

Basic Financial Statements and Report of Independent Certified Public Accountants

**City of Dallas, Texas**

**Dallas Water Utilities**

**(An Enterprise Fund of the City of Dallas)**

September 30, 2018



**City of Dallas, Texas  
Dallas Water Utilities  
(An Enterprise Fund of the City of Dallas)**

**FINANCIAL STATEMENTS**

**For Fiscal Year Ended September 30, 2018**

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**GRANT THORNTON LLP**

1717 Main St., Suite 1800  
Dallas, TX 75201-4657

**D** +1 214 561 2300

**F** +1 214 561 2370

**S** [linkd.in/grantthorntonus](https://www.linkedin.com/company/grantthornton)  
[twitter.com/grantthorntonus](https://twitter.com/grantthorntonus)

**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

The Honorable Mayor and Members of City Council  
City of Dallas, Texas

**Report on the financial statements**

We have audited the accompanying statement of net position of the Dallas Water Utilities Fund (the "Fund"), an Enterprise Fund of the City of Dallas, Texas (the "City") as of September 30, 2018, and the related statements of revenues, expenses and changes in fund net position, and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements as listed in the table of contents.

**Management's responsibility for the financial statements**

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

**Auditor's responsibility**

Our responsibility is to express an opinion on these financial statements based on our 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 from material misstatement.

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

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Dallas Water Utilities Fund of the City of Dallas, Texas as of September 30, 2018, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of Matter**

As discussed in Note 1, the financial statements present only the Dallas Water Utilities Fund and do not purport to, and do not, present fairly the financial position of the City of Dallas, Texas, as of September 30, 2018, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Also as discussed in Note 1 to the financial statements, the City adopted new accounting and reporting guidance in 2018 for other post-employment benefits. Our opinion is not modified with respect to this matter.

**Other matters***Required supplementary information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 10, the Schedule of Changes in the City's Net Pension Liability and Related Ratios, the Schedule of City Contributions to Pension Plans, Notes to the Schedule of City Contributions to Pension Plans, and the Schedule of Changes in the City's Total Liability and Related Ratios - Other Postemployment Benefits on pages 52 through 57 be presented to supplement the basic financial statements. Such information, although not a required 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. This required supplementary information is the responsibility of management. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America. These limited procedures 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.



Dallas, Texas  
April 16, 2019

**City of Dallas, Texas**  
**Dallas Water Utilities**  
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MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

September 30, 2018

As management of the Dallas Water Utilities ("DWU"), an enterprise fund of the City of Dallas, Texas ("City"), we offer readers of the financial statements this narrative overview and analysis of the financial activities of the DWU for the fiscal year ended September 30, 2018. The DWU's management's discussion and analysis is designed to: (1) assist the reader in focusing on significant issues; (2) provide an overview of the DWU financial activity; (3) identify changes in the DWU's financial position (its ability to address the next and subsequent year's challenges); and (4) identify issues or concerns. We encourage readers to consider the information presented here in conjunction with the accompanying basic financial statements. All dollar amounts, unless otherwise indicated, are expressed in thousands.

**FINANCIAL HIGHLIGHTS**

- The assets and deferred outflows of resources of the DWU exceeded the liabilities and deferred inflows of resources at the close of the 2018 fiscal year by \$2.7 billion and in the 2017 fiscal year by \$2.6 billion (net position). The unrestricted net position deficit balance increased by \$19.8 million from \$2.1 million in 2017 to \$21.9 million in 2018.
- The DWU total net position increased by \$128.8 million in fiscal year 2018 and increased by \$123 million in fiscal year 2017. This represents an increase of \$5.8 million in the net increase in net position from 2017 to 2018. Operating revenues increased \$36.2 million, primarily due to increases in customer charges from a 1.6 percent retail water and wastewater rate increase and a 7.2 percent wholesale rate increase. Capital contributions from developers also increased \$21 million. Operating expenses and interest expenses increased \$5.1 million and \$42.6 million, respectively, from 2017 to 2018.
- The DWU revenue bonds increased \$117.1 million (net of premiums and discounts) from 2017 to 2018. DWU issued Waterworks and Sewer System Revenue Refunding Bonds Series 2018A and Series 2018B of \$66 million in May 2018. Additionally, DWU issued Waterworks and Sewer System Revenue Refunding Bonds Series 2018C of \$153 million in revenue refunding bonds with a premium of \$11.2 million in September 2018.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

The DWU basic financial statements are comprised of three components: 1) management's discussion and analysis, 2) financial statements, and 3) notes to the basic financial statements.

**City of Dallas, Texas**  
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MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

September 30, 2018

**OVERVIEW OF THE FINANCIAL STATEMENTS - Continued**

Financial Statements

The financial statements are designed to provide readers with a broad overview of the DWU's finances, in a manner similar to a private-sector business and are made up of the statement of net position, statement of revenues, expenses, and changes in fund net position and statement of cash flows.

These statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

The statement of net position presents information on all of the DWU assets and deferred outflows of resources and liabilities and deferred inflows of resources, with the difference between these reported as net position. The DWU follows the utility method for reporting statement of net position information. Under this method, capital assets appear first, followed by current assets, other noncurrent assets and deferred outflows of resources. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the DWU is improving or deteriorating. Other non-financial factors should also be taken into consideration, such as changes in the DWU customer base and the condition of the DWU infrastructure (i.e., water and wastewater lines, mains, etc.), to assess the overall health or financial condition of the DWU.

The statement of revenues, expenses, and changes in fund net position presents information showing how the DWU net position changed during the fiscal year. All changes in net position are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., revenues earned but unbilled and earned but unused compensated absences).

The statement of cash flows reflects changes to the beginning cash and cash equivalent balance. Cash flows are categorized into operating, non-capital financing, capital and related financing, and investing activities.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes can be found immediately following the financial statements.

**City of Dallas, Texas**  
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MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

September 30, 2018

**FINANCIAL ANALYSIS**

Current assets increased by \$61.0 million from \$470.3 million to \$531.3 million, primarily from an increase in cash and cash equivalents related to increased retail and wholesale rates, combined with increases in cash and cash equivalents held for construction projects, and cash and investments held for future debt service. Non-current assets increased by \$20.5 million, primarily as a result of an increase in cash and cash equivalents held by escrow agent for construction project, offset mainly by a decrease in future pipeline capacity rights.

Capital assets, net of depreciation, increased \$166.3 million, mainly due to improvements and additions to the water and wastewater system.

Revenue bonds and pension obligation bonds increased \$115.6 million, due to the issuance of \$66 million of revenue refunding bonds Series 2018A and 2018B, and \$153 million in revenue refunding bonds Series 2018C with a premium of \$11.2 million, net accretion on capital appreciation bonds of \$842 thousand, offset by principal payments of \$96.5 million and premium amortization of \$18.8 million. Commercial paper decreased \$18.5 million, mainly due to the issuance of revenue bonds to refund outstanding commercial paper.

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**City of Dallas, Texas**  
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MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

September 30, 2018

**FINANCIAL ANALYSIS - Continued**

**Table 1**  
**Condensed Statement of Net Position**  
**(In thousands)**

	2018	2017*
Current and other noncurrent assets	\$ 872,174	\$ 790,682
Capital assets, net	5,200,358	5,034,104
Deferred outflows of resources	<u>142,910</u>	<u>254,881</u>
Total assets and deferred outflows of resources	6,215,442	6,079,667
Current liabilities	241,942	236,606
Long-term debt	2,893,814	2,813,940
Other long-term liabilities	249,251	250,674
Deferred inflows of resources	<u>139,002</u>	<u>186,626</u>
Total liabilities and deferred inflows of resources	3,524,009	3,487,846
Net position:		
Net investment in capital assets	2,463,526	2,346,196
Restricted	249,840	247,723
Unrestricted	<u>(21,933)</u>	<u>(2,098)</u>
Net position	<u>\$2,691,433</u>	<u>\$2,591,821</u>

\* The information for fiscal year 2017 was not restated as a result of implementing Governmental Accounting Standards Board Statement No.75 "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions" because the information was not available. See Note 1, New Accounting Pronouncements.

The largest portion of the DWU net position reflects its investments in capital assets (e.g., land, building, equipment, improvements, construction in progress and infrastructure), less any debt used to acquire those assets that is still outstanding. DWU uses these capital assets to provide service to customers; consequently, these assets are not available for future spending. Although DWU investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

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MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

September 30, 2018

**FINANCIAL ANALYSIS - Continued**

An additional portion of DWU's net position, 9.3 percent, represents resources that are subject to external restrictions such as sinking fund balances which include accrued amounts of principal and interest for debt service purposes, the reserve fund to be used for any future debt service payments in case the sinking fund is not appropriately funded and the prepaid escrow for the water authority settlement. The unrestricted net position deficit balance increased by \$19.8 million from \$2.1 million to \$21.9 million, primarily from an increase in cash and cash equivalents, combined with a decrease in deferred outflows of resources related to pensions and deferred loss on refunding, offset mainly by a decrease in deferred inflows of resources related to pensions.

Analysis of DWU Operations

Net position increased \$128.8 million in 2018, which represents an increase of \$5.8 million from the increase in net position for 2017. The increases in net position was primarily due to revenues exceeding expenses for the fiscal year, as well as increases in contributions from developers. Revenues from sale of water accounted for \$414.5 million and revenues from the treatment of wastewater accounted for \$254.1 million. Total revenues increased \$17.4 million in 2018 over 2017, compared to an increase from 2016 to 2017 of \$47.5 million. Retail water and wastewater rates increased 1.6 percent and wholesale rates increased 7.2 percent in fiscal year 2018. Other income decreased \$23.2 million, as a result of a legal settlement agreement with a water authority during 2017. Total operating expenses increased \$5.1 million in 2018. Loss on property disposal decreased \$18.9 million and interest expense on bonds and notes increased \$42.6 million. Personnel expenses decreased \$16.5 million mostly due to a decrease in pension expense, which is included in personnel expenses. Supplies and materials expense increased \$12.7 million, primarily due to an increase in payments of operation and maintenance costs to a water authority, and an increase in supplies and repairs of wastewater mains.

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MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

September 30, 2018

**FINANCIAL ANALYSIS - Continued**

**Table 2**  
**Changes in Fund Net Position**  
**(In thousands)**

	<u>2018</u>	<u>2017*</u>
Revenues:		
Operating revenues	\$ 668,624	\$ 632,469
Investment income	7,774	3,296
Other income	<u>-</u>	<u>23,204</u>
Total revenues	676,398	658,969
Expenses:		
Personnel services	115,487	131,954
Supplies and materials	85,833	73,128
Other operation and maintenance	122,021	120,149
Depreciation and amortization	123,315	116,375
Interest expense	106,064	63,479
Loss on property disposal	<u>318</u>	<u>19,223</u>
Total expenses	553,038	524,308
Income before capita contributions and transfers	123,360	134,661
Capital contributions	32,805	11,815
Transfers in from other city funds	9	603
Transfers out to other city funds	<u>(27,346)</u>	<u>(24,068)</u>
Change in net position	128,828	123,011
Net position, beginning of year (restated)	<u>2,562,605</u>	<u>2,468,810</u>
Net position, end of year	<u>\$2,691,433</u>	<u>\$2,591,821</u>

\* The information for fiscal year 2017 was not restated as a result of implementing Governmental Accounting Standards Board Statement No.75 "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions" because the information was not available. See Note 1, New Accounting Pronouncements.

**City of Dallas, Texas**  
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MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

September 30, 2018

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

Capital Assets

During the current fiscal year, DWU had \$5.2 billion invested in a broad range of capital assets net of accumulated depreciation, including water and sewer lines, mains, pump stations, buildings and vehicles. This amount represents a net increase (including additions, deductions and depreciation) of \$166.3 million, or 3.3 percent, over the prior fiscal year. The current fiscal year included project awards related to water and wastewater treatment plant expansion and improvement.

Some of the major projects attributable to this increase include:

- \$48 million Elm Fork Residuals/Sludge Handling Equipment;
- \$28 million Cadiz Relief Sewer;
- \$12 million Water and Waste Water Construction Phase II;
- \$11 million Waste Water Treatment Plant Effluent Rehabilitation; and
- \$11 million Elm Fork Treatment Plant – Clean Onsite Lagoons.

