

**STATE BOARD OF ACCOUNTS**  
**302 West Washington Street**  
**Room E418**  
**INDIANAPOLIS, INDIANA 46204-2769**

FINANCIAL STATEMENTS AUDIT REPORT  
EVANSVILLE WATER AND WASTEWATER UTILITIES  
CITY OF EVANSVILLE  
VANDERBURGH COUNTY, INDIANA  
January 1, 2017 to December 31, 2017



**FILED**  
10/26/2018



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### SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Director of Utilities	Allen Mounts	01-01-17 to 12-31-18
Chief Financial Officer of Utilities	Jenny Collins	01-01-17 to 12-31-18
Utilities Controller	Charlie Pride, Jr., CPA	05-30-17 to 12-31-18
President of the Department of Waterworks Board	Robert R. Dillow	01-01-17 to 12-31-18
Mayor	Lloyd Winnecke	01-01-16 to 12-31-19
President of the Common Council	Missy Mosby Jim Brinkmeyer	01-01-17 to 12-31-17 01-01-18 to 12-31-18
City Controller	Russell G. Lloyd Jr., CPA	01-01-17 to 12-31-18



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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**INDEPENDENT AUDITOR'S REPORT**

TO: THE OFFICIALS OF THE EVANSVILLE WATER AND WASTEWATER UTILITIES,  
CITY OF EVANSVILLE, VANDERBURGH COUNTY, INDIANA

**Report on the Financial Statements**

We have audited the accompanying financial statements of each major fund of the Evansville Water and Wastewater Utilities (Utilities), departments of the City of Evansville (City), as of and for the year ended December 31, 2017, and the related notes to the 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 opinions 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 Utilities' 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 Utilities' 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 opinions.

***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund for the Utilities, as of December 31, 2017, and the respective changes in financial position and, where applicable, cash flows thereof and for the year then ended in accordance with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT  
(Continued)


***Emphasis of Matter***

As discussed in Note I, the financial statements of the Utilities, are intended to present the financial position, the changes in the financial position and, where applicable, cash flows of only that portion of each major fund of the City that is attributable to the transactions of the Utilities. They do not purport to, and do not, present fairly the financial position of the City as of December 31, 2017, the changes in its financial position or, where applicable, its cash flows for the year then ended in conformity with the accounting principles generally accepted in the United States of America. 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, Schedule of the Employer's Proportionate Share of Net Pension Liability, and Schedule of Employer Contribution, as listed in the Table of Contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

  
Paul D. Joyce, CPA  
State Examiner

September 20, 2018

**Evansville Water and Sewer Utilities  
City of Evansville  
Year Ended December 31, 2017**

**Management's Discussion and Analysis**

Management's discussion and analysis reviews the financial performance of the Evansville Water and Sewer Utility during the year ended December 31, 2017, and compares that performance with data from prior calendar periods. It is designed to focus on current activities, resulting changes, and currently known facts. It is intended to answer questions that may result from the review of the information presented in the financial statements and to better explain the financial position of the Utility. The information presented in the financial statements, the notes to the financial statements, and the discussion and analysis are the responsibility of management.

**Using the Annual Report**

This annual report consists of a series of financial statements prepared from an entity-wide focus in accordance with the Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments*. These statements focus on the financial condition, the results of operations, and the cash flows of the Utility as a whole.

A key question to ask about the Utility's finances is whether the entity as a whole improved or declined as a result of the financial activities from the calendar year. The answer is found in the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows. Discussion and analysis of each of these statements are presented in the following pages.

**Statement of Net Position**

The Statement of Net Position presents the value of the assets, liabilities, and net position at the end of the calendar year as well as deferred inflows of resources and deferred outflows of resources which affect the net position of the Utility. It is prepared under the accrual basis of accounting; revenues and expenses, and their impact on assets and liabilities, are recognized when service is provided or received by the Utility, regardless of when cash is exchanged. Assets and liabilities are classified as current (accessible or payable in one year or less) or noncurrent (accessible or payable beyond one year). Net position is categorized in one of three ways: net investment in capital assets, restricted for specific purposes, or unrestricted, and it is one indicator of current financial health. The increases or decreases in net position that occur over time indicate improvements or deteriorations of the Utility's financial condition.

<b>STATEMENT OF NET POSITION CONDENSED – WATER UTILITY</b>			
<b>Year Ended December 31</b> (in thousands)	<b>2017</b>	<b>2016</b>	<b>2015</b>
Current Assets	\$32,293	\$59,262	\$21,195
Noncurrent Assets:			
Capital assets, net of depreciation	\$156,721	\$144,768	\$138,103
Other non-current	\$27,790	\$3,148	\$3,224
<b>Total Assets</b>	<b>\$216,804</b>	<b>\$207,178</b>	<b>\$162,522</b>
Regulatory Assets	\$2,481	\$2,708	\$1,711
Pension Benefits	\$1,689	\$2,821	\$2,358
Deferred Amount on Refunding	\$2,510	\$2,767	\$1,019
<b>Total Deferred Outflow of Resources</b>	<b>\$6,681</b>	<b>\$8,296</b>	<b>\$5,088</b>
Current Liabilities	\$11,763	\$7,292	\$9,501
Noncurrent Liabilities	\$138,520	\$142,961	\$96,720
<b>Total Liabilities</b>	<b>\$150,283</b>	<b>\$150,253</b>	<b>\$106,221</b>
Pension Benefits	\$365	\$754	\$579
<b>Total Deferred Inflow of Resources</b>	<b>\$365</b>	<b>\$754</b>	<b>\$579</b>
Net Position:			
Net investment in capital assets	\$59,412	\$53,670	\$57,207
Restricted – expendable	\$7,365	\$5,728	\$35
Unrestricted	\$6,060	\$5,069	\$3,567
<b>Total Net Position</b>	<b>\$72,837</b>	<b>\$64,467</b>	<b>\$60,809</b>

<b>STATEMENT OF NET POSITION CONDENSED – WASTEWATER UTILITY</b>			
<b>Year Ended December 31</b> (in thousands)	<b>2017</b>	<b>2016</b>	<b>2015</b>
Current Assets	\$75,052	\$54,959	\$53,789
Noncurrent Assets:			
Capital assets, net of depreciation	\$338,953	\$323,207	\$304,359
Other non-current	\$35,217	\$30,477	\$17,065
<b>Total Assets</b>	<b>\$449,222</b>	<b>\$408,643</b>	<b>\$375,213</b>
Regulatory Assets	\$2,507	\$2,230	\$1,691
Pension Benefits	\$1,194	\$2,135	\$1,803
Deferred Amount on Refunding	\$791	\$932	\$1,074
<b>Total Deferred Outflow of Resources</b>	<b>\$4,492</b>	<b>\$5,297</b>	<b>\$4,568</b>
Current Liabilities	\$22,292	\$20,219	\$26,522
Noncurrent Liabilities	\$274,806	\$254,014	\$227,270
<b>Total Liabilities</b>	<b>\$297,098</b>	<b>\$274,233</b>	<b>\$253,792</b>
Pension Benefits	\$258	\$569	\$448
<b>Total Deferred Inflow of Resources</b>	<b>\$258</b>	<b>\$569</b>	<b>\$448</b>
Net Position:			
Net investment in capital assets	\$110,493	\$101,419	\$96,223
Restricted – expendable	\$30,374	\$26,007	\$19,751
Unrestricted	\$15,491	\$11,712	\$9,567
<b>Total Net Position</b>	<b>\$156,358</b>	<b>\$139,139</b>	<b>\$125,541</b>

## Assets

Current assets for the Water Utility at December 31, 2017, consist of cash and cash equivalents, receivables net of allowances, inventory, interfund receivable, and prepaid expenses. Noncurrent assets include capital assets net of depreciation, long-term investments, interest receivable, and customer deposits receivable.

Current assets for the Wastewater Utility at December 31, 2017, consist of cash and cash equivalents, receivables net of allowances, inventory, due from other, and prepaid expenses. Noncurrent assets include capital assets net of depreciation, long-term investments, other receivable, and interest receivable.

Total assets for the Water Utility increased \$9.6 million (4.6 percent) in 2017 compared to a \$44.7 million (27.5 percent) increase in 2016 and a \$1.6 million (1.0 percent) decrease in 2015. The current-year activity is summarized by the following events.

- The value of cash and equivalents decreased by \$27.2 million. This decline relates directly to the \$24.5 million increase in long-term investments as the Utility shifted more of its cash resources into investments to generate additional interest income.
- Accounts receivable increased by \$9,300. Receivables from all other sources decreased by \$141,000 during the 2017 calendar year.
- Net capital assets increased by \$12.0 million. Depreciation expense for the year was \$3.9 million. Depreciable assets capital increased by \$11.7 million and construction in progress increased by \$4.1 million due to the *Refresh Evansville* project which is a long-term strategy to replace the Utility's aging water mains and supporting infrastructure.
- Prepaid expenses increased by \$249,000 primarily due to a prepayment of Payment In Lieu of Taxes.

Total assets for the Wastewater Utility increased \$40.6 million (9.9 percent) in 2017 compared to a \$33.4 million (8.9 percent) increase in 2016 and a \$34.5 million (10.1 percent) increase in 2015. The current-year activity is summarized by the following events.

- The value of cash and equivalents increased by \$19.2 million. This increase relates directly to the \$21.85 million in bond proceeds received from the 2017A Wastewater Revenue Bond.
- Accounts receivable increased by \$308,000.
- Net capital assets increased by \$15.7 million. Depreciation expense for the year was \$12.0 million. Construction in progress decreased by \$37.3 million due to the completion of projects. However, depreciable capital assets increased by \$65.0 million due to the *Renew Evansville* project which is a state and federal mandate that will significantly upgrade the Utility's sewer system.
- Prepaid expenses increased by \$547,000 primarily due to an increase in the prepayment of Payment In Lieu of Taxes.

## Deferred Outflow of Resources

Deferred outflow of resources for the Water Utility decreased by \$1.6 million primarily due to a decrease in defined benefit pension deferred outflows.

Deferred outflow of resources for the Wastewater Utility decreased by \$805,000 primarily due to a decrease in defined benefit pension deferred outflows.

## Liabilities

Current liabilities for the Water Utility at December 31, 2017, are primarily composed of net pension liability, contracts payable, customer deposits, accrued interest, along with the current portion of bonds payable. Also included are accounts payable, taxes payable, accrued payroll and withholdings payable, compensated absences, retainage payable, and the customer assistance program. Noncurrent liabilities are bonds payable, net unamortized bond premium, payments in lieu of tax, and net pension liability. Total liabilities increased \$30,000 (0.02 percent) in 2017 compared to a \$44.0 million increase (41.5 percent) in

2016 and a \$123,000 decrease (0.12 percent) in 2015. The following factor created to an immaterial decrease in 2017 compared to 2016.

- No long-term debt was issued in 2017. The \$44.0 million increase in 2016 was primarily due to the issuance of the 2016A Waterworks revenue bonds.

Current liabilities for the Wastewater Utility at December 31, 2017, are primarily composed of net pension liability, contracts payable, accrued interest, retainage payable, along with the current portion of bonds payable and state revolving loans payable. Also included are accounts payable, accrued payroll and withholdings payable, interfund services provided and used, intergovernmental payable, and compensated absences. Noncurrent liabilities are bonds payable, state revolving loans payable, net unamortized bond premium, and net pension liability. Total liabilities increased \$22.9 million (8.3 percent) in 2017 compared to a \$20.4 million increase (8.0 percent) in 2016 and a \$29.9 million increase (13.3% percent) in 2015. The following factors contributed to the liability increase in 2017.

- The Wastewater Utility issued the 2017A Wastewater revenue bonds for \$21.85 million in 2017.
- The Wastewater Utility drew an additional \$0.2 million, \$8.4 million, and \$2.0 from their 2014D, 2016B, and 2016C state revolving loans, respectively.

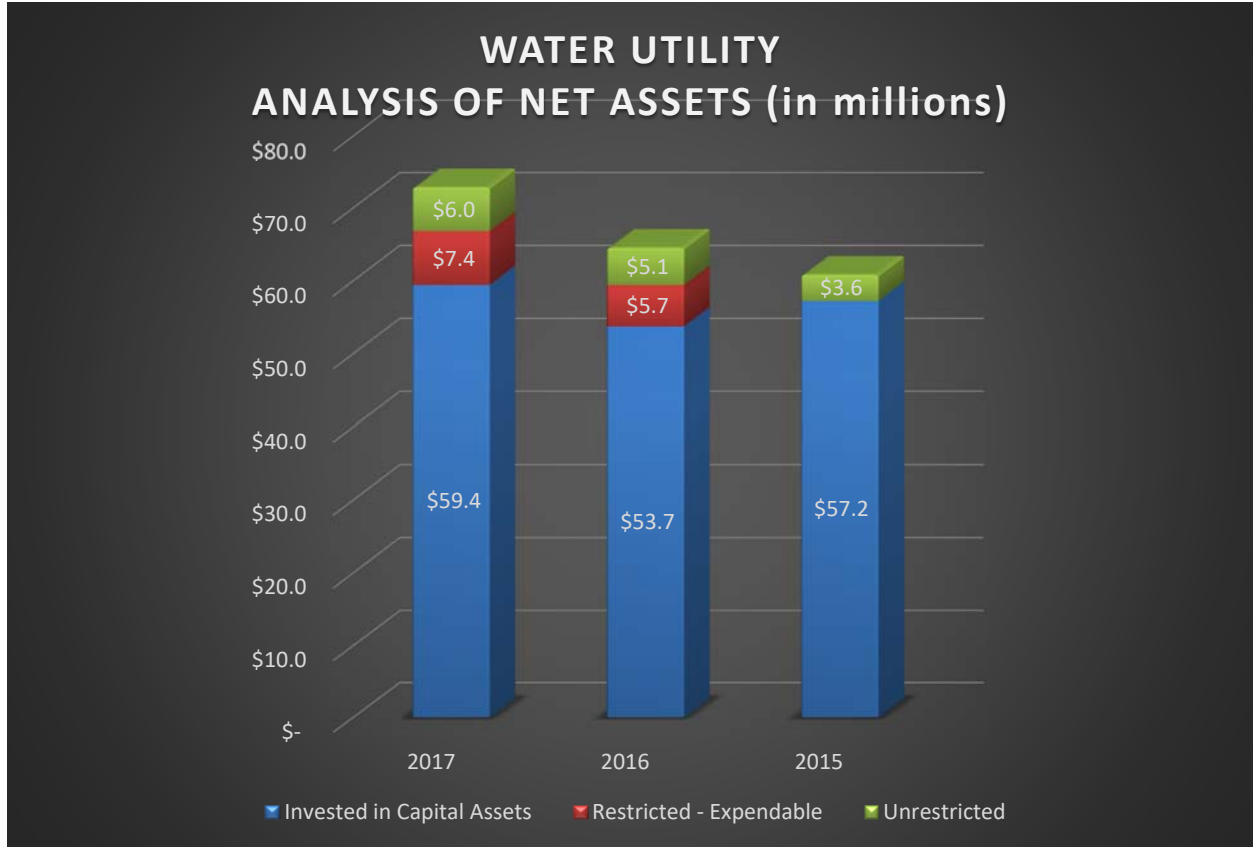
### **Deferred Inflow of Resources**

For the Water Utility, Deferred inflow of resources for pension benefits decreased from \$754,000 in 2016 to \$365,000 in 2017 based on information provided by the Indiana Public Retirement System. The amounts reflect the Utility share of the annual change in net pension liability for the Public Employees' Retirement Fund. See Note III F. of the *Notes to Financial Statements* for additional information about the net pension liability of the Utility.

