

**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, 2011**

**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, 2011**

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INTRODUCTORY SECTION



BOARD OF WATER COMMISSIONERS

President: **Matt Anfang** ♦ Vice President: **Amy Brendmoen**

Commissioners: **James Bykowski** ♦ **Gregory Kleindl** ♦ **Kathy Lantry** ♦ **Chris Tolbert** ♦ **Will Rossbach**

June 26, 2012

TO: BOARD OF WATER COMMISSIONERS
Matt Anfang, President
Amy Brendmoen, Vice President
Commissioner James Bykowski
Commissioner Gregory Kleindl
Commissioner Kathy Lantry
Commissioner Will Rossbach
Commissioner Chris Tolbert

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, 2011. 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

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.

2011 was a year of becoming expert users with our Customer Information System, CIS Infinity. After operating this system for one year, staff made various business process changes to improve the effectiveness of the system. We went live with the on-line pay option, Infinity Link. This CIS module provides customers a self service choice of viewing their personal account and paying their bill on-line and also provides interested customers the option to receive an electronic bill (e-Bill) rather than a hard copy bill through the U.S. mail. Beginning in April 2011, we advertised this pay option to customers via newsletter, bill stuffer and on our website. By year end, we had 7,155 registered users. Of the 7,155 registered users signed up, 2,789 have elected to receive e-Bills.

We interfaced a new meter reading system with CIS Infinity to support radio metering and worked toward the implementation of a backflow module planned for 2012. Throughout the year water billings continued to meet schedules.

Through a contract with Northern Water Works Supply, we made great progress with the meter replacement project which began in late 2010 and includes the installation of some 95,000 replacement water meters. By year end, some 35,000 new metering systems were installed. The meter replacement project will continue to 2013.

The meter project envisioned installation of a radio meter reading system for each account. In 2011, some customers expressed a concern with the health effects of the radio waves transmitted by the meter's radio antenna. These customers brought their concerns to the media and the Board of Water Commissioners through a public hearing process. As a result, the Board determined to offer alternate meter reading systems, which provide customers a non-radio alternative. This alternate program has facilitated the continuation of the project and given customers an alternative which has been well received.

The meter replacement project requires on-going coordination between the contractor, Northern Water Works Supply and Regional Water's Meter Operations, Billing, Customer Service and Dispatch Units. We look for the radio read system to significantly increase meter reading efficiency, reduce exposure to injury for meter reading staff and reduce the number of estimated reads in the winter months.

Regional Water has implemented a great deal of technology and Information Services staff has generally succeeded in making this technology available 100% of the time for things within their control. 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. Staff worked closely with the Production Division staff to implement a new Laboratory Information System (LIMS).

HIGHLIGHTS IN SUMMARY (continued)

Work continued on expanding the use of our Document Management System (DMS). Our CIS, GIS, and Work and Asset Management System now link to supporting documents housed in our DMS. A significant effort was made to index record documents properly to the asset for efficient retrieval. DMS also houses our standard operating procedures, policies, safety information, and paid invoices for easy access by staff.

Our Financial Services unit was recognized for its outstanding work preparing the 2010 Annual Financial Report for audit. Preliminary work continued on the implementation of the City of Saint Paul's new Lawson Finance System.

The Customer Service Call Center received 160,678 calls in 2011, of which 80,601 (or 50%) were handled by the Interactive Voice Response unit (IVR) and 80,077 by Call Center staff. The abandoned call percentage was under 1%, substantially lower than our goal of less than 2%. Our IVR offers menu options and responses in both English and Spanish. Approximately 1,419 callers took advantage of the Spanish language alternative.

To improve public outreach and provide information, we issued several press releases about the Meter Replacement Project, we updated our website with helpful Meter Replacement Project information especially about the alternate metering system choices for customers, and we held open houses the Highland Park Water Tower. We produced several external publications, including *Customer Service Connections*, a quarterly newsletter for customers, and the annual Water Quality Report.

Internally, we continued to provide employees with communication updates by featuring timely articles in our bi-weekly employee newsletter, the *Pipeline Express*.

Business Division - Future Operations

In 2012, we anticipate implementing additional modules to CIS Infinity: by mid-year we plan to implement the Infinity backflow module. This module will help us better manage the testing of backflow preventers as required by the State Plumbing Code.

We will review and amend our business practices as needed to optimize the effectiveness of the new radio meter reading system.

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

We will continue to examine workflow processes throughout the utility looking for improved efficiency and enhanced delivery of information to our employees.

HIGHLIGHTS IN SUMMARY (continued)

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.

Water Distribution Capital Program: We continue to replace and upgrade an aging infrastructure of unlined cast iron water mains, hydrants and lead water services. Regional Water's water main replacement work was primarily accomplished in coordination with street reconstruction projects. In addition, much work was done in coordination with Central Corridor Light Rail Transit (Light Rail) Construction. This year, 5.3 miles of main were replaced by Regional Water crews in street project areas and 7 miles of main were replaced in Light Rail project areas using contracted work.

Construction along University Avenue for Light Rail was a large project. Staff performed various work on the project including a portion of the temporary main installation (a significant amount of the temporary mains were completed by the contractor), service connections, valve operation and installation. Work in this area by Regional Water crews in 2011 totaled \$1 million. Temporary water mains are installed to serve customers during construction. This presents a project management coordination issue and a customer service opportunity that was generally well received by customers.

617 lead water services were replaced last year. Again, most of these replacements were done in coordination with street reconstruction projects. Lead service 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.

225 of the 9,500 system hydrants were replaced during the year.

Water Distribution System Maintenance: Regional Water performs both preventative and emergency maintenance on the distribution system. Preventive maintenance of the system is needed to ensure adequate reliability and improve distribution system water quality. Preventive maintenance work includes hydrant inspection, a Unidirectional Flushing program (UDF) and valve exercising. In 2011, all public fire hydrants in the system were inspected. This work involved operation of system hydrants and performing minor repair work as necessary.

