Power Administration (SWPA) effective through September 30, 2023. 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 the fiscal year ended September 30, 2023, the cost of Peaking capacity was $2.7 million and the minimum for Peaking energy was $859,000 for the year. The Peaking rate is periodically adjusted.

**Southwest Power Pool**

City Utilities buys and sells 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 its generation and purchases much of its load requirement from the SPP market in accordance with the SPP Tariff. During the twelve months ended September 30, 2023, City Utilities had sales of $26.9 million and purchased power of $26.3 million. City Utilities participates in the ancillary services market operated by SPP. The ancillary market is an extension of the existing energy market in which SPP assumes the responsibility of maintaining sufficient generation reserves. In the ancillary services market, SPP provides the reserves for City Utilities load, and City Utilities may offer to sell reserves from its generating units.

**Strata Solar**

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 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. For the fiscal year ended September 30, 2023, purchases were $665,000.

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**Smoky Hills Wind Project II**

City Utilities has a purchased power agreement with Smoky Hills Wind Project II (Smoky Hills) to receive power through December 31, 2028. City Utilities will purchase 31.09% of the total energy output, up to 46.17 MW, of phase II of the Smoky Hills wind energy project. The average cost during fiscal year 2023 of $588,000 per month.

### *Obligations to Purchase Coal*

**Navajo Transitional Energy Company LLC**

On October 28, 2020, a Confirmation Letter Agreement was executed for the purchase of coal from the Antelope Mine during the period of January 1, 2021, through December 31, 2023. Under the terms of the fifth amendment to this agreement dated October 12, 2022, City Utilities has no coal purchase obligation, but the option to purchase up to 440,000 tons for calendar year 2023. As of September 30, 2023, City Utilities purchased 15,766 tons of coal on the respective contract for the contract period ending December 31, 2023.

On June 7, 2021, a Confirmation Letter Agreement was executed for the purchase of coal from the Antelope Mine during the period of August 1, 2021 through December 31, 2024. Under the terms of the fourth amendment to this agreement dated October 12, 2022, City Utilities' coal tonnage purchase obligation is 1,080,000 tons for calendar year 2023 where 300,000 of those tons were to be delivered ratably at $18.00 per ton in the first quarter of 2023. As of September 30, 2023, City Utilities had purchased 1,070,067 tons of coal for the contract period ending December 31, 2023. Management believes the minimum tonnage requirement will be met for calendar year 2023.

### *Obligations to Purchase Rail Services*

**BNSF Railway Company**

Effective December 15, 2022, City Utilities entered into a new rail transportation agreement with BNSF Railway Company to purchase rail services for transporting coal to City Utilities' power stations. This agreement is effective January 1, 2023 through December 31, 2027. Under the terms of this agreement, City Utilities' minimum tonnage requirement is the greater of 85% of the tons nominated by October 1 for the subsequent year, or 900,000 tons. City Utilities nominated 1,526,400 tons for January 1, 2023 through December 31, 2023, which resulted in a 1,297,440 ton minimum requirement for the calendar year. As of September 30, 2023, City Utilities has tendered coal tonnage of 1,085,833 for the agreement period ending December 31, 2023. Management believes that the minimum tonnage requirement will be met for the calendar year 2023.

### *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. ("Southern Star") and Enable Gas Transmission, LLC ("Enable") for transportation and/or storage services of natural gas, with various terms expiring in 1 to 10 years. For the fiscal year ended September 30, 2023, the amount paid to Southern Star was $14.1 million and the amount paid to Enable was $2.3 million.

### *Obligations for Purchased Natural Gas*

**Public Energy Authority of Kentucky (PEAK)**

During fiscal year 2018, City Utilities entered a 30-year natural gas supply contract with the Public Energy Authority of Kentucky (PEAK) for approximately 15% of our annual natural 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.

Natural gas flows began on April 1, 2019, where City Utilities contracted to purchase 6,558 MMBtu per day. City Utilities will achieve total natural gas savings of $3.4 million versus market prices over the initial term of the deal. The last date of natural gas flow in the initial term of the deal is November 30, 2024. At the conclusion of the initial term, PEAK, and the counterparty to the transaction, will negotiate an extension of the contractual natural gas discounts based on future interest rate levels at that time. City Utilities is not required to purchase natural gas after the initial term unless the discount to market is $0.20 per MMBtu 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. For the fiscal year ended September 30, 2023, the amount paid to PEAK was $8.7 million.

