

Basic Financial Statements and Report of Independent Certified Public Accountants

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

September 30, 2020

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

FINANCIAL STATEMENTS

For Fiscal Year Ended September 30, 2020

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying statement of net position of the Dallas Water Utilities Fund (the Fund), an Enterprise Fund of the City of Dallas, Texas (the City), as of September 30, 2020, and the related statements of revenues, expenses and changes in fund net position and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express 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 Fund's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the financial position of the Dallas Water Utilities Fund of the City of Dallas, Texas, as of September 30, 2020, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Dallas Water Utilities Fund and do not purport to, and do not, present fairly the financial position of the City of Dallas, Texas, as of September 30, 2020, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 11, the Schedule of Changes in the City's Net Pension Liability and Related Ratios, the Schedule of City Contributions to Pension Plan, Notes to the Schedule of City Contributions to Pension Plan, and the Schedule of Changes in the City's Total OPEB Liability and Related Ratios - Other Postemployment Benefits on pages 52 through 57 be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. This required supplementary information is the responsibility of management. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America. These limited procedures consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Dallas, Texas
March 31, 2021

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
September 30, 2020**

As management of the Dallas Water Utilities ("DWU"), an enterprise fund of the City of Dallas, Texas ("the City"), we offer readers of the financial statements this narrative overview and analysis of the financial activities of the DWU for the fiscal year ended September 30, 2020. The DWU's management's discussion and analysis is designed to: (1) assist the reader in focusing on significant issues; (2) provide an overview of the DWU financial activity; (3) identify changes in the DWU's financial position (its ability to address the next and subsequent year's challenges); and (4) identify issues or concerns. We encourage readers to consider the information presented here in conjunction with the accompanying basic financial statements. All dollar amounts, unless otherwise indicated, are expressed in thousands.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of the DWU exceeded the liabilities and deferred inflows of resources at the close of fiscal year 2020 by \$2.8 billion and in the 2019 fiscal year by \$2.7 billion. The unrestricted net position deficit balance increased by \$48.1 million from \$130.9 million in 2019 to \$179 million in 2020.
- The DWU total net position increased by \$46.3 million in fiscal year 2020 and increased by \$21 million in fiscal year 2019. This represents an increase of \$25.3 million in the net increase in net position from 2019 to 2020. Operating revenues increased \$18.4 million from increased consumption combined with a 2.9 percent increase in wholesale rates, offset by a 4.1 percent retail rate decrease. Additionally, Investment income decreased \$5.8 million, because the average rate of return decreased approximately 42.5 percent from 2.116 percent in fiscal year 2019 to 1.216 percent in fiscal year 2020. Capital contributions from developers also decreased \$674 thousand. Operating expenses decreased \$11.5 million from 2019 to 2020.
- The total balance of the revenue obligation bonds outstanding was \$2.6 billion, including the premium of \$206.8 million, at September 30, 2020. In May 2020, DWU issued Waterworks and Sewer System Revenue Refunding Bonds Series 2020A and Series 2020B in the amount of \$66 million. In July 2020, DWU issued Waterworks and Sewer System Revenue Refunding Bonds Series 2020C and Series 2020D in the amount of \$645.5 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

**City of Dallas, Texas
Dallas Water Utilities
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**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
September 30, 2020**

OVERVIEW OF THE FINANCIAL STATEMENTS - Continued

Financial Statements

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

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

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

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

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

Notes to the Basic Financial Statements

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

**City of Dallas, Texas
Dallas Water Utilities
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**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
September 30, 2020**

FINANCIAL ANALYSIS

Current assets decreased by \$3.8 million from \$551 million to \$547.2 million, mainly due to a decrease in accounts receivable, net of allowance for uncollectible accounts and offset by an increase in cash equivalents held for future debt service. As a result of the COVID-19 pandemic, on March 16, 2020, Dallas Water Utilities suspended water disconnects and late fees until further notice. At September 30, 2020 Accounts receivable have been reduced by an allowance of \$ 12.2 million.

Non-current assets increased by \$15 million, due to an increase in cash and cash equivalents held by escrow agent for construction projects. The increase in in cash and cash equivalents held by escrow agent for construction projects was mostly due to the proceeds from the refunding bonds, and offset by an increase cash outflow on acquisition and construction of capital assets.

Capital assets, net of depreciation, increased \$130.4 million, mainly due to net additions to construction in progress, purchases of equipment, and additions to utility property offset by depreciation expense for the year.

Revenue bonds and pension obligation bonds increased \$214.5 million, mostly due to the issuance of refunding bonds, offset by principal payments and amortizations. In May 2020, DWU issued \$66 million in Waterworks and Sewer System Revenue Refunding Bonds Series 2020A and Series 2020B. In July 2020, DWU issued \$645.5 million in Waterworks and Sewer System Revenue Refunding Bonds Series 2020C and Series 2020D including a premium of \$71.6 million; refunded \$424.2 million of Waterworks and Sewer System Revenue Refunding Bonds including a premium of \$18.6 million. Commercial paper decreased \$111.6 million due to by the issuance of \$147.5 million of new commercial paper and offset by \$259.1 million of commercial paper refunded by Waterworks and Sewer System Revenue Refunding Bonds Series 2020C and Series 2020D.

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**City of Dallas, Texas
Dallas Water Utilities
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MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
September 30, 2020

FINANCIAL ANALYSIS – Continued

**Table 1
Condensed Statements of Net Position
(in thousands)**

	2020	2019
Current and other noncurrent assets	\$930,004	\$918,873
Capital assets, net	5,495,934	5,365,559
Deferred outflows of resources	168,974	289,187
Total assets and deferred outflows of resources	<u>6,594,912</u>	<u>6,573,619</u>
Current liabilities	253,198	258,533
Long-term debt	3,062,598	2,988,145
Other long-term liabilities	480,276	531,057
Deferred inflows of resources	40,151	83,465
Total liabilities and deferred inflows of resources	<u>3,836,223</u>	<u>3,861,200</u>
Net position:		
Net investment in capital assets	2,673,126	2,592,605
Restricted	264,515	250,683
Unrestricted	(178,952)	(130,869)
Net position	<u><u>\$2,758,689</u></u>	<u><u>\$2,712,419</u></u>

The largest portion of the DWU net position reflects its investments in capital assets (e.g., land, building, equipment, improvements, construction in progress and infrastructure), less any debt used to acquire those assets that is still outstanding and escrow contribution based on the terms of the settlement agreement to the water authority. DWU uses these capital assets to provide service to customers; consequently, these assets are not available for future spending. Although DWU investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities. The balance of the net investment in capital assets was \$2.7 billion at September 30, 2020.

**City of Dallas, Texas
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**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
September 30, 2020**

FINANCIAL ANALYSIS - Continued

The balance of the restricted net position was \$264.5 million at September 30, 2020. The restricted net position represents resources that are subject to external restrictions such as sinking fund balances which include accrued amounts of principal and interest for debt service purposes, the reserve fund to be used for any future debt service payments in case the sinking fund is not appropriately funded and the prepaid escrow for the water authority settlement. The unrestricted net position deficit balance increased by \$48.1 million from \$130.9 million to \$178.9 million, primarily due to a decrease in personnel service cost from the previous year, offset by an increase in total operating revenues from the previous year.

Analysis of DWU Operations

Net position increased \$46.3 million in 2020, which represents an increase of \$25.3 million from the increase in net position for 2019. The increase in net position was mainly due to an increase in operating revenue, a decrease in operating expenses, and a decrease in contributions from developers. The total operating revenues for fiscal year 2020 were \$635.9 million, which was made up of the sale of water of \$392.4 million and treatment of wastewater of \$243.5 million. Total revenues increased \$12.6 million in 2020 over 2019, compared to a decrease from 2018 to 2019 of \$41.1 million. Operating revenues increased \$18.4 million from mainly due to increased consumption combined with a 2.9 percent increase in wholesale rates, offset by a 4.1 percent retail rate decrease. In addition, Investment income decreased \$5.8 million, due mainly to decreases in interest rates during fiscal year 2020. Total operating expenses decreased \$11.5 million in 2020. Loss on property disposal decreased \$912 thousand and interest expense on bonds and notes decreased \$648 thousand. Personnel expenses decreased \$40 million, mainly due to a \$39.7 million decrease in pension expense, and a decrease in other postemployment benefits expense of \$1.1 million, offset by an increase in worker compensation expense. Contractual services expense increased by \$25.8 million, mostly due to an increase in bad debt expense, an increase in professional service expense and an increase in repair and maintenance service equipment expense. Supplies and materials expense decreased by \$2.6 million, primarily due to a decrease in light and power expenses.

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MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
September 30, 2020

FINANCIAL ANALYSIS – Continued

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

	2020	2019
Revenues:		
Operating revenues	\$635,940	\$617,510
Investment income	11,974	17,775
Total revenues	<u>647,914</u>	<u>635,285</u>
Expenses:		
Personnel services	126,139	166,162
Supplies and materials	80,988	83,559
Other operation and maintenance	142,441	116,689
Depreciation and amortization	133,860	128,545
Interest expense	108,084	108,732
Loss on property disposal	180	1,092
Total expenses	<u>591,692</u>	<u>604,779</u>
Increase in net position before capital contributions and transfers	56,222	30,506
Capital contributions	18,910	19,584
Transfers in from other city funds	-	310
Transfers out to other city funds	<u>(28,862)</u>	<u>(29,414)</u>
Change in net position	46,270	20,986
Net position, beginning of year	<u>2,712,419</u>	<u>2,691,433</u>
Net position, end of year	<u><u>\$2,758,689</u></u>	<u><u>\$2,712,419</u></u>

**City of Dallas, Texas
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**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
September 30, 2020**

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

During the current fiscal year, DWU had \$5.5 billion invested in a broad range of capital assets net of accumulated depreciation, including water and sewer lines, mains, pump stations, buildings and vehicles. This amount represents a net increase (including additions, deductions and depreciation) of \$130.4 million, or 2.4 percent, over the prior fiscal year. The current fiscal year included project awards related to water and wastewater treatment plant expansion and improvement.

