

**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, 2019**

**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, 2019**

Table of Contents

	<u>Item</u>	<u>Page</u>
INTRODUCTORY SECTION		
Transmittal Letter		iii
Board Members and Manager Terms of Office		xiii
FINANCIAL SECTION		
Independent Auditor's Report		1
Management's Discussion and Analysis		5
Basic Financial Statements -		
Statement of Net Position	Exhibit A	10
Statement of Revenues, Expenses and Changes in Net Position	Exhibit B	13
Statement of Cash Flows	Exhibit C	14
Notes to the Financial Statements		17
Required Supplementary Information		
PERA General Employees Retirement Plan		53
Schedule of Proportionate Share of Net Pension Liability	Schedule 1	
Schedule of Pension Contributions	Schedule 2	
Other Postemployment Benefit Plans		55
Schedule of Changes in the Total Other Postemployment Benefits Liability and Related Ratios	Schedule 3	
Notes to the Required Supplementary Information		57
Supplementary Information		
Schedule of Expenditures of Federal Awards	Schedule 4	60
Notes to the Schedule of Expenditures of Federal Awards		61

This page left blank intentionally.

INTRODUCTORY SECTION



BOARD OF WATER COMMISSIONERS

President: Mara Humphrey ♦ Vice President: Nelsie Yang

Commissioners: ♦ Marylee Abrams ♦ Amy Brendmoen ♦ James Bykowski ♦ Alene Tchourumoff ♦ Chris Tolbert

October 28, 2020

TO: BOARD OF WATER COMMISSIONERS
Mara Humphrey, President
Nelsie Yang, Vice President
Commissioner Marylee Abrams
Commissioner Amy Brendmoen
Commissioner James Bykowski
Commissioner Alene Tchourumoff
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, 2019. 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, Public Relations and Information, Safety and Security, Training and Human Resources, and the General Manager and Assistant General Manager.

The Assistant General Manager retired in 2019. Patrick Shea was selected to fill the Assistant General Manager position. Shea has over twenty-years' experience in the water industry and began his tenure at Regional Water in October. In the next five years all division managers and the general manager will be eligible to retire. Accordingly, promoting knowledge management and transfer across the utility remains a focus of the division. In the five years 2012-2017, the average retirement age was 60 years old. At the end of 2019, nearly 28 percent of Regional Water's employees were 55 plus years of age. Based on current department trends, over 10 percent of the current workforce have the potential to retire at any time.

Regional Water's work force history is of longevity and successfully retaining trained staff. Often pension, insurance and regular hours helped promote working at Regional Water more as a career. However, this is no longer assured. Employees may be looking for such things as regular new and stimulating assignments, more non-traditional work rules, flexibility in working off-site and flexibility in working hours, etc. Human Resources staff continues to track the voluntary turnover rate to evaluate current trends.

Regional Water's 2019-2021 strategic plan was implemented in 2019. The plan was developed using feedback from employees. All employees were given the opportunity to share their experiences, concerns and recommendations. The plan will help promote equity, innovation, resilience, continuous improvement and employee development. The purpose of the plan is to help move the organization forward and position the organization for continued success.

Our emergency planning and security supervisor worked on our preparedness efforts. New mandates from the U.S. Environmental Protection Agency require updates to several security plans in 2019 and 2020. We anticipate devoting more time to drills and tabletop scenarios to better prepare the utility for any emergency. The position also serves as process safety management (PSM) program coordinator.

Our safety officer continued the facilitated process of maintaining compliance with new silica and walking surfaces regulations put in place by the Occupational Safety and Health Administration (OSHA). We continue to operate a management safety committee focusing on training, preventing workplace injury, inspection activities and OSHA compliance.

The Business Improvement Unit team worked diligently on its initiatives; including enterprise level performance measures, document management improvements and evaluating the utility against industry wide effective utility management (EUM) practices and identifying areas of focus to consider including in the strategic plan.

HIGHLIGHTS IN SUMMARY (continued)

Public information efforts included publishing the water quality report, annual report, the quarterly customer newsletters, a newsletter specifically for our neighbors around Sandy Lake, and various informational brochures. Communications efforts around our construction projects continued with frequent website project updates. The utility participated in several community events, such as the Rice and Larpenteur summer block party, the Rice Street Fall Gardens Festival, the Water Bar at the Minnesota State Fair, and Water Fest at Phalen Lake. We represented the utility as a main speaker at the state-wide teacher's drinking water institute, and hosted a follow-up session at our facilities, which included a treatment plant tour. We hosted four elementary schools during Drinking Water Week, which capped off with an open house and tour of our treatment plant for the general public. Other efforts include hosting two Highland water tower open houses and promoting them on social and traditional media platforms.

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 and we continued replacing lead water services as part of our capital improvement projects.

In February 2018, the State of Minnesota settled a lawsuit against the 3M Company related to perfluoro chemicals. The outcome, about \$720 million will be invested in drinking water and natural resource projects in the Twin Cities east metropolitan region. Projects will be primarily focused on cities using wells and drawing ground water for drinking including the cities of Afton, Cottage Grove, Lake Elmo, Newport, Oakdale, St. Paul Park, and Woodbury and the townships of Grey Cloud Island and West Lakeland. Regional Water is actively recommending stakeholders include consideration of surface water as a long term, sustainable supply, of drinking water and suggested the utility's supply system and treatment plant have capacity to meet the long-term water demands of these communities. On-going meetings of stakeholders continued through the year.

Administration Division - Future Operations

Regional Water is preparing for an estimated \$160 million water treatment plant upgrade. After having obtained legislative approval for design-build procurement, Regional Water retained the services of an owner's agent, an engineering firm with experience developing contract documents, managing and directing design-build projects. The project may take three to four years to complete.

Process safety and emergency plans are being updated with the intent of ensuring ready access for all information employees may need and the security badging and access system is being analyzed and enhancements to badge definitions, operating procedures and access controls are being considered.

HIGHLIGHTS IN SUMMARY (continued)

Administration will continue directing efforts at the initiatives listed above. Comments related to the upcoming update of the Lead & Copper rule were submitted on behalf of Regional Water. Staff will continue to implement strategic plan initiatives, the changes possible with our water use as a result of the White Bear Lake lawsuit and/or our water supply should be part of a solution toward meeting the east metro water needs. As always, our goal is to be able to budget and finance the projects necessary to meet the mission and vision for Regional Water.

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 four business units of Customer Service and Billing, Financial Services, Information Services, and Meter Operations.

During 2019, the Customer Service unit issued approximately 34,600 bills per month or 1,670 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 2019, approximately 56 percent of transactions were processed electronically with nearly 31 percent of payments made via credit card and 19 percent via auto withdraw from a bank account.

The Customer Service call center received 165,538 calls in 2019. About 71,855 calls, or 43 percent were handled by call center staff and 93,683, by the self-serve Interactive Voice Response unit (IVR). This equates to approximately 650 calls per business day of which approximately 281 calls were answered by call center staff. The abandoned call percentage was 2.29 percent, which is more than our goal of less than 2 percent, however a new phone system was implemented during this time.

The radio meters are functioning very reliably. Accordingly, we have continued success basing water bills on actual usage and minimizing estimated bills. Meter Operations will continue to track, trend, and report the register mis-reads and failures in an effort to keep the capture rate at 100 percent.

We configured a meter testing data base in CIS and populated record historic test results back to 2013. With this data available, we are continuing efforts to create 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 2019, we tested all meters 3-inch and larger.

Financial Services staff completed and published the 2018 Annual Financial Report; the report was well received by the State Auditor and reflected well on Regional Water. The team also published the annual budget that ensures long term financial stability and integrity. In addition, a cost of service study and new wholesale agreement was completed for the University of Minnesota.

HIGHLIGHTS IN SUMMARY (continued)

Financial Services staff work with many systems including the Infor Cloud Suite, which includes financials and procurement/supply chain; Computerized Maintenance Management System (CMMS), Time, Attendance and Scheduling System (TASS) and Customer Information (and billing) System (CIS) applications and provided information necessary for Regional Water to manage its financial position by developing a budget, tracking revenues and expenses, processing accounts payable invoices, accounts receivable invoices, collecting and processing payments, providing monthly reports to managers and to the Board of Water Commissioners and ensuring appropriate internal controls.