**Municipal Gas Authority of Georgia (MGAG) – Main Street and Citadel**

During fiscal year 2022, City Utilities entered a 30-year natural gas supply contract with the Municipal Gas Authority of Georgia (MGAG) for approximately 5% of our annual natural gas requirements. MGAG completed a 30-year natural gas pre-pay transaction using tax exempt bond financing that closed on February 1, 2022; City Utilities was a participant in the deal. MGAG purchased the gas from Main Street, where Main Street has purchased the gas from Citadel.

Natural gas flows began on November 1, 2022. City Utilities contracted to purchase 5,000 MMBtu per day in the months of November through March. City Utilities will achieve total natural gas savings of $2.2 million versus market prices over the initial term of the deal. The last date of natural gas flow in the initial term of the deal is June 30, 2027. At the conclusion of the initial term, MGAG, and the counterparty to the transaction, will negotiate an extension of the contractual natural gas discounts based on future interest rate levels at that time. City Utilities is not required to purchase natural gas after the initial term unless the discount to market is $0.23 per MMBtu 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. For the fiscal year ended September 30, 2023, the amount paid to MGAG for this pre-pay transaction was $3.1 million.

### Municipal Gas Authority of Georgia (MGAG) – Main Street and Citi Prepaid Energy LLC

During fiscal year 2022, City Utilities entered a 30-year natural gas supply contract with the Municipal Gas Authority of Georgia (MGAG) for approximately 14% of our annual natural gas requirements. MGAG completed a 30-year natural gas pre-pay transaction using tax exempt bond financing that closed on March 23, 2022; City Utilities was a participant in the deal. MGAG has purchased the gas from Main Street, where Main Street has purchased the gas from Citi Prepaid Energy LLC.

Natural gas flows began on August 1, 2022. City Utilities contracted to purchase 9,950 MMBtu per day in the months of December through February and 4,950 MMBtu per day in all other months of the year. City Utilities will achieve total natural gas savings of $5.0 million versus market prices over the initial term of the deal. The last date of natural gas flow in the initial term of the deal is November 30, 2029. At the conclusion of the initial term, MGAG, and the counterparty to the transaction, will negotiate an extension of the contractual natural gas discounts based on future interest rate levels at that time. City Utilities is not required to purchase natural gas after the initial term unless the discount to market is $0.23 per MMBtu 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. For the fiscal year ended September 30, 2023, the amount paid to MGAG for this pre-pay transaction was $8.9 million.

## Note 7: Equity Interests

### 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, 2023, 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 (Santee Cooper), Nebraska Public Power District and American Municipal Power Inc. City Utilities, and Gainesville Regional Utilities are medium equity partners with ownership interests of 5.88% each. City Utilities' net equity interest in The Energy Authority is $9.4 million as of September 30, 2023, and is included in Other Noncurrent Assets on the Statement of Net Position.

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 because 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 $8.5 million to secure power-marketing transactions. Total guarantees including a letter of credit are $20.0 million. City Utilities' guarantees are effective until its participation in the joint venture ends.

As of September 30, 2023, total net position of TEA was approximately $161.0 million, an increase of $17.0 million from the prior year.

Complete separate financial statements for TEA may be obtained at The Energy Authority, 1301 Riverplace Blvd., Suite 2700, Jacksonville, Florida 32207.

**Equity Interest in TEA Solutions**

In March 2022, City Utilities became a 1/5 equity member in TEA Solutions. The investment of $150,000 is accounted for using the equity method. Amounts expended to date include the membership fee and City Utilities' capital contribution in TEA Solutions. The net profits or losses of the partnership are allocated on a pro-rata basis between the five TEA Solutions members. City Utilities' net equity interest in TEA Solutions is $201,000 and is included in Other Noncurrent Assets on the Statement of Net Position.

**Equity Interest in Prepaid Natural Gas Services**

City Utilities entered into a partnership agreement with American Municipal Power, Inc. (AMP) to participate in prepaid natural gas services to be managed by The Energy Authority (TEA). Amounts expended are accounted for using the equity method. The net profits or losses of the partnership will be allocated on a pro-rata basis divided equally between the Prepaid Gas Services (PGS) Members in the PGS Project. As of September 30, 2023, City Utilities had incurred $90,000 in expenses associated with the start-up of the partnership.

## 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. As of September 30, 2023, the estimated cost of providing such services was $13.4 million.

