

**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, 2010**

**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, 2010**

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## INTRODUCTORY SECTION



# BOARD OF WATER COMMISSIONERS

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

*Commissioners: Matt Anfang ♦ James Bykowski ♦ Lee Helgen ♦ Gregory Kleindl*

June 30, 2011

TO: BOARD OF WATER COMMISSIONERS  
Patrick Harris, President  
John Zanmiller, Vice President  
Commissioner Matt Anfang  
Commissioner James Bykowski  
Commissioner Lee Helgen  
Commissioner Gregory Kleindl

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, 2010. 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, certain required supplementary information, and 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 ♦ 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

## HIGHLIGHTS IN SUMMARY

The year 2010 was described as the best growing season; rainfall was very regular and there were no prolonged dry stretches. This resulted in very light demand on our water system as there was little need to sprinkle lawns and gardens. Demand was also lower due to conservation and cultural changes in our service area. Consequently water sales were down, leading to some severe budget issues. Reductions to operational and capital spending and continual monitoring enabled us to end the year on an even note. Continued technological improvements and enhancements combined with review of work flow and business practices have enabled us to provide better service to our customers. We continued to improve and maintain our distribution and production systems focusing on safety, reliability and sustainability. The 4<sup>th</sup> Street portion of the Central Corridor Light Rail project was completed in 2010. In July 2010, Regional Water issued two Water Revenue Notes; the first, Series 2010A for \$5,960,000, will be used for the replacement of the Dale Street Reservoir and the second, Series 2010B for \$23,107,000, will be used for the water meter and lead service line replacement projects.

### *Business Division*

The Business Division includes the five business units of Financial Services, Information Services, Meter Operations, Billing, and Customer Service. The Business Division offers support services to other divisions within the utility as well as direct contact with individual customers and communities at large. The Meter Operations unit was transferred from the Distribution Division to the Business Division in August 2010. This move was driven by the recognition of the meter to bill collection business process, which includes meter reading, billing and managing customer calls being strongly interdependent and the belief that managing that process together will improve overall effectiveness and customer service.

Regional Water implemented a new Customer Information System (CIS), CIS Infinity, in November 2009. Accordingly, 2010 was a year of continued learning and adjustment for staff. In late summer, our CIS software vendor, Advanced Utility Systems, performed a formal on-site review of Regional Water's business processes and made configuration adjustments to enhance effectiveness. Throughout the year water billings continued to meet schedules. By year end, staff became proficient in the use of the new software.

Through a contract with Northern Water Works Supply, we began the installation of approximately 95,000 replacement water meters equipped with a radio transmitter. Current meters are approximately 25 years old. The new meter will be fitted with new reading technology. The new automated reading technology will use an automated drive by system for capturing readings. This project will require on-going coordination between the contractor and Regional Water's Meter Operations, Billing, and Customer Service Units. We look for the radio read system to significantly increase meter reading efficiency, reduce meter reader exposure to injury and reduce the number of estimated reads in the winter months. The meter replacement project will continue to 2013.



## HIGHLIGHTS IN SUMMARY (continued)

To improve public outreach and provide information, we issued several press releases about the Meter Replacement Project, updated our website with helpful Meter Replacement Project information, and we held open houses at the Highland Park Water Tower. We continue to produce several external publications, including *Customer Service Connections*, a quarterly newsletter for customers, and the annual *Water Quality Report*. Internally, we provided employees with communication updates by featuring timely articles in our bi-weekly employee newsletter, the *Pipeline Express*.

We continued to improve the retrieval and display of asset information in our Geospatial Information System (GIS) and provide this information both in the office and in the field. Preliminary work began on the configuration and implementation of the City of Saint Paul's new Lawson Finance System.

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

In 2011, we anticipate implementing additional modules to CIS Infinity: Infinity Link, which will provide online access to account information and bill payment option for customers who register to use it; consolidated billing, which will offer customers one bill summarizing the charges of multiple accounts and properties they own; and the Infinity backflow module, which will help us better manage the testing of backflow preventers as required by the State Plumbing Code.

The City of Saint Paul is implementing a new Lawson Finance System. This implementation will significantly impact Regional Water's information systems. Finance and Information Services staff will support design, software configuration and testing required to facilitate our business processes. Data conversion and testing to implement a new Chart of Accounts in both CIS Infinity and our Computerized Maintenance Management System (CMMS) will require significant staff resources.

We will review and amend our business practices as needed to optimize the effectiveness of the new radio meter reading system and the new finance system. We will continue to examine workflow processes throughout the utility looking for improved efficiency and enhanced delivery of information to our employees and customers.

### ***Distribution Division***

Work in the Distribution Division includes capital construction for distribution system piping, maintenance of our existing distribution system, fleet management, and warehouse operations.

We continue to replace and upgrade an aging infrastructure including unlined cast iron water mains, hydrants and lead water services. Regional Water's water main and lead replacement work was primarily accomplished in coordination with street reconstruction projects.

## HIGHLIGHTS IN SUMMARY (continued)

In 2010, we performed a significant water main cleaning and lining project. This project involved cleaning and lining 1.8 miles of 30" diameter pipe. This main is one of the two main supply lines to the Highland Reservoir and this work will bring longer life to an old structurally sound main.

We also replaced 5.5 miles of water main and 563 lead water services, primarily in street reconstruction areas. Lead replacements were also performed in those areas throughout the service area where property owners have previously replaced their portion of the lead service in private property and where old services were leaking and required replacement. In addition, 182 of the 9,500 system hydrants were also replaced during the year.

We continue to focus on our preventive maintenance program. Preventive maintenance of the distribution system is needed to ensure adequate reliability and improve distribution system water quality. Preventive maintenance work includes hydrant inspection, a Unidirectional Flushing (UDF) program and a large valve exercising program. In 2010, we inspected all public fire hydrants in the system. This work involved the operation of system hydrants and performing minor repair work as necessary. The purpose of UDF is to thoroughly flush mains for improved distribution water quality. This involves flowing hydrants by directing water through water mains in such a way to create thorough flushing and scouring of the mains. The purpose of the valve exercising program is to operate system valves to ensure reliability. We performed unidirectional flushing in about 4% of our system area and for our large valve exercising; we operated 25% of our 24" and larger valves.

Emergency maintenance is also needed. We responded to many emergencies throughout the year; most occurring in the winter season, and we made repairs when necessary. We also provide water main break repair services to other municipalities outside our service area, responding to main breaks in the city of Oakdale and in White Bear Township. Last year we repaired 108 main breaks in Regional Water's service area and 42 repairs in communities outside our service area.

### ***Distribution Division – Future Operations***

In 2011 and 2012, much emphasis will be placed on construction surrounding the Central Corridor Light Rail project which is running between Saint Paul and Minneapolis along University Avenue. This project involves construction of new water mains and services along the light rail route. Much work will take place installing new valves for providing adequate shut-offs for construction, installation of temporary water mains and services and new hydrant installations.

