

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

Basic Financial Statements and Supplementary Information

June 30, 2012

(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
Suite 900
10 South Broadway
St. Louis, MO 63102-1761

Independent Auditors' Report

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

We have audited the accompanying basic financial statements of the Water Division of the City of St. Louis, Missouri, an enterprise fund of the City of St. Louis, Missouri, as of and for the year ended June 30, 2012, as listed in the table of contents. The basic financial statements are the responsibility of the Water Division of the City of St. Louis, Missouri's management. Our responsibility is to express an opinion on the basic financial statements based on our audit.

We conducted our audit 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Water Division of the City of St. Louis, Missouri's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in note 1 to the basic financial statements, the basic financial statements present only the financial position and the changes in financial position and cash flows of the Water Division of the City of St. Louis, Missouri, an enterprise fund of the City of St. Louis, Missouri, and do not purport to, and do not, present fairly the financial position of the City of St. Louis, Missouri as of June 30, 2012, the changes in its financial position, or, where applicable, its cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Water Division of the City of St. Louis, Missouri, as of June 30, 2012, and the changes in its financial position and its cash flows thereof for the year then ended, in conformity with U.S. generally accepted accounting principles.

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3 through 12 be presented to supplement the basic financial statements. Such information, 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 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.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

KPMG LLP

St. Louis, Missouri
December 4, 2012

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, 2012

(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 (the Water Division) for the City of St. Louis, Missouri (the City) as of and for the fiscal year ended June 30, 2012. This information should be read in conjunction with the financial statements that follow this section.

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 (78,922) 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 (12,942) 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 46.6 billion gallons of treated water in fiscal year 2012. This represents a 7.5% increase from fiscal year 2011.
- The number of metered customers declined by 90 or 0.7% during fiscal year 2012.
- Usage by metered customers decreased by 432.0 million gallons or 3.7% during fiscal year 2012 and metered revenue decreased by about 2%.
- The number of flat rate customers in fiscal year 2012 decreased by 227 or 0.3% and flat rate revenue increased by less than 1% during fiscal year 2012.
- Wholesale water revenue increased by \$1,236 or 41% during fiscal year 2012.
- Other revenue increased by \$1,702 or 69% during fiscal year 2012.
- Operating expenses decreased by \$356 or 1% during fiscal year 2012.
- Operating income increased by \$2,974 or 25% during fiscal year 2012.
- The overall change in net assets for fiscal year 2012 was \$11,708, an increase of \$3,367 or 40% compared to fiscal year 2011.

Overview of the Financial Statements

The MD&A section of this audit 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

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Management's Discussion and Analysis – Unaudited

June 30, 2012

(Dollars in thousands)

with U.S. generally accepted accounting principles set forth by the Government Accounting Standards Board (GASB). The Water Division is an enterprise fund of the City. As such, the Water Division relies entirely on the funds it generates and which are dedicated to its operation.

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 assets of the water system.

The basic financial statements include a balance sheet; a statement of revenues, expenses, and changes in fund net assets; a statement of cash flows; notes to the basic financial statements; and certain other schedules. 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 assets reflects the results of operation of the water system during the year, as well as how net assets changed over the year. The statement of cash flows presents changes in cash and cash equivalents that resulted from operating, financing, and 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 and schedules.

Net Assets

This table is a summary of the Water Division's net assets as of June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>	<u>Dollar change</u>	<u>Percentage change</u>
Assets:				
Other assets	\$ 47,192	37,195	9,997	27%
Capital assets	149,316	151,758	(2,442)	(2)
Total assets	<u>196,508</u>	<u>188,953</u>	<u>7,555</u>	<u>4</u>
Liabilities:				
Long-term liabilities	15,561	20,393	(4,832)	(24)
Other liabilities	16,151	15,472	679	4
Total liabilities	<u>31,712</u>	<u>35,865</u>	<u>(4,153)</u>	<u>(12)</u>
Net assets:				
Invested in capital assets, net of debt	137,836	135,771	2,065	2
Restricted	4,759	5,026	(267)	(5)
Unrestricted	22,201	12,291	9,910	81
Total net assets	<u>\$ 164,796</u>	<u>153,088</u>	<u>11,708</u>	<u>8%</u>

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June 30, 2012

(Dollars in thousands)

The major components of change in net assets occurred in other assets and long-term liabilities. The increase in other assets reflects an increase of \$6,000 in ordinance funds for system improvements and approximately \$2,800 in cash held in the contingent account. The decrease in long-term liabilities reflects the Water Division's debt service reduction.

The preceding table shows that 84% of the Water Division's net assets in fiscal year 2012 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 or acquired through the issuance of revenue bonds. In any case, these assets were and continue to be paid from the revenues derived from the operation of the Water Division.

Summary of Revenues, Expenses, and Changes in Fund Net Assets

The Water Division's revenues, expenses, and changes in fund net assets for the fiscal years 2012 and 2011 are summarized as follow:

	<u>2012</u>	<u>2011</u>	<u>Dollar change</u>	<u>Percentage change</u>
Operating revenues	\$ 57,870	55,252	2,618	5%
Operating expenses	(42,880)	(43,236)	356	(1)
Operating income	14,990	12,016	2,974	25
Nonoperating revenues (expenses), net	15	(518)	533	(103)
Income before transfers	15,005	11,498	3,507	31
Transfers to the City of St. Louis, Missouri	(3,297)	(3,157)	(140)	4
Change in net assets	11,708	8,341	3,367	40
Total net assets, beginning of year	153,088	144,747	8,341	6
Total net assets, end of year	\$ 164,796	153,088	11,708	8%