Some of the major projects attributable to this increase include:

- \$39 million Walcrest Pump Station Construction;
- \$27 million Plano Road and Abrams Tank Rehabilitation;
- \$19 million Elm Fork 72-inch Water Line to Bachman Plant;
- \$15 million Southside Wastewater Treatment Plant Major Maintenance and Rehabilitation; and
- \$15 million Southside Peak Flow Basin Expansion and Rehabilitation.

During 2012, the City entered into the Water Transmission Facilities Agreement with the Tarrant Regional Water District (TRWD) to jointly participate in the design, construction, financing and operation of water transmission facilities capable of delivering additional raw water supply to the Dallas Fort/Worth Metroplex. This will also help to ensure the continued availability of a reliable water supply for their respective customers at the least cost. The TRWD issued bonds to construct the project, \$474 million of which are being used to fund the DWU portion of the project. At September 30, 2020, DWU has recorded an intangible asset in progress of \$459.6 million, including capitalized interest. The remaining \$66.1 million in unspent proceeds held by TRWD were recorded in other noncurrent assets.

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

Debt

At year-end, DWU had \$2.6 billion in revenue bonds (including premiums of \$206.8 million) outstanding. This represents a 9 percent increase from fiscal year 2019. The DWU share of pension obligation bonds was \$62.4 million (including premium of \$18.9 million) plus \$30.6 million of accreted interest.

**City of Dallas, Texas
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**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
September 30, 2020**

CAPITAL ASSETS AND DEBT ADMINISTRATION – Continued

In May 2020, Dallas Water Utilities issued Waterworks and Sewer System Revenue Bonds Series 2020A and Series 2020B of \$66 million and interest rates ranging from 0.03 percent to 0.63 percent. Final maturity will occur on October 1, 2049. The bonds were issued to fund capital construction projects.

In July 2020, Dallas Water Utilities issued Waterworks and Sewer System Revenue Bonds Series 2020C and Series 2020D of \$645.5 million and interest rates ranging from 4.0 percent to 5.0 percent. Final maturity will occur on October 1, 2049. The bonds were issued to refund previously issued waterworks and sewer system bonds and to refund outstanding commercial paper used by Dallas Water Utilities to fund capital construction projects.

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The FY 2020-21 budget and FY 2021-22 planned budget will continue to operate and maintain three water purification plants, pump stations, storage tanks, and 5,000 miles of distribution system pipelines to provide 138 billion gallons of drinking water and fire protection to more than 2.5 million people, and two wastewater treatment plants and more than 4,050 miles of wastewater mains in the sanitary sewer system that treat 68 billion gallons of domestic and industrial wastewater, process and dispose of biosolids, and provide reuse effluent water to local area golf courses as a service for the residents of Dallas.

The budgets will manage capital improvement projects totaling approximately \$300 million annually from inception through startup. This includes capital planning, professional services, construction administration, and inspection of the required improvements, and provide for water meter reading, billing, collection, and customer service activities for more than 300,000 accounts monthly.

The proposed retail rate increase for FY 2020-21 is one percent, which will cover increased costs associated with the Integrated Pipeline Project, as well as increases in reservoir operations and maintenance costs. Retail rate increases will average approximately two percent from FY 2021-22 through FY 2024-25. These increases will cover higher personnel costs, additional payments to connect Lake Palestine to the Dallas water supply system, and additional capital program funding necessary to maintain DWU infrastructure. Major expenditure categories include operating and maintenance costs, debt service payments, and transfers to capital. Increases in the forecast period reflect inflation.

To meet the future water needs of our customers, DWU has partnered with the Tarrant Regional Water District on the Integrated Pipeline Project (IPL), which will connect several reservoirs, including Lake Palestine. Construction has begun on the DWU-only portion of the pipeline, which is approximately 42 miles in length at a projected cost of \$506 million (the overall estimated cost of the project is \$1 billion). The project will have the capacity to provide 150 million gallons of water to Dallas per day by around 2027.

**City of Dallas, Texas
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MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
September 30, 2020

CONTACTING THE DALLAS WATER UTILITIES FINANCIAL MANAGEMENT

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

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

Statement of Net Position
September 30, 2020
(in thousands)

Assets and Deferred Outflows of Resources

Capital assets

Completed utility property	\$ 6,735,787
Less accumulated depreciation and amortization	<u>(2,523,683)</u>
Total completed utility plant, net	4,212,104
Land	125,672
Construction in progress	<u>1,158,158</u>
Total capital assets	<u>5,495,934</u>

Current assets

Cash and cash equivalents	212,799
Accounts receivable, less allowance for uncollectible accounts (\$12,226)	76,084
Interest receivable	1,029
Inventories, at cost	15,025
Due from other governments	123
Due from other city funds	268
Prepaid assets	8,384
Restricted assets	
Customer assessment receivable	634
Debt service	
Cash and cash equivalents	163,328
Held for construction purposes	
Pooled cash and cash equivalents	49,739
Customer deposits	
Pooled cash and cash equivalents	<u>19,748</u>
Total current assets	<u>547,161</u>

Other noncurrent assets

Future pipeline reserve capacity rights	66,079
Notes receivable from other city funds	5,659
Prepaid escrow	24,657
Restricted assets	
Cash and cash equivalents held by escrow agent for future debt service	170,627
Cash and cash equivalents for future debt service	25,821
Investments for future debt service	<u>90,000</u>
Total other noncurrent assets	<u>382,843</u>
Total assets	<u>6,425,938</u>

Deferred outflows of resources

Deferred loss on refunding	53,654
Deferred outflows of resources related to pensions	109,686
Deferred outflows of resources related to other postemployment benefits	<u>5,634</u>
Total deferred outflows of resources	<u>168,974</u>
Total assets and deferred outflows of resources	<u>\$ 6,594,912</u>

See accompanying notes to basic financial statements.

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

Statement of Net Position (Continued)
September 30, 2020

Liabilities, Deferred Inflows of Resources, and Net Position

Liabilities

Long-term debt, less current maturities	
Revenue bonds payable	\$ 2,517,619
Commercial paper notes payable	52,900
Water transmission facilities financing agreement, payable from restricted assets	404,715
Pension obligation bonds payable	56,791
Accreted interest on pension obligation bonds	30,573
Total long-term debt	<u>3,062,598</u>

Current liabilities payable from restricted assets	
Water transmission facilities financing agreement, payable from restricted assets	10,042
Construction accounts payable	58,456
Revenue bonds payable	119,175
Accrued interest payable	39,291
Total current liabilities (payable from restricted assets)	<u>226,964</u>

Current liabilities payable from current assets	
Accrued payroll payable	2,207
Accounts payable	13,546
Compensated absences payable	4,690
Pension obligation bonds payable	5,559
Accrued interest on pension obligation bonds	232
Total current liabilities (payable from current assets)	<u>26,234</u>

Other long-term liabilities	
Customer deposits, payable from restricted assets	19,748
Compensated absences payable	6,323
Net pension liability	389,659
Other postemployment benefits	60,983
Customer and developer construction advances	3,563
Total other long-term liabilities	<u>480,276</u>

Total liabilities	<u>3,796,072</u>
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Deferred inflows of resources

Deferred inflows of resources related to pensions	32,255
Deferred inflows of resources related to other postemployment benefits	7,896
Total deferred inflows of resources	<u>40,151</u>

Total liabilities and deferred inflows of resources	3,836,223
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Net position

Net investment in capital assets	2,673,126
Restricted:	
Revenue bond requirements	239,858
Prepaid escrow	24,657
Unrestricted	<u>(178,952)</u>
Total net position	<u>\$ 2,758,689</u>

See accompanying notes to basic financial statements.

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

Statement of Revenues, Expenses, and Changes in Fund Net Position
For the Year Ended September 30, 2020
(in thousands)

Operating revenues	
Water	\$ 392,387
Wastewater	243,553
Total operating revenues	<u>635,940</u>
Operating expenses	
Personnel services	126,139
Supplies and materials	80,988
Other operation and maintenance	142,441
Depreciation and amortization	133,860
Total operating expenses	<u>483,428</u>
Operating income	152,512
Non-operating income (expense)	
Investment income	11,974
Interest expense on bonds and commercial paper	(108,084)
Loss on property disposal	(180)
Total non-operating income (expenses)	<u>(96,290)</u>
Income before capital contributions and transfers	56,222
Capital contributions	18,910
Transfers out to other city funds	<u>(28,862)</u>
Change in net position	<u>46,270</u>
Net position, beginning of year	<u>2,712,419</u>
Net position, end of year	<u><u>\$ 2,758,689</u></u>

See accompanying notes to basic financial statements.

City of Dallas, Texas
Dallas Water Utilities
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Statement of Cash Flows
For the Year Ended September 30, 2020
(in thousands)

Cash flows from operating activities	
Cash received from customers	\$ 645,228
Cash payments to suppliers for goods and services	(68,961)
Cash payments to employees for services	(95,604)
Cash payments for contractual services	<u>(142,450)</u>
Net cash provided by operating activities	338,213
 Cash flows from non-capital financing activities	
Principal paid on pension obligation bonds	(1,610)
Interest paid on pension obligation bonds	(5,321)
Transfers to other city funds	<u>(28,862)</u>
Net cash used in non-capital financing activities	(35,793)
 Cash flows from capital and related financing activities	
Acquisition and construction of capital assets	(259,808)
Proceeds from obligation for revenue bonds	783,087
Payment to refunded bond escrow agent	(456,260)
Principal paid on revenue bonds	(105,560)
Interest paid on bonds, notes, and other obligations	(118,802)
Bond issuance costs	(1,722)
Proceeds from sale of commercial paper notes	147,500
Retirement of commercial paper notes	<u>(259,100)</u>
Net cash used in capital and related financing activities	(270,665)
 Cash flows from investing activities	
Investment income	<u>12,030</u>
Net cash provided by investing activities	<u>12,030</u>
 Net increase in cash and cash equivalents	43,785
 Cash and cash equivalents, beginning of year	<u>598,277</u>
Cash and cash equivalents, end of year	<u><u>\$ 642,062</u></u>

See accompanying notes to basic financial statements.