Capital funding for 2011 will continue at the same 2010 level. We will continue to focus on preventive maintenance work with our UDF and large valve operating program for the long range care of the system. We will continue to inspect all of the nearly 9,500 hydrants on our system, as we have done in each of the last four years.



## HIGHLIGHTS IN SUMMARY (continued)

### ***Engineering Division***

Engineering work in the distribution system included planning and construction coordination for its water main construction, valve replacement, and lead service replacement programs. The division also supports planning and construction coordination for the supply and production areas of the utility. A major capital initiative completed in 2010 was the demolition of the 30 million gallon Dale Street reservoir that was built in 1919. The structure will be replaced by a 10 million gallon prestressed concrete tank, and will be constructed within the foot print of the original structure and is expected to be completed in 2011. The division has adopted and implemented state of the art modeling techniques to model distribution system hydraulics and water quality. This GIS based application is much more comprehensive and powerful than previous models. The programming and calibration of the distribution system model is complete. Regional Water is involved with the Central Corridor Light Rail project relocating our water mains out of the “utility free zone” immediately beneath the train tracks. The 4<sup>th</sup> Street portion of the project was completed in 2010 and the Civil East portion, Cedar Street to Minneapolis, will begin in 2011 and continue through 2014.

### ***Engineering Division – Future Operations***

The Engineering Division will continue to focus primarily on three initiatives: 1) leveraging the electronic programs and tools that are now available to increase our effectiveness and efficiency; 2) working with the Vadnais Lake Area Watershed Management Organization and the Upper Mississippi River Source Water Protection Initiative to assist in completing E. coli Total Maximum Daily Load programs (TMDL) for the Upper Mississippi River and County Ditch #14; and 3) further enhancement of our asset management program.

### ***Production Division***

The year 2010 saw production levels back to where they were prior to most of the suburban areas being built. Precipitation during the year was more than five inches above normal. There were no prolonged dry stretches of weather, and rainfall fell at regular intervals during the growing season. This led to very light demands on our system as there was little need to sprinkle lawns. That being the case, it may be that 2010 will set a standard for minimal production. After experiencing lower than expected demands through four years of drought, our concerns about very low demands during a normal year of precipitation were shown to be quite accurate. Our average pumping rate for 2010 was 40.8 million gallons per day (MGD), the lowest figure we have seen since 1962.

## HIGHLIGHTS IN SUMMARY (continued)

Water quality leaving the treatment plant continued to be excellent. We had no positive coliform tests in our distribution system, and we had only 15 taste and odor complaints for the year. This is roughly a 90% reduction from the number of complaints we received yearly prior to installing our Granular Activated Carbon (GAC) filters. We have now had four excellent years in a row in terms of complaints for taste and odor. We did observe some lower chlorine levels in our distribution system in the last half of 2010. We believe this is due to longer residence times in the system, which is in turn due to the low demands on the system. We continue to watch for signs that our GAC filters are losing their effectiveness, but so far we have not seen any.

Some good news with lower production is the fact that the costs for production were also lower. Electrical costs were down due to less pumping, and chemical costs stabilized after several years of increases. Our unit cost for chemicals was nearly the same as it was in 2009, and so with less production, our total costs were less. The price of sodium hydroxide fell by 63%, and alum pricing was down slightly.

This has been our fourth year dealing with the zebra mussel infestation in our lakes, intake structures, and conduits. We successfully cleaned the heavily infested surfaces of the intakes and conduits in 2010 and placed the conduits back in service without causing any taste and odor episodes. It appears that we will be doing this cleaning yearly for the foreseeable future. At present, it is still more economical to manually clean our facilities rather than chemically treat the water to prevent the mussels from attaching.

### ***Production Division – Future Operations***

At the end of 2010, plans were underway for several large projects for Production. We will proceed to harden our control room at the plant, increasing the security for that room and thereby our entire system. We also have plans to design a new pump #5 for the Fridley pumping station, to replace the pump that has reached the end of its useful life. Also, we have plans to install pumps and motors on 4 wells that have been drilled along our conduit right-of-way, increasing our ground water capacity to equal or exceed our average day demand. We also plan to allow for the discharge from these wells to be capable of entering either of our supply conduits. This will allow us more flexibility than what we have currently. As it is today, only well D can pump to our older conduit; the other 5 wells all pump to the newer steel conduit.

## 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 REPORT

The State Auditor will issue a management and compliance report 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 State Auditor's audit was also designed to meet the requirements of the Federal Single Audit Act and the related U.S. Office of Management and Budget's Circular A-133. The management and compliance report will not modify or affect, in any way, this report. The State Auditor's report on Regional Water's financial statements is unqualified, which means that, in the auditor's opinion, the financial statements are fairly presented in conformity with generally accepted accounting principles.

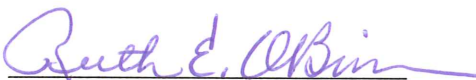
## ACKNOWLEDGMENTS

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

Respectfully submitted,



Stephen P. Schneider  
General Manager



Ruth E. O'Brien  
Financial Services Manager



**SAINT PAUL BOARD OF WATER COMMISSIONERS**

**BOARD MEMBERS TERM OF OFFICE**

As of December 31, 2010

**PUBLIC MEMBERS**

Term Expires

Matt Anfang, Commissioner

June 30, 2012

Gregory Kleindl, Commissioner

June 30, 2014

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

**CITY COUNCIL MEMBERS**

Patrick Harris, President

December 31, 2011

Vacant, Commissioner

December 31, 2011

Lee Helgen, Commissioner

December 31, 2011

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

**SUBURBAN MEMBERS**

James Bykowski, Commissioner

December 31, 2011

John Zanmiller, Vice President

December 31, 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.



## 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, 2010, 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 as of December 31, 2010, 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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Required Supplementary Information listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. In

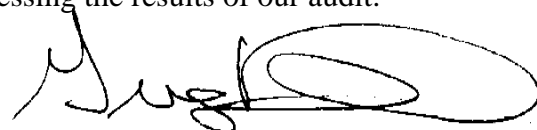
accordance with auditing standards generally accepted in the United States of America, we have applied certain limited procedures to the required supplementary information, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the Saint Paul Regional Water Services. The introductory section and the supplementary information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 21, 2011, 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, 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 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 21, 2011

**SAINT PAUL REGIONAL WATER SERVICES  
SAINT PAUL, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended December 31, 2010**

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, 2010. 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 \$217,234,808 (Net assets). Of this amount, \$9,029,551 (unrestricted net assets) may be used to meet the utility's ongoing obligations.
- Regional Water's total net assets increased by \$4,720,328.

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.

This report 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. This report also contains as supplementary information a



**SAINT PAUL REGIONAL WATER SERVICES  
SAINT PAUL, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended December 31, 2010**

Schedule of Expenditures of Federal Awards, which includes the federal grant activity of Regional Water under programs of the federal government.

