

**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, 2007**

**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, 2007**

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INTRODUCTORY SECTION



BOARD OF WATER COMMISSIONERS

President: Patrick Harris ♦ Vice President: John Zanmiller

Commissioners: Matt Anfang ♦ Dan Bostrom ♦ Melvin Carter III ♦ Gregory Kleindl ♦ Will Rossbach

July 25, 2008

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

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, 2007. The responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with Regional Water. We believe the data, as presented, is accurate in all material aspects; that it is presented in a manner designed to fairly set forth the financial position, changes in financial position, and cash flows of Regional Water; and that all disclosures necessary to enable the reader to gain the maximum understanding of Regional Water's financial affairs have been included. This report has been prepared in accordance with generally accepted accounting principles. Regional Water's financial operations are also reported in the City of Saint Paul's Comprehensive Annual Financial Report as a discretely presented component unit.

The report is presented here in two sections:

1. The Introductory Section includes this letter of transmittal and a listing of the members of the Board of Water Commissioners and Manager.
2. The Financial Section includes the State Auditor's report, Management's Discussion and Analysis, the basic financial statements along with the related notes to these financial statements, and certain required supplementary information.

REPORTING ENTITY AND SERVICES

The Board of Water Commissioners was set up pursuant to Minnesota Special Laws for 1885, Chapter 110, to operate a utility commonly known as Saint Paul Regional Water Services. Regional Water services an area including Saint Paul and all or parts of 12 suburbs on a retail or wholesale basis.

SAINT PAUL REGIONAL WATER SERVICES

Stephen P. Schneider, General Manager

1900 Rice St. Saint Paul MN 55113-6810 ♦ TTY: 651-266-6299

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

To better serve our customers, we made numerous improvements to our automated services. We continued our progress on the Information Technology Road Map, including Customer Information System (CIS), Computerized Maintenance Management System (CMMS) workflow and asset management. We defined our goals and functional requirements for the new CIS; and nearly completed the software vendor selection process for the new system. We continue to focus on improving our distribution system with the maintenance and capital program, including large main, piping and hydrant testing and replacement and rehabilitation projects as well as replacement of lead services with copper water services. Other significant projects included the Lambert Lake Wetland Restoration and design of the well field expansion. We substantially completed the installation of our major water quality initiative—i.e., replacing our current anthracite filtering system with Granular Activated Carbon (GAC) filters.

Business Division

The Business Division includes the Customer Service, Information Services, and Financial Services sections. We offer support services to other divisions within the utility as well as our external customers. In 2007, we completed the second phase of the CIS project, including development of the functional requirements, identification of interfaces needed with other organizational technologies and selection of a software solution. This is a major project for the utility, which will provide new technology for tracking customer accounts, improved payment methods for our customers and improved work processes.

We also made other automation improvements. Staff developed a request for proposal for a new Interactive Voice Response unit (IVR). We selected a solution, which presents an option of either English or Spanish language and offers customers self-service features, including making payments via credit card and reviewing the status of their accounts. Customers can move through the menu either with voice commands or with keypads on touch tone phones. Work continued on expanding the use of the Document Management system, scanning many old utility records for long-term storage.

In addition, a new software solution to manage plumbing permit and inspection activity, called Amanda, was implemented. Staff successfully implemented specialty equipment and design, which provides wireless mobile access to plumbing inspectors. We expanded other mobile computing to provide access to facility information by field personnel. We also enhanced the Geographical Information System (GIS) to bring more functionality to field personnel.

The WaterWorks program received \$21,947 in contributions (an increase of 11% over 2006), and provided grants for water and sewer bills to 108 needy families, with an average grant of \$203 per family.

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

HIGHLIGHTS IN SUMMARY (continued)

Business Division - Future Operations

In 2008, we intend to move forward with the implementation of a new CIS. This is one of our major technology projects and will streamline services to our customers and internal work processes. In addition, Regional Water will work toward implementing an asset management system by formally reviewing and implementing best practices in its CMMS workflow processes. We anticipate both of these initiatives will involve all divisions of the utility. The Business Division will strive to provide excellent support services to all areas of Regional Water as well as to its external customers and business partners.

Distribution Division

Work in the Distribution Division included capital construction for new distribution system piping, maintenance of our existing distribution system, fleet management, warehouse operations and meter operations. We continued to replace aging infrastructure, especially unlined cast iron water main, hydrants and lead water services. Our water main replacement work is done primarily in coordination with the cities' street reconstruction projects. In 2007, we installed 4.0 miles of new and replacement water main, we replaced approximately 550 lead water services, and we replaced 210 of the 9,500 system hydrants. In addition, we cleaned nearly one mile of large diameter water main and lined cement mortar to improve flow capacity.

Routine maintenance of the distribution system is needed to ensure adequate reliability and improve distribution water quality. Last year marked the first year we inspected all public fire hydrants on the system. This work involved operation of system hydrants and making minor repair work. We also performed the unidirectional flushing program in about 6% of our system in 2007. The purpose of this program is to operate system valves to ensure operability and to clean mains for improved distribution water quality. We continued responding to main breaks and other maintenance needs across our service area as well as in the city of Oakdale and White Bear Township. On average, we repair 150 main breaks per year.

Regional Water has approximately 95,000-metered accounts. The meter reading system has been well maintained as we consistently obtain about 98% actual reads. We continue to expand radio reads for difficult to read accounts. Nearly 2,000 meters were replaced in 2007, and 2,200 meters were repaired.

Distribution Division - Future Operations

In the future, we hope to increase funding to allow for the replacement of the aging underground infrastructure including water main, lead service and hydrant replacement work at a more appropriate level. In addition, we need a greater emphasis on system maintenance, including unidirectional flushing and large valve exercising for long-range care of the system. We anticipate commencing a four-to-five year meter replacement initiative in 2009. At this time we plan studying the cost- benefit of meter reading technology to be implemented with the new system.

