

**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, 2009**

**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, 2009**

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INTRODUCTORY SECTION



BOARD OF WATER COMMISSIONERS

President: Patrick Harris ♦ Vice President: John Zanmiller

Commissioners: Matt Anfang ♦ James Bykowski ♦ Melvin Carter III ♦ Lee Helgen ♦ Gregory Kleindl

June 30, 2010

TO: BOARD OF WATER COMMISSIONERS
Patrick Harris, President
John Zanmiller, Vice President
Commissioner Matt Anfang
Commissioner James Bykowski
Commissioner Melvin Carter III
Commissioner Lee Helgen
Commissioner Gregory Kleindl

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, 2009. The responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with Regional Water. We believe the data, as presented, is accurate in all material aspects; that it is presented in a manner designed to fairly set forth the financial position, changes in financial position, and cash flows of Regional Water; and that all disclosures necessary to enable the reader to gain the maximum understanding of Regional Water's financial affairs have been included. This report has been prepared in accordance with generally accepted accounting principles. Regional Water's financial operations are also reported in the City of Saint Paul's Comprehensive Annual Financial Report as a discretely presented component unit.

The report is presented here in two sections:

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

REPORTING ENTITY AND SERVICES

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

SAINT PAUL REGIONAL WATER SERVICES

Stephen P. Schneider, General Manager

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

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

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

AA-ADA-EEO Employer

HIGHLIGHTS IN SUMMARY

We successfully implemented our new Customer Information System (CIS). This was a major initiative and it brought together resources across the utility. Continued technological improvements and review of work flow and business practices will enable us to provide better service to our customers. Our continued work with state and local agencies supports the stewardship and protection of the watershed and water supply. We completed drilling two additional wells which will provide necessary redundancy for our water supply. We remain focused on ensuring a reliable distribution system by replacing and rehabilitating the aging infrastructure. We continue to improve water quality by cleaning mains through our unidirectional flushing program. Inspection of all public fire hydrants in our service area promotes public safety through adequate fire protection.

Business Division

The Business Division includes the Customer Service, Information Services, and Financial Services sections. We offer support services to other divisions within the utility as well as direct contact with individual customers and communities at large.

We continued to focus on technological and internal work process improvements and to improve access to information for internal and external stakeholders. To better serve our customers, we purchased a new CIS and began a year-long implementation process. This was a major project using resources from many areas of the utility. We went live with the new system on November 4, 2009, and have successfully completed the total cycle from meter reading to bill collection. The payment processing equipment was replaced with upgraded functionality.

Work continued on expanding the use of our Document Management System (DMS). Our CIS, Geospatial Information System (GIS), and Computerized Maintenance Management System (CMMS) now link to supporting documents housed in our DMS. This system also houses our standard operating procedures, policies, safety information, accounts payable invoices, payment information, agreements, and other documents for easy access by staff.

To improve public outreach and provide information, we hosted a day of the *Drinking Water Institute* for teachers, held open houses at the McCarrons Water Treatment Plant and 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. Internally, we provided employees with updates of the CIS project through the newsletter, *From Here to Infinity*, and emphasized safety by featuring safety articles in our bi-weekly employee newsletter, the *Pipeline Express*.

Business Division - Future Operations

We anticipate expanding our public website, www.stpaul.gov/water in 2010. We will provide our customers with online access to their account information and an online payment option with the added functionality of the CIS. We will also research ways to provide better access to the CIS for our suburban customers. Regional Water will be working with other departments of the City of Saint Paul to implement a new Financial Management System. We will continue to examine workflow processes throughout the utility looking for improved efficiency and enhanced delivery of information to our employees.

HIGHLIGHTS IN SUMMARY (continued)

Distribution Division

Work in the Distribution Division includes capital construction for new distribution system piping, maintenance of our existing distribution system, fleet management, warehouse operations and meter operations.

We continue to replace and upgrade aging infrastructure especially unlined cast iron water mains, hydrants and lead water services. Regional Water's water main and lead replacement work is done primarily in coordination with the cities' street reconstruction projects. In 2009 we performed a significant water main cleaning and lining project. This project involved cleaning and lining 3.3 miles of 30" diameter pipe. This main is one of the two main supply lines to the Highland Reservoir and this work will bring longer life to an old structurally sound main. We also replaced 2.3 miles of water main and 574 lead water services, primarily in street reconstruction areas. In addition, 155 of the 9,500 system hydrants were also replaced during the year.

We continue to focus on our preventive maintenance program. Preventive maintenance of the distribution system is needed to ensure adequate reliability and improve distribution system water quality. Of the maintenance work performed in 2009, 42% was preventive maintenance, an increase of 11% over 2008. Preventive maintenance work includes hydrant inspection, unidirectional flushing, and valve exercising. In 2009 all public fire hydrants in our system were inspected. This work involved operation of system hydrants and performing minor repair work as necessary. We also performed a unidirectional flushing program. The purpose of this program is to operate system valves to ensure operability and to clean mains for improved distribution water quality. This involves flowing hydrants by directing water through water mains in such a way to create thorough flushing and scouring of the mains. In 2009 we performed unidirectional flushing in about 4% of our system area. We began working a large valve exercising program in 2010.

Emergency maintenance is also needed and we responded to many emergencies and made repairs throughout the year. 2009 was unseasonably cold and we thawed 31 frozen services. In 2009, we continued to provide maintenance repair services to other municipalities outside our service area, responding to main breaks and valve replacements in the Cities of Oakdale and White Bear Township; we repaired 132 main breaks in the our service area and 29 in repairs in communities outside our service area.

Regional Water has over 95,000 metered accounts. Our meter reading accuracy continues to be outstanding, obtaining nearly 98% of actual reads.

Distribution Division - Future Operations

We will best focus on infrastructure needs with the resources we have. We will continue to focus on preventive maintenance work with our unidirectional flushing and large valve operating programs for the long range care of the system. We will continue to inspect all of the nearly 10,000 hydrants on our system, as we have done in each of the last three years. We will be commencing a 2 ½ year program to change out all residential meters beginning in mid 2010.

