

CITY OF CHASKA

STATE OF MINNESOTA

**2003 COMPREHENSIVE
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED DECEMBER 31, 2003**

**CITY OF CHASKA
STATE OF MINNESOTA**

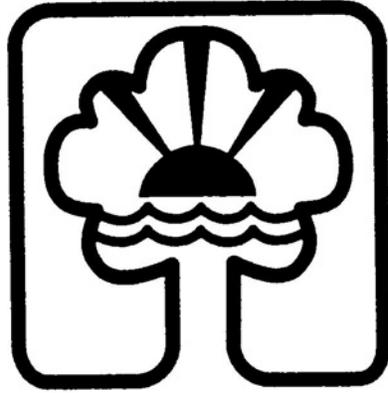
COMPREHENSIVE ANNUAL FINANCIAL REPORT

**FOR THE YEAR ENDED
DECEMBER 31, 2003**

Prepared by:
Administrative Services Department

Noel J. Graczyk
Administrative Services Director,
Treasurer

Barbara J. Hand
Assistant Finance Director



CHASKA

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City of Chaska, Minnesota

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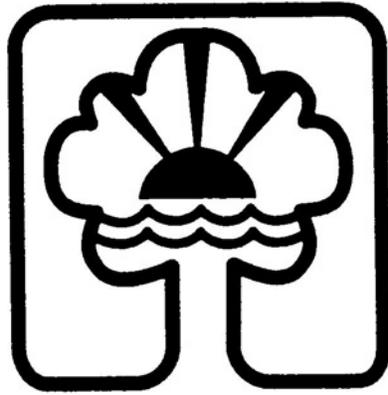
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CHASKA

June 30, 2004

**To the Citizens of the City of Chaska,
Honorable Mayor and Council Members,
Mr. Dave Pokorney, City Administrator**

State law requires that all general-purpose local governments publish each fiscal year a complete set of financial statements presented in conformity with U.S. generally accepted accounting principles (GAAP) and audited in accordance with U.S. generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the comprehensive annual financial report (CAFR) for the City of Chaska for the fiscal year ended December 31, 2003.

This report consists of management's representations concerning the finances of the City of Chaska. Consequently, management assumes full responsibility for the completeness and reliability of all the information presented in this report. To provide reasonable basis for making these representations, management of the City of Chaska has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City of Chaska's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City of Chaska's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City of Chaska's financial statements have been audited Malloy, Montague, Karnowski, Radosevich, & Co., P.A., a firm of licensed and certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Chaska for the fiscal year ended December 31, 2003 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial presentation. The independent auditor concluded, based upon the audit, that there was reasonable basis for rendering an unqualified opinion that the City of Chaska's financial statements for the fiscal year ended December 31, 2003, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City of Chaska's MD&A can be found immediately following the report of the independent auditors.

Profile of the Government

The City of Chaska was founded in 1851, incorporated March 3, 1891, and since 1975 has operated under a Statutory Plan “A” form of government, as modified, in accordance with Minnesota State Statutes Chapter 412.023, Subdivision 5. The Chaska City Council consists of a Mayor, with a two-year term of office, and four Council Members, each with a four-year term of office. Elections are held on the second Tuesday of November of each even-numbered year. No more than two Council Members’ terms expire in any one-year.

The City Administrator is appointed by the Chaska City Council and serves as the City Clerk. A City Attorney is retained and appointed by the Chaska City Council. The Administrative Service Director serves as the Treasurer.

The primary mission of the City of Chaska is to enhance and maintain the high quality of life of its “shareholders”, the citizens of Chaska, which has been nurtured in the community since its incorporation in 1851. Consistent with its mission, the City will strive to maintain its unique historical small town image and sense of community while supporting well-planned, orderly growth. To achieve it’s mission, the city has established five ongoing core strategies:

- Enhance Chaska’s high quality of life
- Plan orderly community development
- Maintain a sense of community and small town values
- Assure that quality basic municipal services are provided
- Maintain a commitment to excellence

The City of Chaska provides a full range of services, including police and fire protection; the construction and maintenance of highways, streets, and other infrastructure; and recreational activities and cultural events. The City also operates eight enterprises: an electric, water and sewer utility, a community center, two golf courses, a turbine generator utility and an internet service provider. In addition to these governmental and enterprise activities, the Chaska City Council serves as the board of the Chaska Economic Development Authority (EDA), the EDA is included in this report as a blended component unit.

The annual budget serves as the foundation for the City of Chaska’s financial planning and control. The objectives of these budgetary controls are to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the Chaska City Council. Activities of the General Fund and certain special revenue funds are included in the annual appropriated budget. Debt service budgetary control is established by bond sale resolution covenants. Project-length financial plans are adopted for capital projects funds. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is established at the fund level. Expenditures for departments or divisions that exceed appropriations are not authorized unless additional revenue sources or fund balance are identified and available. Unused appropriated expenditures lapse at year-end.

Factors Affecting Financial Condition

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City of Chaska operates.

Local economy. The City of Chaska currently enjoys a favorable economic environment and local indicators point to continued stability. The City is located on the Minnesota River approximately 18 miles southwest of the downtown area of Minneapolis. Access to the City from one of the “Twin Cities” areas, of either Minneapolis or St. Paul, is possible with interstate highway 494 and various state highways. Access to the downtown and other commercial and retail areas of Chaska will only be made easier in future years when Highway 312 is extended to Chaska.

The economic position of the City has continued to show strong gains through the City’s effort to increase economic development. One of the City’s current five-year priority goals is to pursue activities that will assist in the revitalization/expansion of the downtown commercial district. In the last fifteen years, 24 buildings have had storefront renovations, 292,000 square feet of new or renovated commercial space was added and 353 new living units were constructed. The Chaska Economic Development Authority has assumed a lead role in facilitating the downtown revitalization. The primary financing source for these activities will continue to be from tax increment financing, which allows the City to capture all new taxes generated by new development in excess of those previously collected in a tax increment district.