City of Dallas, Texas
Dallas Water Utilities
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Statement of Cash Flows (Continued)
For the Year Ended September 30, 2019
(in thousands)

Reconciliation of operating income to net cash provided by operating activities

Operating income	\$ 152,512
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation and amortization	133,860
Changes in assets and liabilities	
Decrease in accounts and other receivables	1,256
Increase in customer assessments receivable	(8)
Decrease in inventories	833
Decrease in other assets	7,992
Decrease in due from other governments	526
Decrease in deferred outflows related to other postemployment benefits	1,928
Decrease in deferred outflows related to pensions	123,889
Increase in accounts payable	3,202
Increase in accrued payroll	599
Decrease in compensated absences	(284)
Increase in allowance for doubtful accounts	6,665
Increase in customer deposits	849
Decrease in other post employment benefits	(3,569)
Decrease in customer construction and developer advances	(9)
Decrease in net pension liability	(48,714)
Increase in deferred inflows related to other postemployment benefits	2,496
Decrease in deferred inflows related to pensions	(45,810)
Total adjustments	<u>185,701</u>
Net cash provided by operating activities	<u>\$ 338,213</u>

Current assets	
Pooled cash and cash equivalents	212,799
Pooled cash and cash equivalents for current debt service	163,328
Pooled cash and cash equivalents held for construction purposes	49,739
Pooled cash and cash equivalents held customer deposits	19,748
Cash and cash equivalents held by escrow agent for future debt service	170,627
Pooled cash and cash equivalents held for future debt service	<u>25,821</u>
Toal cash and cash equivalents at end of year	<u>\$ 642,062</u>

Noncash investing, capital and financing activities	
Capital contributions	\$ 18,910
Prepaid escrow	(7,992)
Change in fair value of non-pooled investments	100
Premium/discount amortization	(17,397)
Accretion on capital appreciation bonds	209
Amortization of deferred gain/loss on refunding	(7,876)

See accompanying notes to basic financial statements.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended September 30, 2020
(In thousands except where indicated)**

Note 1. Financial Statement Presentation and Significant Accounting Policies

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

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

Basis of Accounting

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

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. Actual results could differ from those estimates.

Cash, Deposits and Investments

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

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

**City of Dallas, Texas
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended September 30, 2020
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Note 1. Financial Statement Presentation and Significant Accounting Policies (continued)

Capital Assets

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

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

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

For constructed property, capitalized costs include amounts applicable to construction for payroll, payroll related costs, and general and administrative overhead. Maintenance and repairs are charged to operations as incurred. Improvements which extend the useful lives of capital assets are capitalized.

Transactions with Other City Departments

Operating revenues include billings and charges to other City departments for water and wastewater services, for which other departments made payments of \$5.4 million during fiscal year 2020. Operating expenses include payments to other City departments of \$114.5 million in 2020, including health benefit payments for employees, office supplies, vehicle fuel and maintenance, communications and data services, programming and batch processing, street rental, and other miscellaneous City services. DWU also reimburses other City departments for other construction-related costs paid by those departments for DWU. Current assets and other non-current assets at September 30, 2020 include advances of \$5.7 million due from other City funds bearing original interest at rates of 4.25 percent to 5.20 percent, subject to change based on interest received on City investments. All other nonreciprocal transactions between funds which are not reimbursements and where the funds do not receive equivalent goods and services for the transactions are classified as transfers (i.e. payments in lieu of taxes).

Compensated Absences

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

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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Note 1. Financial Statement Presentation and Significant Accounting Policies (continued)

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

Risk Management

The City is self-funded for workers' compensation, employee health insurance, most property damage and the majority of tort liability exposures. Commercial insurance is used where it is legally required, contractually required, or judged to be the most effective way to finance risk. Indemnity and insurance protection are also required for all City contractors, vendors, lessees, and permit holders. Claims and judgments are recorded when it is probable that an asset has been impaired or a liability has been incurred and the amount of loss can be reasonably estimated. The recorded estimated liability for claims and judgments includes a provision for Incurred but Not Reported (IBNR) liabilities for workers' compensation, tort cases, and employee health insurance.

Accounts Receivable

Accounts receivable includes billed and unbilled customer receivables at September 30, 2020. Unbilled receivables include estimated revenues for water and wastewater services provided but not yet billed at September 30.

Inventory

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

Prepaid Items

Prepaid items are payments made to vendors for services that will benefit periods beyond September 30, 2020. Prepaid items are recorded using the consumption method.

Operating Revenues and Expenses

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

City of Dallas, Texas
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NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended September 30, 2020
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Note 1. Financial Statement Presentation and Significant Accounting Policies (continued)

Restricted vs. Unrestricted

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

Deferred Outflows/Inflows of Resources

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

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

In addition to liabilities, the balance sheet and statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has the following items that qualify for reporting in this category:

- Net difference in projected and actual earnings on pension assets and difference between estimated and actual experience related to pensions – These are amortized as a component of pension expense over a closed period of five years.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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Note 1. Financial Statement Presentation and Significant Accounting Policies (continued)

- Difference between estimated and actual experience related to pensions and other postemployment benefits (OPEB) - These are amortized as a component of pension and OPEB expense over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions and benefits through the pension and OPEB plans (active employees and inactive employees) determined as of the beginning of the measurement period.
- Changes in assumptions related to pensions and OPEB – These are amortized as a component of pension and OPEB expense over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions and benefits through the pension and OPEB plans (active employees and inactive employees) determined as of the beginning of the measurement period.

Bond Premiums, Discounts, and Issuance Costs

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

Net Position

In the Fund's financial statements, the net position is reported in three components: (1) net investment in capital assets; (2) restricted; and (3) unrestricted. Net investment in capital assets represents the Fund's total investment in capital assets, net of depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets.

Statement of Cash Flows

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

New Accounting Pronouncements

The City was not required to implement any Governmental Accounting Standards Board (GASB) Statements during fiscal year 2020.

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

GASB Statement No. 84, "Fiduciary Activities," will be implemented as required by GASB during the fiscal year ending September 30, 2021. This Statement improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. DWU is currently evaluating potential changes to the financial statements as a result of the implementation of this statement.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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Note 1. Financial Statement Presentation and Significant Accounting Policies (continued)

GASB Statement No. 87, "Leases," will be implemented as required by GASB during the fiscal year ending September 30, 2022. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundation principle that leases are financings of the right to use an underlying asset. DWU is currently evaluating potential changes to the financial statements as a result of implementation of this Statement.

GASB Statement No. 90, "Majority Equity Interest – an amendment of GASB Statements No. 14 and No. 61," will be implemented as required by GASB during the fiscal year ending September 30, 2021. The objective of this statement is to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engage only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. DWU is currently evaluating potential changes to the financial statements as a result of implementation of this Statement.

GASB Statement No. 91, "Conduit Debt Obligations," will be implemented as required by GASB during the fiscal year ending September 30, 2022. The primary objectives of the Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with: (1) commitments extended by issuers; (2) arrangements associated with conduit debt obligations; and (3) related not disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving require note disclosures. DWU is currently evaluating potential changes to the financial statements as a result of implementation of this Statement

GASB Statement No. 92, "Omnibus 2020," will be implemented as required by GASB during fiscal years ending September 30, 2021, except for the requirements related to the effective date of Statement 87 and Implementation Guide 2019-3, reinsurance recoveries, and terminology used to refer to derivative instruments are effective upon issuance. The objectives of the Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. DWU is currently evaluating potential changes to the financial statements as a result of implementation of this Statement.

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Note 1. Financial Statement Presentation and Significant Accounting Policies (continued)

GASB Statement No. 93, "Replacement of Interbank Offered Rates," will be implemented as required by GASB during fiscal years ending September 30, 2021 and September 30, 2022. The objective of this Statement is to address the accounting and financial reporting effects that result from the replacement of interbank offered rates with other reference rates in order to preserve the reliability, relevance, consistency, and comparability of reported information. DWU is currently evaluating potential changes to the financial statements as a result of implementation of this Statement.

GASB Statement No. 94, "Public-Private and Public-Public Partnerships and Availability Payment Arrangements," will be implemented as required by GASB during fiscal year ending September 30, 2023. The objective of this Statement is to better meet the information needs of financial statement users by improving the comparability of financial statements among governments that enter into Public-Private and Public-Public Partnerships (PPPs) and Availability Payment Arrangements (APAs) and by enhancing the understandability, reliability, relevance, and consistency of information about PPPs and APAs. DWU is currently evaluating potential changes to the financial statements as a result of implementation of this Statement.

GASB Statement No. 95, "Postponement of the Effective Dates of Certain Authoritative Guidance," will be implemented immediately as required by GASB. The primary objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later.

The effective dates of certain provisions contained in the following pronouncements are postponed by one year:

- Statement No. 83, Certain Asset Retirement Obligations;
- Statement No. 84, Fiduciary Activities;
- Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowing and Direct Placements;
- Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period;
- Statement No. 90, Majority Equity Interests;
- Statement No. 91, Conduit Debt Obligations;
- Statement No. 92, Omnibus 2020;
- Statement No. 93, Replacement of Interbank Offered Rates;
- Implementation Guide No. 2017-3, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (and Certain Issues Related to OPEB Plan Reporting);
- Implementation Guide No. 2018-1, Implementation Guidance Update-2018;
- Implementation Guide 2019-1, Implementation Guidance Update-2019; and
- Implementation Guide No. 2019-2, Fiduciary Activities.