During 2012, the City entered into the Water Transmission Facilities Agreement with the Tarrant Regional Water District (TRWD) to jointly participate in the design, construction, financing and operation of water transmission facilities capable of delivering additional raw water supply to the Dallas Fort/Worth Metroplex. This will also help to ensure the continued availability of a reliable water supply for their respective customers at the least cost. The TRWD issued bonds to construct the project, \$474 million of which are being used to fund the DWU portion of the project. At September 30, 2018, DWU has recorded an intangible asset in progress (included in construction in progress) of \$410 million, including capitalized interest recorded in prior years. The remaining \$116 million in unspent proceeds held by TRWD were recorded in other noncurrent assets.

Water supply is now available to the City from six surface water impoundments and from water in the Elm Fork of the Trinity River. The City has obtained most of its water supply through contractual agreements with surface reservoir operating entities. DWU provides treated water to its customers within the City on a “retail” basis. Treated and untreated water is provided on a “wholesale” basis to other cities and governmental entities outside of Dallas. A small portion of the City’s wastewater is treated by the Trinity River Authority.

Debt

At year-end, DWU had \$2.5 billion in revenue bonds (including premiums of \$190.1 million) outstanding. This represents a 5 percent increase from fiscal year 2017. The DWU share of pension obligation bonds was \$67 million (including premium of \$20.3 million) plus \$30 million of accreted interest.

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MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

September 30, 2018

**CAPITAL ASSETS AND DEBT ADMINISTRATION – Continued**

In May 2018, Dallas Water Utilities issued Waterworks and Sewer System Revenue Refunding Bonds Series 2018A and Series 2018B of \$66 million and interest rates ranging from 0.02 percent to 1.70 percent. Final maturity will occur on October 1, 2047. The bonds were issued to fund capital construction projects.

In September 2018, Dallas Water Utilities issued Waterworks and Sewer System Revenue Refunding Bonds Series 2018C of \$153 million with a premium of \$11.2 million and interest rates ranging from 4.00 percent to 5.00 percent. Final maturity will occur on October 1, 2047. The bonds were issued to refund outstanding commercial paper used by Dallas Water Utilities to fund capital construction projects.

The DWU Waterworks and Sewer System Revenue Refunding and Improvement Bonds' underlying ratings are Aa1 by Moody's Investors Service, AAA by Standard & Poor's, and AA+ with Fitch. See Note 5 for additional information.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The FY 2018-19 budget of \$665,491,395 and planned FY 2019-20 budget of \$685,052,543 will continue to operate and maintain: 1) three water treatment plants, pump stations, storage and fire protection, and 4,955 miles of mains, providing 144 billion gallons of drinking water annually to 2.5 million people in Dallas and 23 customer cities, and 2) two wastewater treatment plants, laboratories, and 4,022 miles of wastewater mains to provide treatment of 65 billion gallons of wastewater annually for Dallas and 11 customer cities while meeting all water and wastewater regulatory requirements.

The budgets will manage capital improvement projects from inception through startup, ensure the City has water now, and in the future, and provide for water meter reading, billing, collection, and customer service activities for more than 300,000 accounts monthly.

With the multitude of water challenges across Texas, the City will continue to focus on maintaining infrastructure, conserving resources, and providing for future needs through replacement of aged water and wastewater mains, improve reliability, water quality, and increased capacity at water treatment plants, continue water conservation efforts, and the TRWD integrated pipeline project to connect Lake Palestine to Dallas' water supply system to meet future needs. There was no retail water or wastewater rate increase for fiscal year 2018-19.

**CONTACTING THE DALLAS WATER UTILITIES FINANCIAL MANAGEMENT**

The financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the DWU finances and to demonstrate accountability for the money it receives. If you have questions about this report or need any additional financial information, contact the City Controller's Office, at City of Dallas, 1500 Marilla, Room 2BS, Dallas, Texas 75201.

**City of Dallas, Texas**  
**Dallas Water Utilities**  
**(An Enterprise Fund of the City of Dallas)**

STATEMENT OF NET POSITION

As of September 30, 2018  
(in thousands)

**ASSETS AND DEFERRED OUTFLOWS OF RESOURCES**

**CAPITAL ASSETS**

Capital assets, being depreciated	\$ 6,331,429
Less: accumulated depreciation and amortization	<u>(2,289,677)</u>
Net capital assets, being depreciated	4,041,752
Capital assets, not being depreciated	
Land	110,592
Construction in progress	<u>1,048,014</u>
Total capital assets, net	<u>5,200,358</u>

**CURRENT ASSETS**

Cash and cash equivalents	221,144
Accounts receivable, less allowance for uncollectible accounts (\$9,633)	72,807
Interest receivable	1,389
Inventories, at cost	13,504
Due from other city funds	268
Prepaid assets	5,939
Other assets	123
Restricted assets	
Customer assessment receivable	626
Debt service	
Cash and cash equivalents	146,313
Held for construction purposes	
Pooled cash and cash equivalents	51,314
Customer deposits	
Pooled cash and cash equivalents	<u>17,849</u>
Total current assets	<u>531,276</u>

**OTHER NONCURRENT ASSETS**

Future pipeline reserve capacity rights	116,033
Notes receivable from other city funds	5,967
Prepaid escrow	39,719
Restricted assets:	
Cash and cash equivalents held by escrow agent for construction projects	71,215
Cash and cash equivalents for future debt service	19,125
Investments for future debt service	<u>88,839</u>
Total other noncurrent assets	<u>340,898</u>
Total assets	<u>6,072,532</u>

**DEFERRED OUTFLOWS OF RESOURCES**

Deferred loss on refunding	55,653
Deferred outflows of resources related to pensions	86,676
Deferred outflows of resources related to other postemployment benefits	<u>581</u>
Total deferred outflows of resources	<u>142,910</u>
Total assets and deferred outflows of resources	<u>\$ 6,215,442</u>

See accompanying notes to basic financial statements.

**City of Dallas, Texas**  
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STATEMENT OF NET POSITION - CONTINUED

September 30, 2018  
(in thousands)

**LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION**

**LIABILITIES**

Long-term debt, less current maturities:	
Revenue bonds payable	\$2,372,298
Water transmission facilities financing agreement, payable from restricted assets	426,330
Pension obligation bonds payable	65,336
Accreted interest pension obligation bonds	<u>29,850</u>
Total long-term debt	<u>2,893,814</u>
Current liabilities payable from restricted assets:	
Water transmission facilities financing agreement	9,506
Construction accounts payable	65,457
Revenue bonds payable	101,803
Accrued interest payable	<u>44,050</u>
Total current liabilities (payable from restricted assets)	<u>220,816</u>
Current liabilities payable from current assets:	
Accrued payroll payable	1,132
Accounts payable	12,330
Compensated absences payable	5,820
Pension obligation bonds payable	1,622
Accrued interest pension obligation bonds	<u>222</u>
Total current liabilities (payable from current assets)	<u>21,126</u>
Other long-term liabilities:	
Customer deposits, payable from restricted assets	17,849
Arbitrage rebate	106
Compensated absences payable	5,843
Net pension liability	163,780
Other postemployment benefits	58,707
Customer and developer construction advances	<u>2,966</u>
Total other long-term liabilities	<u>249,251</u>
Total liabilities	<u>3,385,007</u>

**DEFERRED INFLOWS OF RESOURCES**

Deferred inflows of resources related to pension	136,716
Deferred inflows of resources related to other postemployment benefits	<u>2,286</u>
Total deferred inflows of resources	<u>139,002</u>
Total liabilities and deferred inflows of resources	<u>3,524,009</u>

**NET POSITION**

Net investment in capital assets	2,463,526
Restricted:	
Revenue bond requirements	210,121
Prepaid escrow	39,719
Unrestricted	<u>(21,933)</u>
Total net position	<u>\$2,691,433</u>

See accompanying notes to basic financial statements.

**City of Dallas, Texas**  
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STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION

For the Year ended September 30, 2018  
(in thousands)

Operating revenues:		
Water		\$ 414,485
Wastewater		<u>254,139</u>
Total operating revenues		<u>668,624</u>
Operating expenses:		
Personnel services		115,487
Supplies and materials		85,833
Other operation and maintenance		122,021
Depreciation and amortization		<u>123,315</u>
Total operating expenses		<u>446,656</u>
Operating income		221,968
Non-operating income (expense):		
Investment income		7,774
Interest expense on bonds and commercial paper		(106,064)
Loss on property disposal		<u>(318)</u>
Total non-operating income (expenses)		(98,608)
Income before capital contributions and transfers		123,360
Capital contributions		32,805
Transfers in from other city funds		9
Transfers out to other city funds		<u>(27,346)</u>
Change in net position		128,828
Net position, beginning of year (restated – see Note 1)		<u>2,562,605</u>
Net position, end of year		<u>\$2,691,433</u>

See accompanying notes to basic financial statements.

**City of Dallas, Texas**  
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STATEMENT OF CASH FLOWS

For the Year ended September 30, 2018  
(in thousands)

Cash flows from operating activities:	
Cash received from customers	\$ 667,954
Cash payments to suppliers for goods and services	(82,564)
Cash payments to employees for services	(92,389)
Cash payments for contractual services	<u>(119,712)</u>
Net cash provided by operating activities	373,289
Cash flows from non-capital financing activities:	
Principal paid on pension obligation bonds	(1,678)
Interest paid on pension obligation bonds	(4,768)
Transfers from other funds	154
Transfers to other funds	<u>(27,346)</u>
Net cash used in non-capital financing activities	(33,638)
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(223,121)
Proceeds from obligation for revenue bonds	230,141
Principal paid on revenue bonds	(94,855)
Interest paid on bonds, notes and other obligations	(109,739)
Proceeds from sale of commercial paper notes	145,200
Retirement of commercial paper notes	<u>(163,700)</u>
Net cash used in capital and related financing activities	(216,074)
Cash flows from investing activities:	
Purchase of investments	(20,000)
Investment income	<u>7,984</u>
Net cash used in investing activities	<u>(12,016)</u>
Net increase in cash and cash equivalents	111,561
Cash and cash equivalents, beginning of year	<u>415,399</u>
Cash and cash equivalents, end of year	<u>\$ 526,960</u>

See accompanying notes to basic financial statements.

**City of Dallas, Texas**  
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STATEMENT OF CASH FLOWS - CONTINUED

For the Year ended September 30, 2018  
(In thousands)

Reconciliation of operating income to net cash provided by operating activities:

Operating income	<u>\$ 221,968</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	123,315
Change in assets and liabilities	
Increase in accounts and other receivables	(2,553)
Decrease in customer assessments receivable	3
Increase in inventories	(422)
Decrease in prepaid escrow	7,602
Increase in deferred outflows related to other postemployment benefits	(581)
Decrease in deferred outflows related to pensions contributions	104,608
Decrease in accounts payable	(3,911)
Decrease in accrued payroll	(3)
Decrease in compensated absences	(10)
Increase in allowance for doubtful accounts	1,445
Increase in customer deposits	435
Decrease in other postemployment benefits	(836)
Increase in customer construction and developer advances	2,309
Decrease in net pension liability	(32,456)
Increase in deferred inflows related to other postemployment benefits	2,286
Decrease in deferred inflows related to pension contributions	<u>(49,910)</u>
Total adjustments	<u>151,321</u>
Net cash provided by operating activities	<u>\$ 373,289</u>
Current Assets:	
Cash and cash equivalents	\$ 221,144
Cash and cash equivalents for current debt service	146,313
Held for construction purposes pooled cash and cash equivalents	51,314
Customer deposits pooled cash and cash equivalents	17,849
Cash and cash equivalents held by escrow agent for construction projects	71,215
Cash and cash equivalents for future debt service	<u>19,125</u>
Total cash and cash equivalents end of year	<u>\$ 526,960</u>
Noncash investing, capital, and financing activities:	
Capital contributions	\$ 32,805
Prepaid escrow	23,204
Change in fair value of non-pooled investments	(330)
Premium/discount amortization	7,638
Accretion on capital appreciation bonds	3,929
Amortization of deferred gain/loss on refunding	8,512

See accompanying notes to basic financial statements.

**City of Dallas, Texas**  
**Dallas Water Utilities**  
**(An Enterprise Fund of the City of Dallas)**

NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED

For the Year Ended September 30, 2018  
(In thousands except where indicated)

**NOTE 1 - FINANCIAL STATEMENT PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES**

Reporting Entity

The City of Dallas, Texas (“City”) is a municipal corporation incorporated under Article XI, Section 5 of the Constitution of the State of Texas (Home Rule Amendment). The City operates under the Council-Manager form of government and provides such services as are authorized by its charter to advance the welfare, health, comfort, safety, and convenience of the City and its inhabitants.