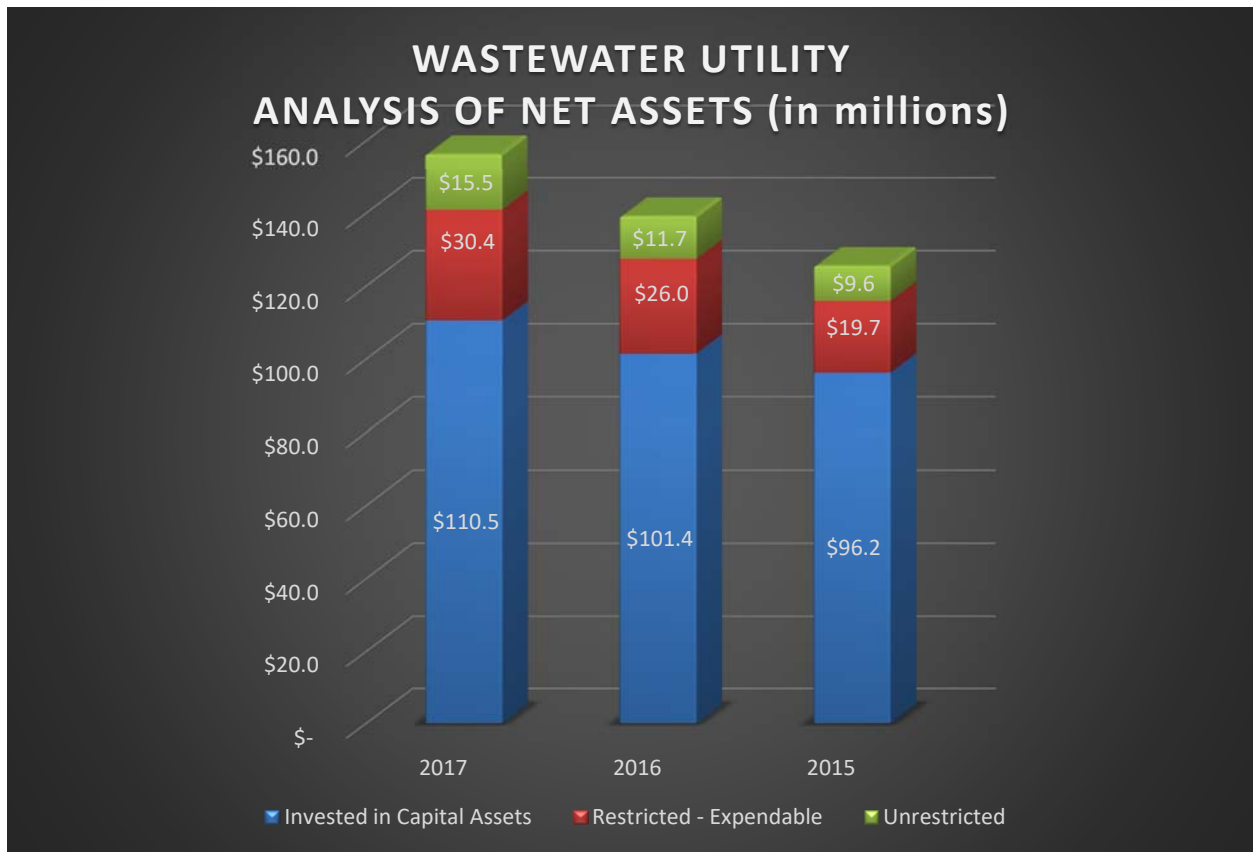
For the Wastewater Utility, Deferred inflow of resources for pension benefits decreased from \$569,000 in 2016 to \$258,000 in 2017 based on information provided by the Indiana Public Retirement System. The amounts reflect the Utility share of the annual change in net pension liability for the Public Employees' Retirement Fund. See Note III F. of the *Notes to Financial Statements* for additional information about the net pension liability of the Utility.

## Net Position

Water Utility Net Position at December 31, 2017, is \$8.4 million greater than on December 31, 2016. Net investment in capital assets increased \$5.7 million; restricted expendable assets increased \$1.7 million; and unrestricted assets increased \$1.0 million. Unrestricted assets equal \$6.1 million and comprise 8.3 percent of total net position.



Wastewater Utility Net Position at December 31, 2017, is \$17.2 million greater than on December 31, 2016. Net investment in capital assets increased \$9.1 million; restricted expendable assets increased \$4.4 million; and unrestricted assets increased \$3.7 million. Unrestricted assets equal \$15.5 million and comprise 9.9 percent of total net position.



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

The Statement of Revenues, Expenses, and Changes in Net Position presents the revenues earned and the expenses incurred during the calendar year. The statement illustrates how financial activities of the Utilities during the previous two years affected the net position of the Utilities.

Activities are reported as either operating or non-operating. Fees for services is the major source of operating income for the Water Utility.

<b>STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION (CONDENSED) – WATER UTILITY</b>			
<b>Year ended December 31 (in thousands)</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
Total operating revenues	\$35,142	\$29,319	\$29,140
Total operating expenses	(24,761)	(23,293)	(24,128)
Net operating revenues	\$10,381	6,026	5,012
Net non-operating revenues/(expenses)	(3,585)	(2,653)	(2,843)
Income before other revenues, expenses, gains, or losses	6,796	3,373	2,169
Contributions	3,251	1,648	2,306
Payment in lieu of property taxes	(1,677)	(1,364)	(1,364)
<b>Increase in net position</b>	<b>\$8,370</b>	<b>\$3,657</b>	<b>\$3,111</b>

Activities are reported as either operating or non-operating. Fees for services is the major source of operating income for the Wastewater Utility.

<b>STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION (CONDENSED) – WASTEWATER UTILITY</b>			
<b>Year ended December 31 (in thousands)</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
Total operating revenues	\$68,475	\$58,819	\$51,606
Total operating expenses	(42,967)	(37,691)	(38,480)
Net operating revenues	25,508	21,128	13,126
Net non-operating revenues/(expenses)	(5,864)	(4,868)	(4,015)
Income before other revenues, expenses, gains, or losses	19,644	16,260	9,111
Contributions	1,563	1,303	1,102
Payment in lieu of property taxes	(3,987)	(3,966)	(2,428)
<b>Increase in net position</b>	<b>\$17,220</b>	<b>\$13,597</b>	<b>\$7,785</b>

## Revenues

Operating revenues for the Water Utility increased by \$5.8 million (19.9 percent) in 2017 compared to a \$179,000 (0.6 percent) increase in 2016 and a \$2.7 million (10.0 percent) increase in 2015. The 2017 increase was primarily driven by the following factor.

- The IURC approved a two-phase across-the-board rate increase on October 5, 2016 per Cause No. 44760. Subsequent to the issuance of the 2016A Bonds, the Water Utility filed a True-up report with the IURC that was approved on December 27, 2016. The Phase I increase was 29.37% over the rates effective on December 27, 2016.

Operating revenues for the Wastewater Utility increased by \$9.7 million (16.4 percent) in 2017 compared to a \$7.2 million (14.0 percent) increase in 2016 and a \$3.9 million (8.0 percent) increase in 2015. The 2017 increase was primarily driven by the following factor.

- On October 24, 2016 the Common Council approved a four-phase increase with Phase 1 assumed effective January 1, 2017, and Phases II, III, and IV effective each January 1<sup>st</sup> thereafter. The Phase I increase was 11% over the rates effective on December 31, 2016.

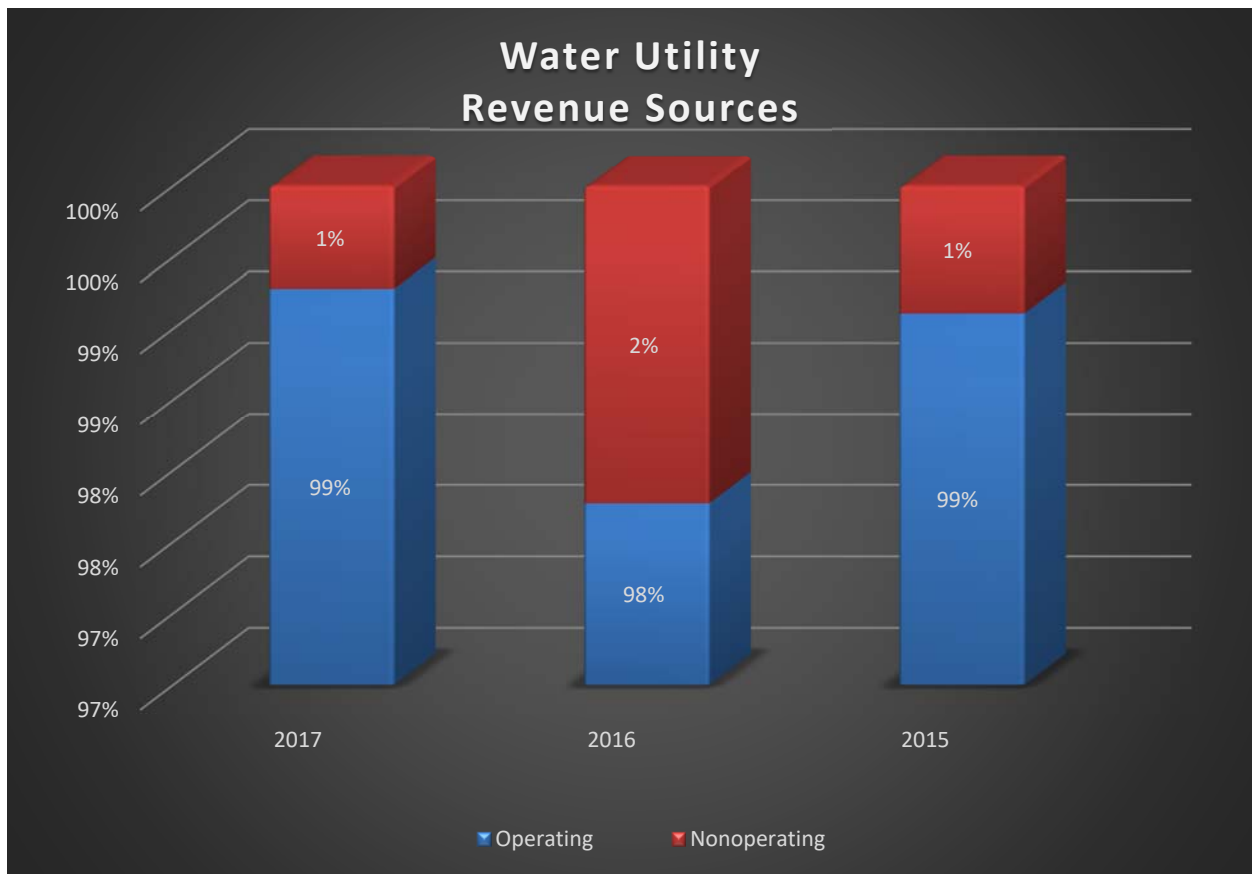
Non-operating revenues for the Water Utility decreased by 61.8 percent for the calendar year ended December 31, 2017, after a 154.7 percent gain in 2016 and 34.2 percent decrease in 2015. The following elements contributed to the decline in 2017.

- Non-operating income decreased \$184,000 in 2017 primarily due to the cost of issuance in the amount of \$136,000 for the 2016B Waterworks refunding revenue bonds and a \$27,000 sale of scrap meters in 2016.
- Net reimbursements decreased \$172,000 in 2017.