With unidirectional flushing, system valves are operated and the system thoroughly flushed for improved distribution water quality. This was limited due to resources placed towards Light Rail Construction. In 2011, we performed unidirectional flushing in about 2% of our system area. (This compares with 4% completed in 2010.) In addition, our large valve exercising was put on hold in 2011 with resources put towards Light Rail Construction.

HIGHLIGHTS IN SUMMARY (continued)

Emergency maintenance is also needed. Regional Water responds to these emergencies and performs repair work of main breaks, service leaks and related. 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 112 main breaks in the Regional Water service area and 25 repairs in communities outside our service area.

Fleet Operations: Regional Water implemented a new fleet work order management system in 2011. The goals of the project included: 1) track timelines of customer service requests; 2) electronically keep vehicle maintenance records; 3) improved tracking of vehicle maintenance costs; and 4) improved preventive maintenance scheduling. Item 4 to be done in 2012.

Distribution Division - Future Operations

In 2012, much emphasis will again be placed on construction surrounding the Light Rail project. 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.

Our infrastructure funding for 2012 is at higher levels than in the past year. This will allow for 8.5 miles of main replacement in project areas (accompanying 7 additional miles of main in Light Rail). Additional funding in this vital area is needed to ensure proper investment for the future.

We will continue to focus on preventive maintenance work with our UDF and large valve operating program as staffing allows. We will continue to inspect all of the nearly 10,000 hydrants on our system, as we have done in each of the last several years.

Engineering Division

Significant progress on a number of large projects was made in 2011 that will serve Regional Water and its customers well into the future. Some of these large projects include:

Dale Street Reservoir – The 30 million gallon Dale Street reservoir was built in 1919 and was demolished in 2010. The new 10 million gallon reservoir has been constructed including baffle walls, side panels and roof. The reservoir will be finished and operational by fall of 2012.

Distribution System Modeling – The Engineering Division has adopted and implemented state-of-the-art modeling techniques to model distribution system hydraulics and water quality. The programming and calibration of the model is complete.

Meter Replacement – Regional Water is planning to replace all of the commercial and residential meters with radio read meters. Over 94,000 meters will be installed during the period 2010-2012. The project has installed 35,000 meters to date.

HIGHLIGHTS IN SUMMARY (continued)

Hypolimnetic Aeration – Installation of the Vadnais Lake aeration system is complete. The system is fully operational and is performing beyond expectations. The design of the Pleasant Lake aeration system is complete, the old aerators have been demolished, and installation of a new aeration system is scheduled for the summer of 2013.

Light Rail Transit – Regional Water is involved with the Light Rail project relocating our water mains out of the “utility free zone” immediately beneath the train tracks. The 4th Street portion of the project was completed in 2010 and the Civil East portion, Cedar Street to Minneapolis, began in 2011 and will continue through 2014. Segment one pipe relocation, from the Minneapolis border to Hamline Avenue, is complete and segment two, from Hamline Avenue to Robert Street along with Cedar Street to University Avenue, is expected to be completed in 2012.

Engineering work in the Distribution System included planning and construction coordination for its water main construction, valve replacement, and lead service replacement programs. Regional Water’s revenue funded capital plan includes replacement of all existing cast iron pipe within the project areas. The total pipe replacement for 2011 is about nine miles. The total pipe replacement will increase dramatically to over ten miles in 2012. Engineering is planning a mains rehabilitation program in an effort to reduce the age of our infrastructure. Currently, the mains rehabilitation cycle is about 150 years. The ten miles of main replacement will shrink the distribution system pipe rehabilitation cycle to 100 years.

The Upper Mississippi River Source Water Protection Initiative (UMRSWPI) has moved ahead in 2011 by developing plans to bring resources to the various watershed groups throughout the upper Mississippi River watershed. The group is also actively pursuing funding to do Total Daily Maximum Loads (TMDL) on several reaches of the Mississippi River between the City of St. Cloud and the City of Minneapolis intake. This initiative involves the cooperative agreement with the cities of St. Cloud and Minneapolis and the Minnesota Department of Health working to develop drinking water protection measures in the upper Mississippi River watershed.

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 and assist in completing E.coli Total Maximum Daily Load programs (TMDL) for the Upper Mississippi River and County Ditch #14; and 3) focus on further enhancement of our asset management program.

Production Division

The year 2011 began with abundant snow on the ground, and continued on the wet side through July. Precipitation through July was nearly four inches above normal. In mid-August, however, precipitation dwindled, and for the year, ended up 2.5 inches below normal. For us, however, the wet spring and early summer again cut into our pumping totals. We averaged 42.7 million gallons per day (MGD), our second lowest total since 1962. (The lowest was last year, 2010.) Once again, our lack of sales ended up causing us budget woes, and many projects were postponed or canceled. We again reduced our projected sales for 2012 in an effort to balance projected and actual sales. Conservation and cultural changes continue to have a major impact on the sale of water.

HIGHLIGHTS IN SUMMARY (continued)

With the period from August through December being nearly 6.5 inches below normal, much of Minnesota is now categorized as in drought condition. If the winter remains relatively dry, water demands in the spring could be high. Depending on the length of the drought, restrictions on pumping could also come into play. This is in stark contrast to last winter.

Water quality leaving the treatment plant continued to be excellent. We had only 16 taste and odor complaints for the year, nearly identical to the previous year. This continues, for the fifth year in a row, a roughly 90% reduction in complaints as compared to prior to installing our Granular Activated Carbon (GAC) filters. Our GAC filters continue to perform extremely well. With the dry weather in the fall, we saw some higher demands on the system, and that probably limited the extent of nitrification problems we observed.

Chemical and electrical costs were relatively stable or lower over the period, and with the lower production numbers, were below projection. This eased some of our budget problems. Our unit cost for chemicals was nearly 13% lower than in 2010, and so even with a little more production, our total costs were about \$300,000 less than in 2010. We are hoping to see the stability in the chemical rates continue. One chemical we will not be using for the foreseeable future is tin chloride. Our three-year test to produce water that can pass the lead test without tin was successful, and we have discontinued its use for now.

