

**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, 2008**

**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, 2008**

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INTRODUCTORY SECTION



BOARD OF WATER COMMISSIONERS

President: Patrick Harris ♦ Vice President: John Zanmiller

Commissioners: Matt Anfang ♦ Lee Helgen ♦ Melvin Carter III ♦ Gregory Kleindl ♦ Will Rossbach

June 19, 2009

TO: BOARD OF WATER COMMISSIONERS
Patrick Harris, President
John Zanmiller, Vice President
Commissioner Matt Anfang
Commissioner Melvin Carter III
Commissioner Lee Helgen
Commissioner Gregory Kleindl
Commissioner Will Rossbach

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, 2008. 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, the basic financial statements along with the related notes to these financial statements, and certain required supplementary information.

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 ♦ Phone: 651-266-6350

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

AA-ADA-EEO Employer

HIGHLIGHTS IN SUMMARY

Our continued work with state and local agencies supports the stewardship and protection of watershed and the water supply. We continue to improve water quality by cleaning mains through our unidirectional flushing program. We remain focused on ensuring a reliable distribution system by replacing and rehabilitating aging infrastructure. Inspection of all public fire hydrants in our service area promotes public safety through adequate fire protection. Improved technology and workflow will enable us to provide better service to our customers. Work continued on our Customer Information System (CIS) and we began a study a study of the workflows related to asset management and our Computerized Maintenance Management System (CMMS). In November, Standard and Poor's, a bond rating agency, upgraded our bond rating from AA+ to AAA. This change reflects the financial and operational strength of the utility and will have a positive effect on our ability to issue revenue bonds.

Business Division

The Business Division includes Customer Service, Information Services, and Financial Services. We offer support services to other divisions within the utility as well as direct contact with individual customers and communities at large.

Technological improvements allow us to provide increased functionality to employees and customers. We completed software and vendor selection as well as contract negotiations for the new CIS and continued to work towards implementing the system. We replaced our Interactive Voice Response unit (IVR). The IVR is the voice our customers first hear when they call they utility. New functionality offers the opportunity for our customers to hear the IVR menu and responses in either English or Spanish, and offers self-service features, including accessing information about moving and leaks, reviewing the status of their accounts, and making payments with a credit card. Our Geospatial Information System (GIS) and wireless technology allowed us to make major improvements to the retrieval and display of information on utility assets including mains, hydrants, valves and water services. Work continued on expanding the use of our document management system.

The WaterWorks program received \$17,246 in customer contributions, a modest 2% increase over 2007. With the additional Board authorized contribution of \$5,000, the program provided grants for water and sewer bills to 117 disadvantaged families, with an average grant of \$194 per family.

To improve public outreach and provide information, we updated our website, hosted a day of the *Drinking Water Institute* for teachers, held open houses at the Highland Water Tower, and produced several external publications, including *Customer Service Connections*, a quarterly newsletter for customers, and the annual Water Quality Report.

HIGHLIGHTS IN SUMMARY (continued)

Business Division - Future Operations

We are dedicating many internal resources to the implementation of the new CIS that began in September 2008 and anticipate going live with the new system in the fall of 2009. As part of this project we will continue to review and make improvements to our internal work processes. We also plan to replace and upgrade our payment processing equipment. The Business Division will strive to provide excellent support services to all areas of Regional Water as well as to its external customers and business partners.

Distribution Division

Work in the Distribution Division includes capital construction for new distribution system piping, maintenance of our existing distribution system, fleet management, warehouse operations and meter operations. We continue to replace aging infrastructure especially unlined cast iron water main, hydrants and lead water services. We attempt to coordinate our water main and lead water services replacement with the cities' street reconstruction projects. In 2008 we replaced or rehabilitated six miles of water main, replaced 436 lead water services, and replaced approximately 220 of the 9,500 system hydrants. In addition, nearly one mile of large diameter water main was cleaned and cement mortar lined to improve/restore flow capacity.

To ensure adequate reliability and improve distribution system water quality we inspected all public fire hydrants in 2008. This involved operation of system hydrants and performing minor repair work as necessary. We also operated system valves through our unidirectional flushing program and flushed about 2% of our system. This cleans mains for improved water quality by directing water through water mains in such a way as to create thorough flushing and scouring of the mains. We continued responding to main breaks and miscellaneous maintenance needs across our service area as well as two other communities; the City of Oakdale and White Bear Township. Last year we repaired 116 main breaks in our service area and 26 in Oakdale and White Bear Township.

We continue to obtain nearly 98% accuracy on our 95,000 metered accounts and continue to install radio read systems for difficult to read accounts. Over 1,300 meters were set in 2008. We completed a cost-benefit study of meter reading technology for our future meter replacement initiative and decided on a touch pad based system.

Distribution Division - Future Operations

In 2009, funding was increased to allow for the replacement of the aging underground infrastructure including water main, lead service and hydrant replacement work at a more appropriate level. This level of funding now allows for a water main replacement cycle of 150 years.

In addition, greater emphasis on system maintenance is needed including unidirectional flushing and large valve exercising for the long-range care of the system. It is our goal to begin a large valve exercising program in the future. We anticipate commencing a three-to-four year meter reading system replacement in 2010.