In 2019, the Information Services section scaled a Production Virtual Desktop Infrastructure (VDI) project to 130 users. The project offers many efficiencies and savings including hardware programming, systems and data backup and troubleshooting. VDI end users are also experiencing the benefits of VDI by exploring Work From Home and Bring Your Own Device initiatives. Target completion of full production scale up is third quarter of 2020.

Business Division - Future Operations

Technology continues to be a current and future focus. Discussion started on developing a new technology roadmap to assist with determining the future path of certain software and technologies.

Regional Water continues to partner with 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.

Improving the customer experience is part of our Strategic Plan. An enhancement to our CIS portal and IVR phone line for customers is being explored. The enhanced software offers customers the ability to register on-line to have payments auto drawn from credit card or bank account, view past bills, and use mobile devices such as a cellular telephone, tablet and/or computer.

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 - Multiple methods to replace and refurbish approximately 8.7 miles of water main were used in 2019. Approximately 5.1 miles of water main in paving projects was replaced using the open trench excavation method. Another 2.1 miles of water main was replaced using the pipe bursting method. Directional drilling and rod pushing techniques were also used to replace approximately 500 feet of galvanized iron pipe.

HIGHLIGHTS IN SUMMARY (continued)

A small diameter clean and line project refurbished approximately 1.5 miles of 6-inch cast iron main. Regional Water excavated pits approximately 600 feet apart to allow a contractor to pull scrapers through the existing water main to clean the main. After the main was clean, a lining machine pulled through the water main to apply cement mortar lining.

Preventative Maintenance – Goals were met by completing Uni-Directional Flushing (UDF) and Large Valve Exercising programs for 20 percent of the distribution system. All 9,608 public hydrants were inspected and flushed in 2019. The UDF program included the operation of 3,213 valves and 1,427 hydrants. A total of 1,343 valves 12-inch and larger were exercised.

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.

Distribution Division - Future Operations

In 2020, a mobile system will be implemented to process work orders electronically to replace the current paper-based work order system.

Engineering Division

The Engineering Division has five sections: Project Engineering, which provides support to the utility in the planning, design and construction administration on projects throughout the utility; the Agreements section, which manages agreements, the engineering service desk, and related administrative functions; Maps and Records, which manages the maps and records of the utility; Plumbing Inspections, who perform plumbing inspections; and Damage Prevention, which does utility locating, and inspections of projects outside of Saint Paul proper. We are committed to providing high-quality asset management in the utility.

Highlights of several large utility projects in 2019 include:

Water Treatment Plant Project – the planning and procurement process has begun on one of the largest projects the utility has ever performed: a major upgrade to the McCarron's Water Treatment Plant. Facility improvements include replacement of the existing flocculators, clarifiers and recarbonation chamber. The addition of ozonation to the treatment process is also proposed with the goal of providing flexibility to address emerging contaminants and improving taste and odor. This project will be delivered via the progressive design-build method, a delivery approach that facilitates collaboration between design professionals, contractor, and the owner while reducing the utility's risk profile. The engineering consulting firm Brown and Caldwell was hired as an owner's representative and is providing expertise on project delivery and support with technical matters.

HIGHLIGHTS IN SUMMARY (continued)

Water Main Capital Improvements – The utility has over 1,200 miles of water main in its system, many of which were installed during the late 1800's. Upgrading this aging infrastructure is of utmost importance to provide reliable water to our customers into the future. Over \$10 million in water main construction was performed in 2019 resulting in the replacement and rehabilitation of 8.7 miles of water main. Water main construction is coordinated in collaboration with other public works improvement projects where possible. Replacement of mains outside of public works project is performed on mains which are at highest risk for failure. New corrosion control practices were also developed with an eye towards extending the life of existing assets.

Water Supply Conduit Improvements – A condition assessment for the utility's 26 miles of raw water supply conduits which extend from the Mississippi River to the water treatment plant was completed in 2018. Planning and design is now underway for rehabilitation of these conduits. This will include repairs to the concrete conduits installed in the 1920's and implementing a corrosion protection system on the steel conduits installed in the 1950's. Work is expected to extend roughly over a 15-year period on these extensive improvement projects.

Centerville Water Supply Study - The Rice Creek and Centerville Lake system was the primary source of water supply for Regional Water in the late 1800's and early 1900's. In 1925, the Mississippi River source was developed, providing a sustainable source for the utility to present day. Centerville continued to be used to varying degrees but has been dormant for the last 30 years. A study was completed to help guide decision making regarding the future of this source. With issues relating to infrastructure condition, water quantity availability and water quality, present direction is to de-commission at-risk infrastructure while maintaining the water supply rights that currently exist.

Partnership for Safe Water Distribution - The Partnership for Safe Water program developed through the American Water Works Association is designed with the goal to optimize utility operations within the distribution system. Engineering completed the self-assessment phase of the program in 2019. As a result, the Partnership for Safe Water has presented Regional Water with their Director's award.

Maps & Records Improvements - Our Maps and Records group upgraded and modernized our internal mapping applications and made greater use of online mapping capabilities for field data collection and emergency preparedness. We continued to update our record-keeping protocols to improve accuracy and usability for end users and increasingly work with other City departments to share GIS data.

Engineering Division - Future Operations

The Engineering Division continues to improve asset management, infrastructure, and the operations of the utility through its various projects and initiatives in order to serve our customers well into the future.

We look to complete the procurement process for the McCarron's Treatment Plant Project, selecting a design-build contractor in late 2020 or early 2021. In addition, a historical review of the existing plant will be performed as decommissioning old processes and structures will take place.

HIGHLIGHTS IN SUMMARY (continued)

Work on our distribution infrastructure will continue, making capital improvements necessary to the future. We will continue to improve public outreach on our distribution related projects as well as continue our work on non-revenue water. Much planning work goes into assessing our buried infrastructure. Updating our water main prioritization model will be performed to provide best value decision making on system upgrades.

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 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, 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 2019 was comparable to the previous three years, with a daily average of 38.69 million gallons per day. Precipitation was 11.77 inches above normal for the year in the Twin Cities metro area. River levels were also above normal for much of 2019, and drought was not a concern for the metro area. Our total annual pumpage from the McCarrons plant was 14,315 million gallons. 8,256 million gallons originated from the Mississippi River source. Groundwater was not utilized in 2019. The difference was made up from precipitation and runoff from the local watershed.

- We had another excellent year of water quality. The McCarrons Treatment Plant continued the Partnership for Safe Water's Presidents Award in 2019. 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 8 complaints of taste or odor being logged into the Customer Information System for the year.

Chemical costs were up slightly, with a total chemical expenditure of \$3.33 million. This corresponds to an increase of \$7.29 per million gallons of water treated.

Total electrical costs for all finished water pumping stations was \$849,796. Costs per million gallons pumped were \$59.36 for finished water. Total electrical costs for raw water pumping was \$317,893, resulting in \$39.58 per million gallons pumped.

Several improvements were made in 2019. The plant electrical improvements project was completed, resulting in new incoming power transformers and switchgear as well as two new electrical substations for the campus. Installation of new high service pump #10 was completed. A new 325,000 gallon sludge holding tank was built for holding softening residuals prior to dewatering.

HIGHLIGHTS IN SUMMARY (continued)

Production Division – Future Operations

Production staff have been heavily involved in the planning and design for the McCarrons Water Treatment Plant Project for new softening, settling and recarbonation processes to replace existing, aging processes, as previously mentioned.

The new 20 mgd high service pump #10 will be used during winter months to help conserve energy. Work on replacing filter controls continues, with new control consoles for filters 12-24 upcoming.

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.

Design work is underway for new electrical equipment and new pumps and motors at the West Side Pump Station located on state street. Also, preliminary design work is underway for new electrical equipment at the Highland Park pump stations.

INDEPENDENT AUDIT

State law requires the State Auditor to perform an annual audit of the books of account, financial records, and transactions of the City of Saint Paul. 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.

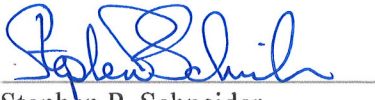
MANAGEMENT AND COMPLIANCE REPORT

The State Auditor's audit was designed to meet the requirements of auditing standards generally accepted in the United States of America and 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.

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



Lori Lee
Financial Services Manager

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

As of December 31, 2019

PUBLIC MEMBERS

Term Expires

Matt Anfang, President

June 30, 2020

Mara Humphrey

August 31, 2022

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

Mayor Marylee Abrams, City of Maplewood

December 31, 2019

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.

This page left blank intentionally.

