

**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, 2002**

**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, 2002**

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INTRODUCTORY SECTION



BOARD OF WATER COMMISSIONERS

President: James Reiter ♦ *Vice President:* Stephen Haselmann

Commissioners: Matt Anfang ♦ Jerry Blakey ♦ Kenneth Collins ♦ Pat Harris ♦ John Zanmiller

June 30, 2003

TO: BOARD OF WATER COMMISSIONERS
James Reiter, President
Stephen F. Haselmann, Vice President
Commissioner Matt Anfang
Commissioner Vacant
Commissioner Ken Collins
Commissioner Pat Harris
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, 2002. 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, results of operations, 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, and the financial statements along with the related notes to these financial statements.

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 (formerly the Saint Paul Water Utility). Regional Water services an area including Saint Paul and all or parts of 12 suburbs on a retail or wholesale basis.

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SAINT PAUL REGIONAL WATER SERVICES

Bernie R. Bullert, General Manager

8 4th St E Saint Paul MN 55101-1007 ♦ TTY: 651-266-6299

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

HIGHLIGHTS IN SUMMARY

In 2002, work began on the new Regional Water campus buildings. The architectural firm HGA was hired to design the new buildings. The new campus will bring together all the divisions of Regional Water into one location with the exception of a small contingent that will remain at Vadnais Lake. Construction of the new buildings is to start in the summer of 2003. To help fund the project, the land and buildings in which the Distribution Division are now housed were sold to Concordia College for \$1,433,000 in March of 2003. Also, in April of 2003, some surplus land was sold to The City of Vadnais Heights for \$549,000. Ultimately, the new campus will help in our effort to contain cost and remain competitive. Regional Water will continue its efforts to reach out to other suburbs and pursue water system acquisition strategies as well as increase the services that we provide to existing customers.

Business Division

The **Customer Service Section** exceeded its performance goals in 2002: the goal for abandoned calls was set at 2.0% and averaged 1.6%; the percentage of calls answered within 20 seconds goal was set at 80% and averaged 85%; the occupancy rate goal was set at 55% and averaged 55.9%. In its fourth full year of operation, the Interactive Voice Response unit managed 23% of routine customer inquiries related to bill amount, payment and account status, final bill procedures, and information on detecting leaks.

The section successfully completed a telephone survey of more than 400 of its customers regarding water quality issues. A Waterworks program, which provides assistance with water and sewer bills for needy customers, was also implemented in 2002. A 2003 Regional Water calendar and a postcard featuring the Highland Water Tower, both produced by the section, helped to raise funds for the Waterworks program.

The **Finance Section** continued to monitor and improve business processes, which also involved documenting and standardizing operating procedures and presenting electronic documents on our intranet page. Procurement card usage for small purchases has increased with an awareness program. Utilizing this type of purchasing tool has helped Regional Water improve its efficiency and effectiveness. We have refined our billing and receivable procedures for recoverable charges. Regional Water is in the second year of a three-year cycle to inventory our infrastructure. We had a very successful year in our efforts to reach out and partner with other areas of Regional Water. Improved communication between different areas has helped this section and others to understand the different processes and information needs and allowed us to reduce redundancy and risk.

The section also participated with a variety of technology related projects. The section converted all its productivity files to Microsoft product files and tested programs for compatibility with the new operating system. We also participated with all the other areas of Regional Water with the Computerized Maintenance Management System (CMMS) project.

HIGHLIGHTS IN SUMMARY (continued)

The section has participated with other areas of the City on The City of Saint Paul Finance System Team. This team existed to give a recommendation and an upgrade/conversion of the existing financial computer system for Regional Water, the City of Saint Paul, and the Rivercentre Authority. This involved examining the current financial management system, financial processes, and current management information system technology to determine how to best meet the City's current and future financial information needs. The team worked with Virchow Krause & Company and reviewed all accounting policies, procedures and systems, culminating in recommended improvements as related to financial reporting and processes. We completed our study and presented current process flow diagrams, business system requirements, cost benefit analysis, and a findings and recommendations report. We recommended a phased enterprise solution to the Office of Financial Services Director, the Mayor, and related staff. The City has successfully updated the current operating environment and related hardware as an interim solution to meet current needs.

The **Information Services (IS) Section** continued its partnership with Public Works in defining the functional requirements of a Computerized Maintenance Management System (CMMS). An RFP was issued and nine vendor responses were received. The migration to Microsoft desktop productivity tools was completed. Following the recommendation of the (IS) five-year strategic plan to move to a Common Operating Environment, Information Services replaced the Invoice Reponse, Mail, Intranet, and SQL database servers. The enterprise server hosting the billing and customer service, distribution attribute, and maintenance history and the finance applications was also replaced. Bill printing was moved out of the data center into the mailroom. The telecommunication devices necessary to implement a fiber optics connection to the water treatment plant were purchased and Regional Water entered into an agreement with Ramsey County to extend the ROLM phone system to the plant via fiber optic cabling. Information Services entered into service level agreements with all Regional Water divisions.

The **Organization and Staff Development (OSD) Section** continued to provide support to all Divisions in a variety of areas: training and educational development, the organization and communication of policies and procedures, tours, strategic planning, development of performance measures, and other miscellaneous projects. The section teamed with Human Resources and facilitated a series of sessions with managers and supervisors that resulted in a Regional Water Strategic Plan for 2002-2005. EMA, Inc., was contracted to train staff and develop utility-wide performance measures. OSD staff then worked with teams of employees from each Division and developed performance measures for each Division. The 2002 Employee Conference was coordinated by the unit

HIGHLIGHTS IN SUMMARY (continued)

and was rated very highly by employees once again. The Training and Educational Development process is under quite extensive reconstruction. The Training Advisory Group has been formed and has been instrumental in pushing for a simplified process and an increase in job related training. This will continue to evolve in 2003.

Business Division - Future Operations

The Business Division will continue to plan the new office space at the McCarron's campus location. Major technology initiatives will continue to provide efficiency and effectiveness; ensuring that employee skill levels match the technology will again provide both a challenge and an opportunity.