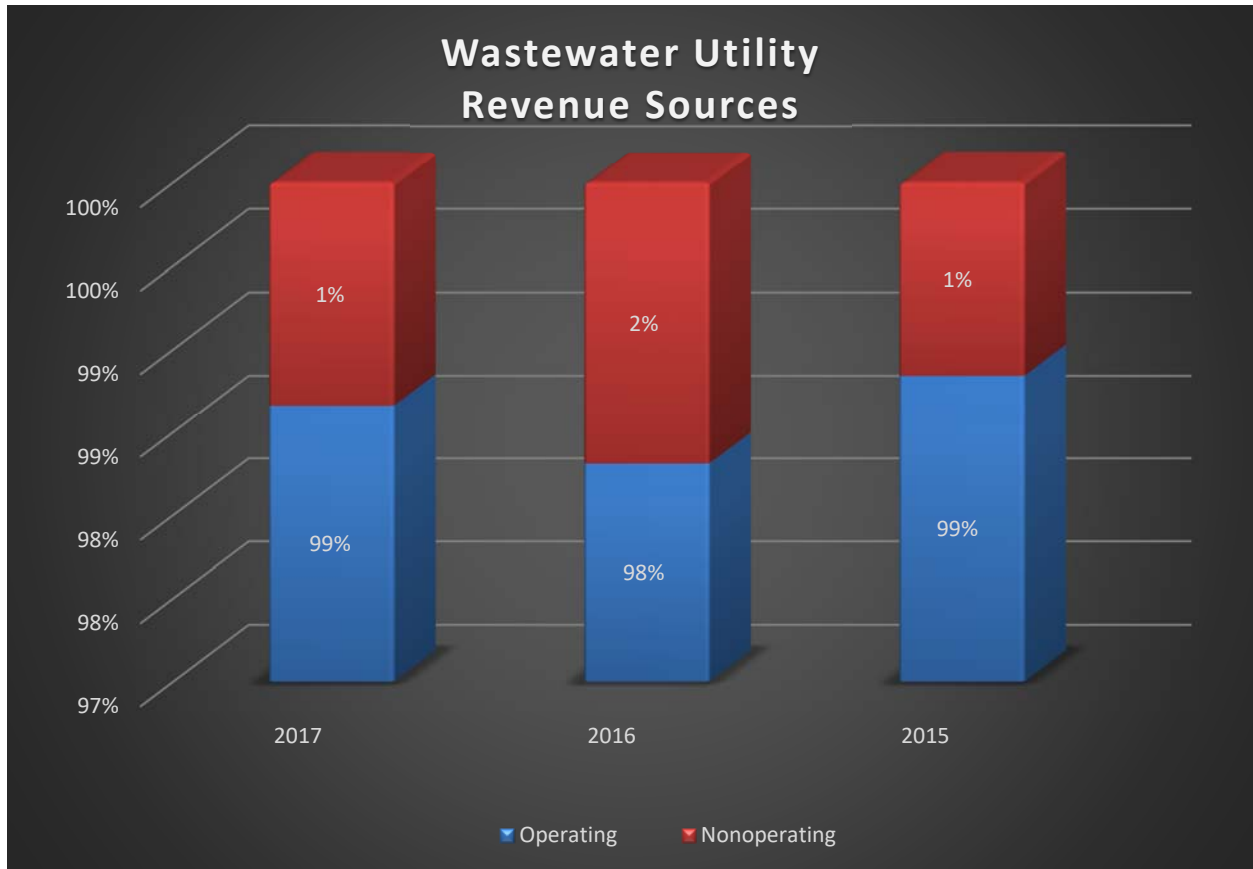
Non-operating revenues for the Wastewater Utility decreased by 8.2 percent for the calendar year ended December 31, 2017, after a 67.3 percent gain in 2016 and 51.5 percent increase in 2015. The following element contributed to the slight decline in 2017.

- Non-operating income decreased \$83,000 in 2017 primarily due to \$137,000 in Vectren incentives received in 2016 that weren't received in 2017.

Total revenues (operating and non-operating) for the Water Utility increased by \$5.4 million in 2017. The graph below shows the composition of the Utility's revenue for calendar years 2015-2017.



Total revenues (operating and non-operating) for the Wastewater Utility increased by \$9.6 million in 2017. The graph below shows the composition of the Utility's revenue for calendar years 2015-2017.

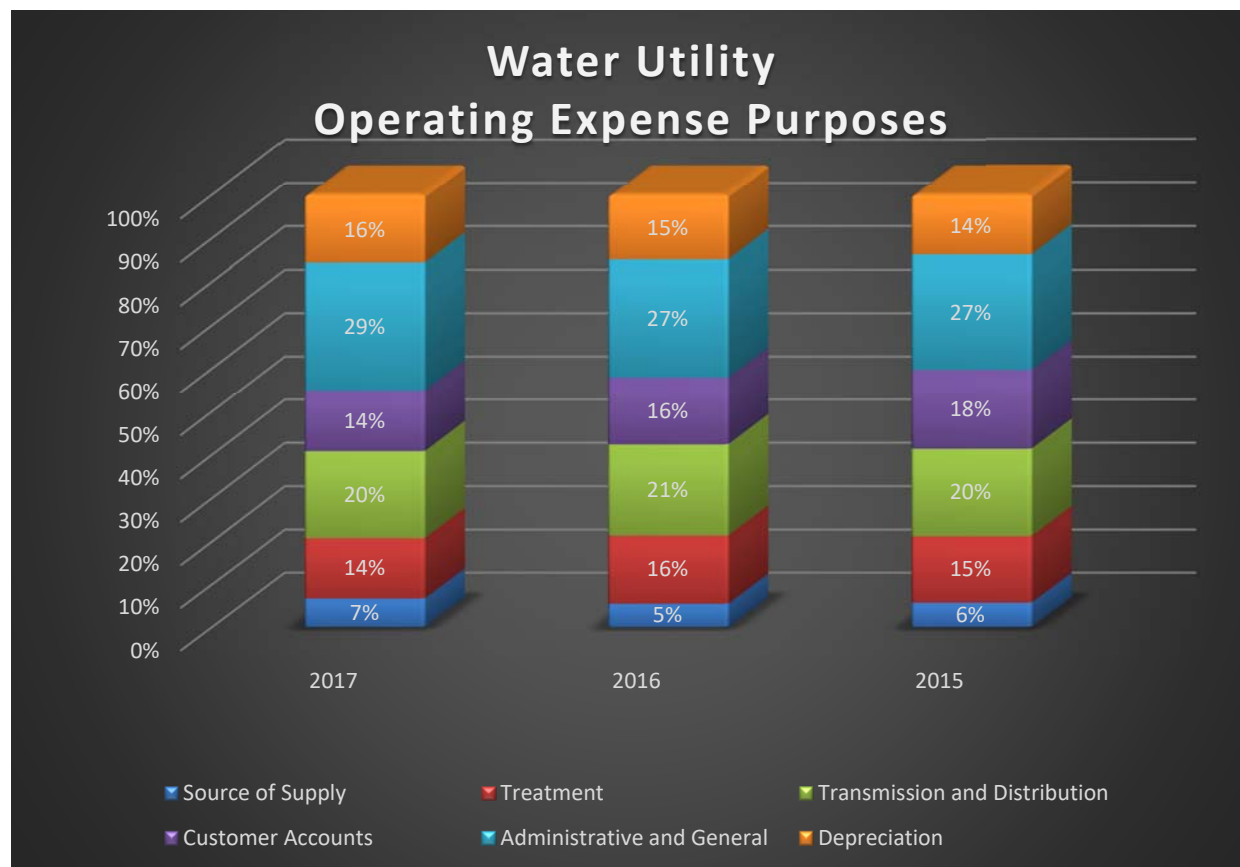


## Expenses

Operating expenses for the Water Utility increased \$1.5 million (6.3 percent) in 2017 compared to an \$835,000 (3.5 percent) decrease in 2016 and a \$1.5 million (6.6 percent) increase in 2015. Specifically, the following expenses contributed to the current-year increase.

- Source of supply increased \$389,000 (30.8 percent) from 2016 mostly due to an increase in repairs and maintenance.
- Treatment decreased \$224,000 (6.0 percent) from 2016 primarily due to a decrease in the purchase of chemicals.
- Transmission and distribution increased \$65,000 (1.3 percent) from 2016 mostly due to an increase in employee pensions and benefits.
- Customer accounts decreased \$134,000 (3.7 percent) from 2016 primarily due to a decrease in the number of employees being paid from this cost center in 2017.
- Administrative and general increased \$964,000 (15.2 percent) from 2016 mostly due to an increase in the number of employees being paid from this cost center in 2017.
- Depreciation expense increased \$408,000 (11.7 percent) from 2016 due to an increase in depreciable capital assets in 2017.

The composition of operating expenses for all three years is depicted by major categories in the graph below.



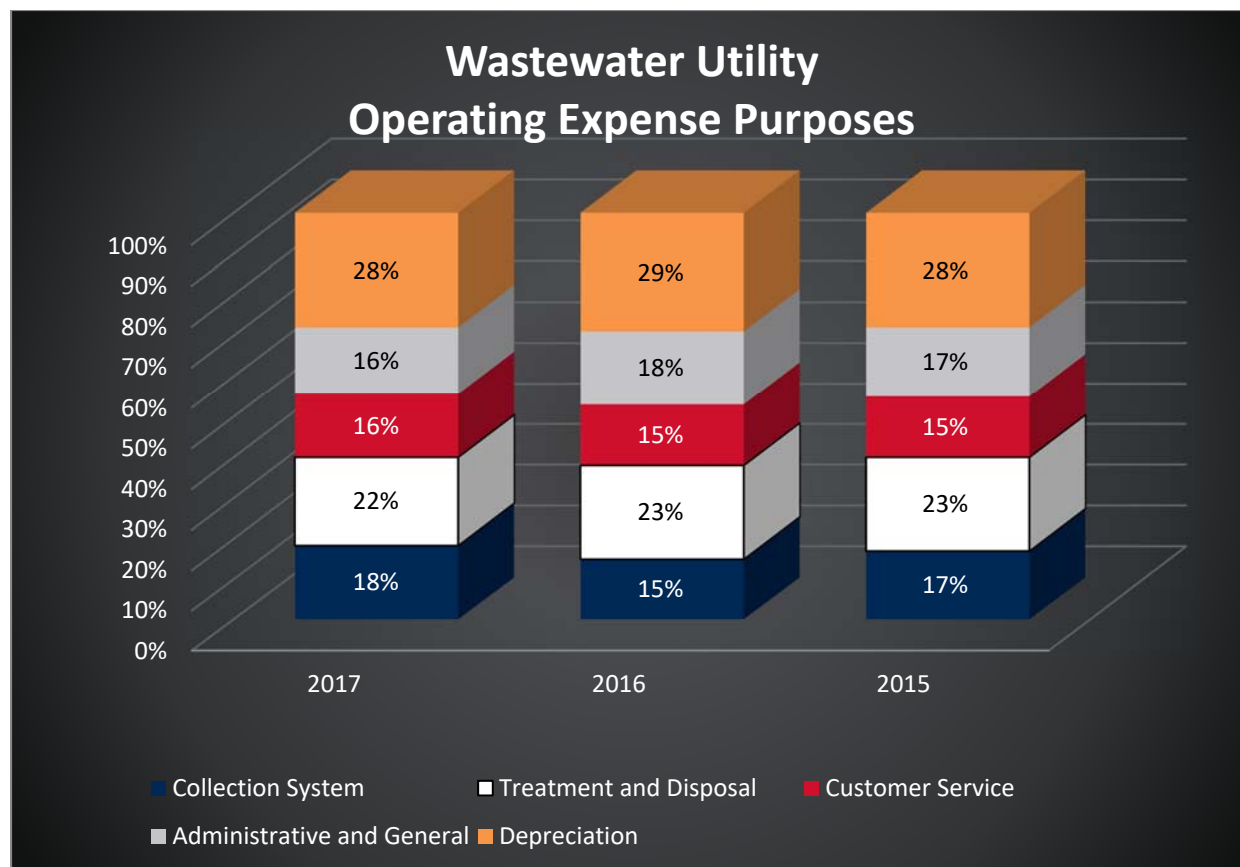
Non-operating expenses consist of interest on capital asset-related debt and other costs associated with issuing bonds and refinancing debt. These expenditures increased by \$519,000 in 2017 after increases of \$216,000 and \$313,000 in 2016 and 2015, respectively.

Total expenses (operating and non-operating) increased by \$2.0 million after decreasing by \$619,000 in 2016 and increasing by \$1.8 million in 2015.

Operating expenses for the Wastewater Utility increased \$5.3 million (14.0 percent) in 2017 compared to a \$789,000 (2.1 percent) decrease in 2016 and a \$2.0 million (5.6 percent) increase in 2015. Specifically, the following expenses contributed to the current-year increase.

- Collections systems increased \$2.0 million (34.0 percent) from 2016 primarily due to an increase in repairs and maintenance.
- Treatment and disposal increased \$605,000 (7.0 percent) from 2016 mostly due to an increase in contractual services.
- Customer service increased \$1.1 million (19.2 percent) from 2016 primarily due to an increase in bad debt expense mostly coming from the McCurdy account.
- Administrative and general increased \$392,000 (5.9 percent) from 2016 mostly due to an increase in other contractual services.
- Depreciation expense increased \$1.2 million (10.7 percent) from 2016 due to an increase in depreciable capital assets in 2017.

The composition of operating expenses for all three years is depicted by major categories in the graph below.



Non-operating expenses consist of interest on capital asset-related debt and other costs associated with issuing bonds and refinancing debt. These expenditures increased by \$913,000 in 2017 after increases of \$1.3 million and \$30,000 in 2016 and 2015, respectively.

Total expenses (operating and non-operating) increased by \$6.2 million after increasing by \$471,000 in 2016 and by \$2.1 million in 2015.

### Contributed Capital

Contributed capital for the Water Utility increased from \$1.66 million in 2016 to \$3.25 million in 2017 primarily due to the combination of a capital asset transfers worth \$937,000 from the Wastewater Utility for the Chestnut Sewer Relocation project and the receipt of a federal grant reimbursement of \$367,000 for the U.S. Highway 41 and Lloyd Expressway Cloverleaf Project.

Contributed capital for the Wastewater Utility increased from \$1.30 million in 2016 to \$1.56 million in 2017 due to a combination of a \$1.2 million increase in Accepted for Maintenance and capital asset transfers totaling \$937,000 to the Water Utility for the Chestnut Sewer Relocation Project.

### Payment in Lieu of Taxes

Payment in lieu of property taxes for the Water Utility increased from \$1.36 million in 2016 to \$1.68 million in 2017 due to the increase in value of the Utility's tangible property.

Payment in lieu of property taxes for the Wastewater Utility increased from \$3.97 million in 2016 to \$3.99 million in 2017 due to the increase in value of the Utility's tangible property.

## Change in Net Position

The difference between annual revenues and expenses causes an increase or decrease to net position. For the calendar year ending December 31, 2017, net position for the Water Utility increased by \$8.4 million following increases of \$3.7 million in 2016 and \$20,000 in 2015. During 2017, total revenues increased and total expenses increased slightly.

