

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

Independent Auditor's Report and Financial Statements

September 30, 2016 and 2015

City Utilities of Springfield, Missouri
September 30, 2016 and 2015

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Independent Auditor's Report

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

We have audited the accompanying basic financial statements, which are comprised of the statements of net position as of September 30, 2016 and 2015, and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended and the related notes to the basic financial statements, as listed in the table of contents, of City Utilities of Springfield, Missouri (City Utilities), a component unit of the City of Springfield, Missouri.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of City Utilities of Springfield, Missouri as of September 30, 2016 and 2015, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City Utilities' basic financial statements. The accompanying supplementary information including the combining schedules of revenues, expenses and changes in net position for the years ended September 30, 2016 and 2015, as listed in the table of contents, are 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 information is fairly stated in all material respects in relation to the basic financial statements as a whole.

BKD, LLP

City Utilities of Springfield, Missouri
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Management’s Discussion and Analysis
September 30, 2016 and 2015

City Utilities of Springfield, Missouri (City Utilities or the “Utility”) is a municipally owned utility, which is a component unit of the City of Springfield, Missouri (City). This discussion and analysis of the financial performance of City Utilities provides an overview of City Utilities’ financial activities for the fiscal years ended September 30, 2016 and 2015. This analysis should be read in conjunction with the financial statements and notes thereto.

City Utilities is comprised of electric, natural gas, water, transportation and telecommunications/broadband. At September 30, 2016, City Utilities served approximately 114,000 electric, 83,000 natural gas and 82,000 water customers in the Springfield metropolitan area. This represents growth of approximately 0.7% for fiscal year 2016.

Financial Highlights

	2016	2015
Net position (equity)	\$1.0 billion	\$998.8 million
Change in net position (net income)	\$41.4 million	\$29.8 million
Capital improvements	\$85.8 million	\$90.2 million
Peak demand		
Electric – maximum hourly peak demand	782 megawatts	769 megawatts
Natural gas – maximum daily throughput peak	116,767 dekatherms	116,859 dekatherms
Water – maximum daily pumpage	39.9 million gallons	40.0 million gallons
Credit rating – revenue bonds	AA	AA

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Financial Statements

This report contains three basic financial statements and related notes. The *Statements of Revenues, Expenses and Changes in Net Position* present City Utilities' results of operations and changes in net position for the fiscal years ended September 30, 2016 and 2015. The *Statements of Net Position* presents City Utilities' financial condition, assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position at September 30, 2016 and 2015. The *Statements of Cash Flows* presents City Utilities' sources and uses of cash for the fiscal years ended September 30, 2016 and 2015. 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

Fiscal Year 2016

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

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

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

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

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

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

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

Fiscal Year 2015

The Environmental Regulatory Compliance project to comply with the Mercury and Air Toxics Standards (MATS) rule was completed in 2015. Fabric filter baghouses were installed along with a Continuous Emissions Monitoring System. The charges during fiscal year 2015 were \$18.7 million. Project is estimated to be completed in 2015 at a total cost of \$31.2 million.

The extension of a rail loop at the John Twitty Energy Center will reduce unloading and demurrage costs. The project began in fiscal year 2014, was completed in 2015, and will allow for longer trains delivering coal. The 2015 expenditures were \$464,000 with a total project cost of \$8.0 million.

The replacement of Natural Gas Aldyl A plastic mains required by the Missouri Public Service Commission continued in 2015. The total project cost is estimated at \$18.9 million. During fiscal year 2015 total expenditures were \$2.5 million.

The construction of a clearwell to comply with the Department of Natural Resources began in 2015. The clearwell will provide adequate disinfection, backwash volume and distribution flow and pressure. The project will be completed in 2018 at an estimated total cost of \$15.5 million. Total expenditures for 2015 were \$4.3 million.

The expansion of the transmission system to provide additional capacity and to meet future load growth and relieve overloaded facilities began in 2015 with the acquisition of rights-of-way. This project is expected to continue for at least 5 years with a total budget of \$5.0 million. Expenditures for the 2015 fiscal year were \$395,000.

The installation of automated meters and associated communication equipment began in fiscal year 2015. The automated meters will allow remote connection and disconnection of meters, enhanced outage detection and voltage monitoring, as well as enhanced energy usage information to customers. Total expenditures for 2015 were \$891,000. The estimated project cost for Electric, Natural Gas and Water over the next five years is \$20.7 million.

The replacement of water mains and associated services continued in 2015. As the infrastructure ages, it is more prone to main breaks and service leaks. This project will continue beyond the five-year operating plan and has a total budget of \$28.5 million. Expenditures for the 2015 fiscal year were \$3.1 million.

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Long-Term Obligation Activity

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

During fiscal year 2015, the Series 2006 Revenue Bonds were defeased in the amount of \$596.5 million. New bonds were issued in the amount of \$532.7 million and are due August 2036. Future debt service payments will be reduced \$184.7 million.

	Net Position (Equity)		
	2016	2015	2014
	(In Thousands)		
Assets			
Net capital assets	\$ 1,462,804	\$ 1,441,057	\$ 1,415,058
Current and other assets	<u>339,360</u>	<u>362,201</u>	<u>351,330</u>
Total assets	1,802,164	1,803,258	1,766,388
Deferred outflows of resources	<u>91,618</u>	<u>51,253</u>	<u>1,123</u>
Total assets and deferred outflows	<u>1,893,782</u>	<u>1,854,511</u>	<u>1,767,511</u>
Less liabilities			
Long-term obligations	636,995	668,656	667,015
Other liabilities	<u>184,101</u>	<u>162,891</u>	<u>115,199</u>
Total liabilities	821,096	831,547	782,214
Deferred inflows of resources	<u>32,522</u>	<u>24,197</u>	<u>16,003</u>
Total liabilities and deferred inflows	<u>853,618</u>	<u>855,744</u>	<u>798,217</u>
Net position			
Net investment in capital assets	785,375	736,515	750,861
Restricted for debt service	6,179	6,071	5,967
Unrestricted	<u>248,610</u>	<u>256,181</u>	<u>212,466</u>
Total net position	<u>\$ 1,040,164</u>	<u>\$ 998,767</u>	<u>\$ 969,294</u>

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Operating Results – Revenues

A 3.9% and a 5.9% electric rate increase were effective October 2015 and October 2014, respectively. These were the second and first of a series of three rate increases approved by Springfield City Council in 2013.

A 9.0% and a 9.9% water rate increase were effective October 2015 and October 2014, respectively. These were the third and second of a series of three rate increases approved by Springfield City Council in 2012.

During fiscal year 2016, City Utilities' customers experienced a mild winter followed by a hotter than normal summer. These conditions occurred in fiscal year 2015 as well. For 2016, City Utilities' customers also benefited from lower energy costs as a result of very low natural gas prices. Even with rate increases in both Electric and Water, total revenues decreased from 2015 to 2016 due to lower energy prices. City Utilities' budget is based on normal weather, and therefore, operating results were comparable to forecast for the year.

Fiscal Year 2016

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

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

SpringNet/Trunked Radio System revenues decreased 11% due to a change in the classification of interdepartmental charges.

Water usage was up 6% per residential customer and down 1% per commercial customer. Precipitation was 9% above normal but mostly occurred in November and December 2015. The increased usage, as well as the rate increase of 9.0%, led to an increase in water revenues of \$5.0 million.

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Fiscal Year 2015

During fiscal year 2015, City Utilities' customers experienced a warmer than normal winter and a hotter than normal summer. Even with the electric and water rate increases, total operating revenues were 4% below 2014. The following table represents operating revenue information for City Utilities prior to interdepartmental eliminations.

	Operating Revenues		
	2016	2015	2014
	(In Thousands)		
Operating revenue			
Electric	\$ 291,243	\$ 290,587	\$ 291,460
Natural gas	78,879	96,212	112,454
Transportation	1,068	1,070	1,148
Telco/Broadband	13,316	15,001	17,608
Water	49,358	44,400	41,729
	<u>433,864</u>	<u>447,270</u>	<u>464,399</u>
Total operating revenues	<u>\$ 433,864</u>	<u>\$ 447,270</u>	<u>\$ 464,399</u>

With winter temperatures slightly warmer than normal, heating degree days for fiscal year 2015 were 1% below normal and 10% less than last year. The summer months were also warmer than normal with cooling degree days 13% above normal and 7% more than fiscal year 2014. Usage for residential customers decreased for electric, natural gas and water when compared to last year. Commercial and industrial customers usage decreased for natural gas, but was steady for electric and water. Operating revenues were below fiscal year 2014 by \$17.1 million but were in line with budget expectations.

Electric use per customer decreased by 2% for residential and 4% for commercial and industrial. Off-system unit sales decreased 35%. Combined, the decreased usage results in operating revenues of \$873,000 less than last year, or within 1% of fiscal 2014.

Natural gas revenues reflect the milder winter with usage per customer decreasing 9% for residential customers and 6% for commercial and industrial customers. Interdepartmental usage increased by 16% due to increased use of gas turbines for generation. Overall, natural gas revenues were below the prior year by \$16.2 million.

SpringNet/Trunked Radio System revenues decreased 15% due to the surplusing of SpringNet Underground.

Water usage per customer was down 7% for residential and 2% for commercial and industrial customers. Precipitation was 12% above normal and 33% above last year. However, the water rate increase led to an increase in operating revenues of \$2.7 million or 6% above last year.

