

**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, 2013**

INTRODUCTORY SECTION

**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, 2013**

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BOARD OF WATER COMMISSIONERS

President: Matt Anfang ♦ Vice President: Amy Brendmoen

Commissioners: Gregory Kleindl ♦ Kathy Lantry ♦ Chris Tolbert ♦ Will Rossbach ♦ John Zanmiller

June 13, 2014

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

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, 2013. The responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with Regional Water. We believe the data, as presented, is accurate in all material aspects; that it is presented in a manner designed to fairly set forth the financial position, changes in financial position, and cash flows of Regional Water; and that all disclosures necessary to enable the reader to gain the maximum understanding of Regional Water's financial affairs have been included. This report has been prepared in accordance with generally accepted accounting principles. Regional Water's financial operations are also reported in the City of Saint Paul's Comprehensive Annual Financial Report as a discretely presented component unit.

The report is presented here in two sections:

1. The Introductory Section includes this letter of transmittal and a listing of the members of the Board of Water Commissioners and Manager.
2. The Financial Section includes the State Auditor's report, Management's Discussion and Analysis, the basic financial statements along with the related notes to these financial statements, certain required supplementary information, and supplementary information.

REPORTING ENTITY AND SERVICES

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

SAINT PAUL REGIONAL WATER SERVICES

Stephen P. Schneider, General Manager

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

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

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

AA-ADA-EEO Employer

HIGHLIGHTS IN SUMMARY

Business Division

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

Regional Water's internal consulting group, the Business Improvement Unit (BIU), provides innovative solutions for all areas of the organization. The unit goal is to analyze, recommend and exploit business improvement opportunities in support of the utility's mission.

In 2013, the BIU developed a process to evaluate, prioritize and track vetted projects. Further, BIU adopted a formal, structured, project-approach template. By year end 2013, some 68 projects at various stages of progress have been assigned to BIU. With each project, the unit researches industry trends and standards seeking to be progressive.

An example of a very helpful BIU in-progress project is the implementation of the Computerized Maintenance Management System (CMMS) workflow to manage maintenance and operational activity at the water treatment plant. BIU worked with staff to design and is in-progress implementing the workflow which includes training staff. The project eliminates many manual maintenance tracking and record keeping tasks. Regional Water believes great value is gained by operating this internal consulting group. BIU will continue to examine workflow processes throughout the utility looking for improved efficiency and enhanced delivery of information.

In 2013 Regional Water completed a three-year contract to replace each water meter in its service area and installed a radio meter reading system. The utility entered into a contract with Northern Water Works Supply in 2010 to replace approximately 93,000 water meters. The contract was substantially complete by the end of January 2014 with about 1,000 meter replacements outstanding. The complexities of coordinating customer appointments and ensuring customers participated in the program was successfully carried out with a collaborative effort with the contractor and Billing, Customer Service, Distribution, and Meter Operations staff. Business Division staff are very proud of the meter project success. The meter replacement project will serve the utility for the next twenty-five years.

In 2013, as a result of the radio meter project, customers realized some significant benefit. Regional Water transitioned from five meter readers to two by operating a drive-by meter reading system. The number of estimated water bills issued in 2013 was significantly reduced, especially during periods of deep snow which historically hampered reading access. The radio system has enhanced success at capturing actual readings.

In 2013 we continued to increase the number of registered users of our on-line bill presentment and payment, Infinity Link. This Customer Information and Billing System (CIS) module provides customers a self-service choice of viewing their personal account and paying their bill on-line and also provides interested customers the option to receive an electronic bill (e-Bill) rather than a paper copy bill through the United States Postal Service. By the end of 2013, we had 19,032 registered users. Throughout the year water billings continued to meet schedules.

HIGHLIGHTS IN SUMMARY (continued)

The Customer Service Call Center received 166,872 calls in 2013, a slight drop from 172,812 in 2012 perhaps due to the completion of the meter replacement project. Some 81,153 calls (or 49%) were handled by call center staff and 85,719, by the self-serve 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 1,421 callers took advantage of the Spanish language alternative.

A water main break on Wall Street in February 2013 caused us to lose pressure in most of our low service system. This prompted a “do not drink” order for that area, which serves about 30,000-50,000 customers. Numerous meetings were held to discuss the City’s response to the crisis, and though we got high marks for our initial response and restoration of service, there is room for improvement in communicating the orders and working with customers and health officials to bring customers back on, especially for customers with food service. We took a few lessons away from this incident and are better prepared to deal with a similar incident in the future. As a result, Regional Water updated its website to offer an emergency notification “Code Red” registration opportunity and other links to improve public outreach and provide information.

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

In 2013, we executed new agreements for the billing services Regional Water provides on behalf of the municipalities of Saint Paul, Maplewood, West Saint Paul, Falcon Heights and Lauderdale.

2013 was a very exciting and challenging year for our Financial Services Unit. The City of Saint Paul worked throughout the year to implement a new Finance System with a go-live date of January 1, 2014. Regional Water staff designed and implemented a new business process for managing financial transactions and information and implemented a new Chart of Accounts in its Lawson Financial Management System, CMMS system, CIS system and transitioned from a stand-alone fixed asset system to a module of the new Lawson system. For each system the work included new configuration, several data conversion iterations and a significant testing effort. Regional Water is proud of its Financial Services staff and their fine work in designing and successfully implementing the Lawson system that will serve the utility well into the future. Once again our Financial Services Unit was recognized by the State Auditor for its outstanding and timely work preparing the 2012 Annual Financial Report for audit.

Technology plays an increasingly important role at Regional Water Services. Our Information Services Unit provides technological support and expertise to virtually all areas of the utility. Staff have generally succeeded in making the systems available 100% of the time for things within their control. During 2013, the Information Services Unit continued to improve the retrieval and display of asset information in our Geospatial Information System (GIS) and provided this information both in the office and in the field. We continued to implement our Storage Area Network (SAN) and our Virtual Server Environment by adding our CIS system and Laboratory Information Management System (LIMS). We upgraded our backup system to optical disk technology to eliminate the redundant magnetic tape system.