City Utilities participated in a partnership agreement with the City, the Springfield Area Chamber of Commerce, and the Springfield Business and Industrial Development Corporation, a Missouri not-for-profit corporation, to govern the process of development, management and selling of an industrial center in the City. Under this agreement, City Utilities is responsible for utilities consisting of natural gas, water, electricity, and broadband services. Amounts expended for the industrial centers are accounted for using the equity method and are recorded in other noncurrent assets. The net profits or net losses of the partnership are allocated based upon each partner's percentage of the partnership's capital accounts. For the industrial park located on the west side of the City, as of September 30, 2023, City Utilities had incurred $2.2 million for land and improvements, recognized losses of $152,000 and received $501,000 in distributions, for a net equity balance of $1.6 million, and is included in Other Noncurrent Assets on the Statement of Net Position.

During 2006, the City and City Utilities agreed to a joint venture to develop a landfill natural 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. See Note 15 Subsequent Events – Sale of Noble Hill.

## Note 9: Planned Construction

As of September 30, 2023, anticipated capital expenditures for extending and improving the Utility during the 2024 fiscal year are estimated to be approximately $78.8 million. Major capital initiatives include the design and build of a new 161kV transmission line from Republic substation to PIC West substation, replacement of natural gas mains, water mains and electric poles.

## Note 10: Air Quality Standards

The Clean Air Act Amendments of 1990 (the Act) mandated reduced sulfur dioxide (SO2) and nitrogen dioxide (NOx) 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, 2023. City Utilities accounts for its allowances under the inventory method.

In July 2011, EPA promulgated the Cross-State Air Pollution Rule (CSAPR) to replace the Clean Air Interstate Rule (CAIR). CSAPR restricted emissions in the original 28 CAIR states and added three more states to the control region. 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) NOx allowances were reduced an additional 27% 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, including banked allowances (i.e., SO2, NOx, and OS NOx) and operational forecasts, City Utilities holds sufficient allowances for its generating assets. In February 2022, the EPA disapproved Missouri's revised "good neighbor" State Implementation Plan (SIP) and subsequently (in April 2022) proposed a Federal Implementation Plan (FIP) that reduces Missouri's CSAPR ozone season NOx allowances and, by design, those allowances to City Utilities. City Utilities provided written comments to the proposed rulemaking. In 2023, EPA finalized its disapproval decision of the MO SIP and published the final FIP rule in the Federal Register on June 5, 2023. Compliance under the FIP was set to begin on the effective date of the rule of August 4, 2023. The Missouri Attorney General's Office, Ameren, and City Utilities filed Petitions for Review in the 8th Circuit Court of Appeals to challenge the EPA's SIP disapproval. Those states challenging in their respective Circuit

Courts received stays of EPA's SIP disapproval until a decision is made. On July 31, 2023, EPA published in the Federal Register its decision to stay implementation of the final "good neighbor" FIP for those same states. City Utilities continues to be engaged in the process and is following EPA's and the Courts' actions. Management believes that City Utilities will remain in compliance with the revised CSAPR Update requirements regardless of the pending final actions.

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 2013-16 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. JTEC completed installation of the control equipment in early 2015. Additionally, semi-continuous mercury monitoring equipment was procured, installed, and certified at JTEC ahead of the compliance deadline. On June 29, 2015, the Supreme Court in a 5-4 decision (Michigan v. EPA), decided that cost should be considered when EPA deemed it "appropriate and necessary" to regulate power plants under Section 112(n)(1)(A) of the Act. In February 2019, the former administration made efforts in a proposed rulemaking to address the Court's finding of "appropriate and necessary" that included cost considerations. On May 22, 2020, EPA published a final rule in the Federal Register in response to the Michigan v. EPA decision to reconsider its Supplemental Cost Finding for MATS and determined that it was not "appropriate and necessary" to regulate HAP emissions from coal- and oil-fired EGUs. However, EPA determined that this correction did not remove the source category for the CAA section 112(n) listing. No revisions to the MATS rule were made following EPA's final residual risk and technology review (RTR) conducted as part of this process. The direct final rule was legally challenged by both industrial and environmental groups. Currently, the rule remains in effect. In March 2023, the current administration published its proposed rulemaking affirming the "appropriate and necessary" supplement finding, as well as the RTR review. Additionally, on April 23, 2023, the current administration published revisions to the MATS rule in the Federal Register that lower thresholds for non-Hg metal HAPs and/or the surrogate filterable particulate matter. The proposed rule changes would require installation/certification of a continuous particulate monitoring system for the JTEC coal-fired units. City Utilities submitted written comments on the proposed rule and continues to stay engaged in the regulatory process. Management believes that City Utilities is fully compliant with the MATS monitoring, reporting, and notification requirements and will continue to meet future regulatory standards should the current administration choose to adjust them.

