

**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, 2016**

**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, 2016**

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INTRODUCTORY SECTION



BOARD OF WATER COMMISSIONERS

President: Matt Anfang ♦ Vice President: Amy Brendmoen

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

June 1, 2017

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

Dear Board Members:

Saint Paul Regional Water Services (Regional Water) is proud to present its published Annual Financial Report of the Board of Water Commissioners for the fiscal year ended December 31, 2016. 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.

There were a number of initiatives that Administration worked on in 2016. Probably the one that gathered the most attention was the lead service issue. The troubles seen in Flint, Michigan, continued to make headlines for most of the year. With this, and some proposals coming from the Environmental Protection Agency (EPA) for potential new rules, we made some efforts in the lead and water quality areas. We developed and implemented a program to give out lead filtering pitchers to any resident that had work done on their lead water service, provided that part of the lead service remained after the work was done. If used properly, the pitchers are designed to reduce lead levels to well below the action level for lead, giving added protection to those residents who might otherwise see increased levels of lead with the work done on their water service.

Regional Water expanded efforts in educating the public about lead in drinking water. Even though Regional Water is in compliance with the Environmental Protection Agency's (EPA) Lead and Copper Rule, we believe there is more work to be done in educating our customers on how they can reduce their exposure to lead. We have included expanded information in our literature on our website. Additionally, we developed a presentation for the public to inform them about water quality and lead in our water system. This presentation was delivered to all of the Saint Paul City Council members; the Saint Paul Chamber of Commerce; and at two public meetings. Ultimately, attendance at the public meetings did not warrant continuing the meetings, so we are seeking other methods to get that message out to the public.

Another item that was given a lot of attention during the year was bacteriological cleanliness of our newly installed water mains. Some failures in recent years to pass bacteriological tests have delayed projects and added to our costs for the project. We came up with new procedures for the installation, chlorination, and testing of newly installed water mains that we believe will give us a much better chance to pass the bacteria test. Those procedures will be put into practice in 2017, and we will monitor test results to determine if the new procedures are effective.

We continued to look at solar energy as a solution to both save us money and help the environment. No contracts had been entered into by year end, however.

The possible augmentation of White Bear Lake continued to be examined. Present proposals include a pumping and filtration station at the southeast end of Vadnais Lake, with a pipeline route extending northeasterly to White Bear Lake. Issues yet to be resolved include finding an owner/operator of the system and a funding source, among others.

HIGHLIGHTS IN SUMMARY (continued)

The Business Improvement Unit spent much of the year on trying to make our Computerized Maintenance Management System (CMMS) feed time work records, using time punch information generated by the Time Attendance and Scheduling System (TASS) into the INFOR Human Capital Management module (human resources and payroll). The goal is to reduce the time and effort currently spent entering time into two systems. At year end, we were still several months away from this taking place.

The City of Saint Paul has continued its racial equity initiative. We have done work to match the racial makeup of our new hires with the racial makeup of our service area. We have also looked at our business and work processes with an eye toward making sure that there are no disparities along racial lines.

Administration Division - Future Operations

Administration will continue directing efforts at the initiatives listed above, and monitor progress in all. In particular, the lead issue may have some more resolution this year, and we will react accordingly. As always, our goal is to be able to budget and finance the projects necessary to keep Regional Water operating as a top-notch utility.

Business Division

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

Regional Water finalized the acquisition and legal transfer of the water mains, hydrants, service connections, tanks, and appurtenances from the City of Mendota Heights during 2016. The assets transferred are reported as a special item on the operating statement, similar to capital contributions.

Our next most significant accomplishment of 2016 was the implementation of an upgrade to our Customer Information System (CIS) software application. We went live with version 4 of CIS Infinity on April 1, 2016. We read meters, calculated and printed bills, received Interactive Voice Response unit (IVR) and on-line credit card payments, and executed notices, all without a hitch. System downtime was only 24 hours. The new software offers enhanced functionality, more potential automation, and improved reporting.

During 2016, the Customer Service unit issued approximately 34,300 bills per month or 1,700 bills per business day. Throughout the year, meter reading and water billings continued to meet schedules.

HIGHLIGHTS IN SUMMARY (continued)

The Customer Service call center received 169,209 calls in 2016. About 82,080 calls, or 48.5 percent, were handled by call center staff and 87,129, by the self-serve IVR unit. This equates to approximately 675 calls per business day of which approximately 325 calls were answered by call center staff. The abandoned call percentage remained under 1 percent, substantially lower than our goal of less than 2 percent. On average, approximately 1,700 credit card payments were made per month via the IVR.

We continued to increase the number of registered users of our on-line bill presentment and payment site, Infinity Link. In 2016, approximately 21,000 customers paid their quarterly water bills on-line via credit card.

Regional Water commissioned a customer survey that took place in the fall of 2016. About 400 water utility customers were interviewed in a phone survey that included both cellular and land line telephones. The results indicate that an overwhelming majority of customers find Regional Water doing a good or excellent job meeting our mission of providing them with quality water and services at a reasonable price.

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

Included as part of the new CIS software is enhanced water meter inventory tracking that includes accrued consumption, historic test results and historic locations where the meter was set. With this data available, we are creating a comprehensive meter testing schedule with the goal of identifying the optimal interval for testing and replacing meters by account.

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

Financial Services created and published the 2016 Annual Financial Report in a very timely manner. Staff successfully navigated the Enterprise Resource Planning (ERP) system, INFOR, Computerized Maintenance Management System (CMMS), Time, Attendance and Scheduling System (TASS) and CIS applications and compiled and provided information necessary for Regional Water 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. Regional Water continued to assign timekeeping staff to reconcile CMMS to TASS and help manage CMMS information.

In addition to implementing the new CIS version 4 upgrade, our Information Services Section implemented an upgrade to Infinity Link, our on-line payment module, and implemented new IVR software which is designed to operate in a virtual environment. The City of Saint Paul deployed Wi-Fi, so our McCarron's Center now has Wi-Fi service for visiting vendors and customers. In addition, enhanced hydrant flushing and valve operating apps were made available. A new Geographical Information System (GIS) and Continuity of Operations Plan (COOP) map was deployed in fall 2016.

HIGHLIGHTS IN SUMMARY (continued)

Business Division - Future Operations

In 2017 Regional Water plans to initiate a Virtual Desktop Infrastructure (VDI) pilot project. The project offers many potential efficiencies and savings including hardware, programming, backing-up systems and data, troubleshooting, etc.

