

**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, 2004**

**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, 2004**

**Table of Contents**

	<b><u>Item</u></b>	<b><u>Page</u></b>
<b>INTRODUCTORY SECTION</b>		
Transmittal Letter		iii
Board Member and Manager Terms of Office		vii
<b>FINANCIAL SECTION</b>		
Independent Auditor's Report		1
Management's Discussion and Analysis		3
Financial Statements -		
Statement of Net Assets	Exhibit A	8
Statement of Revenues, Expenses and Changes in Net Assets	Exhibit B	11
Statement of Cash Flows	Exhibit C	12
Notes to the Financial Statements		15

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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*

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June 30, 2005

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, 2004. The responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with Regional Water. We believe the data, as presented, is accurate in all material aspects; that it is presented in a manner designed to fairly set forth the financial position, changes in financial position, and cash flows of Regional Water; and that all disclosures necessary to enable the reader to gain the maximum understanding of Regional Water's financial affairs have been included. This report has been prepared in accordance with generally accepted accounting principles. Regional Water's financial operations are also reported in the City of Saint Paul's Comprehensive Annual Financial Report as a discretely presented component unit.

The report is presented here in two sections:

1. The Introductory Section includes this letter of transmittal and a listing of the members of the Board of Water Commissioners and Manager.
2. The Financial Section includes the State Auditor's report, Management's Discussion and Analysis, 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. 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

Stephen P. Schneider, General Manager  
8 4<sup>th</sup> 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

Late 2004, was a busy time for the entire utility with the move to McCarrons Center. The new facility has brought together all the divisions of Regional Water into one location. Our new Computerized Maintenance Management System (CMMS) was implemented which has created challenges and opportunities for the workforce using this new system. We are continuing to invest in our supply and distribution infrastructure, technology, and human resources. Contracts for water service and water service repair were being worked on throughout 2004. 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 and surrounding communities.

### ***Business Division***

The Business Division focused on technological improvements with the configuration and successful implementation of CMMS. The new CMMS has helped improve the timeliness and accuracy of data and allowed us to reduce redundant data entry. Staff published the sixth edition of the “Beyond the Faucet” booklet as well as annual and water quality reports. The WaterWorks program, which provides assistance with water and sewer bills for needy customers, collected \$13,700 in contributions (an increase of 10% over 2003) and granted \$13,500 to 60 qualifying customers.

### ***Business Division - Future Operations***

The Business Division will continue to view the McCarrons Center 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 will be planning for a Customer Information and Billing System (CIS) to provide more opportunities for its customers and updating technology. 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 2004 on capital projects by continuing to replace aging infrastructure, especially unlined cast iron water main, hydrants and lead water services. The Division undertook two large main rehabilitation projects and installed nearly 6.5 miles of new main inside street reconstruction project areas that will provide many years of reliable service. Outside the project areas new and replacement copper water service connections were installed. The Division continues to be proud of their main break response, and on average, repairs 170 main breaks per year.

### ***Distribution Division - Future Operations***

In the future, further upgrades to the aging underground infrastructure including water main replacement, lead service replacement and hydrant replacement work are planned. In addition, greater and committed emphasis on uni-directional flushing, large valve exercising and hydrant inspection work will be performed for the long-range care of the system.

## HIGHLIGHTS IN SUMMARY (continued)

### *Engineering Division*

A number of large projects were completed in 2004 that will serve Regional Water and its customers well into the future. Some of these large projects included:

- The Lambert Lake Wetland Restoration that is expected to improve the quality of the source water in Vadnais Lake.
- The design and installation of two generators that are designed to supply electricity to the campus buildings and supply sufficient power to run the treatment plant at average daily production rates.
- The design of the new Granular Activated Carbon (GAC) filters at the McCarrons treatment facility has been completed.
- The digitizing of Regional Water's mains, valves, and hydrants to a Geographic Information System (GIS) format.

Engineering administration staff was also involved with a number of land sale issues related to divesting in the Rice Creek watershed properties, focusing on protecting the local watershed and developing the well supply for backup supply of source water.

### *Engineering Division – Future Operations*

The Engineering Division will focus primarily on three initiatives: 1) developing GIS, linking it to the CMMS, and rolling it out to the field applications; 2) working with the local watershed district and the Upper Mississippi River Source Water Protection Initiative (UMRSWPI) to provide water quality protection and enhancement; and 3) develop water quality feasibility designs to meet future regulatory requirements and customer needs.

### *Production Division*

Water production at the treatment plant averaged 46.5 million gallons per day, with a peak day of 84.4 million gallons on July 21. Water quality was good throughout the year, with no major taste and odor episodes. Complaints were down somewhat compared to previous years. Lead concentrations in water at the tap again became a national issue as Washington D.C. reported very high levels. In contrast, Saint Paul again passed the lead test with an all-time low of eight parts per billion at the 90th percentile.