HIGHLIGHTS IN SUMMARY (continued)

Work continued on expanding the use of our Document Management System (DMS). The CIS, GIS, and CMMS systems now link to supporting documents housed in our DMS. We continued our effort to index record documents properly to the asset for efficient retrieval. DMS was enhanced to more readily present our standard operating procedures, policies, safety information, and paid invoices for easy look-up by staff.

Business Division - Future Operations

A new Timekeeping, Attendance, and Scheduling System (TASS) is planned for implementation at Regional Water during the second quarter of 2014. This will impact all Regional Water employees. In 2014, we anticipate becoming proficient with the new Lawson Financial system along with the new TASS system. In 2015, we anticipate implementing V4, a version upgrade to CIS Infinity. 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.

We will continue to examine workflow processes throughout the utility looking for improved efficiency and enhanced delivery of services. We will continue to review and amend our business practices as needed to optimize the effectiveness of the new radio meter reading system. One big initiative is to merge our billing and customer service units to ensure a broad base of qualified billers and a responsive, knowledgeable expanded customer service team.

Distribution Division

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

Water Distribution Capital Program - We continue to replace and upgrade an aging infrastructure of unlined cast iron water mains, hydrants and lead water services. Much of the water main replacement was accomplished in coordination with street reconstruction projects. This year a total of 9.5 miles of our 1,200 miles of water main were replaced.

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

In addition to water main construction, 245 lead water services were replaced last year. These replacements were done in coordination with street reconstruction projects also in those areas throughout the service area where property owners have previously replaced their portion of the lead service in private property and where old services were leaking and required replacement.

HIGHLIGHTS IN SUMMARY (continued)

167 of the 9,500 system hydrants were replaced during the year. We continued to install Storz connections on hydrant nozzles with newly installed hydrants. A Storz connection is a quick connecting coupling that accommodates fire hoses.

Water Distribution System Maintenance - We perform both preventative and emergency maintenance on the water distribution system. Preventive maintenance of the system is needed to ensure adequate reliability and improve distribution system water quality. Preventive maintenance work includes hydrant inspection, Uni-Directional Flushing (UDF), and valve exercising. 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. Improved field automation was done to collect this information while performing inspections.

We perform emergency repairs on water mains and services. We also provide water main break repair services to other municipalities outside our service area, responding to main breaks in the city of Oakdale and White Bear Township. We began performing main break repair services for the City of Newport in 2013. Last year we repaired 142 main breaks within our service area and 24 repairs in communities outside our service area.

In 2013, we discontinued our relationship as Water Operator for the community of Birchwood Village. We no longer maintain or operate their distribution system. This was an amicable split.

Distribution Division – Future Operations

In 2014, 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 2014 will allow for 9.37 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 2013 that will serve Regional Water and its customers well into the future. Some of these projects include:

Distribution Pipe Rehabilitation – Regional Water has enhanced the current buried pipe rehabilitation to include replacing all of the cast iron within the street restoration projects, and are investigating trenchless technologies and moving outside the street projects to rehabilitate problem areas within the service area. The immediate goal is to reduce the life cycle of the distribution system piping from 140 years to 100 years.

HIGHLIGHTS IN SUMMARY (continued)

Well Field Development – Regional Water has completed the expansion of the well field supply by increasing the number of wells from four to ten. The maximum yield of the system has increased from 20 million gallons a day (MGD) to 45 MGD. The well field can supply our average daily flow and acts as an alternate raw water feed to the filtration plant.

Hypolimnetic Aeration – Installation of the Pleasant Lake aeration system is complete. The system is fully operational and is expected to significantly improve the water quality of this reservoir.

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 Regional Water’s involvement in the project is over and is winding down to correcting deficiencies.

Partnership for Safe Water – A distribution system pressure monitoring program was initiated in 2013 with the installation of two data loggers in the low service pressure zone. This program will evaluate service pressure fluctuations following the Partnership for Safe Water guidelines and will be expanded to other pressure zones in 2014.

Engineering work in the Distribution System included planning and construction coordination for water main construction, valve replacement, and lead service replacement programs. The SPRWS revenue funded capital plan includes replacement of all existing cast iron pipe within the project areas.

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

There were concerns early in 2013 about drought and potentially low river levels, but precipitation in the winter was slightly above normal, and then well above normal through June. River levels never approached the concern level of 2,000 cubic feet per second (CFS) for most of the year. Temperatures were also cooler than average through June, and as a result, we had very low demands through June. In fact, with an average pumping of just 43.5 Million Gallons per Day (MGD) in June, we pumped less than any June since 1957. Demand finally picked up in August as it got warmer and drier, and we finished the year pumping an average of 42.8 MGD, roughly average for the last five years.

HIGHLIGHTS IN SUMMARY (continued)

We had another excellent year as far as water quality is concerned. There were only 20 water quality complaints, a few more than in 2012. That is now seven consecutive years of minimal water quality complaints, as our Granular Activated Carbon (GAC) filters continue to perform admirably.

Chemical and electrical costs were up slightly in 2013. Chemicals were up largely due to an increase in the price of lime and for the oxygen necessary for the aerators. Electricity costs increased approximately 11% increase when normalized for pumping.

A number of improvements were put into use or were under construction in 2013. New security cameras were installed, updating our old ones which were about ten years old. Pump number five at the Fridley pumping station went on-line, and now provides more options and better firm capacity from our river source. A new heating system was put into the treatment plant building, changing us over from steam heat to hot water, and replacing the boilers that were 45 years old. The new oxygenation system in Pleasant Lake was installed and was operable by the end of the year. We hope by using this over the winter that it will have a good effect on water quality by next spring. New catalytic converters were installed on the generators at the plant in accordance with new laws. Four new wells were ready to go on-line by the end of the year, giving us a total of ten wells and capacity of 45 MGD, our average day demand.

Field number four, north of Roselawn Avenue, filled to the top with lime sludge, and had to be pumped out in the fall. The lime was removed, and we are back to normal operations there. It appears that this will need to be done on approximately five to seven year intervals, though we are looking for ways to reduce the amount of solids that are sent to that field.