In 2017, Regional Water looks forward to TASS and CMMS enhancements where staff will enter time into one system while continuing to rely on CMMS delivering complete and accurate asset and financial information.

We anticipate implementing more functionality, creating additional reports and investigating opportunities for more automation with the new CIS version 4. We will continue to examine workflow processes throughout the utility, looking for improved efficiency and enhanced delivery of services.

A new version of CMMS is scheduled to become available in 2018. At this time, we do not anticipate go-live with this new system before 2019.

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 6.8 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, 406 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 150 of the 9,610 system hydrants during the year.

HIGHLIGHTS IN SUMMARY (continued)

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 9,610 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 107 main breaks within our service area and 23 repairs in communities outside our service area.

Distribution Division - Future Operations

In 2017, continued emphasis will be placed on water main replacement in street reconstruction project areas and our hydrant inspection program. We plan to complete UDF the first time through the entire distribution system in 2017. Our infrastructure funding for 2017 will allow for additional main improvements outside street reconstruction areas. These improvements will include utilizing the pipe bursting method for main replacement.

Engineering Division

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

Significant progress on a number of large projects was made in 2016 that will serve our customers well into the future. Highlights of these projects include:

Water Main Capital Improvements - 2016 was the second year that the water main surcharge was available to provide additional funding for water main replacement. 6.8 miles of water main was replaced or rehabilitated in 2016, including rehabilitating 1.2 miles of water main using Cured in Place Pipe (CIPP) lining technology. This was the first application of CIPP technology in our service area and the results of the work were mixed with an end result of upgraded water mains that are in service and functioning. Our other water main work involved coordinating water main replacements in city and county street reconstruction project areas using traditional open trench methods of construction, including the replacement of water main within Jackson Street in downtown Saint Paul and on University Avenue near Regions Hospital.

HIGHLIGHTS IN SUMMARY (continued)

Lead Water Service Replacement - In addition to lead service replacement by our Distribution crews, two contracts were let to perform replacement of lead services. This was done in coordination with street rehabilitation projects with the City of Saint Paul's Department of Public Works.

System Wide Leak Survey - A system wide leak survey was completed on our distribution system in 2016. The survey found numerous leaks throughout our system on hydrants, services and water mains, resulting on 92 work order repairs.

McCarron's Electrical Project - Final design for the McCarron's electrical project, which will update the existing treatment plant medium voltage switchgear and transformers, was completed in 2016, with the project going out for bid. Work will begin in 2017.

West St. Paul Booster Station Improvements - This project involves the installation of a back-up generator and electrical improvements to provide greater reliability of service for the City of West St. Paul.

Condition Assessments - Condition assessments are being performed for our Mississippi River Pumping Station, McCarron's water treatment plant foundation and our raw water supply conduits. The assessment for the Mississippi River Pump Station at Fridley was completed and the results indicated that the facility is generally sound, although needing some repair, and should support operations for the next 40 years. Other assessments are still in progress.

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. This includes the expanded use of Global Positioning Systems (GPS) for more accurate data collection. In 2017 we plan to execute on-line application of plumbing permits.

The additional \$2.8M in funding established in 2015 for our existing water main capital improvement program was a significant increase that will help improve our aging buried infrastructure. Additional funding will be necessary to lower the life cycle of our distribution piping. In 2017, planning will take place for water main work related to the new professional soccer stadium.

Condition assessments on our plant foundation and supply conduits will be completed in 2017 as well as a condition assessment on the historic Highland Park water tower. Repairs to the Mississippi River station will be bid in 2017. A new High Service pump is under design for the McCarron's water treatment plant.

HIGHLIGHTS IN SUMMARY (continued)

Production Division

Annual production of water for 2016 was our lowest since 1954, with a daily average of 38.4 Million Gallons per Day (MGD). Precipitation was 9.71 inches above normal for the year at the National Weather Service's MSP Airport weather station. River levels were also above normal for much of 2016, and drought was not a concern for the metro area. Our total annual pumping from the McCarron's water treatment plant was 14,739 Million Gallons (MG); 8,545 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 water treatment plant continued the Partnership for Safe Water's Presidents Award in 2016. 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 20 complaints of taste or odor being logged into the CIS for the year.

Chemical costs were up slightly with a total increase of approximately \$150 thousand, or 4.5 percent. Total chemical expenditure was approximately \$3 million. This corresponds to an increase of \$18.78 per MG of water treated. The majority of this increase was caused by contract price increases for carbon dioxide and quicklime. Total finished water pumping electrical costs were up approximately \$30 thousand from 2015, with a normalized value of \$58.27 per MG. Raw water electrical costs were up slightly from 2015, with a value of \$49.39 per MG.

A number of improvements were made or undertaken in 2016. Electrical improvement work to the Hazel Park pump station was awarded. Installation of a back-up electric generator for the West St. Paul pump station was awarded. Design and specification of a new 20 MGD high service pump was undertaken by staff.

Production Division - Future Operations

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

A zebra mussel treatment chemical trial was executed in 2016 and shows promise for prevention of zebra mussel growth in the conduits between Vadnais Lake and the McCarron's water treatment plant. The chemical is under consideration for permanent use.

Three electrical projects are underway: the Hazel Park pump station is receiving all new switchgear and Motor Control Centers (MCCs) and should be completed in 2017; the McCarron's water treatment plant is receiving new incoming electric service switchgear and transformers, along with new pump switchgear and MCCs. This project will extend into 2018; the West St. Paul pump station is receiving a stand-by generator for electric power as well as new switchgear and MCCs. This was done in lieu of a new water storage tank.

HIGHLIGHTS IN SUMMARY (continued)

Plans for a new high service pump are being developed, with a planned installation for winter 2017-2018. A 20 MGD pump will replace an existing 35 MGD pump and be used in the winter months for improved cost efficiency.

Work still needs to be done on some of the filter control systems in the water treatment plant, namely the old Programmable Logic Controllers (PLCs) and flow controllers need replacement. Also in the controls arena, the new Supervisory Control and Data Acquisition (SCADA) software development has been awarded and will commence in 2017.

A pilot study for a new solids-contact clarifier was performed in summer of 2016. A Densadeg brand unit was rented from SUEZ Water Treatment. Staff and SUEZ personnel operated the pilot for two months. Operation of the unit proved challenging, and the pilot effort may have benefitted Regional Water in eliminating this type of unit from future consideration. More suitable units will be examined in the near future. This pilot was part of the pre-design work for the upcoming improvements to the softening and recarbonation processes at the McCarron's water treatment plant.