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 \$4.72 million to \$217.23 million in 2010, up from \$212.51 million in 2009. The increase in total net assets was primarily due to the investment of capital assets and an increase in receivables related to the Central Corridor Light Rail project.

Revenues

Regional Water's operating revenues are derived mainly from the sale of water. Other sources include: services, fees, rents and leases. Operating revenues decreased by \$1.26 million to \$41.99 million in 2010, down from \$43.25 million in 2009. Water rates increased \$.10 per 100 cubic feet to \$2.20 in 2010; up from \$2.10 per 100 cubic feet in 2009. Revenues in 2010 were down primarily due to a reduction in consumption. Consumption in 2010 was down 8.0% from 2009 levels. The reduction was primarily due to little demand for water to sprinkle lawns and gardens and also due to conservation efforts and cultural changes in our service area.

Expenses

Regional Water's operating expenses decreased \$573 thousand to \$37.38 million in 2010, down from \$37.96 million in 2009. Spending decreased overall primarily because spending restrictions were imposed due to the projected decline in demand for water and production costs were lower due to the reduced amount of water produced. Miscellaneous expenses had a nominal change.

**SAINT PAUL REGIONAL WATER SERVICES  
SAINT PAUL, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended December 31, 2010**

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

	Fiscal Year 2010	Fiscal Year 2009	Dollar Change	Total % Change
<b>Assets</b>				
Cash and Investments	\$ 15,695	\$ 16,026	\$ (331)	(2.1)
Other Current Assets	\$ 11,576	\$ 10,234	\$ 1,342	13.1
Capital Assets - net	\$ 231,060	\$ 227,891	\$ 3,169	1.4
Other Noncurrent Assets	\$ 7,099	\$ 5,929	\$ 1,170	19.7
Total Assets	\$ 265,430	\$ 260,080	\$ 5,350	2.1
<b>Liabilities</b>				
Current Liabilities	\$ 13,980	\$ 11,179	\$ 2,801	25.1
Noncurrent Liabilities	\$ 34,215	\$ 36,386	\$ (2,171)	(6.0)
Total Liabilities	\$ 48,195	\$ 47,565	\$ 630	1.3
<b>Net Assets</b>				
Invested in Capital Assets Net of Related Debt	\$ 198,975	\$ 194,631	\$ 4,344	2.2
Restricted for Debt Service	9,230	7,718	1,512	19.6
Unrestricted	9,030	10,165	(1,135)	(11.2)
Total Net Assets	\$ 217,235	\$ 212,514	\$ 4,721	2.2

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

	Fiscal Year 2010	Fiscal Year 2009	Dollar Change	Total % Change
Operating Revenues	\$ 41,996	\$ 43,251	\$ (1,255)	(2.9)
Nonoperating Revenues (Expenses)	(1,542)	(2,186)	644	(29.5)
Total Revenues	\$ 40,454	\$ 41,065	\$ (611)	(1.5)
Operating Expenses	\$ 37,383	\$ 37,956	\$ (573)	(1.5)
Income (Loss) Before Transfers and Contributions	\$ 3,071	\$ 3,109	\$ (38)	(1.2)
Capital Contributions	\$ 1,650	\$ 557	\$ 1,093	196.2
Change in Net Assets Net Assets - January 1	\$ 4,721 212,514	\$ 3,666 208,848	\$ 1,055 3,666	28.8 1.8
Net Assets - December 31	\$ 217,235	\$ 212,514	\$ 4,721	2.2

**SAINT PAUL REGIONAL WATER SERVICES  
SAINT PAUL, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended December 31, 2010**

Capital Assets

By the end of 2010, Regional Water had invested \$346.27 million in capital assets. The \$9.56 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.

Long-Term Debt

Regional Water issued two Drinking Water Revenue Notes in 2010. At the end of 2010, bonds payable were \$22.51 million and revenue notes payable were \$9.64 million. This debt will be repaid by revenue generated by Regional Water.

Economic and Other Factors

After experiencing lower than expected demands for water through four years of drought, our concerns about very low demands during a normal year of precipitation were shown to be quite accurate. Precipitation during 2010 was more than five inches above normal. Rain fell at regular intervals during the growing season. This led to very light demands on our system as there was little need to sprinkle lawns and gardens. The effects of conservation and cultural changes in our service area continue to reduce water consumption. Our average pumping rate for 2010 was 40.8 million gallons per day, the lowest figure we have seen since 1962. Chemical prices stabilized during the year.

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, 2010  
 (Amounts in dollars)

Exhibit A

ASSETS

Current Assets

Cash and Investments with Treasurer	6,632,656
Investments	5,741,535
Departmental Cash	578,972
Imprest Funds	7,000
Restricted Cash and Cash Equivalents	
Cash Grants and Other Contributions	4,573
Investments for Revenue Bond Debt Service	2,730,172
Receivables	
Accounts (net of allowance for Estimated Uncollectibles)	5,463,998
Assessments	
Current	853,267
Deferred	2,391,749
Delinquent	221,928
Tax Forfeited Property	1,306
Accrued Interest	81,019
Due from Primary Government	67,280
Due from Other Governmental Units	693,027
Inventory - Materials and Supplies	1,802,281

Total Current Assets 27,270,763

Noncurrent Assets

Restricted Assets

Investments for Revenue Bond Future Debt Service	5,104,221
Investments for Revenue Bond Operations and Maintenance	1,472,179

Total Restricted Assets 6,576,400

Other Assets

Deferred Charges	353,821
Long-Term Loans Receivable	168,789

Total Other Assets 522,610

Capital Assets

Land	1,307,887
Buildings and Structures	55,920,604
Less: Accumulated Depreciation	(16,569,954)
Public Improvements	229,519,530
Less: Accumulated Depreciation	(74,645,018)
Equipment	49,776,259
Less: Accumulated Depreciation	(23,994,771)
Construction in Progress	9,745,202

Total Capital Assets (Net of Accumulated Depreciation) 231,059,739

Total Noncurrent Assets 238,158,749

Total Assets 265,429,512

continued

BOARD OF WATER COMMISSIONERS OF THE CITY OF SAINT PAUL, MINNESOTA  
REGIONAL WATER SERVICES STATEMENT OF NET ASSETS  
December 31, 2010  
(Amounts in dollars)