HIGHLIGHTS IN SUMMARY (continued)

Engineering Division

A number of large projects were completed in 2007 that will serve Regional Water and its customers well into the future. The construction of two additional wells began in 2007; they will increase the current well supply from 28 million gallons per day (MGD) to 35 MGD. An additional two wells are scheduled for construction in 2008. The GIS map was integrated with the CMMS in 2007. It will become the central platform for all mapping, asset management, and maintenance activities. Twenty-two rugged laptop computers were placed into service in the engineering and distribution division truck fleets. These computers are equipped with a GIS map of the entire Regional Water service area and connect to the CMMS. The entire system is web-based, and all transmissions to the field use wireless technology through web applications. The Engineering Division implemented state-of-the-art modeling techniques to model distribution system hydraulics and water quality. These GIS-based applications are much more comprehensive and powerful than prior models.

Engineering administration staff was involved with the remaining land sale issues related to divestment of the Rice Creek watershed properties to focus, instead, on protecting the local watershed and developing the well supply for backup. The Rice Creek watershed has shown to be an inadequate backup supply during drought conditions, and the water quality has deteriorated significantly in the past few decades.

Engineering Division – Future Operations

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

Production Division

In 2007, the Production Division had a good year in a number of ways. The 2006 drought carried over into 2007, causing an increase in pumped water. Our daily average finished water pumping was 48.4 million gallons; this was the fourth highest out of the past ten years. Conservation and lifestyle changes continue to decrease water usage. Though the drought brought river levels to their lowest readings since the drought of 1988-89, pumping was nowhere near the amounts pumped back then. Compare the daily average of 58.0 million gallons in 1988, with the 48.4 pumped in 2007, and the effects of changing water consumption habits become very evident. Without the drought, pumping would likely have been less than 45 million gallons. Despite the low levels in the river, we were able to maintain pumping at our Fridley station the entire summer.

Chemical costs continued to go up. The average cost of \$148.82 per million gallons was an 11% increase over 2006. Trends toward the end of 2007 seemed to indicate that prices might be leveling off somewhat, however.

HIGHLIGHTS IN SUMMARY

Production Division (continued)

After two years of construction, our new GAC filters were placed on-line in 2007. Our goal was to reduce taste and odor complaints, a long-time nemesis of our system. Though we had some issues with the filters operationally, they performed beautifully in terms of reducing taste and odor. Compared with a running four-year average, our taste and odor complaints were reduced by 91% in 2007. Our first year's experience is definitely good, but whether they will perform as well in the years to come remains to be seen. Their performance in the next few years will dictate our replacement schedule for the filters.

Late in the season, our Vadnais crews discovered zebra mussels in our Vadnais intake structure. We had been treating water pumped from Fridley with copper sulfate for two years in an effort to prevent their spread from the river into our system. The age of the mussels found indicates that they may have been present before we began treating. There is no way to determine how they got to that location, and no evidence that says they came from the Mississippi River. Now that they are in the intake, we will need to take steps to manage their growth and effects on our infrastructure.

Production Division – Future Operations

Rains in the fall of 2007 eased the drought, and snow pack is fairly normal in the Upper Mississippi watershed, so at least starting out the 2008 season, river levels should be normal. Rainfall in the spring and summer will dictate whether the drought will continue in 2008. We will be watching our new filters closely to determine their taste and odor removal capabilities as they age. Studies indicated a life span of about four to six years, but studies cannot duplicate what our experience is going to be here. We have been working with a consultant, Camp Dresser & McKee to determine what actions we should take in regards to the zebra mussel problem. We hope to have a plan approved by the DNR sometime in 2008.

INDEPENDENT AUDIT

State law requires the State Auditor to perform an annual audit of the books of account, financial records, and transactions. This requirement has been met, and the State Auditor's report has been included in this report.

MANAGEMENT AND COMPLIANCE LETTER

The State Auditor will issue a management and compliance letter covering the review, made as part of its audit of Regional Water's system of internal control over financial reporting and tests of compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The management and compliance letter will not modify or affect, in any way, this report. The State Auditor's report on Regional Water's financial statements is unqualified, which means that, in the auditor's opinion, the financial statements are fairly presented in conformity with generally accepted accounting principles.

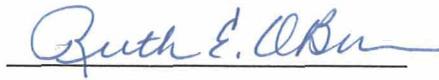
ACKNOWLEDGMENTS

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

Respectfully submitted,



Stephen P. Schneider
General Manager



Ruth E. O'Brien
Financial Services Manager

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

As of December 31, 2007

PUBLIC MEMBERS

Term Expires

Matt Anfang, Commissioner June 2008

Gregory Kleindl, Commissioner June 2010

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

CITY COUNCIL MEMBERS

Pat Harris, President December 2007

Debbie Montgomery December 2007

Dave Thune December 2007

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

SUBURBAN MEMBERS

Will Rossbach, Commissioner December 2007

John Zanmiller, Vice President December 2007

The Suburban Members are appointed by the suburban City Councils. The two Suburban Members shall be resident citizens of a suburb served by the Board's water system. The Suburban Members will be appointed to terms of two years by the suburban City Councils.

GENERAL MANAGER

Stephen P. Schneider appointed December 2003.

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FINANCIAL SECTION



REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

OFFICE OF THE STATE AUDITOR

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

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

INDEPENDENT AUDITOR'S REPORT

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

We have audited the 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, 2007, 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 financial statements referred to above present fairly, in all material respects, the financial position of the Saint Paul Regional Water Services at December 31, 2007, 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.

As discussed in Note 4. B. to the financial statements, during the year ended December 31, 2007, the Saint Paul Regional Water Services implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

The Management's Discussion and Analysis and the required supplementary information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we are also issuing a report dated July 25, 2008, on our consideration of the Saint Paul Regional Water Services' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



REBECCA OTTO
STATE AUDITOR



GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

July 25, 2008

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended December 31, 2007**

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, 2007. 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 \$205,283,783 (Net assets). Of this amount, \$11,769,687 (unrestricted net assets) may be used to meet the utility's ongoing obligations.

- Regional Water's total net assets increased by \$3,773,476.

