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, 2014
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INTRODUCTORY SECTION
November 24, 2015

TO: BOARD OF WATER COMMISSIONERS
    Matt Anfang, President
    Amy Brendmoen, Vice President
    Commissioner Mara Humphrey
    Commissioner David Meisinger
    Commissioner Will Rossbach
    Commissioner Russ Stark
    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, 2014. 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

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. In 2014, Regional Water reassigned and merged some of the Business Division’s functional units. The Business Division includes the four business sections of Customer Service and Billing, Meter Operations, Financial Services, and Information Services.

In 2014, the utility’s internal consulting group, the Business Improvement Unit (BIU), which was previously part of the Business Division, was assigned to the office of the General Manager. The BIU brings a broad, prioritized, utility-wide, unbiased view to defining and approaching projects, seeking solutions for all areas of the organization. The unit goal is to analyze, recommend, and exploit business improvement opportunities in support of the utility’s mission.

Also in 2014, Regional Water merged the Billing Section with the Customer Service Section. The utility observed a reduction in the billing workload as a result of replacing all the water meters with the radio meter reading system, which was completed in 2013 and with the functionality of the Customer Information and Billing System. This brought about the ability to combine billing and customer service into one unit. The combined unit was able to advance customer service by bringing a broader understanding and direct knowledge of billing to the representatives who routinely speak with customers primarily about billing, payment and other customer account issues. The employees were cross-trained in both billing and call center work. The cooperation, professionalism and fine effort each employee made to become proficient and expert in the merged customer service duties is acknowledged and appreciated by Regional Water’s management. The merged organizational structure resulted in a staff reduction of two full-time employees.

The Customer Service Call Center received 162,498 calls in 2014, a slight drop from 166,872 in 2013. About 79,619 calls (or 49%) were handled by call center staff and 82,879, by the self-serve Interactive Voice Response unit (IVR). The IVR provides customers a self-service choice of making a payment; reviewing meter reading, billing or payment history; account balances, or obtain general information about directions, moving, leaks, or service disruption. The abandoned call percentage was under 1%, substantially lower than our goal of less than 2%. Our IVR offers menu options and responses in both English and Spanish; approximately 1,650 callers took advantage of the Spanish language alternative.

We continued to increase the number of registered users of our on-line bill presentment and payment site, Infinity Link. This Customer Information and Billing System (CIS) module provides customers a self-service choice of viewing their personal account and paying their bill on-line and also provides interested customers the option of receiving an electronic bill (e-Bill) rather than a paper copy bill. By the end of 2014, we had 21,720 registered users. Throughout the year, water billings continued to meet schedules.

In 2014, Meter Operations implemented a new business process focused on Regional Water’s goal of capturing actual readings for use in billing. It is our goal to repair defective radio meters upon the first estimated reading. This effort requires cooperation from customers in giving Regional Water access to repair or replace defective meter components.
HIGHLIGHTS IN SUMMARY (continued)

We produced several external publications, including *Customer Service Connections*, a quarterly newsletter for customers, and the annual *Water Quality Report*. The *Water Quality Report* was made available on the website in accordance with Minnesota Department of Health requirements. We updated the 10-year-old publication, *Beyond the Faucet*, which provides an overview of the history of the water utility while detailing the major improvements that took place over the past decade. We also completed the 2013 *Annual Report*. Internally, we continued to provide employees with communication updates by featuring timely articles in our bi-weekly employee newsletter, the *Pipeline Express*.

It was another exciting and challenging year for our Financial Services Unit. Staff worked to become proficient with the new Enterprise Resource Planning (ERP) system, INFOR which went live January 1, 2014. The new ERP system integrates budget, purchasing, accounts payable, accounts receivable (for non-water billings), project accounting, grant reporting, fixed assets, general ledger, financial reporting, human resources, and payroll. The human resources and payroll modules will be implemented with the first payroll in 2015. While faced with many challenges, typical of implementing a new system, Regional Water is proud of its Financial Services staff and their fine work in successfully navigating the INFOR system so as to compile and provide information necessary to manage its financial position. Once again our Financial Services Unit was recognized by the state auditor for its outstanding and timely work preparing the 2013 annual financial report for audit. There have been extensive delays in completing the 2014 annual financial report for audit greatly due to delays in receiving critical information from the City of Saint Paul. Delays were much greater than anticipated and plans have been made to avoid a repeat occurrence in 2015.

In May 2014 the City of Saint Paul implemented a new Time, Attendance and Scheduling System (TASS). The system provides punch-in functionality which tracks the start and stop times as well as the titles employees work. This system provides a robust, rule-based processing feature that incorporates the language from the various bargaining contracts and the Federal Labor Standards Act (FLSA). The hours and titles worked are then uploaded into the legacy payroll system which computes and processes the payroll. Payroll functions that were once performed at the department level were to be transferred to the City of Saint Paul’s central payroll department. The TASS crew timesheet functionality has not met the needs of the organization and consequently we are required to do dual entry into the TASS system and our Computerized Maintenance Management System (CMMS), to reconcile the two systems, and reallocate payroll charges to the functional accounts in the general ledger.

Regional Water’s internal consulting group, the Business Improvement Unit (BIU), provides innovative solutions for all areas of the organization. The unit goal is to analyze, recommend and exploit business improvement opportunities in support of the utility’s mission. In 2014 the group analyzed the workflow and facilitated the training and implementation of the Time Attendance and Scheduling Software (TASS). This system tracks the start and stop times as well as the titles employees work. This information is then uploaded into the payroll system which computes and processing the payroll.

Technology plays an increasingly important role at Regional Water. Our Information Services Section provides technological support and expertise to virtually all areas of the utility. Staff has succeeded in making the systems available 99.9% of the time for things within their control.
HIGHLIGHTS IN SUMMARY (continued)

Information Services staff helped facilitate operating the dual timekeeping systems of TASS and CMMS and coordinated consulting work to optimize and facilitate the reconciliation between the two systems. During 2014, the Information Services Unit upgraded our Geospatial Information System (GIS) platform and implemented a new version of Documentum, our Document Management System (DMS). We continued to enhance our Storage Area Network (SAN) and our Virtual Server Environment (VSE). We served as beta testers for CIS version 4 while operating CIS version 3 and Infinity Link.

Business Division - Future Operations

Regional Water tentatively plans to go-live with version 4 of CIS Infinity in 2015. There may be a slight decline in efficiency near go-live as staff becomes proficient with this new software version. Overall the new version offers more functionality, flexibility, and increased overall reliability. A new version of CMMS is scheduled to become available in fall 2015. We do not anticipate go-live with this new system before third quarter 2016. In 2015, we look forward to TASS/CMMS enhancements to eliminate dual entry of time records, while continuing to have complete and accurate costing information in CMMS. We anticipate becoming more proficient with the INFOR ERP system and to develop better reporting capabilities. We will continue to examine workflow processes throughout the utility, looking for improved efficiency and enhanced delivery of services.

Distribution Division

Work in the Distribution Division includes the operation, maintenance and capital construction on the water mains, services, hydrants, and related underground piping infrastructure which conveys water to our customers. Fleet management and warehouse operations are also included within the division.

Water Distribution Capital Program - We continue to replace and upgrade an aging infrastructure of unlined cast iron water mains, hydrants and lead water services. Much of the water main replacement was accomplished in coordination with street reconstruction projects. This year a total of 9.7 miles of our 1,200 miles of water main were replaced.

In areas of water main replacement, temporary water mains are installed in order to serve customers while the existing water main is being replaced. For every mile of water main replaced, three to four times the amount of temporary service piping needs to be set up and again taken down when construction is completed. This requires significant coordination of efforts and it also provided a customer service opportunity that was generally well received by our customers.

In addition to water main construction, 171 lead water services were replaced last year. These replacements were done in coordination with street reconstruction projects also in those areas throughout the service area where property owners have previously replaced their portion of the lead service in private property and where old services were leaking and required replacement.
179 of the 9,500 system hydrants were replaced during the year. We continued to install Storz connections on hydrant nozzles with newly installed hydrants. A Storz connection is a quick connecting coupling that accommodates fire hoses.

**Water Distribution System Maintenance** - We perform both preventative and emergency maintenance on the water distribution system. Preventive maintenance of the system is needed to ensure adequate reliability and improve distribution system water quality. Preventive maintenance work includes hydrant inspection, Uni-Directional Flushing (UDF), and valve exercising. 7,171 public fire hydrants in the system were inspected during the year. This involves the operation of hydrants and performing minor repair work as necessary. Improved field automation was done to collect this information while performing inspections.

We perform 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. We repaired 156 main breaks within our service area and 34 repairs in communities outside our service area. The distribution maintenance crews thawed out approximately 800 frozen water services during February and March 2014. This was due to the extreme cold weather that caused the frost to go deeper than usual. We would typically see between zero and ten frozen services in a normal winter season.