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Operating Results – Operating Expenses

City Utilities' electric generation includes base load availability of 758 MW from two coal-fired and five natural gas-fired steam turbines and peak load availability of 359 MW from six combustion turbines. An additional 3 MW is available from the Noble Hill Landfill Renewable Energy Center. Supplementing this internal generating capacity, the Utility has contracted 50 MW from Southwest Power Administration (SWPA). The Utility also contracted 50 MW of intermittent renewable energy through the Smoky Hills Wind Project II and has rights to 50 MW of firm transmission capacity. City Utilities entered into a contract with Strata Solar as of June 2014, to purchase all of the solar energy generated by the 4.95 MW unit at a fixed price of \$.08 per Kwh. In March 2014, City Utilities began participation in the Southwest Power Pool (SPP) Integrated Marketplace allowing the Utility to purchase and sell electricity within the SPP area. The Integrated Marketplace is designed to improve grid reliability and regional balancing of supply and demand. In addition, owner-membership in The Energy Authority (TEA) continues to prove beneficial for City Utilities' customers. This mix of generation resources allows City Utilities to maintain low prices, provide optimum reliability to customers, and to take advantage of off-system sales opportunities as market conditions allow. City Utilities generated approximately 58% and purchased 42% of its power needs in 2016 compared to generating 62% and purchasing 38% in 2015.

City Utilities pays a percentage of its operating revenues into the general revenue fund of the City, as required by City Charter. These Payments in Lieu of Taxes are made to the City at a rate of 3% of electric revenue and 4% of natural gas and transit revenues for the period. In addition, water made payments to the City at a rate of 4%. The following table presents City Utilities' operating expenses prior to interdepartmental eliminations:

	2016	Operating Expenses	
		2015	2014
	(In Thousands)		
Operating expenses			
Electric	\$ 245,302	\$ 249,967	\$ 250,739
Natural gas	77,332	90,823	103,304
Transportation	11,940	10,809	9,853
Telco/Broadband	10,463	11,941	14,016
Water	35,911	32,957	32,995
	<u>380,948</u>	<u>396,497</u>	<u>410,907</u>
Total operating expenses	<u>\$ 380,948</u>	<u>\$ 396,497</u>	<u>\$ 410,907</u>

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Fiscal Year 2016

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

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

Fiscal Year 2015

Electric operating expenses were comparable to 2014. Production fuel for generation decreased \$26.1 million as the amount expensed for coal decreased \$24.9 million. Transmission costs increased \$3.8 million. Purchased power costs increased \$13.8 million due to a greater reliance on purchased power.

Natural gas operating expenses decreased \$12.5 million compared to fiscal year 2014. The decrease is due to a decrease in the price of natural gas. The cost decreased 24% per DTH. Purchased gas cost for fiscal year 2015 was \$62.0 million. Water operating expenses decreased \$38,000 due to decreased maintenance costs. Total operating expenses were \$32.9 million.

Change in Net Position

Fiscal Year 2016

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

Fiscal Year 2015

Results of operations continue to be positive and net position (equity) continues to grow. City Utilities maintains AA credit rating from Fitch Ratings and Standard & Poor's rating agencies, demonstrating a strong financial position. With credit ratings of AA category, the Utility continues to be well positioned for the future. In 2015, the Governmental Accounting Standards Board required the recording of a net pension liability. The amount of the entry is determined by the Missouri Local Government Employees Retirement System (LAGERS). The entry includes a \$346,000 prior period adjustment to net position (equity), a net pension liability of \$34.3 million and a deferred outflow of resources related to pensions of \$30.0 million.

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	Net Position (Equity)		
	2016	2015	2014
	(In Thousands)		
Operating revenues	\$ 417,586	\$ 431,482	\$ 446,182
Less operating expenses	<u>364,675</u>	<u>380,726</u>	<u>392,707</u>
Operating income	<u>52,911</u>	<u>50,756</u>	<u>53,475</u>
Nonoperating revenues (expenses)			
Interest income	7,232	7,337	7,224
Investment loss	(1,223)	(625)	(748)
Net increase (decrease) in fair market value of investments	2,260	1,861	(304)
Interest expense, net	(25,928)	(29,921)	(31,370)
Other items, net	<u>4,341</u>	<u>2,618</u>	<u>3,209</u>
Nonoperating revenues (expenses)	<u>(13,318)</u>	<u>(18,730)</u>	<u>(21,989)</u>
Change in net position before contributions and special items	<u>39,593</u>	<u>32,026</u>	<u>31,486</u>
Capital contributions			
Contributions in aid of construction	6,856	6,018	5,660
Donated property	374	221	803
Reduction of plant costs recovered through contribution	<u>(5,426)</u>	<u>(4,724)</u>	<u>(5,237)</u>
Net capital contributions	<u>1,804</u>	<u>1,515</u>	<u>1,226</u>
Change in net position before special items	<u>41,397</u>	<u>33,541</u>	<u>32,712</u>
Special items			
Surplusing of SpringNet Underground	-	3,518	-
Gas holder site remediation	<u>-</u>	<u>(7,240)</u>	<u>-</u>
Total special items	<u>-</u>	<u>(3,722)</u>	<u>-</u>
Change in net position	<u>41,397</u>	<u>29,819</u>	<u>32,712</u>
Net position (equity)			
Beginning of year, as previously reported	998,767	969,294	936,582
Cumulative effect of change in accounting principle	<u>-</u>	<u>(346)</u>	<u>-</u>
Beginning of year, as restated	<u>998,767</u>	<u>968,948</u>	<u>936,582</u>
End of year	<u>\$ 1,040,164</u>	<u>\$ 998,767</u>	<u>\$ 969,294</u>

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Fiscal Year 2016

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

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

Fiscal Year 2015

Electric operating income totaled \$40.6 million which was comparable to last year. Natural gas operating income of \$5.4 million was 41% lower than last year due to a decrease in customer usage and lower natural gas prices. Water operating income increased by \$2.7 million to \$11.4 million due to a rate increase funding infrastructure replacement and decreased operating expenses.

Net income of \$29.8 million was \$2.9 million below the prior year and includes the surplusing of the SpringNet Underground and the gas holder site remediation. Operating income was \$2.7 million below 2014 due to reduced revenues and recording of additional \$4.0 million of pension expense to comply with GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. The fair market value of investments was a \$2.2 million variance over the prior year offset by a \$1.1 million loss on fixed assets.

Receipts and Disbursements Compared to Budget

Receipts and Disbursements Compared to Budget
September 30, 2016, 2015, and 2014
(In Thousands)

	2016		2015		2014	
	Receipts	Disbursements	Receipts	Disbursements	Receipts	Disbursements
Budget	\$ 506,984	\$ 519,104	\$ 572,084	\$ 571,584	\$ 589,383	\$ 590,772
Actual	<u>462,987</u>	<u>475,050</u>	<u>511,759</u>	<u>499,391</u>	<u>490,561</u>	<u>491,950</u>
Over (under) budget	<u>\$ (43,997)</u>	<u>\$ (44,054)</u>	<u>\$ (60,325)</u>	<u>\$ (72,193)</u>	<u>\$ (98,822)</u>	<u>\$ (98,822)</u>

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Fiscal Year 2016

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

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

Fiscal Year 2015

Receipts were under budget by \$60.3 million. The budget includes a \$35.0 million receipt contingency to offset a spike in fuel prices. The fuel contingency was not utilized due to fuel costs being below budget.

Disbursements were under budget by \$72.2 million. Disbursements for capital projects were under budget \$18.1 million, noncapital projects were under budget by \$3.9 million and fuels were under budget by \$11.7 million. A \$35.0 million fuel contingency and a \$9.6 million TEA guarantee were also included in the budget but not utilized.

Significant Future Items

Rate increases are as follows:

- An electric rate increase of 3.7% will become effective in October 2016 to fund additional operating and maintenance costs and to support environmental compliance projects.
- No new natural gas or water rate increases are scheduled for the next fiscal year.
- No transit fare increases are scheduled for the next fiscal year.

Frontier Wind:

Effective November 2015, City Utilities signed a purchased power agreement with Frontier Windpower. The 22-year agreement allows the purchase of power from the 200 MW wind generation facility at an annual fixed price. The first energy delivery is scheduled for January 2017.

Water Protection/Preservation and Ash Storage Expansion:

The project will comply with the new regulations and consider local geography to determine feasibility and ensure the preservation and protection of water resources with any expansion of dry ash storage capacity at the John Twitty Energy Center. The total project is expected to be completed by 2018 at a total cost of \$1.6 million. The budget for fiscal year 2017 is \$1.1 million.

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Coal Combustion Residual (CCR) Rule:

The Coal Combustion Residual (CCR) Rule was recently published in the Federal Register. The compliance requirements are staged over several years. City Utilities is in the process of performing preliminary compliance requirements, processing and interpreting the regulations, and developing plans for compliance. This project could last several years, depending on interpretations of the rules and potential construction or installation of required facilities and equipment. Total project cost is \$8.1 million. The budget for fiscal year 2017 is \$6.5 million.

Transmission Line Right-of-Way Purchase:

This project provides for purchase of right-of-way to construct a 161 kV transmission line for future expansion of the Transmission System on the perimeter of City Utilities' service territory. Acquisition costs are projected to total \$1.0 million per year over the next three years.

Natural Gas Main and Service Renewals:

The replacement of mains and services project, with concentration on Aldyl A plastic mains installed prior to 1985 in high pressure districts continues. The budget for fiscal year 2017 is \$3.3 million. Estimated total cost for the project over the next five years is \$17.9 million.

48-inch Raw Water Main:

This project will complete the 11-mile raw water main from Fellows Lake to the Blackman Water Treatment Plant and will provide additional and redundant raw water supply to the Blackman Water Treatment Plant. The project will be completed in 2019 at an estimated total cost of \$7.6 million. The budget for fiscal year 2017 is \$3.4 million.

Water Main Renewals:

This project will reinstate a sustained main renewal program. The level of funding increases over the five year Operating Plan to replace aging infrastructure. Expected expenditures total \$28.4 million over the next five years. The budget for fiscal year 2017 is \$5.4 million.

Metering Technology:

This project includes installation of automated metering infrastructure, meters and associated communication equipment. This will allow enhanced outage detection, automated meter reading, as well as remote connection and disconnection. It will also allow City Utilities to provide enhanced energy usage information. This project will be on-going for at least the next five years. Total project cost for electric, natural gas and water over the next five years is estimated at \$40.5 million. The budget for fiscal year 2017 is \$8.1 million.