In early 2004, the City annexed Chaska Township, an area located immediately northwest of downtown Chaska. This area is 550 acres, which is guided for residential development. The economic vitality of downtown Chaska has been historically limited due to its proximity to the Minnesota River and the City’s westerly corporate limits. Due to these limitations, the downtown service radius is currently 56 percent of its optimum size. The annexation and development of adjacent Chaska Township would increase the downtown service radius to 74 percent of its optimum size. The addition of urban densities to the project area would be consistent with the downtown development pattern and would assist in the long-term economic preservation of downtown Chaska.

Long-term financial planning. Each year the City develops a five-year financial forecast. The primary purpose of the forecast is to project available revenues and anticipated expenditures for all operating funds supported by property tax levies. In addition, the forecast is used to establish the City’s maximum tax levy, which is required through the Truth in Taxation public hearing process. In preparing the five-year forecast, every attempt is made to accurately and conservatively estimate revenues and expenditures. The 2004-2008 forecast was developed based on the following five criteria:

1. Maintain existing service levels recognizing that certain service levels need to be increased based on population growth and increased demands.
2. Maintain a constant tax capacity rate through the planning period.
3. Fully fund replacement of the City’s existing capital investments.

4. Fund resources for new programs only after existing, necessary programs are funded.
5. Address the fiscal reality that the State of Minnesota will no longer financially partner with cities, and local government aid will be phased out by 2008.

Key factors which impact both the costs of providing services and the City's revenue resources are changes in Chaska's population and households. As the number of households in the community increases, there are increased demands for street maintenance, snow plowing, park usage, recreation, police calls, utility bills, etc. Population and household levels also impact expected revenues from utilities, local government aid, and property tax levies.

The 2004-2008 forecast reveals that the city can maintain its existing service levels within the forecasted revenues while at the same time maintaining a low property tax rate. In comparison, Chaska's tax levy is one of the lowest in the metropolitan area and significantly lower than neighboring communities. Results of customer service evaluations indicate that citizens are very happy with the level of services provided by the City.

Cash management policies and practices. Cash temporarily idle during the year was invested in accordance with Minnesota State Statutes and the City's investment policy. Investments were placed in demand deposits, certificates of deposits, obligations of the U. S. Treasury and U.S. Agencies, commercial paper and mutual funds.

At December 31, 2003, idle cash was invested as follows:

Mutual Funds	\$ 27,079,363
Investments Placed by City	
U. S. Government and Agencies	5,039,566
Commercial Paper	999,470
Negotiable Certificates of Deposit	988,459
Deposits and Petty Cash	2,105,368
Guaranteed Investment Contracts	12,385,162
Total Investments	\$ 48,597,388

The City's investment policy places a priority in safety and liquidity of principal over potential of additional yield. Thus, all deposits are insured or collateralized. All collateral for deposits was held in the City's name by a financial institution other than the depository. All investments are held by the City's agent during the year and at year-end.

Risk management. During 2003, the City continued to accumulate unreserved retained earnings in the Self Insurance Internal Service Fund in order to establish reserves for catastrophic losses. These designations are based on premiums returned to the City from the League of Minnesota Cities Insurance Trust (LMCIT) in the form of dividends. Reserves will be used to pay future deductible and claim costs.

Pension and other post-employment benefits. All full-time and certain part-time employees of the City are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the Public Employees Retirement Fund (PERF) and the Public Employees Police and Fire Fund (PEPFF) which are cost sharing multiple-employer retirement plans.

PERF members belong to a Coordinated Plan and are covered by Social Security. All police officers and peace officers that qualify for membership by statute are covered by the PEPFF.

Minnesota State Statutes, Chapters 353 and 356 set the rates for the employer and employee contributions. The City makes annual contributions to the pension plans equal to the amount required by state statutes. PERA does not make separate measurements of assets and pension benefit obligation for individual employers.

The City also makes contributions to the Chaska Fire Department Relief Association (CFDRA) based on statutory funding requirements and an agreement between the City and the CFDRA. The CFDRA operates a single employer public employee retirement plan for volunteer fire fighters.

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a certificate of Achievement for Excellence in Financial Reporting to the City of Chaska for its comprehensive annual financial report (CAFR) for fiscal year ended December 31, 2002. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized CAFR whose contents conform to program standards. A CAFR must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The City of Chaska has received a Certificate of Achievement for the last fourteen consecutive years (fiscal years ended 1989-2002). We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to GFOA.

Acknowledgements

The preparation of this report was made possible by the dedicated service of the City staff, and in particular, members of the Administrative Service Department. Special recognition is in order to Ms. Barbara J. Hand, Assistant Finance Director, who is responsible for operational oversight of the financial system, closing adjustments, annual audit, and preparation of the CAFR. Recognition is also in order to Lisa M. Nelson, Accountant who assisted in the production of this report.

Letter Of Transmittal

City of Chaska, Minnesota

For the Year Ended December 31, 2003

I would like to express appreciation to Dave Pokorney, the City Administrator, and to the Honorable Mayor and Chaska City Council members for their interest and support in planning and conducting the financial operations of the City.