The accompanying financial statements include only Dallas Water Utilities (DWU), an enterprise fund of the City of Dallas, Texas (the City). The DWU financial statements are not intended to present the financial position or results of operations of the City. The City also administers other departments, whose operations are reflected in the Comprehensive Annual Financial Report of the City. However, certain disclosures are for the City as a whole, since such information is not available for the fund on a separate Fund basis (see Notes 2, 8, 11, 12, 13 and 14).

DWU provides water and wastewater services to customers within the city and to other nearby cities and governmental entities. Chapter XI, Section 14 of the Dallas City Charter requires all costs of service to be paid from revenues arising from customer service rates. This City Charter section also establishes that all customer receipts and revenues shall be used only to provide water and wastewater services, and to provide for any charges made by the City in lieu of ad valorem taxes or that would be due the City if the Water Utilities Department were not a city-owned public utility.

Basis of Accounting

The accounting policies of DWU, as reflected in the accompanying accrual-basis financial statements, conform to accounting principles generally accepted in the United States of America (“GAAP”) for local government enterprises as prescribed by the Governmental Accounting Standards Board (“GASB”). The DWU is accounted for using the economic resources measurement focus. Revenues are recognized when earned and expenses are recognized when a liability is incurred, regardless of the timing of related cash flow.

The preparation of financial statements in conformity with GAAP 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 year. Actual results could differ from those estimates.

Cash, Deposits and Investments

In accordance with City policies, DWU participates in the City’s pooled cash and investment program which is administered by the City Controller’s Office. A significant portion of cash and investments held by the City is pooled. The pooled cash and investment program of the City is operated under the provisions of City ordinance and a specific City investment policy. The policy states that the City shall invest cash balances over the anticipated amount needed to meet operating requirements. Investments are stated at fair value. The balance reported as “Cash and Cash Equivalents” represents the equity of the Fund in the pooled cash and investments of the City. The Fund’s share of the interest earnings of the pooled investments is determined by allocating interest to each of the participating funds based on average daily balances.

Long-term non-pooled investments are reported as investments on the statement of net position. Investments in U.S. government obligations and other investments are recorded at fair value based on quoted market prices (Note 2).

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NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED

For the Year Ended September 30, 2018  
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**NOTE 1 - FINANCIAL STATEMENT PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES - Continued**

Capital Assets

Capital assets include property, plant, equipment and improvements/infrastructure assets. Generally, equipment with an individual cost of at least \$5 thousand, infrastructure with a cost of at least \$25 thousand and buildings with a cost of at least \$50 thousand and an estimated useful life of more than one year, are capitalized. Purchased or constructed capital assets are stated at cost or at estimated historical cost if original cost is not available. Assets acquired by donation are recorded at acquisition value on the date received.

Depreciation and amortization are provided using the straight-line method over estimated useful lives as shown below, stated in the number of years by property.

Infrastructure and rights to water supply	50 to 100
Reservoirs and water rights	100
Buildings	10 to 50
Improvements other than buildings	10 to 100
Equipment	3 to 25
Utility property	33 to 75

For constructed property, capitalized costs include amounts applicable to construction for payroll, payroll-related costs, and general and administrative overhead.

Maintenance and repairs are charged to operations as incurred. Improvements which extend the useful lives of capital assets are capitalized.

Transactions with Other City Departments

Operating revenues include billings and charges to other City departments for water and wastewater services, for which other departments made payments of \$6.5 million during fiscal year 2018. Operating expenses include payments to other City departments of \$114.9 million in 2018, including health benefit payments for employees, office supplies, vehicle fuel and maintenance, communications and data services, programming and batch processing, street rental, and other miscellaneous City services. DWU also reimburses other City departments for other construction-related costs paid by those departments for DWU. Current assets and other non-current assets at September 30, 2018 include advances of \$5.9 million due from other City funds bearing original interest at rates of 4.25 percent to 5.20 percent, subject to change based on interest received on City investments. All other nonreciprocal transactions between funds which are not reimbursements and where the funds do not receive equivalent goods and services for the transactions are classified as transfers (i.e. payments in lieu of taxes).

Compensated Absences

The City's employees earn vacation, sick, and attendance incentive leave which may be used or accumulated up to certain amounts. Unused vacation and attendance incentive leave is paid upon death, retirement, or termination. Unused sick leave is reduced to a specified limit when paid upon retirement, certain terminations, or death.

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NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED

For the Year Ended September 30, 2018

(In thousands except where indicated)

**NOTE 1 - FINANCIAL STATEMENT PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES – Continued**

In accordance with the criteria established in the Codification of Governmental Accounting Standards, Section C60, “Compensated Absences,” a liability is recorded for vacation leave earned by employees attributable to past service and sick leave earned by employees attributable to past service only to the extent it is probable that such leave will result in termination pay. In addition, a liability has been recorded for certain salary related payments associated with the payment of accrued vacation and sick leave.

Defined Benefit Pension Plan

The City contributes, on behalf of its DWU employees, to a defined benefit pension plan administered by a legally separate entity, the Employees’ Retirement Fund. The primary functions of the pension entity are investment and benefit management activities.

Accounts Receivable

Accounts receivable includes billed and unbilled customer receivables at September 30, 2018. Unbilled receivables include estimated revenues for water and wastewater services provided but not yet billed at September 30.

Inventory

Inventory consists of construction and operating materials, which are valued at average cost and is recorded as an expense when consumed.

Prepaid Items

Prepaid items are payments made to vendors for services that will benefit periods beyond September 30, 2018. Prepaid items are recorded using the consumption method.

Operating Revenues and Expenses

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. The principal operating revenues of DWU are derived from treatment and supply of water, and treatment and collection of wastewater. Operating expenses for proprietary funds include the cost of services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Bond Premiums, Discounts, and Issuance Costs

In the DWU’s financial statements, bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable premium or discount. Issuance costs, except any portion related to prepaid insurance costs (if applicable), are recognized as an expense in the period incurred.

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NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED

For the Year Ended September 30, 2018  
(In thousands except where indicated)

**NOTE 1 - FINANCIAL STATEMENT PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES - Continued**

Restricted vs. Unrestricted

Restricted assets include debt service, investments for future debt service, cash held for construction purposes, cash held by escrow agent for future debt service, and customer deposits. Unrestricted assets can be used for any allowable purpose. When both restricted and unrestricted resources are available for use, it is the City's policy to use the restricted resources first and then unrestricted resources as they are needed.

Statement of Cash Flows

For the purpose of the Statement of Cash Flows, the Fund considers cash and cash equivalents and all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. DWU has the following items that qualify for reporting in this category.

- Deferred charges on refunding – A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. The amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.
- Pension contributions after measurement date – The pension contributions made from the measurement date of the pension plan to the current fiscal year end are deferred and will be recognized in the subsequent fiscal year.
- Net difference in projected and actual earnings on pension assets and difference between estimated and actual experience related to pensions – These are amortized as a component of pension expense over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the pension plan (active employees and inactive employees) determined as of the beginning of the measurement period.
- Difference between estimated and actual experience related to other postemployment benefits (OPEB) - These are amortized as a component of OPEB expense over a closed period equal to the average of the expected remaining service lives of all employees that are provided with benefits through the OPEB plan (active employees and inactive employees) determined as of the beginning of the measurement period.
- Changes in assumptions related to pensions and OPEB – These are amortized as a component of pension and OPEB expense over a closed period of five years.

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NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED

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**NOTE 1 - FINANCIAL STATEMENT PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES - Continued**

In addition to liabilities, the balance sheet and statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Fund has two items that qualify in this category. These items qualify as deferred inflows of resources related to pensions and OPEB. A deferred inflow is recorded in the Fund's statements of net position for the difference in expected and actual experience in the actuarial measurement of the total pension liability not recognized in the current year. The differences are amortized over the average remaining service life of all participants in the respective pension and OPEB plans and recorded as a component of pension expense beginning with the period in which they are incurred.

Also, changes in assumptions are amortized as a component of pension and OPEB expense over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions and benefits through the pension and OPEB plans (active employees and inactive employees) determined as of the beginning of the measurement period.

New Accounting Pronouncements

During fiscal year 2018, DWU adopted the following Governmental Accounting Standard Board ("GASB") Statements:

GASB Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions," was implemented as required by GASB during the fiscal year ended September 30, 2018. This Statement replaces the requirements of Statements No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended," and No. 57, "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, for OPEB." Statement No. 74, "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans," establishes new accounting and financial reporting requirements for OPEB plans. The implementation of GASB Statement No.75 resulted in a restatement of the Fund's net position at September 30, 2017 for the recording of the beginning total OPEB liability. The following table reflects the net effect of the restatement on the prior year statement of net position.

	Dallas Water Utilities
Net Position at 9/30/17, as previously reported	\$ 2,591,821
Prior Other Postemployment Benefit Liability Under GASB 45	30,327
Prior Other Postemployment Benefit Liability Under GASB 75	<u>(59,543)</u>
Net Position at 9/30/17, restated	\$ <u>2,562,605</u>

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NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED

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**NOTE 1 - FINANCIAL STATEMENT PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES - Continued**

GASB Statement No. 81, “Irrevocable Split-Interest Agreements,” was implemented by the City as required by GASB during fiscal year ended September 30, 2018. The objective of this statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The City did not have any irrevocable split-interest agreements for the year ended September 30, 2018, so the implementation of GASB Statement No. 81 did not result in any changes to the financial statements.

GASB Statement No. 85, “Omnibus 2017,” was implemented as required by GASB during the fiscal year ended September 30, 2018. This Statement addresses several different accounting and financial reporting issues identified by GASB during the implementation and application of certain GASB pronouncements. The implementation of this statement did not result in any changes to the financial statements.

GASB Statement No. 86, “Certain Debt Extinguishment Issues,” was implemented as required by GASB during the fiscal year ending September 30, 2018. This Statement improves consistency in accounting and financial reporting for in-substance defeasance of debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished, and notes to the financial statements for debt that is defeased in-substance. The implementation of this statement did not result in any changes to the financial statements.

GASB Statement No. 89, “Accounting for Interest Cost Incurred before the End of a Construction Period,” was implemented early for the fiscal year ended September 30, 2018. This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5-22 of Statement No. 62, “Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,” which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will be expensed and will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

The GASB has issued the following statements which will be effective in future years as described below:

GASB Statement No. 83, “Certain Asset Retirement Obligations,” will be implemented as required by GASB during the fiscal year ending September 30, 2019. This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. The City is currently evaluating potential changes to the financial statements as a result of the implementation of this statement.

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NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED

For the Year Ended September 30, 2018  
(In thousands except where indicated)

**NOTE 1 - FINANCIAL STATEMENT PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES - Continued**

GASB Statement No. 84, “Fiduciary Activities,” will be implemented as required by GASB during the fiscal year ending September 30, 2020. This Statement improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The City is currently evaluating potential changes to the financial statements as a result of the implementation of this statement.

GASB Statement No. 87, “Leases,” will be implemented as required by GASB during the fiscal year ending September 30, 2021. This Statement increases the usefulness of governments’ financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundation principle that leases are financings of the right to use an underlying asset. The City is currently evaluating potential changes to the financial statements as a result of implementation of this Statement.

GASB Statement No. 88, “Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements,” will be implemented as required by GASB during the fiscal year ending September 30, 2019. The objective of this statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowing and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The City is currently evaluating potential changes to the financial statements as a result of implementation of this Statement.

GASB Statement No. 90, “Majority Equity Interest – an amendment of GASB Statements No. 14 and No. 61,” will be implemented as required by GASB during the fiscal year ending September 30, 2020. The objective of this statement is to improve the consistency and comparability of reporting a government’s majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government’s holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments; or permanent fund. Those governments and funds should measure the majority equity interest at fair value. The City is currently evaluating potential changes to the financial statements as a result of implementation of this Statement.

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NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED

For the Year Ended September 30, 2018  
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**NOTE 2 - CASH, DEPOSITS, AND INVESTMENTS**

A summary of the carrying amount of cash on hand, deposits, and investments at September 30, 2018 is as follows:

	Cash and Pooled Investments with <u>City Treasury</u>
Deposits	\$ 55,341
Investments – cash and cash equivalents	165,803
Investments – restricted cash and cash equivalents	<u>394,655</u>
Total	<u>\$615,799</u>

DWU categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of an asset. Level 1 inputs are quoted prices in active markets for identical assets, Level 2 inputs are significant other observable inputs, and Level 3 inputs are significant unobservable inputs.