FINANCIAL SECTION



JULIE BLAHA
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

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, 2019, 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, 2019, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter – Subsequent Event

As discussed in Note 5.F. to the financial statements, subsequent to year-end, the World Health Organization declared the outbreak of a coronavirus (COVID-19) a pandemic. Due to the negative effect of business closures during the pandemic, a reduction of calendar year 2020 revenues is expected to occur due to a reduction in water consumption. Additionally, an increase in past due account balances is expected to occur. Spending controls will need to take place and certain revenue-funded capital investment projects will be deferred until the magnitude of the revenue shortfalls becomes clear. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis 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

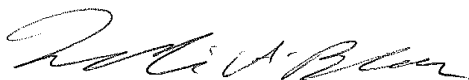
Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Saint Paul Regional Water Services' basic financial statements. The Introductory Section and the Supplementary Information as listed in the table of contents are presented for purposes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

The Supplementary Information as listed in the table of contents 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 Supplementary 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 October 28, 2020, 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 solely 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.



JULIE BLAHA
STATE AUDITOR



DIANNE SYVERSON, CPA
DEPUTY STATE AUDITOR

October 28, 2020

This page left blank intentionally.

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended December 31, 2019**

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, 2019. 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 \$337,874,266 (Net Position). Of this amount, \$12,197,159 (unrestricted) may be used to meet the utility's ongoing obligations.
- Regional Water's total net position increased by \$13,210,547.

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.

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended December 31, 2019**

Overview of Annual Financial Report (continued)

This report contains certain required supplementary information. This required supplementary information includes a Schedule of the Proportionate Share of Net Pension Liability, a Schedule of Pension Contributions, and a Schedule of Changes in the Total Other Postemployment Benefits Liability and Related Ratios. Also included are notes related to 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 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 \$13.21 million to \$337.87 million in 2019, up from \$324.66 million in 2018. 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 2019, Regional Water had invested \$562.54 million in capital assets. There was a \$17.04 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.

Long-Term Debt

At the end of 2019, principal on bonds payable were \$5.70 million and revenue notes payable were \$26.75 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, 2019**

Condensed Statement of Net Position (in thousands)

	Fiscal Year 2019	Fiscal Year 2018	Dollar Change	Total % Change
Assets				
Current and Other Assets	\$ 71,862	\$ 67,535	\$ 4,327	6.4
Capital Assets - net	\$ 347,059	\$ 338,227	\$ 8,832	2.6
Total Assets	<u>\$ 418,921</u>	<u>\$ 405,762</u>	<u>\$ 13,159</u>	<u>3.2</u>
Deferred Outflows of Resources	<u>\$ 3,338</u>	<u>\$ 3,714</u>	<u>\$ (376)</u>	<u>(10.1)</u>
Liabilities				
Current Liabilities	\$ 17,732	\$ 16,213	\$ 1,519	9.4
Noncurrent Liabilities	\$ 62,935	\$ 65,161	\$ (2,226)	(3.4)
Total Liabilities	<u>\$ 80,667</u>	<u>\$ 81,374</u>	<u>\$ (707)</u>	<u>(0.9)</u>
Deferred Inflows of Resources	<u>\$ 3,718</u>	<u>\$ 3,438</u>	<u>\$ 280</u>	<u>8.1</u>
Net Position				
Net Investment in Capital Assets	\$ 314,341	\$ 302,079	\$ 12,262	4.1
Restricted for Debt Service	\$ 11,336	\$ 11,912	\$ (576)	(4.8)
Unrestricted	\$ 12,197	\$ 10,673	\$ 1,524	14.3
Total Net Position	<u>\$ 337,874</u>	<u>\$ 324,664</u>	<u>\$ 13,210</u>	<u>4.1</u>

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

	Fiscal Year 2019	Fiscal Year 2018	Dollar Change	Total % Change
Operating Revenues	\$ 63,377	\$ 63,616	\$ (239)	(0.4)
Non-Operating Revenues (Expenses)	\$ 2,230	\$ (327)	\$ 2,557	(782.0)
Total Revenues	<u>\$ 65,607</u>	<u>\$ 63,289</u>	<u>\$ 2,318</u>	<u>3.7</u>
Operating Expenses	<u>\$ 53,251</u>	<u>\$ 48,249</u>	<u>\$ 5,002</u>	<u>10.4</u>
Income (Loss) Before Capital Contributions	<u>\$ 12,356</u>	<u>\$ 15,040</u>	<u>\$ (2,684)</u>	<u>(17.8)</u>
Capital Contributions	<u>\$ 854</u>	<u>\$ 1,071</u>	<u>\$ (217)</u>	<u>(20.3)</u>
Change in Net Position	\$ 13,210	\$ 16,111	\$ (2,901)	(18.0)
Net Position - January 1	<u>\$ 324,664</u>	<u>\$ 308,553</u>	<u>\$ 16,111</u>	<u>5.2</u>
Net Position - December 31	<u><u>\$ 337,874</u></u>	<u><u>\$ 324,664</u></u>	<u><u>\$ 13,210</u></u>	<u><u>4.1</u></u>

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended December 31, 2019**

Revenues

Regional Water's operating revenues are derived mainly from the sale of water. Other sources include: services, fees, rents and leases. Operating revenues decreased by \$239 thousand to \$63.38 million in 2019, from \$63.62 million in 2018.

In 2019 water rates increased \$0.09 per 100 Cubic Feet (CCF) from the 2018 average winter/summer rate of \$2.82 CCF to \$2.91 CCF. Actual water consumption in 2019 was 15.88 million billing units down by 63 thousand billing units from 16.51 million billing units (100 cubic feet) in 2018. There was no change in the water service base fee; it remains at \$6.00. 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 they incur due to Regional Water's facilities being located within the public right-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 2.1% over 2018 water rates.

Non-Operating Revenues increased by \$2.56 million, mainly due to an increase in fair value of investments of \$1.82 million and increase in interest earnings of \$557 thousand.

Expenses

Regional Water's operating expenses increased \$5.00 million to \$53.25 million in 2019, up from \$48.25 million in 2018. Salaries increased by 4.3% or \$567 thousand in accordance with negotiated bargaining unit contracts. Employee Fringe Benefits increased by \$2.50 million. Other Postemployment benefits, workers compensation and pension expenses increased by \$1.02 million, \$994 thousand and \$370 thousand respectively. Service expenses increased \$203 thousand. There were increases and decreases in multiple areas, the largest increase of \$513 thousand was in lime hauling expense, offset by a decrease of \$222 thousand in general repair and maintenance. Materials and supplies decreased by \$169 thousand. There was a decrease of \$329 thousand for electricity due to a one-time reduction, chemical costs remained stable and computer and other materials and supplies increased slightly. Miscellaneous expenses increased by \$1.41 million, there was an increase of \$1.31 million to recognize a settlement that will be paid in 2020. Depreciation increased \$491 thousand.

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended December 31, 2019**

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 11.77 inches above normal for the Twin Cities metro area, according to the National Weather Service. 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.

(The remainder of this page is left blank intentionally.)

BOARD OF WATER COMMISSIONERS OF THE CITY OF SAINT PAUL, MINNESOTA
REGIONAL WATER SERVICES STATEMENT OF NET POSITION
December 31, 2019
(Amounts in dollars)

Exhibit A

ASSETS

Current Assets

Cash and Investments with Treasurer	28,744,235
Investments	19,175,653
Departmental Cash	240,956
Imprest Funds	2,000
Restricted Cash and Cash Equivalents	
Investments for Revenue Note Debt Service	3,242,745
Investments for Revenue Bond Debt Service	1,500,400
Receivables	
Accounts (net of allowance for Estimated Uncollectibles)	6,213,064
Assessments	
Current	605,345
Deferred	1,862,837
Delinquent	71,302
Tax Forfeited Property	2,060
Accrued Interest	335,567
Due from Primary Government	86,634
Due from Other Governmental Units	645,001
Inventory - Materials and Supplies	2,280,185

Total Current Assets	<u>65,007,984</u>
----------------------	-------------------

Noncurrent Assets

Restricted Assets

Investments for Revenue Bond Future Debt Service	4,743,145
Investments for Revenue Bond Operations and Maintenance	<u>1,899,072</u>

Total Restricted Assets	<u>6,642,217</u>
-------------------------	------------------

