

**BOARD OF WATER COMMISSIONERS
OF THE
CITY OF SAINT PAUL, MINNESOTA
(Component Unit of the City of Saint Paul)**

**ANNUAL
FINANCIAL REPORT**

**For the Fiscal Year Ended
December 31, 2017**

**BOARD OF WATER COMMISSIONERS
OF THE
CITY OF SAINT PAUL, MINNESOTA
(Component Unit of the City of Saint Paul)**

**ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended December 31, 2017**

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INTRODUCTORY SECTION



BOARD OF WATER COMMISSIONERS

President: Matt Anfang ♦ Vice President: Amy Brendmoen

Commissioners: Jeffery Dains ♦ Mara Humphrey ♦ Rebecca Noecker ♦ Will Rossbach ♦ Chris Tolbert

May 29, 2018

TO: BOARD OF WATER COMMISSIONERS
Matt Anfang, President
Amy Brendmoen, Vice President
Commissioner Jeffery Dains
Commissioner Mara Humphrey
Commissioner Rebecca Noecker
Commissioner Will Rossbach
Commissioner Chris Tolbert

Dear Board Members:

Saint Paul Regional Water Services (Regional Water) is proud to present its published Annual Financial Report of the Board of Water Commissioners for the fiscal year ended December 31, 2017. The responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with Regional Water. We believe the data, as presented, is accurate in all material aspects; that it is presented in a manner designed to fairly set forth the financial position, changes in financial position, and cash flows of Regional Water; and that all disclosures necessary to enable the reader to gain the maximum understanding of Regional Water's financial affairs have been included. This report has been prepared in accordance with generally accepted accounting principles. Regional Water's financial operations are also reported in the City of Saint Paul's Comprehensive Annual Financial Report as a discretely presented component unit.

The report is presented here in two sections:

1. The Introductory Section includes this letter of transmittal and a listing of the members of the Board of Water Commissioners and Manager.
2. The Financial Section includes the State Auditor's report, Management's Discussion and Analysis, the basic financial statements along with the related notes to these financial statements, certain required supplementary information and supplementary information.

REPORTING ENTITY AND SERVICES

The Board of Water Commissioners was set up pursuant to Minnesota Special Laws for 1885, Chapter 110, to operate a utility commonly known as Saint Paul Regional Water Services. Regional Water services an area including Saint Paul and all or parts of 12 suburbs on a retail or wholesale basis.

SAINT PAUL REGIONAL WATER SERVICES

Stephen P. Schneider, General Manager

1900 Rice St. Saint Paul MN 55113-6810 ♦ TTY: 651-266-6299 ♦ Phone: 651-266-6350

Saint Paul Regional Water Services provides quality water services to the following cities:

Arden Hills • Falcon Heights • Lauderdale • Little Canada • Maplewood • Mendota • Mendota Heights • Roseville • Saint Paul • West St. Paul

AA-ADA-EEO Employer

HIGHLIGHTS IN SUMMARY

Administration Division

The Administration Division offers support services to all areas within the utility as well as direct contact with individual customers and communities at large. The Division includes the Business Improvement Unit, Safety and Security, Training and Human Resources, and the General Manager and Assistant General Manager.

After many months of effort working with Human Resources, we were able to establish the title of Emergency Planning and Security Supervisor, and we hired an employee in that title in August. The timing was good as we needed to respond to an Occupational Safety and Health Administration (OSHA) visit involving our process safety and emergency plans and this employee will help address both of those areas. At year end, we were well on our way to completing the OSHA requirements. The new position will enable us to better run emergency simulations with other departments and devote more time to developing and maintaining our emergency plans and our security systems.

Our efforts in connection with lead in drinking water continued, though we did not change the policies and procedures developed in 2016. We continued to hand out filter pitchers to all residents who had their lead water service disturbed during the year. We still believe this is good practice to limit lead exposure that typically increases for a few months after work is done on a lead water service. As required, we tested our system in 2017 by sampling services in our system for lead. We passed the test with a 90th percentile level of 11 parts per billion, which is under the action level of 15 parts per billion. We will conduct our next round of required sampling in 2020. We will continue replacing lead water services as part of our capital improvement projects.

A new standard operating procedure on Water Main Sanitation Practices was completed in time for the 2017 construction season. The goal was to achieve a higher rate of passing bacteriological tests that are required before placing the main in service on the first attempt. Overall, by the end of the year, we think we have improved our success with passing the tests, and changed our procedures to give us a more sanitary product. One of the changes was adding “consecutive testing,” which was not done previously. This is an additional test and therefore more chances to fail, but also delivers a more sanitary result in the end. We look forward to 2018 and hope that our results continue to improve.

The lawsuit between the White Bear Lake Homeowners Association and Lake Restoration Association and the Minnesota Department of Natural Resources (DNR) was completed and a ruling made in August. The ruling compels the DNR to place restrictions on all appropriation permits for wells within five miles of White Bear Lake. Regional Water has a number of wells that are just inside of five miles from the lake, so the restrictions have been placed on our permit. The most impactful restriction is the irrigation ban, required if the lake is below 923.5 feet Mean Sea Level (MSL 1912), which it has been for most of the last ten years and is below now. We are negotiating with the DNR, hoping to avoid the ban if we are not using our wells.

HIGHLIGHTS IN SUMMARY (continued)

Work to integrate our Computerized Maintenance Management System (CMMS) time records with the Infor Human Capital Management module (Infor HCM) was completed. The CMMS system takes time records, validated against time punch information generated by the Time Attendance and Scheduling System (TASS) into the Infor HCM module. This integration allows for a single point of entry of time into CMMS, which interfaces into TASS and Infor HCM.

Administration Division - Future Operations

Administration will continue directing efforts at the initiatives listed above, and monitor progress in all. We will continue to watch the Lead/Copper Rule as it is changed by the Environmental Protection Agency (EPA), and also the changes possible with our water use as a result of the White Bear Lake lawsuit. As always, our goal is to be able to budget and finance the projects necessary to keep Regional Water operating as a top-notch utility.

Business Division

The Business Division offers support services to other divisions within the utility as well as direct contact with individual customers and communities at large. The Business Division includes the five business units of Customer Service and Billing, Financial Services, Information Services, Meter Operations, and Public Information.

During 2017, the Customer Service unit issued approximately 35,600 bills per month or 1,700 bills per business day. Throughout the year, meter reading and water billings continued to meet schedules. Customers' use of electronic payments has continued to expand. In 2017, approximately 50 percent of transactions were processed electronically with nearly 25 percent of payments made via credit card and 25 percent via auto withdrawal from a bank account.

The Customer Service call center received 164,622 calls in 2017. About 81,706 calls or 50 percent were handled by call center staff and 82,916, by the self-serve Interactive Voice Response unit (IVR). This equates to approximately 660 calls per business day of which approximately 325 calls were answered by call center staff. The abandoned call percentage remained under 1 percent, substantially lower than our goal of less than 2 percent.

The radio meters are functioning very reliably. Accordingly, we have continued success basing water bills on actual usage and minimizing estimated bills.

We configured a meter testing data base in the Customer Information System (CIS) and populated record historic test results back to 2013. With this data available, we are creating a comprehensive meter testing schedule with the goal of identifying the optimal interval or accumulated consumption for initiating meter testing and replacing meters by account. In 2017, we tested all meters 3-inch and larger.

HIGHLIGHTS IN SUMMARY (continued)

Information about lead water service line connections was made more available to customers. We developed and compiled information on our website about lead pipe and ways to minimize exposure to lead. A customer can visit our website and find information about lead in drinking water by viewing videos or brochures. Also developed a site where a customer can determine “What is my water service line made of?” This self-serve option has been well received. There is also an interactive map for customers to view showing water service line material across our service area.

We produced several external publications, including *Customer Service Connections*, a quarterly newsletter for customers, and the annual *Water Quality Report*. The *Water Quality Report* was made available on the website in accordance with Minnesota Department of Health requirements. Internally, we continued to provide employees with communication updates by featuring timely articles in our bi-weekly employee newsletter, the *Pipeline Express*.

Financial services staff created and published the 2017 Annual Financial Report; the report was well received by the State Auditor and reflected well on Regional Water. The group also published the annual budget and updated a 10 year water rate projection. In addition, staff worked with engineering and other business staff on a Cost of Service Study for the wholesale city accounts of Roseville and Little Canada. This study was used to develop revised water service agreements and will guide the water rates for the five year period of 2018 -2022.

Financial services staff work with many systems and applications including the Infor Enterprise Resource Planning (ERP) system, which includes financials, procurement/supply chain, budget, and human capital management; CMMS; TASS; and CIS. Staff have compiled and provided information necessary for Regional Water to manage its financial position by developing a budget, tracking spending and revenues, processing accounts payable invoices, accounts receivable invoices, collecting and processing payments, providing monthly reports to the managers and Board of Water Commissioners, and ensuring appropriate internal controls.

Business Division - Future Operations

In 2018 Regional Water plans to continue a Virtual Desktop Infrastructure (VDI) pilot project. The project offers many potential efficiencies and savings including hardware, programming, backing-up systems and data, and troubleshooting. Target completion is the end of 2019.

In 2018, Regional Water is partnering with the City of Saint Paul Public Works Department in implementing a field mobile/data capture solution for processing work orders and service orders in the field. The solution will integrate with our shared CMMS system and Regional Water’s CIS system.

The City of Saint Paul is upgrading the current Infor Enterprise Resource Planning (ERP) system to the Infor CloudSuite platform. Go-Live is planned for January 1, 2019. The City of Saint Paul and Regional Water are implementing a new Voice Over Internet Protocol (VOIP) digital telephone system. Regional Water will be using VOIP by January 1, 2019 and will no longer receive phone service from Ramsey County.

HIGHLIGHTS IN SUMMARY (continued)

An upgrade to our CIS on-line payment processing system called Infinity Link is planned for 2018. The enhanced software offers customers the ability to register on-line to have payments auto drawn from their credit card or bank account, view past bills, and use mobile devices such as a cell phone, tablet and/or computer. Regional Water plans to implement a new CIS module reporting tool called Envision in 2018. The tool will serve as a report crafting tool, a dash board, and will offer rate modeling.

Distribution Division

The Distribution Division is responsible for the delivery of water from the water treatment plant to the customer. This includes the construction and maintenance of the water distribution system that consists of water mains, valves, service connections, hydrants and related underground piping infrastructure. The division also includes Dispatch that provides customer service and emergency response 24 hours a day seven days a week, a Garage that maintains all equipment and vehicles, and a Warehouse to provide materials required to construct and maintain the distribution system.

Water Distribution Capital Program - Distribution crews completed two large capital projects in addition to the usual water main, hydrant, valve, and service connection work in 2017. Approximately one mile of water main was replaced in Ford Parkway using the pipe bursting method. Regional Water excavated pits and a contractor pulled High-Density Polyethylene (HDPE) pipe through the old cast iron pipe with pipe bursting equipment. Regional Water completed the pipework required to connect the new pipe to the existing distribution system and reconnect the services. Distribution crews also replaced 128 lead services with copper in coordination with the Minnesota Department of Transportation (MNDOT) High Bridge project on Smith Avenue. Work also included the replacing 141 of the 9,630 system hydrants during the year.

Preventative Maintenance - We completed the 20 year Uni-Directional Flushing (UDF) project which involves flushing and operating valves on all eight inch and smaller mains in the distribution system. UDF will be completed at a pace to complete the entire system every five years going forward. All public hydrants were inspected and flushed in 2017. This continues the long term practice of inspecting all public hydrants annually. Exercising valves 12 inch and larger was not emphasized during 2017.

Reactive Maintenance - Regional Water performs emergency repairs on water mains and services. We also provide water main break repair services to other municipalities outside our service area, responding to main breaks in the City of Oakdale, White Bear Township and the City of Newport. Regional Water repaired 139 main breaks within our service area in 2017.

Distribution Division - Future Operations

In 2018, continued emphasis will be placed on infrastructure replacement. Starting in 2018, twenty percent of the large valves in the distribution system will be exercised.