A couple of projects were successfully put on line in 2011. Our control room in the plant was hardened, and remodeled to a more functional state. We also installed a new oxygenation system in Vadnais Lake, replacing the old aeration system. We were able to put much more oxygen in the hypolimnion than we ever could with our aerators, so we are very happy with the capabilities of the new system. The costs for the liquid oxygen will be an added expense, but the new system should greatly aid in our battle against taste and odor in our raw water.

Production Division – Future Operations

At the end of 2011, with a drought firmly in place, the concerns of flooding that we had last year are gone, and the prospect of higher demands with potential watering restrictions is there. All of this depends on precipitation in 2012, of course.

We are hoping our GAC filters continue to perform as they have for the past five years. At this point, we have no reason to believe they will not.

We continue our battle with zebra mussels. We are still manually cleaning screens, chambers, and portions of our Vadnais conduits. We made a set of copper screens for our east gatehouse; we are hoping that they will deter attachment from zebra mussels.

Plans are on the drawing board for a new pump #5 at Fridley station, and pumps and motors for the four wells that do not have them yet. The new Dale Street 10 million gallon reservoir is expected to be completed by July, and should be placed on-line shortly after that. We are planning for a new oxygenation system for Pleasant Lake, similar to the one just installed in Vadnais Lake. Ramsey County also has plans for a new bike trail between Vadnais Lake and the West Arm of Vadnais. This will replace the current roadway, and vehicles will be prohibited from driving between the two lakes.

HIGHLIGHTS IN SUMMARY (continued)

This lessens our risk of having an accident that may impact water quality, and repairs what has recently been a maintenance problem for the County. We believe that, with the oxygenation systems and lack of vehicles on the lake shore, we will be in better shape than ever with our raw water quality.

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.

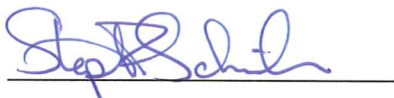
MANAGEMENT AND COMPLIANCE REPORT

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 and MANAGER TERMS OF OFFICE

As of December 31, 2011

PUBLIC MEMBERS

Term Expires

Matt Anfang, Commissioner

June 30, 2016

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.

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FINANCIAL SECTION



REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

OFFICE OF THE STATE AUDITOR

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525 PARK STREET
SAINT PAUL, MN 55103-2139

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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, 2011, 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, 2011, 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 as 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 26, 2012, 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 26, 2012

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended December 31, 2011**

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, 2011. 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 \$226,227,937 (Net assets). Of this amount, \$9,831,756 (unrestricted net assets) may be used to meet the utility's ongoing obligations.
- Regional Water's total net assets increased by \$8,993,129.

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 present the results of the business activities over the course of the fiscal year and also include 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, and contingencies.

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, 2011**

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 \$8.99 million to \$226.23 million in 2011, up from \$217.24 million in 2010. 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 increased by \$2.66 million to \$44.65 million in 2011, up from \$41.99 million in 2010. Water rates increased \$.12 per 100 cubic feet to \$2.32 in 2011; up from \$2.20 per 100 cubic feet in 2010. Consumption levels remained at nearly the same as 2010 levels.

Expenses

Regional Water's operating expenses increased \$1.56 million to \$38.94 million in 2011, up from \$37.38 million in 2010. A majority of the \$1.49 million increase in employee expenses is related to fringe benefit expenses. There is an increase of \$344 thousand related to an increase in central services fees, primarily for the purchase and implementation of the new Financial Management System the City is installing. The remaining decrease of \$273 thousand is due to operations and maintenance.

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended December 31, 2011**

Condensed Statement of Net Assets (in thousands)

	Fiscal Year 2011	Fiscal Year 2010	Dollar Change	Total % Change
Assets				
Cash and Investments	\$ 20,910	\$ 15,695	\$ 5,215	33.2
Other Current Assets	\$ 12,107	\$ 11,576	\$ 531	4.6
Capital Assets - net	\$ 246,735	\$ 231,060	\$ 15,675	6.8
Other Noncurrent Assets	\$ 7,291	\$ 7,099	\$ 192	2.7
Total Assets	<u>\$ 287,043</u>	<u>\$ 265,430</u>	<u>\$ 21,613</u>	<u>8.1</u>
Liabilities				
Current Liabilities	\$ 15,380	\$ 13,980	\$ 1,400	10.0
Noncurrent Liabilities	\$ 45,435	\$ 34,215	\$ 11,220	32.8
Total Liabilities	<u>\$ 60,815</u>	<u>\$ 48,195</u>	<u>\$ 12,620</u>	<u>26.2</u>
Net Assets				
Invested in Capital Assets				
Net of Related Debt	\$ 205,624	\$ 198,975	\$ 6,649	3.3
Restricted for Debt Service	10,772	9,230	1,542	16.7
Unrestricted	9,832	9,030	802	8.9
Total Net Assets	<u>\$ 226,228</u>	<u>\$ 217,235</u>	<u>\$ 8,993</u>	<u>4.1</u>

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

	Fiscal Year 2011	Fiscal Year 2010	Dollar Change	Total % Change
Operating Revenues	\$ 44,651	\$ 41,996	\$ 2,655	6.3
Nonoperating Revenues (Expenses)	(488)	(1,542)	1,054	(68.4)
Total Revenues	<u>\$ 44,163</u>	<u>\$ 40,454</u>	<u>\$ 3,709</u>	<u>9.2</u>
Operating Expenses	<u>\$ 38,943</u>	<u>\$ 37,383</u>	<u>\$ 1,560</u>	<u>4.2</u>
Income (Loss) Before Transfers and Contributions	<u>\$ 5,220</u>	<u>\$ 3,071</u>	<u>\$ 2,149</u>	<u>70.0</u>
Capital Contributions	<u>\$ 3,773</u>	<u>\$ 1,650</u>	<u>\$ 2,123</u>	<u>128.7</u>
Change in Net Assets	\$ 8,993	\$ 4,721	\$ 4,272	90.5
Net Assets - January 1	<u>217,235</u>	<u>212,514</u>	<u>4,721</u>	<u>2.2</u>
Net Assets - December 31	<u>\$ 226,228</u>	<u>\$ 217,235</u>	<u>\$ 8,993</u>	<u>4.1</u>

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended December 31, 2011**

Capital Assets

By the end of 2011, Regional Water had invested \$367.01 million in capital assets. The \$20.74 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, through the Minnesota Public Facilities Authority (MNPFA). Regional Water also issued two fixed rate revenue bonds during April 2011 to currently refund the 1998 Drinking Water Revenue Note. At the end of 2011, bonds payable were \$26.10 million and revenue notes payable were \$15.31 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 five years of drought, our concerns about very low demands during a normal year of precipitation were shown to be quite accurate. Precipitation during 2011 was 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.

