

**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, 2018**

**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, 2018**

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INTRODUCTORY SECTION



BOARD OF WATER COMMISSIONERS

President: Matt Anfang ♦ Vice President: Amy Brendmoen

Commissioners: ♦ Marylee Abrams ♦ Jeffrey Dains ♦ Mara Humphrey ♦ Rebecca Noecker ♦ Chris Tolbert

September 19, 2019

TO: BOARD OF WATER COMMISSIONERS
Matt Anfang, President
Amy Brendmoen, Vice President
Commissioner Marylee Abrams
Commissioner Jeffery Dains
Commissioner Mara Humphrey
Commissioner Rebecca Noecker
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, 2018. 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. In 2018, the Public Information Unit was incorporated into the division.

The General Manager worked to staff two direct-report managerial positions, and succession planning for Regional Water's senior management staff is on-going. In the next five years all division managers, the assistant general manager and the general manager will be eligible to retire. Accordingly, promoting knowledge management and transfer across the utility is a focus of the division. In the five years 2012-2017, the average retirement age was 60 years old. At the end of 2018, nearly 28 percent of Regional Water's employees were 55 plus years of age.

Regional Water's work force history is of longevity and successfully retaining trained staff. Often pension, insurance and regular hours helped promote working at Regional Water Services more as a career. However, this is no longer assured. Employees may be looking for such things as regular new and stimulating assignments, more non-traditional work rules, flexibility in working off-site and flexibility in working hours, etc. An increase in voluntary turnover from 5.3 percent to 7.2 percent reflects this new generation of employees.

Our human resources consultant worked diligently toward the development of a new strategic plan effective 2019-2021. The effort included seeking ideas and feedback from employees. All employees were given the opportunity to share their experiences, concerns and recommendations. The result is a plan that promotes equity, innovation, resilience, continuous improvement and employee development at the utility. The plan pushes the organization forward and positions Regional Water for continued success.

Our emergency planning and security supervisor is working on our preparedness efforts. An updated emergency response plan was developed in 2018. We anticipate devoting more time to drills and tabletop scenarios to better prepare the utility for any emergency. The position also serves as process safety management (PSM) program coordinator.

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

The Business Improvement Unit had a change in leadership in 2018. The team worked diligently on its initiatives; including enterprise level performance measures, document management improvements and evaluating the utility against industry wide effective utility management (EUM) practices and identifying areas of focus to consider including in the strategic plan.

HIGHLIGHTS IN SUMMARY (continued)

Public information efforts included publishing the water quality report, quarterly customer newsletter and a new high-water usage brochure. In an effort toward expanded customer outreach the public website was updated to include water main construction project information. Regional Water was represented at several community events, such as *Safe Summer Nights and Water Fest*, community input sessions, job fairs, and at the state-wide teacher's drinking water institute. Other efforts include hosting two Highland water tower open houses and a treatment plant open house and tour, promoting them on social and traditional media platforms.

Our efforts in connection with lead in drinking water continued, though we did not change the policies and procedures developed in 2016. We continued to hand out filter pitchers to all residents who had their lead water service disturbed during the year and we continued replacing lead water services as part of our capital improvement projects.

The lawsuit between the White Bear Lake Homeowners Association and Lake Restoration Association and the Minnesota Department of Natural Resources (DNR) was completed and a ruling made in August 2017. The ruling and associated timelines, which compelled the DNR to place restrictions on all appropriation permits for wells within five miles of White Bear Lake, were postponed as part of 2018 legislative session. Similarly, the appeals process with the DNR, in which Regional Water hoped to avoid the ban if we are not using our wells, was postponed. Regional Water's raw water supply system has been identified as a possible source to augment White Bear Lake levels. Such a solution would require building a pipeline and pump station from a utility supply location such as Vadnais Lake to White Bear Lake.

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

Administration Division - Future Operations

Regional Water is preparing for an estimated \$130 million water treatment plant upgrade. After having obtained legislative approval for design-build procurement, Regional Water worked to develop a request for proposal (RFP) for an owner's agent, an engineering firm with experience developing contract documents, managing and directing design-build projects. Looking ahead to 2019, we will select an owner's agent and work to select a design-build firm by year-end. The project may take three to four years to complete.

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

HIGHLIGHTS IN SUMMARY (continued)

Administration will continue directing efforts at the initiatives listed above. We will work to implement strategic plan initiatives, continue to watch the Lead/Copper Rule as it is changed by the Environmental Protection Agency (EPA), and also the changes possible with our water use as a result of the White Bear Lake lawsuit and/or our water supply should the Regional Water be part of a solution toward meeting the east metro water needs. As always, our goal is to be able to budget and finance the projects necessary to 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 four business units of Customer Service and Billing, Financial Services, Information Services, and Meter Operations.

During 2018, the Customer Service unit issued approximately 34,400 bills per month or 1,660 bills per business day. Throughout the year, meter reading and water billings continued to meet schedules. Customers' use of electronic payments has continued to expand. In 2018, approximately 53 percent of transactions were processed electronically with nearly 29 percent of payments made via credit card and 24 percent via auto withdraw from a bank account.

The Customer Service call center received 161,592 calls in 2018. About 76,966 calls, or 48 percent were handled by call center staff and 84,626, by the self-serve Interactive Voice Response unit (IVR). This equates to approximately 649 calls per business day of which approximately 306 calls were answered by call center staff. The abandoned call percentage was 1.12 percent, substantially lower than our goal of less than 2 percent.

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

We configured a meter testing data base in CIS and populated record historic test results back to 2013. With this data available, we are continuing efforts to create a comprehensive meter testing schedule with the goal of identifying the optimal interval or accumulated consumption for initiating meter testing and replacing meters by account. In 2018, we tested all meters 3-inch and larger.

Financial Services staff created and published the 2017 Annual Financial Report; the report was well received by the State Auditor and reflected well on Regional Water. The group also published the annual budget and updated a 10-year water rate projection. In addition, a cost of service study for a possible wholesale agreement was developed by staff for the University of Minnesota's consideration.

Financial Services staff work with many applications and systems including the INFOR Enterprise Resource Planning (ERP) system, which includes financials, procurement/supply chain; Computerized Maintenance Management System (CMMS), Time, Attendance and Scheduling System (TASS) and Customer Information (and billing) System (CIS) applications and compiled

HIGHLIGHTS IN SUMMARY (continued)

and provided information necessary for Regional Water to manage its financial position by developing a budget, tracking spending and revenues, processing accounts payable invoices, accounts receivable invoices, collecting and processing payments, providing monthly reports to managers and to the Board of Water Commissioners and ensuring appropriate internal controls.

Financial Services staff participated in the testing and implementation of the upgrade to the INFOR ERP system, which went live in January 2019.

In 2018, the Information Services section completed a pilot project on Virtual Desktop Infrastructure (VDI). The project offers many potential efficiencies and savings including hardware, programming, backing-up systems and data, troubleshooting. Target completion is by the end of 2019.

The City of Saint Paul and Regional Water implemented a new Voice Over Internet Protocol (VOIP) digital phone system and no longer is receiving phone service from Ramsey County.

Business Division - Future Operations

Technology continues to be a current and future focus. A technology roadmap will be developed to assist with determining the future path of certain software and technologies.

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

An upgrade to our CIS on-line payment processing system called Infinity Link is planned for 2019. The enhanced software offers customers the ability to register on-line to have payments auto drawn from credit card or bank account, view past bills, and use mobile devices such as a cellular telephone, tablet and/or computer.

A new data analytics tool called Qlik will be implemented at the utility. The tool will serve as a report crafting tool to detail performance measures and other management reporting needs.

Distribution Division

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

HIGHLIGHTS IN SUMMARY (continued)

Water Distribution Capital Program - Distribution crews used multiple methods to construct water main in 2018. Approximately 12,000 feet of water main was replaced in street paving projects with a contractor providing excavation and Regional Water's crews performing the pipework. The pipe bursting method was used for approximately 11,000 feet of water main replacement. Regional Water excavated pits and a contractor pulled High-Density Polyethylene (HDPE) pipe through the old cast iron pipe with pipe bursting equipment. Regional Water completed the pipework required to connect the new pipe to the existing distribution system and reconnect the services. Another 4,000 feet of water main was replaced using the open trench method with Regional Water's crews providing the excavation and pipework and a contractor completed the street restoration.