For the calendar year ending December 31, 2017, net position for the Wastewater Utility increased by \$17.2 million following increases of \$13.6 million in 2016 and \$5.4 million in 2015. During 2017, total revenues increased and total expenses increased.

## Statement of Cash Flows

The Statement of Cash Flows provides additional information about the financial health of the Water Utility by helping the user assess the ability to generate future cash flows, the ability to meet obligations as they come due, and the need for external financing.

This statement identifies the sources and uses of cash and equivalents throughout the calendar year and informs the user how much cash was used by or provided by the following activities: operating, noncapital financing, capital financing, and investing. The chart below shows the Water Utility's sources, uses, and changes in cash and cash equivalents for calendar years 2015-2017.

<b>STATEMENT OF CASH FLOWS WATER UTILITY</b>			
<b>Year ended December 31</b> (in thousands)	<b>2017</b>	<b>2016</b>	<b>2015</b>
Net cash (used) provided by			
Operating activities	\$14,194	\$9,775	\$9,066
Noncapital financing activities	(1,677)	(2,401)	(1,363)
Capital financing activities	(15,493)	30,415	(16,451)
Investing activities	(24,216)	172	3,865
Net increase (decrease) in cash	\$(27,192)	\$37,961	\$(4,883)

### Operating activities

- Cash provided by operating activities increased \$4.42 million in 2017 compared to increases of \$709,000 in 2016 and \$2.29 million in 2015.
- Cash received from customers generated the largest inflow of cash for all calendar years.
- Payments to employees, which include salaries, wages, and benefits, and payments to suppliers used the most cash in all calendar years.

### Noncapital financing activities

- Cash used by noncapital financing activities decreased by \$724,000 in 2017 compared to an increase of \$1.04 million in 2016 and an increase of \$228,000 in 2015.
- Payment in lieu of taxes provided the largest outflow of cash in 2015 and 2017 and redemption of revenue bonds used the most cash in 2016.

### Capital financing activities

- Cash used by capital financing activities increased by \$45.91 million after decreasing by \$46.87 million in 2016 and decreasing by \$5.90 million in 2015.
- Contributed capital produced the largest inflow of cash in 2015 and 2017. Bond Proceeds from the 2016A Waterworks revenue bonds and the 2016B Waterworks refunding revenue bonds produced the largest cash inflow in 2016.
- Additions to capital assets produced the largest outflow of cash for calendar years 2015-2017.

### Investing activities

- Investing activities used \$24.22 million in cash during 2017 after providing \$172,000 during 2016 and providing \$3.87 million during 2015.
- Net purchases and sales of investments decreased from \$89,000 in 2016 to (\$24.5) million in 2017 following a net decrease of \$3.71 million from 2015 to 2016.
- Interest earned on investments increased from \$83,000 in 2016 to \$250,000 in 2017 after an increase of \$16,000 from 2015 to 2016.

The Statement of Cash Flows provides additional information about the financial health of the Wastewater Utility by helping the user assess the ability to generate future cash flows, the ability to meet obligations as they come due, and the need for external financing.

This statement identifies the sources and uses of cash and equivalents throughout the calendar year and informs the user how much cash was used by or provided by the following activities: operating, noncapital financing, capital financing, and investing. The chart below shows the Wastewater Utility's sources, uses, and changes in cash and cash equivalents for calendar years 2015-2017.

<b>STATEMENT OF CASH FLOWS WASTEWATER UTILITY</b>			
<b>Year ended December 31 (in thousands)</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
Net cash (used) provided by			
Operating activities	\$36,721	\$30,056	\$24,921
Noncapital financing activities	(3,987)	(3,966)	(2,428)
Capital financing activities	(9,292)	(13,442)	(27,164)
Investing activities	(4,206)	(13,390)	12,724
<b>Net increase (decrease) in cash</b>	<b>\$19,236</b>	<b>\$(742)</b>	<b>\$8,053</b>

### **Operating activities**

- Cash provided by operating activities increased \$6.66 million in 2017 compared to increases of \$5.14 million in 2016 and \$5.28 million in 2015.
- Cash received from customers generated the largest inflow of cash for all calendar years.
- Payments to employees, which include salaries, wages, and benefits, and payments to suppliers used the most cash in all calendar years.

### **Noncapital financing activities**

- Cash used by noncapital financing activities increased by \$21,000 in 2017 compared to an increases of \$1.54 million in 2016 and \$425,000 in 2015.
- Payment in lieu of taxes provided the largest outflow of cash for calendar years 2015-2017.

### **Capital financing activities**

- Cash used by capital financing activities decreased by \$4.15 million after decreasing by \$13.72 million in 2016 and increasing by \$23.82 million in 2015.
- Bond proceeds produced the largest inflow of cash for calendar years 2015-2017.
- Additions to capital assets produced the largest outflow of cash for calendar years 2015-2017.

### **Investing activities**

- Investing activities used \$4.21 million in cash during 2017 after using \$13.39 million during 2016 and providing \$12.72 million during 2015.
- Net purchases and sales of investments increased from (\$13.62) million in 2016 to (\$4.71) million in 2017 following a net decrease of 26.25 million from 2015 to 2016.
- Interest earned on investments increased from \$235,000 in 2016 to \$506,000 in 2017 after an increase of \$138,000 from 2015 to 2016.

### **Summary of Statement of Cash Flows**

For the Water Utility for the year ended December 31, 2017, more cash was provided from operating activities, less cash was used by noncapital financing activities, more cash was used by capital financing activities, and more cash was used by investing activities compared to the previous calendar year. As a result of these activities, the Utility decreased its cash position by \$27.19 million, ending the calendar year with a cash balance of \$28.59 million, which is less than its ending cash position of \$55.78 million in 2016.

For the Wastewater Utility for the year ended December 31, 2017, more cash was provided from operating activities, more cash was used by noncapital financing activities, less cash was used by capital financing activities, and less cash was used by investing activities compared to the previous calendar year. As a result of these activities, the Utility increased its cash position by \$19.24 million, ending the calendar year with a cash balance of \$65.90 million, which is more than its ending cash position of \$46.67 million in 2016.

### **Factors Affecting Future Periods**

*Renew Evansville* is the Evansville Water and Sewer Utility's 24 ½-year plan to improve the city's sewer system and ensure compliance with the *Clean Water Act of 1972*. This major capital campaign will include:

- Dramatic upgrades to existing infrastructure
- The construction of new infrastructure
- Sustainable and “green” infrastructure solutions
- Improvements to the utility's operations and maintenance

Engineers and Utility management have developed a long-term Integrated Overflow Control Plan (IOCP) that addresses Evansville's combined sewer overflows (CSOs) and capacity issues in portions of the separate sanitary sewer system. Evansville currently captures approximately 35 percent of wet-weather flow and averages 50 CSO events each year. *Renew Evansville* will allow the Utility to capture 98 percent of that flow and have no more than four CSO events a year, significantly reducing the amount of CSOs that enter the Ohio River and Pigeon Creek.

The breakdown for the \$729 million plan includes:

- \$148 million to transform Bee Slough into one of the largest wetland treatment systems in the U.S.
- \$175 million for sewer projects on the west side of Evansville
- \$30 million in projects to separate stormwater and sanitary sewer pipes
- \$22 million in green infrastructure projects designed to reduce the amount of storm water in the combination sewer systems, including projects related to the new hotel and parking garage, the IU medical campus, the streetscape projects around downtown, the Jacobsville Main Street project, the YMCA parking lot, the CK Newsome Learning Garden, and projects at local churches
- \$54 million in sanitary sewer overflow abatement, expanding all sanitary sewer capacity to accommodate 10-year storm precipitation levels
- \$107 million in wastewater treatment plant (WWTP) modifications, expanding capacity to 45 million gallons/day for the West WWTP and 40 million gallons/day for the East WWP
- \$122 million for the 7th Avenue lift station replacement
- \$71 million in new downtown underground storage

*Refresh Evansville* is a long-term strategy to replace our aging water mains and supporting infrastructure.

The Evansville Water and Sewer Utility maintains 1,000 miles of water lines, 600 miles of which are cast iron pipes with an average age of over 90 years. These are now at or past their life expectancy.

*Refresh Evansville* will take decades to complete, but these ongoing annual improvements will ensure that current and future generations will continue to enjoy safe, clean drinking water.

## BASIC FINANCIAL STATEMENTS AND ACCOMPANYING NOTES

The financial statements and accompanying notes were prepared by management of the Utilities. The financial statements and notes are presented as intended by the Utilities.

**WATER AND WASTEWATER UTILITIES  
CITY OF EVANSVILLE  
STATEMENT OF NET POSITION  
December 31, 2017**

<b>ASSETS</b>	<b>Water</b>	<b>Wastewater</b>
Current Assets:		
Operating cash and cash equivalents	\$ 4,556,726	\$ 8,374,733
Restricted Assets:		
Bond and interest cash and cash equivalents	5,838,912	12,116,935
Debt service reserve cash and cash equivalents	2,113,589	4,566,507
Improvement fund cash and cash equivalents	833,758	-
Wastewater treatment plant cash and cash equivalents	-	12,504,386
Periodic Maintenance fund cash and cash equivalents	2,185,676	-
Construction fund cash and cash equivalents	11,257,253	28,340,577
Cash with fiscal agent cash and cash equivalents	292,979	-
Consumer meter deposits cash and cash equivalents	1,503,558	-
Assistance program cash and cash equivalents	7,231	-
Accounts receivable (net of allowance)	1,785,257	4,663,248
Accounts receivable - other	88,129	-
Interfund receivables for services provided and used	448,665	-
Materials and supplies inventory	1,063,509	328,483
Due from other	-	39,786
Prepays	318,028	4,117,800
	<u>32,293,270</u>	<u>75,052,455</u>
Non-Current Assets:		
Restricted Assets:		
Debt service reserve investments	6,110,000	13,150,000
Construction fund investments	21,450,000	21,920,757
Interest and customer deposits receivable	229,917	146,574
	<u>27,789,917</u>	<u>35,217,331</u>
Capital Assets:		
Depreciable capital assets	214,839,325	499,445,498
Less accumulated depreciation	(71,831,333)	(191,193,888)
	<u>143,007,992</u>	<u>308,251,610</u>
Land and improvements to land	432,435	3,779,669
Construction work in progress	13,280,455	26,921,435
	<u>156,720,882</u>	<u>338,952,714</u>
Total Noncurrent Assets	<u>184,510,799</u>	<u>374,170,045</u>
Total Assets	<u>\$ 216,804,069</u>	<u>\$ 449,222,500</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Regulatory Assets	\$ 2,481,360	\$ 2,507,364
Defined Benefit Pension Deferred Outflows	1,689,158	1,193,965
Deferred Amount on Refunding	2,510,331	790,783
	<u>\$ 6,680,849</u>	<u>\$ 4,492,112</u>
Total Deferred Outflows of Resources	<u>\$ 6,680,849</u>	<u>\$ 4,492,112</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 223,484,918</u>	<u>\$ 453,714,612</u>

**WATER AND WASTEWATER UTILITIES  
CITY OF EVANSVILLE  
STATEMENT OF NET POSITION  
December 31, 2017**

<b>LIABILITIES</b>	<b>Water</b>	<b>Wastewater</b>
<b>Current Liabilities:</b>		
Accounts payable	\$ 609,833	\$ 983,273
Accrued sales and gross income taxes	94,259	-
Accrued payroll and withholdings payable	190,255	94,030
Interfund payables for services provided and used	-	448,665
Intergovernmental payable	-	2,790
Compensated absences	602,947	504,553
Payable from restricted assets:		
Customer deposits	1,534,463	-
Contracts payable	2,166,065	3,421,539
Retainage payable	738,056	1,054,229
Assistance program	7,231	-
Accrued interest	2,690,425	4,372,820
Bonds payable	3,130,000	5,895,000
State revolving fund loans	-	5,515,000
Total Current Liabilities	11,763,534	22,291,899
<b>Noncurrent Liabilities:</b>		
Revenue bonds payable, net of unamortized premium and discounts	131,878,292	139,954,177
State revolving loans payable	-	130,654,793
Payments in lieu of taxes payable to City of Evansville	702,956	-
Net Pension Liability	5,938,565	4,197,616
Total Noncurrent Liabilities	138,519,813	274,806,586
Total Liabilities	\$ 150,283,347	\$ 297,098,485
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Defined Benefit Pension Deferred Inflows	\$ 365,017	\$ 258,008
Total Liabilities and Deferred Inflows of Resources	\$ 150,648,364	\$ 297,356,493
<b>NET POSITION</b>		
Net Invested in Capital Assets	\$ 59,411,534	\$ 110,493,225
Restricted	7,364,956	30,374,155
Unrestricted	6,060,064	15,490,739
Total Net Position	\$ 72,836,554	\$ 156,358,119

The notes to the financial statements are an integral part of this statement

**WATER AND WASTEWATER UTILITIES**  
**CITY OF EVANSVILLE**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**For the Year Ended December 31, 2017**