The assessment of the water supply conduits is underway and will finish in 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. An action plan for repairs will be made after completion of this assessment.

The laboratory at the McCarron's water treatment plant is installing a new Inductively Coupled Plasma Mass Spectrometer. This replaces an aging flame/furnace atomic adsorption unit. The laboratory is also installing an adenosine triphosphate (ATP) analyzer for monitoring biological activity on the Granular Activated Carbon (GAC) filter-sorbers.

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.

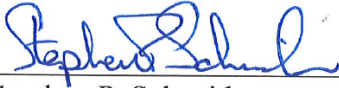
MANAGEMENT AND COMPLIANCE REPORT

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, 2016

PUBLIC MEMBERS

Term Expires

Matt Anfang, President

June 30, 2019

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, 2020

Rebecca Noecker

January 1, 2020

Chris Tolbert

January 1, 2020

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

SUBURBAN MEMBERS

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.

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FINANCIAL SECTION



REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
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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, 2016, 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, 2016, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

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 June 1, 2017, 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

June 1, 2017

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**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended December 31, 2016**

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, 2016. 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 \$303,265,160 (Net Position). Of this amount, \$6,597,614 (unrestricted) may be used to meet the utility's ongoing obligations.
- Regional Water's total net position increased by \$43,717,175.

Overview of Annual Financial Report

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

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

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

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

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended December 31, 2016**

Overview of Annual Financial Report (continued)

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

Summary of Organization and Business

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

Financial Analysis

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

As can be seen from the following table, total net position increased \$43.72 million to \$303.27 million in 2016, up from \$259.55 million in 2015. The increase in total net position was primarily due to the acquisition of the Mendota Heights water distribution system and due to the investment of capital assets offset by a decrease in other assets and liabilities.

Capital Assets

By the end of 2016, Regional Water had invested \$514.70 million in capital assets. There was a \$88.69 million increase in capital assets for the past fiscal year. Regional Water acquired the water distribution assets from the City of Mendota Heights; this consisted of water mains, hydrants, service connections, tanks, and appurtenances with a basis of \$75.46 million. The remaining \$13.23 million is primarily for water related improvements, equipment, and public improvements such as mains, hydrants and services.

Long-Term Debt

Regional Water issued one Drinking Water Revenue Note in 2016, through the Minnesota Public Facilities Authority (MNPFA), a component unit of the State of Minnesota. At the end of 2016, bonds payable were \$13.28 million and revenue notes payable were \$25.31 million. This debt will be repaid with revenue generated by Regional Water.

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended December 31, 2016**

Condensed Statement of Net Position (in thousands)

	Fiscal Year 2016	Fiscal Year 2015	Dollar Change	Total % Change
Assets				
Current and Other Assets	\$ 53,587	\$ 48,131	\$ 5,456	11.3
Capital Assets - net	<u>\$ 324,146</u>	<u>\$ 285,972</u>	<u>\$ 38,174</u>	<u>13.3</u>
Total Assets	<u>\$ 377,733</u>	<u>\$ 334,103</u>	<u>\$ 43,630</u>	<u>13.1</u>
Deferred Outflows of Resources	<u>\$ 8,113</u>	<u>\$ 1,728</u>	<u>\$ 6,385</u>	<u>369.5</u>
Liabilities				
Current Liabilities	\$ 16,420	\$ 14,031	\$ 2,389	17.0
Noncurrent Liabilities	\$ 63,796	\$ 60,657	\$ 3,139	5.2
Total Liabilities	<u>\$ 80,216</u>	<u>\$ 74,688</u>	<u>\$ 5,528</u>	<u>7.4</u>
Deferred Inflows of Resources	<u>\$ 2,365</u>	<u>\$ 1,595</u>	<u>\$ 770</u>	<u>48.3</u>
Net Position				
Net Investment in Capital Assets	\$ 285,053	\$ 243,313	\$ 41,740	17.2
Restricted for Debt Service	\$ 11,614	\$ 10,829	\$ 785	7.2
Unrestricted	<u>\$ 6,598</u>	<u>\$ 5,406</u>	<u>\$ 1,192</u>	<u>22.0</u>
Total Net Position	<u>\$ 303,265</u>	<u>\$ 259,548</u>	<u>\$ 43,717</u>	<u>16.8</u>

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

	Fiscal Year 2016	Fiscal Year 2015	Dollar Change	Total % Change
Operating Revenues	\$ 58,952	\$ 57,543	\$ 1,409	2.4
Non-Operating Revenues (Expenses)	<u>\$ (1,176)</u>	<u>\$ (473)</u>	<u>\$ (703)</u>	<u>148.6</u>
Total Revenues	<u>\$ 57,776</u>	<u>\$ 57,070</u>	<u>\$ 706</u>	<u>1.2</u>
Operating Expenses	<u>\$ 48,042</u>	<u>\$ 44,343</u>	<u>\$ 3,699</u>	<u>8.3</u>
Income (Loss) Before Capital Contributions and Special Item	<u>\$ 9,734</u>	<u>\$ 12,727</u>	<u>\$ (2,993)</u>	<u>(23.5)</u>
Capital Contributions	\$ 693	\$ 1,202	\$ (509)	(42.3)
Special Item	<u>\$ 33,290</u>	<u>\$ -</u>	<u>\$ 33,290</u>	<u>100.0</u>
Change in Net Position	\$ 43,717	\$ 13,929	\$ 29,788	213.9
Net Position - January 1	<u>\$ 259,548</u>	<u>\$ 245,619</u>	<u>\$ 13,929</u>	<u>5.7</u>
Net Position - December 31	<u>\$ 303,265</u>	<u>\$ 259,548</u>	<u>\$ 43,717</u>	<u>16.8</u>

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended December 31, 2016**

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 \$1.41 million to \$58.95 million in 2016, up from \$57.54 million in 2015.

Water rates in 2016 remain unchanged from the 2015 average winter/summer rate of \$2.57 per 100 cubic feet. Consumption levels remain unchanged from 2015 levels at 17.9 million billing units (100 cubic feet). The water service base fee increased \$1.00 to \$5.00; up from \$4.00 in 2015. 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 remains unchanged from the 2015 rate of \$0.20 per 100 cubic feet.