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NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED

For the Year Ended September 30, 2018  
(In thousands except where indicated)

**NOTE 2 - CASH, DEPOSITS, AND INVESTMENTS - Continued**

At September 30, 2018, the investments held for the DWU General and Investment Pool Programs are as follows:

	<u>Total</u>	<u>Fair Value Measurement Using</u>	
		<u>Quoted Prices</u>	<u>Significant</u>
		In Active	Other
		Markets for	Observable
		Identical Assets	Inputs (Level 2)
	<u>Total</u>	<u>(Level 1)</u>	<u>Inputs (Level 2)</u>
<u>Investments by Fair Value Level</u>			
Federal Agricultural Mortgage Corporation Notes	\$109,682	\$ -	\$109,682
Federal Farm Credit Bank Notes	58,477	-	58,477
Federal Home Loan Bank Notes	108,279	-	108,279
Federal Home Loan Mortgage Corporation Notes	61,788	-	61,788
Federal National Mortgage Association Notes	<u>51,654</u>	<u>-</u>	<u>51,654</u>
Total Investments by Fair Value Level	<u>\$389,880</u>	<u>\$ -</u>	<u>\$389,880</u>
<u>Investments Measured at Fair Value</u>			
Texas CLASS – Local Government Investment Pool	<u>70,888</u>		
<u>Investments Measured at the Net Asset Value (NAV)</u>			
Blackrock Fed Fund Money Market Fund	9,997		
Morgan Stanley Government Money Market Fund	9		
Invesco Money Market Fund	6,951		
First American Government Obligation Money Market Fund	<u>71,215</u>		
Total Investments Measured at Net Asset Value (NAV)	<u>88,172</u>		
<u>Investments Measured at Amortized Cost</u>			
LOGIC – Local Government Investment Pool	10,861		
TexasTERM – Local Government Investment Pool	219		
TexPool – Local Government Investment Pool	4		
TexPool Prime – Local Government Investment Pool	217		
TexSTAR – Local Government Investment Pool	<u>217</u>		
Total Investments Measured at Amortized Cost	<u>11,518</u>		
Total Investments	<u>\$560,458</u>		

**City of Dallas, Texas  
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NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED

For the Year Ended September 30, 2018  
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**NOTE 2 - CASH, DEPOSITS, AND INVESTMENTS - Continued**

The City invests in LOGIC, TexSTAR, Texas CLASS, TexPool, and Texas TERM, which are Local Government Investment Pools (LGIP) created under the Interlocal Cooperation Act, Texas Government Code Chapter 791, and the Public Funds Investment Act, Texas Government Code Chapter 2256. These two acts provide for the creation of LGIP's and authorize eligible governmental entities to invest their public funds and funds under their control through the investment pools. The LGIP's follow all requirements of the Public Funds Investment Act, including being rated by a nationally recognized rating agency, using amortized cost valuation, and, to the extent reasonably possible, stabilize at a \$1 net asset value.

J.P. Morgan Investment Management Inc. and First Southwest Company (a division of Hilltop Securities) serve as co-administrators for the TexSTAR & LOGIC programs under agreements with each pool's respective board of directors. The TexSTAR governing board is a five-member Board consisting of three representatives of employees, officers or elected officials of participating government entities, and one member designated by each of the co-administrators. In addition, TexSTAR has an Advisory Board composed of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool. The governing body of LOGIC is a five-member board of directors comprised of employees, officers or elected officials of participating government entities, or individuals who do not have a business relationship with LOGIC and are qualified to advise the pool. A maximum of two Advisory Board members represent the co-administrators of LOGIC.

Public Trust Advisors, LLC provides investment advisory services and administration and marketing services to Texas CLASS. Texas CLASS Board of Trustees oversees Texas CLASS. The Board is comprised of active members of the pool and elected by the Participants, guided by the Advisory Board. The Board is responsible for selecting the Administrator and Investment Advisors.

The Comptroller of Public Accounts for the State of Texas is the sole officer, director, and shareholder of the Texas Treasury Safekeeping Trust Company, which is authorized to operate TexPool and TexPool Prime. Pursuant to the TexPool Participation Agreement, administrative and investment services to the TexPool Portfolios are provided by Federated Investors, Inc., under an agreement with the State Comptroller, acting on behalf of the Trust Company. In addition, TexPool has an Advisory Board composed equally of participants in the TexPool Portfolios and other persons who do not have a business relationship with the TexPool Portfolios who are qualified to advise the TexPool Portfolios.

PFM Asset Management LLC serves as Investment Advisor and Administrator of TexasTERM. An Advisory Board is responsible for the overall management of the pool, including formation and implementation of its investment and operating policies. The members of the Advisory Board are local government officials elected by Texas TERM's investors.

Deposit and Investment Risk Disclosures of Funds with the City Treasurer

GASB Statement No. 40, "Deposit and Investment Risk Disclosures," requires disclosure information related to common risks inherent in deposit and investment transactions. Investments are subject to certain types of risks, including custodial credit risk, concentration of credit risk, credit risk, interest rate risk and foreign currency risk. Exposure of deposited funds and investment risk are disclosed in the following sections of this note.

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NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED

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**NOTE 2 - CASH, DEPOSITS, AND INVESTMENTS - Continued**

Custodial Credit Risk

Custodial credit is the risk that, in event of the failure of the counterparty, the City will not be able to recover the value of its deposit or collateral securities that are in the possession of an outside party. As of September 30, 2018, \$55,341 was fully collateralized and insured by U.S. Federal Agency securities and the Federal Deposit Insurance Corporation. The collateral pledged to the City is held in the City's name at the Bank of New York Mellon. The FDIC insures demand accounts up to \$250 thousand in the aggregate. At September 30, 2018, all deposits were either insured or collateralized.

Safekeeping of investment securities is provided by the City's depository and trust institutions. Securities are held in street name with the bank as nominee. As of September 30, 2018, the City's investments held by the counterparty, and not insured, are as follows:

<u>Security type</u>	<u>Fair value</u>
U.S. Agency Securities	\$389,880

Texas statutes and City policy authorize operating, capital projects, bond reserve and trust monies to be deposited in demand deposits, time deposits, or certificates of deposits. Texas statutes and City policy require all uninsured collected deposits to be fully collateralized.

Concentration of Credit Risk

Investments that individually represent 5 percent or more of net portfolio assets are stated below. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds and external investment pools are excluded.

<u>Agency and Securities by Issuer</u>	<u>Fair value</u>	<u>Percent of total Portfolio</u>
Federal Agricultural Mortgage Corporation Notes	\$109,682	19.57%
Federal Farm Credit Bank Notes	58,477	10.43%
Federal Home Loan Bank Notes	108,279	19.32%
Federal Home Loan Mortgage Corporation Notes	61,788	11.02%
Federal National Mortgage Association Notes	51,654	9.22%

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NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED

For the Year Ended September 30, 2018  
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**NOTE 2 - CASH, DEPOSITS, AND INVESTMENTS - Continued**

Credit Risk

The Public Funds Investment Act requires that investments shall be made in accordance with written policies approved at least annually by the governing body. Investment policies must address safety of principal, liquidity and yield, with primary emphasis on safety of principal. In accordance with this Policy, the City may invest in direct or guaranteed obligations of the U.S. Treasury, certain U.S. agencies and instrumentalities, and direct obligations of states and local governments with a credit rating no less than Aa3 or its equivalent; fully collateralized certificates of deposit and repurchase agreements; no-load money market mutual funds and local government investment pools with credit ratings no less than Aaa or its equivalent.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Money market mutual funds and local government investment pools in the City's portfolio are rated AAA by Standard & Poor's and/or Aaa by Moody's. U.S. Treasury Notes and Bills are obligations of the U.S. government and are not considered to have credit risk and thus are not rated ("NR"). Long-term bond ratings are used for the U.S. Government Agencies except for Federal Agricultural Mortgage Corporation ("FAMC") Notes. U.S. Government Agencies are direct obligations of the United States agencies, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of the United States agencies. Ratings for the City's portfolio are listed on the following table.

<u>Security Type</u>	<u>Fair value</u>	<u>Percent of total portfolio</u>	<u>S&amp;P/Moody's ratings</u>
Money market mutual funds and investment pools	\$170,578	30.44%	AAAm/Aaa
Federal Agricultural Mortgage Corporation Notes	109,682	19.57%	Not Rated
U.S. Agency securities	<u>280,198</u>	<u>49.99%</u>	AA+/Aaa
Total portfolio	<u>\$560,458</u>	<u>100.00%</u>	

Interest Rate Risk

In order to ensure the ability of the City to meet obligations and to minimize potential liquidation losses, the dollar-weighted average stated maturity of the Investment Pool shall not exceed 1.5 years. The weighted average maturity of the securities held in the City's portfolio at September 30, 2018 is as follows:

<u>Security type</u>	<u>Fair value</u>	<u>Weighted average maturity (days)</u>
Money market mutual funds	\$ 88,172	31
Local Government Investment Pools	82,406	49
U.S. Agency securities	<u>389,880</u>	<u>250</u>
Total portfolio	<u>\$560,458</u>	<u>196</u>

**City of Dallas, Texas  
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NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED

For the Year Ended September 30, 2018  
(In thousands except where indicated)

**NOTE 3 - ASSETS RESTRICTED FOR DEBT SERVICE**

Bond documents authorizing issuance of water and wastewater system revenue bonds and the related offering documents prescribe the timing and determination of amounts to be accumulated and maintained for debt service. These ordinances require that amounts be set aside in advance to provide for the next scheduled principal and interest payments. Such amounts are reflected in the accompanying statement of net position as current maturities of revenue bonds and accrued revenue bond interest. The ordinances also require that a “revenue bond reserve fund” be accumulated and maintained. If the reserve fund contains less than the future average annual principal and interest requirements of all outstanding revenue bonds, determined after each bond issue, the ordinances require equal monthly additions to the reserve fund in amounts which, after 60 months, will result in a reserve fund balance which is equal to the future average annual principal and interest requirements. At September 30, 2018, the reserve fund was in compliance with the ordinance requirements.

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**City of Dallas, Texas**  
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NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED

For the Year Ended September 30, 2018  
(In thousands except where indicated)

**NOTE 4 - CAPITAL ASSETS**

Capital asset activity for the year ended September 30, 2018 is as follows:

	<u>Balance,</u> <u>9/30/17</u>	<u>Additions</u>	<u>Transfers</u> <u>and</u> <u>Retirements</u>	<u>Balance,</u> <u>9/30/18</u>
Capital assets, not being depreciated:				
Land	\$ 106,824	\$ 3,768	\$ -	\$ 110,592
Construction in progress	<u>1,000,849</u>	<u>240,335</u>	<u>(193,170)</u>	<u>1,048,014</u>
Total capital assets, not being depreciated	<u>1,107,673</u>	<u>244,103</u>	<u>(193,170)</u>	<u>1,158,606</u>
Capital assets, being depreciated:				
Water rights	353,910	-	-	353,910
Buildings	524,565	-	-	524,565
Improvements other than buildings	81,849	2	-	81,851
Infrastructure	579,873	1,315	-	581,188
Equipment	560,244	51,026	(1,248)	610,022
Utility property	<u>3,995,288</u>	<u>186,611</u>	<u>(2,006)</u>	<u>4,179,893</u>
Total capital assets, being depreciated	<u>6,095,729</u>	<u>238,954</u>	<u>(3,254)</u>	<u>6,331,429</u>
Less accumulated depreciation for:				
Water rights	(120,452)	(3,539)	-	(123,991)
Buildings	(228,407)	(10,176)	-	(238,583)
Improvements other than buildings	(20,633)	(10,041)	-	(30,674)
Infrastructure	(252,560)	(2,251)	-	(254,811)
Equipment	(408,843)	(16,788)	1,243	(424,388)
Utility property	<u>(1,138,403)</u>	<u>(80,520)</u>	<u>1,693</u>	<u>(1,217,230)</u>
Total accumulated depreciation	(2,169,298)	(123,315)	2,936	(2,289,677)
Total capital assets being depreciated, net	<u>3,926,431</u>	<u>115,639</u>	<u>(318)</u>	<u>4,041,752</u>
Total capital assets, net	<u>\$ 5,034,104</u>	<u>\$ 359,742</u>	<u>\$(193,488)</u>	<u>\$ 5,200,358</u>

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NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED

For the Year Ended September 30, 2018  
(In thousands except where indicated)

**NOTE 5 - LONG TERM DEBT**

Water and wastewater system revenue bonds constitute obligations of the DWU, secured solely by a pledge of all revenues of the City's water and wastewater system (operated as "Dallas Water Utilities"), after deduction of reasonable operation and maintenance expenses. All DWU revenue bonds may be redeemed at the City's option, at par value, on or after the tenth annual serial maturity date.