Respectfully Submitted,

Noel J. Graczyk
Administrative Services Director
Treasurer
City of Chaska

Barbara J. Hand
Assistant Finance Director
City of Chaska

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Chaska,
Minnesota

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2002

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

Organizational and Administrative Structure

City of Chaska

December 31, 2003

ORGANIZATIONAL STRUCTURE

City of Chaska Residents and Businesses

Elected Five Member City Council		
Appointed Boards <hr/> Planning Commission <hr/> Parks Recreation and Arts (Cable) <hr/> Human Rights Commission	Council Selected Outside Professional Advisors <hr/> Independent Financial Auditing Firm <hr/> Financial Consulting Firm <hr/> Engineering Consulting Firm	Appointed Positions <hr/> City Attorney <hr/> City Administrator (City Clerk)

ADMINISTRATIVE STRUCTURE [367 Employees (107-3-7-245)]

City Administrator (City Clerk) (1-0-0-0)

<p>Assistant to the Admin, Economic Development Coordinator (1-0-0-0)</p> <p>Administrative Services (11-3-0-0) (1-0-0-0) Administrative Services Director (Treasurer) (1-0-0-0) Assistant Finance Director (1-0-0-0) Accountant II (1-0-0-0) Senior Accounting Clerk (2-0-0-0) Accounting Clerk (1-0-0-0) Utility Billing Coordinator (1-1-0-0) Utility Account Clerk (1-2-0-0) Customer Service Representative (1-0-0-0) Information Systems Manager (1-0-0-0) Information Technology Technician</p> <p>Community Development (9-0-0-0) (2-0-0-0) Administrative Secretary (1-0-0-0) Administrative Support (1-0-0-0) Fire Marshall (1-0-0-0) Building Official (4-0-0-0) Inspector</p> <p>Planning Services (2-0-0-0) (1-0-0-0) Director of Planning and Development (1-0-0-0) City Planner</p> <p>Engineering Services (2-0-0-0) (1-0-0-0) City Engineer (1-0-0-0) Engineering Technician</p> <p>Police Services (24-3-0-0) [21 licensed officers] (1-0-0-0) Chief of Police (4-0-0-0) Patrol Sergeant (1-0-0-0) Detective Sergeant (1-0-0-0) Detective (3-0-0-0) School Resource Officer (11-0-0-0) Patrol Officer (1-3-0-0) Secretary (2-0-0-0) Community Service Officer</p> <p>Public Works Services (15-1-3-6) (1-0-0-0) Public Works Superintendent (1-0-0-0) Public Works Foreman (1-0-0-0) Park Leadworker (1-0-0-0) Mechanic Foreman (1-0-0-0) Mechanic (7-0-0-0) Maintenance III (1-0-0-0) Street Leadworker (2-0-0-0) Maintenance II (0-1-3-6) Laborer</p>	<p>Electric Utility Services (12-0-0-1) (1-0-0-0) Electrical Director (1-0-0-0) Inventory/Accounting Clerk (1-0-0-0) Electric Foreman (1-0-0-0) Lineworker I (3-0-0-0) Lineworker III (2-0-0-0) Apprentice Lineworker (1-0-0-0) Lead Lineworker (1-0-0-0) Metering/Substation Lineworker (1-0-0-0) Utility Service/Maintenance II (0-0-0-1) Laborer</p> <p>Water and Sewer Utility Services (8-0-0-1) (1-0-0-0) Utility Superintendent (3-0-0-0) Maintenance II (3-0-0-0) Maintenance III (1-0-0-0) Water/Sewer Foreman (0-0-0-1) Laborer</p> <p>Parks Recreation and Arts (16-1-0-178)</p> <p>Parks, Recreation and Arts Director (1-0-0-0)</p> <p>Parks Recreation and Arts (3-0-0-10) (1-0-0-0) Athletic Programmer (1-0-0-0) Recreation Program Support (1-0-0-0) Cable TV Coordinator (0-0-0-5) Rink Attendant, Outside (0-0-0-2) Camera Operator (0-0-0-3) Program Instructors</p> <p>Community Center (12-1-0-168) (1-0-0-0) Ice Arena Manager (1-0-0-0) Maintenance Supervisor (3-1-0-22) Custodian/Maintenance (1-0-0-0) Arts and Special Events Coordinator (1-0-0-0) Facility Coordinator (1-0-0-0) Aquatics Coordinator (1-0-0-0) Front Desk Supervisor (1-0-0-0) Front Desk Coordinator (1-0-0-0) Assistant Recreational Programmer (1-0-0-18) Cashier (0-0-0-11) Rink Attendant/Monitor/Referee (0-0-0-62) Lifeguard (0-0-0-9) Day Care (0-0-0-6) Gym Set-Up (0-0-0-40) Program Instructor</p> <p>Golf Courses (6-0-4-59)</p> <p>Golf Professional (1-0-0-0)</p> <p>Assistant Golf Professionals (1-0-1-0)</p> <p>Chaska Town Course (3-0-3-48) (1-0-0-0) Golf Superintendent (2-0-1-0) Greenskeeper (0-0-0-38) Course Staff (0-0-2-10) Seasonal Labor</p> <p>Chaska Par Thirty (1-0-0-11) (1-0-0-0) Greenskeeper (0-0-0-8) Course Staff</p>
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CHASKA VOLUNTEER FIRE DEPARTMENT

Chaska Volunteer Fire Department
 44 Active Volunteers

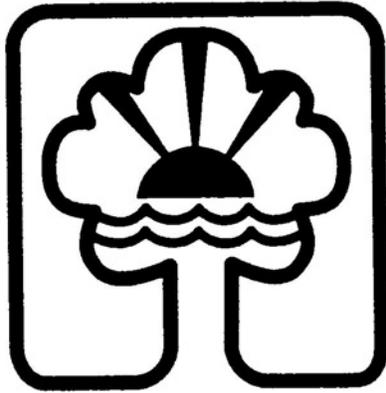
Key to Number of Employees:
 (Regular Full-Time - Regular Part-Time - Seasonal Full-Time - Seasonal Part-Time)

Elected Officials

MAYOR:	Term of Office	
	From	To
Gary F. Van Eyll, Council Member at Large	01-01-2003	12-31-2004
COUNCIL MEMBERS:		
Randy P. Maluchnik, First Ward	01-01-2003	12-31-2006
Robert J. Lindall, Second Ward	01-01-2001	12-31-2004
Chad R. Dockter, Third Ward	01-01-2003	12-31-2006
Jay W. Rohe, Fourth Ward	01-01-2001	12-31-2004