## Other Standards

In June 2014, EPA proposed regulations to govern emissions of carbon dioxide ($CO_2$) 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 $CO_2$ 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 en banc U.S. Court of Appeals for the District of Columbia

Circuit heard oral arguments on the merits of the CPP in West Virginia v. EPA. The court never issued a ruling on the merits due to the change in administrations. Further, 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. Initially, the Court paused ruling on the litigation and later dismissed the case due to EPA's decision to reconsider and revise the rulemaking.

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. Oral arguments in the U.S. Court of Appeals for the District of Columbia in the ACE litigation (American Lung Association, et al. v. EPA) were heard on October 8, 2020. On January 19. 2021, the U.S. Court of Appeals for the District of Columbia issued its ruling vacating the ACE rule, including changes to the implementing rule and remanded the matter back to EPA. On February 22, 2021, the D.C. Circuit issued an order to stay the mandate that could have allowed the 2015 Clean Power Plan (CPP) rule to be re-instated following the vacatur of the ACE rule. However, on October 29, 2021, the U.S. Supreme Court granted certiorari based on states' attorney generals and industry groups challenging the D.C. Circuit January decision (West Virginia v. EPA). In February 2022, the Supreme Court heard oral arguments and decided in June 2022, that the D.C. Circuit decision erred and remanded back to the lower court. The current order allowed the EPA to decide "afresh" how to regulate greenhouse gas emissions from coal-fired Electric Generating Units (EGUs). On May 23, 2023, the EPA published in the Federal Register a third iteration to regulate CO2 emissions from coal and natural gas-fired units. Additionally, the EPA is taking action to repeal the Affordable Clean Energy Rule (ACE) under this same proposal. In July 2023, City Utilities management met directly with the EPA Air & Radiation Administrator to provide City Utilities unique perspective on the proposed rulemaking. On August 8, 2023, City Utilities filed formal comments on the proposed rule. City Utilities continues to monitor closely both legislative and regulatory actions that may impact City Utilities units.

In addition to uncertainties over future SO2 and NOx rules, including challenges to the second implementation phase under the Regional Haze Rule (RHR), 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 the power station. In April 2017, EPA paused future compliance dates under the rule for two (2) years, as EPA reconsidered the best available technology economically achievable (BAT) limits. On August 31, 2020, the EPA finalized the revised technology-based effluent limitations guidelines and standards for bottom ash transport water (BA). On May 30, 2023, City Utilities submitted comments to the EPA's proposed Supplemental Effluent Limitations Guidelines and Standards for the Steam Electric Power Generating Point Source Category. City Utilities commented on EPA's proposed new BAT limits and potential changes/limitations for plant discharges. Historically, City Utilities has positioned itself to meet current and future compliance technology/limits that are included in our discharge permits. City Utilities will stay informed on newly proposed changes and address them in existing permits upon renewal. Further, EPA finalized the Coal Combustion Residuals (CCR) rule in April 2015 and the rule became effective on October 19, 2015. 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, install groundwater monitoring systems, and support annual or periodic compliance report requirements. By 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 installation provisions under the rule were met in October 2017. The initial and subsequent annual groundwater monitoring reports are certified and posted in January each year. City Utilities 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. In July 2023, City Utilities submitted comments to proposed CCR rule changes. Management expects to fully meet the on-going compliance schedule outlined in the federal regulation for CCR landfills, including requirements under the State program or future State CCR permitting program.

## 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, City Utilities places $1.0 billion in coverage, excess of a $3.0 million deductible. City Utilities self-insures general and auto liability and places $125.0 million in coverage, excess of a $2.0 million retention. 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 has a self-insured retention of $300,000 for Director's and Officer's Liability with a limit of $20.0 million. Additionally, City Utilities carries a Fiduciary and Employee Benefits Liability limit of $20.0 million over its self-insured retention of $25,000. For Employment Practices Liability, City Utilities purchases a limit of $10.0 million with self-insured retention of $200,000. City Utilities places Cyber Liability policies with limits of $11.0 million, subject to a $250,000 retention.

