

**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, 2015**

**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, 2015**

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INTRODUCTORY SECTION



BOARD OF WATER COMMISSIONERS

President: Matt Anfang ♦ Vice President: Amy Brendmoen

Commissioners: Mara Humphrey ♦ David Meisinger ♦ Rebecca Noecker ♦ Will Rossbach ♦ Chris Tolbert

June 1, 2016

TO: BOARD OF WATER COMMISSIONERS

Matt Anfang, President
Amy Brendmoen, Vice President
Commissioner Mara Humphrey
Commissioner David Meisinger
Commissioner Rebecca Noecker
Commissioner Will Rossbach
Commissioner Chris Tolbert

Dear Board Members:

Saint Paul Regional Water Services (Regional Water) is proud to present its published Annual Financial Report of the Board of Water Commissioners for the fiscal year ended December 31, 2015. 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, and certain required supplementary information.

REPORTING ENTITY AND SERVICES

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

SAINT PAUL REGIONAL WATER SERVICES

Stephen P. Schneider, General Manager

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

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

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

AA-ADA-EEO Employer

HIGHLIGHTS IN SUMMARY

Administration Division

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

2015 was a pivotal year as Administration worked with the Board of Water Commissioners to approve a long-term financing plan that will allow Regional Water to complete projects proposed in the *Master Plan* developed by consulting firm CH2M Hill for needed upgrades and stewardship of the water system. The goal of the plan is to develop a schedule for projects that will enable the utility to continue its high level of performance for the next 40 years.

With proposed changes to Environmental Protection Agency's (EPA) Lead and Copper Rule, the utility began planning in earnest for increased communication with its customers, particularly those who undergo a partial lead service replacement. This became even more urgent as the Flint, Michigan news came out. Water quality problems in the City of Flint, Michigan brought increased scrutiny from the media and customers regarding our own water quality here in Saint Paul. Most of the scrutiny surrounds the Lead and Copper Rule, and lead in drinking water specifically. Regional Water is in compliance with the EPA's Lead and Copper Rule, and should be for the foreseeable future. By year-end, plans were underway to provide lead filtering pitchers to those residents who had a partial lead service replacement starting in 2016.

On-line training, in particular safety training, was implemented during 2015. Previously, Regional Water had used live trainers from the Minnesota Safety Council, to mixed reviews. Our three-year strategic plan was also completed in 2015.

The Business Improvement Unit worked diligently at trying to make our timekeeping process easier. They also worked on a number of initiatives, including: material checkout process; document retention and standard operating procedures; restoration work process; and recycling.

Administration Division - Future Operations

Administration will continue directing efforts at a number of initiatives, including all of those listed above. We also anticipate that there may be some resolution to the White Bear Lake augmentation issue in the near future, and are prepared to address whatever is required of us. As always, our goal is to be able to budget and finance the projects necessary to keep Regional Water operating as a top-notch utility.

Business Division

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

HIGHLIGHTS IN SUMMARY (continued)

At the end of 2015, Regional Water entered into an acquisition agreement with the City of Mendota Heights to convey title of its water infrastructure to Regional Water. The assets are expected to be transferred in 2016 as a contribution. Mendota Heights will have representation on the Board of Water Commissioners through suburban representation.

The Customer Service Section performed all billing operations in 2015 and issued approximately 34,000 bills per month or 1,700 bills per business day. The Customer Service Call Center received 168,026 calls in 2015, an increase from 162,498 in 2014. About 82,823 calls (or 49 percent) were handled by call center staff and 85,203, by the self-serve Interactive Voice Response unit (IVR). This equates to approximately 600 calls per business day of which 300 calls were answered by call center staff. 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 remained under 1 percent, substantially lower than our goal of less than 2 percent. Our IVR offers menu options and responses in both English and Spanish; approximately 1,860 callers took advantage of the Spanish language alternative.

The number of registered users of our on-line bill presentment and payment site, Infinity Link continues to increase. This Customer Information 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 2015, we had 28,000 registered users compared to 21,720 in 2014. Throughout the year, water billings continued to meet schedules.

In 2014, we implemented a new business process focused on a goal of capturing actual readings for use in billing and minimizing estimated bills. The goal is to repair defective radio meters upon the first estimated reading. This effort requires cooperation from customers in giving us access to repair or replace defective meter components. We continue to be successful with this new business process and are minimizing estimated bills.

In 2015, Meter Operations completed testing approximately 650 3-inch and larger water meters that were installed new in 2012. The testing included removal and replacement, Unitized Measuring Element (UME) replacement, and on-site, in-service meter testing. Removal and replacement consists of removing an entire meter, flange to flange and installing a new meter. UME replacement involves removing the packaged UME measuring components of large meters and installing new calibrated packaged UME components into the meter body which is left in place. On-site, in-service meter testing involves setting a calibrated meter in series with the in-service meter and comparing the measured volumes. These test results will help Regional Water develop a longer term large meter testing strategy and schedule.

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

HIGHLIGHTS IN SUMMARY (continued)

It was another exciting and challenging year for our Financial Services Unit. Staff continue to work to become proficient and expand the use of available functionality and reporting when working with the new Enterprise Resource Planning (ERP) system, INFOR. The INFOR Human Capital Management module (human resources and payroll) was implemented with the first payroll in 2015.

Along with the new INFOR Finance and Human Capital Management System, the City of Saint Paul implemented a new Time, Attendance and Scheduling System (TASS) in 2014. The system provides punch-in functionality and a robust, rule-based processing feature. Unfortunately, we identified some shortcomings with the functionality of TASS and determined all Regional Water staff would continue dual entry into the TASS system and our Computerized Maintenance Management System (CMMS), completing both CMMS time sheets and TASS time accounting through 2015 and into 2016 until another solution can be identified and implemented. We continued to assign staff to reconcile CMMS to TASS, manage CMMS information, and reallocate payroll charges to the functional accounts in the general ledger in INFOR.

Overall, Financial Services staff successfully navigated the applications and provided/compiled information necessary for SPRWS to manage its financial position by developing a budget, tracking spending and revenues, providing a monthly report to the Board of Water Commissioners and ensuring appropriate internal controls.

Fully functioning technology has evolved to be a basic, daily, business requirement for 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 percent of the time for things within their control. Information Services staff helped in operating the dual timekeeping systems of TASS and CMMS and coordinated consulting work to facilitate the reconciliation between the two systems. The section implemented a disaster recovery Storage Area Network (SAN) and Virtual Server Environment off-site and continued to test version 4 of CIS Infinity, planning for go-live in the spring of 2016. In addition, staff implemented a new, self-serve, external map for customers and partners to make boundary survey maps.

Business Division - Future Operations

Regional Water plans to go-live with version 4 of CIS Infinity in the spring of 2016. There may be a slight decline in efficiency near go-live as staff becomes proficient with this new software version. However, overall the new version offers more functionality, flexibility, and increased overall reliability.

A new version of CMMS is scheduled to become available in 2017. At this time, we do not anticipate go-live with this new system before 2018.

In 2016, Regional Water looks forward to TASS and CMMS enhancements that will allow staff to enter time into one system while continuing to rely on CMMS delivering timely complete and accurate detailed financial information. We anticipate more functionality, better reporting and becoming more proficient with the INFOR Finance and Human Capital Management System. We will continue to examine workflow processes throughout the utility, looking for improved efficiency and enhanced delivery of services.

HIGHLIGHTS IN SUMMARY (continued)

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 7.65 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, 276 lead water services were replaced last year. These replacements were done in coordination with street reconstruction projects and also where property owners have previously replaced their portion of the lead service in private property and where old services were leaking and required replacement.

Work also included the replacing 170 of the 9,600 system hydrants during the year.

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. All 9,632 public fire hydrants in the system were inspected during the year. This involves the operation of hydrants and performing minor repair work as necessary.

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 122 main breaks within our service area and 11 repairs in communities outside our service area.

Distribution Division – Future Operations

In 2016, 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 2016 will allow for additional main improvements outside street reconstruction areas. These improvements will include utilizing the pipe bursting method for main replacement and installation of a structural liner in other cast iron main.