Overhead charges and miscellaneous fees will be reviewed and a greater emphasis will be given to business process improvement projects. Staff will continue to develop and share standard operating procedures. An internal and external communications survey is planned for summer. A new division-wide tactical plan and action plan developed by each section will be completed during the first quarter.

The Business Division will strive to provide excellent support services to all areas of Regional Water.

Distribution Division

The Distribution Division found 2002 to be an interesting year of challenges. We continued our efforts to replace aging infrastructure especially unlined cast iron water main, hydrants and lead water services. We installed 6.9 miles of new and replacement water main primarily in coordination with the City's street reconstruction projects. Inside these same project areas we also replaced approximately 180 lead services with copper.

Outside the project areas we installed 375 new and replacement copper water service connections. Over 300 were lead service connection replacements in response to customers first replacing the lead pipe in their private property. Approximately 180 hydrants were replaced as well.

Another project was undertaken to eliminate ongoing joint leaks of unlined 24-inch cast iron main. The work involved contracting the installation of internal joint seals along 0.8 miles of main in Jackson Street and along Maryland Avenue. While we expect the project will successfully eliminate the joint leaking problem, we learned future joint sealing work would best be done in conjunction with the cleaning and lining of such mains.

As part of the main replacement work, we installed approximately 4,500 feet of PVC (C-909) water main in the City of Lauderdale. The old cast iron main had a high incidence of failure due to corrosive and expansive clay soils. Accordingly, we selected PVC for its flexural strength and corrosion resistant properties. Regional Water has only limited

HIGHLIGHTS IN SUMMARY (continued)

experience with PVC pipe. Prior to this project, only 1,000 feet of PVC had been installed in the Distribution System. We look for many years of reliable service from this pipe and anticipate expanded use of such pipe.

With each of the main replacement projects, a temporary water main must be installed to serve customers during construction. We normally construct a 2-inch PVC above-ground pipe system with hose connections to each home. Regional Water crews set up and took down eight miles of temporary main in 2002.

We are proud of our main break response and expertise. In 2002, we continued responding to main breaks and miscellaneous maintenance needs of three communities: the City of Oakdale, the City of White Bear Lake, and White Bear Township.

Finally, we continued our uni-directional flushing efforts. The goal of this work is to improve water quality through flushing, exercising valves, and ensuring hydrants and valves are in good working order. This is an ongoing maintenance demand of the distribution system.

Distribution Division - Future Operations

In the future, we anticipate continued water main replacement, lead service replacement, and hydrant replacement work. In addition, more emphasis on uni-directional flushing and valve exercising work is needed for the long range care of the system. We also plan to pursue a residential Radio Meter Reading project.

Engineering Division

A number of large projects were being done in 2002 that will serve Regional Water and its customers well into the future. Some of these large projects included:

Campus Project – Work began with hiring an architectural firm to construct this project, which will involve the moving of Regional Water's Distribution Division and Downtown office functions of Administration, Engineering and Business from their present location to the McCarron's water treatment plant site.

High Service & Fridley Pump project – At the McCarron's water treatment plant and the Mississippi river pumping station in Fridley, installation was completed on two large finished water pumps and one large supply pump. These pumps will increase the redundancy of our pumping systems.

Plant Architectural Improvements – Construction began on the \$4 million architectural improvement project at McCarron's water treatment plant. These improvements include improved maintenance shop facilities, improved crew facilities, improved office space, and upgrades to meet code compliance issues.

HIGHLIGHTS IN SUMMARY (continued)

Interconnection Study – A joint study was initiated with the City of Minneapolis to review alternatives and cost allocation recommendations for water supply between Regional Water and the City of Minneapolis.

Security – Since September 11, 2001, security has been an ever increasing issue for Regional Water. Numerous security initiatives were being studied and system improvements were being put in place.

Water Retention Improvements – Reconstruction of Regional Water's storm water retention ponds were primarily completed. This project has significantly improved the waste water discharge process.

Water Tower Reconditioning – The Fairgrounds tank was repainted in 2002.

Engineering work in the Distribution System included planning and construction coordination for its water main construction program and its lead service replacement program.

Engineering administration staff was involved with a number of land sale issues including executing a purchase agreement with Anoka County for 610 acres of parkland around Centerville and Peltier Lakes. Administration of the lead service assessment program continued.

Engineering Division - Future Operations

Our technical staff will continue to work on developing our Geographic Information System (GIS) including development of a standard map format and creating a "pilot project." The pilot project will include developing GIS within a small area of the distribution system. In addition, Regional Water's maps and records database will be automated and enhanced. The record construction drawings of our facilities are being scanned to provide better access to plans and improved records management.

Production Division

The year 2002 had a summer with very high precipitation in the Twin City area, in contrast with much of the country. Therefore, our water production and sales were quite low; in fact, production for the year was the lowest it has been in over 20 years. On the good side, water quality was good throughout the year, with no major taste or odor episodes. This was in spite of the fact that many nutrients washed into our watershed with the high rainfall.

Security continued to be a major concern, as it has been particularly since September 11, 2001. We continued to route all traffic into the plant through one gate, and staff that gate

HIGHLIGHTS IN SUMMARY (continued)

with a guard during working hours. In addition, we entered into a contract with the Ramsey County Sheriff for additional surveillance in both our watershed and distribution areas. We also began a project for the installation of security related devices, such as cameras, proximity card readers for doors and gates, etc., to gain even better access control of our treatment plant.

The security project was dovetailed with the architectural improvement project, which got into full swing in 2002. The project ran into some difficulties, starting with demolition. The removal of the existing concrete in the treatment plant took far longer than the contractor had estimated, which then threw off the schedule for other work. Additionally, one of our 30-inch wash water lines was found to be leaking as the contractor was installing piles for the shops addition. We replaced the line, which delayed the project another two weeks. Several other items also caused delays, which caused the project to miss the original completion date. The completion date was extended to March 1, 2003. The project, though difficult, will transform what was unused space in the middle of the treatment plant into modern offices, shops, and common areas.

We hired new employees in the title of Utility Aide for the first time in our Supply Section. This new title will separate us from Parks, with whom we shared the title of Park Aide or Parks Worker previously. The title is paid at a level that allows us to compete with other industries for this entry-level labor position. The plan to combine the Supply Section with Distribution is also an issue that garnered a lot of attention in 2002 and will continue to do so for some time.

