



PRINCIPALS

Thomas M. Montague, CPA  
Thomas A. Karnowski, CPA  
Paul A. Radosevich, CPA  
William J. Lauer, CPA  
James H. Eichten, CPA  
Aaron J. Nielsen, CPA  
Victoria L. Holinka, CPA

INDEPENDENT AUDITOR'S REPORT

To the City Council and Management  
City of Chaska, Minnesota

**REPORT ON THE FINANCIAL STATEMENTS**

We have audited the financial statements of the governmental activities, the 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, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

**MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**AUDITOR'S RESPONSIBILITY**

Our responsibility is to express opinions 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

(continued)

## **OPINIONS**

In our opinion, the financial statements referred to on the previous page 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 as of December 31, 2013, the respective changes in financial position and, where applicable, cash flows thereof, and the budgetary comparison for the General Fund for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

## **OTHER MATTERS**

### **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the Required Supplementary Information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Other Information**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual fund statements and schedules, and the statistical section, as listed in the table of contents, are presented for purposes of additional analysis and are not required parts of the basic financial statements.

The combining and individual fund statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund statements and schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

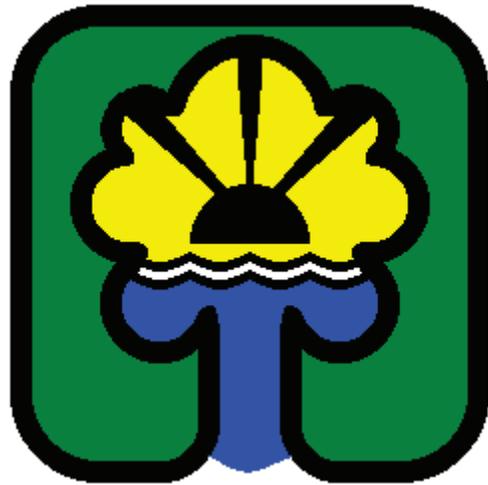
(continued)

**OTHER REPORTING REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 26, 2014 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

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

Minneapolis, Minnesota  
June 26, 2014



**CHASKA**

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, 2013. 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.

### **FINANCIAL HIGHLIGHTS**

#### **Government-wide**

- The assets of the City exceeded liabilities by \$185.4 million.
- The City's total net position increased by \$5.1 million or 2.8%. Net position of governmental activities increased by \$3.2 million while net position of business-type activities increased by \$1.9 million

#### **Fund Level**

- The City's governmental funds reported combined ending fund balances of \$16.8 million.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$2.0 million, or 17.2% of total general fund expenditures of \$11.4 million.
- During the year, the City's governmental revenues were \$1.5 million less than expenditures before considering other financing sources and uses. The largest expenditures were principal retirement on outstanding debt and public works related activities and projects.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report consists of a series of financial statements – the basic financial statements, which includes 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 Position 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 on the following page 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 on the following page 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 required supplementary information concerning the City of Chaska's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found on page 87 of this report.

**REPORTING THE CITY AS A WHOLE**

**The Statement of Net Position 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 position includes all of the City's assets, deferred outflows of resources, liabilities, and deferred inflows of resources. 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 position and how it has changed. Net position – the difference between the City's assets, deferred outflows of resources, liabilities and deferred inflows of resources – is one way to measure the City's financial health, or position.

- Over time, increases or decreases in the City's net position 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, Sewer, and Storm Water Utilities, Chaska Community Center, Par 30 Golf Course, 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. Information is presented separately in the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances for funds determined to be major funds. In 2013 the City's major funds are: the General Fund, TIF District #4 Revolving Capital Project Fund, and TIF District #14 Downtown Redevelopment Capital Project Fund. 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. The City has one Internal Service Fund that is reported in a single column in the proprietary fund financial statements and is used to account for the purchase of property, liability, and worker's compensation insurance for all City departments. Costs are then allocated to the departments.

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 position. 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 Position** The City’s combined net position was \$185.4 million on December 31, 2013.

**Table 1**  
**City of Chaska's Net Position**

	Governmental Activities		Business-Type Activities		Total	
	2013	2012 (As Restated)	2013	2012 (As Restated)	2013	2012 (As Restated)
Current and Other Assets	\$ 33,517,626	\$ 36,138,875	\$ 50,494,884	\$ 49,458,667	\$ 84,012,510	\$ 85,597,542
Capital Assets	144,056,409	144,424,570	47,614,092	43,554,771	191,670,501	187,979,341
Total Assets	177,574,035	180,563,445	98,108,976	93,013,438	275,683,011	273,576,883
Noncurrent Liabilities	32,662,158	38,271,706	50,259,897	48,051,848	82,922,055	86,323,554
Other Liabilities	3,197,750	3,791,154	4,200,249	3,224,051	7,397,999	7,015,205
Total Liabilities	35,859,908	42,062,860	54,460,146	51,275,899	90,320,054	93,338,759
Net Position:						
Net Investment in						
Capital Assets	118,818,535	120,219,510	25,818,904	25,075,383	144,637,439	145,294,893
Restricted	25,069,356	24,295,547	4,451,868	3,396,858	29,521,224	27,692,405
Unrestricted (deficit)	(2,173,764)	(6,014,472)	13,378,058	13,265,298	11,204,294	7,250,826
Total Net Position	\$ 141,714,127	\$ 138,500,585	\$ 43,648,830	\$ 41,737,539	\$ 185,362,957	\$ 180,238,124

This table was restated as a result of the change in accounting principle reported in 2013.

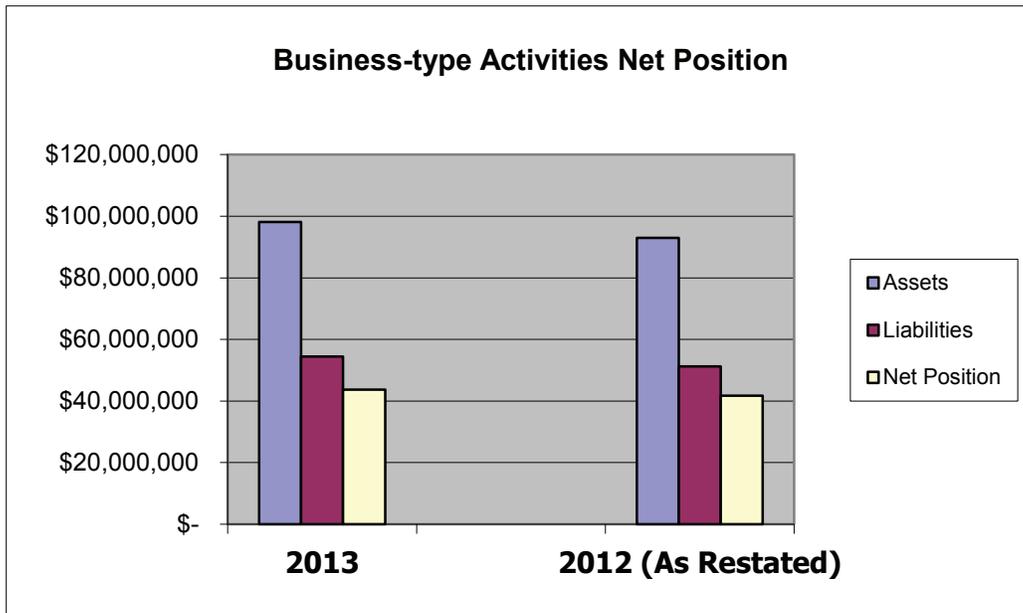
**The City as a Whole** –As noted earlier, net position may serve over time as a useful indicator of a government’s financial position. In the case of the City of Chaska, assets exceeded liabilities by \$185.4 million on December 31, 2013, which represents an overall improvement of \$5.1 million.

By far the largest portion of net position (78.0% of net position) 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.

An additional portion of the City’s net position (\$29,521,224) represents resources that are subject to external restriction on how they may be used. After restrictions, the City is reporting \$11,204,294 of unrestricted net position.

**Governmental activities** – Total net position of Governmental Activities increased \$3.2 million. In 2013, the City paid down debt and notes payable resulting in a reduction in non-current liabilities of \$5.6 million. This decrease in liabilities was offset by a decrease in current assets of \$2.6 million. As of year-end, the City has restricted \$14.4 million in net position for debt service requirements and \$7.1 million for Economic Development.

**Business-type activities** – In 2013, net position increased by \$1.9 million for business-type activities. This change is comprised of several factors including an increase in capital assets of \$4.1 million and an increase in current assets of \$1.0 million. Liabilities increased 3.2 million. The change in capital assets is related to construction in progress for Community Center improvements and a new utility metering system. The increase in liabilities is due to an increase in accounts payable and issuance of bonds.



**Management's Discussion and Analysis**

**City of Chaska, Minnesota**

**For the Year Ended December 31, 2013**

**Change in Net Position** The City's combined change in net position was an increase of \$5.1 million.

**Table 2  
City of Chaska's Changes in Net Position**

	Governmental Activities		Business-Type Activities		Total	
	2013	2012 (As Restated)	2013	2012 (As Restated)	2013	2012 (As Restated)
<b>Revenues</b>						
Program Revenues:						
Charges for Services	\$ 4,650,474	\$ 3,441,249	\$ 47,365,912	\$ 45,570,920	\$ 52,016,386	\$ 49,012,169
Operating Grants & Contributions	1,234,843	514,856	-	-	1,234,843	514,856
Capital Grants & Contributions	5,285,987	4,039,456	351,542	139,416	5,637,529	4,178,872
General Revenues:						
Property Taxes	10,104,762	10,507,231	-	-	10,104,762	10,507,231
Franchise Taxes	3,355,672	3,225,821	-	-	3,355,672	3,225,821
Grants & Contributions Not Restricted	58,761	62,608	-	-	58,761	62,608
Other General Revenues	308,890	631,443	552,968	510,762	861,858	1,142,205
<b>Total Revenues</b>	<b>24,999,389</b>	<b>22,422,664</b>	<b>48,270,422</b>	<b>46,221,098</b>	<b>73,269,811</b>	<b>68,643,762</b>
<b>Program Expenses</b>						
General Government	4,590,619	3,965,035	-	-	4,590,619	3,965,035
Economic Development	1,445,963	1,157,730	-	-	1,445,963	1,157,730
Public Safety	4,705,235	4,370,823	-	-	4,705,235	4,370,823
Public Works	9,758,311	7,789,049	-	-	9,758,311	7,789,049
Parks, Recreation & Arts	779,705	727,482	-	-	779,705	727,482
Interest on Long-term Debt	1,361,830	1,419,848	-	-	1,361,830	1,419,848
Electric	-	-	31,058,570	29,362,666	31,058,570	29,362,666
Water	-	-	2,794,378	2,545,714	2,794,378	2,545,714
Sewer	-	-	2,843,831	2,725,405	2,843,831	2,725,405
Community Center	-	-	3,854,763	3,860,960	3,854,763	3,860,960
Par 30 Golf Course	-	-	151,575	186,681	151,575	186,681
Chaska Town Course	-	-	2,148,077	2,034,790	2,148,077	2,034,790
Turbine Generator	-	-	1,505,608	1,534,229	1,505,608	1,534,229
Internet Service Provider	-	-	604,813	665,909	604,813	665,909
Storm Water	-	-	541,700	586,774	541,700	586,774
<b>Total Expenses</b>	<b>22,641,663</b>	<b>19,429,967</b>	<b>45,503,315</b>	<b>43,503,128</b>	<b>68,144,978</b>	<b>62,933,095</b>
Excess (Deficiency) Before Transfers	2,357,726	2,992,697	2,767,107	2,717,970	5,124,833	5,710,667
Transfers	855,816	758,219	(855,816)	(758,219)	-	-
Increase (Decrease) in Net Position	3,213,542	3,750,916	1,911,291	1,959,751	5,124,833	5,710,667
Net Position, January 1, As Restated	138,500,585	134,749,669	41,737,539	39,777,788	180,238,124	174,527,457
<b>Net Position, December 31</b>	<b>\$141,714,127</b>	<b>\$138,500,585</b>	<b>\$ 43,648,830</b>	<b>\$ 41,737,539</b>	<b>\$185,362,957</b>	<b>\$180,238,124</b>

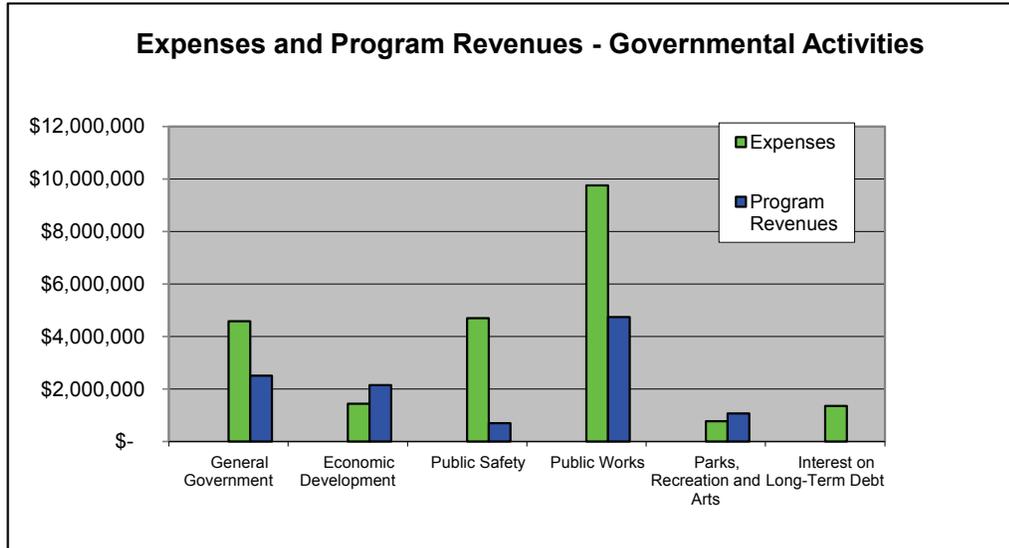
This table was restated as a result of the change in accounting principle reported in 2013.

***The City as a Whole***

- The City as a whole had total revenues of \$73.3 million for the year ended December 31, 2013, an increase of \$4.6 million from 2012.
- The total cost of all programs and services was \$68.1 million. The City's expenses are predominantly related to providing services (police, purchasing power for electric service, building inspections, street maintenance, snow removal, etc.) for the citizens of Chaska. The purely administrative activities of the City accounted for 6.7 % of total costs, as compared to 6.3% of total last year.

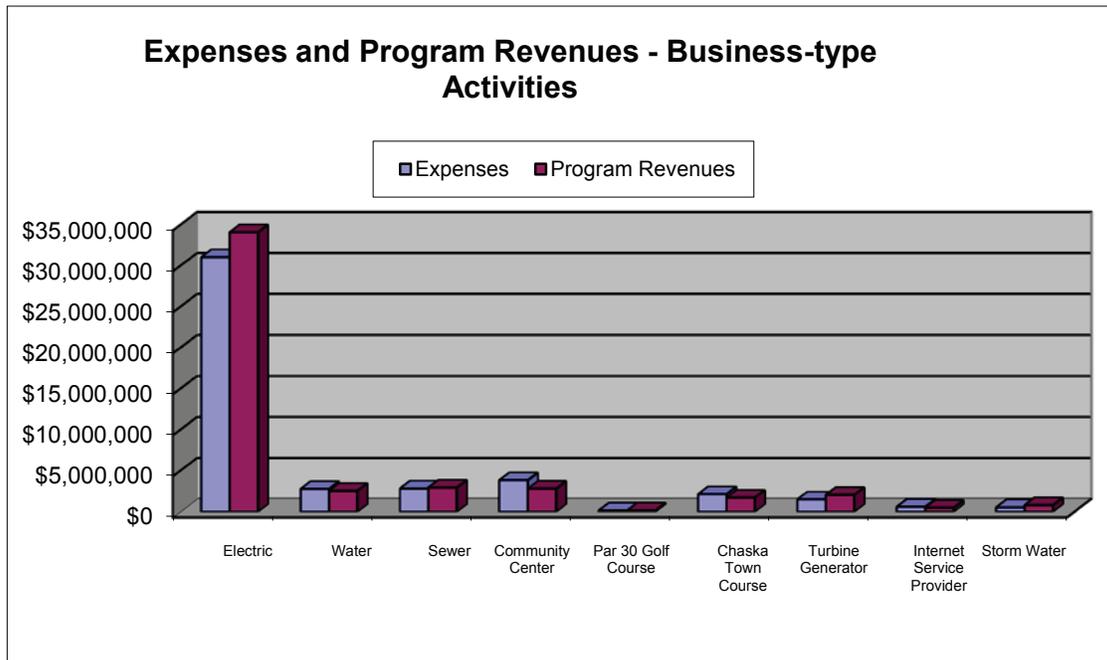
**Governmental activities**

- The largest source of revenue in governmental activities is Property Taxes. In 2013 40.4% of all revenues were from Property Taxes.
- Capital Grants and Contributions is the next major source of revenue at 21.1% of the total governmental activities revenue.
- Public Works reported \$3.4 million in Capital Grants and Contributions, much of which is related to special assessments for street reconstruction and related improvements.
- The total costs of all programs and services were \$22.6 million. The cost of providing public safety and street maintenance/construction makes up 63.9% of this total.
- Total revenues surpassed expenses, increasing net assets by \$2.4 million before transfers.



