

**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, 2006**

**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, 2006**

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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, 2007

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, 2006. 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, upon issuance of a request for proposal (RFP), hired EMA Services, Incorporated to assist us in assessing our Customer Information and Billing System (CIS) needs. 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. We continued our work on 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

Technological improvements continued in 2006. We made substantial progress on the first phase of our CIS project, including a needs assessment, analysis of alternatives, and development of functional requirements for a new system. This work laid the foundation for issuance of a RFP for a new CIS. We improved technological capabilities by automating more business processes in our Computerized Maintenance Management System (CMMS). Mobile computing capabilities were expanded, allowing wireless access to information by field personnel. Work continued on developing the Geographical Information System (GIS) system with utility-wide access to mapping information.

The WaterWorks program, which provides assistance with water and sewer bills for needy customers, received \$20,284 in contributions (an increase of 6% over 2005) and provided grants to 99 qualifying customers, with an average grant of \$207 per family.

To improve public information and internal communication, we held open houses at the Highland Park Water Tower and produced several publications, including three issues of *Customer Service Connections*, a newsletter for customers; the annual Water Quality Report; a revised WaterWorks solicitation brochure; a new Employee Handbook; and the *Pipeline Express*, the bi-weekly publication for employees.

We also developed a business continuity plan, which provides for contingent operational scenarios to get Regional Waters' critical business functions up and running in the event of a major service interruption.

Business Division - Future Operations

In 2007 we intend to move forward with the purchase of a new CIS. This project involves one of our major technology systems and will help us streamline services to our customers and internal work processes. Major technology initiatives such as document management and field computing will bring future efficiency and effectiveness improvements to Regional Water as workflow processes are implemented. The Division will strive to provide excellent support services to all areas of operations as well as to external customers and business partners.

Distribution Division

The Distribution Division continued its focus on capital projects in 2006. We continued to replace aging infrastructure, especially unlined cast iron water main, hydrants and lead water services. We coordinated main replacements with street reconstruction projects in Maplewood, Saint Paul and West St. Paul. In total, we installed 7.5 miles of new replacement main, along with new fire hydrants, and replaced approximately 800 lead water services with copper services. We continued responding to main breaks and miscellaneous maintenance needs across our service area as well as in the city of Oakdale and White Bear Township. We attended to the on-going maintenance demands of the distribution system by inspecting 3,250 hydrants, exercising 177 large valves and flushing approximately 50 miles of main.

Regional Water contracted for a statistical analysis of our meter test data and concluded residential meters have a 20-year service life before they begin to under register. The existing meters were installed during the five-year period 1985-1989. The metering reading system continues to be well-maintained as we consistently obtain actual reads of over 97 percent. We continue operating the existing system and we continue to install radio read systems for accounts that are difficult to read.

Distribution Division - Future Operations

In the future, we plan further upgrades to the aging underground infrastructure. We anticipate most of these installations will be coordinated with street reconstruction projects. In addition, greater and committed emphasis on uni-directional flushing, large valve exercising and hydrant inspection work is needed for the long-range care of the system.

We anticipate commencing a four-to-five-year meter replacement initiative in 2009. We are monitoring advances in technology that may be desirable along with the meter replacement installation.

Engineering Division

Several large projects were completed in 2006 that will serve Regional Water and its customers well into the future. These projects include construction of the new GAC filters for the treatment plant, integration of the GIS with the CMMS, development of methods for controlling the corrosion of water pipes, and implementation of state of the art modeling techniques for distribution system hydraulics and water quality.

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 sales related to divesting of the Rice Creek watershed properties, focusing on protecting the local watershed and developing the well supply for backup.

The Upper Mississippi River Source Water Protection Initiative (UMRSWPI) moved ahead in 2006 by developing plans to bring resources to the various watershed groups throughout the upper Mississippi River watershed. This initiative involves a cooperative agreement with the cities of St. Cloud and Minneapolis and the Minnesota Department of Health.

Engineering Division – Future Operations

The Engineering Division will continue to focus primarily on three initiatives: 1) developing GIS, 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.

Production Division

The Production Division faced several major challenges in 2006. The increase in chemical costs was even higher than we had anticipated—\$133.51 per million gallons, or an increase of 16% over 2005. Several factors contributed to this increase. First, we had a lengthy taste and odor episode in April and May. The length of the episode caused more complaints from customers and higher chemical costs. Second, The Department of Natural Resources (DNR) declared that the Mississippi River north of Brainerd and from Brainerd to the Twin Cities was infested with zebra mussels. To help prevent the spread of mussels to our lake system, we added copper sulfate at the river station. Finally, we had a major outbreak of nitrification in our system in August. To combat the problem, we increased our chlorine dose and turned on the wells, both of which increased our chemical costs.