City Utilities has a self-insured retention for Workers' Compensation and retains $750,000 for each accident. City Utilities maintains Statutory Excess Workers' Compensation Insurance. City Utilities also has a self-insured retention of $350,000 per employee for medical and health claims and maintains Stop Loss Insurance for excess claims.

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. City Utilities periodically reviews insured and uninsured exposures and recommends reserves to reflect retained and excess exposures.

## 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.

### *Recurring Measurements*

The following table presents the fair value measurement of assets recognized in the accompanying Statement 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 as of September 30, 2023 (in thousands):

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Investments by Fair Value Level** | | | | |
| Debt securities | | | | |
| U.S. Treasury securities | $ - | $ 96,035 | $ - | $ 96,035 |
| Mortgage-backed securities | - | 139,829 | - | 139,829 |
| Total debt securities | $ - | $ 235,864 | $ - | $ 235,864 |
| **Derivative Instruments** | | | | |
| Price risk management assets | | | | |
| Natural gas options - long | $ 2,703 | $ - | $ - | $ 2,703 |
| Price risk management liabilities | | | | |
| Natural gas options - short | (1,866) | - | - | (1,866) |
| Total derivative instruments | $ 837 | $ - | $ - | $ 837 |

### *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 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, 2023, City Utilities held financial instruments that were purchased to reduce or hedge the volatility of natural gas costs. The notional amount of these financial instruments is 10 contracts per month with a quantity of 10,000 MMBtu per contract. As of September 30, 2023, the strike price ranges between $2.75 and $7.00 per MMBtu. The contracts were entered into between August 2021 and June 2023 and mature between December 2023 and December 2026. As of September 30, 2023, the market values of the unexpired instruments were included as an asset and a liability on the Statement 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. As of September 30, 2023, the market values of the unexpired instruments were $837,000.

| Notional Amount (Number of contracts) | Effective Date | Termination Date | Fixed Price per MMBtu |
|---|---|---|---|
| **Calls** | **Monthly starting** | **Monthly through** | |
| 10 | 11/1/2023 | 12/31/2023 | $4.75 |
| 10 | 11/1/2023 | 12/31/2023 | $3.75 |
| 10 | 11/1/2023 | 12/31/2023 | $7.00 |
| 10 | 11/1/2023 | 12/31/2023 | $6.00 |
| 10 | 1/1/2024 | 12/31/2024 | $3.75 |
| 10 | 1/1/2024 | 12/31/2024 | $5.00 |
| 10 | 1/1/2024 | 12/31/2024 | $5.75 |
| 10 | 1/1/2025 | 12/31/2025 | $5.00 |
| 10 | 1/1/2025 | 12/31/2025 | $5.00 |
| 10 | 1/1/2026 | 12/31/2026 | $5.00 |
| **Puts** | **Monthly starting** | **Monthly through** | |
| (10) | 11/1/2023 | 12/31/2023 | $3.00 |
| (10) | 11/1/2023 | 12/31/2023 | $2.75 |
| (10) | 1/1/2024 | 12/31/2024 | $3.00 |
| (10) | 1/1/2024 | 12/31/2024 | $3.00 |
| (10) | 1/1/2025 | 12/31/2025 | $2.75 |
| (10) | 1/1/2025 | 12/31/2025 | $3.00 |
| (10) | 1/1/2026 | 12/31/2026 | $2.75 |

City Utilities uses Auction Revenue Rights (ARRs) and Transmission Congestion Rights (TCRs) in the Southwest Power Pool (SPP) Integrated Marketplace to hedge against transmission congestion charges. These financial instruments were designed primarily to allow firm transmission customers the opportunity to offset price differences due to transmission congestion costs between resources and loads. Awarded ARRs provide a fixed revenue stream to offset congestion costs. TCRs can be acquired through the conversion of ARRs or purchases from SPP auctions or secondary market trades. The financial transactions for all ARRs and TCRs in SPP are netted and recorded as other purchases, as City Utilities is generally a net purchaser in SPP. Unearned revenues are recorded for awarded ARRs, net of conversion of TCRs, until the revenues are realized in the SPP Integrated Market financial transactions. Outstanding TCR positions are recorded on the Statement of Net Position until expired. The balance of TCRs reported was $2.0 million as of September 30, 2023, and is included with Trade accounts payable on the Statement of Net Position.