We stopped using the Ramsey County Sheriff's Office and started with a private company to provide security services at our facilities on July 1. We are working with the company to optimize security levels.

Production Division – Future Operations

We still need to repair the valve on the Vadnais Lake side of the east 90-inch water supply 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 on 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.

We will look at changing our Supervisory Control and Data Acquisition (SCADA) software, as the company that owns the software, General Electric is looking to phase it out and is no longer making changes or improvements to it. There are alternatives that are more versatile and cheaper, and we will likely make a switch in 2014.

A regional issue will very likely involve us to a great extent. The water levels in White Bear Lake have declined over the past ten years, and the lake is near an all-time low level. Studies indicate that increased ground water usage in the area is a major contributing factor. The Met Council is trying to move communities in the northeast metro toward surface water supplies (all the

HIGHLIGHTS IN SUMMARY (continued)

communities not on our system are on ground water). This will involve us either supplying the communities finished water through our McCarron's plant, or raw water to supply a new treatment plant that would serve all or part of the northeast metro. Direct augmentation of the lake, using water from our chain of lakes, is also likely. This would have an immediate impact on lake levels, and it appears to be feasible from our viewpoint on an appropriation and capacity basis. There is still much work to be done, and it will be a while before a course of action is determined and funding is secured.

INDEPENDENT AUDIT

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

MANAGEMENT AND COMPLIANCE REPORT

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

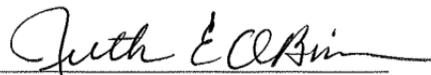
ACKNOWLEDGMENTS

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

Respectfully submitted,



Stephen P. Schneider
General Manager



Ruth E. O'Brien
Financial Services Manager

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

As of December 31, 2013

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, 2013, 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, 2013, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Required Supplementary Information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the 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 our report dated June 13, 2014, on our consideration of the Saint Paul Regional Water Services' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Saint Paul Regional Water Services' internal control over financial reporting and compliance.



REBECCA OTTO
STATE AUDITOR



GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

June 13, 2014

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**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended December 31, 2013**

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, 2013. 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 \$248,317,378 (Net Position). Of this amount, \$10,893,205 (unrestricted) may be used to meet the utility's ongoing obligations.

- Regional Water's total net position increased by \$3,243,130.

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, 2013**

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

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

Summary of Organization and Business

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

Financial Analysis

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

As can be seen from the following table, total net position increased \$3.24 million to \$248.31 million in 2013, up from \$245.07 million in 2012. The increase in total net position was primarily due to the investment of capital assets offset by a decrease in cash and investments and liabilities.

Capital Assets

By the end of 2013, Regional Water had invested \$401.08 million in capital assets. The \$6.82 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.

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 completed draws on these notes during 2013. Fixed rate revenue bonds were issued during March 2013 to currently refund the 2003 Revenue Bonds and to advance refund the 2005 Revenue Bonds. At the end of 2013, bonds payable were \$21.03 million and revenue notes payable were \$27.22 million. This debt will be repaid by revenue generated by Regional Water.

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended December 31, 2013**

Condensed Statement of Net Position (in thousands)

	Fiscal Year 2013	Fiscal Year 2012	Dollar Change	Total % Change
Assets				
Cash and Investments	\$ 23,225	\$ 26,319	\$ (3,094)	(11.8)
Other Current Assets	\$ 12,505	\$ 12,238	\$ 267	2.2
Capital Assets - net	\$ 275,065	\$ 269,953	\$ 5,112	1.9
Other Noncurrent Assets	\$ 6,676	\$ 6,870	\$ (194)	(2.8)
Total Assets	<u>\$ 317,471</u>	<u>\$ 315,380</u>	<u>\$ 2,091</u>	<u>0.7</u>
Liabilities				
Current Liabilities	\$ 14,857	\$ 16,928	\$ (2,071)	(12.2)
Noncurrent Liabilities	\$ 54,297	\$ 53,378	\$ 919	1.7
Total Liabilities	<u>\$ 69,154</u>	<u>\$ 70,306</u>	<u>\$ (1,152)</u>	<u>(1.6)</u>
Net Position				
Net Investment in Capital Assets Restricted for Debt Service	\$ 226,053 11,371	\$ 220,530 11,560	\$ 5,523 (189)	2.5 (1.6)
Unrestricted	10,893	12,984	(2,091)	(16.1)
Total Net Position	<u>\$ 248,317</u>	<u>\$ 245,074</u>	<u>\$ 3,243</u>	<u>1.3</u>

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

	Fiscal Year 2013	Fiscal Year 2012	Dollar Change	Total % Change
Operating Revenues	\$ 52,008	\$ 51,520	\$ 488	0.9
Nonoperating Revenues (Expenses)	(5,604)	(3,471)	(2,133)	61.5
Total Revenues	<u>\$ 46,404</u>	<u>\$ 48,049</u>	<u>\$ (1,645)</u>	<u>(3.4)</u>
Operating Expenses	\$ 44,494	\$ 41,434	\$ 3,060	7.4
Income (Loss) Before Transfers and Contributions	\$ 1,910	\$ 6,615	\$ (4,705)	(71.1)
Capital Contributions	\$ 1,333	\$ 12,231	\$ (10,898)	(89.1)
Change in Net Position	\$ 3,243	\$ 18,846	\$ (15,603)	(82.8)
Net Position - January 1	245,074	226,228	18,846	8.3
Net Position - December 31	<u>\$ 248,317</u>	<u>\$ 245,074</u>	<u>\$ 3,243</u>	<u>1.3</u>

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended December 31, 2013**

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 \$488 thousand to \$52.01 million in 2013, up from \$51.52 million in 2012. There was a change in water rate structure in 2013. Regional Water implemented a new water rate structure in 2013 with the introduction of a water service base fee that is combined with the volume charge; minimum charges were eliminated. The water service base fee will enable the utility to recover a portion of those fixed charges that are incurred annually. This fee is based on the size of the meter and it increases with the meter size to reflect the increased cost of providing peak volume capacity. This fee ranges from \$3.00 to \$345.00 per month. Water rates decreased \$.13 per 100 cubic feet to \$2.34 in 2013; down from \$2.47 per 100 cubic feet in 2012. Consumption levels decreased 1.11 million billing units (100 cubic feet) over 2012 levels.