There were other challenges as well in 2006. It was a drought year, with the Mississippi River reaching low levels not seen since 1988. Although we did not impose formal water restrictions, we worked with the DNR on appeals to residents to conserve water. The Occupational Safety and Health Association (OSHA) and the Environmental Protection Agency (EPA) both visited us. As a result, we spent many hours updating our Process Safety and Risk Management plans. We are now in much better shape in both areas; no citations were issued.

We also invested a great deal of time in our change to GAC filters, including changes in air piping and replacement of the effluent flume walls in the finished water reservoir. We repainted the Cottage Avenue tank, inside and out, and successfully placed it back into service. We began accepting lime sludge from White Bear Lake for processing at our facilities at a reasonable cost to that city.

We pumped an average of 45.7 million gallons per day (MGD) in 2006, up slightly from 2005. However, the trend toward conservative amounts continued as, even in a drought year, the amount pumped was the second lowest in the last 30 years.

Production Division – Future Operations

Next year is shaping up to be a potential drought year, as there was very little precipitation in the fall of 2006, aggravating the drought conditions that developed in the summer of 2006. Northern Minnesota and the headwaters of the Mississippi River were in a severe drought status at the end of 2006. Without somewhat exceptional snowfall or rainfall in the early part of 2007, we will head into the summer with low flows on the Mississippi River and very real potential for watering restrictions in the summer of 2007. We should complete our GAC project in early 2007, and this should enable us to combat any taste and odor issues from our watershed. We will also be studying ways to cope with the zebra mussels in the Mississippi River and try to find a more permanent barrier for them to comply with DNR requirements.

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, 2006

PUBLIC MEMBERS

Term Expires

Matt Anfang, Commissioner June 2008

Gregory Kleindl, Commissioner June 2010

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 two years by the suburban City Councils.

GENERAL MANAGER

Stephen P. Schneider appointed December 2003.

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FINANCIAL SECTION



REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

INDEPENDENT AUDITOR'S REPORT

Members of the Board of Water Commissioners
of the Saint Paul Regional Water Services
Saint Paul, Minnesota

We have audited the 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, 2006, 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, 2006, 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 15, 2007, on our consideration of the Saint Paul Regional Water Services' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



REBECCA OTTO
STATE AUDITOR



GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

June 15, 2007

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended December 31, 2006**

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, 2006. 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 \$201,510,307 (Net assets). Of this amount, \$11,707,140 (unrestricted net assets) may be used to meet the utility's ongoing obligations.
- Regional Water's total net assets increased by \$4,438,212.

Overview of Annual Financial Report

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

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

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

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, 2006**

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 \$4.43 million to \$201.51 million in 2006, up from \$197.07 million in 2005. 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 \$1.90 million to \$35.29 million in 2006, up from \$33.38 million in 2005. Revenues in 2005 were uncharacteristically low, due to a decline in consumption that was due to the high precipitation summer. In addition, there has been an overall decline in consumption in recent years due to water conservation efforts and improvements by manufacturers of plumbing fixtures, washing machines, dishwashers and other appliances. Water rates increased \$.05 per 100 cubic feet to \$1.66 in 2006; up from \$1.61 per 100 cubic feet in 2005, to help offset the reduction in consumption.

Expenses

Regional Water's operating expenses increased \$778 thousand to \$32.12 million in 2006, up from \$31.35 million in 2005. Most of the change is related to an increase of \$685 thousand in depreciation and \$677 thousand for materials and services, and a decrease of \$696 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, 2006**

Condensed Statement of Net Assets (in thousands)

	Fiscal Year 2006	Fiscal Year 2005	Dollar Change	Total % Change
Assets				
Cash and Investments	\$ 16,477	\$ 25,885	\$ (9,408)	(36.3)
Other Current Assets	\$ 9,994	\$ 9,148	\$ 846	9.2
Capital Assets - net	\$ 222,549	\$ 211,384	\$ 11,165	5.3
Other Noncurrent Assets	\$ 5,852	\$ 6,080	\$ (228)	(3.8)
Total Assets	\$ 254,872	\$ 252,497	\$ 2,375	0.9
Liabilities				
Current Liabilities	\$ 11,322	\$ 10,310	\$ 1,012	9.8
Noncurrent Liabilities	\$ 42,040	\$ 45,115	\$ (3,075)	(6.8)
Total Liabilities	\$ 53,362	\$ 55,425	\$ (2,063)	(3.7)
Net Assets				
Invested in Capital Assets				
Net of Related Debt	\$ 181,465	\$ 175,322	\$ 6,143	3.5
Restricted for Debt Service	8,338	8,051	287	3.6
Unrestricted	11,707	13,699	(1,992)	(14.5)
Total Net Assets	\$ 201,510	\$ 197,072	\$ 4,438	2.3

