

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

FINANCIAL STATEMENTS AUDIT REPORT OF
EVANSVILLE WATER AND WASTEWATER UTILITIES

CITY OF EVANSVILLE

VANDERBURGH COUNTY, INDIANA

January 1, 2018 to December 31, 2018



FILED
10/09/2019

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SCHEDULE OF OFFICIALS

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



STATE OF INDIANA
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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, 2018, and the related notes to the financial statements, which collectively comprise the Utilities' basic financial statements, as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express 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.

INDEPENDENT AUDITOR'S REPORT
(Continued)

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, 2018, 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.


Emphasis of Matter

As discussed in Note I, the financial statements of the Utilities are intended to present the financial position, and the changes in the financial position and 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, 2018, and the changes in its financial position and its cash flows, where applicable, 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 Utilities' Proportionate Share of the Net Pension Liability, and Schedule of Employer Contributions, 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

August 22, 2019

Evansville Water and Wastewater Utilities
City of Evansville
Year Ended December 31, 2018

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, 2018, 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.

STATEMENT OF NET POSITION CONDENSED – WATER UTILITY			
Year Ended December 31 (in thousands)	2018	2017	2016
Current Assets	\$106,176	\$32,293	\$59,262
Noncurrent Assets:			
Capital assets, net of depreciation	\$213,283	\$198,256	\$144,768
Other non-current	\$22,285	\$27,790	\$3,148
Total Assets	\$341,744	\$258,339	\$207,178
Regulatory Assets	\$2,593	\$2,481	\$2,708
Pension Benefits	\$719	\$1,689	\$2,821
Deferred Amount on Refunding	\$2,254	\$2,510	\$2,767
Total Deferred Outflow of Resources	\$5,566	\$6,681	\$8,296
Current Liabilities	\$13,640	\$11,763	\$7,292
Noncurrent Liabilities	\$209,845	\$138,520	\$142,961
Total Liabilities	\$223,485	\$150,283	\$150,253
Pension Benefits	\$817	\$365	\$754
Total Deferred Inflow of Resources	\$817	\$365	\$754
Net Position:			
Net investment in capital assets	\$99,252	\$100,947	\$53,670
Restricted – expendable	\$14,992	\$7,365	\$5,728
Unrestricted	\$8,764	\$6,060	\$5,069
Total Net Position	\$123,008	\$114,372	\$64,467

STATEMENT OF NET POSITION CONDENSED – WASTEWATER UTILITY			
Year Ended December 31 (in thousands)	2018	2017	2016
Current Assets	\$104,830	\$75,052	\$54,959
Noncurrent Assets:			
Capital assets, net of depreciation	\$363,692	\$338,953	\$323,207
Other non-current	\$92,035	\$35,217	\$30,477
Total Assets	\$560,557	\$449,222	\$408,643
Regulatory Assets	\$2,325	\$2,507	\$2,230
Pension Benefits	\$445	\$1,194	\$2,135
Deferred Amount on Refunding	\$649	\$791	\$932
Total Deferred Outflow of Resources	\$3,419	\$4,492	\$5,297
Current Liabilities	\$26,483	\$22,292	\$20,219
Noncurrent Liabilities	\$357,617	\$274,806	\$254,014
Total Liabilities	\$384,100	\$297,098	\$274,233
Pension Benefits	\$505	\$258	\$569
Total Deferred Inflow of Resources	\$505	\$258	\$569
Net Position:			
Net investment in capital assets	\$119,769	\$110,493	\$101,419
Restricted – expendable	\$24,627	\$30,374	\$26,007
Unrestricted	\$34,975	\$15,491	\$11,712
Total Net Position	\$179,371	\$156,358	\$139,139

Assets

Current assets for the Water Utility at December 31, 2018, 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, 2018, consist of cash and cash equivalents, receivables net of allowances, inventory, 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 \$83.4 million (32.3 percent) in 2018 compared to a \$51.2 million (24.7 percent) increase in 2017 and a \$44.7 million (27.5 percent) increase in 2016. The current-year activity is summarized by the following events.

- The value of cash and equivalents increased by \$71.2 million. This increase is mostly related to Series 2018A-2 state revolving loan that was advanced on December 21, 2018 in the amount of the \$71.9 million. The proceeds will be used for distribution system and booster station improvements.
- Accounts receivable increased by \$218,400. Receivables from all other sources increased by \$518,600 during the 2018 calendar year.
- Net capital assets increased by \$15.0 million. Depreciation expense for the year was \$5.7 million. Depreciable capital assets increased by \$12.4 million and construction in progress increased by \$8.2 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 \$1.7 million primarily due to a prepayment of Payment In Lieu of Taxes.
- The Water Utility entered into a building lease jointly with the Wastewater Utility for office space and entered into a vehicle fleet lease agreement in 2018 for a total of \$939,000.

Total assets for the Wastewater Utility increased \$111.3 million (24.8 percent) in 2018 compared to a \$40.6 million (9.9 percent) increase in 2017 and a \$33.4 million (8.9 percent) increase in 2016. The current-year activity is summarized by the following events.

- The value of cash and equivalents increased by \$28.6 million. Most of this increase is due to cash received from operating activities.
- Accounts receivable increased by \$834,100.
- Net capital assets increased by \$24.7 million. Depreciation expense for the year was \$16.0 million. Depreciable capital assets increased by \$18.0 million and construction in progress increased by \$22.0 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 \$366,000 primarily due to an increase in the prepayment of Payment In Lieu of Taxes.
- The Wastewater Utility entered into a building lease jointly with the Water Utility for office space and entered into a vehicle fleet lease agreement in 2018 for a total of \$939,000.

Deferred Outflow of Resources

Deferred outflow of resources for the Water Utility decreased by \$1.1 million primarily due to a decreases in the defined benefit pension deferred outflows.

Deferred outflow of resources for the Wastewater Utility decreased by \$1.1 million primarily due to a decrease in defined benefit pension deferred outflows.

Liabilities

Current liabilities for the Water Utility at December 31, 2018, are primarily composed of contracts payable, customer deposits, accrued interest, bond anticipation note payable, along with the current portion of bonds payable. Also included are accounts payable, leases payable, taxes payable, accrued payroll and withholdings payable, compensated absences, retainage payable, and the customer assistance program. Noncurrent liabilities are bonds payable, leases payable, state revolving loans payable, net unamortized bond premium, payments in lieu of tax, and net pension liability. Total liabilities increased \$73.2 million (48.7 percent) in 2018 compared to a \$30,000 (0.02 percent) increase in 2017 and a \$44.0 million (41.5 percent) increase in 2016. The following factors contributed to a liability increase in 2018.

- The Water Utility issued the 2018A-1 state revolving loan in the amount of \$5.3 million.
- The Water Utility issued the 2018A-2 state revolving loan in the amount of \$71.9 million.

Current liabilities for the Wastewater Utility at December 31, 2018, are primarily composed of contracts payable, accrued interest, retainage payable, along with the current portion of bonds payable and state revolving loans payable. Also included are accounts payable, leases payable, accrued payroll and withholdings payable, interfund services provided and used, and compensated absences. Noncurrent liabilities are bonds payable, leases payable, state revolving loans payable, net unamortized bond premium, and net pension liability. Total liabilities increased \$87.0 million (29.3 percent) in 2018 compared to a \$22.9 million (8.3 percent) increase in 2017 and a \$20.4 million (8.0 percent) increase in 2016. The following factors contributed to the liability increase in 2018.

- The Wastewater Utility issued the 2018B-1 and 2018B-2 state revolving loans in the amounts of \$9.7 million of a maximum borrowing of \$35.0 million and \$72.3 million, respectively.
- The Wastewater Utility drew \$11.6 million from the 2018A state revolving loan that it issued in 2018.
- The Wastewater Utility drew an additional \$1.4 million and \$3.6 million from their 2016B and 2016C state revolving loans, respectively.