Overview of Annual Financial Report

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

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

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

This report also contains certain required supplementary information in accordance with the requirements of Governmental Accounting Standards Board (GASB) Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended December 31, 2007**

Other than Pensions.” This required supplementary information includes other post-employment benefit plan information - a Schedule of Funding Progress, and a Schedule of Employer Contributions.

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

Summary of Organization and Business

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

Financial Analysis

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

As can be seen from the following table, total net assets increased \$3.77 million to \$205.28 million in 2007, up from \$201.51 million in 2006. The increase in total net assets was primarily due to the investment of capital assets and the decrease in debt.

Revenues

Regional Water’s operating revenues are derived mainly from the sale of water. Other sources include: services, fees, rents and leases. Operating revenues increased by \$3.37 million to \$38.66 million in 2007, up from \$35.29 million in 2006. Revenues in 2007 were up due to a 2% increase in consumption over 2006 levels and a rate increase. Water rates increased \$.09 per 100 cubic feet to \$1.75 in 2007; up from \$1.66 per 100 cubic feet in 2006, to help offset the reduction in consumption.

Expenses

Regional Water’s operating expenses increased \$3.22 million to \$35.35 million in 2007, up from \$32.12 million in 2006. \$1.19 million of the increase is for materials, services, and miscellaneous expense and \$2.03 million is for salaries and fringes, of which \$593 thousand is related to the adoption of GASB Statement No. 45, “Accounting for Postemployment Benefits Other Than Pensions.”

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended December 31, 2007**

Condensed Statement of Net Assets (in thousands)

	Fiscal Year 2007	Fiscal Year 2006	Dollar Change	Total % Change
Assets				
Cash and Investments	\$ 16,259	\$ 16,477	\$ (218)	(1.3)
Other Current Assets	\$ 10,059	\$ 9,994	\$ 65	0.7
Capital Assets - net	\$ 223,757	\$ 222,549	\$ 1,208	0.5
Other Noncurrent Assets	\$ 6,194	\$ 5,852	\$ 342	5.8
Total Assets	\$ 256,269	\$ 254,872	\$ 1,397	0.5
Liabilities				
Current Liabilities	\$ 10,789	\$ 11,322	\$ (533)	(4.7)
Noncurrent Liabilities	\$ 40,197	\$ 42,040	\$ (1,843)	(4.4)
Total Liabilities	\$ 50,986	\$ 53,362	\$ (2,376)	(4.5)
Net Assets				
Invested in Capital Assets				
Net of Related Debt	\$ 185,052	\$ 181,465	\$ 3,587	2.0
Restricted for Debt Service	8,462	8,338	124	1.5
Unrestricted	11,769	11,707	62	0.5
Total Net Assets	\$ 205,283	\$ 201,510	\$ 3,773	1.9

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

	Fiscal Year 2007	Fiscal Year 2006	Dollar Change	Total % Change
Operating Revenues	\$ 38,665	\$ 35,290	\$ 3,375	9.6
Nonoperating Revenues (Expenses)	(279)	(183)	(96)	52.5
Total Revenues	\$ 38,386	\$ 35,107	\$ 3,279	9.3
Operating Expenses	\$ 35,347	\$ 32,123	\$ 3,224	10.0
Income (Loss) Before Transfers and Contributions	\$ 3,039	\$ 2,984	\$ 55	1.8
Capital Contributions	\$ 734	\$ 1,454	\$ (720)	(49.5)
Change in Net Assets	\$ 3,773	\$ 4,438	\$ (665)	(15.0)
Net Assets - January 1	201,510	197,072	4,438	2.3
Net Assets - December 31	\$ 205,283	\$ 201,510	\$ 3,773	1.9

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended December 31, 2007**

Capital Assets

By the end of 2007, Regional Water had invested \$320.93 million in capital assets. The \$7.78 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

During February 2007, Regional Water issued \$8,985,000 Water Revenue Refunding Bonds, Series 2007A. The proceeds redeemed and prepaid Water Revenue Refunding Bonds, Series 1997C and Water Revenue Bonds, Series 2000C.

At the end of 2007, bonds payable were \$27.4 million and revenue notes payable were \$11.6 million. This debt will be repaid by revenue generated by Regional Water.

Economic and Other Factors

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

Financial Contact

This financial report is designed to provide our customers and creditors with a general overview of Regional Water's finances and to demonstrate Regional Water's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Finance Department, Saint Paul Regional Water Services, 1900 Rice Street, Saint Paul, Minnesota 55113.

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BOARD OF WATER COMMISSIONERS OF THE CITY OF SAINT PAUL, MINNESOTA
REGIONAL WATER SERVICES STATEMENT OF NET ASSETS
December 31, 2007
(Amounts in dollars)

Exhibit A

ASSETS

Current Assets

Cash and Investments with Treasurer	7,371,119
Investments	5,486,356
Departmental Cash	338,631
Imprest Funds	7,000
Restricted Cash and Cash Equivalents	
Cash Grants and Other Contributions	11,718
Investments for Revenue Bond Debt Service	3,044,210
Receivables	
Accounts (net of allowance for Estimated Uncollectibles)	3,813,936
Assessments	
Current	976,867
Deferred	2,212,540
Delinquent	135,315
Tax Forfeited Property	54
Accrued Interest	172,608
Due from Primary Government	86,903
Due from Other Governmental Units	597,759
Inventory - Materials and Supplies	2,063,567

Total Current Assets 26,318,583

Noncurrent Assets

Restricted Assets

Investments for Revenue Bond Future Debt Service	4,290,414
Investments for Revenue Bond Operations and Maintenance	1,218,486

Total Restricted Assets 5,508,900

Other Assets

Deferred Charges	395,380
Long-Term Loans Receivable	289,897

Total Other Assets 685,277

Capital Assets

Land	1,307,887
Buildings and Structures	55,890,178
Less: Accumulated Depreciation	(12,711,845)
Public Improvements	208,088,313
Less: Accumulated Depreciation	(64,888,882)
Equipment	45,936,436
Less: Accumulated Depreciation	(19,575,844)
Construction in Progress	9,710,503