Expenses

Regional Water's operating expenses increased \$3.70 million to \$48.04 million in 2016, up from \$44.34 million in 2015. There was an increase of \$1.66 million related to salaries and fringes, \$167 thousand for chemicals, \$51 thousand for lime residual hauling, \$568 for professional services, \$45 thousand for settlements, \$64 thousand for assessments, and \$1.40 million for depreciation. There was a decrease of \$109 thousand for energy costs, \$80 thousand for central services, and \$66 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 remain stable at near 2015 levels. Precipitation during the growing season was above normal and rain fell at regular intervals throughout the growing season. This led to very light demands on our system as there was minimal need to sprinkle lawns and gardens; demand for water did not pick up during the summer or fall.

Financial Contact

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

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BOARD OF WATER COMMISSIONERS OF THE CITY OF SAINT PAUL, MINNESOTA
 REGIONAL WATER SERVICES STATEMENT OF NET POSITION
 December 31, 2016
 (Amounts in dollars)

Exhibit A

ASSETS

Current Assets

Cash and Investments with Treasurer	28,935,428
Investments	1,860,189
Departmental Cash	134,317
Imprest Funds	2,000
Restricted Cash and Cash Equivalents	
Investments for Revenue Note Debt Service	1,642,580
Investments for Revenue Bond Debt Service	3,109,100
Receivables	
Accounts (net of allowance for Estimated Uncollectibles)	4,613,918
Assessments	
Current	708,038
Deferred	2,191,345
Delinquent	101,323
Tax Forfeited Property	6,133
Accrued Interest	72,252
Due from Primary Government	81,720
Due from Other Governmental Units	805,160
Inventory - Materials and Supplies	2,245,232

Total Current Assets 46,508,735

Noncurrent Assets

Restricted Assets

Investments for Revenue Bond Future Debt Service	5,056,495
Investments for Revenue Bond Operations and Maintenance	1,876,376

Total Restricted Assets 6,932,871

Long-Term Loans Receivable 145,655

Capital Assets

Land	4,061,766
Buildings and Structures	57,586,478
Less: Accumulated Depreciation	(23,713,066)
Public Improvements	382,324,816
Less: Accumulated Depreciation	(134,611,310)
Equipment	56,853,568
Less: Accumulated Depreciation	(32,234,868)
Construction in Progress	13,878,140

Total Capital Assets (Net of Accumulated Depreciation) 324,145,524

Total Noncurrent Assets 331,224,050

Total Assets 377,732,785

DEFERRED OUTFLOWS OF RESOURCES

Deferred Pension Outflows 8,113,186

continued

BOARD OF WATER COMMISSIONERS OF THE CITY OF SAINT PAUL, MINNESOTA
 REGIONAL WATER SERVICES STATEMENT OF NET POSITION
 December 31, 2016
 (Amounts in dollars)

Exhibit A

LIABILITIES

Current Liabilities (Payable from Current Assets)	
Accrued Salaries Payable	908,829
Accounts Payable	1,928,720
Contract Retention Payable	122,903
Due to Primary Government	5,299,793
Due to Other Governmental Units	3,017,469
Unearned Revenue	368,542
Compensated Absences Payable	47,250
Claims and Judgments Payable	635,562
	<hr/>
Total Current Liabilities (Payable from Current Assets)	12,329,068
Current Liabilities (Payable from Restricted Assets)	
Revenue Notes Payable	1,270,583
Revenue Bonds Payable	2,750,000
Accrued Interest Payable on Revenue Notes	40,572
Accrued Interest Payable on Revenue Bonds	29,925
	<hr/>
Total Current Liabilities (Payable from Restricted Assets)	4,091,080
Noncurrent Liabilities	
Revenue Bonds Payable	10,525,000
Premium on Revenue Bonds	506,616
Revenue Notes Payable	24,039,833
Compensated Absences Payable	1,665,905
Net Other Post Employment Benefits Obligation	4,720,154
Net Pension Liability	19,343,663
Claims and Judgments Payable	2,994,784
	<hr/>
Total Noncurrent Liabilities	63,795,955
Total Liabilities	<hr/> 80,216,103 <hr/>
DEFERRED INFLOWS OF RESOURCES	
Deferred Pension Inflows	2,364,708
	<hr/>
NET POSITION	
Net Investment in Capital Assets	285,053,492
Restricted for Debt Service	11,614,054
Unrestricted	6,597,614
	<hr/>
Total Net Position	<u><u>303,265,160</u></u>

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, 2016
 (Amounts in dollars)

Exhibit B

OPERATING REVENUES	
Fees, Sales and Services	57,934,253
Rents and Leases	821,944
Miscellaneous	195,316
Total Operating Revenues	<u>58,951,513</u>
OPERATING EXPENSES	
Salaries	13,256,298
Employee Fringe Benefits	7,513,151
Services	10,556,460
Materials and Supplies	6,800,468
Depreciation	9,428,761
Miscellaneous	487,037
Total Operating Expenses	<u>48,042,175</u>
OPERATING INCOME (LOSS)	<u>10,909,338</u>
NON-OPERATING REVENUES (EXPENSES)	
Operating Grants	154,177
Gain on Sale of Assets	41,819
Loss on Retirement of Assets	(782,165)
Investment Income	
Interest Earned on Investments	349,254
Decrease in Fair Value of Investments	(182,824)
Miscellaneous Other Revenue (Expenses)	92,668
Interest Expense on	
Revenue Bonds	(326,736)
Revenue Notes	(494,596)
Cost of Debt Issuance	(27,200)
Total Non-Operating Revenues (Expenses)	<u>(1,175,603)</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS AND SPECIAL ITEM	<u>9,733,735</u>
CAPITAL CONTRIBUTIONS	
Capital Acquisitions - Outside Sources	693,222
SPECIAL ITEM	
Acquisition of Mendota Heights Water System (Note 4.F.)	<u>33,290,218</u>
Total Capital Contributions and Special Item	<u>33,983,440</u>
CHANGE IN NET POSITION	43,717,175
NET POSITION, January 1	<u>259,547,985</u>
NET POSITION, December 31	<u><u>303,265,160</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, 2016
(Amounts in dollars)