City Utilities of Springfield, Missouri
(A Component Unit of the City of Springfield, Missouri)
Management's Discussion and Analysis
September 30, 2016 and 2015

Requests for Information

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

City Utilities of Springfield, Missouri
(A Component Unit of the City of Springfield, Missouri)
Statements of Net Position
September 30, 2016 and 2015
(in Thousands)

Assets and Deferred Outflows of Resources

	2016	2015
Noncurrent Assets		
Capital Assets		
Land	\$ 51,422	\$ 48,045
Electric	1,511,339	1,490,285
Natural gas	226,912	218,375
Transportation	27,491	21,372
Water	312,591	299,398
Customer service	15,137	13,994
Telecom/Broadband	66,438	61,468
Common	53,840	53,705
Total	2,265,170	2,206,642
Less accumulated depreciation	(860,354)	(821,122)
Net total	1,404,816	1,385,520
Construction work in progress	57,988	55,537
Net capital assets	1,462,804	1,441,057
Investments		
Funds for bonded indebtedness	6,179	6,071
Designated improvement account	105,970	138,447
Working capital account	101,343	74,814
Price risk management assets	1,581	195
Other noncurrent assets	17,649	15,338
Total noncurrent assets	1,695,526	1,675,922
Current Assets		
Cash	32,057	43,368
Short-term investments	-	751
Total cash and short-term investments	32,057	44,119
Accounts receivable		
Customers, less allowance for doubtful accounts;		
2016 - \$333 and 2015 - \$310	21,847	20,962
Unbilled revenue	16,336	15,447
Other	2,661	2,174
Inventories		
Materials and supplies	25,139	25,119
Coal	2,159	11,659
Natural gas stored underground	5,165	6,333
Emissions consumables	80	144
Prepayments and other	1,194	1,379
Total current assets	106,638	127,336
Total assets	1,802,164	1,803,258
Deferred Outflows of Resources		
Electric fuel and purchased natural gas adjustment	1,698	-
Unamortized loss on reacquired debt	17,985	19,599
Pension related	71,421	29,968
Fair value adjustments in derivative instruments	514	1,686
Total deferred outflows of resources	91,618	51,253
Total assets and deferred outflows of resources	\$ 1,893,782	\$ 1,854,511

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

Statements of Net Position
September 30, 2016 and 2015
(in Thousands)

Liabilities, Deferred Inflows of Resources and Net Position

	2016	2015
Net Position		
Net investment in capital assets	\$ 785,375	\$ 736,515
Restricted for debt service	6,179	6,071
Unrestricted	248,610	256,181
Total net position	1,040,164	998,767
Long-Term Obligations		
Long-term obligations	588,185	618,525
Unamortized debt premium, net of debt discount	48,810	50,131
Total long-term obligations	636,995	668,656
Other Noncurrent Liabilities		
Vacation and sick leave	14,479	14,132
Net pension liability	77,869	34,294
Other	9,176	7,265
Total other noncurrent liabilities	101,524	55,691
Current Liabilities		
Current maturities of long-term obligations	27,655	26,155
Accounts payable		
Trade	16,781	18,169
Other	4,465	5,596
Accruals		
Interest	4,889	5,191
Salaries and wages	1,445	1,861
Pension contributions and other	1,913	2,158
Electric purchased power	3,400	2,111
Natural gas, coal and other fuels	6,073	6,593
Vacation and sick leave	9,787	9,634
Arbitrage payable	-	15,735
Gas holder site remediation	-	7,240
Due to City of Springfield, Missouri in lieu of taxes	1,199	1,156
Customer deposits	4,970	5,601
Total current liabilities	82,577	107,200
Total liabilities	821,096	831,547
Deferred Inflows of Resources		
Contributions in aid of construction	23,945	19,297
Pension related	8,577	-
Electric fuel and purchased natural gas adjustment	-	4,900
Total deferred inflows of resources	32,522	24,197
Total net position, liabilities and deferred inflows of resources	\$ 1,893,782	\$ 1,854,511

City Utilities of Springfield, Missouri
(A Component Unit of the City of Springfield, Missouri)
Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2016 and 2015
(in Thousands)

	<u>2016</u>	<u>2015</u>
Operating Revenues		
Services	\$ 396,108	\$ 410,777
Other	21,478	20,705
Total operating revenues	<u>417,586</u>	<u>431,482</u>
Operating Expenses		
Production fuel and purchased power	86,393	99,232
Natural gas purchased for resale	47,981	61,987
Other production	20,397	18,322
Distribution and transmission	35,729	31,962
Bus and garage operations	6,450	5,890
Other services	4,230	4,728
Customer accounts	13,279	11,939
Administrative and general	29,687	29,174
Maintenance	45,617	43,713
Depreciation and amortization	61,457	59,317
Payments in lieu of taxes	13,291	14,173
Gain on other activities	(69)	(90)
Other taxes	233	379
Total operating expenses	<u>364,675</u>	<u>380,726</u>
Operating income	<u>52,911</u>	<u>50,756</u>
Nonoperating Revenues (Expenses)		
Interest income	7,232	7,337
Net increase in fair value of investments	2,260	1,861
Investment loss	(1,223)	(625)
Interest expense, net	(25,928)	(29,921)
Operation of recreational facilities, net	(285)	(291)
Amortization of debt-related costs	2,346	1,579
Other, net	2,280	1,330
Net nonoperating revenues (expenses)	<u>(13,318)</u>	<u>(18,730)</u>
Change in net position before contributions and special items	<u>39,593</u>	<u>32,026</u>
Capital Contributions		
Contributions in aid of construction	6,856	6,018
Donated property	374	221
Reduction of plant costs recovered through contributions	(5,426)	(4,724)
Net capital contributions	<u>1,804</u>	<u>1,515</u>
Change in net position before special items	<u>41,397</u>	<u>33,541</u>
Special Items		
Surplusing of SpringNet Underground	-	3,518
Gas holder site remediation	-	(7,240)
Total special items	<u>-</u>	<u>(3,722)</u>
Change in net position	41,397	29,819
Net Position		
Beginning of year	<u>998,767</u>	<u>968,948</u>
End of year	<u>\$ 1,040,164</u>	<u>\$ 998,767</u>

City Utilities of Springfield, Missouri
(A Component Unit of the City of Springfield, Missouri)
Statements of Cash Flows
Years Ended September 30, 2016 and 2015
(in Thousands)

	2016	2015
Cash Flows from Operating Activities		
Receipts from customers	\$ 401,618	\$ 426,968
Payments to suppliers	(202,040)	(233,903)
Payments to employees	(64,474)	(61,486)
Payments in lieu of taxes	(13,128)	(13,629)
Claims paid	(466)	(304)
	<hr/>	<hr/>
Net cash provided by operating activities	121,510	117,646
	<hr/>	<hr/>
Cash Flows from Noncapital Financing Activities		
Receipts from federal and state grants	2,470	2,323
	<hr/>	<hr/>
Net cash provided by noncapital financing activities	2,470	2,323
	<hr/>	<hr/>
Cash Flows from Capital and Related Financing Activities		
Purchases of capital assets, net of removal	(76,499)	(85,397)
Surplusing of SpringNet Underground	-	8,064
Proceeds from the issuance of long-term obligations	34,607	41,480
Debt issuance costs paid	128	1,623
Proceeds for issuance of revenue bonds	-	572,137
Defeased bonds	-	(572,054)
Repayment of long-term obligations	(60,825)	(13,620)
Interest paid	(27,846)	(32,675)
	<hr/>	<hr/>
Net cash used in capital and related financing activities	(130,435)	(80,442)
	<hr/>	<hr/>
Cash Flows from Investing Activities		
Sale and maturities of investment securities	35,109	22,824
Purchase of investment securities	(31,226)	(68,627)
Interest received	7,716	7,979
Arbitrage	(15,735)	13,261
Equity investment in The Energy Authority, net	(868)	(934)
Equity investment in Partnership Industrial Center, net	148	(3)
	<hr/>	<hr/>
Net cash used in investing activities	(4,856)	(25,500)
	<hr/>	<hr/>
Net increase (decrease) in cash	(11,311)	14,027
	<hr/>	<hr/>
Cash, Beginning of Year	43,368	29,341
	<hr/>	<hr/>
Cash, End of Year	\$ 32,057	\$ 43,368
	<hr/> <hr/>	<hr/> <hr/>

City Utilities of Springfield, Missouri
(A Component Unit of the City of Springfield, Missouri)
Statements of Cash Flows
Years Ended September 30, 2016 and 2015
(in Thousands)

	2016	2015
Reconciliation of Operating Income to Net Cash		
Provided by Operating Activities		
Operating income	\$ 52,911	\$ 50,756
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization expense	61,457	59,317
Auto depreciation included in vehicle expense	2,410	2,001
Miscellaneous income	120	12
Operation of recreational facilities	(285)	(308)
Change in assets and liabilities		
Customer and other accounts receivable	(1,373)	3,229
Unbilled revenues	(889)	(1,370)
Recoverable fuel costs	(5,426)	2,321
Price risk management assets	(1,386)	1,556
Inventories	10,713	(5,530)
Prepayments and prepaid insurance	184	(202)
Other noncurrent assets	(346)	(330)
Deferred outflows related to pensions	(41,453)	(25,277)
Accounts payable	695	1,682
Customer deposits	(631)	47
Accrued liabilities	2,697	(862)
Net pension liability	43,575	29,258
Deferred inflows related to pensions	8,577	-
Other noncurrent liabilities	(10,040)	1,346
	\$ 121,510	\$ 117,646
Noncash Capital Financing Activities		
Capital assets acquired through contributions from developers	\$ 374	\$ 221
Capital assets acquisitions included in accounts payable	\$ 6,819	\$ 10,033
Noncash Investing Activities		
Net increase in fair value of investments	\$ 2,260	\$ 1,861

City Utilities of Springfield, Missouri
(A Component Unit of the City of Springfield, Missouri)
Notes to Financial Statements
September 30, 2016 and 2015

Note 1: Summary of Significant Accounting Policies

Reporting Entity

City Utilities of Springfield, Missouri (City Utilities) is a municipally owned utility, which is a component unit of the City of Springfield, Missouri (the “City”), as provided for in the City Charter. City Utilities is comprised of the electric, natural gas, transportation, telecom/broadband and water departments. As permitted by Section 16.1 of the City Charter, City Utilities provides certain telecommunications services to the medical, education, utility and government communities in the Springfield metropolitan area. As of September 30, 2016, City Utilities serves approximately 114,000 electric customers, 83,000 natural gas customers and 82,000 water customers in the Springfield metropolitan area.