Production Division - Future Operations

Production began some plans for long-term improvements to water quality in the treatment plant. Proposed changes to the recarbonation basin were designed, and a plan for major changes for the future was also presented. The major changes could include granular activated carbon filters and possibly ozone addition. These changes are primarily aimed at reducing taste and odor from our water, which has been a long-term nemesis due to our lake water source.

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

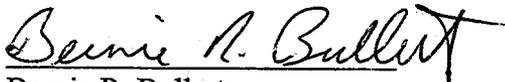
The State Auditor will issue a management and compliance letter covering the review, made as part of its audit of Regional Water's system of internal control over financial

reporting and tests of compliance with certain provisions of laws, regulations, contracts, and grants. 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 have 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,



Bernie R. Bullert
General Manager



Ruth E. O'Brien
Financial Services Manager

SAINT PAUL BOARD OF WATER COMMISSIONERS
BOARD MEMBER AND MANAGER TERMS OF OFFICE

As of December 31, 2002

PUBLIC MEMBERS

Term Expires

Matt Anfang, Commissioner	June 2004
Stephen F. Haselmann, Vice President	June 2006

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

CITY COUNCIL MEMBERS

Jerry Blakey, Commissioner	March 2003
Pat Harris, Commissioner	December 2003
James Reiter, President	December 2003

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

SUBURBAN MEMBERS

Ken Collins, Commissioner	December 2005
John Zanmiller, Commissioner	December 2003

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 four years by the suburban City Councils.

GENERAL MANAGER

Bernie R. Bullert appointed April 1992.

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FINANCIAL SECTION



PATRICIA AWADA
STATE AUDITOR

STATE OF MINNESOTA

OFFICE OF THE STATE AUDITOR

SUITE 400
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
stateauditor@osa.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 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, 2002, as listed in the table of contents. These financial statements are the responsibility of the management of the Saint Paul Regional Water Services. 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.

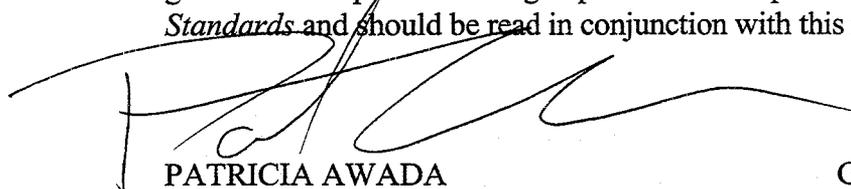
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Saint Paul Regional Water Services at December 31, 2002, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.



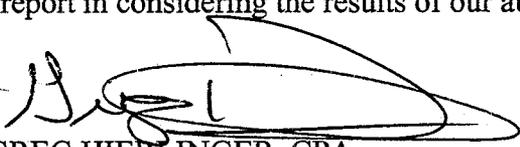
As discussed in Note 1.O. to the financial statements, the Saint Paul Regional Water Services has implemented the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments*, as amended, and Statement No. 38, *Certain Financial Statement Note Disclosures*, as of and for the year ended December 31, 2002. These statements result in a change in the format and content of the financial statements and additional note disclosures.

The Management's Discussion and Analysis listed in the table of contents is not a required part of the financial statements but is 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 are also issuing a report dated June 30, 2003, on our consideration of the Saint Paul Regional Water Services' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.



PATRICIA AWADA
STATE AUDITOR



GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: June 30, 2003

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended December 31, 2002**

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, 2002. This information should be read in conjunction with the financial statements.

Financial Highlights

- The design phase of the new \$9,500,000 campus project was started with the hiring of HGA, the architectural firm, to design the layout of the new campus building.
- Construction began on the new \$4,000,000 architectural improvements at McCarron's water treatment plant. These improvements include improved maintenance shop facilities, improved crew facilities and improved office space.
- Regional Water continued its partnership with Public Works in defining the functional requirements for a new Computerized Maintenance Management System. Regional Water's share of the new system is estimated to cost \$1,750,000.

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, restricted net assets, 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 fixed assets acquired by contributions. The statement of cash flows presents the cash flows from operating activities, non-capital financing activities, capital and related activities, investment activities, and the net cash provided (used) by operating activities. The statement of cash flows presents cash receipts and cash

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended December 31, 2002**

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.

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 \$6.39 million to \$183.97 million in 2002, up from \$177.57 million in 2001. The increase in total net assets was primarily due to \$7.97 million increase in net capital assets.

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended December 31, 2002**

Condensed Statement of Net Assets (in thousands)

	Fiscal Year 2002	Fiscal Year 2001	Dollar Change	Total % Change
Assets				
Current Assets	\$ 28,671	\$ 31,205	\$ (2,534)	(8.1)
Restricted Assets	\$ 5,528	\$ 6,218	\$ (690)	(11.1)
Capital Assets	\$ 256,962	\$ 245,115	\$ 11,847	4.8
Less: Depreciation	(70,084)	(66,206)	(3,878)	(5.9)
Capital Assets - net	\$ 186,878	\$ 178,909	\$ 7,969	4.4
Other Assets	\$ 270	\$ 362	\$ (92)	(25.4)
Total Assets	\$ 221,347	\$ 216,694	\$ 4,653	2.1
Liabilities				
Current Liabilities	\$ 6,712	\$ 5,950	\$ 762	12.8
Current Liabilities (Payable from Restricted Assets)	\$ 840	\$ 1,487	\$ (647)	(43.5)
Total Noncurrent Liabilities	\$ 29,829	\$ 31,683	\$ (1,854)	(5.9)
Net Assets				
Invested in Capital Assets Net of Related Debt	\$ 156,991	\$ 146,878	\$ 10,113	6.9
Restricted Net Assets	5,474	4,731	743	15.7
Unrestricted	21,501	25,965	(4,464)	(17.2)
Total Net Assets	\$ 183,966	\$ 177,574	\$ 6,392	3.6