HIGHLIGHTS IN SUMMARY (continued)

Engineering Division

We began construction of two additional wells to increase well supply from 35 million gallons per day (MGD) to 45 MGD. This will provide redundancy for base consumption and fire protection for our service area. We have adopted and implemented treatment systems to comply with the current Nonpoint Discharge permit requirements 100% of the time. We are nearly compliant with our Solids Disposal permit for the capping and retirement of the large sludge field. A storm water treatment system, over 230,000 cubic yards of fill, and a natural plantings cover have been added to the site.

The Engineering Division worked locally with the Vadnais Lake Area Water Management Organization (VLAWMO) and the Minnesota Pollution Control Agency (MPCA) to promote the stewardship and protection of the impoundment reservoirs and watershed. We also worked regionally with the Upper Mississippi River Source Water Protection members and the MPCA to promote stewardship and protection for the upper Mississippi River watershed.

Engineering administration staff worked to improve the effectiveness of diagnostic and engineering systems to maintain and improve our system of assets. The effort to migrate the entire records and asset management system from paper to electronic format is nearly complete.

Engineering Division – Future Operations

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

Production Division

The year 2008 was drier than normal for the third year in a row. We averaged 46.6 MGD pumping in 2008, down from 48.4 MGD in 2007. The relatively low pumping total shows the effects of conservation and lifestyle changes on our water demands.

Our Granular Activated Carbon (GAC) filters continued to perform well, reducing taste and odor complaints from an average 167 complaints in prior years to six in 2008. We continue to monitor taste and odor with our flavor panel. The performance of the filters in the next few years will dictate our replacement schedule of those filters.

After finding zebra mussels in our Vadnais intake late in 2007, we commissioned a study on how to best deal with the problem and to prevent spreading to other bodies of water. At this point we will be physically removing the mussels from our screens weekly and implementing an annual program for our conduits.

Chemical costs continued to rise in 2008 with some vendors canceling existing contracts. This unprecedented event forced the rebidding of certain chemical contracts. Total chemical costs for the year were up 16% per unit with some chemicals experiencing a 100% increase. High fuel prices contributed to an increase in electrical costs of 5.5% over 2007.

HIGHLIGHTS IN SUMMARY (continued)

Production Division – Future Operations

We have greatly increased our chemical budget in 2009 and will monitor our chemical costs closely. Since delivery costs are a major factor in the costs of chemicals, the lower prices of diesel fuel we have experience recently will help. Based on the 3-year drought cycles of the 1900's we do not anticipate 2009 to be a dry year. If rainfall is plentiful, water usage could drop to levels we have not seen for years. We anticipate our GAC filters will continue to perform well removing taste and odor compounds. To prevent the spread of the mussels to other lakes or streams, we plan to curtail discharges from our conduits to water bodies. To kill mussels attached to conduits we will begin an annual program of removing conduits from service to dry them out.

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.

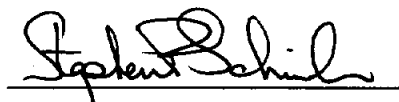
MANAGEMENT AND COMPLIANCE LETTER

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.

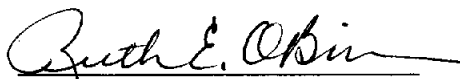
ACKNOWLEDGMENTS

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, 2008

PUBLIC MEMBERS

Term Expires

Matt Anfang, Commissioner

June 2012

Gregory Kleindl, Commissioner

June 2010

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

CITY COUNCIL MEMBERS

Pat Harris, President

December 2011

Dan Bostrom

December 2011

Melvin Carter III

December 2011

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 2011

John Zanmiller, Vice President

December 2011

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 basic 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, 2008, as listed in the table of contents. These financial statements are the responsibility of the Saint Paul Regional Water Services' management. 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.

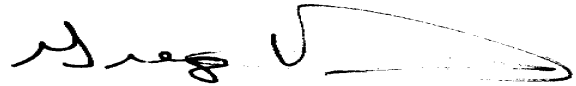
In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Saint Paul Regional Water Services at December 31, 2008, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and the required supplementary information listed in the table of contents are not a required part of the basic financial statements but are 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, 2009, 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 19, 2009

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended December 31, 2008**

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, 2008. 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 \$208,848,216 (Net assets). Of this amount, \$10,588,663 (unrestricted net assets) may be used to meet the utility's ongoing obligations.
- Regional Water's total net assets increased by \$3,564,433.
- In November Standard and Poor's, a bond rating agency, upgraded Regional Water's bond rating from AA+ to AAA. This change reflects the financial and operational strength of the utility.

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.

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended December 31, 2008**

This report also contains certain required supplementary information in accordance with the requirements of Governmental Accounting Standards Board (GASB) Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions." This required supplementary information includes other post-employment benefit plan information - a Schedule of Funding Progress, and a Schedule of Employer Contributions.

Regional Water's staff prepared the financial statements from the detailed books and records of Regional Water. The financial statements were audited and adjusted, if material, during the independent external audit process.

Summary of Organization and Business

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

Financial Analysis

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

As can be seen from the following table, total net assets increased \$3.57 million to \$208.85 million in 2008, up from \$205.28 million in 2007. The increase in total net assets was primarily due to the investment of capital assets and the decrease in debt.