Expenses

Regional Water's operating expenses increased \$3.06 million to \$44.49 million in 2013, up from \$41.43 million in 2012. There was an increase of \$663 thousand related to salaries and fringes, \$280 thousand for central services, \$361 thousand for lime residual hauling, \$215 thousand for chemicals, \$208 thousand for energy costs, \$374 thousand for settlements; \$484 thousand for depreciation, and \$475 thousand due to other operations and maintenance costs.

Economic and Other Factors

The effects of conservation and cultural changes in our service area have appeared to stabilize and are similar to levels in 2010. Total consumption levels decreased over 2012 levels. 2012 levels were higher 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 in the early summer. Demand picked up in August as the temperature got warmer.

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, 2013
 (Amounts in dollars)

Exhibit A

ASSETS

Current Assets

Cash and Investments with Treasurer	13,042,305
Investments	5,021,827
Departmental Cash	228,770
Imprest Funds	7,000
Restricted Cash and Cash Equivalents	
Cash Grants and Other Contributions	1,070
Investments for Revenue Note Debt Service	1,495,766
Investments for Revenue Bond Debt Service	3,428,600
Receivables	
Accounts (net of allowance for Estimated Uncollectibles)	5,585,615
Assessments	
Current	825,656
Deferred	2,534,616
Delinquent	154,504
Tax Forfeited Property	2,734
Accrued Interest	111,435
Due from Primary Government	135,097
Due from Other Governmental Units	983,412
Inventory - Materials and Supplies	2,171,931

Total Current Assets 35,730,338

Noncurrent Assets

Restricted Assets

Investments for Revenue Bond Future Debt Service	4,924,365
Investments for Revenue Bond Operations and Maintenance	1,611,689

Total Restricted Assets 6,536,054

Long-Term Loans Receivable 140,000

Capital Assets

Land	1,307,887
Buildings and Structures	56,006,802
Less: Accumulated Depreciation	(20,397,623)
Public Improvements	272,048,509
Less: Accumulated Depreciation	(77,263,198)
Equipment	52,054,400
Less: Accumulated Depreciation	(28,356,231)
Construction in Progress	19,664,841

Total Capital Assets (Net of Accumulated Depreciation) 275,065,387

Total Noncurrent Assets 281,741,441

Total Assets 317,471,779

continued

BOARD OF WATER COMMISSIONERS OF THE CITY OF SAINT PAUL, MINNESOTA
 REGIONAL WATER SERVICES STATEMENT OF NET POSITION
 December 31, 2013
 (Amounts in dollars)

Exhibit A

LIABILITIES

Current Liabilities (Payable from Current Assets)	
Accrued Salaries Payable	659,987
Compensated Absences Payable	73,036
Claims and Judgments Payable	630,530
Accounts Payable	2,041,911
Contract Retention Payable	217,562
Due to Primary Government	2,823,401
Due to Other Governmental Units	3,714,764
Unearned Revenue	492,321
	<hr/>
Total Current Liabilities (Payable from Current Assets)	10,653,512
	<hr/>
Current Liabilities (Payable from Restricted Assets)	
Accounts Payable	2,287
Revenue Notes Payable	1,237,291
Revenue Bonds Payable	2,875,000
Accrued Interest Payable on Revenue Notes	43,218
Accrued Interest Payable on Revenue Bonds	46,133
	<hr/>
Total Current Liabilities (Payable from Restricted Assets)	4,203,929
	<hr/>
Noncurrent Liabilities	
Revenue Bonds Payable	18,150,000
Compensated Absences Payable	1,721,515
Other Post Employment Benefits	3,805,727
Claims and Judgments Payable	3,869,726
Revenue Notes Payable	25,981,354
Premium on Revenue Bonds	768,638
	<hr/>
Total Noncurrent Liabilities	54,296,960
	<hr/>
Total Liabilities	69,154,401
	<hr/>
NET POSITION	
Net Investment in Capital Assets	226,053,104
Restricted for Debt Service	11,371,069
Unrestricted	10,893,205
	<hr/>
Total Net Position	248,317,378
	<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, 2013
(Amounts in dollars)

Exhibit B

OPERATING REVENUES	
Fees, Sales and Services	51,048,081
Rents and Leases	667,692
Miscellaneous	292,382
	<hr/>
Total Operating Revenues	52,008,155
OPERATING EXPENSES	
Salaries	11,924,497
Employee Fringe Benefits	7,253,284
Services	9,825,787
Materials and Supplies	7,429,389
Depreciation	7,494,060
Miscellaneous	567,303
	<hr/>
Total Operating Expenses	44,494,320
OPERATING INCOME (LOSS)	<hr/> 7,513,835
NON-OPERATING REVENUES (EXPENSES)	
Operating Grants	87,960
Gain on Sale of Assets	30,469
Loss on Retirement of Assets	(2,655,534)
Investment Income	
Interest Earned on Investments	422,433
Decrease in Fair Value of Investments	(1,666,106)
Miscellaneous Other Revenue (Expenses)	135,073
Interest Expense on	
Revenue Bonds	(1,263,697)
Revenue Notes	(544,765)
Leases	(85)
Cost of Bond Issuance	(149,149)
	<hr/>
Total Non-Operating Revenues (Expenses)	(5,603,401)
INCOME BEFORE CAPITAL CONTRIBUTIONS	1,910,434
CAPITAL CONTRIBUTIONS	
Capital Acquisitions - Outside Sources	1,332,696
	<hr/>
CHANGE IN NET POSITION	3,243,130
NET POSITION, January 1	<hr/> 245,074,248
NET POSITION, December 31	<hr/> <hr/> 248,317,378

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, 2013
(Amounts in dollars)

Exhibit C

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from Customers	50,968,721
Other Operating Receipts	667,692
Other Receipts	292,382
Payments to Suppliers	(17,106,989)
Payments to Employees	(11,871,320)
Payment for Fringe Benefits and Payroll Taxes	(6,942,723)
Non-Operating Revenue Received	<u>133,553</u>

NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES 16,141,316

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Operating Grants Received	87,960
Non-Operating Loans Repayment Received from Customers	<u>26,538</u>

NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES 114,498

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Cash Proceeds From Issuance of Debt:	
Refunding Revenue Bonds	15,065,894
Revenue Notes	2,908,879
Cash Proceeds From Sale of Capital Assets:	
Land	600
Equipment	31,469
Capital Contributions Received:	
From Outside Parties	1,365,775
Principal Paid on Debt Maturities:	
Revenue Bonds	(17,175,000)
Revenue Notes	(1,320,037)
Capital Lease	(1,847)
Payments for Acquisition and Construction of Capital Assets:	
Construction in Progress	(17,170,227)
Interest Paid On:	
Revenue Bonds	(1,144,961)
Revenue Notes	(547,725)
Capital Lease	(85)
Payment of Bond Issue Costs	<u>(276,505)</u>

NET CASH PROVIDED (USED) IN CAPITAL AND RELATED FINANCING ACTIVITIES (18,263,770)

CASH FLOWS FROM INVESTING ACTIVITIES

Interest and Dividends on Investments Received	<u>412,484</u>
--	----------------

NET CASH PROVIDED (USED) IN INVESTING ACTIVITIES 412,484

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (1,595,472)

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

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

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, 2013
 (Amounts in dollars)

Exhibit C

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

Operating Income (Loss)		<u>7,513,835</u>
Adjustments To Reconcile Operating Income To Net		
Cash Provided (Used) by Operating Activities:		
Depreciation	7,494,060	
Increase (Decrease) in Allowance for Uncollectible Accounts	3,913	
Nonoperating Miscellaneous Other Revenue Received	133,553	
Changes in Assets and Liabilities:		
(Increase) Decrease in Accounts Receivable	7,334	
(Increase) Decrease in Assessments Receivable	299,678	
(Increase) Decrease in Due From Primary Government	26,404	
(Increase) Decrease in Due From Other Governmental Units	(387,641)	
(Increase) Decrease in Inventories	(257,121)	
Increase (Decrease) in Accrued Salaries Payable	53,177	
Increase (Decrease) in Accounts Payable	(67,586)	
Increase (Decrease) in Due To Primary Government	(159,157)	
Increase (Decrease) in Due To Other Governmental Units	(95,142)	
Increase (Decrease) in Unearned Revenue	(29,048)	
Increase (Decrease) in Other Post Employment Benefits Obligation	310,561	
Increase (Decrease) in Claims and Judgments Payable	<u>1,294,496</u>	
Total Adjustments		<u>8,627,481</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		<u><u>16,141,316</u></u>

DETAILS OF CASH AND CASH EQUIVALENTS

Cash and Investments with Treasurer	13,042,305
Departmental Cash	228,770
Imprest Funds	7,000
Cash Grants and Other Contributions	<u>1,070</u>
TOTAL CASH AND CASH EQUIVALENTS	<u><u>13,279,145</u></u>

NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES

Loss on Retirement/Deletion of Capital Assets	(2,655,534)
Change in Fair Value of Investments	(1,666,106)
Capital Assets Purchased on Account - Construction in Progress	3,453,759

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, 2013

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
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 - 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

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SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2013

Note 1. Board of Water Commissioners

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

Note 2. Summary of Significant Accounting Policies

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

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

A. Financial Reporting Entity

In conformance with the application of the criteria set forth in generally accepted accounting principles, Regional Water is part of the City of Saint Paul (the primary government) reporting entity and is shown in the City's Comprehensive Annual Financial Report for the fiscal year ended December 31, 2013 as a discretely presented component unit.

B. Proprietary Activity

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

SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2013

Note 2. Summary of Significant Accounting Policies (continued)

C. Basis of Accounting/Measurement Focus

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

D. Cash and Investments

For its funds the City maintains a general portfolio, which is a pool of investments covering pooled cash and cash equivalents. This pool is also available for use by Regional Water. In addition, the City invests non-pooled Regional Water cash. These investments are reported at fair value on the statement of net position with recognition of the corresponding changes in fair value of investments reported in the operating statement in the year in which the change occurred. Accordingly, investments are stated at fair value based upon quoted market prices at December 31, 2013. 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 2013, Regional Water recorded a "decrease in fair value of investments" of \$1,666,106 as part of investment income. The calculation of realized gains and losses is independent of the calculation of the net change in the fair value of investments. Realized gains and losses on investments that have been held in more than one fiscal year and sold in the current year may have been included as part of the change in the fair value of investments reported in the prior year.

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

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2013**

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, 2013 is as follows:

Accounts Receivable - Registered Bills	\$ 243,625
Accounts Receivable - Water Billings	4,731,415
Accounts Receivable – Unbilled	741,955
Accounts Receivable – Miscellaneous	19,337
Allowance for Uncollectible Accounts	<u>(150,717)</u>
Accounts Receivable (net of Allowance for Estimated Uncollectible)	<u>\$ 5,585,615</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 2008 through 2012. 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, 2013**

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:

	<u>Method</u>	<u>Years</u>
Building and Structures	Straight Line	15 - 60
Public Improvements	Straight Line	25 - 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, 2013**

Note 2. Summary of Significant Accounting Policies (continued)

K. Bond Discounts and Issuance Costs

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

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

L. Equity Classifications

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

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

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

M. Capital Contributions

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

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2013**

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, 2013**

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

For 2013, 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, 2013**

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, 2013, 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 \$13,043,375 (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, 2013, the total imprest funds were \$7,000. Regional Water also had departmental cash on hand of \$228,770.

