

**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, 2005**

**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, 2005**

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INTRODUCTORY SECTION



BOARD OF WATER COMMISSIONERS

President: Patrick Harris ♦ Vice President: John Zanmiller

Commissioners: Matt Anfang ♦ Gregory Kleindl ♦ Debbie Montgomery ♦ Will Rossbach ♦ Dave Thune

June 15, 2006

TO: BOARD OF WATER COMMISSIONERS

Patrick Harris, President
John Zanmiller, Vice President
Commissioner Matt Anfang
Commissioner Gregory Kleindl
Commissioner Debbie Montgomery
Commissioner Will Rossbach
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, 2005. 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.

SAINT PAUL REGIONAL WATER SERVICES

Stephen P. Schneider, General Manager

1900 Rice St. Saint Paul MN 55113-6810 ♦ 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

We expanded the scope of our services to others, including additional billing and financial services. To better serve our customers, we made numerous improvements to our automated services and issued a request for proposal to study replacement of our Customer Information and Billing System. We focused a great deal of effort on capital projects in our distribution system, including large main, piping and hydrant replacement and rehabilitation projects and replacement of lead services with copper water service connections. Other significant projects included the Lambert Lake Wetland Restoration and design of the well field expansion. We began construction on our major water quality initiative—i.e., replacing our current filtering system with granular activated carbon (GAC) filters. We will continue to work on achieving our strategic goals. We expect that our increasing investments in technology enhancements and capital projects, as well as our commitment to maintaining a well-trained workforce, will be instrumental in helping us accomplishing those goals.

Business Division

We executed a new 20-year contract with the City of Roseville for wholesale water service, added billing services for our suburban communities, and revamped our bill and billing envelope formats. We also started lock box services for Saint Paul Public Works. A business impact analysis study identified and prioritized business processes that might be affected in the event of a major disruption to service. This analysis will provide the groundwork for developing a continuation of operations and emergency response plan.

Numerous automation improvements throughout the utility were implemented or begun, including issuance of a request for proposal to study replacement of our Customer Information and Billing System, expanded use of our Computerized Maintenance Management System (CMMS), implementation of a new document management system, and installation of an alternate fiber telecommunications link to the City's computer network and an enterprise back-up system.

The WaterWorks program, which provides assistance with water and sewer bills for needy customers, collected \$19,415 in contributions (an increase of 5% over 2004) and granted \$19,466 to 96 qualifying customers. A customer satisfaction survey, mailed to 2,900 randomly selected customers, yielded a response rate of 14.4 percent, with a satisfaction rate of nearly 90 percent.

To improve public information, we redesigned and overhauled our web page and produced several publications, including *Tapping the Waters . . . The history of the Saint Paul water utility*; the *2005 Water Quality Report*; and the *Customer Service Connections* newsletter mailed to all customers.

Business Division - Future Operations

We will continue to view the McCarron's Center consolidation and technology improvements as opportunities to streamline services and processes. We will strive to provide excellent support services to all areas of the utility as well as to its external customers and business partners.

HIGHLIGHTS IN SUMMARY (continued)

Distribution Division

The Distribution Division focused much effort on capital projects. We continued to replace aging infrastructure, including new and replacement mains, piping and fire hydrants that were installed in coordination with city street reconstruction projects, in new development projects in Maplewood and Saint Paul, and in neighborhoods outside these project areas. We also replaced 725 lead services with copper services. We continued responding to main breaks and miscellaneous maintenance needs across Regional Water's service area and in Oakdale and White Bear Township. Finally, we attended to the on-going maintenance demands of the distribution system by inspecting 4,540 hydrants, exercising 60 large valves and flushing approximately 150 miles of main. The metering reading system has been well-maintained as we consistently obtain actual reads of over 97 percent. We continue to install radio read systems for accounts that are difficult to read.

Distribution Division - Future Operations

For the future, we plan further upgrades to the aging underground infrastructure. In addition, greater emphasis on uni-directional flushing, large valve exercising and hydrant inspection work is needed for the long range-care of the system. According to a recent statistical analysis of our meter test data, meters have a 20-year service life.

Engineering Division

Several large projects were initiated in 2005 that will serve Regional Water and its customers well into the future. Some of these large projects included the design of the well field expansion, sludgefield capping and digitizing of records to a Geographic Information System (GIS) format.

Engineering work in the distribution system included planning and construction coordination for its water main construction, valve replacement and lead service replacement programs. Engineering staff was also involved with the remaining land sale issues related to divesting of the Rice Creek watershed properties and focusing on protecting the local watershed and developing the well supply for backup.