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

	Fiscal Year 2006	Fiscal Year 2005	Dollar Change	Total % Change
Operating Revenues	\$ 35,290	\$ 33,386	\$ 1,904	5.7
Nonoperating Revenues (Expenses)	(183)	(84)	(99)	117.9
Total Revenues	\$ 35,107	\$ 33,302	\$ 1,805	5.4
Operating Expenses	\$ 32,123	\$ 31,345	\$ 778	2.5
Income (Loss) Before Transfers and Contributions	\$ 2,984	\$ 1,957	\$ 1,027	52.5
Capital Contributions				
Cash Contributions for Capital Acquisitions	\$ 928	\$ 1,161	\$ (233)	(20.1)
Capital Asset Contributions	526	187	339	181.3
Total Capital Contributions	\$ 1,454	\$ 1,348	\$ 106	7.9
Change in Net Assets	\$ 4,438	\$ 3,305	\$ 1,133	34.3
Net Assets - January 1	197,072	193,767	3,305	1.7
Net Assets - December 31	\$ 201,510	\$ 197,072	\$ 4,438	2.3

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended December 31, 2006**

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 2006, Regional Water had invested \$313.15 million in capital assets. The \$16.38 million increase in capital assets for the past fiscal year is primarily due to the bond funded water treatment project and for public improvements such as mains, hydrants and services.

Long-Term Debt

No new debt was issued during 2006. At the end of 2006, bonds payable were \$29.1 million and revenue notes payable were \$12.7 million. This debt will be repaid by revenue generated by Regional Water.

Economic and Other Factors

Land and property was sold for \$1,372,000 during 2006; Anoka County paid \$774,000, the City of Centerville paid \$532,000, and other smaller parcels were sold for \$66,000.

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, 2006
 (Amounts in dollars)

Exhibit A

ASSETS

Current Assets

Cash and Investments with Treasurer	4,202,718
Investments	8,326,029
Departmental Cash	988,031
Imprest Funds	7,000
Restricted Cash and Cash Equivalents	
Cash Grants and Other Contributions	12,624
Investments for Revenue Bond Debt Service	2,940,728
Receivables	
Accounts (net of allowance for Estimated Uncollectibles)	3,744,865
Assessments	
Current	842,743
Deferred	2,192,428
Delinquent	89,311
Tax Forfeited Property	591
Accrued Interest	161,337
Due from Primary Government	181,054
Due from Other Governmental Units	686,388
Inventory - Materials and Supplies	2,095,659

Total Current Assets 26,471,506

Noncurrent Assets

Restricted Assets

Investments for Revenue Bond Future Debt Service	4,355,507
Investments for Revenue Bond Operations and Maintenance	1,145,206

Total Restricted Assets 5,500,713

Other Assets

Deferred Charges	117,488
Long-Term Loans Receivable	233,292

Total Other Assets 350,780

Capital Assets

Land	1,307,887
Buildings and Structures	55,787,120
Less: Accumulated Depreciation	(11,331,743)
Public Improvements	202,340,400
Less: Accumulated Depreciation	(61,518,439)
Equipment	34,706,131
Less: Accumulated Depreciation	(17,753,969)
Construction in Progress	19,012,041

Total Capital Assets (Net of Accumulated Depreciation) 222,549,428

Total Noncurrent Assets 228,400,921

Total Assets 254,872,427

BOARD OF WATER COMMISSIONERS OF THE CITY OF SAINT PAUL, MINNESOTA
REGIONAL WATER SERVICES STATEMENT OF NET ASSETS
December 31, 2006
(Amounts in dollars)