HIGHLIGHTS IN SUMMARY (continued)

Engineering Division

A number of large projects were completed in 2009 that will serve Regional Water and its customers well into the future. We completed construction of two additional wells to increase well supply from 35 million gallons per day (MGD) to 45 MGD. This will provide redundancy for base consumption and fire protection for our service area. We completed the design phase for the replacement of the 30 million gallon Dale Street reservoir that was built in 1919. The division has adopted and implemented state-of-the-art modeling techniques to model distribution system hydraulics and water quality. These GIS based applications are much more comprehensive and powerful than previous models. Regional Water is involved with the light rail project relocating our water mains out of the “utility free zone” immediately beneath the train tracks. Work began on the 4th Street portion of the project.

The Upper Mississippi River Source Water Protection Initiative (UMRSWPI) has moved ahead in 2009 by developing plans to bring resources to the various watershed groups throughout the upper Mississippi River watershed. The group is also actively pursuing funding to do Total Daily Maximum Loads (TMDL) on several reaches of the Mississippi River between St. Cloud and the Minneapolis intake. This initiative involves the cooperative agreement with the cities of St. Cloud and Minneapolis and the Minnesota Department of Health working to develop drinking water protection measures in the upper Mississippi River watershed.

Engineering Division – Future Operations

The Engineering Division will continue to focus primarily on three initiatives: 1) improving the GIS system, linking it to the CMMS, and pushing out to the field applications; 2) working with the local watershed district and the UMRSWPI to provide water quality protection and enhancement; 3) develop applications and tools to meet future regulatory requirements and customer needs; and 4) promote stewardship and protection of the watershed and utility’s assets. Some of these larger projects include: The demolition and replacement of the 30 million gallon Dale Street reservoir that was built in 1919; replacement of over 90,000 residential meters that are two-inches and smaller in diameter; continued work for the 4th Street portion of the light rail project and work on the Civil East portion of the project, Center Street to Minneapolis; and the planning for a mains rehabilitation program in an effort to reduce the age of our infrastructure. Currently, the mains rehabilitation cycle is about 150 years, the goal of a 100- year cycle.

Production Division

The year 2009 was technically another drought year, though it was within three inches of average precipitation for the year. The Mississippi River stayed above our restriction trigger levels for the entire summer. Pumping was down to 44.99 MGD, the lowest figure we have seen since 1965. The low pumping total shows the effects of conservation and lifestyle changes on our water demands. Current trends would indicate that even if 2010 is an average year for precipitation, our pumping will likely be down again, and we will not meet projected sales volumes.

HIGHLIGHTS IN SUMMARY (continued)

Water quality leaving the treatment plant continued to be excellent. We had no positive coliform tests in our distribution system, and we met our goals for chloramines residuals in the system. Our Granular Activated Carbon (GAC) filters continued to perform wonderfully. In 2009, we had only 13 taste and odor complaints. In contrast, our four-year average for complaints before we installed the GAC filters was 167 complaints per year. We continue to receive compliments on the taste of our water. This is in spite of the fact that we suffered through a dose of water laden with odor levels that we have not seen since 2001. The GAC filters managed to remove the odors to non-detectable limits, which exceeded their design basis. We continue to monitor effluent water for taste and odor issues that may signal depletion of the GAC media.

As expected, prices for chemicals pushed our treatment costs up about 16% in 2009. Bids taken at the end of 2009 lead us to believe that prices will stay the same or drop for most chemicals, perhaps ending a five-year inflationary period. Electricity costs stabilized somewhat in 2009, due to lower fuel prices, and came in under the budget.

This was our third year of dealing with zebra mussels in our lakes, intakes, and conduits. Other utilities' experience has been that the mussels reach near maximum levels after about three years, and do not get much worse after that. We found very large numbers of mussels in our west Vadnais conduit, particularly in the first half-mile from the intake. We took the conduit out of service in the fall, and spent many weeks removing the mussels from the conduit. The mussels die upon desiccation, and are easily scraped off the walls after they die, but the huge numbers of dead mussels create a very strong and disagreeable odor. We vacuum the mussels out of the conduit, and are hoping that the odor does not carry through after refilling the conduit and placing it back on line. As of the end of the year, the conduit was still out of service.

Cooler water throughout the summer helped limit our nitrification problems. We continue to battle this problem in some areas of our system, and are learning more to stay on top of it and not let it get to be a major problem.

Production Division – Future Operations

With 2009 being the fourth year of drought conditions in our area, it seems unlikely that 2010 will be another drought year. A wet year, combined with the current poor economic conditions, will likely bring the lowest pumping levels we have seen in the last fifty years. Consequently, our sales projections will be lowered to stay more in line with reality.

We have had three excellent years in a row in terms of complaints for taste and odor. We are hoping our GAC filters will again perform well removing these taste and odor compounds.

Zebra mussels will continue to be a nuisance, forcing us into increased costs for cleaning screens, conduits, and chambers. If labor costs to manually clean the conduits get to be prohibitive, we will look at chemical dosing to prevent mussels from establishing colonies in our intake chambers and conduits. The chemicals are expensive, and we will be comparing our labor costs with the expected chemical costs before making such a switch. Taste and odor issues resulting from the mussels, if serious enough to affect our finished water, will also be a large factor in how we deal with the mussels.

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 LETTER

The State Auditor will issue a management and compliance letter covering the review, made as part of its audit of Regional Water's system of internal control over financial reporting and tests of compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The management and compliance letter will not modify or affect, in any way, this report. The State Auditor's report on Regional Water's financial statements is unqualified, which means that, in the auditor's opinion, the financial statements are fairly presented in conformity with generally accepted accounting principles.

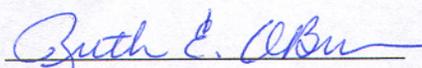
ACKNOWLEDGMENTS

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 TERM OF OFFICE

As of December 31, 2009

PUBLIC MEMBERS

Term Expires

Matt Anfang, Commissioner

June 30, 2012

Gregory Kleindl, Commissioner

June 30, 2010

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

CITY COUNCIL MEMBERS

Pat Harris, President

December 31, 2011

Melvin Carter III, Commissioner

December 31, 2011

Lee Helgen, Commissioner

December 31, 2011

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

SUBURBAN MEMBERS

Will Rossbach, Commissioner

December 31, 2011

John Zanmiller, Vice President

December 31, 2011

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

We have audited the basic 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, 2009, as listed in the table of contents. These financial statements are the responsibility of the Saint Paul Regional Water Services' management. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Saint Paul Regional Water Services at December 31, 2009, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and the required supplementary information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 25, 2010, 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* and should be considered in assessing the results of our audit.



