

**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, 2012**

**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, 2012**

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INTRODUCTORY SECTION



BOARD OF WATER COMMISSIONERS

President: Matt Anfang ♦ Vice President: Amy Brendmoen

Commissioners: James Bykowski ♦ Gregory Kleindl ♦ Kathy Lantry ♦ Chris Tolbert ♦ Will Rossbach

June 7, 2013

TO: BOARD OF WATER COMMISSIONERS
Matt Anfang, President
Amy Brendmoen, Vice President
Commissioner James Bykowski
Commissioner Gregory Kleindl
Commissioner Kathy Lantry
Commissioner Will Rossbach
Commissioner Chris Tolbert

Dear Board Members:

Saint Paul Regional Water Services (Regional Water) is proud to present its published Annual Financial Report of the Board of Water Commissioners for the fiscal year ended December 31, 2012. 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.

The Financial Section includes the State Auditor's report, Management's Discussion and Analysis, the basic financial statements along with the related notes to these financial statements, certain required supplementary information, and supplementary information.

REPORTING ENTITY AND SERVICES

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

SAINT PAUL REGIONAL WATER SERVICES

Stephen P. Schneider, General Manager

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

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

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

AA-ADA-EEO Employer

HIGHLIGHTS IN SUMMARY

Business Division

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

In 2012, a new Business Improvement Unit was added to the Division. This unit's goal is to analyze, recommend and explore business improvement opportunities in support of Regional Water's mission. The intent is to make this service available to all divisions within the utility. In 2012, many projects were identified and prioritized and business process reviews are underway.

Our Customer Information System (CIS), CIS Infinity, saw several software enhancements in 2012. The meter replacement project required a new interface for CIS and the new meter reading software. Enhancements to the payment allocation process, tax certification and equalized payment plan are in progress. In 2012, we continued to increase the number of registered users of our on-line bill presentment and pay option, Infinity Link. This CIS module provides customers a self-service choice of viewing their personal account and paying their bill on-line; it also provides interested customers the option to receive an electronic bill (e-Bill) rather than a paper copy bill delivered through the United States Postal Service. By the end of 2012, we had nearly 14,000 registered users with approximately 5,900 requesting to receive an e-Bill. Throughout the year water billings continued to meet schedules.

Through a contract with Northern Water Works Supply, we made great progress with the meter replacement project which began in late 2010. The project includes the installation of approximately 93,000 replacement water meters. By year end 3,000 meter replacements were outstanding. The complexities of coordinating customer appointments and ensuring customers participated in the program was successfully carried out between the contractor, Northern Water Works Supply and Regional Water's Customer Service, Billing, and Meter Operations staff. The meter replacement project and warranty work will continue to the end of 2013. Business Division staff are very proud of the success of the meter replacement project.

As part of the meter project, the Board of Water Commissioners approved offering alternate meter reading choices, which provide customers a non-radio or outside radio alternative. This alternate reading system option was well received by customers and it facilitated the completion of the project. At the end of the project approximately 225 accounts chose a non-radio option and approximately 350 accounts chose an outside radio option.

The Customer Service Call Center received 172,812 calls in 2012, a 7.5% increase from the 160,678 calls received in 2011. Approximately 85,650 calls, or 50%, were handled by call center staff and 87,162 calls were handled by the Interactive Voice Response unit (IVR). The abandoned call percentage was under 1%, substantially lower than our goal of less than 2%. Our IVR offers menu options and responses in both English and Spanish; approximately 1,442 callers took advantage of the Spanish language alternative.

HIGHLIGHTS IN SUMMARY (continued)

To improve public outreach and provide information, we updated our website with helpful Meter Replacement Project information especially about the alternate metering system choices for customers. We produced several external publications, including the *Customer Service Connections*, a quarterly newsletter for customers, and the annual *Water Quality Report*. The *Water Quality Report* was made available on-line in accordance with Minnesota Department of Health requirements. We continued to hold open houses at the Highland Park Water Tower. Internally, we continued to provide employees with communication updates by featuring timely articles in our bi-weekly employee newsletter, the *Pipeline Express*.

Our Financial Services unit was recognized for its outstanding work preparing the 2011 Annual Financial Report for audit. Preliminary work continued on the implementation of the City of Saint Paul's new Lawson Financial Management System.

Our Information Services Section continues to provide technological support and expertise to virtually all areas of the utility. In 2012, we installed a "Private Cloud" computing environment. This environment will allow for hardware and infrastructure cost savings, increased computing performance across the enterprise and a more reliable storage component for our users and applications. Staff have generally succeeded in making the systems available 100% of the time for things within their control. We continued to improve the retrieval and display of asset information in our Geospatial Information System (GIS) and provide this information both in the office and in the field.

Business Division - Future Operations

In 2013, we anticipate implementing V4, a version upgrade to CIS Infinity. We will be performing BETA testing and anticipate go-live with the new version by the fourth quarter of 2013. The new version is written in .NET computer language that facilitates broad search and filtering capabilities, enhanced report writing and data retrieval, and improvements to overall ease of use and reliability.

The City of Saint Paul is implementing a new Lawson Financial Management System (Lawson) and a new Time, Attendance, and Scheduling System (TASS). We anticipate implementing the TASS in the fall of 2013 and we anticipate a soft launch of the new Lawson system in the fourth quarter of 2013 with a go-live on January 1, 2014. This implementation will significantly impact our information systems. Financial Services and Information Services staff will support design, software configuration and testing of Regional Water's business processes. Data conversion and testing to implement a new chart of accounts in both CIS Infinity and our Computerized Maintenance Management System (CMMS) will require significant internal resources. This means, along with testing all financial transactions in the new Lawson system, significant effort to test the new chart of accounts and update system reports as a result will be very challenging.

We will review and amend our business practices as needed to optimize the effectiveness of the new radio meter reading system. We will continue to examine workflow processes throughout the utility looking for improved efficiency and enhanced delivery of information to our employees.

HIGHLIGHTS IN SUMMARY (continued)

Distribution Division

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

Water Distribution Capital Program - We continue to replace and upgrade an aging infrastructure of unlined cast iron water mains, hydrants and lead water services. Much of the water main replacement was accomplished in coordination with street reconstruction projects. In addition, much work was done in coordination with the Central Corridor Light Rail Transit (Light Rail) Construction. This year a total of 13.6 miles of water main were replaced; 8.2 miles of main were replaced with Regional Water crews in street project areas and 5.4 miles of main were replaced along University Avenue in Saint Paul with the Light Rail Construction using contracted work.

Construction for Light Rail took many resources during the year. Staff performed various work on the project including the installation of a portion of the temporary water main, maintenance of the temporary water main during construction, reconnection of water services to the new mains, valve installation, and valve operation.

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

In addition to water main construction, 558 lead water services were replaced last year; 397 of these replacements were done in coordination with street reconstruction projects. The other 161 lead service replacements were performed in those areas throughout the service area where property owners have previously replaced their portion of the lead service in private property and where old services were leaking and required replacement.

247 of the 9,500 system hydrants were replaced during the year. In 2012, we began installing Storz connections on hydrant nozzles with newly installed hydrants. A Storz connection is a quick connecting coupling that accommodates fire hoses. This was done at the request of the fire departments in the various communities that we serve, including Saint Paul, Maplewood, Falcon Heights, Lauderdale, and Mendota Heights.

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

HIGHLIGHTS IN SUMMARY (continued)

With UDF, the valves are operated and the system thoroughly flushed for improved distribution water quality. The UDF work was limited in the year due to resources placed towards Light Rail Construction. In addition, our large valve exercising program was put on hold in 2011 and 2012 with resources put towards Light Rail Construction.

We perform emergency repairs on water mains and services. We also provide water main break repair services to other municipalities outside our service area, responding to main breaks in the city of Oakdale and White Bear Township. Last year we repaired 99 main breaks within our service area and 28 repairs in communities outside our service area.

In 2012, we became a Water Operator for the community of Birchwood Village. This involves maintaining and operating the distribution system and performing routine maintenance.