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

Basis of Accounting

City Utilities activities are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. As required in Section 16.11 of the City Charter, City Utilities’ accounting records are maintained in accordance with accounting principles generally accepted in the United States of America for regulated utilities and generally follow accounting policies and procedures established for investor-owned natural gas and electric utilities by the Federal Energy Regulatory Commission (FERC) and for investor-owned water utilities by the National Association of Regulatory Utility Commissioners (NARUC).

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

City Utilities of Springfield, Missouri
(A Component Unit of the City of Springfield, Missouri)
Notes to Financial Statements
September 30, 2016 and 2015

Net Position

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

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

Revenues and Expenses

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

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

Capital Assets and Depreciation

The cost of additions and betterments of the utility plant is capitalized. Cost includes material, labor, vehicle and equipment usage, related overhead items, capitalized interest and certain administrative and general expenses. Currently, City Utilities has a capitalization threshold of \$5,000 for plant assets.

City Utilities of Springfield, Missouri
(A Component Unit of the City of Springfield, Missouri)
Notes to Financial Statements
September 30, 2016 and 2015

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	
	2016	2015
Electric	2.7%	2.8%
Natural gas	2.8%	2.8%
Telecom/Broadband	6.8%	6.8%
Water	1.9%	1.9%

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

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

Investments

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

Inventories

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

City Utilities of Springfield, Missouri
(A Component Unit of the City of Springfield, Missouri)
Notes to Financial Statements
September 30, 2016 and 2015

Deferred Outflows and Inflows of Resources

Deferred Loss on Refunding Debt

Costs incurred in connection with the refinancing of various bond issuances are being amortized over the remaining life of the old bonds or the life of the new bonds, whichever is shorter. Amortization is recorded in nonoperating expenses. At September 30, 2016 and 2015, the unamortized loss balance of \$18.0 million and \$19.6 million, respectively, was recorded as a deferred outflow of resources in the Statements of Net Position.

Pension Related

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

Fair Value Adjustments in Derivative Instruments

As of September 30, 2016, City Utilities had purchased financial instruments to reduce, or hedge, the volatility of natural gas costs for fiscal years 2016 through 2022. Through September 30, 2016 and 2015, the market value of the unexpired instruments were included as an asset and a liability on the Statements of Net Position with the offset of the monthly fair market value adjustment included as a deferred outflow until the hedging instruments are matched with the corresponding monthly purchased natural gas costs.

Contributions in Aid of Construction (CIAC)

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

Electric Fuel and Purchased Natural Gas Adjustments

General Ordinance Numbers 6139 and 5780 require City Utilities to adjust customers' electric and natural gas bills, respectively, for changes between estimated and actual costs of electric fuel, purchased power and purchased natural gas to City Utilities. Such cost includes amounts recognized in connection with financial instruments used to manage the overall cost of natural gas. An under-recovery of \$2.2 million and an over-recovery of \$4.4 million for electric fuel and an over-recovery of \$541,000 and over-recovery of \$483,000 for purchased natural gas adjustment clauses were recorded at September 30, 2016 and 2015, respectively, as a net deferred outflow or inflow of resources in the Statements of Net Position.

City Utilities of Springfield, Missouri
(A Component Unit of the City of Springfield, Missouri)
Notes to Financial Statements
September 30, 2016 and 2015

Capitalization of Interest

Net interest costs related to acquiring or constructing certain utility plant are capitalized as a part of the cost of the related asset. City Utilities capitalizes interest on construction projects financed with revenue bonds, commercial paper and renewal and replacement funds in accordance with GASB Statement No. 62. Information regarding capitalized interest is as follows (dollar amounts in thousands):

	2016	2015
Interest expense, gross	\$ 27,544	\$ 31,814
Capitalized interest	(1,616)	(1,893)
Interest expense, net	\$ 25,928	\$ 29,921
Average interest rate	3.1%	3.3%

Cash

City Utilities has securities pledged by Bank of America, to cover certain deposits in excess of Federal Deposit Insurance Corporation (FDIC) insurance levels. These securities have a fair value of at least 100% of the amount of total deposits in excess of \$250,000 in accordance with the City Charter, Section 19.13. City Utilities considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. At September 30, 2016 and 2015, City Utilities held no cash equivalents.

Environmental Matters

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

In accordance with GASB Statement 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, City Utilities recorded a liability for estimated remediation costs for a former manufactured gas holder site. City Utilities' property at 320 N. Main in Springfield is the site of a former gas holder and cleaning house that served a manufactured gas plant (MGP). City Utilities never operated the holder site. In 2013, City Utilities, along with the City of Springfield, participated in a site characterization study due to a redevelopment effort in downtown Springfield. The final study report and draft remediation action plan were completed in December 2014. Following review of the final documents and subsequent conversations with Missouri Department of Natural Resources (MDNR), City Utilities decided to move forward with cleanup activities at 320 N. Main. On July 10, 2015, City Utilities submitted a Remediation Action Plan (RAP) and application for enrollment in the MDNR Brownfields/Voluntary Cleanup Program (BVCP). In August 2015, MDNR accepted City Utilities' enrollment of the site into the BVCP. On October 23,

City Utilities of Springfield, Missouri
(A Component Unit of the City of Springfield, Missouri)
Notes to Financial Statements
September 30, 2016 and 2015

2015, City Utilities received conditional MDNR approval of the RAP that allowed work to begin in November 2015. Complete and final RAP approval was granted on January 5, 2016. Excavated soil and subsurface structures relating to the former gas holder site were removed down to depths ranging from 3 feet to 30 feet below grade surface over a five (5) month period (February to June 2016). A total of approximately 39,000 tons of source and impacted materials were removed and disposed of in the City of Springfield's Sanitary Landfill.

A portion of a former City Utilities water tower site had soil lead levels above the state trigger levels, possibly due to leaching from lead paint over a period of seventy years. City Utilities enrolled the site in the Missouri Brownfields/Voluntary Cleanup Program (BVCP) and issued a contract to remediate the property to risk-based cleanup standards that will allow unrestricted future use of the property. Site cleanup and restoration was completed in September 2015. On September 18, 2015, the Risk Management Completion Report was submitted to MDNR and on January 5, 2016, City Utilities received the Certificate of Completion letter confirming the site safe for all reasonably anticipated land use. In February 2016, City Utilities filed the letter in the property chain of title with the Greene County Recorder of Deeds. The total costs for site remediation and MDNR oversight fees were \$67,000.

Vacation and Sick Leave

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

Defined Benefit Pension Plan

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

City Utilities of Springfield, Missouri
(A Component Unit of the City of Springfield, Missouri)
Notes to Financial Statements
September 30, 2016 and 2015

Management's Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities and deferred inflows of resources, and the disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant items subject to such estimates and assumptions include the useful lives of fixed assets, allowances for doubtful accounts, fixed assets, inventory, investments, reserve for employee benefit obligations, environmental liabilities and other contingencies. The current economic environment has increased the degree of uncertainty inherent in those estimates and assumptions.

Special Items - Gas Holder Site Remediation

In accordance with GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, City Utilities recorded a liability during 2015 for estimated costs of remediation of a former manufactured gas holder site. City Utilities never operated the holder site. City Utilities, along with the City of Springfield, recently participated in a site characterization study due to a redevelopment effort in downtown Springfield. In July 2015, City Utilities submitted a Remediation Action Plan to the Missouri Department of Natural Resources (MDNR). In August 2015, MDNR accepted City Utilities' enrollment of the site into the Brownfields/Voluntary Cleanup Program. City Utilities received final MDNR approval of the RAP on October 26, 2015. A Special Item in the amount of \$7.2 million, was recorded as of September 30, 2015, that estimated costs of remediation. As of September 30, 2016, remediation of the site is essentially complete.

New Accounting Pronouncements

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

City Utilities of Springfield, Missouri
(A Component Unit of the City of Springfield, Missouri)
Notes to Financial Statements
September 30, 2016 and 2015

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, was issued in June 2015 and effective for reporting periods beginning after June 15, 2015. This Statement establishes the hierarchy of GAAP for state and local governments. The implementation of this Statement did not have a material impact on City Utilities financial statements.

Note 2: Capital Assets

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

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

City Utilities of Springfield, Missouri
(A Component Unit of the City of Springfield, Missouri)
Notes to Financial Statements
September 30, 2016 and 2015

Capital asset activity for the year ended September 30, 2015, is as follows (in thousands):

	September 30, 2014	Increases	Decreases	September 30, 2015
Public utility				
Nondepreciable assets				
Land	\$ 48,048	\$ -	\$ (3)	\$ 48,045
Construction work in progress	54,447	89,729	(88,639)	55,537
Depreciable assets				
Electric	1,449,193	56,288	(15,196)	1,490,285
Natural gas	210,578	8,274	(477)	218,375
Transportation	18,734	2,724	(86)	21,372
Water	289,174	10,940	(716)	299,398
Customer service	13,916	468	(390)	13,994
Telecom/Broadband	63,291	9,213	(11,036)	61,468
Common	55,368	1,221	(2,884)	53,705
Total capital assets	<u>2,202,749</u>	<u>178,857</u>	<u>(119,427)</u>	<u>2,262,179</u>
Less accumulated depreciation	<u>(787,691)</u>	<u>(61,698)</u>	<u>28,267</u>	<u>(821,122)</u>
Net capital assets	<u>\$ 1,415,058</u>	<u>\$ 117,159</u>	<u>\$ (91,160)</u>	<u>\$ 1,441,057</u>

As of September 30, 2016 and 2015, depreciation expense was reduced by \$796,000 and \$522,000, respectively, for the recognition of the deferred inflow of resources related to contributions in aid of construction.