**City of Dallas, Texas
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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Note 1. Financial Statement Presentation and Significant Accounting Policies (continued)

GASB Statement No. 96, "Subscription-Based Information Technology Arrangements," will be implemented as required by GASB during fiscal year ending September 30, 2023. The objective of the Statement is to better meet the information needs of financial statement users by (a) establishing uniform accounting and financial reporting requirements of subscription-based information technology arrangements (SBITAs); (b) improving the comparability of financial statements among governments that have entered in to SBITAs; and (c) enhancing the understandability, reliability, relevance, and consistency of information about SBITAs. The City is currently evaluating potential changes to the financial statements as a result of implementation of this Statement.

GASB Statement No. 97, "Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans-an amendment of GASB Statements No. 14 and No. 84, and supersession of GASB Statement No. 32," will be implemented as required by GASB. The requirements in (1) paragraph 4 of this Statement as it applies to defined contributions pension plans, defined contribution OPEB Plans, and other employee benefit plans and (2) paragraph 5 of this Statement are effective immediately. The requirements in paragraphs 6 – 9 of this Statement are effective for fiscal years beginning after June 15, 2021. All other requirements of this Statement are effective for reporting periods beginning after June 15, 2021. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. The implementation of paragraphs 4 and 5 of this statement did not result in any changes to the financial statements, and DWU is currently evaluating potential changes to the financial statements as a result of implementation of the remaining paragraphs of this Statement.

**City of Dallas, Texas
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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Note 2. Cash, Deposits, and Investments

A summary of the carrying amount of cash on hand, deposits, and investments at September 30, 2020 is as follows:

	Cash and Pooled Investments with City Treasury
Deposits	\$ 50,594
Investments-cash and cash equivalents	162,205
Investments-restricted cash and cash equivalents	519,263
Total	<u>\$ 732,062</u>

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

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City of Dallas, Texas
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NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended September 30, 2020
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Note 2. Cash, Deposits, and Investments (continued)

DWU has the following recurring fair value measurements as of September 30, 2020:

	Fair Value Measurement Using Quoted Prices		
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
<u>Investments by Fair Value Level</u>			
Federal Agricultural Mortgage Corporation Notes	\$ 49,869	\$ -	\$ 49,869
Federal Farm Credit Bank Notes	47,863	-	47,863
Federal Home Loan Bank Notes	19,474	-	19,474
Federal Home Loan Mortgage Corporation Notes	17,535	-	17,535
Treasury Bond	47,256	47,256	-
Total Investments by Fair Value Level	<u>\$ 181,997</u>	<u>\$ 47,256</u>	<u>\$ 134,741</u>
<u>Investments Measured at Fair Value</u>			
Local Government Investment Pools	<u>71,253</u>		
<u>Investments Measured at Net Asset Value (NAV)</u>			
Money Market Mutual Funds	<u>217,988</u>		
<u>Investments Measured at Amortized Cost</u>			
Local Government Investment Pools	<u>210,230</u>		
Total Investments	<u>\$ 681,468</u>		

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

**City of Dallas, Texas
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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Note 2. Cash, Deposits, and Investments (continued)

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

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

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

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

Deposit and Investment Risk Disclosures of Funds with the City Treasurer

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

Custodial Credit Risk

Custodial credit is the risk that, in event of the failure of the counterparty, the City will not be able to recover the value of its deposit or collateral securities that are in the possession of an outside party. As of September 30, 2020, \$50,594 was fully collateralized and insured by U.S. Federal Agency securities and the Federal Deposit Insurance Corporation. The collateral pledged to the City is held in the City's name at the Bank of New York Mellon. The FDIC insures demand accounts up to \$250 thousand in the aggregate. At September 30, 2020, all deposits were either insured or collateralized.

City of Dallas, Texas
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NOTES TO THE BASIC FINANCIAL STATEMENTS
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Note 2. Cash, Deposits, and Investments (continued)

Safekeeping of investment securities is provided by the City's depository and trust institutions. Securities are held in street name with the bank as nominee. As of September 30, 2020, the City's investments held by the counterparty, and not insured, are as follows:

Security Type	Fair Value
U.S. Agency Securities	\$ 181,997

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

Concentration of Credit Risk

The Fund's concentration of credit risk for investments is shown below. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds and external investment pools are excluded.

Agencies and Securities by Issuer	Fair Value	Percent of Total Portfolio
Federal Agricultural Mortgage Corporation Notes	\$ 49,869	27.40%
Federal Farm Credit Bank Notes	47,863	26.30%
Federal Home Loan Bank Notes	19,474	10.70%
Federal Home Loan Mortgage Corporation Notes	17,535	9.63%
Treasury Bond	47,256	25.97%
Total	<u>\$ 181,997</u>	<u>100.00%</u>

Credit Risk

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

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

City of Dallas, Texas
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NOTES TO THE BASIC FINANCIAL STATEMENTS
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Note 2. Cash, Deposits, and Investments (continued)

Security Type	Fair Value	Percent of Total Portfolio	S&P/Moody's Ratings
Money market mutual funds and investment pools	\$ 499,471	73.29%	AAAm/Aaa
Federal Agricultural Mortgage Corporation Notes	49,869	7.32%	Not Rated
U.S. Agency securities	132,128	19.39%	AA+/Aaa
Total	<u>\$ 681,468</u>	<u>100.00%</u>	

Interest Rate Risk

In order to ensure the ability of the City to meet obligations and to minimize potential liquidation losses, the dollar-weighted average stated maturity of the Investment Pool shall not exceed 1.5 years. The weighted average maturity of the securities held in the City's portfolio at September 30, 2020 is as follows:

Security Type	Fair Value	Weighted Average Maturity (days)
Money market mutual funds	\$ 217,988	1
Local Government Investment Pools	281,483	12
U.S. Agency securities	181,997	355
Total	<u>\$ 681,468</u>	<u>142</u>

Note 3. Assets Restricted for Debt Service

Bond documents authorizing issuance of water and wastewater system revenue bonds and the related offering documents prescribe the timing and determination of amounts to be accumulated and maintained for debt service. These ordinances require that amounts be set aside in advance to provide for the next scheduled principal and interest payments. Such amounts are reflected in the accompanying statement of net position as current maturities of revenue bonds and accrued revenue bond interest. The ordinances also require that a "revenue bond reserve fund" be accumulated and maintained. If the reserve fund contains less than the future average annual principal and interest requirements of all outstanding revenue bonds, determined after each bond issue, the ordinances require equal monthly additions to the reserve fund in amounts which, after 60 months, will result in a reserve fund balance which is equal to the future average annual principal and interest requirements. At September 30, 2020, the reserve fund was in compliance with the ordinance requirements.

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Note 4. Capital Assets

Capital asset activity for the year ended September 30, 2020 is as follows:

	Balance, September 30, 2019	Additions	Deletions	Balance, September 30, 2020
Capital assets, not being depreciated				
Land	\$ 122,907	\$ 2,765	\$ -	\$ 125,672
Construction in progress	1,160,320	241,055	(243,217)	1,158,158
Total capital assets, not being depreciated	<u>1,283,227</u>	<u>243,820</u>	<u>(243,217)</u>	<u>1,283,830</u>
Capital assets, being depreciated				
Water rights	353,910	-	-	353,910
Buildings	524,565	199	(18)	524,746
Improvements other than buildings	81,851	-	-	81,851
Infrastructure	581,220	306	-	581,526
Equipment	636,780	37,881	(14,196)	660,465
Utility property	4,308,334	225,426	(471)	4,533,289
Total capital assets, being depreciated	<u>6,486,660</u>	<u>263,812</u>	<u>(14,685)</u>	<u>6,735,787</u>
Less accumulated depreciation for				
Water rights	(127,530)	(3,542)	-	(131,072)
Buildings	(248,758)	(10,165)	-	(258,923)
Improvements other than buildings	(32,851)	(2,078)	-	(34,929)
Infrastructure	(264,868)	(10,065)	5	(274,928)
Equipment	(430,739)	(19,250)	14,082	(435,907)
Utility property	(1,299,582)	(88,760)	418	(1,387,924)
Total accumulated depreciation	<u>(2,404,328)</u>	<u>(133,860)</u>	<u>14,505</u>	<u>(2,523,683)</u>
Total capital assets being depreciated, net	<u>4,082,332</u>	<u>129,952</u>	<u>(180)</u>	<u>4,212,104</u>
Total capital assets, net	<u>\$ 5,365,559</u>	<u>\$ 373,772</u>	<u>\$ (243,397)</u>	<u>\$ 5,495,934</u>

Note 5. Long-Term Debt

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

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

Revenue bonds payable at September 30, 2020 include the following issues. Future long-term liabilities and interest rates shown on the following pages are for bonds outstanding on September 30, 2020.