Deferred Inflow of Resources

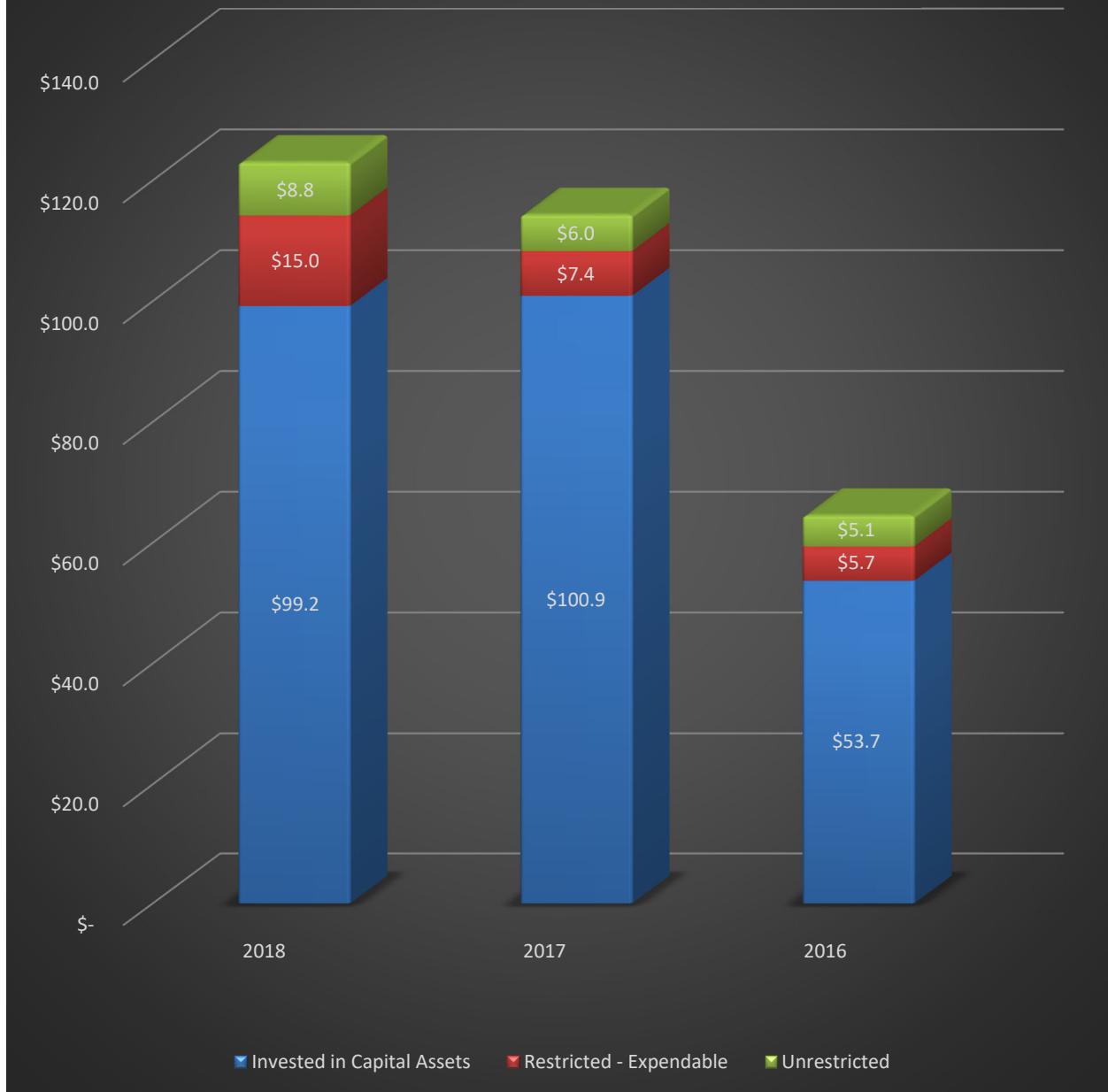
For the Water Utility, Deferred inflow of resources for pension benefits increased from \$365,000 in 2017 to \$817,000 in 2018 based on information provided by the Indiana Public Retirement System. The amounts reflect the Utility share of the annual change in net pension liability for the Public Employees' 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 increased from \$258,000 in 2017 to \$505,000 in 2018 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

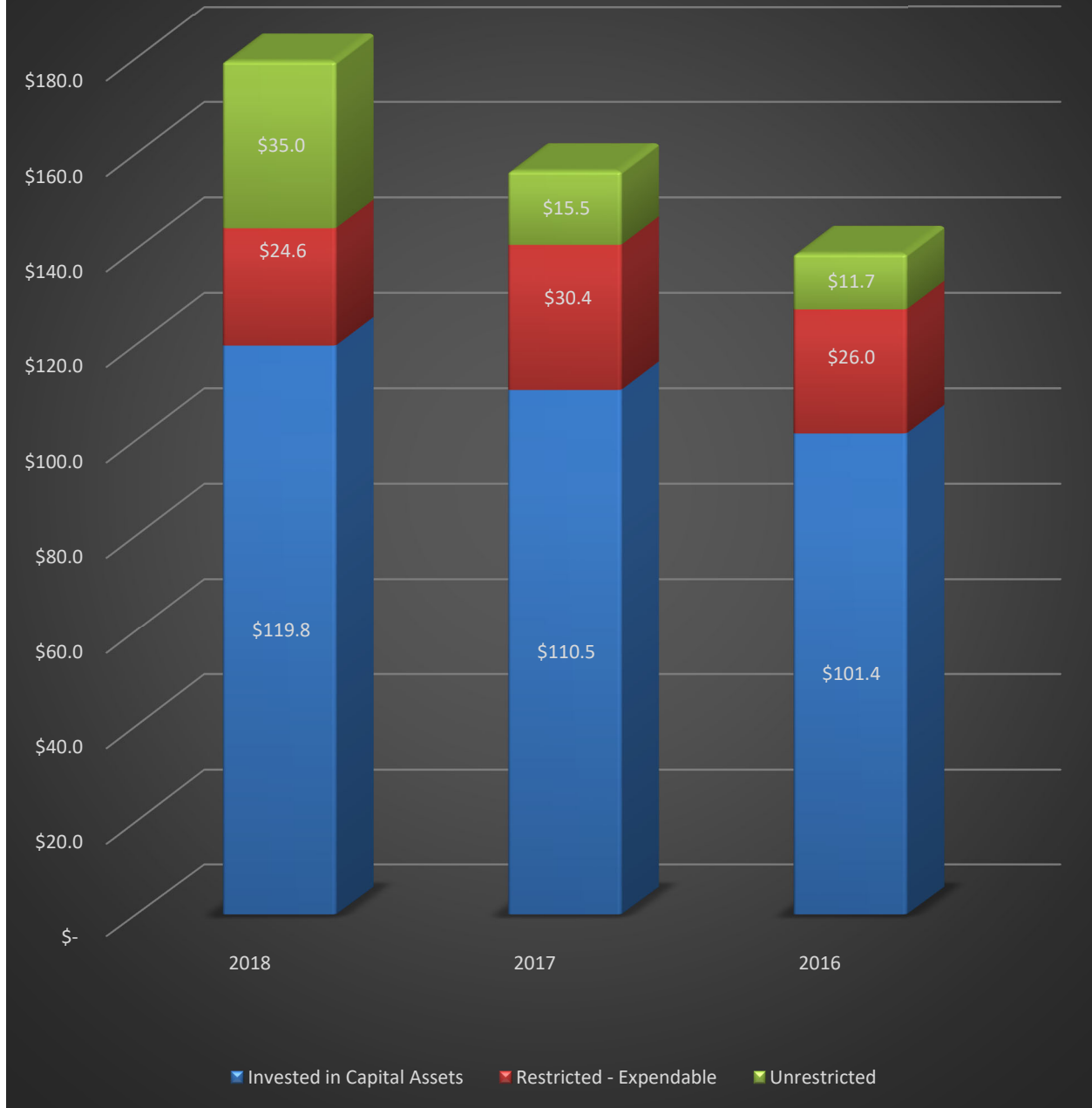
Water Utility Net Position at December 31, 2018, is \$8.6 million greater than on December 31, 2017. Net investment in capital assets decreased \$1.7 million; restricted expendable assets increased \$7.6 million; and unrestricted assets increased \$2.7 million. Unrestricted assets equal \$8.8 million and comprise 7.1% of total net position.

WATER UTILITY ANALYSIS OF NET ASSETS (in millions)



Wastewater Utility Net Position at December 31, 2018, is \$23.0 million greater than on December 31, 2017. Net investment in capital assets increased \$9.3 million; restricted expendable assets decreased \$5.7 million; and unrestricted assets increased \$19.5 million. Unrestricted assets equal \$35.0 million and comprise 19.5 percent of total net position.

WASTEWATER UTILITY ANALYSIS OF NET ASSETS (in millions)



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.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION (CONDENSED) – WATER UTILITY			
Year ended December 31 (in thousands)	2018	2017	2016
Total operating revenues	\$41,119	\$35,142	\$29,319
Total operating expenses	(29,312)	(24,761)	(23,293)
Net operating revenues	11,807	10,381	6,026
Net non-operating revenues/(expenses)	(3,711)	(3,585)	(2,653)
Income before other revenues, expenses, gains, or losses	8,096	6,796	3,373
Contributions	2,414	3,251	1,648
Payment in lieu of property taxes	(1,874)	(1,677)	(1,364)
Increase in net position	\$8,636	\$8,370	\$3,657

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

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION (CONDENSED) – WASTEWATER UTILITY			
Year ended December 31 (in thousands)	2018	2017	2016
Total operating revenues	\$77,575	\$68,475	\$58,819
Total operating expenses	(44,869)	(42,967)	(37,691)
Net operating revenues	32,706	25,508	21,128
Net non-operating revenues/(expenses)	(6,649)	(5,864)	(4,868)
Income before other revenues, expenses, gains, or losses	26,057	19,644	16,260
Contributions	1,074	1,563	1,303
Payment in lieu of property taxes	(4,118)	(3,987)	(3,966)
Increase in net position	\$23,013	\$17,220	\$13,597

Revenues

Operating revenues for the Water Utility increased by \$6.0 million (17.0 percent) in 2018 compared to a \$5.8 million (19.9 percent) increase in 2017 and a \$179,000 (0.6 percent) increase in 2016. The 2018 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. Phase II of the increase was a 14.03% increase over the Phase I rates effective January 1, 2018.

Operating revenues for the Wastewater Utility increased by \$9.1 million (13.3 percent) in 2018 compared to a \$9.7 million (16.4 percent) increase in 2017 and a \$7.2 million (14.0 percent) increase in 2016. The 2018 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 1st thereafter. The Phase II increase was 14% over the rates effective on December 31, 2017.