Preventative Maintenance - Uni-Directional Flushing (UDF) was completed for 20 percent of the distribution system. UDF includes flushing main and operating valves on all 8-inch and smaller mains in the Distribution System. The second time through the distribution system with UDF is on pace to complete the entire system in year 2021. All public hydrants were inspected and flushed in 2018. This continues the long-term practice of inspecting all public hydrants annually. 20 percent of the valves 12 inches and larger in the distribution system were exercised in 2018. This is the first time that the goal has been met.

Reactive Maintenance - Regional Water performs emergency repairs on water mains and services. We also provide water main break repair services to other municipalities outside our service area, responding to main breaks in the City of Oakdale, White Bear Township and the City of Newport. A new on-call system was negotiated with the Tri-Council union to ensure employees were available to respond to emergency repairs.

Distribution Division - Future Operations

In 2019, continued emphasis will be placed on infrastructure replacement, focusing on main replacement utilizing the pipe bursting method and cleaning and lining existing cast iron pipe.

Engineering Division

The Engineering Division provides support to the utility in the planning, design and construction administration on projects throughout the utility. We also manage maps and records of the utility, perform plumbing inspection, utility locating, and related administrative functions. We are committed to providing high-quality asset management in the utility.

Significant progress on several large projects was made that will serve our customers well into the future. Highlights of our work include:

Water Main Capital Improvement Planning – The water main program continues to grow with increased funding in recent years. There has been less street reconstruction from the City of Saint Paul's Public Works Division than in past years. Consequently, more replacement is being done independent of street reconstruction areas. In 2018, 7.5 miles of water main was designed and constructed. This included approximately 5.3 miles of main replacement coordinated in collaboration with street reconstruction projects and 2.2 miles of main replacement in the highest

HIGHLIGHTS IN SUMMARY (continued)

risk category of our prioritization plan for replacement. We also began a project to review our corrosion control practices in the distribution system with an eye towards extending the life of these assets.

Condition Assessments - Condition assessments for the McCarron's water treatment plant foundation and 28 miles of our raw water supply conduit, which extend from the Mississippi River to the water treatment plant was completed. Work is now beginning on making improvements to the conduits, including preparation of specifications for the repair of concrete conduits and beginning work on a cathodic protection system of the steel lines.

Centerville Water Supply Study - The Rice Creek and Centerville Lake system was the primary source water supply for this utility in the late 1800's and early 1900's. This source continued to be used to varying degrees after the development of the Mississippi River as a source of supply. Use of this source has been dormant for the last 30 years. A study on this source is underway to provide information to help guide decision making as to the future of this source moving forward.

Partnership for Safe Water Distribution - The Partnership for Safe Water is a program developed through the American Water Works Association designed to review, assess and optimize utility operations with the goal of improving performance. We are continuing to work through the self-assessment phase of this program for our distribution system.

Maps & Records Improvements - In 2018, we continued to promote the utilization of Global Positioning Systems (GPS) technology throughout the utility, improving the accuracy of utility records. Continued work was done to improve the standardization and categorization of our Geographic Information System (GIS) data. In addition, we created new and made enhancements to existing mapping applications for field users, including the use of improved construction planning tools.

Plant Softening and Ozone Project - In 2018, we received approval from the state legislature to use 'design-build' on our upcoming major plant upgrades. This project is one of the largest projects in decades for the utility.

Historic Highland Tower - We are excited to announce the successful award of a \$250,000 grant for repairs to the historic Highland Tower.

Engineering Division - Future Operations

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

We will begin the McCarron's water treatment plant upgrade, focusing on the procurement of a design-builder and work to begin the framework for pilot testing of the new processes.

Work on our distribution infrastructure will continue in order to improve the aging buried infrastructure. Current funding of the water main capital improvement program will require extensive design and inspection. Additional focus on improved public outreach on our distribution related projects and water auditing and leak assessment is also being done.

HIGHLIGHTS IN SUMMARY (continued)

Production Division

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

Annual production of water for 2018 was similar to the previous three years, with a daily average of 39.63 million gallons per day (MGD). Precipitation was 7.19 inches above normal for the downtown zip code for the year according to the National Weather Service and Climatology Working Group data. River levels were also above normal for much of 2018, and drought was not a concern for the metro area. Our total annual pumpage from the McCarron's water treatment plant was 14,664 million gallons, of which 11,354 million gallons come from the Mississippi River. Groundwater was not utilized in 2018. The difference was made up from precipitation and runoff from the local watershed.

We had another excellent year of water quality. The McCarron's water treatment plant continued the Partnership for Safe Water's Presidents Award in 2018. 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 14 complaints of taste or odor being logged into the Customer Information System (CIS) for the year.

Chemical costs were down slightly, with a total chemical expenditure of \$3.3 million. This corresponds to a decrease of \$5.45 per million gallons of water treated. The majority of the decrease was caused by contract price drops for chemicals.

Total finished water pumping electrical costs were up slightly in 2018, with a normalized cost of \$95.66 per million gallons compared to \$90.82 per million gallons in 2017.

A number of improvements were made or undertaken in 2018. Painting began on the West St. Paul water tower and the work began on generator exhaust improvements and repair of parts of the exterior of the treatment plant. Electrical improvements including a back-up electric generator for the West St. Paul pump station were completed. A new 20 million gallon per day (MGD) high service pump has been procured and delivered. This pump will replace an existing 35 MGD pump and be used at the water treatment plant in the winter months for improved cost efficiency, with installation to be completed in 2019. A new 325,000 gallon sludge holding tank was built for holding softening residuals prior to dewatering. Our largest current project, the plant electrical improvements, is ongoing with completion expected in autumn of 2019. This project involves replacing all the incoming electrical switchgear and the four incoming transformers, plus the main pump room switchgear and motor control cabinets.

HIGHLIGHTS IN SUMMARY (continued)

Production Division – Future Operations

New fluoride chemical tanks will be installed in 2019. The old tanks had passed their useful life endpoint.

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

Replacement of the electrical service, cabinets, switchgear and motor controls are budgeted for replacement in 2019 for the west side pump station on located State Street.

INDEPENDENT AUDIT

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

MANAGEMENT AND COMPLIANCE REPORT

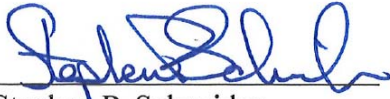
The State Auditor's audit was designed to meet the requirements of auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* (the Yellow Book). The State Auditor will also issue a management and 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.

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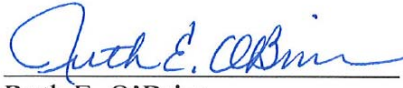
ACKNOWLEDGMENTS

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

Respectfully submitted,



Stephen P. Schneider
General Manager



Ruth E. O'Brien
Financial Services Manager

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

As of December 31, 2018

PUBLIC MEMBERS

Term Expires

Matt Anfang, President

June 30, 2020

Mara Humphrey

August 31, 2022

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

CITY COUNCIL MEMBERS

Amy Brendmoen, Vice President

January 1, 2020

Rebecca Noecker

January 1, 2020

Chris Tolbert

January 1, 2020

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

SUBURBAN MEMBERS

Jeffrey Dains, City of Lauderdale

December 31, 2019

Will Rossbach, City of Maplewood

December 31, 2018

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

SECRETARY

Mollie Gagnelius was appointed by the Board January 2008.

GENERAL MANAGER

Stephen P. Schneider appointed by the Board December 2003.

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FINANCIAL SECTION



JULIE BLAHA
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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

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

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Saint Paul Regional Water Services, a component unit of the City of Saint Paul, Minnesota, as of and for the year ended December 31, 2018, 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, 2018, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter – Change in Accounting Principle

As discussed in Note 2.D. to the financial statements, in 2018, the Saint Paul Regional Water Services adopted new accounting guidance by implementing the provisions of Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which represents a change in accounting principles. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

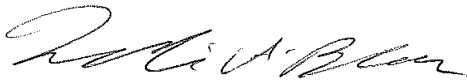
Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Saint Paul Regional Water Services' basic financial statements. The Introductory Section as listed in the table of contents is presented for purposes of additional


analysis and is not a required part of the basic financial statements. The Introductory Section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 17, 2019, on our consideration of the Saint Paul Regional Water Services' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Saint Paul Regional Water Services' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Saint Paul Regional Water Services' internal control over financial reporting and compliance.



JULIE BLAHA
STATE AUDITOR



GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 17, 2019

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**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended December 31, 2018**

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, 2018. This information should be read in conjunction with the financial statements.

Financial Highlights

- The assets and deferred outflows of resources of Regional Water exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$324,663,719 (Net Position). Of this amount, \$10,673,382 (unrestricted) may be used to meet the utility's ongoing obligations.
- Regional Water's total net position increased by \$16,110,382.