Exhibit A

LIABILITIES

Current Liabilities (Payable from Current Assets)	
Accrued Salaries Payable	531,688
Compensated Absences Payable	69,775
Claims and Judgments Payable	608,899
Lease Purchase Payable	1,564
Accounts Payable	2,633,189
Contract Retention Payable	216,531
Due to Primary Government	4,017,445
Due to Other Governmental Units	1,739,276
Unearned Revenue	512,999
Revenue Notes Payable	1,676,139
Accrued Interest Payable on Revenue Notes	38,133
	<hr/>
Total Current Liabilities (Payable from Current Assets)	12,045,638
	<hr/>
Current Liabilities (Payable from Restricted Assets)	
Accounts Payable	47,936
Revenue Bonds Payable	1,810,000
Accrued Interest Payable on Revenue Bonds	76,681
	<hr/>
Total Current Liabilities (Payable from Restricted Assets)	1,934,617
	<hr/>
Noncurrent Liabilities	
Revenue Bonds Payable	20,700,000
Compensated Absences Payable	1,724,765
Other Post Employment Benefits	2,268,673
Claims and Judgments Payable	1,624,341
Lease Purchase Payable	3,546
Revenue Notes Payable	7,968,244
Premium on Revenue Bonds	75,662
Less: Unamortized Discount	(150,782)
	<hr/>
Total Noncurrent Liabilities	34,214,449
	<hr/>
Total Liabilities	48,194,704
	<hr/>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	198,975,366
Restricted for Debt Service	9,229,891
Unrestricted	9,029,551
	<hr/>
Total Net Assets	217,234,808
	<hr/> <hr/>

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

Exhibit B

For the Fiscal Year Ended December 31, 2010  
 (Amounts in dollars)

OPERATING REVENUES	
Fees, Sales and Services	41,268,800
Rents and Leases	473,403
Miscellaneous	<u>253,724</u>
Total Operating Revenues	<u>41,995,927</u>
OPERATING EXPENSES	
Salaries	11,840,756
Employee Fringe Benefits	5,612,120
Services	5,849,539
Materials and Supplies	6,948,092
Depreciation	6,905,672
Miscellaneous	<u>227,229</u>
Total Operating Expenses	<u>37,383,408</u>
OPERATING INCOME (LOSS)	<u>4,612,519</u>
NON-OPERATING REVENUES (EXPENSES)	
Operating Grants	77,960
Gain on Sale of Assets	13,611
Loss on Retirement of Assets	(506,074)
Investment Income	
Interest Earned on Investments	475,064
Decrease in Fair Value of Investments	(392,481)
Miscellaneous Other Revenue (Expenses)	108,120
Interest Expense on	
Revenue Bonds	(973,520)
Revenue Notes	(311,046)
Leases	(494)
Amortization of Bond Issuance Costs	<u>(32,878)</u>
Total Non-Operating Revenues (Expenses)	<u>(1,541,738)</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS	3,070,781
CAPITAL CONTRIBUTIONS	
Capital Acquisitions - Outside Sources	<u>1,649,547</u>
CHANGE IN NET ASSETS	4,720,328
NET ASSETS, January 1	<u>212,514,480</u>
NET ASSETS, December 31	<u><u>217,234,808</u></u>

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, 2010  
(Amounts in dollars)

Exhibit C

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from Customers	40,730,829
Other Operating Receipts	473,403
Other Receipts	253,724
Payments to Suppliers	(12,911,483)
Payments to Employees	(11,782,495)
Payment for Fringe Benefits and Payroll Taxes	(5,100,081)
Non-Operating Revenue Received	<u>117,120</u>

NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES 11,781,017

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Operating Grants Received	77,960
Non-Operating Loans Repayment Received from Customers	<u>138,631</u>

NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES 216,591

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Cash Proceeds From Issuance of:	
Revenue Notes	1,548,573
Cash Proceeds From Sale of Capital Assets:	
Land	11,614
Equipment	1,897
Capital Contributions Received:	
From Outside Parties	939,929
Principal Paid on Debt Maturities:	
Revenue Bonds	(1,535,000)
Revenue Notes	(1,191,483)
Payments on Capital Lease	(1,438)
Payments for Acquisition and Construction of Capital Assets:	
Construction in Progress	(9,543,268)
Interest Paid On:	
Revenue Bonds	(974,847)
Revenue Notes	(314,038)
Capital Lease	(494)
Payment of Bond Issue Costs	<u>(47,000)</u>

NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES (11,105,556)

CASH FLOWS FROM INVESTING ACTIVITIES

Interest and Dividends on Investments Received	455,695
Proceeds From Sale and Maturities of Investment Securities	11,000,571
Purchase of Investment Securities	<u>(15,500,058)</u>

NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES (4,043,792)

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (3,151,740)

CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR 10,374,941

CASH AND CASH EQUIVALENTS AT END OF YEAR 7,223,201

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, 2010  
(Amounts in dollars)

Exhibit C

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

Operating Income (Loss)		<u>4,612,519</u>
Adjustments To Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Depreciation	6,905,672	
Non-operating Miscellaneous Other Revenue Received	117,120	
Increase (Decrease) in Allowance for Uncollectible Accounts	(48,402)	
Changes in Assets and Liabilities:		
(Increase) Decrease in Accounts Receivable	(756,692)	
(Increase) Decrease in Assessments Receivable	(227,297)	
(Increase) Decrease in Due from Primary Government	106,191	
(Increase) Decrease in Due from Other Governmental Units	210,404	
(Increase) Decrease in Inventories	202,662	
Increase (Decrease) in Accrued Salaries Payable	58,261	
Increase (Decrease) in Compensated Absences Payable	(107,686)	
Increase (Decrease) in Net Other Post Employment Benefits Obligation	619,725	
Increase (Decrease) in Claims and Judgments Payable	(717,734)	
Increase (Decrease) in Accounts Payable	89,883	
Increase (Decrease) in Due to Primary Government	372,427	
Increase (Decrease) in Due to Other Governmental Units	174,280	
Increase (Decrease) in Unearned Revenue	<u>169,684</u>	
Total Adjustments		<u>7,168,498</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		<u><u>11,781,017</u></u>

DETAILS OF CASH AND CASH EQUIVALENTS

Cash and Investments with Treasurer	6,632,656
Departmental Cash	578,972
Imprest Funds	7,000
Cash Grants and Other Contributions	<u>4,573</u>
TOTAL CASH AND CASH EQUIVALENTS	<u><u>7,223,201</u></u>

NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES

Retirement/Deletion of Capital Assets	(506,074)
Change in Fair Value of Investments	(392,481)
Capital Assets Purchased on Account	3,206,665

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, 2010

Index to Notes to the Financial Statements

1. Board of Water Commissioners
  
2. Summary of Significant Accounting Policies
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  - B. Proprietary Activity
  - C. Basis of Accounting/Measurement Focus
  - D. Cash and Investments
  - E. Receivables
  - F. Material and Supplies Inventory
  - G. Restricted Assets
  - H. Capital Assets
  - I. Compensated Absences
  - J. Employee Fringe Benefits
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  - M. Capital Contributions
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## Index to Notes to the Financial Statements (continued)

### 4. Detail Notes

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**SAINT PAUL REGIONAL WATER SERVICES**  
**SAINT PAUL, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended December 31, 2010**

**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, 2010 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, 2010**

**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, 2010. 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 4.A.1.