Note 3: Investments

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

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

The following represents City Utilities' total cash and investments at September 30, 2016 and 2015 (in thousands):

	2016	2015
U.S. Treasury securities	\$ 53,243	\$ 65,963
U.S. government agencies	33,860	43,975
Mortgage-backed securities	125,584	109,282
Accrued interest	805	863
	<hr/>	<hr/>
Total investments	213,492	220,083
Cash	32,057	43,368
	<hr/>	<hr/>
Total cash and investments	<u>\$ 245,549</u>	<u>\$ 263,451</u>

Cash and investments are included in the following statement of net position accounts at September 30, 2016 and 2015 (in thousands):

	2016	2015
Funds for bonded indebtedness	\$ 6,179	\$ 6,071
Designated improvement accounts	105,970	138,447
Working capital account	101,343	74,814
Cash	32,057	43,368
Short-term investments	-	751
	<hr/>	<hr/>
Total cash and investments	<u>\$ 245,549</u>	<u>\$ 263,451</u>

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As of September 30, 2016 and 2015, City Utilities held cash and investments for restricted and designated purposes as follows (in thousands):

	<u>2016</u>	<u>2015</u>
Funds for bonded indebtedness - other	\$ 6,179	\$ 6,071
Designated funds		
Board authorized		
Disaster and contingency reserve funds	62,262	67,773
Arbitrage reserve	-	15,342
Trunked radio system reserve	2,717	1,998
Funds designated for JTEC2	-	4,484
Fuel over recovery	541	4,900
CFO authorized	<u>40,450</u>	<u>43,950</u>
 Total reserved	 112,149	 144,518
 Unreserved	 <u>133,400</u>	 <u>118,933</u>
 Total cash and investments	 <u>\$ 245,549</u>	 <u>\$ 263,451</u>

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

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

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

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As of September 30, 2015, City Utilities' investment portfolio matures as follows (in thousands):

	<u>Recorded Value</u>	<u>Less than 1 Year</u>	<u>2-3 Years</u>	<u>4-5 Years</u>	<u>More than 5 Years</u>
U.S. Treasury securities	\$ 65,963	\$ 13,014	\$ 12,481	\$ 20,183	\$ 20,285
U.S. government agencies	43,975	10,134	18,400	-	15,441
Mortgage-backed securities	109,282	17,250	20,947	14,960	56,125
Accrued interest	<u>863</u>	<u>863</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total investments	<u><u>\$ 220,083</u></u>	<u><u>\$ 41,261</u></u>	<u><u>\$ 51,828</u></u>	<u><u>\$ 35,143</u></u>	<u><u>\$ 91,851</u></u>

Credit Risk – Credit risk is the risk that City Utilities will not recover its investment due to the inability of the counterparty to fulfill its obligations. As a means of limiting credit risk, City Utilities' investment policy permits investments in U.S. government-backed securities or in investment contracts collateralized by U.S. government-backed securities. As of September 30, 2016 and 2015, City Utilities' investments in U.S. government agencies and mortgage-backed securities were all assigned long-term ratings of Aaa by Moody's Investors Service and AA+ by Standard and Poor's.

During 2015, in conjunction with the defeasance of the Series 2006 Public Utility Revenue bond, City Utilities terminated a forward delivery agreement for funds held in the debt service reserve fund. The termination resulted in a net termination payment to City Utilities in the amount of \$13.5 million.

Earnings resulting from investments acquired with the proceeds of the Series 2006 Public Utility Revenue bonds are limited to the tax-exempt interest rate of such bonds, as defined within the related tax declaration dated September 27, 2006. Any excess investment earnings must be paid to the federal government. A rebate of \$15.7 million is included in the current liabilities in the accompanying statements of net position at September 30, 2015, and was paid in full during 2016.

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Note 4: Long-Term Obligations

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

	2016	2015
Public Utility obligation under the February 2006 lease financing agreement; 3.70% to 5.00%; due December 1, 2015 to 2021	\$ -	\$ 34,735
Board of Public Utilities obligations under the June 2012 lease financing agreement; 2.00% to 5.00%; due December 1, 2015 to 2021	37,345	43,800
Board of Public Utilities obligations under the October 2014 lease financing agreement; 3.00% to 5.00%; due September 1, 2016 to September 1, 2029	33,510	35,345
Public Utility Refunding Revenue Bonds, Series 2015; 3.25% to 5.00% due August 1, 2016 to 2036	517,140	530,800
Board of Public Utilities obligations under the October 2015 lease financing agreement; at 5.00% due December 1, 2015 to December 1, 2021	27,845	-
Total	615,840	644,680
Current maturities of long-term obligations	(27,655)	(26,155)
Total long-term obligations outstanding, net of current maturities	588,185	618,525
Unamortized debt premium, net of debt discount	48,810	50,131
Total long-term obligations	\$ 636,995	\$ 668,656

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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, 2016, was as follows (in thousands):

	Bonds and Obligations Payable September 30, 2015			Bonds and Obligations Payable September 30, 2016		Amount Due in One Year
	Additions	Reductions	Additions	Reductions	Amount Due in One Year	
Revenue bonds - public utility	\$ 530,800	\$ -	\$ (13,660)	\$ 517,140	\$ 14,990	
Other obligations	113,880	31,985	(47,165)	98,700	12,665	
Total	<u>644,680</u>	<u>31,985</u>	<u>(60,825)</u>	<u>615,840</u>	<u>27,655</u>	
Less unamortized debt premium, net of debt discount	<u>50,131</u>	<u>3,258</u>	<u>(4,579)</u>	<u>48,810</u>	<u>-</u>	
Total	<u>\$ 694,811</u>	<u>\$ 35,243</u>	<u>\$ (65,404)</u>	<u>\$ 664,650</u>	<u>\$ 27,655</u>	
Other long-term liabilities						
Vacation and sick leave	\$ 23,765	\$ 11,239	\$ (10,892)	\$ 24,112	\$ 9,787	
Net pension liability	34,294	69,136	(25,561)	77,869	-	
Other	<u>7,265</u>	<u>1,911</u>	<u>-</u>	<u>9,176</u>	<u>-</u>	
Total	<u>\$ 65,324</u>	<u>\$ 82,286</u>	<u>\$ (36,453)</u>	<u>\$ 111,157</u>	<u>\$ 9,787</u>	

Long-term debt and other long-term liabilities activity for the year ended September 30, 2015, was as follows (in thousands):

	Bonds and Obligations Payable September 30, 2014			Bonds and Obligations Payable September 30, 2015		Amount Due in One Year
	Additions	Reductions	Additions	Reductions	Amount Due in One Year	
Revenue bonds - public utility	\$ 532,670	\$ (598,385)	\$ 596,515	\$ 530,800	\$ 13,660	
Other obligations	36,915	(11,750)	88,715	113,880	12,495	
Total	<u>569,585</u>	<u>(610,135)</u>	<u>685,230</u>	<u>644,680</u>	<u>26,155</u>	
Less unamortized debt premium, net of debt discount	<u>44,032</u>	<u>(11,694)</u>	<u>17,793</u>	<u>50,131</u>	<u>-</u>	
Total	<u>\$ 613,617</u>	<u>\$ (621,829)</u>	<u>\$ 703,023</u>	<u>\$ 694,811</u>	<u>\$ 26,155</u>	
Other long-term liabilities						
Long-term arbitrage payable	\$ 13,938	\$ (16,413)	\$ 2,475	\$ -	\$ -	
Vacation and sick leave	11,306	(10,858)	23,317	23,765	9,634	
Net pension liability	46,435	(17,178)	5,037	34,294	-	
Other	<u>965</u>	<u>-</u>	<u>6,300</u>	<u>7,265</u>	<u>-</u>	
Total	<u>\$ 72,644</u>	<u>\$ (44,449)</u>	<u>\$ 37,129</u>	<u>\$ 65,324</u>	<u>\$ 9,634</u>	

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The debt service to maturity on the outstanding bonds and obligations as of September 30, 2016, is summarized in the following table (in thousands):

	<u>Principal</u>	<u>Interest</u>
2017	\$ 27,655	\$ 26,533
2018	29,325	25,146
2019	31,480	23,666
2020	33,205	22,077
2021	34,875	20,568
2022 - 2026	136,025	81,146
2027 - 2031	151,755	50,795
2032 - 2036	<u>171,520</u>	<u>21,120</u>
Total	<u>\$ 615,840</u>	<u>\$ 271,051</u>

On June 18, 2015, City Utilities issued \$532.7 million Public Utility Refunding Revenue Bonds, Series 2015 with an average rate of 3.37%, together with other funds, to advance refund \$596.5 million of the outstanding Public Utility Revenue Bonds, Series 2006 with an average interest rate of 4.54%. The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$18.9 million. This difference, reported in the accompanying financial statements as a deferred outflow of resources, is being charged to operations through the year 2036 using the straight-line method. City Utilities completed the refunding to reduce its total debt service payments over the next twenty-one years by \$184.6 million and to obtain an economic gain (difference between the present value of the old and new debt service payments) of \$108 million. The outstanding balances on the 2006 Bonds totaled \$588.4 million as of June 18, 2015. Securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments. Therefore, these issues are considered defeased, and the liability has been removed from long-term debt.