**Business-type activities**

- Business-type activities showed revenue exceeding expenses before transfers of \$2.8 million. After transfers were made, net position increased by \$1.9 million.
- Other general revenues include investment earnings of \$419,145.
- Charges for services increased 3.9% over 2012. In total, revenue increased \$1.8 million. Electric sales increased \$2.2 million, while other funds accounted for the net decrease of \$.4 million.
- Expenses increased \$2.0 million or 4.6% compared to 2012. Of this amount, \$1.5 million is the increased cost of purchased power to the Electric Fund.



**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, assigned and unassigned 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 \$16.8 million.

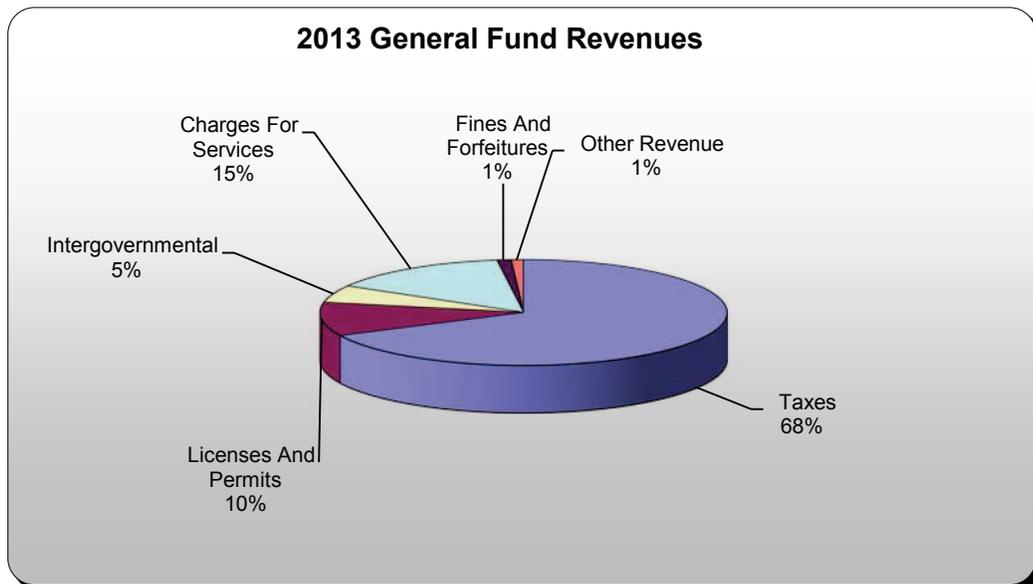
Significant restrictions of fund balances are: \$7.7 million for future debt service payments, and \$7.4 million for Economic Development. See **Note 8** for more detail on fund balances availability.

The City completed the year with a decrease in governmental fund balances of \$.9 million. Reasons for the decrease include debt service payments related to cross-over refundings of \$5.21 million and expenditures related to professional services and capital outlay for improvement projects.

Revenues for the City’s governmental funds were \$26.2 million, while total expenditures were \$27.7 million.

The **General Fund** is the chief operating fund of the City of Chaska. At the end of the current fiscal year, unassigned fund balance of the general fund was \$2.0 million. The fund balance of the City of Chaska’s general fund decreased \$334,104. Key factors in the change are:

- Both revenue and expenditures exceeded budget. Overall, property and franchise taxes were about \$100,000 under budget and general government projects such replacement of financial software and technology upgrades were over budget. Police department personnel services were over budget by \$182,351.
- Total revenues and other financing sources were more than the final budgeted amount by \$475,620 due mainly to license and permit revenue which was \$320,314 more than budget. The City issued 15 more single family permits than the prior year. Total market value of all permits was approximately \$22.0 million more than 2012.
- Total expenditures and other financing uses were more than the final budgeted amount by \$809,724. General Government was over-budget by \$436,786. Administrative Services overage of \$145,970 was related to new financial and payroll software. Data processing was over budget by \$148,422 mainly due to software licenses, managed services and temporary staffing. Public Safety was over budget by \$314,654. About \$140,000 relates to the police department total expenditures and \$90,000 in fire. Some of the additional costs are billable services and revenue has been recognized.



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 significant revenue stream (\$4.7 million in tax increment revenue) for a single fund. In 2008, the District’s term was extended

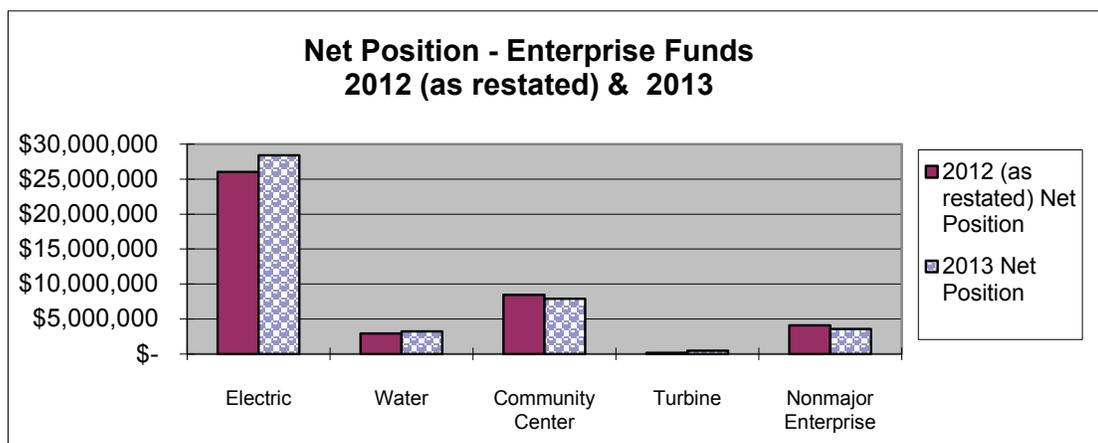
three years and the existing debt of the district was restructured. The district will be decertified in 2014.

The **TIF District #14 Downtown Redevelopment** fund is the primary fund for collection of all tax increment revenue for all of District #14 projects. The projects included in this district have borrowed money (current balance \$4.1 million) from the Electric Fund in order to purchase land for future redevelopment. These internal loan balances are expected to be paid in full when redevelopment occurs.

**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 increased net position of enterprise funds by \$1,921,405. Some of the reasons for this change in net position are:

- The Electric Fund’s net position increased by \$2,404,294 in 2013. In 2013, electric rates increased 2%; this along with increased demand, especially commercial, contributed to an increase in operating revenue of \$2.2 million from 2012.
- The Water Fund had an operating income of \$141,216. A new rate structure was established in 2010 as well as implementation of the required DNR inclining block rate to promote water conservation. This has given the Water Fund positive operating income for four consecutive years.
- As part of the budgeting process to calculate fees, depreciation expense is not considered. As a direct result of this process, the Chaska Community Center reports operating revenue of \$2,840,092 and operating expense (without depreciation) of \$2,882,382 resulting in a small operating loss before depreciation of (\$42,290). When factoring in depreciation expense (\$642,664), an operating loss of (\$684,954) results.
- The Turbine Generator Fund has restricted net position of \$3.0 million, which represents a restriction for debt service.



**General Fund Budgetary Highlights**

The final amended budget for the General Fund includes the original adopted budget plus any additional supplemental appropriations that were legislated by the City Council during the year. In 2013, the original budget was not amended; therefore projecting no change in fund balance.

While the City’s final amended budget for the general fund anticipated that revenues would equal expenditures and transfers, the City’s general fund actually reported greater expenditures than revenues and transfers of \$334,104.

- Property and Franchise Taxes were \$102,437 less than budgeted.
- Licenses and Permits were \$320,314 more than the final budget related to:
  - i. Building permit and plan review revenue was \$213,623 more than the final budget.
  - ii. The Market Value for commercial, industrial and public construction in 2013 was \$23.5 million more than 2012.
- Expenditures in General Government were \$436,786 more than the final budget. Several factors that contributed to this are implementation of new financial and payroll software, technology upgrades and temporary staffing.
- Public Safety expenditures were \$314,654 more than the final budget. The majority (67%) of this overage was in police and fire personal services.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

As shown in Table 3, at the end of 2013, the City had \$191.7 million invested in a broad range of capital assets, including police and fire equipment, buildings, park facilities and electric, water and sewer lines. More detailed information on the City of Chaska’s capital assets can be found in **Note 4** of the basic financial statements.

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

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Land	\$ 45,757,587	\$ 45,495,467	\$ 829,805	\$ 699,805	\$ 46,587,392	\$ 46,195,272
Works of Art/Historical Treasures	105,027	105,027	-	-	105,027	105,027
Buildings	3,873,054	4,212,501	24,396,881	25,895,212	28,269,935	30,107,713
Other Improvements	4,530,694	4,969,233	1,564,714	1,624,146	6,095,408	6,593,379
Furniture & Equipment	2,051,821	2,161,893	2,117,672	2,201,447	4,169,493	4,363,340
Infrastructure	82,700,918	80,791,696	13,209,464	12,694,916	95,910,382	93,486,612
Construction in Progress	5,037,308	6,688,753	5,495,556	439,245	10,532,864	7,127,998
<b>Totals</b>	<b>\$ 144,056,409</b>	<b>\$ 144,424,570</b>	<b>\$ 47,614,092</b>	<b>\$ 43,554,771</b>	<b>\$ 191,670,501</b>	<b>\$ 187,979,341</b>

Major capital asset events during the current fiscal year included the following:

- \$2,911,765 • New street projects (downtown) recorded as Construction in Progress at year-end. This street reconstruction project is being paid for with proceeds of the 2013A General Obligation Bonds.
- \$1,677,865 • Costs related to the automated metering project for electric, water and sewer utilities. This project was recorded as Construction in Progress at year end.
- \$3,003,176 • Replacement equipment for the Chaska Community Center's two ice arenas and heating/cooling systems was recorded as Construction in Progress at year end. This project is financed with the 2013A Lease and Limited Revenue Bonds.

**Long-Term Debt**

At year-end, the City had \$79.9 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 6** to the financial statements.

**Table 4**  
**City of Chaska's Outstanding Debt**  
(Does Not Include Premiums, Compensated Absences or Other Post-Employment Benefits)

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
<b>G.O. Equipment Certificates</b> (Backed by the City)	\$ 1,320,000	\$ 690,000	\$ -	\$ -	\$ 1,320,000	\$ 690,000
<b>G.O. Bonds</b> (Backed by the City)	3,120,000	3,455,000	11,700,000	12,020,000	14,820,000	15,475,000
<b>G.O. Tax Increment Bonds</b> (Backed by the City)	7,640,000	10,905,000	-	-	7,640,000	10,905,000
<b>G.O. Improvement Bonds</b> (Backed by the City)	18,870,000	21,705,000	-	-	18,870,000	21,705,000
<b>Revenue Bonds and Notes</b> (Backed by specific tax and fee revenues)	-	-	37,125,000	34,575,000	37,125,000	34,575,000
<b>Promissory Note Payable</b> (Backed by the City)	144,994	152,717	-	-	144,994	152,717
<b>Totals</b>	<b>\$ 31,094,994</b>	<b>\$ 36,907,717</b>	<b>\$ 48,825,000</b>	<b>\$ 46,595,000</b>	<b>\$ 79,919,994</b>	<b>\$ 83,502,717</b>

New debt resulted from four issues in 2013 as follows:

1. \$3,850,000 in EDA Lease Revenue and Limited Tax Bonds, Series 2013A with a net effective interest rate of 3.59% (2.00% - 4.00%). The proceeds from the EDA 2013A bonds were used to finance improvements to the Chaska Community Center ice arenas and heating and cooling systems.

2. \$3,330,000 in General Obligation Improvement Bonds, Series 2013A with a net effective interest rate of 3.11% (2.00% - 4.00%). The proceeds from the 2013A bonds will be used to finance street reconstruction within the City.
3. \$580,000 in Taxable General Obligation Tax Increment Refunding Bonds, Series 2013B with a net effective interest rate of 2.39% (2.00% - 2.75%). The proceeds of the 2013B bonds will be used to refund the Taxable General Obligation Bonds, 2004A.
4. \$915,000 in General Obligation Equipment Certificates, Series 2013C with a net effective interest rate of 2.39% (.90%-3.10%). The proceeds from these bonds will be used to finance capital equipment for various City departments.

The City continues to pay down its debt, retiring \$12,250,000 of outstanding bonds in 2013.

The City of Chaska's general obligation bonds carry a rating, as of last review, of an AA by Standard and Poor's Corporation and a Baa rating by Moody's Investors Services. The Chaska EDA's Lease Revenue and Limited Tax Bonds, Series 2013A, was rated AA- by Standard and Poor's Corporation.

Under Minnesota State Statutes, the general obligation bonded debt issued by the City is subject to a legal debt limitation based on 3% of market value. At December 31, 2013, the City's legal debt limitation was \$57,541,659. 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 2014 budget. Specifically, five major revenue issues were considered:

1. Market Values increased by an average of 5.24%. This was the first increase in four years.
2. Local Government Aid was restored to cities, with Chaska slated to receive just over \$450,000.
3. Both residential and commercial building permit activity has stabilized, becoming more predictable.
4. Chaska has seen an increase in population.
5. Electric revenue has increased as a result of a significant amount of economic development activity over the last two years. This has a positive impact on both the Electric and General Funds.

With this growth, the 2014 budget is able to address some areas that have been deferred in the past. This growth will be critical to meet budget objectives over the next five years. Emphasis will be placed on our new capital improvement program which focuses on properly maintaining the condition of assets we have already invested in. Policy for establishing the tax levy will also

be reexamined. Rather than focusing on keeping a constant rate, more focus will be on factors driving the rate such as population growth and inflationary factors. The 2014 budget takes a more comprehensive look at not just current operations, but the future costs of maintaining the City's assets.

These factors were taken into account when adopting the General Fund budget for 2014. Projected revenues and other financing sources available for appropriation in the General Fund budget are \$11,679,057, an increase of 9.8% over the final 2013 budget of \$10,639,744. Budgeted expenditures are 11,679,057, an increase of \$1,039,313 over the final 2013 budget. General assumptions used to calculate the general fund operating budget were:

- Utilize a new set of budgeting objectives.
- 3.5% increase in tax levy from 2013 to 2014.
- Begin first year of implementation of Priorities 1 and 2 of Capital Improvement Program.
- Implement a Gas Franchise Fee in 2014. These revenues will be dedicated to funding CIP.
- Remove sales tax expenditures for purchases of equipment and supplies which will reduce General fund expenditures by approximately \$100,000 annually.
- Reimplementation, but non-reliance, on Local Government Aid.
- Increase operational costs 1% and personnel salaries 2%.
- Fund street sealcoat/overlay program at the full recommended level.
- Equipment replacement already financed through the Equipment Certificate Bonds sold in 2013.
- Assume no draw-down on General Fund reserves.

**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.

**Government-Wide Financial Statements**

**City of Chaska**

**For the Year Ended December 31, 2013**

---

CITY OF CHASKA, MINNESOTA

STATEMENT OF NET POSITION  
DECEMBER 31, 2013

<u>ASSETS</u>	<u>GOVERNMENTAL ACTIVITIES</u>	<u>BUSINESS-TYPE ACTIVITIES</u>	<u>TOTAL</u>
Cash And Investments	\$ 24,388,226	\$ 9,376,229	\$ 33,764,455
Receivables:			
Taxes	356,553	-	356,553
Special Assessments	10,541,657	21,953	10,563,610
Accounts, Net of Allowance	121,694	5,551,400	5,673,094
Interest	94,246	74,220	168,466
Leases	72,600	23,820,765	23,893,365
Notes	295,979	-	295,979
Internal Balances	(5,259,899)	5,259,899	-
Due From Other Governments	479,242	186,402	665,644
Inventories	-	1,406,158	1,406,158
Prepaid Items:			
Net Pension Obligation	365,462	-	365,462
Restricted Cash & Investments:			
Cash with Escrow Agent - Debt Service	-	4,754,718	4,754,718
Accrued Interest on Investments	-	43,140	43,140
Land Held For Resale	2,061,866	-	2,061,866
Capital Assets (net of accumulated depreciation):			
Land	45,757,587	829,805	46,587,392
Works of Art & Historical Treasures	105,027	-	105,027
Buildings	3,873,054	24,396,881	28,269,935
Other Improvements	4,530,694	1,564,714	6,095,408
Furniture & Equipment	2,051,821	2,117,672	4,169,493
Infrastructure	82,700,918	13,209,464	95,910,382
Construction in Progress	5,037,308	5,495,556	10,532,864
<b>TOTAL ASSETS</b>	<b>177,574,035</b>	<b>98,108,976</b>	<b>275,683,011</b>
 <u>LIABILITIES</u>			
Accounts Payable	1,146,096	1,033,564	2,179,660
Salaries Payable	208,388	126,209	334,597
Deposits Payable	32,539	280,497	313,036
Accrued Interest Payable	401,749	419,872	821,621
Due To Other Governments	30,971	2,086,264	2,117,235
Unearned Revenue	1,378,007	253,843	1,631,850
Non-current Liabilities:			
Due Within One Year	5,356,713	2,065,465	7,422,178
Due in More than One Year	27,305,445	48,194,432	75,499,877
<b>TOTAL LIABILITIES</b>	<b>35,859,908</b>	<b>54,460,146</b>	<b>90,320,054</b>
 <u>NET POSITION</u>			
Net Investment in Capital Assets	118,818,535	25,818,904	144,637,439
Restricted for:			
Special Purposes	721,365	-	721,365
Capital Acquisition	715,683	-	715,683
Capital Projects	2,135,920	-	2,135,920
Debt Service	14,398,408	4,451,868	18,850,276
Economic Development	7,097,980	-	7,097,980
Unrestricted	(2,173,764)	13,378,058	11,204,294
<b>TOTAL NET POSITION</b>	<b>\$ 141,714,127</b>	<b>\$ 43,648,830</b>	<b>\$ 185,362,957</b>

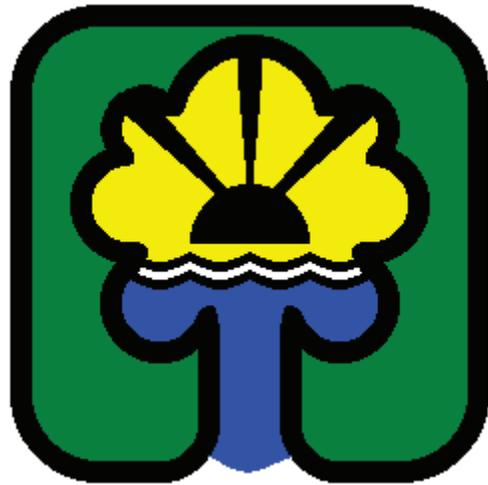
The notes to the financial statements are an integral part of this statement.