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

	Fiscal Year 2002 Actual	Fiscal Year 2001 Actual	Actual Dollar Change	Actual % Change
Operating Revenues	\$ 31,089	\$ 32,897	\$ (1,808)	(5.5)
Nonoperating Revenues (Expenses)	(728)	1,286	(2,014)	(156.6)
Total Revenues	\$ 30,361	\$ 34,183	\$ (3,822)	(11.1)
Operating Expenses	\$ 26,407	\$ 28,057	\$ 1,650	5.9
Income (Loss) Before Transfers and Contributions	\$ 3,954	\$ 6,126	\$ (2,172)	(35.5)
Transfers and Capital Contributions				
Transfers	\$ -	\$ (59)	\$ 59	100.0
Cash Contributions for				
Capital Acquisitions	1,430	3,800	(2,370)	(62.4)
Capital Asset Contributions	1,008	689	319	46.3
Total Transfers and Capital Contributions	\$ 2,438	\$ 4,430	\$ (1,992)	(45.0)
Change in Net Assets	\$ 6,392	\$ 10,556	\$ (4,164)	(39.4)
Net Assets - January 1	177,574	167,018	10,556	6.3
Net Assets - December 31	\$ 183,966	\$ 177,574	\$ 6,392	3.6

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended December 31, 2002**

Revenues

Regional Water's operating revenues are derived mainly from the sale of water. Other sources include: services, fees, rents and leases. Operating revenues decreased by \$1.8 million to \$31.09 million in 2002, down from \$32.89 million in 2001. Revenues decreased due to one of the highest precipitation summers on record. Therefore, our water production and sales were quite low; in fact, production for the year was the lowest it has been in over 20 years.

Expenses

Regional Water's operating expenses decreased by \$1.65 million to \$26.41 million in 2002: down from \$28.06 million in 2001. Due to the wet summer experienced in 2002 there was less usage of chemicals and electricity used to produce water.

Budgetary Highlights

Regional Water creates an annual operating budget, which includes proposed expenses and means of financing them. Once management and the Board of Water Commissioners approve the budget, it is presented to the Saint Paul City Council for final approval. Regional Water's budget remains in effect for a year, but can be amended by Board approval.

Capital Assets

By the end of 2002, Regional Water had invested \$256.96 million in capital assets. The \$11.85 million increase in capital assets for the past fiscal year is primarily due to public improvements such as mains, hydrants and services. Also, about \$3.8 million was spent on improvements at the water treatment plant. These improvements include improved maintenance shop facilities, improved crew facilities, improved office space and upgrades to meet code compliance issues.

Long-Term Debt

At the end of 2002, bonds payable were \$12.1 million and revenue notes payable were \$17.7 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, 2002**

Economic and Other Factors

In 2002, work began on the new Regional Water campus buildings. Construction of the new buildings is to begin in the summer of 2003. To help finance this project, the land and buildings that now house the Distribution Division were sold in 2003 to Concordia College for \$1,433,000. Also, to help finance the new campus surplus land was sold to the City of Vadnais Heights for \$549,000. In the near future, Regional Water anticipates the sale of more surplus land for approximately \$1,700,000. This will be used to help finance future capital projects.

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, 8 - 4th Street East, Saint Paul, Minnesota 55101.

BOARD OF WATER COMMISSIONERS OF THE CITY OF SAINT PAUL, MINNESOTA
 REGIONAL WATER SERVICES STATEMENT OF NET ASSETS

Exhibit A

December 31, 2002

(Amounts in dollars)

ASSETS

Current Assets

Cash and Investments with Treasurer	1,377,519
Investments	19,271,069
Departmental Cash	187,359
Imprest Funds	7,000
Receivables	
Accounts (net of allowance for Estimated Uncollectibles)	2,931,992
Assessments	
Current	425,541
Deferred	1,809,317
Delinquent	36,740
Tax Forfeited Property	16,249
Accrued Interest	232,230
Due from Primary Government	174,474
Due from Other Governmental Units	523,723
Inventory - Materials and Supplies	1,677,392

Total Current Assets 28,670,605

Noncurrent Assets

Restricted Assets

Cash Grants and Other Contributions	4,006
Investments for Revenue Bond Current Debt Service	1,396,092
Investments for Revenue Bond Future Debt Service	3,061,086
Investments for Revenue Bond Operations and Maintenance	1,067,362

Total Restricted Assets 5,528,546

Other Assets

Deferred Charges	68,695
Other Long-Term Loans Receivable	201,801

Total Other Assets 270,496

Capital Assets

Land	1,403,952
Buildings and Structures	37,602,283
Less: Accumulated Depreciation	(8,012,178)
Public Improvements	167,276,426
Less: Accumulated Depreciation	(48,735,336)
Equipment	28,228,998
Less: Accumulated Depreciation	(13,336,451)
Construction in Progress	22,450,297

Total Capital Assets (Net of Accumulated Depreciation) 186,877,991

Total Noncurrent Assets 192,677,033

Total Assets 221,347,638

BOARD OF WATER COMMISSIONERS OF THE CITY OF SAINT PAUL, MINNESOTA
 REGIONAL WATER SERVICES STATEMENT OF NET ASSETS

Exhibit A

December 31, 2002
 (Amounts in dollars)

LIABILITIES

Current Liabilities (Payable from
 Current Assets)

Accrued Salaries Payable	546,846
Compensated Absences Payable	80,132
Claims and Judgments Payable	387,724
Lease Purchase Payable	144,614
Accounts Payable	2,144,748
Contract Retention Payable	281,494
Due to Primary Government	973,673
Due to Other Governmental Units	809,902
Deferred Revenue	105,058
Revenue Notes Payable	1,161,784
Accrued Interest Payable on Revenue Notes	76,234

Total Current Liabilities

(Payable from Current Assets)

6,712,209

Current Liabilities (Payable from
 Restricted Assets)

Accounts Payable	4,012
Revenue Bonds Payable	785,000
Accrued Interest Payable on Revenue Bonds	50,924

Total Current Liabilities

(Payable from Restricted Assets)

839,936

Noncurrent Liabilities

Revenue Bonds Payable	11,300,000
Compensated Absences Payable	1,500,437
Claims and Judgments Payable	533,304
Lease Purchase Payable	144,614
Revenue Notes Payable	16,562,391
Less: Unamortized Discount	(211,200)

