



WATER DIVISION OF THE CITY OF ST. LOUIS, MISSOURI
(An Enterprise Fund of the City of St. Louis, Missouri)

Basic Financial Statements and Other Information

June 30, 2023

(With Independent Auditors' Report Thereon)

WATER DIVISION OF THE CITY OF ST. LOUIS, MISSOURI
(An Enterprise Fund of the City of St. Louis, Missouri)

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KPMG LLP
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St. Louis, MO 63102-1761

Independent Auditors' Report

The Honorable Mayor and Members of
The Board of Aldermen of the
City of St. Louis, Missouri:

Report on the Financial Statements

Opinion

We have audited the financial statements of the Water Division Fund of the City of St. Louis, Missouri (the Water Division), as of and for the year ended June 30, 2023, and the related notes to the financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Water Division as of June 30, 2023, and the changes in its financial position and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Water Division and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 1(a), the basic financial statements present only the Water Division and do not purport to, and do not, present fairly the financial position of the City of St. Louis, Missouri, as of June 30, 2023, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions,



misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Water Division's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

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

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Water Division's basic financial statements. Schedule 1 and Schedule 2 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.



Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2023 on our consideration of the Water Division's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Water Division's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Water Division's internal control over financial reporting and compliance.

/s/ KPMG LLP

St. Louis, Missouri
December 12, 2023

WATER DIVISION OF THE CITY OF ST. LOUIS, MISSOURI
(An Enterprise Fund of the City of St. Louis, Missouri)

Management's Discussion and Analysis – Unaudited

June 30, 2023

(Dollars in thousands)

This section presents Management's Discussion and Analysis (MD&A) of the financial condition and activities of the Water Division of the City of St. Louis, Missouri (Water Division) for the City of St. Louis, Missouri (the City) as of and for the fiscal year ended June 30, 2023. This information should be read in conjunction with the financial statements that follow this section. All dollar amounts are in thousands.

Overview and Financial Highlights

The Water Division is an enterprise fund of the City. As such, its revenues are dedicated to the completion of its mission to provide the finest quality water and customer service at reasonable prices to the residents, businesses, and industry within the City, as well as to its wholesale customers.

The retail water billing system is split between flat rate and metered customers. Most residential customers (80,957 accounts) are billed quarterly on a flat rate basis. This flat rate system comprises charges for water-using devices such as toilets, bathtubs, showers, the number of rooms in the building, and a charge for outside water use. All businesses, industries, and some residential customers are charged on the metered rate structure. This is a declining block rate structure composed of a quantity charge and a readiness-to-serve charge that is tied to the meter size. Metered users (12,711 accounts) are read and billed quarterly.

At fiscal year-end, the Water Division supplied wholesale water to other water districts/political subdivisions through four separate contracts: one in St. Louis county and three in St. Charles county.

- The Water Division pumped 45.4 billion gallons of treated water in fiscal year 2023. This represents an 11% increase from fiscal year 2022.
- Usage by metered customers increased by 1,063 million gallons or 11% and metered revenue increased by \$1,788 or 8% during fiscal year 2023.
- The number of flat rate customers in fiscal year 2023 increased by 228 or 0.28%, but flat rate revenue decreased by \$66 or 0.3%.
- Wholesale water revenue increased by \$1,513, or 35%, during fiscal year 2023.
- Other revenue decreased by \$935, or 27%, during fiscal year 2023.
- Operating expenses increased by \$12,282, or 22%, during fiscal year 2023.
- Operating revenues increased by \$2,300, or 4%, during fiscal year 2023.
- The overall change in net position for fiscal year 2023 was (\$12,068), a decrease of \$7,759, or 180%, compared to fiscal year 2022.

Overview of the Financial Statements

The MD&A section of this report is an overview of the basic financial statements presented herein. Supplementary or reformatted information is presented to better describe the financial condition and performance of the water system. The Water Division's financial statements are prepared on an accrual basis in accordance with U.S. generally accepted accounting principles set forth by the Governmental Accounting Standards Board (GASB). The Water Division is an enterprise fund of the City. As such, the Water Division relies entirely on the funds the City generates which are dedicated to the Water Division's operations.

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June 30, 2023

(Dollars in thousands)

Revenues are recognized when earned and expenses are recognized when incurred. Capitalized assets (excluding land) are depreciated over their useful lives. Through the City, the Water Division has authority to issue revenue bonds secured by the revenues of the water system.

The basic financial statements include a balance sheet; a statement of revenues, expenses, and changes in fund net position; a statement of cash flows; and notes to the basic financial statements. The balance sheet provides information regarding the type and amount of resources and obligations at year-end. The statement of revenues, expenses, and changes in fund net position reflects the results of the water system's operations during the year as well as how net position changed over the year. The statement of cash flows presents changes in cash and cash equivalents that resulted from operating, financing, or investing activities.

The notes to the basic financial statements contain important information including required disclosures and other information essential for a complete understanding of the financial data presented in the various statements.

Net Position

This table is a summary of the Water Division's net position as of June 30, 2023 and 2022:

	<u>2023</u>	<u>2022</u>	<u>Dollar change</u>	<u>Percentage change</u>
Assets:				
Other assets	\$ 41,326	46,689	(5,363)	(11)%
Capital assets	170,935	169,047	1,888	1
Deferred outflow of resources	<u>7,804</u>	<u>2,469</u>	<u>5,335</u>	<u>216</u>
Total assets and deferred outflow of resources	<u>\$ 220,065</u>	<u>218,205</u>	<u>1,860</u>	<u>1 %</u>
Liabilities:				
Long-term liabilities	\$ 26,177	21,434	4,743	22 %
Other liabilities	26,728	14,629	12,099	83
Deferred inflow of resources	<u>82</u>	<u>2,996</u>	<u>(2,914)</u>	<u>(97)</u>
Total liabilities and deferred inflow of resources	<u>\$ 52,987</u>	<u>39,059</u>	<u>13,928</u>	<u>36 %</u>
Net position:				
Net investment in capital assets	\$ 165,114	162,759	2,355	1 %
Restricted for debt service	1,032	1,031	1	—
Unrestricted	<u>932</u>	<u>15,356</u>	<u>(14,424)</u>	<u>(94)</u>
Total net position	<u>\$ 167,078</u>	<u>179,146</u>	<u>(12,068)</u>	<u>(7)%</u>

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June 30, 2023

(Dollars in thousands)

Other assets decreased by \$5,363, or 11%, while capital assets increased by \$1,888, or 1%. During fiscal year 2023, the trend continued in spending of ordinance funds and capital projects for system improvements and purchase of motor vehicles and construction equipment.

The increase in long-term liabilities of \$4,743 or 22%, is mostly due to increases in net pension liability of \$10,581 or 114% and unearned revenue-payable from restricted assets of \$319, or 26%. Offsetting these increases are decreases in water revenue bonds payable of \$5,344 due to a reclass to current liability because the Water Division did not meet its debt coverage ratio as required under Section 810 (C) (b) of the Water Revenue Bonds Indenture of Trust. Other decreases are attributable to decreases in customer deposits of \$114, or 6%, sick leave liability of \$115, or 14% and other liability to the City of St. Louis, Missouri of \$108, or 5%. At June 30, 2023, the net pension liability is \$19,855.

Other liabilities increased by 12,099, or 83%, from 2022 due to the reclassification of the water revenue bonds payable of \$5,344 to current liability as noted in the paragraph above. Accrued liabilities related to probable pending claims and litigation increased by \$386 or 2,573% and due to the City of St. Louis, MO by \$5,781 or 114%.

Deferred outflow of resources increased by \$5,335 or 216%, while deferred inflow of resources decreased by \$2,914 or 97% due to net differences between the projected and actual earnings on the pension plan investments.

The preceding table shows that 99% of Water Division net position in fiscal year 2023 are invested in capital assets such as land, buildings, reservoirs, basins, transmission and distribution mains, and equipment, less the related debt outstanding used to acquire those capital assets. These capital assets are used to provide water service to all customers of the Water Division. These capital assets were either cash financed, contributed capital, or acquired through the issuance of revenue bonds.

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Management's Discussion and Analysis – Unaudited

June 30, 2023

(Dollars in thousands)

Summary of Revenues, Expenses, and Changes in Net Position

The Water Division's revenues, expenses, and changes in net position for the fiscal years ended June 30, 2023 and 2022, are summarized as follows:

	<u>2023</u>	<u>2022</u>	<u>Dollar change</u>	<u>Percentage change</u>
Operating revenues	\$ 56,981	54,681	2,300	4 %
Operating expenses	<u>(68,658)</u>	<u>(56,376)</u>	<u>(12,282)</u>	<u>22</u>
Operating loss	(11,677)	(1,695)	(9,982)	589
Nonoperating revenues, net	<u>1,091</u>	<u>324</u>	<u>767</u>	<u>237</u>
Loss before capital contribution and transfers	(10,586)	(1,371)	(9,215)	672
Capital contributions	1,145	—	1,145	100
Transfers in	517	—	517	100
Transfers out	<u>(3,144)</u>	<u>(2,938)</u>	<u>(206)</u>	<u>7</u>
Decrease in net position	<u>\$ (12,068)</u>	<u>(4,309)</u>	<u>(7,759)</u>	<u>180 %</u>
Net position, end of year	\$ 167,078	179,146	(12,068)	(7)%