CITY OF CHASKA, MINNESOTA

STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2013

FUNCTIONS/PROGRAMS	PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION			
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
<b>Governmental Activities:</b>							
General Government	\$ 4,590,619	\$ 2,465,448	\$ 49,647	\$ -	\$ (2,075,524)	\$ -	\$ (2,075,524)
Economic Development	1,445,963	163,426	734,253	1,235,551	687,267	-	687,267
Public Safety	4,705,235	267,962	401,686	37,851	(3,997,726)	-	(3,997,726)
Public Works	9,758,311	1,290,754	49,247	3,405,951	(5,012,359)	-	(5,012,359)
Parks, Recreation and Arts	779,705	462,884	-	606,634	289,813	-	289,813
Interest on Long-Term Debt	1,361,830	-	-	-	(1,361,830)	-	(1,361,830)
<b>Total Governmental Activities</b>	<b>22,641,663</b>	<b>4,650,474</b>	<b>1,234,843</b>	<b>5,285,987</b>	<b>(11,470,359)</b>	<b>-</b>	<b>(11,470,359)</b>
<b>Business-type Activities:</b>							
Electric	31,058,570	33,831,735	-	281,840	-	3,055,005	3,055,005
Water	2,794,378	2,528,547	-	36,475	-	(229,356)	(229,356)
Sewer	2,843,831	2,948,150	-	8,678	-	112,997	112,997
Community Center	3,854,763	2,840,092	-	-	-	(1,014,671)	(1,014,671)
Par 30 Golf Course	151,575	155,706	-	-	-	4,131	4,131
Chaska Town Course	2,148,077	1,724,149	-	-	-	(423,928)	(423,928)
Turbine Generator	1,505,608	2,065,865	-	-	-	560,257	560,257
Internet Service Provider	604,813	489,466	-	-	-	(115,347)	(115,347)
Storm Water	541,700	782,202	-	24,549	-	265,051	265,051
<b>Total Business-type Activities</b>	<b>45,503,315</b>	<b>47,365,912</b>	<b>-</b>	<b>351,542</b>	<b>-</b>	<b>2,214,139</b>	<b>2,214,139</b>
<b>TOTAL</b>	<b>\$ 68,144,978</b>	<b>\$ 52,016,386</b>	<b>\$ 1,234,843</b>	<b>\$ 5,637,529</b>	<b>(11,470,359)</b>	<b>2,214,139</b>	<b>(9,256,220)</b>
<b>General Revenues:</b>							
Property Taxes					10,104,762	-	10,104,762
Franchise Taxes					3,355,672	-	3,355,672
Grants & Contributions Not Restricted to Specific Functions					58,761	-	58,761
Investment Earnings					41,179	419,145	460,324
Other					267,711	133,823	401,534
Transfers					855,816	(855,816)	-
<b>Total General Revenues &amp; Transfers</b>					<b>14,683,901</b>	<b>(302,846)</b>	<b>14,381,053</b>
<b>Change in Net Position</b>					<b>3,213,542</b>	<b>1,911,291</b>	<b>5,124,833</b>
<b>Net Position - Beginning</b>					<b>139,162,160</b>	<b>43,018,630</b>	<b>182,180,790</b>
<b>Change in Accounting Principle</b>					<b>(661,575)</b>	<b>(1,281,091)</b>	<b>(1,942,666)</b>
<b>Net Position As Restated</b>					<b>138,500,585</b>	<b>41,737,539</b>	<b>180,238,124</b>
<b>Net Position - Ending</b>					<b>\$ 141,714,127</b>	<b>\$ 43,648,830</b>	<b>\$ 185,362,957</b>

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



**CHASKA**

**Governmental Funds**

**City of Chaska**

**For the Year Ended December 31, 2013**

---

CITY OF CHASKA, MINNESOTA

BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2013

	<u>GENERAL</u>	<u>TIF DISTRICT #4 REVOLVING</u>	<u>TIF DIST #14 DOWNTOWN REDEVELOPMENT</u>	<u>NONMAJOR GOVERNMENTAL</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
<b>ASSETS</b>					
Cash And Investments	\$ 2,893,513	\$ 3,592,087	\$ 7,456	\$ 13,925,777	\$ 20,418,833
Receivables:					
Taxes	156,960	132,917	21,946	44,730	356,553
Special Assessments	23,113	368,301	63,164	10,087,079	10,541,657
Accounts, Net of Allowance	86,607	2,080	-	33,007	121,694
Interest	17,651	25,106	-	22,359	65,116
Lease	-	-	-	72,600	72,600
Notes	-	206,755	-	89,224	295,979
Due From Other Funds	-	-	-	2,113,679	2,113,679
Due From Other Governments	34,700	-	-	444,542	479,242
Interfund Receivable	-	-	-	104,494	104,494
Land Held for Resale	-	-	2,061,866	-	2,061,866
<b>TOTAL ASSETS</b>	<b>\$ 3,212,544</b>	<b>\$ 4,327,246</b>	<b>\$ 2,154,432</b>	<b>\$ 26,937,491</b>	<b>\$ 36,631,713</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>					
<b>LIABILITIES:</b>					
Accounts Payable	\$ 155,668	\$ -	\$ -	\$ 990,428	\$ 1,146,096
Salaries Payable	208,388	-	-	-	208,388
Deposits Payable	339	-	-	32,200	32,539
Due To Other Funds	-	-	-	2,321,732	2,321,732
Due To Other Governments	30,971	-	-	-	30,971
Interfund Payable	-	-	-	603,068	603,068
Advance from Other Funds	-	-	4,116,579	331,528	4,448,107
Unearned Revenue	-	239,700	-	1,138,307	1,378,007
<b>TOTAL LIABILITIES</b>	<b>395,366</b>	<b>239,700</b>	<b>4,116,579</b>	<b>5,417,263</b>	<b>10,168,908</b>
<b>DEFERRED INFLOWS OF RESOURCES:</b>					
Unavailable Revenue - Taxes	88,735	34,069	21,946	35,454	180,204
Unavailable Revenue - Special Assessments	23,113	335,356	63,164	9,012,220	9,433,853
Unavailable Revenue - Notes Receivable	-	-	-	89,224	89,224
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>111,848</b>	<b>369,425</b>	<b>85,110</b>	<b>9,136,898</b>	<b>9,703,281</b>
<b>FUND BALANCES:</b>					
Restricted	-	3,718,121	2,061,866	10,188,909	15,968,896
Committed	739,540	-	-	1,068,969	1,808,509
Assigned	-	-	-	4,732,649	4,732,649
Unassigned	1,965,790	-	(4,109,123)	(3,607,197)	(5,750,530)
<b>TOTAL FUND BALANCES</b>	<b>2,705,330</b>	<b>3,718,121</b>	<b>(2,047,257)</b>	<b>12,383,330</b>	<b>16,759,524</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 3,212,544</b>	<b>\$ 4,327,246</b>	<b>\$ 2,154,432</b>	<b>\$ 26,937,491</b>	<b>\$ 36,631,713</b>

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

CITY OF CHASKA, MINNESOTA

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION  
DECEMBER 31, 2013

---

Total fund balances - governmental funds \$ 16,759,524

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in governmental funds.

Cost of Capital Assets	210,676,042
Less: Accumulated Depreciation	(66,619,633)

Due to availability, certain revenues are not recognized under the governmental fund statements until received; however, under full accrual in the government-wide Statement of Activities, revenues are recorded when earned regardless of when received.

Delinquent Taxes	180,204
Special Assessments	9,433,853
Notes Receivable	89,224

Internal service funds are used by management to charge the costs of property & liability insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net position.

3,998,523

Internal balances from business-type activities for internal service fund services.

(105,165)

Governmental funds do not report an asset for net pension obligations.

365,462

Interest on long-term debt is included in the change in net position as it accrues, regardless of when payment is due. However, it is included in the change in fund balances when due.

(401,749)

Long-term liabilities, including bonds payable, notes payable, compensated absences and other post-employment benefits, are not payable with current financial resources and, therefore, are not reported in governmental funds.

Due within one year	(5,356,713)
Due in more than one year	(27,305,445)

Net position of governmental activities

\$ 141,714,127

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

## CITY OF CHASKA, MINNESOTA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2013

	GENERAL	TIF DISTRICT #4 REVOLVING	TIF DIST #14 DOWNTOWN REDEVELOPMENT	NONMAJOR GOVERNMENTAL	TOTAL GOVERNMENTAL FUNDS
<b>REVENUES</b>					
Taxes:					
Property	\$ 4,091,025	\$ 4,716,573	\$ 3,737	\$ 1,335,605	\$ 10,146,940
Franchise	3,355,672	-	-	-	3,355,672
Licenses and Permits	1,135,211	-	-	-	1,135,211
Intergovernmental	585,775	-	600,000	1,733,280	2,919,055
Charges for Services	1,597,445	-	-	1,790,624	3,388,069
Fines and Forfeitures	123,687	-	-	-	123,687
Special Assessments	8,973	25,285	-	3,883,959	3,918,217
Other Revenue	104,576	105,353	660,000	367,885	1,237,814
<b>TOTAL REVENUES</b>	<b>11,002,364</b>	<b>4,847,211</b>	<b>1,263,737</b>	<b>9,111,353</b>	<b>26,224,665</b>
<b>EXPENDITURES</b>					
<b>CURRENT:</b>					
General Government	3,934,156	-	-	143,062	4,077,218
Economic Development	-	172,686	668,633	618,940	1,460,259
Public Safety	4,410,830	-	-	736	4,411,566
Public Works	2,603,758	-	-	3,645,441	6,249,199
Parks, Recreation and Arts	500,724	-	-	17,119	517,843
<b>DEBT SERVICE:</b>					
Principal	-	-	-	5,427,723	5,427,723
Interest	-	-	195,027	1,201,779	1,396,806
Issuance Costs & Fiscal Agent Fees	-	-	-	112,905	112,905
<b>CAPITAL OUTLAY</b>					
	-	-	-	4,075,585	4,075,585
<b>TOTAL EXPENDITURES</b>	<b>11,449,468</b>	<b>172,686</b>	<b>863,660</b>	<b>15,243,290</b>	<b>27,729,104</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(447,104)</b>	<b>4,674,525</b>	<b>400,077</b>	<b>(6,131,937)</b>	<b>(1,504,439)</b>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers In	113,000	-	590,000	6,938,975	7,641,975
Transfers Out	-	(3,548,625)	(144,242)	(3,093,292)	(6,786,159)
Bonds Issued	-	-	-	4,245,000	4,245,000
Refunding Bonds Issued	-	-	-	580,000	580,000
Premium on Bonds Issued	-	-	-	123,513	123,513
Payment to Refunded Bonds Escrow Agent	-	-	-	(5,210,000)	(5,210,000)
Sale of Capital Assets	-	-	-	29,032	29,032
<b>TOTAL OTHER FINANCING SOURCES AND (USES)</b>	<b>113,000</b>	<b>(3,548,625)</b>	<b>445,758</b>	<b>3,613,228</b>	<b>623,361</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(334,104)</b>	<b>1,125,900</b>	<b>845,835</b>	<b>(2,518,709)</b>	<b>(881,078)</b>
FUND BALANCES, January 1	3,039,434	2,592,221	(2,893,092)	14,902,039	17,640,602
FUND BALANCES, December 31	\$ 2,705,330	\$ 3,718,121	\$ (2,047,257)	\$ 12,383,330	\$ 16,759,524

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

CITY OF CHASKA, MINNESOTA

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2013

---

Total net change in fund balances - governmental funds \$ (881,078)

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Further detail on increases/decreases can be found in the note on capital assets. (Increases include donations of capital assets and Construction in Progress that is reclassified.)

Capital Outlay	5,063,042
Less: Depreciation Expense	(5,357,103)
Net book value of assets sold or disposed	(74,100)

Under modified accrual basis of accounting, certain revenues cannot be recognized until they are available to liquidate liabilities of the current period. Under the full accrual basis of accounting, these revenues are recognized when earned. (1,278,527)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Further detail on the additions and reductions can be found in the note on long-term debt.

Additions to long-term debt (reduces governmental fund balances)	(5,438,172)
Reductions to long-term debt (increases governmental fund balances)	11,047,720

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. 34,976

Net pension obligation activity is not recognized in the Governmental Funds but recognized as the expense/revenue is incurred in the Statement of Activities. 19,912

Internal service funds are used by management to charge the costs of property & liability insurance to individual funds. The net revenue of certain activities of internal service funds is reported with governmental activities. 66,758

Internal service fund profit allocated to business-type activities. 10,114

Change in net position - governmental activities \$ 3,213,542

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

**CITY OF CHASKA, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2013**

	ORIGINAL AND FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
<b>REVENUES:</b>			
Taxes:			
Property	\$ 4,185,754	\$ 4,091,025	\$ (94,729)
Franchise	3,363,380	3,355,672	(7,708)
Licenses And Permits	814,897	1,135,211	320,314
Intergovernmental	474,995	585,775	110,780
Charges For Services	1,498,235	1,597,445	99,210
Fines And Forfeitures	124,940	123,687	(1,253)
Special Assessments	-	8,973	8,973
Other Revenue	64,543	104,576	40,033
<b>TOTAL REVENUES</b>	<b>10,526,744</b>	<b>11,002,364</b>	<b>475,620</b>
<b>EXPENDITURES:</b>			
Current:			
General Government	3,497,370	3,934,156	(436,786)
Public Safety	4,096,176	4,410,830	(314,654)
Public Works	2,528,335	2,603,758	(75,423)
Parks, Recreation and Arts	517,863	500,724	17,139
<b>TOTAL EXPENDITURES</b>	<b>10,639,744</b>	<b>11,449,468</b>	<b>(809,724)</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(113,000)</b>	<b>(447,104)</b>	<b>(334,104)</b>
<b>OTHER FINANCING SOURCES (USES):</b>			
Transfers In	113,000	113,000	-
<b>NET CHANGE IN FUND BALANCES</b>	<b>-</b>	<b>(334,104)</b>	<b>(334,104)</b>
<b>FUND BALANCES, January 1</b>	<b>3,039,434</b>	<b>3,039,434</b>	<b>-</b>
<b>FUND BALANCES, December 31</b>	<b>\$ 3,039,434</b>	<b>\$ 2,705,330</b>	<b>\$ (334,104)</b>