### *Production Division – Future Operations*

One major initiative for the future is the switch to granular activated carbon filters. Because the new filters will utilize biological activity, our chlorine and ammonia application points will need to change to post-filtration. This will require changes to our finished water reservoir, in order to provide for the chemical feed points and the mixing required. Construction on the project should begin in 2005 and conclude in 2006. Following successful completion of this project, the filters should greatly aid us in reducing taste and odor in our water.

## INDEPENDENT AUDIT

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

## MANAGEMENT AND COMPLIANCE LETTER

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

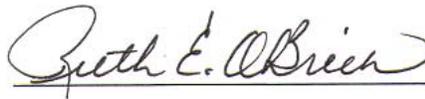
## ACKNOWLEDGMENTS

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

Respectfully submitted,



Stephen P. Schneider  
General Manager



Ruth E. O'Brien  
Financial Services Manager

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

As of December 31, 2004

**PUBLIC MEMBERS**

Term Expires

Matt Anfang, Commissioner June 2008

Gregory Kleindl, Commissioner June 2006

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

**CITY COUNCIL MEMBERS**

Pat Harris, President December 2007

Debbie Montgomery December 2007

Dave Thune December 2007

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

**SUBURBAN MEMBERS**

Robert Cardinal, Commissioner December 2005

John Zanmiller, Vice President December 2005

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**

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, 2004, 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, 2004, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis 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 8, 2005, on our consideration of the Saint Paul Regional Water Services' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



PATRICIA ANDERSON  
STATE AUDITOR



GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

End of Fieldwork: June 8, 2005

**SAINT PAUL REGIONAL WATER SERVICES  
SAINT PAUL, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended December 31, 2004**

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, 2004. This information should be read in conjunction with the financial statements.

Financial Highlights

- The assets of Regional Water exceeded its liabilities at the close of the most recent fiscal year by \$193,767,248 (Net assets). Of this amount, \$14,190,773 (unrestricted net assets) may be used to meet the utility's ongoing obligations.
- Regional Water's total net assets increased by \$3,657,022.

Overview of Annual Financial Report

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

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

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

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.

**SAINT PAUL REGIONAL WATER SERVICES  
SAINT PAUL, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended December 31, 2004**

Summary of Organization and Business

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

Financial Analysis

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

As can be seen from the following table, total net assets increased \$3.66 million to \$193.77 million in 2004, up from \$190.11 million in 2003. The increase in total net assets was primarily due to the investment of 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 decreased by \$796 thousand to \$32.96 million in 2004, down from \$33.76 million in 2003. Revenues in 2004 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 \$1.34 million to \$30.01 million in 2004: up from \$28.67 million in 2003. Most of the change is related to an increase of \$807 thousand in depreciation expense and a net increase of \$530 thousand for salaries and fringes.

**SAINT PAUL REGIONAL WATER SERVICES  
SAINT PAUL, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended December 31, 2004**

**Condensed Statement of Net Assets (in thousands)**

	Fiscal Year 2004	Fiscal Year 2003	Dollar Change	Total % Change
<b>Assets</b>				
Cash and Investments	\$ 17,849	\$ 29,965	\$ (12,116)	(40.4)
Other Current Assets	\$ 8,799	\$ 8,800	\$ (1)	(0.0)
Capital Assets - net	\$ 208,622	\$ 194,017	\$ 14,605	7.5
Other Noncurrent Assets	\$ 4,746	\$ 5,053	\$ (307)	(6.1)
Total Assets	\$ 240,016	\$ 237,835	\$ 2,181	0.9
<b>Liabilities</b>				
Current Liabilities	\$ 10,278	\$ 10,102	\$ 176	1.7
Noncurrent Liabilities	\$ 35,971	\$ 37,623	\$ (1,652)	(4.4)
Total Liabilities	\$ 46,249	\$ 47,725	\$ (1,476)	(3.1)
<b>Net Assets</b>				
Invested in Capital Assets				
Net of Related Debt	\$ 173,351	\$ 163,412	\$ 9,939	6.1
Restricted for Debt Service	6,225	6,892	(667)	(9.7)
Unrestricted	14,191	19,806	(5,615)	(28.3)
Total Net Assets	\$ 193,767	\$ 190,110	\$ 3,657	1.9