## Note 14: Leases and SBITAs

### *Leases*

City Utilities engages in lease contracts, either as the lessor or the lessee, in the normal course of doing business.

#### *Lease Receivable*

City Utilities leases fiber optic assets, pole space, water tower space, and an interconnection to an electric substation. Lease terms range from 4 to 30 years and expire 2025 through 2049. The lease receivable balance as of September 30, 2023, was $131.6 million, of which $8.5 million is current and $123.1 million is long-term on the Statement of Net Position. City Utilities recognized revenue of $8.8 million and interest income of $4.2 million, which is reported on the Statement of Revenue, Expenses, and Change in Net Position. City Utilities applied the average internal borrowing rate to the contracts because the lease agreements did not include specific interest rates. There were no variable lease payments received in 2023.

#### *Lease Payable*

City Utilities leases office equipment and fiber optic communication equipment from a third party. Lease terms range from 5 to 9 years and expire in 2024. City Utilities has lease assets totaling $445,000 with associated accumulated amortization of $295,000 as of September 30, 2023, included in Leased and SBITA assets on the Statement of Net Position. There were no payments recorded in the current period that were not included in the measurement of the lease liability, no commitments prior to the commencement of the lease contract, and no lease impairments as of September 30, 2023.

The following table summarizes the lease liability as of September 30, 2023 (in thousands):

| | Balance as of September 30, 2022 | Increases | Decreases | Balance as of September 30, 2023 |
|---|---|---|---|---|
| Common | $ 90 | $ - | $ 49 | $ 41 |
| SpringNet | 203 | - | 86 | 117 |
| | $ 293 | $ - | $ 135 | $ 158 |

The following table summarizes the lease principal and interest payments as of September 30, 2023 (in thousands):

| | Principal | Interest | Total |
|---|---|---|---|
| 2024 | $ 141 | $ 3 | $ 144 |
| 2025 | 17 | - | 17 |
| | $ 158 | $ 3 | $ 161 |

### *Subscription-Based Information Technology Arrangements (SBITAs) Payable*

City Utilities has various subscription-based information technology arrangements (SBITAs). SBITA terms range from 2 to 5 years and expire 2024 through 2027. City Utilities has SBITA assets totaling $1.8 million with associated accumulated amortization of $670,000 as of September 30, 2023, included in Leased and SBITA assets on the Statement of Net Position. There were no outflows of resources recognized in the reporting period for variable payments not previously recorded in the measurement of the SBITA payable, no commitments prior to the commencement of the SBITA contract, and no SBITA impairments as of September 30, 2023.

The following table summarizes the SBITA liability as of September 30, 2023 (in thousands):

| | Balance as of September 30, 2022 | Increases | Decreases | Balance as of September 30, 2023 |
|---|---|---|---|---|
| Common | $ - | $ 1,636 | $ 651 | $ 985 |
| Electric | - | 54 | 27 | 27 |
| Natural Gas | - | 142 | 28 | 114 |
| | $ - | $ 1,832 | $ 706 | $ 1,126 |

The following table summarizes the SBITA principal and interest payments as of September 30, 2023 (in thousands):

| | Principal | Interest | Total |
|---|---|---|---|
| 2024 | $ 727 | $ 44 | $ 771 |
| 2025 | 175 | 16 | 191 |
| 2026 | 191 | 9 | 200 |
| 2027 | 33 | 1 | 34 |
| | $ 1,126 | $ 70 | $ 1,196 |

## Note 15: Subsequent Events

### *Sale of Noble Hill*

On August 29, 2023, an agreement was reached between City Utilities and the City of Springfield concerning a memorandum of understanding (MOU) for the sale of all fixed assets for the Noble Hill generating station. Effective October 9, 2023, the assets were sold to the City of Springfield for their net book value, totaling $1.8 million, along with the associated inventory for $71,000. In October 2023, City Utilities expensed $1.1 million for the unamortized balance of gas-collection assets owned by the City.

### *Sale of Wireless Site Leases*

On November 17, 2023, an agreement was reached between City Utilities and Vertical Bridge Towers IV concerning an Asset Purchase Agreement for the sale of existing wireless site leases. As per the agreement, the leases were sold for $13.9 million.

