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, 2003

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, 2003

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INTRODUCTORY SECTION

BOARD OF WATER COMMISSIONERS

President: **Patrick Harris** ◆ *Vice President:* **John Zanmiller**

Commissioners: **Matt Anfang** ◆ **Bob Cardinal** ◆ **Gregory Kleindl** ◆ **Debbie Montgomery** ◆ **Dave Thune**

June 04, 2004

TO: BOARD OF WATER COMMISSIONERS
Patrick Harris, President
John Zanmiller, Vice President
Commissioner Matt Anfang
Commissioner Bob Cardinal
Commissioner Gregory Kleindl
Commissioner Debbie Montgomery
Commissioner Dave Thune

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, 2003. 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.

HIGHLIGHTS IN SUMMARY

The utility issued $10,650,000 of water revenue bonds in 2003. This provided funding for supply improvements, generators, and campus construction. Construction on the new Regional Water campus buildings began in the summer of 2003. 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. Funding for the new facilities came from the sale of the land and buildings where the Distribution Division are housed and from the bond sale. We are continuing to invest in our supply and distribution infrastructure, technology, and human resources.

Regional Water continues 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 2003: the goal for abandoned calls was set at 2.0% and averaged 1.8%; the percentage of calls answered within 20 seconds goal was set at 80% and averaged 83%; the occupancy rate goal was set at 55% and averaged 57.7%. In its fifth full year of operation, the Interactive Voice Response unit managed 22% 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 customer satisfaction survey mailed to 1,200 randomly selected customers. The WaterWorks program, implemented in 2002, which provides assistance with water and sewer bills for needy customers, collected $12,453 in contributions and granted $15,852 to 74 qualifying customers.

To conserve resources and staff needs for the utility, an agreement was negotiated to have RiverPrint, the city's print shop, assume the utility's bill printing and mailing function.

The **Finance Section** continued to provide financial information and support to stakeholders. The section completed the final year of a three-year cycle to inventory infrastructure assets. Ongoing technology efforts to present accurate and timely information include: participation in the Computerized Maintenance Management System (CMMS) selection and configuration and on the budget improvement team.

The **Information Services (IS) Section** continued to represent Regional Water in its partnership with Public Works in selecting a vendor for a Computerized Maintenance Management System (CMMS). In May, Synergen Inc. was selected and the year-long configuration and implementation began in June. Substantial work has been done in preparing existing data for migration to CMMS.

The fiber optic telecommunication links to the downtown, Hamline and McCarron's sites were activated, providing an impressive improvement in data transfer rates. The file and print servers for the three sites were combined onto one server, creating greater efficiency in network administration. Upon completion of the telecommunication improvements and the McCarron's renovation project, Information Services relocated PC's and peripheral hardware devices for all affected Production Division staff. Information Services continued to further align itself with the recommendations made in its five-year strategic plan by completing migration to Microsoft Active Directory, a network administration system.

Information Services represented Regional Water in the Asset Management Research Project funded by the American Water Works Association Research Foundation. IS completed the work required to add a City of Maplewood Environmental Utility User Fee billing feature to Regional Water's Customer Information System. A majority of work was completed to move Regional Water's water bill printing to RiverPrint. Actual bill printing at RiverPrint began in January 2004. IS represents Regional Water in the City of Saint Paul's centralized address database. Work has begun to migrate the water service application process to the City's AMANDA system with an interface to CMMS.

The **Organization and Staff Development (OSD) Section** continued to provide support to all Divisions in a variety of areas: facilitating human resources and labor relations issues, training and educational development, the organization and communication of policies and procedures, planning employee tours and training sessions, tracking performance measures, and other miscellaneous projects. Staff from OSD was heavily involved in planning the 2003 Employee Conference, which again received a positive response from employees.

Business Division - Future Operations

The Business Division will continue to view the campus consolidation as an opportunity to streamline services and processes. Major technology initiatives such as document management and a fully-implemented CMMS will provide efficiency and effectiveness for the enterprise. Staff is beginning to plan for a new customer information system. Ensuring that employee skill levels match the technology will again provide both a challenge and an opportunity.

Staff will continue to study and improve business processes as well as maintaining its standard operating procedures. The tactical plan, developed in 2003, and division performance measures will be closely monitored to ensure division goals are met.

The Division will partner with the State of Minnesota's Business Continuation Management team to develop a business continuation plan that will include recovery strategies for key business processes.

The Division will strive to provide excellent support services to all areas of Regional Water as well as to its external customers and business partners.