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

	Fiscal Year 2004	Fiscal Year 2003	Dollar Change	Total % Change
Operating Revenues	\$ 32,964	\$ 33,760	\$ (796)	(2.4)
Nonoperating Revenues (Expenses)	(912)	(963)	51	(5.3)
Total Revenues	\$ 32,052	\$ 32,797	\$ (745)	(2.3)
Operating Expenses	\$ 30,005	\$ 28,669	\$ 1,336	4.7
Income (Loss) Before Transfers and Contributions	\$ 2,047	\$ 4,128	\$ (2,081)	(50.4)
<b>Capital Contributions</b>				
Cash Contributions for Capital Acquisitions	\$ 1,374	\$ 1,741	\$ (367)	(21.1)
Capital Asset Contributions	236	275	(39)	(14.2)
Total Capital Contributions	\$ 1,610	\$ 2,016	\$ (406)	(20.1)
Change in Net Assets	\$ 3,657	\$ 6,144	\$ (2,487)	(40.5)
Net Assets - January 1	190,110	183,966	6,144	3.3
Net Assets - December 31	\$ 193,767	\$ 190,110	\$ 3,657	1.9

**SAINT PAUL REGIONAL WATER SERVICES  
SAINT PAUL, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended December 31, 2004**

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 2004, Regional Water had invested \$288.23 million in capital assets. The \$20.22 million increase in capital assets for the past fiscal year is primarily due to public improvements such as mains, hydrants and services. Also, about \$4.66 million was spent on improvements on the supply conduit, wetland improvements, and at the water treatment plant. These improvements include continued improvement in facilities, backup energy supply, security improvements, bridge, and entrance roads. Approximately \$7.0 million was spent on the new buildings at the McCarrons Center.

Long-Term Debt

At the end of 2004, bonds payable were \$20.2 million and revenue notes payable were \$15.4 million. This debt will be repaid by revenue generated by Regional Water.

Economic and Other Factors

Construction at the McCarrons Center was completed in 2004. The construction consisted of three new buildings: office, warehouse and meter shop, and garage. The Distribution Division and the downtown office functions of Administration, Engineering, and Business moved to the water treatment plant site at the end of 2004. Land was sold to Anoka County for \$77,000 and the utility received \$367,000 from the City of Vadnais Heights as final payment for land sold in 2003. These monies were used to help finance the McCarrons Center construction project.

Financial Contact

This financial report is designed to provide our customers and creditors with a general overview of Regional Water's finances and to demonstrate Regional Water's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Finance Department, Saint Paul Regional Water Services, 1900 Rice Street, Saint Paul, Minnesota 55113.

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BOARD OF WATER COMMISSIONERS OF THE CITY OF SAINT PAUL, MINNESOTA  
 REGIONAL WATER SERVICES STATEMENT OF NET ASSETS  
 December 31, 2004  
 (Amounts in dollars)

Exhibit A

ASSETS

Current Assets

Cash and Investments with Treasurer	1,965,780
Investments	13,903,051
Departmental Cash	161,892
Imprest Funds	7,000
Restricted Cash and Cash Equivalents	
Cash Grants and Other Contributions	11,331
Investments for Revenue Bond Debt Service	1,799,968
Receivables	
Accounts (net of allowance for Estimated Uncollectibles)	4,049,254
Assessments	
Current	564,705
Deferred	1,975,184
Delinquent	46,272
Tax Forfeited Property	12,358
Accrued Interest	193,878
Due from Primary Government	85,807
Due from Other Governmental Units	324,080
Inventory - Materials and Supplies	1,547,840

Total Current Assets 26,648,400

Noncurrent Assets

Restricted Assets	
Investments for Revenue Bond Future Debt Service	3,473,996
Investments for Revenue Bond Operations and Maintenance	1,024,893

Total Restricted Assets 4,498,889

Other Assets

Deferred Charges	93,099
Long-Term Loans Receivable	153,585

Total Other Assets 246,684

Capital Assets

Land	1,347,735
Buildings and Structures	42,034,107
Less: Accumulated Depreciation	(8,890,827)
Public Improvements	188,244,039
Less: Accumulated Depreciation	(55,076,419)
Equipment	31,442,441
Less: Accumulated Depreciation	(15,641,818)
Construction in Progress	25,162,817

Total Capital Assets (Net of Accumulated Depreciation) 208,622,075

Total Noncurrent Assets 213,367,648

Total Assets 240,016,048

continued

BOARD OF WATER COMMISSIONERS OF THE CITY OF SAINT PAUL, MINNESOTA  
 REGIONAL WATER SERVICES STATEMENT OF NET ASSETS  
 December 31, 2004  
 (Amounts in dollars)