**Distribution Division – Future Operations**

In 2015, continued emphasis will be placed on water main replacement in street reconstruction project areas and our hydrant inspection program. We plan to increase the emphasis on our valve maintenance program and UDF. Our infrastructure funding for 2015 will allow for 9.9 miles of main replacement in project areas.

**Engineering Division**

The Engineering Division is comprised of the following five sections: Project Engineering, Agreements, Maps and Records, Plumbing Inspection, and Damage Prevention. The division provides for the planning and inspections for the utility and its customers. In 2014 the Safety section was reassigned to the office of the General Manager.

In 2014 the Engineering Division embarked on a significant project that will help define the future operations of the utility. A Master Plan was developed through the work of our engineering consultants and provides a roadmap of needed capital improvements and financing needs over the next 40 years in the distribution and production areas. This plan outlines a replacement program for our distribution system as well as providing a detailed look at each and every water main in our system, categorizing mains for replacement and for our production system it looks at the water supply, treatment and pumping infrastructure.
Significant progress on a number of large projects was made in 2014 that will serve Regional Water and its customers well into the future. Some of these projects include:

**Distribution Pipe Replacement** - Regional Water continues to work on replacement of small diameter cast iron water mains and coordinating these replacements with street restoration projects. In 2014 we replaced 9.7 miles of water main. We are also expanding replacement outside of project areas using trenchless technologies, having two projects completed in 2014 with pipe bursting.

**Well Field Development** - Testing was completed on our well field expansion. The results of the pump test concluded that “... all ten of the wells were able to operate for a period of at least two weeks, providing 45 MGD of water supply, without experiencing adverse well interference issues. This demonstrated the ability of the well field to serve as a viable emergency water supply source...” The well field can supply our average daily flow and acts as an alternate raw water feed to the filtration plant.

**Power Generation Improvements** - Various electrical improvements were made to our distribution pumping stations in an effort to standardize mobile generator connections, improve power outage response time efficiency, and provide more reliable back-up power. A new stationary generator was installed at our West Side Pump Station. At our Highland Park complex, a system was installed that allows us to provide temporary back-up power to both pump stations at once using a single mobile generator.

**Plant Heating** - A new heating system was completed for the water treatment plant, replacing a much antiquated system.

**Filter Press** - Work began on adding a new filter press which will add capacity to treat our waste sludge generated through the water treatment process.

**Fridley Pump** - A new pump was installed to replace an old pump at our Mississippi River Pump Station in Fridley.

The Engineering Division continues with industry leading advancement by leveraging electronic applications and effectively utilizing enhancements to best serve our asset management program and provide greater capabilities for our field crews and customers. Advancements continue to be made in our maps and records unit. Our Geospatial Information System (GIS), is not simply functional, but provides numerous improvements over the old record keeping system.

**Engineering Division – Future Operations**

Much of the work in the Engineering Division involves planning work in order to make improvements throughout the utility. An additional $2.8M was added to our existing water main capital improvement program of $5.2M in 2015. This significant increase will help improve our aging buried infrastructure, but will also bring certain challenges of increased workload and work planning and prioritization.
HIGHLIGHTS IN SUMMARY (continued)

In 2015, funds are allocated for a new water tower in the City of West Saint Paul. We currently have one tank with a volume of 500,000 gallons in this service area, and more storage is needed to improve our reliability to our customers there. We are working with the City of West Saint Paul to select a suitable site.

A project which was highlighted in the 2014 Master Plan included the replacement of the main treatment plant electrical switchgear. Money was allocated in 2015 to begin design work for this replacement. In addition, we will be performing additional condition assessment work for the foundation systems in the treatment plant.

Production Division

Winter precipitation in 2013-2014 was above average in east-central Minnesota and subsequently produced a healthy snowpack. When spring finally arrived it brought above average precipitation, which continued into summer and culminated with an all-time high amount of 11.57 inches of precipitation in June for Ramsey County. Consequently river levels were high but customer demands for water were low through the summer months. Our annual daily average for water pumped was 41.3 Million Gallons per Day (MGD). This continues the trend of declining water use by our customers, and is the second lowest daily average since 1962.

We had another excellent year of water quality. The McCarron’s Treatment Plant was given the Partnership for Safe Water’s Presidents Award in 2014. 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 12 complaints of taste or odor being logged into the Customer Information System for the year.

Chemical costs were up slightly in 2014. The chemical cost increases are mainly attributed to increased oxygen use at Pleasant Lake along with a slight increase in lime use at the treatment plant. Electrical costs were very similar to the previous year (2.8 % less) when normalized for gallons pumped.

A number of improvements were made in 2014. Electrical tap boxes were installed at all remote pump stations to better facilitate rapid hook-up of our portable generators during power outages. A fixed generator was installed at the State Street Pump Station to power that station during electrical outages. A fourth solids dewatering press was installed to increase flexibility and redundancy to the waste removal process. Improvements to the electric supply and control systems were also made to the dewatering process. A Master Plan was developed to identify major capital improvements to the plant and supply system over the next 40 years. A request for proposals was issued, and a firm selected, for preliminary design of new electric transformers and main electrical switchgear at the McCarron’s treatment plant to replace existing transformers and switchgear that are outdated and ranked as a high priority in the 2014 Master Plan.

A one year contract with Viking Security for facility security expired, and it was decided we should pursue other options for security. We are currently using our own employees to provide security.
HIGHLIGHTS IN SUMMARY (continued)

Production Division – Future Operations

Repairs to the 90-inch valve at the east Vadnais intake chamber commenced in 2014, but repairs are still not final. The screen rails and screens were replaced. We plan to enter the chamber again in winter 2015-2016 to proceed with repairs to the valve. Zebra mussels continue to be a concern for the supply conduits to our plant. The mussels have migrated further downstream each year in the Vadnais conduits. We hope to purchase and evaluate a chemical deterrent in 2015.

The replacement of the electric transformers and switchgear at McCarron’s will be an ongoing project over the next several years. This is a large project in terms of scope and budget. It is also a complex project due to the need of un-interrupted electrical power during the replacement of the old equipment.

Replacement of a portion of our filter media will be necessary in the near future, hopefully in 2015. We have lost a small amount of media since it was installed in 2006. This loss is mainly through attrition of small filter particles over time. Our filter media is an integral part of producing high quality water for our customers. We also hope to move forward with replacement of our control systems in the filter area. Some of the control systems installed in 1994 are outdated and are no longer repairable when they fail.

We were not able to roll out our Supervisory Control and Data Acquisition (SCADA) software yet. The software has been purchased, but configuration still needs to be completed. We have hired a new employee who should help facilitate the configuration.

A regional issue will very likely involve us to a great extent. The water levels in White Bear Lake have declined over the past ten years, and the lake is near an all-time low level. Studies indicate that increased ground water usage in the area is a major contributing factor. The Met Council is trying to move communities in the northeast metro toward surface water supplies (all the communities not on our system are on ground water). This will involve us either supplying the communities finished water through our McCarron’s plant, or raw water to supply a new treatment plant that would serve all or part of the northeast metro. Direct augmentation of the lake, using water from our chain of lakes, is also likely. This would have an immediate impact on lake levels, and it appears to be feasible from our viewpoint on an appropriation and capacity basis. There is still much work to be done, and it will be a while before a course of action is determined and funding is secured.

INDEPENDENT AUDIT

State law requires the State Auditor to perform an annual audit of the books of account, financial records, and transactions. This requirement has been met, and the State Auditor’s report has been included in this report.
MANAGEMENT AND COMPLIANCE REPORT

The State Auditor will 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. The State Auditor’s audit was also designed to meet the requirements of the Federal Single Audit Act and the related U.S. Office of Management and Budget’s Circular A-133. 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,

[Signatures]

Stephen P. Schneider                              Ruth E. O’Brien
General Manager                                  Financial Services Manager
SAINT PAUL BOARD OF WATER COMMISSIONERS

BOARD MEMBERS and MANAGER TERMS OF OFFICE

As of December 31, 2014

PUBLIC MEMBERS

Matt Anfang, President                Term Expires
                                           June 30, 2016
Mara Humphrey, Commissioner            June 30, 2016

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

CITY COUNCIL MEMBERS

Amy Brendmoen, Vice President          December 31, 2015
Kathy Lantry, Commissioner             December 31, 2015
Chris Tolbert, Commissioner            December 31, 2015

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

SUBURBAN MEMBERS

Will Rossbach, Commissioner             December 31, 2015
John Zanmiller, Commissioner            December 31, 2015

The Suburban Members are appointed by the suburban City Councils. The two Suburban Members shall be resident citizens of a suburb served by the Board’s water system. The Suburban Members will be appointed to terms of two years by the suburban City Councils.

GENERAL MANAGER

Stephen P. Schneider appointed December 2003.
FINANCIAL SECTION
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, 2014, 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 of 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, 2014, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

**Required Supplementary Information**

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

**Supplementary and Other Information**

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

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.
The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated November 24, 2015, on our consideration of the Saint Paul Regional Water Services’ internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Saint Paul Regional Water Services’ internal control over financial reporting and compliance.