In 2010, Regional Water recorded a "decrease in fair value of investments" as investment income of \$392,481. 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 cash and investments with treasurer, 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, 2010**

**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, 2010 is as follows:

Accounts Receivable - Registered Bills	\$ 72,861
Accounts Receivable - Water Billings	4,334,039
Accounts Receivable - Unbilled	1,103,979
Accounts Receivable - Miscellaneous	9,229
Allowance for Uncollectible Accounts	<u>(56,110)</u>
Accounts Receivable (net of Allowance for Estimated Uncollectible)	<u>\$ 5,463,998</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 2005 through 2009. 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, an allowance for depreciation for equipment used 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, 2010**

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

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

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

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

**I. Compensated Absences**

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

Employees earn vacation based on years of service and their bargaining unit. Vacation must be used in the year it is earned, except for 15 days, which may be carried over to the following year. Employees are paid 100% of their accumulated vacation pay when they terminate their employment. 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, 2010**

**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, 2010**

**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. Stewardship, Compliance and Accountability**

**A. Federal Audit Requirements**

The U.S. Office of Management of Budget (OMB) issued Circular A-133, which establishes uniform audit requirements for non-Federal entities that administer Federal awards and implements the Single Audit Act Amendments of 1996, which were signed into law July 5, 1996 (Public Law 104-156)

The purposes of the Single Audit Act Amendments of 1996 are to:

1. promote sound financial management, including effective internal controls, with respect to Federal awards;
2. promote the efficient and effective use of audit resources;
3. Reduce burdens on state and local governments, Indian tribes and nonprofit organizations; and
4. ensure that Federal departments and agencies, to the maximum extent practicable, rely upon and use audit work done pursuant to Chapter 75 of Title 31, United States Code (the "Single Audit Act").

For 2010, Regional Water's audit was performed in accordance with Circular A-133. The auditor's report on consideration of the City's internal control over financial reporting and tests of Regional Water's compliance with certain provisions of law, regulations, contracts, grant agreements and other matters will be issued at a later date.

Grant amounts received or receivable from the federal government are subject to adjustment.

Any disallowed claims, including amounts already collected, may constitute a liability of the fund. The amount, if any, of expenses which may be disallowed by the grantor cannot be determined at this time; however, Regional Water expects such amounts if any, to be immaterial.

**SAINT PAUL REGIONAL WATER SERVICES  
SAINT PAUL, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended December 31, 2010**

**Note 4. 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.

**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, 2010, 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 \$6,637,229 (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, 2010, the total imprest funds were \$7,000. Regional Water also had departmental cash on hand of \$578,972.

**SAINT PAUL REGIONAL WATER SERVICES  
SAINT PAUL, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended December 31, 2010**

**Note 4. A. Assets (continued)**

**Investments**

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

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

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

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

**SAINT PAUL REGIONAL WATER SERVICES  
SAINT PAUL, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended December 31, 2010**

**Note 4. A. Assets (continued)**

- (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.
- (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, 2010, is as follows:

<u>Rating Agency</u>	<u>Rating</u>	<u>Fair Value</u>
S&P	AAA	<u>\$15,048,107</u>



**SAINT PAUL REGIONAL WATER SERVICES  
SAINT PAUL, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended December 31, 2010**

**Note 4. 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, 2010, 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, 2010, 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, 2010, 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>Greater Than 10 Years</u>
U.S. Government Agency Securities	<u>\$15,048,107</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$7,414,337</u>	<u>\$7,633,770</u>

**SAINT PAUL REGIONAL WATER SERVICES  
SAINT PAUL, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended December 31, 2010**

**Note 4. A. Assets (continued)**

**Recap**

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

Cash and Investments with Treasurer	\$ 6,632,656
Investments	5,741,535
Departmental Cash	578,972
Imprest Funds	7,000
Restricted Cash and Cash Equivalents:	
Cash Grants and Other Contributions	4,573
Investments for Revenue Bond Debt Service	2,730,172
Investments for Revenue Bond Future Debt Service	5,104,221
Investments for Revenue Bond Operations and Maintenance	1,472,179
Total	<u>\$ 22,271,308</u>
Deposits	\$ 6,637,229
Investments	15,048,107
Departmental Cash	578,972
Imprest Funds	7,000
Total	<u>\$ 22,271,308</u>

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**SAINT PAUL REGIONAL WATER SERVICES  
SAINT PAUL, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended December 31, 2010**

**Note 4. A. Assets (continued)**

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

A summary of changes in capital assets follows:

	01/01/2010		Revised Beginning Balance	Additions	Deductions	12/31/2010
	Beginning Balance	Reclassification <sup>1</sup>				
Capital Assets Not Being Depreciated:						
Land	\$ 1,307,887	\$ -	\$ 1,307,887	\$ -	\$ -	\$ 1,307,887
Construction in Progress	9,480,728	-	9,480,728	11,099,405	(10,834,931)	9,745,202
Total Capital Assets Not Being Depreciated	\$ 10,788,615	\$ -	\$ 10,788,615	\$ 11,099,405	\$ (10,834,931)	\$ 11,053,089
Capital Assets Being Depreciated:						
Buildings and Structures	\$ 55,920,457	\$ (69,395)	\$ 55,851,062	\$ 250,984	\$ (181,442)	\$ 55,920,604
Public Improvements	221,693,023	(1,500,145)	220,192,878	9,954,415	(627,763)	229,519,530
Equipment	48,305,579	1,569,540	49,875,119	629,533	(728,393)	49,776,259
Total Capital Assets Being Depreciated	\$ 325,919,059	\$ -	\$ 325,919,059	\$ 10,834,932	\$ (1,537,598)	\$ 335,216,393
Less Accumulated Depreciation for:						
Buildings and Structures	\$ (15,256,762)	\$ 57,255	\$ (15,199,507)	\$ (1,378,723)	\$ 8,276	\$ (16,569,954)
Public Improvements	(71,720,732)	519,390	(71,201,342)	(3,723,951)	280,275	(74,645,018)
Equipment	(21,839,013)	(576,645)	(22,415,658)	(2,322,085)	742,972	(23,994,771)
Total Accumulated Depreciation*	\$ (108,816,507)	\$ -	\$ (108,816,507)	\$ (7,424,759)	\$ 1,031,523	\$ (115,209,743)
Total Capital Assets Being Depreciated, Net	\$ 217,102,552	\$ -	\$ 217,102,552	\$ 3,410,173	\$ (506,075)	\$ 220,006,650
Capital Assets, Net	\$ 227,891,167	\$ -	\$ 227,891,167	\$ 14,509,578	\$ (11,341,006)	\$ 231,059,739

\*Total Accumulated Depreciation is reduced by an allowance of \$519,086 for equipment used to construct capital assets; net depreciation reported is \$6,905,672 (\$7,424,759 - \$519,086).

<sup>1</sup>Impaired assets were misclassified as reductions to the equipment accounts in 2009; they should have been reported as reductions to buildings and public improvements.