HIGHLIGHTS IN SUMMARY (continued)

Engineering Division

The Engineering Division is comprised of the following five sections: Project Engineering, Agreements, Maps and Records, Plumbing Inspection, and Damage Prevention. The division provides for the planning and inspections for the utility and its customers.

Regional Water is committed to improving asset management in the utility. A *Master Plan* was completed in 2014 which provided a roadmap of major capital improvements for the next 40 years, focusing on water supply, treatment and pumping infrastructure. Many of our large engineering projects in 2015 and beyond will be predicated on this roadmap.

In addition, much work has been done in recent years regarding water main planning and prioritization. 2015 was the first year that a “water main surcharge” was introduced to allow for an additional \$2.8 million in funding for the water main capital improvement program. Also, much of our past water main construction was done in conjunction with public works street reconstruction. The City of Saint Paul’s Department of Public Works has changed their focus from residential streets to arterial street repair; this impacts our water main replacement program. We will continue to work closely with various public works agencies to replace and upgrade aging infrastructure.

Significant progress on a number of large projects was made in 2015 that will serve our customers well into the future. Some of these projects include:

Water Main Capital Improvements - There were two large projects done outside of street reconstruction programs in 2015. First, we replaced nearly one mile of pipe using pipe bursting, a trenchless technology which replaces cast iron pipe with new high density polyethylene pipe. The other project was a coordinated construction project with Xcel Energy where we replaced nearly two miles of old water main on Sherburne Avenue and St. Albans Avenue in Saint Paul. Another challenging project was the replacement of the 30-inch diameter water main crossing Interstate Highway 35E at Arlington Avenue. This project was done in coordination with the Minnesota Department of Transportation (MNDOT) highway reconstruction. All together, we replaced 7.65 miles of main in 2015.

McCarron’s Electrical Project - One of the highest rated projects that resulted from the *Master Plan* was the replacement of the main switchgear at the McCarron’s water treatment plant. An alternatives study/preliminary design project began and completed in 2015 that defined the direction for this work. Final design on the project began during the year.

Condition Assessments - The *Master Plan* recommended conducting condition assessments on the following facilities: Fridley pump station foundation; McCarron’s treatment plant foundation; the figure 8 portions of the treatment plant; and the raw water conduits. These studies were initiated in 2015.

Solids Dewatering Filter Press - Work completed on a new filter press which was added to provide greater capacity to treat our waste sludge generated through the water treatment process. This was a \$2 million project funded through the Minnesota Public Facilities Authority (MNPFA) revolving loan fund program.

HIGHLIGHTS IN SUMMARY (continued)

Engineering Division – Future Operations

The Engineering Division continues with industry leading advancement by leveraging electronic applications and effectively utilizing enhancement to best serve our asset management program. We continue to expand the use of Global Positioning Systems (GPS) in order to collect more accurate data on our facilities.

The additional \$2.8 million which was added to our existing water main capital improvement program in 2015 was a significant increase that will help improve our aging buried infrastructure. This will also bring challenges of increased workload, planning and prioritization.

Construction is planned to begin in the summer of 2016 for the replacement of the McCarron's treatment plant electrical switchgear. This project will be funded through the MNPFA revolving loan fund program. Condition assessments will be completed or near completion by the end of 2016.

Production Division

Annual production of water for 2015 was our lowest since 1962, with a daily average of 39.8 Million Gallons per Day (MGD). Precipitation was 8.2 inches above normal for the year in the metropolitan area. Most of above normal departures of precipitation occurred after July 1. River levels were also above normal for much of 2015, and drought was not a concern for the metro area. Our total annual pumping from the McCarron's treatment plant was 14,508 Million Gallons (MG). 10,792 MG came from the Mississippi River with the remainder coming as direct precipitation and watershed runoff in the supply system.

We had another excellent year of water quality. The McCarron's treatment plant continued the Partnership for Safe Water's Presidents Award in 2015. 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 eight complaints of taste or odor being logged into the CIS for the year.

Chemical costs were up slightly with an increase of 1.7 percent, to \$203.91 per MG of water treated. Total finished water pumping electrical costs were down 3.1 percent from 2014, with a normalized value of \$58.27 per MG. Raw water electrical costs were up 4.6 percent from 2014, with a value of \$53.15 per MG.

A number of improvements were made 2015. A firm was selected to provide inspection and analysis of pipe condition on all of the raw water conduits between the Mississippi River and the McCarron's treatment plant. New Granular Activated Carbon (GAC) filter media was added to many of the filters that had lost some media by attrition over the last eight years. A new aluminum sulfate feed system was installed at the head of the plant. An improved security system was installed at the Dale Street reservoir to prevent vandalism and "urban exploration".

HIGHLIGHTS IN SUMMARY (continued)

Production Division – Future Operations

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

Zebra mussel treatment chemicals, which were hoped to be in use for 2015, were not purchased due to regulatory issues between the Minnesota Department of Agriculture and a chemical vendor. Our plan is to do a trial run of chemicals to combat the spread of zebra mussels at the west Vadnais intake chamber.

Three electrical projects are underway: the Hazel Park pump station is receiving all new switchgear and Motor Control Center's (MCC's) and should be completed in 2016; the McCarron's treatment plant is receiving new incoming electric service switchgear and transformers, along with new pump switchgear and MCC's. This project will extend into 2018; and the West St. Paul pump station is receiving a stand-by generator for electric power as well as new switchgear and MCC's. This was done in lieu of a new water storage tank.

Work still needs to be done on some of the filter control systems in the plant, namely the old Programmable Logic Controllers (PLCs) and flow controllers need replacement. Also in the controls arena, the new Supervisory Control and Data Acquisition (SCADA) software has yet to be implemented.

We are in the planning stages of a pilot study for a new water softening technology. Our master plan has laid out new softening reactors at the McCarron's treatment plant starting in 2018. We need to determine if one of the options for softening technology is suitable for our source water and operational framework. We hope to complete this pilot in 2016.

The assessment of the water supply conduits is underway and will continue into 2017. This is an assessment of our two lines from the Mississippi River as well as the two conduits between Vadnais Lake and the McCarron's treatment plant.

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

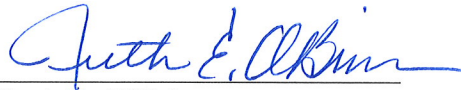
ACKNOWLEDGMENTS

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

Respectfully submitted,



Stephen P. Schneider
General Manager



Ruth E. O'Brien
Financial Services Manager

BOARD OF WATER COMMISSIONERS OF THE CITY OF SAINT PAUL
BOARD MEMBERS TERM OF OFFICE

As of December 31, 2015

PUBLIC MEMBERS

Term Expires

Matt Anfang, President

June 30, 2016

Mara Humphrey, Commissioner

January 1, 2018

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

CITY COUNCIL MEMBERS

Amy Brendmoen, Vice President

January 1, 2016

Russ Stark

January 1, 2016

Chris Tolbert

January 1, 2016

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

SUBURBAN MEMBERS

David Meisinger

December 31, 2016

Will Rossbach

December 31, 2016

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

SECRETARY

Mollie Gagnelius was appointed by the Board January 2008.

GENERAL MANAGER

Stephen P. Schneider appointed by the Board December 2003.

FINANCIAL SECTION



REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

OFFICE OF THE STATE AUDITOR

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525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
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state.auditor@state.mn.us (E-mail)
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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Saint Paul Regional Water Services, a component unit of the City of Saint Paul, Minnesota, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Saint Paul Regional Water Services' basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Saint Paul Regional Water Services' preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances,

but not for the purpose of expressing an opinion on the effectiveness of the Saint Paul Regional Water Services' internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Saint Paul Regional Water Services as of December 31, 2015, 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.

Emphasis of Matter - Change in Accounting Principle

As discussed in Note 2.D. to the financial statements, in 2015 the Saint Paul Regional Water Services adopted new accounting guidance by implementing the provisions of Governmental Accounting Standards Board (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*, and GASB Statement No. 82, *Pension Issues*, which represents a change in accounting principles. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Required Supplementary Information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the GASB, 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.