Revenues

Regional Water's operating revenues are derived mainly from the sale of water. Other sources include: services, fees, rents and leases. Operating revenues increased by \$2.10 million to \$40.76 million in 2008, up from \$38.66 million in 2007. Revenues in 2008 were up primarily due to the rate increase; consumption decreased 3.6% from 2007 levels. Water rates increased \$.16 per 100 cubic feet to \$1.91 in 2008; up from \$1.75 per 100 cubic feet in 2007.

Expenses

Regional Water's operating expenses increased \$1.41 million to \$36.76 million in 2008, up from \$35.35 million in 2007. \$1.54 million of the increase is for materials, services, and miscellaneous expense, while salaries, fringes, and depreciation decreased \$133 thousand.

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended December 31, 2008**

Condensed Statement of Net Assets (in thousands)

	Fiscal Year 2008	Fiscal Year 2007	Dollar Change	Total % Change
Assets				
Cash and Investments	\$ 16,140	\$ 16,259	\$ (119)	(0.7)
Other Current Assets	\$ 10,450	\$ 10,059	\$ 391	3.9
Capital Assets - net	\$ 226,459	\$ 223,757	\$ 2,702	1.2
Other Noncurrent Assets	\$ 5,801	\$ 6,194	\$ (393)	(6.3)
Total Assets	\$ 258,850	\$ 256,269	\$ 2,581	1.0
Liabilities				
Current Liabilities	\$ 11,387	\$ 10,789	\$ 598	5.5
Noncurrent Liabilities	\$ 38,615	\$ 40,197	\$ (1,582)	(3.9)
Total Liabilities	\$ 50,002	\$ 50,986	\$ (984)	(1.9)
Net Assets				
Invested in Capital Assets				
Net of Related Debt	\$ 190,637	\$ 185,052	\$ 5,585	3.0
Restricted for Debt Service	7,622	8,462	(840)	(9.9)
Unrestricted	10,589	11,769	(1,180)	(10.0)
Total Net Assets	\$ 208,848	\$ 205,283	\$ 3,565	1.7

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

	Fiscal Year 2008	Fiscal Year 2007	Dollar Change	Total % Change
Operating Revenues	\$ 40,765	\$ 38,665	\$ 2,100	5.4
Nonoperating Revenues (Expenses)	(997)	(279)	(718)	257.3
Total Revenues	\$ 39,768	\$ 38,386	\$ 1,382	3.6
Operating Expenses	\$ 36,757	\$ 35,347	\$ 1,410	4.0
Income (Loss) Before Transfers and Contributions	\$ 3,011	\$ 3,039	\$ (28)	(0.9)
Capital Contributions	\$ 554	\$ 734	\$ (180)	(24.5)
Change in Net Assets	\$ 3,565	\$ 3,773	\$ (208)	(5.5)
Net Assets - January 1	205,283	201,510	3,773	1.9
Net Assets - December 31	\$ 208,848	\$ 205,283	\$ 3,565	1.7

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended December 31, 2008**

Capital Assets

By the end of 2008, Regional Water had invested \$329.69 million in capital assets. The \$8.75 million increase in capital assets for the past fiscal year is primarily for water related improvements, equipment, and public improvements such as mains, hydrants and services with \$1.03 million related to the Customer Information and Billing System.

Long-Term Debt

No new bonds were issued during 2008. During November 2008, Regional Water purchased a \$7,871 postage machine with a capital lease. At the end of 2008, bonds payable were \$25.5 million and revenue notes payable were \$10.4 million. This debt will be repaid by revenue generated by Regional Water.

Economic and Other Factors

Energy, fuel and chemical prices continue to have a negative impact on costs.

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

Exhibit A

December 31, 2008

(Amounts in dollars)

ASSETS

Current Assets

Cash and Investments with Treasurer	10,511,763
Investments	3,019,503
Departmental Cash	136,963
Imprest Funds	7,000
Restricted Cash and Cash Equivalents	
Cash Grants and Other Contributions	11,282
Investments for Revenue Bond Debt Service	2,452,785
Receivables	
Accounts (net of allowance for Estimated Uncollectibles)	4,317,059
Assessments	
Current	974,777
Deferred	2,256,127
Delinquent	153,826
Tax Forfeited Property	347
Accrued Interest	126,031
Due from Primary Government	104,206
Due from Other Governmental Units	684,244
Inventory - Materials and Supplies	1,834,100

Total Current Assets 26,590,013

Noncurrent Assets

Restricted Assets

Investments for Revenue Bond Future Debt Service	3,869,110
Investments for Revenue Bond Operations and Maintenance	1,385,270

Total Restricted Assets 5,254,380

Other Assets

Deferred Charges	363,625
Long-Term Loans Receivable	183,386

Total Other Assets 547,011

Capital Assets

Land	1,307,887
Buildings and Structures	55,623,513
Less: Accumulated Depreciation	(13,881,339)
Public Improvements	215,437,961
Less: Accumulated Depreciation	(68,149,568)
Equipment	46,479,287
Less: Accumulated Depreciation	(21,196,580)
Construction in Progress	10,838,060

Total Capital Assets (Net of Accumulated Depreciation) 226,459,221

Total Noncurrent Assets 232,260,612

Total Assets 258,850,625

continued

BOARD OF WATER COMMISSIONERS OF THE CITY OF SAINT PAUL, MINNESOTA
 REGIONAL WATER SERVICES STATEMENT OF NET ASSETS
 December 31, 2008
 (Amounts in dollars)