Overview of Annual Financial Report

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

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

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

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended December 31, 2018**

Overview of Annual Financial Report (continued)

This report contains certain required supplementary information. This required supplementary information includes a Schedule of the Proportionate Share of Net Pension Liability, a Schedule of Pension Contributions, and a Schedule of Changes in the Total Other Postemployment Benefits Liability and Related Ratios. Also included are notes related to the required supplementary information.

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

Summary of Organization and Business

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

Financial Analysis

Regional Water implemented Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (OPEB) requiring employers providing OPEB benefits to employees to record the restated OPEB liability on the financial statements along with related deferred outflows of resources, deferred inflows of resources, and OPEB expense. This statement also requires additional note disclosures and schedules in the required supplementary information. This resulted in an adjustment to the beginning net position on the Statement of Revenues, Expenses and Changes in Net Position of \$8,381,801.

Net Position, January 1, 2018, as previously reported	\$316,935,138
Change in Accounting Principle	<u>(8,381,801)</u>
Net Position, January 1, 2018, as restated	<u><u>\$308,553,337</u></u>

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 \$7.72 million to \$324.66 million in 2018, up from \$316.94 million in 2017. The increase is primarily due to the investment of capital assets in combinations with changes in other assets, liabilities, deferred outflows of resources, and deferred inflows of resources.

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended December 31, 2018**

Capital Assets

By the end of 2018, Regional Water had invested \$545.50 million in capital assets. There was a \$13.97 million increase in capital assets for the past fiscal year was primarily for water related improvements, equipment and public improvements such as mains, services and hydrants.

Long-Term Debt

At the end of 2018, bonds payable were \$7.90 million and revenue notes payable were \$27.92 million. This debt will be repaid with revenue generated by Regional Water.

Condensed Statement of Net Position (in thousands)

	Fiscal Year 2018	Fiscal Year 2017	Dollar Change	Total % Change
Assets				
Current and Other Assets	\$ 67,535	\$ 61,768	\$ 5,767	9.3
Capital Assets - net	<u>\$ 338,227</u>	<u>\$ 333,212</u>	<u>\$ 5,015</u>	<u>1.5</u>
Total Assets	<u>\$ 405,762</u>	<u>\$ 394,980</u>	<u>\$ 10,782</u>	<u>2.7</u>
Deferred Outflows of Resources	<u>\$ 3,714</u>	<u>\$ 3,814</u>	<u>\$ (100)</u>	<u>(2.6)</u>
Liabilities				
Current Liabilities	\$ 16,213	\$ 17,055	\$ (842)	(4.9)
Noncurrent Liabilities	<u>\$ 65,161</u>	<u>\$ 61,841</u>	<u>\$ 3,320</u>	<u>5.4</u>
Total Liabilities	<u>\$ 81,374</u>	<u>\$ 78,896</u>	<u>\$ 2,478</u>	<u>3.1</u>
Deferred Inflows of Resources	<u>\$ 3,438</u>	<u>\$ 2,963</u>	<u>\$ 475</u>	<u>16.0</u>
Net Position				
Net Investment in Capital Assets	\$ 302,079	\$ 293,493	\$ 8,586	2.9
Restricted for Debt Service	\$ 11,912	\$ 11,901	\$ 11	0.1
Unrestricted	<u>\$ 10,673</u>	<u>\$ 11,541</u>	<u>\$ (868)</u>	<u>(7.5)</u>
Total Net Position	<u>\$ 324,664</u>	<u>\$ 316,935</u>	<u>\$ 7,729</u>	<u>2.4</u>
Change in accounting principle*				
Prior year adjustment		<u>\$ (8,382)</u>		
Total Net Position, as restated		<u>\$ 308,553</u>		

* This is the first year Regional Water implemented the Postemployment Benefits Other Than Pensions (OPEB) accounting and financial reporting standard authorized by the Governmental Accounting Standards Board (GASB). Regional Water had to make a prior year adjustment for a change in accounting principle to record Regional Water's OPEB liability and related deferred outflows of resources of \$8.382 million. See Note 2.D. on page 19 and Note 5.B. on pages 43-48 of this report.

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended December 31, 2018**

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

	Fiscal Year 2018	Fiscal Year 2017	Dollar Change	Total % Change
Operating Revenues	\$ 63,616	\$ 62,337	\$ 1,279	2.1
Non-Operating Revenues (Expenses)	\$ (327)	\$ (114)	\$ (213)	186.8
Total Revenues	<u>\$ 63,289</u>	<u>\$ 62,223</u>	<u>\$ 1,066</u>	<u>1.7</u>
Operating Expenses	<u>\$ 48,249</u>	<u>\$ 49,221</u>	<u>\$ (972)</u>	<u>(2.0)</u>
Income (Loss) Before Capital Contributions	<u>\$ 15,040</u>	<u>\$ 13,002</u>	<u>\$ 2,038</u>	<u>15.7</u>
Capital Contributions	<u>\$ 1,071</u>	<u>\$ 668</u>	<u>\$ 403</u>	<u>60.3</u>
Change in Net Position	<u>\$ 16,111</u>	<u>\$ 13,670</u>	<u>\$ 2,441</u>	<u>17.9</u>
Net Position - January 1, as restated*	<u>\$ 308,553</u>	<u>\$ 303,265</u>	<u>\$ 5,288</u>	<u>1.7</u>
Net Position - December 31	<u>\$ 324,664</u>	<u>\$ 316,935</u>	<u>\$ 7,729</u>	<u>2.4</u>

*Amount includes a change in accounting principle. See Note 2.D. on page 19 and Note 5.B on pages 43-48 of this report.

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 \$1.28 million to \$63.62 million in 2018, up from \$62.34 million in 2017.

In 2018 water rates increased \$0.13 per 100 Cubic Feet (CCF) from the 2017 average winter/summer rate of \$2.69 CCF to \$2.82 CCF. Actual water consumption in 2017 and 2018 was 16.51 million billing units (100 cubic feet). There was no change in the water service base fee; it remains at \$6.00. This is a monthly fee based on the size of the meter and increases as the meter size increases to reflect the increased cost of providing peak volume capacity. There was no change in the water main surcharge; it remains at a rate of \$0.20 per CCF. This surcharge is designed to fund main replacement in the service area. There was no change in the Right-of-Way Recovery Fee; it remains at \$1.50. This monthly fee is only charged to Saint Paul residents and is for a payment to the City of Saint Paul for the extra costs they incur due to Regional Water's facilities being located in the public rights-of-way. This fee is structured in a similar manner to the water service base fee in that it varies by water meter size. The impact on the typical single family customer was an increase of 3.1% over 2017 water rates.

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended December 31, 2018**

Expenses

Regional Water's operating expenses decreased \$972 thousand to \$48.25 million in 2018, down from \$49.22 million in 2017. Salaries and fringes increased \$518 thousand in accordance with negotiated bargaining unit contracts; workers compensation, pension, and OPEB expenses which include an estimated liability amount, decreased \$1.51 million, \$1.08 million, and \$746 thousand respectively. Service expenses increased \$1.01 million. There were increases in multiple areas such as an increase in fees paid to City of Saint Paul of \$84 thousand, lime hauling for \$110 thousand, restoration and equipment use for \$370 thousand, building and equipment repairs of \$460 thousand and other miscellaneous services decreased \$77 thousand. Miscellaneous expenses decreased by \$686 thousand, there was a decrease of \$700 thousand for tort settlements offset by an increase of \$14 thousand for public improvement assessments. Materials and supplies increased by \$166 thousand. There was an increase of \$146 thousand for electricity and other energy and \$58 thousand for special materials and supplies. This was offset by a decrease of \$38 thousand for chemicals. Depreciation increased \$20 thousand.

Economic and Other Factors

The effects of conservation and cultural changes in our service area continue. Total consumption levels remain stable at near budgeted levels. Precipitation was 7.19 inches above normal for the downtown Saint Paul zip code for the year, according to the National Weather Service. Rain fell at regular intervals throughout the growing season. This led to very light demands on our system as there was minimal need to sprinkle lawns and gardens; demand for water did not pick up during the summer or fall.