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 as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 27, 2016, 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

May 27, 2016

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**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended December 31, 2015**

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, 2015. 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 \$259,547,985 (Net Position). Of this amount, \$5,406,365 (unrestricted) may be used to meet the utility's ongoing obligations.
- Regional Water's total net position increased by \$13,928,381.

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

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended December 31, 2015**

Overview of Annual Financial Report (continued)

This report also contains certain required supplementary information in accordance with the requirements of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, an amendment of GASB Statement No. 27, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, and GASB Statement No. 82, *Pension Issues*. This required supplementary information includes a Schedule of the Proportionate Share of Net Pension Liability and a Schedule of Contributions.

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

Regional Water implemented the new pension accounting and financial reporting standards as they relate to employer governments that provide pensions through pension plans administered as trusts. GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, an amendment of GASB Statement No. 27, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, and GASB Statement No. 82, *Pension Issues*.

GASB Statements 68 and 71 require Regional Water to report its proportionate share of the Public Employees Retirement Association's (PERA) total employers' unfunded pension liability. As a result, beginning net position has been restated to record Regional Water's net pension liability and related deferred outflows of resources.

Net Position, January 1, 2015, as previously reported	\$257,675,280
Change in Accounting Principles	<u>\$(12,055,676)</u>
Net Position, January 1, 2015, as restated	<u><u>\$245,619,604</u></u>

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended December 31, 2015**

Financial Analysis (continued)

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

As can be seen from the following table, total net position increased \$13.93 million to \$259.55 million in 2015, up from \$245.62 million in 2014. 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 2015, Regional Water had invested \$426.01 million in capital assets. The \$11.08 million increase in capital assets for the past fiscal year primarily for water related improvements, equipment, and public improvements such as mains, hydrants and services. Land increased \$2.6 million; there was \$100 thousand in new costs and \$2.5 million was in Construction in Process (CIP) at the end of 2014 and was transferred to the Land account this year.

Long-Term Debt

At the end of 2015, bonds payable were \$15.81 million and revenue notes payable were \$26.26 million. This debt will be repaid with revenue generated by Regional Water.

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**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended December 31, 2015**

Condensed Statement of Net Position (in thousands)

	Fiscal Year 2015	Fiscal Year 2014	Dollar Change	Total % Change
Assets				
Current and Other Assets	\$ 48,131	\$ 40,367	\$ 7,764	19.2
Capital Assets - net	\$ 285,972	\$ 281,995	\$ 3,977	1.4
Total Assets	\$ 334,103	\$ 322,362	\$ 11,741	3.6
Deferred Outflows of Resources	\$ 1,728	\$ -	\$ 1,728	100.0
Liabilities				
Current Liabilities	\$ 14,031	\$ 13,112	\$ 919	7.0
Noncurrent Liabilities	\$ 60,657	\$ 51,575	\$ 9,082	17.6
Total Liabilities	\$ 74,688	\$ 64,687	\$ 10,001	15.5
Deferred Inflows of Resources	\$ 1,595	\$ -	\$ 1,595	100.0
Net Position				
Net Investment in Capital Assets	\$ 243,313	\$ 235,568	\$ 7,745	3.3
Restricted for Debt Service	10,829	11,472	(643)	(5.6)
Unrestricted	5,406	10,635	(5,229)	(49.2)
Total Net Position, as reported	\$ 259,548	\$ 257,675	\$ 1,873	0.7
Change in accounting principles*		(12,056)		
Total Net Position, as restated		\$ 245,619		

*This is the first year Regional Water implemented the new pension accounting and financial reporting standards authorized by the Governmental Accounting Standards Board (GASB). Regional Water had to make a prior year adjustment for a change in accounting principles to record Regional Water's net pension liability and related deferred outflows of resources of \$12.056 million. See Note 2.D. on page 20 and Note 4.A. on pages 37-42 of this report.

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

	Fiscal Year 2015	Fiscal Year 2014	Dollar Change	Total % Change
Operating Revenues	\$ 57,543	\$ 50,858	\$ 6,685	13.1
Non-Operating Revenues (Expenses)	\$ (473)	\$ 2	\$ (475)	(238.0)
Total Revenues	\$ 57,070	\$ 50,860	\$ 6,210	12.2
Operating Expenses	\$ 44,343	\$ 43,685	\$ 658	1.5
Income (Loss) Before Capital Contributions	\$ 12,727	\$ 7,175	\$ 5,552	77.4
Capital Contributions	\$ 1,202	\$ 2,183	\$ (981)	(44.9)
Change in Net Position	\$ 13,929	\$ 9,358	\$ 4,571	48.8
Net Position - January 1, as restated	245,619 *	248,317	(2,698)	(1.1)
Net Position - December 3, as reported	\$ 259,548	\$ 257,675	\$ 1,873	0.7

*Amount includes a change in accounting principle. See Note 2.D. on page 20 and Note 4.A. on pages 37-42 of this report.

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended December 31, 2015**

Revenues

Regional Water's operating revenues are derived mainly from the sale of water. Other sources include: services, fees, rents and leases. Operating revenues increased by \$6.68 million to \$57.54 million in 2015, up from \$50.86 million in 2014.

Water rates increased \$.18 per 100 cubic feet to \$2.57 in 2015; up from \$2.39 per 100 cubic feet in 2014. Consumption levels decreased 350 thousand billing units (100 cubic feet) from 2014 levels. The water service base fee increased \$1.00 to \$4.00; up from \$3.00 in 2014. This is a monthly fee and is based on the size of the meter and increases as the meter size increases to reflect the increased cost of providing peak volume capacity. In 2015 Regional Water introduced a water main surcharge. This surcharge is designed to fund main replacement in the service area. The rate is \$0.20 per 100 cubic feet in 2015.

Expenses

Regional Water's operating expenses increased \$658 thousand to \$44.34 million in 2015, up from \$43.68 million in 2014. There was an increase of \$536 thousand related to salaries and fringes, \$87 thousand for chemicals, \$71 thousand for lime residual hauling, \$238 thousand for central services, \$171 thousand for settlements, and \$309 thousand for depreciation. There was a decrease of \$215 thousand for energy costs, \$266 thousand for professional services, and \$273 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 from 2014 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.

BOARD OF WATER COMMISSIONERS OF THE CITY OF SAINT PAUL, MINNESOTA
REGIONAL WATER SERVICES STATEMENT OF NET POSITION
December 31, 2015
(Amounts in dollars)

Exhibit A

ASSETS

Current Assets

Cash and Investments with Treasurer	16,758,013
Investments	8,041,900
Departmental Cash	201,454
Imprest Funds	7,000
Restricted Cash and Cash Equivalents	
Investments for Revenue Note Debt Service	1,560,950
Investments for Revenue Bond Debt Service	2,949,075
Receivables	
Accounts (net of allowance for Estimated Uncollectibles)	5,812,455
Assessments	
Current	676,396
Deferred	2,294,596
Delinquent	123,139
Tax Forfeited Property	11,699
Accrued Interest	119,924
Due from Primary Government	81,443
Due from Other Governmental Units	779,689
Inventory - Materials and Supplies	2,210,599

Total Current Assets	<u>41,628,332</u>
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Noncurrent Assets

Restricted Assets

Investments for Revenue Bond Future Debt Service	4,624,939
Investments for Revenue Bond Operations and Maintenance	<u>1,773,970</u>

Total Restricted Assets	<u>6,398,909</u>
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Long-Term Loans Receivable	104,096
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Capital Assets

Land	3,909,692
Buildings and Structures	57,566,696
Less: Accumulated Depreciation	(22,451,341)
Public Improvements	289,231,741
Less: Accumulated Depreciation	(86,519,975)
Equipment	56,504,597
Less: Accumulated Depreciation	(31,071,083)
Construction in Progress	<u>18,801,909</u>

Total Capital Assets (Net of Accumulated Depreciation)	<u>285,972,236</u>
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Total Noncurrent Assets	<u>292,475,241</u>
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Total Assets	<u>334,103,573</u>
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DEFERRED OUTFLOWS OF RESOURCES

Deferred Pension Outflows	<u>1,728,182</u>
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continued