Exhibit A

LIABILITIES

Current Liabilities (Payable from Current Assets)	
Accrued Salaries Payable	924,065
Compensated Absences Payable	62,842
Claims and Judgments Payable	559,133
Lease Purchase Payable	1,329
Accounts Payable	2,394,697
Contract Retention Payable	517,927
Due to Primary Government	2,242,790
Due to Other Governmental Units	1,709,645
Unearned Revenue	280,221
Revenue Notes Payable	1,133,014
Accrued Interest Payable on Revenue Notes	46,084

Total Current Liabilities (Payable from Current Assets)	<u>9,871,747</u>
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Current Liabilities (Payable from Restricted Assets)	
Accounts Payable	509
Revenue Bonds Payable	1,430,000
Accrued Interest Payable on Revenue Bonds	85,232

Total Current Liabilities (Payable from Restricted Assets)	<u>1,515,741</u>
---------------------------------------------------------------	------------------

Noncurrent Liabilities	
Revenue Bonds Payable	24,045,000
Compensated Absences Payable	1,794,030
Other Post Employment Benefits	1,122,807
Claims and Judgments Payable	2,440,826
Lease Purchase Payable	6,542
Revenue Notes Payable	9,287,293
Premium on Revenue Bonds	92,633
Less: Unamortized Discount	(174,210)

Total Noncurrent Liabilities	<u>38,614,921</u>
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Total Liabilities	<u>50,002,409</u>
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NET ASSETS

Invested in Capital Assets, Net of Related Debt	190,637,620
Restricted for Debt Service	7,621,933
Unrestricted	10,588,663

Total Net Assets	<u>208,848,216</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, 2008
 (Amounts in dollars)

Exhibit B

OPERATING REVENUES	
Fees, Sales and Services	40,105,335
Rents and Leases	374,458
Miscellaneous	284,819
	<hr/>
Total Operating Revenues	40,764,612
OPERATING EXPENSES	
Salaries	11,101,646
Employee Fringe Benefits	5,792,626
Services	5,933,664
Materials and Supplies	7,141,039
Depreciation	6,511,028
Bad Debts	35,776
Miscellaneous	241,142
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Total Operating Expenses	36,756,921
OPERATING INCOME (LOSS)	<hr/> 4,007,691
NON-OPERATING REVENUES (EXPENSES)	
Operating Grants	77,960
Gain on Sale of Assets	92,541
Loss on Retirement of Assets	(629,422)
Investment Income	
Interest Earned on Investments	736,584
Increase in Fair Value of Investments	73,863
Miscellaneous Other Revenue (Expenses)	152,529
Interest Expense on	
Revenue Bonds	(1,086,903)
Revenue Notes	(381,881)
Amortization of Bond Issuance Costs	(31,755)
	<hr/>
Total Non-Operating Revenues (Expenses)	(996,484)
INCOME BEFORE CAPITAL CONTRIBUTIONS	3,011,207
CAPITAL CONTRIBUTIONS	
Capital Acquisitions - Outside Sources	553,226
	<hr/>
CHANGE IN NET ASSETS	3,564,433
NET ASSETS, January 1	<hr/> 205,283,783
NET ASSETS, December 31	<hr/> <hr/> 208,848,216

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, 2008
(Amounts in dollars)

Exhibit C

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from Customers	39,002,591
Other Operating Receipts	374,458
Other Receipts	284,819
Payments to Suppliers	(13,059,790)
Payments to Employees	<u>(16,034,187)</u>

NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES 10,567,891

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Operating Grants Received	82,216
Non-Operating Revenue Received	151,629
Non-Operating Loans Issued to Customers	<u>106,511</u>

NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES 340,356

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Cash Proceeds From Sale of Capital Assets:	
Land	64,492
Equipment	28,049
Capital Contributions Received:	
From Outside Parties	589,201
Principal Paid on Debt Maturities:	
Revenue Bonds	(1,955,000)
Revenue Notes	(1,141,727)
Payments for Acquisition and Construction of Capital Assets:	
Construction in Progress	(8,248,952)
Interest Paid On:	
Revenue Bonds	(1,089,210)
Revenue Notes	<u>(386,817)</u>

NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES (12,139,965)

CASH FLOWS FROM INVESTING ACTIVITIES

Interest and Dividends on Investments Received	783,161
Proceeds From Sale and Maturities of Investment Securities	14,052,097
Purchase of Investment Securities	<u>(10,665,000)</u>

NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES 4,170,258

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS 2,938,540

CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR 7,728,468

CASH AND CASH EQUIVALENTS AT END OF YEAR 10,667,008

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, 2008
 (Amounts in dollars)

Exhibit C

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

Operating Income (Loss)		<u>4,007,691</u>
Adjustments To Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Depreciation	6,511,028	
Increase (Decrease) in Allowance for Uncollectible Accounts	(39,610)	
Changes in Assets and Liabilities:		
(Increase) Decrease in Accounts Receivable	(554,807)	
(Increase) Decrease in Assessments Receivable	(589,689)	
(Increase) Decrease in Due from Primary Government	(3,832)	
(Increase) Decrease in Due from Other Governmental Units	(67,558)	
(Increase) Decrease in Inventories	229,467	
Increase (Decrease) in Accrued Salaries Payable	110,347	
Increase (Decrease) in Compensated Absences Payable	220,233	
Increase (Decrease) in Net Other Post Employment Benefits Obligation	529,505	
Increase (Decrease) in Claims and Judgments Payable	245,937	
Increase (Decrease) in Accounts Payable	(88,248)	
Increase (Decrease) in Due to Primary Government	(96,311)	
Increase (Decrease) in Due to Other Governmental Units	(34,790)	
Increase (Decrease) in Unearned Revenue	<u>188,528</u>	
Total Adjustments		<u>6,560,200</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		<u><u>10,567,891</u></u>