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Note 5. Long-Term Debt (continued)

	Balance, September 30, 2019	Additions	Deletions	Balance, September 30, 2020	Due Within One Year
City of Dallas Waterworks and Sewer System Revenue Refunding and Improvement Bonds					
Series 2010	\$ 104,700	\$ -	\$ 96,175	\$ 8,525	\$ 8,525
Series 2011	134,265	-	99,640	34,625	13,820
Series 2012	270,465	-	109,640	160,825	19,495
Series 2013	142,550	-	110,790	31,760	3,310
Series 2015	591,670	-	16,070	575,600	45,460
Series 2016	486,615	-	31,560	455,055	4,860
Series 2017	168,750	-	2,930	165,820	3,080
Series 2018C	152,965	-	2,580	150,385	2,710
Series 2020C	-	281,825	-	281,825	5,615
Series 2020D	-	363,665	-	363,665	2,340
City of Dallas Waterworks and Sewer System Revenue Refunding and Improvement Bonds (Direct Placements)					
Series 2009B	5,505	-	5,005	500	500
Series 2009C	58,733	-	53,353	5,380	5,380
Series 2018A	22,000	-	675	21,325	675
Series 2018B	44,000	-	1,295	42,705	1,300
Series 2019A	22,000	-	-	22,000	720
Series 2019B	44,000	-	-	44,000	1,385
Series 2020A	-	22,000	-	22,000	-
Series 2020B	-	44,000	-	44,000	-
Total Revenue Bonds Payable	2,248,218	711,490	529,713	2,429,995	119,175
Add: Unamortized Premium	171,915	71,598	36,714	206,799	
Total Revenue Bonds	2,420,133	783,088	566,427	2,636,794	119,175
Pension Obligation Bonds	45,088	-	1,610	43,478	5,559
Add: Net Premium/Discount	19,560	-	688	18,872	-
Add: Accretion	30,364	3,802	3,593	30,573	-
Total Pension Obligation Bonds	95,012	3,802	5,891	92,923	5,559
Total Bonds Payable	2,515,145	786,890	572,318	2,729,717	124,734
Direct Borrowings					
Commercial paper notes	164,500	147,500	259,100	52,900	
Water transmission facilities financing agreement	425,442	-	10,685	414,757	10,042
Total direct borrowings	589,942	147,500	269,785	467,657	10,042
Other liabilities					
Compensated absences payable	11,297	4,259	4,543	11,013	4,690
Other postemployment benefits	64,552	3,350	6,919	60,983	-
Net pension liability	438,373	84,108	132,822	389,659	-
Arbitrage rebate	188	-	188	-	-
Total other liabilities	514,410	91,717	144,472	461,655	4,690
Total long-term debt	\$ 3,619,497	\$1,026,107	\$ 986,575	\$ 3,659,029	\$ 139,466

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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Note 5. Long-Term Debt (continued)

Water Works and Sewer System Revenue Bonds

In July 2020, Dallas Water Utilities issued Waterworks and Sewer System Revenue Bonds Series 2020C and Series 2020D of \$645.5 million and interest rates ranging from 4.0 percent to 5.0 percent. Final maturity will occur on October 1, 2049. The bonds were issued to refund previously issued waterworks and sewer system bonds and to refund outstanding commercial paper used by Dallas Water Utilities to fund capital construction projects. Proceeds of \$456.3 million were deposited with an escrow agent to be used to pay the outstanding amount of the refunded bonds. As a result, \$424.2 million of these bonds are considered defeased and the liability for the refunded portion of these bonds has been removed from the financial statements. The refunding resulted in a difference of \$13.5 million between the net carrying amount of the old debt and the reacquisition price. This difference, reported in the accompanying financial statement as a deferred outflow of resources, is being amortized to interest expense over the life of the old bonds. Total debt service payments decreased by \$118.5 million as a result of the refunding. The City also incurred an economic gain (difference between the present value of the old debt and new debt service payments) of \$92.6 million.

Water Works and Sewer System Revenue Bonds and Pension Obligation Bonds (Direct Placements)

In fiscal year 2020, and prior years Dallas Water Utilities issued Waterworks and Sewer System Revenue Refunding and Improvement Bonds to fund capital construction projects. These were direct placements facilitated by the Texas Water Development Board. These bonds are special obligations of the City, payable solely from and secured by a first lien on and pledge of the pledged revenues of the system, which include the net revenues of the system remaining after deduction of current expenses of operation and maintenance. Events of default include nonpayment events and covenant noncompliance. In the event of default, registered owners may seek a writ of mandamus to compel officials of the City to carry out their legally imposed duties with respect to the bonds.

In May 2020, Dallas Water Utilities issued Waterworks and Sewer System Revenue Bonds Series 2020A and Series 2020B of \$66 million and interest rates ranging from 0.03 percent to 0.63 percent. Final maturity will occur on October 1, 2049. The bonds were issued to fund capital construction projects.

At September 30, 2020, and during the year then ended, the City believes it was in compliance with the financial covenants of all authorizing ordinances for outstanding water and wastewater system revenue debt.

The pension obligation bonds are allocated between the City's governmental and enterprise funds. The numbers presented below include the Fund's portion of the total issue. Of the total issue, 18.78 percent is allocated to DWU. The City-issued pension obligation bonds are to be paid through increased contributions to the pension debt service account.

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Note 5. Long-Term Debt (continued)

DWU's pension obligation bonds outstanding as of September 30, 2020 are as follows:

	<u>Maturity</u>	<u>Rates</u>	<u>Amount</u>
Series 600	2035	3.24% to 5.19%	\$ 20,726
Series 601	2035	4.10% to 5.48%	8,512
Series 632	2024	0.295% to 4.66%	14,240
Total			<u>\$ 43,478</u>

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

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

Fiscal Year	Dallas Water Utilities					
	Revenue Bonds			Revenue Bonds-Direct Placements		
	Principal	Interest	Total	Principal	Interest	Total
2021	\$ 109,215	\$ 80,479	\$ 189,694	\$ 9,960	\$ 1,487	\$ 11,447
2022	119,295	81,961	201,256	6,340	1,438	7,778
2023	113,625	78,101	191,726	6,350	1,425	7,775
2024	102,995	74,263	177,258	6,365	1,409	7,774
2025	94,635	70,388	165,023	6,385	1,390	7,775
2026-2030	449,390	298,284	747,674	32,310	6,576	38,886
2031-2035	437,605	208,276	645,881	33,215	5,664	38,879
2036-2040	413,910	119,408	533,318	34,550	4,315	38,865
2041-2045	273,175	53,018	326,193	36,320	2,564	38,884
2046-2049	114,240	8,746	122,986	30,115	604	30,719
Total	<u>\$ 2,228,085</u>	<u>\$ 1,072,924</u>	<u>\$ 3,301,009</u>	<u>\$ 201,910</u>	<u>\$ 26,872</u>	<u>\$ 228,782</u>

Fiscal Year	Pension Obligation Bonds		
	Principal	Interest	Total
2021	\$ 5,559	\$ 1,575	\$ 7,134
2022	6,081	1,281	7,362
2023	6,685	976	7,661
2024	7,248	657	7,905
2025	1,513	6,909	8,422
2026-2030	7,548	38,607	46,155
2031-2035	8,844	44,782	53,626
Total	<u>\$ 43,478</u>	<u>\$ 94,787</u>	<u>\$ 138,265</u>

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Note 5. Long-Term Debt (continued)

Dallas Water Obligation for Water Transmission Facilities Financing Agreement (Direct Borrowing)

Tarrant Regional Water District (TRWD), a water control and improvement district and political subdivision of the State of Texas, issued Water Facilities Contract Revenue Bonds in February 2012 in the amount of \$131.9 million, in January 2014 in the amount of \$202.1 million, and in December 2015 in the amount of \$140 million. The bonds were issued to finance the DWU share of costs for designing, acquiring, constructing, improving, repairing, rehabilitating, and/or replacing water transmission facilities capable of delivering additional raw water supply to the respective customers of the DWU and TRWD (the Project). The Project is tentatively scheduled to be completed in 2025. The City's share of the total cost of the Project is estimated to be \$1 billion. Upon completion of the Project, DWU will have reserved capacity rights in the amount of 150 million gallons per day. Depending on the timing of construction, additional bonds are expected to be issued throughout the construction period.

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

The Agreement establishes that TRWD shall own and operate the Project, subject to Dallas' reserved capacity rights in the Project. The bonds are a special obligation of TRWD. Principal and interest are secured by and payable solely from payments to be received by TRWD from the City to the extent required and provided in the Agreement. The bonds do not constitute a debt or pledge of the faith and credit of the City and accordingly have not been reported in the accompanying financial statements. At September 30, 2020, the TRWD Water Facilities Contract Revenue Bonds outstanding were \$416 million.

The City has determined the obligation under the Agreement to be a liability to the extent that such obligations are for the payment of bonds issued to fund the DWU share of costs for the Project. The City has capitalized the development of an intangible asset, Pipeline Reserve Capacity Rights, in Construction in Progress for the actual Project costs incurred by TRWD. The unspent proceeds held by TRWD for future construction costs have been recorded in Other Noncurrent Assets – Future Pipeline Reserve Capacity Rights. The interest rates for the obligation range from 0.45 percent to 6.00 percent. The obligation will be amortized over a period of 30 years. The balance of the obligation for the Agreement was \$415 million at September 30, 2020.

The revenues and income received by the Dallas Water Utilities from the ownership and operation of the system are pledged as security for repayment of the obligation. Events of default include nonpayment events and covenant noncompliance. In the event of default, TRWD may apply the Texas post judgement interest rate to all amounts not paid when due, assess other interest and legal fees, enforce the rights of the holders of the underlying bonds, and/or suspend the use of by Dallas of its reserved capacity rights in the project.

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Note 5. Long-Term Debt (continued)

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

Fiscal Year	Principal	Interest	Total
2021	\$ 10,042	\$ 16,653	\$ 26,695
2022	11,285	16,204	27,489
2023	11,640	15,732	27,372
2024	12,105	15,235	27,340
2025	12,520	14,781	27,301
2026-2030	70,285	66,877	137,162
2031-2035	85,960	52,686	138,646
2036-2040	106,665	33,247	139,912
2041-2045	94,255	9,728	103,983
Total	<u>\$ 414,757</u>	<u>\$ 241,143</u>	<u>\$ 655,900</u>

Commercial Paper Notes (Direct Borrowing)

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

The commercial paper notes Series D are supported by two liquidity agreements through two banks. The liquidity agreements supporting the Sub-Series D-1 and Sub-Series D-2 notes are through State Street Bank and Trust Company and Bank of America N.A., respectively, and extend to December 30, 2020. The Sub-Series D-1 notes have an aggregate available principal amount not to exceed \$241.6 million, which includes \$225 million of principal together with approximately \$16.6 million of accrued interest for a maximum maturity date not to exceed 270 days at a rate of 10 percent per annum. The Sub-Series D-2 notes have an aggregate available principal amount not to exceed \$80.5 million, which includes \$75 million of principal together with approximately \$5.5 million of accrued interest for a maximum maturity date not to exceed 270 days at a rate of 10 percent per annum.