WATER DIVISION OF THE CITY OF ST. LOUIS, MISSOURI
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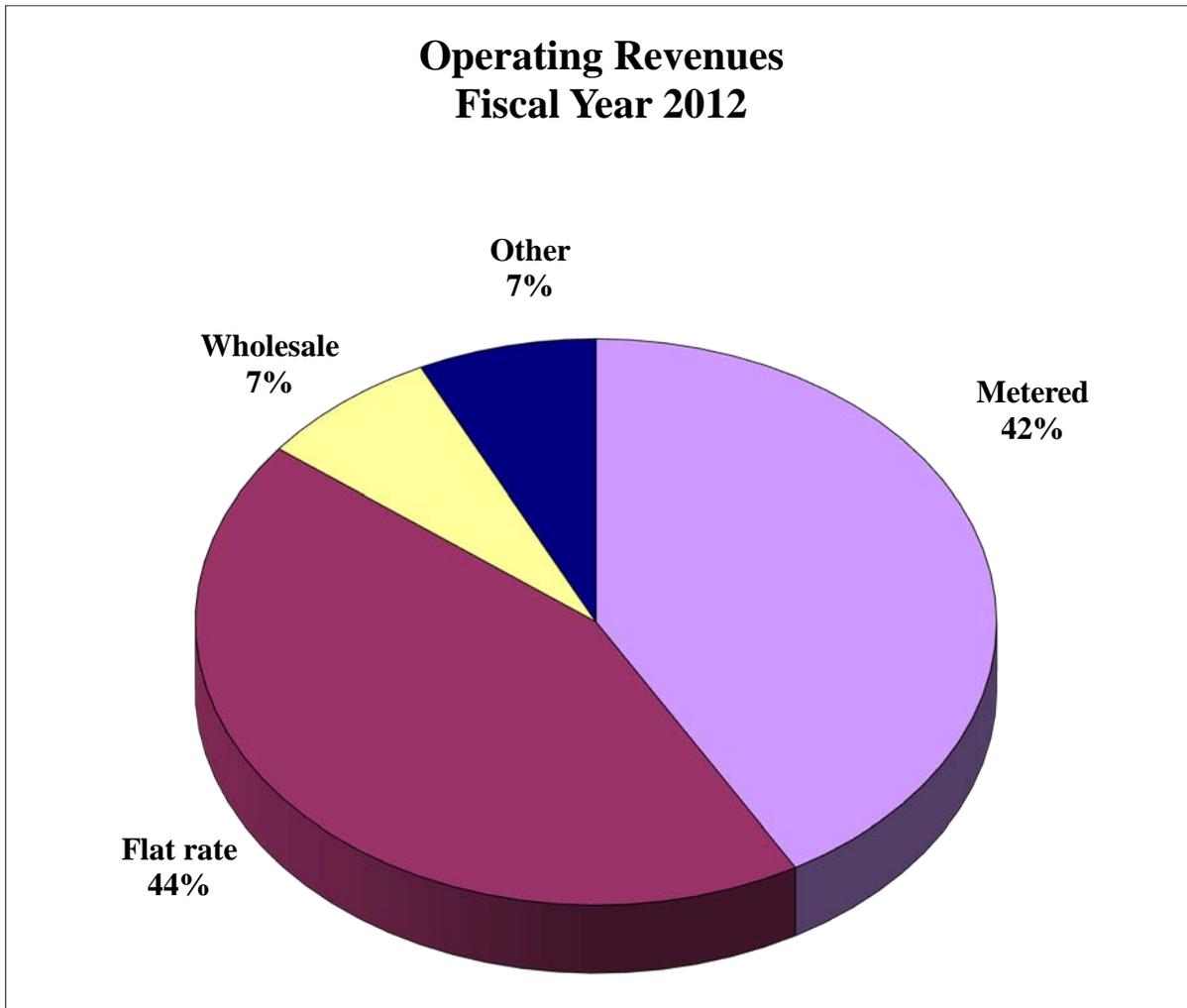
Management's Discussion and Analysis – Unaudited

June 30, 2012

(Dollars in thousands)

Revenues

The chart below depicts the four sources of operating revenues for the Water Division for fiscal year 2012 and each source's percentage contribution to total operating revenues:



WATER DIVISION OF THE CITY OF ST. LOUIS, MISSOURI
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Management's Discussion and Analysis – Unaudited

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The table below summarizes the sources of total revenues (operating and nonoperating) for the Water Division for fiscal years 2012 and 2011. This comparison details the change in dollars and percent between the two fiscal years by component revenue source.

	<u>2012</u>	<u>2011</u>	<u>Dollar change</u>	<u>Percentage change</u>
Operating revenues:				
Metered	\$ 24,137	24,533	(396)	(2)%
Flat rate	25,313	25,237	76	—
Wholesale	4,251	3,015	1,236	41
Other	4,169	2,467	1,702	69
Total operating revenues	<u>57,870</u>	<u>55,252</u>	<u>2,618</u>	<u>5</u>
Nonoperating revenues:				
Investment earnings	11	(11)	22	200
Miscellaneous, net	761	792	(31)	(4)
Total nonoperating revenues	<u>772</u>	<u>781</u>	<u>(9)</u>	<u>(1)</u>
Total revenues	<u>\$ 58,642</u>	<u>56,033</u>	<u>2,609</u>	<u>5%</u>

Water revenues have remained relatively constant. Metered water revenue declined slightly by \$396 or 2%, while flat rate revenue increased by \$76 or less than 1%. Metered customers declined by 90 accounts or 1% and metered water consumption decreased by 4%.

Wholesale revenue increased by \$1,236 or 41%. This increase in usage results from the extremely dry conditions experienced throughout the region over the period. Other Revenue increased by \$1,702 or 69%. This increase is due to significant work performed by the Transmission and Distribution crews, with much of it related to the construction of the new Mississippi River Bridge just north of the downtown area.