The Upper Mississippi River Source Water Protection Initiative (UMRSWPI) moved ahead by developing plans to bring resources to the various watershed groups throughout the upper Mississippi River watershed.

Engineering Division – Future Operations

The Engineering Division will continue to focus primarily on three initiatives: 1) developing the GIS system, linking it to the CMMS and pushing out to the field applications; 2) working with the local watershed district and the UMRSWPI to provide water quality protection and enhancement; and 3) developing applications and tools to meet future regulatory requirements and customer needs.

HIGHLIGHTS IN SUMMARY (continued)

Production Division

Continuing a recent downward trend, water production at McCarron's treatment plant dropped to an average of 45.0 million gallons per day, with a peak day of 93.7 million gallons on July 21. This average rate is the lowest since 1965. Water quality was good throughout the year, with no major taste and odor episodes, and complaints at less than half of our normal levels. Saint Paul again passed the test for lead at the tap and will now be able to go to a reduced monitoring schedule. End of the year trends for both electrical costs and chemical costs were up significantly, which is somewhat ominous when combined with the lower production rates. On the positive side, the new generators were successfully operated over the summer and should help avoid some energy costs.

Production Division – Future Operations

Plans were finished, bids taken, and construction begun on our major taste and odor initiative—i.e., switching to granular activated carbon filters. At the end of 2005, construction of the new baffle walls in the finished water reservoir was underway, with the tunnel that will carry the chemical feed lines to the reservoir completed. Commissioning of the first set of 12 filters is expected to occur in December, with the remainder in the first quarter of 2007. 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.

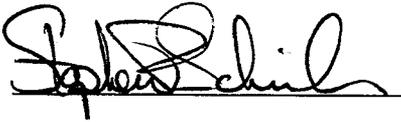
MANAGEMENT AND COMPLIANCE LETTER

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

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

As of December 31, 2005

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

Will Rossbach, Commissioner	December 2007
John Zanmiller, Vice President	December 2007

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, 2005, 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.

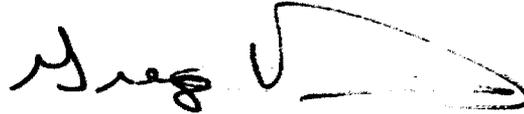
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Saint Paul Regional Water Services at December 31, 2005, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting 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 19, 2006, 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 19, 2006

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended December 31, 2005**

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, 2005. 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 \$197,072,095 (Net assets). Of this amount, \$13,698,778 (unrestricted net assets) may be used to meet the utility's ongoing obligations.
- Regional Water's total net assets increased by \$3,304,847.

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, 2005**

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 \$3.30 million to \$197.07 million in 2005, up from \$193.77 million in 2004. 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 increased by \$422 thousand to \$33.38 million in 2005, up from \$32.96 million in 2004. Revenues in 2005 and 2004 were uncharacteristically low, due to the high precipitation summer.

Expenses

Regional Water's operating expenses increased by \$1.34 million to \$31.35 million in 2005, up from \$30.01 million in 2004. Most of the change is related to an increase of \$1.04 million for salaries and fringes and \$286 thousand for materials and services.

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended December 31, 2005**

Condensed Statement of Net Assets (in thousands)

	Fiscal Year 2005	Fiscal Year 2004	Dollar Change	Total % Change
Assets				
Cash and Investments	\$ 25,885	\$ 17,849	\$ 8,036	45.0
Other Current Assets	\$ 9,148	\$ 8,799	\$ 349	4.0
Capital Assets - net	\$ 211,384	\$ 208,622	\$ 2,762	1.3
Other Noncurrent Assets	\$ 6,080	\$ 4,746	\$ 1,334	28.1
Total Assets	\$ 252,497	\$ 240,016	\$ 12,481	5.2
Liabilities				
Current Liabilities	\$ 10,310	\$ 10,278	\$ 32	0.3
Noncurrent Liabilities	\$ 45,115	\$ 35,971	\$ 9,144	25.4
Total Liabilities	\$ 55,425	\$ 46,249	\$ 9,176	19.8
Net Assets				
Invested in Capital Assets				
Net of Related Debt	\$ 175,322	\$ 173,351	\$ 1,971	1.1
Restricted for Debt Service	8,051	6,225	1,826	29.3
Unrestricted	13,699	14,191	(492)	(3.5)
Total Net Assets	\$ 197,072	\$ 193,767	\$ 3,305	1.7