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

**Proprietary Funds**

**City of Chaska**

**For the Year Ended December 31, 2013**

---



CITY OF CHASKA, MINNESOTA

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION  
 PROPRIETARY FUNDS  
 FOR THE YEAR ENDED DECEMBER 31, 2013

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS						GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUND
	ELECTRIC	WATER	COMMUNITY CENTER	TURBINE GENERATOR	NONMAJOR ENTERPRISE	TOTALS	
<b>OPERATING REVENUES:</b>							
Sales	\$ 33,831,735	\$ 2,528,547	\$ 2,840,092	\$ 2,065,865	\$ 6,099,673	\$ 47,365,912	\$ 617,433
<b>OPERATING EXPENSES:</b>							
Production	24,098,374	575,497	-	-	2,005,839	26,679,710	-
Distribution / Collections	1,957,437	591,952	-	-	1,075,113	3,624,502	-
Administration	982,929	434,302	2,882,382	125,474	2,557,399	6,982,486	642,875
Franchise Fees	3,101,430	-	-	-	-	3,101,430	-
Depreciation	759,903	785,580	642,664	-	649,152	2,837,299	-
<b>TOTAL OPERATING EXPENSES</b>	<b>30,900,073</b>	<b>2,387,331</b>	<b>3,525,046</b>	<b>125,474</b>	<b>6,287,503</b>	<b>43,225,427</b>	<b>642,875</b>
<b>OPERATING INCOME (LOSS)</b>	<b>2,931,662</b>	<b>141,216</b>	<b>(684,954)</b>	<b>1,940,391</b>	<b>(187,830)</b>	<b>4,140,485</b>	<b>(25,442)</b>
<b>NON-OPERATING REVENUES:</b>							
Investment Earnings	236,652	7,479	381	170,809	3,824	419,145	6,313
Intergovernmental	-	-	-	-	61,040	61,040	-
Payments	-	-	-	67,953	-	67,953	-
Gain on Sale Of Capital Assets	-	2,416	-	-	2,415	4,831	-
Miscellaneous Refunds	-	-	-	-	-	-	85,887
<b>TOTAL NON-OPERATING REVENUES</b>	<b>236,652</b>	<b>9,895</b>	<b>381</b>	<b>238,762</b>	<b>67,279</b>	<b>552,969</b>	<b>92,200</b>
<b>NON-OPERATING EXPENSES:</b>							
Interest	158,560	375,351	175,333	1,377,384	-	2,086,628	-
Issuance Costs & Fiscal Agent Fees	-	-	145,375	2,750	-	148,125	-
Loss On Disposal Of Capital Assets	-	33,022	-	-	-	33,022	-
<b>TOTAL NON-OPERATING EXPENSES</b>	<b>158,560</b>	<b>408,373</b>	<b>320,708</b>	<b>1,380,134</b>	<b>-</b>	<b>2,267,775</b>	<b>-</b>
<b>INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS</b>	<b>3,009,754</b>	<b>(257,262)</b>	<b>(1,005,281)</b>	<b>799,019</b>	<b>(120,551)</b>	<b>2,425,679</b>	<b>66,758</b>
<b>CAPITAL CONTRIBUTIONS</b>	<b>281,840</b>	<b>36,475</b>	<b>-</b>	<b>-</b>	<b>33,227</b>	<b>351,542</b>	<b>-</b>
<b>TRANSFERS IN (OUT)</b>							
Transfers In	-	620,945	428,000	-	-	1,048,945	-
Transfers Out	(887,300)	(129,800)	-	(469,000)	(418,661)	(1,904,761)	-
<b>TOTAL TRANSFERS IN (OUT)</b>	<b>(887,300)</b>	<b>491,145</b>	<b>428,000</b>	<b>(469,000)</b>	<b>(418,661)</b>	<b>(855,816)</b>	<b>-</b>
<b>CHANGE IN NET POSITION</b>	<b>2,404,294</b>	<b>270,358</b>	<b>(577,281)</b>	<b>330,019</b>	<b>(505,985)</b>	<b>1,921,405</b>	<b>66,758</b>
<b>NET POSITION, January 1</b>	<b>26,107,746</b>	<b>3,306,520</b>	<b>8,520,222</b>	<b>894,173</b>	<b>4,074,690</b>	<b>42,903,351</b>	<b>3,931,765</b>
Change in Accounting Principle, Write-off of Unamortized Deferred Charge	(90,972)	(367,180)	(64,185)	(758,754)	-	(1,281,091)	-
<b>NET POSITION, January 1, As Restated</b>	<b>26,016,774</b>	<b>2,939,340</b>	<b>8,456,037</b>	<b>135,419</b>	<b>4,074,690</b>	<b>41,622,260</b>	<b>3,931,765</b>
<b>NET POSITION, December 31</b>	<b>\$ 28,421,068</b>	<b>\$ 3,209,698</b>	<b>\$ 7,878,756</b>	<b>\$ 465,438</b>	<b>\$ 3,568,705</b>	<b>\$ 43,543,665</b>	<b>\$ 3,998,523</b>
						Change in net position - total Enterprise Funds	1,921,405
						Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds	(10,114)
						Change in net position - Business-type Activities	\$ 1,911,291

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

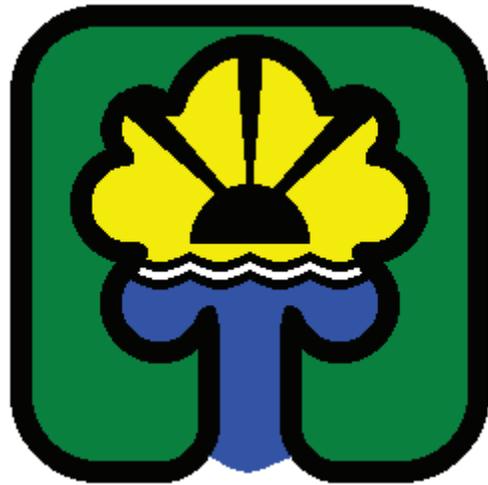
## CITY OF CHASKA, MINNESOTA

STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2013

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS						GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUND
	ELECTRIC	WATER	COMMUNITY CENTER	TURBINE GENERATOR	NONMAJOR ENTERPRISE	TOTALS	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>							
Receipts From Customers And Users	\$ 33,826,774	\$ 2,534,740	\$ 2,779,690	\$ 2,065,865	\$ 6,054,959	\$ 47,262,028	\$ 617,433
Payments To Suppliers	(28,951,298)	(799,040)	(1,207,206)	(125,474)	(3,395,408)	(34,478,426)	(642,875)
Payments To Employees	(1,303,513)	(491,120)	(1,575,452)	-	(1,755,134)	(5,125,219)	-
Miscellaneous Receipts	-	-	-	-	-	-	85,887
Net Cash Provided (Used) By Operating Activities	3,571,963	1,244,580	(2,968)	1,940,391	904,417	7,658,383	60,445
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:</b>							
Transfers From Other Funds	-	620,945	428,000	-	-	1,048,945	-
Transfers To Other Funds	(887,300)	(129,800)	-	(469,000)	(418,661)	(1,904,761)	-
Due From Other Funds	(531,073)	-	-	-	-	(531,073)	-
Due To Other Funds	-	-	66,742	-	256,278	323,020	-
Interfund Loans To Other Funds	269,327	-	-	104,219	-	373,546	-
Intergovernmental	-	-	-	-	61,040	61,040	-
Net Cash Provided (Used) By Non-Capital Financing Activities	(1,149,046)	491,145	494,742	(364,781)	(101,343)	(629,283)	-
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>							
Proceeds From Revenue Bonds	-	-	3,850,000	-	-	3,850,000	-
Capital Contributions	281,840	36,475	-	-	33,227	351,542	-
Principal Paid On Bonds	(145,000)	(320,000)	(140,000)	(1,015,000)	-	(1,620,000)	-
Interest And Fiscal Charges	(92,470)	(390,538)	(293,823)	(1,427,310)	-	(2,204,141)	-
Proceeds From Sale Of Capital Assets	-	2,416	-	-	2,415	4,831	-
Construction And Acquisition of Capital Assets	(1,986,980)	(828,331)	(3,036,507)	-	(1,077,824)	(6,929,642)	-
Lease Principal Received	-	-	-	575,203	-	575,203	-
Interfund Loans From Other Funds	(36,266)	-	-	-	-	(36,266)	-
Interest Payments On Interfund Loans	(67,953)	-	-	-	-	(67,953)	-
Net Cash Provided (Used) By Capital And Related Financing Activities	(2,046,829)	(1,499,978)	379,670	(1,867,107)	(1,042,182)	(6,076,426)	-
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>							
Interest On Investments	216,396	286	381	171,761	611	389,435	1,162
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>							
	592,484	236,033	871,825	(119,736)	(238,497)	1,342,109	61,607
CASH AND CASH EQUIVALENTS, January 1	5,316,984	1,085,310	274,882	3,902,915	2,208,747	12,788,838	3,907,786
CASH AND CASH EQUIVALENTS, December 31	\$ 5,909,468	\$ 1,321,343	\$ 1,146,707	\$ 3,783,179	\$ 1,970,250	\$ 14,130,947	\$ 3,969,393
<b>CASH AND CASH EQUIVALENTS:</b>							
Cash And Investments	\$ 5,606,449	\$ 1,321,343	\$ -	\$ 478,187	\$ 1,970,250	\$ 9,376,229	\$ 3,969,393
Restricted Assets-Revenue Bonds:							
Cash And Investments	303,019	-	1,146,707	3,304,992	-	4,754,718	-
Total Cash And Cash Equivalents	\$ 5,909,468	\$ 1,321,343	\$ 1,146,707	\$ 3,783,179	\$ 1,970,250	\$ 14,130,947	\$ 3,969,393

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS						GOVERNMENTAL
	ELECTRIC	WATER	COMMUNITY CENTER	TURBINE GENERATOR	NONMAJOR ENTERPRISE	TOTALS	ACTIVITIES - INTERNAL SERVICE FUND
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:							
Operating Income (Loss)	\$ 2,931,662	\$ 141,216	\$ (684,954)	\$ 1,940,391	\$ (187,830)	\$ 4,140,485	\$ (25,442)
Adjustments To Reconcile Operating Income (Loss) To Net Cash Provided (Used) By Operating Activities:							
Depreciation Expense	759,903	785,580	642,664	-	649,152	2,837,299	-
Allowance For Uncollectible Accounts	(1,243)	(248)	(164)	-	(296)	(1,951)	-
Miscellaneous Receipts	-	-	-	-	-	-	85,887
(Increase) Decrease In Assets:							
Special Assessments	(3,752)	(1,948)	-	-	(2,689)	(8,389)	-
Accounts Receivable	4,489	8,689	(110,887)	-	18,003	(79,706)	-
Due From Other Governments	(692)	(300)	(19,609)	-	(58,637)	(79,238)	-
Prepaid Expense	200	-	-	-	160,176	160,376	-
Inventory	(290,763)	(15,253)	-	-	3,935	(302,081)	-
Increase (Decrease) In Liabilities:							
Accounts Payable	12,204	328,034	65,587	-	314,708	720,533	-
Salaries Payable	4,724	2,976	13,542	-	6,334	27,576	-
Deposits Payable	5,405	-	(5,415)	-	2,815	2,805	-
Compensated Absences Payable	(12,902)	(5,497)	7,965	-	(666)	(11,100)	-
Due To Other Governments	162,242	21	5,235	-	(2,713)	164,785	-
Unearned Revenue	(9,168)	-	75,673	-	(3,910)	62,595	-
Other Post Employment Benefits	9,654	1,310	7,395	-	6,035	24,394	-
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 3,571,963</u>	<u>\$ 1,244,580</u>	<u>\$ (2,968)</u>	<u>\$ 1,940,391</u>	<u>\$ 904,417</u>	<u>\$ 7,658,383</u>	<u>\$ 60,445</u>

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



**CHASKA**

**Fiduciary Funds**

**City of Chaska**

**For the Year Ended December 31, 2013**

---

**CITY OF CHASKA, MINNESOTA**

**STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
DECEMBER 31, 2013**

---

	<b>AGENCY FUNDS</b>
<b><u>ASSETS</u></b>	
Cash And Cash Equivalents	\$ 326,864
Accounts Receivable	171,468
Due From Other Funds	<u>83,816</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 582,148</u></b>
 <b><u>LIABILITIES</u></b>	
Accounts Payable	\$ 112,652
Due To Other Funds	83,816
Deposits Payable	354,025
Due To Other Governments	<u>31,655</u>
<b>TOTAL LIABILITIES</b>	<b><u>\$ 582,148</u></b>

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

**Note 1 Summary of Significant Accounting Policies**

The City of Chaska (the City) operates under the Optional Plan A Statutory, as a modified form of government pursuant to applicable Minnesota laws and statutes. The Plan A, prescribes a modified Administrator-Council form of organization. The Council consists of an elected mayor and four council members. The City provides the following services: public safety, highways and streets, culture-recreation, public improvements, planning and zoning, and general administration. The City operates utilities in the areas of electric, water, sewer, and storm water and also operates a community center, two (2) golf courses, internet service and a gas turbine generator.

The financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), as applied to governmental units by the Governmental Accounting Standards Board (GASB). In order to enhance the usefulness of the financial statements to the reader the following is a summary of the City's significant accounting policies.

**A) The Financial Reporting Entity**

These financial statements present the City (primary government) and its component units. The City includes all funds, organizations, institutions, agencies, departments and offices that are not legally separate from such. Component units are legally separate organizations for which the elected officials of the City are financially accountable and are included within the basic financial statements of the City because of the significance of their operational or financial relationship with the City.

The City is considered financially accountable for a component unit if it appoints a voting majority of the organization's governing body and it is able to impose its will on the organization by significantly influencing the programs, projects, activities, or level of services performed or provided by the organization, or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the City.

As a result of applying the component unit definition criteria above, one (1) organization has been defined and is presented in this report as follows:

Blended component unit –

The Chaska Economic Development Authority (Chaska EDA) was established in 1987 by Resolution No. 87-25 of the Chaska City Council. The Chaska EDA is included in these financial statements by reason of the Chaska EDA Board being comprised of City Council members. Activities of the Chaska EDA are financed by a tax levy of the City for that purpose. There are no other statements for the Chaska EDA other than those presented in this report.

**B) Government-Wide and Fund Financial Statements**

The basic financial statements include both government-wide financial statements and fund financial statements. "Government-wide financial statements" (i.e. the Statement of Net

Position and the Statement of Activities) report information based on the City as a whole and exclude fiduciary activity. Also, for the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Direct expenses also include allocated expenses to functional programs from centralized expenses reported in the Self Insurance Fund. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function, 2) operating grants and contributions that are restricted to meeting the operational requirements of a particular function, and 3) capital grants and contributions (including special assessments) that are restricted to meeting the capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

The accounts of the City are organized on the basis of funds and separate "Fund Financial Statements" are provided for on three (3) different broad fund categories (Governmental, Proprietary and Fiduciary). Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions and activities. A fund is a separate accounting entity with self-balancing accounts that include assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund equity, revenues and expenditures/expenses. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. Fund financial statements present information for individual major funds in separate columns. Nonmajor funds are presented in total in one (1) column in the fund financial statements.

### **Major Governmental Funds**

The City of Chaska reports the following major governmental funds:

- The ***General Fund*** - is the general operating fund of the City and is used to account for all financial resources except those required to be accounted for in another fund.
- ***Capital Project Fund - TIF District #4 Revolving Fund*** - This fund was established in 1985 within the Chaska Flood Control Project Area. This fund is the primary fund for the collection of all District #4 tax revenues which is used to finance expenditures in other District #4 Funds that the City uses as a means to account for project costs.
- ***Capital Project Fund - TIF District #14 Downtown Redevelopment Fund*** - This fund was established in 2004 and with an objective of developing 50 - 80 quality owner-occupied homes, promoting a mix of housing types and price points in the downtown area. The district's plan is to also develop excess TIF to support other downtown redevelopment projects.

**Major Proprietary Funds**

The City of Chaska reports the following major proprietary funds:

- **Electric Fund** – This fund is used to account for revenues and expenses of the City’s Electric Utility.
- **Water Fund** – This fund is used to account for revenues and expenses of the City’s Water Utility.
- **Community Center** – This fund is used to account for revenues and expenses of the Chaska Community Center.
- **Turbine Generator** – This fund is used to account for the operations of the City’s Turbine Generator Utility.

**Other Funds – The City Reports the Following Other Funds**

- **Internal Service Funds** – account for operations that provide services to other departments or agencies of the government on a cost reimbursement basis. The City of Chaska has one (1) Internal Service Fund – the Self-Insurance Fund. This fund is used to account for the purchase of property, liability and workers’ compensation insurance for all City departments. Costs are allocated to individual departments.
- **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. The following is a list of the City’s Fiduciary funds:
  - **Builders’ Deposit Fund** – This fund is used to account for assets held in a custodial capacity in the form of deposits from builders that will be refunded upon project completion.
  - **Developers’ Fund** – This fund is used to account for assets held in a custodial capacity in the form of billings to developers for contractual services.
  - **Metropolitan Council Environmental Services (MCES) Collection Fund** – This fund is used to account for the collection of assets held in a custodial capacity in the form of sewer availability charges remitted monthly to MCES.

**C) Measurement Focus and Basis of Accounting**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Economic resources measurement focus aims to reporting all inflows, outflows and balances affecting or reflecting an entity’s net position. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as

revenues in the year in which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

The Fiduciary Funds report only assets and liabilities and have no measurement focus, but do use the accrual basis of accounting to recognize receivables and payables.

Governmental fund financial statements are reported using the *current financial resources measurement* focus and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities for the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current period. Expenditures generally are recorded when a liability is incurred, as under the accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses and interest associated with the current period are all considered to be susceptible to accrual and so have been recognized as revenues of the current period. Only the portion of special assessments receivable due within the current period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are franchise taxes and other administrative charges between the City's Enterprise funds and other functions of the government. Elimination of these charges would misrepresent the direct costs and program revenues reported for the various functions concerned.