DETAILS OF CASH AND CASH EQUIVALENTS

Cash and Investments with Treasurer	10,511,763
Departmental Cash	136,963
Imprest Funds	7,000
Cash Grants and Other Contributions	<u>11,282</u>
TOTAL CASH AND CASH EQUIVALENTS	<u><u>10,667,008</u></u>

NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES

Retirement/Deletion of Capital Assets	(629,422)
Change in Fair Value of Investments	73,863
Capital Assets Purchased on Account	1,930,366

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, 2008

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**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2008**

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, 2008 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, 2008

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, 2008. 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 2008, Regional Water recorded a "increase in fair value of investments" as investment income of \$73,863. 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, 2008**

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, 2008 is as follows:

Accounts Receivable - Registered Bills	\$	77,143
Accounts Receivable - Water Billings		3,432,184
Accounts Receivable - Unbilled		842,210
Accounts Receivable - Miscellaneous		11,256
Allowance for Uncollectible Accounts		<u>(45,734)</u>
Accounts Receivable (net of Allowance for Estimated Uncollectible)	\$	<u>4,317,059</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 2003 through 2007. 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, 2008**

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, 2008**

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, 2008**

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 standby 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, 2008**

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, 2008, 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 \$10,511,763 (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, 2008, the total imprest funds were \$7,000. Regional Water also had departmental cash on hand of \$136,963.

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, 2008**

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, 2008**

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, 2008, is as follows:

<u>Rating Agency</u>	<u>Rating</u>	<u>Fair Value</u>
S&P	AAA	<u>\$10,737,950</u>

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2008**

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, 2008, 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, 2008, 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, 2008, 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	<u>\$10,737,950</u>	<u>\$2,015,620</u>	<u>\$2,021,260</u>	<u>\$6,701,070</u>

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2008**

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, 2008, 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	\$ 10,511,763
Investments	3,019,503
Departmental Cash	136,963
Imprest Funds	7,000
Restricted Cash and Cash Equivalents:	
Cash Grants and Other Contributions	11,282
Investments for Revenue Bond Debt Service	2,452,785
Investments for Revenue Bond Future Debt Service	3,869,110
Investments for Revenue Bond Operations and Maintenance	1,385,270
Total	<u>\$ 21,393,676</u>
Deposits	\$ 10,511,763
Investments	10,737,950
Departmental Cash	136,963
Imprest Funds	7,000
Total	<u>\$ 21,393,676</u>

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2008**

Note 3. A. Assets (continued)

2. Summary of Changes in Capital Assets

A summary of changes in capital assets follows:

	01/01/08	Additions	Deductions	12/31/08
Capital Assets Not Being Depreciated:				
Land	\$ 1,307,887	\$ -	\$ -	\$ 1,307,887
Construction in Progress	9,710,503	10,313,626	(9,186,069)	10,838,060
Total Capital Assets Not Being Depreciated	<u>\$ 11,018,390</u>	<u>\$ 10,313,626</u>	<u>\$ (9,186,069)</u>	<u>\$ 12,145,947</u>
Capital Assets Being Depreciated:				
Buildings and Structures	\$ 55,890,178	\$ 129,077	\$ (395,742)	\$ 55,623,513
Public Improvements	208,088,313	8,119,700	(770,052)	215,437,961
Equipment	45,936,436	937,292	(394,441)	46,479,287
Total Capital Assets Being Depreciated	<u>\$ 309,914,927</u>	<u>\$ 9,186,069</u>	<u>\$ (1,560,235)</u>	<u>\$ 317,540,761</u>
Less Accumulated Depreciation for:				
Buildings and Structures	\$ (12,711,845)	\$ (1,404,204)	\$ 234,710	\$ (13,881,339)
Public Improvements	(64,888,882)	(3,565,818)	305,132	(68,149,568)
Equipment	(19,575,844)	(1,541,006)	(79,730)	(21,196,580)
Total Accumulated Depreciation	<u>\$ (97,176,571)</u>	<u>\$ (6,511,028)</u>	<u>\$ 460,112</u>	<u>\$ (103,227,487)</u>
Total Capital Assets Being Depreciated, Net	<u>\$ 212,738,356</u>	<u>\$ 2,675,041</u>	<u>\$ (1,100,123)</u>	<u>\$ 214,313,274</u>
Capital Assets, Net	<u>\$ 223,756,746</u>	<u>\$ 12,988,667</u>	<u>\$ (10,286,192)</u>	<u>\$ 226,459,221</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. There were no assets that met this requirement in 2008.