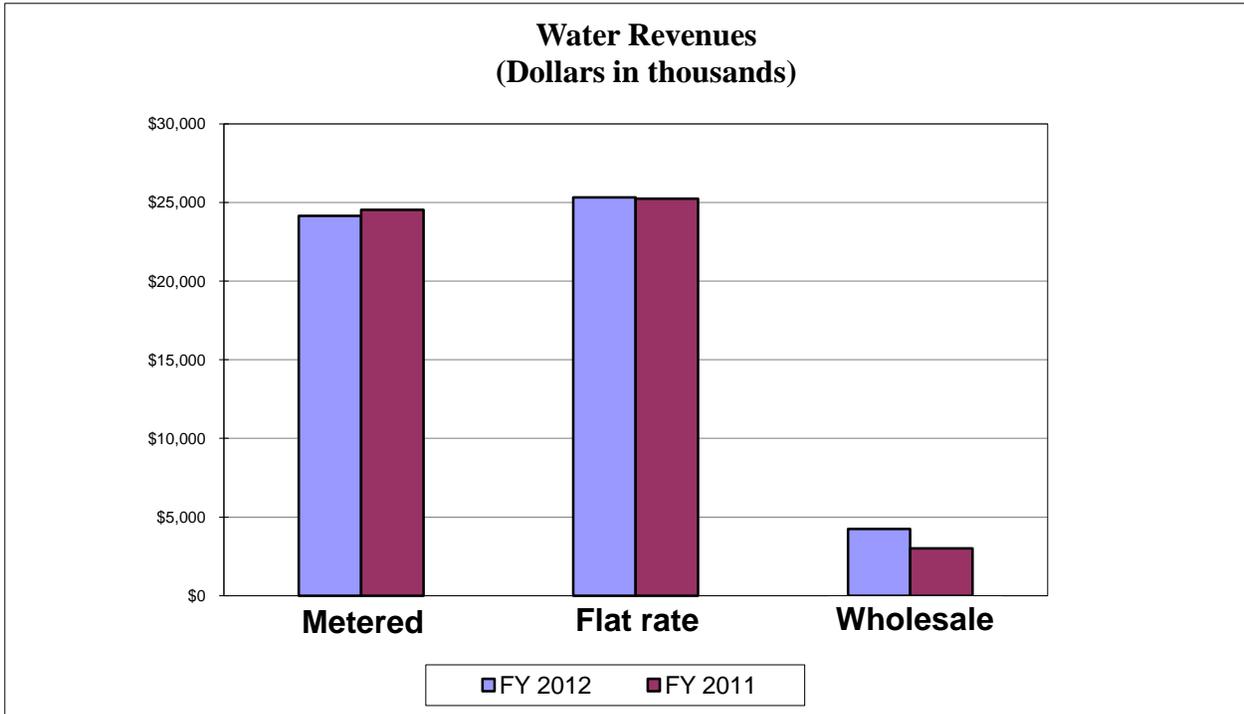
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The chart below depicts the changes in the metered, flat rate, and wholesale revenue components of water revenues from fiscal year 2011 to fiscal year 2012:



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Management's Discussion and Analysis – Unaudited

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(Dollars in thousands)

Expenses

The table below summarizes the Water Division's expenses for the fiscal years 2012 and 2011:

	<u>2012</u>	<u>2011</u>	<u>Dollar change</u>	<u>Percentage change</u>
Operating expenses:				
Supply and purification	\$ 13,774	13,839	(65)	—%
Transmission and distribution	8,667	8,831	(164)	(2)
Power and pumping	6,863	6,345	518	8
Depreciation	4,754	4,701	53	1
Administrative and general	2,853	2,925	(72)	(2)
Interfund service used	2,481	2,814	(333)	(12)
Customer accounting	1,833	1,965	(132)	(7)
Cost of service line maintenance	1,009	873	136	16
Collector of Revenue's fee, net	627	901	(274)	(30)
Cost of community service	19	42	(23)	(55)
Total operating expenses	<u>42,880</u>	<u>43,236</u>	<u>(356)</u>	<u>(1)</u>
Nonoperating expenses:				
Interest expense on long-term obligations	509	1,270	(761)	(60)
Amortization of bond issuance costs	102	25	77	308
Loss on disposal of assets	146	4	142	3,550
Total nonoperating expenses	<u>757</u>	<u>1,299</u>	<u>(542)</u>	<u>(42)</u>
Total expenses	<u>\$ 43,637</u>	<u>44,535</u>	<u>(898)</u>	<u>(2)%</u>
Transfers to the City of St. Louis, Missouri	<u>\$ 3,297</u>	<u>3,157</u>	<u>140</u>	<u>4%</u>

Operating expenses in fiscal year 2012 compared to fiscal year 2011 remained flat, decreasing by \$356 or 1%.

Overall decreases in Supply and Purification were minor, where expenses decreased by \$65 or less than 1%. In fiscal year 2012 chemical costs remained virtually unchanged although water pumping increased by 8%. Chemical prices have increased slightly compared to the prior year when prices fell dramatically as a result of declining demand during the global recession. Support Services declined by \$136 or 5% while Materials and Supplies increased by \$209 or 70%. These changes reflect the work accomplished by in-house plant personnel to perform some deferred improvements and maintenance to the facilities and grounds.

Transmission and Distribution expenses decreased by \$164 or about 2%. The largest single area of the decrease occurred in Materials and Supplies, \$306 or 10%. Also contributing to the overall reduction in operating expenses was the increase in the amount capitalized or reallocated to other areas. This amounted to \$1,099 or 29%. The largest area of increased expenses occurred in Other Services, \$1,085 or 49%. Most of this increase is a recognition of expenses associated with projects for which the Water Division invoiced a customer for services

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Management's Discussion and Analysis – Unaudited

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(Dollars in thousands)

rendered. Support Services increased by \$267 or 37%. In fiscal year 2012, management continued an expense reduction strategy that included a reduction in overtime. This strategy helped Transmission and Distribution actually reduce salary and wage costs by \$71 or 1%.

Power and Pumping section expenses increased by \$518 or 8%. Salary related costs increased by \$129 or 7% with the filling of some vacancies. Support Services and Materials and Supplies reflect increases of \$169 or 12% and \$176 or 160%, respectively. Charges for Purchased Power for pumping water reflect an increase of \$108 or 4%.