Proprietary funds are accounted for on a flow of *economic resources measurement focus* and *accrual basis of accounting*. This means that all assets, including capital assets, and all liabilities, including long-term liabilities, associated with fund activity are included on the Statement of Net Position. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net position. Revenues are recognized when they are earned, and expenses are recognized at the time liabilities are incurred.

Proprietary Funds 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 fund's principal ongoing operations. The principal operating expenses for all of the City of Chaska's enterprise funds and internal service fund are cost of sales and services, administrative expense, and depreciation of capital assets. All other revenues and expenses are reported as non-operating items.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

**D) Budgetary Accounting**

Budgets for the General fund, two (2) Special Revenue funds and one (1) Capital Project fund are adopted on a basis consistent with accounting principles generally accepted in the United States of America (GAAP). The Non-major Special Revenue funds with budgets are the Mount Pleasant Maintenance & Care fund and the Chaska EDA fund. The capital project fund with a budget is the Equipment Acquisition fund. (Schedules are included in the financial statements). All annual appropriations lapse at fiscal year-end.

**E) Cash and Investments**

Cash balances from all funds are combined and invested to the extent available as authorized by *Minnesota State Statutes*. Earnings from such investments are allocated to the respective funds on the basis of applicable cash balance participation by each fund. Investments are stated at fair value based on quoted market prices, except for investments in 2a7-like external investment pools, which are stated at amortized cost. Cash and cash equivalents consist of available cash, cash deposits and highly liquid investments with an original maturity date at the time of purchase of three months or less. Interest on escrow investments is allocated specifically to the related fund. Investment income is accrued at the balance sheet date.

**F) Receivables**

- **Property Tax**

Property tax levies are levied by the City Council and must be levied on or before five (5) business days after December 20<sup>th</sup>. Levied property taxes are certified to Carver County for collection in the following year. In Minnesota, counties act as collection agents for all property taxes.

The county spreads all levies over assessable property. Such taxes become a lien on the first of January and are recorded as receivables by the City on that date. Revenues are accrued in the year collectable net of delinquencies.

Property taxes may be paid by taxpayers in two (2) equal installments, on May 15 and October 15. The County provides tax settlements to cities and other local governments three (3) times a year: on or before June 30, December 1, and before April 15 of the following year.

Revenues are accrued and recognized in the government-wide financial statements in the current period. In the fund financial statements, taxes that remain unpaid at December 31 are classified as delinquent taxes and have been offset by a deferred inflow of resources, because it is not known when they will be available to finance current expenditures. No allowance for uncollectible taxes has been provided because such amounts are not expected to be material.

- **Special Assessments**

Special assessments are levied against the benefited properties for the assessable costs of special assessment improvement projects in accordance with state statutes. The City usually adopts the assessment rolls when the individual projects are complete or substantially complete. Annual installments (including interest) for special assessments are collected by the County in the same manner as property taxes.

The City recognizes special assessment revenue in the government-wide financial statements when the assessment rolls are levied. In the fund financial statements, the City recognizes special assessment revenue when it becomes both measurable and available. Current assessments, which remain unpaid at December 31 are classified as delinquent receivables and together with deferred assessments are fully offset by deferred inflows because it is not known when they will be available to finance current expenditures.

As of December 31, 2013 the delinquent special assessment receivable balance is \$95,114.

- **Trade Receivables**

All trade receivables are shown net of an allowance for uncollectibles on the Statement of Net Position. On December 31, 2013 the allowance for uncollectible accounts is \$39,328.

**G) Short-Term and Long-Term Interfund Receivables/Payables**

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as “due from other funds” or “due to other funds”. The current portions of lending/borrowing arrangements (advances) are classified as “interfund receivables/payables”. The long-term portions of interfund receivables are reported as advances.

**H) Inventory**

Inventories in the enterprise funds are valued at cost, which approximates market, using a weighted method. Inventories are recorded as expenses when consumed.

**I) Land Held for Resale**

Land held for resale represents various property purchases made by the City with the intent to sell in order to increase tax base or attract new business. These assets are stated at the lower of cost or net realizable value.

**J) Prepaid Items**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. Prepaid items are reported using the consumption method and recorded as expenditures/expenses at the time of consumption.

**K) Restricted Assets**

In the government-wide statement of net position and proprietary fund financial statements, unspent bond proceeds, as well as certain resources set aside for their repayment, are classified as restricted assets because their use is limited by applicable bond covenants.

**L) Capital Assets**

Capital assets, which include land, building and structures, equipment and infrastructure (e.g. roads, bridges, curbs, gutters, streets, sidewalks, drainage systems and lighting systems) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records are available. Donated capital assets are valued at their estimated fair market value on the date received. The costs of normal maintenance and repairs that do not add to the value of, or materially extend the life of the asset are recorded as expenditures. The City uses the following capitalization policy:

Description	Capitalization Threshold
Machinery / Equipment and Vehicles	\$5,000
Building and Building Improvements	25,000
Land and Land Improvements	25,000
Public Domain Infrastructure	50,000

Depreciation of assets on the government-wide statements for the primary government (governmental and business-type activities) and in the Proprietary funds financial statements is charged as an expense against operations over the estimated useful life of the asset using the straight-line method over the following useful lives:

Description	Life
Buildings and Structures	25 years
Furniture and Equipment	3 - 25 years
Improvements, other than Buildings	25 - 50 years
Public Domain Infrastructure	10 - 50 years

Capital assets not being depreciated include land, works of art/historical treasures and construction in progress.

**M) Compensated Absences**

The City compensates all eligible employees upon termination for unused vacation, personal leave, and compensatory time. Union employees, by contract, are entitled to sick leave at the rate of eight (8) hours for each calendar month of full-time service (union employees covered by the personal leave benefit do not receive sick leave). All vacation, personal leave, and compensatory pay is recorded as an expense and liability as the benefits accrue to employees in the government-wide and proprietary fund financial statements. The liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

**N) Deferred Inflows of Resources**

In addition to liabilities, the statement of financial position and fund financial statements will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

The City only has one (1) type of item, which arises only under the modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item is reported only in the governmental funds balance sheet as unavailable revenue. The governmental funds report unavailable revenues from three (3) sources: taxes, special assessments, and notes receivable. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

**O) Long-Term Obligations**

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. The recognition of bond premiums and discounts are amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses.

**P) Fund Balance Classifications**

The difference between fund assets, deferred outflows of resources, liabilities, and deferred inflows of resources is "Fund Balance" on the governmental fund statements. In the fund financial statements, fund balance is divided into five (5) classifications based primarily on the extent to which the City is bound to observe constraints imposed upon the use of resources reported in governmental funds. These classifications are as follows:

- ***Nonspendable*** – consists of amounts that cannot be spent because it is not in spendable form, such as prepaid items or inventory.
- ***Restricted*** – consists of amounts related to externally imposed constraints established by creditors, grantors or contributors; or constraints imposed by state statutory provisions.
- ***Committed*** – consists of amounts that are constrained for specific purposes that are internally imposed by formal action (resolution) of the City Council. Those committed amounts cannot be used for any other purposes unless City Council removes or changes the specified use by taking the same type of action it employed to previously commit those amounts.
- ***Assigned*** – consists of amounts intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended use established by the governing body itself or by an official to which the governing body delegates authority. Pursuant to City Council Resolution, the City's Administrative Services Director is authorized to establish assignments of fund balance.
- ***Unassigned*** – is the residual classification for the general fund and also reflects negative residual amounts in other funds.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, and then unrestricted as needed. When committed, assigned or unassigned funds are available for expenditure, it is the City's policy to spend committed funds first, assigned funds second, and unassigned funds last.

#### **Q) Net Position**

Net position represents the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources in the government-wide and proprietary fund financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net position is reported as restricted in the government-wide financial statement when there are limitations in their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. All other elements of net position that do not meet the definition of "restricted" or "net investment in capital assets" are reported as unrestricted.

#### **R) Interfund Transactions**

Interfund services provided are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in

the fund that is reimbursed. In the ordinary course of business transfers between funds are made to finance projects. Other interfund transactions are reported as transfers in/out. Interfund transactions within the respective categories of governmental activities and business-type activities in the government-wide statement of activities are eliminated. The internal balances caption on the government-wide statement of net position represents interfund receivable or payable between the two (2) types of activities: governmental and business-type.

#### **S) Change in Accounting Principle**

For the year ended December 31, 2013, the City implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

GASB Statement No. 65 identified specific items previously reported as assets that will now be classified as either deferred outflows of resources or outflows (expenditures/expenses), and items previously reported as liabilities that will now be reported as either deferred inflows of resources or inflows (revenues).

This new standard requires retroactive implementation, which resulted in the restatement of net position as of December 31, 2012 due to the write-off of bond issuance costs, which had been recorded as deferred charges and amortized in the past.

#### **T) New Standards Issued But Not Yet Implemented**

GASB Statement No. 68 replaces the requirements of Statements No. 27, *Accounting for Pensions by State and Local Governmental Employers* and Statement No. 50, *Pensions Disclosure*, as they relate to the governments that provide pensions through pension plans administered as trust or similar arrangements that meet certain criteria.

Statement No. 68 requires governments provided defined benefit pension to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits.

## **Note 2 Compliance and Accountability**

#### **A) Budget**

The City follows these procedures in establishing the annual budget:

1. City Administrative Services Director prepares history of actual revenues and expenditures for the prior two (2) years and an estimate for the current year.
2. Department heads review the history and estimate the coming year's revenues and expenditures and then project out five (5) years. Department heads submit their five (5) year budgets to the City Administrative Services Director.
3. Department budgets are reviewed and combined into a five (5) year budget by the City Administrator and City Administrative Services Director.

4. The City Administrator recommends the five (5) year budget to the City Council and revenue and expenditure targets for the new budget year are established.
5. Department heads prepare and submit detail budgets for the new budget year.
6. Department budgets are reviewed by the City Administrator and City Administrative Services Director and submitted to the City Council for approval.
7. Public hearings are conducted to obtain public comment.
8. The City Council may amend the recommended budget and then approves the final budget and required tax levy through passage of a resolution in accordance with *Minnesota State Statutes* on "Truth in Taxation".
9. Budgetary control is maintained by department heads for all assigned divisions (i.e., Mayor, Council, Communication and Administration, etc.). Department heads may reallocate budget appropriations between assigned intrafund divisions but may not reallocate between funds; thus, the legal level of control is at the fund level. Additional expenditures not authorized but proposed by department heads are not authorized unless additional revenues or restrictions are identified and available. During the year, expenditures in various category levels (i.e., personal services, operating supplies, other services and charges, capital outlay and other financing uses) in several divisional areas exceeded the level of appropriation. These variances were not significant since additional revenues and restrictions were identified and available to offset the additional expenditures.
10. Unused budgeted expenditure appropriations lapse at year-end.

**B) Excess of Expenditures Over Appropriations**

For the year ended December 31, 2013, expenditures exceeded appropriations in the General Fund by \$809,724. Expenditures exceeded appropriations in the Mt. Pleasant Maintenance and Care special revenue fund by \$2,306 and in the Chaska EDA special revenue fund by \$301,182. Variances in the General Fund were funded by the increase in revenue over budget as well as fund balance. Variances in the Mt Pleasant Fund were offset by use of fund balance. Variances in the Chaska EDA fund were funded by greater than expected current year revenues and fund balance.

**C) Nonmajor Funds with Negative Equity**

The following nonmajor funds maintained a deficit fund balance/net position at December 31, 2013:

<b>Special Revenue Fund</b>	
Chaska EDA	\$ 246,661
<b>Capital Project Funds</b>	
TIF Dist #10 - Nordic Track	100,754
TIF Dist #16 - Chaska Gateway	3,740
TIF Dist #17 - Chaska Preserve	326,528
TIF Dist #18 - Chaska Building Center	498,574
2003 Improvement Projects	62,360
2007 Improvement Projects	227,140
2010 Improvement Projects	1,155,362
2013 Improvement Projects	857,710
<b>Enterprise Funds</b>	
Par 30 Golf	4,096
Internet Service Provider	2,541,286

The deficit in the Chaska EDA fund is due to a land purchase for the redevelopment of Block 6. Ongoing activities of the Chaska EDA fund will eliminate this deficit.

The deficits in the Capital Project funds relate to capital projects that have incurred expenditures but have not received final financing or are supported by developer fees and special assessments. All funds are expected to recover their deficits. In addition, the deficits in the TIF Districts are due to the timing of tax increments and project costs for the district. Tax increment revenue collected in future years will eliminate these deficits.

The deficit in the Par 30 Golf fund relates to annual operations. The deficit in the Internet Service Provider fund is due to start-up costs for the wireless residential internet service which had its first full year of operations in 2005 and additional equipment purchases in 2006. Revenue from future operations will eliminate the deficit.

**Note 3 Cash and Investments**

The City maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the government-wide statement of net position as "Cash And Investments".

**A) Deposits**

Deposits, investments, petty cash and change funds are reported on the City's financial statements as follows:

Statement of Net Position - Government-Wide	
Cash and Invesments	\$33,764,455
Restricted Cash and Investments	<u>4,754,718</u>
	38,519,173
Statement of Net Position - Fiduciary Funds	
Cash and Investments	<u>326,864</u>
Total Cash and Investments	<u><u>\$38,846,037</u></u>

In accordance with applicable *Minnesota Statutes*, the City maintains deposits at depository banks authorized by the City Council, including checking accounts and certificates of deposits.

The following is considered the most significant risk associated with deposits:

**Custodial Credit Risk** – Is the risk that in the event of bank failure, the City's deposits may be lost and not recovered.

Minnesota Statutes require that federal deposit insurance, corporate surety bond or collateral protect all deposits. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance or bonds.

Authorized collateral includes the legal investments described below under "credit risk", as well as; certain first mortgage notes and certain other state or local government obligations.

Minnesota Statutes require that securities pledged as collateral be held in safekeeping by the City or in a financial institution other than that furnishing the collateral. The City's investment policies do not further address limiting exposure to custodial credit risk for deposits.

Deposit balances at December 31, 2013 are as follows:

	<u>Bank Balance</u>	<u>Carrying Amount</u>
Total Bank Deposits	\$2,742,797	\$2,048,288

At December 31, 2013, all deposits were insured, or collateralized by securities held by the City's agent in the City's name.

**B) Investments**

The City has the following investments at year-end:

Investment Type	Credit Risk		Interest Risk - Maturity Duration in Years			Total
	Rating	Agency	Less Than 1	1 to 5	More than 5	
Guaranteed Investment Contract	N/A	N/A	\$ -	\$ -	\$ 2,444,513	\$ 2,444,513
U.S. Treasury Strips	N/A	N/A	-	714,779	-	714,779
U.S. Government Agencies	AA+	S&P	-	6,694,243	1,892,338	8,586,581
U.S. Government Agencies	AA-	S&P	-	2,371,664	-	2,371,664
State and Local Bonds	A	S&P	599,354	561,405	-	1,160,759
State and Local Bonds	A+	S&P	841,792	-	-	841,792
State and Local Bonds	A-	S&P	506,420	293,014	-	799,434
State and Local Bonds	AA	S&P	-	1,127,267	-	1,127,267
State and Local Bonds	AA+	S&P	534,505	1,449,848	-	1,984,353
State and Local Bonds	AA-	S&P	413,120	518,810	-	931,930
State and Local Bonds	Baa2	Moody's	617,774	-	-	617,774
State and Local Bonds	Aa2	Moody's	284,562	507,030	-	791,592
State and Local Bonds	A2	Moody's	-	236,782	-	236,782
Negotiable CD's	NR	NA	2,486,000	3,470,193	-	5,956,193
Commercial Paper	A1+	S&P	N/A	N/A	N/A	873,826
Investments in Mutual Funds & Money Markets						
First American Treasury Obligations	AAAam	S&P	N/A	N/A	N/A	272,880
100% Treasury MM Fund	AAAam	S&P	N/A	N/A	N/A	924,620
Minnesota Municipal MM Fund	N/R	N/A	N/A	N/A	N/A	6,157,200
Total Investments:			\$ 6,283,526	\$ 17,945,036	\$ 4,336,851	\$ 36,793,939
N/A - Not Applicable					Total Deposits	\$ 2,048,288
N/R - Not Rated					Petty Cash	3,810
					Total Deposits and Investments	\$ 38,846,037

The Minnesota Municipal Money Market Fund (4M Fund) is an external investment pool regulated by Minnesota Statutes and the Board of Directors of the League of Minnesota Cities. The 4M Fund is an unrated 2a7-like pool and the City's investment in this trust is measured at the net position value per share provided by the pool, which is based on an amortized cost method that approximates fair value.

Investments are subject to various risks, the following of which are considered the most significant:

**Custodial Credit Risk** – Is the risk that in the event of a failure of the counterparty to an investment transaction (typically a broker-dealer) the City would not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investment policies do not address limiting exposure to custodial credit risk.