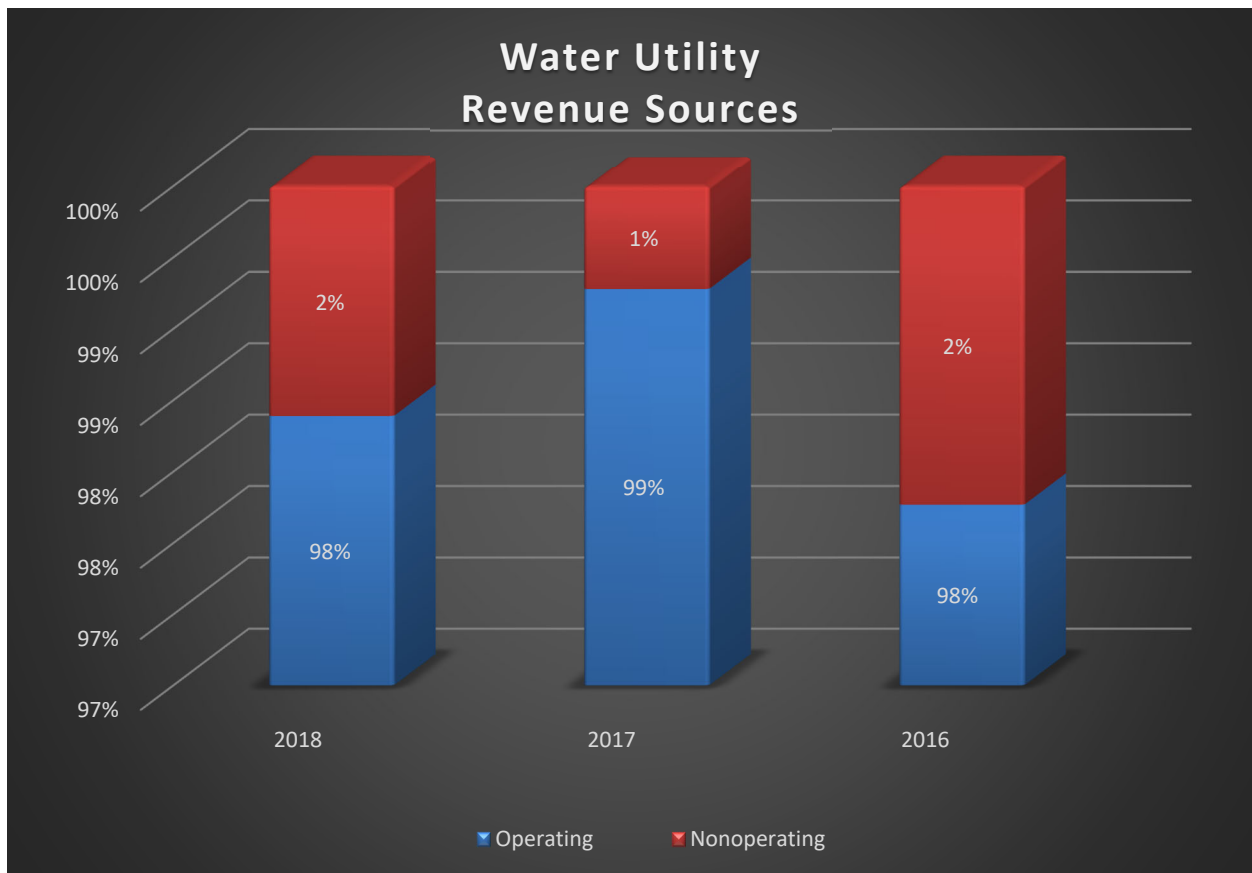
Non-operating revenues for the Water Utility increased by 163.5 percent for the calendar year ended December 31, 2018, after a 61.8 percent loss in 2017 and a 154.7 percent increase in 2016. The following element contributed to the increase in 2018.

- Interest income increased from \$140,000 in 2017 to \$519,000 in 2018 due to higher interest rates on cash and certificate of deposit balances.

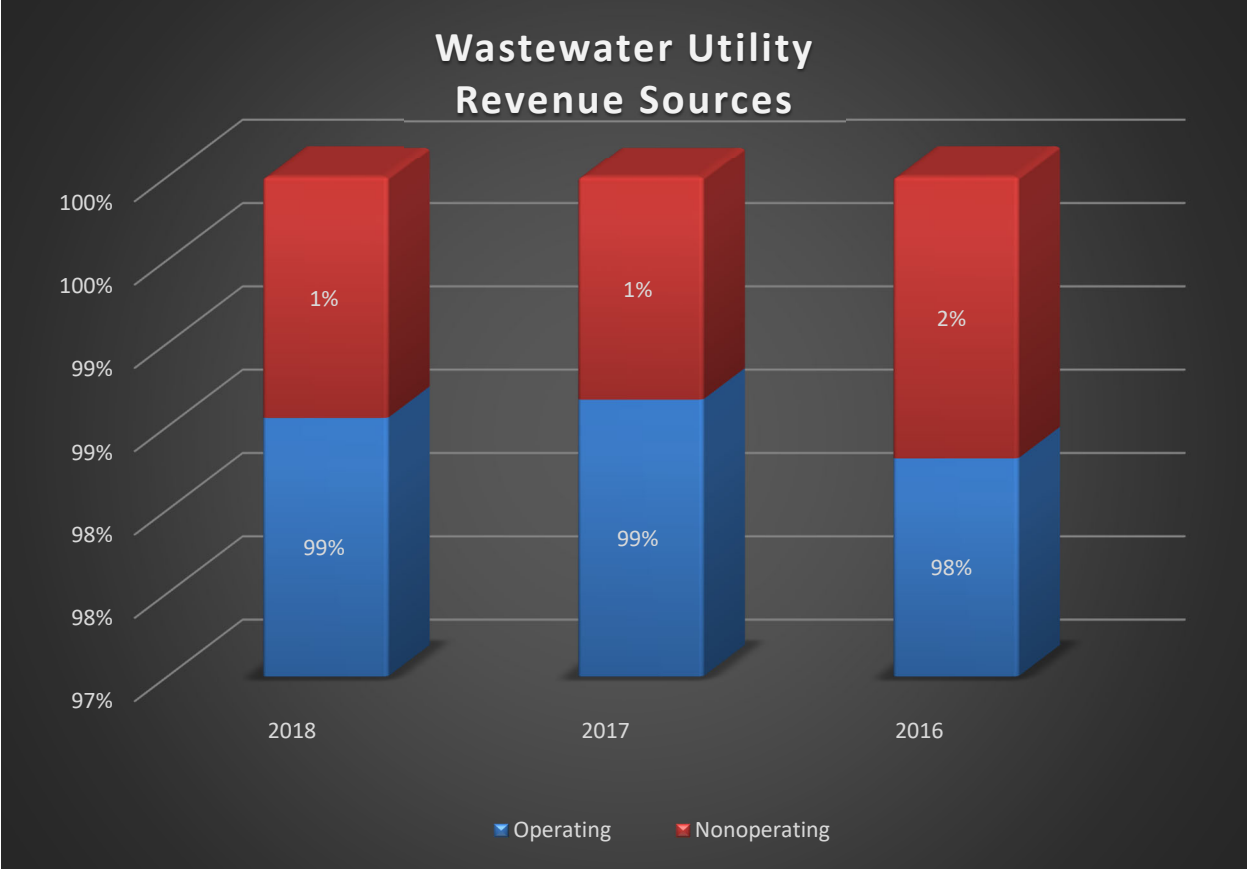
Non-operating revenues for the Wastewater Utility increased by 22.8 percent for the calendar year ended December 31, 2018, after an 8.2 percent loss in 2017 and a 67.3 percent increase in 2016. The following element contributed to the increase in 2018.

- Interest income increased from \$286,000 in 2017 to \$675,000 in 2018 due to higher interest rates on cash and certificate of deposit balances.

Total revenues (operating and non-operating) for the Water Utility increased by \$6.4 million in 2018. The graph below shows the composition of the Utility's revenue for calendar years 2016-2018.



Total revenues (operating and non-operating) for the Wastewater Utility increased by \$9.3 million in 2018. The graph below shows the composition of the Utility's revenue for calendar years 2016-2018.