Distribution Division – Future Operations

In 2013, emphasis will be placed on water main replacement in street reconstruction project areas and we will continue our hydrant inspection program. We plan to continue to put increased emphasis on our valve maintenance program and UDF. Our infrastructure funding for 2013 will allow for 10.1 miles of main replacement in project areas. Additional funding in this vital area is needed to ensure proper investment for the future.

Engineering Division

Significant progress on a number of large projects was made in 2012 that will serve Regional Water and its customers well into the future. Some of these large projects include:

Dale Street Reservoir – The 30 million gallon Dale Street reservoir was built in 1919 and was demolished in 2010. The new 10 million gallon reservoir has been constructed including baffle walls, side panels and roof. The reservoir is finished and has been operational since the fall of 2012. Landscaping work will finish up in 2013.

Meter Replacement – Over 90,000 meters have been installed during the period 2010-2012. The project will be substantially complete by February 2013.

Light Rail Transit – Regional Water has been involved with the relocation of underground water utilities from the fall of 2009 to the end of 2012. The major portion of our involvement in the project is over and the project is winding down to correcting deficiencies.

Distribution Pipe Rehabilitation – Regional Water has enhanced the current buried pipe rehabilitation to include replacing all of the cast iron within the street project areas. The total pipe replacement for 2012 is approximately 12 miles.

Engineering work in the distribution system includes planning and construction coordination for the revenue funded water main construction, valve replacement, and lead service replacement programs.

HIGHLIGHTS IN SUMMARY (continued)

Engineering Division – Future Operations

The Engineering division will continue to focus primarily on three initiatives: 1) leveraging the electronic programs and tools that are now available to increase our effectiveness and efficiency; 2) working with the Vadnais Lake Area Watershed Management Organization (VLAWMO) and the Upper Mississippi River Source Water Protection Initiative to and assist in completing E.Coli Total Maximum Daily Load programs (TMDL) for the Upper Mississippi River and County Ditch #14; and 3) focus on further enhancement of our asset management program.

Production Division

We started the year 2012 on a very dry note, with very little precipitation since August of 2011. Through April, precipitation was close to normal. Then in May, we had a little over nine inches of rain, nearly six inches above normal, and concerns of a drought became concerns of a flood. Once again though, August and the rest of the fall were dry, and we ended the year just over an inch below normal for precipitation, and concerns at the end of 2012 were once again for a drought. July and the year as a whole were much warmer than normal, and combined with the dry late summer made for increased demand for water. Pumping for July through September averaged just shy of 60 million gallons per day (MGD), the best showing for those three months since 2008. That helped push our pumping for the year to an average of 44.8 MGD, which nearly matched the projection in our budget.

The Mississippi River was flowing at approximately 3,000 cubic feet per second (CFS) at the time of ice interference in December. Precipitation through the winter and spring will be key to keeping the river at levels above 2,000 CFS. We are required to put in place conservation measures if the river level goes below 2,000 CFS and pumping from the river may be restricted if the river level continues to decline.

We had another excellent year as far as water quality is concerned. There were only 16 water quality complaints, matching the total from 2011. That is now six consecutive years of minimal water quality complaints, as our Granular Activated Carbon (GAC) filters continue to perform admirably. Higher demands on the system in the late summer and fall may have contributed to the small number of nitrification problems in the system; this is also similar to 2011.

Chemical and electrical costs continued to stabilize. Our cost per million gallons for chemicals was slightly less than in 2011. Lime pricing for 2013 will be higher and will very likely mean an increase in chemical costs for 2013, reversing a three-year downward trend.

A severe storm in June caused power outages at three of our booster stations. Power was not restored in time to save the elevated tank in West Saint Paul from reaching very low levels. As a result, we delivered a “do not drink” order to about half of the city of West Saint Paul. Tests showed that no contamination was present, and though inconvenient, many residents were appreciative that we sent the precautionary notice. Plans for a smaller generator, that will be quicker to put into use at the station, are underway.

HIGHLIGHTS IN SUMMARY (continued)

Our new oxygenation system in Vadnais Lake performed as expected and allowed us to keep hypolimnetic oxygen at very good levels in the lake. This had a good effect on water quality and bodes well for future water quality from Vadnais Lake.

Ramsey County replaced the park road between Vadnais Lake and the West Arm with a bike path and enhanced fishing locations. The contractor will finish up in the spring of 2013, but what has been done so far looks very good.

Production Division – Future Operations

Similar to last year, we are watching precipitation totals and are hoping for adequate flows on the river. Four new wells are scheduled to go on line by early summer, however, and will give us capacity to produce an average day demand strictly by using groundwater. This will give us a great option if flows on the river are restricted. A new pump at Fridley is also expected to be on-line by spring of 2013, aiding with our firm capacity from the river.

We will attempt to repair the valve on the lake side of the east 90” conduit. This will allow us to get into the chamber and repair the screen slides, which will enable us to use our new copper screens. If successful, the new screens should limit the attachment of zebra mussels, and save us maintenance. We could then replace the screens in the west gatehouse and at Pleasant Lake, and save on the labor we now spend cleaning screens.

A new oxygenation system for Pleasant Lake is in process; this is similar to the one installed in Vadnais Lake. This should improve water quality in Pleasant Lake and give us better water quality coming in to the McCarron’s plant.

INDEPENDENT AUDIT

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

MANAGEMENT AND COMPLIANCE REPORT

The State Auditor will issue a management and compliance report covering the review, made as part of its audit of Regional Water’s system of internal control over financial reporting and tests of compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The State Auditor’s audit was also designed to meet the requirements of the Federal Single Audit Act and the related U.S. Office of Management and Budget’s Circular A-133. The management and compliance report will not modify or affect, in any way, this report. The State Auditor’s report on Regional Water’s financial statements is unmodified, which means that, in the auditor’s opinion, the financial statements are fairly presented in conformity with generally accepted accounting principles.

ACKNOWLEDGMENTS

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

Respectfully submitted,



Stephen P. Schneider
General Manager



Ruth E. O'Brien
Financial Services Manager

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SAINT PAUL BOARD OF WATER COMMISSIONERS
BOARD MEMBERS and MANAGER TERMS OF OFFICE

As of December 31, 2012

PUBLIC MEMBERS

Term Expires

Matt Anfang, President

June 30, 2016

Gregory Kleindl, Commissioner

June 30, 2014

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

CITY COUNCIL MEMBERS

Amy Brendmoen, Vice President

December 31, 2015

Kathy Lantry, Commissioner

December 31, 2015

Chris Tolbert, Commissioner

December 31, 2015

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

SUBURBAN MEMBERS

James Bykowski, Commissioner

December 31, 2013

Will Rossbach, Commissioner

December 31, 2013

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

GENERAL MANAGER

Stephen P. Schneider appointed December 2003.

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FINANCIAL SECTION



REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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

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

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Saint Paul Regional Water Services, a component unit of the City of Saint Paul, Minnesota, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Saint Paul Regional Water Services' basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Saint Paul Regional Water Services' preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Saint Paul Regional Water Services' internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Saint Paul Regional Water Services as of December 31, 2012, 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 - Changes in Accounting Principles

As discussed in Note 2 to the financial statements, in 2012, the Saint Paul Regional Water Services adopted new accounting guidance by implementing the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, for the year ended December 31, 2012, which represents changes in accounting principles. The Saint Paul Regional Water Services' net position at December 31, 2011, was not restated. 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.

Supplementary and Other Information

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

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

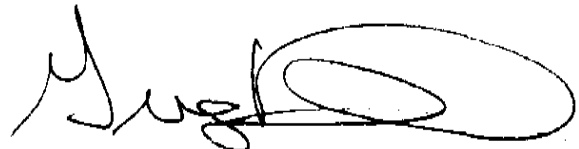
The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated June 7, 2013, on our consideration of the Saint Paul Regional Water Services' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Saint Paul Regional Water Services' internal control over financial reporting and compliance.



REBECCA OTTO
STATE AUDITOR



GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

June 7, 2013

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**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended December 31, 2012**

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, 2012. This information should be read in conjunction with the financial statements.