	<u>Water</u>	<u>Wastewater</u>
Operating Revenues:		
Residential	\$ 14,049,944	\$ 28,843,808
Industrial	3,841,400	8,720,409
Commercial	6,321,110	19,362,918
Public authority	949,658	2,437,762
Fire protection	4,108,875	-
Forfeited discounts	157,166	812,919
Refuse services	-	5,038,418
Tap-on fees	-	1,278,137
Pretreatment charges	-	446,300
Industrial surcharges and fines	-	1,140,075
Interfund charges for joint expenses	5,383,983	-
Other	330,330	394,092
Total Operating Revenues	<u>35,142,466</u>	<u>68,474,838</u>
Operating Expenses:		
Source of supply	1,650,592	-
Treatment	3,479,311	-
Transmission and distribution	4,960,777	-
Customer accounts	3,481,490	-
Collection system	-	7,880,070
Treatment and disposal	-	9,306,295
Customer service	-	6,716,288
Administrative and general	7,296,224	7,037,314
Sub-totals	<u>20,868,394</u>	<u>30,939,967</u>
Depreciation	<u>3,892,231</u>	<u>12,026,627</u>
Total Operating Expenses	<u>24,760,625</u>	<u>42,966,594</u>
Net Operating Income	<u>10,381,841</u>	<u>25,508,244</u>
Nonoperating Revenues:		
Interest income	139,958	285,637
Other	115,467	198,578
BAB Subsidy income	-	444,347
Totals	<u>255,425</u>	<u>928,562</u>
Nonoperating Expenses:		
Interest expense	3,579,771	6,612,866
Interest expense - amortization	261,265	180,103
Miscellaneous	250	-
Totals	<u>3,841,286</u>	<u>6,792,969</u>
Net Income Before Contributions and Transfers	<u>6,795,980</u>	<u>19,643,837</u>
Capital Contributions and (Transfers):		
Contributed Capital	3,250,857	1,563,136
Payment in lieu of taxes	<u>(1,677,172)</u>	<u>(3,987,400)</u>
Totals	<u>1,573,685</u>	<u>(2,424,264)</u>
Change In Net Position	8,369,665	17,219,573
Total Net Position - Beginning	<u>64,466,889</u>	<u>139,138,546</u>
Total Net Position - Ending	<u>\$ 72,836,554</u>	<u>\$ 156,358,119</u>

The notes to the financial statements are an integral part of this statement

**WATER AND WASTEWATER UTILITIES  
CITY OF EVANSVILLE  
STATEMENT OF CASH FLOWS  
For the Year Ended December 31, 2017**

	<u>Water</u>	<u>Wastewater</u>
Cash flows from operating activities:		
Cash received from customers and users	\$ 35,274,375	\$ 68,166,941
Cash paid to suppliers, employees and others	<u>(21,079,919)</u>	<u>(31,445,771)</u>
Net cash from operating activities	<u>14,194,456</u>	<u>36,721,170</u>
Cash flows from noncapital financing activities:		
Payment in lieu of taxes	<u>(1,677,172)</u>	<u>(3,987,400)</u>
Net cash from noncapital financing activities	<u>(1,677,172)</u>	<u>(3,987,400)</u>
Cash flows from capital and related financing activities:		
Redemption of bond anticipation note	(1,050,000)	-
Proceeds from revenue bonds	-	21,850,000
Proceeds from state revolving fund draw loans	-	10,545,742
Contributed capital	3,250,857	1,563,136
Acquisition and construction of capital assets	(14,283,809)	(26,062,524)
Other receivable	-	(4,146)
BAB subsidy payment	-	456,920
Principal paid on revenue bonds	(1,765,000)	(5,170,000)
Principal paid on state revolving fund loans	-	(5,366,000)
Interest paid on revenue bonds	(4,238,812)	(4,685,688)
Interest paid on state revolving loans	-	(3,513,576)
Bond issuance costs paid	-	(456,292)
Rate case costs paid	(33,553)	-
Contracts payable	2,059,959	707,214
Retainage payable	452,218	(229,927)
Nonoperating revenues	115,467	1,072,998
Nonoperating expenses	<u>(250)</u>	<u>-</u>
Net cash from capital and related financing activities	<u>(15,492,923)</u>	<u>(9,292,143)</u>
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	30,226,859	37,944,318
Purchase of investments	(54,693,545)	(42,656,350)
Interest received	<u>250,097</u>	<u>505,938</u>
Net cash from investing activities	<u>(24,216,589)</u>	<u>(4,206,094)</u>
Net (decrease)/increase in cash and cash equivalents	(27,192,228)	19,235,533
Cash and cash equivalents January 1, 2017	<u>55,781,910</u>	<u>46,667,605</u>
Cash and cash equivalents December 31, 2017	<u>\$ 28,589,682</u>	<u>\$ 65,903,138</u>

**WATER AND WASTEWATER UTILITIES  
CITY OF EVANSVILLE  
STATEMENT OF CASH FLOWS  
For the Year Ended December 31, 2017**

	<u>Water</u>	<u>Wastewater</u>
Reconciliation of net operating revenues to cash provided from operations:		
Net operating revenues	\$ 10,381,841	\$ 25,508,244
Adjustments to reconcile net operating revenue to net cash provided from operating activities:		
Depreciation expense	3,892,231	12,026,627
Change in assets and liabilities:		
Decrease (increase) in:		
Accounts receivable - customer	(9,280)	(307,897)
Accounts receivable - other	141,189	-
Materials and supplies Inventory	(101,288)	36,733
Interfund services provided	(4,580)	-
Due from other	-	(39,786)
Prepays	(249,061)	(546,560)
Customer deposits receivable	(6,408)	-
Increase (decrease) in:		
Accounts payable	(9,416)	368,257
Taxes payable	(64,985)	-
Accrued payroll and withholdings payable	(19,519)	(28,636)
Net pension liability	71,469	(309,265)
Compensated absences payable	66,538	8,873
Customer deposits	98,494	-
Assistance program	7,231	-
Interfund services used	-	4,580
Net cash provided from operations	<u>\$ 14,194,456</u>	<u>\$ 36,721,170</u>
Noncash investing, capital and financing activities:		
Construction of capital assets on account	\$ 2,166,065	\$ 3,421,539
Capital assets transferred from construction in progress	7,289,499	61,419,160
Contributions of lines by developers	1,833,684	2,500,281
Disposal of capital assets	3,181,528	1,240,698

The notes to the financial statements are an integral part of this statement

WATER AND WASTEWATER UTILITIES  
CITY OF EVANSVILLE  
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements reflect only the activity of the Utilities and the results of its operations and cash flows of its business-type activities. These financial statements are not intended to present fairly the position of the City of Evansville (City). The Utilities, whose operations are controlled by the City, represents a substantial portion of the City's enterprise funds.

B. Fund Financial Statements

Business-type activity financial statements consist of the Statement of Net Position; Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows. Business-type activities rely to a significant extent on fees and charges for support.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The accounts of the Utilities are maintained and the financial statements are reported using the economic resources measurement focus and the accrual basis of accounting in conformity with U.S. generally accepted accounting principles, including the application of Governmental Accounting Standards Board (GASB) Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained In Pre-November 30, 1989 FASB and AICPA Pronouncements, as the guidance related to Regulated Operations. The guidance allows for the deferral of revenues and expenses to future periods in which the revenues are earned or the expenses are recovered through the rate-making process.

Enterprise 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 an enterprise fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services and administrative costs. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, the Utilities' policy is to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, Deferred Outflows, Liabilities and Net Position

1. Deposits and Investments

The Utilities' cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statute (IC 5-13-9) authorizes the Utilities to invest in securities, including but not limited to, federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units.

WATER AND WASTEWATER UTILITIES  
CITY OF EVANSVILLE  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Nonparticipating certificates of deposit, demand deposits and similar nonparticipating negotiable instruments that are not reported as cash and cash equivalents are reported as investments at cost.

Debt securities are reported at fair value. Debt securities are defined as securities backed by the full faith and credit of the United States Treasury or fully insured or guaranteed by the United States or any United States government agency.

Money market investments that mature within one year or less at the date of their acquisition are reported at amortized cost. Other money market investments are reported at fair value.

Investment income, including changes in the fair value of investments, is reported as non-operating revenue in the operating statement.

2. Inventories and Prepaid Items

All inventories are valued at cost using the first in/first out (FIFO) method.

3. Restricted Assets

Certain proceeds of the enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the Statement of Net Position because their use is limited by applicable bond covenants and other ordinances and resolutions.

Utility revenues that are periodically transferred to the improvement, wastewater treatment plant and periodic maintenance funds are limited by applicable bond covenants and other ordinances and resolutions.

Consumer meter deposits are refundable amounts received from Water Utility customers to insure against nonpayment of billings.

4. Capital Assets

Capital assets, which include property, plant, and equipment, are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods and estimated useful lives of capital assets are as follows:

WATER AND WASTEWATER UTILITIES  
CITY OF EVANSVILLE  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Water Utility:			
Infrastructure	\$ 750	Composite	2%
Buildings	750	Composite	2%
Improvements other than buildings	750	Composite	2%
Machinery and equipment	750	Composite	2%
Transportation equipment	750	Composite	2%
Wastewater Utility:			
Infrastructure	5,000	Straight-line	5 to 100 years
Buildings	5,000	Straight-line	5 to 100 years
Improvements other than buildings	5,000	Straight-line	5 to 100 years
Machinery and equipment	5,000	Straight-line	5 to 25 years

The two percent composite rate for the Water Utility is required pursuant to an Indiana Utility Regulatory Commission (IURC) rate order. This depreciation rate is applied to the total cost of all of the Water assets. When property is retired, accumulated depreciation is charged for the original cost of the assets in addition to the cost to remove, sell, or dispose of the asset net of the salvage value. No gain or loss is recognized on the retirement. For depreciated assets, the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are charged to operating expense when incurred.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The total interest expense incurred by the Water and Wastewater Utilities during the current year was \$4,238,812 and \$8,198,393, respectively. Of the amount, \$1,840,631 and \$1,966,565 respectively was included as part of the cost of capital assets under construction in connection with various water line and plant improvement projects and wastewater modifications and extension projects.

5. Regulatory Assets

In accordance with GASB Statement No. 62, "Codification of Accounting and Financial Reporting Guidance" (GASB 62), No. 63 "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position" (GASB 63), and No. 65 "Items Previously Reported as Assets and Liabilities" (GASB 65), these financial statements reflect the rate making actions of the IURC for Water and the Evansville City Council for Wastewater that result in the recognition of revenues and expenses in different time periods than entities that are not rate regulated. Regulatory assets are expenditures incurred by the Utility that will be recovered in rates in future periods. Deferred inflows of resources are revenues collected in rates for expenses not yet incurred.

6. Compensated Absences

- a. Sick Leave – Full-time Non-Union Utility employees are awarded eight sick days per year. Unused sick leave may be accumulated to a maximum of 60 days. Accumulated sick leave is paid to employees through cash payments upon retirement to a maximum of 30 days, provided the employee has five years of continuous service.

WATER AND WASTEWATER UTILITIES  
CITY OF EVANSVILLE  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Union Utility employees earn sick leave at the rate of nine days per year. Unused sick leave may be accumulated indefinitely. Accumulated sick leave is paid to employees through cash payments upon retirement up to a maximum of 42 days.

- b. Vacation Leave – Utility employees earn vacation leave at rates from 10 days to 30 days per year based upon the number of years of service. Employees are expected to use earned vacation time by the end of the next succeeding employment year. Non-union employees can carry over 50 percent of their annual vacation entitlement for use in the following year. Accumulated vacation leave is paid to employees through cash payments upon death, retirement or termination. If an employee is terminated for cause, all accrued benefits are forfeited.
- c. Compensatory time is available to employees for hours they work beyond 40 hours in a week with approval of the employee's supervisor.
- d. Personal Leave – Utility employees earn personal leave at the rate of three days per year. Personal leave is not paid to employees upon termination and does not accumulate from year to year.

Vacation and sick leave are accrued when incurred.

7. Long-Term Obligations

Long-term and other long-term obligations are reported as liabilities in the Statement of Net Position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as regulatory assets and amortized over the term of the related debt.

8. Restricted Net Position

The financial statements for the Water and Wastewater Utilities report \$7,364,956 and \$30,374,155 respectively, of restricted net position which is restricted by bond resolution or other ordinances.

9. 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(s) and so will not be recognized as an outflow of resources (expense/expenditure) until that time.

In addition to liabilities, the 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.

WATER AND WASTEWATER UTILITIES  
CITY OF EVANSVILLE  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

The Utilities have deferred outflows and deferred inflows related to their Pension Plans (see Note III G for additional information on the Utilities' Pension Plans). The Utilities recognized a deferred outflow for Utilities contributions made to Pension Plans made after the measurement date. In addition, the Utilities have deferred outflows and deferred inflows related to differences between the Plans expected and actual experience, differences between projected and actual investment earnings on Pension Plan investments, change in Pension Plan assumptions, and changes in the proportion and differences between employer contributions and proportionate share of contributions.

The Utilities other items listed under deferred outflows of resources are the regulatory assets (see Note I D 5) and deferred amount on refunding. The deferred amount on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

II. Detailed Notes on All Funds

A. Deposits and Investments

Deposits, made in accordance with IC 5-13, with financial institutions in the State of Indiana at year end were entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Indiana Code 5-13-8-1 allows a political subdivision of the State of Indiana to deposit public funds in a financial institution only if the financial institution is a depository eligible to receive state funds and has a principal office or branch that qualifies to receive public funds of the political subdivision. The Utilities do not have a deposit policy for custodial credit risk. At December 31, 2017, the Water and Wastewater Utilities had deposit balances in the amount of \$57,735,907 and \$100,134,753, respectively.

The bank balances were insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

B. Fair Value Measurement

The Utilities 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 the asset. Level 1 inputs are quoted prices in active markets for identical assets or liabilities; Level 2 observable inputs are inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; Level 3 unobservable inputs are supported by little or no market activity and are significant to the fair value of the assets or liabilities.