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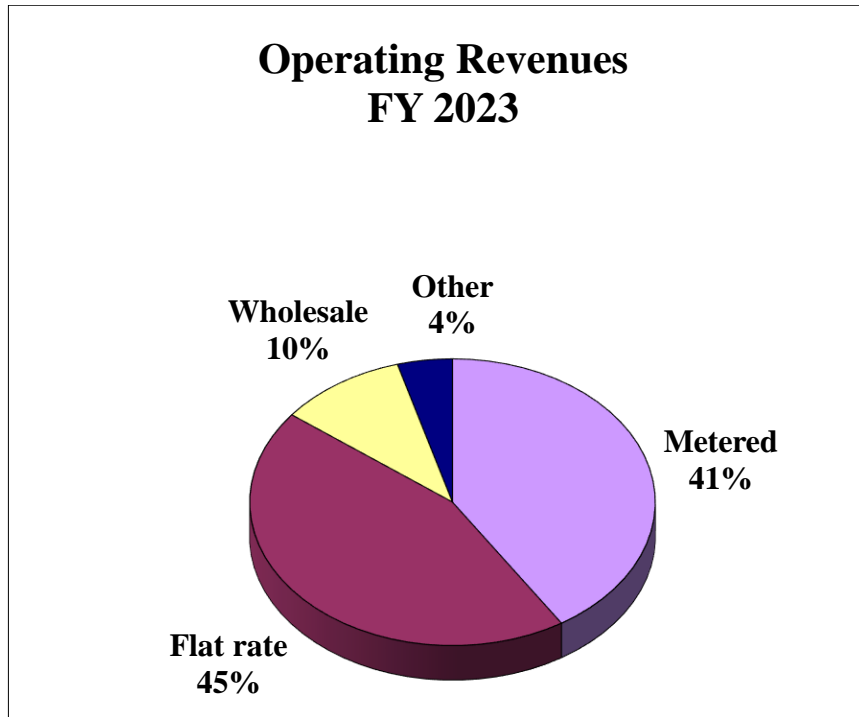
Management's Discussion and Analysis – Unaudited

June 30, 2023

(Dollars in thousands)

Revenues

The chart below depicts the four sources of operating revenue for the Water Division for fiscal year 2023 and each source's percentage contribution to total operating revenues:



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The table below summarizes the sources of total revenues (operating and nonoperating) for the Water Division for fiscal years 2023 and 2022. This comparison details the change in dollars and percent between the two fiscal years by component revenue source.

	<u>2023</u>	<u>2022</u>	<u>Dollar change</u>	<u>Percentage change</u>
Operating revenues:				
Metered	\$ 23,348	21,560	1,788	8 %
Flat rate	25,328	25,394	(66)	(0.3)
Wholesale	5,807	4,294	1,513	35
Other	<u>2,498</u>	<u>3,433</u>	<u>(935)</u>	<u>(27)</u>
Total operating revenues	<u>56,981</u>	<u>54,681</u>	<u>2,300</u>	<u>4</u>
Nonoperating revenues:				
Investment earnings, net	660	44	616	1,400
Miscellaneous, net	<u>691</u>	<u>585</u>	<u>106</u>	<u>18</u>
Total nonoperating revenues	<u>1,351</u>	<u>629</u>	<u>722</u>	<u>115</u>
Total revenues	<u>\$ 58,332</u>	<u>55,310</u>	<u>3,022</u>	<u>5 %</u>
Transfers in from other funds of the City of St. Louis, Missouri				
	\$ 517	—	517	100 %
Capital contributions	\$ 1,145	—	1,145	100 %

Metered water revenue increased by \$1,788, or 8% due to an increase in usage of 1,063 million gallons or 11%, while flat rate revenue decreased by \$66, or 0.3%. Metered customers remained about the same in fiscal years 2023 and 2022 while flat rate customers increased by 228 accounts, or 0.28%.

Wholesale revenue increased by \$1,513, or 35%. Total consumption increased by 1,367 million gallons or 30% and an increase in unit price of 5% in fiscal year 2023 compared to fiscal year 2022.

Other revenues decreased by \$935 or 27%, compared to fiscal year 2022 due to a decrease in completed reimbursable projects in fiscal year 2023.

Investment earnings, net, increased by \$616, or 1,400%, due to an increase in interest rates on investments in fiscal year 2023.

Miscellaneous revenues, net increased by \$106, or 18%, mostly due to an increase in sales of surplus items and scrap metals.

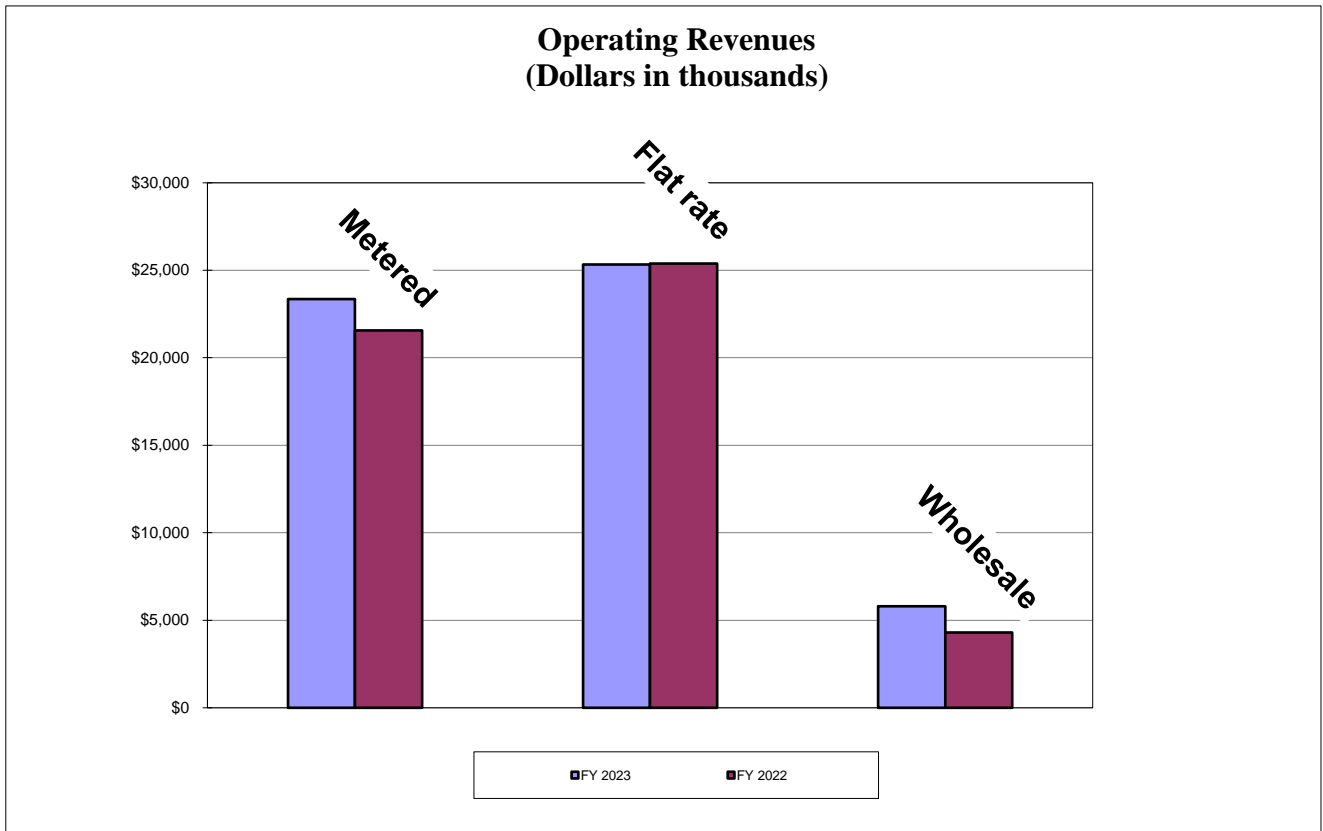
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The chart below graphically displays the changes in the metered, flat rate, and wholesale revenue components of operating revenues from fiscal year 2022 to fiscal year 2023.



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(Dollars in thousands)

Expenses

The table below summarizes the Water Division's expenses for fiscal years 2023 and 2022:

	<u>2023</u>	<u>2022</u>	<u>Dollar change</u>	<u>Percentage change</u>
Operating expenses:				
Supply and purification	\$ 22,617	18,829	3,788	20 %
Transmission and distribution	17,102	13,040	4,062	31
Power and pumping	9,409	8,977	432	5
Depreciation (not allocated to other operating expenses)	6,021	5,736	285	5
Administrative and general	6,010	3,910	2,100	54
Interfund service used	4,177	2,845	1,332	47
Customer accounting	1,831	1,564	267	17
Cost of service line maintenance	572	519	53	10
Collector of revenue's fee, net	909	952	(43)	(5)
Cost of community service	10	4	6	150
Total operating expenses	<u>68,658</u>	<u>56,376</u>	<u>12,282</u>	<u>22</u>
Nonoperating expenses:				
Interest expense on long-term obligations	253	264	(11)	(4)
Loss on disposal of capital assets	7	41	(34)	(83)
Total nonoperating expenses	<u>260</u>	<u>305</u>	<u>(45)</u>	<u>(15)</u>
Total expenses	\$ <u>68,918</u>	\$ <u>56,681</u>	<u>12,237</u>	<u>22 %</u>
Transfers to City of St. Louis, Missouri	\$ 3,144	2,938	206	7 %

Total operating expenses increased by \$12,282, or 22%, in fiscal year 2023 compared to fiscal year 2022. Salaries, wages and benefits accounted for 31% of the total operating expenses in fiscal year 2023, with an increase of \$3,182, or 18% from fiscal year 2022. Attributable to this increase is mostly the pension expense which rose to \$2,541 or 177%. In addition, a 3% across-the-board salary increase was received by all full-time employees on top of the annual step increase of 1.5%. Chemicals, other services, materials and supplies, purchased power, support services increased by \$2,146, or 23%; \$2,249, or 31%, \$1,610, or 38% and \$314, or 10%, respectively.