Financial Highlights

- The assets of Regional Water exceeded its liabilities at the close of the most recent fiscal year by \$245,074,248 (Net Position). Of this amount, \$12,983,724 (unrestricted) may be used to meet the utility's ongoing obligations.

- Regional Water's total net position increased by \$18,846,311.

Overview of Annual Financial Report

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

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

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

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

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended December 31, 2012**

Schedule of Expenditures of Federal Awards, which includes the federal grant activity of Regional Water under programs of the federal government.

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

Summary of Organization and Business

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

Financial Analysis

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

As can be seen from the following table, total net assets increased \$18.84 million to \$245.07 million in 2012, up from \$226.23 million in 2011. The increase in total net position was primarily due to the investment of capital assets and an increase in receivables and contributed assets related to the Central Corridor Light Rail project.

Revenues

Regional Water's operating revenues are derived mainly from the sale of water. Other sources include: services, fees, rents and leases. Operating revenues increased by \$6.87 million to \$51.52 million in 2012, up from \$44.65 million in 2011. Water rates increased \$.15 per 100 cubic feet to \$2.47 in 2012; up from \$2.32 per 100 cubic feet in 2011. Consumption levels increased 1.02 million billing units (100 cubic feet) over 2011 levels. The City of Saint Paul began charging a right-of-way recovery fee in 2012 for approximately \$1.93 million; this fee was passed on to customers.

Expenses

Regional Water's operating expenses increased \$2.49 million to \$41.43 million in 2012, up from \$38.94 million in 2011. \$1.93 million of the increase was for the right-of-way recovery fee the City of Saint Paul began charging in 2012. There is an increase of \$229 thousand related to an increase in central services fees, primarily for the purchase and implementation of the new Financial Management System the City is installing. The remaining increase of \$331 thousand is due to operations and maintenance.

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended December 31, 2012**

Condensed Statement of Net Position (in thousands)

	Fiscal Year 2012	Fiscal Year 2011	Dollar Change	Total % Change
Assets				
Cash and Investments	\$ 26,319	\$ 20,910	\$ 5,409	25.9
Other Current Assets	\$ 12,238	\$ 12,107	\$ 131	1.1
Capital Assets - net	\$ 269,953	\$ 246,735	\$ 23,218	9.4
Other Noncurrent Assets	\$ 6,870	\$ 7,291	\$ (421)	(5.8)
Total Assets	\$ 315,380	\$ 287,043	\$ 28,337	9.9
Liabilities				
Current Liabilities	\$ 16,928	\$ 15,380	\$ 1,548	10.1
Noncurrent Liabilities	\$ 53,378	\$ 45,435	\$ 7,943	17.5
Total Liabilities	\$ 70,306	\$ 60,815	\$ 9,491	15.6
Net Position				
Net Investment in Capital Assets	\$ 220,530	\$ 205,624	\$ 14,906	7.2
Restricted for Debt Service	11,560	10,772	788	7.3
Unrestricted	12,984	9,832	3,152	32.1
Total Net Position	\$ 245,074	\$ 226,228	\$ 18,846	8.3

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

	Fiscal Year 2012	Fiscal Year 2011	Dollar Change	Total % Change
Operating Revenues	\$ 51,520	\$ 44,651	\$ 6,869	15.4
Nonoperating Revenues (Expenses)	(3,471)	(488)	(2,983)	611.3
Total Revenues	\$ 48,049	\$ 44,163	\$ 3,886	8.8
Operating Expenses	\$ 41,434	\$ 38,943	\$ 2,491	6.4
Income (Loss) Before Transfers and Contributions	\$ 6,615	\$ 5,220	\$ 1,395	26.7
Capital Contributions	\$ 12,231	\$ 3,773	\$ 8,458	224.2
Change in Net Position	\$ 18,846	\$ 8,993	\$ 9,853	109.6
Net Position - January 1	226,228	217,235	8,993	4.1
Net Position - December 31	\$ 245,074	\$ 226,228	\$ 18,846	8.3

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended December 31, 2012**

Capital Assets

By the end of 2012, Regional Water had invested \$394.26 million in capital assets. The \$27.25 million increase in capital assets for the past fiscal year is primarily for water related improvements, equipment, and public improvements such as mains, hydrants and services; contributions from Central Corridor Light Rail project accounted for \$12.23 million of the increase.

Long-Term Debt

Regional Water issued two Drinking Water Revenue Notes in 2010, through the Minnesota Public Facilities Authority (MNPFA), a component unit of the State of Minnesota. Regional Water continued draws on these notes during 2012. No new debt was issued during 2012. At the end of 2012, bonds payable were \$23.72 million and revenue notes payable were \$25.63 million. This debt will be repaid by revenue generated by Regional Water.

Economic and Other Factors

The effects of conservation and cultural changes in our service area continue to reduce overall water consumption. With that said, we did see total consumption levels increase in 2012 over 2011 levels. This was due to the dry weather that occurred in the fall. Precipitation during most of the growing season was above normal. Rain fell at regular intervals during the growing season. This led to very light demands on our system as there was little need to sprinkle lawns and gardens until late August and into the fall season.

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, 2012
 (Amounts in dollars)

Exhibit A

ASSETS

Current Assets

Cash and Investments with Treasurer	14,313,998
Investments	6,466,359
Departmental Cash	552,611
Imprest Funds	7,000
Restricted Cash and Cash Equivalents	
Cash Grants and Other Contributions	1,008
Investments for Revenue Note Debt Service	1,549,689
Investments for Revenue Bond Debt Service	3,428,110
Receivables	
Accounts (net of allowance for Estimated Uncollectibles)	5,143,609
Assessments	
Current	858,930
Deferred	2,694,929
Delinquent	260,089
Tax Forfeited Property	3,240
Accrued Interest	101,486
Due from Primary Government	147,375
Due from Other Governmental Units	1,113,048
Inventory - Materials and Supplies	1,914,810

Total Current Assets 38,556,291

Noncurrent Assets

Restricted Assets

Investments for Revenue Bond Future Debt Service	5,103,350
Investments for Revenue Bond Operations and Maintenance	1,600,846

Total Restricted Assets 6,704,196

Long-Term Loans Receivable 166,538

Capital Assets

Land	1,307,887
Buildings and Structures	56,382,178
Less: Accumulated Depreciation	(19,327,257)
Public Improvements	251,390,108
Less: Accumulated Depreciation	(78,031,086)
Equipment	51,565,300
Less: Accumulated Depreciation	(26,944,655)
Construction in Progress	33,610,904

Total Capital Assets (Net of Accumulated Depreciation) 269,953,379

Total Noncurrent Assets 276,824,113

Total Assets 315,380,404

continued

BOARD OF WATER COMMISSIONERS OF THE CITY OF SAINT PAUL, MINNESOTA
 REGIONAL WATER SERVICES STATEMENT OF NET POSITION
 December 31, 2012
 (Amounts in dollars)

Exhibit A

LIABILITIES

Current Liabilities (Payable from Current Assets)	
Accrued Salaries Payable	605,072
Compensated Absences Payable	75,765
Claims and Judgments Payable	617,959
Lease Purchase Payable	1,847
Accounts Payable	4,667,814
Contract Retention Payable	1,464,653
Due to Primary Government	3,070,611
Due to Other Governmental Units	1,916,908
Unearned Revenue	538,188
	<hr/>
Total Current Liabilities (Payable from Current Assets)	12,958,817
	<hr/>
Current Liabilities (Payable from Restricted Assets)	
Accounts Payable	2,583
Revenue Notes Payable	1,320,038
Revenue Bonds Payable	2,525,000
Accrued Interest Payable on Revenue Notes	46,178
Accrued Interest Payable on Revenue Bonds	75,259
	<hr/>
Total Current Liabilities (Payable from Restricted Assets)	3,969,058
	<hr/>
Noncurrent Liabilities	
Revenue Bonds Payable	21,195,000
Compensated Absences Payable	1,718,786
Other Post Employment Benefits	3,495,166
Claims and Judgments Payable	2,587,801
Revenue Notes Payable	24,309,765
Premium on Revenue Bonds	199,119
Less: Unamortized Discount	(127,356)
	<hr/>
Total Noncurrent Liabilities	53,378,281
	<hr/>
Total Liabilities	70,306,156
	<hr/>
NET POSITION	
Net Investment in Capital Assets	220,529,966
Restricted for Debt Service	11,560,558
Unrestricted	12,983,724
	<hr/>
Total Net Position	245,074,248
	<hr/>