BOARD OF WATER COMMISSIONERS OF THE CITY OF SAINT PAUL, MINNESOTA
REGIONAL WATER SERVICES STATEMENT OF NET POSITION
December 31, 2015
(Amounts in dollars)

Exhibit A

LIABILITIES

Current Liabilities (Payable from Current Assets)

Accrued Salaries Payable	787,968
Accounts Payable	1,775,155
Contract Retention Payable	196,230
Due to Primary Government	2,978,303
Due to Other Governmental Units	3,156,133
Unearned Revenue	442,831
Compensated Absences Payable	110,231
Claims and Judgments Payable	629,890

Total Current Liabilities (Payable from Current Assets)	<u>10,076,741</u>
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Current Liabilities (Payable from Restricted Assets)

Revenue Notes Payable	1,344,434
Revenue Bonds Payable	2,530,000
Accrued Interest Payable on Revenue Notes	44,990
Accrued Interest Payable on Revenue Bonds	34,923

Total Current Liabilities (Payable from Restricted Assets)	<u>3,954,347</u>
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Noncurrent Liabilities

Revenue Bonds Payable	13,275,000
Premium on Revenue Bonds	593,957
Revenue Notes Payable	24,916,246
Compensated Absences Payable	1,685,179
Net Other Post Employment Benefits Obligation	4,422,010
Net Pension Liability	12,451,952
Claims and Judgments Payable	3,312,955

Total Noncurrent Liabilities	<u>60,657,299</u>
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Total Liabilities	<u>74,688,387</u>
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DEFERRED INFLOWS OF RESOURCES

Deferred Pension Inflows	<u>1,595,383</u>
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NET POSITION

Net Investment in Capital Assets	243,312,599
Restricted for Debt Service	10,829,021
Unrestricted	5,406,365

Total Net Position	<u><u>259,547,985</u></u>
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The notes to the financial statements are an integral part of this statement.

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BOARD OF WATER COMMISSIONERS OF THE CITY OF SAINT PAUL, MINNESOTA
REGIONAL WATER SERVICES STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
For the Fiscal Year Ended December 31, 2015
(Amounts in dollars)

Exhibit B

OPERATING REVENUES	
Fees, Sales and Services	56,429,578
Rents and Leases	890,700
Miscellaneous	<u>222,485</u>
Total Operating Revenues	<u>57,542,763</u>
OPERATING EXPENSES	
Salaries	12,475,293
Employee Fringe Benefits	6,631,118
Services	9,817,440
Materials and Supplies	7,049,846
Depreciation	8,033,465
Miscellaneous	<u>335,851</u>
Total Operating Expenses	<u>44,343,013</u>
OPERATING INCOME (LOSS)	<u>13,199,750</u>
NON-OPERATING REVENUES (EXPENSES)	
Operating Grants	77,960
Gain on Sale of Assets	51,188
Loss on Retirement of Assets	(480,709)
Investment Income	
Interest Earned on Investments	403,406
Increase in Fair Value of Investments	308,532
Miscellaneous Other Revenue (Expenses)	86,779
Interest Expense on	
Revenue Bonds	(389,553)
Revenue Notes	<u>(531,374)</u>
Total Non-Operating Revenues (Expenses)	<u>(473,771)</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS	12,725,979
CAPITAL CONTRIBUTIONS	
Capital Acquisitions - Outside Sources	<u>1,202,402</u>
CHANGE IN NET POSITION	13,928,381
NET POSITION, January 1, as Restated (Note 2. D)	<u>245,619,604</u>
NET POSITION, December 31	<u><u>259,547,985</u></u>

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

BOARD OF WATER COMMISSIONERS OF THE CITY OF SAINT PAUL, MINNESOTA
REGIONAL WATER SERVICES STATEMENT OF CASH FLOWS
For the Fiscal Year Ended December 31, 2015
(Amounts in dollars)

Exhibit C

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from Customers	56,274,306
Other Operating Receipts	890,700
Other Receipts	222,485
Payments to Suppliers	(17,735,166)
Payments to Employees	(12,366,058)
Payment for Fringe Benefits and Payroll Taxes	(6,076,573)
Non-Operating Revenue Received	<u>88,069</u>

NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES 21,297,763

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Operating Grants Received	77,960
Non-Operating Loans Repayment Received from Customers	<u>7,633</u>

NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES 85,593

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Cash Proceeds From Issuance of Debt:	
Revenue Notes	498,859
Cash Proceeds From Sale of Capital Assets:	
Land	10,859
Equipment	37,765
Capital Contributions Received:	
From Outside Parties	1,084,609
Principal Paid on Debt Maturities:	
Revenue Bonds	(2,345,000)
Revenue Notes	(1,833,754)
Payments for Acquisition and Construction of Capital Assets:	
Construction in Progress	(11,401,767)
Interest Paid On:	
Revenue Bonds	(394,809)
Revenue Notes	(536,728)

NET CASH PROVIDED (USED) IN CAPITAL AND RELATED FINANCING ACTIVITIES (14,879,966)

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of Investment Securities	(7,458,483)
Proceeds From Sale and Maturities of Investment Securities	6,465,533
Interest and Dividends on Investments Received	<u>401,231</u>

NET CASH PROVIDED (USED) IN INVESTING ACTIVITIES (591,719)

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS 5,911,671

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

CASH AND CASH EQUIVALENTS AT END OF YEAR 16,966,467

continued

BOARD OF WATER COMMISSIONERS OF THE CITY OF SAINT PAUL, MINNESOTA
REGIONAL WATER SERVICES STATEMENT OF CASH FLOWS
For the Fiscal Year Ended December 31, 2015
(Amounts in dollars)

Exhibit C

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

Operating Income (Loss)	13,199,750
Adjustments To Reconcile Operating Income To Net Cash Provided (Used) by Operating Activities:	
Depreciation	8,033,465
Increase (Decrease) in Allowance for Uncollectible Accounts	(82,990)
Nonoperating Miscellaneous Other Revenue Received	88,069
Changes in Assets and Liabilities:	
(Increase) Decrease in Accounts Receivable	(704,495)
(Increase) Decrease in Assessments Receivable	347,202
(Increase) Decrease in Due From Primary Government	(1,808)
(Increase) Decrease in Due From Other Governmental Units	196,906
Increase (Decrease) in Deferred Pension Outflows	266,329
(Increase) Decrease in Inventories	(175,878)
Increase (Decrease) in Accrued Salaries Payable	109,235
Increase (Decrease) in Accounts Payable	(407,255)
Increase (Decrease) in Due To Primary Government	99,246
Increase (Decrease) in Due To Other Governmental Units	106,010
Increase (Decrease) in Unearned Revenue	89,913
Increase (Decrease) in Compensated Absences Payable	2,328
Increase (Decrease) in Other Post Employment Benefits Obligation	288,740
Increase (Decrease) in Deferred Pension Inflows	121,922
Increase (Decrease) in Net Pension Liability	(124,774)
Increase (Decrease) in Claims and Judgments Payable	(154,152)
Total Adjustments	8,098,013
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	21,297,763
DETAILS OF CASH AND CASH EQUIVALENTS	
Cash and Investments with Treasurer	16,758,013
Departmental Cash	201,454
Imprest Funds	7,000
TOTAL CASH AND CASH EQUIVALENTS	16,966,467

NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES

Loss on Retirement/Deletion of Capital Assets	(480,709)
Change in Fair Value of Investments	308,532
Capital Assets Purchased on Account - Construction in Progress	2,445,490

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, 2015

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. Change in Accounting Principles
 - E. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position
 1. Cash and Investments
 2. Receivables
 3. Material and Supplies Inventory
 4. Restricted Assets
 5. Capital Assets
 6. Bond Premiums and Issuance Costs
 7. Compensated Absences
 8. Defined Benefit Pension Plan
 9. Deferred Outflows/Inflows of Resources
 10. Equity Classifications
 11. Capital Contributions
 12. Operating and Non-Operating Revenues and Expenses
 13. Use of Estimates

Index to Notes to the Financial Statements (continued)

3. Detail Notes

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1. Deposits and Investments
2. Summary of Changes in Capital Assets

B. Liabilities

1. Debt Obligations of Regional Water
 - a. Current and Long-Term Debt Maturities
 - b. Changes in Debt Obligations
 - c. Principal and Interest Requirements on Debt Obligations
 - 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

4. Other Information

- A. Defined Benefit Pension Plan
- B. Postemployment Benefits Other than Pensions
- C. Risk Management
- D. Contingent Liabilities
- E. Joint Powers
- F. Subsequent Events

5. Future Change in Accounting Standards

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2015**

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, 2015, as a discretely presented component unit.