Supply and purification increased by \$3,788 or 20%. Chemicals, which totaled \$11,480 in fiscal year 2023, increased by \$2,146, or 23% from fiscal year 2022. During fiscal year 2023, the price increases on all chemicals ranges from 12% to 64% or an average of 29%. Additionally, chemical usage increased due to an increase in water production by 11%. Salaries, wages and benefits increased by \$814, or 17%. Support services, other services, materials and supplies also increased by \$273, or 12%, \$238, or 12%, and \$317, or

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Management's Discussion and Analysis – Unaudited

June 30, 2023

(Dollars in thousands)

78%, respectively. These increases were due to continued use of electrical, HVAC and other contractual services and increases in the prices of commodities.

Transmission and distribution expenses increased by \$4,062, or 31% from fiscal year 2022. This is mostly reflective of increases in salaries, wages and benefits by \$1,545, or 20%, other services by \$564, or 14%, materials and supplies by \$1,270, or 36% and a decrease in transfers out of completed projects to capital assets or billable to customers by \$644, or 17%.

Power and pumping increased by \$432, or 5%. This is mostly due to an increase in purchased power by \$314, or 10%, salaries, wages and benefits by \$207 or 9%, support services by \$271, or 17%, materials and supplies by \$20, or 14%. Conversely, other services decreased by \$378, or 22%.

Administrative and general expenses increased by \$2,100, or 54%. This is mostly due to increases in other services by \$1,836, or 374% and salaries, wages and benefits by \$299, or 17%. An accrual of probable pending litigations of \$1,519 was recorded in fiscal year 2021 and was partially settled and written off in fiscal year 2022. This resulted in a total of (\$491) in other services expense in fiscal year 2022 compared to \$1,345 in fiscal year 2023. Offsetting these increases is a decrease in bad debts expense by \$31, or 1%.

Interfund services used increased by \$1,332, or 47%. Payments to the Settlement Fund to workers' compensation expenses and IBNR plus reserve increased by \$1,369, or 109%. Workers' compensation costs are managed by the Settlement Fund, an internal service-fund of the City of St. Louis, Missouri. The Water Division reimburses the Settlement Fund for these paid claims on a cost-reimbursement basis. Reimbursement to the City for services it provides to the Water Division through cost allocation increased by \$53, or 4%. Services provided by the Street Department decreased by \$6, or 49%, while equipment repair services decreased by \$67, or 31%.

Customer accounting expenses increased by \$267, or 17%, mostly due to an increase in salaries, wages and benefits of \$316, or 28%. Offsetting this increase are decreases in support services, other services and materials and supplies by \$49, or 11% from fiscal year 2022.

Service line maintenance costs increased by \$53, or 10% from fiscal year 2022.

The Collector of Revenue's fee decreased by \$43, or 5% from fiscal year 2022.

General Trends and Significant Events

Ordinance 68694 authorized a 12% across-the-board water rate increase that became effective July 1, 2010. There has been no rate adjustment since July 1, 2010 through June 30, 2023.

In June 2023, the City of St. Louis passed Ordinance 71683 which authorized a three-tiered water rate increases as follows: (1) 20% across the board water rate increase effective July 1, 2023; (2) 20% across the board water rate increase effective January 1, 2024 and (3) on January 1 of each calendar year from January 1, 2026 and thereafter, (a) across the board water rate increase based on the annual change in CPI-U for the preceding calendar year as published by the US Bureau of Labor Statistics in the event that the CPI-U for the preceding calendar year is a positive number; and (b) in the event the CPI-U for the preceding calendar year is not a positive number, the rate shall continue without change for another calendar year.

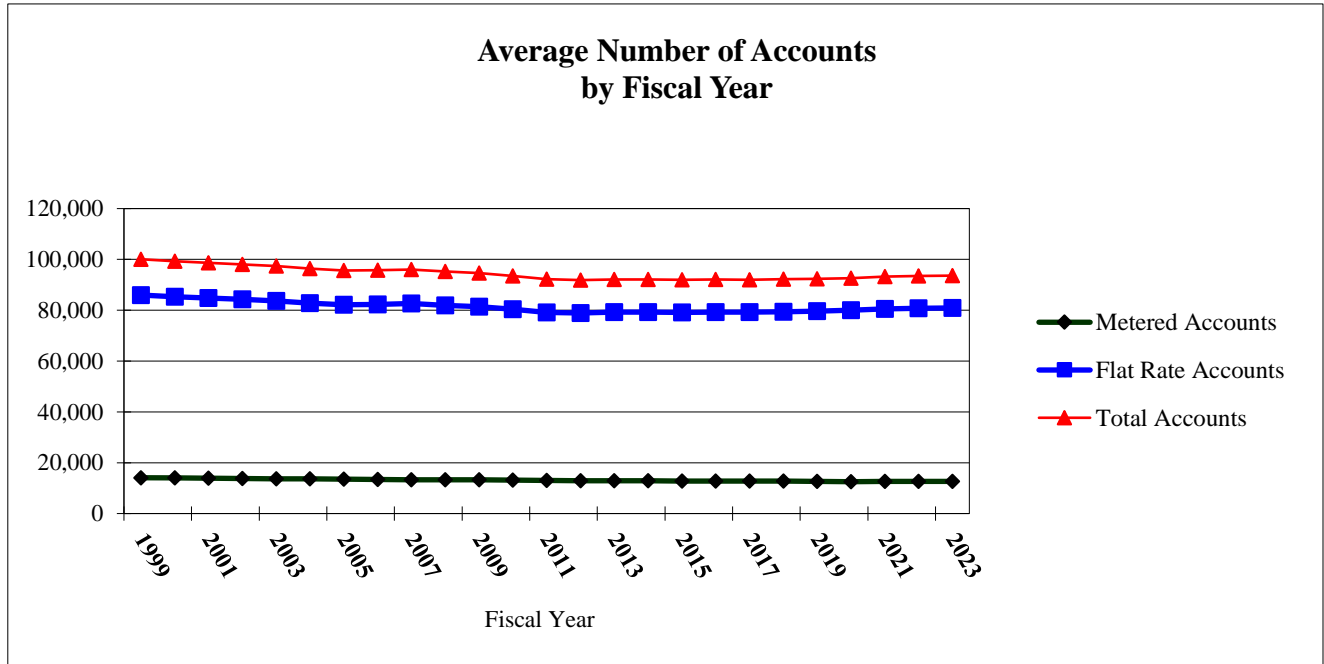
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(Dollars in thousands)

The chart below depicts the number of flat rate and metered accounts over the last 24 years.



Rate Covenant

Article VII of the Fourth Supplemental Indenture of Trust dated November 1, 2013 sets forth covenants applicable for the Series 2013 Water Revenue Refunding Bonds (Series 2013 Bonds). One of the covenants is that the City will enforce charges for services as provided in Section 810 (C) (b) of the original Indenture of Trust dated April 1, 1994 which requires that as long as bonds remain outstanding and unpaid, the City will adopt or continue in effect water rates sufficient to produce net revenues for the next succeeding fiscal year at least equal to one hundred ten percent (110%) of the amount of the principal and interest coming due on all bonds during the next succeeding fiscal year. Additionally, if the City has not adjusted water rates within a 24 month period since the last adjustment, the City shall engage a consulting engineer to perform a water rate study for the purpose of determining net revenues for the next succeeding two year period. If the study indicates that a rate adjustment is necessary to comply with the rate covenants, the City agrees to make the necessary action to comply with the rate covenants. A water rate study was completed in October 2021.

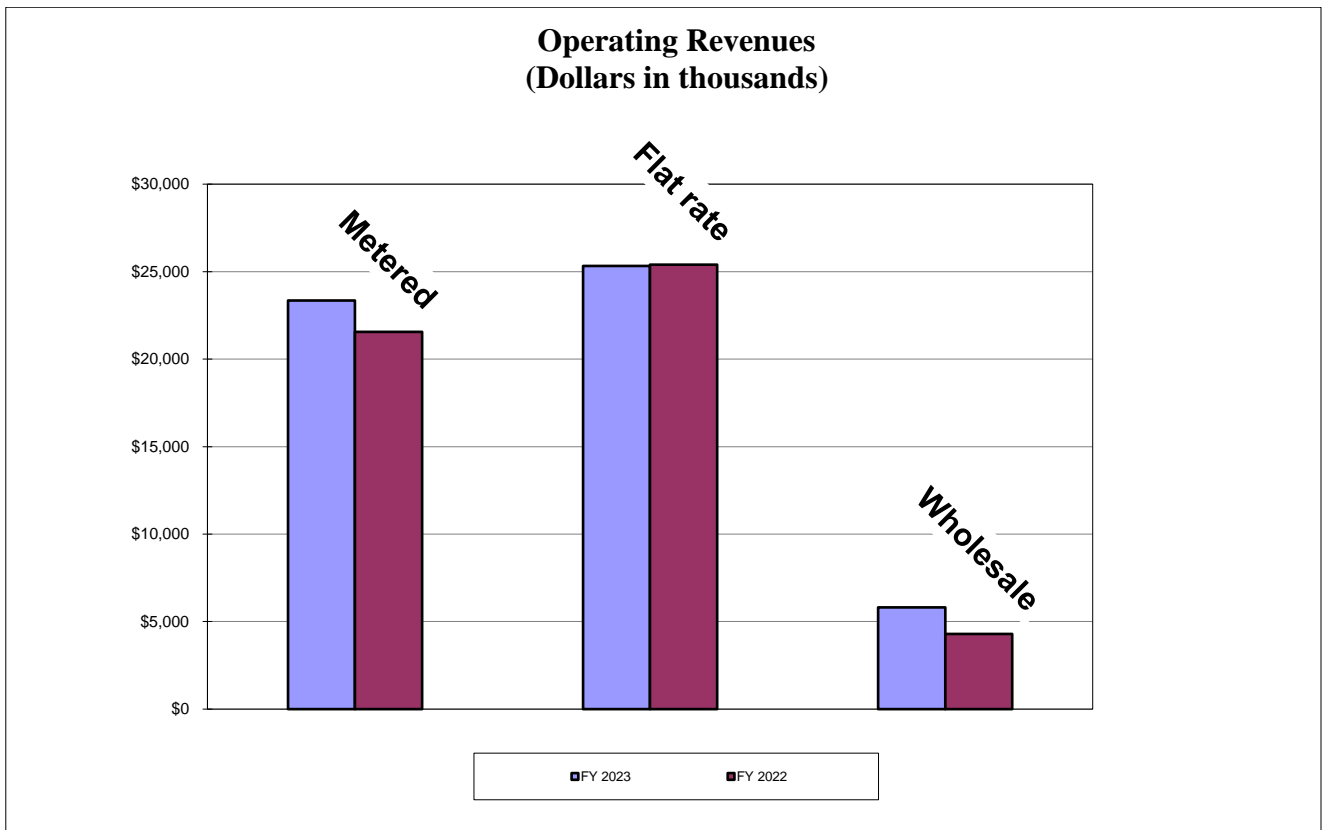
While the Water Division continued its cost containment efforts and operating revenues increased by 4%, operating expenses rose by 22% in fiscal year 2023 compared to fiscal year 2022 which resulted to an operating loss of \$11,677. As a result, the Water Division did not meet its debt service coverage ratio required by the Indenture of Trust for the fiscal year 2023. With the passage of Ordinance 71683, the water rate increases that will impact fiscal year 2024 will take effect on July 1, 2023, and January 1, 2024. These rate increases are estimated to bring in additional water sales revenue of \$13,000. The additional cash flow would restore the debt service coverage level back to over 110% in fiscal year 2024.