Exhibit A

LIABILITIES

Current Liabilities (Payable from Current Assets)	
Accrued Salaries Payable	712,257
Compensated Absences Payable	85,343
Claims and Judgments Payable	444,102
Accounts Payable	1,965,093
Contract Retention Payable	672,554
Due to Primary Government	2,531,560
Due to Other Governmental Units	1,179,429
Unearned Revenue	229,586
Revenue Notes Payable	1,391,095
Accrued Interest Payable on Revenue Notes	66,630
	<hr/>
Total Current Liabilities (Payable from Current Assets)	9,277,649
	<hr/>
Current Liabilities (Payable from Restricted Assets)	
Accounts Payable	11,876
Revenue Bonds Payable	915,000
Accrued Interest Payable on Revenue Bonds	73,747
	<hr/>
Total Current Liabilities (Payable from Restricted Assets)	1,000,623
	<hr/>
Noncurrent Liabilities	
Revenue Bonds Payable	19,270,000
Compensated Absences Payable	1,604,342
Claims and Judgments Payable	1,401,571
Revenue Notes Payable	13,977,832
Less: Unamortized Discount	(283,217)
	<hr/>
Total Noncurrent Liabilities	35,970,528
	<hr/>
Total Liabilities	46,248,800
	<hr/>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	173,351,365
Restricted for Debt Service	6,225,110
Unrestricted	14,190,773
	<hr/>
Total Net Assets	193,767,248
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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, 2004  
(Amounts in dollars)

Exhibit B

OPERATING REVENUES	
Fees, Sales and Services	32,568,564
Rents and Leases	225,915
Miscellaneous	169,239
	<hr/>
Total Operating Revenues	32,963,718
OPERATING EXPENSES	
Salaries	9,940,782
Employee Fringe Benefits	4,625,552
Services	4,802,826
Materials and Supplies	4,686,986
Depreciation	5,890,975
Bad Debts	7,113
Miscellaneous	51,154
	<hr/>
Total Operating Expenses	30,005,388
OPERATING INCOME (LOSS)	2,958,330
NON-OPERATING REVENUES (EXPENSES)	
Operating Grants	77,960
Gain on Sale of Assets	103,034
Loss on Retirement of Assets	(291,138)
Contributions to Other Agencies	(231,991)
Investment Income	
Interest Earned on Investments	1,011,861
Decrease in Fair Value of Investments	(135,440)
Miscellaneous Other Revenue (Expenses)	69,611
Interest Expense on	
Revenue Bonds	(947,603)
Revenue Notes	(550,476)
Amortization of Bond Issuance Costs	(17,509)
	<hr/>
Total Non-Operating Revenues (Expenses)	(911,691)
INCOME BEFORE CAPITAL CONTRIBUTIONS	2,046,639
CAPITAL CONTRIBUTIONS	
Capital Contributions - Outside Parties	236,101
Capital Acquisitions - Outside Sources	1,374,282
	<hr/>
CHANGE IN NET ASSETS	3,657,022
NET ASSETS, January 1	190,110,226
	<hr/>
NET ASSETS, December 31	193,767,248
	<hr/> <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, 2004  
(Amounts in dollars)

Exhibit C

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from Customers	32,910,018
Other Operating Receipts	225,915
Other Receipts	169,239
Payments to Suppliers	(8,939,403)
Payments to Employees	<u>(14,331,818)</u>

NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES 10,033,951

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Operating Grants Received	77,960
Contributions to Other Agencies	(200,000)
Non-Operating Revenue Received	69,611
Non-Operating Loans Issued to Customers	<u>(406,271)</u>

NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES (458,700)

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Cash Proceeds From Sale of Capital Assets:	
Land	443,453
Public Improvements	90
Equipment	32,285
Capital Contributions Received:	
From Outside Parties	1,562,812
Principal Paid on Debt Maturities:	
Revenue Bonds	(1,315,000)
Revenue Notes	(1,192,547)
Payments on Capital Lease	(144,614)
Payments for Acquisition and Construction of Capital Assets:	
Construction in Progress	(20,674,987)
Interest Paid On:	
Revenue Bonds	(937,118)
Revenue Notes	<u>(555,357)</u>

NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES (22,780,983)

CASH FLOWS FROM INVESTING ACTIVITIES

Interest and Dividends on Investments Received	1,025,910
Proceeds From Sale and Maturities of Investment Securities	11,005,497
Increase (Decrease) in Fair Value of Investments	(76,768)
Purchase of Investment Securities	<u>(16,165)</u>

NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES 11,938,474

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (1,267,258)

CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR 3,413,261

CASH AND CASH EQUIVALENTS AT END OF YEAR 2,146,003

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, 2004  
(Amounts in dollars)