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, 2012
 (Amounts in dollars)

Exhibit B

OPERATING REVENUES	
Fees, Sales and Services	50,657,570
Rents and Leases	615,270
Miscellaneous	247,356
	<hr/>
Total Operating Revenues	51,520,196
OPERATING EXPENSES	
Salaries	11,564,458
Employee Fringe Benefits	6,950,072
Services	9,046,763
Materials and Supplies	6,690,911
Depreciation	7,009,993
Miscellaneous	171,361
	<hr/>
Total Operating Expenses	41,433,558
OPERATING INCOME (LOSS)	<hr/> 10,086,638
NON-OPERATING REVENUES (EXPENSES)	
Operating Grants	87,796
Gain on Sale of Assets	17,670
Loss on Retirement of Assets	(2,397,065)
Investment Income	
Interest Earned on Investments	474,762
Decrease in Fair Value of Investments	(25,511)
Miscellaneous Other Revenue (Expenses)	119,748
Interest Expense on	
Revenue Bonds	(949,933)
Revenue Notes	(408,437)
Leases	(233)
Cost of Bond Issuance	(390,139)
	<hr/>
Total Non-Operating Revenues (Expenses)	(3,471,342)
INCOME BEFORE CAPITAL CONTRIBUTIONS	6,615,296
CAPITAL CONTRIBUTIONS	
Capital Acquisitions - Outside Sources	12,231,015
	<hr/>
CHANGE IN NET POSITION	18,846,311
NET POSITION, January 1	226,227,937
	<hr/>
NET POSITION, December 31	245,074,248
	<hr/>

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, 2012
(Amounts in dollars)

Exhibit C

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from Customers	50,451,910
Other Operating Receipts	615,270
Other Receipts	247,356
Payments to Suppliers	(15,642,532)
Payments to Employees	(11,474,212)
Payment for Fringe Benefits and Payroll Taxes	(6,414,315)
Non-Operating Revenue Received	119,148

NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES 17,902,625

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Operating Grants Received	87,796
Non-Operating Loans Repayment Received from Customers	78,243

NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES 166,039

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Cash Proceeds From Issuance of Debt:	
Revenue Notes	11,743,118
Cash Proceeds From Sale of Capital Assets:	
Land	1,121
Equipment	10,361
Capital Contributions Received:	
From Outside Parties	2,315,558
Principal Paid on Debt Maturities:	
Revenue Bonds	(2,370,000)
Revenue Notes	(1,427,989)
Capital Lease	(1,699)
Payments for Acquisition and Construction of Capital Assets:	
Construction in Progress	(21,993,418)
Interest Paid On:	
Revenue Bonds	(976,560)
Revenue Notes	(394,254)
Capital Lease	(233)

NET CASH PROVIDED (USED) IN CAPITAL AND RELATED FINANCING ACTIVITIES (13,093,995)

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of Investment Securities	(15,465,500)
Proceeds From Sale and Maturities of Investment Securities	21,007,500
Interest and Dividends on Investments Received	508,436

NET CASH PROVIDED (USED) IN INVESTING ACTIVITIES 6,050,436

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS 11,025,105

CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR 3,849,512

CASH AND CASH EQUIVALENTS AT END OF YEAR 14,874,617

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, 2012
(Amounts in dollars)

Exhibit C

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

Operating Income (Loss)		<u>10,086,638</u>
Adjustments To Reconcile Operating Income To Net		
Cash Provided (Used) by Operating Activities:		
Depreciation	7,009,993	
Increase (Decrease) in Allowance for Uncollectible Accounts	67,852	
Nonoperating Miscellaneous Other Revenue Received	119,148	
Changes in Assets and Liabilities:		
(Increase) Decrease in Accounts Receivable	(262,771)	
(Increase) Decrease in Assessments Receivable	(141,158)	
(Increase) Decrease in Due From Primary Government	(33,471)	
(Increase) Decrease in Due From Other Governmental Units	(177,752)	
(Increase) Decrease in Inventories	(52,232)	
Increase (Decrease) in Accrued Salaries Payable	90,246	
Increase (Decrease) in Accounts Payable	(152,309)	
Increase (Decrease) in Due To Primary Government	109,624	
Increase (Decrease) in Due To Other Governmental Units	244,060	
Increase (Decrease) in Unearned Revenue	341,640	
Increase (Decrease) in Compensated Absences Payable	(100,995)	
Increase (Decrease) in Other Post Employment Benefits Obligation	636,752	
Increase (Decrease) in Claims and Judgments Payable	<u>117,360</u>	
Total Adjustments		<u>7,815,987</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		<u><u>17,902,625</u></u>

DETAILS OF CASH AND CASH EQUIVALENTS

Cash and Investments with Treasurer	14,313,998
Departmental Cash	552,611
Imprest Funds	7,000
Cash Grants and Other Contributions	<u>1,008</u>
TOTAL CASH AND CASH EQUIVALENTS	<u><u>14,874,617</u></u>

NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES

Loss on Retirement/Deletion of Capital Assets	(2,397,065)
Net Book Value of Traded Capital Assets	8,281
Change in Fair Value of Investments	(25,511)
Capital Assets Purchased on Account - Construction in Progress	5,452,780
Capital Assets Contributed - Public Improvements	10,331,195

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

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Board of Water Commissioners
of the
Saint Paul Regional Water Services
Saint Paul, Minnesota
Notes to the Financial Statements
For the Fiscal Year Ended December 31, 2012

Index to Notes to the Financial Statements

1. Board of Water Commissioners

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

3. Stewardship, Compliance and Accountability
 - A. Federal Audit Requirements

Index to Notes to the Financial Statements (continued)

4. Detail Notes

A. Assets

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

B. Liabilities

1. Debt Obligations of the Board of Water Commissioners
 - a. Current and Long-Term Debt Maturities
 - b. Changes in Debt Obligations
 - c. Principal and Interest Requirements on Debt Obligations
 - i. All Debt
 - ii. Claims and Judgments
 - iii. Compensated Absences
 - iv. Capital Lease
2. Bonds Payable By Issue
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C. Due From Primary Government

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5. Other Information

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B. Post-Employment Benefits Other than Pensions

C. Risk Management

D. Contingent Liabilities

E. Joint Powers

F. Subsequent Events

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2012**

Note 1. Board of Water Commissioners

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

Note 2. Summary of Significant Accounting Policies

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

Changes in Accounting Principles

During the year ended December 31, 2012, the Saint Paul Regional Water Services adopted GASB Statements No. 62, 63, 65, and 66. GASB Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements," incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in FASB and AICPA Pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. GASB Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position," provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities," establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. GASB 66, "Technical Correction—2012—an amendment of GASB Statements No. 10 and 62," amends conflicting guidance that resulted from earlier pronouncements.

A restatement of December 31, 2011 net position (formerly, net assets) was not required as a result of adopting these changes in accounting principles.

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2012**

Note 2. Summary of Significant Accounting Policies (continued)

Significant Accounting Policies

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

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, 2012 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.

C. Basis of Accounting/Measurement Focus

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

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SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2012

Note 2. Summary of Significant Accounting Policies (continued)

D. Cash and Investments

For its funds the City maintains a general portfolio, which is a pool of investments covering pooled cash and cash equivalents. This pool is also available for use by Regional Water. In addition, the City invests non-pooled Regional Water cash. These investments are reported at fair value on the statement of net position with recognition of the corresponding changes in fair value of investments reported in the operating statement in the year in which the change occurred. Accordingly, investments are stated at fair value based upon quoted market prices at December 31, 2012. Investments in nonparticipating interest-earning contracts, such as savings accounts and nonnegotiable certificates of deposit, are reported at cost. Money market investments and participating interest-earning investment contracts (negotiable certificates of deposit), are reported at amortized cost since these investments have a remaining maturity of one year or less at the time of purchase. Money market investments are short-term, highly liquid debt instruments including commercial paper, bankers' acceptances, and U.S. Treasury and agency obligations. Investments in Rule 2a-7-like external investment pools are measured at the net asset value per share provided by the pool. See Note 4.A.1.