Exhibit C

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from Customers	59,055,144
Other Operating Receipts	821,944
Other Receipts	195,316
Payments to Suppliers	(17,641,866)
Payments to Employees	(13,135,437)
Payment for Fringe Benefits and Payroll Taxes	(6,021,230)
Non-Operating Revenue Received	<u>91,808</u>

NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES 23,365,679

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Operating Grants Received	77,960
Non-Operating Loans Repayment Received from Customers	<u>41,559</u>

NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES 119,519

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Cash Proceeds From Issuance of Debt:	
Revenue Notes	394,170
Cash Proceeds From Sale of Capital Assets:	
Land	3,672
Equipment	54,537
Capital Contributions Received:	
From Outside Parties	733,969
Principal Paid on Debt Maturities:	
Revenue Bonds	(2,530,000)
Revenue Notes	(1,344,434)
Payments for Acquisition and Construction of Capital Assets:	
Construction in Progress	(13,454,082)
Interest Paid On:	
Revenue Bonds	(331,734)
Revenue Notes	(499,014)
Payment of Bond Issuance Costs	<u>(27,200)</u>

NET CASH PROVIDED (USED) IN CAPITAL AND RELATED FINANCING ACTIVITIES (17,000,116)

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of Investment Securities	(8,998,500)
Proceeds From Sale and Maturities of Investment Securities	18,973,450
Interest and Dividends on Investments Received	<u>396,926</u>

NET CASH PROVIDED (USED) IN INVESTING ACTIVITIES 10,371,876

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS 16,856,958

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

CASH AND CASH EQUIVALENTS AT END OF YEAR 33,823,425

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, 2016
 (Amounts in dollars)

Exhibit C

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

Operating Income (Loss)	10,909,338
-------------------------	------------

Adjustments To Reconcile Operating Income To Net

Cash Provided (Used) by Operating Activities:

Depreciation	9,428,761
Increase (Decrease) in Allowance for Uncollectible Accounts	69,985
Nonoperating Miscellaneous Other Revenue Received	91,808
Changes in Assets and Liabilities:	
(Increase) Decrease in Accounts Receivable	997,088
(Increase) Decrease in Assessments Receivable	98,991
(Increase) Decrease in Due From Primary Government	(277)
(Increase) Decrease in Due From Other Governmental Units	(73,562)
(Increase) Decrease in Deferred Pension Outflows	(6,385,004)
(Increase) Decrease in Inventories	(34,633)
Increase (Decrease) in Accrued Salaries Payable	120,861
Increase (Decrease) in Accounts Payable	504,183
Increase (Decrease) in Due To Primary Government	(225,956)
Increase (Decrease) in Due To Other Governmental Units	271,004
Increase (Decrease) in Unearned Revenue	28,666
Increase (Decrease) in Compensated Absences Payable	(82,255)
Increase (Decrease) in Net Other Post Employment Benefits Obligation	298,144
Increase (Decrease) in Deferred Pension Inflows	769,325
Increase (Decrease) in Net Pension Liability	6,891,711
Increase (Decrease) in Claims and Judgments Payable	(312,499)

Total Adjustments	12,456,341
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NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	23,365,679
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DETAILS OF CASH AND CASH EQUIVALENTS

Cash and Investments with Treasurer	28,935,428
Departmental Cash	134,317
Imprest Funds	2,000
Cash for General Obligation Bond Debt Service	1,642,580
Cash for Revenue Note Debt Service	3,109,100

TOTAL CASH AND CASH EQUIVALENTS	33,823,425
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NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES

Loss on Retirement/Deletion of Capital Assets	(743,988)
Net Book Value of Traded Capital Assets	10,728
Change in Fair Value of Investments	(182,824)
Capital Assets Purchased on Account - Construction in Progress	4,170,256
Capital Assets Contributed - Public Improvements	33,315,998

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, 2016

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

A. Assets

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. Special Item

SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2016

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

The financial statements of Regional Water have been prepared in conformity with GAAP in the United States of America as applied to government units. A summary of the more significant accounting policies established in GAAP and used by Regional Water 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, 2016, 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, 2016

Note 2. Summary of Significant Accounting Policies (continued)

C. Basis of Accounting/Measurement Focus

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

D. Change in Accounting Principles

During the year ended December 31, 2016, Regional Water adopted new accounting guidance by implementing the provisions of GASB Statement No. 72 - *Fair Value Measurement and Application*. This statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement provides guidance for determining a 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.

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SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2016

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 their fair value at December 31, 2016. A market approach is used to value all investments other than external investment pools, which are measured at the net asset value or fair value per share. Investments in nonparticipating interest-earning contracts, such as savings accounts and nonnegotiable certificates of deposit, are reported at cost. Money market investments and participating interest-earning investment contracts (negotiable certificates of deposit), are reported at amortized cost since these investments have a remaining maturity of one year or less at the time of purchase. Money market investments are short-term, highly liquid debt instruments including commercial paper, bankers' acceptances, and U.S. Treasury and agency obligations. See Note 3.A.1.

In 2016, Regional Water recorded a "decrease in fair value of investments" of \$182,824 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.

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**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2016**

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, 2016, is as follows:

Accounts Receivable - Invoices	\$ 265,300
Accounts Receivable - Water Billings	4,380,599
Accounts Receivable - Unbilled	95,546
Accounts Receivable - Miscellaneous	10,186
Allowance for Uncollectible Accounts	<u>(137,713)</u>
Accounts Receivable (net of Allowance for Estimated Uncollectible)	<u>\$ 4,613,918</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 2011 through 2015. 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, 2016**

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:

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

6. Bond Premiums and Issuance Costs

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

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

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**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2016**

Note 2. Summary of Significant Accounting Policies (continued)

7. Compensated Absences

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

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

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

8. Defined Benefit Pension Plan

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

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SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2016

Note 2. Summary of Significant Accounting Policies (continued)

9. Deferred Outflows/Inflows of Resources

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

In addition to liabilities, the Statement of Net Position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. Regional Water has one item, deferred pension inflows, that qualifies for reporting in this category. These inflows arise only under the full accrual basis of accounting and consist of differences between expected and actual pension plan economic experience 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, 2016**

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 certain estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, and deferred inflows of resources; and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2016**

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, 2016, 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 \$33,687,108 (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, 2016, the total imprest funds were \$2,000. Regional Water also had departmental cash on hand of \$134,317.