Exhibit C

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

Operating Income (Loss)		<u>2,958,330</u>
Adjustments To Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Depreciation	5,890,975	
Increase (Decrease) in Allowance for Uncollectible Accounts	(11,782)	
Changes in Assets and Liabilities:		
(Increase) Decrease in Accounts Receivable	32,386	
(Increase) Decrease in Assessments Receivable	353,254	
(Increase) Decrease in Due from Primary Government	(28,692)	
(Increase) Decrease in Due from Other Governmental Units	(4,845)	
(Increase) Decrease in Inventories	(77,401)	
Increase (Decrease) in Accrued Salaries Payable	130,846	
Increase (Decrease) in Compensated Absences Payable	103,670	
Increase (Decrease) in Claims and Judgments Payable	565,704	
Increase (Decrease) in Accounts Payable	(80,929)	
Increase (Decrease) in Due to Primary Government	206,135	
Increase (Decrease) in Due to Other Governmental Units	(11,946)	
Increase (Decrease) in Deferred Revenue	<u>8,246</u>	
Total Adjustments		<u>7,075,621</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		<u><u>10,033,951</u></u>

DETAILS OF CASH AND CASH EQUIVALENTS

Cash and Investments with Treasurer	1,965,780
Departmental Cash	161,892
Imprest Funds	7,000
Cash Grants and Other Contributions	<u>11,331</u>
TOTAL CASH AND CASH EQUIVALENTS	<u><u>2,146,003</u></u>

NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES

Retirement/Deletion of Capital Assets	(329,130)
Contributions from Outside Sources	236,101
Change in Fair Value of Investments	(76,768)
Capital Assets Purchased on Account	2,021,399

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, 2004

Index

1. Board of Water Commissioners
2. Summary of Significant Accounting Policies
  - A. Financial Reporting Entity
  - B. Proprietary Activity
  - C. Basis of Accounting/Measurement Focus
  - D. Cash and Investments
  - E. Receivables
  - F. Material and Supplies Inventory
  - G. Restricted Assets
  - H. Capital Assets
  - I. Compensated Absences
  - J. Employee Fringe Benefits
  - K. Bond Discounts and Issuance Costs
  - L. Equity Classifications
  - M. Capital Contributions
  - N. Operating and Non-Operating Revenues and Expenses
3. Detail Notes
  - A. Assets
    1. Deposits and Investments
    2. Summary of Changes in Capital Assets
  - B. Liabilities
    1. Debt Obligations of the Board of Water Commissioners
      - a. Current and Long-Term Debt Maturities
      - b. Changes in Debt Obligations
      - c. Principal and Interest Requirements on Debt Obligations
        - i. All Debt
        - ii. Revenue Notes
        - iii. Claims and Judgments
        - iv. Compensated Absences
    2. Bonds Payable By Issue
    3. Notes Payable By Issue
  - C. Due From Primary Government
  - D. Due To Primary Government
4. Other Information
  - A. Pension Plans
  - B. Post-Employment Benefits
  - C. Risk Management
  - D. Contingent Liabilities
  - E. Joint Powers
  - F. Subsequent Events

**SAINT PAUL REGIONAL WATER SERVICES  
SAINT PAUL, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended December 31, 2004**

**Note 1. Board of Water Commissioners**

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

**Note 2. Summary of Significant Accounting Policies**

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

**A. Financial Reporting Entity**

In conformance with the application of the criteria set forth in generally accepted accounting principles, Regional Water is part of the City of Saint Paul (the primary government) reporting entity and is shown in the City's Comprehensive Annual Financial Report for the fiscal year ended December 31, 2004 as a discretely presented component unit.

**B. Proprietary Activity**

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

**SAINT PAUL REGIONAL WATER SERVICES  
SAINT PAUL, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended December 31, 2004**

**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, 2004. 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 2004, Regional Water recorded a "decrease in fair value of investments" as investment income of \$135,440. 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.

**SAINT PAUL REGIONAL WATER SERVICES  
SAINT PAUL, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended December 31, 2004**

**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, 2004 is as follows:

Accounts Receivable - Registered Bills	\$ 81,882
Accounts Receivable - Water Billings	2,964,880
Accounts Receivable - Unbilled	916,458
Accounts Receivable - Miscellaneous	145,383
Allowance for Uncollectible Accounts	<u>(59,349)</u>
Accounts Receivable (net of Allowance for Estimated Uncollectible)	<u>\$ 4,049,254</u>

The Assessments Receivables consist of Current, Deferred, Delinquent and Tax Forfeiture accounts. Current assessments consist of water mains constructed, lead service replacements, and unpaid water bills assessed for the current year. Deferred assessments are made up of water main and lead service replacements to be assessed over ten to twenty years. Delinquent assessments are levied assessments that have not been paid from 1999 through 2003. Tax forfeited properties are subject to forfeiture.

**F. Material and Supplies Inventory**

Inventories are valued at cost, which approximates market, using the average cost method.