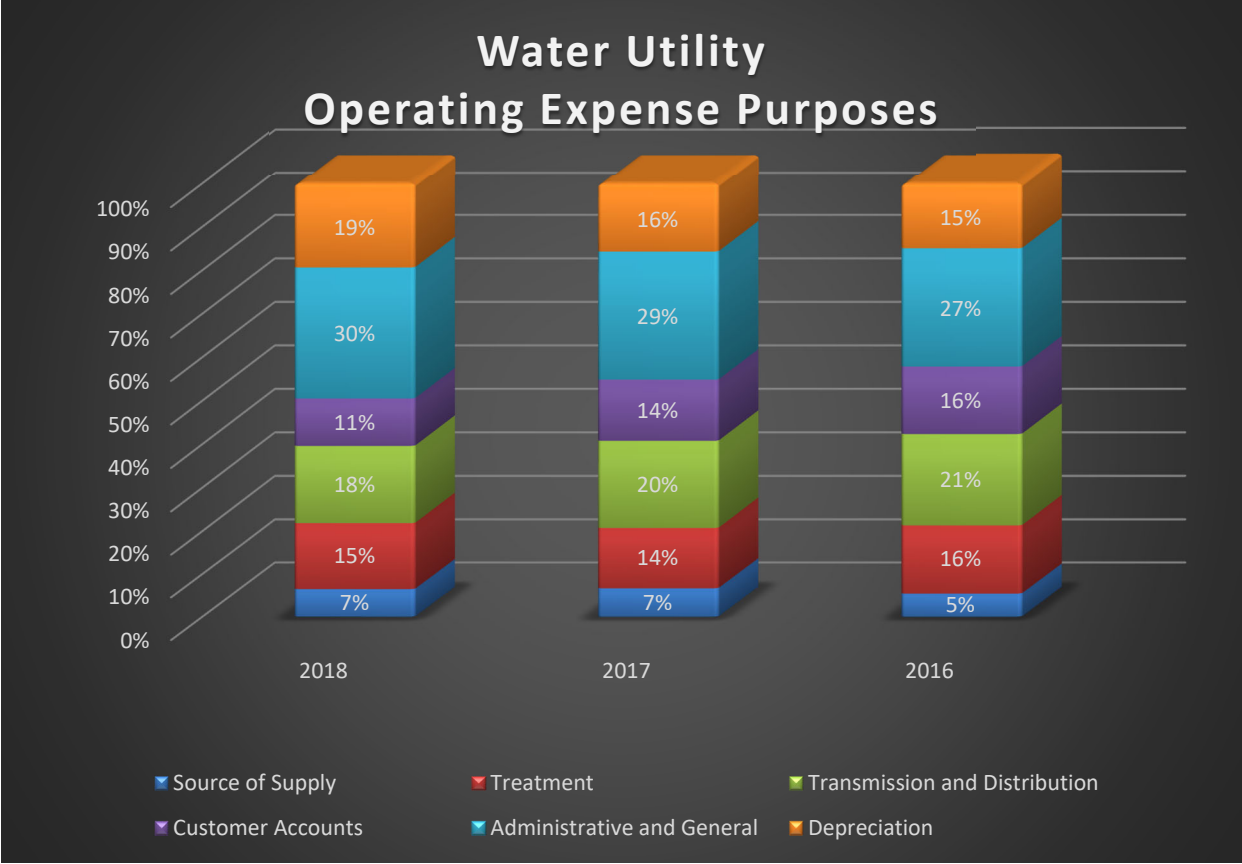


Expenses

Operating expenses for the Water Utility increased \$4.6 million (18.4 percent) in 2018 compared to a \$1.5 million (6.3 percent) increase in 2017 and an \$835,000 (3.5 percent) decrease in 2016. Specifically, the following expenses contributed to the current-year increase.

- Source of supply increased \$249,000 (15.1 percent) from 2017 mostly due to an increase in repairs and maintenance.
- Treatment increased \$1.0 million (29.3 percent) from 2017 primarily due to an increase in repairs and maintenance.
- Transmission and distribution increased \$246,000 (5.0 percent) from 2017 mostly due to an increase in repairs and maintenance.
- Customer accounts decreased \$283,000 (8.1 percent) from 2017 primarily due to a decrease in bad debt expense.
- Administrative and general increased \$1.5 million (21.0 percent) from 2017 mostly due to a combination of an increase in the number of employees being paid from this cost center in 2018 and an increase in contractual services.
- Depreciation expense increased \$1.8 million (45.9 percent) from 2017 due to an increase in depreciable capital assets in 2018.

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



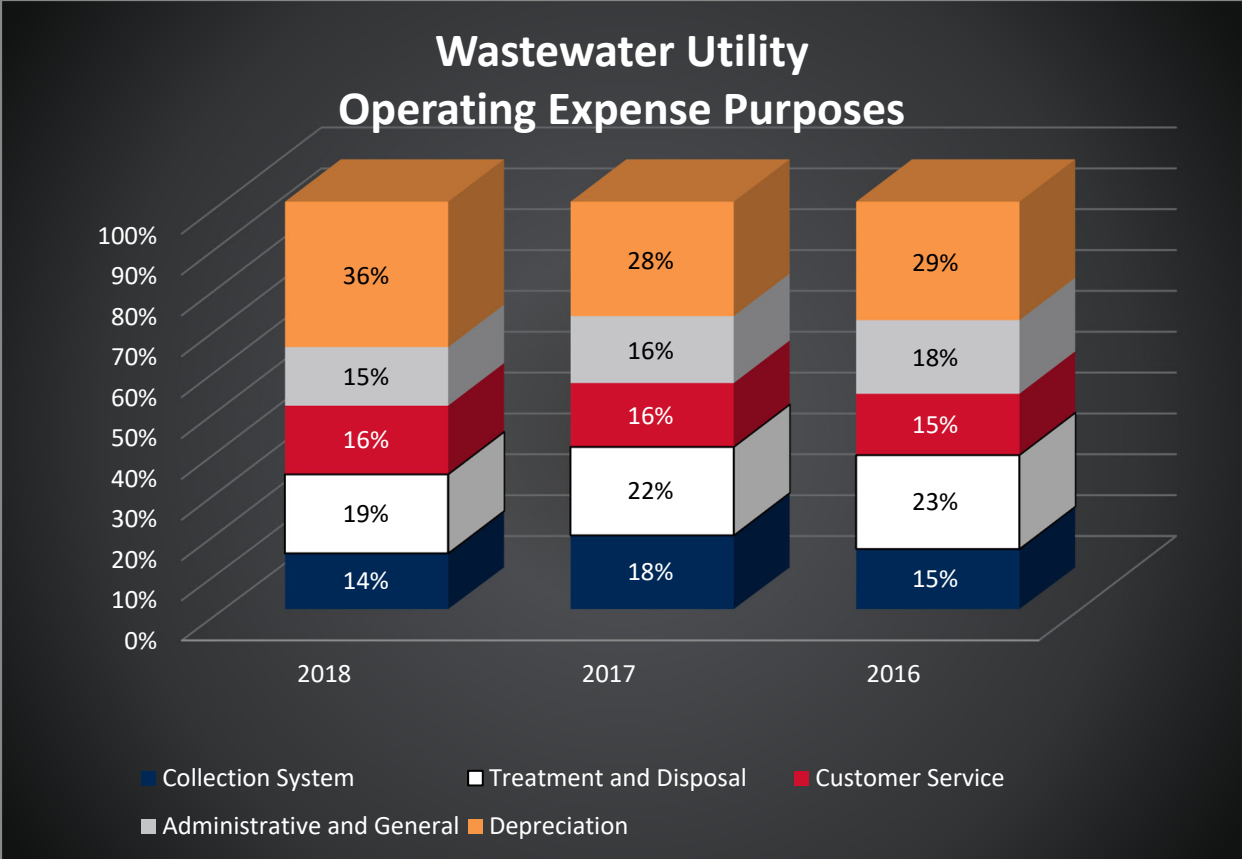
Non-operating expenses consist of interest on capital asset-related debt and other costs associated with issuing bonds and refinancing debt. These expenditures increased by \$543,000 in 2018 after increases of \$519,000 and \$216,000 in 2017 and 2016, respectively.

Total expenses (operating and non-operating) increased by \$5.1 million after increasing by \$2.0 million in 2017 and decreasing by \$619,000 in 2016.

Operating expenses for the Wastewater Utility increased \$1.9 million (4.4 percent) in 2018 compared to a \$5.3 million (14.0 percent) increase in 2017 and a \$789,000 (2.1 percent) decrease in 2016. Specifically, the following expenses contributed to the current-year increase.

- Collections systems decreased \$1.6 million (20.7 percent) from 2017 primarily due to a decrease in repairs and maintenance.
- Treatment and disposal decreased \$613,000 (6.6 percent) from 2017 mostly due to a combination of a decrease in employee pensions and benefits and contractual services.
- Customer service increased \$610,000 (9.1 percent) from 2017 primarily due to an increase in joint costs with the Water Utility.
- Administrative and general decreased \$404,000 (5.7 percent) from 2017.
- Depreciation expense increased \$3.9 million (32.8 percent) from 2017 due to an increase in depreciable capital assets in 2018.

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 \$1.0 million in 2018 after increases of \$913,000 and \$1.3 million in 2017 and 2016, respectively.

Total expenses (operating and non-operating) increased by \$2.9 million after increasing by \$6.2 million in 2017 and by \$471,000 in 2016.

Contributed Capital

Contributed capital for the Water Utility decreased from \$3.25 million in 2017 to \$2.41 million in 2018 primarily due to the combination of capital asset transfers and a federal grant reimbursement that occurred in 2017 that didn't occur in 2018.

Net contributed capital for the Wastewater Utility decreased from \$1.56 million in 2017 to \$1.07 million in 2018 due to the purchase of park property at 4th and Main for the Effluent Pump Station Project.

Payment in Lieu of Taxes

Payment in lieu of property taxes for the Water Utility increased from \$1.68 million in 2017 to \$1.87 million in 2018 due to the increase in value of the Utility's tangible property.

Payment in lieu of property taxes for the Wastewater Utility increased from \$3.99 million in 2017 to \$4.12 million in 2018 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, 2018, net position for the Water Utility increased by \$8.6 million

following increases of \$8.4 million in 2017 and \$3.7 million in 2016. During 2018, total revenues increased and total expenses increased.

For the calendar year ending December 31, 2018, net position for the Wastewater Utility increased by \$23.0 million following increases of \$17.2 million in 2017 and \$13.6 million in 2016. During 2018, 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 2016-2018.

STATEMENT OF CASH FLOWS WATER UTILITY Year ended December 31 (in thousands)	2018	2017	2016
Net cash (used) provided by			
Operating activities	\$14,939	\$14,194	\$9,775
Noncapital financing activities	(1,873)	(1,677)	(2,401)
Capital financing activities	51,838	(15,493)	30,415
Investing activities	6,253	(24,216)	172
Net increase (decrease) in cash	\$71,157	\$(27,192)	\$37,961

Operating activities

- Cash provided by operating activities increased \$744,000 in 2018 compared to increases of \$4.42 million in 2017 and \$709,000 in 2016.
- 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 \$196,000 in 2018 compared to a decrease of \$724,000 in 2017 and an increase of \$1.04 million in 2016.
- Payment in lieu of taxes provided the largest outflow of cash in 2017 and 2018 and redemption of revenue bonds used the most cash in 2016.
- Bond Proceeds from the 2016A Waterworks revenue bonds and the 2016B Waterworks refunding revenue bonds produced the largest cash inflow in 2016.