Financial Contact

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

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BOARD OF WATER COMMISSIONERS OF THE CITY OF SAINT PAUL, MINNESOTA
 REGIONAL WATER SERVICES STATEMENT OF NET POSITION
 December 31, 2018
 (Amounts in dollars)

Exhibit A

ASSETS

Current Assets

Cash and Investments with Treasurer	28,057,898
Investments	15,683,071
Departmental Cash	165,210
Imprest Funds	2,000
Restricted Cash and Cash Equivalents	
Investments for Revenue Note Debt Service	2,641,568
Investments for Revenue Bond Debt Service	2,401,900
Receivables	
Accounts (net of allowance for Estimated Uncollectibles)	5,513,342
Assessments	
Current	661,730
Deferred	1,945,855
Delinquent	93,958
Tax Forfeited Property	3,464
Accrued Interest	276,019
Due from Primary Government	83,905
Due from Other Governmental Units	612,480
Inventory - Materials and Supplies	2,329,840

Total Current Assets 60,472,240

Noncurrent Assets

Restricted Assets

Investments for Revenue Bond Future Debt Service	5,043,467
Investments for Revenue Bond Operations and Maintenance	1,881,462

Total Restricted Assets 6,924,929

Long-Term Loans Receivable 136,991

Capital Assets

Land	4,061,766
Buildings and Structures	57,603,238
Less: Accumulated Depreciation	(26,230,333)
Public Improvements	404,449,314
Less: Accumulated Depreciation	(145,744,290)
Equipment	60,206,520
Less: Accumulated Depreciation	(35,299,746)
Construction in Progress	19,181,083

Total Capital Assets (Net of Accumulated Depreciation) 338,227,552

Total Noncurrent Assets 345,289,472

Total Assets 405,761,712

DEFERRED OUTFLOWS OF RESOURCES

Deferred Pension Outflows	2,282,213
Deferred Other Postemployment Benefits Outflows	1,432,289

Total Deferred Outflows of Resources 3,714,502

continued

BOARD OF WATER COMMISSIONERS OF THE CITY OF SAINT PAUL, MINNESOTA
 REGIONAL WATER SERVICES STATEMENT OF NET POSITION
 December 31, 2018
 (Amounts in dollars)

Exhibit A

LIABILITIES

Current Liabilities (Payable from Current Assets)

Accrued Salaries Payable	1,002,623
Accounts Payable	2,334,112
Contract Retention Payable	356,782
Due to Primary Government	3,580,449
Due to Other Governmental Units	3,137,775
Unearned Revenue	660,268
Compensated Absences Payable	69,250
Claims and Judgments Payable	661,099

Total Current Liabilities (Payable from Current Assets) 11,802,358

Current Liabilities (Payable from Restricted Assets)

Revenue Notes Payable	2,149,000
Revenue Bonds Payable	2,205,000
Accrued Interest Payable on Revenue Notes	40,102
Accrued Interest Payable on Revenue Bonds	16,408

Total Current Liabilities (Payable from Restricted Assets) 4,410,510

Noncurrent Liabilities

Revenue Bonds Payable	5,695,000
Premium on Revenue Bonds	333,912
Revenue Notes Payable	25,766,190
Compensated Absences Payable	1,683,237
Other Postemployment Benefits Liability	14,232,779
Net Pension Liability	13,254,123
Claims and Judgments Payable	4,196,432

Total Noncurrent Liabilities 65,161,673

Total Liabilities 81,374,541

DEFERRED INFLOWS OF RESOURCES

Deferred Pension Inflows 3,437,954

NET POSITION

Net Investment in Capital Assets	302,078,450
Restricted for Debt Service	11,911,887
Unrestricted	10,673,382

Total Net Position 324,663,719

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, 2018
(Amounts in dollars)

Exhibit B

OPERATING REVENUES	
Fees, Sales and Services	62,593,594
Rents and Leases	903,207
Miscellaneous	<u>119,679</u>
Total Operating Revenues	<u>63,616,480</u>
OPERATING EXPENSES	
Salaries	13,194,837
Employee Fringe Benefits	5,952,924
Services	11,443,070
Materials and Supplies	7,417,676
Depreciation	9,420,989
Miscellaneous	<u>819,733</u>
Total Operating Expenses	<u>48,249,229</u>
OPERATING INCOME (LOSS)	<u>15,367,251</u>
NON-OPERATING REVENUES (EXPENSES)	
Operating Grants	223,777
Gain on Sale of Assets	120,487
Loss on Retirement of Assets	(371,907)
Investment Income	
Interest Earned on Investments	879,332
Decrease in Fair Value of Investments	(641,785)
Miscellaneous Other Revenue (Expenses)	143,968
Interest Expense on	
Revenue Bonds	(178,454)
Revenue Notes	<u>(503,385)</u>
Total Non-Operating Revenues (Expenses)	<u>(327,967)</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS	<u>15,039,284</u>
CAPITAL CONTRIBUTIONS	
Capital Acquisitions - Outside Sources	<u>1,071,098</u>
CHANGE IN NET POSITION	16,110,382
NET POSITION, January 1, as Restated (Note 2.D.)	<u>308,553,337</u>
NET POSITION, December 31	<u><u>324,663,719</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, 2018
(Amounts in dollars)

Exhibit C

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from Customers	63,571,208
Other Operating Receipts	903,207
Other Receipts	119,679
Payments to Suppliers	(19,629,348)
Payments to Employees	(13,205,608)
Payment for Fringe Benefits and Payroll Taxes	(6,653,208)
Non-Operating Revenue Received	<u>138,808</u>

NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES 25,244,738

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Operating Grants Received	122,396
Non-Operating Loans Repayment Received from Customers	<u>45,896</u>

NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES 168,292

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Cash Proceeds From Issuance of Debt:	
Revenue Notes	774,895
Cash Proceeds From Sale of Capital Assets:	
Equipment	22,559
Capital Contributions Received:	
From Outside Parties	563,969
Principal Paid on Debt Maturities:	
Revenue Bonds	(2,625,000)
Revenue Notes	(1,634,067)
Payments for Acquisition and Construction of Capital Assets:	
Construction in Progress	(15,629,938)
Interest Paid On:	
Revenue Bonds	(269,901)
Revenue Notes	<u>(503,536)</u>

NET CASH PROVIDED (USED) IN CAPITAL AND RELATED FINANCING ACTIVITIES (19,301,019)

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of Investment Securities	(5,999,000)
Decrease in Fair Value of Investments	(641,785)
Interest and Dividends on Investments Received	<u>890,009</u>

NET CASH PROVIDED (USED) IN INVESTING ACTIVITIES (5,750,776)

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS 361,235

CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR 32,907,341

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

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, 2018
 (Amounts in dollars)

Exhibit C

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

Operating Income (Loss)		<u>15,367,251</u>
Adjustments To Reconcile Operating Income To Net Cash Provided (Used) by Operating Activities:		
Depreciation	9,420,989	
Increase (Decrease) in Allowance for Uncollectible Accounts	17,791	
Nonoperating Miscellaneous Other Revenue Received	138,808	
Changes in Assets and Liabilities:		
(Increase) Decrease in Accounts Receivable	348,203	
(Increase) Decrease in Assessments Receivable	142,548	
(Increase) Decrease in Due From Primary Government	(1,237)	
(Increase) Decrease in Due From Other Governmental Units	9,022	
(Increase) Decrease in Deferred Other Postemployment Benefits Outflows	(1,432,289)	
(Increase) Decrease in Deferred Pension Outflows	1,531,759	
(Increase) Decrease in Inventories	(119,953)	
Increase (Decrease) in Accrued Salaries Payable	(10,771)	
Increase (Decrease) in Accounts Payable	232,558	
Increase (Decrease) in Due To Primary Government	(95,847)	
Increase (Decrease) in Due To Other Governmental Units	107,163	
Increase (Decrease) in Unearned Revenue	461,287	
Increase (Decrease) in Compensated Absences Payable	2,773	
Increase (Decrease) in Other Postemployment Benefits Liability	908,361	
Increase (Decrease) in Deferred Pension Inflows	474,682	
Increase (Decrease) in Net Pension Liability	(2,185,570)	
Increase (Decrease) in Claims and Judgments Payable	(72,790)	
		<u>9,877,487</u>

Total Adjustments 9,877,487

NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES 25,244,738

DETAILS OF CASH AND CASH EQUIVALENTS

Cash and Investments with Treasurer	28,057,898
Departmental Cash	165,210
Imprest Funds	2,000
Cash for Revenue Note Debt Service	2,641,568
Cash for General Revenue Bond Debt Service	2,401,900
	<u>33,268,576</u>

TOTAL CASH AND CASH EQUIVALENTS 33,268,576

NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES

Loss on Retirement/Deletion of Capital Assets	(324,348)
Net Book Value of Traded Capital Assets	6,500
Decrease in Fair Value of Investments	(641,785)
Capital Assets Purchased on Account - Construction in Progress	2,383,859
Capital Assets Contributed - Public Improvements	599,585

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

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SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2018

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**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2018**

Note 1. Board of Water Commissioners

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

Note 2. Summary of Significant Accounting Policies

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

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

A. Financial Reporting Entity

In conformance with the application of the criteria set forth in generally accepted accounting principles, Regional Water is part of the City of Saint Paul (the primary government) reporting entity and is shown in the City's Comprehensive Annual Financial Report for the fiscal year ended December 31, 2018, 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, 2018**

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 Principle

For the year ended December 31, 2018, Regional Water implemented Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (OPEB) requiring employers providing OPEB benefits to employees to record the restated OPEB liability on the financial statements along with related deferred outflows of resources, deferred inflows of resources, and OPEB expense. This statement also requires additional note disclosures and schedules in the required supplementary information. This resulted in an adjustment to the beginning net position on the Statement of Revenues, Expenses and Changes in Net Position of \$8,381,801.