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(Dollars in thousands)



Capital Assets and Long-Term Debt

Total capital assets being depreciated increased by \$4,678 or 1%, from fiscal year 2022 to fiscal year 2023. The increase mostly reflects completed improvement projects to pumping and purification equipment, building and structures of \$1,455. Additional net capital spending of \$2,969 on water mains, lines, and accessories throughout the water distribution system also contributed to the increase. Capital assets also increased by \$254 due to purchases of replacement motor vehicles, construction and maintenance equipment.

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(Dollars in thousands)

During fiscal year 2014, and pursuant to authority granted in Ordinance 69504, the City authorized the Water Revenue Refunding Bonds (State of Missouri-Direct Loan Program) Series 2013, in an aggregate principal amount to not exceed \$9,500. This drawdown loan is used to fund projects associated with the extension, improvement, purchase, acquisition, construction, and enlargement of the City's Waterworks System. The revenue bonds mature annually through fiscal year 2034 with a fixed rate of 1.56%. The final drawdown was completed in fiscal year 2017.

Requests for Additional Information

The financial information presented in this document is intended to provide a general overview of the Water Division's finances. Any questions regarding the information provided in this report should be addressed to the Finance Office, City of St. Louis Water Division, 1640 South Kingshighway, St. Louis, Missouri 63110.

WATER DIVISION OF THE CITY OF ST. LOUIS, MISSOURI
 (An Enterprise Fund of the City of St. Louis, Missouri)

Balance Sheet

June 30, 2023

(In thousands)

Assets and Deferred Outflow of Resources

Current assets:

Cash and cash equivalents:

Restricted	\$ 1,811
Unrestricted	3,989
Investments-unrestricted	17,494
Accounts receivable, net	4,803
Unbilled water revenue	4,431
Unbilled revenue-other services	211
Supplies and materials	3,795
Other assets	142
Other receivable	16
Due from City of St. Louis, Missouri	37

Total current assets	36,729
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Noncurrent assets:

Investments-restricted	2,599
Capital assets, net:	
Nondepreciable	8,024
Depreciable	162,911
Intangible assets, net	1,998

Total noncurrent assets	175,532
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Deferred outflow of resources – pension	7,804
---	-------

Total assets and deferred outflow of resources	\$ 220,065
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WATER DIVISION OF THE CITY OF ST. LOUIS, MISSOURI
(An Enterprise Fund of the City of St. Louis, Missouri)

Balance Sheet

June 30, 2023

(In thousands)

Liabilities, Deferred Inflow of Resources, and Net Position

Current liabilities:

Payable from unrestricted assets:

Accounts and wages payable	\$	5,518
Other accrued liabilities		2,480
Unearned revenue		1,955
Due to City of St. Louis, Missouri		10,859
		10,859

Total current liabilities payable from unrestricted assets		20,812
--	--	--------

Payable from restricted assets:

Water revenue bonds payable		5,821
Accrued interest payable		95
		95

Total current liabilities payable from restricted assets		5,916
--	--	-------

Total current liabilities		26,728
---------------------------	--	--------

Noncurrent liabilities:

Customer deposits – payable from restricted assets		1,849
Unearned revenue – payable from restricted assets		1,529
Net pension liability		19,855
Other liability due to the City of St. Louis, Missouri		2,236
Sick leave liability		708
		708

Total noncurrent liabilities		26,177
------------------------------	--	--------

Deferred inflow of resources – pension

		82
		82

Total liabilities and deferred inflow of resources		52,987
--	--	--------

Net position:

Net investment in capital assets		165,114
Restricted for debt service		1,032
Unrestricted		932
		932

Total net position		167,078
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Total liabilities, deferred inflow of resources, and net position	\$	220,065
---	----	---------

See accompanying notes to basic financial statements.

WATER DIVISION OF THE CITY OF ST. LOUIS, MISSOURI
(An Enterprise Fund of the City of St. Louis, Missouri)

Statement of Revenues, Expenses, and Changes in Net Position

Year ended June 30, 2023

(In thousands)

Operating revenues:	
Metered	\$ 23,348
Flat rate	25,328
Wholesale	5,807
Other	2,498
Total operating revenues	56,981
Operating expenses:	
Supply and purification	22,617
Transmission and distribution	17,102
Power and pumping	9,409
Depreciation (not allocated to other operating expenses)	6,021
Administrative and general	6,010
Interfund services used	4,177
Customer accounting	1,831
Cost of service line maintenance	572
Collector of Revenue's fee, net	909
Cost of community service	10
Total operating expenses	68,658
Operating loss	(11,677)
Nonoperating revenues (expenses):	
Investment earnings	660
Interest expense on long-term obligations	(253)
Miscellaneous, net	691
Loss on disposal of capital assets	(7)
Total nonoperating revenues, net	1,091
Loss before capital contributions and transfers	(10,586)
Capital contributions	1,145
Transfers in from other funds of the City of St. Louis, MO	517
Transfers to the City of St. Louis, Missouri	(3,144)
Total capital contributions and transfers	(1,482)
Decrease in net position	(12,068)
Total net position, beginning of year	179,146
Total net position, end of year	\$ 167,078

See accompanying notes to basic financial statements.

WATER DIVISION OF THE CITY OF ST. LOUIS, MISSOURI
(An Enterprise Fund of the City of St. Louis, Missouri)

Statement of Cash Flows

Year ended June 30, 2023

(In thousands)

Cash flows from operating activities:	
Receipts from customers and users	\$ 52,745
Payments to suppliers of goods and services	(32,375)
Payments to employees	(18,520)
Payments for interfund services used	788
Net cash provided by operating activities	<u>2,638</u>
Cash flows from noncapital financing activities:	
Interest and principal paid on share of bond pension liability	(257)
Transfers to other funds of the City of St. Louis, Missouri	(2,562)
Net cash used in noncapital financial activities	<u>(2,819)</u>
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(7,767)
Interest paid on water revenue bonds	(92)
Principal paid on water revenue bonds	(467)
Other capital and financing activities	691
Net cash used in capital and related financing activities	<u>(7,635)</u>
Cash flows from investing activities:	
Purchase of investments	(18,970)
Proceeds from sales and maturities of investments	27,251
Interest income on cash and investments	660
Net cash provided by investing activities	<u>8,941</u>
Net increase in cash and cash equivalents	<u>\$ 1,125</u>
Cash and cash equivalents at beginning of year:	
Unrestricted	\$ 471
Restricted	4,204
	<u>\$ 4,675</u>
Cash and cash equivalents at end of year:	
Unrestricted	\$ 3,989
Restricted	1,811
	<u>\$ 5,800</u>

WATER DIVISION OF THE CITY OF ST. LOUIS, MISSOURI
 (An Enterprise Fund of the City of St. Louis, Missouri)

Statement of Cash Flows

Year ended June 30, 2023

(In thousands)

Reconciliation of operating loss to net cash provided by operating activities:	
Operating loss	\$ (11,677)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	7,017
Amortization	339
Changes in assets and liabilities:	
Accounts receivable, net	(1,709)
Unbilled revenue	(506)
Supplies and materials	39
Other assets	(18)
Accounts and wages payable	74
Other accrued liabilities	689
Unearned revenue	406
Due to/from City of St. Louis, Missouri	5,874
Customer deposits	(114)
Net pension liability, net of deferrals	2,332
Pension bond liability	(108)
Total adjustments	14,315
Net cash provided by operating activities	\$ 2,638
Supplemental disclosures of noncash activities:	
Loss on disposal of capital assets	\$ 7
Capital contribution	1,145

See accompanying notes to basic financial statements.