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, 2011
 (Amounts in dollars)

Exhibit A

ASSETS

Current Assets

Cash and Investments with Treasurer	3,293,598
Investments	12,830,764
Departmental Cash	548,140
Imprest Funds	7,000
Restricted Cash and Cash Equivalents	
Cash Grants and Other Contributions	774
Investments for Revenue Note Debt Service	882,728
Investments for Revenue Bond Debt Service	3,346,560
Receivables	
Accounts (net of allowance for Estimated Uncollectibles)	5,573,626
Assessments	
Current	909,893
Deferred	2,534,050
Delinquent	229,977
Tax Forfeited Property	2,110
Accrued Interest	135,160
Due from Primary Government	132,831
Due from Other Governmental Units	727,511
Inventory - Materials and Supplies	1,862,578

Total Current Assets 33,017,300

Noncurrent Assets

Restricted Assets

Investments for Revenue Bond Future Debt Service	5,103,351
Investments for Revenue Bond Operations and Maintenance	1,552,462

Total Restricted Assets 6,655,813

Other Assets

Deferred Charges	390,139
Long-Term Loans Receivable	244,781

Total Other Assets 634,920

Capital Assets

Land	1,307,887
Buildings and Structures	56,058,123
Less: Accumulated Depreciation	(17,943,476)
Public Improvements	228,569,690
Less: Accumulated Depreciation	(76,717,082)
Equipment	49,907,485
Less: Accumulated Depreciation	(25,612,895)
Construction in Progress	31,165,074

Total Capital Assets (Net of Accumulated Depreciation) 246,734,806

Total Noncurrent Assets 254,025,539

Total Assets 287,042,839

continued

BOARD OF WATER COMMISSIONERS OF THE CITY OF SAINT PAUL, MINNESOTA
REGIONAL WATER SERVICES STATEMENT OF NET ASSETS
December 31, 2011
(Amounts in dollars)

Exhibit A

LIABILITIES

Current Liabilities (Payable from Current Assets)	
Accrued Salaries Payable	522,347
Compensated Absences Payable	73,531
Claims and Judgments Payable	609,442
Lease Purchase Payable	1,699
Accounts Payable	4,368,519
Contract Retention Payable	893,030
Due to Primary Government	3,579,841
Due to Other Governmental Units	1,787,152
Unearned Revenue	205,912
	<hr/>
Total Current Liabilities (Payable from Current Assets)	12,041,473
	<hr/>
Current Liabilities (Payable from Restricted Assets)	
Accounts Payable	1,876
Revenue Notes Payable	853,186
Revenue Bonds Payable	2,370,000
Accrued Interest Payable on Revenue Notes	31,995
Accrued Interest Payable on Revenue Bonds	81,380
	<hr/>
Total Current Liabilities (Payable from Restricted Assets)	3,338,437
	<hr/>
Noncurrent Liabilities	
Revenue Bonds Payable	23,720,000
Compensated Absences Payable	1,822,015
Other Post Employment Benefits	2,858,414
Claims and Judgments Payable	2,478,958
Lease Purchase Payable	1,847
Revenue Notes Payable	14,461,488
Premium on Revenue Bonds	231,339
Less: Unamortized Discount	(139,069)
	<hr/>
Total Noncurrent Liabilities	45,434,992
	<hr/>
Total Liabilities	60,814,902
	<hr/>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	205,624,455
Restricted for Debt Service	10,771,726
Unrestricted	9,831,756
	<hr/>
Total Net Assets	226,227,937
	<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, 2011
 (Amounts in dollars)

OPERATING REVENUES	
Fees, Sales and Services	43,714,818
Rents and Leases	628,496
Miscellaneous	307,317
	<hr/>
Total Operating Revenues	44,650,631
OPERATING EXPENSES	
Salaries	11,717,748
Employee Fringe Benefits	7,223,866
Services	6,641,126
Materials and Supplies	6,498,851
Depreciation	6,767,885
Miscellaneous	93,226
	<hr/>
Total Operating Expenses	38,942,702
OPERATING INCOME (LOSS)	<hr/> 5,707,929
NON-OPERATING REVENUES (EXPENSES)	
Operating Grants	77,960
Gain on Sale of Assets	24,144
Loss on Retirement of Assets	(588,153)
Investment Income	
Interest Earned on Investments	503,202
Increase in Fair Value of Investments	644,745
Miscellaneous Other Revenue (Expenses)	116,577
Interest Expense on	
Revenue Bonds	(994,299)
Revenue Notes	(225,206)
Leases	(369)
Amortization of Bond Issuance Costs	(46,134)
	<hr/>
Total Non-Operating Revenues (Expenses)	(487,533)
INCOME BEFORE CAPITAL CONTRIBUTIONS	5,220,396
CAPITAL CONTRIBUTIONS	
Capital Acquisitions - Outside Sources	3,772,733
	<hr/>
CHANGE IN NET ASSETS	8,993,129
NET ASSETS, January 1	217,234,808
	<hr/>
NET ASSETS, December 31	226,227,937
	<hr/>

The notes to the financial statements are an integral part of this statement.