Administrative Officials

CITY STAFF:	NAME
City Administrator (City Clerk)	David Pokorney
Administrative Services Director (City Treasurer)	Noel Graczyk
Director of Planning and Development	Kevin Ringwald
City Engineer	William Monk
Chief of Police	Scott Knight
Fire Chief	Bruce Scheuing
Superintendent of Public Works	Timothy Wiebe
Director of Parks, Recreation & Arts	Thomas Redman
Electrical Director	Steve Wilker
Golf Professional	David Cahill
Executive Director of Chaska Economic Development Authority	David Pokorney
INDEPENDENT CONSULTANT:	
City Attorney	Luke Melchert



CHASKA

PRINCIPALS

Kenneth W. Malloy, CPA
Thomas M. Montague, CPA
Thomas A. Karnowski, CPA
Paul A. Radosevich, CPA
William J. Lauer, CPA
James H. Eichten, CPA

INDEPENDENT AUDITOR'S REPORT

City Council and Residents
City of Chaska, Minnesota

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Chaska, Minnesota (the City), as of and for the year ended December 31, 2003, which collectively comprise the City's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the City's 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 respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City at December 31, 2003, as well as the respective changes, where applicable, in financial position and cash flows thereof, and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the City has implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements—Management's Discussion and Analysis—for State and Local Governments*, as of and for the year ended December 31, 2003.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 29, 2004 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be read in conjunction with this report in considering the results of our audit.

(continued)

The Management's Discussion and Analysis (MD&A), which follows this report letter, is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. 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, accordingly, we express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City's basic financial statements. The Introductory Section, Combining and Individual Fund Financial Statements and Schedules, and Statistical Section as 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 Combining and Individual Fund Financial Statements and Schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The Introductory Section and Statistical Section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Malloy, Montague, Karnowski, Radosevich & Co., P.A.

April 29, 2004

This section of the City of Chaska's annual financial report presents management's discussion and analysis (MD & A) of the City's financial performance during the fiscal year that ended December 31, 2003. Please read it in conjunction with the transmittal letter at the front of this report and the City's financial statements, which follow this section. The MD & A is a new element of reporting required in GASB Statement No. 34. Certain comparative information between the current year and the prior year is required to be presented in the MD & A. Statement No. 34 does, however, permit the omission of prior year data in the first year of implementation. Therefore, the City of Chaska has elected not to prepare comparative data due to the cost of adjusting prior year's financial statements to the new reporting model. This comparative data will be presented beginning with the 2004 financial reports.

FINANCIAL HIGHLIGHTS

Government-wide

- The assets of the City exceeded liabilities by \$47.7 million.
- The City's total net assets increased by \$13.0 million during fiscal 2003. Net assets of governmental activities increased by \$13.8 million while net assets of the business-type activities reported a decrease of \$.8 million.

Fund Level

- The City's governmental funds reported combined ending fund balances of \$27 million.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$2.9 million, or 42% of total general fund expenditures of \$7.0 million.
- During the year, the City's governmental expenditures were \$5.3 million more than revenues before considering other financing sources and uses. The largest expenditure was the principal retirement on outstanding debt.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of a series of financial statements – the basic financial statements, the notes to the financial statements and other supplementary schedules that are in addition to the basic financial statements themselves.

The Basic Financial Statements.

The first two basic financial statements (Statement of Net Assets and Statement of Activities) report on the *City as a whole* (government-wide) and provide both long-term and short-term information about the City's overall financial status. (See detailed discussion below in the *Reporting the City as a Whole* section regarding these statements.) The remaining basic financial statements are *fund financial statements* that focus on individual parts of the City government, reporting the City's operations in more detail than the government-wide statements.

These fund financial statements can be divided into three categories: (See detailed discussion below in the *Fund Financial Statements* section regarding these fund types.)

1. Governmental funds.
2. Proprietary funds.
3. Fiduciary funds.

Notes to the financial statements.

The notes provide additional narrative and financial information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to financial statements are located immediately following Fiduciary Fund financial statements.

Other information.

In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary information. There is supplementary information that contains combining statements that report Nonmajor governmental funds, Nonmajor enterprise funds, and fiduciary funds.

REPORTING THE CITY AS A WHOLE

The Statement of Net Assets and the Statement of Activities

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the City's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the City's net assets and how they have changed. Net assets – the difference between the City's assets and liabilities – is one way to measure the City's financial health, or position.

- Over time, increases or decreases in the City's net assets are an indicator of whether its' financial health is improving or deteriorating, respectively.
- To assess the overall health of the City you need to consider additional non-financial factors such as changes in the City's property tax base and the condition of the City's roads.
- Governmental activities – Most of the City's basic services are included here, such as the police, fire, public works and parks departments, and general administration. Property taxes and state and federal grants finance most of these activities.
- Business-type activities – The City charges fees to customers to help it cover the costs of certain services it provides. The City's Electric, Water and Sewer Utilities, Chaska Community Center, Chaska Par 30, Chaska Town Course, Turbine Generator Utility and, Internet Service Provider are included here.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the City's most significant funds (major funds) – not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law and by bond covenants.
- The City Council establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The City has three broad categories of fund types:

1. ***Governmental funds*** – Governmental funds typically are used to account for tax-supported (governmental) activities. Most of the City's basic services are included in governmental funds, which focus on (a) how cash and other financial assets that can readily be converted to cash flow in and out and (b) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information on the subsequent page, that explains the relationship (or differences) between them. Governmental funds typically are used to account for tax-supported (governmental) activities. Information is presented separately in the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, the General Obligation Tax Increment Cross-Over Advanced Refunding Bond of 1999 and the TIF District #4 Revolving Capital Project Fund, all are considered to be major funds. Data from the remaining governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements towards the end of this report.
2. ***Proprietary funds*** – Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long and short-term financial information. In fact, the City's enterprise funds (one type of proprietary fund) are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The proprietary fund financial statements provide separate information for the Electric Utility, Water Utility, Chaska Community Center and Turbine Generator Utility, all of which are considered to be major funds. Individual fund data for each of the Nonmajor proprietary funds is provided in the form of combining statements towards the end of this report. Internal Service Funds are reported in a single column in the proprietary fund financial statements.
3. ***Fiduciary funds*** – Fiduciary funds account for assets held on behalf of outside parties, including other governments, or other funds within the City. The City's only fiduciary fund type is an agency fund. Agency funds account for assets that the City holds on behalf of others as their agent and are custodial in nature. All of the City's fiduciary

activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the City's government-wide financial statement because the City cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net Assets The City's combined net assets were \$47.7 million on December 31, 2003.