WATER DIVISION OF THE CITY OF ST. LOUIS, MISSOURI
(An Enterprise Fund of the City of St. Louis, Missouri)

Notes to the Basic Financial Statements

June 30, 2023

(In thousands)

(1) Summary of Significant Accounting Policies

(a) Reporting Entity

The basic financial statements include only the Water Division of the City of St. Louis, Missouri (the Water Division). The Water Division represents a separate enterprise fund of the City of St. Louis, Missouri (the City), and therefore, the basic financial statements of the Water Division are not intended to present the financial position, changes in financial position, and cash flows of the City as a whole in conformity with U.S. generally accepted accounting principles.

(b) Basis of Accounting

Governmental enterprise funds are used to account for operations of governmental entities that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that costs (expenses, including depreciation) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges.

The Water Division prepares its basic financial statements in accordance with U.S. generally accepted accounting principles for governmental enterprise funds that are similar to those for commercial enterprises. Accordingly, the economic resources measurement focus and accrual basis of accounting are used, whereby expenses are recorded when incurred and revenues when earned. Unbilled water revenues are accrued based on estimated billings for service provided through the end of the current fiscal year. In reporting its financial activity, the Water Division applies all applicable Governmental Accounting Standards Board (GASB) pronouncements.

Enterprise funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's ongoing operations. The principal operating revenues of the Water Division are charges to customers for water service. Operating expenses include the cost of services, administrative expenses, and depreciation. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

(c) Accounts Receivable, Net

Accounts receivable at June 30, 2023, consist of \$14,078 due from metered and flat rate customers and \$1,494 due from other customers. Such amounts are recorded net of an allowance for uncollectible accounts of \$10,769.

(d) Unbilled Water Revenue

The Water Division records the estimated amount of accrued, but unbilled, water revenue. This is a result of the Water Division billing its metered customers after the three-month billing cycle of water usage. At June 30, 2023, unbilled water revenue amounted to \$4,431.

(e) Supplies and Materials

Supplies and materials are valued using a moving average cost.

WATER DIVISION OF THE CITY OF ST. LOUIS, MISSOURI
(An Enterprise Fund of the City of St. Louis, Missouri)

Notes to the Basic Financial Statements

June 30, 2023

(In thousands)

(f) Capital Assets, Net

Capital assets were originally recorded in the accounts in 1958 and were based on an engineering study of the historical cost of properties constructed by employees of the Water Division. Accumulated depreciation, at the date the assets were recorded, was established after a review by a consulting firm.

Additions to capital assets subsequent to 1958 are recorded at historical cost. Provisions for depreciation of the capital assets are computed on a straight-line basis over the estimated useful lives of the assets and are charged to operating expenses. The estimated useful lives of depreciable assets are as follows:

	Years
Buildings and structures	44–55
Pumping equipment	28–44
Hydrants, transmission mains, and lines	50–100
Meters	33
Other equipment	5–25

(g) Intangible Assets, Net

Intangible assets consist of software development costs and a valve assessment project. These assets are amortized on the straight-line method over five years and ten years, respectively.

(h) Accounts and Wages Payable

Accounts and wages payable at June 30, 2023, comprises \$2,547 of accrued salaries and benefits and \$2,971 due to vendors and contractors.

(i) Other Accrued Liabilities

Other accrued liabilities at June 30, 2023, consists of sales tax of \$384, safe drinking levy of \$645, customer over collected accounts of \$942 and \$401 pending litigation (as described in note 9). Also included is the non-current liability portion of other liability due to the City of St. Louis, MO of \$108.

(j) Vacation and Sick Leave Benefits

Under the terms of the City’s personnel policy, employees of the City are granted vacation and sick leave. The vacation liability reflects the amounts attributable to employee services already rendered and are cumulative. The vacation liability totaled \$1,916 as of June 30, 2023, and is included in accounts and wages payable.

Employees who have unused sick leave balances may, at retirement, elect to receive payment for one-half of the sick leave balance. As an estimate of the portion of sick leave that will result in termination payments, a liability has been recorded on the accompanying basic financial statements and represents one-half of the accumulated sick leave balances for those employees who will be

WATER DIVISION OF THE CITY OF ST. LOUIS, MISSOURI
(An Enterprise Fund of the City of St. Louis, Missouri)

Notes to the Basic Financial Statements

June 30, 2023

(In thousands)

eligible to retire within five years. The sick leave liability totaled \$708 of June 30, 2023, and is classified as a noncurrent liability.

(k) Unearned Revenue

The Water Division recognizes revenue associated with a service line maintenance surcharge in the period the related costs are incurred. Accordingly, the Water Division recognized surcharge revenue of \$572 during the year ended June 30, 2023, which is reported within other operating revenues. Unearned service line maintenance revenue amounted to \$1,976 at June 30, 2023.

The Water Division maintains a restricted cash account for amounts collected for service line maintenance. Interest earned is recorded in this cash account and the account balance is restricted solely for service line maintenance.

The Water Division records unearned revenue for amounts billed but not yet earned. This is the result of the Water Division billing its flat rate customers in advance of actual water usage. Revenue billed but not yet earned amounted to \$1,508 at June 30, 2023.

(l) Customer Deposits

The Water Division requires that metered customers deposit an amount approximately equal to an estimated billing for one cycle. These deposits are refunded to the customer, along with accrued interest on the deposits, when certain criteria have been met. The Water Division also holds deposits for construction-related work that are applied against the billing for work performed.

(m) Net Position

Net position is displayed in three components as follows:

(i) Net Investment in Capital Assets

This consists of capital assets, net of accumulated depreciation, less the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition and construction of those assets.

(ii) Restricted

This consists of net position that is legally restricted by outside parties or by law through constitutional provisions or enabling legislation. Net position restricted by statutory restrictions represents tax and other revenue sources that are required by statute to be expended only for specific purpose or purposes.

(a) *Customer Deposits* – City ordinances provide that amounts paid by customers as deposits on metered water accounts and construction be held until such time as they are returned to customers in the form of cash or as a credit on the applicable customer’s water bill. The balance of customer deposits as of June 30, 2023, is \$1,849.

WATER DIVISION OF THE CITY OF ST. LOUIS, MISSOURI
(An Enterprise Fund of the City of St. Louis, Missouri)

Notes to the Basic Financial Statements

June 30, 2023

(In thousands)

(b) *Service Line Maintenance* – City ordinances provide that the Water Division collects a \$3.00 (in whole dollars) per quarter surcharge from flat rate and metered residential customers having six or less dwelling units. These funds are deposited in the Service Line Maintenance Account. This account, including interest earned, is used to pay for the repair of certain portions of the water lines for these customers. The balance of service line maintenance fund as of June 30, 2023, is \$1,529.

(iii) *Unrestricted*

This consists of net position that does not meet the definition of “restricted” or “net investment in capital assets.” Included within unrestricted assets are the following components, which have been approved by City ordinance:

(c) *Construction Funds* – City ordinances provide that amounts appropriated from the Water Contingent Account shall be held in the Construction Fund from which they shall be disbursed for the purposes contemplated in these ordinances. The balance of this fund as of June 30, 2023, is \$2,108, which funds are designated for capital projects and have been approved by City ordinances.

(n) Statement of Cash Flows

For purposes of the statement of cash flows, cash and cash equivalents are defined as all highly liquid investments with a maturity of 3 months or less when purchased.

(o) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires the Water Division to make estimates and assumptions that affect the reported amounts of assets and liabilities at fiscal year-end and revenues and expenses during the reporting period. Actual results could differ from those estimates.

(p) Leases

The Water Division evaluated its existing leases and determined that the amounts associated with its leases do not have a material effect on its net position.

(q) Adoption of New Accounting Pronouncements

During the year ended June 30, 2023, the Water Division adopted GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*. This statement requires that all subscription-based IT arrangements, which are noncancellable, convey control for the right-to-use information technology software, alone or in combination with tangible capital assets, and for a period of time greater than 12 months in an exchange or exchange like transaction, be recognized by a Lessee as a lease liability and an intangible right-to-use lease asset. The Water Division evaluated its existing subscription-based software arrangements and determined that they are all short-term, cancellable arrangements and had no effect on its net position as of June 30, 2023. The Water Division is not a Lessor in respect to GASB 96.

WATER DIVISION OF THE CITY OF ST. LOUIS, MISSOURI
(An Enterprise Fund of the City of St. Louis, Missouri)

Notes to the Basic Financial Statements

June 30, 2023

(In thousands)

(2) Cash and Investments

The Water Division applies the provisions of GASB Statement No. 72, *Fair Value Measurements and Application* (GASB 72) of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the financial statements on a recurring basis. GASB Board 72 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets that the Water Division has the ability to access at the measurement date.
- Level 2 inputs are observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 inputs are significant unobservable inputs for the asset.

Where applicable, investments are recorded at fair value, which is determined by quoted market prices using other observable inputs at year-end as reported by the investment custodian. Other investments, which are short-term in nature, are recorded using a cost-based measure.

Purchases and sales of investments are recorded on a trade date basis.

The Water Division deposits all cash with the Office of the Treasurer of the City, which maintains all banking relationships for the Water Division.

As of June 30, 2023, the Water Division had the following cash, cash equivalents, and investments:

Certificates of deposit	\$	1,240
MOSIP liquid series		14,790
Insured cash sweep		4,063
Total investments, at cost		20,093
Cash deposits		5,800
Total cash, cash equivalents, and investments	\$	25,893

State statutes and City investment policies authorize the deposit of funds in financial institutions. For City funds, investments may be made in obligations of the U.S. government or any agency or instrumentality thereof, bonds of the State of Missouri or any city within the state with a population of 400,000 inhabitants or more, or time certificates of deposit. In addition, the City may enter into repurchase agreements maturing

WATER DIVISION OF THE CITY OF ST. LOUIS, MISSOURI
(An Enterprise Fund of the City of St. Louis, Missouri)

Notes to the Basic Financial Statements

June 30, 2023

(In thousands)

and becoming payable within 90 days secured by U.S. Treasury obligations, Bankers' Acceptances, and commercial paper maturing and becoming payable within 180 days, obligations of the U.S. government agencies, local government investment pools including MOSIP, or instrumentalities of any maturity as provided by law. The City's funds in the form of cash on deposit or time certificates of deposit are required to be insured or collateralized by authorized investments held in the City's name. Actual investment decisions are made by the Treasurer and the City's fiscal agents.