**G. Restricted Assets**

Mandatory segregations of assets are presented as restricted assets. 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.

**SAINT PAUL REGIONAL WATER SERVICES  
SAINT PAUL, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended December 31, 2004**

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

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

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

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

**I. Compensated Absences**

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

Employees earn vacation based on years of service and their bargaining unit. Vacation must be used in the year it is earned, except for 15 days, which may be carried over to the following year. Employees are paid 100% of their accumulated vacation pay when they terminate their employment.

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.

**SAINT PAUL REGIONAL WATER SERVICES  
SAINT PAUL, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended December 31, 2004**

**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.

**SAINT PAUL REGIONAL WATER SERVICES  
SAINT PAUL, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended December 31, 2004**

**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 \$1,965,780 (carrying amount) are entirely insured or collateralized with securities held by the City of Saint Paul or by its agent in the City's name.

*Other Funds on Hand*

At December 31, 2004, the total imprest funds were \$7,000. Regional Water also had departmental cash on hand of \$161,892.

*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;

**SAINT PAUL REGIONAL WATER SERVICES  
SAINT PAUL, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended December 31, 2004**

**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, 2004 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.

**SAINT PAUL REGIONAL WATER SERVICES  
SAINT PAUL, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended December 31, 2004**

**Note 3. A. Assets (continued)**

<u>Securities Type</u>	<u>Custodial Credit Risk Category</u>			<u>Reported Amount</u>	<u>Fair Value</u>
	<u>1</u>	<u>2</u>	<u>3</u>		
U.S. Government and Agency Securities Not on Securities Loan	<u>\$20,213,239</u>	<u>\$-</u>	<u>\$-</u>	<u>\$20,213,239</u>	<u>\$20,213,239</u>

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, 2004, 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, 2004**

**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	\$ 1,965,780
Investments	13,903,051
Departmental Cash	161,892
Imprest Funds	7,000
Restricted Cash and Cash Equivalents:	
Cash Grants and Other Contributions	11,331
Investments for Revenue Bond Debt Service	1,799,968
Investments for Revenue Bond Future Debt Service	3,473,996
Investments for Revenue Bond Operations and Maintenance	1,024,893
Total	<u>\$ 22,347,911</u>
Deposits	\$ 1,965,780
Investments	20,213,239
Departmental Cash	161,892
Imprest Funds	7,000
Total	<u>\$ 22,347,911</u>

**2. Summary of Changes in Capital Assets**

A summary of changes in capital assets follows:

	01/01/04	Additions	Deductions	12/31/04
Capital Assets Not Being Depreciated:				
Land	\$ 1,329,617	\$ 23,973	\$ (5,855)	\$ 1,347,735
Construction in Progress	25,503,697	21,247,924	(21,588,804)	25,162,817
Total Capital Assets Not Being Depreciated	<u>\$ 26,833,314</u>	<u>\$ 21,271,897</u>	<u>\$ (21,594,659)</u>	<u>\$ 26,510,552</u>
Capital Assets Being Depreciated:				
Buildings and Structures	\$ 34,813,130	\$ 7,275,830	\$ (54,853)	\$ 42,034,107
Public Improvements	176,648,191	11,956,409	(360,561)	188,244,039
Equipment	29,719,329	2,313,192	(590,080)	31,442,441
Total Capital Assets Being Depreciated	<u>\$ 241,180,650</u>	<u>\$ 21,545,431</u>	<u>\$ (1,005,494)</u>	<u>\$ 261,720,587</u>
Less Accumulated Depreciation for:				
Buildings and Structures	\$ (7,777,244)	\$ (1,138,195)	\$ 24,612	\$ (8,890,827)
Public Improvements	(51,884,393)	(3,343,726)	151,700	(55,076,419)
Equipment	(14,335,103)	(1,820,294)	513,579	(15,641,818)
Total Accumulated Depreciation	<u>\$ (73,996,740)</u>	<u>\$ (6,302,215)</u>	<u>\$ 689,891</u>	<u>\$ (79,609,064)</u>
Total Capital Assets Being Depreciated, Net	<u>\$ 167,183,910</u>	<u>\$ 15,243,216</u>	<u>\$ (315,603)</u>	<u>\$ 182,111,523</u>
Capital Assets, Net	<u>\$ 194,017,224</u>	<u>\$ 36,515,113</u>	<u>\$ (21,910,262)</u>	<u>\$ 208,622,075</u>

**SAINT PAUL REGIONAL WATER SERVICES  
SAINT PAUL, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended December 31, 2004**