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

	Fiscal Year 2005	Fiscal Year 2004	Dollar Change	Total % Change
Operating Revenues	\$ 33,386	\$ 32,964	\$ 422	1.3
Nonoperating Revenues (Expenses)	(84)	(912)	828	(90.8)
Total Revenues	\$ 33,302	\$ 32,052	\$ 1,250	3.9
Operating Expenses	\$ 31,345	\$ 30,005	\$ 1,340	4.5
Income (Loss) Before Transfers and Contributions	\$ 1,957	\$ 2,047	\$ (90)	(4.4)
Capital Contributions				
Cash Contributions for Capital Acquisitions	\$ 1,161	\$ 1,374	\$ (213)	(15.5)
Capital Asset Contributions	187	236	(49)	(20.8)
Total Capital Contributions	\$ 1,348	\$ 1,610	\$ (262)	(16.3)
Change in Net Assets	\$ 3,305	\$ 3,657	\$ (352)	(9.6)
Net Assets - January 1	193,767	190,110	3,657	1.9
Net Assets - December 31	\$ 197,072	\$ 193,767	\$ 3,305	1.7

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended December 31, 2005**

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 2005, Regional Water had invested \$296.77 million in capital assets. The \$8.54 million increase in capital assets for the past fiscal year is primarily due to public improvements such as mains, hydrants and services. Completion of an entrance road, bridge, and landscaping brought the end of work to the McCarrons Center. Work began on the bond funded water treatment project.

Long-Term Debt

Regional Water issued \$11,380,000 Water Revenue Bonds, Series 2005D in March 2005. These 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. At the end of 2005, bonds payable were \$30.5 million and revenue notes payable were \$14.0 million. This debt will be repaid by revenue generated by Regional Water.

Economic and Other Factors

Land was sold to Anoka County for \$947,000.

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, 2005
 (Amounts in dollars)

Exhibit A

ASSETS

Current Assets

Cash and Investments with Treasurer	7,024,578
Investments	15,950,656
Departmental Cash	167,664
Imprest Funds	7,000
Restricted Cash and Cash Equivalents	
Cash Grants and Other Contributions	9,845
Investments for Revenue Bond Debt Service	2,724,878
Receivables	
Accounts (net of allowance for Estimated Uncollectibles)	3,570,330
Assessments	
Current	661,640
Deferred	1,709,355
Delinquent	76,821
Accrued Interest	224,374
Due from Primary Government	275,822
Due from Other Governmental Units	773,048
Inventory - Materials and Supplies	1,856,074

Total Current Assets 35,032,085

Noncurrent Assets

Restricted Assets

Investments for Revenue Bond Future Debt Service	4,355,507
Investments for Revenue Bond Operations and Maintenance	1,078,014

Total Restricted Assets 5,433,521

Other Assets

Deferred Charges	127,107
Long-Term Loans Receivable	519,718

Total Other Assets 646,825

Capital Assets

Land	1,322,083
Buildings and Structures	53,572,306
Less: Accumulated Depreciation	(9,985,272)
Public Improvements	190,425,675
Less: Accumulated Depreciation	(58,247,788)
Equipment	35,776,784
Less: Accumulated Depreciation	(17,155,395)
Construction in Progress	15,676,036

Total Capital Assets (Net of Accumulated Depreciation) 211,384,429

Total Noncurrent Assets 217,464,775

Total Assets 252,496,860

continued

BOARD OF WATER COMMISSIONERS OF THE CITY OF SAINT PAUL, MINNESOTA
 REGIONAL WATER SERVICES STATEMENT OF NET ASSETS
 December 31, 2005
 (Amounts in dollars)

Exhibit A

LIABILITIES

Current Liabilities (Payable from
 Current Assets)

Accrued Salaries Payable	742,118
Compensated Absences Payable	77,527
Claims and Judgments Payable	476,009
Accounts Payable	1,476,113
Contract Retention Payable	180,372
Due to Primary Government	2,833,287
Due to Other Governmental Units	1,487,634
Unearned Revenue	188,001
Revenue Notes Payable	1,240,181
Accrued Interest Payable on Revenue Notes	61,125

Total Current Liabilities (Payable from Current Assets)	<u>8,762,367</u>
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Current Liabilities (Payable from
 Restricted Assets)

Accounts Payable	854
Revenue Bonds Payable	1,440,000
Accrued Interest Payable on Revenue Bonds	107,073

Total Current Liabilities (Payable from Restricted Assets)	<u>1,547,927</u>
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Noncurrent Liabilities

Revenue Bonds Payable	29,110,000
Compensated Absences Payable	1,658,878
Claims and Judgments Payable	1,972,157
Revenue Notes Payable	12,737,651
Less: Unamortized Discount	(364,215)