Long-Term Loans Receivable	211,407
----------------------------	---------

Capital Assets

Land	4,061,766
Buildings and Structures	57,605,699
Less: Accumulated Depreciation	(27,470,343)
Public Improvements	415,173,249
Less: Accumulated Depreciation	(151,934,464)
Equipment	60,925,397
Less: Accumulated Depreciation	(36,072,509)
Construction in Progress	<u>24,770,244</u>

Total Capital Assets (Net of Accumulated Depreciation)	<u>347,059,039</u>
--	--------------------

Total Noncurrent Assets	<u>353,912,663</u>
-------------------------	--------------------

Total Assets	<u>418,920,647</u>
--------------	--------------------

DEFERRED OUTFLOWS OF RESOURCES

Deferred Pension Outflows	1,021,748
Deferred Other Postemployment Benefits Outflows	<u>2,316,591</u>

Total Deferred Outflows of Resources	<u>3,338,339</u>
--------------------------------------	------------------

continued

BOARD OF WATER COMMISSIONERS OF THE CITY OF SAINT PAUL, MINNESOTA
REGIONAL WATER SERVICES STATEMENT OF NET POSITION
December 31, 2019
(Amounts in dollars)

Exhibit A

LIABILITIES

Current Liabilities (Payable from Current Assets)

Accrued Salaries Payable	1,084,684
Accounts Payable	2,139,623
Contract Retention Payable	465,313
Due to Primary Government	3,767,900
Due to Other Governmental Units	3,430,575
Unearned Revenue	412,325
Compensated Absences Payable	64,625
Claims and Judgments Payable	2,168,499

Total Current Liabilities (Payable from Current Assets) 13,533,544

Current Liabilities (Payable from Restricted Assets)

Revenue Notes Payable	2,784,000
Revenue Bonds Payable	1,365,000
Accrued Interest Payable on Revenue Notes	37,965
Accrued Interest Payable on Revenue Bonds	11,283

Total Current Liabilities (Payable from Restricted Assets) 4,198,248

Noncurrent Liabilities

Revenue Notes Payable	23,968,033
Revenue Bonds Payable	4,330,000
Premium on Revenue Bonds	271,013
Compensated Absences Payable	1,714,289
Other Postemployment Benefits Liability	14,563,494
Net Pension Liability	12,970,841
Claims and Judgments Payable	5,117,311

Total Noncurrent Liabilities 62,934,981

Total Liabilities 80,666,773

DEFERRED INFLOWS OF RESOURCES

Deferred Pension Inflows	2,663,791
Deferred Other Postemployment Benefits Inflows	1,054,156
Total Deferred Inflows of Resources	<u>3,717,947</u>

NET POSITION

Net Investment in Capital Assets	314,340,993
Restricted for Debt Service	11,336,114
Unrestricted	12,197,159

Total Net Position 337,874,266

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

This page left blank intentionally.

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, 2019
(Amounts in dollars)

Exhibit B

OPERATING REVENUES	
Fees, Sales and Services	62,149,194
Rents and Leases	931,168
Miscellaneous	<u>296,813</u>
Total Operating Revenues	<u>63,377,175</u>
OPERATING EXPENSES	
Salaries	13,762,294
Employee Fringe Benefits	8,455,761
Services	11,645,749
Materials and Supplies	7,249,057
Depreciation	9,912,483
Miscellaneous	<u>2,225,968</u>
Total Operating Expenses	<u>53,251,312</u>
OPERATING INCOME (LOSS)	<u>10,125,863</u>
NON-OPERATING REVENUES (EXPENSES)	
Operating Grants	281,197
Gain on Sale of Assets	25,948
Loss on Retirement of Assets	(179,448)
Investment Income	
Interest Earned on Investments	1,435,838
Increase in Fair Value of Investments	1,180,999
Miscellaneous Other Revenue (Expenses)	96,411
Interest Expense on	
Revenue Notes	(482,019)
Revenue Bonds	<u>(128,876)</u>
Total Non-Operating Revenues (Expenses)	<u>2,230,050</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS	<u>12,355,913</u>
CAPITAL CONTRIBUTIONS	
Capital Acquisitions - Outside Sources	<u>854,634</u>
CHANGE IN NET POSITION	13,210,547
NET POSITION, January 1	<u>324,663,719</u>
NET POSITION, December 31	<u><u>337,874,266</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, 2019
(Amounts in dollars)

Exhibit C

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from Customers	61,330,496
Other Operating Receipts	931,168
Other Receipts	296,814
Payments to Suppliers	(18,489,072)
Payments to Employees	(13,679,920)
Payment for Fringe Benefits and Payroll Taxes	(7,725,745)
Non-Operating Revenue Received	<u>97,701</u>

NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES 22,761,442

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Operating Grants Received	251,006
Non-Operating Loans Repayment Received from Customers	<u>74,416</u>

NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES 325,422

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Cash Proceeds From Issuance of Debt:	
Revenue Notes	985,843
Cash Proceeds From Sale of Capital Assets:	
Equipment	34,549
Capital Contributions Received:	
From Outside Parties	852,590
Principal Paid on Debt Maturities:	
Revenue Bonds	(2,205,000)
Revenue Notes	(2,149,000)
Payments for Acquisition and Construction of Capital Assets:	
Construction in Progress	(18,246,613)
Interest Paid On:	
Revenue Bonds	(196,900)
Revenue Notes	<u>(484,156)</u>

NET CASH PROVIDED (USED) IN CAPITAL AND RELATED FINANCING ACTIVITIES (21,408,687)

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of Investment Securities	(25,101,692)
Increase in Fair Value of Investments	389,890
Proceeds From Sale and Maturities of Investment Securities	22,000,000
Interest and Dividends on Investments Received	<u>1,495,385</u>

NET CASH PROVIDED (USED) IN INVESTING ACTIVITIES (1,216,417)

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS 461,760

CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR 33,268,576

CASH AND CASH EQUIVALENTS AT END OF YEAR 33,730,336

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, 2019
(Amounts in dollars)

Exhibit C

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

Operating Income (Loss)	<u>10,125,863</u>
-------------------------	-------------------

Adjustments To Reconcile Operating Income To Net

Cash Provided (Used) by Operating Activities:

Depreciation	9,912,483
Increase (Decrease) in Allowance for Uncollectible Accounts	59,345
Nonoperating Miscellaneous Other Revenue Received	97,701
Changes in Assets and Liabilities:	
(Increase) Decrease in Accounts Receivable	(765,097)
(Increase) Decrease in Assessments Receivable	163,463
(Increase) Decrease in Due From Primary Government	(2,729)
(Increase) Decrease in Due From Other Governmental Units	(15,426)
(Increase) Decrease in Deferred Other Postemployment Benefits Outflows	(884,302)
(Increase) Decrease in Deferred Pension Outflows	1,260,465
(Increase) Decrease in Inventories	49,655
Increase (Decrease) in Accrued Salaries Payable	82,374
Increase (Decrease) in Accounts Payable	(125,043)
Increase (Decrease) in Due To Primary Government	204,292
Increase (Decrease) in Due To Other Governmental Units	74,520
Increase (Decrease) in Unearned Revenue	(258,254)
Increase (Decrease) in Compensated Absences Payable	26,427
Increase (Decrease) in Net Pension Liability	(283,282)
Increase (Decrease) in Deferred Pension Inflows	(774,163)
Increase (Decrease) in Other Postemployment Benefits Liability	330,715
Increase (Decrease) in Deferred Other Postemployment Benefits Inflows	1,054,156
Increase (Decrease) in Claims and Judgments Payable	<u>2,428,279</u>

Total Adjustments	<u>12,635,579</u>
-------------------	-------------------

NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u><u>22,761,442</u></u>
--	--------------------------

DETAILS OF CASH AND CASH EQUIVALENTS

Cash and Investments with Treasurer	28,744,235
Departmental Cash	240,956
Imprest Funds	2,000
Cash for Revenue Note Debt Service	3,242,745
Cash for General Revenue Bond Debt Service	<u>1,500,400</u>

TOTAL CASH AND CASH EQUIVALENTS	<u><u>33,730,336</u></u>
---------------------------------	--------------------------

NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES

Loss on Retirement/Deletion of Capital Assets	(177,366)
Net Book Value of Traded Capital Assets	7,471
Increase in Fair Value of Investments	791,109
Capital Assets Purchased on Account - Construction in Progress	2,624,070

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

This page left blank intentionally.