BOARD OF WATER COMMISSIONERS OF THE CITY OF SAINT PAUL, MINNESOTA
REGIONAL WATER SERVICES STATEMENT OF CASH FLOWS
For the Fiscal Year Ended December 31, 2011
(Amounts in dollars)

Exhibit C

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from Customers	43,136,222
Other Operating Receipts	628,496
Other Receipts	307,317
Payments to Suppliers	(12,360,606)
Payments to Employees	(11,702,190)
Payment for Fringe Benefits and Payroll Taxes	(6,533,119)
Non-Operating Revenue Received	<u>116,577</u>

NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES 13,592,697

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Operating Grants Received	77,960
Non-Operating Loans Issued to Customers	<u>(75,992)</u>

NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES 1,968

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Cash Proceeds From Issuance of Debt:	
Refunding Revenue Bonds	6,503,897
Revenue Notes	12,866,430
Cash Proceeds From Sale of Capital Assets:	
Land	5,595
Public Improvements	5,827
Equipment	10,722
Capital Contributions Received:	
From Outside Parties	1,922,088
Principal Paid on Debt Maturities:	
Revenue Bonds	(2,760,000)
Revenue Notes	(7,196,139)
Capital Lease	(1,564)
Payments for Acquisition and Construction of Capital Assets:	
Construction in Progress	(19,447,494)
Interest Paid On:	
Revenue Bonds	(989,600)
Revenue Notes	(231,344)
Capital Lease	(369)
Payment of Bond Issue Costs	<u>(82,451)</u>

NET CASH PROVIDED (USED) IN CAPITAL AND RELATED FINANCING ACTIVITIES (9,394,402)

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of Investment Securities	(15,530,000)
Proceeds From Sale and Maturities of Investment Securities	7,506,987
Interest and Dividends on Investments Received	<u>449,061</u>

NET CASH PROVIDED (USED) IN INVESTING ACTIVITIES (7,573,952)

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (3,373,689)

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

CASH AND CASH EQUIVALENTS AT END OF YEAR 3,849,512

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, 2011
(Amounts in dollars)

Exhibit C

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

Operating Income (Loss)		<u>5,707,929</u>
Adjustments To Reconcile Operating Income To Net Cash Provided (Used) by Operating Activities:		
Depreciation	6,767,885	
Increase (Decrease) in Allowance for Uncollectible Accounts	30,984	
Nonoperating Miscellaneous Other Revenue Received	116,577	
Changes in Assets and Liabilities:		
(Increase) Decrease in Accounts Receivable	(133,921)	
(Increase) Decrease in Assessments Receivable	(207,780)	
(Increase) Decrease in Due From Primary Government	(817)	
(Increase) Decrease in Due From Other Governmental Units	51,057	
(Increase) Decrease in Inventories	(60,297)	
Increase (Decrease) in Accrued Salaries Payable	15,558	
Increase (Decrease) in Accounts Payable	80,154	
Increase (Decrease) in Due To Primary Government	64,008	
Increase (Decrease) in Due To Other Governmental Units	(66,428)	
Increase (Decrease) in Unearned Revenue	(318,119)	
Increase (Decrease) in Compensated Absences Payable	101,006	
Increase (Decrease) in Other Post Employment Benefits Obligation	589,741	
Increase (Decrease) in Claims and Judgments Payable	<u>855,160</u>	
Total Adjustments		<u>7,884,768</u>

NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES 13,592,697

DETAILS OF CASH AND CASH EQUIVALENTS

Cash and Investments with Treasurer	3,293,598
Departmental Cash	548,140
Imprest Funds	7,000
Cash Grants and Other Contributions	<u>774</u>
TOTAL CASH AND CASH EQUIVALENTS	<u><u>3,849,512</u></u>

NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES

Retirement/Deletion of Capital Assets	(588,153)
Net Book Value of Traded Capital Assets	2,000
Change in Fair Value of Investments	644,745
Capital Assets Purchased on Account - Construction in Process	5,125,092
Capital Assets Contributed	
Construction in Progress	400,829
Public Improvements	1,312,295

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, 2011

Index to Notes to the Financial Statements

1. Board of Water Commissioners

2. Summary of Significant Accounting Policies
 - A. Financial Reporting Entity
 - B. Proprietary Activity
 - C. Basis of Accounting/Measurement Focus
 - D. Cash and Investments
 - E. Receivables
 - F. Material and Supplies Inventory
 - G. Restricted Assets
 - H. Capital Assets
 - I. Compensated Absences
 - J. Employee Fringe Benefits
 - K. Bond Discounts and Issuance Costs
 - L. Equity Classifications
 - M. Capital Contributions
 - N. Operating and Non-Operating Revenues and Expenses

3. Stewardship, Compliance and Accountability
 - A. Federal Audit Requirements

Index to Notes to the Financial Statements (continued)

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A. Assets

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2. Summary of Changes in Capital Assets

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 - b. Changes in Debt Obligations
 - c. Principal and Interest Requirements on Debt Obligations
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B. Post-Employment Benefits Other than Pensions

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**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2011**

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, 2011 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, 2011

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, 2011. Investments in nonparticipating interest-earning contracts, such as savings accounts and nonnegotiable certificates of deposit, are reported at cost. Money market investments, participating interest-earning investment contracts (negotiable certificates of deposit), and 2a7-like external investment pools 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 2011, Regional Water recorded a "increase in fair value of investments" as investment income of \$644,745. 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, 2011**

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, 2011 is as follows:

Accounts Receivable - Registered Bills	\$ 118,792
Accounts Receivable - Water Billings	4,198,349
Accounts Receivable - Unbilled	1,202,724
Accounts Receivable - Miscellaneous	132,713
Allowance for Uncollectible Accounts	<u>(78,952)</u>
Accounts Receivable (net of Allowance for Estimated Uncollectible)	<u>\$ 5,573,626</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 2006 through 2010. 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, public improvements, and equipment, 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, 2011**

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

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

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

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

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, 2011**

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, 2011**

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 2011, 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, 2011**

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, 2011, 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 \$3,294,372 (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, 2011, the total imprest funds were \$7,000. Regional Water also had departmental cash on hand of \$548,140.