**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, 2004, long-term debt consisted of:

	Unpaid Balances December 31, 2004	Principal Less Current Maturities	Long-Term Maturities
Notes Payable	\$ 15,368,927	\$ 1,391,095	\$ 13,977,832
Revenue Bonds	20,185,000	915,000	19,270,000
Compensated Absences	1,689,685	85,343	1,604,342
Claims and Judgments	1,845,673	444,102	1,401,571
Total	\$ 39,089,285	\$ 2,835,540	\$ 36,253,745

**b. Changes in Debt Obligations**

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

	01/01/04	Additions	Deductions	12/31/04
General Obligation				
Waste Water Revenue Note	\$ 3,139,546	\$ -	\$ 193,304	\$ 2,946,242
Drinking Water Revenue Note	13,400,000	-	990,000	12,410,000
Xcel Energy Retrofit Notes	22,844	-	10,159	12,685
Revenue Bonds	21,500,000	-	1,315,000	20,185,000
Capital Lease	144,614	-	144,614	-
Compensated Absences	1,586,015	103,670	-	1,689,685
Claims and Judgments	1,279,969	565,704	-	1,845,673
Total	\$ 41,072,988	\$ 669,374	\$ 2,653,077	\$ 39,089,285

**SAINT PAUL REGIONAL WATER SERVICES  
SAINT PAUL, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended December 31, 2004**

**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 \$35,553,927 and interest of \$12,109,675 on all Regional Water debt outstanding as of December 31, 2004, are as follows:

26

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
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	\$165,000	\$57,750	\$222,750	\$300,000	\$312,838	\$612,838	\$475,000	\$326,375	\$801,375	\$940,000	\$696,963	\$1,636,963
2010-14	\$990,000	\$104,500	\$1,094,500	\$2,175,000	\$1,295,537	\$3,470,537	\$2,550,000	\$1,402,325	\$3,952,325	\$5,715,000	\$2,802,362	\$8,517,362
2015-19	-	-	-	\$3,450,000	\$607,376	\$4,057,376	\$3,150,000	\$890,650	\$4,040,650	\$6,600,000	\$1,498,026	\$8,098,026
2020-22	-	-	-	-	-	-	\$2,300,000	\$203,838	\$2,503,838	\$2,300,000	\$203,838	\$2,503,838
	<u>\$3,160,000</u>	<u>\$634,246</u>	<u>\$3,794,246</u>	<u>\$7,200,000</u>	<u>\$3,636,452</u>	<u>\$10,836,452</u>	<u>\$9,825,000</u>	<u>\$4,220,188</u>	<u>\$14,045,188</u>	<u>\$20,185,000</u>	<u>\$8,490,886</u>	<u>\$28,675,886</u>

**SAINT PAUL REGIONAL WATER SERVICES  
SAINT PAUL, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended December 31, 2004**

**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
2005	\$198,910	\$83,430	\$282,340	\$1,185,000	\$431,868	\$1,616,868	\$7,185	\$1,391,095	\$515,298	\$1,906,393
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	\$ -	\$1,175,618	\$426,508	\$1,602,126
2008	\$216,727	\$65,613	\$282,340	\$925,000	\$321,204	\$1,246,204	\$ -	\$1,141,727	\$386,817	\$1,528,544
2009	\$223,014	\$59,327	\$282,341	\$910,000	\$289,014	\$1,199,014	\$ -	\$1,133,014	\$348,341	\$1,481,355
2010-14	\$1,215,939	\$195,762	\$1,411,701	\$4,455,000	\$987,624	\$5,442,624	\$ -	\$5,670,939	\$1,183,386	\$6,854,325
2015-18	\$676,354	\$29,497	\$705,851	\$2,940,000	\$260,652	\$3,200,652	\$ -	\$3,616,354	\$290,149	\$3,906,503
	<u>\$2,946,242</u>	<u>\$583,011</u>	<u>\$3,529,253</u>	<u>\$12,410,000</u>	<u>\$3,035,778</u>	<u>\$15,445,778</u>	<u>\$12,685</u>	<u>\$15,368,927</u>	<u>\$3,618,789</u>	<u>\$18,987,716</u>

Regional Water purchased computer equipment in 2002 through a capital lease agreement. Final payment of \$144,614 was made in 2004. There will be no future payments.

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, 2004, was \$6,500,000.

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, 2004, three notes for \$12,685 were outstanding.

**SAINT PAUL REGIONAL WATER SERVICES  
SAINT PAUL, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended December 31, 2004**

**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, 2004, the claims and judgments liability was \$1,845,673.

iv. Compensated Absences

Included in Regional Water's debt are compensated absences for \$1,689,685.