DWU is also obligated to pay a proportionate share of the Pension Obligation Bonds issued by the City of Dallas.

Revenue bonds payable at September 30, 2018 include the following issues. Future long term liabilities and interest rates shown on the following pages are for bonds outstanding on September 30, 2018.

	Balance, 9/30/17 <u>(Restated)*</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>	Balance, 9/30/18
<u>Dallas Water Utilities</u>					
City of Dallas Waterworks and Sewer					
System Revenue Refunding and Improvement Bonds					
Series 2007	38,930	-	38,930	-	-
Series 2008	7,405	-	3,610	3,795	3,795
Series 2009A	1,083	-	715	368	368
Series 2009B	6,460	-	475	5,985	480
Series 2009C	69,138	-	5,180	63,958	5,225
Series 2010	119,510	-	7,050	112,460	7,760
Series 2011	158,950	-	12,045	146,905	12,640
Series 2012	302,230	-	12,565	289,665	19,200
Series 2013	148,525	-	2,935	145,590	3,040
Series 2015	598,325	-	3,245	595,080	3,410
Series 2016	537,815	-	8,105	529,710	43,095
Series 2017	171,540	-	-	171,540	2,790
Series 2018A	-	22,000	-	22,000	-
Series 2018B	-	44,000	-	44,000	-
Series 2018C	-	<u>152,965</u>	<u>-</u>	<u>152,965</u>	<u>-</u>
Total Revenue Bonds Payable	2,159,911	218,965	94,855	2,284,021	101,803
Add: Unamortized Premium	<u>197,041</u>	<u>11,176</u>	<u>18,137</u>	<u>190,080</u>	<u>-</u>
Total Revenue Bonds for Water Utilities	<u>2,356,952</u>	<u>230,141</u>	<u>112,992</u>	<u>2,474,101</u>	<u>101,803</u>
Pension Obligation Bonds	48,388	-	1,678	46,710	1,622
Add: Net Premium/Discount	20,925	-	677	20,248	-
Add: Accretion on Capital Appreciation Bonds	<u>29,008</u>	<u>3,929</u>	<u>3,087</u>	<u>29,850</u>	<u>-</u>
Total Water Utilities Bonds	<u>2,455,273</u>	<u>234,070</u>	<u>118,434</u>	<u>2,570,909</u>	<u>103,425</u>
Other Liabilities					
Commercial Paper Notes Payable	18,500	145,200	163,700	-	-
Compensated Absences Payable	11,673	5,627	5,637	11,663	5,820
Other Postemployment Benefits	59,543	4,345	5,181	58,707	-
Net Pension Liability	196,236	125,674	158,130	163,780	-
Other: Water Transmission Facilities Financing Agreement	445,954	-	10,118	435,836	9,506
Arbitrage Rebate	<u>-</u>	<u>106</u>	<u>-</u>	<u>106</u>	<u>-</u>
Total other liabilities	<u>731,906</u>	<u>280,952</u>	<u>342,766</u>	<u>670,092</u>	<u>15,326</u>
Total Long-Term Debt for Water Utilities	<u>\$3,187,179</u>	<u>\$515,022</u>	<u>\$461,200</u>	<u>\$3,241,001</u>	<u>\$118,751</u>

\* Other postemployment benefits were restated due to the implementation of GASB Statement No. 75 (See note 1)

**City of Dallas, Texas  
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NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED

For the Year Ended September 30, 2018  
(In thousands except where indicated)

**NOTE 5 - LONG TERM DEBT - Continued**

In May 2018, Dallas Water Utilities issued Waterworks and Sewer System Revenue Refunding Bonds Series 2018A and Series 2018B of \$66 million and interest rates ranging from 0.02 percent to 1.70 percent. Final maturity will occur on October 1, 2047. The bonds were issued to fund capital construction projects.

In September 2018, DWU issued Waterworks and Sewer System Revenue Refunding Bonds Series 2018C of \$153 million with a premium of \$11.2 million and interest rates ranging from 4.00 percent to 5.00 percent. Final maturity will occur on October 1, 2047. The bonds were issued to refund outstanding commercial paper used by DWU to fund capital construction projects.

At September 30, 2018, and during the year then ended, the City believes it was in compliance with the financial covenants of all authorizing ordinances for outstanding water and wastewater system revenue debt.

The pension obligation bonds are allocated between the City's governmental and enterprise funds. The numbers presented below include the Fund's portion of the total issue. Of the total issue, 18.78 percent is allocated to DWU.

DWU's pension obligation bonds outstanding as of September 30, 2018 are as follows:

	<u>Maturity</u>	<u>Rates</u>	<u>Amount</u>
Series 600	2035	3.24% to 5.19%	\$21,665
Series 601	2035	4.10% to 5.48%	10,747
Series 632	2024	0.295% to 4.66%	<u>14,298</u>
Total outstanding			<u>\$46,710</u>

Pension Obligation Bonds are paid through increased contributions to the City's Debt Service fund. Operating revenues from DWU operations and interest earned on the cash balance in the City's Debt Service fund are pledged for repayment of the debt. Revenues are transferred from DWU to the City's Debt Service fund to meet annual principal and interest obligations.

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NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED

For the Year Ended September 30, 2018  
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**NOTE 5 - LONG TERM DEBT - Continued**

The future principal and interest requirements of revenue bonds and pension obligation bonds attributed to DWU are shown on the table below:

Fiscal Year	Dallas Water Utilities					
	Revenue Bonds			Pension Obligation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2019	\$ 101,803	\$ 90,022	\$ 191,825	\$ 1,622	\$ 5,117	\$ 6,739
2020	105,560	90,109	195,669	1,610	5,322	6,932
2021	109,115	86,550	195,665	5,559	1,575	7,134
2022	114,210	82,735	196,945	6,081	1,281	7,362
2023	108,480	78,939	187,419	6,685	976	7,661
2024-2028	435,725	337,598	773,323	13,290	29,884	43,174
2029-2033	413,993	245,882	659,875	7,548	42,980	50,528
2034-2038	435,480	148,428	583,908	4,315	18,091	22,406
2039-2043	311,000	63,445	374,445	-	-	-
2044-2048	148,655	11,940	160,595	-	-	-
Total	<u>\$2,284,021</u>	<u>\$1,235,648</u>	<u>\$3,519,669</u>	<u>\$46,710</u>	<u>\$105,226</u>	<u>\$151,936</u>

Dallas Water Obligation for Water Transmission Facilities Financing Agreement

Tarrant Regional Water District (TRWD), a water control and improvement district and political subdivision of the State of Texas, issued Water Facilities Contract Revenue Bonds in February 2012 in the amount of \$131.9 million, in January 2014 in the amount of \$202.1 million, and in December 2015 in the amount of \$140 million. The bonds were issued to finance the DWU share of costs for designing, acquiring, constructing, improving, repairing, rehabilitating, and/or replacing water transmission facilities capable of delivering additional raw water supply to the respective customers of the DWU and TRWD (the Project). The Project is tentatively scheduled to be completed in 2025. The City's share of the total cost of the Project is estimated to be \$977.5 million. Upon completion of the Project, DWU will have reserved capacity rights in the amount of 150 million gallons per day. Depending on the timing of construction, additional bonds are expected to be issued throughout the construction period.

In order to ensure adequate funding from DWU for the payment of principal and interest, the City entered into a separate funding agreement with TRWD, a Water Transmission Facilities Financing Agreement (the Agreement). Under this Agreement, the City is obligated to make payments to TRWD for the principal and interest amounts associated with the bonds. The Agreement establishes through State statutes that those payments will be treated as operating and maintenance expenses. This interpretation of the treatment of payments to TRWD as operating and maintenance expenses is only being applied to the schedule of revenue bond coverage for the DWU and for purposes of establishing rates.

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NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED

For the Year Ended September 30, 2018  
(In thousands except where indicated)

**NOTE 5 - LONG TERM DEBT – Continued**

The Agreement establishes that TRWD shall own and operate the Project, subject to Dallas’ reserved capacity rights in the Project. The bonds are a special obligation of TRWD. Principal and interest are secured by and payable solely from payments to be received by TRWD from the City to the extent required and provided in the Agreement. The bonds do not constitute a debt or pledge of the faith and credit of the City and accordingly have not been reported in the accompanying financial statements. At September 30, 2018, the TRWD Water Facilities Contract Revenue Bonds outstanding were \$437 million.

The City has determined the obligation under the Agreement to be a liability to the extent that such obligations are for the payment of bonds issued to fund the DWU share of costs for the Project. The City has capitalized the development of an intangible asset, Pipeline Reserved Capacity Rights, in Construction in Progress for the actual Project costs incurred by TRWD. The unspent proceeds held by TRWD for future construction costs have been recorded in Other Noncurrent Assets – Future Pipeline Reserved Capacity Rights. The interest rates for the obligation range from 0.45 percent to 6.00 percent. The obligation will be amortized over a period of 30 years. The balance of the obligation for the Agreement was \$436 million at September 30, 2018.

The schedule of principal and interest payments required for the obligation is provided below:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 9,506	\$ 15,941	\$ 25,447
2020	10,660	17,081	27,741
2021	10,955	16,653	27,608
2022	11,285	16,204	27,489
2023	11,640	15,732	27,372
2024-2028	65,140	71,523	136,663
2029-2033	79,145	59,046	138,191
2034-2038	97,865	41,610	139,475
2039-2043	113,205	19,171	132,376
2044-2046	<u>26,435</u>	<u>1,206</u>	<u>27,641</u>
Total principal and interest	<u>\$435,836</u>	<u>\$274,167</u>	<u>\$710,003</u>

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NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED

For the Year Ended September 30, 2018  
(In thousands except where indicated)

**NOTE 5 - LONG TERM DEBT - Continued**

Commercial Paper Notes Payable

The commercial paper program constitutes an obligation subordinate to the Waterworks and Sewer System revenue bonds. Any advances made by credit providers for payments of commercial paper under the line of credit are secured by water and wastewater pledged revenues.

The commercial paper notes Series D are supported by two liquidity agreements through two banks. The liquidity agreements supporting the Sub-Series D-1 and Sub-Series D-2 notes are through State Street Bank and Trust Company and Bank of America N.A., respectively, and extend to January 8, 2020. The Sub-Series D-1 notes have an aggregate available principal amount not to exceed \$241.6 million, which includes \$225 million of principal together with approximately \$16.6 million of accrued interest for a maximum maturity date not to exceed 270 days at a rate of 10 percent per annum. The Sub-Series D-2 notes have an aggregate available principal amount not to exceed \$80.5 million, which includes \$75 million of principal together with approximately \$5.5 million of accrued interest for a maximum maturity date not to exceed 270 days at a rate of 10 percent per annum.

The commercial paper notes Series E are supported by a liquidity agreement with JPMorgan Chase Bank, N.A., and extend to September 30, 2019. The Series E notes have an aggregate available principal amount not to exceed \$322.2 million, which includes \$300 million of principal together with approximately \$22.2 million of accrued interest for a maximum maturity date not to exceed 270 days at a rate of 10 percent per annum.

During fiscal year 2018, \$145.2 million was issued and \$163.7 million was repaid. Upon maturity, the notes will be remarketed by the commercial paper dealers or extinguished with long-term debt. There was no outstanding balance for the commercial paper notes payable at September 30, 2018.

Defeasance of Debt

In current and prior years, DWU legally defeased certain revenue bonds by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments of the refunded bonds. Accordingly, the trust accounts and the defeased bonds are not included in DWU's basic financial statements.