# Required Supplementary Information

# City Utilities of Springfield, Missouri

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

## Required Supplementary Information

## Schedule of City Utilities' Changes in Net Pension (Asset) Liability and Related Ratios

## September 30, 2023

## (In Thousands)

| | 2023 | 2022 | 2021 | 2020 | 2019 |
|---|---|---|---|---|---|
| **Total Pension Liability** | | | | | |
| Service cost | $ 9,787 | $ 9,821 | $ 9,806 | $ 9,545 | $ 9,418 |
| Interest on the total pension liability | 48,314 | 46,735 | 48,891 | 46,759 | 44,968 |
| Benefit changes | | | | | |
| Difference between expected and actual experience | 18,863 | 8,980 | (8,754) | 9,442 | 4,707 |
| Assumption changes | - | - | (17,610) | - | - |
| Benefit payments, including refunds | (44,849) | (41,136) | (37,057) | (35,863) | (33,103) |
| **Net Change in Total Pension Liability** | 32,115 | 24,400 | (4,724) | 29,883 | 25,990 |
| **Total Pension Liability, beginning of year** | 707,432 | 683,032 | 687,756 | 657,873 | 631,883 |
| Total pension liability, end of year | 739,547 | 707,432 | 683,032 | 687,756 | 657,873 |
| **Plan Fiduciary Net Position** | | | | | |
| Contributions - employer | 21,089 | 20,123 | 19,440 | 18,374 | 18,199 |
| Contributions - employee | - | 157 | 68 | - | - |
| Pension plan net investment income | 26,713 | 565 | 170,762 | 8,370 | 39,757 |
| Benefit payments, including refunds | (44,849) | (41,136) | (37,057) | (35,863) | (33,103) |
| Pension plan administrative expense | (305) | (218) | (200) | (259) | (229) |
| Other | 165 | 1,425 | (60) | 3,575 | (37) |
| **Net Change in Plan Fiduciary Net Position** | 2,813 | (19,084) | 152,953 | (5,803) | 24,587 |
| **Plan Fiduciary Net Position, Beginning of Year** | 767,982 | 787,066 | 634,113 | 639,916 | 615,329 |
| **Plan Fiduciary Net Position, End of year** | 770,795 | 767,982 | 787,066 | 634,113 | 639,916 |
| **City Utilities Net Pension (Asset) Liability** | $ (31,248) | $ (60,551) | $ (104,034) | $ 53,643 | $ 17,957 |
| **Plan Fiduciary Net Position as a Percentage of the Total Pension Liability** | 104.23% | 108.56% | 115.23% | 92.20% | 97.27% |
| **Covered Employee Payroll** | $ 84,409 | $ 80,973 | $ 82,873 | $ 80,981 | $ 78,710 |
| **Net Pension (Asset) Liability as a Percentage of Covered Employee Payroll** | -37.02% | -74.78% | -125.53% | 66.24% | 22.81% |

# City Utilities of Springfield, Missouri
## (A Component Unit of the City of Springfield, Missouri)
## Required Supplementary Information
## Schedule of City Utilities' Changes in Net Pension (Asset) Liability and Related Ratios
## September 30, 2023
## (In Thousands)

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

# City Utilities of Springfield, Missouri
## (A Component Unit of the City of Springfield, Missouri)
## Required Supplementary Information
## Schedule of City Utilities' Contributions
## September 30, 2023
## (In Thousands)

In 2016, amounts reported as changes in assumptions resulted primarily from a change in the mortality tables. In 2021, amounts reported as change in assumptions resulted primarily from a decrease in the discount rate from 7.25% to 7%.

| Fiscal Year | Actuarially Determined Contribution | Contribution in Relation | Contribution Deficiency* | Covered Employee Payroll | Contribution as Percentage |
|---|---|---|---|---|---|
| 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 | 18,088,924 | 18,088,925 | $ (2) | 79,337,384 | 22.80% |
| 2019 | 18,153,333 | 18,153,333 | $ (1) | 79,970,628 | 22.70% |
| 2020 | 18,496,781 | 18,496,782 | $ (1) | 81,126,226 | 22.80% |
| 2021 | 19,657,824 | 19,657,824 | $ (0) | 83,650,313 | 23.50% |
| 2022 | 20,861,939 | 20,777,135 | $ 84,804 | 84,804,633 | 24.50% |
| 2023 | 20,924,796 | 20,924,797 | $ (1) | 87,186,651 | 24.00% |