Distribution Division

The Distribution Division focused much of its efforts in 2003 on capital projects. We continued to replace aging infrastructure, especially unlined cast iron water main, hydrants and lead water services. We installed 7.8 miles of new and replacement water main primarily in coordination with the City's street reconstruction projects. Typically, new fire hydrants were installed along with the new water main. We also replaced approximately 400 lead services with copper inside these same project areas and installed approximately 100 new 1-inch service connections.

Outside the project areas we installed some 275 new and replacement copper water service connections. Of these, approximately 200 were lead service connection replacements in response to customers first replacing the lead pipe in their private property. Approximately 120 hydrants were replaced outside the projects as well.

One project that required significant effort was the relocation and reconstruction of approximately one-mile of 30-inch Low Service #1, one of three large transmission mains that serves downtown Saint Paul, the West Side, and the cities of West Saint Paul and Mendota Heights. The relocation project was required to accommodate the Phalen Corridor Roadway project.

As part of the main replacement work, we installed approximately 5 miles of new main inside street reconstruction project areas. Projects were undertaken in the Cities of Falcon Heights, Lauderdale, Maplewood, Mendota Heights and Saint Paul. New pipe was installed to replace old cast iron main with a high incidence of failure as well as cast iron mains predicted to fail. We look for many years of reliable service from this new pipe.

With each of the main replacement projects, temporary water main must be installed to serve customers during construction. We typically construct a 2-inch PVC, above-ground pipe system with hose connections to each home. Regional Water's crews set up and took down some ten miles of temporary main in 2003. This was a project management-coordination challenge and a customer service opportunity that was generally well received by customers.

We are proud of our main break response and expertise. In 2003, we continued responding to main breaks and miscellaneous maintenance needs across Regional Water's service area and three other communities: the City of Oakdale, White Bear Township, and the City of Woodbury. On average, we repair 170 main breaks per year.

Finally, we continued our uni-directional flushing efforts. The goal of this work is two-fold. Firstly, we expect to improve water quality through flushing and scouring. Secondly, we confirm the distribution system is in proper working order by exercising valves, inspecting hydrants, and making sure valves are in the proper position. This is an on-going maintenance demand of the distribution system.

Regional Water has some 92,000-metered accounts. The meter reading system has been well maintained as we continue to consistently obtain 97%-plus actual reads. We replaced 3,600 residential meters and contracted for in-place testing/rehabilitation for nearly 100 large commercial meters. Also, we continue to install radio read systems for "difficult to read" accounts.

Distribution Division - Future Operations

In the future, we plan further upgrades to the aging underground infrastructure including water main replacement, lead service replacement, and hydrant replacement work. We anticipate most of these installations will be coordinated with street reconstruction projects. Some specific areas that need to be upgraded and possibly redesigned include: McCarron's plant transmission line discharge piping and valving, Dale Reservoir piping and valves, and valves in downtown Saint Paul - many of which are near the end of their useful life. In addition, continued emphasis on uni-directional flushing, valve exercising and hydrant inspection work is needed for the long range care of the system.

Considering Regional Water anticipates existing water meters have 10-15 years of remaining useful life, we recommended against installation of a fixed network meter reading system at this time, and instead plan to continue operating the existing system and monitoring advancements in technology.

Engineering Division

A number of large projects were being done in 2003 that will serve Regional Water and its customers well into the future. Some of these large projects included:

Campus Project – Construction began on the Campus project involving 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. The construction consists of three new buildings: office, warehouse, and garage. Completion of the project is expected to be during the fall of 2004.

Plant Architectural Improvements – The construction of the plant remodeling was completed in 2003. The filtration plant offices and conference rooms were renovated from the previous railway housing. The renovation included the installation of state-of-the-art security enhancements.

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 were completed in a final draft. Estimated construction costs and six cost-split methods between the two cities are included.

Security – A Vulnerability Assessment (VA) was conducted on Regional Water's assets under an EPA directive. The assessment was funded by an EPA grant and included an Emergency Response update and security enhancement designs.

Installation of Back-Up Generators – The design of two generators was completed and construction has begun on the installation of these generators at the McCarron's filtration plant. The generators are designed to supply electricity to the campus buildings and supply sufficient power to run the treatment plant at average daily production rates.

Design of Well Field Expansion – Regional Water has completed preliminary design on an expansion of the existing 20 MGD well field to an increased capacity to 50 MGD. Construction of two wells per year is planned to begin in the summer of 2004.

Taste and Odor Control – The design of Lambert Lake wetland restoration was completed in 2003 and construction is expected to be complete in 2004. The preliminary design of the installation of Granular Activated Carbon (GAC) filters at the McCarron's treatment facility has been completed.

Geographic Information System (GIS) Implementation – The digitizing of Regional Water's mains, hydrants, and services to GIS format has began and is expected to be completed in 2004.