Capital financing activities

- Cash provided by capital financing activities increased by \$67.33 million after decreasing by \$45.91 million in 2017 and increasing by \$46.87 million in 2016.
- Bond Proceeds from the 2018A-1 and 2018A-2 State Revolving Fund Loans produced the largest cash inflow in 2018. Contributed capital produced the largest inflow of cash in 2017.
- Additions to capital assets produced the largest outflow of cash for calendar years 2016-2018.

Investing activities

- Investing activities provided \$6.25 million in cash during 2018 after using \$24.22 million during 2017 and providing \$172,000 during 2016.

- Net purchases and sales of investments increased from (\$24.5) million in 2017 to \$5.6 million in 2018 following a net decrease of \$24.6 million from 2016 to 2017.
- Interest earned on investments increased from \$250,000 in 2017 to \$639,000 in 2018 after an increase of \$167,000 from 2016 to 2017.

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 2016-2018.

STATEMENT OF CASH FLOWS WASTEWATER UTILITY			
Year ended December 31 (in thousands)	2018	2017	2016
Net cash (used) provided by			
Operating activities	\$47,495	\$36,721	\$30,056
Noncapital financing activities	(4,118)	(3,987)	(3,966)
Capital financing activities	40,676	(9,292)	(13,442)
Investing activities	(55,488)	(4,206)	(13,390)
Net increase (decrease) in cash	\$28,565	\$19,236	\$(742)

Operating activities

- Cash provided by operating activities increased \$10.8 million in 2018 compared to increases of \$6.66 million in 2017 and \$5.14 million in 2016.
- 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 \$131,000 in 2018 compared to an increase of \$21,000 in 2017 and \$1.54 million in 2016.
- Payment in lieu of taxes provided the largest outflow of cash for calendar years 2016-2018.

Capital financing activities

- Cash provided by capital financing activities increased by \$50.0 million after decreasing by \$4.15 million in 2017 and decreasing by \$13.72 million in 2016.
- Bond proceeds produced the largest inflow of cash for calendar years 2016-2018.
- Additions to capital assets produced the largest outflow of cash for calendar years 2016-2018.

Investing activities

- Investing activities used \$55.49 million in cash during 2018 after using \$4.21 million during 2017 and \$13.39 million during 2016.
- Net purchases and sales of investments decreased from (\$4.71) million in 2017 to (\$56.68) million in 2018 following a net increase of \$8.91 million from 2016 to 2017.
- Interest earned on investments increased from \$506,000 in 2017 to \$1.19 million in 2018 after an increase of \$271,000 from 2016 to 2017.

Summary of Statement of Cash Flows

For the Water Utility for the year ended December 31, 2018, more cash was provided from operating activities, more cash was used by noncapital financing activities, more cash was provided by capital

financing activities, and more cash was provided by investing activities compared to the previous calendar year. As a result of these activities, the Utility increased its cash position by \$71.15 million, ending the calendar year with a cash balance of \$99.75 million, which is more than its ending cash position of \$28.59 million in 2017.

For the Wastewater Utility for the year ended December 31, 2018, more cash was provided from operating activities, more cash was used by noncapital financing activities, more cash was provided 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 increased its cash position by \$28.56 million, ending the calendar year with a cash balance of \$94.47 million, which is more than its ending cash position of \$65.90 million in 2017.

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.

EVANSVILLE WATER AND WASTEWATER UTILITIES
CITY OF EVANSVILLE
STATEMENT OF NET POSITION
December 31, 2018

ASSETS	Water	Wastewater
Current Assets:		
Operating cash and cash equivalents	\$ 3,718,667	\$ 14,660,077
Improvement fund cash and cash equivalents	1,581,158	13,296,208
Restricted Assets:		
Bond and interest cash and cash equivalents	7,578,525	13,579,555
Debt service reserve cash and cash equivalents	7,779,648	5,107,403
Improvement fund cash and cash equivalents	500,000	-
Wastewater treatment plant cash and cash equivalents	-	3,000,000
Periodic Maintenance fund cash and cash equivalents	1,476,181	-
Construction fund cash and cash equivalents	74,967,986	44,825,358
Cash with fiscal agent cash and cash equivalents	575,749	-
Consumer meter deposits cash and cash equivalents	1,564,391	-
Assistance program cash and cash equivalents	4,604	-
Accounts receivable (net of allowance)	2,003,704	5,497,335
Accounts receivable - other	606,711	-
Interfund receivables for services provided and used	797,324	-
Materials and supplies inventory	1,013,140	380,177
Prepays	2,008,465	4,483,822
Total Current Assets	106,176,253	104,829,935
Non-Current Assets:		
Restricted Assets:		
Debt service reserve investments	5,945,549	14,300,000
Construction fund investments	15,999,999	77,448,703
Other receivable	-	3,703
Interest and customer deposits receivable	339,380	283,121
Total Restricted Assets	22,284,928	92,035,527
Capital Assets:		
Depreciable capital assets	303,022,910	516,517,551
Less accumulated depreciation	(112,591,724)	(206,760,281)
Leased assets	938,922	938,420
Less accumulated amortization	(1,237)	(1,162)
Sub-totals	191,368,871	310,694,528
Land and improvements to land	432,435	4,029,669
Construction work in progress	21,482,137	48,967,930
Net Capital Assets	213,283,443	363,692,127
Total Noncurrent Assets	235,568,371	455,727,654
Total Assets	\$ 341,744,624	\$ 560,557,589
DEFERRED OUTFLOWS OF RESOURCES		
Regulatory Assets	\$ 2,592,501	\$ 2,325,127
Defined Benefit Pension Deferred Outflows	719,030	444,826
Deferred Amount on Refunding	2,253,960	649,150
Total Deferred Outflows of Resources	\$ 5,565,491	\$ 3,419,103
Total Assets and Deferred Outflows of Resources	\$ 347,310,115	\$ 563,976,692

EVANSVILLE WATER AND WASTEWATER UTILITIES
CITY OF EVANSVILLE
STATEMENT OF NET POSITION
December 31, 2018

ASSETS	Water	Wastewater
LIABILITIES		
Current Liabilities:		
Accounts payable	\$ 1,185,484	\$ 1,386,248
Leases payable	53,002	52,907
Accrued sales and gross income taxes	157,432	-
Accrued payroll and withholdings payable	206,848	119,114
Interfund payables for services provided and used	-	797,324
Compensated absences	707,987	460,733
Payable from restricted assets:		
Customer deposits	1,587,103	-
Contracts payable	688,088	3,546,679
Retainage payable	1,049,313	1,235,196
Assistance program	4,604	-
Accrued interest	2,630,500	3,884,915
Bond anticipation note payable	500,000	-
Bonds payable	4,870,000	7,220,000
State revolving fund loans	-	7,254,000
Total Current Liabilities	13,640,361	25,957,116
Noncurrent Liabilities:		
Revenue bonds payable, net of unamortized premium and discounts	126,675,680	132,600,721
State revolving loans payable	77,220,000	222,096,458
Payments in lieu of taxes payable to City of Evansville	702,956	-
Leases payable	526,586	526,253
Net Pension Liability	4,719,544	2,919,731
Total Noncurrent Liabilities	209,844,766	358,143,163
Total Liabilities	\$ 223,485,127	\$ 384,100,279
DEFERRED INFLOWS OF RESOURCES		
Defined Benefit Pension Deferred Inflows	\$ 816,791	\$ 505,305
Total Deferred Inflows of Resources	\$ 816,791	\$ 505,305
Total Liabilities and Deferred Inflows of Resources	\$ 224,301,918	\$ 384,605,584
NET POSITION		
Net Invested in Capital Assets	\$ 99,252,621	\$ 119,769,286
Restricted	14,991,718	24,626,782
Unrestricted	8,763,858	34,975,040
Total Net Position	\$ 123,008,197	\$ 179,371,108

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

**EVANSVILLE WATER AND WASTEWATER UTILITIES
CITY OF EVANSVILLE
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Year Ended December 31, 2018**