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2011**

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, 2011**

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, 2011, is as follows:

<u>Rating Agency</u>	<u>Rating</u>	<u>Fair Value</u>
S&P	AA+	<u>\$23,715,865</u>

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2011**

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, 2011, 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, 2011, 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, 2011, 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	\$23,715,865	\$ -	\$8,154,465	\$ -	\$15,561,400

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2011**

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	\$ 3,293,598
Investments	12,830,764
Departmental Cash	548,140
Imprest Funds	7,000
Restricted Cash and Cash Equivalents:	
Cash Grants and Other Contributions	774
Investments for Revenue Note Debt Service	882,728
Investments for Revenue Bond Debt Service	3,346,560
Investments for Revenue Bond Future Debt Service	5,103,351
Investments for Revenue Bond Operations and Maintenance	<u>1,552,462</u>
Total	<u>\$ 27,565,377</u>
Deposits	\$ 3,294,372
Investments	23,715,865
Departmental Cash	548,140
Imprest Funds	<u>7,000</u>
Total	<u>\$ 27,565,377</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, 2011**

Note 4. A. Assets (continued)

2. Summary of Changes in Capital Assets

A summary of changes in capital assets follows:

	<u>01/01/2011</u>	<u>Additions</u>	<u>Deductions</u>	<u>12/31/2011</u>
Capital Assets Not Being Depreciated:				
Land	\$ 1,307,887	\$ -	\$ -	\$ 1,307,887
Construction in Progress	<u>9,745,202</u>	<u>22,183,762</u>	<u>(763,890)</u>	<u>31,165,074</u>
Total Capital Assets Not Being Depreciated	<u>\$ 11,053,089</u>	<u>\$ 22,183,762</u>	<u>\$ (763,890)</u>	<u>\$ 32,472,961</u>
Capital Assets Being Depreciated:				
Buildings and Structures	\$ 55,920,604	\$ 137,519	\$ -	\$ 56,058,123
Public Improvements	229,519,530	1,406,158	(2,355,998)	228,569,690
Equipment	<u>49,776,259</u>	<u>532,508</u>	<u>(401,282)</u>	<u>49,907,485</u>
Total Capital Assets Being Depreciated	<u>\$ 335,216,393</u>	<u>\$ 2,076,185</u>	<u>\$ (2,757,280)</u>	<u>\$ 334,535,298</u>
Less Accumulated Depreciation for:				
Buildings and Structures	\$ (16,569,954)	\$ (1,373,522)	\$ -	\$ (17,943,476)
Public Improvements	(74,645,018)	(3,847,973)	1,775,909	(76,717,082)
Equipment	<u>(23,994,771)</u>	<u>(2,011,342)</u>	<u>393,218</u>	<u>(25,612,895)</u>
Total Accumulated Depreciation*	<u>\$ (115,209,743)</u>	<u>\$ (7,232,837)</u>	<u>2,169,127</u>	<u>(120,273,453)</u>
Total Capital Assets Being Depreciated, Net	<u>\$ 220,006,650</u>	<u>\$ (5,156,652)</u>	<u>\$ (588,153)</u>	<u>\$ 214,261,845</u>
Capital Assets, Net	<u>\$ 231,059,739</u>	<u>\$ 17,027,110</u>	<u>\$ (1,352,043)</u>	<u>\$ 246,734,806</u>

*Total Accumulated Depreciation is reduced by an allowance of \$464,952 for equipment used to construct capital assets; net depreciation reported is \$6,767,885 (\$7,232,837 - \$464,952).

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2011**

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, 2011, long-term debt consisted of:

	Principal		
	Unpaid Balances December 31, 2011	Less Current Maturities	Long-Term Maturities
Notes Payable	\$ 15,314,674	\$ 853,186	\$ 14,461,488
Revenue Bonds	26,090,000	2,370,000	23,720,000
Capital Lease	3,546	1,699	1,847
Compensated Absences	1,895,546	73,531	1,822,015
Other Post Employment Benefits	2,858,414	-	2,858,414
Claims and Judgments	3,088,400	609,442	2,478,958
Total	\$ 49,250,580	\$ 3,907,858	\$ 45,342,722

b. Changes in Debt Obligations

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

	01/01/11	Additions	Deductions	12/31/11
General Obligation				
Waste Water Revenue Note	\$ 1,662,810	\$ -	\$ 236,139	\$ 1,426,671
Drinking Water Revenue Notes	7,981,573	12,866,430	6,960,000	13,888,003
Revenue Bonds	22,510,000	6,340,000	2,760,000	26,090,000
Capital Lease	5,110	-	1,564	3,546
Compensated Absences	1,794,540	324,975	223,969	1,895,546
Other Post Employment Benefits	2,268,673	1,316,167	726,426	2,858,414
Claims and Judgments	2,233,240	1,472,211	617,051	3,088,400
Total	\$ 38,455,946	\$ 22,319,783	\$ 11,525,149	\$ 49,250,580

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2011**

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 \$41,404,674 and interest of \$9,144,892 on all Regional Water debt outstanding as of December 31, 2011, are as follows:

YEAR	2003 REVENUE BONDS			2005 REVENUE BONDS			2007 REVENUE BONDS		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2012	\$500,000	\$281,600	\$781,600	\$520,000	\$351,035	\$871,035	\$770,000	\$219,650	\$989,650
2013	\$525,000	\$264,100	\$789,100	\$535,000	\$330,235	\$865,235	\$490,000	\$188,850	\$678,850
2014	\$550,000	\$245,200	\$795,200	\$555,000	\$308,835	\$863,835	\$560,000	\$164,350	\$724,350
2015	\$575,000	\$224,850	\$799,850	\$575,000	\$286,635	\$861,635	\$555,000	\$141,950	\$696,950
2016	\$600,000	\$203,000	\$803,000	\$595,000	\$263,635	\$858,635	\$605,000	\$114,200	\$719,200
2017-21	\$3,475,000	\$631,438	\$4,106,438	\$3,330,000	\$933,265	\$4,263,265	\$2,250,000	\$188,000	\$2,438,000
2022-24	\$800,000	\$35,200	\$835,200	\$2,335,000	\$203,232	\$2,538,232	\$ -	\$ -	\$ -
	<u>\$7,025,000</u>	<u>\$1,885,388</u>	<u>\$8,910,388</u>	<u>\$8,445,000</u>	<u>\$2,676,872</u>	<u>\$11,121,872</u>	<u>\$5,230,000</u>	<u>\$1,017,000</u>	<u>\$6,247,000</u>