HIGHLIGHTS IN SUMMARY (continued)

Engineering Division

The Engineering Division is comprised of the following five sections: Project Engineering, Agreements, Maps and Records, Plumbing Inspection, and Damage Prevention. The division provides support to the utility in planning and design of projects for our distribution, production and supply areas of the utility. Work in the division also involves managing our maps and records, plumbing inspections, utility locating, construction inspection and plan review for new development projects. We are committed to providing high quality asset management in the utility.

Significant progress on a number of large projects was made in 2017 that will serve our customers well into the future. Highlights of these projects include:

Water Main Capital Improvement Planning - In 2017 we designed and constructed 8 miles of water main. This included approximately 6.5 miles of main replacement coordinated in collaboration with street reconstruction projects and 1.5 miles of main replacement in the highest risk category of our prioritization plan for replacement. We also performed a trial on a new method of water main assessment using acoustical measurement to assess the condition of some of our intermediate sized distribution piping. In addition, a desktop prioritization analysis was completed on our large diameter concrete distribution mains.

West St. Paul Booster Station Improvements - A back-up generator was installed and electrical improvements were made to this station providing greater reliability of service to the City of West St. Paul.

Condition Assessments - Condition assessments were in progress for our McCarron's water treatment plant foundation and our raw water supply conduits. The assessment of our raw water conduits was an extensive project involving the field inspection of 28 miles of conduits. The results of this study indicate that the conduits are in relatively good condition with respect to their age, with some deficiencies and defects that need to be addressed. In addition, significant investment is recommended in order to extend the life of the conduit system into the future.

McCarron's High Service Pump - A new pump is in the process of being procured which will provide more efficient pumping operations at the McCarron's water treatment plant.

Partnership for Safe Water Distribution - The Partnership for Safe Water is a program developed through the American Water Works Association designed to review, assess and optimize utility operations with the goal of improving performance. We are currently in the process of working through the self-assessment phase of this program for our distribution system, which will continue through much of 2018.

Maps & Records Improvements - In 2017 we made strides to further utilize Global Positioning Systems (GPS) technology by working with our distribution division crews to capture as-built information as well as capturing data on upcoming projects to assist with planning. Work was also done to improve the standardization and categorization of our Geographic Information System (GIS) data. In addition, we developed new GIS maps of Regional Water's land ownership, which is quite extensive throughout the supply system.

HIGHLIGHTS IN SUMMARY (continued)

Engineering Division - Future Operations

The Engineering Division continues to improve asset management, infrastructure, and the operations and efficiency of the utility through its various projects and initiatives.

Improving Infrastructure & Investing in the Future - Work will begin on one of the largest projects to be done in decades. In 2018, preliminary design work is planned on the upcoming major water treatment plant project involving the construction of new softening basins, ozone and related processes.

Work on other projects is continuing as a result of recently completed condition assessments, which includes: design for rehabilitation of the historic Highland Tower, repairs to our river station and conduit improvements. In 2018 we will start a lengthy program to mitigate corrosion and extend the life of the steel conduits.

Installation of a new and more efficient pump at the McCarron's water treatment plant, as mentioned above, should be completed in 2018. This pump, on our high service system, will supply over half of our residents with water on an average day.

Work on our distribution infrastructure will continue in order to improve our aging buried infrastructure.

A review of the Centerville water supply source will be done to help guide decision making regarding this source of water supply for the future.

Improving Customer Service & Operating Efficiently - Additional focus on water auditing and leak assessment is being done. We continue to expand the use of technology such as GPS and improve records management. Online plumbing permitting is also being implemented.

Production Division

The Production Division is responsible for processing raw water into finished water, including all the equipment required in the process and the water supply chain in order to provide an adequate supply of high quality water to all customers in the service area. This includes the operation and maintenance of the supply system, wells, the water treatment plant, pumping stations, water towers and reservoirs, and the water quality laboratory. The division is also responsible for regulatory reporting related to water quality, responding to water quality complaints, and public education, which involves giving tours and making presentations to the public.

Annual production of water for 2017 was our lowest since 1956, with a daily average of 39.3 million gallons per day (MGD). Precipitation was 4.32 inches above normal for the year at the National Weather Service's MSP Airport weather station. River levels were also above normal for much of 2017, and drought was not a concern for the metro area. Our total annual pumpage from the McCarron's water treatment plant was 14,349 million gallons; 10,968 million gallons come from the Mississippi River; 1,225 million gallons from groundwater, with the remainder coming as direct precipitation and watershed runoff in the supply system.

HIGHLIGHTS IN SUMMARY (continued)

We had another excellent year of water quality. The McCarron's water treatment plant continued the Partnership for Safe Water's Presidents Award in 2017. We are one of only 31 surface water plants in the country to achieve this level of award. This program ensures safe drinking water from its member systems by promoting optimized treatment plant operation and continuous improvement in the operation, maintenance, administration and design of the facility. The aesthetic quality of the water also continued to be excellent, with only ten complaints of taste or odor being logged into the Customer Information System (CIS) for the year.

Chemical costs were up slightly, with a total chemical expenditure of \$3.4 million. This corresponds to an increase of \$7 per million gallons of water treated. The majority of this increase was caused by contract price increases for chemicals.

Total finished water pumping electrical costs were up slightly in 2017, with a normalized cost of \$90.82 per million gallons compared to \$85.54 per million gallons in 2016.

A number of improvements were made or undertaken in 2017. An inspection of our supply system conduits from the Mississippi River through the lake chain and to the plant is complete, with recommendations for future rehabilitation work included. Electrical improvement work to the Hazel Park pump station was completed, as well as installation of a back-up electric generator for the West St. Paul pump station. Specification and ordering of a new 20 million gallon demand (MGD) high service pump was done, with delivery expected in June of 2018. Our largest current project, the plant electrical improvements, is ongoing with completion expected in autumn of 2018. This project involves replacing all of the incoming electrical switchgear and the four incoming transformers, plus the main pump room switchgear and motor control cabinets.

Production Division – Future Operations

The repairs to the 90-inch butterfly valve on the east Vadnais intake chamber were not completed and need to be rescheduled. The screens and screen rails in the chamber have been repaired.

A zebra mussel treatment chemical trial was expanded to both gate houses in 2017 and continues to show promise for prevention of zebra mussel growth in the conduits between Vadnais Lake and the plant. The chemical is under consideration for permanent use.

Plans and specifications for a new sludge holding tank at McCarron's Center were completed, with purchase and installation expected in 2018.

A new 20 MGD pump will replace an existing 35 MGD pump and be used in the winter months for improved cost efficiency. Pump is expected to be delivered in June of 2018.

Work still needs to be done on some of the filter control systems in the plant, namely the old Programmable Logic Controllers (PLCs) and flow controllers need replacement. Also in the controls arena, the new Supervisory Control and Data Acquisition (SCADA) software development is underway, with the work being done by a contractor.

HIGHLIGHTS IN SUMMARY (continued)

We hope to begin pre-design of our new softening and re-carbonation basins in 2018. Regional Water is hoping to gain authority for design-build methods for this project. Staff is currently working with legislators to have this authority included in the 2018 legislative session.

The supply system conduit assessment project identified areas in need of repairs. We expect to budget approximately \$1 million a year for the next decade or more to complete these repairs.

The West St. Paul water tower will be painted in the summer of 2018.

Replacement of the electrical service, cabinets, switchgear and motor controls are budgeted for replacement in 2018.

INDEPENDENT AUDIT

State law requires the State Auditor to perform an annual audit of the books of account, financial records, and transactions. The independent audit of the financial statements is part of a broader, federally mandated audit designed to meet the requirements of the Federal Single Audit Act. This requirement has been met, and the State Auditor's report has been included in this report.

MANAGEMENT AND COMPLIANCE REPORT

The State Auditor's audit was designed to meet the requirements of auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* (the Yellow Book); and the Uniform Guidance. The State Auditor will also issue a management and compliance report covering the review, made as part of its audit of Regional Water's system of internal control over financial reporting and tests of compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. Special emphasis on internal controls and compliance requirements involving the administration of federal awards will also be made in the management and compliance report. The management and compliance report will not modify or affect, in any way, this report. The State Auditor's report on Regional Water's financial statements is unmodified, which means that, in the auditor's opinion, the financial statements are fairly presented in conformity with generally accepted accounting principles.

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ACKNOWLEDGMENTS

Regional Water would like to note the contributions of our employees from all divisions in collecting, organizing, and reporting the vast amounts of data needed in the preparation of this Annual Financial Report. The assistance of the State Auditor's Office personnel has again exceeded our expectations. They have shared freely their insights and understanding of quality accounting methods and policies, which have benefited all levels of our accounting staff. Special recognition and thanks must be directed to the City's Office of Financial Services/Accounting staff, whose management and personnel have provided significant assistance to publish this Annual Financial Report.

Respectfully submitted,



Stephen P. Schneider
General Manager



Ruth E. O'Brien
Financial Services Manager

BOARD OF WATER COMMISSIONERS OF THE CITY OF SAINT PAUL
BOARD MEMBERS AND MANAGER TERMS OF OFFICE

As of December 31, 2017

PUBLIC MEMBERS

Term Expires

Matt Anfang, President

June 30, 2020

Mara Humphrey

June 30, 2018

Public Members are appointed by the Mayor to terms of four years.

CITY COUNCIL MEMBERS

Amy Brendmoen, Vice President

January 1, 2020

Rebecca Noecker

January 1, 2020

Chris Tolbert

January 1, 2020

City Council Members are appointed by the Mayor to terms of four years, concurrent with their terms of office.

SUBURBAN MEMBERS

Jeffrey Dains, City of Lauderdale

December 31, 2019

Will Rossbach, City of Maplewood

December 31, 2018

Suburban Members are appointed by the suburban City Councils. The City of Maplewood appoints one member annually. The other Suburban Member, currently appointed by the City of Lauderdale, serves a term of three years. The two Suburban Members must be resident citizens of a suburb served by the Board's water system.

SECRETARY

Mollie Gagnelius was appointed by the Board January 2008.

GENERAL MANAGER

Stephen P. Schneider appointed by the Board December 2003.

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FINANCIAL SECTION



REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

OFFICE OF THE STATE AUDITOR

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525 PARK STREET
SAINT PAUL, MN 55103-2139

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INDEPENDENT AUDITOR'S REPORT

Members of the Board of Water Commissioners
of the Saint Paul Regional Water Services
Saint Paul, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the Saint Paul Regional Water Services, a component unit of the City of Saint Paul, Minnesota, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Saint Paul Regional Water Services' basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 Saint Paul Regional Water Services' 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 Saint Paul Regional Water Services' internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Saint Paul Regional Water Services as of December 31, 2017, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Required Supplementary Information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Saint Paul Regional Water Services' basic financial statements. The introductory section and the supplementary information as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to

prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 29, 2018, on our consideration of the Saint Paul Regional Water Services' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Saint Paul Regional Water Services' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Saint Paul Regional Water Services' internal control over financial reporting and compliance.



REBECCA OTTO
STATE AUDITOR



GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

May 29, 2018

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**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended December 31, 2017**

This section presents management's analysis of the Saint Paul Regional Water Services' (Regional Water) financial condition and activities for the fiscal year ended December 31, 2017. This information should be read in conjunction with the financial statements.

Financial Highlights

- The assets and deferred outflows of resources of Regional Water exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$316,935,138 (Net Position). Of this amount, \$11,540,878 (unrestricted) may be used to meet the utility's ongoing obligations.
- Regional Water's total net position increased by \$13,669,978.

Overview of Annual Financial Report

Management's Discussion and Analysis (MD&A) serves as an introduction to the financial statements. The MD&A represents management's examination and analysis of Regional Water's financial condition and performance. Summary financial statement data, key financial and operational indicators used in Regional Water's operating budget, and other management tools were used for this analysis.

The financial statements report information about Regional Water using full accrual accounting methods as used by similar utilities.