On October 7, 2015, City Utilities entered into a combined lease financing agreement, for a par amount of \$32 million. City Utilities received a premium of \$3.3 million. The lease has a true interest rate of 1.47% with a 6 ¼ year term. The proceeds were used to pay the 2006 Series A and B outstanding Certificate of Participation.

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.

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The estimated fair value of long-term debt at September 30, 2016 and 2015, is as follows (in thousands):

	2016	2015
Fair value of long-term debt	\$ 740,334	\$ 766,418

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 2016
City Utilities Debt Obligations	Operating Revenue	\$ 886,891	Through 2036	12%	\$ 53,936

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, 2016 and 2015.

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.

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Benefits Provided

LAGERS provides retirement, death and disability benefits. Benefit provisions are adopted by the governing body of City Utilities, within the options available in the state statutes governing LAGERS. All benefits vest after 5 years of credited service. Employees who retire on or after age 60 with 5 or more years of service are entitled to an allowance for life based upon the benefit program information provided below. Employees may retire with an early retirement benefit with a minimum of 5 years of credited service and after attaining age 55 and receive a reduced allowance.

	2016	2015
Benefit multiplier	2%	2%
Final average salary	3 years	3 years
Member contribution	0%	0%

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

Employees Covered by Benefit Terms

At June 30, 2016 and 2015, the measurement date for the net pension liability at September 30, 2016 and 2015, the following employees were covered by the benefit terms:

	2016	2015
Inactive employees or beneficiaries currently receiving benefits	837	817
Inactive employees entitled to but not yet receiving benefits	68	63
Active employees	935	926
	1,840	1,806

Contributions

City Utilities is required to contribute amounts at least equal to the actuarially determined rate, as established by LAGERS. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance an unfunded accrued liability. Full-time employees of the employer do not contribute to the pension. City Utilities' contribution rate is 22% and 22.9% of annual covered payroll during fiscal years 2016 and 2015, respectively. City Utilities contributed \$17.2 million and \$17.3 million during fiscal years 2016 and 2015, respectively.

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Net Pension Liability

City Utilities' net pension liability as of September 30, 2016 and 2015, was measured as of June 30, 2016 and 2015, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of February 29, 2016 and February 28, 2015, respectively. The roll-forward of total pension liability from February 29, 2016 and February 28, 2015, to June 30, 2016 and 2015, respectively, reflects expected service costs and interest reduced by actual benefit payments and administrative expenses.

Actuarial Assumptions

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

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

Mortality rates were determined by applying the MP-2015 mortality improvement scale to the RP-2014 mortality tables.

The actuarial assumptions used in the February 29, 2016, valuation were based on the results of the 5-year experience study for the period March 1, 2010 through February 28, 2015.

The total pension liability in the February 28, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

Inflation	3.50% wage inflation, 3% price inflation
Salary increase	3.50% to 6.80% including wage inflation
Investment rate of return	7.25%

Mortality rates were based on 105% of the 1994 Group Annuity Mortality Table set back 0 years for both males and females.

The actuarial assumptions used in the February 28, 2015, valuation were based on the results of and actuarial experience study for the period March 1, 2010 through February 28, 2010.

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:

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Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Equity	43.00%	5.29%
Fixed income	26.00%	2.23%
Real assets	21.00%	3.31%
Strategic assets	10.00%	5.73%

Discount Rate

The discount rate used to measure the total pension liability is 7.25% for 2016 and 2015. The projection of cash flows used to determine the discount rate assumes that employer contributions will be made at the actuarially determined rates for employers. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payment to determine the total pension liability.

Changes in the Net Pension Liability

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

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	Total Pension Liability (a)	2015 Increase (Decrease) Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at beginning of year	\$ 532,013	\$ 526,976	\$ 5,037
Changes for the year			
Service cost	8,936	-	8,936
Interest	37,903	-	37,903
Difference between expected and actual experience	4,040	-	4,040
Contributions - employer	-	17,178	(17,178)
Net investment income	-	10,265	(10,265)
Benefit payments, including refunds	(27,685)	(27,685)	-
Administrative expense	-	(169)	169
Other changes	-	(5,652)	5,652
Net changes	<u>23,194</u>	<u>(6,063)</u>	<u>29,257</u>
Balances at end of year	<u>\$ 555,207</u>	<u>\$ 520,913</u>	<u>\$ 34,294</u>

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

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

	1% Decrease 6.25%	Current Single Discount Rate Assumption 7.25%	1% Increase 8.25%
Total Pension Liability (TPL)	\$ 663,544	\$ 586,753	\$ 522,867
Plan Fiduciary Net Position	<u>508,884</u>	<u>508,884</u>	<u>508,884</u>
Net Pension Liability/(Asset) (NPL)	<u>\$ 154,660</u>	<u>\$ 77,869</u>	<u>\$ 13,983</u>

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

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

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

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

For the year ended September 30, 2015, City Utilities recognized pension expense of \$21.3 million dollars. City Utilities reported deferred outflows and inflows of resources related to the pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences in experience	\$ 3,255	\$ -
Net difference between projected and actual earnings on pension plan investments	21,887	-
Contributions subsequent to the measurement date*	<u>4,826</u>	<u>-</u>
	<u>\$ 29,968</u>	<u>\$ -</u>

*The amount reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the Net Pension Liability for the year ending September 30, 2016.

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

2017	\$	16,055
2018		16,055
2019		16,055
2020		9,913
2021		178
Thereafter		-
Total	\$	58,256

Payable to the Pension Plan

At September 30, 2016 and 2015, City Utilities reported a payable of \$1.7 and \$1.8 million, respectively, for the outstanding amount of contributions to the pension plan required for the year end.

Note 6: Purchase Obligations

Obligations to Purchase Electric Power and Energy

Frontier Windpower

Effective November 2015, City Utilities signed a purchased power agreement with Frontier Windpower. The 22-year agreement allows City Utilities to purchase power from the 200 MW wind generation facility at an annual fixed price. The first energy delivery is scheduled for January 2017.

Southwestern Power Administration

City Utilities has a purchased power agreement with the Southwestern Power Administration (SWPA) effective through June 30, 2020. Under this agreement, City Utilities purchases 50 MW of generation and transmission capacity and must take a minimum of 3,000 MWh of peaking energy each month. City Utilities must also purchase a minimum of 60,000 MWh for the year. For fiscal year ended September 30, 2016, the cost of peaking capacity was \$2.8 million and the minimum for peaking energy was \$1.1 million for the year. The peaking rate is periodically adjusted.

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Southwest Power Pool

In March 2014, City Utilities began buying and selling power in the Southwest Power Pool (SPP) Integrated Marketplace. As a Regional Transmission Operator (RTO), SPP is mandated by FERC to ensure reliable supplies of power, adequate transmission infrastructure and competitive wholesale prices of electricity. SPP maintains a bid-based energy market, in which City Utilities offers essentially all of its generation and purchases much of its load requirement from the SPP market in accordance with the SPP Tariff. During fiscal year ended September 30, 2016, City Utilities had sales of \$11 million and purchased power of \$27 million. City Utilities participates in the ancillary services market operated by SPP. The ancillary market is an extension of the existing energy market in which SPP assumes the responsibility of maintaining sufficient generation reserves. In the ancillary services market, SPP provides the reserves for City Utilities' load, and City Utilities may offer to sell reserves from its generating units.

Strata Power

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

Smoky Hills Wind Project II

City Utilities has a purchased power agreement with Smoky Hills Wind Project II (Smoky Hills) to receive power through December 31, 2028. City Utilities will purchase 33.67% of the total energy output of phase II of the Smoky Hills wind energy project at an average cost during fiscal year 2016 of \$692,000 per month.

Obligations to Purchase Coal

Cloud Peak Energy Resources LLC

On October 18, 2004, City Utilities entered into a Master Coal Purchase and Sale Agreement with Kennecott Coal Sales Company. On January 12, 2010, the agreement was amended with Cloud Peak Energy Resources LLC, as successor to Kennecott Coal Sales Company. On September 19, 2014, a Confirmation Letter Agreement was executed for the purchase of coal from the Cordero Rojo Mine during the period of January 1, 2015, through December 31, 2017. On May 23, 2016, and October 25, 2016, amendments were made to the agreement. Under the terms of this agreement, City Utilities' coal purchase obligation is \$2.7 million and \$3.7 million for calendar years 2016 and 2017, respectively. As of September 30, 2016, City Utilities had purchased \$1.6 million of coal for the contract period ending December 31, 2016. Management believes the revised minimum tonnage requirement will be met for calendar year 2016.

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Peabody Coal Sales LLC

On August 28, 2013, City Utilities entered into a Master Coal Purchase and Sale Agreement with Peabody Coal Sales LLC. On September 25, 2014, a Confirmation Letter Agreement was executed for the purchase of coal from the North Antelope Rochelle Mine during the period of October 1, 2014 through December 31, 2017. On October 20, 2015, an amendment was made to the agreement. Under the terms of this agreement, City Utilities' coal purchase obligation is \$7.2 million and \$5.9 million for calendar years 2016 and 2017, respectively. As of September 30, 2016, City Utilities had purchased \$6.1 million of coal for the contract period ending December 31, 2016, management believes the minimum tonnage requirement will be met for calendar year 2016.

Obligations to Purchase Rail Services

Burlington Northern and Santa Fe Railway Co.

Effective December 17, 2014, City Utilities entered into an agreement with Burlington Northern and Santa Fe Railway Co. to purchase rail services for transporting coal to both City Utilities' power stations, terminating on December 31, 2019. On October 16, 2015, an amendment was made to the agreement. Under the terms of the agreement, City Utilities declared a tonnage nomination of 1,200,000 for calendar year 2016. As of September 30, 2016, City Utilities had tendered coal tonnage of 642,000 tons for the agreement period ending December 31, 2016. Management believes the minimum tonnage requirement will not be met for calendar year 2016 and has accrued damages in accordance with the terms of the contract.