Net Position, January 1, 2018, as previously reported	\$316,935,138
Change in Accounting Principle	<u>\$ (8,381,801)</u>
Net Position, January 1, 2018, as restated	<u><u>\$308,553,337</u></u>

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, 2018. A market approach is used to value all investments other than external investment pools, which are measured at the net asset value or fair value per share. Investments in nonparticipating interest-earning contracts, such as savings accounts and nonnegotiable certificates of deposit, are reported at cost. Money market investments and participating interest-earning investment contracts (negotiable certificates of deposit), are reported at amortized cost since these investments have a remaining maturity of one year or less at the time of purchase. Money market investments are short-term, highly liquid debt instruments including commercial paper, bankers' acceptances, and U.S. Treasury and agency obligations. See Note 4.A.1.

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2018**

Note 2. Summary of Significant Accounting Policies

1. Cash and Investments (continued)

In 2018, Regional Water recorded a “decrease in fair value of investments” of \$641,785 as part of investment income. The non-pooled portion is \$147,680 and the pooled portion is \$494,105. 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.

2. Receivables

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

The Assessments Receivables consist of Current, Deferred, Delinquent and Tax Forfeiture accounts. Current assessments consist of water mains constructed, lead service replacements, and unpaid water bills assessed for the current year. Deferred assessments are made up of water main and lead service replacements to be assessed over ten to twenty years. Delinquent assessments are levied assessments that have not been paid from 2013 through 2017. 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.

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2018**

Note 2. Summary of Significant Accounting Policies (continued)

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.

5. Capital Assets

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

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

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

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

6. Bond Premiums and Issuance Costs

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

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

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2018**

Note 2. Summary of Significant Accounting Policies (continued)

7. Compensated Absences

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

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

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

8. Defined Benefit Pension Plan

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

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**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2018**

Note 2. Summary of Significant Accounting Policies (continued)

9. Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense) until then. Regional Water has two items, deferred pension outflows and deferred other postemployment benefits outflows, that qualify for reporting in this category. These outflows arise only under the full accrual basis of accounting and, accordingly, are reported only in the Statement of Net Position.

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

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**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2018**

Note 2. Summary of Significant Accounting Policies (continued)

10. Equity Classifications

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

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

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

11. Capital Contributions

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

12. Operating and Non-Operating Revenues and Expenses

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

SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2018

Note 2. Summary of Significant Accounting Policies (continued)

13. Use of Estimates

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

Note 3. Stewardship, Compliance and Accountability

A. Federal Audit Requirements

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

For 2018, Regional Water is not required to undergo a separate single audit in conformity with the provisions of the Single Audit Act Amendments of 1996 and audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). The federal award programs expended by Regional Water are presented in the Schedule of Federal Awards in the City of Saint Paul's Comprehensive Annual Financial Report for the year ended December 31, 2018.

The Uniform Guidance sets forth the audit requirements for local governments receiving federal awards. It provides for a single independent audit of the financial operations, including compliance with certain provision of federal laws and regulations. The requirements have been established to ensure that audits are made on an organization-wide basis rather than a grant-by-grant basis. This audit requirement was complied with for 2018 for the City of Saint Paul.

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

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2018**

Note 4. Detail Notes

A. Assets

1. Deposits and Investments

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

Deposits

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

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

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the City's deposits may not be returned to it. As of December 31, 2018, 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 \$5,828,967 (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, 2018, the total imprest funds were \$2,000. Regional Water also had departmental cash on hand of \$165,210.

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2018**

Note 4. A. Assets (continued)

Investments

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

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

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

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

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2018**

Note 4. A. Assets (continued)

(f) Repurchase agreements may be entered into with:

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

(g) Securities lending agreements; and

(h) Guaranteed investment contracts.

Credit Risk

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

Regional Water's exposure to credit risk as of December 31, 2018, is as follows:

<u>Rating Agency</u>	<u>Rating</u>	<u>Fair Value</u>
Moody's	Aaa	<u>\$22,608,000</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, 2018, 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, 2018**

Note 4. A. Assets (continued)

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by the City’s investment in a single issuer. It is the City’s policy that U.S. Treasury securities, U.S. Agency Securities, and obligations backed by U.S. Treasury and/or U.S. Agency securities, may be held without limit. At December 31, 2018, 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, 2018, Regional Water had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Less Than 1 Year</u>	<u>1 - 2 Years</u>	<u>2 – 5 Years</u>	<u>6 - 10 Years</u>	<u>Greater Than 10 Years</u>
U.S. Agencies	\$22,608,000	\$5,000,300	\$1,000,540	\$3,900,670	\$9,892,850	\$2,813,640

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, 2018**

Note 4. A. Assets (continued)

At December 31, 2018, Regional Water had the following recurring fair value measurements.

	Fair Value Measurements Using			
	12/31/2018	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	\$ 22,608,000	\$ -	\$ 22,608,000	\$ -

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	\$ 28,057,898
Investments	15,683,071
Departmental Cash	165,210
Imprest Funds	2,000
Restricted Cash, Cash Equivalents and Investments:	
Revenue Note Debt Service	2,641,568
Revenue Bond Debt Service	2,401,900
Revenue Bond Future Debt Service	5,043,467
Revenue Bond Operations and Maintenance	1,881,462
Total	\$ 55,876,576
Deposits	\$ 5,828,967
Investments	22,608,000
Regional Water's Portion of City Investment Pool	27,272,399
Departmental Cash	165,210
Imprest Funds	2,000
Total	\$ 55,876,576

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2018**

Note 4. A. Assets (continued)

2. Summary of Accounts Receivable

The receivables account presented on the Statement of Net Position consists of five accounts. The balance of those accounts as of December 31, 2018, is as follows:

Accounts Receivable - Invoices	\$ 139,088
Accounts Receivable - Water Billings	5,347,671
Accounts Receivable - Unbilled	89,488
Accounts Receivable - Miscellaneous	14,193
Allowance for Uncollectible Accounts	(77,098)
Accounts Receivable (net of Allowance for Estimated Uncollectible)	<u>\$ 5,513,342</u>

3. Summary of Changes in Capital Assets

A summary of changes in capital assets follows:

	01/01/2018	Additions	Deductions	12/31/2018
Capital Assets Not Being Depreciated:				
Land	\$ 4,061,766	\$ -	\$ -	\$ 4,061,766
Construction in Progress	18,097,642	14,763,301	(13,679,860)	19,181,083
Total Capital Assets Not Being Depreciated	<u>\$ 22,159,408</u>	<u>\$ 14,763,301</u>	<u>\$ (13,679,860)</u>	<u>\$ 23,242,849</u>
Capital Assets Being Depreciated:				
Buildings and Structures	\$ 57,603,238	\$ -	\$ -	\$ 57,603,238
Public Improvements	393,927,790	11,253,644	(732,120)	404,449,314
Equipment	57,835,368	3,025,801	(654,649)	60,206,520
Total Capital Assets Being Depreciated	<u>\$ 509,366,396</u>	<u>\$ 14,279,445</u>	<u>\$ (1,386,769)</u>	<u>\$ 522,259,072</u>
Less Accumulated Depreciation for:				
Buildings and Structures	\$ (25,866,215)	\$ (364,118)	\$ -	\$ (26,230,333)
Public Improvements	(139,503,713)	(6,670,088)	429,511	(145,744,290)
Equipment	(32,943,825)	(2,979,356)	623,435	(35,299,746)
Total Accumulated Depreciation*	<u>\$ (198,313,753)</u>	<u>\$ (10,013,562)</u>	<u>\$ 1,052,946</u>	<u>\$ (207,274,369)</u>
Total Capital Assets Being Depreciated, Net	<u>\$ 311,052,643</u>	<u>\$ 4,265,883</u>	<u>\$ (333,823)</u>	<u>\$ 314,984,703</u>
Capital Assets, Net	<u>\$ 333,212,051</u>	<u>\$ 19,029,184</u>	<u>\$ (14,013,683)</u>	<u>\$ 338,227,552</u>

*Total Accumulated Depreciation is reduced by an allowance of \$592,573 for equipment used to construct capital assets; net depreciation reported is \$9,420,989 (\$10,013,562 - \$592,573).