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2019**

Index to Notes to the Financial Statements

Note 1	Board of Water Commissioners
Note 2	Summary of Significant Accounting Policies
	A. Financial Reporting Entity
	B. Propriety Activity
	C. Basis of Accounting/Measurement Focus
	D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position
	1. Cash and Investments
	2. Receivables
	3. Material and Supplies Inventory
	4. Restricted Assets
	5. Capital Assets
	6. Bond Premiums and Issuance Costs
	7. Compensated Absences
	8. Defined Benefit Pension Plan
	9. Deferred Outflows/Inflows of Resources
	10. Equity Classifications
	11. Capital Contributions
	12. Operating and Non-Operating Revenues and Expenses
	13. Use of Estimates
Note 3	Stewardship, Compliance and Accountability
	A. Federal Audit Requirements
Note 4	Detail Notes
	A. Assets
	1. Deposits and Investments
	2. Summary of Accounts Receivable
	3. Summary of Changes in Capital Assets
	B. Liabilities
	1. Debt Obligations of Regional Water
	a. Current and Long-Term Debt Maturities
	b. Changes in Debt Obligations
	c. Principal and Interest Requirements on Debt Obligations
	2. Bonds Payable by Issue
	3. Notes Payable by Issue
	C. Due from Primary Government
	D. Due to Primary Government
Note 5	Other Information
	A. Defined Benefit Pension Plan
	B. Postemployment Benefits Other than Pensions
	C. Risk Management
	D. Contingent Liabilities
	E. Joint Powers
	F. Subsequent Event

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2019**

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, 2019, 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, 2019**

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, 2019. 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 2019, Regional Water recorded a "increase in fair value of investments" of \$1,180,999 as part of investment income. The non-pooled portion is \$389,890 and the pooled portion is \$791,109. 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, 2019**

Note 2. Summary of Significant Accounting Policies (continued)

2. Receivables

The Receivables account presented on the Statement of Net Position consists of five accounts: Invoices, which is comprised of billable work for damages to infrastructure, such as a hydrant, main break repairs for other municipalities, the installation of a new water service or the inspection of antennas on water towers; Unbilled, which is comprised of work listed above, which is not completed and therefore not billed. Water Billings, which are for the sale and use of water and related billings; Miscellaneous; and the Allowance for Uncollectible Accounts.

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 2014 through 2018. 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.

(The remainder of this page is left blank intentionally.)

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2019**

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 issue, and are presented as an addition of the face amount of bonds payable.

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2019**

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 percent of their accumulated vacation pay when they terminate their employment. Some bargaining units have amounts paid to a Postemployment 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.

(The remainder of this page is left blank intentionally.)

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2019**

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 two items, deferred pension outflows and deferred other postemployment benefits outflows, that qualify for reporting in this category. These outflows arise only under the full accrual basis of accounting 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 two items, deferred pension inflows and deferred other postemployment benefit inflows, that qualifies for reporting in this category. These inflows arise only under the full accrual basis of accounting and, accordingly are reported only in the Statement of Net Position.

(The remainder of this page is left blank intentionally.)

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2019**

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, 2019**

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 2019, Regional Water is required to undergo a separate 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 2019. 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 on 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, 2019**

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, collateral, or an irrevocable letter of credit issued by Federal Home Loan Banks. 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, 2019, 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 \$1,091,018 (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, 2019, the total imprest funds were \$2,000. Regional Water also had departmental cash on hand of \$240,956.

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2019**

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 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. A portion of the Intermediate-Term Portfolio is managed internally, and the balance is managed by external managers.

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, 2019**

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; and

(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, 2019, is as follows:

<u>Rating Agency</u>	<u>Rating</u>	<u>Fair Value</u>
Moody's	Aaa	<u>\$25,817,870</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, 2019, 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, 2019**

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, 2019, 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, 2019, Regional Water had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>1 Year or Less</u>	<u>2 to 5 Years</u>	<u>6 to 10 Years</u>	<u>Greater Than 10 Years</u>
U.S. Agencies	\$25,817,870	\$4,984,600	\$2,990,610	\$9,881,500	\$7,961,160

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.

(The remainder of this page is left blank intentionally.)

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2019**

Note 4. A. Assets (continued)

At December 31, 2019, Regional Water had the following recurring fair value measurements.

	12/31/2019	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)
Investments by Fair Value Level				
Debt Securities				
U.S. Agencies	\$ 25,817,870	\$ -	\$ 25,817,870	\$ -

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	\$ 28,744,235
Investments	19,175,653
Departmental Cash	240,956
Imprest Funds	2,000
Restricted Cash, Cash Equivalents and Investments:	
Revenue Note Debt Service	3,242,745
Revenue Bond Debt Service	1,500,400
Revenue Bond Future Debt Service	4,743,145
Revenue Bond Operations and Maintenance	1,899,072
Total	<u>\$ 59,548,206</u>
Deposits	\$ 1,091,018
Investments	25,817,870
Regional Water's Portion of City Cash Pool	32,396,362
Departmental Cash	240,956
Imprest Funds	2,000
Total	<u>\$ 59,548,206</u>

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2019**

Note 4. A. Assets (continued)

2. Summary of Accounts Receivable

The receivables account presented on the Statement of Net Position consists of five accounts. The balance of those accounts as of December 31, 2019, is as follows:

Accounts Receivable - Invoices	\$ 197,547
Accounts Receivable - Water Billings	5,955,903
Accounts Receivable - Unbilled	181,218
Accounts Receivable - Miscellaneous	14,839
Allowance for Uncollectible Accounts	<u>(136,443)</u>
Accounts Receivable (net of Allowance for Estimated Uncollectible)	<u>\$ 6,213,064</u>

3. Summary of Changes in Capital Assets

A summary of changes in capital assets follows:

	01/01/2019	Additions	Deductions	12/31/2019
Capital Assets Not Being Depreciated:				
Land	\$ 4,061,766	\$ -	\$ -	\$ 4,061,766
Construction in Progress	19,181,083	19,341,878	(13,752,717)	24,770,244
Total Capital Assets Not Being Depreciated	<u>\$ 23,242,849</u>	<u>\$ 19,341,878</u>	<u>\$ (13,752,717)</u>	<u>\$ 28,832,010</u>
Capital Assets Being Depreciated:				
Buildings and Structures	\$ 57,603,238	\$ 2,461	\$ -	\$ 57,605,699
Public Improvements	404,449,314	11,919,786	(1,195,851)	415,173,249
Equipment	60,206,520	2,108,627	(1,389,750)	60,925,397
Total Capital Assets Being Depreciated	<u>\$ 522,259,072</u>	<u>\$ 14,030,874</u>	<u>\$ (2,585,601)</u>	<u>\$ 533,704,345</u>
Less Accumulated Depreciation for:				
Buildings and Structures	\$ (26,230,333)	\$ (1,240,010)	\$ -	\$ (27,470,343)
Public Improvements	(145,744,290)	(7,377,666)	1,187,492	(151,934,464)
Equipment	(35,299,746)	(1,978,672)	1,205,909	(36,072,509)
Total Accumulated Depreciation*	<u>\$ (207,274,369)</u>	<u>\$ (10,596,348)</u>	<u>\$ 2,393,401</u>	<u>\$ (215,477,316)</u>
Total Capital Assets Being Depreciated, Net	<u>\$ 314,984,703</u>	<u>\$ 3,434,526</u>	<u>\$ (192,200)</u>	<u>\$ 318,227,029</u>
Capital Assets, Net	<u>\$ 338,227,552</u>	<u>\$ 22,776,404</u>	<u>\$ (13,944,917)</u>	<u>\$ 347,059,039</u>

*Total Accumulated Depreciation is reduced by an allowance of \$683,865 for equipment used to construct capital assets; net depreciation reported is \$9,912,483 (\$10,596,348 - \$683,865).