The financial statements include: a Statement of Net Position; a Statement of Revenues, Expenses and Changes in Net Position; a Statement of Cash Flows; and Notes to the Financial Statements. The Statement of Net Position presents assets, deferred outflows of resources, liabilities, deferred inflows of resources and the total net position, which is separated into net investment in capital assets, restricted for debt service and unrestricted. The Statement of Revenues, Expenses, and Changes in Net Position present the results of the business activities over the course of the fiscal year and also include depreciation of capital assets acquired by contributions. The Statement of Cash Flows presents the cash flows from operating activities, noncapital financing activities, capital and related financing activities, investing activities, and the net cash provided or used by all activities. The Statement of Cash Flows presents cash receipts and cash disbursement information without consideration of the earnings event, when an obligation arises, or depreciation of capital assets. The Notes to the Financial Statements provide required disclosures and other information essential to a full understanding of material data provided in the statements. The Notes present information about Regional Water's accounting policies, significant account balances and activities, material risks, obligations, commitments, and contingencies.

This report contains certain required supplementary information. This required supplementary information includes a Schedule of the Proportionate Share of Net Pension Liability and a Schedule of Contributions and other post-employment benefit plan information - a Schedule of Funding Progress, and a Schedule of Employer Contributions. Also included are notes related to

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended December 31, 2017**

Overview of Annual Financial Report (continued)

the required supplementary information. This report also contains as supplementary information a Schedule of Expenditures of Federal Awards, which includes the federal grant activity of Regional Water under programs of the federal government. Also included are notes related to the supplementary information.

Regional Water's staff prepared the financial statements from the detailed books and records of Regional Water. The financial statements were audited and adjusted, if material, during the independent external audit process.

Summary of Organization and Business

Regional Water is a discretely presented component unit of the City of Saint Paul (City) created pursuant to Minnesota Special Laws for 1885, Chapter 110, to provide safe potable drinking water to Saint Paul and surrounding communities at a reasonable price. The Mayor, with consent of the City Council, appoints five of the seven Water Board Commissioners. Three members of the Board are City Council members, and two are citizen members. The other two members are appointed by suburban city councils. The City Council approves Regional Water's water rates and the City has issued bonded debt on behalf of Regional Water.

Financial Analysis

The following financial information and other selected information serve as the key financial data and indicators for management, monitoring, and planning.

As can be seen from the following table, total net position increased \$13.67 million to \$316.94 million in 2017, up from \$303.27 million in 2016. The increase is primarily due to the investment of capital assets in combinations with changes in other assets, liabilities, deferred outflows of resources, and deferred inflows of resources.

Capital Assets

By the end of 2017, Regional Water had invested \$531.53 million in capital assets. There was a \$16.82 million increase in capital assets for the past fiscal year primarily for water related improvements, equipment and public improvements such as mains, services and hydrants. An additional \$5.14 million was spent on electrical improvements for the plant, which was recorded as Construction in Progress.

Long-Term Debt

At the end of 2017, bonds payable were \$10.53 million and revenue notes payable were \$28.77 million. This debt will be repaid with revenue generated by Regional Water.

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended December 31, 2017**

Condensed Statement of Net Position (in thousands)

	Fiscal Year 2017	Fiscal Year 2016	Dollar Change	Total % Change
Assets				
Current and Other Assets	\$ 61,768	\$ 53,587	\$ 8,181	15.3
Capital Assets - net	\$ 333,212	\$ 324,146	\$ 9,066	2.8
Total Assets	<u>\$ 394,980</u>	<u>\$ 377,733</u>	<u>\$ 17,247</u>	<u>4.6</u>
Deferred Outflows of Resources	<u>\$ 3,814</u>	<u>\$ 8,113</u>	<u>\$ (4,299)</u>	<u>(53.0)</u>
Liabilities				
Current Liabilities	\$ 17,055	\$ 16,420	\$ 635	3.9
Noncurrent Liabilities	\$ 61,841	\$ 63,796	\$ (1,955)	(3.1)
Total Liabilities	<u>\$ 78,896</u>	<u>\$ 80,216</u>	<u>\$ (1,320)</u>	<u>(1.6)</u>
Deferred Inflows of Resources	<u>\$ 2,963</u>	<u>\$ 2,365</u>	<u>\$ 598</u>	<u>25.3</u>
Net Position				
Net Investment in Capital Assets	\$ 293,493	\$ 285,053	\$ 8,440	3.0
Restricted for Debt Service	\$ 11,901	\$ 11,614	\$ 287	2.5
Unrestricted	\$ 11,541	\$ 6,598	\$ 4,943	74.9
Total Net Position	<u>\$ 316,935</u>	<u>\$ 303,265</u>	<u>\$ 13,670</u>	<u>4.5</u>

**Condensed Statement of Revenue, Expenses, and Changes in Net Position
(in thousands)**

	Fiscal Year 2017	Fiscal Year 2016	Dollar Change	Total % Change
Operating Revenues	\$ 62,337	\$ 58,952	\$ 3,385	5.7
Non-Operating Revenues (Expenses)	\$ (114)	\$ (1,176)	\$ 1,062	(90.3)
Total Revenues	<u>\$ 62,223</u>	<u>\$ 57,776</u>	<u>\$ 4,447</u>	<u>7.7</u>
Operating Expenses	<u>\$ 49,221</u>	<u>\$ 48,042</u>	<u>\$ 1,179</u>	<u>2.5</u>
Income (Loss) Before Capital Contributions and Special Item	<u>\$ 13,002</u>	<u>\$ 9,734</u>	<u>\$ 3,268</u>	<u>33.6</u>
Capital Contributions	\$ 668	\$ 693	\$ (25)	(3.6)
Special Item	<u>\$ -</u>	<u>\$ 33,290</u>	<u>\$ (33,290)</u>	<u>(100.0)</u>
Change in Net Position	\$ 13,670	\$ 43,717	\$ (30,047)	(68.7)
Net Position - January 1	<u>\$ 303,265</u>	<u>\$ 259,548</u>	<u>\$ 43,717</u>	<u>16.8</u>
Net Position - December 31	<u>\$ 316,935</u>	<u>\$ 303,265</u>	<u>\$ 13,670</u>	<u>4.5</u>

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended December 31, 2017**

Revenues

Regional Water's operating revenues are derived mainly from the sale of water. Other sources include: services, fees, rents and leases. Operating revenues increased by \$3.39 million to \$62.34 million in 2017, up from \$58.95 million in 2016.

In 2017 water rates increased \$0.12 per 100 Cubic Feet (CCF) from the 2016 average winter/summer rate of \$2.57 CCF to \$2.69 CCF. Actual water consumption in 2017 was 16.51 million billing units (100 cubic feet) in 2017 compared to 16.56 in 2016. The water service base fee increased \$1.00 to \$6.00; up from \$5.00 in 2016. This is a monthly fee based on the size of the meter and increases as the meter size increases to reflect the increased cost of providing peak volume capacity. There was no change in the water main surcharge; it remains at a rate of \$0.20 per CCF. This surcharge is designed to fund main replacement in the service area. There was no change in the Right-of-Way Recovery Fee; it remains at \$1.50. This monthly fee is only charged to Saint Paul residents and is for a payment to the City of Saint Paul for the extra costs it incurs due to Regional Water's facilities being located in the public rights-of-way. This fee is structured in a similar manner to the water service base fee in that it varies by water meter size. The impact on the typical single family customer was an increase of 7.6% over 2016 water rates.

Expenses

Regional Water's operating expenses increased \$1.18 million to \$49.22 million in 2017, up from \$48.04 million in 2016. There was an increase of \$1.19 million related to salaries and fringes in accordance with negotiated bargaining unit contracts. Service expenses decreased by \$125 thousand and miscellaneous expenses decreased by \$353 thousand, this was due to a public improvement assessment and settlements. Materials and supplies increased by \$451 thousand. The majority of the increase was \$243 thousand for chemicals, \$137 thousand for electricity and \$136 thousand for special materials and supplies. Depreciation increased \$12 thousand.

Economic and Other Factors

The effects of conservation and cultural changes in our service area continue. Total consumption levels remain stable at near budgeted levels. Precipitation was 4.32 inches above normal for the year at the National Weather Service's MSP Airport weather station. Rain fell at regular intervals throughout the growing season. This led to very light demands on our system as there was minimal need to sprinkle lawns and gardens; demand for water did not pick up during the summer or fall.

Financial Contact

This financial report is designed to provide our customers and creditors with a general overview of Regional Water's finances and to demonstrate Regional Water's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Finance Department, Saint Paul Regional Water Services, 1900 Rice Street, Saint Paul, Minnesota 55113.

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BOARD OF WATER COMMISSIONERS OF THE CITY OF SAINT PAUL, MINNESOTA
REGIONAL WATER SERVICES STATEMENT OF NET POSITION
December 31, 2017
(Amounts in dollars)

Exhibit A

ASSETS

Current Assets

Cash and Investments with Treasurer	27,817,037
Investments	9,835,379
Departmental Cash	46,015
Imprest Funds	2,000
Restricted Cash and Cash Equivalents	
Investments for Revenue Note Debt Service	2,147,389
Investments for Revenue Bond Debt Service	2,894,900
Receivables	
Accounts (net of allowance for Estimated Uncollectibles)	5,878,636
Assessments	
Current	638,850
Deferred	2,091,980
Delinquent	112,572
Tax Forfeited Property	4,153
Accrued Interest	265,342
Due from Primary Government	82,668
Due from Other Governmental Units	729,467
Inventory - Materials and Supplies	2,209,887

Total Current Assets	<u>54,756,275</u>
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Noncurrent Assets

Restricted Assets

Investments for Revenue Bond Future Debt Service	5,050,682
Investments for Revenue Bond Operations and Maintenance	<u>1,870,619</u>

Total Restricted Assets	<u>6,921,301</u>
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Long-Term Loans Receivable	91,095
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Capital Assets

Land	4,061,766
Buildings and Structures	57,603,238
Less: Accumulated Depreciation	(25,866,215)
Public Improvements	393,927,790
Less: Accumulated Depreciation	(139,503,713)
Equipment	57,835,368
Less: Accumulated Depreciation	(32,943,825)
Construction in Progress	<u>18,097,642</u>

Total Capital Assets (Net of Accumulated Depreciation)	<u>333,212,051</u>
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Total Noncurrent Assets	<u>340,224,447</u>
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Total Assets	<u>394,980,722</u>
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DEFERRED OUTFLOWS OF RESOURCES

Deferred Pension Outflows	<u>3,813,972</u>
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continued

BOARD OF WATER COMMISSIONERS OF THE CITY OF SAINT PAUL, MINNESOTA
REGIONAL WATER SERVICES STATEMENT OF NET POSITION
December 31, 2017
(Amounts in dollars)

Exhibit A

LIABILITIES

Current Liabilities (Payable from Current Assets)

Accrued Salaries Payable	962,740
Accounts Payable	2,262,239
Contract Retention Payable	314,147
Due to Primary Government	4,857,146
Due to Other Governmental Units	3,461,227
Unearned Revenue	195,059
Compensated Absences Payable	39,438
Claims and Judgments Payable	641,126

Total Current Liabilities (Payable from Current Assets) 12,733,122

Current Liabilities (Payable from Restricted Assets)

Revenue Notes Payable	1,634,067
Revenue Bonds Payable	2,625,000
Accrued Interest Payable on Revenue Notes	40,253
Accrued Interest Payable on Revenue Bonds	22,491

Total Current Liabilities (Payable from Restricted Assets) 4,321,811

Noncurrent Liabilities

Revenue Bonds Payable	7,900,000
Premium on Revenue Bonds	419,275
Revenue Notes Payable	27,140,295
Compensated Absences Payable	1,710,276
Net Other Post Employment Benefits Obligation	4,942,617
Net Pension Liability	15,439,693
Claims and Judgments Payable	4,289,195