Total Capital Assets (Net of Accumulated Depreciation) 223,756,746

Total Noncurrent Assets 229,950,923

Total Assets 256,269,506

continued

BOARD OF WATER COMMISSIONERS OF THE CITY OF SAINT PAUL, MINNESOTA
 REGIONAL WATER SERVICES STATEMENT OF NET ASSETS
 December 31, 2007
 (Amounts in dollars)

Exhibit A

LIABILITIES

Current Liabilities (Payable from Current Assets)	
Accrued Salaries Payable	807,575
Compensated Absences Payable	55,954
Claims and Judgments Payable	541,336
Accounts Payable	1,031,426
Contract Retention Payable	335,793
Due to Primary Government	2,902,333
Due to Other Governmental Units	1,749,336
Unearned Revenue	125,338
Revenue Notes Payable	1,141,727
Accrued Interest Payable on Revenue Notes	51,020
	<hr/>
Total Current Liabilities (Payable from Current Assets)	8,741,838
	<hr/>
Current Liabilities (Payable from Restricted Assets)	
Accounts Payable	942
Revenue Bonds Payable	1,955,000
Accrued Interest Payable on Revenue Bonds	90,767
	<hr/>
Total Current Liabilities (Payable from Restricted Assets)	2,046,709
	<hr/>
Noncurrent Liabilities	
Revenue Bonds Payable	25,475,000
Compensated Absences Payable	1,580,686
Other Post Employment Benefits	593,302
Claims and Judgments Payable	2,212,686
Revenue Notes Payable	10,420,307
Premium on Revenue Bonds	101,118
Less: Unamortized Discount	(185,923)
	<hr/>
Total Noncurrent Liabilities	40,197,176
	<hr/>
Total Liabilities	50,985,723
	<hr/>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	185,051,753
Restricted for Debt Service	8,462,343
Unrestricted	11,769,687
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Total Net Assets	205,283,783
	<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
For the Fiscal Year Ended December 31, 2007
(Amounts in dollars)

Exhibit B

OPERATING REVENUES	
Fees, Sales and Services	37,816,000
Rents and Leases	367,144
Miscellaneous	482,202
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Total Operating Revenues	38,665,346
OPERATING EXPENSES	
Salaries	11,114,432
Employee Fringe Benefits	5,834,994
Services	5,312,141
Materials and Supplies	6,436,082
Depreciation	6,560,430
Bad Debts	64,964
Miscellaneous	24,017
	<hr/>
Total Operating Expenses	35,347,060
OPERATING INCOME (LOSS)	3,318,286
NON-OPERATING REVENUES (EXPENSES)	
Operating Grants	77,960
Gain on Sale of Assets	98,746
Loss on Retirement of Assets	(318,173)
Investment Income	
Interest Earned on Investments	1,033,860
Increase in Fair Value of Investments	269,394
Miscellaneous Other Revenue (Expenses)	331,830
Interest Expense on	
Revenue Bonds	(1,221,588)
Revenue Notes	(421,519)
Amortization of Bond Issuance Costs	(129,546)
	<hr/>
Total Non-Operating Revenues (Expenses)	(279,036)
INCOME BEFORE CAPITAL CONTRIBUTIONS	3,039,250
CAPITAL CONTRIBUTIONS	
Capital Acquisitions - Outside Sources	734,226
	<hr/>
CHANGE IN NET ASSETS	3,773,476
NET ASSETS, January 1	201,510,307
	<hr/>
NET ASSETS, December 31	205,283,783
	<hr/> <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, 2007
(Amounts in dollars)

Exhibit C

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from Customers	38,030,790
Other Operating Receipts	367,144
Other Receipts	482,202
Payments to Suppliers	(10,247,308)
Payments to Employees	(16,378,442)

NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES 12,254,386

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Operating Grants Received	77,960
Non-Operating Revenue Received	330,930
Non-Operating Loans Issued to Customers	(56,605)
Non-Operating Revenue from Ramsey County	529,387

NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES 881,672

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Cash Proceeds From Issuance of:	
Revenue Bonds	9,093,189
Cash Proceeds From Sale of Capital Assets:	
Land	64,070
Capital Contributions Received:	
From Outside Parties	736,414
Principal Paid on Debt Maturities:	
Revenue Bonds	(10,665,000)
Revenue Notes	(1,175,617)
Payments for Acquisition and Construction of Capital Assets:	
Construction in Progress	(10,750,978)
Interest Paid On:	
Revenue Bonds	(1,161,997)
Revenue Notes	(426,509)
Payment of Bond Issue Costs	(351,522)

NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES (14,637,950)

CASH FLOWS FROM INVESTING ACTIVITIES

Interest and Dividends on Investments Received	1,022,589
Proceeds From Sale and Maturities of Investment Securities	7,703,495
Purchase of Investment Securities	(4,706,097)

NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES 4,019,987

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS 2,518,095

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

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

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, 2007
 (Amounts in dollars)

Exhibit C

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

Operating Income (Loss)		<u>3,318,286</u>
Adjustments To Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Depreciation	6,560,430	
Increase (Decrease) in Allowance for Uncollectible Accounts	19,127	
Changes in Assets and Liabilities:		
(Increase) Decrease in Accounts Receivable	(18,453)	
(Increase) Decrease in Assessments Receivable	279,295	
(Increase) Decrease in Due from Primary Government	(3,233)	
(Increase) Decrease in Due from Other Governmental Units	1,464	
(Increase) Decrease in Inventories	32,092	
Increase (Decrease) in Accrued Salaries Payable	64,763	
Increase (Decrease) in Compensated Absences Payable	(87,081)	
Increase (Decrease) in Net Other Post Employment Benefits Obligation	593,302	
Increase (Decrease) in Claims and Judgments Payable	494,173	
Increase (Decrease) in Accounts Payable	304,957	
Increase (Decrease) in Due to Primary Government	594,188	
Increase (Decrease) in Due to Other Governmental Units	99,522	
Increase (Decrease) in Unearned Revenue	<u>1,554</u>	
Total Adjustments		<u>8,936,100</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		<u><u>12,254,386</u></u>