Administrative and General expenses decreased by \$72 or 2%, while salary related expenses increased slightly by \$29 or 2%, and Other Services decreased by \$63 or 10%. That decrease reflects reserves for potential legal judgments. Bad Debt expense also decreased by \$43 or 5% compared to fiscal year 2011.

Interfund Service Used reflects the largest overall dollar decrease in Operating Expenses with a reduction of \$333 or 12%. This reduction was mainly due to changes in payments to Workers' Compensation Insurance and Administration. Workers' Compensation costs are managed by the Public Facilities Protection Corporation (PFPC). The Water Division reimburses PFPC for these paid claims on a cost-reimbursement basis. Payments to PFPC for workers' compensation expenses decreased by \$491 or 38%. This reduction was partially offset by an increase in payments to the Equipment Services Division for maintenance and repair of the Water Division vehicles and equipment. These costs increased by \$115 or 25%. City Services expenses under the cost allocation plan increased by \$76 or 10%. Reimbursement to the Street Department for services it provides to the Water Division decreased by \$29 or 13%. This reflects a reduction in overall Street Department paving programs as well as the decrease in distribution system maintenance and repair.

Customer Accounting expenses decreased by \$132 or 7%. This decrease in expenses is primarily due to a reduction in support services in fiscal year 2012 compared to fiscal year 2011. Support Services expenses are related to efforts by other sections of the Water Division to assist in terminating water service and/or collect bills from accounts which require digging of stop boxes or valve replacement. Personnel from the water plants and distribution were utilized to perform this work again in fiscal year 2012, but not to the degree as in fiscal year 2011.

Costs of Service Line Maintenance increased \$136 or 16% as drought conditions contributed to ground shifting, which helped produce an above average need for repairs.

The Collector of Revenue's fee, net decreased by \$274 or 30%. No accounting for the Collector of Revenue's cost is provided to the Water Division.

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 then. This increase, coupled with continuing cost containment efforts, has helped ensure that the net revenues test required by the Indenture of Trust for fiscal year 2012 was met.

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

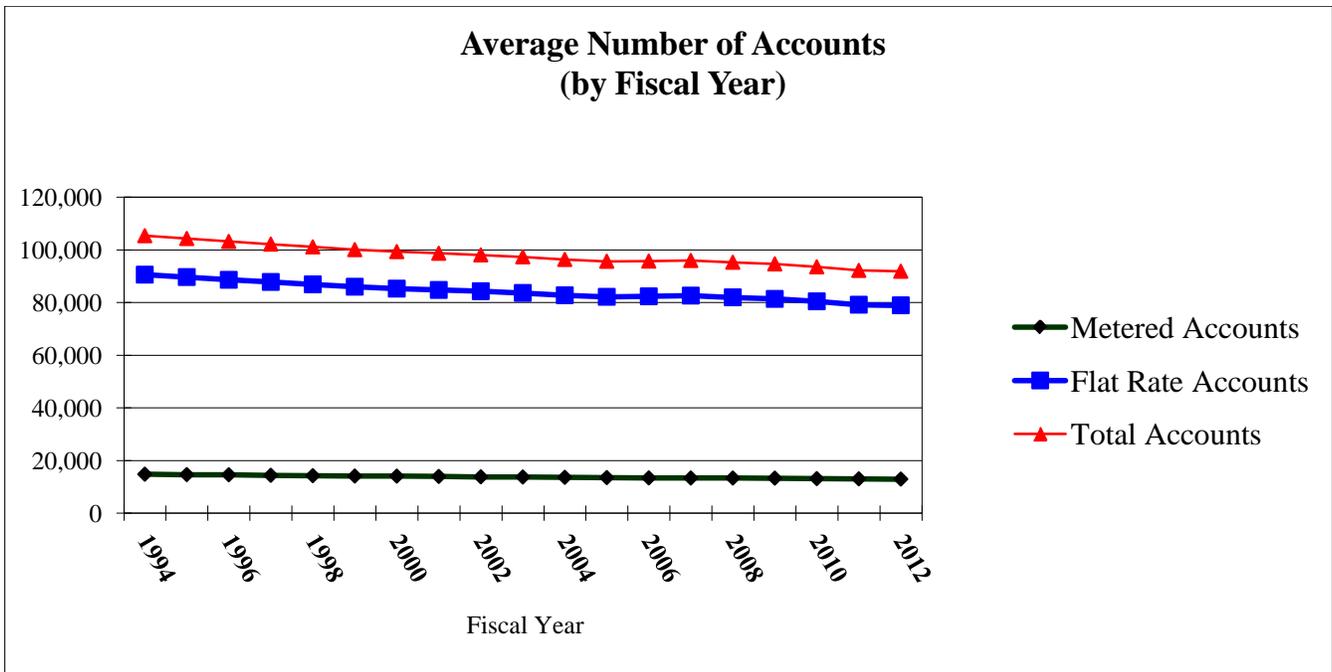
June 30, 2012

(Dollars in thousands)

There were no changes in the Water Division’s bond credit rating during fiscal year 2012. The current Standard & Poor’s bond credit rating is ‘AA-.’ Moody’s Investor Service placed the Water Division’s bond credit rating at ‘A3.’

In July 2010, the City passed Ordinance 68698, which authorized the City to charge \$11 per month per dwelling unit for residential solid waste service. The Water Division’s billing system continues to be used to invoice the solid waste charge on a combined utility bill that includes the solid waste charge and water service charge. All payments are kept separate and distinct. Payments for the solid waste charge are never deposited into water revenue.

The chart below depicts the number of flat rate and metered accounts over the last nineteen years:



Rate Covenant

In the Indenture of Trust pertaining to the Series 2011 Water Revenue Refunding Bonds (Series 2011 Bonds or Refunding Bonds) of the Water Division, the City covenants that as long as bonds remain outstanding, the City will adopt or continue in effect water rates at least sufficient to produce net revenues for the next succeeding fiscal year at least equal to 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 covenants that it 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.