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2011**

Note 4. B. Liabilities (continued)

YEAR	2011D REVENUE BONDS			2011E REVENUE BONDS			TOTAL REVENUE BONDS		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2012	\$ -	\$106,800	\$106,800	\$580,000	\$17,475	\$597,475	\$2,370,000	\$976,560	\$3,346,560
2013	\$ -	\$106,800	\$106,800	\$975,000	\$13,125	\$988,125	\$2,525,000	\$903,110	\$3,428,110
2014	\$955,000	\$106,800	\$1,061,800	\$160,000	\$2,400	\$162,400	\$2,780,000	\$827,585	\$3,607,585
2015	\$565,000	\$78,150	\$643,150	\$ -	\$ -	\$ -	\$2,270,000	\$731,585	\$3,001,585
2016	\$690,000	\$61,200	\$751,200	\$ -	\$ -	\$ -	\$2,490,000	\$642,035	\$3,132,035
2017-21	\$1,465,000	\$62,850	\$1,527,850	\$ -	\$ -	\$ -	\$10,520,000	\$1,815,553	\$12,335,553
2022-24	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$3,135,000	\$238,432	\$3,373,432
	<u>\$3,675,000</u>	<u>\$522,600</u>	<u>\$4,197,600</u>	<u>\$1,715,000</u>	<u>\$33,000</u>	<u>\$1,748,000</u>	<u>\$26,090,000</u>	<u>\$6,134,860</u>	<u>\$32,224,860</u>

Current Refunding Bond Issue:

Regional Water issued two fixed rate revenue bonds on April 6, 2011; the 2011D series bond (tax-exempt) for \$3,675,000 and the 2011E series bond (taxable) for \$2,665,000 which refunded \$6,340,000 of an outstanding 1998 fixed rate revenue note. This current refunding was done to take advantage of lower interest rates which resulted in a net present value benefit of \$400,470. The proceeds of the current refunding bonds were used to retire the refunded note. As a result, the refunded note was removed from Regional Water's Statement of Net Assets.

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2011**

Note 4. B. Liabilities (continued)

YEAR	1996 G.O. WASTE WATER REVENUE NOTE			2010A DRINKING WATER REVENUE NOTE			2010B DRINKING WATER REVENUE NOTE			TOTAL WATER REVENUE NOTES		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2012	\$242,989	\$39,351	\$282,340	\$211,443	\$94,474	\$305,917	\$398,754	\$178,057	\$576,811	\$853,186	\$311,882	\$1,165,068
2013	\$250,037	\$32,303	\$282,340	\$215,594	\$90,323	\$305,917	\$406,578	\$170,234	\$576,812	\$872,209	\$292,860	\$1,165,069
2014	\$257,291	\$25,049	\$282,340	\$219,826	\$86,091	\$305,917	\$414,555	\$162,257	\$576,812	\$891,672	\$273,397	\$1,165,069
2015	\$264,754	\$17,586	\$282,340	\$224,141	\$81,776	\$305,917	\$422,689	\$154,123	\$576,812	\$911,584	\$253,485	\$1,165,069
2016	\$272,434	\$9,906	\$282,340	\$228,541	\$77,376	\$305,917	\$430,981	\$145,830	\$576,811	\$931,956	\$233,112	\$1,165,068
2017-21	\$139,166	\$2,004	\$141,170	\$1,211,786	\$317,797	\$1,529,583	\$2,285,113	\$598,944	\$2,884,057	\$3,636,065	\$918,745	\$4,554,810
2022-26	\$ -	\$ -	\$ -	\$1,335,485	\$194,098	\$1,529,583	\$2,518,254	\$365,804	\$2,884,058	\$3,853,739	\$559,902	\$4,413,641
2027-30	\$ -	\$ -	\$ -	\$1,165,894	\$57,771	\$1,223,665	\$2,198,369	\$108,878	\$2,307,247	\$3,364,263	\$166,649	\$3,530,912
	<u>\$1,426,671</u>	<u>\$126,199</u>	<u>\$1,552,870</u>	<u>\$4,812,710</u>	<u>\$999,706</u>	<u>\$5,812,416</u>	<u>\$9,075,293</u>	<u>\$1,884,127</u>	<u>\$10,959,420</u>	<u>\$15,314,674</u>	<u>\$3,010,032</u>	<u>\$18,324,706</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, 2011**

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, 2011 was \$4,812,710. 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, 2011 was \$9,075,293.

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, 2011, the claims and judgments liability was \$3,088,400.

iii. Compensated Absences

Included in Regional Water's debt are compensated absences for \$1,895,546.

iv. 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 2011 were \$3,624. At December 31, 2011, the liability was \$3,546.

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2011**

Note 4. B. Liabilities (continued)

2011 Capital Lease

	Annual Lease Payment	Annual Meter Rental Payment	Annual Maintenance Payment	Annual Interest	Reduction of Lease Obligation	Present Value Minimum Lease Payments
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>\$10,872</u>	<u>\$2,484</u>	<u>\$2,616</u>	<u>\$662</u>	<u>\$5,110</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	\$ 7,025,000
Revenue	4.20%; 06/01; 12/01	03/24/05	12/01/24	8,445,000
Revenue	4.06%; 06/01; 12/01	02/14/07	12/01/19	5,230,000
Revenue	2.00%; 06/01; 12/01	04/06/11	12/01/18	3,675,000
Revenue	1.19%; 06/01; 12/01	04/06/11	12/01/14	<u>1,715,000</u>
Total				<u>\$26,090,000</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	\$ 1,426,671
Drinking Water Revenue Note	1.963%; 06/01; 12/01	07/13/10	12/01/30	4,812,710
Drinking Water Revenue Note	1.962%; 06/01; 12/01	07/13/10	12/01/30	<u>9,075,293</u>
Total				<u>\$15,314,674</u>