Table 1
City of Chaska's Net Assets

	Governmental Activities <u>2003</u>	Business-type Activities <u>2003</u>	Total <u>2003</u>
Current and other assets	41,278,863	55,548,005	96,826,868
Capital assets	<u>35,000,142</u>	<u>36,704,326</u>	<u>71,704,468</u>
Total assets	76,279,005	92,252,331	168,531,336
Long-term debt outstanding	67,610,514	49,054,970	116,665,484
Other liabilities	<u>1,738,758</u>	<u>2,459,481</u>	<u>4,198,239</u>
Total liabilities	69,349,272	51,514,451	120,863,723
Net assets:			
Invested in capital assets, net of related debt	12,017,122	31,567,896	43,585,018
Restricted	33,696,477	2,535,824	36,232,301
Unrestricted (defecit)	<u>(38,783,866)</u>	<u>6,634,160</u>	<u>(32,149,706)</u>
Total net assets	<u>\$ 6,929,733</u>	<u>\$ 40,737,880</u>	<u>\$ 47,667,613</u>

The City as a Whole –As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Chaska, assets exceeded liabilities by \$47.7 million on December 31, 2003. The City has restated beginning net assets as part of the implementation of GASB #34. (Further detail can be found in Note 1.) The City's improved financial condition at year-end is the product of many factors. The increase is primarily due to an increase in capital assets related to capturing infrastructure assets that were completed in 2003, along with contributions from developers of infrastructure assets. By far the largest portion of net assets (91%) reflects the City's investment in capital assets (e.g. land, buildings, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Chaska's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since capital assets themselves cannot be used to liquidate these liabilities.

The deficit in unrestricted net assets of \$32.1 million does not mean that the city lacks resources to pay its bills in the near future. This deficit reflects primarily two significant factors. First, the City issues general obligation tax increment bonds and distributes the proceeds to businesses to help finance redevelopment in areas of the City. These entities record the capital assets in their statements of net assets; however, the City is responsible for the repayment of the debt. The tax increment revenue that pays off the bonds is not recorded as revenue until the year that is collected. This practice allows the City to promote improved financial management by reducing bond issuance costs and obtaining more favorable financing arrangements. The second factor relating to the deficit is that the City reports the majority of the non-capital portion of net assets for most of its governmental activities' special revenue, debt service, and capital projects funds as restricted.

Governmental activities - 2003 is the first year the City of Chaska has implemented GASB Statement #34 (See the Notes to the Financial Statement for detailed discussion of GASB #34), which affects the way the City prepares and presents financial information. In accordance with GASB #34, the City of Chaska has chosen to report infrastructure assets prospectively beginning in the year of implementation (2003). The government-wide financial statements for governmental activities include infrastructure assets that were completed in 2003 only. The City will retroactively report (1981–2002) all major general infrastructure assets by December 31, 2007. Because of this prospective reporting, the City has not captured (as the business-type activities have) and reported all of the capital assets that have associated debt with them. Consequently, the liabilities (debt) are greater than the assets (capital), resulting in a low net asset number for governmental activities.

The City also cross advance refunded \$6,220,000 in General Obligation Tax Increment Bonds. The crossover date of this refunding is 12/1/04; as a result, the liability for both of these bonds is reported on the financial statements as of 12/31/03 along with cash held in escrow until that time.

Business-Type Activities - On May 1, 2003 the City issued \$15,150,000 in General Obligation Water Revenue Bonds to finance the City's water system including an expansion of its existing water treatment plant. Consequently, of the \$7.1 million in additions to capital assets, 79% of that is due to construction in progress related to the Water Treatment Plant. Also, long-term liabilities in the business-type activities increased due to the issuance of the Revenue Bonds. As of December 31, 2003, there was \$9.8 million in unspent bond proceeds.

Changes in net assets The City's combined change in net assets was \$13.0 million.