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2016**

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, 2016**

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, 2016, is as follows:

<u>Rating Agency</u>	<u>Rating</u>	<u>Fair Value</u>
Moody's	Aaa	<u>\$8,793,060</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, 2016, 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, 2016**

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, 2016, 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, 2016, 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. Agencies	\$8,793,060	\$ -	\$ -	\$2,916,990	\$5,876,070

Fair Value Measurements

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

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

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**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2016**

Note 3. A. Assets (continued)

At December 31, 2016, Regional Water had the following recurring fair value measurements.

	Fair Value Measurements Using			
	12/31/2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by Fair Value Level				
Debt Securities				
U.S. Agencies	\$ 8,793,060	\$ -	\$ 8,793,060	\$ -

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

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

Recap

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

Cash and Investments with Treasurer	\$ 28,935,428
Investments	1,860,189
Departmental Cash	134,317
Imprest Funds	2,000
Restricted Cash, Cash Equivalents and Investments:	
Revenue Note Debt Service	1,642,580
Revenue Bond Debt Service	3,109,100
Revenue Bond Future Debt Service	5,056,495
Revenue Bond Operations and Maintenance	1,876,376
Total	\$ 42,616,485
Deposits	\$ 33,687,108
Investments	8,793,060
Departmental Cash	134,317
Imprest Funds	2,000
Total	\$ 42,616,485

SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2016

Note 3. A. Assets (continued)

2. Summary of Changes in Capital Assets

A summary of changes in capital assets follows:

	01/01/2016	Additions			Deductions	12/31/2016
		Mendota Heights Additions ¹	Other Additions	Total Additions		
Capital Assets Not Being Depreciated:						
Land	\$ 3,909,692	-	\$ 152,074	\$ 152,074	\$ -	\$ 4,061,766
Construction in Progress	18,801,909	-	15,725,476	15,725,476	(20,649,245)	13,878,140
Total Capital Assets Not Being Depreciated	\$ 22,711,601	-	\$ 15,877,550	\$ 15,877,550	\$ (20,649,245)	\$ 17,939,906
Capital Assets Being Depreciated:						
Buildings and Structures	\$ 57,566,696	-	\$ 19,782	\$ 19,782	\$ -	\$ 57,586,478
Public Improvements	289,231,741	75,455,732	19,042,992	94,498,724	(1,405,649)	382,324,816
Equipment	56,504,597	-	1,460,177	1,460,177	(1,111,206)	56,853,568
Total Capital Assets Being Depreciated	\$ 403,303,034	\$ 75,455,732	\$ 20,522,951	\$ 95,978,683	\$ (2,516,855)	\$ 496,764,862
Less Accumulated Depreciation for:						
Buildings and Structures	\$ (22,451,341)	-	\$ (1,261,725)	\$ (1,261,725)	\$ -	\$ (23,713,066)
Public Improvements	(86,519,975)	(42,165,514)	(6,595,638)	(48,761,152)	669,817	(134,611,310)
Equipment	(31,071,083)	-	(2,122,206)	(2,122,206)	958,421	(32,234,868)
Total Accumulated Depreciation ²	\$ (140,042,399)	\$ (42,165,514)	\$ (9,979,569)	\$ (52,145,083)	\$ 1,628,238	\$ (190,559,244)
Total Capital Assets Being Depreciated, Net	\$ 263,260,635	\$ 33,290,218	\$ 10,543,382	\$ 43,833,600	\$ (888,617)	\$ 306,205,618
Capital Assets, Net	\$ 285,972,236	\$ 33,290,218	\$ 26,420,932	\$ 59,711,150	\$ (21,537,862)	\$ 324,145,524

¹ City of Mendota Heights assets were acquired January 1, 2016

² Total Accumulated Depreciation is reduced by an allowance of \$550,809 for equipment used to construct capital assets; net depreciation reported is \$9,428,761 (\$9,979,570 - \$550,809).

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2016**

Note 3. Detail Notes (continued)

B. Liabilities

1. Debt Obligations of Regional Water

a. Current and Long-Term Debt Maturities

At December 31, 2016, long-term debt consisted of:

	Principal		
	Unpaid Balances December 31, 2016	Less Current Maturities	Long-Term Maturities
Notes Payable	\$ 25,310,416	\$ 1,270,583	\$ 24,039,833
Revenue Bonds	13,275,000	2,750,000	10,525,000
Compensated Absences	1,713,155	47,250	1,665,905
Claims and Judgments	3,630,346	635,562	2,994,784
Total	\$ 43,928,917	\$ 4,703,395	\$ 39,225,522

b. Changes in Debt Obligations

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

	01/01/16	Additions	Deductions	12/31/16
General Obligation				
Waste Water Revenue Note	\$ 411,600	\$ -	\$ 272,434	\$ 139,166
Drinking Water Revenue Notes	25,849,080	394,170	1,072,000	25,171,250
Revenue Bonds	15,805,000	-	2,530,000	13,275,000
Compensated Absences	1,795,410	798,685	880,940	1,713,155
Claims and Judgments	3,942,845	430,827	743,326	3,630,346
Total	\$ 47,803,935	\$ 1,623,682	\$ 5,498,700	\$ 43,928,917

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2016**

Note 3. B. Liabilities (continued)

c. Principal and Interest Requirements on Debt Obligations

i. All Debt

Aside from Compensated Absences and Claims and Judgments, the annual requirements to pay the principal of \$38,585,416 and interest of \$4,854,286 on all Regional Water debt outstanding as of December 31, 2016, are as follows:

YEAR	2007 REVENUE BONDS			2011D REVENUE BONDS			2013A REVENUE BONDS			TOTAL REVENUE BONDS		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
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	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$1,400,000	\$108,100	\$1,508,100	\$1,400,000	\$108,100	\$1,508,100
2022-24	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$2,930,000	\$126,000	\$3,056,000	\$2,930,000	\$126,000	\$3,056,000
	\$2,250,000	\$188,000	\$2,438,000	\$1,465,000	\$62,850	\$1,527,850	\$9,560,000	\$944,550	\$10,504,550	\$13,275,000	\$1,195,400	\$14,470,400

SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2016

Note 3. B. Liabilities (continued)