In 2012, Regional Water recorded a "decrease in fair value of investments" of \$25,511 as part of investment income. The calculation of realized gains and losses is independent of the calculation of the net change in the fair value of investments. Realized gains and losses on investments that have been held in more than one fiscal year and sold in the current year may have been included as part of the change in the fair value of investments reported in the prior year.

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

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**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2012**

Note 2. Summary of Significant Accounting Policies (continued)

E. Receivables

The receivables account presented on the Statement of Net Position consists of five accounts. The balance of those accounts as of December 31, 2012 is as follows:

Accounts Receivable - Registered Bills	\$ 183,063
Accounts Receivable - Water Billings	4,744,363
Accounts Receivable – Unbilled	326,436
Accounts Receivable – Miscellaneous	36,551
Allowance for Uncollectible Accounts	<u>(146,804)</u>
Accounts Receivable (net of Allowance for Estimated Uncollectible)	<u>\$ 5,143,609</u>

The Assessments Receivables consist of Current, Deferred, Delinquent and Tax Forfeiture accounts. Current assessments consist of water mains constructed, lead service replacements, and unpaid water bills assessed for the current year. Deferred assessments are made up of water main and lead service replacements to be assessed over ten to twenty years. Delinquent assessments are levied assessments that have not been paid from 2007 through 2011. Tax forfeited properties are subject to forfeiture.

F. Material and Supplies Inventory

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

G. Restricted Assets

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

H. Capital Assets

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

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2012**

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

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

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

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

I. Compensated Absences

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

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

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

J. Employee Fringe Benefits

Fringe benefits include retirement plans, severance pay and retiree insurance, unemployment compensation, workers' compensation, and employee insurance.

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2012**

Note 2. Summary of Significant Accounting Policies (continued)

K. Bond Discounts and Issuance Costs

In accordance with GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities," in 2012 bond issuance costs are expensed in the period incurred.

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

L. Equity Classifications

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

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

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

M. Capital Contributions

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

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2012**

Note 2. Summary of Significant Accounting Policies (continued)

N. Operating and Non-Operating Revenues and Expenses

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

O. Use of Estimates

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

Note 3. Stewardship, Compliance and Accountability

A. Federal Audit Requirements

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

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

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

SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2012

Note 3. A. Stewardship, Compliance and Accountability (continued)

For 2012, Regional Water's audit was performed in accordance with Circular A-133. The auditor's report on consideration of Regional Water's internal control over financial reporting and tests of Regional Water's compliance with certain provisions of law, regulations, contracts, grant agreements and other matters will be issued at a later date.

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

Any disallowed claims, including amounts already collected, may constitute a liability of the fund. The amount, if any, of expenses which may be disallowed by the grantor cannot be determined at this time; however, Regional Water expects such amounts if any, to be immaterial.

Note 4. Detail Notes

A. Assets

1. Deposits and Investments

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

Deposits

Regional Water's deposit functions are managed and maintained by the City of Saint Paul by use of a general portfolio, which is a pool of investments. In accordance with Minnesota Statutes §§ 118A.02 and 118A.04, the City maintains deposits at financial institutions authorized by the City Council, all of which are members of the Federal Reserve System. The Statutes also require that all City deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by insurance or bonds.

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

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2012**

Note 4. A. Assets (continued)

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the City's deposits may not be returned to it. As of December 31, 2012, the City's deposits were not exposed to custodial credit risk. All pledged collateral is held in the City's name at third party institutions, pledged at 110% of deposits not covered by insurance or bonds.

Regional Water's deposits of \$14,315,006 (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, 2012, the total imprest funds were \$7,000. Regional Water also had departmental cash on hand of \$552,611.

Investments

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

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

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2012**

Note 4. A. Assets (continued)

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

- (a) securities, which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as “high risk” by Minnesota Statutes Section 118A.04, Subd. 6;
- (b) in shares of an investment company registered under the Federal Investment Company Act of 1940 provided the mutual fund receives certain ratings depending on its investments;
- (c) general obligations of the State of Minnesota and its municipalities and in any security which is a general obligation of any state or local government with taxing powers which is rated “A” or better by a national bond rating service;
- (d) in bankers acceptances of United States banks; or
- (e) in commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less.
- (f) Repurchase agreements may be entered into with:
 - 1) a bank qualified as a depository;
 - 2) any national or state bank in the United States, which is a member of the Federal Reserve System and whose combined capital and surplus equals or exceeds \$10,000,000;
 - 3) a primary reporting dealer in United States government securities to the Federal Reserve Bank of New York; or
 - 4) a securities broker-dealer licensed pursuant to Chapter 80A, or an affiliate of it, regulated by the Securities and Exchange Commission and maintaining a combined capital and surplus of \$40,000,000 or more, exclusive of subordinated debt.
- (g) Securities lending agreements.
- (h) Guaranteed investment contracts.

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2012**

Note 4. A. Assets (continued)

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, 2012, is as follows:

<u>Rating Agency</u>	<u>Rating</u>	<u>Fair Value</u>
Moody's	Aaa	<u>\$18,148,354</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, 2012, all investment securities were in the City's name and were held in the custody of the US Bank under the City's name and therefore are not subject to custodial credit risk.

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by the City's investment in a single issuer. It is the City's policy that U.S. Treasury securities, U.S. Agency Securities, and obligations backed by U.S. Treasury and/or U.S. Agency securities, may be held without limit. At December 31, 2012, 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, 2012, Regional Water had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Less Than 2 Years</u>	<u>2 - 4 Years</u>	<u>5 - 10 Years</u>	<u>Greater Than 10 Years</u>
U.S. Government Agency Securities	\$18,148,354	\$ -	\$2,636,299	\$ -	\$15,512,055

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2012**

Note 4. A. Assets (continued)

Recap

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

Cash and Investments with Treasurer	\$ 14,313,998
Investments	6,466,359
Departmental Cash	552,611
Imprest Funds	7,000
Restricted Cash and Cash Equivalents:	
Cash Grants and Other Contributions	1,008
Investments for Revenue Note Debt Service	1,549,689
Investments for Revenue Bond Debt Service	3,428,110
Investments for Revenue Bond Future Debt Service	5,103,350
Investments for Revenue Bond Operations and Maintenance	1,600,846
Total	<u>\$ 33,022,971</u>
Deposits	\$ 14,315,006
Investments	18,148,354
Departmental Cash	552,611
Imprest Funds	7,000
Total	<u>\$ 33,022,971</u>

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**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2012**

Note 4. A. Assets (continued)

2. Summary of Changes in Capital Assets

A summary of changes in capital assets follows:

	<u>01/01/2012</u>	<u>Additions</u>	<u>Deductions</u>	<u>12/31/2012</u>
Capital Assets Not Being Depreciated:				
Land	\$ 1,307,887	\$ -	\$ -	\$ 1,307,887
Construction in Progress	<u>31,165,074</u>	<u>22,770,256</u>	<u>(20,324,426)</u>	<u>33,610,904</u>
Total Capital Assets Not Being Depreciated	<u>\$ 32,472,961</u>	<u>\$ 22,770,256</u>	<u>\$ (20,324,426)</u>	<u>\$ 34,918,791</u>
Capital Assets Being Depreciated:				
Buildings and Structures	\$ 56,058,123	\$ 324,055	\$ -	\$ 56,382,178
Public Improvements	228,569,690	27,829,431	(5,009,013)	251,390,108
Equipment	<u>49,907,485</u>	<u>2,502,135</u>	<u>(844,320)</u>	<u>51,565,300</u>
Total Capital Assets Being Depreciated	<u>\$ 334,535,298</u>	<u>\$ 30,655,621</u>	<u>\$ (5,853,333)</u>	<u>\$ 359,337,586</u>
Less Accumulated Depreciation for:				
Buildings and Structures	\$ (17,943,476)	\$ (1,383,781)	\$ -	\$ (19,327,257)
Public Improvements	(76,717,082)	(3,998,351)	2,684,347	(78,031,086)
Equipment	<u>(25,612,895)</u>	<u>(2,101,587)</u>	<u>769,827</u>	<u>(26,944,655)</u>
Total Accumulated Depreciation*	<u>\$ (120,273,453)</u>	<u>\$ (7,483,719)</u>	<u>\$ 3,454,174</u>	<u>\$ (124,302,998)</u>
Total Capital Assets Being Depreciated, Net	<u>\$ 214,261,845</u>	<u>\$ 23,171,902</u>	<u>\$ (2,399,159)</u>	<u>\$ 235,034,588</u>
Capital Assets, Net	<u>\$ 246,734,806</u>	<u>\$ 45,942,158</u>	<u>\$ (22,723,585)</u>	<u>\$ 269,953,379</u>

*Total Accumulated Depreciation is reduced by an allowance of \$473,726 for equipment used to construct capital assets; net depreciation reported is \$7,009,993 (\$7,483,719 - \$473,726).