Table 2
City of Chaska's Changes in Net Assets

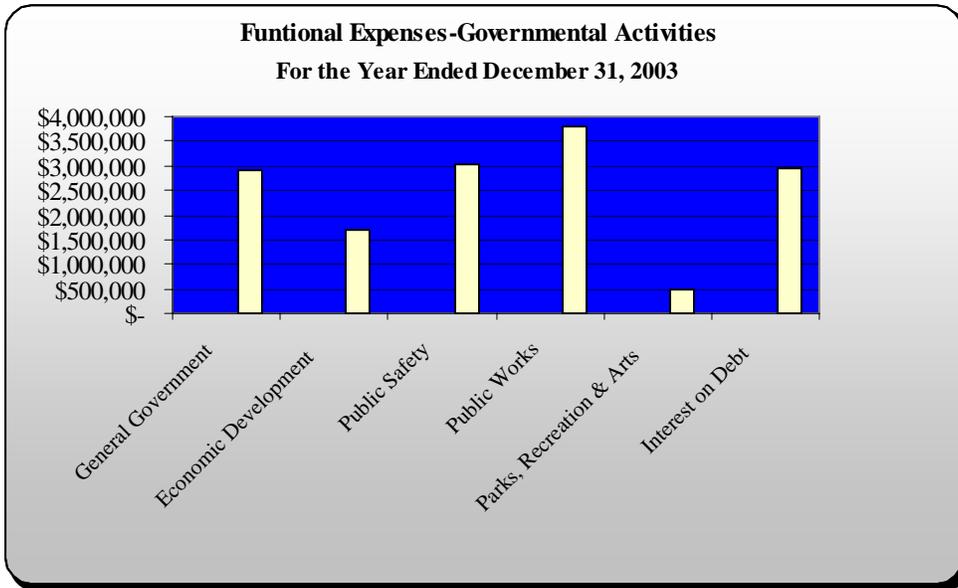
	Governmental Activities	Business-type Activities	Total
	<u>2003</u>	<u>2003</u>	<u>2003</u>
Revenues			
Program revenues:			
Charges for services	\$ 5,022,401	\$ 25,778,708	\$ 30,801,109
Operating Grants & Contributions	720,716	-	720,716
Capital Grants & Contributions	10,450,514	3,193	10,453,707
General revenues:			
Property taxes	5,864,191	-	5,864,191
Other taxes	1,723,232	-	1,723,232
Grants & Contributions Not Restricted	2,282,549	-	2,282,549
Other general revenues	868,297	870,462	1,738,759
Total revenues	<u>26,931,900</u>	<u>26,652,363</u>	<u>53,584,263</u>
Program expenses			
General Government	2,924,252	-	2,924,252
Economic Development	1,696,092	-	1,696,092
Public Safety	3,011,603	-	3,011,603
Public Works	3,806,878	-	3,806,878
Parks Recreation & Arts	493,107	-	493,107
Interest on long-term debt	2,968,040	-	2,968,040
Electric Utility	-	16,095,986	16,095,986
Water Utility	-	1,052,297	1,052,297
Sewer Utility	-	1,640,848	1,640,848
Community Center	-	2,662,699	2,662,699
Par 30	-	200,229	200,229
Chaska Town Course	-	1,668,554	1,668,554
Turbine Generator	-	2,077,396	2,077,396
Internet Service Provider	-	313,030	313,030
Total expenses	<u>14,899,972</u>	<u>25,711,039</u>	<u>40,611,011</u>
Excess (deficiency) before transfers	12,031,928	941,324	12,973,252
Transfers	<u>1,739,947</u>	<u>(1,739,947)</u>	<u>-</u>
Increase (decrease) in net assets	13,771,875	(798,623)	12,973,252
Net Assets, January 1	<u>(6,842,142)</u>	<u>41,536,503</u>	<u>34,694,361</u>
Net Assets, December 31	<u>\$ 6,929,733</u>	<u>\$ 40,737,880</u>	<u>\$ 47,667,613</u>

The City as a Whole

- The City as a whole had total revenues of \$53.5 million for the year ended December 31, 2003. Property taxes accounted for 11% of total revenue for the year.
- The total cost of all programs and services was \$40.6 million. The City's expenses are predominantly related to providing services (police, building inspections, street maintenance, snow removal, etc.) for the citizens of Chaska. The purely administrative activities of the City accounted for just 7% of total costs.

Governmental activities

- The major source of revenue in governmental activities is capital grants and contributions. The most significant source of revenue in this category is special assessment revenue that is used to build infrastructure in the City.
- In addition to special assessment revenue, property tax revenue accounts for 22% of all governmental activities revenue.
- The total costs of all programs and services were \$14.9 million. The cost of providing public safety and street maintenance/construction makes up 46% of this total.
- Total revenues surpassed expenses, increasing net assets by \$13.8 million.



Business-type activities

- Business-type activities had an excess of revenues over expenses before special items and transfers of \$941,324. After transfers were made (due mainly to budgeted support of governmental activities or debt service requirements) net assets decreased by \$798,623.
- \$870,462 of other general revenues consists primarily of investment earnings (534,936) and insurance proceeds (289,447).

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, the City of Chaska uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the City of Chaska's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the City of Chaska's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

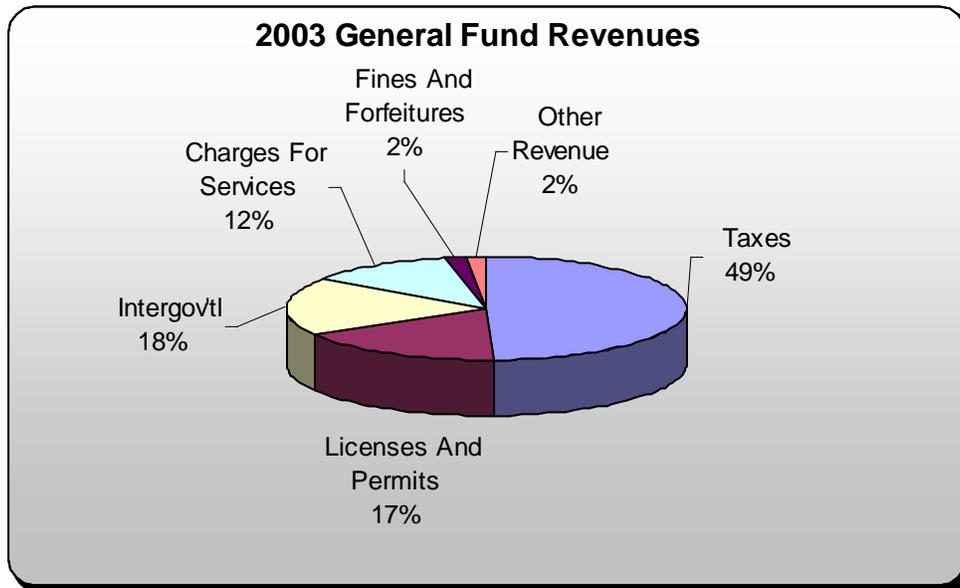
As the City completed the year, its governmental funds reported a combined fund balance of \$27.1 million.

Significant reservations of fund balances are: \$10.2 million for future debt service payments, and \$27.5 million for future construction. See Note 9 for more detail of reserved/unreserved fund balances.