Exhibit A

LIABILITIES

Current Liabilities (Payable from Current Assets)	
Accrued Salaries Payable	760,547
Compensated Absences Payable	60,894
Claims and Judgments Payable	516,035
Accounts Payable	2,871,354
Contract Retention Payable	568,177
Due to Primary Government	1,750,274
Due to Other Governmental Units	1,560,457
Unearned Revenue	194,546
Revenue Notes Payable	1,175,618
Accrued Interest Payable on Revenue Notes	<u>56,009</u>
 Total Current Liabilities (Payable from Current Assets)	 <u>9,513,911</u>
 Current Liabilities (Payable from Restricted Assets)	
Accounts Payable	625
Revenue Bonds Payable	1,705,000
Accrued Interest Payable on Revenue Bonds	<u>102,977</u>
 Total Current Liabilities (Payable from Restricted Assets)	 <u>1,808,602</u>
 Noncurrent Liabilities	
Revenue Bonds Payable	27,405,000
Compensated Absences Payable	1,662,827
Claims and Judgments Payable	1,743,814
Revenue Notes Payable	11,562,034
Less: Unamortized Discount	<u>(334,068)</u>
 Total Noncurrent Liabilities	 <u>42,039,607</u>
 Total Liabilities	 <u>53,362,120</u>
 NET ASSETS	
Invested in Capital Assets, Net of Related Debt	181,464,703
Restricted for Debt Service	8,338,464
Unrestricted	<u>11,707,140</u>
 Total Net Assets	 <u><u>201,510,307</u></u>

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, 2006
(Amounts in dollars)

Exhibit B

OPERATING REVENUES	
Fees, Sales and Services	34,801,478
Rents and Leases	268,808
Miscellaneous	219,824
	<hr/>
Total Operating Revenues	35,290,110
	<hr/>
OPERATING EXPENSES	
Salaries	10,631,869
Employee Fringe Benefits	4,280,851
Services	4,537,590
Materials and Supplies	5,924,496
Depreciation	6,552,539
Bad Debts	7,974
Miscellaneous	187,513
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Total Operating Expenses	32,122,832
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OPERATING INCOME (LOSS)	3,167,278
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NON-OPERATING REVENUES (EXPENSES)	
Operating Grants	77,960
Gain on Sale of Assets	1,361,089
Loss on Retirement of Assets	(1,177,018)
Investment Income	
Interest Earned on Investments	1,246,032
Increase in Fair Value of Investments	12,172
Miscellaneous Other Revenue (Expenses)	80,112
Interest Expense on	
Revenue Bonds	(1,300,762)
Revenue Notes	(463,174)
Amortization of Bond Issuance Costs	(19,786)
	<hr/>
Total Non-Operating Revenues (Expenses)	(183,375)
	<hr/>
INCOME BEFORE CAPITAL CONTRIBUTIONS	2,983,903
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CAPITAL CONTRIBUTIONS	
Capital Contributions - Outside Parties	526,140
Capital Acquisitions - Outside Sources	928,169
	<hr/>
CHANGE IN NET ASSETS	4,438,212
	<hr/>
NET ASSETS, January 1	197,072,095
	<hr/>
NET ASSETS, December 31	201,510,307
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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, 2006
(Amounts in dollars)

Exhibit C

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from Customers	33,890,073
Other Operating Receipts	268,808
Other Receipts	219,824
Payments to Suppliers	(11,968,298)
Payments to Employees	(14,906,975)

NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES 7,503,432

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Operating Grants Received	77,960
Non-Operating Revenue Received	86,412
Non-Operating Loans Issued to Customers	286,426

NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES 450,798

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Cash Proceeds From Sale of Capital Assets:	
Land	839,730
Buildings and Structures	532,366
Equipment	49,778
Capital Contributions Received:	
From Outside Parties	1,234,666
Principal Paid on Debt Maturities:	
Revenue Bonds	(1,440,000)
Revenue Notes	(1,240,181)
Payments for Acquisition and Construction of Capital Assets:	
Construction in Progress	(16,838,961)
Interest Paid On:	
Revenue Bonds	(1,284,877)
Revenue Notes	(468,290)

NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES (18,615,769)

CASH FLOWS FROM INVESTING ACTIVITIES

Interest and Dividends on Investments Received	1,306,124
Proceeds From Sale and Maturities of Investment Securities	12,004,322
Purchase of Investment Securities	(4,647,621)

NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES 8,662,825

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (1,998,714)

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

CASH AND CASH EQUIVALENTS AT END OF YEAR 5,210,373

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, 2006
 (Amounts in dollars)