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2012**

Note 4. Detail Notes (continued)

B. Liabilities

1. Debt Obligations of the Board of Water Commissioners

a. Current and Long-Term Debt Maturities

At December 31, 2012, long-term debt consisted of:

	Principal		
	Unpaid Balances December 31, 2012	Less Current Maturities	Long-Term Maturities
Notes Payable	\$ 25,629,803	\$ 1,320,038	\$ 24,309,765
Revenue Bonds	23,720,000	2,525,000	21,195,000
Capital Lease	1,847	1,847	-
Compensated Absences	1,794,551	75,765	1,718,786
Other Post Employment Benefits	3,495,166	-	3,495,166
Claims and Judgments	3,205,760	617,959	2,587,801
Total	\$ 57,847,127	\$ 4,540,609	\$ 53,306,518

b. Changes in Debt Obligations

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

	01/01/12	Additions	Deductions	12/31/12
General Obligation				
Waste Water Revenue Note	\$ 1,426,671	\$ -	\$ 242,989	\$ 1,183,682
Drinking Water Revenue Notes	13,888,003	11,743,118	1,185,000	24,446,121
Revenue Bonds	26,090,000	-	2,370,000	23,720,000
Capital Lease	3,546	-	1,699	1,847
Compensated Absences	1,895,546	203,163	304,158	1,794,551
Other Post Employment Benefits	2,858,414	1,345,224	708,472	3,495,166
Claims and Judgments	3,088,400	863,073	745,713	3,205,760
Total	\$ 49,250,580	\$ 14,154,578	\$ 5,558,031	\$ 57,847,127

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2012**

Note 4. B. Liabilities (continued)

c. Principal and Interest Requirements on Debt Obligations

i. All Debt

Aside from Claims and Judgments, Compensated Absences, Other Post Employment Benefits, and Capital Leases the annual requirements to pay the principal of \$49,349,803 and interest of \$9,923,081 on all Regional Water debt outstanding as of December 31, 2012, are as follows:

YEAR	2003 REVENUE BONDS			2005 REVENUE BONDS			2007 REVENUE BONDS		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2013	\$525,000	\$264,100	\$789,100	\$535,000	\$330,235	\$865,235	\$490,000	\$188,850	\$678,850
2014	\$550,000	\$245,200	\$795,200	\$555,000	\$308,835	\$863,835	\$560,000	\$164,350	\$724,350
2015	\$575,000	\$224,850	\$799,850	\$575,000	\$286,635	\$861,635	\$555,000	\$141,950	\$696,950
2016	\$600,000	\$203,000	\$803,000	\$595,000	\$263,635	\$858,635	\$605,000	\$114,200	\$719,200
2017	\$625,000	\$179,600	\$804,600	\$615,000	\$239,835	\$854,835	\$670,000	\$90,000	\$760,000
2018-22	\$3,650,000	\$487,038	\$4,137,038	\$3,460,000	\$793,463	\$4,253,463	\$1,580,000	\$98,000	\$1,678,000
2023-24	\$ -	\$ -	\$ -	\$1,590,000	\$103,200	\$1,693,200	\$ -	\$ -	\$ -
	<u>\$6,525,000</u>	<u>\$1,603,788</u>	<u>\$8,128,788</u>	<u>\$7,925,000</u>	<u>\$2,325,838</u>	<u>\$10,250,838</u>	<u>\$4,460,000</u>	<u>\$797,350</u>	<u>\$5,257,350</u>

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2012**

Note 4. B. Liabilities (continued)

YEAR	2011D REVENUE BONDS			2011E REVENUE BONDS			TOTAL REVENUE BONDS		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2013	\$ -	\$106,800	\$106,800	\$975,000	\$13,125	\$988,125	\$2,525,000	\$903,110	\$3,428,110
2014	\$955,000	\$106,800	\$1,061,800	\$160,000	\$2,400	\$162,400	\$2,780,000	\$827,585	\$3,607,585
2015	\$565,000	\$78,150	\$643,150	\$ -	\$ -	\$ -	\$2,270,000	\$731,585	\$3,001,585
2016	\$690,000	\$61,200	\$751,200	\$ -	\$ -	\$ -	\$2,490,000	\$642,035	\$3,132,035
2017	\$835,000	\$43,950	\$878,950	\$ -	\$ -	\$ -	\$2,745,000	\$553,385	\$3,298,385
2018-22	\$630,000	\$18,900	\$648,900	\$ -	\$ -	\$ -	\$9,320,000	\$1,397,401	\$10,717,401
2023-24	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$1,590,000	\$103,200	\$1,693,200
	<u>\$3,675,000</u>	<u>\$415,800</u>	<u>\$4,090,800</u>	<u>\$1,135,000</u>	<u>\$15,525</u>	<u>\$1,150,525</u>	<u>\$23,720,000</u>	<u>\$5,158,301</u>	<u>\$28,878,301</u>

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2012**

Note 4. B. Liabilities (continued)

YEAR	1996 G.O. WASTE WATER REVENUE NOTE			2010A DRINKING WATER REVENUE NOTE			2010B DRINKING WATER REVENUE NOTE			TOTAL WATER REVENUE NOTES		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2013	\$250,037	\$32,303	\$282,340	\$220,000	\$110,007	\$330,007	\$850,000	\$369,682	\$1,219,682	\$1,320,037	\$511,992	\$1,832,029
2014	\$257,291	\$25,050	\$282,341	\$200,000	\$105,688	\$305,688	\$780,000	\$353,005	\$1,133,005	\$1,237,291	\$483,743	\$1,721,034
2015	\$264,754	\$17,586	\$282,340	\$305,000	\$101,762	\$406,762	\$1,200,000	\$337,702	\$1,537,702	\$1,769,754	\$457,050	\$2,226,804
2016	\$272,434	\$9,907	\$282,341	\$200,000	\$95,775	\$295,775	\$770,000	\$314,158	\$1,084,158	\$1,242,434	\$419,840	\$1,662,274
2017	\$139,166	\$2,004	\$141,170	\$180,000	\$91,848	\$271,848	\$695,000	\$299,050	\$994,050	\$1,014,166	\$392,902	\$1,407,068
2018-22	\$ -	\$ -	\$ -	\$1,670,000	\$377,877	\$2,047,877	\$6,495,000	\$1,179,664	\$7,674,664	\$8,165,000	\$1,557,541	\$9,722,541
2023-27	\$ -	\$ -	\$ -	\$1,910,000	\$194,533	\$2,104,533	\$5,032,575	\$592,435	\$5,625,010	\$6,942,575	\$786,968	\$7,729,543
2028-30	\$ -	\$ -	\$ -	\$919,000	\$36,257	\$955,257	\$3,019,546	\$118,487	\$3,138,033	\$3,938,546	\$154,744	\$4,093,290
	\$1,183,682	\$86,850	\$1,270,532	\$5,604,000	\$1,113,747	\$6,717,747	\$18,842,121	\$3,564,183	\$22,406,304	\$25,629,803	\$4,764,780	\$30,394,583

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

SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2012

Note 4. B. Liabilities (continued)

i. All Debt (continued)

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

The first note was in the amount of \$5,960,000. The proceeds of the note were for the demolition and replacement of the Dale Street Reservoir. The total principal amount of the long-term portion of the loan at December 31, 2012 was \$5,604,000. The second note was in the amount of \$23,107,000. The proceeds of the note were for the replacement of approximately 1,600 lead service lines and the replacement of approximately 93,000 water meters. The total principal amount of the long-term portion of the loan at December 31, 2012 was \$18,842,121.