	<u>Water</u>	<u>Wastewater</u>
Operating Revenues:		
Residential	\$ 15,515,452	\$ 32,967,426
Industrial	4,919,223	10,323,407
Commercial	7,093,897	21,626,664
Public authority	1,090,342	2,809,824
Fire protection	4,692,883	-
Forfeited discounts	150,919	948,365
Refuse services	-	4,923,744
Tap-on fees	-	1,112,311
Pretreatment charges	-	554,800
Industrial surcharges and fines	-	1,507,129
Interfund charges for joint expenses	7,242,492	-
Other	413,666	802,027
	<u>41,118,874</u>	<u>77,575,697</u>
Total Operating Revenues		
Operating Expenses:		
Source of supply	1,899,888	-
Treatment	4,500,227	-
Transmission and distribution	5,207,164	-
Customer accounts	3,198,059	-
Collection system	-	6,246,775
Treatment and disposal	-	8,693,414
Customer service	-	7,326,490
Administrative and general	8,828,459	6,633,650
	<u>23,633,797</u>	<u>28,900,329</u>
Sub-totals		
Depreciation	5,677,032	15,967,624
Lease Amortization	1,237	1,162
	<u>29,312,066</u>	<u>44,869,115</u>
Total Operating Expenses		
Net Operating Income	<u>11,806,808</u>	<u>32,706,582</u>
Nonoperating Revenues:		
Interest income	518,910	674,824
Other	154,017	22,660
BAB Subsidy income	-	442,350
	<u>672,927</u>	<u>1,139,834</u>
Totals		
Nonoperating Expenses:		
Interest expense	4,097,184	7,087,471
Interest expense - amortization	286,837	187,236
Miscellaneous	-	523,294
Loss (gain) on disposal of assets	-	(8,706)
	<u>4,384,021</u>	<u>7,789,295</u>
Totals		
Net Income Before Contributions and Transfers	<u>8,095,714</u>	<u>26,057,121</u>
Capital Contributions and (Transfers):		
Contributed Capital	2,414,387	1,553,685
Contributed Capital (Other)	-	(480,017)
Payment in lieu of taxes	(1,873,600)	(4,117,800)
	<u>540,787</u>	<u>(3,044,132)</u>
Totals		
Change In Net Position	8,636,501	23,012,989
Total Net Position - Beginning	72,836,554	156,358,119
Adjustment to Net Position (See Note II I. Restatement)	41,535,142	-
	<u>123,008,197</u>	<u>179,371,108</u>
Total Net Position - Ending		

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

**EVANSVILLE WATER AND WASTEWATER UTILITIES
CITY OF EVANSVILLE
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2018**

	<u>Water</u>	<u>Wastewater</u>
Cash flows from operating activities:		
Cash received from customers and users	\$ 40,381,845	\$ 76,741,610
Cash paid to suppliers, employees and others	<u>(25,443,294)</u>	<u>(29,246,876)</u>
Net cash from operating activities	<u>14,938,551</u>	<u>47,494,734</u>
Cash flows from noncapital financing activities:		
Payment in lieu of taxes	<u>(1,873,600)</u>	<u>(4,117,800)</u>
Net cash from noncapital financing activities	<u>(1,873,600)</u>	<u>(4,117,800)</u>
Cash flows from capital and related financing activities:		
Redemption of bond anticipation note	500,000	-
Proceeds from state revolving fund loans	77,220,000	82,049,601
Proceeds from state revolving fund draw loans	-	16,646,064
Contributed capital	2,414,387	1,553,685
Capital contributions (other)	-	(480,017)
Acquisition and construction of capital assets	(19,855,897)	(39,638,351)
Other receivable	-	443
BAB subsidy payment	-	442,350
Principal paid on revenue bonds	(3,130,000)	(5,895,000)
Principal paid on state revolving fund loans	-	(5,515,000)
Interest paid on revenue bonds	(5,320,615)	(5,212,567)
Interest paid on state revolving loans	-	(4,080,205)
Interest paid on leases	(310)	(291)
Rate case costs paid	(337,117)	-
Contracts payable	(117,246)	125,140
Retainage payable	311,257	180,967
Nonoperating revenues	154,017	22,660
Nonoperating expenses	-	(514,588)
Deferred debits	-	991,438
Net cash from capital and related financing activities	<u>51,838,476</u>	<u>40,676,329</u>
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	31,426,912	80,803,649
Purchase of investments	(25,812,460)	(137,481,595)
Interest received	<u>639,348</u>	<u>1,190,146</u>
Net cash from investing activities	<u>6,253,800</u>	<u>(55,487,800)</u>
Net increase in cash and cash equivalents	71,157,227	28,565,463
Cash and cash equivalents January 1, 2018	<u>28,589,682</u>	<u>65,903,138</u>
Cash and cash equivalents December 31, 2018	<u>\$ 99,746,909</u>	<u>\$ 94,468,601</u>

**EVANSVILLE WATER AND WASTEWATER UTILITIES
CITY OF EVANSVILLE
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2018**

	<u>Water</u>	<u>Wastewater</u>
Cash flows from operating activities:		
Reconciliation of net operating revenues to cash provided from operations:		
Net operating revenues	\$ 11,806,808	\$ 32,706,582
Adjustments to reconcile net operating revenue to net cash provided from operating activities:		
Depreciation expense	5,677,032	15,967,624
Lease Amortization	1,237	1,162
Change in assets and liabilities:		
Decrease (increase) in:		
Accounts receivable - customer	(218,447)	(834,087)
Accounts receivable - other	(518,582)	-
Materials and supplies inventory	50,369	(51,694)
Interfund services provided	(348,659)	-
Due from other	-	39,786
Prepays	(1,690,437)	(366,022)
Customer deposits receivable	8,193	-
Increase (decrease) in:		
Accounts payable	575,651	402,975
Leases payable	579,588	579,160
Taxes payable	63,173	-
Accrued payroll and withholdings payable	16,593	25,084
Net pension liability	(1,219,021)	(1,277,885)
Compensated absences payable	105,040	(43,820)
Customer deposits	52,640	-
Assistance program	(2,627)	-
Interfund services used	-	348,659
Intergovernmental payable	-	(2,790)
Net cash provided from operations	<u>\$ 14,938,551</u>	<u>\$ 47,494,734</u>
Noncash investing, capital and financing activities:		
Construction of capital assets on account	\$ 688,088	\$ 3,546,679
Capital assets transferred from construction in progress	7,842,508	12,880,621
Contributions of lines by developers	2,409,187	1,553,685
Disposal of capital assets	571,272	440,145

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

EVANSVILLE 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 nonoperating 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 nonoperating 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/Inflows, 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.

EVANSVILLE 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:

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

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
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 \$5,320,925 and \$9,293,063 respectively. Of the amount, \$1,087,886 and \$1,725,863 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.

EVANSVILLE 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 3 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 debt 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 \$14,991,718 and \$24,626,782 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.

EVANSVILLE 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 F 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. Only the Water Utility has a deposit policy for custodial credit risk. At December 31, 2018, the Water and Wastewater Utilities had deposit balances in the amount of \$121,692,407 and \$107,608,834, 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 \$140,073,101 are valued using quoted market prices (Level 1 inputs)

· Government Securities of \$25,138,575 are valued using quoted market prices in markets that aren't active (Level 2 inputs)

EVANSVILLE WATER AND WASTEWATER UTILITIES
CITY OF EVANSVILLE
NOTES TO FINANCIAL STATEMENTS
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· US Treasury Notes/Bonds of \$45,557,596 are valued using quoted market prices in markets that aren't active (Level 2 inputs)

· Commercial Paper of \$7,912,300 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, 2018:

Level 1 Inputs	Utilities Fair Value		Investment	Investment
	Water	Wastewater	Maturities (in Years) Less Than 1	Maturities (in Years) Greater Than 1 & Less Than 2
Money Market Mutual Funds	\$ 89,950,178	\$ 50,122,923	\$ 140,073,101	\$ -

Level 2 Inputs	Utilities Fair Value		Investment	Investment
	Water	Wastewater	Maturities (in Years) Less Than 1	Maturities (in Years) Greater Than 1 & Less Than 2
Commercial Paper	\$ -	\$ 7,912,300	\$ 7,912,300	\$ -
Government Securities	-	25,138,575	25,138,575	-
US Treasury Notes/Bonds	-	45,557,596	36,184,510	9,373,086
Total Level 2 Inputs	<u>\$ -</u>	<u>\$ 78,608,471</u>	<u>\$ 69,235,385</u>	<u>\$ 9,373,086</u>

C. Capital Assets

Capital asset activity for the year ended December 31, 2018, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Water Utility:				
Capital assets, not being depreciated:				
Land	\$ 432,435	\$ -	\$ -	\$ 432,435
Construction in progress	13,280,455	16,044,190	7,842,508	21,482,137
Total capital assets, not being depreciated	<u>13,712,890</u>	<u>16,044,190</u>	<u>7,842,508</u>	<u>21,914,572</u>
Other capital assets:				
Infrastructure	215,491,713	10,257,525	39,481	225,709,757
Buildings	39,613,308	135,243	-	39,748,551
Improvements other than buildings	1,919,691	728,062	-	2,647,753
Machinery and equipment	34,542,248	906,392	531,791	34,916,849
Leased equipment and fixtures	-	938,922	-	938,922
Total other capital assets at historical cost	<u>291,566,960</u>	<u>12,966,144</u>	<u>571,272</u>	<u>303,961,832</u>
Less accumulated depreciation for:				
Infrastructure	82,058,821	4,198,161	-	86,256,982
Buildings	18,065,036	770,402	-	18,835,438
Improvements other than buildings	98,498	41,604	-	140,102

EVANSVILLE WATER AND WASTEWATER UTILITIES
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(Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Water Utility:				
Machinery and equipment	6,801,471	557,731	-	7,359,202
Less accumulated amortization for Leased assets	-	1,237	-	1,237
Total accumulated depreciation and amortization	107,023,826	5,569,135	-	112,592,961
Other capital assets, net	184,543,134	7,397,009	571,272	191,368,871
Total capital assets, net	\$ 198,256,024	\$ 23,441,199	\$ 8,413,780	\$ 213,283,443
Wastewater Utility:				
Capital assets, not being depreciated:				
Land	\$ 3,779,669	\$ 250,000	\$ -	\$ 4,029,669
Construction in progress	26,921,435	34,927,116	12,880,621	48,967,930
Total capital assets, not being depreciated	30,701,104	35,177,116	12,880,621	52,997,599
Capital assets, being depreciated:				
Infrastructure	282,973,380	12,970,135	-	295,943,515
Buildings	163,028,954	1,177,908	-	164,206,862
Improvements other than buildings	5,093,314	630,674	-	5,723,988
Machinery and equipment	48,349,850	2,733,481	440,145	50,643,186
Leased equipment and fixtures	-	938,420	-	938,420
Total other capital assets at historical cost	499,445,498	18,450,618	440,145	517,455,971
Less accumulated depreciation for:				
Infrastructure	78,383,063	7,200,324	3,658	85,579,729
Buildings	102,280,752	4,036,834	13,081	106,304,505
Improvements other than buildings	1,618,402	264,926	-	1,883,328
Machinery and equipment	8,911,671	4,464,935	383,887	12,992,719
Less accumulated amortization for Leased assets	-	1,162	-	1,162
Total accumulated depreciation and amortization	191,193,888	15,968,181	400,626	206,761,443
Other capital assets, net	308,251,610	2,482,437	39,519	310,694,528
Total capital assets, net	\$ 338,952,714	\$ 37,659,553	\$ 12,920,140	\$ 363,692,127