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2008**

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, 2008, long-term debt consisted of:

	Principal		
	Unpaid Balances December 31, 2008	Less Current Maturities	Long-Term Maturities
Notes Payable	\$ 10,420,307	\$ 1,133,014	\$ 9,287,293
Revenue Bonds	25,475,000	1,430,000	24,045,000
Capital Lease	7,871	1,329	6,542
Compensated Absences	1,856,872	62,842	1,794,030
Other Post Employment Benefits	1,122,807	-	1,122,807
Claims and Judgments	2,999,959	559,133	2,440,826
Total	\$ 41,882,816	\$ 3,186,318	\$ 38,696,498

b. Changes in Debt Obligations

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

	01/01/08	Additions	Deductions	12/31/08
General Obligation				
Waste Water Revenue Note	\$ 2,332,034	\$ -	\$ 216,727	\$ 2,115,307
Drinking Water Revenue Note	9,230,000	-	925,000	8,305,000
Revenue Bonds	27,430,000	-	1,955,000	25,475,000
Capital Lease	-	7,871	-	7,871
Compensated Absences	1,636,640	361,112	140,880	1,856,872
Other Post Employment Benefits	593,302	1,283,314	753,809	1,122,807
Claims and Judgments	2,754,022	1,000,836	754,899	2,999,959
Total	\$ 43,975,998	\$ 2,653,133	\$ 4,746,315	\$ 41,882,816

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2008**

Note 3. B. Liabilities (continued)

c. Principal and Interest Requirements on Debt Obligations

i. All Debt

Aside from Claims and Judgments, Compensated Absences, Other Post Employment Benefits, and Capital Leases the annual requirements to pay the principal of \$35,895,307 and interest of \$10,318,941 on all Regional Water debt outstanding as of December 31, 2008, are as follows:

YEAR	2003 REVENUE BONDS			2005 REVENUE BONDS			2007 REVENUE BONDS			TOTAL REVENUE BONDS		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2009	\$475,000	\$326,375	\$801,375	\$475,000	\$402,560	\$877,560	\$480,000	\$293,850	\$773,850	\$1,430,000	\$1,022,785	\$2,452,785
2010	\$475,000	\$313,075	\$788,075	\$490,000	\$387,123	\$877,123	\$570,000	\$274,650	\$844,650	\$1,535,000	\$974,848	\$2,509,848
2011	\$500,000	\$298,350	\$798,350	\$505,000	\$369,973	\$874,973	\$805,000	\$251,850	\$1,056,850	\$1,810,000	\$920,173	\$2,730,173
2012	\$500,000	\$281,600	\$781,600	\$520,000	\$351,035	\$871,035	\$770,000	\$219,650	\$989,650	\$1,790,000	\$852,285	\$2,642,285
2013	\$525,000	\$264,100	\$789,100	\$535,000	\$330,235	\$865,235	\$490,000	\$188,850	\$678,850	\$1,550,000	\$783,185	\$2,333,185
2014-18	\$3,000,000	\$1,007,250	\$4,007,250	\$2,980,000	\$1,313,560	\$4,293,560	\$3,100,000	\$573,700	\$3,673,700	\$9,080,000	\$2,894,510	\$11,974,510
2019-23	\$3,000,000	\$332,437	\$3,332,437	\$3,600,000	\$647,212	\$4,247,212	\$870,000	\$34,800	\$904,800	\$7,470,000	\$1,014,449	\$8,484,449
2024	-	-	-	\$810,000	\$34,830	\$844,830	-	-	-	\$810,000	\$34,830	\$844,830
	\$8,475,000	\$2,823,187	\$11,298,187	\$9,915,000	\$3,836,528	\$13,751,528	\$7,085,000	\$1,837,350	\$8,922,350	\$25,475,000	\$8,497,065	\$33,972,065

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2008**

Note 3. B. Liabilities (continued)

<u>YEAR</u>	<u>1996 G.O. WASTE WATER REVENUE NOTE</u>			<u>1998 DRINKING WATER REVENUE NOTE</u>			<u>TOTAL REVENUE NOTES</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	\$242,989	\$39,351	\$282,340	\$515,000	\$192,096	\$707,096	\$757,989	\$231,447	\$989,436
2013	\$250,038	\$32,303	\$282,341	\$980,000	\$174,174	\$1,154,174	\$1,230,038	\$206,477	\$1,436,515
2014-18	\$933,644	\$54,546	\$988,190	\$4,025,000	\$400,722	\$4,425,722	\$4,958,644	\$455,268	\$5,413,912
	<u>\$2,115,307</u>	<u>\$284,586</u>	<u>\$2,399,893</u>	<u>\$8,305,000</u>	<u>\$1,537,290</u>	<u>\$9,842,290</u>	<u>\$10,420,307</u>	<u>\$1,821,876</u>	<u>\$12,242,183</u>

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

SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2008

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, 2008, the claims and judgments liability was \$2,999,959.

iii. Compensated Absences

Included in Regional Water's debt are compensated absences for \$1,856,872.

iv. Operating Lease

Regional Water entered into an operating lease on August 12, 2008, for a floor scrubber. This is a 24 month lease. The fair value of the equipment was \$10,266. The total payments made in 2008 were \$1,584. The total future minimum payments for 2009 and 2010 will be \$4,751 and \$3,167 respectively or a total of \$7,918. At the end of the term of the lease, Regional Water has the option to a) return the equipment, b) extend the lease term for a new term at the then fair market rental value, or c) on 90 days advance written notice, purchase the equipment for the fair market value in place at the end of the lease term.

v. Capital Lease

Regional Water entered into a capital lease on November 30, 2008 for a postage mailing machine. This is a 60 month lease. The cost of the equipment is \$7,871. At December 31, 2008, the liability was \$7,871.