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2019**

Note 4. Detail Notes (continued)

B. Liabilities

1. Debt Obligations of Regional Water

a. Current and Long-Term Debt Maturities

At December 31, 2019, long-term debt consisted of:

	Unpaid Balances December 31, 2019	Principal Less Current Maturities	Long-Term Maturities
Revenue Notes	\$ 26,752,033	\$ 2,784,000	\$ 23,968,033
Revenue Bonds	5,695,000	1,365,000	4,330,000
Compensated Absences	1,778,914	64,625	1,714,289
Claims and Judgments	7,285,810	2,168,499	5,117,311
Total	<u>\$ 41,511,757</u>	<u>\$ 6,382,124</u>	<u>\$ 35,129,633</u>

b. Changes in Debt Obligations

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

	01/01/19	Additions	Deductions	12/31/19
Revenue Notes	\$ 27,915,190	\$ 985,843	\$ 2,149,000	\$ 26,752,033
Revenue Bonds	7,900,000	-	2,205,000	5,695,000
Compensated Absences	1,752,487	991,721	965,294	1,778,914
Claims and Judgments	4,857,531	3,252,186	823,907	7,285,810
Total	<u>\$ 42,425,208</u>	<u>\$ 5,229,750</u>	<u>\$ 6,143,201</u>	<u>\$ 41,511,757</u>

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2019**

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 \$32,447,033 and interest of \$3,157,865 on all Regional Water debt outstanding as of December 31, 2019, are as follows:

<u>YEAR</u>	<u>2013A REVENUE BONDS</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$1,365,000	\$135,400	\$1,500,400
2021	\$1,400,000	\$108,100	\$1,508,100
2022	\$1,435,000	\$66,100	\$1,501,100
2023	\$745,000	\$37,400	\$782,400
2024	750,000	\$22,500	\$772,500
	<u>\$5,695,000</u>	<u>\$369,500</u>	<u>\$6,064,500</u>

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2019**

Note 4. B. Liabilities (continued)

YEAR	2010A DRINKING WATER REVENUE NOTE			2010B DRINKING WATER REVENUE NOTE			2014 DRINKING WATER REVENUE NOTE		
	<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>
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	\$480,000	\$55,533	\$535,533	\$1,875,000	\$215,055	\$2,090,055	\$110,000	\$14,651	\$124,651
2024	\$335,000	\$46,111	\$381,111	\$1,305,000	\$178,267	\$1,483,267	\$111,000	\$13,498	\$124,498
2025-29	\$1,705,000	\$123,080	\$1,828,080	\$6,570,000	\$475,196	\$7,045,196	\$573,000	\$49,801	\$622,801
2030-34	\$309,000	\$6,066	\$315,066	\$1,211,000	\$23,760	\$1,234,760	\$604,000	\$19,116	\$623,116
2035-36	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
	<u>\$3,914,000</u>	<u>\$436,749</u>	<u>\$4,350,749</u>	<u>\$15,181,000</u>	<u>\$1,690,674</u>	<u>\$16,871,674</u>	<u>\$1,722,000</u>	<u>\$147,831</u>	<u>\$1,869,831</u>

YEAR	2016 DRINKING WATER REVENUE NOTE			TOTAL REVENUE NOTES		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$362,000	\$61,309	\$423,309	\$2,784,000	\$454,039	\$3,238,039
2021	\$366,000	\$57,569	\$423,569	\$1,944,000	\$403,752	\$2,347,752
2022	\$370,000	\$53,789	\$423,789	\$1,999,000	\$369,996	\$2,368,996
2023	\$374,000	\$49,967	\$423,967	\$2,839,000	\$335,206	\$3,174,206
2024	\$378,000	\$46,103	\$424,103	\$2,129,000	\$283,979	\$2,412,979
2025-29	\$1,947,000	\$171,180	\$2,118,180	\$10,795,000	\$819,257	\$11,614,257
2030-34	\$1,816,530	\$69,691	\$1,886,221	\$3,940,530	\$118,633	\$4,059,163
2035-36	\$321,503	\$3,503	\$325,006	\$321,503	\$3,503	\$325,006
	<u>\$5,935,033</u>	<u>\$513,111</u>	<u>\$6,448,144</u>	<u>\$26,752,033</u>	<u>\$2,788,365</u>	<u>\$29,540,398</u>

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2019**

Note 4. B. Liabilities

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, 2019, was \$5,573,033.

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, 2019, the claims and judgments liability was \$7,285,810.

iii. Compensated Absences

Included in Regional Water's debt are compensated absences for \$1,778,914.

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	1.52%; 06/01; 12/01	03/18/13	12/01/24	<u>\$5,695,000</u>
Total				<u>\$5,695,000</u>

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2019**

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	\$ 3,914,000
Drinking Water Revenue Note	1.96%; 06/01; 12/01	07/13/10	12/01/30	15,181,000
Drinking Water Revenue Note	1.05%; 06/01; 12/01	06/19/14	12/01/34	1,722,000
Drinking Water Revenue Note	1.03%; 06/01; 12/01	11/28/16	12/01/36	<u>5,935,033</u>
Total				<u>\$26,752,033</u>

C. Due From Primary Government

At December 31, 2019, 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	\$86,634

D. Due To Primary Government

At December 31, 2019, 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	\$3,767,900

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2019**

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 (the General Employees 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 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. No Regional Water employees belong to either the Basic Plan or the Minneapolis Employees Retirement Fund. Information on the City Employee Pension Plan is contained in the City's Comprehensive Annual Financial Report for the Fiscal Year Ended December 31, 2019.

(The remainder of this page is left blank intentionally.)

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2019**

Note 5. A. Defined Benefit Pension Plan

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.

Beginning January 1, 2019, General Employees Plan benefit recipients will receive a post-retirement increase equal to 50 percent of the cost of living adjustment announced by the Social Security Administration, with a minimum increase of at least 1.00 percent and maximum of 1.50 percent. Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase will receive the full increase.

For recipients receiving the annuity or benefit for at least one month but less than a full year as of the June 30 before the effective date of the increase will receive a reduced prorated increase. For members retiring on January 1, 2024, or later, the increase will be delayed until normal retirement age (age 65 if hired prior to July 1, 1989, or age 66 for individuals hired on or after July 1, 1989). Members retiring under the Rule of 90 are exempt from the delay to normal retirement.

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.

Benefits are based on a member's highest average salary for any 60 consecutive months of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for 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 1.20 percent of average salary for each of the first ten years of service and 1.70 percent of average salary for each remaining year. Under Method 2, the annuity accrual rate is 1.70 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 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.

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2019**

Note 5. A. Defined Benefit Pension Plan

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 2019.

In 2019, Regional Water was required to contribute 7.50 percent of annual covered salary for General Employees Retirement Plan Coordinated Plan members. The employee and employer contribution rates did not change from the previous year.

Regional Water's contributions for the General Employees Plan for the year ended December 31, 2019, was \$1,268,599. The contributions are equal to the contractually required contributions as set by state statute.

(The remainder of this page is left blank intentionally.)

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2019**

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

Pension Costs

At December 31, 2019, Regional Water reported a liability of \$12,970,841 for its proportionate share of the General Employees Plan's net pension liability. The net pension liability was measured as of June 30, 2019, 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, 2018, through June 30, 2019, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2019, Regional Water's proportion was 0.2346 percent. It was 0.2389 percent measured as of June 30, 2018. Regional Water recognized pension expense of \$1,534,841 for its proportionate share of the General Employees Plan's pension expense.

Regional Water also recognized \$30,191 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 Plan, which qualifies as a special funding situation. Legislation requires the State of Minnesota to contribute \$16 million to the General Employees Plan annually.

Regional Water's proportionate share of the net pension liability	\$ 12,970,841
State of Minnesota's proportionate share of the net pension liability associated with Regional Water	<u>403,136</u>
Total	<u><u>\$ 13,373,977</u></u>

Regional Water reported its proportionate share of the General Employees Plan'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	\$ 364,739	\$ -
Changes in actuarial assumptions	-	1,040,626
Difference between projected and actual investment earnings	-	1,350,106
Changes in proportion	16,373	273,059
Contributions paid to PERA subsequent to the measurement date	640,636	-
	<u>\$ 1,021,748</u>	<u>\$ 2,663,791</u>

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2019**

Note 5. A. Defined Benefit Pension Plan

Pension Costs (continued)

The \$640,636 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, 2020. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31	Pension Expense Amount
2020	(\$801,063)
2021	(\$1,178,074)
2022	(\$324,444)
2023	\$20,902

Actuarial Assumptions

The total pension liability in the June 30, 2019, 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 per year

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 are assumed to be 1.25 percent.

Actuarial assumptions used in the June 30, 2019, valuation were based on the results of actuarial experience studies. The most recent six-year experience study in the General Employees Plan was dated June 30, 2015. Inflation and investment assumptions were reviewed in the experience study report for the General Employees Plan dated June 27, 2019.