Engineering work in the Distribution System included planning and construction coordination for its water main construction program and its lead service replacement program. The main replacement schedule was increased by nearly 50% in 2003.

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. The GIS program will interface with the new Computerized Maintenance Management System (CMMS), and will become the primary mapping and asset management tool. In addition, Regional Water's maps and records database will be automated and enhanced. The scanning of the construction drawings is nearly finished. This will provide better access to plans and improved records management.

Production Division

The year 2003 continued a trend that we have observed for some time: consumption staying at low levels, particularly during the off-peak season. However, a late summer drought pushed consumption to monthly levels that we have not seen since 1988. In August, we averaged over 80 MGD for the month, the first time we have been at that level since July 1988. This period of high consumption pushed our yearly total above that of 2002, whereas we had lagged behind up until August. Again in 2003, water quality was good throughout the year, with no major taste or odor episodes.

Our major remodeling project at the plant was completed in the middle of 2003. New office furniture was ordered and staff moved into the new quarters by late fall. The project turned old, unused areas of the plant into nice, new office spaces, shops and locker rooms. With the relocation, the phone system was switched to the Ramsey County system, making connections to downtown offices much easier.

A major project to upgrade security at the plant proceeded concurrent with the remodeling project. An access control system, including a card reader system with powered door locks, was installed. Cameras were installed, giving operators views of nearly the entire plant site and some interior plant areas. Traffic continued to be routed through the Roselawn gate, which actually became two gates, both controlled by the card access system.

Construction began on the new campus buildings, creating some coordination issues and limiting the parking available at the plant. Construction also began on the new electrical generation plant. Both are planned to be finished in 2004.

A continuing problem in the supply area generated discussion with the City of Vadnais Heights. Staff requested Vadnais Heights reconsider their decision to allow only four-foot hog wire fencing in the areas around Vadnais and Sucker Lakes, and allow chain link fence instead. The four-foot fence is easily defeated and has continued to generate maintenance expenses. Vadnais Heights countered with a request to allow dogs on the east side of Vadnais Lake, expanding the area that they are presently allowed. The issues continue to be discussed.

HIGHLIGHTS IN SUMMARY (continued)

Production Division - Future Operations

Plans for converting existing sand or anthracite filters to Granular Activated Carbon (GAC) filters continued in 2003. 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. The current goal is to proceed with design of the changes necessary in 2004 and construct the new filters in 2005. If successful, the filters should make taste and odor episodes extremely rare.

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.

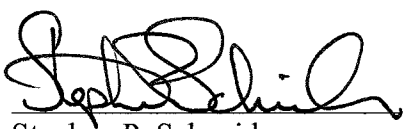
MANAGEMENT AND COMPLIANCE LETTER

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 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 MEMBER AND MANAGER TERMS OF OFFICE

As of December 31, 2003

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	
Pat Harris, President	December 2003
Commissioner (Vacant)	March 2004
Commissioner (Vacant)	December 2003

Pat Harris completed the remainder of the term of James Reiter, President (deceased).

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 2003
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, retired November 2003.

Stephen P. Schneider appointed December 2003.

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FINANCIAL SECTION

PATRICIA ANDERSON
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 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, 2003, 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, 2003, 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.

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15% post-consumer waste

An Equal Opportunity Employer

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 4, 2004, 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 ANDERSON
STATE AUDITOR

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: June 4, 2004

SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended December 31, 2003

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, 2003. This information should be read in conjunction with the financial statements.

Financial Highlights

- Regional Water issued $10,650,000 of revenue bonds in 2003. The projects identified are: Seal construction joints in the 60-inch river conduit, back-up power generators for the plant and main pump station, architectural fees and campus construction. Significant work has been completed on these projects. Cost Planning and Management International Inc. (CPMI) has been hired as project manager for the campus building projects for an estimated $415,000.

- Construction was completed on the $4,000,000 architectural improvements at McCarron's water treatment plant. These improvements include improved maintenance shop, crew, and office facilities.

- Regional Water in partnership with Public Works selected Synergen, Inc., as the vendor for the new Computerized Maintenance Management System. Configuration is expected to be a yearlong process with implementation to begin in June 2004. Computer hardware has been purchased. 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

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 $6.14 million to $190.11 million in 2003, up from $183.97 million in 2002. The increase in total net assets was primarily due to $7.14 million increase in net capital assets.

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 $2.67 million to $33.76 million in 2003, up from $31.09 million in 2002. Revenues in 2002 were uncharacteristically low, due to the high precipitation summer. 2003 revenues are much closer to our expected numbers.

Expenses

Regional Water's operating expenses increased by $2.26 million to $28.67 million in 2003: up from $26.41 million in 2002. Most of the change is related to chemical and energy costs, which is relative to water production.

SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended December 31, 2003

Condensed Statement of Net Assets (in thousands)

	Fiscal Year 2003	Fiscal Year 2002	Dollar Change	Total % Change
Assets				
Current Assets	$ 36,501	$ 28,671	$ 7,830	27.3
Restricted Assets	$ 6,981	$ 5,528	$ 1,453	26.3
Capital Assets	$ 268,014	$ 256,962	$ 11,052	4.3
Less: Depreciation	(73,997)	(70,084)	(3,913)	5.6
Capital Assets - net	$ 194,017	$ 186,878	$ 7,139	3.8
Other Assets	$ 336	$ 270	$ 66	24.4
Total Assets	$ 237,835	$ 221,347	$ 16,488	7.4
Liabilities				
Current Liabilities	$ 8,709	$ 6,712	$ 1,997	29.8
Current Liabilities (Payable from Restricted Assets)	$ 1,393	$ 840	$ 553	65.8
Total Noncurrent Liabilities	$ 37,623	$ 29,829	$ 7,794	26.1
Net Assets				
Invested in Capital Assets Net of Related Debt	$ 163,412	$ 156,991	$ 6,421	4.1
Restricted Net Assets	6,892	5,474	1,418	25.9
Unrestricted	19,806	21,501	(1,695)	(7.9)
Total Net Assets	$ 190,110	$ 183,966	$ 6,144	3.3

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

	Fiscal Year 2003 Actual	Fiscal Year 2002 Actual	Actual Dollar Change	Actual % Change
Operating Revenues	$ 33,760	$ 31,089	$ 2,671	8.6
Nonoperating Revenues (Expenses)	(963)	(728)	(235)	32.3
Total Revenues	$ 32,797	$ 30,361	$ 2,436	8.0
Operating Expenses	$ 28,669	$ 26,407	$ 2,262	8.6
Income (Loss) Before Contributions	$ 4,128	$ 3,954	$ 174	4.4
Capital Contributions				
Cash Contributions for Capital Acquisitions	$ 1,741	$ 1,430	$ 311	21.7
Capital Asset Contributions	275	1,008	(733)	(72.7)
Total Capital Contributions	$ 2,016	$ 2,438	$ (422)	(17.3)
Change in Net Assets	$ 6,144	$ 6,392	$ (248)	(3.9)
Net Assets - January 1	183,966	177,574	6,392	3.6
Net Assets - December 31	$ 190,110	$ 183,966	$ 6,144	3.3

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 2003, Regional Water had invested $268.01 million in capital assets. The $11.05 million increase in capital assets for the past fiscal year is primarily due to public improvements such as mains, hydrants and services. Also, about $2.6 million was spent on improvements on the supply conduit and at the water treatment plant. These improvements include continued improvement in facilities, backup energy supply, and security improvements. Approximately $3.7 million was spent on the new buildings at the McCarron's Complex.

Long-Term Debt

At the end of 2003, bonds payable were $21.5 million and revenue notes payable were $16.6 million. This debt will be repaid by revenue generated by Regional Water.

Economic and Other Factors

In 2003, work continued on the new Regional Water campus buildings. Construction began in the summer of 2003 and is expected to continue through November 2004. Land and buildings that currently house the Distribution Division were sold to Concordia College for $1,433,000. Regional Water will lease the facility back from the college until their move, which is anticipated for November 2004. In addition, land was sold to Anoka County for $198,000 and the City of Vadnais Heights for $549,000. $183,000 was received in 2003 and the remaining $367,000 will be paid in 2004. These monies will be used to help finance the campus construction 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.

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BOARD OF WATER COMMISSIONERS OF THE CITY OF SAINT PAUL, MINNESOTA
REGIONAL WATER SERVICES STATEMENT OF NET ASSETS
December 31, 2003
(Amounts in dollars)

Exhibit A

ASSETS	
Current Assets	
Cash and Investments with Treasurer	3,001,489
Investments	24,298,724
Departmental Cash	393,341
Imprest Funds	7,000
Receivables	
Accounts (net of allowance for Estimated Uncollectibles)	3,711,351
Assessments	
Current	496,843
Deferred	1,884,172
Delinquent	70,199
Tax Forfeited Property	12,358
Accrued Interest	266,600
Due from Primary Government	203,407
Due from Other Governmental Units	684,990
Inventory - Materials and Supplies	1,470,439
Total Current Assets	36,500,913
Noncurrent Assets	
Restricted Assets	
Cash Grants and Other Contributions	11,431
Investments for Revenue Bond Current Debt Service	2,252,117
Investments for Revenue Bond Future Debt Service	3,708,437
Investments for Revenue Bond Operations and Maintenance	1,008,728
Total Restricted Assets	6,980,713
Other Assets	
Deferred Charges	100,441
Other Long-Term Loans Receivable	235,515
Total Other Assets	335,956
Capital Assets	
Land	1,329,617
Buildings and Structures	34,813,130
Less: Accumulated Depreciation	(7,777,244)
Public Improvements	176,648,191
Less: Accumulated Depreciation	(51,884,393)
Equipment	29,719,329
Less: Accumulated Depreciation	(14,335,103)
Construction in Progress	25,503,697
Total Capital Assets (Net of Accumulated Depreciation)	194,017,224
Total Noncurrent Assets	201,333,893
Total Assets	237,834,806