**SAINT PAUL REGIONAL WATER SERVICES  
SAINT PAUL, MINNESOTA  
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**Note 4. Detail Notes (continued)**

**B. Liabilities**

**1. Debt Obligations of the Board of Water Commissioners**

**a. Current and Long-Term Debt Maturities**

At December 31, 2010, long-term debt consisted of:

	Principal		
	Unpaid Balances December 31, 2010	Less Current Maturities	Long-Term Maturities
Notes Payable	\$ 9,644,383	\$ 1,676,139	\$ 7,968,244
Revenue Bonds	22,510,000	1,810,000	20,700,000
Capital Lease	5,110	1,564	3,546
Compensated Absences	1,794,540	69,775	1,724,765
Other Post Employment Benefits	2,268,673	-	2,268,673
Claims and Judgments	2,233,240	608,899	1,624,341
<b>Total</b>	<b>\$ 38,455,946</b>	<b>\$ 4,166,377</b>	<b>\$ 34,289,569</b>

**b. Changes in Debt Obligations**

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

	01/01/10	Additions	Deductions	12/31/10
General Obligation				
Waste Water Revenue Note	\$ 1,892,293	\$ -	\$ 229,483	1,662,810
Drinking Water Revenue Notes	7,395,000	1,548,573	962,000	7,981,573
Revenue Bonds	24,045,000	-	1,535,000	22,510,000
Capital Lease	6,548	-	1,438	5,110
Compensated Absences	1,902,226	154,815	262,501	1,794,540
Other Post Employment Benefits	1,648,948	728,709	108,984	2,268,673
Claims and Judgments	2,950,974	29,475	747,209	2,233,240
<b>Total</b>	<b>\$ 39,840,989</b>	<b>\$ 2,461,572</b>	<b>\$ 3,846,615</b>	<b>\$ 38,455,946</b>

**SAINT PAUL REGIONAL WATER SERVICES  
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NOTES TO THE FINANCIAL STATEMENTS  
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**Note 4. 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 \$32,154,383 and interest of \$8,000,974 on all Regional Water debt outstanding as of December 31, 2010, 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
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	\$550,000	\$245,200	\$795,200	\$555,000	\$308,835	\$863,835	\$560,000	\$164,350	\$724,350	\$1,665,000	\$718,385	\$2,383,385
2015	\$575,000	\$224,850	\$799,850	\$575,000	\$286,635	\$861,635	\$555,000	\$141,950	\$696,950	\$1,705,000	\$653,435	\$2,358,435
2016-20	\$3,300,000	\$765,525	\$4,065,525	\$3,205,000	\$1,066,267	\$4,271,267	\$2,855,000	\$302,200	\$3,157,200	\$9,360,000	\$2,133,992	\$11,493,992
2021-24	\$1,575,000	\$104,113	\$1,679,113	\$3,055,000	\$333,865	\$3,388,865	\$ -	\$ -	\$ -	\$4,630,000	\$437,978	\$5,067,978
	<u>\$7,525,000</u>	<u>\$2,183,738</u>	<u>\$9,708,738</u>	<u>\$8,950,000</u>	<u>\$3,046,845</u>	<u>\$11,996,845</u>	<u>\$6,035,000</u>	<u>\$1,268,850</u>	<u>\$7,303,850</u>	<u>\$22,510,000</u>	<u>\$6,499,433</u>	<u>\$29,009,433</u>

**SAINT PAUL REGIONAL WATER SERVICES  
SAINT PAUL, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended December 31, 2010**

**Note 4. B. Liabilities (continued)**

YEAR	1996 G.O. WASTE WATER REVENUE NOTE			1998 DRINKING WATER REVENUE NOTE			2010A DRINKING WATER REVENUE NOTE		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2011	\$236,139	\$46,201	\$282,340	\$915,000	\$223,938	\$1,138,938	\$15,833	\$7,524	\$23,357
2012	\$242,989	\$39,351	\$282,340	\$515,000	\$192,096	\$707,096	\$16,143	\$7,213	\$23,356
2013	\$250,037	\$32,303	\$282,340	\$980,000	\$174,174	\$1,154,174	\$16,460	\$6,896	\$23,356
2014	\$257,291	\$25,049	\$282,340	\$1,085,000	\$140,070	\$1,225,070	\$16,783	\$6,573	\$23,356
2015	\$264,754	\$17,586	\$282,340	\$625,000	\$102,312	\$727,312	\$17,113	\$6,243	\$23,356
2016-2020	\$411,600	\$11,911	\$423,511	\$2,315,000	\$158,340	\$2,473,340	\$90,736	\$26,045	\$116,781
2021-2025	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$99,999	\$16,782	\$116,781
2026-2030	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$110,207	\$6,574	\$116,781
	<u>\$1,662,810</u>	<u>\$172,401</u>	<u>\$1,835,211</u>	<u>\$6,435,000</u>	<u>\$990,930</u>	<u>\$7,425,930</u>	<u>\$383,274</u>	<u>\$83,850</u>	<u>\$467,124</u>

YEAR	2010B DRINKING WATER REVENUE NOTE			TOTAL REVENUE NOTES		
	Principal	Interest	Total	Principal	Interest	Total
2011	\$48,059	\$22,824	\$70,883	\$1,215,031	\$300,487	\$1,515,518
2012	\$49,002	\$21,881	\$70,883	\$823,134	\$260,541	\$1,083,675
2013	\$49,963	\$20,920	\$70,883	\$1,296,460	\$234,293	\$1,530,753
2014	\$50,944	\$19,939	\$70,883	\$1,410,018	\$191,631	\$1,601,649
2015	\$51,943	\$18,940	\$70,883	\$958,810	\$145,081	\$1,103,891
2016-2020	\$275,408	\$79,006	\$354,414	\$3,092,744	\$275,302	\$3,368,046
2021-2025	\$303,507	\$50,908	\$354,415	\$403,506	\$67,690	\$471,196
2026-2030	\$334,473	\$19,942	\$354,415	\$444,680	\$26,516	\$471,196
	<u>\$1,163,299</u>	<u>\$254,360</u>	<u>\$1,417,659</u>	<u>\$9,644,383</u>	<u>\$1,501,541</u>	<u>\$11,145,924</u>

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

**SAINT PAUL REGIONAL WATER SERVICES**  
**SAINT PAUL, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended December 31, 2010**

**Note 4. B. Liabilities (continued)**

i. All Debt (continued)

Regional Water entered into loan agreements for two long-term notes with the Minnesota Public Facilities Authority, a department within the State of Minnesota, Department of Employment and Economic Development. These are reimbursement notes; interest accrues only on the aggregate amount of the note which has been disbursed.

The first note was in the amount of \$5,960,000. The proceeds of the note were for the demolition and replacement of the Dale Street Reservoir. The total principal amount of the long-term portion of the loan at December 31, 2010 was \$383,274. The second note was in the amount of \$23,107,000. The proceeds of the note were for the replacement of approximately 1,600 lead service lines and the replacement of approximately 63,270 water meters. The total principal amount of the long-term portion of the loan at December 31, 2010 was \$1,163,299.