B. Proprietary Activity

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

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2015**

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 deferred outflows of resources and all liabilities and deferred inflows of resources associated with the operation are included on the Statement of Net Position.

D. Change in Accounting Principles

During the year ended December 31, 2015, Regional Water adopted new accounting guidance by implementing the provisions of GASB Statements 68, 71, and 82. GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*, requires governments providing defined benefit pensions to employees through pension plans administered through trusts to record their proportionate share of the net pension obligation as a liability on their financial statements along with related deferred outflows of resources, deferred inflows of resources, and pension expense. This statement also requires additional note disclosures and schedules in the required supplementary information. The Public Employees Retirement Association of Minnesota (PERA) administers the pension plan.

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, addresses an issue regarding amounts associated with contributions made to a pension plan after the measurement date of the net pension liability.

GASB Statement No. 82, *Pension Issues - an amendment of GASB Statement No. 68*, modifies the measure of payroll that is presented in the required supplementary information schedules.

GASB Statements 68 and 71 require Regional Water to report its proportionate share of the PERA total employers' unfunded pension liability. As a result, beginning net position has been restated to record Regional Water's net pension liability and related deferred outflows of resources.

Net Position, January 1, 2015, as previously reported	\$257,675,280
Change in Accounting Principles	<u>\$(12,055,676)</u>
Net Position, January 1, 2015, as restated	<u><u>\$245,619,604</u></u>

SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2015

Note 2. Summary of Significant Accounting Policies (continued)

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

1. Cash and Investments

For its funds the City maintains a general portfolio, which is a pool of investments covering pooled cash and cash equivalents. This pool is also available for use by Regional Water. In addition, the City invests non-pooled Regional Water cash. These investments are reported at fair value on the statement of net position with recognition of the corresponding changes in fair value of investments reported in the operating statement in the year in which the change occurred. Accordingly, investments are stated at fair value based upon quoted market prices at December 31, 2015. 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 certain external investment pools are measured at the net asset value per share provided by the pool. See Note 3.A.1.

In 2015, Regional Water recorded an "increase in fair value of investments" of \$308,532 as part of investment income. The calculation of realized gains and losses is independent of the calculation of the net change in the fair value of investments. Realized gains and losses on investments that have been held in more than one fiscal year and sold in the current year may have been included as part of the change in the fair value of investments reported in the prior year.

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

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2015**

Note 2. Summary of Significant Accounting Policies (continued)

2. Receivables

The receivables account presented on the Statement of Net Position consists of five accounts. The balance of those accounts as of December 31, 2015, is as follows:

Accounts Receivable - Invoices	\$ 229,742
Accounts Receivable - Water Billings	5,088,626
Accounts Receivable - Unbilled	521,371
Accounts Receivable - Miscellaneous	40,444
Allowance for Uncollectible Accounts	<u>(67,728)</u>
Accounts Receivable (net of Allowance for Estimated Uncollectible)	<u>\$ 5,812,455</u>

The Assessments Receivables consist of Current, Deferred, Delinquent and Tax Forfeiture accounts. Current assessments consist of water mains constructed, lead service replacements, and unpaid water bills assessed for the current year. Deferred assessments are made up of water main and lead service replacements to be assessed over ten to twenty years. Delinquent assessments are levied assessments that have not been paid from 2010 through 2014. Tax forfeited properties are subject to forfeiture.

3. Material and Supplies Inventory

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

4. Restricted Assets

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

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**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2015**

Note 2. Summary of Significant Accounting Policies (continued)

5. Capital Assets

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

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

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

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

6. Bond Premiums and Issuance Costs

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

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

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2015**

Note 2. Summary of Significant Accounting Policies (continued)

7. Compensated Absences

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

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

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

8. Defined Benefit Pension Plan

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

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**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2015**

Note 2. Summary of Significant Accounting Policies (continued)

9. Deferred Outflows/Inflows of Resources

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

In addition to liabilities, the Statement of Net Position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. Currently, Regional Water has one item, deferred pension inflows, that qualifies for reporting in this category. These inflows arise only under the full accrual basis of accounting and consist of differences between expected and actual pension plan economic experience and also pension plan changes in proportionate share and, accordingly are reported only in the Statement of Net Position.

10. Equity Classifications

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

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

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

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2015**

Note 2. Summary of Significant Accounting Policies (continued)

11. Capital Contributions

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

12. Operating and Non-Operating Revenues and Expenses

Proprietary activities distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary activity’s principal ongoing operations. The principal operating revenues of Regional Water are charges to customers for goods and services. Operating expenses for proprietary activities include the cost of goods and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

13. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make 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.

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**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2015**

Note 3. Detail Notes

A. Assets

1. Deposits and Investments

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

Deposits

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

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

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the City's deposits may not be returned to it. As of December 31, 2015, the City's deposits were not exposed to custodial credit risk. All pledged collateral is held in the City's name at third party institutions, pledged at 110 percent of deposits not covered by insurance or bonds.

Regional Water's deposits of \$16,758,013 (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, 2015, the total imprest funds were \$7,000. Regional Water also had departmental cash on hand of \$201,454.

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2015**

Note 3. A. Assets (continued)

Investments

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

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

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

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

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2015**

Note 3. A. Assets (continued)

(f) Repurchase agreements may be entered into with:

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

(g) Securities lending agreements;

(h) Guaranteed investment contracts.

Credit Risk

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

Regional Water's exposure to credit risk as of December 31, 2015, is as follows:

<u>Rating Agency</u>	<u>Rating</u>	<u>Fair Value</u>
Moody's	Aaa	<u>\$18,950,834</u>

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. At December 31, 2015, all investment securities were in the City's name and were held in the custody of US Bank under the City's name and therefore are not subject to custodial credit risk.

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2015**

Note 3. A. Assets (continued)

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by the City's investment in a single issuer. It is the City's policy that U.S. Treasury securities, U.S. Agency Securities, and obligations backed by U.S. Treasury and/or U.S. Agency securities, may be held without limit. At December 31, 2015, 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, 2015, Regional Water had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Less Than 2 Years</u>	<u>2 - 4 Years</u>	<u>5 - 10 Years</u>	<u>Greater Than 10 Years</u>
U.S. Government Agency Securities	\$18,950,834	\$2,536,604	\$ -	\$5,980,680	\$10,433,550

Recap

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

Cash and Investments with Treasurer	\$ 16,758,013
Investments	8,041,900
Departmental Cash	201,454
Imprest Funds	7,000
Restricted Cash and Cash Equivalents:	
Investments for Revenue Note Debt Service	1,560,950
Investments for Revenue Bond Debt Service	2,949,075
Investments for Revenue Bond Future Debt Service	4,624,939
Investments for Revenue Bond Operations and Maintenance	1,773,970
Total	<u>\$ 35,917,301</u>
Deposits	\$ 16,758,013
Investments	18,950,834
Departmental Cash	201,454
Imprest Funds	7,000
Total	<u>\$ 35,917,301</u>

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2015**

Note 3. A. Assets (continued)

2. Summary of Changes in Capital Assets

A summary of changes in capital assets follows:

	01/01/2015	Additions	Deductions	12/31/2015
Capital Assets Not Being Depreciated:				
Land	\$ 1,307,907	\$ 2,601,785	\$ -	\$ 3,909,692
Construction in Progress	15,041,940	12,971,741	(9,211,772)	18,801,909
Total Capital Assets Not Being Depreciated	<u>\$ 16,349,847</u>	<u>\$ 15,573,526</u>	<u>\$ (9,211,772)</u>	<u>\$ 22,711,601</u>
Capital Assets Being Depreciated:				
Buildings and Structures	\$ 56,160,030	\$ 2,054,443	\$ (647,777)	\$ 57,566,696
Public Improvements	289,543,173	294,554	(605,986)	289,231,741
Equipment	52,880,744	4,260,990	(637,137)	56,504,597
Total Capital Assets Being Depreciated	<u>\$ 398,583,947</u>	<u>\$ 6,609,987</u>	<u>\$ (1,890,900)</u>	<u>\$ 403,303,034</u>
Less Accumulated Depreciation for:				
Buildings and Structures	\$ (21,597,687)	\$ (1,276,474)	\$ 422,820	\$ (22,451,341)
Public Improvements	(81,660,906)	(5,209,408)	350,339	(86,519,975)
Equipment	(29,679,811)	(2,028,304)	637,032	(31,071,083)
Total Accumulated Depreciation*	<u>\$ (132,938,404)</u>	<u>\$ (8,514,186)</u>	<u>\$ 1,410,191</u>	<u>\$ (140,042,399)</u>
Total Capital Assets Being Depreciated, Net	<u>\$ 265,645,543</u>	<u>\$ (1,904,199)</u>	<u>\$ (480,709)</u>	<u>\$ 263,260,635</u>
Capital Assets, Net	<u>\$ 281,995,390</u>	<u>\$ 13,669,327</u>	<u>\$ (9,692,481)</u>	<u>\$ 285,972,236</u>

*Total Accumulated Depreciation is reduced by an allowance of \$480,721 for equipment used to construct capital assets; net depreciation reported is \$8,033,465 (\$8,514,186 - \$480,721).

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SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2015

Note 3. Detail Notes (continued)

B. Liabilities

1. Debt Obligations of Regional Water

a. Current and Long-Term Debt Maturities

At December 31, 2015, long-term debt consisted of:

	Principal		
	Unpaid Balances December 31, 2015	Less Current Maturities	Long-Term Maturities
Notes Payable	\$ 26,260,680	\$ 1,344,434	\$ 24,916,246
Revenue Bonds	15,805,000	2,530,000	13,275,000
Compensated Absences	1,795,410	110,231	1,685,179
Claims and Judgments	3,942,845	629,890	3,312,955
Pension Liability	12,451,952	-	12,451,952
Other Postemployment Benefits	4,422,010	-	4,422,010
Total	<u>\$ 64,677,897</u>	<u>\$ 4,614,555</u>	<u>\$ 60,063,342</u>

b. Changes in Debt Obligations

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

	01/01/15 (Restated) Note 2.D	Additions	Deductions	12/31/15
General Obligation				
Waste Water Revenue Note	\$ 676,354	\$ -	\$ 264,754	\$ 411,600
Drinking Water Revenue Notes	26,919,221	498,859	1,569,000	25,849,080
Revenue Bonds	18,150,000	-	2,345,000	15,805,000
Compensated Absences	1,793,082	863,975	861,647	1,795,410
Claims and Judgments	4,096,997	563,710	717,862	3,942,845
Net Pension Liability	12,576,726	3,047,846	3,172,620	12,451,952
Other Postemployment Benefits	4,133,270	1,032,345	743,605	4,422,010
Total	<u>\$ 68,345,650</u>	<u>\$ 6,006,735</u>	<u>\$ 9,674,488</u>	<u>\$ 64,677,897</u>

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2015**

Note 3. B. Liabilities (continued)

c. Principal and Interest Requirements on Debt Obligations

i. All Debt

Aside from Compensated Absences, Claims and Judgments, Net Pension Liability and Other Postemployment Benefits, the annual requirements to pay the principal of \$42,065,680 and interest of \$5,728,790 on all Regional Water debt outstanding as of December 31, 2015, are as follows:

YEAR	2007 REVENUE BONDS			2011D REVENUE BONDS			2013A REVENUE BONDS			TOTAL REVENUE BONDS		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$605,000	\$114,200	\$719,200	\$690,000	\$61,200	\$751,200	\$1,235,000	\$243,675	\$1,478,675	\$2,530,000	\$419,075	\$2,949,075
2017	\$670,000	\$90,000	\$760,000	\$835,000	\$43,950	\$878,950	\$1,245,000	\$225,150	\$1,470,150	\$2,750,000	\$359,100	\$3,109,100
2018	\$710,000	\$63,200	\$773,200	\$630,000	\$18,900	\$648,900	\$1,285,000	\$187,800	\$1,472,800	\$2,625,000	\$269,900	\$2,894,900
2019	\$870,000	\$34,800	\$904,800	\$ -	\$ -	\$ -	\$1,335,000	\$162,100	\$1,497,100	\$2,205,000	\$196,900	\$2,401,900
2020	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$1,365,000	\$135,400	\$1,500,400	\$1,365,000	\$135,400	\$1,500,400
2021-24	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$4,330,000	\$234,100	\$4,564,100	\$4,330,000	\$234,100	\$4,564,100
	<u>\$2,855,000</u>	<u>\$302,200</u>	<u>\$3,157,200</u>	<u>\$2,155,000</u>	<u>\$124,050</u>	<u>\$2,279,050</u>	<u>\$10,795,000</u>	<u>\$1,188,225</u>	<u>\$11,983,225</u>	<u>\$15,805,000</u>	<u>\$1,614,475</u>	<u>\$17,419,475</u>

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2015**

Note 3. B. Liabilities (continued)

YEAR	1996 G.O. WASTE WATER REVENUE NOTE			2010A DRINKING WATER REVENUE NOTE			2010B DRINKING WATER REVENUE NOTE		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$272,434	\$ 9,907	\$282,341	\$200,000	\$95,775	\$295,775	\$770,000	\$371,230	\$1,141,230
2017	\$139,166	\$ 2,004	\$141,170	\$180,000	\$91,849	\$271,849	\$695,000	\$356,123	\$1,051,123
2018	\$ -	\$ -	\$ -	\$240,000	\$88,315	\$328,315	\$935,000	\$342,487	\$1,277,487
2019	\$ -	\$ -	\$ -	\$345,000	\$83,604	\$428,604	\$1,340,000	\$324,142	\$1,664,142
2020	\$ -	\$ -	\$ -	\$475,000	\$76,832	\$551,832	\$1,840,000	\$297,851	\$2,137,851
2021-25	\$ -	\$ -	\$ -	\$1,935,000	\$270,305	\$2,205,305	\$7,545,000	\$1,046,531	\$8,591,531
2026-30	\$ -	\$ -	\$ -	\$1,504,000	\$89,611	\$1,593,611	\$5,796,000	\$346,293	\$6,142,293
2031-34	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
	<u>\$411,600</u>	<u>\$11,911</u>	<u>\$423,511</u>	<u>\$4,879,000</u>	<u>\$796,291</u>	<u>\$5,675,291</u>	<u>\$18,921,000</u>	<u>\$3,084,657</u>	<u>\$22,005,657</u>

YEAR	2014 DRINKING WATER REVENUE NOTE			TOTAL REVENUE NOTES		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$98,028	\$21,474	\$119,502	\$1,340,462	\$498,386	\$1,838,848
2017	\$99,055	\$20,447	\$119,502	\$1,113,221	\$470,423	\$1,583,644
2018	\$100,093	\$19,409	\$119,502	\$1,275,093	\$450,211	\$1,725,304
2019	\$101,142	\$18,360	\$119,502	\$1,786,142	\$426,106	\$2,212,248
2020	\$102,202	\$17,300	\$119,502	\$2,417,202	\$391,983	\$2,809,185
2021-25	\$527,302	\$70,208	\$597,510	\$10,007,302	\$1,387,044	\$11,394,346
2026-30	\$555,517	\$41,992	\$597,509	\$7,855,517	\$477,896	\$8,333,413
2031-34	\$465,741	\$12,266	\$478,007	\$465,741	\$12,266	\$478,007
	<u>\$2,049,080</u>	<u>\$221,456</u>	<u>\$2,270,536</u>	<u>\$26,260,680</u>	<u>\$4,114,315</u>	<u>\$30,374,995</u>

The Wastewater Treatment Water Revenue Note is junior and subordinated to the Revenue Bonds and the Drinking Water Notes.

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2015**

Note 3. 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, 2015, was \$2,049,080.