continued

BOARD OF WATER COMMISSIONERS OF THE CITY OF SAINT PAUL, MINNESOTA
REGIONAL WATER SERVICES STATEMENT OF NET ASSETS
December 31, 2003
(Amounts in dollars)

Exhibit A

LIABILITIES	
Current Liabilities (Payable from Current Assets)	
Accrued Salaries Payable	581,411
Compensated Absences Payable	79,927
Claims and Judgments Payable	410,357
Lease Purchase Payable	144,614
Accounts Payable	2,366,373
Contract Retention Payable	185,589
Due to Primary Government	2,322,007
Due to Other Governmental Units	1,191,376
Deferred Revenue	162,875
Revenue Notes Payable	1,192,547
Accrued Interest Payable on Revenue Notes	71,511
Total Current Liabilities (Payable from Current Assets)	8,708,587
Current Liabilities (Payable from Restricted Assets)	
Accounts Payable	572
Revenue Bonds Payable	1,315,000
Accrued Interest Payable on Revenue Bonds	77,468
Total Current Liabilities (Payable from Restricted Assets)	1,393,040
Noncurrent Liabilities	
Revenue Bonds Payable	20,185,000
Compensated Absences Payable	1,506,088
Claims and Judgments Payable	869,612
Revenue Notes Payable	15,369,843
Less: Unamortized Discount	(307,590)
Total Noncurrent Liabilities	37,622,953
Total Liabilities	47,724,580
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	163,412,399
Restricted	6,891,814
Unrestricted	19,806,013
Total Net Assets	190,110,226

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, 2003
(Amounts in dollars)

Exhibit B

OPERATING REVENUES	
Fees, Sales and Services	33,374,391
Rents and Leases	228,337
Miscellaneous	157,197
Total Operating Revenues	33,759,925
OPERATING EXPENSES	
Salaries	10,116,791
Employee Fringe Benefits	3,919,254
Services	4,516,376
Materials and Supplies	4,884,208
Depreciation	5,084,413
Miscellaneous	147,645
Total Operating Expenses	28,668,687
OPERATING INCOME (LOSS)	5,091,238
NON-OPERATING REVENUES (EXPENSES)	
Operating Grants	184,230
Gain on Sale of Assets	757,690
Loss on Retirement of Assets	(1,219,672)
Investment Income	
Interest Earned on Investments	1,187,283
Decrease in Fair Value of Investments	(381,070)
Miscellaneous Other Revenue (Expenses)	46,612
Interest Expense on	
Revenue Bonds	(931,030)
Revenue Notes	(589,317)
Amortization of Bond Issuance Costs	(17,509)
Total Non-Operating Revenues (Expenses)	(962,783)
INCOME BEFORE CAPITAL CONTRIBUTIONS	4,128,455
CAPITAL CONTRIBUTIONS	
Capital Contributions - Outside Parties	274,509
Capital Acquisitions - Outside Sources	1,741,315
CHANGE IN NET ASSETS	6,144,279
NET ASSETS, January 1	183,965,947
NET ASSETS, December 31	190,110,226

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, 2003
(Amounts in dollars)

Exhibit C

CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Customers	33,442,832	
Other Operating Receipts	228,337	
Other Receipts	157,197	
Payments to Suppliers	(7,410,477)	
Payments to Employees	(13,996,034)	
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		12,421,855
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Operating Grants Received	194,978	
Non-Operating Loans Issued to Customers	(450,806)	
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES		(255,828)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Cash Proceeds From Issuance of:		
Revenue Bonds	10,665,946	
Cash Proceeds From Sale of Capital Assets:		
Land	380,748	
Buildings and Structures	1,432,886	
Equipment	10,207	
Capital Contributions Received:		
From Outside Parties	1,405,030	
Principal Paid on Debt Maturities		
Revenue Bonds	(1,235,000)	
Revenue Notes	(1,161,784)	
Payments on Capital Lease	(144,614)	
Payments for Acquisition and Construction of Capital Assets		
Construction in Progress	(14,458,109)	
Interest Paid On:		
Revenue Bonds	(890,280)	
Revenue Notes	(594,040)	
Payment of Bond Issue Costs	(39,087)	
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES		(4,628,097)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and Dividends on Investments Received	1,119,584	
Proceeds From Sale and Maturities of Investment Securities	504,040	
Increase (Decrease) in Fair Value of Investments	(347,740)	
Purchase of Investment Securities	(6,976,437)	
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES		(5,700,553)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		1,837,377
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		1,575,884
CASH AND CASH EQUIVALENTS AT END OF YEAR		3,413,261