Total Noncurrent Liabilities	<u>45,114,471</u>
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Total Liabilities	<u>55,424,765</u>
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NET ASSETS

Invested in Capital Assets, Net of Related Debt	175,321,991
Restricted for Debt Service	8,051,326
Unrestricted	13,698,778

Total Net Assets	<u><u>197,072,095</u></u>
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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, 2005
(Amounts in dollars)

Exhibit B

OPERATING REVENUES	
Fees, Sales and Services	33,023,915
Rents and Leases	199,942
Miscellaneous	162,448
	<hr/>
Total Operating Revenues	33,386,305
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OPERATING EXPENSES	
Salaries	10,586,129
Employee Fringe Benefits	5,022,304
Services	4,445,013
Materials and Supplies	5,340,438
Depreciation	5,867,255
Bad Debts	25,309
Miscellaneous	58,816
	<hr/>
Total Operating Expenses	31,345,264
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OPERATING INCOME (LOSS)	2,041,041
<hr/>	
NON-OPERATING REVENUES (EXPENSES)	
Operating Grants	77,960
Gain on Sale of Assets	986,840
Loss on Retirement of Assets	(272,380)
Investment Income	
Interest Earned on Investments	1,155,856
Decrease in Fair Value of Investments	(270,718)
Miscellaneous Other Revenue (Expenses)	22,698
Interest Expense on	
Revenue Bonds	(1,254,756)
Revenue Notes	(509,793)
Amortization of Bond Issuance Costs	(19,536)
	<hr/>
Total Non-Operating Revenues (Expenses)	(83,829)
<hr/>	
INCOME BEFORE CAPITAL CONTRIBUTIONS	1,957,212
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CAPITAL CONTRIBUTIONS	
Capital Contributions - Outside Parties	186,611
Capital Acquisitions - Outside Sources	1,161,024
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CHANGE IN NET ASSETS	3,304,847
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NET ASSETS, January 1	193,767,248
<hr/>	
NET ASSETS, December 31	197,072,095
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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, 2005
 (Amounts in dollars)

Exhibit C

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from Customers	33,013,711
Other Operating Receipts	199,942
Other Receipts	162,448
Payments to Suppliers	(8,703,499)
Payments to Employees	<u>(15,531,852)</u>

NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES 9,140,750

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Operating Grants Received	77,960
Non-Operating Revenue Received	23,163
Non-Operating Loans Issued to Customers	<u>(367,738)</u>

NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES (266,615)

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Cash Proceeds From Issuance of:	
Revenue Bonds	11,269,890
Cash Proceeds From Sale of Capital Assets:	
Land	965,384
Equipment	23,546
Capital Contributions Received:	
From Outside Parties	1,143,763
Principal Paid on Debt Maturities:	
Revenue Bonds	(1,015,000)
Revenue Notes	(1,391,095)
Payments for Acquisition and Construction of Capital Assets:	
Building and Structures	(26,355)
Construction in Progress	(9,906,782)
Interest Paid On:	
Revenue Bonds	(1,204,515)
Revenue Notes	(515,298)
Payment of Bond Issue Costs	<u>(43,377)</u>

NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES (699,839)

CASH FLOWS FROM INVESTING ACTIVITIES

Interest and Dividends on Investments Received	1,096,007
Purchase of Investment Securities	<u>(4,207,219)</u>

NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES (3,111,212)

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS 5,063,084

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

CASH AND CASH EQUIVALENTS AT END OF YEAR 7,209,087

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, 2005
 (Amounts in dollars)

Exhibit C

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

Operating Income (Loss)		<u>2,041,041</u>
Adjustments To Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Depreciation	5,867,255	
Increase (Decrease) in Allowance for Uncollectible Accounts	24,664	
Non-operating Miscellaneous Other Revenue Received	23,163	
Changes in Assets and Liabilities:		
(Increase) Decrease in Accounts Receivable	271,659	
(Increase) Decrease in Assessments Receivable	150,703	
(Increase) Decrease in Due from Primary Government	(6,978)	
(Increase) Decrease in Due from Other Governmental Units	(467,227)	
(Increase) Decrease in Inventories	(308,234)	
Increase (Decrease) in Accrued Salaries Payable	29,861	
Increase (Decrease) in Compensated Absences Payable	46,720	
Increase (Decrease) in Claims and Judgments Payable	602,493	
Increase (Decrease) in Accounts Payable	629,484	
Increase (Decrease) in Due to Primary Government	(91,179)	
Increase (Decrease) in Due to Other Governmental Units	308,204	
Increase (Decrease) in Unearned Revenue	<u>19,121</u>	
Total Adjustments		<u>7,099,709</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		<u><u>9,140,750</u></u>