Revenues for the City's governmental funds were \$21.7 million, while total expenses were \$27.0 million. During 2003, the City issued one crossover advanced refunding bond to be used for refunding existing general obligation bonds. This item was included in other financing sources and uses. As a result, the City completed the year with an increase in governmental fund balances of \$3.1 million

The **General Fund** is the chief operating fund of the City of Chaska. At the end of the current fiscal year, unreserved fund balance of the general fund was \$2.9 million. The fund balance of the City of Chaska's general fund increased by \$280,249. Key factors in the growth are:

- The most significant source of General Fund revenue is tax revenue. For 2003, tax revenue was \$3.6 million, \$2,403 more than the original and final budgeted amount.
- License and Permit revenue was \$1.2 million which was a \$261,000 positive variance over budget. Residential building permit activity remained high with 221 new single-family homes constructed in 2003, 20 more than 2002.
- The General Fund receives a transfer from the Turbine Fund of \$105,000 as part of continued financial support for governmental activities.



The **General Obligation Tax Increment Crossover Advanced Refunding Bond of 1999** had a large debt service principal payment in 2003 of \$2,575,000. This debt service fund will make its last principal payment of \$1,200,000 in 2004.

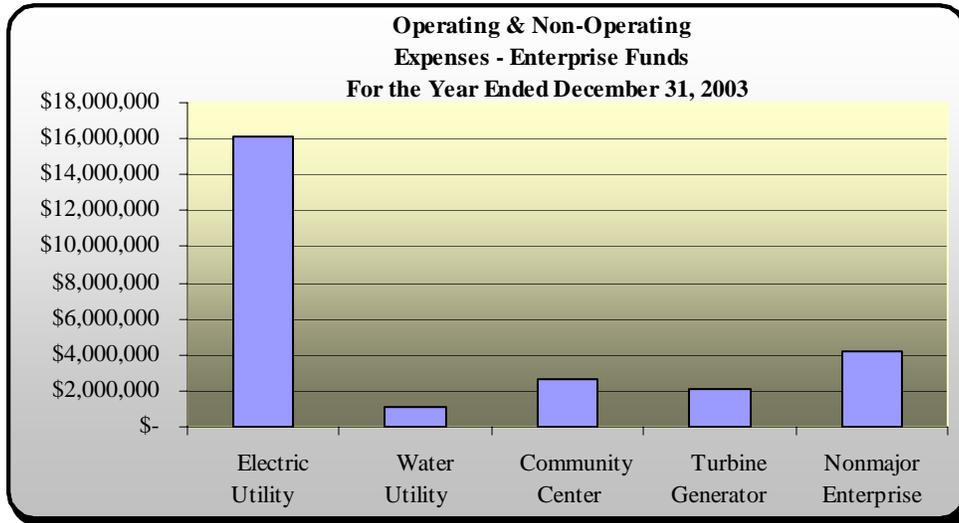
The **TIF District #4 Revolving** fund is the primary fund for collection of all tax increment revenue for all of District #4 projects, thereby producing a large revenue stream (\$3.6 million in tax increment revenue) for one particular fund. TIF District #4 Revolving Fund makes transfers out to other District #4 funds to cover project and debt service costs, therefore causing the deficit in this fund. An analysis of other revenue sources along with future tax increment revenues will reduce or eliminate this deficit in future years.

Proprietary Funds. The statements for proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

The combined change in net assets of enterprise funds was (\$848,485). Some of the reasons for this change in net assets are:

- As part of the budgeting process, when calculating what the fees will be for charge for service, depreciation expense is not considered. As a direct result of this process, the Chaska Community Center reports Operating Revenue of \$2.1 million and Operating Expense (without Depreciation) of \$2.0 million; resulting in operating income before depreciation of \$76,000. When factoring in depreciation expense (\$648,000), an operating loss results of (\$572,000).
- The Electric Fund had operating income of \$335,792. Much of this increase is attributable to Chaska's increasing utility customer base.
- The Water Fund had \$121,000 in investment earnings that represents earnings on bond proceeds that were placed in a guaranteed investment contract. These dollars are earnings that are restricted for use in building the new Water Treatment Plant.

- The Turbine Generator had a change in net assets of (\$16,356) due to originally scheduled 2003 lease revenue payments from Minnesota Municipal Power Agency (MMPA) being reduced due to a prior year overpayment.
- The Turbine Generator fund has restricted net assets of \$2.5 million, which represents a restriction for debt service.



General Fund Budgetary Highlights

The 2003 budget was based on certified local government aid of \$1,038,950 and following action taken in the 2003 Tax Bill, Chaska's 2003 certified aid was reduced to \$720,549. To implement this significant aid loss, measures taken were as follows:

1. Defer hiring new Public Works employee
2. Defer park capital improvement
3. Reduce pavement management maintenance expenditure
4. Eliminate appropriation for Commitment to Community Thinking Grant
5. Plan check fee increase
6. Defer replacement of Community Service Officer

The change in fund balance of \$0.00 for the original budget and (\$22,250) for the final budget is the result of the changes of expenditures and revenues mentioned above as well as additional maintenance responsibilities in the Public Works Department in the General Fund. In summary the changes from original to final budget are as follows:

Revenue adjustments (decrease)	(165,386)
Expenditure adjustments (decrease)	100,836
Transfer adjustments (increase)	<u>42,300</u>
Final budget - Change in Fund Balance	<u>(\$22,250)</u>

While the City's final budget for the general fund anticipated that expenditures would exceed revenues by \$22,250, the City's general fund actually had an excess of revenues over expenditures of \$280,249.

- Total revenues were \$347,427 more than expected, due largely to the increase in permit revenue as discussed above.
- The actual expenditures were \$46,899 more than final budget due to an increase in personnel costs in Public Safety.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As shown in Table 3 below, at the end of 2003, the City had \$71.7 million invested in a broad range of capital assets, including police and fire equipment, buildings, park facilities and electric and water and sewer lines. More detailed information on the City of Chaska's capital assets can be found in **Note 5** of the basic financial statements.