(a) Interest Rate Risk

The Water Division seeks to minimize its exposure to fair value losses arising from changes in interest rates by selecting investments in adherence to the Investment Policy for the City of St. Louis, Missouri (the Investment Policy). The Investment Policy provides that, to the extent possible, the City shall attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the City will not directly invest in securities or make a time deposit with a stated maturity of more than five years from the date of purchase. The average maturity for collateral provided to the City for deposits in connection with a repurchase agreement shall not exceed five years without the written approval of the Treasurer. In connection with any outstanding bond issue, debt service reserve funds may be invested to a maximum maturity of 15 years and up to 30 years with the written approval of the Treasurer.

The Water Division's investments (excluding cash deposits) all have maturities of less than 1 year on June 30, 2023.

(b) Credit Risk

The City's Investment Policy limits the types of securities available for investment to collateralized public deposits, obligations of the U.S. government or its agencies, local government investment pools including MOSIP, Bankers' Acceptances, and commercial paper. Bankers' Acceptances must be rated with the highest short-term credit rating of any two Nationally Recognized Statistical Rating Organizations (NRSROs) at the time of purchase. Investments in commercial paper are limited to issuing corporations that have a total commercial paper program size in excess of \$250,000 and have long-term debt ratings "AA" or better from at least one NRSRO. At June 30, 2023, the Water Division did not have any Bankers' Acceptances or commercial paper in its portfolio.

The Water Division's investment in MOSIP liquidity series were rated AA+, A-1+, and A-1 by Standard and Poor's. The certificates of deposit are collateralized at 103% and the insured cash sweep are FDIC insured and did not require ratings.

(c) Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of a counterparty, the Water Division will not be able to recover the value of the investments or collateral securities that are in the possession of an outside party.

The City's Investment Policy requires that all cash deposits, time certificates of deposit, deposits with listed institutions, and repurchase agreements be covered by adequate pledged collateral. Acceptable

WATER DIVISION OF THE CITY OF ST. LOUIS, MISSOURI
(An Enterprise Fund of the City of St. Louis, Missouri)

Notes to the Basic Financial Statements

June 30, 2023

(In thousands)

collateral includes U.S. Treasury obligations, other interest-bearing securities guaranteed as to principal and interest by the U.S. government or an agency or instrumentality of the U.S. government, bonds of the State of Missouri, or bonds of the City. The market value of the principal and accrued interest of the collateral must equal 103% of the deposits secured, less any amount subject to federal deposit insurance. All City securities and securities pledged as collateral must be held in a segregated account on behalf of the City by an independent third party with whom the City has a current custodial agreement and has been designated by the Treasurer and Funds Committee as eligible to serve in such a capacity.

At June 30, 2023, all Water Division investments and all securities pledged as collateral are held by the counterparty's trust department or agent in the City's name.

(d) Concentration of Credit Risk

The City's Investment Policy indicates that in order to reduce overall portfolio risks while maintaining market average rates of return, the minimum diversification standards by security type shall be as follows:

	Maximum percentage of portfolio	Maximum maturity
U.S. Treasury securities	100 %	5 years
U.S. government agency obligations	100	5 years
Obligations of the State of Missouri	25	5 years
Collateralized certificates of deposits	50	5 years
Collateralized repurchase agreements	25	90 days
Commercial paper	25	180 days
Banker's acceptance	25	180 days

The Water Division does not have a separate investment policy.

At June 30, 2023, the concentration of the Water Division's investments (excluding cash deposits) was as follows:

Certificates of deposit	6 %
MOSIP liquid series	74
Insured cash sweep	20
	100 %

WATER DIVISION OF THE CITY OF ST. LOUIS, MISSOURI
(An Enterprise Fund of the City of St. Louis, Missouri)

Notes to the Basic Financial Statements

June 30, 2023

(In thousands)

(3) Restricted Assets

Cash and investments restricted in accordance with bond provisions and City ordinances at June 30, 2023, is as follows:

Bond funds:	
Waterworks bond fund	\$ 282
Water replacement and improvement account	750
Total bond funds	1,032
Customer deposits	1,849
Service line maintenance	1,529
Total restricted cash and investments	\$ 4,410

Bond fund provisions require that revenues derived from the operation of the Waterworks System be deposited in the Waterworks Revenue Account. From this account, the following allocations are made on the first business day of each month in the following order of priority:

Series 2013 Water Revenue Refunding Bond Funds

- (1) To the unrestricted Waterworks Operations and Maintenance Fund, an amount sufficient to pay the estimated operation and maintenance expenses during the next month.
- (2) To the Waterworks Bond Fund, an amount at least equal to the calculated 1/6 amount of interest that will come due on the next interest payment date, plus an amount at least equal to 1/6 of the aggregate principal amount of bonds that will come due on the next bond maturity date. This account shall be used only for the payment of bond principal and interest, as the same shall become due.
- (3) To the Water Replacement and Improvement Fund, an amount equal to \$25 per month until the account balance aggregates \$750. This account shall be used for making replacements, extensions, and improvements to the Waterworks System, and for the purpose of meeting unforeseen contingencies and emergencies arising in the operation of the Waterworks System of the City.
- (4) The remaining balance in the Waterworks Revenue Fund is deposited into the unrestricted Water Contingent Fund. This money shall be used for paying the cost of the operation, maintenance, and repair of the Waterworks System; paying the cost of extending, improving, or making replacements to the Waterworks System; preventing default in, anticipating payments into, or increasing the amounts in the other accounts; paying any gross receipts tax now or hereafter levied by the City; paying the principal or the interest on any subordinate or junior lien bonds; paying any redemption premium due on the bonds; or any other lawful purpose for use by the Waterworks System.

WATER DIVISION OF THE CITY OF ST. LOUIS, MISSOURI
(An Enterprise Fund of the City of St. Louis, Missouri)

Notes to the Basic Financial Statements

June 30, 2023

(In thousands)

(4) Capital Assets

The following table shows the changes in capital assets for the fiscal year ended June 30, 2023:

	<u>Balances June 30, 2022</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>Balances June 30, 2023</u>
Capital assets being depreciated:					
Buildings and structures	\$ 45,125	—	—	201	45,326
Reservoirs	36,063	—	—	(663)	35,400
Boiler plant equipment	744	—	—	710	1,454
Pumping equipment	19,113	—	—	979	20,092
Purification basins and equipment	48,373	—	—	228	48,601
Water mains, lines, and accessories	168,825	2,522	(126)	573	171,794
Equipment	19,863	155	—	15	20,033
Motor vehicle equipment	14,083	346	(261)	—	14,168
	<u>352,189</u>	<u>3,023</u>	<u>(387)</u>	<u>2,043</u>	<u>356,868</u>
Total capital assets being depreciated					
Less accumulated depreciation:					
Buildings and structures	(31,967)	(803)	—	—	(32,770)
Reservoirs	(17,780)	(744)	—	—	(18,524)
Boiler plant equipment	(670)	(35)	—	—	(705)
Pumping equipment	(11,513)	(386)	—	—	(11,899)
Purification basins and equipment	(25,481)	(1,173)	—	—	(26,654)
Water mains, lines, and accessories	(73,070)	(2,354)	119	—	(75,305)
Equipment	(18,884)	(339)	—	—	(19,223)
Motor vehicle equipment	(7,955)	(1,183)	261	—	(8,877)
	<u>(187,320)</u>	<u>(7,017)</u>	<u>380</u>	<u>—</u>	<u>(193,957)</u>
	<u>164,869</u>	<u>(3,994)</u>	<u>(7)</u>	<u>2,043</u>	<u>162,911</u>
Capital assets not being depreciated:					
Land	1,238	—	—	—	1,238
Construction in progress	2,940	6,007	—	(2,161)	6,786
	<u>4,178</u>	<u>6,007</u>	<u>—</u>	<u>(2,161)</u>	<u>8,024</u>
	<u>\$ 169,047</u>	<u>2,013</u>	<u>(7)</u>	<u>(118)</u>	<u>170,935</u>

Construction in progress consists primarily of various improvements to the Waterworks System.

WATER DIVISION OF THE CITY OF ST. LOUIS, MISSOURI
(An Enterprise Fund of the City of St. Louis, Missouri)

Notes to the Basic Financial Statements

June 30, 2023

(In thousands)

(5) Employees' Retirement System of the City of St. Louis

The Water Division participates in the Employees Retirement System of the City of St. Louis (Employees System), a cost-sharing, multiple-employer public defined benefit pension plan.

(a) Plan Description

All Water Division employees become members of the Employees System upon employment, with the exception of employees hired after attaining age 60.

The Employees System issues a publicly available financial report that includes financial statements and required supplementary information. The Employees System financial statements are prepared using the accrual basis of accounting. That report may be obtained by writing to the Employees Retirement System of the City of St. Louis; 1114 Market Street, Suite 900; St. Louis, Missouri 63101.

The Employees System provides for defined benefit payments for retirement, death, or disability to eligible employees or their beneficiaries based upon creditable service, final average compensation, and a benefit compensation base. Benefits vest to employees covered by the Employees System after the employee has attained five years of creditable service. Employees retire with full retirement benefits after the age of 65 or if the employee's age and creditable service combined equal or exceed 85 years. Employees may retire and receive a reduced benefit after age 60 with five years of creditable service; age 55 with at least 20 years of creditable service; or at any age with 30 years of creditable service. The monthly pension benefits of all retirees or their beneficiaries are adjusted according to the changes in the Consumer Price Index of the U.S. Department of Labor. Increases are limited each year, with total increases to retirees or their beneficiaries limited to 25%.