REBECCA OTTO
STATE AUDITOR



GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

June 25, 2010

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended December 31, 2009**

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, 2009. 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 \$212,514,480 (Net assets). Of this amount, \$10,165,605 (unrestricted net assets) may be used to meet the utility's ongoing obligations.
- Regional Water's total net assets increased by \$3,666,264.

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 Assets; a Statement of Revenues, Expenses and Changes in Net Assets; a Statement of Cash Flows; and Notes to the Financial Statements. The Statement of Net Assets presents assets, liabilities, and the total net assets, which are separated into assets invested in capital assets, net of related debt, assets restricted for debt service and unrestricted net assets. The Statement of Revenues, Expenses, and Changes in Net Assets presents the results of the business activities over the course of the fiscal year and also includes 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, if any.

This report also 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-

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended December 31, 2009**

employment benefit plan information - a Schedule of Funding Progress, and a Schedule of Employer Contributions.

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

Summary of Organization and Business

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

Financial Analysis

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

As can be seen from the following table, total net assets increased \$3.66 million to \$212.51 million in 2009, up from \$208.85 million in 2008. The increase in total net assets was primarily due to the investment of capital assets and the decrease in debt.

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 \$2.49 million to \$43.25 million in 2009, up from \$40.76 million in 2008. Revenues in 2009 were up primarily due to the rate increase; consumption decreased 2.0% from 2009 levels. Water rates increased \$.19 per 100 cubic feet to \$2.10 in 2009; up from \$1.91 per 100 cubic feet in 2008.

Expenses

Regional Water's operating expenses increased \$1.20 million to \$37.96 million in 2009, up from \$36.76 million in 2008. \$1.35 million of the increase is for salaries, fringes, materials, services, and depreciation, while miscellaneous expense decreased \$155 thousand.

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended December 31, 2009**

Condensed Statement of Net Assets (in thousands)

	Fiscal Year 2009	Fiscal Year 2008	Dollar Change	Total % Change
Assets				
Cash and Investments	\$ 16,026	\$ 16,140	\$ (114)	(0.7)
Other Current Assets	\$ 10,234	\$ 10,450	\$ (216)	(2.1)
Capital Assets - net	\$ 227,891	\$ 226,459	\$ 1,432	0.6
Other Noncurrent Assets	\$ 5,929	\$ 5,801	\$ 128	2.2
Total Assets	\$ 260,080	\$ 258,850	\$ 1,230	0.5
Liabilities				
Current Liabilities	\$ 11,179	\$ 11,387	\$ (208)	(1.8)
Noncurrent Liabilities	\$ 36,386	\$ 38,615	\$ (2,229)	(5.8)
Total Liabilities	\$ 47,565	\$ 50,002	\$ (2,437)	(4.9)
Net Assets				
Invested in Capital Assets Net of Related Debt	\$ 194,631	\$ 190,637	\$ 3,994	2.1
Restricted for Debt Service	7,718	7,622	96	1.3
Unrestricted	10,165	10,589	(424)	(4.0)
Total Net Assets	\$ 212,514	\$ 208,848	\$ 3,666	1.8

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

	Fiscal Year 2009	Fiscal Year 2008	Dollar Change	Total % Change
Operating Revenues	\$ 43,251	\$ 40,765	\$ 2,486	6.1
Nonoperating Revenues (Expenses)	(2,186)	(997)	(1,189)	119.3
Total Revenues	\$ 41,065	\$ 39,768	\$ 1,297	3.3
Operating Expenses	\$ 37,956	\$ 36,757	\$ 1,199	3.3
Income (Loss) Before Transfers and Contributions	\$ 3,109	\$ 3,011	\$ 98	3.3
Capital Contributions	\$ 557	\$ 554	\$ 3	0.5
Change in Net Assets	\$ 3,666	\$ 3,565	\$ 101	2.8
Net Assets - January 1	208,848	205,283	3,565	1.7
Net Assets - December 31	\$ 212,514	\$ 208,848	\$ 3,666	1.8

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended December 31, 2009**

Capital Assets

By the end of 2009, Regional Water had invested \$336.71 million in capital assets. The \$7.02 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 with \$1.67 million related to the Customer Information and Billing System.

Long-Term Debt

No new debt was issued during 2009. At the end of 2009, bonds payable were \$24.05 million and revenue notes payable were \$9.29 million. This debt will be repaid by revenue generated by Regional Water.

Economic and Other Factors

The current poor economic conditions and water conservation fixtures continue to negatively impact water consumption to the lowest levels we have seen in 44 years. Consequently, our sales projections were lowered to stay more in line with reality. Energy and fuel costs have stabilized somewhat while chemical prices continue to have a negative impact on costs. Indications are that the chemical prices should be stabilizing in the coming year.

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 ASSETS
December 31, 2009
(Amounts in dollars)

Exhibit A

ASSETS

Current Assets

Cash and Investments with Treasurer	10,003,837
Investments	3,141,093
Departmental Cash	363,533
Imprest Funds	7,000
Restricted Cash and Cash Equivalents	
Cash Grants and Other Contributions	571
Investments for Revenue Bond Debt Service	2,509,848
Receivables	
Accounts (net of allowance for Estimated Uncollectibles)	4,063,458
Assessments	
Current	890,312
Deferred	2,172,019
Delinquent	176,773
Tax Forfeited Property	1,848
Accrued Interest	61,650
Due from Primary Government	206,885
Due from Other Governmental Units	656,120
Inventory - Materials and Supplies	2,004,943

Total Current Assets 26,259,890

Noncurrent Assets

Restricted Assets

Investments for Revenue Bond Future Debt Service	3,869,111
Investments for Revenue Bond Operations and Maintenance	1,420,478