Depreciation expense was charged to functions/programs of the Utility for 2018 as follows:

	2018
Water	\$ 5,677,032
Wastewater	15,967,624
Total depreciation expense	\$ 21,644,656

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CITY OF EVANSVILLE
NOTES TO FINANCIAL STATEMENTS
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D. Construction Commitments

At December 31, 2018 construction work in progress was composed of the following:

<u>Project</u>	<u>2018</u>	
	<u>Expended to December 31,</u>	<u>Committed</u>
Water lines and plant improvements	\$ 21,482,137	\$ 90,601,695
Sewer modifications, extensions and treatment plant	48,967,930	157,439,704
Totals	<u>\$ 70,450,067</u>	<u>\$ 248,041,399</u>

E. Interfund Receivables and Payables

As of December 31, 2018 the Wastewater Utility Operating Fund owed the Water Utility Operating Fund \$797,324. 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 2019. 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 2018 approved the issuance of a 2018 BAN not to exceed amount of \$5,000,000 for various waterworks improvements, due on or before August 2, 2019. In January 2019, the Water Utility refinanced the 2018 BAN with proceeds from the Waterworks State Revolving Loan, Series 2018A2 in the amount of \$500,000.

Short-term debt activity for the year ended December 31, 2018, was as follows:

<u>2018</u>	<u>Beginning Balance</u>	<u>Issued/ Draws</u>	<u>Redeemed/ Repayments</u>	<u>Ending Balance</u>
Water Utility:				
Bond anticipation note	\$ -	\$ 500,000	\$ -	\$ 500,000

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:

EVANSVILLE WATER AND WASTEWATER UTILITIES
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Purpose	Final Maturity	Interest Rates	Balance at December 31	Less:	
				Unamortized (Premium) Discount	Amount
2013A Waterworks revenue bonds	01-01-35	3.00% to 5.00%	\$ 28,895,000	\$ (408,924)	\$ 29,303,924
2013C Waterworks revenue bonds	01-01-36	2.00% to 5.50%	14,995,000	29,589	14,965,411
2014B Waterworks revenue refunding bonds	01-01-25	4.00% to 5.00%	15,000,000	(1,585,065)	16,585,065
2016A Waterworks revenue bonds	01-01-38	4.00%	39,640,000	(689,903)	40,329,903
2016B Waterworks refunding revenue bonds	01-01-30	2.00% to 4.00%	30,270,000	(91,377)	30,361,377
Subtotals			<u>128,800,000</u>	<u>(2,745,680)</u>	<u>131,545,680</u>
2010 Wastewater revenue bonds - Series B-1	07-01-31	3.75% to 6.50%	23,010,000	(30,131)	23,040,131
2013A Wastewater revenue refunding bonds	07-01-23	1.50%	16,550,000	-	16,550,000
2013B Wastewater revenue bonds	07-01-36	3.00% to 6.50%	28,530,000	(1,680,521)	30,210,521
2014C Wastewater revenue bonds	07-01-35	2.00% to 3.50%	22,310,000	(170,929)	22,480,929
2016A Wastewater revenue bonds	07-01-37	2.00% to 3.00%	25,220,000	(243,050)	25,463,050
2017A Wastewater revenue bonds	07-01-38	3.00% to 3.375%	21,850,000	(226,090)	22,076,090
Subtotals			<u>137,470,000</u>	<u>(2,350,721)</u>	<u>139,820,721</u>
Totals			<u>\$ 266,270,000</u>	<u>\$ (5,096,401)</u>	<u>\$ 271,366,401</u>

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
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	4,761,137	7,595,000	4,686,156
2022	5,480,000	4,538,600	7,805,000	4,474,106
2023	5,710,000	4,306,050	8,025,000	4,254,046
2024 - 2028	32,130,000	17,949,156	31,305,000	17,713,432
2029 - 2033	37,915,000	11,246,916	38,060,000	10,158,256
2034 - 2038	32,365,000	2,985,866	30,060,000	2,542,644
Totals	<u>\$ 128,800,000</u>	<u>\$ 55,920,875</u>	<u>\$ 137,470,000</u>	<u>\$ 53,784,272</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.

EVANSVILLE WATER AND WASTEWATER UTILITIES
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NOTES TO FINANCIAL STATEMENTS
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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 water and wastewater rehabilitation projects. Funds are loaned to the Water and Wastewater Utilities as construction costs are accrued to the maximum allowed. The 2018A-1 and 2018A-2 water loans established a maximum draw of \$5,308,000 and \$71,912,000, respectively. All of the water loans have been fully drawn. The 2014D, 2016B, 2016C, 2018A, 2018B1, and 2018B2 wastewater loans established a maximum draw of \$35,415,000, \$12,715,000, \$8,835,000, \$16,960,000, \$35,020,000, and \$72,335,000, respectively. As of December 31, 2018, the loan principal amount drawn for the 2014D, 2016B, 2016C, 2018A, 2018B1, and 2018B2 wastewater loans were \$35,327,115, \$11,522,148, \$5,597,479, \$11,616,115, \$9,714,601, and \$72,335,000, respectively. Annual debt service requirements for the 2014D, 2016B, 2016C, 2018A, and 2018B1 wastewater loans will not be determined until planned construction projects are completed.

The State placed the proceeds of the 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 \$220,247 and \$53,896 for the 2014A and 2014B loans, respectively.

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, \$27,723,000, \$7,113,000, \$3,800,000, \$1,215,000, \$5,969,000, \$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 \$31,518,509 and \$127,795,712 for the Water Utility and Wastewater Utility, respectively, are as follows:

	Water	Wastewater	Totals
2019	\$ 1,324,538	\$ 12,574,360	\$ 13,898,898
2020	2,509,650	14,428,440	16,938,090
2021	5,262,481	14,425,983	19,688,464
2022	5,261,002	14,453,842	19,714,844
2023	5,259,476	14,452,548	19,712,024
2024 - 2028	26,272,701	71,079,123	97,351,824
2029 - 2033	26,226,389	60,317,414	86,543,803
2034 - 2038	28,760,273	50,638,831	79,399,104
2039 - 2043	7,861,999	65,154,699	73,016,698
2044 - 2048	-	42,285,793	42,285,793
2049 - 2053	-	32,502,679	32,502,679
Totals	108,738,509	392,313,712	501,052,221
Less SRF not drawn down	-	(35,167,542)	(35,167,542)
Ending Balance	<u>\$ 108,738,509</u>	<u>\$ 357,146,170</u>	<u>\$ 465,884,679</u>

EVANSVILLE WATER AND WASTEWATER UTILITIES
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5. Leases Payable

The Utility entered into an office space lease agreement with Professionals' Plaza, LLC on May 15, 2018. The lease agreement is in effect for ten years.

The Utility entered into a fleet management agreement with Sternberg Advantage Leasing on September 18, 2018. As of December 31, 2018, two vehicles for each utility were delivered.

Annual debt service requirements to maturity for the office space rental and delivered vehicles, including interest of \$84,076 and \$84,035 for the water and wastewater utility, respectively are as follows:

<u>Professional Plaza</u>	<u>Water Utility</u>		<u>Wastewater Utility</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2019	\$ 42,759	\$ 13,749	\$ 42,759	\$ 13,749
2020	43,936	12,572	43,936	12,572
2021	45,146	11,362	45,146	11,362
2022	46,390	10,118	46,390	10,118
2023	52,437	8,781	52,437	8,781
2024-2028	<u>294,327</u>	<u>21,183</u>	<u>294,327</u>	<u>21,183</u>
Totals	<u>\$ 524,995</u>	<u>\$ 77,765</u>	<u>\$ 524,995</u>	<u>\$ 77,765</u>

<u>Vehicles</u>	<u>Water Utility</u>		<u>Wastewater Utility</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2019	\$ 10,243	\$ 2,247	\$ 10,148	\$ 2,230
2020	10,713	1,777	10,614	1,764
2021	11,206	1,284	11,101	1,276
2022	11,720	770	11,612	766
2023	<u>10,711</u>	<u>233</u>	<u>10,690</u>	<u>234</u>
Totals	<u>\$ 54,593</u>	<u>\$ 6,311</u>	<u>\$ 54,165</u>	<u>\$ 6,270</u>

6. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2018, was as follows:

<u>2018</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Water Utility:					
Revenue bonds payable	\$ 131,930,000	\$ -	\$ 3,130,000	\$ 128,800,000	\$ 4,870,000
Deferred amount on bonds	3,078,292	1,741	334,353	2,745,680	-
BANs payable	-	500,000	-	500,000	500,000