**2. Bonds Payable By Issue**

<u>Issue</u>	<u>Issue Rate And Dates</u>	<u>Issue Dates</u>	<u>Final Maturity Date</u>	<u>Amount Outstanding</u>
Revenue	4.75%; 06/01; 12/01	07/01/97	12/01/12	\$ 3,160,000
Revenue	5.40%; 06/01; 12/01	05/01/00	12/01/19	7,200,000
Revenue	3.86%; 06/01; 12/01	03/01/03	12/01/22	<u>9,825,000</u>
Total				<u>\$ 20,185,000</u>

**3. Notes Payable By Issue**

<u>Issue</u>	<u>Issue Rate And Dates</u>	<u>Issue Date</u>	<u>Final Maturity Date</u>	<u>Amount Outstanding</u>
Wastewater Treatment Water Revenue Note	2.88%; 02/20; 8/20	06/26/96	02/20/17	\$ 2,946,242
Drinking Water Revenue Note	3.45%; 6/01; 12/01	12/01/98	12/01/18	12,410,000
Xcel Energy Note	(1) 0.0%	11/95	08/05	1,509
Xcel Energy Note	(1) 0.0%	11/98	04/05	175
Xcel Energy Note	(1) 0.0%	11/98	01/07	<u>11,001</u>
Total				<u>\$15,368,927</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.

**SAINT PAUL REGIONAL WATER SERVICES  
SAINT PAUL, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended December 31, 2004**

**Note 3. Detail Notes (continued)**

**C. Due From Primary Government**

At December 31, 2004, 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>
G.O. Special Assessment – Streets	Debt Service Fund	\$ 649
Sewer Utility	Enterprise Fund	63,764
Public Works Traffic Signal and Light Maint.	Internal Service Fund	7,412
Right of Way Maintenance	Special Revenue Fund	1,080
Finance Special Projects	Special Revenue Fund	<u>12,902</u>
 Total		 <u>\$ 85,807</u>

**D. Due To Primary Government**

At December 31, 2004, 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>
2003 Capital Projects - OFS	Capital Projects Fund	\$ 47,946
River Print Saint Paul/Ramsey County	Enterprise Fund	34,866
Sewer Utility	Enterprise Fund	2,298,842
Asphalt Plant	Internal Service Fund	2,239
Public Works Equipment	Internal Service Fund	18,226
Public Works Administration	Internal Service Fund	21,360
Special Projects-General Government	Special Revenue Fund	61,883
Right of Way Maintenance	Special Revenue Fund	44,532
Parking Meter Collections	Special Revenue Fund	<u>1,666</u>
 Total		 <u>\$2,531,560</u>

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

\$2.09 per regular sewer bill transaction  
\$0.87 per rainleader transaction

**SAINT PAUL REGIONAL WATER SERVICES  
SAINT PAUL, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended December 31, 2004**

**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, 2004, 2003, and 2002 were \$652,140, \$658,771, and \$653,513 respectively. The corresponding total employee's shares were \$601,228, \$606,671, and \$598,197. 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, 2004.

**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 2004 were as follows:

	<u>Age</u>	<u>Average Monthly SPRWS Contribution</u>	<u>Average Monthly Retiree Contribution</u>
Health Insurance	Less than 65	\$290	\$263
	65 and older	\$323	\$0
Life Insurance	Less than 65	\$4	\$0
	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 2004 expense totaled \$772,539 for approximately 202 retirees.

**SAINT PAUL REGIONAL WATER SERVICES  
SAINT PAUL, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended December 31, 2004**

**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 2003 and 2004:

	<u>Year Ended December 31, 2003</u>	<u>Year Ended December 31, 2004</u>
Beginning fiscal year liability	\$ 921,028	\$ 1,279,969
Current year claims and changes in estimates	905,094	1,246,023
Claim payments	<u>(546,153)</u>	<u>(680,319)</u>
End of year liability	<u>\$ 1,279,969</u>	<u>\$ 1,845,673</u>

**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 assessments to the membership and grants. During 2004, Regional Water was assessed \$1,965 and contributed a grant in the amount of \$231,991 designated for the Lambert Lake Restoration Project. Financial information for VLAWMO can be obtained from its administrative office at 4701 Highway 61, White Bear Lake, Minnesota 55110-3277.

**SAINT PAUL REGIONAL WATER SERVICES  
SAINT PAUL, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended December 31, 2004**

**Note 4. Other Information (continued)**

**F. Subsequent Events**

During March 2005, Regional Water issued \$11,380,000 Water Revenue Bonds, Series 2005D. The bonds mature annually on December 1, commencing December 1, 2005 with installments amounts ranging from \$100,000 to \$810,000. Interest is payable on each June 1 and December 1 commencing December 1, 2005 with amounts ranging from 3.0% to 4.3%. Proceeds of the bonds will be used to finance improvements to the water treatment infrastructure in order to enhance the ability of Regional Water to control the taste and odor of drinking water.