DETAILS OF CASH AND CASH EQUIVALENTS

Cash and Investments with Treasurer	7,024,578
Departmental Cash	167,664
Imprest Funds	7,000
Cash Grants and Other Contributions	<u>9,845</u>
TOTAL CASH AND CASH EQUIVALENTS	<u><u>7,209,087</u></u>

NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES

Retirement/Deletion of Capital Assets	(292,312)
Contributions from Outside Sources	186,611
Change in Fair Value of Investments	(300,071)
Capital Assets Purchased on Account	773,501

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, 2005

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**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2005**

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, 2005 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, 2005**

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, 2005. 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 2005, Regional Water recorded a "decrease in fair value of investments" as investment income of \$270,718. 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, 2005**

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, 2005 is as follows:

Accounts Receivable - Registered Bills	\$ 112,332
Accounts Receivable - Water Billings	2,980,527
Accounts Receivable - Unbilled	514,060
Accounts Receivable - Miscellaneous	47,424
Allowance for Uncollectible Accounts	<u>(84,013)</u>
Accounts Receivable (net of Allowance for Estimated Uncollectible)	<u>\$ 3,570,330</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 2000 through 2004. Tax forfeited properties are subject to forfeiture.

F. Material and Supplies Inventory

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

G. Restricted Assets

Mandatory segregations of assets are presented as restricted assets. Bond agreements or other external parties require such segregations. Current liabilities payable from these restricted assets are so classified.

H. Capital Assets

Land, buildings and structures, equipment, and public improvements are recorded as capital assets on the Statement of Net Assets. Regional Water defines capital assets as assets with an initial, individual cost of more than \$5,000, and an estimated useful life in excess of at least three years. Purchased capital assets and capital assets constructed by Regional Water are stated at original cost. Original cost includes material, labor, overhead 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, 2005**

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, 2005**

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, and then unrestricted resources, as they are needed.

M. Capital Contributions

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

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, 2005**

Note 3. Detail Notes

A. Assets

1. Deposits and Investments

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

Deposits

Regional Water's deposit functions are managed and maintained by the City of Saint Paul by use of a general portfolio, which is a pool of investments. In accordance with Minnesota Statutes §§ 118A.02 and 118A.04, the City maintains deposits at financial institutions authorized by the City Council, all of which are members of the Federal Reserve System. The Statutes also require that all City deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by insurance or bonds.

Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies; general obligations rated "A" or better, revenue obligations rated "AA" or better; irrevocable standard letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota Statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the City's deposits may not be returned to it. As of December 31, 2005, the City's deposits were not exposed to custodial credit risk. All pledged collateral is held in the City's name at third party institutions, pledged at 110% of deposits not covered by insurance or bonds.

Regional Water's deposits of \$7,024,578 (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, 2005, the total imprest funds were \$7,000. Regional Water also had departmental cash on hand of \$167,664.

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2005**

Note 3. A. Assets (continued)

Investments

The City's Investment Policy Statement governs the investment portfolio of the City of Saint Paul. Regional Water adopted the City's Investment Policy Statement. The goals of the City for the Portfolio are to preserve financial assets for future operating expenses, maintain reserves to fund unplanned shortfalls and generate income to support the activities of the City. The portfolio is managed internally in three components as follows:

- (a) Daily Portfolio: The daily component represents current operating funds on which draws are made frequently, requiring daily liquidity and preservation of principal. The time horizon on the Daily Portfolio is within a 12-month period.
- (b) Short Term Portfolio: A short-term component serves as a cushion to provide liquidity for possible shortfalls in the Daily Portfolio. Draws against the short-term portfolio are expected to be infrequent. The time horizon on the Short Term Portfolio is between one and three years.
- (c) Intermediate Term Portfolio: The balance of the Portfolio represents the intermediate term component which serves as a reserve for unplanned shortfalls. In general, the Intermediate Term Portfolio is not expected to experience withdrawals and the time horizon on the Intermediate Portfolio is longer than three years.