REBECCA OTTO  
STATE AUDITOR

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

November 24, 2015
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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, 2014. This information should be read in conjunction with the financial statements.

Financial Highlights

- The assets of Regional Water exceeded its liabilities at the close of the most recent fiscal year by $257,675,280 (Net Position). Of this amount, $10,634,947 (unrestricted) may be used to meet the utility’s ongoing obligations.

- Regional Water’s total net position increased by $9,357,902.

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 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, liabilities, 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, contingencies, and subsequent events.

This report contains certain required supplementary information in accordance with the requirements of Governmental Accounting Standards Board (GASB) Statement No. 45, “Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions.” This required supplementary information includes other postemployment benefit plan information - a Schedule of Funding Progress, and a Schedule of Employer Contributions. 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.

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 general obligation 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 $9.36 million to $257.68 million in 2014, up from $248.32 million in 2013. The increase in total net position was primarily due to the investment of capital assets offset by a decrease in other assets and liabilities.

Capital Assets

By the end of 2014, Regional Water had invested $414.93 million in capital assets. The $13.85 million increase in capital assets for the past fiscal year is related to the purchase of land for approximately $2.5 million and the remainder is primarily for water related improvements, equipment, and public improvements such as mains, hydrants and services. The $2.5 million in land is in Construction in Process (CIP) and will be allocated out when the project is complete.

Long-Term Debt

Regional Water issued one Drinking Water Revenue Note in 2014, through the Minnesota Public Facilities Authority (MNPFA), a component unit of the State of Minnesota. At the end of 2014, bonds payable were $18.15 million and revenue notes payable were $27.60 million. This debt will be repaid with revenue generated by Regional Water.
### Condensed Statement of Net Position (in thousands)

<table>
<thead>
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<th></th>
<th>Fiscal Year 2014</th>
<th>Fiscal Year 2013</th>
<th>Dollar Change</th>
<th>Total % Change</th>
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<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Cash and Investments</td>
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<td>$23,225</td>
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<td>(5.0)%</td>
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<td>Other Current Assets</td>
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<td>Capital Assets - net</td>
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<td>$275,065</td>
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<td>Other Noncurrent Assets</td>
<td>$6,743</td>
<td>$6,676</td>
<td>$67</td>
<td>1.0%</td>
</tr>
<tr>
<td>Total Assets</td>
<td>$322,362</td>
<td>$317,471</td>
<td>$4,891</td>
<td>1.5%</td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current Liabilities</td>
<td>$13,112</td>
<td>$14,857</td>
<td>$(1,745)</td>
<td>(11.7)%</td>
</tr>
<tr>
<td>Noncurrent Liabilities</td>
<td>$51,575</td>
<td>$54,297</td>
<td>$(2,722)</td>
<td>(5.0)%</td>
</tr>
<tr>
<td>Total Liabilities</td>
<td>$64,687</td>
<td>$69,154</td>
<td>$(4,467)</td>
<td>(6.5)%</td>
</tr>
<tr>
<td><strong>Net Position</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Investment inCapital Assets</td>
<td>$235,568</td>
<td>$226,053</td>
<td>$9,515</td>
<td>4.2%</td>
</tr>
<tr>
<td>Restricted for Debt Service</td>
<td>11,472</td>
<td>11,371</td>
<td>101</td>
<td>0.9%</td>
</tr>
<tr>
<td>Unrestricted</td>
<td>10,635</td>
<td>10,893</td>
<td>$(258)</td>
<td>(2.4)%</td>
</tr>
<tr>
<td>Total Net Position</td>
<td>$257,675</td>
<td>$248,317</td>
<td>$9,358</td>
<td>3.8%</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th></th>
<th>Fiscal Year 2014</th>
<th>Fiscal Year 2013</th>
<th>Dollar Change</th>
<th>Total % Change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating Revenues</strong></td>
<td>$50,858</td>
<td>$52,008</td>
<td>$(1,150)</td>
<td>(2.2)%</td>
</tr>
<tr>
<td>Nonoperating Revenues (Expenses)</td>
<td>2</td>
<td>(5,604)</td>
<td>5,606</td>
<td>(100.0)%</td>
</tr>
<tr>
<td><strong>Total Revenues</strong></td>
<td>$50,860</td>
<td>$46,404</td>
<td>$4,456</td>
<td>9.6%</td>
</tr>
<tr>
<td><strong>Operating Expenses</strong></td>
<td>$43,685</td>
<td>$44,494</td>
<td>$(809)</td>
<td>(1.8)%</td>
</tr>
<tr>
<td>Income (Loss) Before Transfers and Contributions</td>
<td>$7,175</td>
<td>$1,910</td>
<td>$5,265</td>
<td>275.7%</td>
</tr>
<tr>
<td><strong>Capital Contributions</strong></td>
<td>$2,183</td>
<td>$1,333</td>
<td>850</td>
<td>63.8%</td>
</tr>
<tr>
<td>Change in Net Position</td>
<td>$9,358</td>
<td>$3,243</td>
<td>$6,115</td>
<td>188.6%</td>
</tr>
<tr>
<td>Net Position - January 1</td>
<td>248,317</td>
<td>245,074</td>
<td>3,243</td>
<td>1.3%</td>
</tr>
<tr>
<td><strong>Net Position - December 31</strong></td>
<td>$257,675</td>
<td>$248,317</td>
<td>$9,358</td>
<td>3.8%</td>
</tr>
</tbody>
</table>
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 $1.15 million to $50.86 million in 2014, down from $52.01 million in 2013. Regional Water extended the water service base fee to our wholesale customers in 2014. Water rates increased $.05 per 100 cubic feet to $2.39 in 2014; up from $2.34 per 100 cubic feet in 2013. Consumption levels decreased 942 thousand billing units (100 cubic feet) over 2013 levels.

Expenses

Regional Water’s operating expenses decreased $809 thousand to $43.68 million in 2014, down from $44.49 million in 2013. There was a decrease of $607 thousand related to salaries and fringes, $428 thousand for lime residual hauling, $399 thousand for settlements, and $188 thousand for energy costs. There was an increase of $68 thousand for chemicals, $230 thousand for depreciation, $282 thousand for central services, and $233 thousand due to other operations and maintenance costs.

Economic and Other Factors

The effects of conservation and cultural changes in our service area continue. Total consumption levels decreased over 2013 levels. Precipitation during the growing season was above normal and rain fell at regular intervals throughout the growing season. This led to very light demands on our system as there was minimal need to sprinkle lawns and gardens; demand for water did not pick up during the summer or fall.

Financial Contact

This financial report is designed to provide our customers and creditors with a general overview of Regional Water’s finances and to demonstrate Regional Water’s accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Finance Department, Saint Paul Regional Water Services, 1900 Rice Street, Saint Paul, Minnesota 55113.
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## ASSETS
### Current Assets
- Cash and Investments with Treasurer: 10,849,135
- Investments: 6,087,013
- Departmental Cash: 198,661
- Imprest Funds: 7,000
- Restricted Cash and Cash Equivalents:
  - Investments for Revenue Note Debt Service: 2,088,206
  - Investments for Revenue Bond Debt Service: 2,827,150
- Receivables:
  - Accounts (net of allowance for Estimated Uncollectibles): 4,909,380
  - Assessments:
    - Current: 796,333
    - Deferred: 2,490,561
    - Delinquent: 160,714
    - Tax Forfeited Property: 5,424
    - Accrued Interest: 117,749
- Due from Primary Government: 79,635
- Due from Other Governmental Units: 972,070
- Inventory - Materials and Supplies: 2,034,721

#### Total Current Assets
33,623,752

### Noncurrent Assets
- Restricted Assets:
  - Investments for Revenue Bond Future Debt Service: 4,915,357
  - Investments for Revenue Bond Operations and Maintenance: 1,731,626

#### Total Restricted Assets
6,646,983

- Long-Term Loans Receivable: 96,463

### Capital Assets
- Land: 1,307,907
- Buildings and Structures: 56,160,030
- Less: Accumulated Depreciation: (21,597,687)
- Public Improvements: 289,543,173
- Less: Accumulated Depreciation: (81,660,906)
- Equipment: 52,880,744
- Less: Accumulated Depreciation: (29,679,811)
- Construction in Progress: 15,041,940

#### Total Capital Assets (Net of Accumulated Depreciation)
281,995,390

#### Total Noncurrent Assets
288,738,836

### Total Assets
322,362,588

continued
## BOARD OF WATER COMMISSIONERS OF THE CITY OF SAINT PAUL, MINNESOTA

### REGIONAL WATER SERVICES STATEMENT OF NET POSITION

**December 31, 2014**

(Amounts in dollars)