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, 2015, the claims and judgments liability was \$3,942,845.

iii. Compensated Absences

Included in Regional Water's debt are compensated absences for \$1,795,410.

2. Bonds Payable by Issue

<u>Issue</u>	<u>Issue Rate And Dates</u>	<u>Issue Dates</u>	<u>Final Maturity Date</u>	<u>Amount Outstanding</u>
Revenue	4.06%; 06/01; 12/01	02/14/07	12/01/19	\$ 2,855,000
Revenue	2.00%; 06/01; 12/01	04/06/11	12/01/18	2,155,000
Revenue	1.57%; 06/01; 12/01	03/18/13	12/01/24	<u>10,795,000</u>
Total				<u>\$15,805,000</u>

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2015**

Note 3. B. Liabilities (continued)

3. Notes Payable by Issue

<u>Issue</u>	<u>Issue Rate And Dates</u>	<u>Issue Date</u>	<u>Final Maturity Date</u>	<u>Amount Outstanding</u>
Wastewater Treatment				
Water Revenue Note	2.88%; 02/20; 08/20	06/26/96	02/20/17	\$ 411,600
Drinking Water Revenue Note	1.96%; 06/01; 12/01	07/13/10	12/01/30	4,879,000
Drinking Water Revenue Note	1.96%; 06/01; 12/01	07/13/10	12/01/30	18,921,000
Drinking Water Revenue Note	1.05%; 06/01; 12/01	06/19/14	12/01/34	<u>2,049,080</u>
Total				<u>\$26,260,680</u>

C. Due From Primary Government

At December 31, 2015, Regional Water reported the following receivable from the City of Saint Paul:

<u>City Fund Title</u>	<u>City Fund Type</u>	<u>Amount</u>
Sewer Utility	Enterprise Fund	\$ 81,443

D. Due To Primary Government

At December 31, 2015, Regional Water reported the following payable to the City of Saint Paul:

<u>City Fund Title</u>	<u>City Fund Type</u>	<u>Amount</u>
Sewer Utility	Enterprise Fund	\$ 2,978,303

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**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2015**

Note 4. Other Information

A. Defined Benefit Pension Plans

Plan Description

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

General Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. The Basic Plan was closed to new members in 1967. Regional Water is not required to make any contributions to the Basic Plan. All new members must participate in the Coordinated Plan, for which benefits vest after five years of credited service. Information on the City Employee Pension Plan is contained in the City's Comprehensive Annual Financial Report for the Fiscal Year Ended December 31, 2015.

Benefits Provided

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

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

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2015**

Note 4. A. Defined Benefit Pension Plans (continued)

Benefits Provided (continued)

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for General Employees Retirement Fund Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first ten years of service and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service.

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

Contributions

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minnesota Statutes Chapter 353. These statutes are established and amended by the state legislature. Basic Plan members and Coordinated Plan members were required to contribute 9.10 percent and 6.50 percent, respectively, of their annual covered salary in 2015.

In 2015, Regional Water was required to contribute 7.50 percent of annual covered payroll for General Employees Retirement Fund Coordinated Plan members.

The Coordinated Plan member and employer contribution rates each reflect a 0.25 percent increase from 2014.

Regional Water's contributions for the General Employees Retirement Fund for the year ended December 31, 2015, were \$1,069,877. The contributions are equal to the contractually required contributions as set by state statute.

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2015**

Note 4. A. Defined Benefit Pension Plans (continued)

Pension Costs

At December 31, 2015, Regional Water reported a liability of \$12,451,952 for its proportionate share of the General Employees Retirement Fund's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. Regional Water's proportion of the net pension liability was based on Regional Water's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, Regional Water's proportion was 0.2403 percent. It was 0.2677 percent measured as of June 30, 2014. Regional Water recognized pension expense of \$1,340,898 for its proportionate share of the General Employees Retirement Fund's pension expense.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 627,790
Difference between projected and actual investment earnings	1,178,768	-
Changes in proportion	-	967,593
Contributions paid to PERA subsequent to the measurement date	549,414	-
Total	<u>\$ 1,728,182</u>	<u>\$ 1,595,383</u>

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2015**

Note 4. A. Defined Benefit Pension Plans (continued)

Pension Costs (continued)

A total of \$549,414 is reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended December 31</u>	<u>Pension Expense Amount</u>
2016	\$ (237,102)
2017	(237,102)
2018	(237,102)
2019	294,691

Actuarial Assumptions

The total pension liability in the June 30, 2015, actuarial valuation was determined using the individual entry age normal actuarial cost method and the following additional actuarial assumptions:

Inflation	2.75 percent per year
Active member payroll growth	3.50 percent per year
Investment rate of return	7.90 percent

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants were based on RP-2000 tables for males or females, as appropriate, with slight adjustments. The cost of living benefit increases for retirees was assumed to be 1.0 percent effective every January 1 through 2035, and 2.5 percent thereafter.

Actuarial assumptions used in the June 30, 2015, valuation were based on the results of actuarial experience studies. The experience study in the General Employees Retirement Fund was for the period July 1, 2004, through June 30, 2008, with an update of economic assumptions in 2014.

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2015**

Note 4. A. Defined Benefit Pension Plans (continued)

Actuarial Assumptions (continued)

In 2015, an updated experience study was done for PERA's General Employees Retirement Fund for the six-year period ending June 30, 2014, which would result in a larger pension liability. However, PERA will not implement the changes in assumptions until its June 30, 2016, estimate of pension liability.

The long-term expected rate of return on pension plan investments is 7.9 percent. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic stocks	45%	5.50%
International stocks	15	6.00
Bonds	18	1.45
Alternative assets	20	6.40
Cash	2	0.50

Discount Rate

The discount rate used to measure the total pension liability was 7.9 percent. The discount rate did not change since the prior measurement date. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, each of the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2015**

Note 4. A. Defined Benefit Pension Plans (continued)

Pension Liability Sensitivity

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

	1% Decrease in Discount Rate (6.9%)	Discount Rate (7.9%)	1% Increase in Discount Rate (8.9%)
Proportionate share of the General Employees Retirement Fund net pension liability	\$ 19,578,894	\$ 12,451,952	\$ 6,566,192

Pension Plan Fiduciary Net Position

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

B. Postemployment Benefits Other than Pensions

Plan Description

In addition to providing the pension benefits described in Note 4.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.

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2015**

Note 4. B. Postemployment Benefits Other than Pensions (continued)

Benefits Provided

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

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

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

Health Care Benefit

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

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

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2015**

Note 4. B. Postemployment Benefits Other than Pensions (continued)

Membership

As of actuarial valuation date of September 30, 2014 the membership consisted of:

	<u>Family Coverage</u>	<u>Single Coverage</u>	<u>Total</u>
Retired Participants and Beneficiaries			
Under Age 65 (Early Retirees)	2	35	37
Over Age 65 (Regular Retirees)	<u>38</u>	<u>116</u>	<u>154</u>
Total Retired Participants	<u>40</u>	<u>151</u>	<u>191</u>
 Total Active Participants	 <u>91</u>	 <u>124</u>	 <u>215</u>
Total Participants	<u>131</u>	<u>275</u>	<u>406</u>

Funding Policy

Retiree health care benefits are currently funded based on the benefit disclosed above on a pay-as-you-go basis. Regional Water may change the funding policy at any time. The average monthly premium contributions for 2015 were as follows:

	<u>Age</u>	<u>Average Monthly Regional Water Contribution</u>	<u>Average Monthly Retiree Contribution</u>
Health Insurance	Less than 65	\$346	\$371
	65 and older	\$297	\$ 15
Life Insurance	Less than 65	\$ 1	Not applicable
	65 and older	Not applicable	Not applicable

These plans are fully insured.

The expenses for these postemployment benefits are recognized as premiums and are paid to the insurers. For Regional Water, the 2015 expense totaled \$570,602 for approximately 158 retirees. Retirees contributed \$88,890; active employees do not contribute to the plan until retirement.