DETAILS OF CASH AND CASH EQUIVALENTS

Cash and Investments with Treasurer	7,371,119
Departmental Cash	338,631
Imprest Funds	7,000
Cash Grants and Other Contributions	<u>11,718</u>
TOTAL CASH AND CASH EQUIVALENTS	<u><u>7,728,468</u></u>

NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES

Retirement/Deletion of Capital Assets	(384,285)
Change in Fair Value of Investments	269,394
Capital Assets Purchased on Account	653,657
Net Book Value of Traded Capital Assets	50,768

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, 2007

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**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2007**

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, 2007 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, 2007**

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, 2007. Investments in nonparticipating interest-earning contracts, such as savings accounts and nonnegotiable certificates of deposit, are reported at cost. Money market investments and participating interest-earning investment contracts (negotiable certificates of deposit) are reported at amortized cost since these investments have a remaining maturity of one year or less at the time of purchase. Money market investments are short-term, highly liquid debt instruments including commercial paper, bankers' acceptances, and U.S. Treasury and agency obligations. See Note 3.A.1.

In 2007, Regional Water recorded a "increase in fair value of investments" as investment income of \$269,394. The calculation of realized gains and losses is independent of the calculation of the net change in the fair value of investments. Realized gains and losses on investments that have been held in more than one fiscal year and sold in the current year may have been included as part of the change in the fair value of investments reported in the prior year.

For purposes of the Statement of Cash Flows, cash equivalents are cash on-hand, cash in banks, and highly liquid investments having original maturities (time span from purchase date to maturity date) of three months or less. Included in the classification of cash equivalents are departmental cash, imprest funds, and restricted cash grants and other contributions.

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2007**

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, 2007 is as follows:

Accounts Receivable - Registered Bills	\$ 155,218
Accounts Receivable - Water Billings	3,449,055
Accounts Receivable - Unbilled	329,833
Accounts Receivable - Miscellaneous	950
Allowance for Uncollectible Accounts	<u>(121,120)</u>
Accounts Receivable (net of Allowance for Estimated Uncollectible)	<u>\$ 3,813,936</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 2002 through 2006. Tax forfeited properties are subject to forfeiture.

F. Material and Supplies Inventory

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

G. Restricted Assets

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

H. Capital Assets

Land, buildings and structures, equipment, and public improvements are recorded as capital assets on the Statement of Net Assets. Regional Water defines capital assets as assets with an initial, individual cost of more than \$5,000, and an estimated useful life in excess of at least three years. Purchased capital assets and capital assets constructed by Regional Water are stated at original cost. Original cost includes material, labor, overhead and an allowance for the cost of funds used during construction when significant. Major outlays for capital assets and improvements are capitalized as projects are constructed. Contributed water systems for which actual costs are not available have been valued by means that estimate their historical value.

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2007**

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

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

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

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

I. Compensated Absences

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

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

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

J. Employee Fringe Benefits

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

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2007**

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, 2007**

Note 2. Summary of Significant Accounting Policies (continued)

N. Operating and Non-Operating Revenues and Expenses

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

Note 3. Detail Notes

A. Assets

1. Deposits and Investments

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

Deposits

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

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

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2007**

Note 3. A. Assets (continued)

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the City's deposits may not be returned to it. As of December 31, 2007, the City's deposits were not exposed to custodial credit risk. All pledged collateral is held in the City's name at third party institutions, pledged at 110% of deposits not covered by insurance or bonds.

Regional Water's deposits of \$7,371,119 (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, 2007, the total imprest funds were \$7,000. Regional Water also had departmental cash on hand of \$338,631.

Investments

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

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

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2007**

Note 3. A. Assets (continued)

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

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

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

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2007**

Note 3. A. Assets (continued)

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

Credit Risk

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

Regional Water's exposure to credit risk as of December 31, 2007, is as follows:

<u>Rating Agency</u>	<u>Rating</u>	<u>Fair Value</u>
S&P	AAA	\$11,705,730
Not Rated	NR	<u>2,345,454</u>
		<u>\$14,051,184</u>

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2007**

Note 3. A. Assets (continued)

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. At December 31, 2007, 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, 2007, 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, 2007, Regional Water had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Less Than 2 Years</u>	<u>2 - 4 Years</u>	<u>5 - 10 Years</u>
U.S. Government Agency Securities	<u>\$14,051,184</u>	<u>\$5,390,061</u>	<u>\$3,660,923</u>	<u>\$5,000,200</u>

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2007**

Note 3. A. Assets (continued)

Securities Lending Transactions

Since 1996, the City has participated in a securities lending program. The City has reported its securities lending transactions in accordance with the provisions of GASB Statement No. 28, "Accounting and Financial Reporting for Securities Lending Transactions." The City Council approved by resolution a "Policy Statement" which provides that the City's General Fund will record the revenue and expenditures relating to securities lending transactions and the "securities lending collateral" asset and "obligations under securities lending" liability. In addition, if monthly net losses should occur during the year from the investment of cash collateral, either principal losses or losses resulting from negative "spreads" between the yield on the investments of cash collateral and the rebate rates paid to borrowers, the losses will be charged to the City's General Fund. Consequently, as of and for the year ended December 31, 2007, no assets, liabilities, revenues or expenses relating to securities lending transactions were allocated to Regional Water under the provisions of this policy statement.