The commercial paper notes Series E are supported by a liquidity agreement with JPMorgan Chase Bank, N.A., and extend to March 31, 2021. The Series E notes have an aggregate available principal amount not to exceed \$322.2 million, which includes \$300 million of principal together with approximately \$22.2 million of accrued interest for a maximum maturity date not to exceed 270 days at a rate of 10 percent per annum.

Events of default include nonpayment of fees, incorrect or untrue statement made by the City the agreements, breach of covenant, unsatisfied judgements over \$10 million, acceleration of other debt in an amount greater than \$5 million, filing of bankruptcy, validity of agreement invalidated by any governmental authority, debt moratorium, bond ratings downgraded below Baa3/BBB-, material adverse effects as a result of State law repeal or any event of default as defined in Sub-Series D-1 and Series E credit agreements. The lender may seek a writ of mandamus to compel officials of the City to carry out their legally imposed duties with respect to the notes.

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Note 5. Long-Term Debt (continued)

During fiscal year 2020, \$147.5 million was issued and \$259.1 million was repaid. Upon maturity, the notes will be remarketed by the commercial paper dealers or extinguished with long-term debt. The balance of the commercial paper notes payable was \$52.9 million at September 30, 2020.

Defeasance of Debt

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

As of September 30, 2020, DWU had a total of \$1.1 billion defeased outstanding water and sewer revenue bonds. The following is a schedule of defeased bonds during the fiscal year:

	September 30 2019	Additions	Deletions	September 30, 2020
Water and Sewer Revenue Bonds	\$ 723,380	\$ 424,153	\$ 47,670	\$ 1,099,863

Note 6. Other Long-Term Obligations

Other long-term obligations are as follows as of September 30, 2020:

	September 30 2019	Additions	Deletions	September 30, 2020
Customer deposits, payable from restricted assets	\$ 18,899	\$ 2,212	\$ 1,363	\$ 19,748
Customer and developer construction advances	3,572	2,614	2,623	3,563
Total other long-term obligations	<u>\$ 22,471</u>	<u>\$ 4,826</u>	<u>\$ 3,986</u>	<u>\$ 23,311</u>

Note 7. Commitments

At September 30, 2020, commitments under construction contracts in progress and operating encumbrances were outstanding in the following amounts:

Construction encumbrances	\$ 9,921
Operating encumbrances	452,476
Total	<u>\$ 462,397</u>

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

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Note 8. Contingencies

Pending Lawsuits and Claims

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

At September 30, 2020, approximately \$52.4 million has been accrued in the City Risk Fund as a liability for pending material claims and lawsuits, excluding condemnation proceedings, considered to be probable. In the opinion of the City Attorney, this is the total amount of all such pending claims and lawsuits which represent probable loss to the City.

In the opinion of the City Attorney, the potential loss resulting from all material pending lawsuits and claims, excluding condemnations proceedings, which are considered reasonably possible and estimable, is approximately \$19 million as of September 30, 2020.

Note 9. Dallas Water Utilities Prepaid Escrow

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

The City was required to pay the Authority for a pro rata share of the operation and maintenance costs associated with Lake Fork, which was approximately \$12.5 million in the fiscal year ended September 30, 2020. The pro rata share of the operation and maintenance costs owed to the Authority for the renewal of the Lake Fork contract was to be mutually negotiated with the Authority pursuant to the terms of the contract. Negotiation attempts with the Authority failed and in October 2014, the Authority unilaterally established a rate which would require the City to pay approximately an additional \$24 million annually for the water to which it is entitled. The City challenged the rate by filing petitions with the Public Utilities Commission of Texas (PUC) and district courts in Travis and Orange counties in Texas. The PUC ordered an administrative law judge to consider setting an interim rate while this dispute was pending.

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

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

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Note 9. Dallas Water Utilities Prepaid Escrow (continued)

The interest-bearing escrow account balance was \$68.7 million on September 30, 2017. Terms of the settlement agreement required that \$23.4 million be paid immediately from the escrow account as additional compensation to the Authority for the period November 2, 2014 through September 30, 2017. The remaining escrow amount of \$45.3 million at September 30, 2017, plus the accrued September escrow contribution of \$2 million (total \$47.3 million) will be used to offset future payments of additional compensation by the City to the Authority, until the escrow account balance is depleted, and has been recorded as Prepaid Escrow on the statement of net position. The escrow balance was \$24.7 million on September 30, 2020. The remaining balance is estimated to be fully depleted in three to four years.

Note 10. Leases

As Lessee

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

Year ending September 30,	Rental Payments
2021	\$ 583
2022	583
2023	340
Minimum future rentals	<u>\$ 1,506</u>

As Lessor

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

Year ending September 30,	Rental Receipts
2021	48
2022	41
2023	42
2024	42
2025	42
2026-2030	207
2031-2035	207
Thereafter	2,143
Minimum future rentals	<u>\$ 2,772</u>

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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Note 11. Pension Plan

Plan Description

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

Benefits Provided

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

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

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

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

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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Note 11. Pension Plan (continued)

Employees covered by benefit terms

At December 31, 2019, the following numbers of employees were covered by the benefit terms:

	ERF
Retirees and beneficiaries currently receiving benefits	7,405
Inactive members entitled to benefits but not yet receiving them	1,666
Current members	7,427
Total	<u>16,498</u>

Contributions

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

The City contributes 63 percent of the required contribution and the membership contributes 37 percent. The City's contribution rate covers both the debt service tied to the pension obligation bonds and the contributions to the Employees' Retirement Fund. Although the total contribution is actuarially determined each year, it is adjusted based on the following requirements of Chapter 40A: (1) the maximum contribution percentage of covered wages is 36 percent; (2) the maximum increase or decrease from one year to the next is 10 percent; and (3) the contribution rate changes only if the actuarial valuation develops a rate which differs from the prior rate by more than 300 basis points. The adjusted contribution as a result of Chapter 40A is the Current Adjusted Total Obligation Rate (CATOR). Contribution rates are 13.32 percent of covered wages for employees and 22.68 percent for the City for the City's fiscal year ended September 30, 2020. The City's contribution of 22.68 percent is divided into 14.20 percent cash to the Plan and 8.48 percent for debt service payments on the pension obligation bonds. For fiscal year 2020, the City contribution was \$62 million.

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**City of Dallas, Texas
Dallas Water Utilities
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NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended September 30, 2020
(In thousands except where indicated)

Note 11. Pension Plan (continued)

Actuarial Assumptions

The total ERF pension liabilities in the December 31, 2019 actuarial valuations were determined using the following actuarial assumptions for the plan, applied to all periods included in the measurement:

	ERF
Inflation	2.50%
Salary Increases	3.0% to 8.25%, including inflation
Investment Rate of Return	7.25%
Mortality	<p>For actives: Pub-2010 Mortality Table for General Employees projected using Scale UMP (Ultimate MP-2019).</p> <p>For healthy retirees: 2019 Texas Municipal Retirees Mortality Table projected using Scale UMP (Ultimate MP-2019).</p> <p>For all disabled lives: 2019 Texas Municipal Retirees Mortality Table, set forward four years for males and three years for females, using Scale UMP (Ultimate MP-2019).</p>
Cost of Living Adjustments	The percentage of change in the price index for October of the current year over October of the previous year, or the percentage of annual average change in the price index for the 12-month period ending with the effective date of the adjustment. The maximum COLA for Tier A retirees is 5%, and the maximum for Tier B retirees is 3%.
Long-term expected rate of return	Estimated using a building block methodology in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real return rates by the target asset allocation percentage and by adding expected inflation.

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Note 11. Pension Plan (continued)

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

Asset Class	ERF	
	Target Allocation	Long-term RROR
Domestic equity	12.5%	6.00%
International equity	12.5%	6.75%
Global equity	7.5%	6.45%
Global low volatility equity	12.5%	6.41%
Investment grade fixed income	15.0%	2.70%
High yield	10.0%	4.20%
Credit opportunities	5.0%	5.35%
Global public infrastructure	5.0%	7.23%
REIT	2.5%	4.70%
Private real estate - core	5.0%	5.40%
Private real estate - value add	2.5%	8.00%
Private equity	7.5%	8.05%
Marketable alternatives	2.5%	4.42%
Total	100.0%	

Discount Rate

ERF: The discount rate used to measure the total pension liability was 5.93 percent. This single discount rate was based on the expected rate of return on pension plan investments of 7.25 percent and the municipal bond rate of 2.75 percent. The projection of cash flows used to determine the discount rate assumed that that (1) plan member contributions and City contributions will be made at the projected future contribution rates outlined in Chapter 40A of the Dallas City Code, under which employees contribute 37 percent of the CATOR; the City contributes 63 percent of the CATOR, reduced by the amount required to pay current debt service on the 2005 pension obligation bonds; (2) the ERF annually earns 7.25 percent on its market value of assets; and (3) the number of active members remains constant in the future. Based on those assumptions and the ERF's funding policy, the last year in the single discount rate projection period for which projected benefit payments were fully funded was 2058, and the resulting single discount rate is 5.93 percent.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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Note 11. Pension Plan (continued)

Changes in the Net Pension Liability

The following table shows the net pension liability as of December 31, 2019:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
<u>Employees' Retirement Fund</u>			
Balances at 12/31/18	\$ 5,547,964	\$ 3,282,313	\$ 2,265,651
Changes for the year:			
Service cost	124,288	-	124,288
Interest	325,766	-	325,766
Changes of assumptions	(43,032)	-	(43,032)
Differences between expected and actual experience	(7,819)	-	(7,819)
Contributions - City	-	62,177	(62,177)
Contributions - Employee	-	58,314	(58,314)
Net investment income	-	550,942	(550,942)
Benefit payments, including refunds of employee contributions	(288,443)	(288,443)	-
Administrative expense	-	(7,513)	7,513
Other changes	-	298	(298)
Net Changes	110,760	375,775	(265,015)
Balances at 12/31/19	\$ 5,658,724	\$ 3,658,088	\$ 2,000,636