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, 2013**

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, 2013**

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, 2013, is as follows:

<u>Rating Agency</u>	<u>Rating</u>	<u>Fair Value</u>
Moody's	Aaa	<u>\$16,482,247</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, 2013, 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, 2013, 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, 2013, 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	\$16,482,247	\$ -	\$2,594,197	\$ -	\$13,888,050

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2013**

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	\$ 13,042,305
Investments	5,021,827
Departmental Cash	228,770
Imprest Funds	7,000
Restricted Cash and Cash Equivalents:	
Cash Grants and Other Contributions	1,070
Investments for Revenue Note Debt Service	1,495,766
Investments for Revenue Bond Debt Service	3,428,600
Investments for Revenue Bond Future Debt Service	4,924,365
Investments for Revenue Bond Operations and Maintenance	1,611,689
Total	<u>\$ 29,761,392</u>
Deposits	\$ 13,043,375
Investments	16,482,247
Departmental Cash	228,770
Imprest Funds	7,000
Total	<u>\$ 29,761,392</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, 2013**

Note 4. A. Assets (continued)

2. Summary of Changes in Capital Assets

A summary of changes in capital assets follows:

	<u>01/01/2013</u>	<u>Additions</u>	<u>Deductions</u>	<u>12/31/2013</u>
Capital Assets Not Being Depreciated:				
Land	\$ 1,307,887	\$ -	\$ -	\$ 1,307,887
Construction in Progress	<u>33,610,904</u>	<u>15,769,043</u>	<u>(29,715,106)</u>	<u>19,664,841</u>
Total Capital Assets Not Being Depreciated	<u>\$ 34,918,791</u>	<u>\$ 15,769,043</u>	<u>\$ (29,715,106)</u>	<u>\$ 20,972,728</u>
Capital Assets Being Depreciated:				
Buildings and Structures	\$ 56,382,178	\$ 298,658	\$ (674,034)	\$ 56,006,802
Public Improvements	251,390,108	28,205,163	(7,546,762)	272,048,509
Equipment	<u>51,565,300</u>	<u>1,211,285</u>	<u>(722,185)</u>	<u>52,054,400</u>
Total Capital Assets Being Depreciated	<u>\$ 359,337,586</u>	<u>\$ 29,715,106</u>	<u>\$ (8,942,981)</u>	<u>\$ 380,109,711</u>
Less Accumulated Depreciation for:				
Buildings and Structures	\$ (19,327,257)	\$ (1,411,718)	\$ 341,352	\$ (20,397,623)
Public Improvements	(78,031,086)	(4,498,451)	5,266,339	(77,263,198)
Equipment	<u>(26,944,655)</u>	<u>(2,089,332)</u>	<u>677,756</u>	<u>(28,356,231)</u>
Total Accumulated Depreciation*	<u>\$ (124,302,998)</u>	<u>\$ (7,999,501)</u>	<u>\$ 6,285,447</u>	<u>\$ (126,017,052)</u>
Total Capital Assets Being Depreciated, Net	<u>\$ 235,034,588</u>	<u>\$ 21,715,605</u>	<u>\$ (2,657,534)</u>	<u>\$ 254,092,659</u>
Capital Assets, Net	<u>\$ 269,953,379</u>	<u>\$ 37,484,648</u>	<u>\$ (32,372,640)</u>	<u>\$ 275,065,387</u>

*Total Accumulated Depreciation is reduced by an allowance of \$505,441 for equipment used to construct capital assets; net depreciation reported is \$7,494,060 (\$7,999,501 - \$505,441).

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2013**

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, 2013, long-term debt consisted of:

	Principal		
	Unpaid Balances December 31, 2013	Less Current Maturities	Long-Term Maturities
Notes Payable	\$ 27,218,645	\$ 1,237,291	\$ 25,981,354
Revenue Bonds	21,025,000	2,875,000	18,150,000
Compensated Absences	1,794,551	73,036	1,721,515
Other Post Employment Benefits	3,805,727	-	3,805,727
Claims and Judgments	4,500,256	630,530	3,869,726
Total	\$ 58,344,179	\$ 4,815,857	\$ 53,528,322

b. Changes in Debt Obligations

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

	01/01/13	Additions	Deductions	12/31/13
General Obligation				
Waste Water Revenue Note	\$ 1,183,682	\$ -	\$ 250,037	\$ 933,645
Drinking Water Revenue Notes	24,446,121	2,908,879	1,070,000	26,285,000
Revenue Bonds	23,720,000	14,480,000	17,175,000	21,025,000
Capital Lease	1,847	-	1,847	-
Compensated Absences	1,794,551	184,568	184,568	1,794,551
Other Post Employment Benefits	3,495,166	1,003,004	692,443	3,805,727
Claims and Judgments	3,205,760	2,126,156	831,660	4,500,256
Total	\$ 57,847,127	\$ 20,702,607	\$ 20,205,555	\$ 58,344,179

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2013**

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 \$48,243,645 and interest of \$7,598,023 on all Regional Water debt outstanding as of December 31, 2013, are as follows:

YEAR	2007 REVENUE BONDS			2011D REVENUE BONDS			2011E REVENUE BONDS			2013A REVENUE BONDS			TOTAL REVENUE BONDS		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2014	\$560,000	\$164,350	\$724,350	\$955,000	\$106,800	\$1,061,800	\$160,000	\$2,400	\$162,400	\$1,200,000	\$280,050	\$1,480,050	\$2,875,000	\$553,600	\$3,428,600
2015	\$555,000	\$141,950	\$696,950	\$565,000	\$78,150	\$643,150	\$ -	\$ -	\$ -	\$1,225,000	\$262,050	\$1,487,050	\$2,345,000	\$482,150	\$2,827,150
2016	\$605,000	\$114,200	\$719,200	\$690,000	\$61,200	\$751,200	\$ -	\$ -	\$ -	\$1,235,000	\$243,675	\$1,478,675	\$2,530,000	\$419,075	\$2,949,075
2017	\$670,000	\$90,000	\$760,000	\$835,000	\$43,950	\$878,950	\$ -	\$ -	\$ -	\$1,245,000	\$225,150	\$1,470,150	\$2,750,000	\$359,100	\$3,109,100
2018	\$710,000	\$63,200	\$773,200	\$630,000	\$18,900	\$648,900	\$ -	\$ -	\$ -	\$1,285,000	\$187,800	\$1,472,800	\$2,625,000	\$269,900	\$2,894,900
2019-23	\$870,000	\$34,800	\$904,800	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$6,280,000	\$509,100	\$6,789,100	\$7,150,000	\$543,900	\$7,693,900
2024	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$750,000	\$22,500	\$772,500	\$750,000	\$22,500	\$772,500
	\$3,970,000	\$608,500	\$4,578,500	\$3,675,000	\$309,000	\$3,984,000	\$160,000	\$2,400	\$162,400	\$13,220,000	\$1,730,325	\$14,950,325	\$21,025,000	\$2,650,225	\$23,675,225