* 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, 2023 |
| Notes: | The roll-forward of total pension liability from February 28, 2023, to June 30, 2023, 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 8 to 15 years |
| Asset Valuation Method | 5-year smoothed market: 20% corridor |
| Inflation | 2.75% wage inflation; 2.25% price inflation |
| Salary Increases | 2.75% to 6.75% including wage inflation |
| Investment Rate of Return | 7.00%, net of investment expenses |

# City Utilities of Springfield, Missouri
## (A Component Unit of the City of Springfield, Missouri)
## Required Supplementary Information
## Schedule of City Utilities' Contributions
## September 30, 2023
## (In Thousands)

| | |
|---|---|
| Retirement Age Conditions | Experience-based table of rates that are specific to the type of eligibility |
| Mortality | The healthy retiree mortality tables, for post-retirement mortality, used in evaluating allowances to be paid were 115% of the PubG-2010 Retiree Mortality Table for males and females. The disabled retiree mortality tables, for post-retirement mortality, used in evaluating allowances to be paid were 115% of the PubNS-2010 Disabled Mortality Table for males and females. The pre-retirement mortality tables used were 75% of the PubG-2010 Employee Mortality Table for males and females of General groups and 75% of the PubS-2010 Employee Mortality Table for males and females of Police, Fire and Public Safety groups.<br><br>Mortality rates for a particular calendar year are determined by applying the MP-2020 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, 2023
## (In Thousands)

| | Electric | Natural Gas | Trans-portation | SpringNet | Water | Eliminations | Total |
|---|---|---|---|---|---|---|---|
| Operating revenues | $ 325,986 | $ 136,716 | $ 1,030 | $ 24,916 | $ 59,800 | $ (25,427) | $ 523,021 |
| Operating expenses | | | | | | | |
| Production fuel and purchased power | 132,999 | - | - | - | - | (18,433) | 114,566 |
| Natural gas purchased for resale | - | 91,252 | - | - | - | - | 91,252 |
| Other production | 11,752 | - | - | - | 9,004 | (2,902) | 17,854 |
| Distribution and transmission | 23,900 | 9,087 | - | - | 5,153 | (2,275) | 35,865 |
| Bus and garage operations | - | - | 7,402 | - | - | (322) | 7,080 |
| Other services | - | - | - | 7,802 | - | (349) | 7,453 |
| Customer accounts | 6,550 | 4,129 | - | 166 | 4,302 | (212) | 14,935 |
| Administrative and general | 25,570 | 6,579 | 2,542 | 3,237 | 7,348 | (931) | 44,345 |
| Maintenance | 41,529 | 6,332 | 2,082 | - | 8,342 | (1) | 58,284 |
| Depreciation and amortization | 46,738 | 8,185 | 2,057 | 10,817 | 8,435 | - | 76,232 |
| Payments in lieu of taxes | 10,563 | 5,208 | 41 | - | 2,374 | - | 18,186 |
| Other taxes | - | 14 | - | 774 | - | - | 788 |
| Total operating expenses | 299,601 | 130,786 | 14,124 | 22,796 | 44,958 | (25,425) | 486,840 |
| Operating income (loss) | 26,385 | 5,930 | (13,094) | 2,120 | 14,842 | (2) | 36,181 |
| Nonoperating revenues (expenses) | | | | | | | |
| Interest income | | | | | | | 7,879 |
| Net decrease in fair value of investments | | | | | | | (6,336) |
| Investment income | | | | | | | 875 |
| Interest expense, net | | | | | | | (18,748) |
| Interest income from leases | | | | | | | 4,184 |
| Operation of recreational facilities, net | | | | | | 2 | (331) |
| Amortization of debt-related costs | | | | | | | 1,003 |
| Other, net | | | | | | | 5,889 |
| Net nonoperating revenues (expenses) | | | | | | 2 | (5,585) |
| Change in net position before contributions | | | | | | - | 30,596 |
| Capital contributions | | | | | | | |
| Contributions in aid of construction | 2,514 | 349 | 144 | 440 | 1,306 | - | 4,753 |
| Donated property | 2,029 | 2,798 | - | - | 6,342 | - | 11,169 |
| Reduction of plant costs recovered through contributions | (4,543) | (3,147) | | (440) | (7,648) | - | (15,778) |
| Net capital contributions | - | - | 144 | - | - | - | 144 |
| Change in net position | | | | | | | 30,740 |
| Net position | | | | | | | |
| Beginning of year | | | | | | | 1,401,915 |
| End of year | | | | | | | $ 1,432,655 |