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2019**

Note 5. A. Defined Benefit Pension Plan

Actuarial Assumptions (continued)

The long-term expected rate of return on pension plan investments is 7.50 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 equity	35.50%	5.10%
International equity	17.50%	5.30%
Fixed income	20.00%	0.75%
Private markets	25.00%	5.90%
Cash equivalents	2.00%	0.00%

Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent in 2019, which remained consistent with 2018. 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 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.

(The remainder of this page is left blank intentionally.)

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2019**

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

Changes in Actuarial Assumptions

The following changes in actuarial assumptions occurred in 2019:

- The morality projection (MP) scale was changed from MP-2017 to MP-2018.

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 one percentage point lower or one percentage point higher than the current discount rate:

	1% Decrease in Discount Rate (6.50%)	Current Discount Rate (7.50%)	1% Increase in Discount Rate (8.50%)
Proportionate share of the General Employees Retirement Plan net pension liability	\$ 21,323,364	\$ 12,970,841	\$ 6,074,173

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, 2019**

Note 5. B. Postemployment Benefits Other than Pensions

Plan Description

In addition to 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 cost-sharing multiple employer defined benefit plan. The authority to provide these benefits is established in Minnesota Statutes Section 471.61, Subd. 2a. The benefit levels, employee 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. 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

Regional Water provides postemployment health care and life insurance benefits to its retirees. To be eligible for benefits, an employee must be collecting a state retirement pension and have been employed by the City for a minimum of 20 years. This coverage may also extend to the retiree's family. Benefits include general inpatient and outpatient medical services; mental and substance abuse care; vision care; preventative dental; and prescriptions.

Life insurance in the amount of \$5,000 to \$20,000 is provided to some retirees under age 65 (early retirees), depending upon collective bargaining agreements. A few over age 65 retirees have varying amounts of life insurance that had been continued due to disability.

The majority of employee 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	\$250 per month	100%
Employees hired before January 1, 1996 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, 2019**

Note 5. B. Postemployment Benefits Other than Pensions

Benefits Provided (continued)

Life Insurance Benefit

Retirees are eligible to continue on the City's life insurance program until age 65 in amounts that range from \$5,000 - \$20,000.

No assets have been accumulated in a trust that meets the criteria in paragraph four of GASB 75. The OPEB plan does not issue a stand-alone financial report.

Employees Covered by Benefit Terms

As of the December 31, 2018 valuation date, the employees covered by the benefit terms consisted of:

Active employees electing coverage	221
Active employees waiving coverage	3
Retired employees electing coverage	<u>148</u>
Total	<u>372</u>

Total OPEB Liability

Regional Water's total OPEB liability of \$14,563,494 was measured as of December 31, 2018. Regional Water has elected to use the GASB 75 "lookback" method where liabilities are measured as of the prior fiscal year-end, but applied to the current fiscal year. The valuation, measurement, and reporting dates are:

a. Valuation date (census)	December 31, 2018
b. Measurement date (assets and liabilities)	December 31, 2018
c. Measurement period	January 1 to December 31, 2018
d. Reporting date (fiscal year end)	December 31, 2019

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2019**

Note 5. B. Postemployment Benefits Other than Pensions

Total OPEB Liability (continued)

The total OPEB liability in the fiscal year-end December 31, 2019, actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement unless otherwise specified:

Discount rate	The current discount rate is 3.71 percent. The discount rate was selected from an index rate for 20-year, tax-exempt municipal bonds. (Fidelity 20-year Municipal GO AA Index)
Inflation rate	2.50 percent
Mortality	
General Employees	From the July 1, 2019 PERA of Minnesota General Employees Retirement Plan actuarial valuation, mortality rates were based on the RP-2014 mortality tables with projected mortality improvements based on scale MP-2018, and other adjustments.
Police and Fire	From the July 1, 2019 PERA of Minnesota Public Employees Police and Fire Retirement Plan actuarial valuation, mortality rates were based on the RP-2014 mortality tables with projected mortality improvements based on scale MP-2018, and other adjustments.
Health care cost trend rate	The health care cost trend rate is 6.4% for FY2019, gradually decreasing over several decades to an ultimate rate of 4.0% in FY2075 and later years.
Actuarial Cost Method	Entry Age Normal level percent of pay.

(The remainder of this page is left blank intentionally.)

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2019**

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

Changes in the Total OPEB Liability

The actuarial assumptions are currently based on a combination of historical data and the most recent actuarial valuation for OPEB as of December 31, 2019:

	<u>Total OPEB Liability</u>
OPEB Liability, January 1, 2019	<u>\$ 14,232,779</u>
Changes for the year:	
Service cost	\$ 315,981
Interest	439,894
Differences between expected and actual experience	1,404,413
Changes in assumptions	(254,483)
Benefit payments	(632,548)
Change in proportion	(942,542)
Net change	<u>\$ 330,715</u>
Balance at December 31, 2019	<u><u>\$ 14,563,494</u></u>

(The remainder of this page is left blank intentionally.)

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2019**

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

OPEB Liability Sensitivity

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

	<u>Discount Rate</u>	<u>Total OPEB Liability</u>
1% Decrease	2.71%	\$16,307,631
Current	3.71%	\$14,563,494
1% Increase	4.71%	\$13,092,179

The following presents the total OPEB liability of Regional Water, calculated using the health care cost trend previously disclosed, as well as what Regional Water's total OPEB liability would be if it were calculated using health care cost trend rates that are 1.0 percentage point lower or 1.0 percentage point higher than the current health care cost trend rate:

	<u>Health Care Trend Rate</u>	<u>Total OPEB Liability</u>
1% Decrease	5.4%	\$13,725,253
Current	6.4%	\$14,563,494
1% Increase	7.4%	\$15,439,794

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

For the year ended December 31, 2019, Regional Water recognized OPEB expense of \$500,569. Regional Water reported deferred outflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual liability	\$ 1,183,940	\$ -
Changes in actuarial assumptions	525,191	214,533
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	839,623
Contributions subsequent to the measurement date	607,460	-
Total	<u>\$ 2,316,591</u>	<u>\$ 1,054,156</u>

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2019**

Note 5. B. Postemployment Benefits Other than Pensions

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (continued)

The remaining amounts reported as deferred outflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year Ended December 31</u>	<u>OPEB Expense Amount</u>
2020	\$144,881
2021	144,881
2022	144,881
2023	144,881
2024	106,562
Thereafter	<u>(31,111)</u>
Total	<u>\$654,975</u>

Changes in Actuarial Assumptions

The following changes in actuarial assumptions occurred in 2019:

- The discount rate was changed from 3.31 percent to 3.71 percent based on 20-year municipal bond rates.
- Healthcare trend rates were reset to reflect updated cost increase expectations, including the repeal of the Affordable Care Act's Excise Tax on high-cost health insurance plans.
- Medical per capita claims costs were updated to reflect recent experience.
- Withdrawal, retirement, mortality, and salary increase rates were updated from the rates used in the 7/1/2016 PERA General Employees Retirement Plan and 7/1/2016 PERA Public Employees Police & Fire Plan valuations to the rates used in the 7/1/2019 valuations.
- The percent of future Medicare eligible retirees electing each medical plan changed to reflect recent plan experience and new plan offerings. (Health Partners Retiree National Choice Plan at 90% and Journey Plan at 10%).
- The inflation assumption was changed from 2.75 percent to 2.50 percent based on updated historical analysis of inflation rates and forward-looking market expectations.

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2019**

Note 5. Other Information (continued)

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 2018 and 2019:

	<u>Year Ended</u> <u>12/31/2018</u>	<u>Year Ended</u> <u>12/31/2019</u>
Beginning fiscal year liability	\$4,930,321	\$4,857,531
Current year claims and changes in estimates	987,759	3,252,186
Claim payments	<u>(1,060,549)</u>	<u>(823,907)</u>
End of year liability	<u>\$4,857,531</u>	<u>\$7,285,810</u>

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.

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2019**

Note 5. Other Information (continued)

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. The current agreement is effective through 2020. Regional Water was not assessed \$2,791 for the year 2019. 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 not assessed \$10,000 for the year 2019, the group determined the cash balance was adequate to cover costs. 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.

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 final cost for these improvements was \$29,992 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.