Recap

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

Cash and Investments with Treasurer	\$ 7,371,119
Investments	5,486,356
Departmental Cash	338,631
Imprest Funds	7,000
Restricted Cash and Cash Equivalents:	
Cash Grants and Other Contributions	11,718
Investments for Revenue Bond Debt Service	3,044,210
Investments for Revenue Bond Future Debt Service	4,290,414
Investments for Revenue Bond Operations and Maintenance	1,218,486
Total	<u>\$ 21,767,934</u>
Deposits	\$ 7,371,119
Investments	14,051,184
Departmental Cash	338,631
Imprest Funds	7,000
Total	<u>\$ 21,767,934</u>

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2007**

Note 3. A. Assets (continued)

2. Summary of Changes in Capital Assets

A summary of changes in capital assets follows:

	<u>01/01/07</u>	<u>Additions</u>	<u>Deductions</u>	<u>12/31/07</u>
Capital Assets Not Being Depreciated:				
Land	\$ 1,307,887	\$ -	\$ -	\$ 1,307,887
Construction in Progress	19,012,041	8,631,836	(17,933,374)	9,710,503
Total Capital Assets Not Being Depreciated	<u>\$ 20,319,928</u>	<u>\$ 8,631,836</u>	<u>\$ (17,933,374)</u>	<u>\$ 11,018,390</u>
Capital Assets Being Depreciated:				
Buildings and Structures	\$ 55,787,120	\$ 225,953	\$ (122,895)	\$ 55,890,178
Public Improvements	202,340,400	6,125,638	(377,725)	208,088,313
Equipment	34,706,131	11,535,776	(305,471)	45,936,436
Total Capital Assets Being Depreciated	<u>\$ 292,833,651</u>	<u>\$ 17,887,367</u>	<u>\$ (806,091)</u>	<u>\$ 309,914,927</u>
Less Accumulated Depreciation for:				
Buildings and Structures	\$ (11,331,743)	\$ (1,399,753)	\$ 19,651	\$ (12,711,845)
Public Improvements	(61,518,439)	(3,525,377)	154,934	(64,888,882)
Equipment	(17,753,969)	(1,635,301)	290,504	(19,575,844)
Total Accumulated Depreciation	<u>\$ (90,604,151)</u>	<u>\$ (6,560,431)</u>	<u>\$ 465,089</u>	<u>\$ (97,176,571)</u>
Total Capital Assets Being Depreciated, Net	<u>\$ 202,229,500</u>	<u>\$ 11,326,936</u>	<u>\$ (341,002)</u>	<u>\$ 212,738,356</u>
Capital Assets, Net	<u>\$ 222,549,428</u>	<u>\$ 19,958,772</u>	<u>\$ (18,274,376)</u>	<u>\$ 223,756,746</u>

3. Impairment of Capital Assets

Regional Water has reported its capital assets in accordance with the provisions of GASB Statement No. 34, "Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments," it requires capital assets, to be reported in the statement of net assets. Statement 34 also requires that capital assets be depreciated over their estimated useful lives. GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries," establishes accounting and reporting requirements for the impairment of capital assets. Asset impairment is a significant, unexpected decline in the service utility of a capital asset and the impairment needs to be recorded in the Statement of Revenues, Expenses and Changes in Net Assets. A pump that was used to pump raw water from the Mississippi River experienced a 100% decline in utilization during 2007. The equipment was purchased for \$21,328 and had accumulated depreciation of \$19,943. A loss on retirement of assets of \$1,385 was reported.

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2007**

Note 3. Detail Notes (continued)

B. Liabilities

1. Debt Obligations of the Board of Water Commissioners

a. Current and Long-Term Debt Maturities

At December 31, 2007, long-term debt consisted of:

	Principal		
	Unpaid Balances December 31, 2007	Less Current Maturities	Long-Term Maturities
Notes Payable	\$ 11,562,034	\$ 1,141,727	\$ 10,420,307
Revenue Bonds	27,430,000	1,955,000	25,475,000
Compensated Absences	1,636,640	55,954	1,580,686
Other Post Employment Benefits	593,302	-	593,302
Claims and Judgments	2,754,022	541,336	2,212,686
Total	\$ 43,975,998	\$ 3,694,017	\$ 40,281,981

b. Changes in Debt Obligations

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

	01/01/07	Additions	Deductions	12/31/07
General Obligation				
Waste Water Revenue Note	\$ 2,542,652	\$ -	\$ 210,618	\$ 2,332,034
Drinking Water Revenue Note	10,195,000	-	965,000	9,230,000
Revenue Bonds	29,110,000	8,985,000	10,665,000	27,430,000
Compensated Absences	1,723,721	181,210	268,291	1,636,640
Other Post Employment Benefits	-	1,283,314	690,012	593,302
Claims and Judgments	2,259,849	1,288,514	794,341	2,754,022
Total	\$ 45,831,222	\$ 11,738,038	\$ 13,593,262	\$ 43,975,998

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2007**

Note 3. B. Liabilities (continued)

c. Principal and Interest Requirements on Debt Obligations

i. All Debt

Aside from Claims and Judgments and Compensated Absences, the annual requirements to pay the principal of \$38,992,034 and interest of \$11,794,968 on all Regional Water debt outstanding as of December 31, 2007, are as follows:

YEAR	2003 REVENUE BONDS			2005 REVENUE BONDS			2007 REVENUE BONDS			TOTAL REVENUE BONDS		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2008	\$475,000	\$338,250	\$813,250	\$465,000	\$416,510	\$881,510	\$1,015,000	\$334,450	\$1,349,450	\$1,955,000	\$1,089,210	\$3,044,210
2009	\$475,000	\$326,375	\$801,375	\$475,000	\$402,560	\$877,560	\$480,000	\$293,850	\$773,850	\$1,430,000	\$1,022,785	\$2,452,785
2010	\$475,000	\$313,075	\$788,075	\$490,000	\$387,123	\$877,123	\$570,000	\$274,650	\$844,650	\$1,535,000	\$974,848	\$2,509,848
2011	\$500,000	\$298,350	\$798,350	\$505,000	\$369,973	\$874,973	\$805,000	\$251,850	\$1,056,850	\$1,810,000	\$920,173	\$2,730,173
2012	\$500,000	\$281,600	\$781,600	\$520,000	\$351,035	\$871,035	\$770,000	\$219,650	\$989,650	\$1,790,000	\$852,285	\$2,642,285
2013-17	\$2,875,000	\$1,116,750	\$3,991,750	\$2,875,000	\$1,429,175	\$4,304,175	\$2,880,000	\$699,350	\$3,579,350	\$8,630,000	\$3,245,275	\$11,875,275
2018-22	\$3,650,000	\$487,037	\$4,137,037	\$3,460,000	\$793,462	\$4,253,462	\$1,580,000	\$98,000	\$1,678,000	\$8,690,000	\$1,378,499	\$10,068,499
2023-24	-	-	-	\$1,590,000	\$103,200	\$1,693,200	-	-	-	\$1,590,000	\$103,200	\$1,693,200
	<u>\$8,950,000</u>	<u>\$3,161,437</u>	<u>\$12,111,437</u>	<u>\$10,380,000</u>	<u>\$4,253,038</u>	<u>\$14,633,038</u>	<u>\$8,100,000</u>	<u>\$2,171,800</u>	<u>\$10,271,800</u>	<u>\$27,430,000</u>	<u>\$9,586,275</u>	<u>\$37,016,275</u>