### LIABILITIES

**Current Liabilities (Payable from Current Assets)**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accrued Salaries Payable</td>
<td>697,354</td>
</tr>
<tr>
<td>Compensated Absences Payable</td>
<td>71,567</td>
</tr>
<tr>
<td>Claims and Judgments Payable</td>
<td>625,000</td>
</tr>
<tr>
<td>Accounts Payable</td>
<td>1,788,399</td>
</tr>
<tr>
<td>Contract Retention Payable</td>
<td>281,696</td>
</tr>
<tr>
<td>Due to Primary Government</td>
<td>2,879,056</td>
</tr>
<tr>
<td>Due to Other Governmental Units</td>
<td>2,121,952</td>
</tr>
<tr>
<td>Unearned Revenue</td>
<td>378,106</td>
</tr>
</tbody>
</table>

**Total Current Liabilities (Payable from Current Assets)**

|                   | 8,843,130 |

**Current Liabilities (Payable from Restricted Assets)**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue Notes Payable</td>
<td>1,833,754</td>
</tr>
<tr>
<td>Revenue Bonds Payable</td>
<td>2,345,000</td>
</tr>
<tr>
<td>Accrued Interest Payable on Revenue Notes</td>
<td>50,344</td>
</tr>
<tr>
<td>Accrued Interest Payable on Revenue Bonds</td>
<td>40,179</td>
</tr>
</tbody>
</table>

**Total Current Liabilities (Payable from Restricted Assets)**

|                   | 4,269,277 |

**Noncurrent Liabilities**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue Bonds Payable</td>
<td>15,805,000</td>
</tr>
<tr>
<td>Compensated Absences Payable</td>
<td>1,721,515</td>
</tr>
<tr>
<td>Other Post Employment Benefits</td>
<td>4,133,270</td>
</tr>
<tr>
<td>Claims and Judgments Payable</td>
<td>3,471,997</td>
</tr>
<tr>
<td>Revenue Notes Payable</td>
<td>25,761,821</td>
</tr>
<tr>
<td>Premium on Revenue Bonds</td>
<td>681,298</td>
</tr>
</tbody>
</table>

**Total Noncurrent Liabilities**

|                  | 51,574,901 |

**Total Liabilities**

|                  | 64,687,308 |

### NET POSITION

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Investment in Capital Assets</td>
<td>235,568,517</td>
</tr>
<tr>
<td>Restricted for Debt Service</td>
<td>11,471,816</td>
</tr>
<tr>
<td>Unrestricted</td>
<td>10,634,947</td>
</tr>
</tbody>
</table>

**Total Net Position**

|                  | 257,675,280 |

The notes to the financial statements are an integral part of this statement.
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## BOARD OF WATER COMMISSIONERS OF THE CITY OF SAINT PAUL, MINNESOTA

**Exhibit B**

**REGIONAL WATER SERVICES STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**

For the Fiscal Year Ended December 31, 2014

(Amounts in dollars)

### OPERATING REVENUES

- **Fees, Sales and Services**: 49,665,972
- **Rents and Leases**: 875,311
- **Miscellaneous**: 316,390

**Total Operating Revenues**: 50,857,673

### OPERATING EXPENSES

- **Salaries**: 12,385,409
- **Employee Fringe Benefits**: 6,184,968
- **Services**: 9,765,573
- **Materials and Supplies**: 7,463,142
- **Depreciation**: 7,724,525
- **Miscellaneous**: 161,215

**Total Operating Expenses**: 43,684,832

### OPERATING INCOME (LOSS)

**7,172,841**

### NON-OPERATING REVENUES (EXPENSES)

- **Operating Grants**: 77,960
- **Gain on Sale of Assets**: 81,578
- **Loss on Retirement of Assets**: (832,504)
- **Investment Income**
  - Interest Earned on Investments: 392,535
  - Increase in Fair Value of Investments: 1,167,105
- **Miscellaneous Other Revenue (Expenses)**: 129,258
- **Interest Expense on**
  - Revenue Bonds: (460,305)
  - Revenue Notes: (547,941)
- **Cost of Debt Issuance**: (5,800)

**Total Non-Operating Revenues (Expenses)**: 1,886

### INCOME BEFORE CAPITAL CONTRIBUTIONS

**7,174,727**

### CAPITAL CONTRIBUTIONS

- **Capital Acquisitions - Outside Sources**: 2,183,175

### CHANGE IN NET POSITION

**9,357,902**

### NET POSITION, January 1

**248,317,378**

### NET POSITION, December 31

**257,675,280**

The notes to the financial statements are an integral part of this statement.
CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from Customers 50,175,625
Other Operating Receipts 875,311
Other Receipts 316,390
Payments to Suppliers (17,188,106)
Payments to Employees (12,352,609)
Payment for Fringe Benefits and Payroll Taxes (5,858,894)
Non-Operating Revenue Received 122,808

NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES 16,090,525

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Operating Grants Received 77,960
Non-Operating Loans Repayment Received from Customers (43,537)

NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES 34,423

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Cash Proceeds From Issuance of Debt:
  Revenue Notes 1,614,221
Cash Proceeds From Sale of Capital Assets:
  Land 41,062
  Equipment 40,996
Capital Contributions Received:
  From Outside Parties 882,612
Principal Paid on Debt Maturities:
  Revenue Bonds (2,875,000)
  Revenue Notes (1,237,291)
Payments for Acquisition and Construction of Capital Assets:
  Construction in Progress (16,189,244)
Interest Paid On:
  Revenue Bonds (466,259)
  Revenue Notes (540,815)
  Payment of Bond Issue Costs (5,800)

NET CASH PROVIDED (USED) IN CAPITAL AND RELATED FINANCING ACTIVITIES (18,735,518)

CASH FLOWS FROM INVESTING ACTIVITIES

Interest and Dividends on Investments Received 386,221

NET CASH PROVIDED (USED) IN INVESTING ACTIVITIES 386,221

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (2,224,349)

CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR 13,279,145

CASH AND CASH EQUIVALENTS AT END OF YEAR 11,054,796

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

Operating Income (Loss) 7,172,841

Adjustments To Reconcile Operating Income To Net
Cash Provided (Used) by Operating Activities:
   Depreciation 7,724,525
   Nonoperating Miscellaneous Other Revenue Received 122,808

Changes in Assets and Liabilities:
   (Increase) Decrease in Accounts Receivable 388,184
   (Increase) Decrease in Assessments Receivable 64,478
   (Increase) Decrease in Due From Primary Government (4,471)
   (Increase) Decrease in Due From Other Governmental Units 164,082
   (Increase) Decrease in Inventories 137,210
   Increase (Decrease) in Accrued Salaries Payable 32,800
   Increase (Decrease) in Accounts Payable 684,097
   Increase (Decrease) in Due To Primary Government 57,235
   Increase (Decrease) in Due To Other Governmental Units (273,459)
   Increase (Decrease) in Unearned Revenue (102,620)
   Increase (Decrease) in Compensated Absences Payable (1,469)
   Increase (Decrease) in Other Post Employment Benefits Obligation 327,543
   Increase (Decrease) in Claims and Judgments Payable (403,259)

Total Adjustments 8,917,684

NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES 16,090,525

DETAILS OF CASH AND CASH EQUIVALENTS

   Cash and Investments with Treasurer 10,849,135
   Departmental Cash 198,661
   Imprest Funds 7,000

TOTAL CASH AND CASH EQUIVALENTS 11,054,796

NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES

   Loss on Retirement/Deletion of Capital Assets (832,504)
   Change in Fair Value of Investments 1,167,105
   Capital Assets Purchased on Account - Construction in Progress 1,256,194
   Capital Assets Contributed - Public Improvements 1,502,118

The notes to the financial statements are an integral part of this statement.
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Board of Water Commissioners
of the
Saint Paul Regional Water Services
Saint Paul, Minnesota
Notes to the Financial Statements
For the Fiscal Year Ended December 31, 2014

Index to Notes to the Financial Statements

1.  Board of Water Commissioners

2.  Summary of Significant Accounting Policies
   A.  Financial Reporting Entity
   B.  Proprietary Activity
   C.  Basis of Accounting/Measurement Focus
   D.  Cash and Investments
   E.  Receivables
   F.  Material and Supplies Inventory
   G.  Restricted Assets
   H.  Capital Assets
   I.  Compensated Absences
   J.  Employee Fringe Benefits
   K.  Bond Discounts and Issuance Costs
   L.  Equity Classifications
   M.  Capital Contributions
   N.  Operating and Non-Operating Revenues and Expenses
   O.  Use of Estimates

3.  Stewardship, Compliance and Accountability
   A.  Federal Audit Requirements
Index to Notes to the Financial Statements (continued)

4. Detail Notes

A. Assets

1. Deposits and Investments

2. Summary of Changes in Capital Assets

B. Liabilities

1. Debt Obligations of the Board of Water Commissioners

   a. Current and Long-Term Debt Maturities

   b. Changes in Debt Obligations

   c. Principal and Interest Requirements on Debt Obligations

      i. All Debt

      ii. Claims and Judgments

      iii. Compensated Absences

2. Bonds Payable By Issue

3. Notes Payable By Issue

C. Due From Primary Government

D. Due To Primary Government

5. Other Information

   A. Pension Plans
   B. Postemployment Benefits Other than Pensions
   C. Risk Management
   D. Contingent Liabilities
   E. Joint Powers

6. Future Change in Accounting Standards
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 general obligation bonded debt on behalf of Regional Water.