**Credit Risk** – Is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Minnesota Statutes limit the City's investments to direct obligations or obligations guaranteed by the United States or its agencies; shares of investment companies registered under the Federal Investment Company Act of 1940 that receive the highest credit

rating, are rated in one (1) of the two (2) highest rating categories by a statistical rating agency, and all of the investments have a final maturity of thirteen months or less; general obligations rated “A” or better; revenue obligations rated “AA” or better; general obligations of the Minnesota Housing Finance Agency rated “A” or better; bankers acceptances of United States banks eligible for purchase by the Federal Reserve System; commercial paper issued by United States corporations or their Canadian subsidiaries, rated of the highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less; Guaranteed Investment Contracts guaranteed by a United States commercial bank, domestic branch of a foreign bank, or a United States insurance company, with a credit quality in one of the top two highest categories; repurchase or reverse purchase agreements and securities lending agreements with financial institutions qualified as a “depository” by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, that are a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers. The City’s investment policies do not further address credit risk.

**Concentration Risk** – This is the risk associated with investing a significant portion of the City’s investment (considered five percent or more) in the securities of a single issuer, excluding U.S. guaranteed investments (such as Treasuries), investment pools, and mutual funds. The City’s investment policy does not limit the concentration of investments. At year-end, the City had more than five percent of its investments in Federal Home Loan Mortgage Corporation, Federal National Mortgage Association and a Guaranteed Investment Contract with MBIA, Inc. These investments comprise 14.8 percent, 13.9 percent and 6.6 percent, respectively, of the City’s total investments.

**Interest Rate Risk** - This is the risk of potential variability in the fair value of fixed rate investments resulting from changes in interest rates (the longer the period for which an interest rate is fixed, the greater the risk). The City’s investment policy does not limit the duration of investments.

**Note 4 Capital Assets**

Capital asset activity for Governmental and Business-Type activities for the year ended December 31, 2013, was as follows:

	BALANCE JAN. 1, 2013	INCREASES	DECREASES	RECLASS & TRANSFERS	BALANCE DEC. 31, 2013
<b>Governmental Activities</b>					
Capital assets, not being depreciated:					
Land	\$ 45,495,467	\$ 262,120	\$ -	\$ -	\$ 45,757,587
Works of Art/Treasures	105,027	-	-	-	105,027
Construction In Progress	6,688,753	4,123,398	(49,016)	(5,725,827)	5,037,308
Total capital assets, not being depreciated:	52,289,247	4,385,518	(49,016)	(5,725,827)	50,899,922
Capital assets, being depreciated:					
Buildings	9,901,593	-	(35,684)	-	9,865,909
Other Improvements	11,262,036	19,794	-	(82,683)	11,199,147
Furniture & Equipment	8,772,069	486,377	(505,863)	-	8,752,583
Infrastructure	124,086,880	171,353	(108,262)	5,808,510	129,958,481
Total capital assets being depreciated:	154,022,578	677,524	(649,809)	5,725,827	159,776,120
Less accumulated depreciation for:					
Buildings	(5,689,092)	(332,209)	28,446	-	(5,992,855)
Other Improvements	(6,292,803)	(415,335)	-	39,685	(6,668,453)
Furniture & Equipment	(6,610,176)	(582,934)	492,348	-	(6,700,762)
Infrastructure	(43,295,184)	(4,026,625)	103,931	(39,685)	(47,257,563)
Total accumulated depreciation:	(61,887,255)	(5,357,103)	624,725	-	(66,619,633)
Total capital assets, being depreciated, net:	92,135,323	(4,679,579)	(25,084)	5,725,827	93,156,487
Governmental activities capital assets, net:	\$ 144,424,570	\$ (294,061)	\$ (74,100)	\$ -	\$ 144,056,409
<b>Business-Type Activities</b>					
Capital assets, not being depreciated:					
Land	\$ 699,805	\$ 130,000	\$ -	\$ -	\$ 829,805
Construction In Progress	439,245	5,056,311	-	-	5,495,556
Total capital assets, not being depreciated:	1,139,050	5,186,311	-	-	6,325,361
Capital assets, being depreciated:					
Buildings	52,589,267	-	-	-	52,589,267
Other Improvements	1,993,763	73,819	-	-	2,067,582
Furniture & Equipment	8,039,033	461,979	(331,748)	-	8,169,264
Infrastructure	24,325,112	1,207,533	(184,861)	-	25,347,784
Total capital assets, being depreciated:	86,947,175	1,743,331	(516,609)	-	88,173,897
Less accumulated depreciation for:					
Buildings	(26,694,055)	(1,498,331)	-	-	(28,192,386)
Other Improvements	(369,617)	(133,251)	-	-	(502,868)
Furniture & Equipment	(5,837,586)	(545,754)	331,748	-	(6,051,592)
Infrastructure	(11,630,196)	(659,963)	151,839	-	(12,138,320)
Total accumulated depreciation:	(44,531,454)	(2,837,299)	483,587	-	(46,885,166)
Total capital assets, being depreciated, net:	42,415,721	(1,093,968)	(33,022)	-	41,288,731
Business-type activities capital assets, net:	\$ 43,554,771	\$ 4,092,343	\$ (33,022)	\$ -	\$ 47,614,092

City of Chaska, Minnesota

December 31, 2013

Depreciation Expense was charged to functions/programs of the primary government as follows:

<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
Public Works	\$ 4,404,421	Electric	\$ 759,903
Public Safety	242,788	Water	785,580
Parks, Recreation & Arts	256,407	Sewer	70,378
General Government	451,056	Community Center	642,664
Economic Development	2,431	Chaska Par 30	3,940
		Chaska Town Course	513,069
		Internet Service Provider	61,765
Total Depreciation Expense -		Total Depreciation Expense -	
Governmental Activities:	<u>\$ 5,357,103</u>	Business-Type Activities:	<u>\$ 2,837,299</u>

## **Note 5 Lease Receivable Agreements**

### **A) Turbine Generator Lease**

The City of Chaska has entered into a Lease Receivable Agreement with the Minnesota Municipal Power Agency (MMPA) in which the City agrees to sell MMPA the peaking power and peaking power capacity of the City's gas turbine generator for a thirty-year period, commencing May 1, 2001. MMPA receives the sole right to operate the facility and to use the power generated from such operation for the term of the agreement. MMPA is responsible for all expenses of operating and maintaining the facility for this period, with the exception of insurance, which is to be purchased by the City. Under the agreement, MMPA will pay the City an amount representing the total cost to the City of constructing the facility plus a predetermined rate of return and interest. The payments are to be made in equal monthly installments over the thirty-year term of the agreement. The total project costs to the City for the constructing of the facility was \$29,144,986. The total lease principal after adjusting for issuance costs and interest earnings is \$28,468,092.

Under the agreement, the City retains ownership of the facility. In the event the facility is destroyed or damaged to the point of being unusable before the end of the agreement, the City would be indemnified by MMPA for any costs in excess of insurance of retiring any remaining debt incurred to build the facility.

A second agreement between the two (2) parties gives MMPA the annual option to continue this agreement for an additional twenty-year period, commencing May 1, 2031. The agreement calls for annual payments of \$500,000 to be made in equal monthly installments. MMPA will have the annual option to cancel the agreement for any of the twenty additional years by giving the City ninety days written notice in advance of May 1<sup>st</sup> of the year the option will not be exercised.

City of Chaska, Minnesota

December 31, 2013

MMPA will continue to have this option for the twenty-year life of the agreement, even if it chooses not to exercise the option in one (1) or more years during the term of the agreement. Annual lease payments through April 1, 2031 are as follows:

Year Ending December 31,	Lease Receivable	
	Principal	Interest
2014	\$ 626,413	\$ 2,014,655
2015	682,185	1,958,883
2016	742,921	1,898,147
2017	809,060	1,832,008
2018	881,092	1,759,976
2019-2023	5,731,453	7,473,887
2024-2028	8,779,384	4,425,956
2029-2031	5,568,257	597,297
Total:	<u>\$ 23,820,765</u>	<u>\$ 21,960,809</u>

**B) Recovery Center Lease**

In October 2011, the Chaska Economic Development Authority entered into a lease agreement with Five Stars Recovery Center. The leased property is a historic, single family home, owned by the City/Chaska EDA. The term of the lease is 60 months.

Annual lease payments through 2016 are as follows:

Year Ending December 31,	Lease Receivable Annual Payments
2014	\$ 26,400
2015	26,400
2016	19,800
Total	<u>\$ 72,600</u>

City of Chaska, Minnesota

December 31, 2013

**Note 6 Long-Term Debt**

Long-term debt liabilities for the year ended December 31, 2013 are as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b><u>Governmental Activities</u></b>					
Bonds Payable					
General Obligation Bonds					
Equipment Certificates	\$ 690,000	\$ 915,000	\$ (285,000)	\$ 1,320,000	\$ 130,000
General Obligation Bonds	3,455,000	-	(335,000)	3,120,000	365,000
Tax Increment Bonds	10,905,000	580,000	(3,845,000)	7,640,000	3,400,000
Improvement Bonds	21,705,000	3,330,000	(6,165,000)	18,870,000	1,045,000
Plus: Premium	569,374	123,513	(81,896)	610,991	-
Total Bonds Payable:	<u>37,324,374</u>	<u>4,948,513</u>	<u>(10,711,896)</u>	<u>31,560,991</u>	<u>4,940,000</u>
Notes Payable					
Promissory Note Payable:	152,717	-	(7,723)	144,994	8,206
Compensated Absences	620,774	428,240	(309,474)	739,540	408,507
Other Post Employment Benefits	173,841	61,419	(18,627)	216,633	-
Governmental Activity					
Long-term Liabilities:	<u>\$38,271,706</u>	<u>\$ 5,438,172</u>	<u>\$(11,047,720)</u>	<u>\$32,662,158</u>	<u>\$ 5,356,713</u>
<b><u>Business-type Activities</u></b>					
Bonds Payable					
General Obligation Revenue Bonds	\$ 12,020,000	\$ -	\$ (320,000)	\$ 11,700,000	\$ 330,000
Revenue Bonds	34,575,000	3,850,000	(1,300,000)	37,125,000	1,500,000
Plus: Premium	929,875	17,637	(52,882)	894,630	-
Total Bonds Payable:	<u>47,524,875</u>	<u>3,867,637</u>	<u>(1,672,882)</u>	<u>49,719,630</u>	<u>1,830,000</u>
Compensated absences	427,878	210,188	(221,288)	416,778	235,465
Other Post Employment Benefits	99,095	35,013	(10,619)	123,489	-
Business-type Activity					
Long-term Liabilities:	<u>\$48,051,848</u>	<u>\$ 4,112,838</u>	<u>\$ (1,904,789)</u>	<u>\$50,259,897</u>	<u>\$ 2,065,465</u>

For the Governmental Activities, compensated absences and other post-employment benefits are generally liquidated by the General Fund. Business-type activities compensated absences and other post-employment benefits are liquidated within the respective enterprise fund.

**General Obligation Bonds:**

General obligation debt is supported by the “full faith and credit” of the City including tax increment and improvement bond issues. Bonds in the governmental activities will be repaid by future property tax levies, tax increments or special assessments accumulated in the specific debt service funds. In the event that a deficiency exists because of unpaid or delinquent tax increment or special assessments at the time a debt service payment is due, the City must provide resources to cover the deficiency until other resources are available.

City of Chaska, Minnesota

December 31, 2013

General Obligation Equipment Certificates:

The City issues equipment certificates to provide funding for the acquisition of equipment and vehicles for various departments.

General obligation equipment certificates currently outstanding for the year ended December 31, 2013 are as follows:

	Original Issue	Interest Rates	Issue Date	Final Maturity Date	Outstanding Amount
Governmental Activities:					
G.O. Equipment Certificates	\$ 885,000	4.00 - 4.25%	11/15/08	02/01/16	\$ 405,000
G.O. Equipment Certificates	915,000	0.90 - 3.10%	08/15/13	02/01/23	915,000
					<u>\$ 1,320,000</u>

Annual debt service requirements to maturity for general obligation equipment certificates are as follows:

Year Ending December 31	Governmental Activities	
	Principal	Interest
2014	\$ 130,000	\$ 32,755
2015	215,000	27,674
2016	235,000	20,924
2017	95,000	16,690
2018	100,000	15,078
2019 - 2023	545,000	38,776
Total:	<u>\$ 1,320,000</u>	<u>\$ 151,897</u>

General Obligation Bonds:

In 2011, the City issued \$3,455,000 General Obligation bonds for various projects.

General obligation bonds currently outstanding for the year ended December 31, 2013 are as follows:

	Original Issue	Interest Rates	Issue Date	Final Maturity Date	Outstanding Amount
Governmental Activities:					
G.O. Bonds	\$ 3,455,000	2.00 - 3.25%	09/15/11	02/01/27	<u>\$ 3,120,000</u>

City of Chaska, Minnesota

December 31, 2013

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ending December 31	Governmental Activities	
	Principal	Interest
2014	\$ 365,000	\$ 74,488
2015	440,000	66,437
2016	480,000	57,237
2017	200,000	50,188
2018	200,000	45,437
2019 - 2023	960,000	141,600
2024 - 2027	475,000	31,469
Total:	<u>\$ 3,120,000</u>	<u>\$ 466,856</u>

General Obligation Tax Increment Bonds:

The City issues tax increment bonds to provide funding for the construction of streets and utilities, and the acquisition of property for business development.

General obligation tax increment bonds currently outstanding for the year ended December 31, 2013 are as follows:

	Original Issue	Interest Rates	Issue Date	Final Maturity Date	Outstanding Amount
Governmental Activities:					
G.O. Taxable T.I. Bonds	\$ 565,000	6.25 - 7.50%	11/15/08	02/01/31	\$ 535,000
G.O. Taxable Abatement Bonds	405,000	4.00 - 5.25%	09/15/10	02/01/33	405,000
Governmental Activities - Refunding:					
G.O. T.I. Refunding	14,385,000	4.00 - 5.00%	11/01/08	02/01/15	5,205,000
G.O. Taxable T.I. Refunding	870,000	4.50 - 5.75%	11/01/08	02/01/15	310,000
G.O. T.I. Refunding	1,210,000	2.50%	09/15/11	02/01/14	605,000
G.O. T.I. Cross-Over Refunding	580,000	2.00- 2.75%	08/15/13	12/01/21	580,000
					<u>\$ 7,640,000</u>

City of Chaska, Minnesota

December 31, 2013

Annual debt service requirements to maturity for general obligation tax increment bonds are as follows:

Year Ending December 31	Governmental Activities	
	Principal	Interest
2014	\$ 3,400,000	\$ 287,923
2015	2,890,000	138,588
2016	95,000	65,337
2017	100,000	62,388
2018	105,000	59,262
2019 - 2023	420,000	241,413
2024 - 2028	295,000	153,713
2029 - 2033	335,000	42,987
Total:	<u>\$ 7,640,000</u>	<u>\$ 1,051,611</u>

#### General Obligation Improvement Bonds:

The City issues improvement bonds to provide funding for the construction of streets and utilities.

General obligation improvement bonds currently outstanding for the year ended December 31, 2013 are as follows:

	Original Issue	Interest Rates	Issue Date	Final Maturity Date	Outstanding Amount
Governmental Activities:					
G.O. Improvement Bonds	\$ 3,645,000	3.00- 5.13%	11/15/08	02/01/29	\$ 2,355,000
G.O. Improvement Bonds	3,220,000	2.00 - 4.00%	07/01/10	02/01/31	2,670,000
G.O. Improvement Bonds	2,180,000	2.00 - 3.75%	09/15/10	02/01/33	2,135,000
G.O. Improvement Bonds	2,430,000	2.00 - 2.40%	08/15/12	02/01/28	2,430,000
G.O. Improvement Bonds	3,330,000	2.00 - 4.00%	08/15/13	02/01/35	3,330,000
Governmental Activities - Refunding:					
G.O. Improvement Refunding	1,995,000	2.00 - 3.00%	10/01/09	12/01/20	895,000
G.O. Capital Improvement Plan Refunding Bonds	880,000	0.40 - 1.10%	09/15/10	02/01/15	380,000
G.O. Cross-over Refunding	4,675,000	2.00 - 2.30%	08/15/12	02/01/27	4,675,000
					<u>\$ 18,870,000</u>

City of Chaska, Minnesota

December 31, 2013

Annual debt service requirements to maturity for general obligation improvement bonds are as follows:

Year Ending December 31	Governmental Activities	
	Principal	Interest
2014	\$ 1,045,000	\$ 512,960
2015	1,845,000	483,456
2016	1,740,000	442,701
2017	1,740,000	399,589
2018	1,455,000	357,107
2019 - 2023	5,145,000	1,285,174
2024 - 2028	4,510,000	618,548
2029 - 2033	1,310,000	110,897
2034 - 2035	80,000	3,200
Total:	<u>\$ 18,870,000</u>	<u>\$ 4,213,632</u>

#### General Obligation Revenue Bonds:

The G.O. utility revenue bonds are backed by the “full faith and credit” of the City. Bonds in the business-type activities will be repaid with the net revenues of the Water Utility. In the event that a deficiency exists at the time a debt service payment is due, the City must provide resources to cover the deficiency until other resources are available.

In 2003, the City issued G.O. Revenue Bonds to expand its existing water system and construct a new water treatment plant. In 2009, the City issued \$1,495,000 G.O. Water Revenue Bonds to advance refund a portion of the 2003 bonds. In 2011, the City issued \$11,435,000 G.O. Water Revenue Refunding Bonds to refund the balance of the 2003 Bonds.