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, 2010, the claims and judgments liability was \$2,233,240.

iii. Compensated Absences

Included in Regional Water's debt are compensated absences for \$1,794,540.

iv. Operating Lease

Regional Water entered into a 24 month operating lease on August 12, 2008, for a floor scrubber. The fair value of the equipment was \$10,266. The total payments made in 2010 were \$3,167. The term of the lease ended in 2010 and the equipment was purchased on September 2, 2010 for \$1,496.

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 was \$7,871. The total payments made in 2010 were \$3,624. At December 31, 2010, the liability was \$5,110.

**SAINT PAUL REGIONAL WATER SERVICES  
SAINT PAUL, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
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**Note 4. B. Liabilities (continued)**

**2010 Capital Lease**

	Annual Lease Payment	Annual Meter Rental Payment	Annual Maintenance Payment	Annual Interest	Reduction of Lease Obligation	Present Value Minimum Lease Payments
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>\$14,496</u>	<u>\$3,312</u>	<u>\$3,488</u>	<u>\$1,148</u>	<u>\$6,548</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	\$ 7,525,000
Revenue	4.20%; 06/01; 12/01	03/24/05	12/01/24	8,950,000
Revenue	4.06%; 06/01; 12/01	02/14/07	12/01/19	<u>6,035,000</u>
Total				<u>\$22,510,000</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	\$ 1,662,810
Drinking Water Revenue Note	3.45%; 06/01; 12/01	12/01/98	12/01/18	6,435,000
Drinking Water Revenue Note	1.963%; 06/01; 12/01	07/13/10	12/01/30	383,274
Drinking Water Revenue Note	1.962%; 06/01; 12/01	07/13/10	12/01/30	<u>1,163,299</u>
Total				<u>\$9,644,383</u>



**SAINT PAUL REGIONAL WATER SERVICES  
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**Note 4. Detail Notes (continued)**

**C. Due From Primary Government**

At December 31, 2010, 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	<u>\$67,280</u>
Total		<u>\$67,280</u>

**D. Due To Primary Government**

At December 31, 2010, Regional Water reported the following payables to the City of Saint Paul:

<u>City Fund Title</u>	<u>City Fund Type</u>	<u>Amount</u>
Public Works Capital Projects	Capital Projects Fund	\$1,137,823
RiverPrint Saint Paul/Ramsey County	Enterprise Fund	38,805
Sewer Utility	Enterprise Fund	2,632,172
Public Works Equipment	Internal Service Fund	3
Public Works Traffic, Signal, & Light Maint.	Internal Service Fund	89,880
Purchasing's Value Added Services	Internal Service Fund	67,343
Right of Way Maintenance	Special Revenue Fund	2,986
Special Projects-General Government	Special Revenue Fund	<u>48,433</u>
Total		<u>\$4,017,445</u>

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

\$2.49 per regular sewer bill transaction  
\$1.07 per rainleader transaction

**SAINT PAUL REGIONAL WATER SERVICES  
SAINT PAUL, MINNESOTA  
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**Note 5. 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, 2010, 2009, and 2008 were \$978,683, \$885,591, and \$832,152 respectively. The corresponding total employee's shares were \$900,388, \$814,744, and \$765,579. 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, 2010.

**B. Post-Employment Benefits Other than Pensions**

Plan Description

In addition to providing the pension benefits described in Note 5.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 authority to provide these benefits is established in Minnesota Statutes §471.61, Subd. 2a. 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, retiree 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.

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**Note 5. B. Post-Employment Benefits Other than Pensions (continued)**

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.

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

	Under Age 65 (early retiree)	Over Age 65 (regular retiree)
Employees who retired before January 1, 1996	\$250 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

This benefit has been discontinued for Tri-Council employees hired after January 1, 1996.

Membership

As of actuarial valuation date of September 30, 2010 the membership consisted of:

	Life Insurance Only	Family Coverage	Single Coverage	Total
Retired Participants and Beneficiaries				
Under Age 65 (Early Retirees)	1	4	28	33
Over Age 65 (Regular Retirees)	-	<u>46</u>	<u>99</u>	<u>145</u>
Total Retired Participants	<u>1</u>	<u>50</u>	<u>127</u>	<u>178</u>
Active Participants				
Eligible to Receive Benefits				50
Not Eligible to Receive Benefits*				<u>176</u>
Total Active Participants				<u>226</u>
Total Participants				<u>404</u>

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

**SAINT PAUL REGIONAL WATER SERVICES  
SAINT PAUL, MINNESOTA  
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**Note 5. 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 2010 were as follows:

	<u>Age</u>	<u>Average Monthly Regional Water Contribution</u>	<u>Average Monthly Retiree Contribution</u>
Health Insurance	Less than 65	\$349	\$310
	65 and older	\$299	\$13
Life Insurance	Less than 65	\$3	Not applicable
	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 2010 expense totaled \$640,934 for approximately 174 retirees. Retirees contributed \$122,704; 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, 2010 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 year ended December 31, 2010. Regional Water's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2010 and the three preceding years were 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	56.58%	\$ 557,154
December 31, 2008	\$ 1,283,314	\$ 717,661	55.92%	\$ 1,122,807
December 31, 2009	\$ 1,291,527	\$ 765,386	59.26%	\$ 1,648,948
December 31, 2010	\$ 1,318,571	\$ 698,846	53.00%	\$ 2,268,673

**SAINT PAUL REGIONAL WATER SERVICES  
SAINT PAUL, MINNESOTA  
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**Note 5. B. Post-Employment Benefits Other than Pensions (continued)**

The net OPEB obligation (NOPEBO) as December 31, 2010 was calculated as follows:

Annual Required Contribution (ARC)	\$	1,342,799
Interest on Net OPEB Obligation		84,756
Adjustment to Annual Required Contribution		(108,984)
Annual OPEB Cost		1,318,571
Contributions Made:		
Direct		640,934
Indirect Implicit Subsidy		57,912
Total Contributions Made		698,846
Increase (Decrease) in Net OPEB Obligation		619,725
Net OPEB Obligation Beginning of Year		1,648,948
Net OPEB Obligation End of Year	\$	2,268,673

Funded status and funding progress

The actuarial accrued liability (AAL) for benefits, as of September 30, 2010, the most recent actuarial valuation date, was \$16,138,206. This liability will be amortized 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, 2010, the most recent actuarial valuation date, is 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, 2010	\$ -	\$ 16,138,206	\$ 16,138,206	0.0%	\$ 12,630,550	127.8%

**SAINT PAUL REGIONAL WATER SERVICES  
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For the Fiscal Year Ended December 31, 2010**

**Note 5. B. Post-Employment Benefits Other than Pensions (continued)**

The 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, following the notes to the financial statements, 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.

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, 2010 actuarial valuation the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included 5.00% discount rate and an annual healthcare cost trend rate of beginning at 10.0% for fiscal year 2010 and declining over 10 years by 0.5% per year to 5.0%. Both rates include a 3.0% inflation assumption. The actuarial value of assets was \$0, 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 a 30-year open amortization period (30-year period restarted with each valuation).