Total Restricted Assets 5,289,589

Other Assets

Deferred Charges	331,870
Long-Term Loans Receivable	307,420

Total Other Assets 639,290

Capital Assets

Land	1,307,887
Buildings and Structures	55,920,457
Less: Accumulated Depreciation	(15,256,762)
Public Improvements	221,693,023
Less: Accumulated Depreciation	(71,720,732)
Equipment	48,305,579
Less: Accumulated Depreciation	(21,839,013)
Construction in Progress	9,480,728

Total Capital Assets (Net of Accumulated Depreciation) 227,891,167

Total Noncurrent Assets 233,820,046

Total Assets 260,079,936

continued

BOARD OF WATER COMMISSIONERS OF THE CITY OF SAINT PAUL, MINNESOTA
REGIONAL WATER SERVICES STATEMENT OF NET ASSETS
December 31, 2009
(Amounts in dollars)

Exhibit A

LIABILITIES

Current Liabilities (Payable from Current Assets)	
Accrued Salaries Payable	473,148
Compensated Absences Payable	52,390
Claims and Judgments Payable	598,260
Lease Purchase Payable	1,438
Accounts Payable	2,092,115
Contract Retention Payable	330,542
Due to Primary Government	2,910,936
Due to Other Governmental Units	1,677,069
Unearned Revenue	192,838
Revenue Notes Payable	1,189,483
Accrued Interest Payable on Revenue Notes	41,125
	<hr/>
Total Current Liabilities (Payable from Current Assets)	9,559,344
	<hr/>
Current Liabilities (Payable from Restricted Assets)	
Accounts Payable	3,806
Revenue Bonds Payable	1,535,000
Accrued Interest Payable on Revenue Bonds	81,237
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Total Current Liabilities (Payable from Restricted Assets)	1,620,043
	<hr/>
Noncurrent Liabilities	
Revenue Bonds Payable	22,510,000
Compensated Absences Payable	1,849,836
Other Post Employment Benefits	1,648,948
Claims and Judgments Payable	2,352,714
Lease Purchase Payable	5,110
Revenue Notes Payable	8,097,810
Premium on Revenue Bonds	84,147
Less: Unamortized Discount	(162,496)
	<hr/>
Total Noncurrent Liabilities	36,386,069
	<hr/>
Total Liabilities	47,565,456
	<hr/>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	194,630,675
Restricted for Debt Service	7,718,200
Unrestricted	10,165,605
	<hr/>
Total Net Assets	212,514,480
	<hr/> <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 ASSETS

Exhibit B

For the Fiscal Year Ended December 31, 2009
 (Amounts in dollars)

OPERATING REVENUES

Fees, Sales and Services	42,418,037
Rents and Leases	372,905
Miscellaneous	460,594

Total Operating Revenues	<u>43,251,536</u>
--------------------------	-------------------

OPERATING EXPENSES

Salaries	11,429,476
Employee Fringe Benefits	6,336,937
Services	6,331,642
Materials and Supplies	7,170,470
Depreciation	6,565,715
Bad Debts	30,156
Miscellaneous	91,293

Total Operating Expenses	<u>37,955,689</u>
--------------------------	-------------------

OPERATING INCOME (LOSS)	<u>5,295,847</u>
-------------------------	------------------

NON-OPERATING REVENUES (EXPENSES)

Operating Grants	77,960
Gain on Sale of Assets	25,301
Loss on Retirement of Assets	(1,231,931)
Investment Income	
Interest Earned on Investments	390,480
Decrease in Fair Value of Investments	(131,850)
Miscellaneous Other Revenue (Expenses)	81,345
Interest Expense on	
Revenue Bonds	(1,022,018)
Revenue Notes	(343,382)
Leases	(609)
Amortization of Bond Issuance Costs	(31,755)

Total Non-Operating Revenues (Expenses)	<u>(2,186,459)</u>
---	--------------------

INCOME BEFORE CAPITAL CONTRIBUTIONS	3,109,388
-------------------------------------	-----------

CAPITAL CONTRIBUTIONS

Capital Acquisitions - Outside Sources	<u>556,876</u>
--	----------------

CHANGE IN NET ASSETS	3,666,264
----------------------	-----------

NET ASSETS, January 1	<u>208,848,216</u>
-----------------------	--------------------

NET ASSETS, December 31	<u><u>212,514,480</u></u>
-------------------------	---------------------------

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

BOARD OF WATER COMMISSIONERS OF THE CITY OF SAINT PAUL, MINNESOTA
REGIONAL WATER SERVICES STATEMENT OF CASH FLOWS
For the Fiscal Year Ended December 31, 2009
(Amounts in dollars)

Exhibit C

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from Customers	42,816,601
Other Operating Receipts	372,905
Other Receipts	460,594
Payments to Suppliers	(13,676,191)
Payments to Employees	(11,869,569)
Payment for Fringe Benefits and Payroll Taxes	<u>(5,765,443)</u>

NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES 12,338,897

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Operating Grants Received	77,960
Non-Operating Revenue Received	79,845
Non-Operating Loans Issued to Customers	<u>(124,034)</u>

NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES 33,771

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Cash Proceeds From Sale of Capital Assets:	
Land	7,816
Equipment	12,685
Capital Contributions Received:	
From Outside Parties	379,771
Principal Paid on Debt Maturities:	
Revenue Bonds	(1,430,000)
Revenue Notes	(1,133,014)
Payments on Capital Lease	(1,323)
Payments for Acquisition and Construction of Capital Assets:	
Construction in Progress	(9,248,796)
Interest Paid On:	
Revenue Bonds	(1,022,785)
Revenue Notes	(348,341)
Capital Lease	<u>(609)</u>

NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES (12,784,596)

CASH FLOWS FROM INVESTING ACTIVITIES

Interest and Dividends on Investments Received	454,861
Proceeds From Sale and Maturities of Investment Securities	5,665,000
Purchase of Investment Securities	<u>(6,000,000)</u>

NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES 119,861

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (292,067)

CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR 10,667,008

CASH AND CASH EQUIVALENTS AT END OF YEAR 10,374,941

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, 2009
 (Amounts in dollars)