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

The following table presents the net pension liability of the City, calculated using the discount rates of 5.93 percent for ERF, as well as what the City's net pension liability would be if were calculated using discount rates that are 1-percentage-point lower (4.93 percent) or 1-percentage-point higher (6.93 percent) than the current rates:

	1% Decrease	Current Discount Rate	1% Increase
ERF	\$ 2,748,259	\$ 2,000,636	\$ 1,382,052

Pension Plan Fiduciary Net Position

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

**City of Dallas, Texas
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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Note 11. Pension Plan (continued)

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

For the fiscal year ended September 30, 2020, DWU recognized pension expense of \$29,365 for the ERF. At September 30, 2020, the City also reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	ERF	
	Deferred Outflows	Deferred Inflows
Differences between expected and actual experience	\$ 2,585	\$ 24,981
Changes of assumptions	550,823	95,583
Net difference between projected and actual earnings on pension plan investments	-	50,586
Contributions subsequent to the measurement date	46,889	-
Total	<u>\$ 600,297</u>	<u>\$ 171,150</u>

Deferred outflows of resources in the amount of \$46,889 related to pension contributions in the ERF made subsequent to the measurement date will be recognized as a reduction of the net pension liability during the fiscal year ended September 30, 2021. Deferred outflows and inflows of resources in the amount of \$382,258 related to the pension will be recognized in pension expense as follows:

Year Ending 9/30	ERF
2021	\$ 132,303
2022	216,828
2023	96,680
2024	(63,553)
Total	<u>\$ 382,258</u>

The amount of deferred outflows of resources related to pensions allocated to DWU was \$109,686. The amount of deferred inflows of resources related to pensions allocated to DWU was \$32,255.

Note 12. Risk Management – Estimated Claims and Judgements Payable

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

All known City property, primarily buildings and contents, is insured through commercial insurance policies, subject to a \$750 thousand deductible per loss occurrence. The amount of settlements exceeded the deductible loss per occurrence during the fiscal year ended September 30, 2020, but not in the prior two fiscal years.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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Note 12. Risk Management – Estimated Claims and Judgements Payable (continued)

The City is self-insured for workers' compensation claims that occurred prior to October 1, 1999. Effective October 1, 1999 through January 31, 2013, the City was insured for workers' compensation losses in excess of \$750 thousand per occurrence. Effective February 1, 2013, the City was insured for workers' compensation losses in excess of \$1 million per occurrence. Effective February 1, 2016, the City is insured for workers' compensation losses in excess of \$1.5 million per occurrence. Claims adjusting services are provided by an independent "administrative services" contractor. Workers' compensation premiums are based primarily upon the insured funds' claims experience and exposure, and are reported as cost reimbursement interfund transactions. The amount paid by DWU was \$1.9 million in fiscal year 2020.

All workers' compensation losses are accumulated in a clearing fund which is being reimbursed by the premiums collected. When losses exceed premiums, the deficiencies are prorated and supplemented by the various applicable funds. Accrued workers' compensation liability consists of incurred but not reported as well as unpaid reported claims of which \$41.4 million at September 30, 2020, is recorded in the risk funds. Of this amount, \$7.1 million is estimated to be payable in the next fiscal year.

The City maintains a group health insurance plan for employees and dependents which is self-insured by the City. The City also offers enrollment in one health maintenance organization as an alternative. Premiums are determined based on the annual budget. The City also maintains a group life insurance plan which offers term-life and accidental death and dismemberment for employees and dependents. The City is fully insured for employee term-life. Health claims and claims incurred but not reported that are probable and can be reasonably estimated are accrued in the accompanying basic financial statements at September 30, 2020, in the amount of \$8.4 million in the risk funds.

At September 30, 2020, the City estimates its general liability at \$60.0 million, of which \$4.5 million is estimated to be payable in the next fiscal year. The general liability includes \$7.6 million for automobile and general liability and \$52.4 million for probable claims and lawsuits. Changes in the balances of claims liabilities during the past fiscal year are as follows:

	Workers' Compensation		Health		General Liability	
	2020	2019	2020	2019	2020	2019
Unpaid claims, beginning of year	\$ 41,595	\$ 37,374	\$ 7,683	\$ 8,312	\$ 11,794	\$ 190,003
Incurred claims, including incurred but not reported claims (IBNRs) and changes in estimates	9,524	15,146	93,103	88,028	51,094	3,554
Claim payments	(10,261)	(11,470)	(100,633)	(94,016)	(4,113)	(177,771)
Changes to prior year estimates (IBNR)	502	545	8,222	5,359	1,175	(3,992)
Unpaid claims, end of year	<u>\$ 41,360</u>	<u>\$ 41,595</u>	<u>\$ 8,375</u>	<u>\$ 7,683</u>	<u>\$ 59,950</u>	<u>\$ 11,794</u>

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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Note 13. Other Post-Employment Benefits

Plan Description

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

Benefits Provided

For pre-age 65 retired employees hired before January 1, 2010, the City pays on average \$628 (not in thousands) per month. The plan is closed to employees hired January 1, 2010 and thereafter. For pre-Medicare retirees who qualify and choose the City health plan, the City pays approximately 50 percent of the actuarial cost and the retiree pays the other 50 percent. There were 3,743 retired participants and surviving spouses in the health plan at September 30, 2020, the latest data used for this evaluation. Post-Medicare retirees are offered two Medicare Advantage plans along with a Medicare Part D prescription drug plan. The City subsidizes the Medicare Advantage plans for the retirees. The City provides Part A premiums for retirees that do not contribute to Medicare for enough quarters to qualify for free Part A.

Employees Covered by Benefit Terms

At September 30, 2020, membership was as follows:	
Inactive employees or beneficiaries currently receiving benefit payments	3,743
Active employees	5,433
Total active participants	<u>9,176</u>

Total Other Post Employment Benefit Liability

The City's total OPEB liability of \$530,989 was measured as of September 30, 2020, and was determined by an actuarial valuation as of that date.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended September 30, 2020
(In thousands except where indicated)**

Note 13. Other Post-Employment Benefits (continued)

Actuarial Assumptions

The total OPEB liabilities in the September 30, 2020 actuarial valuations were determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless other specified:

	<u>Description</u>
Inflation	2.50%
Salary Increases	Police and Fire: 2.5% to 3.25%, including inflation Non-Uniformed: 3.0% to 8.25%, including inflation
Discount Rate	2.41%, based on the 20-year yield for tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.
Mortality	Uniform (pre-retirement): Pub-2010 Public Safety Employee Amount-Weighted Table, set forward five years for males and projected generationally using Scale MP-2019. Uniform (post-retirement): Pub-2010 Public Safety Retiree Amount-Weighted Table set back one year for females, projected generationally using Scale MP-2019. Non-Uniformed (pre-retirement): Pub-2010 Mortality Table for General Employees projected using Scale UMP (Ultimate MP-2019). Non-Uniformed (post-retirement): 2019 Texas Municipal Retirees Mortality Table projected using Sale UMP (Ultimate MP-2019).
Healthcare Cost Trend Rates	Pre-65 Trend: 6.8% for fiscal year 2020 and trending down to an ultimate 4.04% using the Getzen model. Pre-65 Trend: 5.40% for fiscal year 2020 and trending down to an ultimate 4.04% using the Getzen model.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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Note 13. Other Post-Employment Benefits (continued)

The actuarial assumptions used in the September 30, 2020 valuation were based on the results of an experience study on the healthcare-specific participation assumptions, plus assumption changes included in the September 30, 2020 valuation.

Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at September 30, 2019	\$ 565,370
Changes for the year:	
Service cost	16,491
Interest	15,775
Difference between estimated and actual experience	(198)
Change of assumptions	(47,877)
Benefit payments	(18,572)
Net changes	(34,381)
Balance at September 30, 2020	<u>\$ 530,989</u>

Changes of assumptions reflect the following changes: a change in the participation rate from 75 percent to 65 percent, changes in salary scales, turnover rates, retirement rates, mortality tables, mortality improvement tables and a decrease in the discount rate from 2.75 percent to 2.41 percent.

The amount of Total OPEB liability allocated to DWU was \$60,983.

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

The following table presents the total OPEB liability of the City and what it would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current rates:

	1% Decrease	Current Discount Rate	1% Increase
Total OPEB Liability	\$ 620,896	\$ 530,989	\$ 456,648

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

The following table presents the total OPEB liability of the City and what it would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current rates:

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
Total OPEB Liability	\$ 449,178	\$ 530,989	\$ 628,193

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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Note 13. Other Post-Employment Benefits (continued)

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

For the fiscal year ended September 30, 2020, DWU recognized OPEB expense of \$854. At September 30, 2020, the City also reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows	Deferred Inflows
Differences between expected and actual experience	\$ 2,668	\$ 25,774
Changes of assumptions	49,597	48,800
Total	<u>\$ 52,265</u>	<u>\$ 74,574</u>

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

Year ending 9/30	OPEB Expense
2021	\$ (5,536)
2022	(5,536)
2023	(1,621)
2024	(9,616)
Total	<u>\$ (22,309)</u>

The amount of deferred outflows of resources related to OPEB allocated to DWU was \$5,634, and the amount of deferred inflows of resources related to OPEB allocated to DWU was \$7,896.

Note 14. Deferred Compensation Plans

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

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended September 30, 2020
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Note 15. Interfund Transfers

During the year, transfers out to other City funds were made in the amount of \$28.9 million for payment in lieu of taxes (PILOT) and other miscellaneous transfers which are recorded as transfers-out, rather than operation and maintenance expenses, due to the nonreciprocal nature of the transactions. Under the terms of the bond ordinance, any PILOT payments and any other similar payments are not considered expenses of operation and maintenance of the fund. Additionally, they are not included in the debt coverage calculation.