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2013**

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
2014	\$257,291	\$25,050	\$282,341	\$200,000	\$105,688	\$305,688	\$780,000	\$410,078	\$1,190,078	\$1,237,291	\$540,816	\$1,778,107
2015	\$264,754	\$17,586	\$282,340	\$305,000	\$101,762	\$406,762	\$1,200,000	\$394,774	\$1,594,774	\$1,769,754	\$514,122	\$2,283,876
2016	\$272,434	\$9,907	\$282,341	\$200,000	\$95,775	\$295,775	\$770,000	\$371,230	\$1,141,230	\$1,242,434	\$476,912	\$1,719,346
2017	\$139,166	\$2,004	\$141,170	\$180,000	\$91,849	\$271,849	\$695,000	\$356,123	\$1,051,123	\$1,014,166	\$449,976	\$1,464,142
2018	\$ -	\$ -	\$ -	\$240,000	\$88,315	\$328,315	\$935,000	\$342,487	\$1,277,487	\$1,175,000	\$430,802	\$1,605,802
2019-23	\$ -	\$ -	\$ -	\$1,910,000	\$345,096	\$2,255,096	\$7,435,000	\$1,337,594	\$8,772,594	\$9,345,000	\$1,682,690	\$11,027,690
2024-28	\$ -	\$ -	\$ -	\$1,730,000	\$157,040	\$1,887,040	\$6,690,000	\$606,454	\$7,296,454	\$8,420,000	\$763,494	\$9,183,494
2029-30	\$ -	\$ -	\$ -	\$619,000	\$18,217	\$637,217	\$2,396,000	\$70,769	\$2,466,769	\$3,015,000	\$88,986	\$3,103,986
	\$933,645	\$54,547	\$988,192	\$5,384,000	\$1,003,742	\$6,387,742	\$20,901,000	\$3,889,509	\$24,790,509	\$27,218,645	\$4,947,798	\$32,166,443

The Waste Water 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, 2013**

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. As of the end of 2013, reimbursement for both notes has been completed.

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, 2013 was \$5,384,000. 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, 2013 was \$20,901,000.

Regional Water issued \$14,480,000 of 2013A Revenue Refunding Bonds on March 18, 2013 which currently refunded the 2003C Revenue Bonds and defeased the 2005D Revenue Bonds. This refunding was done to take advantage of lower interest rates which resulted in a present value benefit of \$1,814,302. The proceeds of the refunding bonds were used to retire the currently refunded 2003C bond and defease the 2005D bond. As a result, the refunded and defeased debt were removed from Regional Water's Statement of Net Position.

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, 2013, the claims and judgments liability was \$4,500,256.

iii. Compensated Absences

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

iv. Capital Lease

Regional Water entered into a 60-month capital lease on November 30, 2008 for a postage mailing machine. The cost of the equipment was \$7,871. Final payment of \$3,624 was made in 2013.

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2013**

Note 4. B. Liabilities (continued)

2013 Capital Lease

	Annual Lease Payment	Annual Meter Rental Payment	Annual Maintenance Payment	Annual Interest	Reduction of Lease Obligation	Present Value Minimum Lease Payments
2013	\$3,624	\$828	\$872	\$77	\$1,847	\$1,847

The final lease payment was made in 2013.

2. Bonds Payable by Issue

<u>Issue</u>	<u>Issue Rate And Dates</u>	<u>Issue Dates</u>	<u>Final Maturity Date</u>	<u>Amount Outstanding</u>
Revenue	4.06%; 06/01; 12/01	02/14/07	12/01/19	\$ 3,970,000
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	160,000
Revenue	1.57%; 06/01; 12/01	03/18/13	12/01/24	<u>13,220,000</u>
Total				<u>\$21,025,000</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; 08/20	06/26/96	02/20/17	\$ 933,645
Drinking Water Revenue Note	1.96%; 06/01; 12/01	07/13/10	12/01/30	5,384,000
Drinking Water Revenue Note	1.96%; 06/01; 12/01	07/13/10	12/01/30	<u>20,901,000</u>
Total				<u>\$27,218,645</u>

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2013**

Note 4. Detail Notes (continued)

C. Due From Primary Government

At December 31, 2013, 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>
Capital Improvement Projects	Capital Projects Fund	\$ 59,933
Sewer Utility	Enterprise Fund	75,164
Total		<u>\$ 135,097</u>

D. Due To Primary Government

At December 31, 2013, 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>
River Print Saint Paul/Ramsey County	Enterprise Fund	\$ 17,604
Sewer Utility	Enterprise Fund	2,758,127
General Fund	General Fund	42
Public Works Traffic, Signal, & Light Maint.	Internal Service Fund	7,465
Purchasing's Value Added Services	Internal Service Fund	40,163
Total		<u>\$ 2,823,401</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, 2013**

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, 2013, 2012, and 2011 were \$982,507, \$1,012,428, and \$1,000,717 respectively. The corresponding total employee's shares were \$846,989, \$872,782, and \$862,687. 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, 2013.

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, 2013**

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:

Health Care Benefit

	Under Age 65 (early retiree)	Over Age 65 (regular retiree)
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, 2012 the membership consisted of:

	Family Coverage	Single Coverage	Total
Retired Participants and Beneficiaries			
Under Age 65 (Early Retirees)	2	30	32
Over Age 65 (Regular Retirees)	<u>43</u>	<u>109</u>	<u>152</u>
Total Retired Participants	<u>45</u>	<u>139</u>	<u>184</u>
Active Participants			
Eligible to Receive Benefits			222
Not Eligible to Receive Benefits*			<u>179</u>
Total Active Participants			<u>401</u>
Total Participants			<u>585</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, 2013**

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 2013 were as follows:

	<u>Age</u>	<u>Average Monthly Regional Water Contribution</u>	<u>Average Monthly Retiree Contribution</u>
Health Insurance	Less than 65	\$336	\$336
	65 and older	\$275	\$14
Life Insurance	Less than 65	\$1	Not applicable
	65 and older	Not applicable	Not applicable

These plans are fully insured.