Exhibit C

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

Operating Income (Loss)		<u>5,295,847</u>
Adjustments To Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Depreciation	6,565,715	
Increase (Decrease) in Allowance for Uncollectible Accounts	14,860	
Changes in Assets and Liabilities:		
(Increase) Decrease in Accounts Receivable	404,557	
(Increase) Decrease in Assessments Receivable	144,126	
(Increase) Decrease in Due from Primary Government	(82,736)	
(Increase) Decrease in Due from Other Governmental Units	2,841	
(Increase) Decrease in Inventories	(170,843)	
Increase (Decrease) in Accrued Salaries Payable	(440,093)	
Increase (Decrease) in Compensated Absences Payable	45,353	
Increase (Decrease) in Net Other Post Employment Benefits Obligation	526,141	
Increase (Decrease) in Claims and Judgments Payable	(48,985)	
Increase (Decrease) in Accounts Payable	4,464	
Increase (Decrease) in Due to Primary Government	192,772	
Increase (Decrease) in Due to Other Governmental Units	(60,194)	
Increase (Decrease) in Unearned Revenue	<u>(54,928)</u>	
Total Adjustments		<u>7,043,050</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		<u><u>12,338,897</u></u>

DETAILS OF CASH AND CASH EQUIVALENTS

Cash and Investments with Treasurer	10,003,837
Departmental Cash	363,533
Imprest Funds	7,000
Cash Grants and Other Contributions	<u>571</u>
TOTAL CASH AND CASH EQUIVALENTS	<u><u>10,374,941</u></u>

NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES

Retirement/Deletion of Capital Assets	(1,231,930)
Change in Fair Value of Investments	(131,850)
Capital Assets Purchased on Account	1,791,755

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, 2009

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**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2009**

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 financial statements of Regional Water have been prepared in conformity with generally accepted accounting principles as applied to government units. Regional Water has adopted Governmental Accounting Standards Board (GASB) Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting." Pursuant to GASB Statement No. 20, Regional Water has elected not to apply accounting standards issued after November 30, 1989 by the Financial Accounting Standards Board (FASB). A summary of the more significant accounting policies follows:

A. Financial Reporting Entity

In conformance with the application of the criteria set forth in generally accepted accounting principles, Regional Water is part of the City of Saint Paul (the primary government) reporting entity and is shown in the City's Comprehensive Annual Financial Report for the fiscal year ended December 31, 2009 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, 2009

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 Assets.

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 assets 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, 2009. Investments in nonparticipating interest-earning contracts, such as savings accounts and nonnegotiable certificates of deposit, are reported at cost. Money market investments and participating interest-earning investment contracts (negotiable certificates of deposit) are reported at amortized cost since these investments have a remaining maturity of one year or less at the time of purchase. Money market investments are short-term, highly liquid debt instruments including commercial paper, bankers' acceptances, and U.S. Treasury and agency obligations. See Note 3.A.1.

In 2009, Regional Water recorded a "decrease in fair value of investments" as investment income of \$131,850. 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, 2009**

Note 2. Summary of Significant Accounting Policies (continued)

E. Receivables

The receivables account presented on the Statement of Net Assets consists of five accounts. The balance of those accounts as of December 31, 2009 is as follows:

Accounts Receivable - Registered Bills	\$	73,554
Accounts Receivable - Water Billings		3,678,583
Accounts Receivable - Unbilled		375,491
Accounts Receivable - Miscellaneous		2,044
Allowance for Uncollectible Accounts		<u>(66,214)</u>
Accounts Receivable (net of Allowance for Estimated Uncollectible)	\$	<u>4,063,458</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 2004 through 2008. 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.

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, equipment, and public improvements are recorded as capital assets on the Statement of Net Assets. 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, 2009**

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 Assets. 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
Equipment	Straight Line	3 - 40
Public Improvements	Straight Line	40 - 100

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, 2009**

Note 2. Summary of Significant Accounting Policies (continued)

K. Bond Discounts and Issuance Costs

Bond discounts and material issuance costs are deferred and amortized using the straight-line method over the terms of the related issues. Bond discounts are presented as a reduction of the face amount of bonds payable whereas material issuance costs are recorded as deferred charges.

L. Equity Classifications

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

- (a) Invested in capital assets, net of related debt – Consists of capital assets including infrastructure, net of accumulated depreciation and reduced by outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- (b) Restricted net assets – Consists of net 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.
- (c) Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

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 assets on the operating statement.

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2009**

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.

Note 3. Detail Notes

A. Assets

1. Deposits and Investments

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

Deposits

Regional Water's deposit functions are managed and maintained by the City of Saint Paul by use of a general portfolio, which is a pool of investments. In accordance with Minnesota Statutes §§ 118A.02 and 118A.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, 2009**

Note 3. 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, 2009, 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 \$10,003,837 (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, 2009, the total imprest funds were \$7,000. Regional Water also had departmental cash on hand of \$363,533.

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.

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2009**

Note 3. A. Assets (continued)

- (c) Intermediate Term Portfolio: The balance of the Portfolio represents the intermediate term component, which serves as a reserve for unplanned shortfalls. In general, the Intermediate Term Portfolio is not expected to experience withdrawals and the time horizon on the Intermediate Portfolio is longer than three years.

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

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

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2009**

Note 3. A. Assets (continued)

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

Credit Risk

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

Regional Water's exposure to credit risk as of December 31, 2009, is as follows:

<u>Rating Agency</u>	<u>Rating</u>	<u>Fair Value</u>
S&P	AAA	<u>\$10,941,101</u>

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2009**

Note 3. A. Assets (continued)

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, 2009, 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, 2009, 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, 2009, 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.S. Government Agency Securities	<u>\$10,941,101</u>	<u>\$ -</u>	<u>\$2,024,201</u>	<u>\$8,916,900</u>

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2009**

Note 3. A. Assets (continued)

Recap

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

Cash and Investments with Treasurer	\$ 10,003,837
Investments	3,141,093
Departmental Cash	363,533
Imprest Funds	7,000
Restricted Cash and Cash Equivalents:	
Cash Grants and Other Contributions	571
Investments for Revenue Bond Debt Service	2,509,848
Investments for Revenue Bond Future Debt Service	3,869,111
Investments for Revenue Bond Operations and Maintenance	1,420,478
Total	<u>\$ 21,315,471</u>
Deposits	\$ 10,003,837
Investments	10,941,101
Departmental Cash	363,533
Imprest Funds	7,000
Total	<u>\$ 21,315,471</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, 2009**