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Management's Discussion and Analysis – Unaudited

June 30, 2012

(Dollars in thousands)

If the study indicates that a rate adjustment is necessary to comply with the rate covenants, the City agrees to make the necessary adjustments. There has been no water rate change since July 2010, therefore, a rate study has been authorized and is currently underway per the requirements.

Capital Assets and Long-Term Debt

Total capital assets being depreciated increased \$2,188 or 1% from fiscal year 2011 to fiscal year 2012. That increase reflects primarily additional capital spending of \$468 on pumping equipment and \$1,818 on water mains, lines, and accessories. This included various projects to improve the pumping equipment at the water treatment plants, as well as upgrades and replacements of water mains throughout the distribution system.

During fiscal year 2012, and pursuant to authority granted in Ordinance 68947, the City authorized and issued the Refunding Bonds in the amount of \$11,480 at an interest rate of 1.5%. Proceeds from the Refunding Bonds were used to prepay the Series 1998 Water Revenue Refunding Bonds, which were redeemed on October 31, 2011. The Refunding Bonds mature annually through fiscal year 2015 with interest coupons of 1.5%. The balance outstanding at June 30, 2012 is \$11,480.

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, Missouri Water Division, 1640 South Kingshighway, St. Louis, MO 63110.

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

Balance Sheet

June 30, 2012

(Dollars in thousands)

Assets

Current assets:

Cash:		\$	
Restricted			4,546
Unrestricted			18,361
Accounts receivable, net			4,483
Unbilled water revenue			5,561
Supplies and materials			2,141
Total current assets			35,092

Noncurrent assets:

Cash:			
Restricted			2,516
Unrestricted			9,417
Capital assets, net:			
Nondepreciable			5,102
Depreciable			144,214
Deferred bond issuance costs, net			144
Intangible assets, net			23
Total noncurrent assets			161,416
Total assets		\$	196,508

Liabilities and Net Assets

Current liabilities:

Payable from unrestricted assets:		\$	
Accounts and wages payable			3,533
Other accrued liabilities			2,708
Deferred revenue			2,331
Due to City of St. Louis, Missouri			3,552
Total current liabilities payable from unrestricted assets			12,124
Payable from restricted assets:			
Current maturities of water revenue bonds payable			3,895
Accrued interest payable			132
Total current liabilities payable from restricted assets			4,027
Total current liabilities			16,151

Noncurrent liabilities:

Water revenue bonds payable			7,585
Customer deposits – payable from restricted assets			1,778
Net pension obligation			1,444
Other liability to the City of St. Louis, Missouri			3,117
Sick leave liability			1,637
Total noncurrent liabilities			15,561
Total liabilities			31,712

Net assets:

Invested in capital assets, net of related debt			137,836
Restricted			4,759
Unrestricted			22,201
Total net assets			164,796
Total liabilities and net assets		\$	196,508

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 Fund Net Assets

Year ended June 30, 2012

(Dollars in thousands)

Operating revenues:	
Metered	\$ 24,137
Flat rate	25,313
Wholesale	4,251
Other	4,169
	<hr/>
Total operating revenues	57,870
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Operating expenses:	
Supply and purification	13,774
Transmission and distribution	8,667
Power and pumping	6,863
Depreciation (not allocated to other operating expenses)	4,754
Administrative and general	2,853
Interfund services used	2,481
Customer accounting	1,833
Cost of service line maintenance	1,009
Collector of Revenue's fee, net	627
Cost of community service	19
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Total operating expenses	42,880
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Operating income	14,990
	<hr/>
Nonoperating revenues (expenses):	
Investment earnings	11
Interest expense on long-term obligations	(509)
Amortization of bond issuance costs	(102)
Miscellaneous, net	761
Loss on disposal of capital assets	(146)
	<hr/>
Total nonoperating revenues, net	15
	<hr/>
Income before transfers	15,005
	<hr/>
Transfers to the City of St. Louis, Missouri	(3,297)
	<hr/>
Change in net assets	11,708
	<hr/>
Total net assets, beginning of year	153,088
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Total net assets, end of year	\$ 164,796
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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, 2012
(Dollars in thousands)

Cash flows from operating activities:	
Receipts from customers and users	\$ 55,582
Payments to suppliers of goods and services	(18,870)
Payments to employees	(14,699)
Payments for interfund services used	(3,000)
Net cash provided by operating activities	<u>19,013</u>
Cash flows from noncapital financing activities:	
Interest and principal paid on share of bond pension liability	(307)
Transfers to the City of St. Louis, Missouri	(3,299)
Net cash used in noncapital financial activities	<u>(3,606)</u>
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(2,764)
Interest paid on water revenue bonds	(202)
Principal paid on water revenue bonds	(16,000)
Proceeds from revenue bonds	11,480
Other capital and financing activities	214
Net cash used in capital and related financing activities	<u>(7,272)</u>
Cash flows from investing activities:	
Proceeds from maturities of investments	4,055
Income received on cash and investments	11
Purchases of investments	(2,027)
Net cash provided by investing activities	<u>2,039</u>
Net increase in cash	<u>10,174</u>
Cash at beginning of year:	
Unrestricted	15,790
Restricted	8,876
	<u>24,666</u>
Cash at end of year:	
Unrestricted	27,778
Restricted	7,062
	<u>\$ 34,840</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 14,990
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	5,002
Changes in assets and liabilities:	
Accounts receivable, net	(924)
Unbilled water revenue	(487)
Supplies and materials	(345)
Accounts and wages payable	200
Other accrued liabilities	582
Deferred revenue	(86)
Due to/from the City of St. Louis, Missouri	108
Customer deposits	33
Net pension obligation	(6)
Other liability to the City of St. Louis, Missouri	(54)
Total adjustments	<u>4,023</u>
Net cash provided by operating activities	<u>\$ 19,013</u>
Supplemental disclosure of noncash activities:	
Loss on disposal of capital assets	\$ 146

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 Basic Financial Statements

June 30, 2012

(Dollars 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 Government Accounting Standards Board (GASB) pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) opinions, and Accounting Research Bulletins (ARBs) of the Committee on Accounting Procedures.