**Table 3
Capital Assets at Year-end
Net of Depreciation**

	Governmental Activities <u>2003</u>	Business-type Activities <u>2003</u>	Total <u>2003</u>
Land	\$ 4,011,024	\$ 364,805	\$ 4,375,829
Works of Art/Historical Treasures	25,425	-	25,425
Buildings	6,970,294	20,505,098	27,475,392
Improvements Other than Bldgs	3,340,033	154,843	3,494,876
Equipment	2,719,184	1,555,399	4,274,583
Infrastructure	6,462,434	7,994,742	14,457,176
Construction in Progress	11,471,748	6,129,439	17,601,187
Totals	<u>\$ 35,000,142</u>	<u>\$ 36,704,326</u>	<u>\$ 71,704,468</u>

This year's major additions included:

\$2,699,000	• Hundertmark Road Improvements paid for with proceeds of General Obligation bonds issued in 2000
6,042,000	• Construction on the Water Treatment Plant
1,092,000	• Victoria Field Test well
2,512,000	• Pioneer Widening at Commons was paid for with proceeds of General Obligation Bonds issued in 2001
437,000	• Park improvements
<u>6,287,000</u>	• Streets, water mains and hydrants constructed and contributed by developers
<u>\$19,069,000</u>	

The City's fiscal-year 2004 capital budget calls for it to spend another approximately \$24,639,698 for capital projects, principally for First and Hickory street reconstruction, paving of Bavaria Road, and continuing the construction of the Water Treatment Plant.

Long-Term Debt

At year-end, the City had \$115.8 million in bonds and notes outstanding, as shown in Table 4. More detailed information about the City's long-term liabilities is presented in **Note 7** to the financial statements.

Table 4
City of Chaska's Outstanding Debt
 (Does Not Include Premiums or Compensated Absences)

	Governmental Activities <u>2003</u>	Business-type Activities <u>2003</u>	Total <u>2003</u>
General Obligation Bonds (Backed by the City)	\$ 760,000	\$ 15,265,000	\$ 16,025,000
General Obligation TI Bonds (Backed by the City)	44,762,133	-	44,762,133
General Obligation Improvement Debt (Backed by the City)	8,275,000	-	8,275,000
Revenue bonds and notes (Backed by specific tax and fee revenues)	13,270,000	33,545,000	46,815,000
Totals	\$ 67,067,133	\$ 48,810,000	\$ 115,877,133

New debt resulted from issuing \$15.1 million in GO Water Revenue bonds for the new Water Treatment Plant. In addition, to improve cash flow and to take advantage of lower interest rates, the City's management issued \$6.2 million of general obligation tax increment crossover refunding debt. The purpose of the refunding is to enable the City to achieve a debt service savings of \$254,550, a present value savings of \$240,183. The maturity date of the new bonds is December 1, 2006. The City continues to pay down its debt, retiring \$10.1 million of outstanding bonds and other long-term debt in 2003.

The City of Chaska's general obligation bonds carry a rating, as of last review, of an A by Standard and Poor's Corporation and a Baa rating by Moody's Investors Services. The City's Electric revenue bonds were rated an A by Standard and Poor's and A3 by Moody's.

Under Minnesota State Statutes, the general obligation bonded debt issued by the City is subject to a legal debt limitation based on 2% of market value. At December 31, 2003, the City's legal debt limit was \$25,469,069. The statutes provide that debt issues supported by tax increment, special assessment revenues or available dedicated reserves are excluded from the total limited debt.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

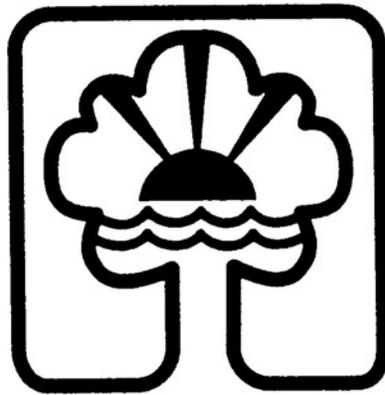
The City's elected and appointed officials considered many factors when setting the fiscal year 2004 budget. One of the key factors that impact both the costs of providing services and the City's revenue resources is a change in Chaska's population and households. As the number of households in the community increases, there are increased demands for street maintenance, snow plowing, park usage, recreation, police calls, utility bills, etc. Population and household levels also impact expected revenues from utilities, local government aid, and property tax levies. A significant evolving trend is the increased rate of residential development in the City. Through the past decade, Chaska's residential development has remained relatively stable with an average of 200 new living units per year. Chaska's population has increased from 11,339 in 1990 to 18,960 in 2002. Over the past two years, in excess of 2200 new living units have been approved within new residential subdivisions. In addition, the type of development has shifted from detached single-family homes as the primary new living unit design to townhouses or nontraditional smaller detached single-family homes. Based on these trends, we are now estimating that 500 new living units will be added annually to Chaska's housing stock through the coming five-year period. Population is forecast to increase to 27,200 by 2008.

These indicators were taken into account when adopting the General Fund budget for 2004. Projected revenues and other financing sources available for appropriation in the General Fund budget are \$7,376,612, an increase of 5.30% over the final 2003 budget of \$7,005,439. Property taxes, licenses and permits and franchise fees are expected to lead this increase. The City will use these increases in revenues to finance programs we currently offer and the effect that we expect inflation to have on program costs. Budgeted expenditures are expected to rise nearly 5.7% to \$7,376,612, an increase of \$396,623 over the final 2003 budget. General assumptions that were used to calculate general fund expenditures were:

- On average, personnel costs would increase at an overall rate of 3% annually.
- Operating costs would increase at a rate of 2%, which is slightly less than the rate of inflation.
- The City would maintain its current levels of service and implement additional personnel and programs as outlined in the five-year plan.
- The City would fully fund its equipment replacement schedule.
- Debt service costs for new facilities, particularly those for the fire station and an addition to the municipal services building will be funded from sources other than general property tax levies.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City of Chaska's Administrative Services Department.



CHASKA