Total Noncurrent Liabilities 61,841,351

Total Liabilities 78,896,284

DEFERRED INFLOWS OF RESOURCES

Deferred Pension Inflows 2,963,272

NET POSITION

Net Investment in Capital Assets	293,493,414
Restricted for Debt Service	11,900,846
Unrestricted	11,540,878

Total Net Position 316,935,138

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

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BOARD OF WATER COMMISSIONERS OF THE CITY OF SAINT PAUL, MINNESOTA
REGIONAL WATER SERVICES STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
For the Fiscal Year Ended December 31, 2017
(Amounts in dollars)

Exhibit B

OPERATING REVENUES	
Fees, Sales and Services	61,240,177
Rents and Leases	924,455
Miscellaneous	<u>172,622</u>
Total Operating Revenues	<u>62,337,254</u>
OPERATING EXPENSES	
Salaries	12,836,507
Employee Fringe Benefits	9,126,390
Services	10,431,087
Materials and Supplies	7,251,380
Depreciation	9,441,217
Miscellaneous	<u>133,940</u>
Total Operating Expenses	<u>49,220,521</u>
OPERATING INCOME (LOSS)	<u>13,116,733</u>
NON-OPERATING REVENUES (EXPENSES)	
Operating Grants	107,752
Gain on Sale of Assets	51,293
Loss on Retirement of Assets	(420,387)
Investment Income	
Interest Earned on Investments	823,543
Decrease in Fair Value of Investments	(37,880)
Miscellaneous Other Revenue (Expenses)	104,843
Interest Expense on	
Revenue Bonds	(264,326)
Revenue Notes	<u>(479,083)</u>
Total Non-Operating Revenues (Expenses)	<u>(114,245)</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS	<u>13,002,488</u>
CAPITAL CONTRIBUTIONS	
Capital Acquisitions - Outside Sources	<u>667,490</u>
CHANGE IN NET POSITION	13,669,978
NET POSITION, January 1	<u>303,265,160</u>
NET POSITION, December 31	<u><u>316,935,138</u></u>

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

BOARD OF WATER COMMISSIONERS OF THE CITY OF SAINT PAUL, MINNESOTA
REGIONAL WATER SERVICES STATEMENT OF CASH FLOWS
For the Fiscal Year Ended December 31, 2017
(Amounts in dollars)

Exhibit C

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from Customers	59,932,390
Other Operating Receipts	924,455
Other Receipts	172,622
Payments to Suppliers	(15,797,174)
Payments to Employees	(12,782,596)
Payment for Fringe Benefits and Payroll Taxes	(7,873,560)
Non-Operating Revenue Received	<u>110,433</u>

NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>24,686,570</u>
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CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Operating Grants Received	93,669
Non-Operating Loans Repayment Received from Customers	<u>(54,560)</u>

NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	<u>39,109</u>
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CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Cash Proceeds From Issuance of Debt:	
Revenue Notes	4,734,462
Cash Proceeds From Sale of Capital Assets:	
Equipment	26,611
Capital Contributions Received:	
From Outside Parties	766,103
Principal Paid on Debt Maturities:	
Revenue Bonds	(2,750,000)
Revenue Notes	(1,270,516)
Payments for Acquisition and Construction of Capital Assets:	
Construction in Progress	(19,026,215)
Interest Paid On:	
Revenue Bonds	(271,759)
Revenue Notes	<u>(479,402)</u>

NET CASH PROVIDED (USED) IN CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(18,270,716)</u>
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CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of Investment Securities	(11,000,000)
Proceeds From Sale and Maturities of Investment Securities	2,998,500
Interest and Dividends on Investments Received	<u>630,453</u>

NET CASH PROVIDED (USED) IN INVESTING ACTIVITIES	<u>(7,371,047)</u>
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NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(916,084)
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CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>33,823,425</u>
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CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>32,907,341</u></u>
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continued

BOARD OF WATER COMMISSIONERS OF THE CITY OF SAINT PAUL, MINNESOTA
REGIONAL WATER SERVICES STATEMENT OF CASH FLOWS
For the Fiscal Year Ended December 31, 2017
(Amounts in dollars)

Exhibit C

RECONCILIATION OF OPERATING INCOME TO NET CASH
PROVIDED (USED) BY OPERATING ACTIVITIES

Operating Income (Loss)	<u>13,116,733</u>
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Adjustments To Reconcile Operating Income To Net

Cash Provided (Used) by Operating Activities:

Depreciation	9,441,217
Increase (Decrease) in Allowance for Uncollectible Accounts	(78,406)
Nonoperating Miscellaneous Other Revenue Received	110,433

Changes in Assets and Liabilities:

(Increase) Decrease in Accounts Receivable	(1,289,442)
(Increase) Decrease in Assessments Receivable	159,284
(Increase) Decrease in Due From Primary Government	(948)
(Increase) Decrease in Due From Other Governmental Units	92,866
(Increase) Decrease in Deferred Pension Outflows	4,299,214
(Increase) Decrease in Inventories	35,345
Increase (Decrease) in Accrued Salaries Payable	53,911
Increase (Decrease) in Accounts Payable	32,790
Increase (Decrease) in Due To Primary Government	907,108
Increase (Decrease) in Due To Other Governmental Units	(255,985)
Increase (Decrease) in Unearned Revenue	(191,141)
Increase (Decrease) in Compensated Absences Payable	36,559
Increase (Decrease) in Net Other Post Employment Benefits Obligation	222,463
Increase (Decrease) in Deferred Pension Inflows	598,564
Increase (Decrease) in Net Pension Liability	(3,903,970)
Increase (Decrease) in Claims and Judgments Payable	<u>1,299,975</u>

Total Adjustments	<u>11,569,837</u>
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NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u><u>24,686,570</u></u>
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DETAILS OF CASH AND CASH EQUIVALENTS

Cash and Investments with Treasurer	27,817,037
Departmental Cash	46,015
Imprest Funds	2,000
Cash for General Obligation Bond Debt Service	2,147,389
Cash for Revenue Note Debt Service	<u>2,894,900</u>

TOTAL CASH AND CASH EQUIVALENTS	<u><u>32,907,341</u></u>
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NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES

Loss on Retirement/Deletion of Capital Assets	(416,849)
Net Book Value of Traded Capital Assets	11,285
Change in Fair Value of Investments	(37,880)
Capital Assets Purchased on Account - Construction in Progress	4,038,829

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

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**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2017**

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**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2017**

Note 1. Board of Water Commissioners

The Board of Water Commissioners, hereinafter referred to as Regional Water, is an agency of the City of Saint Paul (City) created pursuant to Minnesota Special Laws for 1885, Chapter 110, to provide safe potable drinking water to Saint Paul and surrounding communities at a reasonable price. The Mayor, with consent of the City Council, appoints five of the seven Water Board Commissioners. Three members of the Board are City Council members, and two are Citizen members. The other two members are appointed by suburban city councils. The Saint Paul City Council approves Regional Water's water rates and the City has issued bonded debt on behalf of Regional Water.

Note 2. Summary of Significant Accounting Policies

The Governmental Accounting Standards Board (GASB) is responsible for establishing generally accepted accounting principles (GAAP) for government units through its pronouncements (statements and interpretations).

The financial statements of Regional Water have been prepared in conformity with GAAP in the United States of America as applied to government units. A summary of the more significant accounting policies established in GAAP and used by Regional Water are provided on the following pages.

A. Financial Reporting Entity

In conformance with the application of the criteria set forth in generally accepted accounting principles, Regional Water is part of the City of Saint Paul (the primary government) reporting entity and is shown in the City's Comprehensive Annual Financial Report for the fiscal year ended December 31, 2017, as a discretely presented component unit.

B. Proprietary Activity

Regional Water operates as a proprietary activity. Proprietary activities account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges, and the determination of net income is necessary or useful for sound financial administration.

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2017**

Note 2. Summary of Significant Accounting Policies (continued)

C. Basis of Accounting/Measurement Focus

The full accrual basis of accounting is used for Regional Water. Revenues are recognized when they are earned, and expenses are recognized when they are incurred. Material unbilled accounts receivable are recorded at year-end. The flow of economic resources measurement focus is used for Regional Water. With this measurement focus, all assets and deferred outflows of resources and all liabilities and deferred inflows of resources associated with the operation are included on the Statement of Net Position.

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position

1. Cash and Investments

For its funds the City maintains a general portfolio, which is a pool of investments covering pooled cash and cash equivalents. This pool is also available for use by Regional Water. In addition, the City invests non-pooled Regional Water cash. These investments are reported at fair value on the statement of net position with recognition of the corresponding changes in fair value of investments reported in the operating statement in the year in which the change occurred. Accordingly, investments are stated at their fair value at December 31, 2017. A market approach is used to value all investments other than external investment pools, which are measured at the net asset value or fair value per share. Investments in nonparticipating interest-earning contracts, such as savings accounts and nonnegotiable certificates of deposit, are reported at cost. Money market investments and participating interest-earning investment contracts (negotiable certificates of deposit), are reported at amortized cost since these investments have a remaining maturity of one year or less at the time of purchase. Money market investments are short-term, highly liquid debt instruments including commercial paper, bankers' acceptances, and U.S. Treasury and agency obligations. See Note 4.A.1.

In 2017, Regional Water recorded a "decrease in fair value of investments" of \$37,880 as part of investment income. The calculation of realized gains and losses is independent of the calculation of the net change in the fair value of investments. Realized gains and losses on investments that have been held in more than one fiscal year and sold in the current year may have been included as part of the change in the fair value of investments reported in the prior year.

For purposes of the Statement of Cash Flows, cash equivalents are cash on-hand, cash in banks, and highly liquid investments having original maturities (time span from purchase date to maturity date) of three months or less. Included in the classification of cash equivalents are cash and investments with treasurer, departmental cash, imprest funds, and restricted cash grants and other contributions.

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2017**

Note 2. Summary of Significant Accounting Policies (continued)

2. Receivables

The receivables account presented on the Statement of Net Position consists of five accounts. The balance of those accounts as of December 31, 2017, is as follows:

Accounts Receivable - Invoices	\$ 92,940
Accounts Receivable - Water Billings	5,773,150
Accounts Receivable - Unbilled	58,370
Accounts Receivable - Miscellaneous	13,483
Allowance for Uncollectible Accounts	<u>(59,307)</u>
Accounts Receivable (net of Allowance for Estimated Uncollectible)	<u>\$ 5,878,636</u>

The Assessments Receivables consist of Current, Deferred, Delinquent and Tax Forfeiture accounts. Current assessments consist of water mains constructed, lead service replacements, and unpaid water bills assessed for the current year. Deferred assessments are made up of water main and lead service replacements to be assessed over ten to twenty years. Delinquent assessments are levied assessments that have not been paid from 2012 through 2016. Tax forfeited properties are subject to forfeiture.

3. Material and Supplies Inventory

Inventories are valued at cost, which approximates market, using the average cost method. Inventory is either expensed or capitalized as part of infrastructure as the materials and supplies are consumed.

4. Restricted Assets

Mandatory segregations of assets are presented as restricted assets. Bond agreements or other external parties require such segregations. Current liabilities payable from these restricted assets are so classified.

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**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2017**

Note 2. Summary of Significant Accounting Policies (continued)

5. Capital Assets

Land, buildings and structures, public improvements, and equipment, are recorded as capital assets on the Statement of Net Position. Regional Water defines capital assets as assets with an initial, individual cost of more than \$5,000, and an estimated useful life in excess of at least three years. Purchased capital assets and capital assets constructed by Regional Water are stated at original cost. Original cost includes material, labor, overhead, an allowance for depreciation for equipment used and an allowance for the cost of funds used during construction when significant. Major outlays for capital assets and improvements are capitalized as projects are constructed. Contributed water systems for which actual costs are not available have been valued by means that estimate their historical value.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend assets' lives are not capitalized.