·Money Market Mutual Funds of \$61,362,801 are valued using quoted market prices (Level 1 inputs)

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Government Securities of \$15,963,829 are valued using quoted market prices in markets that aren't active (Level 2 inputs)

The Utilities have the following recurring fair value measurements as of December 31, 2017:

<u>Level 1 Inputs</u>	<u>Utilities Fair Value</u>		Investment	Investment
	Water	Wastewater	Maturities (in Years) Less Than 1	Maturities (in Years) Greater Than 1 & Less than 2
Money Market Mutual Funds	<u>\$ 19,243,982</u>	<u>\$ 42,118,819</u>	<u>\$ 61,362,801</u>	<u>\$ -</u>

<u>Level 2 Inputs</u>	<u>Utilities Fair Value</u>		Investment	Investment
	Water	Wastewater	Maturities (in Years) Less Than 1	Maturities (in Years) Greater Than 1 & Less than 2
Government Securities	<u>\$ -</u>	<u>\$ 15,963,829</u>	<u>\$ 14,372,344</u>	<u>\$ 1,591,485</u>

C. Capital Assets

Capital asset activity for the year ended December 31, 2017, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Water Utility:				
Capital assets, not being depreciated:				
Land	\$ 432,435	\$ -	\$ -	\$ 432,435
Construction in progress	<u>9,175,354</u>	<u>11,394,600</u>	<u>7,289,499</u>	<u>13,280,455</u>
Total capital assets, not being depreciated	<u>9,607,789</u>	<u>11,394,600</u>	<u>7,289,499</u>	<u>13,712,890</u>
Capital assets, being depreciated:				
Infrastructure	131,166,234	10,579,179	2,981,335	138,764,078
Buildings	39,491,179	122,129	-	39,613,308
Improvements other than buildings	1,874,075	45,616	-	1,919,691
Machinery and equipment	<u>30,604,854</u>	<u>4,137,587</u>	<u>200,193</u>	<u>34,542,248</u>
Totals	<u>203,136,342</u>	<u>14,884,511</u>	<u>3,181,528</u>	<u>214,839,325</u>
Less accumulated depreciation for:				
Infrastructure	44,394,156	2,490,878	18,706	46,866,328
Buildings	17,273,043	791,993	-	18,065,036
Improvements other than buildings	60,948	37,550	-	98,498
Machinery and equipment	<u>6,248,202</u>	<u>555,022</u>	<u>1,753</u>	<u>6,801,471</u>
Totals	<u>67,976,349</u>	<u>3,875,443</u>	<u>20,459</u>	<u>71,831,333</u>
Total capital assets, being depreciated, net	<u>135,159,993</u>	<u>11,009,068</u>	<u>3,161,069</u>	<u>143,007,992</u>
Total capital assets, net	<u>\$ 144,767,782</u>	<u>\$ 22,403,668</u>	<u>\$ 10,450,568</u>	<u>\$ 156,720,882</u>

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	Beginning Balance	Increases	Decreases	Ending Balance
Wastewater Utility:				
Capital assets, not being depreciated:				
Land	\$ 3,779,669	\$ -	\$ -	\$ 3,779,669
Construction in progress	64,248,775	24,091,820	61,419,160	26,921,435
<b>Total capital assets, not being depreciated</b>	<b>68,028,444</b>	<b>24,091,820</b>	<b>61,419,160</b>	<b>30,701,104</b>
Capital assets, being depreciated:				
Infrastructure	254,573,853	29,091,056	691,529	282,973,380
Buildings	160,656,930	2,823,662	451,638	163,028,954
Improvements other than buildings	4,566,586	526,728	-	5,093,314
Machinery and equipment	14,620,554	33,826,827	97,531	48,349,850
<b>Totals</b>	<b>434,417,923</b>	<b>66,268,273</b>	<b>1,240,698</b>	<b>499,445,498</b>
Less accumulated depreciation for:				
Infrastructure	72,137,880	6,265,132	19,949	78,383,063
Buildings	98,195,844	4,084,908	-	102,280,752
Improvements other than buildings	1,368,847	249,555	-	1,618,402
Machinery and equipment	7,536,372	1,454,479	79,180	8,911,671
<b>Totals</b>	<b>179,238,943</b>	<b>12,054,074</b>	<b>99,129</b>	<b>191,193,888</b>
<b>Total capital assets, being depreciated, net</b>	<b>255,178,980</b>	<b>54,214,199</b>	<b>1,141,569</b>	<b>308,251,610</b>
<b>Total capital assets, net</b>	<b>\$ 323,207,424</b>	<b>\$ 78,306,019</b>	<b>\$ 62,560,729</b>	<b>\$ 338,952,714</b>

Depreciation expense was charged to functions/programs of the Utility for 2017 as follows:

	2017
Water	\$ 3,892,231
Wastewater	12,026,627
<b>Total depreciation expense</b>	<b>\$ 15,918,858</b>

D. Construction Commitments

At December 31, 2017 construction work in progress was composed of the following:

Project	2017	
	Expended to December 31,	Committed
Water lines and plant improvements	\$ 13,280,455	\$ 32,799,392
Sewer modifications, extensions and treatment plant	26,921,435	59,791,500
<b>Totals</b>	<b>\$ 40,201,890</b>	<b>\$ 92,590,892</b>

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E. Interfund Receivables and Payables

As of December 31, 2017 the Wastewater Utility Operating Fund owed the Water Utility Operating Fund \$448,665. The Water Utility also carried a long-term liability for Payments in Lieu of Tax to the City of Evansville for \$702,956. The Water Utility does not anticipate paying the Payments in Lieu of Tax in 2018. The City is not accruing interest on the unpaid Payments in Lieu of Tax.

F. Short-Term Liability

The Water Utility's Board during March of 2016 approved the issuance of a 2016 BAN in the not to exceed amount of \$2,000,000 for various waterworks improvements, due on or before March 23, 2017. In February 2017, the Water Utility refinanced the 2016 BAN with proceeds from the Waterworks Revenue Bonds, Series 2016A in the amount of \$1,050,000.

Short-term debt activity for the year ended December 31, 2017, was as follows:

2017	Beginning Balance	Issued/ Draws	Redeemed/ Repayments	Ending Balance
Water Utility:				
Bond anticipation note	\$ 1,050,000	\$ -	\$ 1,050,000	\$ -

G. Long-Term Liabilities

1. Revenue Bonds

The Utilities issue bonds to be paid by income derived from the acquired or constructed assets. Revenue bonds outstanding at year end are as follows:

Purpose	Final Maturity	Interest Rates	Balance at December 31	Less: Unamortized (Premium) Discount	Amount
2013A Waterworks revenue bonds	1/1/2035	3.00% to 5.00%	\$ 28,950,000	\$ (434,482)	\$ 29,384,482
2013C Waterworks revenue bonds	1/1/2036	2.00% to 5.50%	15,250,000	31,330	15,218,670
2014B Waterworks revenue refunding bonds	1/1/2025	4.00% to 5.00%	16,720,000	(1,849,242)	18,569,242
2016A Waterworks revenue bonds	1/1/2038	4.00%	39,640,000	(726,214)	40,366,214
2016B Waterworks refunding revenue bonds	1/1/2030	2.00% to 4.00%	31,370,000	(99,684)	31,469,684
Subtotals			<u>131,930,000</u>	<u>(3,078,292)</u>	<u>135,008,292</u>
2010 Wastewater revenue bonds - Series B-1	7/1/2031	3.75% to 6.50%	23,975,000	(32,525)	24,007,525
2013A Wastewater revenue refunding bonds	7/1/2023	1.50%	19,665,000	-	19,665,000
2013B Wastewater revenue bonds	7/1/2036	3.00% to 6.50%	28,710,000	(1,776,550)	30,486,550
2014C Wastewater revenue bonds	7/1/2035	2.00% to 3.50%	23,310,000	(181,288)	23,491,288
2016A Wastewater revenue bonds	7/1/2037	2.00% to 3.00%	25,855,000	(256,129)	26,111,129
2017A Wastewater revenue bonds	7/1/2038	3.00% to 3.375%	21,850,000	(237,685)	22,087,685
Subtotals			<u>143,365,000</u>	<u>(2,484,177)</u>	<u>145,849,177</u>
Totals			<u>\$ 275,295,000</u>	<u>\$ (5,562,469)</u>	<u>\$ 280,857,469</u>

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The 2010 Series B-1 Revenue Bonds are taxable bonds. The Series B-1 Bonds were issued under Section 1531 of Title I of Division B of the American Recovery and Reinvestment Act of 2009. The Series B-1 Bonds are eligible for Federal subsidies in the form of refundable tax credits paid to Wastewater. The tax credits are equal to 35 percent of the total coupon interest payable. The tax credits received by the Utility will be recorded as revenue in the year the credit it is earned.

2. Revenue bonds debt service requirements to maturity are as follows:

	Water Utility		Wastewater Utility	
	Principal	Interest	Principal	Interest
2018	\$ 3,130,000	\$ 5,320,925	\$ 5,895,000	\$ 5,211,495
2019	4,870,000	5,164,950	7,220,000	5,072,651
2020	5,065,000	4,968,200	7,400,000	4,882,981
2021	5,265,000	4,761,138	7,595,000	4,686,156
2022	5,480,000	4,538,600	7,805,000	4,474,106
2023 - 2027	30,950,000	19,131,888	32,535,000	18,954,461
2028 - 2032	36,700,000	12,756,916	36,835,000	11,790,192
2033 - 2037	35,250,000	4,494,784	36,560,000	3,885,081
2038 - 2042	5,220,000	104,400	1,520,000	38,644
Totals	<u>\$ 131,930,000</u>	<u>\$ 61,241,801</u>	<u>\$ 143,365,000</u>	<u>\$ 58,995,767</u>

3. Refunding Bonds

On March 15, 2016, the Water Utility Board approved the issuance of the aggregate principal amount not to exceed \$32,530,000 in Waterworks Refunding Revenue Bonds, Series 2016B. On December 15, 2016 the bonds were issued in the principal amount of \$31,370,000 to advance refund \$30,670,000 of the outstanding Waterworks District Bonds, Series 2008 (2008 Bonds). Bond proceeds together with funds on hand were used to purchase U.S. government securities and placed in an irrevocable escrow account to refund the 2008 Bonds. As of January 2, 2018, the Trustee refunded the 2008 Bonds.

4. State Revolving Loans Payable

Under the terms of the State Revolving Loan Fund, revenue bonds have been purchased by the Indiana Bond Bank, the proceeds of which are set aside to finance the construction of various wastewater rehabilitation projects. Funds are loaned to the Wastewater Utility as construction costs are accrued to the maximum allowed. The 2014D, 2016B, and 2016C loans established a maximum draw of \$35,415,000, \$12,715,000, and \$8,835,000, respectively. As of December 31, 2017, the loan principal amount drawn for the 2014D, 2016B, and 2016C loans were \$32,382,115, \$10,074,949, and \$2,014,231, respectively. Annual debt service requirements for the 2014D, 2016B and 2016C loans will not be determined until planned construction projects are completed.

The State placed the proceeds of the 2008B, 2011D, 2014A and 2014B into a trust account in the Wastewater Utility's name. Cash drawdowns are made from this account after approval is given by the State. The cash balance not yet drawn down, reported as part of the Construction Fund Cash and Cash Equivalents is \$424,136 and \$78,268 for the 2014A and 2014B loans, respectively.

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Under the terms of the State Revolving Loan Fund, revenue bonds have been purchased by the Indiana Bond Bank, the proceeds of which are set aside to finance the construction of improvements and extensions to the Wastewater Utility. Funds were loaned to the Wastewater Utility as construction costs accrued to the maximum allowed. The 2004, 2007, 2008B, 2009, 2010A, 2011C, 2011D, 2012E, 2014A, and 2014B loans established a maximum draw of \$7,130,000, \$37,518,000, \$18,452,000, \$27,730,498, \$7,120,000, \$3,800,000, \$1,215,000, \$5,975,000, \$7,510,000, and \$5,760,000, respectively. At the completion of construction, the outstanding principal balance was amortized over a twenty year period. Annual debt service requirements to maturity for the loans, including interest of \$34,723,605 are as follows:

	2018	\$ 9,291,015
	2019	10,177,146
	2020	10,180,034
	2021	10,177,802
	2022	10,178,445
	2023 - 2027	60,807,167
	2028 - 2032	54,517,004
	2033 - 2037	13,798,020
	2038 - 2042	<u>1,315,470</u>
Totals		180,442,103
Less SRF not drawn down		<u>(9,548,705)</u>
Ending Balance		<u>\$ 170,893,398</u>

5. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2017, was as follows:

2017	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Water Utility:					
Revenue bonds payable	\$ 133,695,000	\$ -	\$ 1,765,000	\$ 131,930,000	\$ 3,130,000
Deferred amount on bonds	3,410,904	88,627	421,239	3,078,292	-
BANs payable	1,050,000	-	1,050,000	-	-
Payment in lieu of tax	702,956	-	-	702,956	-
Compensated absences	536,409	66,538	-	602,947	602,947
Net pension liability	<u>5,867,096</u>	<u>71,469</u>	<u>-</u>	<u>5,938,565</u>	<u>-</u>
Total Long-term liabilities	<u>\$ 145,262,365</u>	<u>\$ 226,634</u>	<u>\$ 3,236,239</u>	<u>\$ 142,252,760</u>	<u>\$ 3,732,947</u>
Wastewater Utility:					
Revenue bonds payable	\$ 126,685,000	\$ 21,850,000	\$ 5,170,000	\$ 143,365,000	\$ 5,895,000
Deferred amount on bonds	2,368,355	254,479	138,657	2,484,177	-
State revolving loan	130,990,051	10,545,742	5,366,000	136,169,793	5,515,000
Compensated absences	495,680	8,873	-	504,553	504,553
Net pension liability	<u>4,506,881</u>	<u>-</u>	<u>309,265</u>	<u>4,197,616</u>	<u>-</u>
Total Long-term liabilities	<u>\$ 265,045,967</u>	<u>\$ 32,659,094</u>	<u>\$ 10,983,922</u>	<u>\$ 286,721,139</u>	<u>\$ 11,914,553</u>

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H. Restricted Assets

The balances of restricted asset accounts in the enterprise funds are as follows:

	<u>Water</u>	<u>Wastewater</u>
Revenue bond covenant accounts	\$ 46,769,754	\$ 92,599,162
Customer deposits cash	1,503,558	-
Customer deposits receivable	30,905	-
Other restricted cash	3,319,644	-
Interest receivable	<u>199,012</u>	<u>146,574</u>
 Total restricted assets	 <u>\$ 51,822,873</u>	 <u>\$ 92,745,736</u>

III. Other Information

A. Risk Management

The City, including the Utilities, is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, retirees, and dependents; and natural disasters. Information is not available to segregate the Utilities' portion.

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to; and natural disasters are covered by commercial insurance from independent third parties. The City, including the Utilities, is self-insured for the first \$100,000 to \$250,000 of claims depending on the type of loss.