Total Noncurrent Liabilities

29,829,546

Total Liabilities

37,381,691

NET ASSETS

Invested in Capital Assets, Net of Related Debt	156,990,788
Restricted	5,473,616
Unrestricted	21,501,543

Total Net Assets

183,965,947

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
For the Fiscal Year Ended December 31, 2002
(Amounts in dollars)

Exhibit B

OPERATING REVENUES	
Fees, Sales and Services	30,707,027
Rents and Leases	193,583
Miscellaneous	188,616
	<hr/>
Total Operating Revenues	31,089,226
OPERATING EXPENSES	
Salaries	9,741,512
Employee Fringe Benefits	3,325,068
Services	4,144,219
Materials and Supplies	4,298,702
Depreciation	4,756,732
Bad Debts	36,080
Miscellaneous	104,590
	<hr/>
Total Operating Expenses	26,406,903
	<hr/>
OPERATING INCOME (LOSS)	4,682,323
NON-OPERATING REVENUES (EXPENSES)	
Operating Grants	88,708
Gain on Sale of Assets	3,214
Loss on Retirement of Assets	(956,421)
Investment Income	
Interest Earned on Investments	1,301,554
Increase in Fair Value of Investments	195,324
Miscellaneous Other Revenue (Expenses)	(27,165)
Interest Expense on	
Revenue Bonds	(683,439)
Revenue Notes	(624,968)
Amortization of Bond Issuance Costs	(25,306)
	<hr/>
Total Non-Operating Revenues (Expenses)	(728,499)
	<hr/>
INCOME BEFORE CAPITAL CONTRIBUTIONS	3,953,824
CAPITAL CONTRIBUTIONS	
Capital Contributions - Outside Parties	1,007,864
Capital Acquisitions - Outside Sources	1,430,084
	<hr/>
CHANGE IN NET ASSETS	6,391,772
	<hr/>
NET ASSETS, January 1 (note 1.O.)	177,574,175
	<hr/>
NET ASSETS, December 31	183,965,947
	<hr/>

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

BOARD OF WATER COMMISSIONERS OF THE CITY OF SAINT PAUL, MINNESOTA
 REGIONAL WATER SERVICES STATEMENT OF CASH FLOWS
 For the Fiscal Year Ended December 31, 2002
 (Amounts in dollars)

Exhibit C

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from Customers	31,909,237
Other Operating Receipts	392,074
Other Receipts	8,686
Payments to Suppliers	(8,638,519)
Payments to Employees	(13,185,666)
	<u>10,485,812</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Operating Grants Received	151,343
Non-Operating Loans Issued to Customers	53,858
	<u>205,201</u>
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Principal Paid on Debt Maturities	
Revenue Bonds	(1,430,000)
Capital Lease	(180,000)
Revenue Notes	(1,020,607)
Cash Proceeds from Sale of Capital Assets	
Equipment	3,214
Capital Contribution Received from Outside Parties	943,040
Payments for Acquisition and Construction of Capital Assets	
Public Improvements	(313,395)
Equipment	(1,486)
Construction in Progress	(12,047,353)
Interest Paid On	
Revenue Bonds	(681,105)
Revenue Notes	(626,306)
Payment of Arbitrage Rebate	(45,194)
	<u>(15,399,192)</u>
NET CASH PROVIDED (USED) IN CAPITAL AND RELATED FINANCING ACTIVITIES	
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest and Dividends Received	1,341,176
Proceeds from Sale and Maturities of Investment Securities	19,393,668
Purchase of Investment Securities	(19,168,615)
	<u>1,566,229</u>
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	
	(3,141,950)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	
	<u>4,717,834</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	
	<u><u>1,575,884</u></u>

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, 2002
 (Amounts in dollars)

Exhibit C

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

Operating Income (Loss)	<u>4,682,323</u>
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities	
Depreciation	4,756,732
Uncollectible Accounts/Loans	8,629
Non-operating Miscellaneous Other Revenue Received	26,619
Changes in Assets and Liabilities	
(Increase) Decrease in	
Accounts Receivable	1,285,322
Assessments Receivable	(33,087)
Due from Primary Government	57,141
Due from Other Governmental Units	(115,794)
Inventories	(50,752)
Increase (Decrease) in	
Accrued Salaries Payable	24,609
Compensated Absences Payable	
Current	(29,323)
Long-Term	(29,422)
Claims and Judgments Payable	(76,265)
Accounts Payable	1,620
Due to Primary Government	(76,214)
Due to Other Governmental Units	70,418
Deferred Revenue	(16,744)

Total Adjustments 5,803,489

NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES 10,485,812

DETAILS OF CASH AND CASH EQUIVALENTS

Cash and Investments with Treasurer	1,377,519
Departmental Cash	187,359
Imprest Funds	7,000
WaterWorks Program (Restricted Cash Grants and Other Contributions)	<u>4,006</u>

TOTAL CASH AND CASH EQUIVALENTS 1,575,884

NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES

Retirement/Deletion of Capital Assets	(959,221)
Contributions from Outside Sources	1,007,864
Borrowing Under Capital Lease Obligation	469,228
Change in Fair Value of Investments	195,324
Capital Assets Purchased on Account	1,561,204

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, 2002

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SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2002

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." Regional Water has elected to implement all applicable GASB pronouncements as well as Financial Accounting Standards Board pronouncements and Accounting Principles Board Opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. 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, 2002 as a discretely presented component unit.

B. Proprietary Activity

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

C. Basis of Accounting/Measurement Focus

The accrual basis of accounting is used for Regional Water. Revenues are recognized when they are earned, and expenses are recognized when they are incurred. Material unbilled accounts receivable are recorded at year-end. The flow of economic resources measurement focus is used for Regional Water.

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2002**

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

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, 2002. 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 2002, Regional Water recorded an "increase in fair value of investments" as investment income of \$195,324. 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 departmental cash, imprest funds, and restricted cash grants and other contributions.