Obligations for Transportation and Storage Services of Natural Gas

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

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

Note 7: Equity Interest in The Energy Authority

City Utilities is an equity member of The Energy Authority (TEA), a power marketing joint venture based in Jacksonville, Florida, and incorporated in Georgia. As of September 30, 2016, TEA was comprised of eight municipal utilities with equity interests, including five large partners with ownership interests of 16.67% each. The large partners are JEA (formerly the Jacksonville Energy Authority) of Florida, the Municipal Energy Authority of Georgia (MEAG Power), the South Carolina Public Service Authority (a.k.a. Santee Cooper), Nebraska Public Power District and American Municipal Power Inc. City Utilities, the Gainesville Regional Utilities (Florida), and the Cowlitz County Public Utility District (Washington) are medium equity partners with ownership interests of 5.56% each. As a member of TEA, City Utilities benefits from the risk management strategies maintained by TEA that seek to avoid financial losses by limiting financial exposure as a result of unexpected unit outages and volatile market prices. City Utilities also receives resource

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management services from TEA. City Utilities uses the equity method of accounting to record its investment in TEA. The investment is recorded within other noncurrent assets on the statement of net position. In accordance with the membership agreement between City Utilities and its joint venture members, City Utilities has provided TEA with guarantees that result in a maximum exposure of \$8.6 million to secure power-marketing transactions. Total guarantees including a letter of credit are \$9.6 million. City Utilities' guarantees are effective until its participation in the joint venture ends. The membership agreement provides for the addition of new members with a 75% approval of the existing members voting rights.

For the year ended September 30, 2016, total net position of TEA was approximately \$38 million, a decrease of \$8 million from the prior year.

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

Note 8: Related-Party Transactions

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

City Utilities also provided services, such as energy for street lighting and other electric, natural gas and water services, without charge to the City. At September 30, 2016, the estimated cost of providing such services was \$9.0 million.

City Utilities participated in a partnership agreement with the City, the Springfield Area Chamber of Commerce, and the Springfield Business and Industrial Development Corporation, a Missouri not-for-profit corporation, to govern the process of development, management and selling of an industrial center in the City. Under this agreement, City Utilities is responsible for utilities consisting of natural gas, water, electricity and fiber optic telecommunication services. Amounts expended for the industrial centers are accounted for using the equity method and are recorded in other noncurrent assets. The net profits or net losses of the partnership are allocated based upon each partner's percentage of the partnership's capital accounts. For the industrial park located on the west side of the City, as of September 30, 2016, City Utilities had incurred \$2.2 million for land and improvements, recognized losses of \$121,000 and received \$184,000 in distributions, for a net equity balance of \$1.9 million.

During 2006, the City and City Utilities agreed to a joint venture to develop a landfill gas project at the City's Noble Hill Landfill. The project includes an Electric Generation System (EGS) and a Gas Collection and Condensate Treatment System (GCCTS). City Utilities constructed and owns the EGS that includes power generation equipment with a target capacity of 3.2 MW with a total project cost of \$3.7 million. City Utilities also constructed transmission lines with a total project cost of \$1.1 million. City Utilities paid the City \$1.5 million for the initial construction of GCCTS. The City will retain ownership of all assets associated with the GCCTS.

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Note 9: Planned Construction

As of September 30, 2016, anticipated capital expenditures for improvements during the 2017 fiscal year are estimated to be approximately \$88.9 million. Major capital initiatives include Environmental Regulatory Compliance projects, installation of Advanced Metering Infrastructure, and replacement of Natural Gas mains and Water mains.

Note 10: Air Quality Standards

The Clean Air Act Amendments of 1990 (the “Act”) mandated reduced sulfur dioxide (SO₂) and nitrogen dioxide (NO_x) emissions from electric utility power plants. The Act established a market based compliance program which allows the selling and trading of SO₂ allowances. An “allowance” is the authorization to emit one ton of sulfur dioxide in a given year. Management believes that City Utilities is in full compliance with the emissions standards under the Act. No allowances were sold during the fiscal year ended September 30, 2016. City Utilities accounts for its allowances under the inventory method.

In 2005, the Environmental Protection Agency (EPA) promulgated the Clean Air Interstate Rule (CAIR), to further restrict power plant SO₂ and NO_x emissions, and the Clean Air Mercury Rule (CAMR) to impose power plant mercury controls for the first time. Both of these rules were vacated by a federal appeals court in 2008. However, the court allowed CAIR provisions to stand while EPA drafted a replacement rule for regional SO₂ and NO_x emission controls. CAIR required 28 eastern states, including Missouri, to reduce emissions by nearly 70% in two phases, beginning in 2009 and 2015 for NO_x and 2010 and 2015 for SO₂. As recommended by a compliance study, City Utilities successfully installed NO_x controls at JRPS in fiscal years 2007 and 2008 and at JTEC in fiscal year 2008. CAIR implementation ended December 31, 2014, and was supplanted by the Cross-State Air Pollution Rule (CSAPR). Management believes that City Utilities is in full compliance with the CAIR requirements that ended in 2014.

In July 2011, the Environmental Protection Agency (EPA) promulgated the Cross State Air Pollution Rule (CSAPR) to replace CAIR. CSAPR further restricted emissions in the original 28 CAIR states and added three more states to the control region. In August 2012, the federal appeals court vacated and remanded the CSAPR rule, this time for being too restrictive. The court allowed EPA to leave the flawed CAIR program in place until replaced with a suitable program. In 2014, the U.S. Supreme Court overturned the vacatur and remanded the case to the appellate court for final disposition. On June 26, 2014, the EPA filed a motion to lift the stay of the CSAPR. The D.C. Circuit Court of Appeals ordered that EPA’s motion to lift the stay of CSAPR on October 23, 2014. Following the Court’s order, EPA issued an administrative rule that tolls CSAPR compliance Phase 1 and 2 schedules three (3) years.

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Phase 1 of CSAPR began January 1, 2015, and Phase 2 begins implementation in 2017, barring any successful legal challenges. Further, based on the “good neighbor” policy under the CAA, Missouri’s CSAPR ozone season (OS) NO_x allowances will be reduced an additional 27 percent from original Phase 2 emission levels starting May 1, 2017. These additional reductions are deemed necessary for regions of the U.S. to meet the 2008 National Ambient Air Quality Standard (NAAQS) for ozone. Based on expected unit allocations, *i.e.*, SO₂, NO_x and OS NO_x, and operational forecasts, City Utilities holds sufficient allowances for its generating assets. Management believes that City Utilities is in full compliance with the current CSAPR requirements.

To replace CAMR, EPA published the Mercury and Air Toxics Standard (MATS) in 2012. City Utilities examined the impacts of this rule along with promulgated rules pertaining to industrial boiler emissions and National Ambient Air Quality Standards. At that time, City Utilities’ analysis indicated the need to install new capital control equipment totaling \$33 million spread over fiscal years 2013 to 2016 to comply with these measures. The MATS compliance date began April 2015, however, utilities were afforded a one-year compliance extension to allow time for equipment installation. A contract to procure and install this equipment was awarded in fiscal year 2013. JTEC completed installation of the control equipment in early 2015. JRPS units completed the upgrades in September 2015. Additional 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 CAA. In so doing, the Court remanded EPA’s MATS rule back to the United States Circuit Court of Appeals for the District of Columbia to decide the ultimate fate of the rule. Currently, the rule is still in effect. However, with other standard requirements and impending stringent regulations, City Utilities decided to cease burning coal at JRPS. This allowed the facility to become an area (minor) source of hazardous air pollutant (HAP) emissions and remove the units as affected sources under MATS and the industrial boiler MACT provisions. These changes were approved by the MDNR and codified in the most recently issued Title V Operating Permit for JRPS (OP2016-003) dated January 29, 2016. Management believes that City Utilities is fully compliant with MATS monitoring, reporting and notification requirements.

Other Standards

In June 2014, EPA proposed regulations to govern emissions of carbon dioxide (CO₂) from fossil fuel power plants. In August 2015, the EPA finalized regulations referred to as the Clean Power Plan for the sole purpose of reducing carbon dioxide emissions from the utility sector. The regulation will have a significant impact on coal burning power plants across the nation, including City Utilities. On October 23, 2015, the final rule was published in the Federal Register requiring states to cut their CO₂ emissions 32% from 2005 levels by 2030. Missouri and other coal-intensive states are required to absorb the greatest reductions (~37% from 2012 levels). The rule became effective December 22, 2015. States (including Missouri) and other entities have announced they will engage in litigation to challenge the rule. Additionally, bills are being introduced in Congress to limit the rule’s impact.

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The ultimate impact of the rule cannot be determined by City Utilities at this time, in part due to the need to finalize state goals and adopt state plans subject to EPA approval. States' requirements to submit their initial implementation plans to the EPA no later than September 6, 2016, were placed on hold by the United States Supreme Court until after all legal challenges have been satisfied. As currently written, the initial compliance period would begin January 1, 2022. Controls would be implemented over the period to meet compliance targets from 2020 to 2029 in order that states can reach their final 2030 compliance goal.

In addition to uncertainties over future SO₂ and NO_x rules, City Utilities is monitoring regulations on power plant waste disposal and effluent water quality. EPA proposed revisions to water effluent discharge guidelines in June 2013. The Administrator signed the final rule for the Effluent Limitation Guidelines (ELG) for Steam Electric Generation Point Sources on September 30, 2015. The rule becomes effective 60 days after publication in the Federal Register. In essence, this rule will require the dry handling of both bottom and fly ash from exiting coal-fired boilers with generation capacity greater than 50 MW. The final scope and impact to City Utilities for the ELG have not been fully determined. Further, EPA finalized the Coal Combustion Residuals (CCR) rule in April 2015. The rule extended the effective date until October 19, 2015, with compliance provisions beginning on the effective date. City Utilities determined to discontinue operation of its surface impoundments at both power stations. City Utilities awarded a consultant contract to assist with the multiyear, multifaceted provisions of the rule pertaining to the CCR landfills. At minimum, costs will be incurred to investigate stability, location restrictions, install a groundwater monitoring system, including the design and construction of a self-supporting, impervious basin *i.e.*, tank, to handle and dewater bottom ash from JTEC Unit 1. Compliance with the rule began October 19, 2015. Management expects to fully meet the compliance schedule outlined in the regulation.