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2008**

Note 3. B. Liabilities (continued)

2008 Capital Lease

	<u>Annual Lease Payment</u>	<u>Annual Meter Rental Payment</u>	<u>Annual Maintenance Payment</u>	<u>Annual Interest</u>	<u>Reduction of Lease Obligation</u>	<u>Present Value Minimum Lease Payments</u>
2008						\$7,871
2009	\$3,624	\$828	\$872	\$601	\$1,323	\$6,548
2010	\$3,624	\$828	\$872	\$486	\$1,438	\$5,110
2011	\$3,624	\$828	\$872	\$360	\$1,564	\$3,546
2012	\$3,624	\$828	\$872	\$225	\$1,699	\$1,847
2013	\$3,624	\$828	\$872	\$77	\$1,847	\$ -
	<u>\$18,120</u>	<u>\$4,140</u>	<u>\$4,360</u>	<u>\$1,749</u>	<u>\$7,871</u>	

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	3.86%; 06/01; 12/01	03/01/03	12/01/22	\$ 8,475,000
Revenue	4.20%; 06/01; 12/01	03/24/05	12/01/24	9,915,000
Revenue	4.06%; 06/01; 12/01	02/14/07	12/01/19	<u>7,085,000</u>
Total				<u>\$25,475,000</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	\$ 2,115,307
Drinking Water Revenue Note	3.45%; 6/01; 12/01	12/01/98	12/01/18	<u>8,305,000</u>
Total				<u>\$10,420,307</u>

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2008**

Note 3. Detail Notes (continued)

C. Due From Primary Government

At December 31, 2008, 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>
Sewer Utility	Enterprise Fund	\$62,062
General Fund	General Fund	15,792
Public Works Administration	Internal Service Fund	<u>26,352</u>
Total		<u>\$104,206</u>

D. Due To Primary Government

At December 31, 2008, 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	\$ 20,473
Sewer Utility	Enterprise Fund	2,130,914
General Fund	General Fund	2,323
Public Works Administration	Internal Service Fund	6,240
Public Works Equipment	Internal Service Fund	17,303
Public Works Traffic, Signal, & Light Maint.	Internal Service Fund	9,352
Right of Way Maintenance	Special Revenue Fund	7,111
Special Projects-General Government	Special Revenue Fund	<u>49,074</u>
Total		<u>\$2,242,790</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:

\$2.28 per regular sewer bill transaction
\$0.93 per rainleader transaction

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2008**

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, 2008, 2007, and 2006 were \$832,152, \$777,087, and \$756,377 respectively. The corresponding total employee's shares were \$765,579, \$714,920, and \$693,345. 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, 2008.

B. Post-Employment Benefits Other than Pensions

Plan Description

In addition to providing the pension benefits described in Note 4.A., Regional Water, through the City of Saint Paul (City) provides other post-employment health care and life insurance benefits (OPEB) for retired employees through a single employer defined benefit plan. The plan is not accounted for as a trust fund, as an irrevocable trust has not been established to account for the plan. The plan does not issue a separate report.

Benefits Provided

Eligibility requirements and contribution levels vary substantially between the 11 bargaining agreements. The typical eligibility requirements are 20 years of service and currently receiving a public employee pension. This coverage may also extend to the retiree's family. The benefits, benefit levels, employee contributions and employer contributions are governed by the City and can be amended by the City through the City's collective bargaining agreements with employee groups. Benefits include general inpatient and outpatient medical services; mental and substance abuse care; vision care; preventative dental; and prescriptions.

Retirees under the age of 65 (early retirees) are included in the pool with active employees. Each year during open enrollment, active employees and early retirees select from three options with the City's health insurance carrier. Retirees over 65 (regular retirees) have two plan options under a separate policy. Medicare becomes the primary insurer and the City's plan becomes secondary. Life insurance in the amount of \$5,000 to \$20,000 is provided to some early retirees, depending upon collective bargaining agreements.

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2008**

Note 4. B. Post-Employment Benefits Other than Pensions (continued)

The majority of employees benefit amounts have been capped. The benefit amount varies depending upon employment date and bargaining unit agreement as indicated below:

Health Care Benefit

	<u>Under Age 65 (early retiree)</u>	<u>Over Age 65 (regular retiree)</u>
Employees who retired before January 1, 1996	\$230 per month	100%
Employees hired before and retiring after January 1, 1996	\$350 per month	\$550 per month
Employees hired after January 1, 1996	\$300 per month	\$300 per month

Membership

As of actuarial valuation date of September 30, 2006 the membership consisted of:

	<u>Family Coverage</u>	<u>Single Coverage</u>	<u>Total</u>
Retired Participants and Beneficiaries			
Under Age 65 (Early Retirees)	6	26	32
Over Age 65 (Regular Retirees)	50	98	148
Total Retired Participants	<u>56</u>	<u>124</u>	<u>180</u>
Active Participants			
Eligible to Receive Benefits			34
Not Eligible to Receive Benefits*			205
Total Active Participants			<u>239</u>
Total Participants			<u><u>419</u></u>

* Participants who have not reached retirement age and minimum service requirements

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2008**

Note 4. B. Post-Employment Benefits Other than Pensions (continued)

Funding Policy

Retiree health care benefits are currently funded based on the benefit disclosed above on a pay-as-you-go basis. Regional Water may change the funding policy at any time. The average monthly premium contributions for 2008 were as follows:

	<u>Age</u>	<u>Average Monthly Regional Water Contribution</u>	<u>Average Monthly Retiree Contribution</u>
Health Insurance	Less than 65	\$332	\$249
	65 and older	\$284	\$17
Life Insurance	Less than 65	\$1	\$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 2008 expense totaled \$627,530 for approximately 179 retirees. Retirees contributed \$118,899; active employees do not contribute to the plan until retirement.