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2015**

Note 4. B. Postemployment Benefits Other than Pensions (continued)

Annual OPEB Costs and Net OPEB Obligation

Regional Water had an actuarial valuation performed for the plan as of September 30, 2014, 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, 2015. Regional Water's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2015 and the two preceding years were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Employer Contribution</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
December 31, 2013	\$ 1,003,004	\$ 692,443	69.04%	\$ 3,805,727
December 31, 2014	\$ 1,006,466	\$ 678,923	67.46%	\$ 4,133,270
December 31, 2015	\$ 1,032,345	\$ 743,605	72.00%	\$ 4,422,010

The net OPEB obligation (NOPEBO) at December 31, 2015, was calculated as follows:

Annual Required Contribution (ARC)	\$ 1,100,096
Interest on Net OPEB Obligation	185,997
Adjustment to Annual Required Contribution	(253,748)
Annual OPEB Cost	1,032,345
Contributions Made:	
Direct	601,856
Indirect Implicit Subsidy	141,749
Total Contributions Made	743,605
Increase (Decrease) in Net OPEB Obligation	288,740
Net OPEB Obligation Beginning of Year	4,133,270
Net OPEB Obligation End of Year	<u><u>\$ 4,422,010</u></u>

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2015**

Note 4. B. Postemployment Benefits Other than Pensions (continued)

Funded Status and Funding Progress

The actuarial accrued liability (AAL) for benefits, as of September 30, 2014, the most recent actuarial valuation date, was \$14,098,002. 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, 2014, the most recent actuarial valuation date, is as follows:

Actuarial Valuation Date	Actuarial Value of Plan Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll Active Members	UAAL as a Percentage of Covered Payroll
September 30, 2014	\$ -	\$ 14,098,002	\$ 14,098,002	0.0%	\$ 13,608,567	103.6%

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

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**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2015**

Note 4. B. Postemployment Benefits Other than Pensions (continued)

Actuarial Methods and Assumptions

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

In the September 30, 2014, actuarial valuation the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included 4.50 percent discount rate and an annual healthcare cost trend rate beginning at 7.50 percent for fiscal year 2015 for Non-Medicare eligible retirees and 6.50 percent for Medicare eligible retirees and declining over 8 years to 5.00 percent. Both rates include a 2.75 percent inflation assumption. The actuarial value of assets was \$0, as Regional Water has not advance-funded its obligation. The plan's unfunded actuarial accrued liability is being amortized as a level dollar amount over a 30-year open amortization period (30-year period restarted with each valuation).

C. Risk Management

Regional Water is exposed to various risks of losses related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters. Regional Water utilizes the services of the City Attorney's Office, 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.

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 2014 and 2015:

	<u>Year Ended 12/31/2014</u>	<u>Year Ended 12/31/2015</u>
Beginning fiscal year liability	\$4,500,256	\$4,096,997
Current year claims and changes in estimates	127,778	563,710
Claim payments	<u>(531,037)</u>	<u>(717,862)</u>
End of year liability	<u>\$4,096,997</u>	<u>\$3,942,845</u>

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2015**

Note 4. C. Risk Management (continued)

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.

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 2015. The current agreement is effective through 2017. Financial information can be obtained from the City of Maplewood located at 1830 County Road B East, Maplewood, Minnesota 55109.

The joint powers agreement between Regional Water, the City of Minneapolis, and the City of Saint Cloud dated December 19, 2011 was created to collaboratively implement the Upper Mississippi River Source Water Protection Project ("Project"). The parties agree to make cash contributions to the "Project" of up to \$10,000 annually. Regional Water was not required to make a contribution for the year 2015. 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.

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2015**

Note 4. Other Information (continued)

F. Subsequent Events

In preparing these financial statements Regional Water has evaluated events and transactions for potential recognition through May 27, 2016, the date the financial statements were available to be issued.

Regional Water entered into an Omnibus Agreement with the City of Mendota Heights effective December 30, 2015, to continue to provide water service to properties within the City of Mendota Heights at water rates that will become equal to the rates charged to properties within the City of Saint Paul. Mendota Heights will have representation on the Board of Water Commissioner through suburban representation. Mendota Heights will convey title to its water facilities to the Board. Mendota Heights' water facilities, which include a water tower, water mains, hydrants, valves, services and appurtenances, are expected to be transferred to Regional Water's assets in 2016 as a contribution.

Regional Water has been approved to enter into a loan agreement with the Minnesota Public Facilities Authority, 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 is expected to be issued in the summer of 2016 in the amount of \$7,200,000, with an estimated interest rate of 1.5 percent. Principal payments are expected to be due December 1, commencing December 1, 2017. Interest will be payable on each June 1 and December 1 commencing on December 1, 2016. The proceeds of the note will be for the McCarron's plant switchgear and electrical replacement improvements and the West St. Paul pump station generator and electrical improvements.

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**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2015**

Note 5. Future Change in Accounting Standards

Effective for financial statements for the year ending December 31, 2016, Regional Water will be implementing the following Governmental Accounting Standards Board (GASB) Statements:

GASB Statement No. 72 – *Fair Value Measurement and Application*, provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. There may be additional note disclosure requirements for the determination of fair market value when a method other than quoted market values are used. Additionally, there is a change to the definition of fair value, it is the price to sell an asset or transfer a liability, rather than on an exchange. This Statement was issued to provide guidance for determining fair value measurement for financial reporting purposes and for applying fair value to certain investments and disclosures related to all fair value measurements. The goal of this Statement is to maximize the use of observable inputs (independently verifiable) when determining fair value.

GASB Statement No. 73 – *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within The Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, clarifies the application of certain provisions of GASB Statement No. 68 with regard to information that is required to be presented as notes to the 10-year schedules of required supplementary information (RSI).

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SUPPLEMENTARY INFORMATION

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
REQUIRED SUPPLEMENTARY INFORMATION
For the Fiscal Year Ended December 31, 2015**

Schedule 1

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

<u>Measurement Date</u>	<u>Employer's Proportion of the Net Pension Liability (Asset)</u>	<u>Employer's Proportionate Share of the Net Pension Liability (Asset)</u>	<u>Covered Payroll ⁽³⁾</u>	<u>Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</u>
June 30, 2015	0.2403%	\$12,451,952	\$14,126,414	88.15%	78.19%

⁽¹⁾ For information regarding the pension plan see Note 4.A. on pages 37-42.

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

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

Schedule 2

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

<u>Fiscal Year Ending</u>	<u>Statutorily Required Contributions</u>	<u>Actual Contributions in Relation to the Statutorily Required Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered Payroll ⁽³⁾</u>	<u>Actual Contributions as a Percentage of Covered Payroll</u>
December 31, 2015	\$ 1,069,877	\$ 1,069,877	\$0	\$ 14,265,031	7.5%

⁽¹⁾ For information regarding the pension plan see Note 4.A. on pages 37-42..

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

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

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
REQUIRED SUPPLEMENTARY INFORMATION
For the Fiscal Year Ended December 31, 2015**

Schedule 3

Schedule of Funding Progress Other Post Employment Benefit Plans ⁽¹⁾						
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll Active Members	UAAL as a Percentage of Covered Payroll
September 30, 2010	\$ -	\$16,138,206	\$16,138,206	0.0%	\$12,630,550	127.8%
September 30, 2012	\$ -	\$13,455,536	\$13,455,536	0.0%	\$12,584,670	106.9%
September 30, 2014	\$ -	\$14,098,002	\$14,098,002	0.0%	\$13,608,567	103.6%

⁽¹⁾ For information regarding the plan see Note 4.B. on pages 42-47.

Schedule 4

Schedule of Employer Contributions Other Post Employment Benefit Plans ⁽¹⁾			
Fiscal Year Ended	Annual Required Contribution	Percentage Contributed	Net OPEB Obligation
December 31, 2010	\$ 1,342,799	52.04%	\$ 2,268,673
December 31, 2011	\$ 1,350,292	53.80%	\$ 2,858,414
December 31, 2012	\$ 1,388,097	51.04%	\$ 3,495,166
December 31, 2013	\$ 1,058,497	65.42%	\$ 3,805,727
December 31, 2014	\$ 1,067,254	63.61%	\$ 4,133,270
December 31, 2015	\$ 1,100,096	67.59%	\$ 4,422,010

⁽¹⁾ For information regarding the plan see Note 4.B. on pages 42-47.