Torts; Theft of, Damage to, and Destruction of Assets; Errors and Omissions: Job Related Illnesses or Injuries to Employees; and Natural Disasters

The City, including the Utilities, has chosen to establish three risk financing funds for risks associated with torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; and natural disasters. The risk financing funds are accounted for in the City's Liability Insurance Fund, Auto Collision Fund, and the Workers' Compensation Fund, internal service funds, where assets are set aside for claim settlements. The City, including the Utilities, is self-insured for the first \$100,000 to \$250,000 per incident depending on the type of loss. Also all claims in excess of \$2,594,782 per year are covered by commercial insurance. Interfund premiums are paid into the funds by all affected funds and are available to pay claims, claim reserves, and administrative costs of the program. Interfund premiums are based upon an overall premium percentage which is applied to each affected fund and are reported as quasi-external transactions.

Medical Benefits to Employees, Retirees, and Dependents

The City, including the Utilities, has chosen to establish a risk financing fund for risks associated with Medical benefits to employees, retirees and dependents. Coverage is provided for life insurance, dental, health care management, vision, prescription, wellness, and employee assistance. The risk financing fund is accounted for in the City's Hospitalization Fund, an internal

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service fund, where assets are set aside for claim settlements. The City, including the Utilities, purchases commercial insurance for claims in excess of coverage provided by the fund. Amounts are paid into the health insurance fund by all funds from which payroll is paid. The amounts paid by each fund are based on an amount per employee in that fund.

Settled claims from risks covered by commercial insurance have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance by major category of risk.

B. Rate Structure

1. Water Utility

The rate structure in effect in 2016 was approved by the IURC on February 13, 2013, pursuant to IURC Order in Cause No. 44137. During March 2016 the Water Utility filed a rate petition with the IURC which was subsequently approved. The Utility has approximately 63,103 customers.

The proposed two-phase across-the-board rate increase was approved by the IURC on October 5, 2016, pursuant to IURC Order in Cause No. 44760. Subsequent to the issuance of the 2016A Bonds, the Water Utility filed a True-up report with the IURC that was approved on December 27, 2016. The Phase I increase is 29.37% increase over the present rates effective on December 27, 2016 and Phase II of the increase is a 14.03% increase over the Phase I rates assumed effective January 1, 2018.

2. Wastewater Utility

The Wastewater Utility had a Cost of Service Study conducted during 2016. On October 24, 2016 the Common Council approved a four-phase increase with Phase I assumed effective January 1, 2017, and Phases II, III and IV effective each January 1st thereafter. The Utility has approximately 53,014 customers.

The Wastewater Utility entered into a revised contract with BFI Waste Services of Indiana LP for refuse collection and recycling services on September 11, 2012. The agreement became effective January 1, 2013 and covers a term of ten years. Pursuant to this contract the Common Council approved a revised refuse monthly fee effective January 1, 2013.

C. Dividend Income

The Wastewater Utility earned dividend income on the investment of funds in mutual funds.

D. Litigation

1. Litigation - Federal Lawsuit

The United States Department of Justice (DOJ), Environmental Protection Agency (EPA) and Indiana Department of Environmental Management (IDEM) have undertaken legal proceedings against the City of Evansville, by and through its Water and Wastewater Utility, concerning an enforcement action of the Clean Water Act due to combined and sanitary sewer overflows and

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violations of the National Pollutant Discharge Elimination System (NPDES) permit. The City, DOJ, EPA, and IDEM have reached a settlement with respect to a consent decree executed in November of 2010 pursuant to United States District Court in cause number 3:09CV128 WTL-WHG.

The City is not unique in its need to address with the regulatory agencies overflows from its combined sewer system. Approximately forty percent (40%) of the sewer systems in Evansville are combined, sanitary and storm drains which result in overflows into streams, and, ultimately, the Ohio River in severe wet weather events. The City has been very active in its attempts at mitigating the severe penalties and damages which may be assessed, including pursuing legal actions for indemnity and contribution from EMC, the City's prior private management firm, and previous and current insurance carriers. The City has paid a \$490,000 civil penalty to resolve all claims and liability for alleged past violations. The City submitted the IOCP to the EPA on May 31, 2013. The IOCP submitted provides for a \$540 million program implemented over 28 years.

The EPA and IDEM, on June 16, 2014 informed the City that is was not going to approve the IOCP as submitted due to technical reasons. In response the City issued a Notice of Dispute on June 20, 2014 regarding the disapproval as allowed by the consent decree.

On December 16, 2015 the City reached an agreement with the EPA, DOJ and IDEM for Evansville's federally mandated IOCP, known as Renew Evansville. Under the terms of the agreement, Evansville will spend \$729,000,000 over 24 ½ years to significantly upgrade the City's Sewage Works infrastructure, improve operations and dramatically reduce water pollution to comply with the Clean Water Act. The City's Sewage Works utility must reduce the number of combined sewer overflow (CSO) events – wastewater that overflows into the Ohio River and Pigeon Creek during wet weather events – to no more than four per year. These improvements and related bond issues will require increases in sewer rates and charges in order to provide adequate revenues for the resulting debt service requirements and the necessary debt service coverage. The City's Common Council must adopt a rate ordinance to adjust sewage rates.

2. Litigation – Gradex, Inc. vs. EWSU

Plaintiff, Gradex, Inc. (Gradex), filed a Complaint on February 24, 2014 against Evansville Water and Sewer Utility (EWSU), in the Vanderburgh Superior Court under Cause No. 82D031402-PL-00876. On July 9, 2010, Gradex was awarded the general contract to undertake a certain public works construction project which came to be known as the Cass Avenue Sanitary and Storm Water Improvements Phase I and II Project, located in Evansville, Indiana (the Cass Ave. Project). The Complaint alleges that EWSU breached said contract for, among other things, failure to perform, certain alleged representations concerning the Cass Ave. Project's site conditions, alleged failure to pay for certain additional work Gradex alleges was not anticipated or indicated in the contract documents, and a further claim under the theory of constructive acceleration as a result of EWSU's alleged refusal to grant Gradex's request for extension of time to complete the Project.

On June 21, 2017, a mediation was held between Gradex and EWSU and they were able to resolve the matter. EWSU agreed to pay Gradex the sum of \$675,000 in exchange to dismiss this case.

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E. Subsequent Events

1. Water Utility – Rate Increase

The proposed three-phase across-the-board rate increase is being considered by the IURC as of the date of this report, after settlement negotiations between the Water Utility and the Office of Utility Consumer Counselor (OUCC), pursuant to Cause No. 45073. As stipulated in the proposed order in this Cause, Phase I of the increase is an assumed 18.90% increase over the present rates effective January 1, 2018, Phase II of the increase is an assumed 15.50% increase over the Phase I rates assumed effective January 1, 2019, and Phase III of the increase is an assumed 8.00% increase over the Phase I rates assumed effective January 1, 2020.

2. Wastewater Utility – Sewage Works Revenue Bonds, Series 2018A

In April 2018, the Wastewater Utility issued in the principal amount of \$16,960,000 Sewage Works Revenue Bonds, Series 2018A through the Indiana State Revolving Fund (SRF) Loan program. This bond issue will fund the East Wastewater Treatment Plant Effluent Pump Station, West Wastewater Treatment Plant Improvements, and East Wastewater Treatment Plant Capacity Expansion. The state placed the proceeds of the 2018A into a trust account in the Wastewater Utility's name. Cash drawdowns are made from this account after approval is given by the state.

3. Water Utility – Taxable Waterworks District Bond Anticipation Note of 2018

The Water Utility during July of 2018 approved the issuance of a Bond Anticipation Note (BAN) in the not to exceed amount of \$5,000,000 for various water works improvements, due on or before July 25, 2019. The BAN was sold to the Evansville Local Public Improvement Bond Bank pursuant to a Bond Anticipation Note Purchase Agreement between the City and the Evansville Local Public Improvement Bond Bank.

4. Federal Emergency Management Agency (FEMA) Reimbursement

Vanderburgh County had severe thunderstorms and flooding during the period of February 14 through March 4, 2018. On May 4, 2018, President Trump named Vanderburgh County a Presidentially declared disaster area as a result of this event, which is also known as DR-4363.

The Wastewater Utility has applied for \$100,800 in reimbursements through the Federal Emergency Management Agency (FEMA) for repairs to its 96 foot sewer line at Bee Slough as a result of damages occurred during this event.

F. Pension Plan

Cost-Sharing Multiple Employer Defined Benefit Pension Plan

Public Employees' Retirement Fund

Plan Description: The Utilities contribute to the Public Employees' Retirement Fund (PERF), which is administered by the Indiana Public Retirement System (INPRS). As part of the implementation of GASB Statement No. 67, *Financial Reporting for Pension Plans – An Amendment of GASB No. 25* (GASB No. 67), PERF changed from an agent to a cost sharing, multiple-employer defined

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benefit plan effective July 1, 2013, based on 35 IAC 21-1-1, 35 IAC 21-1-2 and amended IC 5-10.2-2-11(b). PERF was established to provide retirement, disability, and survivor benefits to full-time employees of the State not covered by another plan, those political subdivisions that elect to participate in the retirement plan, and certain INPRS employees. Political subdivisions mean a county, city, town, township, political body corporate, public school corporation, public library, public utility of a county, city, town, township, and any department of, or associated with, a county, city, town, or township, which department receives revenue independently of, or in addition to, funds obtained from taxation. There are two (2) tiers to the PERF Plan. The first is the Public Employees' Defined Benefit Plan (PERF Hybrid Plan) and the second is the Public Employees' Annuity Savings Account Only Plan (PERF ASA Only Plan).

The PERF Hybrid Plan was established by the Indiana Legislature in 1945 and is governed by the INPRS Board of Trustees in accordance with IC 5-10.2, IC 5-10.3 and IC 5-10.5. There are two (2) aspects to the PERF Hybrid Plan defined benefit structure. The first portion is the monthly defined benefit pension that is funded by the employer. The second portion of the PERF Hybrid Plan benefit structure is the annuity savings account (ASA) that supplements the defined benefit at retirement.

The PERF ASA Only Plan was established by the Indiana Legislature in 2011, and is governed by the INPRS Board of Trustees in accordance with IC 5-10.3-12 and IC 5-10.5. This plan is funded by an employer and a member for the use of the member, or the member's beneficiaries or survivors, after the member's retirement. The PERF ASA Only Plan members are full-time employees of the State (as defined in IC 5-10.3-7-1(d)), who are in a position eligible for membership in the PERF Hybrid Plan and who elect to become members of the PERF ASA Only Plan. The PERF ASA Only Plan membership does not include individuals who: (1) before March 1, 2013; were members of the PERF Hybrid Plan or (2) on or after March 1, 2013, do not elect to participate in the PERF ASA Only Plan. Any government agency that pays employees through the Auditor of the State is a mandatory participant in the PERF ASA Only Plan and must offer eligible employees the PERF ASA Only Plan option. Quasigovernment agencies and State educational institutions may choose to offer the PERF ASA Only Plan as an option to their employees. Since inception, 395 members have selected the PERF ASA Only Plan, or approximately 9 percent of eligible new hires of the State.

Members are required to participate in the ASA. The ASA consists of the member's contributions, set by statute at three (3) percent of compensation as defined by IC 5-10.2-3-2 for PERF, plus the interest/earnings or losses credited to the member's account. The employer may elect to make the contributions on behalf of the member. In addition, under certain conditions, members may elect to make additional voluntary contributions of up to 10 percent of their compensation into their ASA. A member's contributions and interest credits belong to the member and do not belong to the State or political subdivision.

Investments in the members' ASA are individually directed and controlled by plan participants who direct the investment of their account balances among eight (8) investment options, with varying degrees of risk and return potential. All contributions made to a member's account (member contribution subaccount and employer contribution subaccount) are invested as a combined total according to the member's investment elections. Members may make changes to their investment directions daily and investments are reported at fair value.

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Financial report: INPRS issues a publicly available stand-alone financial report that includes financial statements and required supplementary information for the plan as a whole. This report may be obtained by writing the Indiana Public Retirement System, One North Capitol, Suite 001, Indianapolis, IN 46204, by calling (888) 526-1687, by emailing [questions@inprs.in.gov](mailto:questions@inprs.in.gov), or by visiting [www.in.gov/inprs](http://www.in.gov/inprs).

Retirement Benefits: Defined Benefit Pension: The PERF Hybrid Plan retirement benefit consists of the sum of a defined pension benefit provided by employer contributions plus the amount credited to the member's ASA. Pension benefits (non ASA) vest after 10 years of creditable service. The vesting period is eight (8) years for certain elected officials. Members are immediately vested in their ASA. At retirement, a member may choose to receive a lump sum payment of the amount credited to the member's ASA, receive the amount as an annuity, or leave the contributions invested with INPRS. Vested PERF members leaving a covered position, who wait 30 days after termination, may withdraw their ASA and will not forfeit creditable service or a full retirement benefit. However, if a member is eligible for a full retirement at the time of the withdrawal request, he/she will have to begin drawing his/her pension benefit in order to withdraw the ASA. A non-vested member who terminates employment prior to retirement may withdraw his/her ASA after 30 days, but by doing so, forfeits his/her creditable service. A member who returns to covered service and works no less than six (6) months in a covered position may reclaim his/her forfeited creditable service.

A member who has reached age 65 and has at least 10 years of creditable service is eligible for normal retirement and, as such, is entitled to 100 percent of the pension benefit component. This annual pension benefit is equal to 1.1 percent times the average annual compensation times the number of years of creditable service. The average annual compensation in this calculation uses the highest 20 calendar quarters of salary in a covered position. All 20 calendar quarters do not need to be continuous, but they must be in groups of four (4) consecutive calendar quarters. The same calendar quarter may not be included in two (2) different groups. For PERF members who serve as an elected official, the highest one (1) year (total of four (4) consecutive quarters) of annual compensation is used. Member contributions paid by the employer on behalf of the member and severance pay up to \$2,000 are included as part of the member's annual compensation.

A member who has reached age 60 and has at least 15 years of creditable service is eligible for normal retirement and, as such, is entitled to 100 percent of the pension benefit. A member who is at least 55 years old and whose age plus number of years of creditable service is at least 85 is entitled to 100 percent of the benefits as described above.