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2018**

Note 4. Detail Notes (continued)

B. Liabilities

1. Debt Obligations of Regional Water

a. Current and Long-Term Debt Maturities

At December 31, 2018, long-term debt consisted of:

	Principal		
	Unpaid Balances December 31, 2018	Less Current Maturities	Long-Term Maturities
Notes Payable	\$ 27,915,190	\$ 2,149,000	\$ 25,766,190
Revenue Bonds	7,900,000	2,205,000	5,695,000
Compensated Absences	1,752,487	69,250	1,683,237
Claims and Judgments	4,857,531	661,099	4,196,432
Total	<u>\$ 42,425,208</u>	<u>\$ 5,084,349</u>	<u>\$ 37,340,859</u>

b. Changes in Debt Obligations

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

	01/01/18	Additions	Deductions	12/31/18
Drinking Water Revenue Notes	\$ 28,774,362	\$ 774,895	\$ 1,634,067	\$ 27,915,190
Revenue Bonds	10,525,000	-	2,625,000	7,900,000
Compensated Absences	1,749,714	933,539	930,766	1,752,487
Claims and Judgments	4,930,321	987,759	1,060,549	4,857,531
Total	<u>\$ 45,979,397</u>	<u>\$ 987,759</u>	<u>\$ 6,250,382</u>	<u>\$ 42,425,208</u>

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2018**

Note 4. B. Liabilities (continued)

c. Principal and Interest Requirements on Debt Obligations

i. All Debt

Aside from Compensated Absences and Claims and Judgments, the annual requirements to pay the principal of \$35,815,190 and interest of \$3,755,967 on all Regional Water debt outstanding as of December 31, 2018, are as follows:

<u>YEAR</u>	<u>2007 REVENUE BONDS</u>			<u>2013A REVENUE BONDS</u>			<u>TOTAL REVENUE BONDS</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$870,000	\$34,800	\$904,800	\$1,335,000	\$162,100	\$1,497,100	\$2,205,000	\$196,900	\$2,401,900
2020	\$ -	\$ -	\$ -	\$1,365,000	\$135,400	\$1,500,400	\$1,365,000	\$135,400	\$1,500,400
2021	\$ -	\$ -	\$ -	\$1,400,000	\$108,100	\$1,508,100	\$1,400,000	\$108,100	\$1,508,100
2022	\$ -	\$ -	\$ -	\$1,435,000	\$66,100	\$1,501,100	\$1,435,000	\$66,100	\$1,501,100
2023	\$ -	\$ -	\$ -	\$745,000	\$37,400	\$782,400	\$745,000	\$37,400	\$782,400
2024	\$ -	\$ -	\$ -	\$750,000	\$22,500	\$772,500	\$750,000	\$22,500	\$772,500
	<u>\$870,000</u>	<u>\$34,800</u>	<u>\$904,800</u>	<u>\$7,030,000</u>	<u>\$531,600</u>	<u>\$7,561,600</u>	<u>\$7,900,000</u>	<u>\$566,400</u>	<u>\$8,466,400</u>

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2018**

Note 4. B. Liabilities (continued)

<u>YEAR</u>	<u>2010A DRINKING WATER REVENUE NOTE</u>			<u>2010B DRINKING WATER REVENUE NOTE</u>			<u>2014 DRINKING WATER REVENUE NOTE</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$345,000	\$83,604	\$428,604	\$1,340,000	\$324,142	\$1,664,142	\$105,000	\$19,147	\$124,147
2020	\$475,000	\$76,832	\$551,832	\$1,840,000	\$297,851	\$2,137,851	\$107,000	\$18,047	\$125,047
2021	\$300,000	\$67,508	\$367,508	\$1,170,000	\$261,750	\$1,431,750	\$108,000	\$16,925	\$124,925
2022	\$310,000	\$61,619	\$371,619	\$1,210,000	\$238,795	\$1,448,795	\$109,000	\$15,793	\$124,793
2023	\$480,000	\$55,533	\$535,533	\$1,875,000	\$215,055	\$2,090,055	\$110,000	\$14,651	\$124,651
2024-28	\$1,730,000	\$157,040	\$1,887,040	\$6,690,000	\$606,454	\$7,296,454	\$567,000	\$55,743	\$622,743
2029-33	\$619,000	\$18,217	\$637,217	\$2,396,000	\$70,769	\$2,466,769	\$598,000	\$25,383	\$623,383
2034-36	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$123,000	\$1,289	\$124,289
	<u>\$4,259,000</u>	<u>\$520,353</u>	<u>\$4,779,353</u>	<u>\$16,521,000</u>	<u>\$2,014,816</u>	<u>\$18,535,816</u>	<u>\$1,827,000</u>	<u>\$166,978</u>	<u>\$1,993,978</u>
<u>YEAR</u>	<u>2016 DRINKING WATER REVENUE NOTE</u>			<u>TOTAL REVENUE NOTES</u>					
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>			
2019	\$359,000	\$65,674	\$424,674	\$2,149,000	\$492,567	\$2,641,567			
2020	\$362,000	\$51,125	\$413,125	\$2,784,000	\$443,855	\$3,227,855			
2021	\$366,000	\$47,386	\$413,386	\$1,944,000	\$393,569	\$2,337,569			
2022	\$370,000	\$43,605	\$413,605	\$1,999,000	\$359,812	\$2,358,812			
2023	\$374,000	\$39,783	\$413,783	\$2,839,000	\$325,022	\$3,164,022			
2024-28	\$1,384,876	\$151,279	\$1,536,155	\$10,371,876	\$970,516	\$11,342,392			
2029-33	\$1,457,898	\$78,257	\$1,536,155	\$5,070,898	\$192,626	\$5,263,524			
2034-36	\$634,416	\$10,311	\$644,727	\$757,416	\$11,600	\$769,016			
	<u>\$5,308,190</u>	<u>\$487,420</u>	<u>\$5,795,610</u>	<u>\$27,915,190</u>	<u>\$3,189,567</u>	<u>\$31,104,757</u>			

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2018**

Note 4. B. Liabilities

i. All Debt (continued)

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

The note was in the amount of \$7,564,417. The proceeds of the note were for the purchase and installation of the McCarron's electrical switchgear and related electrical appurtenances. The total principal amount of the long-term portion of the loan at December 31, 2018, was \$4,949,190.

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, 2018, the claims and judgments liability was \$4,857,531.

iii. Compensated Absences

Included in Regional Water's debt are compensated absences for \$1,752,487.

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	\$ 870,000
Revenue	1.52%; 06/01; 12/01	03/18/13	12/01/24	<u>7,030,000</u>
Total				<u>\$7,900,000</u>

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2018**

Note 4. B. Liabilities (continued)

3. Notes Payable by Issue

<u>Issue</u>	<u>Issue Rate And Dates</u>	<u>Issue Date</u>	<u>Final Maturity Date</u>	<u>Amount Outstanding</u>
Drinking Water Revenue Note	1.96%; 06/01; 12/01	07/13/10	12/01/30	\$ 4,259,000
Drinking Water Revenue Note	1.96%; 06/01; 12/01	07/13/10	12/01/30	16,521,000
Drinking Water Revenue Note	1.05%; 06/01; 12/01	06/19/14	12/01/34	1,827,000
Drinking Water Revenue Note	1.03%; 06/01; 12/01	11/28/16	12/01/36	<u>5,308,190</u>
Total				<u>\$27,915,190</u>

C. Due From Primary Government

At December 31, 2018, 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	\$83,905

D. Due To Primary Government

At December 31, 2018, Regional Water reported the following payable to the City of Saint Paul:

<u>City Fund Title</u>	<u>City Fund Type</u>	<u>Amount</u>
Sewer Utility	Enterprise Fund	\$3,563,608
City Capital Projects	Capital Projects Fund	<u>16,841</u>
Total		<u>\$3,580,449</u>

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2018**

Note 5. Other Information

A. Defined Benefit Pension Plan

Plan Description

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

The General Employees Retirement Plan (accounted for in the General Employees Fund) has multiple benefit structures with members belonging to the Coordinated Plan, the Basic Plan or the Minneapolis Employees Retirement Fund. Coordinated Plan members are covered by Social Security and Basic Plan and Minneapolis Employees Retirement Fund members are not. The Basic Plan was closed to new members in 1967. The Minneapolis Employees Retirement Fund was closed to new members during 1978 and merged into the General Employees Plan in 2015. Regional Water is not required to make any contributions to the Basic Plan or the Minneapolis Employees Retirement Fund, and no Regional Water employees belong to either the Basic Plan or the Minneapolis Employees Retirement Fund. All new members must participate in the Coordinated Plan, for which benefits vest after five years of credited service. Information on the City Employee Pension Plan is contained in the City's Comprehensive Annual Financial Report for the Fiscal Year Ended December 31, 2018.