As of September 30, 2018, DWU had a total of \$765 million defeased outstanding water and sewer revenue bonds. The following is a schedule of defeased bonds during the fiscal year:

	9/30/17	Additions	Deletions	9/30/18
Water and Sewer Revenue Bonds	\$770,920	\$ -	\$ 5,865	\$765,055

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NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED

For the Year Ended September 30, 2018  
(In thousands except where indicated)

**NOTE 6 - OTHER LONG-TERM OBLIGATIONS**

Other long-term obligations are as follows as of September 30, 2018:

	<u>Balance, beginning of year</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance, end of year</u>
Customer deposits, payable from restricted assets	\$17,414	\$2,625	\$2,190	\$17,849
Customer and developer construction advances	<u>657</u>	<u>3,289</u>	<u>980</u>	<u>2,966</u>
Total other long-term obligations	<u>\$18,071</u>	<u>\$5,914</u>	<u>\$3,170</u>	<u>\$20,815</u>

**NOTE 7 - COMMITMENTS**

At September 30, 2018, commitments under construction contracts in progress and operating encumbrances were outstanding in the following amounts:

Construction encumbrances	\$408,822
Operating encumbrances	<u>4,247</u>
Total encumbrances	<u>\$413,069</u>

For purposes of its water supply system, the City is contractually committed to pay a portion of the net operating and maintenance expenses of several reservoirs operated by other governmental agencies or authorities. The City is also contractually committed to pay a portion of the net operating and maintenance expenses of the Trinity River Authority's Regional Wastewater System (the "Authority"). The contract with the Authority provides in effect that amounts of capital obligation, interest, and operation and maintenance expenses vary with Dallas' proportionate share of total wastewater treated by the Authority's Central Regional Wastewater System.

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NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED

For the Year Ended September 30, 2018  
(In thousands except where indicated)

**NOTE 8 - CONTINGENCIES**

Pending Lawsuits and Claims

Various claims and lawsuits are pending against the City and its officers and employees acting in their official capacities (hereafter collectively “City” for purposes of Note 18 A). Those lawsuits and claims, excluding condemnation proceedings, which are considered “probable” and estimable are accrued as a liability, while those claims and judgments, excluding condemnation proceedings, which are considered “reasonably possible” are disclosed but not accrued.

In the opinion of the City Attorney, the potential loss resulting from all material pending lawsuits and claims, excluding condemnations proceedings, which are considered reasonably possible and estimable, is approximately \$1.16 billion as of September 30, 2018. Additionally, the City is a defendant in two lawsuits filed by police and fire-rescue officers alleging that current and past police and fire pay schedules were adopted in violation of a referendum approved by the voters in 1979. The two lawsuits, which are class actions are pending in Rockwall County. In August 2018, the City Council approved a settlement of the two Rockwall County lawsuits in the amount of \$173.3 million provided that the parties can mutually agree to the terms of the written settlement agreement.

At September 30, 2018, approximately \$182.4 million, including the \$173.3 million discussed in the previous paragraph, has been accrued in the Risk Fund as a liability for pending material claims and lawsuits, excluding condemnation proceedings, considered to be probable. In the opinion of the City Attorney, this is the total amount of all such pending claims and lawsuits which represent probable loss to the City.

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NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED

For the Year Ended September 30, 2018  
(In thousands except where indicated)

**NOTE 9 - DALLAS WATER UTILITIES PREPAID ESCROW**

On October 1, 1981, the City of Dallas purchased water supply rights for Lake Fork, a water source owned and operated by the Sabine River Authority (Authority), for approximately \$117 million. Lake Fork is located on Lake Fork Creek, a tributary of the Sabine River, in Wood, Hopkins, and Rains Counties, approximately 70 miles east of the City of Dallas. Financial obligations of the City's share of Lake Fork water supply rights were fully paid as of December 2004. The City now has a contract with the Authority for 74 percent of the water available from Lake Fork.

The City was required to pay the Authority for a pro rata share of the operation and maintenance costs associated with Lake Fork, which was approximately \$10.9 million in the fiscal year ended September 30, 2018. The pro rata share of the operation and maintenance costs owed to the Authority for the renewal of the Lake Fork contract was to be mutually negotiated with the Authority pursuant to the terms of the contract. Negotiation attempts with the Authority failed and in October 2014, the Authority unilaterally established a rate which would require the City to pay approximately an additional \$24 million annually for the water to which it is entitled. The City challenged the rate by filing petitions with the Public Utilities Commission of Texas (PUC) and district courts in Travis and Orange counties in Texas. The PUC ordered an administrative law judge to consider setting an interim rate while this dispute was pending.

On April 2, 2015, the administrative law judge ruled that the interim rate must be paid by the City of Dallas until the rate case was resolved. The rate was set by the Authority on a take-or-pay basis, without a cost escalator. This interim rate was retroactive to November 2, 2014. The amounts the City paid in accordance with the interim rate were expensed and deposited into an interest-bearing escrow account, established by the Authority, pending the final outcome of the rate case.

A settlement agreement was approved by City Council on October 11, 2017 and by the Authority Board of Directors on October 12, 2017.

The interest-bearing escrow account balance was \$68.7 million on September 30, 2017. Terms of the settlement agreement required that \$23.4 million be paid immediately from the escrow account as additional compensation to the Authority for the period November 2, 2014 through September 30, 2017. The remaining escrow amount of \$45.3 million at September 30, 2017, plus the accrued September escrow contribution of \$2 million (total \$47.3 million) will be used to offset future payments of additional compensation by the City to the Authority, until the escrow account balance is depleted, and has been recorded as Prepaid Escrow on the statement of net position. The escrow balance was \$39.7 million on September 30, 2018. The remaining balance is estimated to be fully depleted in five to six years.

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NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED

For the Year Ended September 30, 2018  
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**NOTE 10 - LEASES NOTE**

As Lessee

As lessee, DWU is committed under various leases for building and office space, data processing and communications equipment. These leases are considered for accounting purposes to be operating leases.

<u>Year ending September 30</u>	<u>Rental Payments</u>
2019	\$ 713
2020	717
2021	583
2022	583
2023	<u>340</u>
Minimum future rentals	<u>\$2,936</u>

As Lessor

As lessor DWU is also under several lease agreements whereby it receives revenues from leasing land, building and water front facilities. These revenue leases are considered for accounting purposes as operating leases.

<u>Year ending September 30</u>	<u>Rental Receipts</u>
2019	\$ 86
2020	46
2021	43
2022	41
2023	41
2024-2028	207
2029-2033	207
Thereafter	<u>2,738</u>
Minimum future rentals	<u>\$3,409</u>

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NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED

For the Year Ended September 30, 2018  
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**NOTE 11 - PENSION PLAN**

Plan Description

Employees' Retirement Fund (ERF): All full-time DWU employees participate in the contributory City Employees' Retirement Fund, a defined benefit, single employer pension plan ("the Plan"). The legal authority for this plan is Chapter 40A of the Dallas City Code. The fund is for the benefit of all eligible employees of the City, excluding firefighters and police officers. The fund is administered by a seven member board of trustees consisting of three persons appointed by the City Council who may be council members, three employees from different departments of the City who are elected by members of the retirement fund and who are members of the retirement fund, and the City Auditor. The ERF issues a stand-alone financial report which is available at: [www.dallaserf.org/recent-publications.html](http://www.dallaserf.org/recent-publications.html).

Benefits Provided

ERF provides retirement, disability and death benefits to its members in accordance with Chapter 40A of the Dallas City Code. All employees of the City are members except police officers, firefighters, elected officers, non-salaried appointee members of boards or commissions, part-time employees working less than one-half time, temporary employees, individuals working under contract, and individuals whose salaries are paid in part by another government agency. The plan consists of Tier A and Tier B members.

Members hired prior to January 1, 2017 (Tier A) have vested rights to retirement benefits after five years of service or to survivor benefits after two years of service. Benefits are based on credited service and the average monthly earnings for the three highest paid calendar years. Members of the Tier A are entitled to normal retirement pension at age 60; early retirement pension at age 55 if employed prior to May 9, 1972 or age 50 and age plus years of service total 78; service retirement pension at any age after 30 years of credited service and disability retirement pension as determined by the board of trustees. Cost of living adjustments for retirees are made each year on January 1 by adjusting the pension base by the percentage change of the consumer price index, not to exceed 5 percent.

Members hired after December 31, 2016 (Tier B) have vested rights to retirement benefits after five years of service or to survivor benefits after two years of service. Benefits are based on credited service and the average monthly earnings for the five highest paid calendar years. Members of the Tier B are entitled to normal retirement pension at age 65; early retirement pension with a reduced benefit prior to age 65 and age plus years of service total 80 and; service retirement pension at any age after 40 years of credited service and disability retirement pension as determined by the board of trustees. Cost of living adjustments for retirees are made each year on January 1 by adjusting the pension base by the percentage change of the consumer price index, not to exceed 3 percent.

Amendments to Chapter 40A of the Dallas City Code, other than provisions required to comply with federal law, may only be made by a proposal initiated by either the board of trustees of the ERF or the City Council which results in an ordinance approved by the board, adopted by the City Council, and approved by a majority of the voters voting at a general or special election.

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NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED

For the Year Ended September 30, 2018  
(In thousands except where indicated)

**NOTE 11 - PENSION PLAN - Continued**

Employees covered by benefit terms

At December 31, 2017, the following numbers of employees were covered by the benefit terms:

	<u>ERF</u>
Retirees and beneficiaries currently receiving benefits	7,042
Inactive members entitled to benefits but not yet receiving them	1,248
Current members	<u>7,838</u>
Total	<u>16,128</u>

Contributions

ERF: Chapter 40A of the Dallas City Code establishes contribution requirements. Changes to the contribution formula may only be made by a proposal initiated by either the board of trustees of the ERF or the City Council which results in an ordinance approved by the board, adopted by the City Council, and approved by a majority of the voters voting at a general or special election.

The City contributes 63 percent of the required contribution and the membership contributes 37 percent. The City's contribution rate covers both the debt service tied to the pension obligation bonds and the contributions to the Employees' Retirement Fund. Although the total contribution is actuarially determined each year, it is adjusted based on the following requirements of Chapter 40A: (1) the maximum contribution percentage of covered wages is 36 percent; (2) the maximum increase or decrease from one year to the next is 10 percent; and (3) the contribution rate changes only if the actuarial valuation develops a rate which differs from the prior rate by more than 300 basis points. The adjusted contribution as a result of Chapter 40A is the Current Adjusted Total Obligation Rate (CATOR). Contribution rates are 13.32 percent of covered wages for employees and 22.68 percent for the City for the City's fiscal year ended September 30, 2018. The City's contribution of 22.68 percent is divided into 14.40 percent cash to the Plan and 8.28 percent for debt service payments on the pension obligation bonds. For 2018, the City contribution was \$61 million.

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**City of Dallas, Texas  
Dallas Water Utilities  
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NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED

For the Year Ended September 30, 2018  
(In thousands except where indicated)

**NOTE 11 - PENSION PLAN - Continued**

Actuarial Assumptions

The total ERF pension liabilities in the December 31, 2017 actuarial valuations were determined using the following actuarial assumptions for the plan, applied to all periods included in the measurement:

	ERF
Inflation	2.75%
Salary Increases	3.25% to 6.25%, including inflation
Investment Rate of Return	7.75%
Mortality	<p><b>For actives:</b> Males - RP2000 Healthy Mortality Table for male employees, set forward 4 years. Females - RP2000 Healthy Mortality Table for female employees, set back 5 years.</p> <p><b>For healthy retirees:</b> Males - RP2000 Blue Collar Mortality Table for male annuitants, with a 109% multiplier and fully generational mortality using improvement Scale BB. Females - RP2000 Blue Collar Mortality Table for female annuitants, with a 103% multiplier and fully generational mortality using improvement Scale BB.</p> <p><b>For all disabled lives:</b> RP2000 Disabled Mortality Table for male annuitants, set forward one year.</p>
Cost of Living Adjustments	The percentage of change in the price index for October of the current year over October of the previous year, or the percentage of annual average change in the price index for the 12-month period ending with the effective date of the adjustment. The maximum COLA for Tier A retirees is 5%, and the maximum for Tier B retirees is 3%.
Long-term expected rate of return	Estimated using a building block methodology in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real return rates by the target asset allocation percentage and by adding expected inflation.