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, 2002 is as follows:

Accounts Receivable - Registered Bills	\$114,591
Accounts Receivable - Water Billings	2,646,253
Accounts Receivable - Unbilled	256,301
Accounts Receivable - Miscellaneous	8,648
Allowance for Uncollectible Accounts	<u>(93,801)</u>
Accounts Receivable (net of Allowance for Estimated Uncollectible)	<u>\$2,931,992</u>

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2002**

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

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 1997 through 2001. Tax forfeited properties are subject to forfeiture.

F. Material and Supplies Inventory

Inventories are valued at cost, which approximates market, using first-in, first-out (FIFO) method.

G. Restricted Assets

Mandatory segregations of assets are presented as restricted assets. Such segregations are required by bond agreements or other external parties. 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 and an allowance for the cost of funds used during construction when significant. Major outlays for capital assets and improvements are capitalized as projects are constructed. Contributed water systems for which actual costs are not available have been valued by means that estimate their historical value.

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

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

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

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2002**

Note 2. Summary of Significant Accounting Policies (continued)

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.

Sick leave is earned at the rate of .0576 hours per hour up to a maximum of 15 days per year and may be accumulated indefinitely. Terminated employees receive severance pay based upon unused sick leave. 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.

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."

SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2002

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

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

M. Capital Contributions

On January 1, 2001, GASB Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions," became effective for Regional Water. In accordance with GASB Statement No. 33, 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 during the year ended December 31, 2002, are reported as a separate item and an increase in the net assets on the operating statement.

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. Reporting Changes

Regional Water has implemented GASB Statement No. 34, "Basic Financial Statements - - and Management's Discussion and Analysis - - for State and Local Governments," as of and for the year ended December 31, 2002. Implementation of this standard required the following restatement of fund equity to net assets:

Retained Earnings - December 31, 2001	\$103,127,164
Contributed Capital - December 31, 2001	<u>74,447,011</u>
Net Assets - January 1, 2002	<u>\$177,574,175</u>

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2002**

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 Chapter 118A, 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 issues of the U. S. Treasury; obligations issued by an agency established by the U.S. Government as long as it is quoted by a recognized quotation service available to the City; general obligation bonds of Minnesota state and local governments; and general obligation bonds of other states rated "A" or better by Moody's Investor Services or Standard and Poor's Corporation (Minnesota Statutes Chapter 118A). All pledged collateral is held in the City's name at third party institutions.

Regional Water's deposits of \$1,377,519 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, 2002, the total imprest funds were \$7,000. Regional Water also had departmental cash on hand of \$187,359.

Investments

In addition to interest bearing deposits, Minnesota Statutes authorize the following types of investments for local governments:

- (a) governmental bonds, notes, bills, mortgages, and other 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;

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2002**

Note 3. A. Assets (continued)

- (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 of the highest quality 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.

The balances at December 31, 2002 follow. The reported amount is a mixture of cost and fair-value-based measures because certain investments meet GASB Statement No. 31 criteria for reporting at amortized cost.

<u>Securities Type</u>	<u>Custodial</u>			<u>Reported</u>	<u>Fair</u>
	<u>Credit Risk Category</u>				
	<u>1</u>	<u>2</u>	<u>3</u>	<u>Amount</u>	<u>Value</u>
U.S. Government and Agency Securities:					
Not on Securities Loan	\$24,035,999	\$ -	\$ -	\$24,035,999	\$24,035,999
Commercial Paper	<u>763,616</u>	-	-	<u>763,616</u>	<u>764,366</u>
Total	<u>\$24,799,615</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$24,799,615</u>	<u>\$24,800,365</u>

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2002**

Note 3. A. Assets (continued)

Regional Water's investments are categorized above in accordance with the Codification of Governmental Accounting and Financial Reporting Standards, Section 150, to give an indication of the level of custodial credit risk assumed at year-end.

Category 1 includes investments that are insured or registered or for which the securities are held by the City or by its agent in the City's name.

Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the City's name.

Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent in safekeeping for the City, but not in the City's name.

Securities Lending Transactions

Since 1996, the City has participated in a securities lending program. The City has reported its securities lending transactions in accordance with the provisions of GASB Statement No. 28, "Accounting and Financial Reporting for Securities Lending Transactions." The City Council approved by resolution a "Policy Statement" which provides that the City's General Fund will record the revenue and expenditures relating to securities lending transactions and the "securities lending collateral" asset and "obligations under securities lending" liability. In addition, if monthly net losses should occur during the year from the investment of cash collateral, either principal losses or losses resulting from negative "spreads" between the yield on the investments of cash collateral and the rebate rates paid to borrowers, the losses will be charged to the City's General Fund. Consequently, as of and for the year ended December 31, 2002, no assets, liabilities, revenues or expenses relating to securities lending transactions were allocated to Regional Water under the provisions of this policy statement.

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2002**

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	\$	1,377,519
Investments		19,271,069
Departmental Cash		187,359
Imprest Funds		7,000
Restricted Investments:		
Cash Grants and Other Contributions		4,006
For Revenue Bond Current Debt Service		1,396,092
For Revenue Bond Future Debt Service		3,061,086
For Revenue Bond Operations and Maintenance		1,067,362
Total	\$	<u>26,371,493</u>
Deposits	\$	1,377,519
Investments		24,799,615
Departmental Cash		187,359
Imprest Funds		7,000
Total	\$	<u>26,371,493</u>

2. Summary of Changes in Capital Assets

A summary of changes in capital assets follows:

	01/01/02	Additions	Deductions	12/31/02
Capital Assets Not Being Depreciated:				
Land	\$ 1,403,952	\$ -	\$ -	\$ 1,403,952
Construction in Progress	12,521,298	13,095,211	(3,166,212)	22,450,297
Total Capital Assets Not Being Depreciated	\$ 13,925,250	\$ 13,095,211	\$ (3,166,212)	\$ 23,854,249
Other Capital Assets:				
Buildings and Structures	\$ 37,717,843	\$ 33,775	\$ (149,335)	\$ 37,602,283
Public Improvements	165,394,550	3,168,743	(1,286,867)	167,276,426
Equipment	28,077,290	971,016	(819,308)	28,228,998
Total Other Capital Assets	\$ 231,189,683	\$ 4,173,534	\$ (2,255,510)	\$ 233,107,707
Less Accumulated Depreciation for:				
Buildings and Structures	\$ (7,312,706)	\$ (746,114)	\$ 46,642	\$ (8,012,178)
Public Improvements	(46,344,441)	(2,980,868)	589,973	(48,735,336)
Equipment	(12,549,315)	(1,029,750)	242,614	(13,336,451)
Total Accumulated Depreciation	\$ (66,206,462)	\$ (4,756,732)	\$ 879,229	\$ (70,083,965)
Other Capital Assets, Net	\$ 164,983,221	\$ (583,198)	\$ (1,376,281)	\$ 163,023,742
Capital Assets, Net	\$ 178,908,471	\$ 12,512,013	\$ (4,542,493)	\$ 186,877,991