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

Accounts receivable at June 30, 2012 consists of \$5,857 due from metered and flat rate customers and \$1,326 due from other customers. Such amounts are recorded net of an allowance for uncollectible accounts of \$2,700.

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Notes to Basic Financial Statements

June 30, 2012

(Dollars in thousands)

(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, 2012, unbilled water revenue amounted to \$5,561.

(e) *Supplies and Materials*

Supplies and materials are valued using a moving average cost.

(f) *Investments*

Investments are recorded in the basic financial statements at fair value. Fair value is established as readily determinable current market value for debt and equity securities.

(g) *Capital Assets*

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:

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

Net interest costs on funds borrowed to finance the construction are capitalized and depreciated over the life of the related asset.

(h) *Intangible Assets*

Intangible assets consist of software development costs and are amortized on the straight-line method over 5 years.

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(i) *Accounts and Wages Payable*

Accounts and wages payable at June 30, 2012 comprises \$2,480 of accrued salaries and benefits and \$1,053 due to vendors and contractors.

(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 liability totaled \$1,711 as of June 30, 2012 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 eligible to retire within five years. The liability totaled \$1,637 as of June 30, 2012 and is classified as a noncurrent liability.

(k) *Deferred 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 \$1,009 during the year ended June 30, 2012, which is reported within other operating revenues. Deferred service line maintenance revenue amounted to \$742 at June 30, 2012.

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 deferred 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 \$1,589 at June 30, 2012.

(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.

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(m) Net Assets

Net assets are displayed in three components as follows:

(1) Invested in Capital Assets, Net of Related Debt

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.

(2) Restricted

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

(3) Unrestricted

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

- (a) Construction Funds* – City ordinances provide that the principal proceeds from the sale of Series 2011 Water Revenue Refunding Bonds and 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, 2012 is \$9,537, which funds are designated for capital projects and have been approved by City ordinances.
- (b) Customer Deposits* – City ordinances provide that amounts paid by customers as deposits on metered water accounts, construction, and unclaimed meter deposits be held in escrow 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, 2012 is \$1,766.
- (c) 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 this fund as of June 30, 2012 is \$537.

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June 30, 2012

(Dollars in thousands)

(n) Statement of Cash Flows

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

(o) Use of Estimates

The preparation of the basic financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

(2) Cash

The Office of the Treasurer of the City (Treasurer) manages all cash and investments of the Water Division. State statutes and the City's investment policies authorize the deposit of funds in financial institutions and trust companies or the investment of funds in obligations of the U.S. government or any agency or instrumentality thereof; bonds of the State of Missouri, the City, or any city within the state with a population of 400,000 inhabitants or more; or time certificates of deposit; provided, however, that no such investment shall be purchased at a price in excess of par. In addition, the City may enter into repurchase agreements maturing and becoming payable within 90 days, secured by U.S. Treasury obligations or obligations of the U.S. government agencies 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.

As of June 30, 2012, the Water Division had cash deposits of \$34,840. The Water Division did not hold any investments as of June 30, 2012.

(3) Restricted Assets

Cash restricted in accordance with bond provisions and City ordinances at June 30, 2012 is as follows:

Bond funds:	
Waterworks bond fund	\$ 4,009
Water replacement and improvement account	750
Total bond funds	<u>4,759</u>
Customer deposits	1,766
Service line maintenance	537
Total restricted cash	<u><u>\$ 7,062</u></u>

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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 2011 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 1/6 of the amount of interest that will come due on the next interest payment date, plus an amount at least equal to 1/12 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 Revenue Debt Service Reserve Account, a sum equal to the Debt Service Reserve Fund Requirement or a debt service reserve fund policy or a surety bond shall be provided by a Bond Insurer in such amount or a letter of credit shall be provided by a bank acceptable to the City in such amount. All amounts paid and credited to this account shall be used solely to prevent any default in the payment of the principal of and interest on the Bonds.
- (4) 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.
- (5) 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.

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(4) Capital Assets

The following table shows the changes in capital assets for the fiscal year ended June 30, 2012:

	Balances June 30, 2011	Additions	Retirements	Transfers	Balances June 30, 2012
Capital assets being depreciated:					
Buildings and structures	\$ 42,141	—	—	14	42,155
Reservoirs	34,513	—	—	—	34,513
Boiler plant equipment	661	—	—	—	661
Pumping equipment	10,382	—	—	468	10,850
Purification basins and equipment	42,761	—	—	114	42,875
Water mains, lines, and accessories	122,165	2,117	(299)	—	123,983
Equipment	17,456	17	(90)	7	17,390
Motor vehicle equipment	8,540	233	(393)	—	8,380
Total capital assets being depreciated	<u>278,619</u>	<u>2,367</u>	<u>(782)</u>	<u>603</u>	<u>280,807</u>
Less accumulated depreciation:					
Buildings and structures	(24,353)	(662)	—	—	(25,015)
Reservoirs	(9,969)	(665)	—	—	(10,634)
Boiler plant equipment	(635)	(3)	—	—	(638)
Pumping equipment	(8,532)	(197)	—	—	(8,729)
Purification basins and equipment	(14,853)	(839)	—	—	(15,692)
Water mains, lines, and accessories	(55,093)	(1,554)	152	—	(56,495)
Equipment	(12,235)	(739)	58	—	(12,916)
Motor vehicle equipment	(6,499)	(343)	368	—	(6,474)
Total accumulated depreciation	<u>(132,169)</u>	<u>(5,002)</u>	<u>578</u>	<u>—</u>	<u>(136,593)</u>
	<u>146,450</u>	<u>(2,635)</u>	<u>(204)</u>	<u>603</u>	<u>144,214</u>
Capital assets not being depreciated:					
Land	1,238	—	—	—	1,238
Construction in progress	4,070	397	—	(603)	3,864
Total capital assets not being depreciated	<u>5,308</u>	<u>397</u>	<u>—</u>	<u>(603)</u>	<u>5,102</u>
	<u>\$ 151,758</u>	<u>(2,238)</u>	<u>(204)</u>	<u>—</u>	<u>149,316</u>

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

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(Dollars in thousands)

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

All employees of the Water Division are covered by the Employees' Retirement System of the City of St. Louis, Missouri (the Employees' System), a cost-sharing, multiple-employer, and public defined benefit pension plan (the Plan).