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

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

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2005**

Note 3. A. Assets (continued)

- (e) in commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less.
- (f) Repurchase agreements may be entered into with:
 - 1) a bank qualified as a depository;
 - 2) any national or state bank in the United States, which is a member of the Federal Reserve System and whose combined capital and surplus equals or exceeds \$10,000,000;
 - 3) a primary reporting dealer in United States government securities to the Federal Reserve Bank of New York; or
 - 4) a securities broker-dealer licensed pursuant to Chapter 80A, or an affiliate of it, regulated by the Securities and Exchange Commission and maintaining a combined capital and surplus of \$40,000,000 or more, exclusive of subordinated debt.
- (g) Securities lending agreements.
- (h) Guaranteed investment contracts.

Credit Risk

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

Regional Water's exposure to credit risk as of December 31, 2005, is as follows:

<u>Rating Agency</u>	<u>Rating</u>	<u>Fair Value</u>
Moody's	Aaa	\$ 1,996,880
S&P	AAA	15,270,641
S&P	A-1+	<u>6,851,379</u>
Total		<u>\$24,118,900</u>

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2005**

Note 3. A. Assets (continued)

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. At December 31, 2005, all investment securities were in the City's name and were held in the custody of the US Bank under the City's name and therefore are not subject to custodial credit risk.

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by the City's investment in a single issuer. It is the City's policy that U.S. Treasury securities, U.S. Agency Securities, and obligations backed by U.S. Treasury and/or U.S. Agency securities, may be held without limit. At December 31, 2005, the City does not have investments in any one issuer that represent 5 percent or more of the City's total investments portfolio and therefore, also not subject to concentration of credit risk.

Interest Rate Risk

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. The City's internal portfolio has a shorter overall weighted duration than the benchmarks established for each component portfolio. All else being equal, this would be expected to reduce the risk to adverse effects from rising interest rates.

At December 31, 2005, Regional Water had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Less Than 2 years</u>	<u>2 - 4 Years</u>	<u>5 - 10 Years</u>
U.S. Government Agency Securities	\$21,157,400	\$9,006,840	\$4,287,340	\$7,863,220
Commercial Paper	<u>2,961,500</u>	<u>2,961,500</u>	<u>-</u>	<u>-</u>
Total Investments	<u>\$24,118,900</u>	<u>\$11,968,340</u>	<u>\$4,287,340</u>	<u>\$7,863,220</u>

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2005**

Note 3. A. Assets (continued)

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, 2005, no assets, liabilities, revenues or expenses relating to securities lending transactions were allocated to Regional Water under the provisions of this policy statement.

Recap

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

Cash and Investments with Treasurer	\$ 7,024,578
Investments	15,950,656
Departmental Cash	167,664
Imprest Funds	7,000
Restricted Cash and Cash Equivalents:	
Cash Grants and Other Contributions	9,845
Investments for Revenue Bond Debt Service	2,724,878
Investments for Revenue Bond Future Debt Service	4,355,507
Investments for Revenue Bond Operations and Maintenance	1,078,014
Total	\$ 31,318,142
Deposits	\$ 7,024,578
Investments	24,118,900
Departmental Cash	167,664
Imprest Funds	7,000
Total	\$ 31,318,142

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2005**

Note 3. A. Assets (continued)

2. Summary of Changes in Capital Assets

A summary of changes in capital assets follows:

	<u>01/01/05</u>	<u>Additions</u>	<u>Deductions</u>	<u>12/31/05</u>
Capital Assets Not Being Depreciated:				
Land	\$ 1,347,735	\$ -	\$ (25,652)	\$ 1,322,083
Construction in Progress	25,162,817	9,134,546	(18,621,327)	15,676,036
Total Capital Assets Not Being Depreciated	<u>\$ 26,510,552</u>	<u>\$ 9,134,546</u>	<u>\$ (18,646,979)</u>	<u>\$ 16,998,119</u>
Capital Assets Being Depreciated:				
Buildings and Structures	\$ 42,034,107	\$ 11,593,905	\$ (55,706)	\$ 53,572,306
Public Improvements	188,244,039	2,565,595	(383,959)	190,425,675
Equipment	31,442,441	4,667,177	(332,834)	35,776,784
Total Capital Assets Being Depreciated	<u>\$ 261,720,587</u>	<u>\$ 18,826,677</u>	<u>\$ (772,499)</u>	<u>\$ 279,774,765</u>
Less Accumulated Depreciation for:				
Buildings and Structures	\$ (8,890,827)	\$ (1,136,471)	\$ 42,026	\$ (9,985,272)
Public Improvements	(55,076,419)	(3,329,099)	157,730	(58,247,788)
Equipment	(15,641,818)	(1,821,665)	308,088	(17,155,395)
Total Accumulated Depreciation	<u>\$ (79,609,064)</u>	<u>\$ (6,287,235)</u>	<u>\$ 507,844</u>	<u>\$ (85,388,455)</u>
Total Capital Assets Being Depreciated, Net	<u>\$ 182,111,523</u>	<u>\$ 12,539,442</u>	<u>\$ (264,655)</u>	<u>\$ 194,386,310</u>
Capital Assets, Net	<u>\$ 208,622,075</u>	<u>\$ 21,673,988</u>	<u>\$ (18,911,634)</u>	<u>\$ 211,384,429</u>