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2002**

Note 3. B. Liabilities

B. Liabilities

1. Debt Obligations of the Board of Water Commissioners

a. Current and Long-Term Debt Maturities

At December 31, 2002, long-term debt consisted of:

	Principal		
	Unpaid Balances December 31, 2002	Less Current Maturities	Long-Term Maturities
Notes Payable	\$ 17,724,175	\$ 1,161,784	\$ 16,562,391
Revenue Bonds	12,085,000	785,000	11,300,000
Capital Lease	289,228	144,614	144,614
Compensated Absences	1,580,569	80,132	1,500,437
Claims and Judgments	921,028	387,724	533,304
Total	\$ 32,600,000	\$ 2,559,254	\$ 30,040,746

b. Changes in Debt Obligations

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

	01/01/02	Additions	Deductions	12/31/02
General Obligation				
Waste Water Revenue Note	\$ 3,509,959	\$ -	\$ 182,559	\$ 3,327,400
Drinking Water Revenue Note	15,130,000	-	775,000	14,355,000
Xcel Energy Retrofit Notes	104,823	-	63,048	41,775
Revenue Bonds	13,515,000	-	1,430,000	12,085,000
Capital Lease	-	469,228	180,000	289,228
Compensated Absences	1,639,314	-	58,745	1,580,569
Claims and Judgments	997,293	-	76,265	921,028
Total	\$ 34,896,389	\$ 469,228	\$ 2,765,617	\$ 32,600,000

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2002**

Note 3. B. Liabilities (continued)

c. Principal and Interest Requirements on Debt Obligations

i. All Debt

Aside from Claims and Judgments and Compensated Absences, the annual requirements to pay the principal of \$30,098,403, and interest of \$10,223,841 on all Regional Water debt outstanding as of December 31, 2002, are as follows:

<u>YEAR</u>	<u>1997 REVENUE BONDS</u>			<u>2000 REVENUE BONDS</u>			<u>TOTAL REVENUE BONDS</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$660,000	\$218,218	\$878,218	\$125,000	\$392,875	\$517,875	\$785,000	\$611,093	\$1,396,093
2004	\$690,000	\$186,868	\$876,868	\$250,000	\$387,000	\$637,000	\$940,000	\$573,868	\$1,513,868
2005	\$640,000	\$154,093	\$794,093	\$275,000	\$375,125	\$650,125	\$915,000	\$529,218	\$1,444,218
2006	\$345,000	\$123,693	\$468,693	\$225,000	\$361,925	\$586,925	\$570,000	\$485,618	\$1,055,618
2007	\$425,000	\$107,305	\$532,305	\$375,000	\$351,013	\$726,013	\$800,000	\$458,318	\$1,258,318
2008-12	\$1,750,000	\$249,153	\$1,999,153	\$1,850,000	\$1,486,288	\$3,336,288	\$3,600,000	\$1,735,441	\$5,335,441
2013-17	\$ -	\$ -	\$ -	\$2,850,000	\$923,588	\$3,773,588	\$2,850,000	\$923,588	\$3,773,588
2018-22	\$ -	\$ -	\$ -	\$1,625,000	\$138,511	\$1,763,511	\$1,625,000	\$138,511	\$1,763,511
	<u>\$4,510,000</u>	<u>\$1,039,330</u>	<u>\$5,549,330</u>	<u>\$7,575,000</u>	<u>\$4,416,325</u>	<u>\$11,991,325</u>	<u>\$12,085,000</u>	<u>\$5,455,655</u>	<u>\$17,540,655</u>

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2002**

Note 3. B. Liabilities (continued)

YEAR	1996 G.O. WASTE WATER REVENUE NOTE			1998 DRINKING WATER REVENUE NOTE			XCEL ENERGY NOTES	TOTAL REVENUE NOTES		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Principal	Interest	Total
2003	\$187,854	\$94,486	\$282,340	\$955,000	\$499,554	\$1,454,554	\$18,930	\$1,161,784	\$594,040	\$1,755,824
2004	\$193,303	\$89,037	\$282,340	\$990,000	\$466,320	\$1,456,320	\$9,244	\$1,192,547	\$555,357	\$1,747,904
2005	\$198,910	\$83,430	\$282,340	\$1,185,000	\$431,868	\$1,616,868	\$7,184	\$1,391,094	\$515,298	\$1,906,392
2006	\$204,680	\$77,660	\$282,340	\$1,030,000	\$390,630	\$1,420,630	\$5,500	\$1,240,180	\$468,290	\$1,708,470
2007	\$210,618	\$71,722	\$282,340	\$965,000	\$354,786	\$1,319,786	\$917	\$1,176,535	\$426,508	\$1,603,043
2008-12	\$1,148,352	\$263,350	\$1,411,702	\$4,225,000	\$1,283,598	\$5,508,598	\$ -	\$5,373,352	\$1,546,948	\$6,920,300
2013-17	\$1,183,683	\$86,849	\$1,270,532	\$4,370,000	\$552,798	\$4,922,798	\$ -	\$5,553,683	\$639,647	\$6,193,330
2018-22	\$ -	\$ -	\$ -	\$635,000	\$22,098	\$657,098	\$ -	\$635,000	\$22,098	\$657,098
	<u>\$3,327,400</u>	<u>\$766,534</u>	<u>\$4,093,934</u>	<u>\$14,355,000</u>	<u>\$4,001,652</u>	<u>\$18,356,652</u>	<u>\$41,775</u>	<u>\$17,724,175</u>	<u>\$4,768,186</u>	<u>\$22,492,361</u>

Regional Water purchased computer equipment in 2002 through a capital lease agreement. Future payments will be \$144,614 in both 2003 and 2004.