YEAR	1996 G.O. WASTE WATER REVENUE NOTE			2010A DRINKING WATER REVENUE NOTE			2010B DRINKING WATER REVENUE NOTE		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
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	\$ -	\$ -	\$ -	\$300,000	\$67,508	\$367,508	\$1,170,000	\$261,750	\$1,431,750
2022-26	\$ -	\$ -	\$ -	\$1,925,000	\$232,321	\$2,157,321	\$7,480,000	\$898,498	\$8,378,498
2027-31	\$ -	\$ -	\$ -	\$1,214,000	\$60,087	\$1,274,087	\$4,691,000	\$232,575	\$4,923,575
2032-36	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
	\$139,166	\$2,004	\$141,170	\$4,679,000	\$700,516	\$5,379,516	\$18,151,000	\$2,713,426	\$20,864,426

YEAR	2014 DRINKING WATER REVENUE NOTE			2016 DRINKING WATER REVENUE NOTE			TOTAL REVENUE NOTES		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2017	\$103,000	\$21,316	\$124,316	\$13,909	\$3,174	\$17,083	\$1,131,075	\$474,466	\$1,605,541
2018	\$104,000	\$20,237	\$124,237	\$14,053	\$3,030	\$17,083	\$1,293,053	\$454,069	\$1,747,122
2019	\$105,000	\$19,147	\$124,147	\$14,198	\$2,885	\$17,083	\$1,804,198	\$429,778	\$2,233,976
2020	\$107,000	\$18,047	\$125,047	\$14,345	\$2,738	\$17,083	\$2,436,345	\$395,468	\$2,831,813
2021	\$108,000	\$16,925	\$124,925	\$14,493	\$2,590	\$17,083	\$1,592,493	\$348,773	\$1,941,266
2022-26	\$555,000	\$67,439	\$622,439	\$74,741	\$10,674	\$85,415	\$10,034,741	\$1,208,932	\$11,243,673
2027-31	\$586,000	\$37,728	\$623,728	\$78,681	\$6,733	\$85,414	\$6,569,681	\$337,123	\$6,906,804
2032-36	\$366,000	\$7,692	\$373,692	\$82,830	\$2,585	\$85,415	\$448,830	\$10,277	\$459,107
	\$2,034,000	\$208,531	\$2,242,531	\$307,250	\$34,409	\$341,659	\$25,310,416	\$3,658,886	\$28,969,302

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, 2016**

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 \$7,564,417. The proceeds of the note were for the purchase and installation of the McCarron's electrical switchgear and related electrical appurtenances. The total principal amount of the long-term portion of the loan at December 31, 2016, was \$307,250.

ii. Claims and Judgments

Claims and judgment expenses and liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. These liabilities include an estimate of claims furnished by the City Attorney's Office and City's Risk Management Division that have been incurred but not reported. At December 31, 2016, the claims and judgments liability was \$3,630,346.

iii. Compensated Absences

Included in Regional Water's debt are compensated absences for \$1,713,155.

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	\$ 2,250,000
Revenue	2.00%; 06/01; 12/01	04/06/11	12/01/18	1,465,000
Revenue	1.57%; 06/01; 12/01	03/18/13	12/01/24	<u>9,560,000</u>
Total				<u>\$13,275,000</u>

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2016**

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	\$ 139,166
Drinking Water Revenue Note	1.96%; 06/01; 12/01	07/13/10	12/01/30	4,679,000
Drinking Water Revenue Note	1.96%; 06/01; 12/01	07/13/10	12/01/30	18,151,000
Drinking Water Revenue Note	1.05%; 06/01; 12/01	06/19/14	12/01/34	2,034,000
Drinking Water Revenue Note	1.03%; 06/01; 12/01	11/28/16	12/01/36	<u>307,250</u>
Total				<u>\$25,310,416</u>

C. Due From Primary Government

At December 31, 2016, 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	\$81,720

D. Due To Primary Government

At December 31, 2016, 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	\$2,623,990
City Capital Projects	Capital Project Fund	2,230,542
City Debt Service	Debt Service Fund	13,390
Central Services	Internal Service Fund	55,692
Right of Way Maintenance	Special Revenue Fund	<u>76,179</u>
Total		<u>\$5,299,793</u>

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2016**

Note 4. Other Information

A. Defined Benefit Pension Plan

Plan Description

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

The General Employees Retirement Plan (accounted for in the General Employees Fund) has multiple benefit structures with members belonging to the Coordinated Plan, the Basic Plan or the Minneapolis Employees Retirement Fund. Coordinated Plan members are covered by Social Security and Basic Plan and Minneapolis Employees Retirement Fund members are not. The Basic Plan was closed to new members in 1967. The Minneapolis Employees Retirement Fund was closed to new members during 1978 and merged into the General Employees Retirement Plan in 2015. Regional Water is not required to make any contributions to the Basic Plan or the Minneapolis Employees Retirement Fund, and no Regional Water employees belong to either the Basic Plan or the Minneapolis Employees Retirement Fund. All new members must participate in the Coordinated Plan, for which benefits vest after five years of credited service. Information on the City Employee Pension Plan is contained in the City's Comprehensive Annual Financial Report for the Fiscal Year Ended December 31, 2016.

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, 2016**

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

Benefits Provided (continued)

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

For General Employees Retirement 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. General Employees Retirement Plan Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in 2016.

In 2016, Regional Water was required to contribute 7.50 percent of annual covered salary for General Employees Retirement Plan Coordinated Plan members.

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

Regional Water's contributions for the General Employees Retirement Plan for the year ended December 31, 2016, were \$1,145,685. 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, 2016**

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

Pension Costs

At December 31, 2016, Regional Water reported a liability of \$19,343,663 for its proportionate share of the General Employees Retirement Plan's net pension liability. The net pension liability was measured as of June 30, 2016, 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, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, Regional Water's proportion was 0.2410 percent. It was 0.2403 percent measured as of June 30, 2015. Regional Water recognized pension expense of \$2,506,630 for its proportionate share of the General Employees Retirement Plan's pension expense.

Regional Water also recognized \$76,217 as revenue, which results in a reduction of the net pension liability for its proportionate share of the State of Minnesota's contributions to the General Employees Retirement Plan, which qualifies as a special funding situation. Legislation requires the State of Minnesota to contribute \$6 million to the General Employees Retirement Plan each year, starting September 15, 2015, through September 15, 2031.