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 Risk Management that have been incurred but not reported. At December 31, 2012, the claims and judgments liability was \$3,205,760.

iii. Compensated Absences

Included in Regional Water's debt are compensated absences for \$1,794,551.

iv. Capital Lease

Regional Water entered into a capital lease on November 30, 2008 for a postage mailing machine; this is a 60 month lease. The cost of the equipment was \$7,871. The total payments made in 2012 were \$3,624. At December 31, 2012, the liability was \$1,847.

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2012**

Note 4. B. Liabilities (continued)

2012 Capital Lease

	Annual Lease <u>Payment</u>	Annual Meter Rental <u>Payment</u>	Annual Maintenance <u>Payment</u>	Annual <u>Interest</u>	Reduction of Lease <u>Obligation</u>	Present Value Minimum Lease <u>Payments</u>
2012	\$3,624	\$828	\$872	\$225	\$1,699	\$1,847
2013	3,624	828	872	77	1,847	-
	<u>\$7,248</u>	<u>\$1,656</u>	<u>\$1,744</u>	<u>\$302</u>	<u>\$3,546</u>	

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	3.86%; 06/01; 12/01	03/01/03	12/01/22	\$ 6,525,000
Revenue	4.20%; 06/01; 12/01	03/24/05	12/01/24	7,925,000
Revenue	4.06%; 06/01; 12/01	02/14/07	12/01/19	4,460,000
Revenue	2.00%; 06/01; 12/01	04/06/11	12/01/18	3,675,000
Revenue	1.19%; 06/01; 12/01	04/06/11	12/01/14	<u>1,135,000</u>
Total				<u>\$23,720,000</u>

3. Notes Payable by Issue

<u>Issue</u>	<u>Issue Rate And Dates</u>	<u>Issue Date</u>	<u>Final Maturity Date</u>	<u>Amount Outstanding</u>
Wastewater Treatment Water Revenue Note	2.88%; 02/20; 8/20	06/26/96	02/20/17	\$ 1,183,682
Drinking Water Revenue Note	1.963%; 06/01; 12/01	07/13/10	12/01/30	5,604,000
Drinking Water Revenue Note	1.962%; 06/01; 12/01	07/13/10	12/01/30	<u>18,842,121</u>
Total				<u>\$25,629,803</u>

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2012**

Note 4. Detail Notes (continued)

C. Due From Primary Government

At December 31, 2012, Regional Water reported the following receivables from the City of Saint Paul:

<u>City Fund Title</u>	<u>City Fund Type</u>	<u>Amount</u>
Suspense	Agency Fund	\$ 396
Capital Improvement Projects	Capital Projects Fund	45,807
Sewer Utility	Enterprise Fund	68,049
General Fund	General Fund	30,975
Como Campus	Special Revenue Fund	2,148
Total		<u>\$ 147,375</u>

D. Due To Primary Government

At December 31, 2012, Regional Water reported the following payables to the City of Saint Paul:

<u>City Fund Title</u>	<u>City Fund Type</u>	<u>Amount</u>
Sewer Utility	Enterprise Fund	\$ 2,703,178
Special Services	Enterprise Fund	250
General Fund	General Fund	1,817
Public Works Traffic, Signal, & Light Maint.	Internal Service Fund	96,971
Purchasing's Value Added Services	Internal Service Fund	29,862
Risk Management Retention	Internal Service Fund	184,715
Special Projects-General Government	Special Revenue Fund	53,818
Total		<u>\$ 3,070,611</u>

- (1) Regional Water acts as a billing and collections agent for the Sewer Utility, it pays the Sewer Utility based on billings 30 days after the close of the month less processing and collection charges as follows:

\$2.55 per regular sewer bill transaction
\$1.20 per rainleader transaction

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2012**

Note 5. Other Information

A. Pension Plans

Regional Water employees are employees of the City of Saint Paul and participate in the Coordinated Plan of the Public Employees Retirement Association (PERA). This plan requires contributions from the employer and employee. The Coordinated Plan requires participation by the employer and employee in the Social Security System. The employer's share of these PERA plans is paid by Regional Water and is included in the financial statements as an operating expense. Regional Water's total employer's shares for the years ended December 31, 2012, 2011, and 2010 were \$1,012,428, \$1,000,717, and \$978,683 respectively. The corresponding total employee's shares were \$872,782, \$862,687, and \$900,388. PERA does not make separate measurements for the assets and pension benefit obligations for the individual employers. Information on the City Employee Pension Plan is contained in the City's Comprehensive Annual Financial Report for the Fiscal Year Ended December 31, 2012.

B. Post-Employment Benefits Other than Pensions

Plan Description

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

Benefits Provided

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

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2012**

Note 5. B. Post-Employment Benefits Other than Pensions (continued)

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

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

	<u>Health Care Benefit</u>	
	<u>Under Age 65 (early retiree)</u>	<u>Over Age 65 (regular retiree)</u>
Employees who retired before January 1, 1996	\$250 per month	100%
Employees hired before 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.

Membership

As of actuarial valuation date of September 30, 2010 the membership consisted of:

	<u>Life Insurance Only</u>	<u>Family Coverage</u>	<u>Single Coverage</u>	<u>Total</u>
Retired Participants and Beneficiaries				
Under Age 65 (Early Retirees)	1	4	28	33
Over Age 65 (Regular Retirees)	-	<u>46</u>	<u>99</u>	<u>145</u>
Total Retired Participants	<u>1</u>	<u>50</u>	<u>127</u>	<u>178</u>
Active Participants				
Eligible to Receive Benefits				50
Not Eligible to Receive Benefits*				<u>176</u>
Total Active Participants				<u>226</u>
Total Participants				<u>404</u>

* Participants who have not reached retirement age and minimum service requirements

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2012**

Note 5. B. Post-Employment Benefits Other than Pensions (continued)

Funding Policy

Retiree health care benefits are currently funded based on the benefit disclosed above on a pay-as-you-go basis. Regional Water may change the funding policy at any time. The average monthly premium contributions for 2012 were as follows:

	<u>Age</u>	<u>Average Monthly Regional Water Contribution</u>	<u>Average Monthly Retiree Contribution</u>
Health Insurance	Less than 65	\$370	\$400
	65 and older	\$276	\$18
Life Insurance	Less than 65	\$2	Not applicable
	65 and older	Not applicable	Not applicable

These plans are fully insured.

The expenses for these post-employment benefits are recognized as premiums and are paid to the insurers. For Regional Water, the 2012 expense totaled \$639,913 for approximately 183 retirees. Retirees contributed \$176,978; active employees do not contribute to the plan until retirement.

Annual OPEB Costs and Net OPEB Obligation

Regional Water had an actuarial valuation performed for the plan as of September 30, 2010 to determine the funded status of the plan as of that date as well as the employer's annual required contribution (ARC) for the fiscal year ended December 31, 2012. Regional Water's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2012 and the two preceding years were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Employer Contribution</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
December 31, 2010	\$ 1,318,571	\$ 698,846	53.00%	\$ 2,268,673
December 31, 2011	\$ 1,316,167	\$ 726,426	55.20%	\$ 2,858,414
December 31, 2012	\$ 1,345,224	\$ 708,472	52.67%	\$ 3,495,166

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2012**

Note 5. B. Post-Employment Benefits Other than Pensions (continued)

The net OPEB obligation (NOPEBO) at December 31, 2012 was calculated as follows:

Annual Required Contribution (ARC)	\$	1,388,097
Interest on Net OPEB Obligation		142,420
Adjustment to Annual Required Contribution		(185,293)
Annual OPEB Cost		1,345,224
Contributions Made:		
Direct		639,981
Indirect Implicit Subsidy		68,491
Total Contributions Made		708,472
Increase (Decrease) in Net OPEB Obligation		636,752
Net OPEB Obligation Beginning of Year		2,858,414
Net OPEB Obligation End of Year	\$	3,495,166

Funded status and funding progress

The actuarial accrued liability (AAL) for benefits, as of September 30, 2010, the most recent actuarial valuation date, was \$16,138,206. This liability will be amortized over 30 years based on the requirements of the Governmental Accounting Standards Board (GASB) Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions."