Exhibit C

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

Operating Income (Loss)		<u>3,167,278</u>
Adjustments To Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Depreciation	6,552,539	
Increase (Decrease) in Allowance for Uncollectible Accounts	17,980	
Changes in Assets and Liabilities:		
(Increase) Decrease in Accounts Receivable	(691,307)	
(Increase) Decrease in Assessments Receivable	(626,869)	
(Increase) Decrease in Due from Primary Government	192,151	
(Increase) Decrease in Due from Other Governmental Units	222,642	
(Increase) Decrease in Inventories	239,585	
Increase (Decrease) in Accrued Salaries Payable	18,429	
Increase (Decrease) in Compensated Absences Payable	(12,684)	
Increase (Decrease) in Claims and Judgments Payable	(188,317)	
Increase (Decrease) in Accounts Payable	(800,726)	
Increase (Decrease) in Due to Primary Government	(642,064)	
Increase (Decrease) in Due to Other Governmental Units	72,823	
Increase (Decrease) in Deferred Revenue	<u>(18,028)</u>	
Total Adjustments		<u>4,336,154</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		<u><u>7,503,432</u></u>

DETAILS OF CASH AND CASH EQUIVALENTS

Cash and Investments with Treasurer	4,202,718
Departmental Cash	988,031
Imprest Funds	7,000
Cash Grants and Other Contributions	<u>12,624</u>
TOTAL CASH AND CASH EQUIVALENTS	<u><u>5,210,373</u></u>

NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES

Retirement/Deletion of Capital Assets	(1,177,018)
Contributions from Outside Sources	526,140
Change in Fair Value of Investments	15,117
Capital Assets Purchased on Account	2,935,231

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, 2006

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**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2006**

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, 2006 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, 2006

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, 2006. 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 2006, Regional Water recorded a "increase in fair value of investments" as investment income of \$12,172. 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, 2006**

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, 2006 is as follows:

Accounts Receivable - Registered Bills	\$ 133,035
Accounts Receivable - Water Billings	3,525,724
Accounts Receivable - Unbilled	186,209
Accounts Receivable - Miscellaneous	1,889
Allowance for Uncollectible Accounts	<u>(101,992)</u>
Accounts Receivable (net of Allowance for Estimated Uncollectible)	<u>\$ 3,744,865</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 2001 through 2005. 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, 2006**

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

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

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

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

I. Compensated Absences

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

Employees earn vacation based on years of service and their bargaining unit. Vacation must be used in the year it is earned, except for 15 days, which may be carried over to the following year. Employees are paid 100% of their accumulated vacation pay when they terminate their employment. Some bargaining units have amounts paid to a Post Employment Health Plan (PEHP).

Sick leave is earned based on bargaining unit up to a maximum of 15 days per year and may be accumulated indefinitely. Terminated employees receive severance pay based upon unused sick leave. All severance pay is paid to a PEHP in the year following termination. Eligibility requirements and maximum allowable amounts vary, depending upon an employee's bargaining unit. The accrued liability for compensated absences is reported in the financial statements since the compensated absences are considered expenses when incurred. Sick leave, which is not expected to vest, is not reported in the financial statements.

J. Employee Fringe Benefits

Fringe benefits include retirement plans, severance pay and retiree insurance, unemployment compensation, workers' compensation, and employee insurance.

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2006**

Note 2. Summary of Significant Accounting Policies (continued)

K. Bond Discounts and Issuance Costs

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

L. Equity Classifications

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

- (a) Invested in capital assets, net of related debt – Consists of capital assets including infrastructure, net of accumulated depreciation and reduced by outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- (b) Restricted net assets – Consists of net assets with constraints placed on their use either by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments or 2) law through constitutional provisions or enabling legislation.
- (c) Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

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

M. Capital Contributions

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

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2006**

Note 2. Summary of Significant Accounting Policies (continued)

N. Operating and Non-Operating Revenues and Expenses

Proprietary activities distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary activity's principal ongoing operations. The principal operating revenues of Regional Water are charges to customers for goods and services. Operating expenses for proprietary activities include the cost of goods and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Note 3. Detail Notes

A. Assets

1. Deposits and Investments

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

Deposits

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

Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies; general obligations rated "A" or better, revenue obligations rated "AA" or better; irrevocable 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.

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2006**

Note 3. A. Assets (continued)

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the City's deposits may not be returned to it. As of December 31, 2006, 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 \$4,202,718 (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, 2006, the total imprest funds were \$7,000. Regional Water also had departmental cash on hand of \$988,031.

Investments

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

- (a) Daily Portfolio: The daily component represents current operating funds on which draws are made frequently, requiring daily liquidity and preservation of principal. The time horizon on the Daily Portfolio is within a 12-month period.
- (b) Short Term Portfolio: A short-term component serves as a cushion to provide liquidity for possible shortfalls in the Daily Portfolio. Draws against the short-term portfolio are expected to be infrequent. The time horizon on the Short Term Portfolio is between one and three years.

SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2006

Note 3. A. Assets (continued)

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

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

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

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2006**

Note 3. A. Assets (continued)

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

Credit Risk

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

Regional Water's exposure to credit risk as of December 31, 2006, is as follows:

<u>Rating Agency</u>	<u>Rating</u>	<u>Fair Value</u>
S&P	AAA	<u>\$16,780,093</u>

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2006**

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, 2006, 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, 2006, 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, 2006, Regional Water had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>2 - 4 Years</u>	<u>5 - 10 Years</u>
U.S. Government Agency Securities	<u>\$16,780,093</u>	<u>\$11,249,767</u>	<u>\$5,530,326</u>

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2006**

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, 2006, 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	\$ 4,202,718
Investments	8,326,029
Departmental Cash	988,031
Imprest Funds	7,000
Restricted Cash and Cash Equivalents:	
Cash Grants and Other Contributions	12,624
Investments for Revenue Bond Debt Service	2,940,728
Investments for Revenue Bond Future Debt Service	4,355,507
Investments for Revenue Bond Operations and Maintenance	1,145,206
Total	<u>\$ 21,977,843</u>
Deposits	\$ 4,202,718
Investments	16,780,094
Departmental Cash	988,031
Imprest Funds	7,000
Total	<u>\$ 21,977,843</u>

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2006**

Note 3. A. Assets (continued)

2. Summary of Changes in Capital Assets

A summary of changes in capital assets follows:

	01/01/06	Additions	Deductions	12/31/06
Capital Assets Not Being Depreciated:				
Land	\$ 1,322,083	\$ -	\$ (14,196)	\$ 1,307,887
Construction in Progress	15,676,036	18,902,752	(15,566,747)	19,012,041
Total Capital Assets Not Being Depreciated	<u>\$ 16,998,119</u>	<u>\$ 18,902,752</u>	<u>\$ (15,580,943)</u>	<u>\$ 20,319,928</u>
Capital Assets Being Depreciated:				
Buildings and Structures	\$ 53,572,306	\$ 2,276,247	\$ (61,433)	\$ 55,787,120
Public Improvements	190,425,675	12,462,645	(547,920)	202,340,400
Equipment	35,776,784	1,348,088	(2,418,741)	34,706,131
Total Capital Assets Being Depreciated	<u>\$ 279,774,765</u>	<u>\$ 16,086,980</u>	<u>\$ (3,028,094)</u>	<u>\$ 292,833,651</u>
Less Accumulated Depreciation for:				
Buildings and Structures	\$ (9,985,272)	\$ (1,376,454)	\$ 29,983	\$ (11,331,743)
Public Improvements	(58,247,788)	(3,771,114)	500,463	(61,518,439)
Equipment	(17,155,395)	(2,122,908)	1,524,334	(17,753,969)
Total Accumulated Depreciation	<u>\$ (85,388,455)</u>	<u>\$ (7,270,476)</u>	<u>\$ 2,054,780</u>	<u>\$ (90,604,151)</u>
Total Capital Assets Being Depreciated, Net	<u>\$ 194,386,310</u>	<u>\$ 8,816,504</u>	<u>\$ (973,314)</u>	<u>\$ 202,229,500</u>
Capital Assets, Net	<u>\$ 211,384,429</u>	<u>\$ 27,719,256</u>	<u>\$ (16,554,257)</u>	<u>\$ 222,549,428</u>

3. Impairment of Capital Assets

Regional Water has reported its capital assets in accordance with the provisions of GASB Statement No. 34, "Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments," it requires capital assets, to be reported in the statement of net assets. Statement 34 also requires that capital assets be depreciated over their estimated useful lives. GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries," establishes accounting and reporting requirements for the impairment of capital assets. Asset impairment is a significant, unexpected decline in the service utility of a capital asset and the impairment needs to be recorded in the Statement of Revenues, Expenses and Changes in Net Assets. A lime reactor, used in the processing of water, experienced a 100% decline in utilization during 2006. The equipment was purchased for \$1,010,499 and had accumulated depreciation of \$598,316. A loss on retirement of assets of \$412,183 was reported.