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, 2003
(Amounts in dollars)

Exhibit C

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating Income (Loss)		5,091,238
Adjustments To Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Depreciation	5,084,413	
Allowance for Uncollectible Accounts	(22,670)	
Non-operating Miscellaneous Other Revenue Received	46,612	
Changes in Assets and Liabilities:		
(Increase) Decrease in Accounts Receivable	(536,197)	
(Increase) Decrease in Assessments Receivable	241,367	
(Increase) Decrease in Due from Primary Government	110,925	
(Increase) Decrease in Due from Other Governmental Units	212,272	
(Increase) Decrease in Inventories	206,954	
Increase (Decrease) in Accrued Salaries Payable	34,565	
Increase (Decrease) in Compensated Absences Payable	5,446	
Increase (Decrease) in Claims and Judgments Payable	358,941	
Increase (Decrease) in Accounts Payable	(184,615)	
Increase (Decrease) in Contracts Payable	(1,370)	
Increase (Decrease) in Due to Primary Government	1,376,368	
Increase (Decrease) in Due to Other Governmental Units	381,474	
Increase (Decrease) in Deferred Revenue	16,132	
Total Adjustments		7,330,617
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		12,421,855
DETAILS OF CASH AND CASH EQUIVALENTS		
Cash and Investments with Treasurer		3,001,489
Departmental Cash		393,341
Imprest Funds		7,000
Cash Grants and Other Contributions		11,431
TOTAL CASH AND CASH EQUIVALENTS		3,413,261
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES		
Retirement/Deletion of Capital Assets		(620,292)
Contributions from Outside Sources		274,509
Capital Assets Purchased on Account		1,982,945

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, 2003

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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, 2003 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.

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, 2003. 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 2003, Regional Water recorded a "decrease in fair value of investments" as investment income of ($381,070). 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.

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, 2003 is as follows:

Accounts Receivable - Registered Bills	$114,132
Accounts Receivable - Water Billings	2,966,096
Accounts Receivable - Unbilled	683,483
Accounts Receivable - Miscellaneous	18,771
Allowance for Uncollectible Accounts	(71,131)
Accounts Receivable (net of Allowance for Estimated Uncollectible)	$3,711,351

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 1998 through 2002. 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.

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:

	Method	Years
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.

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.

Note 2. Summary of Significant Accounting Policies (continued)

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, 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.

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 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 $1,019,515 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, 2003, the total imprest funds were $7,000. Regional Water also had departmental cash on hand of $393,341.

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;

Note 3. A. Assets (continued)

(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 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, 2003 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.

Note 3. A. Assets (continued)

Securities Type	Custodial Credit Risk Category 1	2	3	Reported Amount	Fair Value
U.S. Government and Agency Securities Not on Securities Loan	$31,279,437	$ -	$ -	$31,279,437	$31,306,179
Commercial Paper	1,981,974	-	-	1,981,974	1,990,522
Total	$33,261,411	$ -	$ -	$33,261,411	$33,296,701

Regional Water's investments are categorized above in accordance with the Codification of Governmental Accounting and Financial Reporting Standards, Section I50, 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, 2003, no assets, liabilities, revenues or expenses relating to securities lending transactions were allocated to Regional Water under the provisions of this policy statement.

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	$ 3,001,489
Investments	24,298,724
Departmental Cash	393,341
Imprest Funds	7,000
Restricted Investments:	
Cash Grants and Other Contributions	11,431
For Revenue Bond Current Debt Service	2,252,117
For Revenue Bond Future Debt Service	3,708,437
For Revenue Bond Operations and Maintenance	1,008,728
Total	$ 34,681,267

Deposits	$ 1,019,515
Investments	33,261,411
Departmental Cash	393,341
Imprest Funds	7,000
Total	$ 34,681,267

2. Summary of Changes in Capital Assets

A summary of changes in capital assets follows:

	01/01/03	Additions	Deductions	12/31/03
Capital Assets Not Being Depreciated:				
Land	$ 1,403,952	$ -	$ (74,335)	$ 1,329,617
Construction in Progress	22,450,297	14,881,221	(11,827,821)	25,503,697
Total Capital Assets Not Being Depreciated	$ 23,854,249	$ 14,881,221	$ (11,902,156)	$ 26,833,314
Capital Assets Being Depreciated:				
Buildings and Structures	$ 37,602,283	$ 130,105	$ (2,919,258)	$ 34,813,130
Public Improvements	167,276,426	9,805,101	(433,336)	176,648,191
Equipment	28,228,998	2,325,568	(835,237)	29,719,329
Total Capital Assets Being Depreciated	$ 233,107,707	$ 12,260,774	$ (4,187,831)	$ 241,180,650
Less Accumulated Depreciation for:				
Buildings and Structures	$ (8,012,178)	$ (708,594)	$ 943,528	$ (7,777,244)
Public Improvements	(48,735,336)	(3,335,799)	186,742	(51,884,393)
Equipment	(13,336,451)	(1,451,782)	453,130	(14,335,103)
Total Accumulated Depreciation	$ (70,083,965)	$ (5,496,175)	$ 1,583,400	$ (73,996,740)
Total Capital Assets Being Depreciated, Net	$ 163,023,742	$ 6,764,599	$ (2,604,431)	$ 167,183,910
Capital Assets, Net	$ 186,877,991	$ 21,645,820	$ (14,506,587)	$ 194,017,224

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, 2003, long-term debt consisted of:

	Principal		
	Unpaid Balances December 31, 2003	Less Current Maturities	Long-Term Maturities
Notes Payable	$ 16,562,390	$ 1,192,547	$ 15,369,843
Revenue Bonds	21,500,000	1,315,000	20,185,000
Capital Lease	144,614	144,614	-
Compensated Absences	1,586,015	79,927	1,506,088
Claims and Judgments	1,279,969	410,357	869,612
Total	$ 41,072,988	$ 3,142,445	$ 37,930,543

b. Changes in Debt Obligations

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

	01/01/03	Additions	Deductions	12/31/03
General Obligation Waste Water Revenue Note	$ 3,327,400	$ -	$ 187,854	$ 3,139,546
Drinking Water Revenue Note	14,355,000	-	955,000	13,400,000
Xcel Energy Retrofit Notes	41,775	-	18,931	22,844
Revenue Bonds	12,085,000	10,650,000	1,235,000	21,500,000
Capital Lease	289,228	-	144,614	144,614
Compensated Absences	1,580,569	5,446	-	1,586,015
Claims and Judgments	921,028	358,941	-	1,279,969
Total	$ 32,600,000	$ 11,014,387	$ 2,541,399	$ 41,072,988

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 $38,207,004, and interest of $13,602,150 on all Regional Water debt outstanding as of December 31, 2003, are as follows:

YEAR	1997 REVENUE BONDS			2000 REVENUE BONDS			2003 REVENUE BONDS			TOTAL REVENUE BONDS		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2004	$690,000	$186,868	$876,868	$250,000	$387,000	$637,000	$375,000	$363,250	$738,250	$1,315,000	$937,118	$2,252,118
2005	$640,000	$154,093	$794,093	$275,000	$375,125	$650,125	$ -	$355,750	$355,750	$915,000	$884,968	$1,799,968
2006	$345,000	$123,693	$468,693	$225,000	$361,925	$586,925	$425,000	$355,750	$780,750	$995,000	$841,368	$1,836,368
2007	$425,000	$107,305	$532,305	$375,000	$351,013	$726,013	$450,000	$347,250	$797,250	$1,250,000	$805,568	$2,055,568
2008	$595,000	$86,905	$681,905	$400,000	$332,638	$732,638	$475,000	$338,250	$813,250	$1,470,000	$757,793	$2,227,793
2009-13	$1,155,000	$162,250	$1,317,250	$1,925,000	$1,393,363	$3,318,363	$2,475,000	$1,483,500	$3,958,500	$5,555,000	$3,039,113	$8,594,113
2014-18	$ -	$ -	$ -	$3,100,000	$772,888	$3,872,888	$3,000,000	$1,007,250	$4,007,250	$6,100,000	$1,780,138	$7,880,138
2019-23	$ -	$ -	$ -	$900,000	$49,500	$949,500	$3,000,000	$332,438	$3,332,438	$3,900,000	$381,938	$4,281,938
	$3,850,000	$821,114	$4,671,114	$7,450,000	$4,023,452	$11,473,452	$10,200,000	$4,583,438	$14,783,438	$21,500,000	$9,428,004	$30,928,004

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
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	$7,183	$1,391,093	$515,298	$1,906,391
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	$216,727	$65,613	$282,340	$925,000	$321,204	$1,246,204	$ -	$1,141,727	$386,817	$1,528,544
2009-13	$1,181,663	$230,039	$1,411,702	$4,280,000	$1,136,568	$5,416,568	$ -	$5,461,663	$1,366,607	$6,828,270
2014-18	$933,645	$54,547	$988,192	$4,025,000	$400,722	$4,425,722	$ -	$4,958,645	$455,269	$5,413,914
2019-23	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
	$3,139,546	$672,048	$3,811,594	$13,400,000	$3,502,098	$16,902,098	$22,844	$16,562,390	$4,174,146	$20,736,536

Regional Water purchased computer equipment in 2002 through a capital lease agreement. Future payments will be $144,614 in 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, 2003, was $7,400,000.