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2005**

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, 2005, long-term debt consisted of:

	Principal		
	Unpaid Balances December 31, 2005	Less Current Maturities	Long-Term Maturities
Notes Payable	\$ 13,977,832	\$ 1,240,181	\$ 12,737,651
Revenue Bonds	30,550,000	1,440,000	29,110,000
Compensated Absences	1,736,405	77,527	1,658,878
Claims and Judgments	2,448,166	476,009	1,972,157
Total	\$ 48,712,403	\$ 3,233,717	\$ 45,478,686

b. Changes in Debt Obligations

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

	01/01/05	Additions	Deductions	12/31/05
General Obligation				
Waste Water Revenue Note	\$ 2,946,242	\$ -	\$ 198,910	\$ 2,747,332
Drinking Water Revenue Note	12,410,000	-	1,185,000	11,225,000
Xcel Energy Retrofit Notes	12,685	-	7,185	5,500
Revenue Bonds	20,185,000	11,380,000	1,015,000	30,550,000
Compensated Absences	1,689,685	328,690	281,970	1,736,405
Claims and Judgments	1,845,673	602,493	-	2,448,166
Total	\$ 39,089,285	\$ 12,311,183	\$ 2,688,065	\$ 48,712,403

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2005**

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 \$44,527,832 and interest of \$15,836,120 on all Regional Water debt outstanding as of December 31, 2005, are as follows:

YEAR	1997 REVENUE BONDS			2000 REVENUE BONDS			2003 REVENUE BONDS			2005 REVENUE BONDS			TOTAL REVENUE BONDS		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2006	\$345,000	\$123,693	\$468,693	\$225,000	\$361,925	\$586,925	\$425,000	\$355,750	\$780,750	\$445,000	\$443,510	\$888,510	\$1,440,000	\$1,284,878	\$2,724,878
2007	\$425,000	\$107,305	\$532,305	\$375,000	\$351,013	\$726,013	\$450,000	\$347,250	\$797,250	\$455,000	\$430,160	\$885,160	\$1,705,000	\$1,235,728	\$2,940,728
2008	\$595,000	\$86,905	\$681,905	\$400,000	\$332,638	\$732,638	\$475,000	\$338,250	\$813,250	\$465,000	\$416,510	\$881,510	\$1,935,000	\$1,174,303	\$3,109,303
2009	\$165,000	\$57,750	\$222,750	\$300,000	\$312,838	\$612,838	\$475,000	\$326,375	\$801,375	\$475,000	\$402,560	\$877,560	\$1,415,000	\$1,099,523	\$2,514,523
2010	\$240,000	\$49,500	\$289,500	\$325,000	\$297,838	\$622,838	\$475,000	\$313,075	\$788,075	\$490,000	\$387,123	\$877,123	\$1,530,000	\$1,047,536	\$2,577,536
2011-15	\$750,000	\$55,000	\$805,000	\$2,400,000	\$1,183,838	\$3,583,838	\$2,650,000	\$1,314,100	\$3,964,100	\$2,690,000	\$1,646,713	\$4,336,713	\$8,490,000	\$4,199,651	\$12,689,651
2016-20	-	-	-	\$2,900,000	\$421,238	\$3,321,238	\$3,300,000	\$765,525	\$4,065,525	\$3,205,000	\$1,066,268	\$4,271,268	\$9,405,000	\$2,253,031	\$11,658,031
2021-24	-	-	-	-	-	-	\$1,575,000	\$104,113	\$1,679,113	\$3,055,000	\$333,865	\$3,388,865	\$4,630,000	\$437,978	\$5,067,978
	\$2,520,000	\$480,153	\$3,000,153	\$6,925,000	\$3,261,328	\$10,186,328	\$9,825,000	\$3,864,438	\$13,689,438	\$11,280,000	\$5,126,709	\$16,406,709	\$30,550,000	\$12,732,628	\$43,282,628