On June 8, 2000, the Mayor of the City approved an ordinance passed by the Board of Aldermen, authorizing a Deferred Retirement Option Plan (DROP), which became effective January 1, 2001. This plan states that when members reach retirement age, they are allowed to work for five additional years and defer receipt of their retirement allowance. The calculation of average salary for retirement benefits will not include the additional years of service after normal retirement age. The amount that would have been received as retirement benefit is put in a special DROP account monthly. The DROP account will not be adjusted for cost of living increases. The DROP account earns interest at the actuarial valuation rate of return or at the 10-year U.S. Treasury Bond yield as of September 30 for DROP participants enrolling February 1, 2003 and thereafter. After the members completely terminate employment, the member can withdraw amounts from the DROP account in a lump sum or according to a deferred retirement payment plan.

(b) Funding Policy

The Employees System's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate assets to pay benefits due. If contributions are necessary, level percentage of payroll employer contribution rates are determined using the projected unit credit actuarial cost method.

WATER DIVISION OF THE CITY OF ST. LOUIS, MISSOURI
(An Enterprise Fund of the City of St. Louis, Missouri)

Notes to the Basic Financial Statements

June 30, 2023

(In thousands)

Employer contribution rates are established annually by the Board of Trustees of the Employees System based on an actuarial study. The Board of Trustees established the required employer contributions rate based on active member payroll of 15.44% effective July 2022 through June 2023. The previous contribution rate was 15.42% effective July 2021 through June 2022.

Employees who became members of the Employees System prior to October 14, 1977, and continued to make contributions, may make voluntary contributions to the Employees System equal to 3% of their compensation until the employee's compensation equals the maximum annual taxable earnings under the Federal Social Security Act. Thereafter, employees may contribute 6% of their compensation for the remainder of the calendar year.

The Water Division's contributions to the Employees System for the year ended June 30, 2023 were \$2,021.

(c) Net Pension Liability

The Water Division reported a liability of \$19,855 for its proportionate share of the net pension liability as of June 30, 2023. The net pension liability was measured as of September 30, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of October 1, 2022. The Water Division's proportion of the net pension liability was based on the Water Division's share of contributions to the Employees System relative to the contributions of all Employees System participating employers. As of September 30, 2022, the Water Division's collective proportion was 5.48%, which was an increase of 0.15% from its proportion as of September 30, 2021.

The following were some of the significant actuarial assumptions used in the valuation of the Employees System:

Date of actuarial valuation	October 1, 2022
Actuarial cost method	Entry age normal
Inflation rate	2.50%
Long-term rate of return	7.25%
Projected salary increases	2.50% plus merit component based on employee's years of service
Mortality rates	Active: 135% of the Pub-2010 General Employee below-median income mortality table for males and 155% for females projected with generational mortality improvements from 2010 using Scale MP-2019 Healthy: 125% of the Pub-2010 General Retiree below-median income mortality table for males and 120% females projected with generational mortality improvements from 2010 using Scale MP-2019 Disabled: 120% of the Pub-2010 Non-Safety Disabled Retiree mortality table for males and 110% females projected with generational mortality improvements from 2010 using Scale MP-2019

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The actuarial assumptions used in the October 1, 2022, actuarial valuation were based on the results of an actuarial experience study performed in 2020 which reviewed all the economic and demographic assumptions.

The long-term expected rate of return on the Employees System investments was determined using a building-block approach and a forward-looking model in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These rates of return 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. For each major asset class that is included in the pension plan's target asset allocation as of September 30, 2022, these best estimates are summarized in the following table:

<u>Asset class</u>	<u>Target allocation</u>	<u>Long-term expected real rate of return</u>
Large cap	24.00 %	6.90 %
Mid cap	7.50	7.27
Small cap	7.50	8.00
International large cap	12.00	7.24
Emerging markets	3.00	7.40
Bank loans	4.50	5.10
Fixed income	10.00	2.50
International fixed income	4.50	4.90
Core real estate	10.00	6.50
Infrastructure	5.00	7.00
Private equity	5.00	11.00
Hedge funds	3.00	5.10
Defensive equity	4.00	6.10
Total/average	<u>100.00 %</u>	<u>6.54%</u>

The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rate. Based on those assumptions, the pension plan fiduciary net position was projected to be available to make 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 payments to determine the total pension liability. For the October 1, 2022, actuarial valuation, a 7.25% long-term rate of return was

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used. The sensitivity of the net pension liability to changes in the discount rate for the year ended June 30, 2023 for the Water Division is as follows:

	Discount rate	Net pension liability
1% decrease	6.25 %	\$ 25,967
Current rate	7.25	19,855
1% increase	8.25	14,650

Pension Plan Fiduciary Net Position – Detailed information about the pension plan’s fiduciary net position is available in the separately issued Employees System financial report.

(d) Pension Expense

For the year ended June 30, 2023, the Water Division recognized pension expense of \$4,353. Annual pension expense consists of service cost, interest, and administrative expenses on the pension liability less employee contributions and projected earnings on pension plan investments. The difference between actual and expected earnings is recorded as a deferred outflow/inflow of resources and recognized in pension expense over a five-year period.

(e) Deferred Outflows/Inflows of Resources Related to Pension

In accordance with GASB Statement No. 68, the Water Division recognizes differences between actual and expected experience with regard to economic or demographic factors, changes of assumptions about future economic or demographic factors, the difference between actual and expected investment returns, changes in proportion, and contributions subsequent to the measurement date as deferred outflows/inflows of resources. At June 30, 2023, the Water Division reported deferred outflow of resources and deferred inflow of resources related to pensions from the following sources as follows:

	Deferred outflow of resources	Deferred inflow of resources
Differences between expected and actual experience	\$ 449	(82)
Net difference between projected and actual earnings on pension plan investments	5,667	—
Changes in proportion	212	—
Assumption changes	—	—
Water Division contributions subsequent to the measurement date	1,476	—
Total	\$ 7,804	(82)

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The \$1,476 reported as deferred outflows of resources related to pensions resulting from the Water Division's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2023.

The Water Division recognizes differences between actual and expected investment performance included in deferred outflows/inflows of resources on a straight-line basis over five years. Differences between expected and actual experience and changes in actuarial assumptions are amortized over the average expected remaining service life of the Employee System's members. The following table summarizes the future recognition of these items:

Year ended June 30:	Amount
2024	\$ 1,880
2025	1,396
2026	903
2027	2,067
	\$ 6,246

(f) Pension Funding Project

During fiscal year 2008, the City of St. Louis Municipal Finance Corporation issued \$46,700 in Taxable Leasehold Revenue and Refunding Bonds Series 2007 (Pension Funding Project) to fund the Employees System. While the Water Division is not legally responsible for these bonds, \$3,269 of the proceeds was allocated to the Water Division. A \$2,236 liability is reflected as noncurrent liabilities – other liability to the City of St. Louis, Missouri on the balance sheet and is payable to the City of St. Louis by June 30, 2037. A \$108 liability is reflected in current liabilities – other accrued liabilities and is payable to the City of St. Louis by June 30, 2023.

(6) Change in Noncurrent Liabilities

The following table shows the changes in noncurrent liabilities for the fiscal year ended June 30, 2023:

	Balance June 30, 2022	Additions	Reductions	Balance June 30, 2023	Due within one year
Water revenue bonds payable (note 7)	\$ 6,288	—	(467)	5,821	477
Net pension liability (note 5)	9,274	10,581	—	19,855	—
Customer deposits	1,963	294	(408)	1,849	—
Other liability due to the City of St. Louis, Missouri (note 5)	2,445	—	(101)	2,344	108
Accrued vacation and sick leave liability	2,668	93	(137)	2,624	1,916
Total	\$ 22,638	10,968	(1,113)	32,493	2,501

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(In thousands)

(7) Water Revenue Refunding Bonds Payable

Water revenue bonds (direct placement debt) outstanding at June 30, 2023, are payable solely from and secured by, a pledge of net revenues from the operation of the Water Division and are as follows:

Series 2013 Water Revenue Refunding Bonds, 1.56%, drawdown loan, payable in varying amounts through January 1, 2034	\$	5,821
Less current maturities		477
	\$	5,344

(a) Series 2013 Water Revenue Refunding Bonds

In November 2013, the Water Division issued \$9,500 (not to exceed) in Water Revenue Bonds (Series 2013 Bonds) through the Missouri Department of Natural Resources Direct Loan Program. This bond issue is a drawdown loan with a fixed interest rate of 1.56% to fund various projects at the water treatment plants and throughout the distribution system. The final drawdown relating to the program was completed in fiscal year 2017.

While the Water Division continued its cost containment efforts and operating revenues increased by 4%, operating expenses rose by 22% in fiscal year 2023 compared to fiscal year 2022 which resulted to an operating loss of \$11,677. As a result, the Water Division did not meet its debt coverage ratio as required by Section 810 (C) (b) of the Water Revenue Bonds Indenture of Trust which states: *“There will be charged against all users of water service such rates and charges as shall be fully adequate to meet the requirements of the Waterworks Revenue Fund, and the City will adopt or continue in effect rates for all services rendered by the Waterworks System sufficient to produce Net Revenues for the next succeeding fiscal year at least equal to one hundred ten percent (110%) of the amount of the principal of and interest coming due on all Bonds during the next succeeding fiscal year”*. At June 30, 2023, the Water Division’s debt coverage ratio was calculated at (1054%) compared to 492%, 541%, 1441% and 1,524% in fiscal years 2022, 2021, 2020 and 2019, respectively.