Depreciation of all exhaustible capital assets used by Regional Water is charged as an expense. Accumulated depreciation is offset against the original cost of the capital assets on the Statement of Net Position. Depreciation has been provided over the estimated useful lives using the following methods:

	<u>Method</u>	<u>Years</u>
Building and Structures	Straight Line	15 - 60
Public Improvements	Straight Line	25 - 100
Equipment	Straight Line	3 - 40

6. Bond Premiums and Issuance Costs

In accordance with GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, bond issuance costs are expensed in the period incurred.

Bond premiums are to be deferred and amortized using the straight-line method over the term of the related issues, and are presented as an addition of the face amount of bonds payable.

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**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2017**

Note 2. Summary of Significant Accounting Policies (continued)

7. Compensated Absences

The liability for compensated absences includes earned but unpaid vacation and compensatory time, vested sick leave, unvested sick leave expected to vest, and salary-related payments (fringe benefits) associated with the payment of vacation, compensatory time and sick leave balances.

Employees earn vacation based on years of service and their bargaining unit. Vacation must be used in the year it is earned, except for 15 days, which may be carried over to the following year. Employees are paid 100% of their accumulated vacation pay when they terminate their employment. Some bargaining units have amounts paid to a Post Employment Health Plan (PEHP).

Sick leave is earned based on bargaining unit up to a maximum of 15 days per year and may be accumulated indefinitely. Terminated employees receive severance pay based upon unused sick leave. All severance pay is paid to a PEHP in the year following termination. Eligibility requirements and maximum allowable amounts vary, depending upon an employee's bargaining unit. The accrued liability for compensated absences is reported in the financial statements since the compensated absences are considered expenses when incurred. Sick leave which is not expected to vest is not reported in the financial statements.

8. Defined Benefit Pension Plan

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employers Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA, except that PERA's fiscal year end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Plan investments are reported at fair value.

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**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2017**

Note 2. Summary of Significant Accounting Policies (continued)

9. Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense) until then. Regional Water has one item, deferred pension outflows, that qualifies for reporting in this category. These outflows arise only under the full accrual basis of accounting and consist of pension plan contributions paid subsequent to the measurement date, differences between expected and actual pension plan economic experience, pension plan changes in proportionate share, the differences between projected and actual earnings on pension plan investments, and also changes in actuarial assumptions and, accordingly, are reported only in the Statement of Net Position.

In addition to liabilities, the Statement of Net Position reports 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 will not be recognized as an inflow of resources (revenue) until that time. Regional Water has one item, deferred pension inflows, that qualifies for reporting in this category. These inflows arise only under the full accrual basis of accounting and consist of differences between expected and actual pension plan economic experience, changes in actuarial assumptions, and also pension plan changes in proportionate share and, accordingly are reported only in the Statement of Net Position.

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**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2017**

Note 2. Summary of Significant Accounting Policies (continued)

10. Equity Classifications

Equity is classified as net position and displayed in three components:

- (a) Net Investment in Capital Assets – Consists of capital assets including infrastructure, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. It includes deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt.
- (b) Restricted – Consists of assets with constraints placed on their use either by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments or 2) law through constitutional provisions or enabling legislation. Such assets are reduced by liabilities and deferred inflows of resources related to those assets.
- (c) Unrestricted – The net amount of the assets, deferred outflows of resources, liabilities and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

When both restricted and unrestricted resources are available for use, it is Regional Water's policy to use restricted resources first, and then unrestricted resources, as they are needed.

11. Capital Contributions

In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, capital contributions received from developers, customers, other funds of the City of Saint Paul (external or "outside" sources) or water systems acquired from other cities are reported as a separate item and an increase in the net position on the operating statement.

12. Operating and Non-Operating Revenues and Expenses

Proprietary activities 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 activity's principal ongoing operations. The principal operating revenues of Regional Water are charges to customers for goods and services. Operating expenses for proprietary activities include the cost of goods and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2017**

Note 2. Summary of Significant Accounting Policies (continued)

13. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, and deferred inflows of resources; and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 3. Stewardship, Compliance and Accountability

A. Federal Audit Requirements

As a recipient of federal, state and local financial assistance, Regional Water is responsible for ensuring that adequate internal controls are in place to ensure compliance with applicable laws and regulations related to those programs. These internal controls are subject to periodic evaluation by management.

For 2017, Regional Water is required to undergo a single audit in conformity with the provisions of the Single Audit Act Amendments of 1996 and audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

The Uniform Guidance sets forth the audit requirements for local governments receiving federal awards. It provides for a single independent audit of the financial operations, including compliance with certain provision of federal laws and regulations. The requirements have been established to ensure that audits are made on an organization-wide basis rather than a grant-by-grant basis. This audit requirement was complied with for 2017. An auditor's report on consideration of Regional Water's internal control over financial reporting and on tests of Regional Water's compliance will be issued at a later date.

Grant amounts received or receivable from the federal government are subject to adjustment. Any disallowed claims, including amounts already collected, may constitute a liability of Regional Water. The amount, if any, of expenses which may be disallowed by the grantor cannot be determined at this time, however, Regional Water expects such amounts if any to be immaterial.

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2017**

Note 4. Detail Notes

A. Assets

1. Deposits and Investments

The City's Treasury Division manages Regional Water's deposit and investment functions.

Deposits

Regional Water's deposit functions are managed and maintained by the City of Saint Paul by use of a general portfolio, which is a pool of investments. In accordance with Minnesota Statutes §§118A.02 and 118A.03, the City maintains deposits at financial institutions authorized by the City Council, all of which are members of the Federal Reserve System. The Statutes also require that all City deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance or bonds.

Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies; general obligations rated "A" or better, revenue obligations rated "AA" or better; irrevocable standby letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota Statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the City's deposits may not be returned to it. As of December 31, 2017, the City's deposits were not exposed to custodial credit risk. All pledged collateral is held in the City's name at third party institutions, pledged at 110 percent of deposits not covered by insurance or bonds.

Regional Water's deposits of \$32,859,326 (carrying amount) are entirely insured or collateralized with securities held by the City of Saint Paul or by its agent in the City's name.

Other Funds on Hand

At December 31, 2017, the total imprest funds were \$2,000. Regional Water also had departmental cash on hand of \$46,015.

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2017**

Note 4. A. Assets (continued)

Investments

The City's Investment Policy Statement governs the investment portfolio of the City of Saint Paul. Regional Water adopted the City's Investment Policy Statement. The goals of the City for the portfolio are to preserve financial assets for future operating expenses, maintain reserves to fund unplanned shortfalls and generate income to support the activities of the City. The portfolio is managed internally in three components as follows:

- (a) Daily Portfolio: The daily component represents current operating funds on which draws are made frequently, requiring daily liquidity and preservation of principal. The time horizon on the Daily Portfolio is within a 12-month period.
- (b) Short Term Portfolio: A short-term component serves as a cushion to provide liquidity for possible shortfalls in the Daily Portfolio. Draws against the short-term portfolio are expected to be infrequent. The time horizon on the Short Term Portfolio is between one and three years.
- (c) Intermediate Term Portfolio: The balance of the Portfolio represents the intermediate term component, which serves as a reserve for unplanned shortfalls. In general, the Intermediate Term Portfolio is not expected to experience withdrawals and the time horizon on the Intermediate Portfolio is longer than three years.

Minnesota Statutes §§ 118A.04 and 118A.05, authorize the following types of investments for local governments:

- (a) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as "high risk" by Minnesota Statutes Section 118A.04, Subd. 6;
- (b) in shares of an investment company registered under the Federal Investment Company Act of 1940 provided the mutual fund receives certain ratings depending on its investments;
- (c) general obligations of the State of Minnesota and its municipalities and in any security which is a general obligation of any state or local government with taxing powers which is rated "A" or better by a national bond rating service;
- (d) in bankers' acceptances of United States banks; or
- (e) in commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less.

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2017**

Note 4. A. Assets (continued)

(f) Repurchase agreements may be entered into with:

- 1) a bank qualified as a depository;
- 2) any national or state bank in the United States, which is a member of the Federal Reserve System and whose combined capital and surplus equals or exceeds \$10,000,000;
- 3) a primary reporting dealer in United States government securities to the Federal Reserve Bank of New York; or
- 4) a securities broker-dealer licensed pursuant to Chapter 80A, or an affiliate of it, regulated by the Securities and Exchange Commission and maintaining a combined capital and surplus of \$40,000,000 or more, exclusive of subordinated debt.

(g) Securities lending agreements;

(h) Guaranteed investment contracts.

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. It is the City's policy to invest only in securities that meet the ratings requirements set by state statute.

Regional Water's exposure to credit risk as of December 31, 2017, is as follows:

<u>Rating Agency</u>	<u>Rating</u>	<u>Fair Value</u>
Moody's	Aaa	<u>\$16,756,680</u>

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. At December 31, 2017, all investment securities were in the City's name and were held in the custody of US Bank under the City's name and therefore are not subject to custodial credit risk.

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2017**

Note 4. A. Assets (continued)

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by the City's investment in a single issuer. It is the City's policy that U.S. Treasury securities, U.S. Agency Securities, and obligations backed by U.S. Treasury and/or U.S. Agency securities, may be held without limit. At December 31, 2017, the City does not have investments in any one issuer that represent 5 percent or more of the City's total investments portfolio and therefore, also not subject to concentration of credit risk.

Interest Rate Risk

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. The City's internal portfolio has a shorter overall weighted duration than the benchmarks established for each component portfolio. All else being equal, this would be expected to reduce the risk to adverse effects from rising interest rates.

At December 31, 2017, Regional Water had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Less Than 2 Years</u>	<u>2 – 5 Years</u>	<u>6 - 10 Years</u>	<u>Greater Than 10 Years</u>
U.S. Agencies	\$16,756,680	\$ -	\$983,440	\$12,870,020	\$2,903,220

Fair Value Measurements

Regional Water measures and records its investments using fair value measurement guidelines established by generally accepted accounting principles. These guidelines recognize a three-tiered fair value hierarchy, as follows:

- *Level 1:* Quoted prices for identical investments in active markets;
- *Level 2:* Observable inputs other than quoted market prices; and
- *Level 3:* Unobservable inputs.

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**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2017**

Note 4. A. Assets (continued)

At December 31, 2017, Regional Water had the following recurring fair value measurements.

	Fair Value Measurements Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
12/31/2017			
Investments by Fair Value Level			
Debt Securities			
U.S. Agencies	\$ 16,756,680	\$ -	\$ 16,756,680

Debt securities classified in Level 2 are valued using a market approach by utilizing quoted prices for identical securities in markets that are not active.

Regional Water invests funds in the City of Saint Paul's investment pool. The fair value of the investment is the fair value per share of the underlying portfolio. Regional Water invests in this pool for the purpose of joint investment with the City in order to enhance investment earnings. There are no redemption limitations.

Recap

The deposits and investments as described above are recorded in the financial statements as:

Cash and Investments with Treasurer	\$ 27,817,037
Investments	9,835,379
Departmental Cash	46,015
Imprest Funds	2,000
Restricted Cash, Cash Equivalents and Investments:	
Revenue Note Debt Service	2,147,389
Revenue Bond Debt Service	2,894,900
Revenue Bond Future Debt Service	5,050,682
Revenue Bond Operations and Maintenance	1,870,619
Total	<u>\$ 49,664,021</u>
Deposits	\$ 32,859,326
Investments	16,756,680
Departmental Cash	46,015
Imprest Funds	2,000
Total	<u>\$ 49,664,021</u>

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2017**

Note 4. A. Assets (continued)

2. Summary of Changes in Capital Assets

A summary of changes in capital assets follows:

	01/01/2017	Additions	Deductions	12/31/2017
Capital Assets Not Being Depreciated:				
Land	\$ 4,061,766	\$ -	\$ -	\$ 4,061,766
Construction in Progress	13,878,140	19,366,383	(15,146,881)	18,097,642
Total Capital Assets Not Being Depreciated	\$ 17,939,906	\$ 19,366,383	\$ (15,146,881)	\$ 22,159,408
Capital Assets Being Depreciated:				
Buildings and Structures	\$ 57,586,478	\$ 16,760	\$ -	\$ 57,603,238
Public Improvements	382,324,816	13,700,955	(2,097,981)	393,927,790
Equipment	56,853,568	1,571,261	(589,461)	57,835,368
Total Capital Assets Being Depreciated	\$ 496,764,862	\$ 15,288,976	\$ (2,687,442)	\$ 509,366,396
Less Accumulated Depreciation for:				
Buildings and Structures	\$ (23,713,066)	\$ (2,153,149)	\$ -	\$ (25,866,215)
Public Improvements	(134,611,310)	(6,598,587)	1,706,184	(139,503,713)
Equipment	(32,234,868)	(1,259,137)	550,180	(32,943,825)
Total Accumulated Depreciation*	\$ (190,559,244)	\$ (10,010,873)	\$ 2,256,364	\$ (198,313,753)
Total Capital Assets Being Depreciated, Net	\$ 306,205,618	\$ 5,278,103	\$ (431,078)	\$ 311,052,643
Capital Assets, Net	\$ 324,145,524	\$ 24,644,486	\$ (15,577,959)	\$ 333,212,051

*Total Accumulated Depreciation is reduced by an allowance of \$569,656 for equipment used to construct capital assets; net depreciation reported is \$9,441,217 (\$10,010,873 - \$569,656).