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2005**

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
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	\$229,483	\$52,858	\$282,341	\$960,000	\$257,346	\$1,217,346	\$ -	\$1,189,483	\$310,204	\$1,499,687
2011-15	\$1,251,210	\$160,491	\$1,411,701	\$4,120,000	\$832,590	\$4,952,590	\$ -	\$5,371,210	\$993,081	\$6,364,291
2016-18	\$411,600	\$11,911	\$423,511	\$2,315,000	\$158,340	\$2,473,340	\$ -	\$2,726,600	\$170,251	\$2,896,851
	<u>\$2,747,332</u>	<u>\$499,582</u>	<u>\$3,246,914</u>	<u>\$11,225,000</u>	<u>\$2,603,910</u>	<u>\$13,828,910</u>	<u>\$5,500</u>	<u>\$13,977,832</u>	<u>\$3,103,492</u>	<u>\$17,081,324</u>

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, 2005, was \$5,600,000.

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, 2005, three notes for \$5,500 were outstanding.

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2005**

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, 2005, the claims and judgments liability was \$2,448,166.

iv. Compensated Absences

Included in Regional Water's debt are compensated absences for \$1,736,405.

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	\$ 2,520,000
Revenue	5.40%; 06/01; 12/01	05/01/00	12/01/19	6,925,000
Revenue	3.86%; 06/01; 12/01	03/01/03	12/01/22	9,825,000
Revenue	4.20%; 06/01; 12/01	03/24/05	12/01/24	<u>11,280,000</u>
Total				<u>\$30,550,000</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	\$ 2,747,332
Drinking Water Revenue Note	3.45%; 6/01; 12/01	12/01/98	12/01/18	11,225,000
Xcel Energy Note	(1) 0.0%	11/98	01/07	<u>5,500</u>
Total				<u>\$13,977,832</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, 2005**

Note 3. Detail Notes (continued)

C. Due From Primary Government

At December 31, 2005, 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>
Library Agency	Special Revenue Fund	\$ 2,153
Public Works Capital Projects	Capital Projects Fund	214,611
Sewer Utility	Enterprise Fund	57,755
Public Works Administration	Internal Service Fund	<u>1,303</u>
 Total		 <u>\$275,822</u>

D. Due To Primary Government

At December 31, 2005, Regional Water reported the following payables to the City of Saint Paul:

<u>City Fund Title</u>	<u>City Fund Type</u>	<u>Amount</u>
Public Works Capital Projects	Capital Projects Fund	\$ 435,566
RiverPrint Saint Paul/Ramsey County	Enterprise Fund	21,150
Sewer Utility	Enterprise Fund	2,283,288
General Fund	General Fund	192
Asphalt Plant	Internal Service Fund	2,106
Public Works Administration	Internal Service Fund	7,515
Public Works Traffic, Signal & Light Maint.	Internal Service Fund	17,015
Special Projects-General Government	Special Revenue Fund	63,221
Right of Way Maintenance	Special Revenue Fund	1,690
Parking Meter Collections	Special Revenue Fund	<u>1,544</u>
 Total		 <u>\$2,833,287</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:

\$2.12 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, 2005**

Note 4. Other Information

A. Pension Plans

Regional Water employees are employees of the City of Saint Paul and participate in the Coordinated Plan of the Public Employees Retirement Association (PERA). This plan requires contributions from the employer and employee. The Coordinated Plan requires participation by the employer and employee in the Social Security System. The employer's share of these PERA plans is paid by Regional Water and is included in the financial statements as an operating expense. Regional Water's total employer's shares for the years ended December 31, 2005, 2004, and 2003 were \$648,531, \$652,140, and \$658,771 respectively. The corresponding total employee's shares were \$598,103, \$601,228, and \$606,671. PERA does not make separate measurements for the assets and pension benefit obligations for the individual employers. Information on the City Employee Pension Plan is contained in the City's Comprehensive Annual Financial Report for the Fiscal Year Ended December 31, 2005.

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 2005 were as follows:

	<u>Age</u>	<u>Average Monthly SPRWS Contribution</u>	<u>Average Monthly Retiree Contribution</u>
Health Insurance	Less than 65	\$345	\$306
	65 and older	\$310	\$40
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 2005 expense totaled \$738,166 for approximately 195 retirees.

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2005**

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 2004 and 2005:

	<u>Year Ended December 31, 2004</u>	<u>Year Ended December 31, 2005</u>
Beginning fiscal year liability	\$1,279,969	\$1,845,673
Current year claims and changes in estimates	1,246,023	1,333,756
Claim payments	<u>(680,319)</u>	<u>(731,263)</u>
End of year liability	<u>\$1,845,673</u>	<u>\$2,448,166</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 2005, Regional Water was assessed \$2,248. 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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