Regional Water's proportionate share of the net pension liability	\$ 19,343,663
State of Minnesota's proportionate share of the net pension liability associated with Regional Water	<u>255,613</u>
Total	<u>\$ 19,599,276</u>

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 1,596,224
Changes in actuarial assumptions	3,832,162	-
Difference between projected and actual investment earnings	3,696,477	-
Changes in proportion	-	768,484
Contributions paid to PERA subsequent to the measurement date	<u>584,547</u>	<u>-</u>
Total	<u>\$ 8,113,186</u>	<u>\$ 2,364,708</u>

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2016**

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

Pension Costs (continued)

The \$584,547 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, 2017. 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>
2017	\$ 1,305,144
2018	1,305,144
2019	1,846,678
2020	706,965

Actuarial Assumptions

The total pension liability in the June 30, 2016, actuarial valuation was determined using the individual entry-age normal actuarial cost method and the following additional actuarial assumptions:

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

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants in the General Employees Retirement Plan were based on RP-2014. The cost of living benefit increases for retirees is assumed to be 1.0 percent.

Actuarial assumptions used in the June 30, 2016, valuation were based on the results of actuarial experience studies. The experience study in the General Employees Retirement Plan was for the period 2008 through 2015.

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**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2016**

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

Actuarial Assumptions (continued)

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic stocks	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 7.5 percent in 2016, a reduction from 7.9 percent used in 2015. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, the fiduciary net position of the General Employees Plan was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2016**

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

Changes in Actuarial Assumptions

The following changes in actuarial assumptions for the General Employees Retirement Plan occurred in 2016:

- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year through 2035 and 2.5 percent per year thereafter, to 1.0 percent per year for all future years.
- The assumed investment rate of return was changed from 7.9 percent to 7.5 percent. The single discount rate was changed from 7.9 percent to 7.5 percent.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed payroll growth and inflation were decreased by 0.25 percent. Payroll growth was reduced from 3.50 percent to 3.25 percent. Inflation was reduced from 2.75 percent to 2.50 percent.

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 (6.5%)	Current Discount Rate (7.5%)	1% Increase in Discount Rate (8.5%)
Proportionate share of the General Employees Retirement Plan net pension liability	\$ 27,439,053	\$ 19,343,663	\$ 12,675,540

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.

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2016**

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.

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

	Under Age 65 (early retiree)	Over Age 65 (regular retiree)
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, 2016**

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 2016 were as follows:

	<u>Age</u>	<u>Average Monthly Regional Water Contribution</u>	<u>Average Monthly Retiree Contribution</u>
Health Insurance	Less than 65	\$357	\$563
	65 and older	\$307	\$ 14
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 2016 expense totaled \$596,161 for approximately 160 retirees. Retirees contributed \$106,466; 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, 2016**

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, 2016. Regional Water's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2016 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, 2014	\$ 1,006,466	\$ 678,923	67.46%	\$ 4,133,270
December 31, 2015	\$ 1,032,345	\$ 743,605	72.03%	\$ 4,422,010
December 31, 2016	\$ 1,034,283	\$ 736,139	71.17%	\$ 4,720,154

The net OPEB obligation (NOPEBO) at December 31, 2016, was calculated as follows:

Annual Required Contribution (ARC)	\$ 1,106,767
Interest on Net OPEB Obligation	198,990
Adjustment to Annual Required Contribution	(271,474)
Annual OPEB Cost	<u>1,034,283</u>
Contributions Made:	
Direct	608,281
Indirect Implicit Subsidy	127,858
Total Contributions Made	<u>736,139</u>
Increase (Decrease) in Net OPEB Obligation	298,144
Net OPEB Obligation Beginning of Year	<u>4,422,010</u>
Net OPEB Obligation End of Year	<u><u>\$ 4,720,154</u></u>

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2016**

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, 2016**

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 2015 and 2016:

	<u>Year Ended</u> <u>12/31/2015</u>	<u>Year Ended</u> <u>12/31/2016</u>
Beginning fiscal year liability	\$4,096,997	\$3,942,845
Current year claims and changes in estimates	563,710	430,827
Claim payments	<u>(717,862)</u>	<u>(743,326)</u>
End of year liability	<u>\$3,942,845</u>	<u>\$3,630,346</u>

SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2016

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 2016. 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 2016. The agreement is effective through 2020. The City of Saint Cloud administers all aspects of the "Project". Financial information can be obtained from the City of St. Cloud, 400 Second Street South, St. Cloud, Minnesota 56301.

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2016**

Note 4. Other Information (continued)

F. Special Item

Regional Water entered into a sale and purchase agreement with the City of Mendota Heights on September 30, 2016, to purchase all of its water system assets for the sum of \$1. This was pursuant to an Omnibus Agreement effective December 30, 2015, which provided for conveyance title to all water mains, hydrants, service connections, tanks, and appurtenances to Regional Water.

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REQUIRED SUPPLEMENTARY INFORMATION

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
REQUIRED SUPPLEMENTARY INFORMATION
For the Fiscal Year Ended December 31, 2016**

Schedule 1

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

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

⁽¹⁾ For information regarding the pension plan see Note 4.A. on pages 38-43.

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

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

NA – Not Applicable.

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

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

⁽¹⁾ For information regarding the pension plan see Note 4.A. on pages 38-43.

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

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

The notes to the required supplementary information are an integral part of these schedules

SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
REQUIRED SUPPLEMENTARY INFORMATION
For the Fiscal Year Ended December 31, 2016

Schedule 3

Schedule of Funding Progress Other Post Employment Benefit Plans ⁽¹⁾						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
	September 30, 2010	\$ -	\$16,138,206	\$16,138,206	0.0%	\$12,630,550
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 44-48.

Schedule 4

Schedule of Employer Contributions Other Post Employment Benefit Plans ⁽¹⁾			
Fiscal Year Ended	Annual Required Contribution		Net OPEB Obligation
	Percentage Contributed	Contribution	Obligation
December 31, 2011	53.80%	\$ 1,350,292	\$ 2,858,414
December 31, 2012	51.04%	\$ 1,388,097	\$ 3,495,166
December 31, 2013	65.42%	\$ 1,058,497	\$ 3,805,727
December 31, 2014	63.61%	\$ 1,067,254	\$ 4,133,270
December 31, 2015	67.59%	\$ 1,100,096	\$ 4,422,010
December 31, 2016	66.51%	\$ 1,106,767	\$ 4,720,154

⁽¹⁾ For information regarding the plan see Note 4.B. on pages 44-48.

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
For the Fiscal Year Ended December 31, 2016**

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

The following changes were reflected in the valuation performed on behalf of the Public Employees Retirement Association for the year ended June 30, 2016:

General Employees Retirement Plan

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

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