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**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2017**

Note 4. Detail Notes (continued)

B. Liabilities

1. Debt Obligations of Regional Water

a. Current and Long-Term Debt Maturities

At December 31, 2017, long-term debt consisted of:

	Principal		
	Unpaid Balances December 31, 2017	Less Current Maturities	Long-Term Maturities
Notes Payable	\$ 28,774,362	\$ 1,634,067	\$ 27,140,295
Revenue Bonds	10,525,000	2,625,000	7,900,000
Compensated Absences	1,749,714	39,438	1,710,276
Claims and Judgments	4,930,321	641,126	4,289,195
Total	<u>\$ 45,979,397</u>	<u>\$ 4,939,631</u>	<u>\$ 41,039,766</u>

b. Changes in Debt Obligations

The following table displays the changes in Regional Water's debt obligations:

	01/01/17	Additions	Deductions	12/31/17
General Obligation				
Waste Water Revenue Note	\$ 139,166	\$ -	\$ 139,166	\$ -
Drinking Water Revenue Notes	25,171,250	4,734,462	1,131,350	28,774,362
Revenue Bonds	13,275,000	-	2,750,000	10,525,000
Compensated Absences	1,713,155	889,770	853,211	1,749,714
Claims and Judgments	3,630,346	1,815,990	516,015	4,930,321
Total	<u>\$ 43,928,917</u>	<u>\$ 7,440,222</u>	<u>\$ 5,389,742</u>	<u>\$ 45,979,397</u>

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2017**

Note 4. B. Liabilities (continued)

c. Principal and Interest Requirements on Debt Obligations

i. All Debt

Aside from Compensated Absences and Claims and Judgments, the annual requirements to pay the principal of \$39,299,362 and interest of \$4,504,522 on all Regional Water debt outstanding as of December 31, 2017, are as follows:

YEAR	2007 REVENUE BONDS			2011D REVENUE BONDS			2013A REVENUE BONDS			TOTAL REVENUE BONDS		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$710,000	\$63,200	\$773,200	\$630,000	\$18,900	\$648,900	\$1,285,000	\$187,800	\$1,472,800	\$2,625,000	\$269,900	\$2,894,900
2019	\$870,000	\$34,800	\$904,800	\$ -	\$ -	\$ -	\$1,335,000	\$162,100	\$1,497,100	\$2,205,000	\$196,900	\$2,401,900
2020	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$1,365,000	\$135,400	\$1,500,400	\$1,365,000	\$135,400	\$1,500,400
2021	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$1,400,000	\$108,100	\$1,508,100	\$1,400,000	\$108,100	\$1,508,100
2022	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$1,435,000	\$66,100	\$1,501,100	\$1,435,000	\$66,100	\$1,501,100
2023-24	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$1,495,000	\$59,900	\$1,554,900	\$1,495,000	\$59,900	\$1,554,900
	<u>\$1,580,000</u>	<u>\$98,000</u>	<u>\$1,678,000</u>	<u>\$630,000</u>	<u>\$18,900</u>	<u>\$648,900</u>	<u>\$8,315,000</u>	<u>\$719,400</u>	<u>\$9,034,400</u>	<u>\$10,525,000</u>	<u>\$836,300</u>	<u>\$11,361,300</u>

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2017**

Note 4. B. Liabilities (continued)

<u>YEAR</u>	<u>2010A DRINKING WATER REVENUE NOTE</u>			<u>2010B DRINKING WATER REVENUE NOTE</u>			<u>2014 DRINKING WATER REVENUE NOTE</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$240,000	\$88,315	\$328,315	\$935,000	\$342,487	\$1,277,487	\$104,000	\$20,237	\$124,237
2019	\$345,000	\$83,604	\$428,604	\$1,340,000	\$324,142	\$1,664,142	\$105,000	\$19,147	\$124,147
2020	\$475,000	\$76,832	\$551,832	\$1,840,000	\$297,851	\$2,137,851	\$107,000	\$18,047	\$125,047
2021	\$300,000	\$67,508	\$367,508	\$1,170,000	\$261,750	\$1,431,750	\$108,000	\$16,925	\$124,925
2022	\$310,000	\$61,619	\$371,619	\$1,210,000	\$238,795	\$1,448,795	\$109,000	\$15,793	\$124,793
2023-27	\$1,910,000	\$194,533	\$2,104,533	\$7,405,000	\$751,740	\$8,156,740	\$561,000	\$61,622	\$622,622
2028-32	\$919,000	\$36,257	\$955,257	\$3,556,000	\$140,538	\$3,696,538	\$592,000	\$31,587	\$623,587
2033-36	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$245,000	\$3,857	\$248,857
	<u>\$4,499,000</u>	<u>\$608,668</u>	<u>\$5,107,668</u>	<u>\$17,456,000</u>	<u>\$2,357,303</u>	<u>\$19,813,303</u>	<u>\$1,931,000</u>	<u>\$187,215</u>	<u>\$2,118,215</u>

<u>YEAR</u>	<u>2016 DRINKING WATER REVENUE NOTE</u>			<u>TOTAL REVENUE NOTES</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$355,067	\$62,283	\$417,350	\$1,634,067	\$513,322	\$2,147,389
2019	\$233,488	\$46,829	\$280,317	\$2,023,488	\$473,722	\$2,497,210
2020	\$235,900	\$44,417	\$280,317	\$2,657,900	\$437,147	\$3,095,047
2021	\$238,337	\$41,980	\$280,317	\$1,816,337	\$388,163	\$2,204,500
2022	\$240,799	\$39,518	\$280,317	\$1,869,799	\$355,725	\$2,225,524
2023-27	\$1,241,826	\$159,761	\$1,401,587	\$11,117,826	\$1,167,656	\$12,285,482
2028-32	\$1,307,305	\$94,282	\$1,401,587	\$6,374,305	\$302,664	\$6,676,969
2033-36	\$1,035,640	\$25,966	\$1,061,606	\$1,280,640	\$29,823	\$1,310,463
	<u>\$4,888,362</u>	<u>\$515,036</u>	<u>\$5,403,398</u>	<u>\$28,774,362</u>	<u>\$3,668,222</u>	<u>\$32,442,584</u>

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2017**

Note 4. B. Liabilities (continued)

i. All Debt (continued)

Regional Water entered into a loan agreement for a long-term note with the Minnesota Public Facilities Authority (MNPFA), a component unit of the State of Minnesota. This is a reimbursement note; interest accrues only on the aggregate amount of the note which has been disbursed.

The note was in the amount of \$7,564,417. The proceeds of the note were for the purchase and installation of the McCarron's electrical switchgear and related electrical appurtenances. The total principal amount of the long-term portion of the loan at December 31, 2017, was \$4,533,295.

ii. Claims and Judgments

Claims and judgment expenses and liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. These liabilities include an estimate of claims furnished by the City Attorney's Office and City's Risk Management Division that have been incurred but not reported. At December 31, 2017, the claims and judgments liability was \$4,930,321.

iii. Compensated Absences

Included in Regional Water's debt are compensated absences for \$1,749,714.

2. Bonds Payable by Issue

<u>Issue</u>	<u>Issue Rate And Dates</u>	<u>Issue Dates</u>	<u>Final Maturity Date</u>	<u>Amount Outstanding</u>
Revenue	4.06%; 06/01; 12/01	02/14/07	12/01/19	\$ 1,580,000
Revenue	2.00%; 06/01; 12/01	04/06/11	12/01/18	630,000
Revenue	1.52%; 06/01; 12/01	03/18/13	12/01/24	<u>8,315,000</u>
Total				<u>\$10,525,000</u>

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2017**

Note 4. B. Liabilities (continued)

3. Notes Payable by Issue

<u>Issue</u>	<u>Issue Rate And Dates</u>	<u>Issue Date</u>	<u>Final Maturity Date</u>	<u>Amount Outstanding</u>
Drinking Water Revenue Note	1.96%; 06/01; 12/01	07/13/10	12/01/30	\$ 4,499,000
Drinking Water Revenue Note	1.96%; 06/01; 12/01	07/13/10	12/01/30	17,456,000
Drinking Water Revenue Note	1.05%; 06/01; 12/01	06/19/14	12/01/34	1,931,000
Drinking Water Revenue Note	1.03%; 06/01; 12/01	11/28/16	12/01/36	<u>4,888,362</u>
Total				<u>\$28,774,362</u>

C. Due From Primary Government

At December 31, 2017, Regional Water reported the following receivable from the City of Saint Paul:

<u>City Fund Title</u>	<u>City Fund Type</u>	<u>Amount</u>
Sewer Utility	Enterprise Fund	\$82,668

D. Due To Primary Government

At December 31, 2017, Regional Water reported the following payable to the City of Saint Paul:

<u>City Fund Title</u>	<u>City Fund Type</u>	<u>Amount</u>
Sewer Utility	Enterprise Fund	\$3,570,929
City Capital Projects	Capital Project Fund	916,846
City Debt Service	Debt Service Fund	13,390
Central Services	Internal Service Fund	73,692
Right of Way Maintenance	Special Revenue Fund	<u>282,289</u>
Total		<u>\$4,857,146</u>

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2017**

Note 5. Other Information

A. Defined Benefit Pension Plan

Plan Description

All full-time and certain part-time employees of Regional Water are employees of the City of Saint Paul and are covered by a defined benefit pension plan administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Plan, which is a cost-sharing, multiple-employer retirement plan. The plan is established and administered in accordance with Minnesota Statutes Chapters 353 and 356. PERA's defined benefit pension plan is a tax qualified plan under Section 401(a) of the Internal Revenue Code.

The General Employees Retirement Plan (accounted for in the General Employees Fund) has multiple benefit structures with members belonging to the Coordinated Plan, the Basic Plan or the Minneapolis Employees Retirement Fund. Coordinated Plan members are covered by Social Security and Basic Plan and Minneapolis Employees Retirement Fund members are not. The Basic Plan was closed to new members in 1967. The Minneapolis Employees Retirement Fund was closed to new members during 1978 and merged into the General Employees Retirement Plan in 2015. Regional Water is not required to make any contributions to the Basic Plan or the Minneapolis Employees Retirement Fund, and no Regional Water employees belong to either the Basic Plan or the Minneapolis Employees Retirement Fund. All new members must participate in the Coordinated Plan, for which benefits vest after five years of credited service. Information on the City Employee Pension Plan is contained in the City's Comprehensive Annual Financial Report for the Fiscal Year Ended December 31, 2017.

Benefits Provided

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefit provisions are established by state statute and can be modified only by the state legislature. Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Benefit recipients receive a future annual 1.0 percent post-retirement benefit increase. If the funding ratio reaches 90 percent for two consecutive years, the benefit increase will revert to 2.5 percent. If, after reverting to a 2.5 percent benefit increase, the funding ratio declines to less than 80 percent for one year or less than 85 percent for two consecutive years, the benefit increase will decrease to 1.0 percent.