Note 3. A. Assets (continued)

2. Summary of Changes in Capital Assets

A summary of changes in capital assets follows:

	1/1/09	Additions	Deductions	12/31/09
Capital Assets Not Being Depreciated:				
Land	\$ 1,307,887	\$ -	\$ -	\$ 1,307,887
Construction in Progress	10,838,060	9,782,608	(11,139,940)	9,480,728
Total Capital Assets Not Being Depreciated	<u>\$ 12,145,947</u>	<u>\$ 9,782,608</u>	<u>\$ (11,139,940)</u>	<u>\$ 10,788,615</u>
Capital Assets Being Depreciated:				
Buildings and Structures	\$ 55,623,513	\$ 300,283	\$ (3,339)	\$ 55,920,457
Public Improvements	215,437,961	6,477,852	(222,790)	221,693,023
Equipment	46,479,287	4,361,805	(2,535,513)	48,305,579
Total Capital Assets Being Depreciated	<u>\$ 317,540,761</u>	<u>\$ 11,139,940</u>	<u>\$ (2,761,642)</u>	<u>\$ 325,919,059</u>
Less Accumulated Depreciation for:				
Buildings and Structures	\$ (13,881,339)	\$ (1,376,471)	\$ 1,048	\$ (15,256,762)
Public Improvements	(68,149,568)	(3,698,378)	127,214	(71,720,732)
Equipment	(21,196,580)	(2,011,032)	1,368,599	(21,839,013)
Total Accumulated Depreciation*	<u>\$ (103,227,487)</u>	<u>\$ (7,085,881)</u>	<u>\$ 1,496,861</u>	<u>\$ (108,816,507)</u>
Total Capital Assets Being Depreciated, Net	<u>\$ 214,313,274</u>	<u>\$ 4,054,059</u>	<u>\$ (1,264,781)</u>	<u>\$ 217,102,552</u>
Capital Assets, Net	<u>\$ 226,459,221</u>	<u>\$ 13,836,667</u>	<u>\$ (12,404,721)</u>	<u>\$ 227,891,167</u>

*Total Accumulated Depreciation is reduced by an allowance of \$520,166 for equipment used to construct capital assets; net depreciation reported is \$6,565,715 (\$7,085,881 - \$520,166).

3. Impairment of Capital Assets

Regional Water has reported its capital assets in accordance with the provisions of GASB Statement No. 34, "Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments," it requires capital assets, to be reported in the statement of net assets. Statement 34 also requires that capital assets be depreciated over their estimated useful lives. GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries," establishes accounting and reporting requirements for the impairment of capital assets. Asset impairment is a significant, unexpected decline in the service utility of a capital asset and the impairment needs to be recorded in the Statement of Revenues, Expenses and Changes in Net Assets. The Otter Lake conduit and Centerville pump station and conduit experienced a 100% decline in utilization. These assets combine a chain of lakes to provide a back-up water supply; this supply has not been used since 1988 because of nitrification problems. The assets were purchased for \$1,569,561 and had accumulated depreciation of \$576,662. A loss on retirement of \$992,899 was reported. Computer hardware and software for a legacy water billing system experienced a 95% decline in utilization in 2009. This system was replaced with a new water billing system in 2009. The hardware and software was purchased for \$152,823 and had accumulated depreciation of \$93,299. A loss of \$56,689 was reported.

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2009**

Note 3. Detail Notes (continued)

B. Liabilities

1. Debt Obligations of the Board of Water Commissioners

a. Current and Long-Term Debt Maturities

At December 31, 2009, long-term debt consisted of:

	Principal		
	Unpaid Balances December 31, 2009	Less Current Maturities	Long-Term Maturities
Notes Payable	\$ 9,287,293	\$ 1,189,483	\$ 8,097,810
Revenue Bonds	24,045,000	1,535,000	22,510,000
Capital Lease	6,548	1,438	5,110
Compensated Absences	1,902,226	52,390	1,849,836
Other Post Employment Benefits	1,648,948	-	1,648,948
Claims and Judgments	2,950,974	598,260	2,352,714
Total	\$ 39,840,989	\$ 3,376,571	\$ 36,464,418

b. Changes in Debt Obligations

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

	01/01/09	Additions	Deductions	12/31/09
General Obligation				
Waste Water Revenue Note	\$ 2,115,307	\$ -	\$ 223,014	\$ 1,892,293
Drinking Water Revenue Note	8,305,000	-	910,000	7,395,000
Revenue Bonds	25,475,000	-	1,430,000	24,045,000
Capital Lease	7,871	-	1,323	6,548
Compensated Absences	1,856,872	284,642	239,288	1,902,226
Other Post Employment Benefits	1,122,807	600,351	74,210	1,648,948
Claims and Judgments	2,999,959	1,018,799	1,067,784	2,950,974
Total	\$ 41,882,816	\$ 1,903,792	\$ 3,945,619	\$ 39,840,989

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2009**

Note 3. 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 \$33,332,293 and interest of \$8,947,815 on all Regional Water debt outstanding as of December 31, 2009, are as follows:

YEAR	2003 REVENUE BONDS			2005 REVENUE BONDS			2007 REVENUE BONDS			TOTAL REVENUE BONDS		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2010	\$475,000	\$313,075	\$788,075	\$490,000	\$387,123	\$877,123	\$570,000	\$274,650	\$844,650	\$1,535,000	\$974,848	\$2,509,848
2011	\$500,000	\$298,350	\$798,350	\$505,000	\$369,973	\$874,973	\$805,000	\$251,850	\$1,056,850	\$1,810,000	\$920,173	\$2,730,173
2012	\$500,000	\$281,600	\$781,600	\$520,000	\$351,035	\$871,035	\$770,000	\$219,650	\$989,650	\$1,790,000	\$852,285	\$2,642,285
2013	\$525,000	\$264,100	\$789,100	\$535,000	\$330,235	\$865,235	\$490,000	\$188,850	\$678,850	\$1,550,000	\$783,185	\$2,333,185
2014	\$550,000	\$245,200	\$795,200	\$555,000	\$308,835	\$863,835	\$560,000	\$164,350	\$724,350	\$1,665,000	\$718,385	\$2,383,385
2015-19	\$3,150,000	\$890,650	\$4,040,650	\$3,090,000	\$1,192,945	\$4,282,945	\$3,410,000	\$444,150	\$3,854,150	\$9,650,000	\$2,527,745	\$12,177,745
2020-24	\$2,300,000	\$203,837	\$2,503,837	\$3,745,000	\$493,822	\$4,238,822	-	-	-	\$6,045,000	\$697,659	\$6,742,659
	<u>\$8,000,000</u>	<u>\$2,496,812</u>	<u>\$10,496,812</u>	<u>\$9,440,000</u>	<u>\$3,433,968</u>	<u>\$12,873,968</u>	<u>\$6,605,000</u>	<u>\$1,543,500</u>	<u>\$8,148,500</u>	<u>\$24,045,000</u>	<u>\$7,474,280</u>	<u>\$31,519,280</u>

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2009**

Note 3. B. Liabilities (continued)

<u>YEAR</u>	<u>1996 G.O. WASTE WATER REVENUE NOTE</u>			<u>1998 DRINKING WATER REVENUE NOTE</u>			<u>TOTAL REVENUE NOTES</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$229,483	\$52,858	\$282,341	\$960,000	\$257,346	\$1,217,346	\$1,189,483	\$310,204	\$1,499,687
2011	\$236,139	\$46,201	\$282,340	\$915,000	\$223,938	\$1,138,938	\$1,151,139	\$270,139	\$1,421,278
2012	\$242,989	\$39,351	\$282,340	\$515,000	\$192,096	\$707,096	\$757,989	\$231,447	\$989,436
2013	\$250,038	\$32,303	\$282,341	\$980,000	\$174,174	\$1,154,174	\$1,230,038	\$206,477	\$1,436,515
2014	\$257,291	\$25,049	\$282,340	\$1,085,000	\$140,070	\$1,225,070	\$1,342,291	\$165,119	\$1,507,410
2015-18	\$676,353	\$29,497	\$705,850	\$2,940,000	\$260,652	\$3,200,652	\$3,616,353	\$290,149	\$3,906,502
	<u>\$1,892,293</u>	<u>\$225,259</u>	<u>\$2,117,552</u>	<u>\$7,395,000</u>	<u>\$1,248,276</u>	<u>\$8,643,276</u>	<u>\$9,287,293</u>	<u>\$1,473,535</u>	<u>\$10,760,828</u>

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

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2009**

Note 3. B. Liabilities (continued)

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, 2009, the claims and judgments liability was \$2,950,974.

iii. Compensated Absences

Included in Regional Water's debt are compensated absences for \$1,902,226.

iv. Operating Lease

Regional Water entered into an operating lease on August 12, 2008, for a floor scrubber. This is a 24 month lease. The fair value of the equipment was \$10,266. The total payments made in 2009 were \$4,751. The total future minimum payments for 2010 will be \$3,167. At the end of the term of the lease, Regional Water has the option to a) return the equipment, b) extend the lease term for a new term at the then fair market rental value, or c) on 90 days advance written notice, purchase the equipment for the fair market value in place at the end of the lease term.

v. Capital Lease

Regional Water entered into a capital lease on November 30, 2008 for a postage mailing machine. This is a 60 month lease. The cost of the equipment is \$7,871. At December 31, 2009, the liability was \$6,548.

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2009**

Note 3. B. Liabilities (continued)

2009 Capital Lease

	<u>Annual Lease Payment</u>	<u>Annual Meter Rental Payment</u>	<u>Annual Maintenance Payment</u>	<u>Annual Interest</u>	<u>Reduction of Lease Obligation</u>	<u>Present Value Minimum Lease Payments</u>
2009	\$3,624	\$828	\$872	\$601	\$1,323	\$6,548
2010	3,624	828	872	486	1,438	5,110
2011	3,624	828	872	360	1,564	3,546
2012	3,624	828	872	225	1,699	1,847
2013	3,624	828	872	77	1,847	-
	<u>\$18,120</u>	<u>\$4,140</u>	<u>\$4,360</u>	<u>\$1,749</u>	<u>\$7,871</u>	

2. Bonds Payable By Issue

<u>Issue</u>	<u>Issue Rate And Dates</u>	<u>Issue Dates</u>	<u>Final Maturity Date</u>	<u>Amount Outstanding</u>
Revenue	3.86%; 06/01; 12/01	03/01/03	12/01/22	\$ 8,000,000
Revenue	4.20%; 06/01; 12/01	03/24/05	12/01/24	9,440,000
Revenue	4.06%; 06/01; 12/01	02/14/07	12/01/19	<u>6,605,000</u>
Total				<u>\$24,045,000</u>

3. Notes Payable By Issue

<u>Issue</u>	<u>Issue Rate And Dates</u>	<u>Issue Date</u>	<u>Final Maturity Date</u>	<u>Amount Outstanding</u>
Wastewater Treatment Water Revenue Note	2.88%; 02/20; 8/20	06/26/96	02/20/17	\$ 1,892,293
Drinking Water Revenue Note	3.45%; 6/01; 12/01	12/01/98	12/01/18	<u>7,395,000</u>
Total				<u>\$9,287,293</u>

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2009**

Note 3. Detail Notes (continued)

C. Due From Primary Government

At December 31, 2009, 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>
Public Works Capital Projects	Capital Projects Fund	\$ 41,435
Sewer Utility	Enterprise Fund	142,032
Real Estate Management	Internal Service Fund	<u>23,418</u>
Total		<u>\$206,885</u>

D. Due To Primary Government

At December 31, 2009, 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>
Public Works Capital Projects	Capital Projects Fund	\$ 440,215
RiverPrint Saint Paul/Ramsey County	Enterprise Fund	41,852
Sewer Utility	Enterprise Fund	2,318,022
General Fund	General Fund	742
Public Works Equipment	Internal Service Fund	127
Public Works Traffic, Signal, & Light Maint.	Internal Service Fund	55,569
Real Estate Management	Internal Service Fund	3,984
Parking Meter Collections	Special Revenue Fund	2,012
Special Projects-General Government	Special Revenue Fund	<u>48,413</u>
Total		<u>\$2,910,936</u>

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

\$2.39 per regular sewer bill transaction
\$1.02 per rainleader transaction

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2009**

Note 4. 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, 2009, 2008, and 2007 were \$885,591, \$832,152, and \$777,087 respectively. The corresponding total employee's shares were \$814,744, \$765,579, and \$714,920. 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, 2009.