Annual OPEB Costs and Net OPEB Obligation

Regional Water had an actuarial valuation performed for the plan as of September 30, 2006 to determine the funded status of the plan as of that date as well as the employer's annual required contribution (ARC) for the fiscal years ended December 31, 2007 and 2008. Regional Water's annual OPEB cost (expense) of \$1,283,314 was equal to the ARC for the fiscal year, as the transition liability was set at zero as of December 31, 2006. Regional Water's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2007 and 2008 are as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Employer Contribution</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
December 31, 2007	\$ 1,283,314	\$ 726,160	56.6%	\$ 557,154
December 31, 2008	\$ 1,283,314	\$ 717,661	55.9%	\$ 1,122,807

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2008**

Note 4. B. Post-Employment Benefits Other than Pensions (continued)

The net OPEB obligation (NOPEBO) as December 31, 2008 was calculated as follows:

Annual Required Contribution (ARC)	\$ 1,283,314
Interest on Net OPEB Obligation	-
Adjustment to Annual Required Contribution	-
Annual OPEB Cost	1,283,314
Contributions Made:	
Direct	626,883
Indirect Implicit Subsidy	90,778
Total Contributions Made	717,661
Increase (Decrease) in Net OPEB Obligation	565,653
Net OPEB Obligation Beginning of Year	593,302
Adjustment for Indirect Implicit Subsidy 2007	(36,148)
Net OPEB Obligation End of Year	\$ 1,122,807

Funded status and funding progress

The actuarial accrued liability for benefits, as of September 30, 2006, the most recent actuarial valuation date, was \$14,931,911. This liability will be phased in over 30 years based on the requirements of the Governmental Accounting Standards Board (GASB) Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions."

The funded status of the plan as of September 30, 2006 was as follows:

Actuarial Valuation Date	Actuarial Value of Plan Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll Active Members	UAAL as a Percentage of Covered Payroll
September 30, 2006	\$ -	\$ 14,931,911	\$ 14,931,911	0.0%	\$ 11,080,634	134.8%

Actuarial valuation of an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information, presents information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2008**

Note 4. B. Post-Employment Benefits Other than Pensions (continued)

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the September 30, 2006 actuarial valuation the projected unit credit actuarial cost method was used. The actuarial assumptions included 5.25% discount rate and an annual healthcare cost trend rate of beginning at 9.0% for fiscal year 2007 and declining over 8 years by 0.5% per year to 5.0%. Both rates include a 3.0% inflation assumption. The actuarial value of assets was not determined, as Regional Water has not advance-funded its obligation. The plan's unfunded actuarial accrued liability is being amortized as a level dollar amount over 30 years. The remaining amortization period at December 31, 2008, was 28 years.

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 2007 and 2008:

	<u>Year Ended December 31, 2007</u>	<u>Year Ended December 31, 2008</u>
Beginning fiscal year liability	\$2,259,849	\$2,754,022
Current year claims and changes in estimates	1,288,514	1,000,836
Claim payments	<u>(794,341)</u>	<u>(754,899)</u>
End of year liability	<u>\$2,754,022</u>	<u>\$2,999,959</u>

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2008**

Note 4. Other Information (continued)

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 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 2008. 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 2008. Financial information can be obtained from the City of St. Cloud located at 400 2nd Street South, St. Cloud, Minnesota 56301.

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REQUIRED SUPPLEMENTARY INFORMATION

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
REQUIRED SUPPLEMENTARY INFORMATION
For the Fiscal Year Ended December 31, 2008**

Schedule 1

Schedule of Funding Progress ⁽¹⁾

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial		Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll Active Members	UAAL as a Percentage of Covered Payroll
		Liability (AAL)	Accrued				
September 30, 2006	\$ -	\$ 14,931,911	\$ 14,931,911	\$ 14,931,911	0.0%	\$ 11,080,634	134.8%

Regional Water implemented GASB Statement No. 45 for the fiscal year ended December 31, 2007. Information for the prior years is not available.

⁽¹⁾ For information regarding the plan see Note 4.B. on pages 34-38.

Schedule 2

Schedule of Employer Contributions ⁽¹⁾

Fiscal Year Ended	Annual Required Contribution		Percentage Contributed		Net OPEB Obligation
December 31, 2007	\$1,283,314	\$1,283,314	56.6%	56.6%	\$557,154
December 31, 2008	\$1,283,314	\$1,283,314	55.9%	55.9%	\$1,122,807

Regional Water implemented GASB Statement No. 45 for the fiscal year ended December 31, 2007. Information for the prior years is not available.

⁽¹⁾ For information regarding the plan see Note 4.B. on pages 34-38.

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