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

Refunding Bond Issue

Regional Water issued a \$7,000,000 fixed rate bond on July 1, 1997 to refund \$9,600,000 of outstanding 1994 variable rate bonds on August 1, 1997. The amount remaining to be paid on the 1994 bonds at December 31, 2002, was \$8,200,000.

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2002**

Note 3. B. Liabilities (continued)

ii. Revenue Notes

In 1994, the City implemented the Saint Paul Energy Conservation Project, which is designed to evaluate energy usage in City and Regional Water owned buildings and make improvements to achieve energy savings. Regional Water has entered into note agreements with Xcel Energy to provide Regional Water interest-free loans to finance the projects. At December 31, 2002, five notes for \$41,775 were outstanding.

iii. 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, 2002, the claims and judgments liability was \$921,028.

iv. Compensated Absences

Included in Regional Water's debt are compensated absences for \$1,580,569.

2. Bonds 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>
Revenue	4.75%; 06/01; 12/01	07/01/97	12/01/12	\$4,510,000
Revenue	5.40%; 06/01; 12/01	05/01/00	12/01/19	<u>7,575,000</u>
Total				<u>\$12,085,000</u>

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2002**

Note 3. B. Liabilities (continued)

3. Notes Payable By Issue

<u>Issue</u>	<u>Issue Rate and Dates</u>	<u>Issue Date</u>	<u>Final Maturity Date</u>	<u>Amount Outstanding</u>
Wastewater Treatment Water Revenue Note	2.88% 02/20; 08/20	06/26/96	02/20/17	\$3,327,400
Drinking Water Revenue Note	3.45% 06/01; 12/01	12/01/98	12/01/18	14,355,000
Xcel Energy Ret. Note	(1) 0.0%	11/95	08/05	5,534
Xcel Energy Ret. Note	(1) 0.0%	03/97	05/04	3,277
Xcel Energy Ret. Note	(1) 0.0%	05/97	02/03	8,823
Xcel Energy Ret. Note	(1) 0.0%	11/98	04/05	1,222
Xcel Energy Ret. Note	(1) 0.0%	11/98	01/07	<u>22,919</u>
Total				<u>\$17,724,175</u>

(1) Principal payments are billed to Regional Water facilities by Xcel Energy on each month's electrical bills to reduce the principal on the interest-free notes.

4. Pension Plans

Regional Water employees are employees of the City of Saint Paul and participate in either the Basic or Coordinated Plans of the Public Employees Retirement Association (PERA). Both of these plans require contributions from the employer and employee. Only 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, 2002, 2001, and 2000 were \$653,513, \$674,032, and \$554,644 respectively. The corresponding total employee's shares were \$598,197, \$615,043, and \$505,768. PERA does not make separate measurements for either plan of 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, 2002.

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2002**

Note 3. B. Liabilities (continued)

5. 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. Commercial insurance or surety bonds are carried for employee faithful performance, fire and all risk property coverage, and workers' compensation reinsurance. There have been no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for any of the past three fiscal years.

A complete audit and actuarial analysis is conducted to insure proper premium, retention, and administrative charges. The following discloses the change in the balance of the claims liability during fiscal years 2001 and 2002:

	<u>Year Ended December 31, 2001</u>	<u>Year Ended December 31, 2002</u>
Beginning fiscal year liability	\$1,021,254	\$997,293
Current year claims and changes in estimates	614,486	86,550
Claim payments	<u>(638,447)</u>	<u>(162,815)</u>
End of fiscal year liability	<u>\$997,293</u>	<u>\$921,028</u>

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2002**

3. Detail Notes (continued)

C. Due From Primary Government

At December 31, 2002, 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>
General Fund	General Fund	\$187
Street Repair and Cleaning	Special Revenue Fund	42,190
License and Permit	Special Revenue Fund	325
Capital Improvement Projects	Capital Projects Fund	76,561
Sewer Utility	Enterprise Fund	<u>55,211</u>
Total		<u>\$174,474</u>

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2002**

3. Detail Notes (continued)

D. Due To Primary Government

At December 31, 2002, 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>
Cable Communications	Special Revenue	\$7,000
Special Projects-General Government	Special Revenue Fund	60,762
Street Repair and Cleaning	Special Revenue Fund	4,938
Right of Way	Special Revenue Fund	40,866
Parking and Transit	Special Revenue Fund	408
Capital Improvement Projects	Capital Projects Fund	85,075
Sewer Utility (1)	Enterprise Fund	733,963
Special Services	Enterprise Fund	499
RiverPrint Saint Paul/Ramsey County	Enterprise Fund	35,226
Asphalt Plant	Internal Service Fund	866
Public Works Equipment	Internal Service Fund	<u>4,070</u>
Total		<u>\$973,673</u>

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2002**

Note 3. D. Due To Primary Government (continued)

- (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:

\$2.05 per regular sewer bill transaction
\$0.85 per rainleader transaction

Note 4. 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.

Note 5. Joint Powers

The Vadnais Lake Area Water Management Organization (VLAWMO) was established during March 1987 by a joint powers agreement among the Cities of Gem Lake, Lino Lakes, North Oaks, Vadnais Heights, White Bear Lake, White Bear Township and Saint Paul Regional Water. The agreement was to establish an organization to jointly and cooperatively develop a surface water management plan for the Vadnais Lake area. Each member of the joint powers appoints one member to the governing board.

Funding for VLAWMO is provided by grants and assessments to the membership. During 2002, Regional Water was assessed \$1,589. Financial information for VLAWMO can be obtained from its administrative office at 4701 Highway 61, White Bear Lake, Minnesota 55110-3277.

Note 6. Subsequent Events

During March 2003, Regional Water issued \$10,650,000 Water Revenue Bonds, Series 2003C. The bonds mature annually on December 1. Interest is payable on each June 1 and December 1 commencing December 1, 2003.

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