**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 and unemployment compensation benefits. 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.

**SAINT PAUL REGIONAL WATER SERVICES  
SAINT PAUL, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended December 31, 2010**

**Note 5. C. Risk Management (continued)**

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 2009 and 2010:

	Year Ended <u>12/31/2009</u>	Year Ended <u>12/31/2010</u>
Beginning fiscal year liability	\$2,999,959	\$2,950,974
Current year claims and changes in estimates	1,018,799	29,475
Claim payments	<u>(1,067,784)</u>	<u>(747,209)</u>
End of year liability	<u>\$2,950,974</u>	<u>\$2,233,240</u>

Minnesota Statutes §466.04 limits Regional Water's tort financial exposure for claims arising from general liability or vehicle liability exposures. The limits are \$300,000 per individual and \$750,000 per accident for any number of claims arising out of a single occurrence for claims arising on or after January 1, 1998, and before January 1, 2000. For claims arising on or after January 1, 2000, and before January 1, 2008, the limit per accident for any number of claims arising out of a single occurrence is \$1,000,000 and \$300,000 per individual. For claims arising on or after January 1, 2008 and before July 1, 2009, the limit per accident for any number of claims arising out of a single occurrence is \$1,200,000 and \$400,000 per individual. For claims arising on or after July 1, 2009, the limit per accident for any number of claims arising out of a single occurrence is \$1,500,000 and \$500,000 per individual. The limits double when the claim arises out of the release or threatened release of a hazardous substance. Regional Water does not carry commercial liability and collision insurance for the vehicles it owns.

**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.

**SAINT PAUL REGIONAL WATER SERVICES  
SAINT PAUL, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended December 31, 2010**

**Note 5. Other Information (continued)**

**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 \$3,021 for the year 2010. Financial information can be obtained from the City of Maplewood located at 1830 County Road B East, Maplewood, Minnesota 55109.

**F. Subsequent Events**

During April 2011, Regional Water issued Water Refunding Bonds Series 2011D for \$3,865,000 and Series 2011E for \$2,665,000. The bonds mature annually on December 1, commencing December 1, 2011 with installment amounts ranging from \$160,000 to \$975,000. Interest is payable on each June 1 and December 1 commencing December 1, 2011 with amounts ranging from 0.4% to 3.0%. Proceeds of the bonds will be used to refund the 1998 Drinking Water Revenue Note.

The bonds issued in 2011 were reaffirmed at Aa1 and AAA by Moody's Investors Service and Standard and Poor's Corporation, respectively.



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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, 2010**

**Schedule 1**

**Schedule of Funding Progress <sup>(1)</sup>**

Actuarial Valuation Date	Actuarial Value of 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%
September 30, 2008	\$ -	\$15,289,857	\$15,289,857	0.0%	\$11,271,358	135.7%
September 30, 2010	\$ -	\$16,138,206	\$16,138,206	0.0%	\$12,630,550	127.8%

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

<sup>(1)</sup> For information regarding the plan see Note 5.B. on pages 35- 39.

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**Schedule 2**

**Schedule of Employer Contributions <sup>(1)</sup>**

Fiscal Year Ended	Annual Required Contribution	Percentage Contributed	Net OPEB Obligation
December 31, 2007	\$1,283,314	56.58%	\$557,154
December 31, 2008	\$1,283,314	55.92%	\$1,122,807
December 31, 2009	\$1,291,527	59.26%	\$1,648,948
December 31, 2010	\$1,318,571	53.00%	\$2,268,673

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

<sup>(1)</sup> For information regarding the plan see Note 5.B. on pages 35- 39.

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## SUPPLEMENTARY INFORMATION

**SAINT PAUL REGIONAL WATER SERVICES  
SAINT PAUL, MINNESOTA  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Fiscal Year Ended December 31, 2010**

Federal Grantor	Federal	
Pass-Through Agency	CFDA	
Grant Program Title	Number	Expenditures
U.S. Department of Transportation		
Passed-Through the Metropolitan Council		
Federal Transit Capital Investment Grant	20.500	\$850,933
U.S. Environmental Protection Agency		
Passed-Through Minnesota Public Facilities Authority		
Capitalization Grants for Drinking Water State Revolving Fund	66.468	\$3,467,702
		<u>\$4,318,635</u>
Total Federal Awards		

The notes to the supplementary information are an integral part of this schedule.

**SAINT PAUL REGIONAL WATER SERVICES  
SAINT PAUL, MINNESOTA  
NOTES TO THE SUPPLEMENTARY INFORMATION  
For the Fiscal Year Ended December 31, 2010**

**Schedule of Expenditures of Federal Awards**

1. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by the Saint Paul Regional Water Services. Regional Water's reporting entity is defined in Note 2.A. to the financial statements.

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Regional Water under programs of the federal government for the year ended December 31, 2010. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of Regional Water, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Regional Water.

3. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through grant numbers were not assigned by the pass-through entities.

4. Subrecipients

Regional Water did not pass any federal awards through to subrecipients during the year ended December 31, 2010.

5. Reconciliation of Schedule of Expenditures of Federal Awards to Actual Reimbursements

Regional Water was awarded two federal awards in 2010. The first is the Capitalization Grant for Drinking Water State Revolving Funds, which is passed through the Minnesota Public Facilities Authority (MN PFA), a department within the Minnesota Department of Employment and Economic Development. This award is in the form of a Drinking Water Note Payable secured by General Obligation Bonds. It will be repaid over a 20 year period. The second is the Federal Transit Capital Investment Grant, which is passed through the Metropolitan Council (Met Council); it is a reimbursement award.

**SAINT PAUL REGIONAL WATER SERVICES**  
**SAINT PAUL, MINNESOTA**  
**NOTES TO THE SUPPLEMENTARY INFORMATION**  
**For the Fiscal Year Ended December 31, 2010**

5. Reconciliation of Schedule of Expenditures of Federal Awards to Actual Reimbursements  
(continued)

Expenditures for the Capitalization Grant for Drinking Water State Revolving Funds during the year ended December 31, 2010 totaled \$3,467,702. Of this amount, \$1,158,070 had been reimbursed by the MN PFA during the fiscal year 2010.

Expenditures for the Federal Transit Capital Investment Grant during the year ended December 31, 2010 totaled \$850,933. Of this amount, \$27,521 had been reimbursed by Met Council during the fiscal year 2010. As of December 31, 2010, it was unclear if reimbursement of these expenditures would come from this federal grant or if it would be reimbursed directly from Met Council. These unreimbursed transactions are recorded on the face of the financial statements as a capital contribution and as a receivable.

6. American Recovery and Reinvestment Act

The American Recovery and Reinvestment Act of 2009 (ARRA) requires recipients to clearly distinguish ARRA funds from non-ARRA funding. Regional Water received no ARRA funding during 2010.

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