EVANSVILLE WATER AND WASTEWATER UTILITIES
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<u>2018</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Water Utility:					
State revolving loan	-	77,220,000	-	77,220,000	-
Leases payable	-	580,825	1,237	579,588	53,002
Payment in lieu of tax	702,956	-	-	702,956	-
Compensated absences	602,947	105,040	-	707,987	707,987
Net pension liability	5,938,565	-	1,219,021	4,719,544	-
Total Long-term liabilities	\$ 142,252,760	\$ 78,407,606	\$ 4,684,611	\$ 215,975,755	\$ 6,130,989
Wastewater Utility:					
Revenue bonds payable	\$ 143,365,000	\$ -	\$ 5,895,000	\$ 137,470,000	\$ 7,220,000
Deferred amount on bonds	2,484,177	-	133,456	2,350,721	-
Leases payable	-	580,323	1,163	579,160	52,907
State revolving loan	136,169,793	98,695,665	5,515,000	229,350,458	7,254,000
Compensated absences	504,553	-	43,820	460,733	460,733
Net pension liability	4,197,616	-	1,277,885	2,919,731	-
Total Long-term liabilities	\$ 286,721,139	\$ 99,275,988	\$ 12,866,324	\$ 373,130,803	\$ 14,987,640

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	\$ 112,271,707	\$ 158,264,722
Customer deposits cash	1,564,391	-
Customer deposits receivable	22,712	-
Other restricted cash	2,556,534	-
Interest receivable	316,668	283,121
Total restricted assets	\$ 116,732,012	\$ 158,547,843

I. Restatement

The balances of the Water Utility Depreciable Capital Assets and Accumulated Depreciation were restated on January 1, 2018 to account for assets that were accepted for maintenance between 1990 and 2016 that were never booked. \$76,727,635 was added to the total value of capital assets and \$35,192,493 was added to accumulated depreciation to account for the depreciation that would have occurred had the assets been booked when placed into service. The net effect caused \$41,535,142 to be added to the Net Position balance.

<u>Water Utility</u>	<u>December 31, 2017</u>	<u>Restatement</u>	<u>January 1, 2018</u>
Depreciable Capital Assets	\$ 214,839,325	\$ 76,727,635	\$ 291,566,960
Accumulated Depreciation	(71,831,333)	(35,192,493)	(107,023,826)
Net Position	72,836,554	41,535,142	114,371,696

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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 \$2,726,735 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 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 2018 was approved by the IURC on February 13, 2013, pursuant to IURC Order in Cause No. 44760. During March 2016 the Water Utility filed a rate petition with the IURC which was subsequently approved. The Utility has approximately 62,830 customers.

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The 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 was a 29.37% increase over the present rates effective on December 27, 2016 and Phase II of the increase was a 14.03% increase over the Phase I rates effective January 1, 2018.

A three-phase across-the-board rate increase was approved by the IURC on December 5, 2018, pursuant to Order in Cause No. 45073. Phase I of the increase is a 16.70% increase over the present rates effective January 1, 2019, Phase II of the increase is a 12.36% increase over the Phase I rates effective January 1, 2020, and Phase III of the increase is a 6.00% increase over the Phase II rates effective January 1, 2021.

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 53,228 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

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 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.

EVANSVILLE WATER AND WASTEWATER UTILITIES
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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.

E. Subsequent Events

1. Wastewater Utility – Sewage Works Revenue Bonds, Series 2019A

In April 2019, the Wastewater Utility issued in the principal amount of \$30,000,000 Sewage Works Revenue Bonds, Series 2019A. This bond issue will fund various combined sewer overflow projects and East Wastewater Treatment Plant improvements.

2. Water Utility – Waterworks District Revenue Bonds, Series 2019

In May 2019, the Water Utility issued in the principal amount of \$39,765,000 Waterworks District Revenue Bonds, Series 2019. This bond will fund distribution system, water treatment plant, wholesale user, and booster station improvements.

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 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).

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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.

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, or by visiting 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

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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 employer-funded monthly pension benefits for members in pay status are increased periodically to preserve purchasing power that is diminished due to inflation. Such increases are not guaranteed by Statute and will only be provided by legislative action. A "13th check" was paid to each member in pay status during fiscal year 2018 and 2019. The amount of the 13th check varied based on the years of creditable service the member had earned prior to retirement. Legislation passed in the 2018 legislative session creates a funding mechanism to provide for future benefit increases or 13th checks. The INPRS Board has the authority to have employers contribute up to 1% of member pay into the fund. Increases or payments are made upon passed legislation subject to the availability of funds to provide the benefit.

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.

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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 2018, 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, 2018, 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.

The following represents the Utilities' annual required contributions:

<u>Year Ended</u>	<u>Annual Required</u>	<u>Percentage</u>
<u>December 31</u>	<u>Contribution</u>	<u>Contributed</u>
2018	\$1,284,579	100%

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

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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:

- Type of Plan – The Public Employees' Retirement Fund is a cost-sharing multiple-employer plan for GASB accounting purposes
- Measurement Date – June 30, 2018
- Valuation Date – Assets: June 30, 2018. Liabilities: June 30, 2017 – The TPL as of June 30, 2018 was determined based on an actuarial valuation prepared as of June 30, 2017 rolled forward one year to June 30, 2018, using the following key actuarial assumptions and other inputs, such as benefit accruals and actual benefit payments during that time period.
- Inflation – 2.25%
- Future Salary Increases – 2.50% - 4.25% based on age
- Cost-of-Living Increases – As of June 30, 2018: In lieu of a COLA on January 1, 2019, members in pay were provided a 13th check on October 1, 2018. It is assumed a 13th check would continue for the 2020 and 2021 fiscal years. Therefore, the following COLAs, compounded annually, were assumed:
 - 0.4% beginning on January 1, 2022
 - 0.5% beginning on January 1, 2034
 - 0.6% beginning on January 1, 2039
- Mortality Assumption (Healthy) – RP-2014 Total Data Set Mortality Table, with future mortality improvement projected generationally using future mortality improvement inherent in the Social Security Administration's 2014 Trustee report.
- Mortality Assumption (Disabled) – RP-2014 Disability Mortality Table, with future mortality improvement projected generationally using future mortality improvement inherent in the Social Security Administration's 2014 Trustee report.
- Experience Study – The most recent comprehensive experience study was completed in April 2015 and was based on member experience between June 30, 2010 and June 30, 2014. The demographic assumptions were updated as needed for the June 30, 2015 actuarial valuation based on the results of the study.
- Discount Rate – 6.75%

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.

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	<u>Target Asset Allocation</u>	<u>Geometric Basis Long-Term Expected Real Rate of Return</u>
		<u>2018</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%

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 (5.75%)</u>	<u>Current Rate (6.75%)</u>	<u>1% Increase (7.75%)</u>
2018	\$12,025,447	\$7,639,275	\$3,981,686

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, or by visiting www.in.gov/inprs.

Basis of Accounting: The financial statements of INPRS have been prepared using the accrual basis of accounting in conformity with generally accepted accounting principles (GAAP) as applied to government units. Under the accrual basis, revenues are recognized when earned, and expenses are recognized when liabilities are incurred, regardless of the timing of related cash flows. GASB is the accepted standards setting body for established governmental accounting and financial reporting principles. INPRS applies all applicable GASB pronouncements in accounting and reporting for its operations. Investments are reported at fair value.

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For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position and additions to/deductions from the fiduciary net position have been determined on the same basis as they are reported by INPRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms.

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.

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, 2018, the Water and Wastewater Utilities reported a liability of \$4,719,544 and \$2,919,731 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, 2018 measurement date was 0.0022488.

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For the year ended December 31, 2018, the Utilities recognized pension expense of \$1,224,582 which included net amortization of deferred amounts from changes in proportion and differences between employer contributions and proportionate share of contributions. At December 31, 2018, 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	\$99,907	\$522
Net difference between projected and actual earnings on pension plan investments	226,245	-
Changes in assumptions	18,201	1,226,592
Changes in proportion and differences between Utility contributions and proportionate share of contributions	<u>4,799</u>	<u>106,965</u>
Total that will be recognized in pension expense (income) based on table below	349,152	1,322,096
Pension contributions subsequent to measurement date	<u>814,704</u>	-
Total	<u>\$1,163,856</u>	<u>\$1,322,096</u>

Deferred outflows of resources resulting from employer contributions subsequent to the June 30, 2018 measurement date are recognized as a reduction of net pension liability in the year ending December 31, 2018. 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:

<u>Year Ending December 31,</u>	<u>Amount</u>
2019	\$90,849
2020	(340,530)
2021	(587,968)
2022	(135,295)
2023	-
Thereafter	-
Total	<u>(\$972,944)</u>

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 UTILITIES' PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
PUBLIC EMPLOYEES RETIREMENT FUND
LAST 10 FISCAL YEARS

	<u>2018</u>	<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>
Utilities' Portion of the Net Pension Liability	0.22488%	0.22719%	0.22858%	0.22721%	0.20815%	0.19685%	**	**	**	**
Utilities' Proportionate Share of the Net Pension Liability	7,639,275	10,136,181	10,373,977	9,254,041	5,470,047	6,742,268	**	**	**	**
Utilities' Covered-Employee Payroll	11,474,444	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	66.6%	89.9%	94.7%	85.0%	53.8%	71.3%	**	**	**	**
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	78.9%	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.

EVANSVILLE WATER AND WASTEWATER UTILITIES
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REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER CONTRIBUTIONS
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
2018	\$ 1,285,138	\$ 1,284,579	\$ 559	\$ 11,474,444	11.20%
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	**	**	**	**	**

** 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/>.