The benefit provisions stated in the following paragraph of this section are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not yet receiving them are bound by the provisions in effect at the time they last terminated their public service.

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2017**

Note 5. A. Defined Benefit Pension Plan (continued)

Benefits Provided (continued)

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for General Employees Retirement Plan Coordinated Plan members. Members hired prior to July 1, 1989, receive the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first ten years of service and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 1.7 percent for Coordinated Plan members for each year of service. Only Method 2 is used for members hired after June 30, 1989.

For General Employees Retirement Plan members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90, and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66. Disability benefits are available for vested members and are based on years of service and average high-five salary.

Contributions

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minnesota Statutes Chapter 353. These statutes are established and amended by the state legislature. General Employees Retirement Plan Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in 2017.

In 2017, Regional Water was required to contribute 7.50 percent of annual covered salary for General Employees Retirement Plan Coordinated Plan members.

The employer and employee contribution rates did not change from the previous year.

Regional Water's contributions for the General Employees Retirement Plan for the year ended December 31, 2017, were \$1,184,859. The contributions are equal to the contractually required contributions as set by state statute.

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2017**

Note 5. A. Defined Benefit Pension Plan (continued)

Pension Costs

At December 31, 2017, Regional Water reported a liability of \$15,439,693 for its proportionate share of the General Employees Retirement Plan's net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. Regional Water's proportion of the net pension liability was based on Regional Water's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2016, through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, Regional Water's proportion was 0.2419 percent. It was 0.2410 percent measured as of June 30, 2016. Regional Water recognized pension expense of \$2,213,907 for its proportionate share of the General Employees Retirement Plan's pension expense.

Regional Water also recognized \$5,607 as revenue, which results in a reduction of the net pension liability for its proportionate share of the State of Minnesota's contributions to the General Employees Retirement Plan, which qualifies as a special funding situation. Legislation required the State of Minnesota to contribute \$6 million to the General Employees Retirement Plan for the fiscal year ended June 30, 2017.

Regional Water's proportionate share of the net pension liability	\$ 15,439,693
State of Minnesota's proportionate share of the net pension liability associated with Regional Water	<u>194,141</u>
Total	<u>\$ 15,633,834</u>

Regional Water reported its proportionate share of the General Employees Retirement Fund's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 508,845	\$ 993,117
Changes in actuarial assumptions	2,554,773	1,547,831
Difference between projected and actual investment earnings	99,532	-
Changes in proportion	49,120	422,324
Contributions paid to PERA subsequent to the measurement date	<u>601,702</u>	<u>-</u>
Total	<u>\$ 3,813,972</u>	<u>\$ 2,963,272</u>

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2017**

Note 5. A. Defined Benefit Pension Plan (continued)

Pension Costs (continued)

The \$601,702 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended December 31</u>	<u>Pension Expense Amount</u>
2018	\$ 320,611
2019	862,147
2020	(278,375)
2021	(655,385)

Actuarial Assumptions

The total pension liability in the June 30, 2017, actuarial valuation was determined using the individual entry-age normal actuarial cost method and the following additional actuarial assumptions:

Inflation	2.50 percent per year
Active member payroll growth	3.25 percent per year
Investment rate of return	7.50 percent

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants in the General Employees Retirement Plan were based on RP-2014 tables for males or females, as appropriate, with slight adjustments. The cost of living benefit increases for retirees is assumed to be 1.0 percent through 2044, and 2.5 percent thereafter.

Actuarial assumptions used in the June 30, 2017, valuation were based on the results of actuarial experience studies. The experience study in the General Employees Retirement Plan was dated June 30, 2015.

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2017**

Note 5. A. Defined Benefit Pension Plan (continued)

Actuarial Assumptions (continued)

The long-term expected rate of return on pension plan investments is 7.5 percent. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic stocks	39 %	5.10 %
International stocks	19 %	5.30 %
Bonds	20 %	0.75 %
Alternative assets	20 %	5.90 %
Cash	2 %	0.00 %

Discount Rate

The discount rate used to measure the total pension liability was 7.5 percent in 2017, which remained consistent with 2016. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, the fiduciary net position of the General Employees Retirement Plan was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2017**

Note 5. A. Defined Benefit Pension Plan (continued)

Changes in Actuarial Assumptions

The following changes in actuarial assumptions occurred in 2017:

- The Combined Service Annuity (CSA) loads were changed from 0.8 percent for active members and 60 percent for vested and non-vested deferred members (30 percent for deferred Minneapolis Employees Retirement Fund members). The revised CSA loads are now 0.0 percent for active member liability, 15.0 percent for vested deferred member liability, and 3.0 percent for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year for all years to 1.0 percent per year through 2044 and 2.5 percent per year thereafter.
- Minneapolis Employees Retirement Fund plan provisions change the employer supplemental contribution to \$21,000,000 in calendar years 2017 and 2018 and returns to \$31,000,000 through calendar year 2031. The state's required contribution is \$16,000,000 in PERA's fiscal years 2018 and 2019 and returns to \$6,000,000 annually through calendar year 2031.

Pension Liability Sensitivity

The following presents Regional Water's proportionate share of the net pension liability calculated using the discount rate previously disclosed, as well as what Regional Water's proportionate share of the net pension liability would be if it were calculated using a discount rate 1.0 percentage point lower or 1.0 percentage point higher than the current discount rate:

	1% Decrease in Discount Rate (6.5%)	Current Discount Rate (7.5%)	1% Increase in Discount Rate (8.5%)
Proportionate share of the General Employees Retirement Plan net pension liability	\$ 23,948,111	\$ 15,439,693	\$ 8,474,007

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in a separately issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the internet at www.mnpera.org; by writing to PERA at 60 Empire Drive, Suite 200, Saint Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2017**

B. Postemployment Benefits Other than Pensions

Plan Description

In addition to providing the pension benefits described in Note 5.A., Regional Water, through the City of Saint Paul (City) provides other postemployment health care and life insurance benefits (OPEB) for retired employees through a single employer defined benefit plan. The authority to provide these benefits is established in Minnesota Statutes §471.61, Subd. 2a. The plan is not accounted for as a trust fund, as an irrevocable trust has not been established to account for the plan. The plan does not issue a separate report.

Benefits Provided

Eligibility requirements and contribution levels vary substantially between the 11 bargaining agreements. The typical eligibility requirements are 20 years of service and currently receiving a public employee pension. This coverage may also extend to the retiree's family. The benefits, benefit levels, retiree contributions and employer contributions are governed by the City and can be amended by the City through the City's collective bargaining agreements with employee groups. Benefits include general inpatient and outpatient medical services; mental and substance abuse care; vision care; preventative dental; and prescriptions.

Retirees under the age of 65 (early retirees) are included in the pool with active employees. Each year during open enrollment, active employees and early retirees select from three options with the City's health insurance carrier. Retirees over 65 (regular retirees) have two plan options under a separate policy. Medicare becomes the primary insurer and the City's plan becomes secondary. Life insurance in the amount of \$5,000 to \$20,000 is provided to some early retirees, depending upon collective bargaining agreements.

The majority of employees benefit amounts have been capped. The benefit amount varies depending upon employment date and bargaining unit agreement as indicated below:

Health Care Benefit

	<u>Under Age 65 (early retiree)</u>	<u>Over Age 65 (regular retiree)</u>
Employees who retired before January 1, 1996	Not applicable	100%
Employees hired before and retiring after January 1, 1996	\$350 per month	\$550 per month
Employees hired after January 1, 1996	\$300 per month	\$300 per month

This benefit has been discontinued for Tri-Council employees hired after January 1, 1996.

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2017**

Note 5. B. Postemployment Benefits Other than Pensions (continued)

Membership

As of actuarial valuation date of December 31, 2016, the membership consisted of:

	<u>Family Coverage</u>	<u>Single Coverage</u>	<u>Total</u>
Retired Participants and Beneficiaries			
Under Age 65 (Early Retirees)	0	19	19
Over Age 65 (Regular Retirees)	<u>29</u>	<u>105</u>	<u>134</u>
Total Retired Participants	<u>29</u>	<u>124</u>	<u>153</u>
 Total Active Participants	 <u>96</u>	 <u>119</u>	 <u>215</u>
Total Participants	<u>125</u>	<u>243</u>	<u>368</u>

Funding Policy

Retiree health care benefits are currently funded based on the benefit disclosed above on a pay-as-you-go basis. Regional Water may change the funding policy at any time. The average monthly premium contributions for 2017 were as follows:

	<u>Age</u>	<u>Average Monthly Regional Water Contribution</u>	<u>Average Monthly Retiree Contribution</u>
Health Insurance	Less than 65	\$343	\$258
	65 and older	\$320	\$ 16
Life Insurance	Less than 65	\$ -	Not applicable
	65 and older	Not applicable	Not applicable

These plans are fully insured.

The expenses for these postemployment benefits are recognized as premiums and are paid to the insurers. For Regional Water, the 2017 expense totaled \$630,529 for approximately 163 retirees. Retirees contributed \$83,939; active employees do not contribute to the plan until retirement.

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2017**

Note 5. B. Postemployment Benefits Other than Pensions (continued)

Annual OPEB Costs and Net OPEB Obligation

Regional Water had an actuarial valuation performed for the plan as of December 31, 2016, to determine the funded status of the plan as of that date as well as the employer's annual required contribution (ARC) for the fiscal year ended December 31, 2017. Regional Water's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2017 and the two preceding years were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Employer Contribution</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
December 31, 2015	\$ 1,032,345	\$ 743,605	72.03%	\$ 4,422,010
December 31, 2016	\$ 1,034,283	\$ 736,139	71.17%	\$ 4,720,154
December 31, 2017	\$ 905,996	\$ 683,533	75.45%	\$ 4,942,617

The net OPEB obligation (NOPEBO) at December 31, 2017, was calculated as follows:

Annual Required Contribution (ARC)	\$ 997,432
Interest on Net OPEB Obligation	165,205
Adjustment to Annual Required Contribution	(256,641)
Annual OPEB Cost	<u>905,996</u>
Contributions Made:	
Direct	630,529
Indirect Implicit Subsidy	53,004
Total Contributions Made	<u>683,533</u>
Increase (Decrease) in Net OPEB Obligation	222,463
Net OPEB Obligation Beginning of Year	<u>4,720,154</u>
Net OPEB Obligation End of Year	<u><u>\$ 4,942,617</u></u>

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2017**

Note 5. B. Postemployment Benefits Other than Pensions (continued)

Funded Status and Funding Progress

The actuarial accrued liability (AAL) for benefits, as of December 31, 2016, the most recent actuarial valuation date, was \$14,237,369. This liability will be amortized over 30 years based on the requirements of the Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

The funded status of the plan as of December 31, 2016, the most recent actuarial valuation date, is as follows:

Actuarial Valuation Date	Actuarial Value of Plan Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll Active Members	UAAL as a Percentage of Covered Payroll
December 31, 2016	\$ -	\$ 14,237,369	\$ 14,237,369	0.0%	\$ 15,057,192	94.6%

The actuarial valuation of an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information, following the notes to the financial statements, presents information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2017**

Note 5. B. Postemployment Benefits Other than Pensions (continued)

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the December 31, 2016, actuarial valuation the Entry Age Normal level percent of pay actuarial cost method was used. The actuarial assumptions included 3.50 percent discount rate and an annual healthcare cost trend rate beginning at 6.80 percent for fiscal year 2017 for Non-Medicare eligible retirees and 6.80 percent for Medicare eligible retirees and declining over 5 years to 5.20 percent. Both rates include a 2.75 percent inflation assumption. The actuarial value of assets was \$0, as Regional Water has not advance-funded its obligation. The plan's unfunded actuarial accrued liability is being amortized as a level dollar amount over a 30-year open amortization period (30-year period restarted with each valuation).