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, 2003, four notes for $22,844 were outstanding.

Note 3. B. Liabilities (continued)

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, 2003, the claims and judgments liability was $1,279,969.

iv. Compensated Absences

Included in Regional Water's debt are compensated absences for $1,586,015.

2. Bonds Payable By Issue

Issue	Issue Rate And Dates	Issue Dates	Final Maturity Date	Amount Outstanding
Revenue	4.75%; 06/01; 12/01	07/01/97	12/01/12	$3,850,000
Revenue	5.40%; 06/01; 12/01	05/01/00	12/01/19	7,450,000
Revenue	3.86%; 06/01; 12/01	03/01/03	12/01/22	10,200,000
Total				$21,500,000

3. Notes Payable By Issue

Issue	Issue Rate And Dates	Issue Date	Final Maturity Date	Amount Outstanding
Wastewater Treatment Water Revenue Note	2.88%; 02/20; 8/20	06/26/96	02/20/17	$3,139,546
Drinking Water Revenue Note	3.45%; 6/01; 12/01	12/01/98	12/01/18	13,400,000
Xcel Energy Note	(1) 0.0%	11/95	08/05	3,521
Xcel Energy Note	(1) 0.0%	03/97	05/04	1,207
Xcel Energy Note	(1) 0.0%	11/98	04/05	698
Xcel Energy Note	(1) 0.0%	11/98	01/07	17,418
Total				$16,562,390

(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.

Note 3. Detail Notes (continued)

C. Due From Primary Government

At December 31, 2003, Regional Water reported the following receivables from the City of Saint Paul:

City Fund Title	City Fund Type	Amount
General Fund	General Fund	$886
Capital Improvement Projects	Capital Projects Fund	146,141
Sewer Utility	Enterprise Fund	56,228
Parks and Recreation Special Projects	Internal Service Fund	152
Total		$203,407

D. Due To Primary Government

At December 31, 2003, Regional Water reported the following payables to the City of Saint Paul:

City Fund Title	City Fund Type	Amount
Special Projects-General Government	Special Revenue Fund	75,411
Street Repair and Cleaning	Special Revenue Fund	43,382
Parking Meter Collections	Special Revenue Fund	961
Capital Improvement Projects	Capital Projects Fund	52,127
Sewer Utility (1)	Enterprise Fund	2,129,907
RiverPrint Saint Paul/Ramsey County	Enterprise Fund	5,218
Public Works Traffic and Lighting	Internal Service Fund	2,796
Public Works Engineering	Internal Service Fund	5,119
Public Works Equipment	Internal Service Fund	7,086
Total		$2,322,007

(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
$0.87 per rainleader transaction

Note 4. Other Information

A. 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, 2003, 2002, and 2001 were $658,771, $653,513, and $674,032 respectively. The corresponding total employee's shares were $606,671, $598,197, and $615,043. 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, 2003.

B. Post-Employment Benefits

In addition to the pension benefits described in Note 4.A, Regional Water, through the City of Saint Paul, provides other post-employment life and health insurance benefits in accordance with the City's collective bargaining agreements with employees' unions. Since Regional Water has 14 bargaining agreements, there is substantial variance in eligibility requirements and contribution levels. The typical eligibility requirements are 20 years of service and currently receiving a public employee pension. The average monthly premium contributions for 2003 were as follows:

	Age	Average Monthly SPRWS Contribution	Average Monthly Retiree Contribution
Health Insurance	Less than 65	$238	$228
	65 and older	$323	$0
Life Insurance	Less than 65	$4	None
	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 2003 expense totaled $720,165 for approximately 200 retirees.

Note 4. Other Information (continued)

C. Risk Management

Regional Water is exposed to various risks of losses related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters. Regional Water utilizes the services of the City Attorney's Office, 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 2002 and 2003:

	Year Ended December 31, 2002	Year Ended December 31, 2003
Beginning fiscal year liability	$997,293	$921,028
Current year claims and changes in estimates	86,550	905,094
Claim payments	(162,815)	(546,153)
End of year liability	$921,028	$1,279,969

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.

E. 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 2003, 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.

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