(a) Plan Description

The Plan is administered by a separate Board of Trustees as provided by Missouri state statute and implemented by applicable City ordinance. All employees become members 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 supplementary information. That report may be obtained by writing to the Employees' Retirement System of the City of St. Louis, Missouri; 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. Employees may retire and receive a reduced benefit after age 60 with five years of creditable service; after 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%.

The Deferred Retirement Option Plan (DROP) 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 as the normal retirement benefits are. The DROP account earns interest at the actuarial valuation rate of return and 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.

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June 30, 2012

(Dollars in thousands)

Employer contribution rates are established annually by the Board of Trustees based on an actuarial study. Deductions from plan net assets are financed from plan additions. The Board of Trustees established the required employer contributions rate based on active member payroll of 12.69% effective October 1, 2010.

At September 30, 2011, the actuarial accrued liability of the Employees' System was \$841,763 and the actuarial value of assets was \$661,932. However, a determination of the actuarial status is not made for individual funds.

Employees who became members of the Employees' System prior to October 14, 1977, and continued to make contributions, may make voluntary contributions to the 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. These voluntary contributions vest immediately.

(c) ***Annual Pension Cost and Net Pension Obligation***

The Water Division's annual pension cost and net pension obligation to the Employees' System, as allocated by the City, for the year ended June 30, 2012 are as follows:

Annual required contribution	\$	1,739
Interest on net pension obligation		116
Adjustment to annual required contribution		(128)
Annual pension cost		1,727
Contributions made		(1,733)
Decrease in net pension obligation		(6)
Net pension obligation, beginning of year		1,450
Net pension obligation, end of year	\$	1,444

In fiscal year 2008, the City of St. Louis Municipal Finance Corporation issued \$140,030 in Taxable Leasehold Revenue and Refunding Bonds Series 2007 (Pension Funding Project) of which \$46,700 was used to fund the Employees' System. While the Water Division is not legally responsible for these bonds, \$3,269 of the bond proceeds contributed to the Employees' System were allocated to the Water Division. As of June 30, 2012, the amount of \$54 is due on June 30, 2013. The amount of \$3,117 is reflected as an other noncurrent liability to the City in the financial statements and is payable to the City by June 30, 2037.

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

Date of actuarial valuation	October 1, 2011
Actuarial cost method	Projected unit credit actuarial cost method
Amortization method	Level dollar amount for unfunded liability, open
Remaining amortization period	30 years as of October 1, 2011
Asset valuation method	5-year smoothed market
Inflation rate	3.125%
Investment rate of return	8.000%
Projected salary increases	Varies by age, ranging from 3.500% to 7.017%
Cost of living adjustments	3.125% simple with a 25% lifetime cap

(d) Trend Information

Fiscal year	Three-year trend information		
	Annual pension cost (APC)	Percentage of APC contributed	Net pension obligation
2012	\$ 1,727	100.35%	\$ 1,444
2011	1,653	101.27	1,450
2010	1,650	99.69	1,471

(6) Change in Noncurrent Liabilities

The following table shows the changes in noncurrent liabilities for the fiscal year ended June 30, 2012:

	Balance June 30, 2011	Additions	Reductions	Balance June 30, 2012	Due within one year
Revenue bonds payable (see note 7)	\$ 16,000	11,480	(16,000)	11,480	3,895
Net pension obligation (see note 5)	1,450	1,727	(1,733)	1,444	—
Customer deposits	1,745	33	—	1,778	—
Other liability to the City of St. Louis, Missouri (see note 5)	3,171	—	(54)	3,117	—
Other noncurrent liability	106	—	(106)	—	—
Accrued vacation, and sick time benefits	3,340	8	—	3,348	1,711
Unamortized discounts and deferrals	(13)	—	13	—	—
Total	\$ 25,799	13,248	(17,880)	21,167	5,606

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Notes to Basic Financial Statements

June 30, 2012

(Dollars in thousands)

(7) Water Revenue Refunding Bonds

Water revenue bonds outstanding at June 30, 2012 are payable solely from and secured by, a pledge of net revenues from the operation of the Water Division and are as follows:

Series 2011 Water Revenue Refunding Bonds, 1.50%, payable in varying amounts through July 1, 2014	\$	11,480
Less current maturities		(3,895)
	\$	7,585

(a) Series 1998 Water Revenue Refunding Bonds

In December 1998, the Water Division issued \$29,225 in Water Revenue Refunding Bonds (Series 1998 Bonds) with an average interest rate of 4.56%. On October 31, 2011, all Series 1998 Bonds were fully redeemed.

(b) Series 2011 Water Revenue Refunding Bonds

In September 2011, the Water Division issued \$11,480 in Water Revenue Refunding Bonds (Series 2011 Bonds) with an interest rate of 1.50% to advance refund \$12,260 of the outstanding Series 1998 Bonds, maturing on July 1, 2014. The net proceeds of \$11,273 (after the subtraction of payment of \$207 in issuance costs) were deposited in an irrevocable trust with an escrow agent. The net proceeds and the balance of \$1,207 from the Series 1998 Debt Service Reserve Fund, totaling \$12,480, provided payment on the \$12,260 principal of the Series 1998 Bonds. As a result, Series 1998 Bonds were considered to be defeased and the liability for those bonds has been removed from the basic financial statements. At June 30, 2012, no defeased Series 1998 Bonds remain outstanding.