B. Post-Employment Benefits Other than Pensions

Plan Description

In addition to providing the pension benefits described in Note 4.A., Regional Water, through the City of Saint Paul (City) provides other 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, 2009**

Note 4. B. Post-Employment Benefits Other than Pensions (continued)

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

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

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

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

Membership

As of actuarial valuation date of September 30, 2008 the membership consisted of:

	<u>Family Coverage</u>	<u>Single Coverage</u>	<u>Total</u>
Retired Participants and Beneficiaries			
Under Age 65 (Early Retirees)	4	32	36
Over Age 65 (Regular Retirees)	<u>53</u>	<u>94</u>	<u>147</u>
Total Retired Participants	<u>57</u>	<u>126</u>	<u>183</u>
Active Participants			
Eligible to Receive Benefits			34
Not Eligible to Receive Benefits*			<u>180</u>
Total Active Participants			<u>214</u>
Total Participants			<u>397</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, 2009**

Note 4. 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 2009 were as follows:

	<u>Age</u>	<u>Average Monthly Regional Water Contribution</u>	<u>Average Monthly Retiree Contribution</u>
Health Insurance	Less than 65	\$340	\$271
	65 and older	\$292	\$12
Life Insurance	Less than 65	\$4	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 2009 expense totaled \$631,307 for approximately 175 retirees. Retirees contributed \$118,085; 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, 2008 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, 2009. Regional Water's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2007, 2008 and 2009 are 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, 2007	\$ 1,283,314	\$ 726,160	56.6%	\$ 557,154
December 31, 2008	\$ 1,283,314	\$ 717,661	55.9%	\$ 1,122,807
December 31, 2009	\$ 1,291,527	\$ 765,386	59.3%	\$ 1,648,948

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2009**

Note 4. B. Post-Employment Benefits Other than Pensions (continued)

The net OPEB obligation (NOPEBO) as December 31, 2009 was calculated as follows:

Annual Required Contribution (ARC)	\$ 1,308,025
Interest on Net OPEB Obligation	57,712
Adjustment to Annual Required Contribution	<u>(74,210)</u>
Annual OPEB Cost	1,291,527
 Contributions Made:	
Direct	631,247
Indirect Implicit Subsidy	<u>134,139</u>
Total Contributions Made	765,386
 Increase (Decrease) in Net OPEB Obligation	
Net OPEB Obligation Beginning of Year	<u>526,141</u>
	1,122,807
 Net OPEB Obligation End of Year	
	<u><u>\$ 1,648,948</u></u>

Funded status and funding progress

The actuarial accrued liability (AAL) for benefits, as of September 30, 2008, the most recent actuarial valuation date, was \$15,289,857. 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, 2008, 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, 2008	\$ -	\$ 15,289,857	\$ 15,289,857	0.0%	\$ 11,271,358	135.7%

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2009**

Note 4. 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, 2008 actuarial valuation the projected unit credit actuarial cost method was used. The actuarial assumptions included 5.14% discount rate and an annual healthcare cost trend rate of beginning at 8.0% for fiscal year 2009 and declining over 6 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.

C. Risk Management

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

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2009**

Note 4. C. Risk Management (continued)

A complete audit and actuarial analysis is conducted to insure proper premium, retention, and administrative charges. The following discloses the change in the balance of the claims liability during fiscal years 2008 and 2009:

	Year Ended <u>12/31/2008</u>	Year Ended <u>12/31/2009</u>
Beginning fiscal year liability	\$2,754,022	\$2,999,959
Current year claims and changes in estimates	1,000,836	1,018,799
Claim payments	<u>(754,899)</u>	<u>(1,067,784)</u>
End of year liability	<u>\$2,999,959</u>	<u>\$2,950,974</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, 2009**

Note 4. 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 \$3,021 for the year 2009. Financial information can be obtained from the City of Maplewood located at 1830 County Road B East, Maplewood, Minnesota 55109.

Regional Water, the City of Minneapolis, and the City of St. Cloud share a common surface water supply source, the Mississippi River, and because each city is required to prepare a Source Water Protection Program regarding the protection of this common source, the cities agree that it is advantageous to jointly investigate and review the necessary measures needed to protect the valuable drinking water source. Funding is provided from grants and contributions from the members. Regional Water paid \$15,000 during 2009. Financial information can be obtained from the City of St. Cloud located at 400 2nd Street South, St. Cloud, Minnesota 56301.

REQUIRED SUPPLEMENTARY INFORMATION

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
REQUIRED SUPPLEMENTARY INFORMATION
For the Fiscal Year Ended December 31, 2009**

Schedule 1

Schedule of Funding Progress ⁽¹⁾

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll Active Members	UAAL as a Percentage of Covered Payroll
September 30, 2006	\$ -	\$14,931,911	\$14,931,911	0.00%	\$11,080,634	134.8%
September 30, 2008	\$ -	\$15,289,857	\$15,289,857	0.00%	\$11,271,358	135.7%

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

⁽¹⁾ For information regarding the plan see Note 4.B. on pages 34-38.

Schedule 2

Schedule of Employer Contributions ⁽¹⁾

Fiscal Year Ended	Annual Required Contribution	Percentage Contributed	Net OPEB Obligation
December 31, 2007	\$1,283,314	56.60%	\$557,154
December 31, 2008	\$1,283,314	55.90%	\$1,122,807
December 31, 2009	\$1,291,527	59.30%	\$1,648,948

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

⁽¹⁾ For information regarding the plan see Note 4.B. on pages 34-38.

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