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 1.00 percent post-retirement benefit increase. If the funding ratio reaches 90 percent for two consecutive years, the benefit increase will revert to 2.50 percent. If, after reverting to a 2.50 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 1.00 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, 2018**

Note 5. A. Defined Benefit Pension Plan

Benefits Provided (continued)

Benefits are based on a member's highest average salary for any 60 consecutive months of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for 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 1.20 percent of average salary for each of the first ten years of service and 1.70 percent for each remaining year. Under Method 2, the annuity accrual rate is 1.70 percent for Coordinated Plan members for each year of service. Only Method 2 is used for members hired after June 30, 1989.

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

Contributions

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minnesota Statutes Chapter 353. These statutes are established and amended by the state legislature. General Employees Retirement Plan Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in 2018.

In 2018, 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 Plan for the year ended December 31, 2018, were \$1,219,883. 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, 2018**

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

Pension Costs

At December 31, 2018, Regional Water reported a liability of \$13,254,123 for its proportionate share of the General Employees Plan's net pension liability. The net pension liability was measured as of June 30, 2018, 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, 2017, through June 30, 2018, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2018, Regional Water's proportion was 0.2389 percent. It was 0.2419 percent measured as of June 30, 2017. Regional Water recognized pension expense of \$1,164,908 for its proportionate share of the General Employees Plan's pension expense.

Regional Water also recognized \$101,381 as revenue, which results in a reduction of the net pension liability for its proportionate share of the State of Minnesota's contributions to the General Employees Plan, which qualifies as a special funding situation. Legislation requires the State of Minnesota to contribute \$16 million to the General Employees Plan for the fiscal years ended June 30, 2018 and 2019, and \$6 million thereafter, through calendar year 2031.

Regional Water's proportionate share of the net pension liability	\$ 13,254,123
State of Minnesota's proportionate share of the net pension liability associated with Regional Water	<u>434,744</u>
Total	<u>\$ 13,688,867</u>

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 354,932	\$ 390,010
Changes in actuarial assumptions	1,277,386	1,501,767
Difference between projected and actual investment earnings	-	1,358,682
Changes in proportion	32,747	187,495
Contributions paid to PERA subsequent to the measurement date	617,148	-
	<u>\$ 2,282,213</u>	<u>\$ 3,437,954</u>

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2018**

Note 5. A. Defined Benefit Pension Plan

Pension Costs (continued)

The \$617,148 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, 2019. 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>
2019	\$ 387,268
2020	(\$753,255)
2021	(\$1,130,266)
2022	(\$276,636)

Actuarial Assumptions

The total pension liability in the June 30, 2018, actuarial valuation was determined using the individual entry-age normal actuarial cost method and the following additional actuarial assumptions:

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

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants in the General Employees Retirement Plan were based on RP-2014 tables for males or females, as appropriate, with slight adjustments. The cost of living benefit increases for retirees is assumed to be 1.25 percent per year.

Actuarial assumptions used in the June 30, 2018, valuation were based on the results of actuarial experience studies. The most recent six-year experience study in the General Employees Plan was dated June 30, 2015. Economic assumptions were updated in 2017 based on a review of inflation and investment return assumptions.

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2018**

Note 5. A. Defined Benefit Pension Plan

Actuarial Assumptions (continued)

The long-term expected rate of return on pension plan investments is 7.50 percent. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic stocks	36%	5.10%
International stocks	17%	5.30%
Bonds (fixed income)	20%	0.75%
Alternative assets (private markets)	25%	5.90%
Cash	2%	0.00%

Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent in 2018, which remained consistent with 2017. 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, 2018**

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

Changes in Actuarial Assumptions

The following changes in actuarial assumptions occurred in 2018:

- The morality projection (MP) scale was changed from MP-2015 to MP-2017.
- The assumed benefit increase was changed from 1.00 percent per year through 2044 and 2.50 percent per year thereafter, to 1.25 percent per year.

Pension Liability Sensitivity

The following presents Regional Water’s proportionate share of the net pension liability calculated using the discount rate previously disclosed, as well as what Regional Water’s proportionate share of the net pension liability would be if it were calculated using a discount rate 1.00 percentage point lower or 1.00 percentage point higher than the current discount rate:

	1% Decrease in Discount Rate (6.50%)	Current Discount Rate (7.50%)	1% Increase in Discount Rate (8.50%)
Proportionate share of the General Employees Retirement Plan net pension liability	\$ 21,539,647	\$ 13,254,123	\$ 6,414,660

Pension Plan Fiduciary Net Position

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

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2018**

Note 5. B. Postemployment Benefits Other than Pensions

Plan Description

In addition to the pension benefits described in Note 5.A., Regional Water, through the City of Saint Paul (City) provides other postemployment health care and life insurance benefits (OPEB) for retired employees through a cost-sharing multiple employer defined benefit plan. The authority to provide these benefits is established in Minnesota Statutes Section 471.61, Subd. 2a. The benefit levels, employee contributions and employer contributions are governed by the City and can be amended by the City through the City’s collective bargaining agreements with employee groups. The plan is not accounted for as a trust fund, as an irrevocable trust has not been established to account for the plan. The plan does not issue a separate report.

Benefits Provided

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

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

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

Health Care Benefit

	<u>Under Age 65</u> <u>(early retiree)</u>	<u>Over Age 65</u> <u>(regular retiree)</u>
Employees who retired before January 1, 1996	\$250 per month	100%
Employees hired before January 1, 1996 and retiring after January 1, 1996	\$350 per month	\$550 per month
Employees hired after January 1, 1996	\$300 per month	\$300 per month

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

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2018**

Note 5. B. Postemployment Benefits Other than Pensions

Benefits Provided (continued)

Life Insurance Benefit

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

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

Employees Covered by Benefit Terms

As of the December 31, 2016 valuation date, the employees covered by the benefit terms consisted of:

Active employees electing coverage	215
Active employees waiving coverage	17
Retired employees electing coverage	<u>153</u>
Total	<u>385</u>

Total OPEB Liability

Regional Water’s total OPEB liability of \$14,232,779 was measured as of December 31, 2017. Regional Water has elected to use the GASB 75 “lookback” method where liabilities are measured as of the prior fiscal year-end, but applied to the current fiscal year. The valuation, measurement, and reporting dates are:

- a. Valuation date (census) December 31, 2016
- b. Measurement date (liabilities) December 31, 2017
- c. Reporting date (fiscal year end) December 31, 2018

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2018**

Note 5. B. Postemployment Benefits Other than Pensions

Total OPEB Liability (continued)

The total OPEB liability in the fiscal year-end December 31, 2018, actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement unless otherwise specified:

Discount rate	The current discount rate is 3.31 percent. The discount rate was selected from an index rate for 20-year, tax-exempt municipal bonds. (Fidelity 20-year Municipal GO AA Index)
Inflation rate	2.75 percent
Mortality	
General Employees	Mortality rates based on RP-2014 mortality tables with projected mortality improvements based on scale MP-2015, and other adjustments.
Police and Fire	Mortality rates based on RP-2000 mortality tables with projected mortality improvements based on scale AA, and other adjustments.
Health care cost trend rate	Actual premium increase rates for FY2017 and 6.90 percent for FY2018, gradually decreasing over several decades to an ultimate rate of 4.40 percent in FY2074 and later years. In addition, the medical trend rates above were increased to reflect the projected effect of the Affordable Care Act's Excise Tax on high-cost health insurance plans. The additional trend rate adjustments vary by year, but average 0.39 percent beginning calendar year 2032 for plans other than Medicare plans.
Actuarial Cost Method	Entry Age Normal level percent of pay.