General Obligation Revenue Refunding Bonds currently outstanding for the year ended December 31, 2013 are as follows.

	Original Issue	Interest Rates	Issue Date	Final Maturity Date	Outstanding Amount
Business-type Activities - Refunding:					
G.O. Water Revenue Partial Advance Refunding Bonds	\$ 1,495,000	2.00 - 3.25%	10/01/09	12/01/22	\$ 1,150,000
G.O. Water Revenue Refunding Bonds	11,435,000	2.00 - 4.00%	09/15/11	12/01/32	<u>10,550,000</u>
					<u>\$ 11,700,000</u>

Annual debt service requirements to maturity for general obligation revenue bonds are as follows:

Year Ending December 31	Business-type Activities	
	Principal	Interest
2014	\$ 330,000	\$ 382,088
2015	370,000	374,937
2016	425,000	366,938
2017	460,000	357,812
2018	505,000	346,012
2019 - 2023	3,045,000	1,463,887
2024 - 2028	3,290,000	966,013
2029 - 2032	3,275,000	321,669
Total:	<u>\$ 11,700,000</u>	<u>\$ 4,579,356</u>

### **Revenue Bonds:**

Revenue bonds are supported by income derived from lease agreements or specific fee revenues to pay for debt service.

The 2000 Electric Revenue Bonds provided funding for the acquisition and construction of a gas turbine peaking power electric generation facility and distribution substation. On October 1, 2010 these bonds were partially advance refunded and a balance of \$100,000 will remain outstanding through October 1, 2030. The City receives lease payments from the Minnesota Municipal Power Agency (MMPA) who sells power generated at the facility. This facility is considered an asset of MMPA. The Turbine fund financial statement reports a lease receivable and the outstanding bonds.

The 2005 Electric Revenue Refunding bonds were sold to partially advance refund the 2000 Electric Revenue Bond (see discussion above). The purpose of the refunding was to enable the City to achieve debt service savings.

The 2007 Chaska EDA Lease Revenue bonds provide funding for a senior center addition to the Chaska Community Center. These bonds will be repaid by lease payments made by the City to the Chaska EDA.

The 2011 Electric Utility Revenue Bonds to finance the acquisition and installation of an electric utility substation and improvements to an existing substation. These bonds will be repaid with the net revenues of the Electric Utility.

In 2013, the city issued \$3,850,000 Chaska EDA Lease Revenue and Limited Tax Bonds in order to finance the acquisition of equipment within the City's Community Center. These bonds will be repaid by lease payments made by the City to the Chaska EDA.

City of Chaska, Minnesota

December 31, 2013

Revenue Bonds currently outstanding for the year ended December 31, 2013 are as follows:

	Original Issue	Interest Rates	Issue Date	Final Maturity Date	Outstanding Amount
Business-type Activities:					
Electric Revenue Bonds	\$ 34,580,000	4.90 - 6.10%	07/01/00	10/01/30	\$ 100,000
EDA Lease Revenue Bonds	2,900,000	4.00 - 4.40%	06/01/07	12/01/27	2,760,000
Electric Utility Revenue Bonds	3,535,000	2.00 - 3.65%	12/22/11	10/01/31	3,220,000
EDA Lease Revenue and Limited Tax Bonds	3,850,000	2.00 - 4.00%	07/18/13	12/01/33	3,850,000
Business-type Activities - Refunding:					
Electric Revenue Refunding Bonds	30,735,000	3.00 - 5.25%	04/01/05	10/01/30	27,195,000
					<u>\$ 37,125,000</u>

Revenue bond debt service requirements to maturity are as follows:

Year Ending December 31	Business-type Activities	
	Principal	Interest
2014	\$ 1,500,000	\$ 1,709,300
2015	1,545,000	1,654,140
2016	1,610,000	1,596,040
2017	1,675,000	1,523,428
2018	1,760,000	1,447,465
2019 - 2023	10,115,000	5,942,707
2024 - 2028	12,515,000	3,306,255
2029 - 2033	6,405,000	541,933
Total:	<u>\$ 37,125,000</u>	<u>\$ 17,721,268</u>

### Notes Payable:

The Chaska Economic Development Authority is liable for a promissory note to KleinBank. This note is related to a Chaska EDA owned property. The annual note payments are offset by lease revenue collected from the current tenants. The note currently has a five-year term, but could be renegotiated. This note is paid by the Chaska EDA fund.

Promissory Note outstanding for the year ended December 31, 2013 is as follows:

	Original Issue	Interest Rates	Issue Date	Final Maturity Date	Outstanding Amount
Governmental Activities:					
Promissory Note Payable	\$ 161,178	6.00%	10/17/11	10/15/16	<u>\$ 144,994</u>

Promissory note requirements to maturity are as follows:

Year Ending December 31	Governmental Activities	
	Principal	Interest
2014	\$ 8,206	\$ 8,594
2015	8,720	8,080
2016	128,068	6,337
Total:	<u>\$ 144,994</u>	<u>\$ 23,011</u>

### **2013 Activity**

On July 18, 2013 the City of Chaska EDA issued \$3,850,000 in Lease Revenue and Limited Tax Bonds, Series 2013A with a true interest cost of 3.59 percent (2.00 percent - 4.00 percent). The maturity date is December 1, 2033. The proceeds from the bonds will be used to finance the acquisition of equipment within the City's Community Center. The principal and interest payments will be repaid solely by lease payments made by the City to the Chaska EDA.

On August 15, 2013 the City of Chaska issued \$3,330,000 in General Obligation Improvement Bonds, Series 2013A with a true interest cost of 3.11 percent (2.00 percent - 4.00 percent). The maturity date is February 1, 2035. The proceeds from these bonds will be used to finance street reconstruction within the City. These bonds are backed by the full faith and credit of the City.

On August 15, 2013, the City of Chaska issued \$580,000 Taxable General Obligation Tax Increment Refunding Bonds, Series 2013B with a true interest cost of 2.39 percent (2.00 percent - 2.75 percent). The maturity date is December 01, 2021. The proceeds from these bonds were used to refund Taxable General Obligation Tax Increment Bonds, Series 2004A. These bonds are backed by the full faith and credit of the City. This refunding reduced the City's total future debt service payments by \$70,126, and resulted in a net present value savings of \$64,208.

On August 15, 2013, the City of Chaska issued \$915,000 in General Obligation Equipment Certificates, Series 2013C with a true interest cost of 2.39 percent (0.90 percent - 3.10 percent). The maturity data is February 01, 2023. The proceeds from these bonds will be used to finance the acquisition of various items of capital equipment for City purposes. These bonds are backed by the full faith and credit of the City.

On December 1, 2013, the proceeds from the City's \$4,675,000 General Obligation Cross-over Refunding Bonds, Series 2012B were used to refund the 2014 and future outstanding maturities of the City's General Obligation Improvement Bonds, Series 2006A. This refunding reduced the City's future debt service payments by \$522,645, and resulted in a net present value savings of \$458,674.

**Revenue Pledged:**

Future revenue pledged for the payment of long-term debt (revenue bonds) are as follows:

Bond Issue - Revenue Bonds	Use of Proceeds	Type	Revenue Pledged		Remaining Principal and Interest	Current Year	
			Percent of Total Debt Service	Term of Pledge		Principal and Interest Paid	Pledged Revenue Received
<b><u>GO Water Revenue Bonds:</u></b>	Water Treatment Plant and Water Systems						\$ 2,528,547
Refunding Bonds of 2009	Partial Advance Refund 2003 Bonds	Utility Charges	100%	2009 - 2022	\$ 1,331,350	\$ 150,450	
Refunding Bonds of 2011	Refund 2003 Bonds	Utility Charges	100%	2011 - 2032	14,948,006	560,088	
<b><u>Electric Revenue Bonds:</u></b>							2,236,674
Electric Bonds of 2000	Turbine Generator	Lease Revenue	100%	2000 - 2030	203,700	6,100	
Electric Refunding Bonds of 2005	Refund Most of 2000 Bonds	Lease Revenue	100%	2005 - 2030	41,275,548	2,433,460	
Electric Bonds of 2011	Electric Substation and Improvements	Utility Charges	100%	2011 - 2031	4,243,163	237,470	33,831,735
<b><u>EDA Lease Revenue Bonds:</u></b>	Community Center Additions and Improvements						2,840,473
Lease Revenue Bonds of 2007	Sr. Center Addition/Community Center	Lease Revenue	100%	2007 - 2027	3,734,065	261,975	
Lease Revenue & Limited Tax Bonds of 2013	Ice Arenas, Pool & Ventilation Systems	Lease Revenue	100%	2013 - 2033	5,389,793	44,110	

**NOTES PAYABLE:**

The City also issues notes payable. For tax increment notes, the City pledges tax increment revenues captured by the tax increment districts to pay debt service on the notes issued to enhance economic development within the tax increment districts. Payments are first applied to accrued interest and then to principal balances. The note is cancelled at the end of the agreement term, whether or not they have been repaid.

As of December 31, 2013, the City has two (2) outstanding notes payable, for North Meadows Apartments and Clover Field Sinclair, LP. The note for North Meadows Apartments was issued in 2002 at 6.50 percent interest with payments due through 2023. The outstanding balance as of December 31, 2013 is \$1,375,740. The note for Clover Field Sinclair, LP was issued in 2007 at 5.65 percent interest with payments due through 2029. The outstanding balance as of December 31, 2013 is \$3,791,953. These amounts have not been included in long-term debt because of the nature of the notes in that repayment is required only if sufficient tax increments are received.

The City's position is that these are obligations to assign future and uncertain revenue sources and as such, is not actual debt in substance.

**CONDUIT DEBT:**

From time to time, the City has issued Industrial Revenue Bonds (IRBs) and Housing Revenue Bonds (HRBs) (Collectively the "Revenue Bonds") to provide financial assistance to private-sector entities for the acquisition and construction of industrial and housing facilities deemed to be in the public interest. The Revenue Bonds are secured by the property financed are payable solely from payments received on the underlying mortgage loans. Upon repayment of the Revenue Bonds, ownership of the acquired facilities transfers to the private sector entity served by the bond issuance. Neither the City, nor the State, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

City of Chaska, Minnesota

December 31, 2013

As of December 31, 2013, there were eight (8) series of IRBs outstanding. The aggregate principal amount payable for the five (5) series issued after July 1, 1995, was \$7,581,606. The aggregate principal amount payable for the three (3) series issued prior to July 1, 1995, could not be determined; however, their original issue amounts totaled \$9,625,000.

As of December 31, 2013, there were five (5) series of HRBs outstanding. The aggregate principal amounts payable for the three (3) series issued after July 1, 1995 was \$9,845,000. The aggregate principal amount payable for the two (2) series issued prior to July 1, 1995, could not be determined; however, their original issue amounts totaled \$6,260,000.

The outstanding HRB balance includes one (1) issue that is backed by the full faith and credit of the City. In 2010, the Carver County Housing and Redevelopment Authority issued \$2,850,000 in Housing Development Revenue Bonds. (These bonds refunded the \$2,695,691 Housing Revenue Bonds of 2000). This issue is secured by housing revenues and, if not so paid, by a tax levy. The bonds are secured by a general obligation pledge of the City.

## Note 7 Interfund Receivables, Payables and Transfers

The compositions of interfund balances as of December 31, 2013 are as follows:

### Due To/From Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Nonmajor Governmental	Nonmajor Governmental	\$ 2,113,679
Electric	Nonmajor Governmental	208,053
Electric	Community Center	66,742
Electric	Nonmajor Enterprise	2,192,603
Fiduciary	Fiduciary	83,816
<b>Total:</b>		<u><u>\$ 4,664,893</u></u>

The \$4,664,893 in Due To / Due From Other Funds eliminate temporary cash deficits in the respective funds.

### Interfund Receivables/Payables

#### Advances To/From Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Interfund Receivables/ Payables</u>	<u>Advances To/From</u>	<u>Total</u>	<u>Purpose</u>
Nonmajor Governmental	Nonmajor Governmental	\$ 104,494	\$ -	\$ 104,494	1
Electric	Nonmajor Governmental	498,574	-	498,574	1
Electric	District #14 Downtown Redevelopment	-	4,116,579	4,116,579	2,3
Electric	Nonmajor Governmental	-	331,528	331,528	4
Turbine Generator	Electric	38,456	1,050,330	1,088,786	5
Electric	Nonmajor Enterprise	-	1,169,964	1,169,964	6
<b>Total:</b>		<u><u>\$ 641,524</u></u>	<u><u>\$ 6,668,401</u></u>	<u><u>\$ 7,309,925</u></u>	

City of Chaska, Minnesota

December 31, 2013

**Explanation of Advances To / From Other Funds:**

- (1) These loans eliminate what would have been negative cash in TIF District funds. Repayment of the outstanding balance of \$603,068 will be made from tax increment generated by the district as it becomes available.
- (2) This 2004 loan from the Electric Fund to finance TIF District #14 project costs will be paid plus interest when the Block 53 property is developed. The amount outstanding as of December 31, 2013 is \$1,662,609.
- (3) This 2007 loan from the Electric Fund provides interim financing for TIF District #14 project costs. The loan will be repaid from available cash as development of Block 6 occurs. The amount outstanding as of December 31, 2013 is \$2,453,970.
- (4) This interfund loan from the Electric Fund provides interim financing to TIF District #17 for project costs. The loan will be repaid from available cash as development of Creeks Run occurs. The amount outstanding as of December 31, 2013 is \$331,528.
- (5) A long-term interfund loan between the Electric Fund and the Turbine Generator Fund was made in 2001 to finance a substation. Of the \$1,088,786 owed as of December 31, 2013, \$1,050,330 is considered due in more than one (1) year.
- (6) This interfund loan from the Electric Fund to Chaska.net was used to develop the expanded wireless internet service. The entire loan amount of \$1,169,964 is expected to remain outstanding throughout 2014.

**Interfund Transfers**

	<b>Transfers In</b>					
	Governmental Activities			Business-Type Activities		
	TIF District #14 Downtown			Community Center		<b>Total</b>
<b>Transfers Out</b>	General Fund	Redevelopment	Nonmajor	Water	Center	
TIF District #4 Revolving	\$ -	\$ -	\$ 3,548,625	\$ -	\$ -	\$ 3,548,625
TIF District #14 Downtown Redevelopment	-	590,000	144,242	-	-	734,242
Nonmajor Governmental	8,000	-	1,874,347	620,945	-	2,503,292
Electric	-	-	459,300	-	428,000	887,300
Water	-	-	129,800	-	-	129,800
Turbine Generator	105,000	-	364,000	-	-	469,000
Nonmajor Enterprise	-	-	418,661	-	-	418,661
	<b>\$ 113,000</b>	<b>\$ 590,000</b>	<b>\$ 6,938,975</b>	<b>\$ 620,945</b>	<b>\$ 428,000</b>	<b>\$ 8,690,920</b>

**Explanation of Transfers:**

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

**Note 8 Fund Balance**

A summary of the governmental fund balance classifications as of December 31, 2013 are as follows:

**Governmental Fund Balances  
As of December 31, 2013**

	General	TIF Dist #4 Revolving	TIF Dist #14 Downtown Redevelopmt	Nonmajor Governmental	Totals
Restricted for:					
Mt. Pleasant Cemetary Care	\$ -	\$ -	\$ -	\$ 26,532	\$ 26,532
Housing Loan Program	-	-	-	13,183	13,183
Job Creation	-	-	-	78,236	78,236
Debt Requirements	-	-	-	7,675,532	7,675,532
Economic Development	-	3,718,121	2,061,866	1,611,665	7,391,652
Unspent Bond Proceeds	-	-	-	783,761	783,761
Total Restricted Fund Balances	<u>-</u>	<u>3,718,121</u>	<u>2,061,866</u>	<u>10,188,909</u>	<u>15,968,896</u>
Committed to:					
Compensated Absences	739,540	-	-	-	739,540
Mt. Pleasant Cemetary Care	-	-	-	214,842	214,842
Economic Development	-	-	-	16,512	16,512
Concerts in the Park	-	-	-	362	362
Street Improvement Program	-	-	-	837,253	837,253
Total Committed Fund Balances	<u>739,540</u>	<u>-</u>	<u>-</u>	<u>1,068,969</u>	<u>1,808,509</u>
Assigned to:					
Mt. Pleasant Cemetary Care	-	-	-	11,975	11,975
Concerts in the Park	-	-	-	227	227
Fire Protection Improvements	-	-	-	125,575	125,575
Capital Equipment	-	-	-	637,387	637,387
Capital Improvements	-	-	-	3,957,485	3,957,485
Total Assigned Fund Balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,732,649</u>	<u>4,732,649</u>
Unassigned	<u>1,965,790</u>	<u>-</u>	<u>(4,109,123)</u>	<u>(3,607,197)</u>	<u>(5,750,530)</u>
Total Fund Balances	<u>\$ 2,705,330</u>	<u>\$ 3,718,121</u>	<u>\$ (2,047,257)</u>	<u>\$ 12,383,330</u>	<u>\$ 16,759,524</u>

**Note 9 Risk Management**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

Workers compensation coverage is provided through a pooled self-insurance program through the League of Minnesota Cities Insurance Trust (LMCIT). The City pays an annual premium to LMCIT. The City is subject to supplemental assessments if deemed necessary by the LMCIT.