C. Risk Management

Regional Water is exposed to various risks of losses related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters. Regional Water utilizes the services of the City Attorney's Office and the City's Risk Management Division to manage its risks. Regional Water is self-insured for general liability obligations and unemployment compensation benefits. Commercial insurance or surety bonds are carried for employee faithful performance, fire and all-risk property coverage, and workers' compensation reinsurance. There have been no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for any of the past three fiscal years.

A complete audit and actuarial analysis is conducted to ensure proper premium, retention, and administrative charges. The following discloses the change in the balance of the claims liability during fiscal years 2016 and 2017:

	<u>Year Ended 12/31/2016</u>	<u>Year Ended 12/31/2017</u>
Beginning fiscal year liability	\$3,942,845	\$3,630,346
Current year claims and changes in estimates	430,827	1,815,990
Claim payments	<u>(743,326)</u>	<u>(516,015)</u>
End of year liability	<u>\$3,630,346</u>	<u>\$4,930,321</u>

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2017**

Note 5. C. Risk Management (continued)

Minnesota Statutes § 466.04 limit Regional Water's financial exposure for tort claims arising from general liability or vehicle liability exposures. The limits are \$300,000 per individual and \$750,000 per accident for any number of claims arising out of a single occurrence for claims arising on or after January 1, 1998, and before January 1, 2000. For claims arising on or after January 1, 2000, and before January 1, 2008, the limit per accident for any number of claims arising out of a single occurrence is \$1,000,000 and \$300,000 per individual. For claims arising on or after January 1, 2008 and before July 1, 2009, the limit per accident for any number of claims arising out of a single occurrence is \$1,200,000 and \$400,000 per individual. For claims arising on or after July 1, 2009, the limit per accident for any number of claims arising out of a single occurrence is \$1,500,000 and \$500,000 per individual. The limits double when the claim arises out of the release or threatened release of a hazardous substance. Regional Water does not carry commercial liability and collision insurance for the vehicles it owns.

D. Contingent Liabilities

Regional Water, in connection with the normal conduct of its affairs, is involved in various judgments, claims, and litigations; it is expected that the final settlement of these matters will not materially affect the financial statements of Regional Water.

E. Joint Powers

The Ramsey County Geographic Information Systems (GIS) Users Group (Users Group) was established in 1995 by a joint powers agreement among public agencies interested in using GIS and data created and maintained by Ramsey County. The agreement was to enable those parties who are part of the Users Group to be represented by the Users Group for the purposes of undertaking negotiations and transactions with Ramsey County and any other body politic. Joining this group provides Regional Water staff the ability to share costs and information with over 23 cities, school districts, watersheds, utilities and other agencies within Ramsey County. Regional Water became part of the Users Group in January 2006 and was assessed \$2,790 for the year 2017. The current agreement is effective through 2017. Financial information can be obtained from the City of Maplewood located at 1830 County Road B East, Maplewood, Minnesota 55109.

The joint powers agreement between Regional Water, the City of Minneapolis, and the City of Saint Cloud dated December 19, 2011, was created to collaboratively implement the Upper Mississippi River Source Water Protection Project (Project). The parties agree to make cash contributions to the Project of up to \$10,000 annually. Regional Water was assessed \$10,000 for the year 2017. The agreement is effective through 2020. The City of Saint Cloud administers all aspects of the Project. Financial information can be obtained from the City of St. Cloud, 400 Second Street South, St. Cloud, Minnesota 56301.

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2017**

Note 5. Other Information (continued)

E. Joint Powers (continued)

A joint powers agreement between Regional Water, Ramsey County, Ramsey Conservation District and Vadnais Lake Area Watershed Management Organization dated June 13, 2017, was created to share the cost of improvements to the Sucker Lake channel between Sucker Lake and Highway 96 in Vadnais Heights. Ramsey County has prepared plans and specifications for stream bank improvements that will mitigate the erosion and provide for park facility improvements. Regional Water's estimated cost for these improvements is \$30,000 based on the benefit. Ramsey County will act as the Project administrator, fiscal manager and main point of contact for the project. Financial information can be obtained from Ramsey County, 15 West Kellogg Blvd, St. Paul, Minnesota 55102.

Note 6. Future Change in Accounting Standard

Effective for financial statements for the year ending December 31, 2018, Regional Water will be implementing Governmental Accounting Standards Board (GASB) Statement No. 75.

GASB Statement No. 75 - *Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* will do to Other Post Employment Benefits (OPEB) what GASB Statement 68 did for pensions. GASB Statement No. 75 establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expenses, and will include new note disclosures and required supplementary information for OPEB plans. GASB Statement No. 75 affects Regional Water as it provides OPEB and reports a liability related to these benefits.

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REQUIRED SUPPLEMENTARY INFORMATION

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
REQUIRED SUPPLEMENTARY INFORMATION
For the Fiscal Year Ended December 31, 2017**

Schedule 1

**Schedule of Proportionate Share of Net Pension Liability
PERA General Employees Retirement Plan ⁽¹⁾
Last Ten Years ⁽²⁾**

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Fiscal Year Ending	Employer's Proportionate Share (Percentage) of the Net Pension Liability (Asset)	Employer's Proportionate Share (Amount) of the Net Pension Liability (Asset) (a)	State's Proportionate Share of the Net Pension Liability Associated with Regional Water (b)	Employer's Proportionate Share of Net Pension Liability and State's Related Share of the Net Pension Liability (Asset) (a + b)	Covered Payroll ⁽³⁾ (c)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll (a/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
June 30, 2015	0.2403%	\$12,451,952	NA	\$12,451,952	\$14,126,414	88.15%	78.19%
June 30, 2016	0.2410%	\$19,343,663	\$255,613	\$19,599,276	\$14,941,525	129.46%	68.91%
June 30, 2017	0.2419%	\$15,439,693	\$194,141	\$15,633,834	\$15,569,391	99.17%	75.90%

⁽¹⁾ For information regarding the pension plan see Note 5.A. on pages 37 - 42.

⁽²⁾ This schedule is intended to show information for ten years. Additional years will be displayed as they become available.

⁽³⁾ For purposes of this schedule, covered payroll is defined as "pensionable wages".

NA – Not Applicable.

The notes to the required supplementary information are an integral part of this schedule

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
REQUIRED SUPPLEMENTARY INFORMATION
For the Fiscal Year Ended December 31, 2017**

Schedule 2

Schedule of Contributions PERA General Employees Retirement Plan ⁽¹⁾ Last Ten Years⁽²⁾

Fiscal Year Ending	Statutorily Required Contribution	Actual Contributions in Relation to the Statutorily Required Contribution	Contribution Deficiency (Excess)	Covered Payroll ⁽³⁾	Actual Contributions as a Percentage of Covered Payroll
(a)	(b)	(b-a)	(c)	(b/c)	
December 31, 2015	\$1,069,877	\$1,069,877	\$0	\$14,265,031	7.50%
December 31, 2016	\$1,145,685	\$1,145,685	\$0	\$15,275,800	7.50%
December 31, 2017	\$1,184,859	\$1,184,859	\$0	\$15,798,124	7.50%

⁽¹⁾For information regarding the pension plan see Note 5.A. on pages 37 - 42.

⁽²⁾ This schedule is intended to show information for ten years. Additional years will be displayed as they become available.

⁽³⁾For purposes of this schedule, covered payroll is defined as "pensionable wages".

The notes to the required supplementary information are an integral part of this schedule

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
REQUIRED SUPPLEMENTARY INFORMATION
For the Fiscal Year Ended December 31, 2017**

Schedule 3

**Schedule of Funding Progress
Other Post Employment Benefit Plans ⁽¹⁾**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
September 30, 2012	\$ -	\$13,455,536	\$13,455,536	0.0%	\$12,584,670	106.9%
September 30, 2014	\$ -	\$14,098,002	\$14,098,002	0.0%	\$13,608,567	103.6%
December 31, 2016	\$ -	\$14,237,369	\$14,237,369	0.0%	\$15,057,192	94.6%

⁽¹⁾ For information regarding the plan see Note 5.B. on pages 43 - 47.

Schedule 4

**Schedule of Employer Contributions
Other Post Employment Benefit Plans ⁽¹⁾**

Fiscal Year Ended	Annual Required Contribution	Percentage Contributed	Net OPEB Obligation
December 31, 2012	\$ 1,388,097	51.04%	\$ 3,495,166
December 31, 2013	\$ 1,058,497	65.42%	\$ 3,805,727
December 31, 2014	\$ 1,067,254	63.61%	\$ 4,133,270
December 31, 2015	\$ 1,100,096	67.59%	\$ 4,422,010
December 31, 2016	\$ 1,106,767	66.51%	\$ 4,720,154
December 31, 2017	\$ 997,432	68.53%	\$ 4,942,617

⁽¹⁾ For information regarding the plan see Note 5.B. on pages 43 - 47.

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
For Fiscal Year Ended December 31, 2017**

Defined Benefit Pension Plan - Changes in Significant Plan Provisions, Actuarial Methods, and Assumptions

The following changes were reflected in the valuation performed on behalf of the Public Employees Retirement Association for the year ended June 30:

General Employees Retirement Plan

2017

- The Combined Service Annuity (CSA) loads were changed from 0.8 percent for active members and 60 percent for vested and non-vested deferred members (30 percent for deferred Minneapolis Employees Retirement Fund members). The revised CSA loads are now 0.0 percent for active member liability, 15.0 percent for vested deferred member liability, and 3.0 percent for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year for all years to 1.0 percent per year through 2044 and 2.5 percent per year thereafter.
- Minneapolis Employees Retirement Fund plan provisions change the employer supplemental contribution to \$21,000,000 in calendar years 2017 and 2018 and returns to \$31,000,000 through calendar year 2031. The state's required contribution is \$16,000,000 in PERA's fiscal years 2018 and 2019 and returns to \$6,000,000 annually through calendar year 2031.

2016

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2035 and 2.50 percent per year thereafter, to 1.00 percent for all future years.
- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was also changed from 7.90 percent to 7.50 percent.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed payroll growth and inflation were decreased by 0.25 percent. Payroll growth was reduced from 3.50 percent to 3.25 percent. Inflation was reduced from 2.75 percent to 2.50 percent.

SUPPLEMENTARY INFORMATION

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended December 31, 2017**

Schedule 5

Federal Grantor Pass-Through Agency Program or Cluster Title	Federal CFDA Number	Pass-Through Grant Number	Expenditures
U.S. Environmental Protection Agency Passed through Minnesota Public Facilities Authority Drinking Water State Revolving Fund Cluster Capitalization Grants for Drinking Water State Revolving Funds	66.468	MPFA-DWRF- L-049-FY17	<u>\$5,139,783</u>
Totals by Cluster Total expenditures for Drinking Water State Revolving Fund Cluster			\$5,139,783

Regional Water did not pass any federal awards through to subrecipients for the year ended December 31, 2017.

The notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

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SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended December 31, 2017

1. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by the Saint Paul Regional Water Services (Regional Water), a discretely presented component unit of the City of Saint Paul, Minnesota. Regional Water's reporting entity is defined in Note 2.A. to the basic financial statements.

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Regional Water under programs of the federal government for the year ended December 31, 2017. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of Regional Water, it is not intended to and does not present the net position, changes in net position, or cash flows of Regional Water.

3. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the full accrual basis of accounting. Such expenditures are recognized following the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Regional Water has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

4. Reconciliation of Schedule of Expenditures of Federal Awards to Actual Reimbursements

Regional Water had expenditures under one federal award in 2017. The Capitalization Grants for Drinking Water State Revolving Funds, which is passed through the Minnesota Public Facilities Authority, a component unit of the State of Minnesota. This award is in the form of a Drinking Water Note Payable secured by Net Revenues of Regional Water. It will be repaid over a 20-year period.

Expenditures for the Capitalization Grants for Drinking Water State Revolving Funds during the year ended December 31, 2017, totaled \$5,139,783. Reimbursements during fiscal year 2017 totaled \$4,734,462; \$90,010 was for 2016 expenditures, and the remaining \$4,644,452 was for 2017 expenditures.