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**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2018**

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

Changes in the Total OPEB Liability

The actuarial assumptions are currently based on a combination of historical data and the most recent actuarial valuation for OPEB as of December 31, 2018:

	Total OPEB Liability
OPEB Liability, January 1, 2018, as restated	\$ 13,324,418
Changes for the year:	
Service cost	\$ 286,706
Interest	505,484
Changes in assumptions	803,838
Benefit payments	(687,667)
Net change	\$ 908,361
Balance at December 31, 2018	\$ 14,232,779

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**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2018**

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

OPEB Liability Sensitivity

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

	<u>Discount Rate</u>	<u>Total OPEB Liability</u>
1% Decrease	2.31%	\$16,082,318
Current	3.31%	\$14,232,779
1% Increase	4.31%	\$12,693,689

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

	<u>Health Care Trend Rate</u>	<u>Total OPEB Liability</u>
1% Decrease	5.9% Decreasing to 3.4%	\$13,233,622
Current	6.9% Decreasing to 4.4%	\$14,232,779
1% Increase	7.9% Decreasing to 5.4%	\$15,281,233

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

For the year ended December 31, 2018, Regional Water recognized OPEB expense of (\$523,928). Regional Water reported deferred outflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes in actuarial assumptions	\$ 683,141	\$ -
Contributions subsequent to the measurement date	749,148	-
Total	<u>\$ 1,432,289</u>	<u>\$ -</u>

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2018**

Note 5. B. Postemployment Benefits Other than Pensions

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

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

<u>Year Ended December 31</u>	<u>OPEB Expense Amount</u>
2019	\$120,696
2020	120,696
2021	120,696
2022	120,696
2023	120,696
Thereafter	<u>79,661</u>
Total	<u>\$683,141</u>

Changes in Actuarial Assumptions

The following changes in actuarial assumptions occurred in 2018:

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

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2018**

Note 5. Other Information (continued)

C. Risk Management

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

A complete audit and actuarial analysis is conducted to ensure proper premium, retention, and administrative charges. The following discloses the change in the balance of the claims liability during fiscal years 2017 and 2018:

	Year Ended <u>12/31/2017</u>	Year Ended <u>12/31/2018</u>
Beginning fiscal year liability	\$3,630,346	\$4,930,321
Current year claims and changes in estimates	1,815,990	987,759
Claim payments	<u>(516,015)</u>	<u>(1,060,549)</u>
End of year liability	<u>\$4,930,321</u>	<u>\$4,857,531</u>

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

D. Contingent Liabilities

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

SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2018

Note 5. Other Information (continued)

E. Joint Powers

The Ramsey County Geographic Information Systems (GIS) Users Group (Users Group) was established in 1995 by a joint powers agreement among public agencies interested in using GIS and data created and maintained by Ramsey County. The agreement was to enable those parties who are part of the Users Group to be represented by the Users Group for the purposes of undertaking negotiations and transactions with Ramsey County and any other body politic. Joining this group provides Regional Water staff the ability to share costs and information with over 23 cities, school districts, watersheds, utilities and other agencies within Ramsey County. Regional Water became part of the Users Group in January 2006. The current agreement is effective through 2020. Regional Water was not assessed \$2,791 for the year 2018. Financial information can be obtained from the City of Maplewood located at 1830 County Road B East, Maplewood, Minnesota 55109.

The joint powers agreement between Regional Water, the City of Minneapolis, and the City of Saint Cloud dated December 19, 2011, was created to collaboratively implement the Upper Mississippi River Source Water Protection Project (Project). The parties agree to make cash contributions to the Project of up to \$10,000 annually. Regional Water was not assessed \$10,000 for the year 2018, the group determined the cash balance was adequate to cover costs. The agreement is effective through 2020. The City of Saint Cloud administers all aspects of the Project. Financial information can be obtained from the City of St. Cloud, 400 Second Street South, St. Cloud, Minnesota 56301.

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

REQUIRED SUPPLEMENTARY INFORMATION

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
REQUIRED SUPPLEMENTARY INFORMATION
For the Fiscal Year Ended December 31, 2018**

Schedule 1

<p>Schedule of Proportionate Share of Net Pension Liability PERA General Employees Retirement Plan ⁽¹⁾ Last Ten Years ⁽²⁾</p>
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Fiscal Year Ending	Employer's Proportionate Share (Percentage) of the Net Pension Liability (Asset)	Employer's Proportionate Share (Amount) of the Net Pension Liability (Asset) (a)	State's Proportionate Share of the Net Pension Liability Associated with Regional Water (b)	Employer's Proportionate Share of Net Pension Liability and State's Related Share of the Net Pension Liability (Asset) (a + b)	Covered Payroll ⁽³⁾ (c)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll (a/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
June 30, 2015	0.2403%	\$12,451,952	NA	\$12,451,952	\$14,126,414	88.15%	78.19%
June 30, 2016	0.2410%	\$19,343,663	\$255,613	\$19,599,276	\$14,941,525	129.46%	68.91%
June 30, 2017	0.2419%	\$15,439,693	\$194,141	\$15,633,834	\$15,569,391	99.17%	75.90%
June 30, 2018	0.2389%	\$13,254,123	\$434,744	\$13,688,867	\$16,059,160	82.53%	79.53%

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

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

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

NA – Not Applicable.

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

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
REQUIRED SUPPLEMENTARY INFORMATION
For the Fiscal Year Ended December 31, 2018**

Schedule 2

<p>Schedule of Pension Contributions PERA General Employees Retirement Plan ⁽¹⁾ Last Ten Years ⁽²⁾</p>

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)
December 31, 2015	\$1,069,877	\$1,069,877	\$0	\$14,265,031	7.50%
December 31, 2016	\$1,145,685	\$1,145,685	\$0	\$15,275,800	7.50%
December 31, 2017	\$1,184,859	\$1,184,859	\$0	\$15,798,124	7.50%
December 31, 2018	\$1,219,883	\$1,219,883	\$0	\$16,265,107	7.50%

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

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

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

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

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
REQUIRED SUPPLEMENTARY INFORMATION
For the Fiscal Year Ended December 31, 2018**

Schedule 3

<p>Schedule of Changes in the Total Other Postemployment Benefits Liability and Related Ratios ⁽¹⁾ Last Ten Years ⁽²⁾</p>
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Fiscal Year Ending	Service Cost (a)	Interest (b)	Changes in Assumptions (c)	Benefit Payments (d)	Net Change in Total OPEB Liability (a+b+c+d) = (e)	Total OPEB Liability – Beginning (f)	Total OPEB Liability – Ending (e+f) = (g)	Covered Payroll ⁽³⁾ (h)	Total OPEB Liability as a percentage of Covered Payroll (g/h)
December 31, 2018	\$286,706	\$505,484	\$803,838	(\$687,667)	\$908,361	\$13,324,418	\$14,232,779	\$12,836,507	110.88%

⁽¹⁾ For information regarding the OPEB plan see Note 5.B. on pages 43 - 48.

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

⁽³⁾ For purposes of this schedule, covered payroll is defined as “OPEB eligible payroll”.

SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
For Fiscal Year Ended December 31, 2018

Note 1. Defined Benefit Pension Plan

A. Changes in Significant Plan Provisions, Actuarial Methods, and Assumptions

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

General Employees Retirement Plan

2018

- The morality projection (MP) scale was changed from MP-2015 to MP-2017.
- The assumed benefit increase was changed from 1.00 percent per year through 2044 and 2.50 percent per year thereafter, to 1.25 percent per year.

2017

- The Combined Service Annuity (CSA) loads were changed from 0.80 percent for active members and 60 percent for vested and non-vested deferred members (30 percent for deferred Minneapolis Employees Retirement Fund members). The revised CSA loads are now 0.00 percent for active member liability, 15 percent for vested deferred member liability, and 3.00 percent for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year for all years to 1.00 percent per year through 2044 and 2.50 percent per year thereafter.
- Minneapolis Employees Retirement Fund plan provisions change the employer supplemental contribution to \$21,000,000 in calendar years 2017 and 2018 and returns to \$31,000,000 through calendar year 2031. The state's required contribution is \$16,000,000 in PERA's fiscal years 2018 and 2019, and returns to \$6,000,000 annually through calendar year 2031.

2016

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2035 and 2.50 percent per year thereafter, to 1.00 percent for all future years.
- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was also changed from 7.90 percent to 7.50 percent.

SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
For Fiscal Year Ended December 31, 2018

Note 1. A. Defined Benefit Pension Plan

2016 (continued)

- 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.

Note 2. Other Postemployment Benefits Plan

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

A. Employer Contributions to Postemployment Benefits Plan

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

B. Changes Affecting the Total Other Postemployment Benefits Liability

The following changes in the actuarial assumptions occurred:

2018

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

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