The LMCIT reinsures through Workers Compensation Reinsurance Association (WCRA) as required by law. For workers compensation, the City is not subject to a deductible. The City's workers compensation coverage is retrospectively rated. With this type of coverage, final premiums are determined after loss experience is known. The amount of premium adjustment, if any, is considered immaterial and not recorded until received or paid.

Property and casualty insurance coverage is provided through a pooled self-insurance program through the LMCIT. The City pays an annual premium to the LMCIT. The City is subject to supplemental assessments if deemed necessary by the LMCIT. The LMCIT reinsures through commercial companies for claims in excess of various amounts. The City retains risk for the deductible portion of the insurance policies and for any exclusion from the insurance policies. These amounts are considered immaterial to the financial statements.

The City continues to carry commercial insurance for all other risks of loss, including life, disability, dental and health insurance.

There were no significant reductions in insurance from the previous year or settlements in excess of insurance coverage for any of the past three years.

The Self Insurance fund, an internal service fund, which charges its costs to user departments, accounts for the risk management activities of the City. The fund is designed to build up a reserve, which will provide the City the opportunity to assume a greater share of its insurance risks and thereby reducing the cost to purchase insurance.

**Note 10 Committed Contracts**

At December 31, 2013, the City had commitments for five (5) uncompleted construction contracts with a remaining balance of \$961,304.

**Note 11 Contingent Liabilities**

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by

the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

In connection with the normal conduct of its affairs, the City is involved in various claims litigation and judgments. It is expected that the final settlement of those matters will not materially affect the financial statements of the City.

Internal Revenue Service rules require municipalities to “rebate” any bond proceeds that are invested at yields higher than the bond yield (“arbitrage”). However, a municipal issuer does not have to pay arbitrage rebate if it qualifies for certain rebate exceptions. The amount of arbitrage liability, if any, for the Electric Revenue Refunding Bonds, Series 2000 & 2005A has not been determined at this time.

### **Note 12 Jointly Governed Organizations**

The City, in conjunction with ten other municipalities that provide distribution of electric services, comprises the Minnesota Municipal Power Agency (MMPA). MMPA began operations on July 1, 1995. MMPA purchases power that is purchased and distributed by the eleven municipalities that operate electric distribution systems. MMPA’s board of directors is comprised of one member from each participating entity. Except for minimum purchase requirements, no participant has any obligation, entitlement, or residual interest. The City’s purchases of power from MMPA for the year ended December 31, 2013 were \$26,058,851. MMPA issues an annual financial report that may be obtained by writing MMPA, 200 S. 6<sup>th</sup> Street, Suite 300, Minneapolis, MN 55402, or by calling (612) 349-6868.

### **Note 13 Subsequent Events**

The City reports no subsequent events.

### **Note 14 Defined Benefit Pension Plans – Statewide**

#### **A) Plan Description**

All full-time and certain part-time employees of the City of Chaska are covered by defined benefit plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Fund (GERF) and the Public Employees Police and Fire Fund (PEPFF), which are cost sharing, multiple-employer retirement plans. These plans are established and administered in accordance with *Minnesota Statutes*, Chapters 353 and 356.

GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members

must participate in the Coordinated Plan. All police officers, fire-fighters and peace officers who qualify for membership by statute are covered by the PEPFF.

PERA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by State Statute, and vest after five (5) years of credited service. The defined retirement benefits are based on a member's highest average salary for any five (5) successive years of allowable service, age, and years of credit at termination of service.

Two (2) methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.20 percent of average salary for each of the first ten (10) years of service and 2.70 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.20 percent of average salary for each of the first ten (10) years and 1.70 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.70 percent of average salary for Basic Plan members and 1.70 percent for Coordinated Plan members for each year of service. For PEPFF members, the annuity accrual rate is 3.00 percent for each year of service. For all PEPFF members and GERF members hired to July 1, 1989 whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 55 for PEPFF members and 65 for Basic and Coordinated members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for Coordinated members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

There are different types of annuities available to members upon retirement. A single-life annuity is a lifetime annuity that ceases upon the death of the retiree – no survivor annuity is payable. There are also various types of joint and survivor annuity options available which will be payable over joint lives. Members may also leave their contributions in the fund upon termination of public service in order to qualify for a deferred annuity at retirement age. Refunds of contributions are available at any time to members who leave public service, but before retirement benefits begin.

The benefit provisions stated in the previous paragraphs of this section are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not receiving them yet, are bound by the provisions in effect at the time they last terminated their public service.

PERA issues a publicly available financial report that includes financial statements and required supplementary information for GERF and PEPFF. That report may be obtained on the Internet at [www.mnpera.org](http://www.mnpera.org), by writing to PERA at 60 Empire Drive, Suite 200, St. Paul, Minnesota, 55103-2088 or by calling (651) 296-7460 or 1-800-652-9026.

**B) Funding Policy**

*Minnesota Statutes* Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The City makes annual contributions to the pension plans equal to the amount required by state statutes. GERP Basic Plan members and Coordinated Plan members were required to contribute 9.10 percent and 6.25 percent, respectively, of their annual covered salary in 2013. PEPFF members were required to contribute 9.60 percent of their annual covered salary in 2013. In 2013, the City of Chaska was required to contribute the following percentages of annual covered payroll: 11.78 percent for Basic Plan members, 7.25 percent for Coordinated Plan members and 14.40 percent for PEPFF members.

The City's contributions were equal to the contractually required contributions for each year as set by state statute are as follows:

	<u>GERP</u>	<u>PEPFF</u>
December 31, 2011	\$ 471,143	\$ 301,188
December 31, 2012	472,611	311,093
December 31, 2013	496,636	327,498

**Note 15 Defined Contribution Plan – Statewide**

Four (4) council members of the City of Chaska are covered by the Public Employees Defined Contribution Plan (PEDCP), a multiple-employer deferred compensation plan administered by the Public Employees Retirement Association of Minnesota (PERA). The PEDCP is a tax qualified plan under Section 401(a) of the Internal Revenue Code and all contributions by or on behalf of employees are tax deferred until time of withdrawal.

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. *Minnesota Statutes*, Chapter 353D.03, specifies plan provisions, including the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes 5.00 percent of salary which is matched by the elected official's employer. For ambulance services personnel, employer contributions are determined by the employer, and for salaried employees must be a fixed percentage of salary. Employer contributions for volunteer personnel may be a unit value for each call or period of alert duty. Employees who are paid for their services may elect to make member contributions in an amount not to exceed the employer share. Employer and employee contributions are combined and used to purchase shares in one or more of the seven (7) accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2.00 percent of employer contributions and twenty-five hundredths of one percent of the assets in each member's account annually.

Total contributions made by the City of Chaska during fiscal year 2013 are as follows:

Amount		Percentage of Covered Payroll		Required Rates
Employees	Employer	Employees	Employer	
\$1,597	\$1,597	5.00%	5.00%	5.00%

## **Note 16 Other Post-Employment Benefits**

### **A) Plan Description**

In addition to providing the pension benefits described in Note 14, the City provides post-employment health care benefits (as defined in paragraph B) for retired employees through a single-employer defined benefit plan. The term *plan* refers to the City's requirement by State Statute to provide retirees with access to health insurance. The OPEB plan is administered by the City. The authority to provide these benefits is established in *Minnesota Statutes Section 471.61 Subd. 2a and 299A.465*. The benefits, benefit levels, employee contributions and employer contributions are governed by the City and can be amended by the City through its personnel manual and collective bargaining agreements with employee groups. The Plan is not accounted for as a trust fund, and an irrevocable trust has not been established to account for the plan. The Plan does not issue a separate report.

### **B) Benefits Provided**

#### Retirees

The City is required by State Statute to allow retirees to continue participation in the City's group health insurance plan if the individual terminates service with the City through service retirement or disability retirement. Retirees may obtain dependent coverage while the participating retiree is under age 65. Covered spouses may continue coverage after the retiree's death. The surviving spouse of an active employee may continue coverage in the group health insurance plan after the employee's death.

All health care coverage is provided through the City's group health insurance plans. The retiree is required to pay 100.00 percent of their premium cost for the City-sponsored group health insurance plan in which they participate. The premium is a blended rate determined on the entire active and retiree population. Since the projected claims costs for retirees exceed the blended premium paid by retirees, the retirees are receiving an implicit rate subsidy (benefit). The coverage levels are the same as those afforded to active employees. Upon a retiree reaching age 65 years of age, Medicare becomes the primary insurer and the City's plan becomes secondary.

**C) Participants**

As of the actuarial valuation dated January 1, 2011 participants consisted of:

Retirees and beneficiaries currently purchasing health insurance through the City	4
Active Employees	<u>117</u>
Total	<u><u>121</u></u>
Participating Employers	<u><u>1</u></u>

**D) Funding Policy**

The additional cost of using a blended rate for actives and retirees is currently funded on a pay-as-you go basis. The City Council may change the funding policy at any time.

**E) Annual OPEB Costs and Net OPEB Obligation**

The City's annual other post-employment benefit (OPEB) cost is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The annual OPEB cost is accrued in the government-wide and proprietary funds financial statements as it is earned. OPEB benefits are recorded on a pay-as-you-go basis in the governmental funds.

The net OPEB obligation as of December 31, 2013 was calculated as follows:

Annual Required Contribution	\$ 101,298
Interest on Net OPEB Obligation	10,918
Adjustment to Annual Required Contribution	<u>(15,784)</u>
Annual OPEB Cost	96,432
Contributions Made During the Year	<u>(29,246)</u>
Increase (Decrease) in Net OPEB Obligation	67,186
Net OPEB Obligation Beginning of Year	<u>272,936</u>
Net OPEB Obligation End of Year	<u><u>\$ 340,122</u></u>

The City had an actuarial valuation performed for the plan as of January 1, 2011 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, 2013. The city's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2011, 2012 and 2013 are as follows:

<u>Fiscal Year Ending</u>	<u>Annual OPEB Cost</u>	<u>Percent Contributed</u>	<u>OPEB Obligation</u>
December 31, 2011	\$ 92,100	23.25%	\$ 203,717
December 31, 2012	94,291	26.59%	272,936
December 31, 2013	96,432	30.33%	340,122

#### F) Funded Status and Funding Progress

The City currently has no assets that have been irrevocably deposited in a trust for future health benefits; therefore, the actuarial value of assets is zero (0). The funded status of the plan is as follows:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)*</u>	<u>Unfunded Actuarial Liability (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
January 1, 2008	\$ -	\$ 484,551	\$ 484,551	0.00%	\$ 6,894,120	7.00%
January 1, 2011	-	725,699	725,699	0.00%	7,816,638	9.30%

\*Using the projected unit credit cost method

Note: The first OPEB actuarial valuation was conducted as of January 1, 2008. There is no data available prior to the first valuation.

#### G) Actuarial Methods and Assumptions

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 assumption about future employment, mortality and the health care cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions (ARC) of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial liabilities for benefits.

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 member to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effect of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2011 actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 4.00 percent investment rate of return (net of administrative expenses) and an initial annual health care cost trend rate of 10 percent reduced by .50 percent each year to arrive at an ultimate health cost trend rate of 5 percent. Both rates include a 3.00 percent inflation assumption. The actuarial value of assets was \$0.00. The plans unfunded actuarial accrued liability is being amortized using the level dollar amount over 30 years on an open basis. The remaining amortization period at January 1, 2011, was 30 years.

## **Note 17 Defined Benefit Pension Plans – Local**

### **A) Plan Description**

The City of Chaska contributes to the Chaska Fire Department Relief Association Pension Plan (CFDRAPP); a single-employer defined benefit pension plan administered by the Chaska Fire Department Relief Association (CFDRA) and governed by a board of nine (9) trustees: six (6) trustees are elected by the membership and three (3) trustees are drawn from officials by the City of Chaska. Of the three (3) municipal trustees, one (1) must be an elected official and one (1) must be an elected or appointed municipal official, and both must be designated annually by the Chaska City Council. The third (3) municipal trustee must be the Fire Chief. The members of the CFDRA elect six (6) trustees, each to a three (3) year term staggered term. The Fire Chief, Mayor and Chief Financial Officer of the City are appointed by the City as trustees. Trustees are not permitted to hold any additional office in the CFDRA. The plan provides retirement, disability, and death benefits to plan members and beneficiaries. These benefit provisions are established and can be amended by the CFDRA's Board of Trustees with approval by the Chaska City Council. The CFDRA issues a publicly available financial report that includes financial statements and required supplementary information for CFDRAPP. That report may be obtained by writing to City of Chaska, One City Hall Plaza, Chaska, MN 55318-1962 or by calling (952) 448-9200.

### **B) Funding Policy**

The contribution requirements are established and may be amended by the Minnesota State Legislature. The CFDRA is comprised of volunteers; therefore, there are no covered payroll amounts or member contributions required.

### **C) Annual Pension Cost and Net Pension Obligations**

For 2013, the City of Chaska's annual pension cost of \$344,600 was greater than the City's required contribution of \$293,799. The annual required contribution for the year was determined as part of the December 31, 2011 actuarial valuation using the entry age actuarial

City of Chaska, Minnesota

December 31, 2013

cost method. The actuarial assumptions included (a) 5.00 percent investment rate of return, (b) no projected salary increases and (c) no cost-of-living adjustments. Both (a) and (b) include an inflation component of 0.00 percent. The actuarial value of assets was determined using fair value based on current market value. The unfunded actuarial accrued liability is being amortized as a level dollar on a closed basis. The remaining amortization period at December 31, 2011 was eight (8) years (December 31, 2019).

The City recognizes the State of Minnesota's contributions to the Chaska Fire Department Relief Association as revenue and expense.

Total contributions to the CFDRAPP for the year ended December 31, 2013 were as follows:

<u>Contribution</u>	<u>Amount</u>
State of Minnesota	\$ 134,758
City of Chaska	
Formula	164,754
Additional	<u>65,000</u>
<b>Total City Contribution:</b>	<u>229,754</u>
<b>Total Actual Contribution:</b>	<u><u>\$ 364,512</u></u>

#### D) Three-Year Trend Information

Fiscal Year Ending	<u>Actual Contributions</u>			Annual Pension Cost	Percent Contributed	Net Pension Obligation
	City	State	Total			
12/31/2011	\$ 205,361	\$ 94,569	\$ 299,930	\$ 285,177	105.17%	\$ (388,859)
12/31/2012	202,604	95,646	298,250	341,559	87.32%	(345,550)
12/31/2013	229,754	134,758	364,512	344,600	105.80%	(365,462)
						\$ 293,799
						(17,278)
						<u>68,079</u>
						344,600
						(364,512)
						<u>19,912</u>
						(345,550)
						<u><u>\$ (365,462)</u></u>

City of Chaska, Minnesota

December 31, 2013

**E) Schedule of Funding Progress**

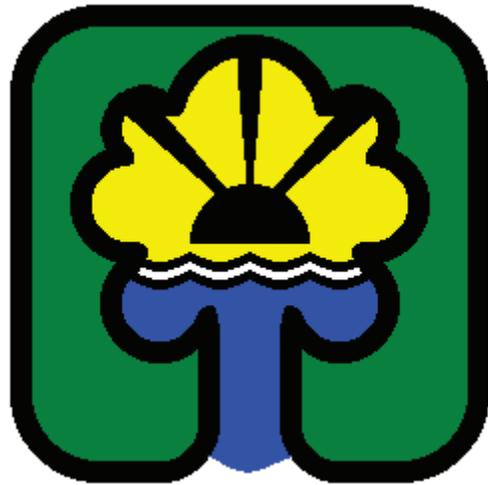
Fiscal Year Ended	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Total Unfunded Actuarial Liability	Funded Ratio	Pension Benefit	
						Per Month of Service	Estimated Per Year of Service
12/31/2011	12/31/2009	\$3,660,038	\$4,862,491	\$ 1,202,453	75.30%	\$ 1.975	\$ 23.70
12/31/2012	12/31/2011	3,988,345	5,339,597	1,351,252	75.70%	1.975	23.70
12/31/2013	12/31/2011	3,988,345	5,339,597	1,351,252	74.70%	1.975	23.70

The CFDR is comprised of paid on-call volunteers; therefore, there are no payroll expenditures (i.e., there are no covered payroll amounts or percentage calculations.)

**Schedule of Funding Progress - Other Post-Employment Benefit Plan**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets</b>	<b>Actuarial Accrued Liability (AAL)*</b>	<b>Unfunded Actuarial Liability (UAAL)</b>	<b>Funded Ratio</b>	<b>Covered Payroll</b>	<b>UAAL as a Percentage of Covered Payroll</b>
01/01/2008	\$ -	\$ 484,551	\$ 484,551	0.0%	\$6,894,120	7.0%
01/01/2011	-	725,699	725,699	0.0%	7,816,638	9.3%

This schedule was implemented in 2008, and therefore only contains two actuarial studies.



**CHASKA**