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2019**

F. Subsequent Event

Covid-19

In March of 2020, much of the world was experiencing the effects of the COVID-19 pandemic. Saint Paul Regional Water Services (SPRWS) was also affected as measures were taken to slow the spread of the coronavirus. Water shut-offs for inability to pay were suspended, emergency management procedures were put in place, SPRWS facilities were closed to the public and nearly one third of our employees began to work from home. It was anticipated that 2020 revenues would be reduced due to a reduction in water consumption and an increase in past due account balances. Accordingly, spending controls were put into place and some revenue funded capital investment projects were placed on hold until the magnitude of the revenue shortfalls become clear. We will continue to closely monitor our revenue and spending as the economic impacts of this pandemic play out. We will continue to produce high quality water and services to our customers through the COVID-19 event.

(The remainder of this page is left blank intentionally.)

REQUIRED SUPPLEMENTARY INFORMATION

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
REQUIRED SUPPLEMENTARY INFORMATION
For the Fiscal Year Ended December 31, 2019**

Schedule 1

Schedule of Proportionate Share of Net Pension Liability PERA General Employees Retirement Plan ⁽¹⁾ Last Ten Years ⁽²⁾						
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)	State's Proportionate Share of the Net Pension Liability Associated with Regional Water	Employer's Proportionate Share of Net Pension Liability and State's Related Share of the Net Pension Liability (Asset)	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
	(a)	(b)	(a + b)	(c)		
June 30, 2015	0.2403%	\$12,451,952	NA	\$12,451,952	88.15%	78.19%
June 30, 2016	0.2410%	\$19,343,663	\$255,613	\$19,599,276	129.46%	68.91%
June 30, 2017	0.2419%	\$15,439,693	\$194,141	\$15,633,834	99.17%	75.90%
June 30, 2018	0.2389%	\$13,254,123	\$434,744	\$13,688,867	82.53%	79.53%
June 30, 2019	0.2346%	\$12,970,841	\$403,136	\$13,373,977	78.13%	80.20%

⁽¹⁾ For information regarding the pension plan see Note 5.A. on pages 37 - 43.

⁽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, 2019**

Schedule 2

Schedule of Pension Contributions PERA General Employees Retirement Plan ⁽¹⁾ Last Ten Years ⁽²⁾				
Fiscal Year Ending	Statutorily Required Contribution (a)	Actual Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (b-a)	Covered Payroll ⁽³⁾ (c)

	Statutorily Required Contribution (a)	Actual Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (b-a)	Covered Payroll ⁽³⁾ (c)	Actual Contributions as a Percentage of Covered Payroll (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%
December 31, 2018	\$1,219,883	\$1,219,883	\$0	\$16,265,107	7.50%
December 31, 2019	\$1,268,599	\$1,268,599	\$0	\$16,914,659	7.50%

⁽¹⁾For information regarding the pension plan see Note 5.A. on pages 37 - 43.

⁽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, 2019**

Schedule 3

**Schedule of Changes in Total Other Postemployment Benefit Liability and Related Ratios ⁽¹⁾
Last Ten Years ⁽²⁾**

	<u>2019</u>	<u>2018</u>
Total OPEB Liability		
Service Cost	\$ 315,981	\$ 286,706
Interest	439,894	505,484
Difference between expected & actual experience	1,404,413	-
Change in actuarial assumptions	(254,483)	808,838
Benefit payments	(632,548)	-
Change in Proportion	(942,542)	(687,667)
Net Change in Total OPEB Liability	<u>\$330,715</u>	<u>\$908,361</u>
Total OPEB Liability-Beginning	\$ 14,232,779	\$ 13,324,418
Total OPEB Liability-Ending	<u>\$ 14,563,494</u>	<u>\$ 14,232,779</u>
Covered Payroll ⁽³⁾	\$ 15,597,740	\$ 12,836,507
Total OPEB liability as a percentage of covered employee payroll	93.37%	110.88%

(1) For information regarding the plan see Note 5.B. on pages 44 - 49.

(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 "OPEB eligible payroll".

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

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
For Fiscal Year Ended December 31, 2019**

Note 1. Defined Benefit Pension Plan

A. 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

2019

- The mortality projection scale was changed from MP-2017 to MP-2018.

2018

- The mortality projection (MP) scale was changed from MP-2015 to MP-2017.
- The assumed benefit increase was changed from 1.00 percent per year through 2044 and 2.50 percent per year thereafter, to 1.25 percent per year.
- The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024.
- Interest credited on member contributions decreased from 4.00 percent to 3.00 percent, beginning July 1, 2018.
- Deferred augmentation was changed to 0.00 percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Contribution stabilizer provisions were repealed.
- Post-retirement benefit increases were changed from 1.00 percent per year with a provision to increase to 2.50 percent upon attainment of 90 percent funding to 50 percent of the Social Security cost of living adjustment, not less than 1.00 percent and not more than 1.50 percent, beginning January 1, 2019.
- For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches normal retirement age; does not apply to the Rule of 90 retirees, disability benefit recipients, or survivors.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
For Fiscal Year Ended December 31, 2019**

Note 1. Defined Benefit Pension Plan (continued)

General Employees Retirement Plan (continued)

2017

- The Combined Service Annuity (CSA) loads were changed from 0.80 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 0.00 percent for active member liability, 15 percent for vested deferred member liability, and 3.00 percent for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year for all years to 1.00 percent per year through 2044 and 2.50 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.

SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
For Fiscal Year Ended December 31, 2019

Note 2. Other Postemployment Benefits Plan

In 2018, Regional Water implemented Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. See Note 5.B. in the notes to the financial statements for additional information regarding Regional Water's other postemployment benefits.

A. Employer Contributions to Postemployment Benefits Plan

Assets have not been accumulated in a trust that meets the criteria in paragraph four of the Governmental Accounting Standard Board (GASB) Statement No. 75 to pay related benefits.

B. Changes Affecting the Total Other Postemployment Benefits Liability

The following changes in the actuarial assumptions occurred:

2019

- The discount rate was changed from 3.31 percent to 3.71 percent based on 20-year municipal bond rates.
- Healthcare trend rates were reset to reflect updated cost increase expectations, including the repeal of the Affordable Care Act's Excise Tax on high-cost health insurance plans.
- Medical per capita claims costs were updated to reflect recent experience.
- Withdrawal, retirement, mortality, and salary increase rates were updated from the rates used in the 7/1/2016 PERA General Employees Retirement Plan and 7/1/2016 PERA Public Employees Police & Fire Plan valuations to the rates used in the 7/1/2019 valuations.
- The percent of future Medicare eligible retirees electing each medical plan changed to reflect recent plan experience and new plan offerings. (Health Partners Retiree National Choice Plan at 90% and Journey Plan at 10%).
- The inflation assumption was changed from 2.75 percent to 2.50 percent based on updated historical analysis of inflation rates and forward-looking market expectations.

SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
For Fiscal Year Ended December 31, 2019

Note 2. Other Postemployment Benefits Plan (continued)

2018

- The discount rate used changed from 3.81 percent to 3.31 percent.
- Regional Water has elected to use the GASB 75 “lookback” method where assets and liabilities are measured as of the prior fiscal year end but applied to the current fiscal year.
- The amortization method changed from amortizing the entire Unfunded Actuarial Accrued Liability as a level dollar amount over a 30-year open period to straight-line amortization over a closed 5-year period for Investment Gains and Losses and over a closed period equal to the average of the expected remaining service lives of all members that are provided with OPEB through the plan.
- Regional Water is considered a cost-sharing multiple employer plan under GASB 75 rules. GASB 75 mandated that the plan’s costs are calculated for the entire plan and then allocated proportionately to each participating employer (City of Saint Paul and Regional Water).

(The remainder of this page left blank intentionally)

This page left blank intentionally.

SUPPLEMENTARY INFORMATION

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended December 31, 2019**

Schedule 4

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>\$1,515,234</u>
Totals by Cluster Total expenditures for Drinking Water State Revolving Fund Cluster			\$1,515,234

Regional Water did not pass any federal awards through to subrecipients for the year ended December 31, 2019.

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

(The remainder of this page left blank intentionally)

SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended December 31, 2019

Note 1. Summary of Significant Accounting Policies

A. 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.

B. 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, 2019. 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.

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.

Note 2. De Minimis Cost Rate

Regional Water has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

Note 3. Reconciliation of Schedule of Expenditures of Federal Awards to Actual Reimbursements

Regional Water had expenditures under one federal award in 2019. 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, 2019, totaled \$1,515,234. Reimbursements during fiscal year 2019 totaled \$985,843; \$18,820 was for 2018 expenditures, and the remaining \$967,023 was for 2019 expenditures.