Note 2. Summary of Significant Accounting Policies

The Government 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 as applied to government units. A summary of the more significant accounting policies established in GAAP and used by Regional Water is 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, 2014 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.
Note 2. Summary of Significant Accounting Policies (continued)

C. Basis of Accounting/Measurement Focus

The 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 all liabilities associated with the operation are included on the Statement of Net Position.

D. 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 fair value based upon quoted market prices at December 31, 2014. 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. Investments in Rule 2a-7-like external investment pools are measured at the amortized cost per share provided by the pool, which would approximate fair value. See Note 4.A.1.

In 2014, Regional Water recorded an “increase in fair value of investments” of $1,167,105 as part of investment income. The calculation of realized gains and losses is independent of the calculation of the net change in the fair value of investments. Realized gains and losses on investments that have been held in more than one fiscal year and sold in the current year may have been included as part of the change in the fair value of investments reported in the prior year.

For purposes of the Statement of Cash Flows, cash equivalents are cash on-hand, cash in banks, and highly liquid investments having original maturities (time span from purchase date to maturity date) of three months or less. Included in the classification of cash equivalents are cash and investments with treasurer, departmental cash, imprest funds, and restricted cash grants and other contributions.
Note 2. Summary of Significant Accounting Policies (continued)

E. Receivables

The receivables account presented on the Statement of Net Position consists of five accounts. The balance of those accounts as of December 31, 2014 is as follows:

<table>
<thead>
<tr>
<th>Account Description</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts Receivable - Registered Bills</td>
<td>$291,128</td>
</tr>
<tr>
<td>Accounts Receivable - Water Billings</td>
<td>$4,510,212</td>
</tr>
<tr>
<td>Accounts Receivable - Unbilled</td>
<td>$235,542</td>
</tr>
<tr>
<td>Accounts Receivable - Miscellaneous</td>
<td>$23,215</td>
</tr>
<tr>
<td>Allowance for Uncollectible Accounts</td>
<td>($150,717)</td>
</tr>
</tbody>
</table>

Total Accounts Receivable (net of Allowance for Estimated Uncollectible) $4,909,380

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 2009 through 2013. Tax forfeited properties are subject to forfeiture.

F. 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.

G. 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.

H. 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.
Note 2. H. Capital Assets (continued)

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:

<table>
<thead>
<tr>
<th>Method</th>
<th>Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Building and Structures</td>
<td>Straight Line</td>
</tr>
<tr>
<td>Public Improvements</td>
<td>Straight Line</td>
</tr>
<tr>
<td>Equipment</td>
<td>Straight Line</td>
</tr>
</tbody>
</table>

I. 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 and sick leave balances.

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

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

J. Employee Fringe Benefits

Fringe benefits include retirement plans, severance pay and retiree insurance, unemployment compensation, workers’ compensation, and employee insurance.
Note 2. Summary of Significant Accounting Policies (continued)

K. Bond Discounts and Issuance Costs

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

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

L. 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.

M. 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.
Note 2. Summary of Significant Accounting Policies (continued)

N. 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.

O. 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 estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 3. Stewardship, Compliance and Accountability

A. Federal Audit Requirements

The U.S. Office of Management of Budget (OMB) issued Circular A-133, which establishes uniform audit requirements for non-Federal entities that administer Federal awards and implements the Single Audit Act Amendments of 1996, which were signed into law July 5, 1996 (Public Law 104-156)

The purposes of the Single Audit Act Amendments of 1996 are to:

1. promote sound financial management, including effective internal controls, with respect to Federal awards;
2. promote the efficient and effective use of audit resources;
3. reduce burdens on state and local governments, Indian tribes and nonprofit organizations; and
4. ensure that Federal departments and agencies, to the maximum extent practicable, rely upon and use audit work done pursuant to Chapter 75 of Title 31, United States Code (the “Single Audit Act”).
Note 3. A. Federal Audit Requirements (continued)

For 2014, Regional Water’s audit was performed in accordance with Circular A-133. The auditor’s report on consideration of Regional Water’s internal control over financial reporting and tests of Regional Water’s compliance with certain provisions of law, regulations, contracts, grant agreements and other matters will be issued at a later date.

Grant amounts received or receivable from the federal government are subject to adjustment.

Any disallowed claims, including amounts already collected, may constitute a liability of the fund. 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.

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.04, the City maintains deposits at financial institutions authorized by the City Council, all of which are members of the Federal Reserve System. The Statutes also require that all City deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110% 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.
Note 4. A. Assets (continued)

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, 2014, 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% of deposits not covered by insurance or bonds.

Regional Water’s deposits of $10,849,135 (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, 2014, the total imprest funds were $7,000. Regional Water also had departmental cash on hand of $198,661.

Investments

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

(a) Daily Portfolio: The daily component represents current operating funds on which draws are made frequently, requiring daily liquidity and preservation of principal. The time horizon on the Daily Portfolio is within a 12-month period.

(b) Short Term Portfolio: A short-term component serves as a cushion to provide liquidity for possible shortfalls in the Daily Portfolio. Draws against the short-term portfolio are expected to be infrequent. The time horizon on the Short Term Portfolio is between one and three years.

(c) Intermediate Term Portfolio: The balance of the Portfolio represents the intermediate term component, which serves as a reserve for unplanned shortfalls. In general, the Intermediate Term Portfolio is not expected to experience withdrawals and the time horizon on the Intermediate Portfolio is longer than three years.
Note 4. A. Assets (continued)

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.

(f) Repurchase agreements may be entered into with:

1) a bank qualified as a depository;

2) any national or state bank in the United States, which is a member of the Federal Reserve System and whose combined capital and surplus equals or exceeds $10,000,000;

3) a primary reporting dealer in United States government securities to the Federal Reserve Bank of New York; or

4) a securities broker-dealer licensed pursuant to Chapter 80A, or an affiliate of it, regulated by the Securities and Exchange Commission and maintaining a combined capital and surplus of $40,000,000 or more, exclusive of subordinated debt.

(g) Securities lending agreements;

(h) Guaranteed investment contracts.
Credit Risk

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

Regional Water’s exposure to credit risk as of December 31, 2014, is as follows:

<table>
<thead>
<tr>
<th>Rating Agency</th>
<th>Rating</th>
<th>Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Moody’s</td>
<td>Aaa</td>
<td>$17,649,352</td>
</tr>
</tbody>
</table>

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, 2014, 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.

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, 2014, 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, 2014, Regional Water had the following investments:

<table>
<thead>
<tr>
<th>Investment Type</th>
<th>Fair Value</th>
<th>Less Than 2 Years</th>
<th>2 - 4 Years</th>
<th>5 - 10 Years</th>
<th>Greater Than 10 Years</th>
</tr>
</thead>
</table>
Note 4. A. Assets (continued)

Recomp

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

Cash and Investments with Treasurer $ 10,849,135
Investments 6,087,013
Departmental Cash 198,661
Imprest Funds 7,000
Restricted Cash and Cash Equivalents:
  Investments for Revenue Note Debt Service 2,088,206
  Investments for Revenue Bond Debt Service 2,827,150
  Investments for Revenue Bond Future Debt Service 4,915,357
  Investments for Revenue Bond Operations and Maintenance 1,731,626
Total $ 28,704,148

Deposits $ 10,849,135
Investments 17,649,352
Departmental Cash 198,661
Imprest Funds 7,000
Total $ 28,704,148

(The remainder of this page is left blank intentionally.)
**Note 4. A. Assets (continued)**

**2. Summary of Changes in Capital Assets**

A summary of changes in capital assets follows:

<table>
<thead>
<tr>
<th></th>
<th>01/01/2014</th>
<th>Additions</th>
<th>Deductions</th>
<th>12/31/2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital Assets Not Being Depreciated:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Land</td>
<td>$ 1,307,887</td>
<td>$ 20</td>
<td>$ -</td>
<td>$ 1,307,907</td>
</tr>
<tr>
<td>Construction in Progress</td>
<td>19,664,841</td>
<td>14,351,681</td>
<td>(18,974,582)</td>
<td>15,041,940</td>
</tr>
<tr>
<td>Total Capital Assets Not Being Depreciated</td>
<td>$ 20,972,728</td>
<td>$ 14,351,701</td>
<td>(18,974,582)</td>
<td>$ 16,349,847</td>
</tr>
<tr>
<td>Capital Assets Being Depreciated:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Buildings and Structures</td>
<td>$ 56,006,802</td>
<td>$ 153,228</td>
<td>$ -</td>
<td>$ 56,160,030</td>
</tr>
<tr>
<td>Public Improvements</td>
<td>272,048,509</td>
<td>18,805,259</td>
<td>(1,310,595)</td>
<td>289,543,173</td>
</tr>
<tr>
<td>Equipment</td>
<td>52,054,400</td>
<td>1,440,310</td>
<td>(613,966)</td>
<td>52,880,744</td>
</tr>
<tr>
<td>Total Capital Assets Being Depreciated</td>
<td>$ 380,109,711</td>
<td>$ 20,398,797</td>
<td>(1,924,561)</td>
<td>$ 398,583,947</td>
</tr>
<tr>
<td>Less Accumulated Depreciation for:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Buildings and Structures</td>
<td>(20,397,623)</td>
<td>(1,236,670)</td>
<td>$ 36,606</td>
<td>(21,597,687)</td>
</tr>
<tr>
<td>Public Improvements</td>
<td>(77,263,198)</td>
<td>(4,938,895)</td>
<td>541,187</td>
<td>(81,660,906)</td>
</tr>
<tr>
<td>Equipment</td>
<td>(28,356,231)</td>
<td>(1,941,260)</td>
<td>617,680</td>
<td>(29,679,811)</td>
</tr>
<tr>
<td>Total Accumulated Depreciation*</td>
<td>(126,017,052)</td>
<td>(8,116,825)</td>
<td>1,195,473</td>
<td>(132,938,404)</td>
</tr>
<tr>
<td>Total Capital Assets Being Depreciated, Net</td>
<td>$ 254,092,659</td>
<td>$ 12,281,972</td>
<td>(729,088)</td>
<td>$ 265,645,543</td>
</tr>
<tr>
<td>Capital Assets, Net</td>
<td>$ 275,065,387</td>
<td>$ 26,633,673</td>
<td>(19,703,670)</td>
<td>$ 281,995,390</td>
</tr>
</tbody>
</table>

*Total Accumulated Depreciation is reduced by an allowance of $392,300 for equipment used to construct capital assets; net depreciation reported is $7,724,525 ($8,116,825 - $392,300).
SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2014

Note 4. Detail Notes (continued)

B. Liabilities

1. Debt Obligations of Regional Water

   a. Current and Long-Term Debt Maturities

At December 31, 2014, long-term debt consisted of:

<table>
<thead>
<tr>
<th>Notes Payable</th>
<th>December 31, 2014</th>
<th>Less Current Maturities</th>
<th>Long-Term Maturities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Notes Payable</td>
<td>$ 27,595,575</td>
<td>$ 1,833,754</td>
<td>$ 25,761,821</td>
</tr>
<tr>
<td>Revenue Bonds</td>
<td>18,150,000</td>
<td>2,345,000</td>
<td>15,805,000</td>
</tr>
<tr>
<td>Compensated Absences</td>
<td>1,793,082</td>
<td>71,567</td>
<td>1,721,515</td>
</tr>
<tr>
<td>Other Postemployment Benefits</td>
<td>4,133,270</td>
<td>-</td>
<td>4,133,270</td>
</tr>
<tr>
<td>Claims and Judgments</td>
<td>4,096,997</td>
<td>625,000</td>
<td>3,471,997</td>
</tr>
<tr>
<td>Total</td>
<td>$ 55,768,924</td>
<td>$ 4,875,321</td>
<td>$ 50,893,603</td>
</tr>
</tbody>
</table>

b. Changes in Debt Obligations

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

<table>
<thead>
<tr>
<th>General Obligation</th>
<th>01/01/14</th>
<th>Additions</th>
<th>Deductions</th>
<th>12/31/14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Waste Water Revenue Note</td>
<td>$ 933,645</td>
<td>$ -</td>
<td>$ 257,291</td>
<td>$ 676,354</td>
</tr>
<tr>
<td>Drinking Water Revenue Notes</td>
<td>26,285,000</td>
<td>1,614,221</td>
<td>980,000</td>
<td>26,919,221</td>
</tr>
<tr>
<td>Revenue Bonds</td>
<td>21,025,000</td>
<td>-</td>
<td>2,875,000</td>
<td>18,150,000</td>
</tr>
<tr>
<td>Compensated Absences</td>
<td>1,794,551</td>
<td>206,683</td>
<td>208,152</td>
<td>1,793,082</td>
</tr>
<tr>
<td>Other Postemployment Benefits</td>
<td>3,805,727</td>
<td>1,006,466</td>
<td>678,923</td>
<td>4,133,270</td>
</tr>
<tr>
<td>Claims and Judgments</td>
<td>4,500,256</td>
<td>127,778</td>
<td>531,037</td>
<td>4,096,997</td>
</tr>
<tr>
<td>Total</td>
<td>$ 58,344,179</td>
<td>$ 2,955,148</td>
<td>$ 5,530,403</td>
<td>$ 55,768,924</td>
</tr>
</tbody>
</table>
c. Principal and Interest Requirements on Debt Obligations

i. All Debt

Aside from Claims and Judgments, Compensated Absences, and Other Postemployment Benefits, the annual requirements to pay the principal of $45,745,575 and interest of $6,689,060 on all Regional Water debt outstanding as of December 31, 2014, are as follows:

<table>
<thead>
<tr>
<th>YEAR</th>
<th>2007 REVENUE BONDS</th>
<th>2011D REVENUE BONDS</th>
<th>2013A REVENUE BONDS</th>
<th>TOTAL REVENUE BONDS</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Principal</td>
<td>Interest</td>
<td>Total</td>
<td>Principal</td>
</tr>
<tr>
<td>2015</td>
<td>$555,000</td>
<td>$141,950</td>
<td>$696,950</td>
<td>$655,000</td>
</tr>
<tr>
<td>2016</td>
<td>$605,000</td>
<td>$114,200</td>
<td>$719,200</td>
<td>$690,000</td>
</tr>
<tr>
<td>2017</td>
<td>$670,000</td>
<td>$90,000</td>
<td>$760,000</td>
<td>$835,000</td>
</tr>
<tr>
<td>2018</td>
<td>$710,000</td>
<td>$63,200</td>
<td>$773,200</td>
<td>$630,000</td>
</tr>
<tr>
<td>2019</td>
<td>$870,000</td>
<td>$34,800</td>
<td>$904,800</td>
<td>$ -</td>
</tr>
<tr>
<td>2020-24</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
</tr>
<tr>
<td>2021-24</td>
<td>$3,410,000</td>
<td>$444,150</td>
<td>$3,854,150</td>
<td>$2,720,000</td>
</tr>
</tbody>
</table>
Note 4. B. Liabilities (continued)

<table>
<thead>
<tr>
<th>YEAR</th>
<th>1996 G.O. WASTE WATER REVENUE NOTE</th>
<th>2010A DRINKING WATER REVENUE NOTE</th>
<th>2010B DRINKING WATER REVENUE NOTE</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Principal</td>
<td>Interest</td>
<td>Total</td>
</tr>
<tr>
<td>2015</td>
<td>$264,754</td>
<td>$17,586</td>
<td>$282,340</td>
</tr>
<tr>
<td>2016</td>
<td>$272,434</td>
<td>$9,907</td>
<td>$282,341</td>
</tr>
<tr>
<td>2017</td>
<td>$139,166</td>
<td>$2,004</td>
<td>$141,170</td>
</tr>
<tr>
<td>2018</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
</tr>
<tr>
<td>2019</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
</tr>
<tr>
<td>2020-24</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
</tr>
<tr>
<td>2025-29</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
</tr>
<tr>
<td>2030-34</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>YEAR</th>
<th>2014 DRINKING WATER REVENUE NOTE</th>
<th>TOTAL REVENUE NOTES</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Principal</td>
<td>Interest</td>
</tr>
<tr>
<td>2015</td>
<td>$64,000</td>
<td>$16,917</td>
</tr>
<tr>
<td>2016</td>
<td>$73,639</td>
<td>$16,246</td>
</tr>
<tr>
<td>2017</td>
<td>$74,411</td>
<td>$15,474</td>
</tr>
<tr>
<td>2018</td>
<td>$75,191</td>
<td>$14,695</td>
</tr>
<tr>
<td>2019</td>
<td>$75,979</td>
<td>$13,907</td>
</tr>
<tr>
<td>2020-24</td>
<td>$392,006</td>
<td>$57,422</td>
</tr>
<tr>
<td>2025-29</td>
<td>$412,982</td>
<td>$36,446</td>
</tr>
<tr>
<td>2030-34</td>
<td>$446,013</td>
<td>$14,347</td>
</tr>
</tbody>
</table>

The Wastewater Treatment Water Revenue Note is junior and subordinated to the Revenue Bonds and the Drinking Water Notes.
Note 4. B. Liabilities (continued)

i. All Debt (continued)

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

   The note was in the amount of $2,200,000. The proceeds of the note were for the purchase and installation of a filter press. The total principal amount of the long-term portion of the loan at December 31, 2014 was $1,614,221.