Note 16. Subsequent Events

Issuance of Debt

A. Debt Items

From October 1, 2020 through the date of the independent auditors' report, the City issued \$132.6 million of Dallas Water Utilities commercial paper notes, with an average interest rate of .147%.

B. COVID-19 Pandemic

In response to the COVID-19 pandemic, the City continues to closely monitor the impact of the pandemic on its revenue sources and costs, while taking advantage of any federal and state grant opportunities available. The full extent of the operational and financial impact the COVID-19 pandemic may have on the City depends on the duration and spread of the outbreak and related advisories and restrictions that may result, all of which are highly uncertain and unpredictable at this time.

On January 21, 2021, the City received \$40.6 million from the U.S. Department of the Treasury as part of the Consolidated Appropriations Act of 2021 to provide emergency rental assistance services for individuals directly and indirectly impacted by the COVID-19 pandemic.

On March 11, 2021, President Biden signed the American Rescue Plan to provide additional relief during the COVID-19 pandemic. The bill is intended to speed up the United States' recovery from the economic and health effects of the COVID-19 pandemic and ongoing recession and includes a number of funding streams available to state and local governments. The City is estimated to receive approximately \$377 million under this program.

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City of Dallas, Texas
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Required Supplementary Information
Schedule of Changes in the City's Net Pension Liability and Related Ratios
Last Six Fiscal Years
(Dollar amounts in thousands)

	ERF		
	2020	2019	2018
Total Pension Liability			
Service cost	\$ 124,288	\$ 84,843	\$ 81,178
Interest	325,766	332,011	325,620
Changes of assumptions	(43,032)	1,020,969	-
Differences between expected and actual experience	(7,819)	4,793	(59,066)
Plan changes	-	-	-
Benefit payments, including refunds	(288,445)	(272,496)	(261,690)
Net change	110,758	1,170,120	86,042
Total Pension Liability, Beginning	5,547,967	4,377,847	4,291,805
Total Pension Liability, Ending ^(a)	5,658,725	5,547,967	4,377,847
Plan Fiduciary Net Position			
Contributions - City	62,177	60,924	58,966
Contributions - Employee	58,314	56,772	55,175
Net investment income	550,942	(167,783)	413,511
Benefit payments, including refunds	(288,443)	(272,496)	(261,690)
Administrative expense	(7,513)	(7,485)	(5,951)
Other changes	298	121	207
Net change	375,775	(329,947)	260,218
Plan Fiduciary Net Position, Beginning	3,282,314	3,612,261	3,352,043
Plan Fiduciary Net Position, Ending ^(b)	3,658,089	3,282,314	3,612,261
City's Net Pension Liability ^{(a) - (b)}	<u>\$ 2,000,636</u>	<u>\$ 2,265,653</u>	<u>\$ 765,586</u>
Plan Fiduciary Net Position as a percentage of Total Pension Liability	65%	59%	83%
Covered payroll	\$ 433,890	\$ 423,723	\$ 421,269
City's Net Pension Liability as a percentage of covered payroll	461%	535%	182%

2017	2016	2015
\$ 133,457	\$ 78,020	\$ 62,065
305,826	313,850	290,948
(1,227,079)	1,238,431	292,137
(38,327)	(26,829)	(21,967)
-	-	-
(249,639)	(239,960)	(230,243)
(1,075,762)	1,363,512	392,940
5,367,567	4,004,055	3,611,115
4,291,805	5,367,567	4,004,055
56,130	50,721	45,833
53,436	50,742	46,536
294,918	(53,344)	207,992
(249,639)	(239,960)	(230,243)
(5,343)	(4,598)	(4,150)
333	162	157
149,835	(196,277)	66,125
3,202,208	3,398,485	3,332,360
3,352,043	3,202,208	3,398,485
<u>\$ 939,762</u>	<u>\$ 2,165,359</u>	<u>\$ 605,570</u>
78%	60%	85%
\$ 409,433	\$ 393,186	\$ 353,650
230%	551%	171%

City of Dallas, Texas
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Required Supplementary Information
Schedule of City Contributions to Pension Plan
Last Ten Fiscal Years
(Dollar amounts in thousands)

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Employees Retirement Fund			
Actuarially determined contribution	\$ 92,567	\$ 85,945	\$ 91,977
Contributions in relation to the actuarially determined contribution	\$ 61,798	\$ 62,462	\$ 60,589
Contribution deficiency (excess)	\$ 30,769	\$ 23,483	\$ 31,388
Covered payroll	\$ 435,198	\$ 434,064	\$ 420,754
Contributions as a percentage of covered payroll	14%	14%	14%

<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
\$ 88,547	\$ 81,838	\$ 68,100	\$ 62,756	\$ 54,289	\$ 37,822	\$ 32,865
\$ 58,045	\$ 56,987	\$ 49,135	\$ 44,816	\$ 35,515	\$ 28,917	\$ 27,303
\$ 30,502	\$ 24,851	\$ 18,965	\$ 17,940	\$ 18,774	\$ 8,905	\$ 5,562
\$ 405,062	\$ 389,706	\$ 376,421	\$ 357,887	\$ 336,483	\$ 317,551	\$ 318,408
14%	15%	13%	13%	11%	9%	9%

**City of Dallas, Texas
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Required Supplementary Information
Notes to Schedule of City Contributions to Pension Plan
Last Ten Fiscal Years

Employees' Retirement Fund

Valuation date	12/31/2019	12/31/2018	12/31/17	12/31/16	12/31/15	12/31/14	12/31/13	12/31/12	12/31/11	12/31/10
Timing	The actuarially determined contribution rate is effective October 1 after the valuation date.									
Actuarial cost method	Entry age normal.									
Amortization method	30-year open amortization period level percentage of payroll. The City ordinance authorizing the plan specifies that the rate may not change from year-to-year if the calculated rate is less than 300 basis points different from the current rate.									
Asset valuation method	5-year smoothed market value of assets.									
Inflation	2.50%	2.75%			3%					
Salary increases	3.0% to 8.25%, including	3.25% to 6.25%, including inflation			3.5% to 7%, including inflation					
Discount rate	5.93%	5.98%	7.75%		8.00%		8.25%			
Cost of Living Adjustment	The greater of (a) the percentage of change in the price index for October of the current year over October of the previous year, or (b) the percentage of annual average change in the price index for the 12-month period ending with the effective date of the adjustment. The maximum change per year is 5% for Tier A and 3% for Tier B members.				The greater of (a) the percentage of change in the price index for October of the current year over October of the previous year, up to 5%, or (b) the percentage of annual average change in the price index for the 12-month period ending with the effective date of the adjustment, up to 5%.					
Mortality	For actives: Pub-2010 Mortality Table for General Employees projected using Scale UMP (Ultimate MP-2019). For healthy retirees: 2019 Texas Municipal Retirees Motility Table projected using Scale UMP (Ultimate MP-2019). For all disabled lives: 2019 Texas Municipal Retirees Mortality Table, set forward four years for males and three years for females, projected using Scale UMP (Ultimate MP-2019).	For actives: Males - RP-2000 Employee Mortality Table for male employees, set forward 4 years. Females - RP-2000 Employee Mortality Table for female employees, set back 5 years. For healthy retirees: Males - RP-2000 Combined with Blue Collar adjustment for male annuitants, with a 109% multiplier and fully generational mortality using improvement scale BB Females - RP-2000 Combined with Blue Collaradjustement for female annuitants, with a 103% multiplier and fully generational mortality using improvement scale BB For all disabled lives: RP-2000 Disabled Mortality Table for male annuitants, set forward one year.	For actives: Males - RP-2000 Healthy Mortality Table for male employees, set forward 4 years. Females - RP-2000 Healthy Mortality Table for female employees, set back 5 years. For healthy retirees: Males - RP-2000 Healthy Mortality Table for male annuitants, projected to 2007 using mortality improvement scale BB, set forward two years. P2000 Healthy Mortality Table for female annuitants. For all disabled lives: RP-2000 Disabled Mortality Table for male annuitants, set forward one year.	For actives: Males - RP-2000 Healthy Mortality Table for male employees, set forward 4 years. Females - RP-2000 Healthy Mortality Table for female employees, set back 5 years. For healthy retirees: Males - RP-2000 Healthy Mortality Table for male annuitants, projected to 2007 using mortality improvement scale AA, set forward two years. P2000 Healthy Mortality Table for female annuitants. For all disabled lives: RP-2000 Disabled Mortality Table for male annuitants, set forward one year.	For actives: Males - 1994 Uninsured Pension Mortality Table for males, base table rates multiplied by 87%. Females - 1994 Uninsured Pension Mortality Table for females, base table rates multiplied by 125%. For healthy retirees: Males - 1994 Uninsured Pension Mortality Table for males, set forward two years. Females - 1994 Uninsured Pension Mortality Table for females, base table rates multiplied by 125% for ages less than 85 and multiplied by 135% for ages 85 and up. For all disabled lives: 1965 Railroad Retirement Board Disabled Annuitants Mortality Table (without select rates). For females, the rates are multiplied by 60%.					

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

Required Supplementary Information
Schedule of Changes in the City's Total Liability
and Related Ratios
Other Postemployment Benefits
Last Three Fiscal Years
(in thousands)

	2020	2019	2018*
Total OPEB Liability			
Service cost	\$ 16,491	\$ 14,006	\$ 14,817
Interest	15,775	19,813	18,420
Changes of assumptions	(47,877)	82,662	(26,244)
Differences between expected and actual experience	(198)	(42,693)	6,669
Benefit payments	(18,573)	(19,537)	(21,343)
Net change	(34,382)	54,251	(7,681)
Total OPEB Liability, Beginning	565,371	511,120	518,801
Total OPEB Liability, Ending	<u>\$ 530,989</u>	<u>\$ 565,371</u>	<u>\$ 511,120</u>
Covered payroll	\$ 959,102	\$ 914,916	\$ 877,768
Total OPEB Liability as a Percentage of Covered Employee Payroll	55%	62%	58%

* Prior year information was not available.

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