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NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED

For the Year Ended September 30, 2018  
(In thousands except where indicated)

**NOTE 11 - PENSION PLAN - Continued**

The target allocation and best estimates of arithmetic real rates of return (RROR) for the plan, by major asset class, are summarized in the following table:

<u>Asset Class</u>	<u>ERF</u>	
	<u>Target Allocations</u>	<u>Long-term BROR</u>
Domestic equity	15.0%	6.50%
International equity	15.0%	6.70%
Global equity	5.0%	6.70%
Low volatility global equity	10.0%	6.70%
Private equity	5.0%	9.40%
REITS	5.0%	5.40%
Private real assets	5.0%	4.80%
Investment grade fixed income	15.0%	3.65%
High yield fixed income	12.5%	5.35%
Credit opportunities	2.5%	9.00%
MLP's	<u>10.0%</u>	6.10%
Total	<u>100.0%</u>	

Discount Rate

ERF: The discount rate used to measure the total pension liability was 7.75 percent. This single discount rate was based on the expected rate of return on pension plan investments of 7.75 percent. The projection of cash flows used to determine the discount rate assumed that that (1) plan member contributions and City contributions will be made at the projected future contribution rates outlined in Chapter 40A of the Dallas City Code, under which employees contribute 37 percent of the CATOR; the City contributes 63 percent of the CATOR, reduced by the amount required to pay current debt service on the 2005 pension obligation bonds; (2) the ERF annually earns 7.75 percent on its market value of assets; and (3) the number of active members remains constant in the future. Based on those assumptions, the ERF 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 and the resulting single discount rate is 7.75 percent.

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NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED

For the Year Ended September 30, 2018  
(In thousands except where indicated)

**NOTE 11 - PENSION PLAN - Continued**

Changes in the Net Pension Liability

The following table shows the net pension liability as of December 31, 2017:

	Increase (Decrease)		
	Total	Plan	Net
	Pension	Fiduciary	Pension
	<u>Liability</u>	<u>Net</u>	<u>Liability</u>
		<u>Position</u>	
<u>Employees' Retirement Fund</u>			
Balances at 12/31/16	\$ <u>4,291,805</u>	\$ <u>3,352,043</u>	\$ <u>939,762</u>
Changes for the year:			
Service cost	81,178	-	81,178
Interest	325,620	-	325,620
Changes of assumptions	-	-	-
Differences between expected and actual experience	(59,066)	-	(59,066)
Contributions - City	-	58,966	(58,966)
Contributions - Employee	-	55,175	(55,175)
Net investment income	-	413,511	(413,511)
Benefit payments, including refunds of employee contributions	(261,690)	(261,690)	-
Administrative expense	-	(5,951)	5,951
Other changes	-	207	(207)
	<u>86,042</u>	<u>260,218</u>	<u>(174,176)</u>
Net changes			
Balances at 12/31/17	\$ <u>4,377,847</u>	\$ <u>3,612,261</u>	\$ <u>765,586</u>

The amount of net pension liability allocated to DWU was \$163,780.

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**City of Dallas, Texas**  
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NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED

For the Year Ended September 30, 2018  
(In thousands except where indicated)

**NOTE 11 - PENSION PLAN - Continued**

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

The following table presents the net pension liability of the City, calculated using the discount rates of 7.75 percent for ERF, as well as what the City's net pension liability would be if were calculated using discount rates that are 1-percentage-point lower (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current rates:

	1% Decrease	Current Discount Rate	1% Increase
ERF	\$ 1,281,029	\$ 765,586	\$ 334,560

Pension Plan Fiduciary Net Position

Detailed information about the fiduciary net position of the pension plan is available in the separately issued financial reports.

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

For the fiscal year ended September 30, 2018, DWU recognized pension expense of \$33,439 for ERF. At September 30, 2018, the City also reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	ERF	
	Deferred Outflows	Deferred Inflows
Differences between expected and actual experience	\$ -	\$ 73,597
Changes of assumptions	360,589	644,888
Net difference between projected and actual earnings on pension plan investments	-	14,442
Contributions subsequent to the measurement date	46,192	-
Total	\$406,781	\$732,927

**City of Dallas, Texas**  
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NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED

For the Year Ended September 30, 2018  
(In thousands except where indicated)

**NOTE 11 - PENSION PLAN - Continued**

Deferred outflows of resources in the amount of \$46,192 related to pension contributions in the ERF made subsequent to the measurement date will be recognized as a reduction of the net pension liability during the fiscal year ended September 30, 2018. Net deferred outflows and inflows of resources in the amount of \$372,338 related to the pension will be recognized in pension expense as follows:

Year Ending December 31:

2019	\$ 20,961
2020	(238,822)
2021	(119,500)
2022	<u>(34,977)</u>
Total	<u><u>\$ (372,338)</u></u>

The amount of deferred outflows of resources related to pensions allocated to DWU was \$86,676, and the amount of deferred inflows of resources related to pensions allocated to DWU was \$136,716.

**NOTE 12 - RISK MANAGEMENT - ESTIMATED CLAIMS AND JUDGEMENT PAYABLE**

The City is self-insured for all third-party general liability claims. Claims adjusting services are provided by the City's internal staff. Interfund premiums are based primarily upon the insured funds' claims experience and exposure and are reported as cost reimbursement interfund transactions. The liability for unpaid claims includes the effects of specific incremental claims, adjustment expenses and if probable and material, salvage and subrogation.

All known City property, primarily buildings and contents, is insured through commercial insurance policies, subject to a \$750 thousand deductible per loss occurrence. The amount of settlements have not exceeded the deductible loss per occurrence during the past three years.

The City is self-insured for workers' compensation claims that occurred prior to October 1, 1999. Effective October 1, 1999 through January 31, 2013, the City was insured for workers' compensation losses in excess of \$750 per occurrence. Effective February 1, 2013, the City was insured for workers' compensation losses in excess of \$1 million per occurrence. Effective February 1, 2016, the City is insured for workers' compensation losses in excess of \$1.5 million per occurrence. Claims adjusting services are provided by an independent "administrative services" contractor. Workers' compensation premiums are based primarily upon the insured funds' claims experience and exposure and are reported as cost reimbursement interfund transactions. The amount paid by DWU was \$1.2 million in fiscal year 2018.

All workers' compensation losses are accumulated in a clearing fund which is being reimbursed by the premiums collected. When losses exceed premiums, the deficiencies are prorated and supplemented by the various applicable funds. Accrued worker's compensation liability consists of incurred but not reported as well as unpaid reported claims of which \$37.4 million at September 30, 2018, is recorded in the risk funds of the City. Of this amount, \$7.2 million is estimated to be payable in the next fiscal year.

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NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED

For the Year Ended September 30, 2018  
(In thousands except where indicated)

**NOTE 12 - RISK MANAGEMENT - ESTIMATED CLAIMS AND JUDGEMENT PAYABLE - Continued**

The City maintains a group health insurance plan for employees and dependents which is self-insured by the City. The City also offers enrollment in one health maintenance organization as an alternative. Premiums are determined based on the annual budget. DWU expensed \$9.4 million in fiscal year 2018.

The City also maintains a group life insurance plan, which offers term-life and accidental death and dismemberment benefits for employees and dependents. The City is fully insured for employee term-life. Health claims and claims incurred but not reported that are probable and reasonably estimated are accrued at September 30, 2018, in the amount of \$8.3 million in the risk funds.

At September 30, 2018, the City estimates its general liability at \$190.0 million, of which \$181.2 million is estimated to be payable in the next fiscal year. The general liability includes \$7.6 million for automobile and \$182.4 million for probable claims and lawsuits.

Changes in the balances of claims liabilities during the past fiscal year are as follows:

	<u>Workers' Compensation</u>		<u>Health</u>		<u>General Liability</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Unpaid claims, beginning of year	\$36,486	\$35,416	\$ 7,817	\$ 7,183	\$79,754	\$20,448
Incurred claims, including incurred but not reported claims (IBNRs) and changes in estimates	11,222	18,718	84,941	74,090	176,516	68,773
Claim payments	(10,373)	(15,882)	(83,010)	(80,369)	(66,944)	(6,471)
Changes to prior year estimates (IBNR)	<u>39</u>	<u>(1,766)</u>	<u>(1,436)</u>	<u>6,913</u>	<u>677</u>	<u>(2,996)</u>
Unpaid claims, end of year	<u>\$37,374</u>	<u>\$36,486</u>	<u>\$ 8,312</u>	<u>\$ 7,817</u>	<u>\$190,003</u>	<u>\$79,754</u>

**NOTE 13 - OTHER POSTEMPLOYMENT BENEFITS**

Plan Description

In addition to pension benefits, the City provides certain healthcare and life insurance benefits for retired employees through various Council resolutions. The postemployment benefit plan is a single-employer plan administered by Cigna (pre-65 retirees) and UHC (post-65 retirees utilizing Medicare). Employees who are permanent, full-time employees are eligible to participate in the benefits at retirement. The City is self-insured for these programs. The City eliminated subsidization of the plan for individuals hired on or after January 1, 2010. No assets are accumulated in a trust that meets the criteria in GASB Statement 75.

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NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED

For the Year Ended September 30, 2018  
(In thousands except where indicated)

**NOTE 13 - OTHER POSTEMPLOYMENT BENEFITS – Continued**

Benefits Provided

For retired employees hired before January 1, 2010, the City pays on average \$508 (not in thousands) per month. The plan is closed to employees hired January 1, 2010 and thereafter. For pre-Medicare retirees who qualify and choose the City health plan, the City pays approximately 50 percent of the actuarial cost and the retiree pays the other 50 percent. Spouses of retirees, like active employees, pay 100 percent of premiums. There were 4,662 retired participants and surviving spouses in the health plan at September 30, 2018, the latest data used for this evaluation. Post-Medicare retirees are offered the active plans but must pay the full cost of coverage; alternatively, they are also offered several Medicare supplement plans along with a Medicare Part D prescription drug plan. The City subsidizes the Medicare supplement plans for the retirees but does not subsidize the dependent cost.

Employees Covered by Benefit Terms

At September 30, 2018, membership was as follows:

Inactive employees or beneficiaries currently receiving benefit payments	4,662
Active employees	<u>5,786</u>
Total participants	<u>10,448</u>

Total Other Post Employment Benefit Liability

The City's total OPEB liability of \$511,120 was measured as of September 30, 2018, and was determined by an actuarial valuation as of that date.

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**City of Dallas, Texas  
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NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED

For the Year Ended September 30, 2018  
(In thousands except where indicated)

**NOTE 13 - OTHER POSTEMPLOYMENT BENEFITS – Continued**

Actuarial Assumptions

The total OPEB liabilities in the September 30, 2018 actuarial valuations were determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless other specified:

	<u>Description</u>
Inflation	2.75%
Salary Increases	<p><b>Police:</b> 5.20% in service year 1 decreasing to 3.0% in service years 12 and beyond</p> <p><b>Fire:</b> 5.20% in service year 1 decreasing to 3.0% in service years 16 and beyond</p> <p><b>Non-Uniformed:</b> 6.25% in service year 1 decreasing to 3.25% in service years 19 and beyond</p>
Discount Rate	3.83%, based on the 20-year yield for tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher
Mortality	<p><b>Uniform (pre-retirement):</b> RP-2014 Employee Mortality Table for male employees, set back 2 years, and projected using Scale MP-2015</p> <p><b>Uniform (health annuitants):</b> RP-2017 Blue Collar Healthy Annuitant Mortality Table, set back 2 years for females, and projected using Scale MP-2015</p> <p><b>Non-Uniform (pre-retirement):</b> RP-2000 Healthy Mortality Table, males set forward 4 years, females back 5 years; no improvement projection.</p> <p><b>Non-Uniform (post-retirement):</b> RP-2000 Blue Collar Healthy Mortality Table with 109% multiplier for males and 103% multiplier for females; projected improvement using Scale BB.</p>
Healthcare Cost Trend Rates	<p><b>Pre-65 Trend:</b> 7.20% for fiscal year 2019 (from SegalSurvey) and trending down to an ultimate 4.29% using the Getzen model.</p> <p><b>Pre-65 Trend:</b> 5.40% for fiscal year 2019 (from SegalSurvey) and trending down to an ultimate 4.29% using the Getzen model.</p>

The actuarial assumptions used in the September 30, 2018 valuation were based on the results of an actuarial experience study for the period January 1, 2010 to December 31, 2014, plus assumption changes included in the September 30, 2018 valuation.

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NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED

For the Year Ended September 30, 2018  
(In thousands except where indicated)

**NOTE 13 - OTHER POSTEMPLOYMENT BENEFITS - Continued**

Changes in the Total OPEB Liability

	<u>Total OPEB Liability</u>
Balance at 9/30/17	\$ 518,801
Changes for the year:	
Service cost	14,817
Interest	18,420
Difference between expected and actual experience	6,669
Change of assumptions	(26,244)
Benefit payments	<u>(21,343)</u>
Net Changes	<u>(7,681)</u>
Balance at 9/30/18	<u>\$ 511,120</u>

Changes of assumptions reflect an increase in the discount rate from 3.50 percent to 3.83 percent.