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’s Risk Management Division that have been incurred but not reported. At December 31, 2014, the claims and judgments liability was $4,096,997.

iii. Compensated Absences

   Included in Regional Water’s debt are compensated absences for $1,793,082.

   (The remainder of this page is left blank intentionally.)
Note 4. B. Liabilities (continued)

2. Bonds Payable by Issue

<table>
<thead>
<tr>
<th>Issue</th>
<th>Issue Rate</th>
<th>Issue Dates</th>
<th>Final Maturity Date</th>
<th>Amount Outstanding</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>4.06%; 06/01; 12/01</td>
<td>02/14/07</td>
<td>12/01/19</td>
<td>$3,410,000</td>
</tr>
<tr>
<td>Revenue</td>
<td>2.00%; 06/01; 12/01</td>
<td>04/06/11</td>
<td>12/01/18</td>
<td>2,720,000</td>
</tr>
<tr>
<td>Revenue</td>
<td>1.57%; 06/01; 12/01</td>
<td>03/18/13</td>
<td>12/01/24</td>
<td>12,020,000</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td></td>
<td>$18,150,000</td>
</tr>
</tbody>
</table>

3. Notes Payable by Issue

<table>
<thead>
<tr>
<th>Issue</th>
<th>Issue Rate</th>
<th>Issue Dates</th>
<th>Final Maturity Date</th>
<th>Amount Outstanding</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wastewater Treatment</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Water Revenue Note</td>
<td>2.88%; 02/20; 08/20</td>
<td>06/26/96</td>
<td>02/20/17</td>
<td>$676,354</td>
</tr>
<tr>
<td>Drinking Water Revenue Note</td>
<td>1.96%; 06/01; 12/01</td>
<td>07/13/10</td>
<td>12/01/30</td>
<td>5,184,000</td>
</tr>
<tr>
<td>Drinking Water Revenue Note</td>
<td>1.96%; 06/01; 12/01</td>
<td>07/13/10</td>
<td>12/01/30</td>
<td>20,121,000</td>
</tr>
<tr>
<td>Drinking Water Revenue Note</td>
<td>1.05%; 06/01; 12/01</td>
<td>06/19/14</td>
<td>12/01/34</td>
<td>1,614,221</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td></td>
<td>$27,595,575</td>
</tr>
</tbody>
</table>

(The remainder of this page is left blank intentionally.)
Note 4. Detail Notes (continued)

C. Due From Primary Government

At December 31, 2014, Regional Water reported the following receivable from the City of Saint Paul:

<table>
<thead>
<tr>
<th>City Fund Title</th>
<th>City Fund Type</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sewer Utility</td>
<td>Enterprise Fund</td>
<td>$ 79,635</td>
</tr>
</tbody>
</table>

D. Due To Primary Government

At December 31, 2014, Regional Water reported the following payable to the City of Saint Paul:

<table>
<thead>
<tr>
<th>City Fund Title</th>
<th>City Fund Type</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sewer Utility</td>
<td>Enterprise Fund</td>
<td>$ 2,879,056</td>
</tr>
</tbody>
</table>

(The remainder of this page is left blank intentionally.)
Note 5.  Other Information

A.  Pension Plans

Regional Water employees are employees of the City of Saint Paul and participate in the Coordinated Plan of the Public Employees Retirement Association (PERA). This plan requires contributions from the employer and employee. The Coordinated Plan requires participation by the employer and employee in the Social Security System. The employer’s share of these PERA plans is paid by Regional Water and is included in the financial statements as an operating expense. Regional Water’s total employer’s shares for the years ended December 31, 2014, 2013, and 2012 were $985,114, $982,507, and $1,012,428 respectively. The corresponding total employee’s shares were $849,236, $846,989, and $872,782. PERA does not make separate measurements for the assets and pension benefit obligations for the individual employers. Information on the City Employee Pension Plan is contained in the City’s Comprehensive Annual Financial Report for the Fiscal Year Ended December 31, 2014.

B.  Postemployment Benefits Other than Pensions

Plan Description

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

Benefits Provided

Eligibility requirements and contribution levels vary substantially between the 11 bargaining agreements. The typical eligibility requirements are 20 years of service and currently receiving a public employee pension. This coverage may also extend to the retiree’s family. The benefits, benefit levels, retiree contributions and employer contributions are governed by the City and can be amended by the City through the City’s collective bargaining agreements with employee groups. Benefits include general inpatient and outpatient medical services; mental and substance abuse care; vision care; preventative dental; and prescriptions.
Note 5. B. Postemployment Benefits Other than Pensions (continued)

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

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

### Health Care Benefit

<table>
<thead>
<tr>
<th>Under Age 65 (early retiree)</th>
<th>Over Age 65 (regular retiree)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employees who retired before January 1, 1996</td>
<td>$250 per month</td>
</tr>
<tr>
<td>Employees hired before and retiring after January 1, 1996</td>
<td>$350 per month</td>
</tr>
<tr>
<td>Employees hired after January 1, 1996</td>
<td>$300 per month</td>
</tr>
</tbody>
</table>

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

### Membership

As of actuarial valuation date of September 30, 2012 the membership consisted of:

<table>
<thead>
<tr>
<th>Family Coverage</th>
<th>Single Coverage</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retired Participants and Beneficiaries</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Under Age 65 (Early Retirees)</td>
<td>2</td>
<td>30</td>
</tr>
<tr>
<td>Over Age 65 (Regular Retirees)</td>
<td>43</td>
<td>109</td>
</tr>
<tr>
<td>Total Retired Participants</td>
<td>45</td>
<td>139</td>
</tr>
<tr>
<td>Active Participants</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Eligible to Receive Benefits</td>
<td></td>
<td>222</td>
</tr>
<tr>
<td>Not Eligible to Receive Benefits*</td>
<td></td>
<td>179</td>
</tr>
<tr>
<td>Total Active Participants</td>
<td></td>
<td>401</td>
</tr>
<tr>
<td>Total Participants</td>
<td></td>
<td>585</td>
</tr>
</tbody>
</table>

* Participants who have not reached retirement age and minimum service requirements
Note 5. B. Postemployment Benefits Other than Pensions (continued)

Funding Policy

Retiree health care benefits are currently funded based on the benefit disclosed above on a pay-as-you-go basis. Regional Water may change the funding policy at any time. The average monthly premium contributions for 2014 were as follows:

<table>
<thead>
<tr>
<th>Age</th>
<th>Health Insurance</th>
<th>Life Insurance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 65</td>
<td>$335</td>
<td>$1</td>
</tr>
<tr>
<td>65 and older</td>
<td>$284</td>
<td>Not applicable</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

These plans are fully insured.

The expenses for these postemployment benefits are recognized as premiums and are paid to the insurers. For Regional Water, the 2014 expense totaled $583,961 for approximately 168 retirees. Retirees contributed $98,737; active employees do not contribute to the plan until retirement.

Annual OPEB Costs and Net OPEB Obligation

Regional Water had an actuarial valuation performed for the plan as of September 30, 2012 to determine the funded status of the plan as of that date as well as the employer’s annual required contribution (ARC) for the fiscal year ended December 31, 2014. Regional Water’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2014 and the two preceding years were as follows:

<table>
<thead>
<tr>
<th>Fiscal Year Ended</th>
<th>Annual OPEB Cost</th>
<th>Employer Contribution</th>
<th>Percentage of Annual OPEB Cost Contributed</th>
<th>Net OPEB Obligation</th>
</tr>
</thead>
<tbody>
<tr>
<td>December 31, 2012</td>
<td>$1,345,224</td>
<td>$708,472</td>
<td>52.67%</td>
<td>$3,495,166</td>
</tr>
<tr>
<td>December 31, 2013</td>
<td>$1,003,004</td>
<td>$692,443</td>
<td>69.04%</td>
<td>$3,805,727</td>
</tr>
<tr>
<td>December 31, 2014</td>
<td>$1,006,466</td>
<td>$678,923</td>
<td>67.46%</td>
<td>$4,133,270</td>
</tr>
</tbody>
</table>
Note 5. B. Postemployment Benefits Other than Pensions (continued)

The net OPEB obligation (NOPEBO) at December 31, 2014 was calculated as follows:

Annual Required Contribution (ARC) $ 1,067,254
Interest on Net OPEB Obligation 166,883
Adjustment to Annual Required Contribution (227,671)
Annual OPEB Cost 1,006,466
Contributions Made:
Direct 583,961
Indirect Implicit Subsidy 94,962
Total Contributions Made 678,923
Increase (Decrease) in Net OPEB Obligation 327,543
Net OPEB Obligation Beginning of Year 3,805,727
Net OPEB Obligation End of Year $ 4,133,270

Funded Status and Funding Progress

The actuarial accrued liability (AAL) for benefits, as of September 30, 2012, the most recent actuarial valuation date, was $13,455,536. This liability will be amortized over 30 years based on the requirements of the Governmental Accounting Standards Board (GASB) Statement No. 45, “Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.”