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2007**

Note 3. B. Liabilities (continued)

YEAR	1996 G.O. WASTE WATER REVENUE NOTE			1998 DRINKING WATER REVENUE NOTE			TOTAL REVENUE NOTES		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2008	\$216,727	\$65,613	\$282,340	\$925,000	\$321,204	\$1,246,204	\$1,141,727	\$386,817	\$1,528,544
2009	\$223,014	\$59,327	\$282,341	\$910,000	\$289,014	\$1,199,014	\$1,133,014	\$348,341	\$1,481,355
2010	\$229,483	\$52,858	\$282,341	\$960,000	\$257,346	\$1,217,346	\$1,189,483	\$310,204	\$1,499,687
2011	\$236,139	\$46,201	\$282,340	\$915,000	\$223,938	\$1,138,938	\$1,151,139	\$270,139	\$1,421,278
2012	\$242,989	\$39,351	\$282,340	\$515,000	\$192,096	\$707,096	\$757,989	\$231,447	\$989,436
2013-17	\$1,183,682	\$86,849	\$1,270,531	\$4,370,000	\$552,798	\$4,922,798	\$5,553,682	\$639,647	\$6,193,329
2018	-	-	-	\$635,000	\$22,098	\$657,098	\$635,000	\$22,098	\$657,098
	<u>\$2,332,034</u>	<u>\$350,199</u>	<u>\$2,682,233</u>	<u>\$9,230,000</u>	<u>\$1,858,494</u>	<u>\$11,088,494</u>	<u>\$11,562,034</u>	<u>\$2,208,693</u>	<u>\$13,770,727</u>

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

Current Refunding Bond Issue

Regional Water issued a \$8,985,000 fixed rate revenue bond on February 1, 2007 to refund \$2,175,000 of outstanding 1997 fixed rate revenue bonds on May 14, 2007; and to advance refund \$6,700,000 of outstanding 2000 fixed rate revenue bonds on June 1, 2007. The amount remaining to be paid on the 2000 revenue bonds at December 31, 2007, was \$6,325,000. The proceeds of the current refunding bonds were used to retire the refunded bonds. As a result, the refunded bonds were 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, 2007**

Note 3. B. Liabilities (continued)

ii. Claims and Judgments

Claims and judgment expenses and liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. These liabilities include an estimate of claims furnished by Risk Management that have been incurred but not reported. At December 31, 2007, the claims and judgments liability was \$2,754,022.

iii. Compensated Absences

Included in Regional Water's debt are compensated absences for \$1,636,640.

2. Bonds Payable By Issue

<u>Issue</u>	<u>Issue Rate And Dates</u>	<u>Issue Dates</u>	<u>Final Maturity Date</u>	<u>Amount Outstanding</u>
Revenue	3.86%; 06/01; 12/01	03/01/03	12/01/22	\$ 8,950,000
Revenue	4.20%; 06/01; 12/01	03/24/05	12/01/24	10,380,000
Revenue	4.06%; 06/01; 12/01	02/14/07	12/01/19	<u>8,100,000</u>
Total				<u>\$27,430,000</u>

3. Notes Payable By Issue

<u>Issue</u>	<u>Issue Rate And Dates</u>	<u>Issue Date</u>	<u>Final Maturity Date</u>	<u>Amount Outstanding</u>
Wastewater Treatment Water Revenue Note	2.88%; 02/20; 8/20	06/26/96	02/20/17	\$ 2,332,034
Drinking Water Revenue Note	3.45%; 6/01; 12/01	12/01/98	12/01/18	<u>9,230,000</u>
Total				<u>\$11,562,034</u>

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2007**

Note 3. Detail Notes (continued)

C. Due From Primary Government

At December 31, 2007, 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 & Recreation Capital Projects	Capital Projects Fund	\$ 947
Sewer Utility	Enterprise Fund	60,984
Public Works Administration	Internal Service Fund	<u>24,972</u>
Total		<u>\$86,903</u>

D. Due To Primary Government

At December 31, 2007, 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	\$ 28,556
RiverPrint Saint Paul/Ramsey County	Enterprise Fund	30,333
Sewer Utility	Enterprise Fund	2,727,014
General Fund	General Fund	7,833
Public Works Equipment	Internal Service Fund	47,284
Public Works Traffic, Signal, & Light Maint.	Internal Service Fund	10,716
Right of Way Maintenance	Special Revenue Fund	3,748
Special Projects-General Government	Special Revenue Fund	<u>46,849</u>
Total		<u>\$2,902,333</u>

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

\$2.25 per regular sewer bill transaction
\$0.92 per rainleader transaction

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2007**

Note 4. Other Information

A. Pension Plans

Regional Water employees are employees of the City of Saint Paul and participate in the Coordinated Plan of the Public Employees Retirement Association (PERA). This plan requires contributions from the employer and employee. The Coordinated Plan requires participation by the employer and employee in the Social Security System. The employer's share of these PERA plans is paid by Regional Water and is included in the financial statements as an operating expense. Regional Water's total employer's shares for the years ended December 31, 2007, 2006, and 2005 were \$777,087, \$756,377, and \$648,531 respectively. The corresponding total employee's shares were \$714,920, \$693,345, and \$598,103. 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, 2007.