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2006**

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, 2006, long-term debt consisted of:

	Unpaid Balances December 31, 2006	Principal Less Current Maturities	Long-Term Maturities
Notes Payable	\$ 12,737,652	\$ 1,175,618	\$ 11,562,034
Revenue Bonds	29,110,000	1,705,000	27,405,000
Compensated Absences	1,723,721	60,894	1,662,827
Claims and Judgments	2,259,849	516,035	1,743,814
Total	\$ 45,831,222	\$ 3,457,547	\$ 42,373,675

b. Changes in Debt Obligations

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

	01/01/06	Additions	Deductions	12/31/06
General Obligation				
Waste Water Revenue Note	\$ 2,747,332	\$ -	\$ 204,680	\$ 2,542,652
Drinking Water Revenue Note	11,225,000	-	1,030,000	10,195,000
Xcel Energy Retrofit Notes	5,500	-	5,500	-
Revenue Bonds	30,550,000	-	1,440,000	29,110,000
Compensated Absences	1,736,405	215,483	228,167	1,723,721
Claims and Judgments	2,448,166	645,831	834,148	2,259,849
Total	\$ 48,712,403	\$ 861,314	\$ 3,742,495	\$ 45,831,222

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2006**

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 \$41,847,652 and interest of \$14,082,952 on all Regional Water debt outstanding as of December 31, 2006, 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
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	\$400,000	\$37,500	\$437,500	\$400,000	\$281,588	\$681,588	\$500,000	\$298,350	\$798,350	\$505,000	\$369,973	\$874,973	\$1,805,000	\$987,411	\$2,792,411
2012-16	\$350,000	\$17,500	\$367,500	\$2,600,000	\$1,059,513	\$3,659,513	2,750,000	\$1,218,750	\$3,968,750	\$2,780,000	\$1,540,375	\$4,320,375	\$8,480,000	\$3,836,138	\$12,316,138
2017-21	-	-	-	\$2,300,000	\$263,975	\$2,563,975	\$3,475,000	\$631,438	\$4,106,438	\$3,330,000	\$933,265	\$4,263,265	\$9,105,000	\$1,828,678	\$10,933,678
2022-24	-	-	-	-	-	-	\$800,000	\$35,200	\$835,200	\$2,335,000	\$203,233	\$2,538,233	\$3,135,000	\$238,433	\$3,373,433
	<u>\$2,175,000</u>	<u>\$356,460</u>	<u>\$2,531,460</u>	<u>\$6,700,000</u>	<u>\$2,899,403</u>	<u>\$9,599,403</u>	<u>\$9,400,000</u>	<u>\$3,508,688</u>	<u>\$12,908,688</u>	<u>\$10,835,000</u>	<u>\$4,683,199</u>	<u>\$15,518,199</u>	<u>\$29,110,000</u>	<u>11,447,750</u>	<u>\$40,557,750</u>

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2006**

Note 3. B. Liabilities (continued)

YEAR	1996 G.O. WASTE WATER REVENUE NOTE			1998 DRINKING WATER REVENUE NOTE			TOTAL REVENUE NOTES		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$210,618	\$71,723	\$282,341	\$965,000	\$354,786	\$1,319,786	\$1,175,618	\$426,509	\$1,602,127
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	\$236,139	\$46,201	\$282,340	\$915,000	\$223,938	\$1,138,938	\$1,151,139	\$270,139	\$1,421,278
2012-16	\$1,287,505	\$124,196	\$1,411,701	\$3,920,000	\$689,214	\$4,609,214	\$5,207,505	\$813,410	\$6,020,915
2017-18	\$139,166	\$2,004	\$141,170	\$1,600,000	\$77,778	\$1,677,778	\$1,739,166	\$79,782	\$1,818,948
	<u>\$2,542,652</u>	<u>\$421,922</u>	<u>\$2,964,574</u>	<u>\$10,195,000</u>	<u>\$2,213,280</u>	<u>\$12,408,280</u>	<u>\$12,737,652</u>	<u>\$2,635,202</u>	<u>\$15,372,854</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, 2006, was \$5,000,000.

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2006**

Note 3. B. Liabilities (continued)

ii. Claims and Judgments

Claims and judgment expenses and liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. These liabilities include an estimate of claims furnished by Risk Management that have been incurred but not reported. At December 31, 2006, the claims and judgments liability was \$2,259,849.

iii. Compensated Absences

Included in Regional Water's debt are compensated absences for \$1,723,721.

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	\$ 2,175,000
Revenue	5.40%; 06/01; 12/01	05/01/00	12/01/19	6,700,000
Revenue	3.86%; 06/01; 12/01	03/01/03	12/01/22	9,400,000
Revenue	4.20%; 06/01; 12/01	03/24/05	12/01/24	<u>10,835,000</u>
Total				<u>\$29,110,000</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	\$ 2,542,652
Drinking Water Revenue Note	3.45%; 6/01; 12/01	12/01/98	12/01/18	<u>10,195,000</u>
Total				<u>\$12,737,652</u>

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2006**

Note 3. Detail Notes (continued)

C. Due From Primary Government

At December 31, 2006, Regional Water reported the following receivables from the City of Saint Paul:

<u>City Fund Title</u>	<u>City Fund Type</u>	<u>Amount</u>
Public Works Capital Projects	Capital Projects Fund	\$ 30,298
G.O. Special Assessment-Street	Debt Service Fund	72,200
Sewer Utility	Enterprise Fund	59,822
Public Works Engineering	Internal Service Fund	11,505
Public Works Administration	Internal Service Fund	<u>7,229</u>
 Total		 <u>\$181,054</u>

D. Due To Primary Government

At December 31, 2006, 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>
RiverPrint Saint Paul/Ramsey County	Enterprise Fund	\$ 17,012
Sewer Utility	Enterprise Fund	1,591,497
Asphalt Plant	Internal Service Fund	5,468
Public Works Administration	Internal Service Fund	27,791
Public Works Traffic, Signal & Light Maint.	Internal Service Fund	12,773
Public Works Equipment	Internal Service Fund	35,391
Special Projects-General Government	Special Revenue Fund	58,096
Right of Way Maintenance	Special Revenue Fund	<u>2,246</u>
 Total		 <u>\$1,750,274</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:

\$2.20 per regular sewer bill transaction
\$0.90 per rainleader transaction

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2006**

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, 2006, 2005, and 2004 were \$756,377, \$648,531, and \$652,140 respectively. The corresponding total employee's shares were \$693,345, \$598,103, and \$601,228. 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, 2006.

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 2006 were as follows:

	<u>Age</u>	<u>Average Monthly SPRWS Contribution</u>	<u>Average Monthly Retiree Contribution</u>
Health Insurance	Less than 65	\$339	\$250
	65 and older	\$279	\$32
Life Insurance	Less than 65	\$3	\$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 2006 expense totaled \$618,052 for approximately 178 retirees.

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2006**

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 2005 and 2006:

	<u>Year Ended December 31, 2005</u>	<u>Year Ended December 31, 2006</u>
Beginning fiscal year liability	\$1,845,673	\$2,448,166
Current year claims and changes in estimates	1,333,756	645,831
Claim payments	<u>(731,263)</u>	<u>(834,148)</u>
End of year liability	<u>\$2,448,166</u>	<u>\$2,259,849</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 2006, Regional Water was assessed \$6,032. Financial information for VLAWMO can be obtained from its administrative office at 800 East County Road E, Vadnais Heights, Minnesota 55127.

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
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Note 4. E. Joint Powers (continued)

The Ramsey County Geographic Information Systems (GIS) Users Group (Users Group) was established in 1995 by a joint powers agreement among public agencies interested in using GIS and data created and maintained by Ramsey County. The agreement was to enable those parties who are part of the Users Group to be represented by the Users Group for the purposes of undertaking negotiations and transactions with Ramsey County and any other body politic. Joining this group provides Regional Water staff the ability to share costs and information with over 23 cities, school districts, watersheds, utilities and other agencies within Ramsey County. Regional Water became part of the Users Group in January 2006 and was assessed \$1,850 for the year. Financial information can be obtained from the City of Maplewood located at 1830 County Road B East, Maplewood, Minnesota 55109.

Regional Water, the City of Minneapolis, and the City of St. Cloud share a common surface water supply source, the Mississippi River, and because each city is required to prepare a Source Water Protection Program regarding the protection of this common source, the cities agree that it is advantageous to jointly investigate and review the necessary measures needed to protect the valuable drinking water source. Funding is provided from grants and contributions from the members. Regional Water paid \$20,000 during 2006. Financial information can be obtained from the City of St. Cloud located at 400 2nd Street South, St. Cloud, Minnesota 56301.

F. Subsequent Events

During February 2007, Regional Water issued \$8,985,000 Water Revenue Refunding Bonds, Series 2007A. The bonds mature annually on December 1, commencing December 1, 2007 with installment amounts ranging from \$480,000 to \$1,015,000. Interest is payable on each June 1 and December 1 commencing June 1, 2007 with amounts ranging from 4.0% to 5.0%. Proceeds of the bonds will be used to refund Water Revenue Refunding Bonds, Series 1997C and Water Revenue Bonds, Series 2000C.

G. Accounting Standards Not Yet Adopted

The Governmental Accounting Standards Board issued Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions," in July 2004, which will be effective for Regional Water beginning with its year ending December 31, 2007. This statement establishes standards for the measurement, recognition, and display of other postemployment benefit expense and related liabilities (assets) and related disclosures in the financial reports of state and local governmental employers. Regional Water's management has not yet determined the effect this statement will have on their financial statements.

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