(c) Debt Service Requirements

Debt service requirements to maturity for the Series 2011 Bonds are as follows:

	Principal	Interest	Total
For the year ending June 30:			
2013	\$ 3,895	143	4,038
2014	3,765	85	3,850
2015	3,820	29	3,849
	\$ 11,480	257	11,737

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

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(An Enterprise Fund of the City of St. Louis, Missouri)

Notes to Basic Financial Statements

June 30, 2012

(Dollars in thousands)

(8) Transactions with the City

During the fiscal year ended June 30, 2012, the City charged the Water Division \$2,481 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, 2012, \$776 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 \$300 worth of service for the year ended June 30, 2012. 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.

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, 2012, \$155 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, 2012, the Water Division paid \$627, 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, 2012, the Water Division recorded amounts accrued or paid to the City of \$3,297. 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, 2012, \$307 was due to the City for gross receipts tax.

(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.

There is an aggregate of general liability claims outstanding of \$46, 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 loss is not probable.

At June 30, 2012, the Water Division has \$286 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 Public Facilities Protection Corporation (PFPC), an internal service fund of the City. The purpose of PFPC 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

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June 30, 2012

(Dollars in thousands)

self-insured workers' compensation claims liabilities and payments are recorded in PFPC. The Water Division reimburses PFPC for workers' compensation claims on a cost-reimbursement basis. At June 30, 2012, the Water Division owed the PFPC \$2,314 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 may terminate this contract in 2015. If the Water Division does not exercise this option, the contract will expire in 2025.

(12) Pledged Revenue

The Water Division has pledged specific revenue streams to secure the repayment of the Series 2011 Water Revenue Refunding Bonds (Series 2011 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, 2012, the current fiscal year principal and interest on the debt and the amount of pledged revenue earned during the current fiscal year:

Type of revenue pledged	General purpose for debt	Term of pledged commitment	Proportion of pledged revenue to revenue collected	Principal and interest for the year ended June 30, 2012	Revenue recognized for the year ended June 30, 2012
All Water Division revenues	Funding of various water division infrastructures	through 2015	8.8%	\$ 5,119	\$ 57,870

As of June 30, 2012, the remaining principal and interest requirement is \$11,737 payable through July 2014 (fiscal year 2015). The proportion of pledged revenue to revenue collected is estimated at 8.8% at June 30, 2012.

SUPPLEMENTARY INFORMATION

WATER DIVISION OF THE CITY OF ST. LOUIS, MISSOURI

(An Enterprise Fund of the City of St. Louis, Missouri)

Detailed Schedule of Certain Operating Expenses

Year ended June 30, 2012

(Dollars in thousands)

Supply and purification:	
Salaries and wages	\$ 4,087
Support services	2,510
Other services	1,181
Materials and supplies	507
Depreciation	11
Chemicals	5,516
	<u>13,812</u>
Less amounts capitalized or allocated to other accounts	(38)
Total supply and purification	<u>\$ 13,774</u>
Transmission and distribution:	
Salaries and wages	\$ 6,307
Support services	982
Other services	3,292
Materials and supplies	2,747
Depreciation	213
	<u>13,541</u>
Less amounts capitalized or allocated to other accounts	(4,874)
Total transmission and distribution	<u>\$ 8,667</u>
Power and pumping:	
Salaries and wages	\$ 1,910
Support services	1,572
Other services	236
Materials and supplies	286
Depreciation	9
Purchased power	2,850
	<u>6,863</u>
Administrative and general:	
Salaries and wages	\$ 1,270
Support services	147
Other services	564
Materials and supplies	61
Bad debt expense	824
	<u>2,866</u>
Less amounts allocated to other accounts	(13)
Total administrative and general	<u>\$ 2,853</u>
Customer accounting:	
Salaries and wages	\$ 1,188
Support services	545
Other services	23
Materials and supplies	71
Depreciation	15
	<u>1,842</u>
Less amounts capitalized or allocated to other accounts	(9)
Total customer accounting	<u>\$ 1,833</u>

See accompanying independent auditors' report.

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

Schedule of Water Revenue Bond Maturities

June 30, 2012

(Dollars in thousands)

Series 2011 Water Revenue Refunding Bonds:

<u>Maturity date</u>	<u>Interest rate</u>	<u>Principal amount</u>
July 1, 2012	1.5%	\$ 3,895
July 1, 2013	1.5	3,765
July 1, 2014	1.5	3,820
		<u>\$ 11,480</u>

See accompanying independent auditors' report.

WATER DIVISION OF THE CITY OF ST. LOUIS, MISSOURI

(An Enterprise Fund of the City of St. Louis, Missouri)

Schedule of Costs for Howard Bend Water Sales

Year ended June 30, 2012

(Dollars in thousands)

I. Direct costs of supply and purification – Howard Bend:	
Labor	\$ 2,060
Chemicals	2,223
Support services	929
Other materials and services	690
	<u>\$ 5,902</u>
II. Direct costs of power and pumping – Howard Bend:	
Power	\$ 1,307
Labor	579
Support services	414
Other materials and services	145
	<u>\$ 2,445</u>
III. General office expenses – power and pumping	<u>\$ 849</u>
IV. General office expenses – supply and purification	<u>\$ 605</u>
V. Reservoir maintenance	<u>\$ 32</u>
VI. Administration and finance costs:	
City services	\$ 851
Labor	1,270
Other services and miscellaneous	625
Support services	147
	<u>\$ 2,893</u>
VII. Specified labor costs:	
Transmission and distribution	\$ 6,307
Supply and purification	4,087
Power and pumping	1,910
Customer accounting	1,188
	<u>\$ 13,492</u>

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.