Although the Missouri Department of Natural Resources did not exercise its right to call the entire debt balance of \$5,821, a bond covenant waiver was not issued to the Water Division. Because of the debt service coverage ratio violation, the \$5,344 long-term portion of the water revenue bonds payable is presented as current liability within the financial statements.

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June 30, 2023

(In thousands)

Debt service requirements to maturity of the 2013 Series Water Revenue Bonds are as follows:

	Principal	Interest	Total
Year ending June 30:			
2024	\$ 477	89	566
2025	486	81	567
2026	497	74	571
2027	507	66	573
2028	517	58	575
2029–2036	3,337	173	3,510
	\$ 5,821	541	6,362

Principal and Interest payments are due semiannually on January 1 and July 1.

(8) Transactions with the City

During the fiscal year ended June 30, 2023, the City charged the Water Division \$4,177 for services rendered by various City departments. This amount is included in the Water Division's operating expenses as interfund services used. At June 30, 2023, \$1,231 was due to the City for services rendered. The Water Division also furnishes water to the fire department, parks department, and most other departments at no charge; while the related cost of all of the water cannot be determined since most of the water provided is not metered, those City buildings that are metered used \$937 worth of service for the year ended June 30, 2023. No reduction from the amount the Water Division owed to the City for services rendered was allowed for this water service provided by the Water Division to the City. At June 30, 2023, the Water Division owed \$875 to the City for activities relating to refuse.

In addition, throughout the year, the Collector of Revenue of the City of St. Louis, Missouri (the Collector) deducts a 4% gross receipts charge from collections made on behalf of the Water Division. At June 30, 2023, \$714 was due to the City. Each year, the Collector computes actual costs incurred relating to services that it provided to the Water Division and refunds any excess deduction. During the year ended June 30, 2023, the Water Division paid \$909 net of refunds to the Collector for services rendered.

The Water Division also pays a 6% tax on monthly gross receipts, which is applicable to all public utilities. During the year ended June 30, 2023, the Water Division recorded amounts transferred to the City of \$3,144. This amount is reflected as transfers to the City in the accompanying basic financial statements. No payment in lieu of property taxes is made. At June 30, 2023, \$3,144 was due to the City for gross receipts tax. At June 30, 2023, the Water Division recorded a Due from the City in the amount of \$37 related to timing differences of year-end activity.

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Notes to the Basic Financial Statements

June 30, 2023

(In thousands)

(9) Contingencies

The Water Division has identified certain of its structures as having asbestos in place. As part of its continuing process of upgrading facilities, the costs for removal of the asbestos material and restoration or replacement of the affected areas are being included in budgets for capital projects. No mandatory time requirement is in effect. The removal plan would be accelerated by changes in plans for remodeling, if any.

As of June 30, 2023, pending litigation of \$401, which the City Counselor's office has determined is probable that a loss contingency will be incurred, has been accrued within the basic financial statements. There is an aggregate of general liability claims outstanding of \$488, which the City Counselor's office has determined there is a reasonable possibility that a loss contingency may be incurred but no accrual has been made within the basic financial statements because the losses are not probable.

At June 30, 2023, the Water Division has \$735 in gain contingencies related to damages caused by others to Water Division properties that are not reflected within the basic financial statements because such transactions may not be recognized as revenue prior to realization.

(10) Risk Management

The Water Division is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Water Division participates in the Settlement Fund, an internal service fund of the City. The purpose of the Settlement Fund is to account for risks in which the City is self-insured, primarily workers' compensation, unemployment benefits, certain general liability, and various other claims and legal actions. All self-insured workers' compensation claims liabilities and payments are recorded in the Settlement Fund. The Water Division reimburses the Settlement Fund for workers' compensation claims on a cost-reimbursement basis. At June 30, 2023, the Water Division owed the Settlement Fund \$4,896 for unreimbursed workers' compensation claims and is included in Due to City of St. Louis, Missouri on the balance sheet.

(11) Wholesale Water Contracts

The Water Division has entered into contracts for the sale of water to the following parties: the cities of St. Charles, Missouri and St. Peters, Missouri; the Missouri American Water Company (the Company); and the Public Water Supply District No. 2 of St. Charles County, Missouri. The parties have agreed to pay for water at a rate based on certain costs incurred at the Howard Bend Water Treatment Plant.

Additionally, the Water Division and the Company have amended their agreement whereby the Company has agreed to purchase a minimum quantity of water per month from the Water Division. The Water Division renewed this contract, which became effective in December 2015 and will expire in 2025.

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Notes to the Basic Financial Statements

June 30, 2023

(In thousands)

(12) Pledged Revenue

The Water Division has pledged specific revenue streams to secure the repayment of the Series 2013 Bonds. The following table lists those revenues along with the purpose of the debt, the term of the commitment, the approximate proportion of the pledged revenue to revenue collected of the revenue stream as estimated at June 30, 2023, the current fiscal year principal and interest on the debt and the amount of pledged revenue earned during the current fiscal year:

<u>Type of revenue pledged</u>	<u>General purpose for debt</u>	<u>Term of pledged commitment</u>	<u>Proportion of pledged revenue to revenue collected</u>	<u>Principal and interest for the year ended June 30, 2023</u>	<u>Revenue recognized for the year ended June 30, 2023</u>
All Water Division revenues	Funding of various water division infrastructures	Through 2034	1 % \$	563	56,981

As of June 30, 2023, the remaining principal and interest requirement is \$6,362 payable through January 2034 (fiscal year 2034). The proportion of pledged revenue to revenue collected is estimated at 1% at June 30, 2023.

(13) Subsequent Event

In June 2023, the City of St. Louis passed Ordinance 71683 which authorized a three-tiered water rate increases as follows: (1) 20% across the board water rate increase effective July 1, 2023; (2) 20% across the board water rate increase effective January 1, 2024 and (3) on January 1 of each calendar year from January 1, 2026 and thereafter, (a) across the board water rate increase based on the annual change in CPI-U for the preceding calendar year as published by the US Bureau of Labor Statistics in the event that the CPI-U for the preceding calendar year is a positive number; and (b) in the event the CPI-U for the preceding calendar year is not a positive number, the rate shall continue without change for another calendar year.

OTHER INFORMATION – UNAUDITED

WATER DIVISION OF THE CITY OF ST. LOUIS, MISSOURI
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Detailed Schedule of Certain Operating Expenses – Unaudited

Year ended June 30, 2023

(In thousands)

Supply and purification:		
Salaries and wages	\$	5,470
Support services		2,644
Other services		2,246
Materials and supplies		725
Depreciation		52
Chemicals		11,480
		<u>22,617</u>
		22,617
Less amounts capitalized or allocated to other accounts		<u>—</u>
Total supply and purification	\$	<u><u>22,617</u></u>
Transmission and distribution:		
Salaries and wages	\$	9,468
Support services		525
Other services		4,650
Materials and supplies		4,770
Depreciation		900
		<u>20,313</u>
		20,313
Less amounts capitalized or allocated to other accounts		<u>(3,211)</u>
Total transmission and distribution	\$	<u><u>17,102</u></u>
Power and pumping:		
Salaries and wages	\$	2,514
Support services		1,832
Other services		1,332
Materials and supplies		162
Depreciation		11
Purchased power		3,558
		<u>9,409</u>
		9,409
Less amounts capitalized or allocated to other accounts		<u>—</u>
Total power and pumping	\$	<u><u>9,409</u></u>

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Detailed Schedule of Certain Operating Expenses – Unaudited

Year ended June 30, 2023

(In thousands)

Administrative and general:		
Salaries and wages	\$	2,088
Support services		112
Other services		1,345
Materials and supplies		152
Depreciation		3
Bad debt expense		2,313
		<hr/>
		6,013
Less amounts allocated to other accounts		<hr/>
		(3)
Total administrative and general	\$	<u>6,010</u>
Customer accounting:		
Salaries and wages	\$	1,440
Support services		265
Other services		33
Materials and supplies		63
Depreciation		30
		<hr/>
		1,831
Less amounts capitalized or allocated to other accounts		<hr/>
		—
Total customer accounting	\$	<u>1,831</u>

See accompanying independent auditors' report.

WATER DIVISION OF THE CITY OF ST. LOUIS, MISSOURI
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Schedule of Costs for Howard Bend Water Sales – Unaudited

Year ended June 30, 2023

(In thousands)

I. Direct Costs of Supply and Purification – Howard Bend		
Labor	\$	2,566
Chemicals		4,391
Support services		677
Other materials and services		1,429
		1,429
	\$	9,063
II. Direct Costs of Power and Pumping – Howard Bend		
Power	\$	1,741
Labor		815
Support services		436
Other materials and services		997
		997
	\$	3,989
III. General Office Expenses – Power and Pumping	\$	1,288
IV. General Office Expenses – Supply and Purification	\$	1,451
V. Reservoir Maintenance	\$	28
VI. Administration and Finance Costs		
City services	\$	1,343
Labor		2,088
Other services and miscellaneous		1,500
Support services		112
		112
	\$	5,043
VII. Specified Labor Costs		
Transmission and distribution	\$	9,468
Supply and purification		5,470
Power and pumping		2,514
Customer accounting		1,440
		1,440
	\$	18,892

Note: The Water Division of the City of St. Louis, Missouri, has entered into contracts for the sale of water to the following parties: the cities of St. Charles, Missouri, and St. Peters, Missouri, the Missouri American Water Company and the Public Water Supply District No. 2 of St. Charles County, Missouri. Under the terms of these agreement, the parties have agreed to pay for water at a rate based on certain costs incurred by the Water Division as its Howard Bend Water Treatment Plant. This information is presented in accordance with the requirements of the contracts and is included for use by the parties in determining water rates charged.

See accompanying independent auditors' report.