The funded status of the plan as of September 30, 2010, the most recent actuarial valuation date, is as follows:

Actuarial Valuation Date	Actuarial Value of Plan Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll Active Members	UAAL as a Percentage of Covered Payroll
September 30, 2010	\$ -	\$ 16,138,206	\$ 16,138,206	0.0%	\$ 12,630,550	127.8%

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2012**

Note 5. B. Post-Employment Benefits Other than Pensions (continued)

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

Actuarial Methods and Assumptions

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

In the September 30, 2010 actuarial valuation the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included 5.00% discount rate and an annual healthcare cost trend rate of beginning at 10.0% for fiscal year 2010 and declining over 10 years by 0.5% per year to 5.0%. Both rates include a 3.0% inflation assumption. The actuarial value of assets was \$0, as Regional Water has not advance-funded its obligation. The plan's unfunded actuarial accrued liability is being amortized as a level dollar amount over a 30-year open amortization period (30-year period restarted with each valuation).

C. Risk Management

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

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2012**

Note 5. C. Risk Management (continued)

A complete audit and actuarial analysis is conducted to ensure proper premium, retention, and administrative charges. The following discloses the change in the balance of the claims liability during fiscal years 2011 and 2012:

	Year Ended <u>12/31/2011</u>	Year Ended <u>12/31/2012</u>
Beginning fiscal year liability	\$2,233,240	\$3,088,400
Current year claims and changes in estimates	1,472,211	863,073
Claim payments	<u>(617,051)</u>	<u>(745,713)</u>
End of year liability	<u>\$3,088,400</u>	<u>\$3,205,760</u>

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

D. Contingent Liabilities

The Board of Water Commissioners, 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, 2012**

Note 5. Other Information (continued)

E. Joint Powers

The Ramsey County Geographic Information Systems (GIS) Users Group (Users Group) was established in 1995 by a joint powers agreement among public agencies interested in using GIS and data created and maintained by Ramsey County. The agreement was to enable those parties who are part of the Users Group to be represented by the Users Group for the purposes of undertaking negotiations and transactions with Ramsey County and any other body politic. Joining this group provides Regional Water staff the ability to share costs and information with over 23 cities, school districts, watersheds, utilities and other agencies within Ramsey County. Regional Water became part of the Users Group in January 2006 and was assessed \$2,079 for the year 2012. 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 the Board of Water Commissioners, the City of Minneapolis, and the City of Saint Cloud dated December 19, 2011 was to collaboratively implement the Upper Mississippi River Source Water Protection Project (“Project”). The parties agree to make future cash contribution to the “Project” up to \$10,000 annually. The City of Saint Cloud shall administer all aspects of the “Project” including funds collection and disposal. This Agreement shall be in effect from the date of agreement until December 31, 2020.

F. Subsequent Events

In preparing these financial statements Regional Water has evaluated events and transactions for potential recognition through June 7, 2013, the date the financial statements were available to be issued.

During March 2013, Regional Water issued Water Refunding Bonds Series 2013A for \$14,480,000. The bonds mature annually on December 1, commencing December 1, 2013 with installment amounts ranging from \$745,000 to \$1,435,000. Interest is payable on each June 1 and December 1 commencing December 1, 2013 with amounts ranging from 1.5% to 3.0%. Proceeds of the bonds will be used to refund the 2003C Bonds and advance refund the 2005D Bonds.

The bonds issued in 2013 were reaffirmed at Aa1 and AAA by Moody’s Investors Service and Standard and Poor’s Corporation, respectively.

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REQUIRED SUPPLEMENTARY INFORMATION

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
REQUIRED SUPPLEMENTARY INFORMATION
For the Fiscal Year Ended December 31, 2012**

Schedule 1

Schedule of Funding Progress ⁽¹⁾

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll Active Members	UAAL as a Percentage of Covered Payroll
September 30, 2006	\$ -	\$14,931,911	\$14,931,911	0.0%	\$11,080,634	134.8%
September 30, 2008	\$ -	\$15,289,857	\$15,289,857	0.0%	\$11,271,358	135.7%
September 30, 2010	\$ -	\$16,138,206	\$16,138,206	0.0%	\$12,630,550	127.8%

Regional Water implemented GASB Statement No. 45 for the fiscal year ended December 31, 2007. Information for the prior years is not available.

⁽¹⁾ For information regarding the plan see Note 5.B. on pages 39- 43.

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Schedule 2

Schedule of Employer Contributions ⁽¹⁾

Fiscal Year Ended	Annual Required Contribution	Percentage Contributed	Net OPEB Obligation
December 31, 2007	\$ 1,283,314	53.76%	\$ 557,154
December 31, 2008	\$ 1,283,314	55.92%	\$ 1,122,807
December 31, 2009	\$ 1,308,025	58.51%	\$ 1,648,948
December 31, 2010	\$ 1,342,799	52.04%	\$ 2,268,673
December 31, 2011	\$ 1,350,292	53.80%	\$ 2,858,414
December 31, 2012	\$ 1,388,097	51.04%	\$ 3,495,166

Regional Water implemented GASB Statement No. 45 for the fiscal year ended December 31, 2007. Information for the prior years is not available.

⁽¹⁾ For information regarding the plan see Note 5.B. on pages 39- 43.

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SUPPLEMENTARY INFORMATION

**SAINT PAUL REGIONAL WATER SERVICES
 SAINT PAUL, MINNESOTA
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Fiscal Year Ended December 31, 2012**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Transportation Passed-Through the Metropolitan Council Federal Transit Capital Investment Grants	20.500	\$185,309
U.S. Environmental Protection Agency Passed-Through Minnesota Public Facilities Authority Capitalization Grants for Drinking Water State Revolving Funds	66.468	\$11,138,679
Total Federal Awards		<u>\$11,323,988</u>

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

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SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended December 31, 2012

1. Reporting Entity

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

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Regional Water under programs of the federal government for the year ended December 31, 2012. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of Regional Water, it is not intended to and does not present the net position, changes in net position, or cash flows of Regional Water.

3. Summary of Significant Accounting Policies

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

4. Subrecipients

Regional Water did not pass any federal awards through to subrecipients during the year ended December 31, 2012.

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

Regional Water was awarded two federal awards in 2012. The first is the Federal Transit Capital Investment Grant, which is passed through the Metropolitan Council (Met Council); it is a reimbursement award. The second is a Capitalization Grant for Drinking Water State Revolving Funds, which is passed through the Minnesota Public Facilities Authority (MN PFA), a component unit of the State of Minnesota. This award is in the form of a Drinking Water Note Payable secured by General Obligation Bonds. It will be repaid over a 20 year period.

SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended December 31, 2012

5. Reconciliation of Schedule of Expenditures of Federal Awards to Actual Reimbursements (continued)

Expenditures for the Federal Transit Capital Investment Grant during the year ended December 31, 2012 totaled \$185,309. Of this amount, \$45,195 was reimbursed by Met Council during the fiscal year 2012. Expenditures for the Capitalization Grant for Drinking Water State Revolving Funds during the year ended December 31, 2012 totaled \$11,138,679. Of this amount, \$10,604,448 had been reimbursed by the MN PFA during the fiscal year 2012 and \$102,379 of Fiscal Year 2011 expenditures were reimbursed in 2012.

6. American Recovery and Reinvestment Act

The American Recovery and Reinvestment Act of 2009 (ARRA) requires recipients to clearly distinguish ARRA funds from non-ARRA funding. Regional Water received no ARRA funding during 2012.

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