A member who has reached at least age 50 and has at least 15 years of creditable service is eligible for early retirement with a reduced pension. A member retiring early receives a percentage of the normal annual pension benefit. The percentage of the pension benefit at retirement remains the same for the member's lifetime. For age 59, the early retirement percentage of the normal annual pension benefit is 89 percent. This amount is reduced five (5) percentage points per year (e.g., age 58 is 84 percent) to age 50 being 44 percent.

The monthly pension benefits for members in pay status may be increased periodically as cost of living adjustments (COLA). Such increases are not guaranteed by statute and have historically been provided on an "ad hoc" basis and can only be granted by the Indiana General Assembly. There was no COLA for the year ended June 30, 2017; however, eligible members received a one-time check (a.k.a. 13<sup>th</sup> check) September 2016. The amount of the one-time check ranged from \$150 to \$450, depending upon a member's years of service. The September 2016 one-time check was for a member who retired or was disabled on or before December 1, 2015, and who was entitled to receive a monthly benefit on July 1, 2016.

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The PERF Hybrid Plan also provides disability and survivor benefits. A member who has at least five (5) years of creditable service and becomes disabled while in active service, on FMLA leave, receiving workers' compensation benefits, or receiving employer-provided disability insurance benefits may retire for the duration of the disability, if the member has qualified for social security disability benefits and has furnished proof of the qualification. The disability benefit is calculated the same as that for a normal retirement without reduction for early retirement. The minimum benefit is \$180 per month, or the actuarial equivalent.

Upon the death in service of a member with 15 or more years of creditable service as of January 1, 2007, a survivor benefit may be paid to the surviving spouse to whom the member had been married for two (2) or more years, or surviving dependent children under the age of 18. This payment is equal to the benefit which would have been payable to a beneficiary if the member had retired at age 50 or at death, whichever is later, under an effective election of the joint and survivor option available for retirement benefits. A surviving spouse or surviving dependent children are also entitled to a survivor benefit upon the death in service after January 1, 2007, of a member who was at least 65 years of age and had at least 10 but not more than 14 years of creditable service.

Funding Policy: Members are obligated by statute to make contributions to the PERF Hybrid Plan or the PERF ASA Only Plan. Any political subdivision that elects to participate in the PERF Hybrid Plan is obligated by statute to make contributions to the plan. The required contributions are determined by the INPRS Board of Trustees based on actuarial investigation and valuation in accordance with IC 5-10.2-2-11. The funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to fund the pension benefits when they become due. As PERF is a cost-sharing plan, all risks and costs, including benefit costs, are shared proportionately by the participating employers.

During fiscal year 2017, any political subdivision that elects to participate in PERF Hybrid is obligated by statute to make contributions to the plan. The required contributions are determined by the INPRS Board of Trustees based on actuarial investigation and valuation in accordance with IC 5-10.2-2-11. The funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to fund the pension benefits when they become due. As PERF is a cost-sharing plan, all risks and costs, including benefit costs, are shared proportionately by the participating employers. During the year ended June 30, 2017, participating employers were required to contribute 11.2 percent of covered payroll for members employed by the State and Political Subdivisions.

The PERF Hybrid Plan or the PERF ASA Only Plan members contribute three (3) percent of covered payroll to their ASA, which is not used to fund the defined benefit pension for the PERF Hybrid Plan. For the PERF Hybrid Plan, the employer may elect to make the contributions on behalf of the member. The employer shall pay the member's contributions on behalf of the member for the PERF ASA Only Plan. In addition, members of the PERF Hybrid Plan (effective July 1, 2014, the PERF ASA Only Plan may also participate) may elect to make additional voluntary contributions, under certain criteria, of up to 10 percent of their compensation into their ASA.

PERF covered employees are required to contribute 3% of their compensation to the Fund and the Utilities are required to contribute amounts, which are actuarially determined, sufficient to fund the retirement benefits. The Utilities contribute the 3% employee's portion. In addition, some employees elect to make additional voluntary contributions to their PERF ASA Only Plans.

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The following represents the Utilities' annual required contributions:

<u>Year Ended</u> <u>December 31</u> 2017	<u>Annual Required</u> <u>Contribution</u> \$1,257,370	<u>Percentage</u> <u>Contributed</u> 100%
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Significant Actuarial Assumptions: The total pension liability is determined by INPRS actuaries in accordance with GASB No. 67, as part of their annual actuarial valuation for each defined benefit retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g. salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g. mortality, disabilities, retirements, employment terminations). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future. Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuations are presented below:

- Asset valuation date – June 30, 2017
- Experience study date – Period of 4 years ended June 30, 2014
- Actuarial cost method – Entry age normal (level percent of payroll)
- Investment rate of return – 6.75%
- COLA – 1.0%
- Future salary increases, including inflation – 2.5% - 4.25%
- Inflation – 2.25%
- Mortality – RP-2014 Total Data Set Mortality Tables, with Social Security generational improvements from 2006 based on the Social Security Administration's 2014 Trustee Report.

The long-term return expectation for the defined benefit retirement plan has been determined by using a building-block approach and assumes a time horizon, as defined in the INPRS Investment Policy Statement. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted average of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes.

	<u>Target</u> <u>Asset Allocation</u>	<u>Geometric Basis</u> <u>Long-Term Expected</u> <u>Real Rate of Return</u>
		<u>2017</u>
Public Equity	22.0%	4.9%
Private Equity	14.0%	5.7%
Fixed Income – Ex Inflation-Linked	20.0%	2.3%
Fixed Income – Inflation-Linked	7.0%	0.6%
Commodities	8.0%	2.2%
Real Estate	7.0%	3.7%
Absolute Return	10.0%	3.9%
Risk Parity	12.0%	5.1%

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Total pension liability for each defined benefit pension plan was calculated using the discount rate of 6.75 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and where applicable from the members, would at the minimum be made at the actuarially determined required rates computed in accordance with the current funding policy adopted by the INPRS Board, and contributions required by the State (the non-employer contributing entity) would be made as stipulated by State statute. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (6.75 percent). Based on those assumptions, each defined benefit pension plan's fiduciary net position were projected to be available to make all projected future benefit payments of current plan members; therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability for each plan.

Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability of each defined benefit pension plan calculated using the discount rate of 6.75 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (5.75%), or one percentage point higher (7.75%) than the current rate:

	<u>1% Decrease</u> (5.75%)	<u>Current Rate</u> (6.75%)	<u>1% Increase</u> (7.75%)
2017	\$14,783,211	\$10,136,181	\$6,273,205

Pension Plan Fiduciary Net Position: Detailed information about the pension plan's fiduciary net position is available in a stand-alone financial report of INPRS that includes financial statements and required supplementary information for the plan as a whole. This report may be obtained by writing the Indiana Public Retirement System, One North Capitol, Suite 001, Indianapolis, IN 46204, by calling (888) 526-1687, by emailing [questions@inprs.in.gov](mailto:questions@inprs.in.gov), or by visiting [www.in.gov/inprs](http://www.in.gov/inprs).

Investment Valuation and Benefit Payment Policies: The pooled and non-pooled investments are reported at fair value by INPRS. Fair value is the amount at which an investment could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Short-term investments consist primarily of cash, money market funds, certificates of deposits and fixed income instruments with maturities of less than one year. Short-term investments are reported at cost, which approximates fair value or, for fixed income instruments, valued using similar methodologies as other fixed income securities described below.

Fixed income securities consist primarily of the U.S. government, U.S. government-sponsored agencies, publicly traded debt and commingled investment debt instruments. Equity securities consist primarily of domestic and international stocks in addition to commingled equity instruments. Fixed income and equity securities are generally valued based on published market prices and quotations from national security exchanges and securities pricing services. Securities that are not traded on a national security exchange are valued using modeling techniques that include market observable inputs required to develop a fair value. Commingled funds are valued using the net asset value (NAV) of the entity. Alternative investments include limited partnership interests in private equity, absolute return, private real estate and risk parity investment strategies. Publicly traded alternative investments are valued based on quoted market prices. In the absence of readily determinable public market values, alternative investments are valued using current estimates of fair value obtained from the general partner or investment manager. Moreover, holdings are generally valued by a general partner or investment manager on a quarterly or semi-annual basis. Valuation assumptions are based upon the nature of the investment and the underlying business.

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Additionally, valuation techniques will vary by investment type and involve a certain degree of expert judgment. Alternative investments, such as investments in private equity or real estate, are generally considered to be illiquid long-term investments. Due to the inherent uncertainty that exists in the valuation of alternative investments, the realized value upon the sale of an asset may differ from the fair value.

Derivative instruments are marked to market daily with changes in fair value recognized as part of investments and investment income.

Pension, disability, special death benefits, and distributions of contributions and interest are recognized when due and payable to members or beneficiaries. Benefits are paid once the retirement or survivor applications have been processed and approved. Distributions of contributions and interest are distributions from inactive, non-vested members' ASAs. These distributions may be requested by members or auto-distributed by the fund when certain criteria are met.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: At December 31, 2017, the Water and Wastewater Utilities reported a liability of \$5,938,565 and \$4,197,616 respectively, for their proportionate share of the net pension liability. The Utilities' proportionate share of the net pension liability was based on the Utilities' wages as a proportion of total wages for the PERF Hybrid Plan. The proportionate share used at the June 30, 2017 measurement date was 0.0022719.

For the year ended December 31, 2017, the Utilities recognized pension expense of \$2,201,225 which included net amortization of deferred amounts from changes in proportion and differences between employer contributions and proportionate share of contributions. At December 31, 2017, the Utilities reported deferred outflows of resources and deferred inflows of resources related to the PERF Hybrid Plan from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$192,497	\$7,867
Net difference between projected and actual earnings on pension plan investments	1,603,366	508,193
Changes in assumptions	162,745	-
Changes in proportion and differences between Utility contributions and proportionate share of contributions	<u>128,382</u>	<u>106,965</u>
Total that will be recognized in pension expense (income) based on table below	2,086,990	623,025
Pension contributions subsequent to measurement date	<u>796,133</u>	-
Total	<u>\$ 2,883,123</u>	<u>\$623,025</u>

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Deferred outflows of resources resulting from employer contributions subsequent to the June 30, 2017 measurement date are recognized as a reduction of net pension liability in the year ending December 31, 2017. Deferred inflows of resources resulting from the differences between projected and actual investment earnings on Plan investments are amortized over a 5 year period. A change in an employer's proportionate share: represents the change as of the current year measurement date versus the prior year measurement date, and is amortized over the average expected remaining service lives of the plan. The difference between an employer's contributions and the employer's proportionate share of the collective contributions is amortized over the average expected remaining service lives of the plan. Amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Year Ending December 31,	Amount
2018	\$630,871
2019	661,837
2020	225,787
2021	(54,530)
2022	-
Thereafter	-
Total	\$1,463,965

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#### REQUIRED SUPPLEMENTARY INFORMATION

The subsequent schedules were provided by management of the Utilities. The schedules are presented as intended by the Utilities.

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REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
PUBLIC EMPLOYEES RETIREMENT FUND  
LAST 10 FISCAL YEARS

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Utilities' Portion of the Net Pension Liability	0.22719%	0.22858%	0.22721%	0.20815%	0.19685%	**	**	**	**	**
Utilities' Proportionate Share of the Net Pension Liability	10,136,181	10,373,977	9,254,041	5,470,047	6,742,268	**	**	**	**	**
Utilities' Covered-Employee Payroll	11,271,318	10,954,725	10,882,763	10,162,470	9,451,288	**	**	**	**	**
Utilities' Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	89.9%	94.7%	85.0%	53.8%	71.3%	**	**	**	**	**
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	76.6%	75.3%	77.3%	84.3%	78.8%	**	**	**	**	**

\*\* Information not available

Note: The Utilities implemented GASB No. 68 in fiscal year 2015. The information above is presented for as many years as available. The Schedule is intended to show information for 10 years. The amounts presented for each year were determined as of the Plan's June 30 year-end that occurred within the Utilities' fiscal year.

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REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF EMPLOYER CONTRIBUTION  
PUBLIC EMPLOYEES RETIREMENT FUND  
LAST 10 FISCAL YEARS

Date	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Employee Payroll	Contributions as a % of Covered Employee Payroll
2017	\$ 1,262,388	\$ 1,257,370	\$ 5,018	\$ 11,271,318	11.16%
2016	1,226,929	1,222,024	4,905	10,954,725	11.16%
2015	1,218,869	1,213,697	5,172	10,882,763	11.15%
2014	1,138,197	1,067,687	70,510	10,162,470	10.51%
2013	**	**	**	**	**
2012	**	**	**	**	**
2011	**	**	**	**	**
2010	**	**	**	**	**
2009	**	**	**	**	**
2008	**	**	**	**	**

\*\* Information is not available

Notes to Schedule:

An assumption study was performed in April 2015 resulting in no changes to the following assumptions:

- Inflation decreased from 3.00% to 2.25%
- The future salary increase rate decreased from a table ranging from 3.25% to 4.50% to a table ranging from 2.50% to 4.25%
- Mortality changed from the 2013 IRS Static Mortality projected five (5) years with Scale AA to the RP-2014 (with MP-2014 improvement removed) Total Data Set mortality table projected on a fully generational basis using the future mortality improvement scale inherent in the mortality projection included in the Social Security Administration's 2014 Trustee Report
- Retirement, Termination and Disability rates were adjusted to reflect recent experience
- The ASA Annuitization was updated from 50% of members assumed to annuitize the ASA balance to 60% of members prior to January 1, 2017

Note: The Utilities implemented GASB No. 68 in fiscal year 2015. The information above is presented for as many years as available. The Schedule is intended to show information for 10 years.

Note: Covered payroll for the purposes of this schedule was determined as of the Plan's June 30 year end that occurred within the Utilities' fiscal year.

#### OTHER REPORTS

In addition to this report, other reports may have been issued for the Utilities. All reports can be found on the Indiana State Board of Accounts' website: <http://www.in.gov/sboa/>.