Note 11: Legal Proceedings

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

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

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

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Risk Management

City Utilities is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; directors' or officers' liabilities; fiduciary and employee benefits responsibilities; employment practices; errors and omissions; injuries to employees and the public; and acts of God. For risks of loss related to property and general liability, City Utilities has self-insured retentions of \$2,000,000 and Excess Property and Liability Insurance at \$1 billion and \$135,000,000 in limits, respectively. There were no insurance recoveries in the current year, and settled claims have not exceeded coverage in any of the past three fiscal years.

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

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

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

Note 12: Disclosure About the Fair Value of Financial Instruments

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

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

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis. City Utilities currently does not have Level 1 assets or liabilities.

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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 statements of net position measured at fair value on a recurring basis and the level within the fair value hierarchy in which fair value measurements fall at September 30, 2016 and 2015:

	2016			
	Level 1	Level 2	Level 3	Total
Investments by Fair Value Level				
Debt securities				
U.S. Treasury securities	\$ -	\$ 53,243	\$ -	\$ 53,243
U.S. agency securities		33,860		33,860
Mortgage-backed securities	-	125,583	-	125,583
Total debt securities	<u>\$ -</u>	<u>\$ 212,686</u>	<u>\$ -</u>	<u>\$ 212,686</u>
Derivative Instruments				
Price risk management assets				
Natural gas options - long	\$ 2,277	\$ -	\$ -	\$ 2,277
Natural gas futures - long	(696)	-	-	(696)
Total price risk management assets	<u>1,581</u>	<u>-</u>	<u>-</u>	<u>1,581</u>
Price risk management liabilities				
Natural gas options - short	(305)	-	-	(305)
Total derivative instruments	<u>\$ 1,276</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,276</u>

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	2015			Total
	Level 1	Level 2	Level 3	
Investments by Fair Value Level				
Debt securities				
U.S. Treasury securities	\$ -	\$ 65,963	\$ -	\$ 65,963
U.S. agency securities	-	43,975	-	43,975
Mortgage-backed securities	-	109,282	-	109,282
Total debt securities	<u>\$ -</u>	<u>\$ 219,220</u>	<u>\$ -</u>	<u>\$ 219,220</u>
Derivative Instruments				
Price risk management assets				
Natural gas options - long	<u>\$ 195</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 195</u>
Price risk management liabilities				
Natural gas options - short	<u>(1,957)</u>	<u>-</u>	<u>-</u>	<u>(1,957)</u>
Total derivative instruments	<u>\$ (1,762)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,762)</u>

Investments and Financial Derivatives

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

Note 13: Financial Derivatives

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

As of September 30, 2016, City Utilities held financial instruments that were purchased to reduce, or hedge the volatility of natural gas costs for fiscal years 2016 through 2022. At September 2016, the market value of the unexpired instruments were included as an asset and a liability on the statements of net position with the offset of the monthly fair market value adjustment included as a deferred outflow until the hedging instruments are matched with the corresponding monthly purchased natural gas costs. At September 30, 2016 and 2015, the net value of these financial instruments were \$1.3 million and \$(1.8) million, respectively.

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

For fiscal years ended September 30, 2016 and 2015, TCR's were used as factors in the cost of transmission and met the normal purchase and normal sales scope exception.

Required Supplementary Information

City Utilities of Springfield, Missouri
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Required Supplementary Information

Schedule of City Utilities' Changes in Net Position Liability and Related Ratios
September 30, 2016 and 2015

	2016	2015
Total Pension Liability		
Service cost	\$ 9,188	\$ 8,936
Interest on the total pension liability	39,582	37,903
Benefit changes	-	-
Difference between expected and actual experience	(10,678)	4,040
Assumption changes	21,480	-
Benefit payments, including refunds	(28,026)	(27,684)
Net Change in Total Pension Liability	31,546	23,195
Total Pension Liability, Beginning	555,207	532,012
	\$ 586,753	\$ 555,207
 Plan Fiduciary Net Position		
Contributions - employer	\$ 16,984	\$ 17,178
Contributions - employee	119	-
Pension plan net investment income	(993)	10,265
Benefit payments, including refunds	(28,026)	(27,684)
Pension plan administrative expense	(155)	(170)
Other	42	(5,652)
	(12,029)	(6,063)
Net Change in Plan Fiduciary Net Position	(12,029)	(6,063)
Plan Fiduciary Net Position, Beginning	520,913	526,976
Plan Fiduciary Net Position, End	\$ 508,884	\$ 520,913
 City Utilities Net Pension Liability - Ending	\$ 77,869	\$ 34,294
 Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	86.73%	93.82%
 Covered Employee Payroll	\$ 75,517	\$ 74,330
 City Utilities' Net Pension Liability as a Percentage of the Covered Employee Payroll	103.11%	46.14%

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

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

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Required Supplementary Information
Schedule of City Utilities' Contributions
September 30, 2016 and 2015

Fiscal Year	Actuarially Determined Contribution	Contribution in Relation	Contribution Deficiency*	Covered Employee Payroll	Covered Employee Payroll
2007	\$ 13,863,856	\$ 13,485,750	\$ 378,106	\$ 63,017,528	21.40%
2008	14,611,165	14,168,203	442,962	63,251,797	22.40%
2009	13,360,567	13,360,568	(1)	66,470,484	20.10%
2010	12,892,094	12,892,095	(1)	67,853,126	19.00%
2011	16,086,504	14,110,968	1,975,536	70,554,841	20.00%
2012	15,650,431	14,672,279	978,152	69,867,997	21.00%
2013	16,369,015	15,389,673	979,342	69,953,056	22.00%
2014	16,977,180	16,903,685	73,495	73,494,286	23.00%
2015	17,251,643	17,251,644	(1)	75,334,684	22.90%
2016	17,221,378	17,221,376	2	78,278,989	22.00%

* 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 29, 2016

Notes:

The roll-forward of total pension liability from February 29, 2016, to June 30, 2016, 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 13 to 19 years

Asset Valuation Method

5-year smoothed market: 20% corridor

Inflation

3.25% wage inflation; 2.50% price inflation

Salary Increases

3.25% to 6.55% including wage inflation

Investment Rate of Return

7.25%, net of investment expenses

Retirement Age
Conditions

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

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Schedule of City Utilities' Contributions
September 30, 2016 and 2015

Mortality

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

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

Other Information

New assumptions adopted based on the 5-year experience study for the period March 1, 2010 through February 28, 2015.

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

Supplementary Information

City Utilities of Springfield, Missouri
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Combining Schedule of Revenues, Expenses and Changes in Net Position
Year Ended September 30, 2016

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

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, 2015

	<u>Electric</u>	<u>Natural Gas</u>	<u>Trans- portation</u>	<u>Telecom/ Broadband</u>	<u>Water</u>	<u>Eliminations</u>	<u>Total</u>
Operating revenues	\$ 290,587	\$ 96,212	\$ 1,070	\$ 15,001	\$ 44,400	\$ (15,788)	\$ 431,482
Operating expenses							
Production fuel and purchased power	106,773	-	-	-	-	(7,541)	99,232
Natural gas purchased for resale	-	61,987	-	-	-	-	61,987
Other production	14,372	-	-	-	6,933	(2,983)	18,322
Distribution and transmission	22,034	8,348	-	-	4,421	(2,841)	31,962
Bus and garage operations	-	-	6,176	-	-	(286)	5,890
Other services	3	-	-	5,427	-	(702)	4,728
Customer accounts	5,334	3,506	-	8	3,327	(236)	11,939
Administrative and general	17,177	3,996	1,593	2,418	5,171	(1,181)	29,174
Maintenance	33,308	3,582	1,435	-	5,389	(1)	43,713
Depreciation and amortization	42,250	5,794	1,562	3,782	5,929	-	59,317
Payments in lieu of taxes	8,781	3,580	43	-	1,769	-	14,173
Gain on other activities	(90)	-	-	-	-	-	(90)
Other taxes	25	30	-	306	18	-	379
Total operating expenses	<u>249,967</u>	<u>90,823</u>	<u>10,809</u>	<u>11,941</u>	<u>32,957</u>	<u>(15,771)</u>	<u>380,726</u>
Operating income	<u>40,620</u>	<u>5,389</u>	<u>(9,739)</u>	<u>3,060</u>	<u>11,443</u>	<u>(17)</u>	<u>50,756</u>
Nonoperating revenues (expenses)							
Interest income						-	7,337
Net increase in fair value of investments						-	1,861
Investment loss						-	(625)
Interest expense, net						-	(29,921)
Operation of recreational facilities, net						17	(291)
Amortization of debt-related costs						-	1,579
Other, net						-	1,330
Net nonoperating revenues (expenses)						<u>17</u>	<u>(18,730)</u>
Change in net position before contributions and special items						<u>-</u>	<u>32,026</u>
Capital contributions							
Contributions in aid of construction	497	1,561	1,515	1,371	1,074	-	6,018
Donated property	195	26	-	-	-	-	221
Reduction of plant costs recovered through contributions	(692)	(1,587)	-	(1,371)	(1,074)	-	(4,724)
Net capital contributions	<u>-</u>	<u>-</u>	<u>1,515</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,515</u>
Change in net position							<u>33,541</u>
Special items							
Surplusing of SpringNet Underground							3,518
Gas holder site remediation							(7,240)
Total special items							<u>(3,722)</u>
Change in net position							29,819
Net position							
Beginning of year							968,948
End of year							<u>\$ 998,767</u>