B. Post-Employment Benefits Other than Pensions

Plan Description

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

Benefits Provided

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

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

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2007**

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

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

Health Care Benefit

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

Membership

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

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

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

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2007**

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

Funding Policy

Retiree health care benefits are currently funded based on the benefit disclosed above on a pay-as-you-go basis. Regional Water may change the funding policy at any time. The average monthly premium contributions for 2007 were as follows:

	<u>Age</u>	<u>Average Monthly Regional Water Contribution</u>	<u>Average Monthly Retiree Contribution</u>
Health Insurance	Less than 65	\$331	\$235
	65 and older	\$283	\$16
Life Insurance	Less than 65	\$2	\$0
	65 and older	Not applicable	Not applicable

These plans are fully insured.

The expenses for these post-employment benefits are recognized as premiums and are paid to the insurers. For Regional Water, the 2007 expense totaled \$638,764 for approximately 184 retirees. Retirees contributed \$117,610; active employees do not contribute to the plan until retirement.

Annual OPEB Costs and Net OPEB Obligation

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

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Employer Contribution</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
December 31, 2007	\$ 1,283,314	\$ 690,012	53.8%	\$ 593,302

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2007**

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

The net OPEB obligation (NOPEBO) as December 31, 2007 was calculated as follows:

Annual Required Contribution (ARC)	\$ 1,283,314
Interest on Net OPEB Obligation	-
Adjustment to Annual Required Contribution	-
Annual OPEB Cost	1,283,314
Contributions Made:	
Direct	638,720
Indirect Implicit Subsidy	51,292
Total Contributions Made	690,012
Increase (Decrease) in Net OPEB Obligation	593,302
Net OPEB Obligation Beginning of Year	-
Net OPEB Obligation End of Year	\$ 593,302

Funded status and funding progress

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

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

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

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

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2007**

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

Actuarial Methods and Assumptions

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

In the September 30, 2006 actuarial valuation the projected unit credit actuarial cost method was used. The actuarial assumptions included 5.25% discount rate and an annual healthcare cost trend rate of beginning at 9.0% for fiscal year 2007 and declining over 8 years by 0.5% per year to 5.0%. Both rates include a 3.0% inflation assumption. The actuarial value of assets was not determined, as Regional Water has not advance-funded its obligation. The plan's unfunded actuarial accrued liability is being amortized as a level dollar amount over 30 years. The remaining amortization period at December 31, 2007, was 29 years.

C. Risk Management

Regional Water is exposed to various risks of losses related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters. Regional Water utilizes the services of the City Attorney's Office, the City's Division of Real Estate, and the City's Risk and Employee Benefit Management Division to manage its risks. Regional Water is self-insured for general liability obligations. Commercial insurance or surety bonds are carried for employee faithful performance, fire and all-risk property coverage, and workers' compensation reinsurance. There have been no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for any of the past three fiscal years.

A complete audit and actuarial analysis is conducted to insure proper premium, retention, and administrative charges. The following discloses the change in the balance of the claims liability during fiscal years 2006 and 2007:

	Year Ended <u>December 31, 2006</u>	Year Ended <u>December 31, 2007</u>
Beginning fiscal year liability	\$2,448,166	\$2,259,849
Current year claims and changes in estimates	645,831	1,288,514
Claim payments	<u>(834,148)</u>	<u>(794,341)</u>
End of year liability	<u>\$2,259,849</u>	<u>\$2,754,022</u>

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2007**

Note 4. Other Information (continued)

D. Contingent Liabilities

The Board of Water Commissioners, in connection with the normal conduct of its affairs, is involved in various judgments, claims, and litigations; it is expected that the final settlement of these matters will not materially affect the financial statements of Regional Water.

E. Joint Powers

The Vadnais Lake Area Water Management Organization (VLAWMO) was established during March 1987 by a joint powers agreement among the Cities of Gem Lake, Lino Lakes, North Oaks, Vadnais Heights, White Bear Lake, White Bear Township and Saint Paul Regional Water. The agreement was to establish an organization to jointly and cooperatively develop a surface water management plan for the Vadnais Lake area. Each member of the joint powers appoints one member to the governing board. Funding for VLAWMO is provided by assessments to the membership and grants. During 2007, Regional Water was assessed \$3,486. Financial information for VLAWMO can be obtained from its administrative office at 800 East County Road E, Vadnais Heights, Minnesota 55127.

The Ramsey County Geographic Information Systems (GIS) Users Group (Users Group) was established in 1995 by a joint powers agreement among public agencies interested in using GIS and data created and maintained by Ramsey County. The agreement was to enable those parties who are part of the Users Group to be represented by the Users Group for the purposes of undertaking negotiations and transactions with Ramsey County and any other body politic. Joining this group provides Regional Water staff the ability to share costs and information with over 23 cities, school districts, watersheds, utilities and other agencies within Ramsey County. Regional Water became part of the Users Group in January 2006 and was assessed \$1,850 for the year 2007. Financial information can be obtained from the City of Maplewood located at 1830 County Road B East, Maplewood, Minnesota 55109.

Regional Water, the City of Minneapolis, and the City of St. Cloud share a common surface water supply source, the Mississippi River, and because each city is required to prepare a Source Water Protection Program regarding the protection of this common source, the cities agree that it is advantageous to jointly investigate and review the necessary measures needed to protect the valuable drinking water source. Funding is provided from grants and contributions from the members. Regional Water paid \$20,000 during 2007. Financial information can be obtained from the City of St. Cloud located at 400 2nd Street South, St. Cloud, Minnesota 56301.

REQUIRED SUPPLEMENTARY INFORMATION

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
REQUIRED SUPPLEMENTARY INFORMATION
For the Fiscal Year Ended December 31, 2007**

Schedule 1

Schedule of Funding Progress ⁽¹⁾
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<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll Active Members</u>	<u>UAAL as a Percentage of Covered Payroll</u>
September 30, 2006	\$ -	\$ 14,931,911	\$ 14,931,911	0.0%	\$ 11,080,634	134.8%

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

⁽¹⁾ For information regarding the plan see Note 4.B. on pages 33-37.

Schedule 2

Schedule of Employer Contributions ⁽¹⁾
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<u>Fiscal Year Ended</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
December 31, 2007	\$1,283,314	53.8%

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

⁽¹⁾ For information regarding the plan see Note 4.B. on pages 33-37.

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