The expenses for these post-employment benefits are recognized as premiums and are paid to the insurers. For Regional Water, the 2013 expense totaled \$593,794 for approximately 174 retirees. Retirees contributed \$124,253; active employees do not contribute to the plan until retirement.

Annual OPEB Costs and Net OPEB Obligation

Regional Water had an actuarial valuation performed for the plan as of September 30, 2012 to determine the funded status of the plan as of that date as well as the employer's annual required contribution (ARC) for the fiscal year ended December 31, 2013. Regional Water's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2013 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, 2011	\$ 1,316,167	\$ 726,426	55.20%	\$ 2,858,414
December 31, 2012	\$ 1,345,224	\$ 708,472	52.67%	\$ 3,495,166
December 31, 2013	\$ 1,003,004	\$ 692,443	69.04%	\$ 3,805,727

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2013**

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

The net OPEB obligation (NOPEBO) at December 31, 2013 was calculated as follows:

Annual Required Contribution (ARC)	\$ 1,058,497
Interest on Net OPEB Obligation	152,348
Adjustment to Annual Required Contribution	(207,841)
Annual OPEB Cost	1,003,004
Contributions Made:	
Direct	593,794
Indirect Implicit Subsidy	98,649
Total Contributions Made	692,443
Increase (Decrease) in Net OPEB Obligation	310,561
Net OPEB Obligation Beginning of Year	3,495,166
Net OPEB Obligation End of Year	\$ 3,805,727

Funded status and funding progress

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

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

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, 2012	\$ -	\$ 13,455,536	\$ 13,455,536	0.0%	\$ 12,584,670	106.9%

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2013**

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

C. Risk Management

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

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2013**

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 2012 and 2013:

	Year Ended <u>12/31/2012</u>	Year Ended <u>12/31/2013</u>
Beginning fiscal year liability	\$3,088,400	\$3,205,760
Current year claims and changes in estimates	863,073	2,126,156
Claim payments	<u>(745,713)</u>	<u>(831,660)</u>
End of year liability	<u>\$3,205,760</u>	<u>\$4,500,256</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, 2013**

Note 5. Other Information (continued)

E. Joint Powers

The Ramsey County Geographic Information Systems (GIS) Users Group (Users Group) was established in 1995 by a joint powers agreement among public agencies interested in using GIS and data created and maintained by Ramsey County. The agreement was to enable those parties who are part of the Users Group to be represented by the Users Group for the purposes of undertaking negotiations and transactions with Ramsey County and any other body politic. Joining this group provides Regional Water staff the ability to share costs and information with over 23 cities, school districts, watersheds, utilities and other agencies within Ramsey County. Regional Water became part of the Users Group in January 2006 and was assessed \$2,790 for the year 2013. The current agreement is effective through 2014. Financial information can be obtained from the City of Maplewood located at 1830 County Road B East, Maplewood, Minnesota 55109.

The joint powers agreement between the Board of Water Commissioners, the City of Minneapolis, and the City of Saint Cloud dated December 19, 2011 was created to collaboratively implement the Upper Mississippi River Source Water Protection Project (“Project”). The parties agree to make cash contributions to the “Project” of up to \$10,000 annually. The agreement is effective through 2020. The City of Saint Cloud administers all aspects of the “Project”. Financial information can be obtained from the City of St. Cloud located at 400 Second Street South, St. Cloud, Minnesota

F. Subsequent Events

In preparing these financial statements Regional Water has evaluated events and transactions for potential recognition through June 13, 2014, the date the financial statements were available to be issued.

Regional Water has been approved to enter into a loan agreement with the Minnesota Public Facilities Authority, a department within the State of Minnesota, Department of Employment and Economic Development. This is a reimbursement note; interest accrues only on the aggregate amount of the note which has been disbursed.

The note is expected to be issued June 20, 2014 in the amount of \$2,200,000, with an interest rate of 1.048%. Principal payments are due December 1, commencing December 1, 2015. Interest is payable on each June 1 and December 1 commencing on June 1, 2015. The proceeds of the note will be for the purchase and installation of a solids dewatering filter press.

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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, 2013**

Schedule 1

Schedule of Funding Progress ⁽¹⁾
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<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll Active Members</u>	<u>UAAL as a Percentage of Covered Payroll</u>
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%
September 30, 2012	\$ -	\$13,455,536	\$13,455,536	0.0%	\$12,584,670	106.9%

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

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**SAINT PAUL REGIONAL WATER SERVICES
 SAINT PAUL, MINNESOTA
 REQUIRED SUPPLEMENTARY INFORMATION
 For the Fiscal Year Ended December 31, 2013**

Schedule 2

Schedule of Employer Contributions ⁽¹⁾			
Fiscal Year Ended	Annual Required Contribution	Percentage Contributed	Net OPEB Obligation
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
December 31, 2013	\$ 1,058,497	65.42%	\$ 3,805,727

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

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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, 2013**

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	\$30,134
U.S. Environmental Protection Agency Passed-Through Minnesota Public Facilities Authority Capitalization Grants for Drinking Water State Revolving Funds	66.468	\$1,145,392
Total Federal Awards		<u>\$1,175,526</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, 2013

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, 2013. 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, 2013.

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

Regional Water was awarded two federal awards in 2013. 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, 2013

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, 2013, totaled \$30,134. Of this amount, \$5,636 was reimbursed by Met Council during 2013. Amounts received during fiscal year 2013 totaled \$517,723; of this amount \$5,636, was for 2013 expenditures, the remaining \$512,087 received in 2013 is related to prior years' expenditures.

Expenditures for the Capitalization Grant for Drinking Water State Revolving Funds during the year ended December 31, 2013, totaled \$1,145,392. Reimbursements during fiscal year 2013 totaled \$2,908,880; \$1,145,392 was for 2013 expenditures, the remaining \$1,763,488 is related to 2012 expenditures.

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