The funded status of the plan as of September 30, 2012, the most recent actuarial valuation date, is as follows:

<table>
<thead>
<tr>
<th>Actuarial Valuation Date</th>
<th>Actuarial Value of Plan Assets</th>
<th>Actuarial Accrued Liability (AAL)</th>
<th>Unfunded AAL (UAAL)</th>
<th>Funded Ratio</th>
<th>Covered Payroll Active Members</th>
<th>UAAL as a Percentage of Covered Payroll</th>
</tr>
</thead>
<tbody>
<tr>
<td>September 30, 2012</td>
<td>$ -</td>
<td>$ 13,455,536</td>
<td>$ 13,455,536</td>
<td>0.0%</td>
<td>$ 12,584,670</td>
<td>106.9%</td>
</tr>
</tbody>
</table>
Note 5. B. Postemployment Benefits Other than Pensions (continued)

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

Actuarial Methods and Assumptions

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

In the September 30, 2012 actuarial valuation the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included 4.50% discount rate and an annual healthcare cost trend rate of beginning at 8.5% for fiscal year 2012 and declining over 7 years by 0.5% per year to 5.0%. Both rates include a 3.0% inflation assumption. The actuarial value of assets was $0, as Regional Water has not advance-funded its obligation. The plan’s unfunded actuarial accrued liability is being amortized as a level dollar amount over a 30-year open amortization period (30-year period restarted with each valuation).

C. Risk Management

Regional Water is exposed to various risks of losses related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters. Regional Water utilizes the services of the City Attorney’s Office, the City’s Division of Real Estate, 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.
Note 5. C. Risk Management (continued)

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 2013 and 2014:

<table>
<thead>
<tr>
<th></th>
<th>Year Ended 12/31/2013</th>
<th>Year Ended 12/31/2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning fiscal year liability</td>
<td>$3,205,760</td>
<td>$4,500,256</td>
</tr>
<tr>
<td>Current year claims and changes in estimates</td>
<td>2,126,156</td>
<td>127,778</td>
</tr>
<tr>
<td>Claim payments</td>
<td>(831,660)</td>
<td>(531,037)</td>
</tr>
<tr>
<td>End of year liability</td>
<td>$4,500,256</td>
<td>$4,096,997</td>
</tr>
</tbody>
</table>

Minnesota Statutes §466.04 limits Regional Water’s tort financial exposure for 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.
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 and was assessed $2,790 for the year 2014. The current agreement is effective through 2014. 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 made contributions in the amount of $10,000 for the year 2014. 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 located at 400 Second Street South, St. Cloud, Minnesota 56301.

Note 6. Future Change in Accounting Standards

GASB Statement No. 68, “Accounting and Financial Reporting for Pensions”, as amended by GASB Statement No. 71, “Pension Transition for Contributions Made Subsequent to the Measurement Date”, replaces Statement No. 27, “Accounting for Pensions by State and Local Governmental Employers”, and Statement No. 50, “Pension Disclosures”, as they relate to employer governments that provide pensions through pension plans administered as trusts or similar arrangement that meet certain criteria. GASB Statement 68 requires governments providing defined benefit pension plans to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This statement will be effective for Regional Water’s calendar year 2015. Regional Water has not yet determined the financial statement impact of adopting this new standard.
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REQUIRED SUPPLEMENTARY INFORMATION
### Schedule 1

#### Schedule of Funding Progress (1)

<table>
<thead>
<tr>
<th>Actuarial Valuation Date</th>
<th>Actuarial Value of Assets</th>
<th>Actuarial Accrued Liability (AAL)</th>
<th>Unfunded AAL (UAAL)</th>
<th>Funded Ratio</th>
<th>Covered Payroll Active Members</th>
<th>UAAL as a Percentage of Covered Payroll</th>
</tr>
</thead>
<tbody>
<tr>
<td>September 30, 2008</td>
<td>$ -</td>
<td>$15,289,857</td>
<td>$15,289,857</td>
<td>0.0%</td>
<td>$11,271,358</td>
<td>135.7%</td>
</tr>
<tr>
<td>September 30, 2010</td>
<td>$ -</td>
<td>$16,138,206</td>
<td>$16,138,206</td>
<td>0.0%</td>
<td>$12,630,550</td>
<td>127.8%</td>
</tr>
<tr>
<td>September 30, 2012</td>
<td>$ -</td>
<td>$13,455,536</td>
<td>$13,455,536</td>
<td>0.0%</td>
<td>$12,584,670</td>
<td>106.9%</td>
</tr>
</tbody>
</table>

(1) For information regarding the plan see Note 5.B. on pages 37-41.

### Schedule 2

#### Schedule of Employer Contributions (1)

<table>
<thead>
<tr>
<th>Fiscal Year Ended</th>
<th>Annual Required Contribution</th>
<th>Percentage Contributed</th>
<th>Net OPEB Obligation</th>
</tr>
</thead>
<tbody>
<tr>
<td>December 31, 2009</td>
<td>$1,308,025</td>
<td>58.51%</td>
<td>$1,648,948</td>
</tr>
<tr>
<td>December 31, 2010</td>
<td>$1,342,799</td>
<td>52.04%</td>
<td>$2,268,673</td>
</tr>
<tr>
<td>December 31, 2011</td>
<td>$1,350,292</td>
<td>53.80%</td>
<td>$2,858,414</td>
</tr>
<tr>
<td>December 31, 2012</td>
<td>$1,388,097</td>
<td>51.04%</td>
<td>$3,495,166</td>
</tr>
<tr>
<td>December 31, 2013</td>
<td>$1,058,497</td>
<td>65.42%</td>
<td>$3,805,727</td>
</tr>
<tr>
<td>December 31, 2014</td>
<td>$1,067,254</td>
<td>63.61%</td>
<td>$4,133,270</td>
</tr>
</tbody>
</table>

(1) For information regarding the plan see Note 5.B. on pages 37-41.
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SUPPLEMENTARY INFORMATION
# Schedule of Expenditures of Federal Awards

For the Fiscal Year Ended December 31, 2014

<table>
<thead>
<tr>
<th>Federal Grantor</th>
<th>Federal Pass-Through Agency</th>
<th>CFDA Grant Program Title</th>
<th>Number</th>
<th>Expenditures</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Department of Transportation</td>
<td>Passed-Through the Metropolitan Council</td>
<td>Federal Transit Capital Investment Grants</td>
<td>20.500</td>
<td>$981</td>
</tr>
<tr>
<td>U.S. Environmental Protection Agency</td>
<td>Passed-Through Minnesota Public Facilities Authority</td>
<td>Capitalization Grants for Drinking Water State Revolving Funds</td>
<td>66.468</td>
<td>$1,853,324</td>
</tr>
<tr>
<td><strong>Total Federal Awards</strong></td>
<td></td>
<td></td>
<td></td>
<td><strong>$1,854,305</strong></td>
</tr>
</tbody>
</table>

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

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1. **Reporting Entity**

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

2. **Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Regional Water under programs of the federal government for the year ended December 31, 2014. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of Regional Water, it is not intended to and does not present the net position, changes in net position, or cash flows of Regional Water.

3. **Summary of Significant Accounting Policies**

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through grant numbers were not assigned by the pass-through agencies.

4. **Subrecipients**

Regional Water did not pass any federal awards through to subrecipients during the year ended December 31, 2014.

5. **Reconciliation of Schedule of Expenditures of Federal Awards to Actual Reimbursements**

Regional Water had expenditures under two federal awards in 2014. The first is the Federal Transit Capital Investment Grants, which is passed through the Metropolitan Council (Met Council); it is a reimbursement award. The second is the Capitalization Grants for Drinking Water State Revolving Funds, which is passed through the Minnesota Public Facilities Authority (MNPFA), a component unit of the State of Minnesota. This award is in the form of a Drinking Water Note Payable secured by General Obligation Bonds. It will be repaid over a 20 year period.
5. **Reconciliation of Schedule of Expenditures of Federal Awards to Actual Reimbursements (continued)**

Expenditures for the Federal Transit Capital Investment Grants during the year ended December 31, 2014, totaled $981. Amounts received during the fiscal year 2014 totaled $25,478; of this amount $981 was for 2014 expenditures. The remaining $24,497 received in 2014 is related to prior years’ expenditures.

Expenditures for the Capitalization Grants for Drinking Water State Revolving Funds during the year ended December 31, 2014, totaled $1,853,324. Reimbursements during fiscal year 2014 totaled $1,614,221; $118,960 was for 2013 expenditures, the remaining $1,495,261 is related to 2014 expenditures.

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