The amount of Total OPEB liability allocated to DWU was \$58,707.

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following table presents the total OPEB liability of the City, calculated using the discount rate of 3.83 percent, as well as what the City's total OPEB liability would be if it were calculated using discount rates that are 1-percentage-point lower (2.83 percent) or 1-percentage-point higher (4.83 percent) than the current rates:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
Total OPEB Liability	\$ 597,268	\$ 511,120	\$ 442,464

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following table presents the total OPEB liability of the City, calculated using the healthcare cost trend rate of 8.2 percent decreasing to 4.3 percent, as well as what the City's total OPEB liability would be if it were calculated using healthcare cost rates that are 1-percentage-point lower (7.2 percent decreasing to 3.3 percent) or 1-percentage-point higher (9.2 percent decreasing to 5.3 percent) than the current rates:

	<u>1% Decrease</u>	<u>Current Healthcare Cost Trend Rate</u>	<u>1% Increase</u>
Total OPEB Liability	\$ 439,256	\$ 511,120	\$ 603,273

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NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED

For the Year Ended September 30, 2018  
(In thousands except where indicated)

**NOTE 13 - OTHER POSTEMPLOYMENT BENEFITS - Continued**

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

For the fiscal year ended September 30, 2018, the City recognized total OPEB expense of \$29,321. At September 30, 2018, the City also reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows</u>	<u>Deferred Inflows</u>
Differences between expected and actual experience	\$ 5,334	\$ -
Changes of assumptions	<u>-</u>	<u>20,995</u>
Total deferred outflows/inflows	<u>\$ 5,334</u>	<u>\$ 20,995</u>

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

Year Ending December 31:

2019	\$ 3,915
2020	3,915
2021	3,915
2022	<u>3,916</u>
Total	<u>\$ 15,661</u>

The amount of deferred outflows of resources related to OPEB allocated to DWU was \$581, and the amount of deferred inflows of resources related to OPEB allocated to DWU was \$2,286.

**NOTE 14 - DEFERRED COMPENSATION PLANS**

There are three deferred compensation plans. Two of these plans are voluntary for City employees who participate in the City's pension plans. The third plan is mandatory for all employees and council members who are not covered by the City's pension plans. These plans comply with sections 401(k) and 457(b) of the Internal Revenue Code.

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NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED

For the Year Ended September 30, 2018  
(In thousands except where indicated)

**NOTE 14 - DEFERRED COMPENSATION PLANS - Continued**

Participants in the City's voluntary 457(b) and 401(k) plans have full discretion to choose investments from a list of standard plan options, a linked brokerage account, and a commingled pool managed by Fidelity Management Trust Company. The list of standard plan options includes mutual funds with varying styles and levels of investment risk. All the account balances in the mandatory 457 plan are invested in the same commingled pool. All contributions to these plans are deferred by plan participants from their compensation and all the earnings are allocated to each participant's account. Distributions from all the deferred compensation plans are available after termination of employment. Additionally, participants in the City's voluntary plans may also take out loans and may receive hardship withdrawals in accordance with federal regulations. The assets held in these plans are not included in the City's or the DWU financial statements and cannot be used for purposes other than the exclusive benefit of the participants or their beneficiaries or to pay the reasonable expenses of plan administration.

**NOTE 15 - INTERFUND TRANSFERS**

During the year, transfers out to other City funds were made in the amount of \$27.3 million for payment in lieu of taxes (PILOT) and other miscellaneous transfers which are recorded as transfers-out, rather than operation and maintenance expenses, due to the nonreciprocal nature of the transactions. Under the terms of the bond ordinance, any PILOT payments and any other similar payments are not considered expenses of operation and maintenance of the fund. Additionally, they are not included in the debt coverage calculation. During the year, transfers in from other City funds were made in the amount of \$9 thousand for debt service reimbursements related to software acquisition.

**NOTE 16 - SUBSEQUENT EVENTS**

From October 1, 2018 through the date of the independent auditors' report, the City issued \$51.6 million in Dallas Water Utilities commercial paper notes, with an average interest rate of 1.7%.

**City of Dallas, Texas**  
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**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF CHANGES IN THE CITY'S NET PENSION LIABILITY AND RELATED RATIOS**  
**Last Three Fiscal Years**  
**(Dollar amounts in thousands)**

	<b>ERF</b>	
	<b>2018</b>	<b>2017</b>
Total Pension Liability		
Service cost	\$ 81,178	\$ 133,457
Interest	325,620	305,826
Changes of assumptions	-	(1,227,079)
Differences between expected and actual experience	(59,066)	(38,327)
Plan changes	-	-
Benefit payments, including refunds	<u>(261,690)</u>	<u>(249,639)</u>
Net change	86,042	(1,075,762)
Total Pension Liability, Beginning	<u>4,291,805</u>	<u>5,367,567</u>
Total Pension Liability, Ending <sup>(a)</sup>	<u>4,377,847</u>	<u>4,291,805</u>
Plan Fiduciary Net Position		
Contributions - City	58,966	56,130
Contributions - Employee	55,175	53,436
Net investment income	413,510	294,918
Benefit payments, including refunds	(261,690)	(249,639)
Administrative expense	(5,951)	(5,343)
Other changes	<u>207</u>	<u>333</u>
Net change	260,217	149,835
Plan Fiduciary Net Position, Beginning	<u>3,352,043</u>	<u>3,202,208</u>
Plan Fiduciary Net Position, Ending <sup>(b)</sup>	<u>3,612,260</u>	<u>3,352,043</u>
City's Net Pension Liability <sup>(a)-(b)</sup>	<u>\$ 765,587</u>	<u>\$ 939,762</u>
Plan Fiduciary Net Position as a percentage of Total Pension Liability	83%	78%
Covered-employee payroll	\$ 421,269	\$ 409,433
City's Net Pension Liability as a percentage of covered- employee payroll	182%	230%

	<b>2016</b>	<b>2015</b>
\$	78,020	\$ 62,065
	313,850	290,948
	1,238,431	292,137
	(26,829)	(21,967)
	-	-
	<u>(239,960)</u>	<u>(230,243)</u>
	1,363,512	392,940
	<u>4,004,055</u>	<u>3,611,115</u>
	<u>5,367,567</u>	<u>4,004,055</u>
	50,721	45,833
	50,742	46,536
	(53,344)	207,992
	(239,960)	(230,243)
	(4,598)	(4,150)
	<u>162</u>	<u>157</u>
	(196,277)	66,125
	<u>3,398,485</u>	<u>3,332,360</u>
	<u>3,202,208</u>	<u>3,398,485</u>
\$	<u>2,165,359</u>	<u>\$ 605,570</u>
	60%	85%
\$	393,186	\$ 353,650
	551%	171%

**City of Dallas, Texas**  
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**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF CITY CONTRIBUTIONS TO PENSION PLAN**

**Last Ten Fiscal Years**  
**(Dollar amounts in thousands)**

	2018	2017	2016	2015
<b>Employees Retirement Fund</b>				
Actuarially determined contribution	\$ 91,977	\$ 88,547	\$ 81,838	\$ 68,100
Contributions in relation to the actuarially				
Determined contribution	\$ 60,589	\$ 58,045	\$ 56,987	\$ 49,135
Contribution deficiency (excess)	\$ 31,388	\$ 30,502	\$ 24,851	\$ 18,965
Covered payroll	\$ 420,754	\$ 405,062	\$ 389,706	\$ 376,421
Contributions as a percentage of covered payroll	14%	14%	15%	13%

2014	2013	2012	2011	2010	2009
\$ 62,756	\$ 54,289	\$ 37,822	\$ 32,865	\$ 34,793	\$ 18,995
\$ 44,816	\$ 35,515	\$ 28,917	\$ 27,303	\$ 27,668	\$ 24,604
\$ 17,940	\$ 18,774	\$ 8,905	\$ 5,562	\$ 7,125	\$ (5,609)
\$ 357,887	\$ 336,483	\$ 317,551	\$ 318,408	\$ 345,819	\$ 374,395
13%	11%	9%	9%	8%	7%

City of Dallas, Texas  
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**REQUIRED SUPPLEMENTARY INFORMATION**  
**NOTES TO SCHEDULE OF CITY CONTRIBUTIONS TO PENSION PLAN**  
Last 10 Fiscal Years

**Employees Retirement Fund**

	12/31/17	12/31/16	12/31/15	12/31/14	12/31/13	12/31/12	12/31/11	12/31/10	12/31/09	12/31/08
Valuation date										
Timing	The actuarially determined contribution rate is effective October 1 after the valuation date.									
Actuarial cost method	Entry age normal.									
Amortization method	30-year open amortization period level percentage of payroll. The City ordinance authorizing the plan specifies that the rate may not change from year-to-year if the calculated rate is less than .300 basis points different from the current rate.									
Asset valuation method	5-year smoothed market value of assets.									
Inflation	2.75%		3%							
Salary increases	3.25% to 6.25%, including inflation									
Discount rate	7.75%									
Cost of Living Adjustment	The greater of (a) the percentage of change in the price index for October of the current year over October of the previous year, up to 5%, or (b) the percentage of annual average change in the price index for the 12-month period ending with the effective date of the adjustment, up to 5%.									
Mortality	<p><b>For actives:</b> Males - RP2000 Healthy Mortality Table for male employees, set forward 4 years. Females - RP2000 Healthy Mortality Table for female employees, set back 5 years.</p> <p><b>For healthy retirees:</b> Males - RP2000 Blue Collar Healthy Mortality Table for male annuitants, with a 109% multiplier and fully generational mortality using improvement scale BB Females - RP2000 Blue Collar Healthy Mortality Table for female annuitants, with a 109% multiplier and fully generational mortality using improvement scale BB</p> <p><b>For all disabled lives:</b> RP2000 Disabled Mortality Table for male annuitants, set forward one year.</p>	<p><b>For actives:</b> Males - RP2000 Healthy Mortality Table for male employees, set forward 4 years. Females - RP2000 Healthy Mortality Table for female employees, set back 5 years.</p> <p><b>For healthy retirees:</b> Males - RP2000 Healthy Mortality Table for male annuitants, projected to 2007 using mortality improvement scale BB, set forward two years. Females - RP2000 Healthy Mortality Table for female annuitants.</p> <p><b>For all disabled lives:</b> RP2000 Disabled Mortality Table for male annuitants, set forward one year.</p>	<p><b>For actives:</b> Males - RP2000 Healthy Mortality Table for male employees, set forward 4 years. Females - RP2000 Healthy Mortality Table for female employees, set back 5 years.</p> <p><b>For healthy retirees:</b> Males - RP2000 Healthy Mortality Table for male annuitants, projected to 2007 using mortality improvement scale AA, set forward two years. Females - RP2000 Healthy Mortality Table for female annuitants.</p> <p><b>For all disabled lives:</b> RP2000 Disabled Mortality Table for male annuitants, set forward one year.</p>	<p><b>For actives:</b> Males - 1994 Uninsured Pension Mortality Table for males, base table rates multiplied by 87%. Females - 1994 Uninsured Pension Mortality Table for females, base table rates multiplied by 125%.</p> <p><b>For healthy retirees:</b> Males - 1994 Uninsured Pension Mortality Table for males, set forward two years. Females - 1994 Uninsured Pension Mortality Table for females, base table rates multiplied by 125% for ages less than 85 and multiplied by 135% for ages 85 and up.</p> <p><b>For all disabled lives:</b> 1965 Railroad Retirement Board Disabled Annuitants Mortality Table (without select rates). For females, the rates are multiplied by 60%.</p>						

**City of Dallas, Texas**  
**Dallas Water Utilities**  
**(An Enterprise Fund of the City of Dallas)**

**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF CHANGES IN THE CITY'S TOTAL LIABILITY**  
**AND RELATED RATIOS**

Other Postemployment Benefits  
Year Ended September 30, 2018  
(in thousands)

	<b>2018*</b>
Total OPEB Liability	
Service cost	\$ 14,817
Interest	18,420
Changes of assumptions	(26,244)
Differences between expected and actual experience	6,669
Benefit payments, including refunds	<u>(21,343)</u>
Net change	(7,681)
Total OPEB Liability, Beginning	<u>518,801</u>
Total OPEB Liability, Ending	<u><u>\$ 511,120</u></u>
Covered payroll	\$ 877,768
Total OPEB Liability as a Percentage of Covered Employee Payroll	58%

\* Prior year information was not available.

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