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2011**

Note 4. Detail Notes (continued)

C. Due From Primary Government

At December 31, 2011, 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>
Parks Capital Projects	Capital Projects Fund	\$ 3,789
Sewer Utility	Enterprise Fund	67,493
General Fund	General Fund	604
Fire Responsive Services	Special Revenue Fund	59,514
Right of Way Maintenance	Special Revenue Fund	1,431
Total		<u>\$ 132,831</u>

D. Due To Primary Government

At December 31, 2011, 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	\$ 618,015
RiverPrint Saint Paul/Ramsey County	Enterprise Fund	43,152
Sewer Utility	Enterprise Fund	2,706,969
Special Services	Enterprise Fund	1,500
General Fund	General Fund	435
Public Works Equipment	Internal Service Fund	2,834
Public Works Traffic, Signal, & Light Maint.	Internal Service Fund	100,390
Risk Management Retention	Internal Service Fund	19,212
Right of Way Maintenance	Special Revenue Fund	37,957
Special Projects-General Government	Special Revenue Fund	49,377
Total		<u>\$ 3,579,841</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:

\$2.52 per regular sewer bill transaction
\$1.13 per rainleader transaction

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2011**

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, 2011, 2010, and 2009 were \$1,000,717, \$978,683, and \$885,591 respectively. The corresponding total employee's shares were \$862,687, \$900,388, and \$814,744. 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, 2011.

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.

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2011**

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
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2011**

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 2011 were as follows:

	<u>Age</u>	<u>Average Monthly Regional Water Contribution</u>	<u>Average Monthly Retiree Contribution</u>
Health Insurance	Less than 65	\$351	\$324
	65 and older	\$291	\$11
Life Insurance	Less than 65	\$2	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 2011 expense totaled \$661,861 for approximately 183 retirees. Retirees contributed \$137,251; 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, 2011. Regional Water's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2011 and the two 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, 2009	\$ 1,291,527	\$ 765,386	59.26%	\$ 1,648,948
December 31, 2010	\$ 1,318,571	\$ 698,846	53.00%	\$ 2,268,673
December 31, 2011	\$ 1,316,167	\$ 726,426	55.20%	\$ 2,858,414

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2011**

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

The net OPEB obligation (NOPEBO) at December 31, 2011 was calculated as follows:

Annual Required Contribution (ARC)	\$ 1,350,292
Interest on Net OPEB Obligation	113,363
Adjustment to Annual Required Contribution	<u>(147,488)</u>
Annual OPEB Cost	1,316,167
Contributions Made:	
Direct	661,681
Indirect Implicit Subsidy	<u>64,745</u>
Total Contributions Made	726,426
Increase (Decrease) in Net OPEB Obligation	<u>589,741</u>
Net OPEB Obligation Beginning of Year	<u>2,268,673</u>
Net OPEB Obligation End of Year	<u><u>\$ 2,858,414</u></u>

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
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2011**

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, 2011**

Note 5. C. Risk Management (continued)

A complete audit and actuarial analysis is conducted to ensure proper premium, retention, and administrative charges. The following discloses the change in the balance of the claims liability during fiscal years 2010 and 2011:

	Year Ended <u>12/31/2010</u>	Year Ended <u>12/31/2011</u>
Beginning fiscal year liability	\$2,950,974	\$2,233,240
Current year claims and changes in estimates	29,475	1,472,211
Claim payments	<u>(747,209)</u>	<u>(617,051)</u>
End of year liability	<u>\$2,233,240</u>	<u>\$3,088,400</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, 2011**

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 2011. Financial information can be obtained from the City of Maplewood located at 1830 County Road B East, Maplewood, Minnesota 55109.

The joint powers agreement between the Board of Water Commissioners, the City of Minneapolis, and the City of Saint Cloud dated December 19, 2011 was to collaboratively implement the Upper Mississippi River Source Water Protection Project (“Project”). The parties agree to make future cash contribution to the “Project” up to \$10,000 annually. The City of Saint Cloud shall administer all aspects of the “Project” including funds collection and disposal. This Agreement shall be in effect from the date of agreement until December 31, 2020.

REQUIRED SUPPLEMENTARY INFORMATION

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
REQUIRED SUPPLEMENTARY INFORMATION
For the Fiscal Year Ended December 31, 2011**

Schedule 1

Schedule of Funding Progress ⁽¹⁾

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.

⁽¹⁾ For information regarding the plan see Note 5.B. on pages 36- 40.

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Schedule 2

Schedule of Employer Contributions ⁽¹⁾

Fiscal Year Ended	Annual Required Contribution	Percentage Contributed	Net OPEB Obligation
December 31,2007	\$ 1,283,314	53.76%	\$ 557,154
December 31,2008	\$ 1,283,314	55.92%	\$ 1,122,807
December 31,2009	\$ 1,308,025	58.51%	\$ 1,648,948
December 31,2010	\$ 1,342,799	52.04%	\$ 2,268,673
December 31,2011	\$ 1,350,292	53.80%	\$ 2,858,414

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

⁽¹⁾ For information regarding the plan see Note 5.B. on pages 36- 40.

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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, 2011**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Environmental Protection Agency Passed-Through Minnesota Public Facilities Authority Capitalization Grants for Drinking Water State Revolving Fund	66.468	\$8,171,389
Total Federal Awards		<u>\$8,171,389</u>

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

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**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE SUPPLEMENTARY INFORMATION
For the Fiscal Year Ended December 31, 2011**

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, a discrete component unit of the City of Saint Paul. 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, 2011. 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, 2011.

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

Regional Water was awarded one federal award in 2011. The award is a 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.

SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE SUPPLEMENTARY INFORMATION
For the Fiscal Year Ended December 31, 2011

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, 2011 totaled \$8,171,389. Of this amount, \$6,091,190 had been reimbursed by the MN PFA during the fiscal year 2011 and \$2,214,579 of Fiscal Year 2010 expenditures were reimbursed in 2011.

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 2011.

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