



City of Chaska

June 14, 2012

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

State law requires that all general-purpose local governments publish each fiscal year a complete set of financial statements presented in conformity with U.S. generally accepted accounting principles (GAAP) and audited in accordance with U.S. generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the comprehensive annual financial report (CAFR) for the City of Chaska for the fiscal year ended December 31, 2011.

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

The City of Chaska's financial statements have been audited by Malloy, Montague, Karnowski, Radosevich, & Co., P.A., a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Chaska for the fiscal year ended December 31, 2011 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial presentation. The independent auditor concluded, based upon the audit, that there was reasonable basis for rendering an unqualified opinion that the City of Chaska's financial statements for the fiscal year ended December 31, 2011, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

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

Profile of the Government

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

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

The primary mission of the City of Chaska is to enhance and maintain the high quality of life of its “shareholders”, the citizens of Chaska, which has been nurtured in the community since its incorporation in 1891. Consistent with its mission, the City will strive to maintain its unique historical small town image and sense of community while supporting well-planned, orderly growth. To achieve it’s mission, the city has established six ongoing core strategies:

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

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

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

Factors Affecting Financial Condition

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

Local economy. Since the year 2000, the City of Chaska has seen a significant amount of growth in the community. At that time our population was approximately 17,500. By 2010, the City's population was 23,770 and is forecast to increase to 33,000 by 2020. This rapid increase in population came from the addition of approximately 200-500 housing units per year, between the years 2002 and 2006, as well as the addition of a significant amount of commercial development in the community. This commercial development included small boutique and service centers and such large users as Home Depot, SuperTarget, and Kohl's. Chaska saw the majority of its industrial development growth in the late 1980's and early 1990's. Nearly 8,000 jobs were created, with over 12,000 jobs total in the community. The industrial park was at full capacity in the 1990's, with the exception of only a couple of sites. Such companies as Entegris, FSI, Lifecore Biomedical, Beckman Coulter, and Lake Region Medical all offered several hundred jobs at each facility. The housing and commercial development, which occurred after 2000, was the result of both the strong housing economy and the number of jobs available in Chaska. The census growth in population was 35% from 2000-2010.

As with other communities across the country, the City of Chaska has seen a significant drop in new housing development since 2006. The most significant drop occurred over the past 5-year period. As previously mentioned, we had approximately 200 to 500 housing units per year between 2002 and 2006. The average taxable market value in the community increased by an average of 10-12% annually. The projected decrease in taxable market value for 2012 is 4.14%. Over the past 12 months we have seen fewer than 55 new homes built in the community, however, housing development is starting to see a gradual increase and we do expect over 100 new housing starts in 2012.

While many areas of the Twin Cities have seen very little, if any, development occurring, Chaska has been working through the planning process on several large commercial/industrial projects. This includes the addition of Ridgeview's 212 Medical Center on Highways 212 and 41. This will ultimately be a 700,000 sq. ft. medical facility that will house the only stand-alone emergency room in the State of Minnesota, along with surgical suites, imaging, and special medical uses. Ridgeview opened the first phase of 250,000 square feet in February of 2011 and is now considering the second phase of development due to the success of the first. Additionally, Michael's Foods purchased the vacant 230,000 sq. ft. Mammoth industrial building in December 2008. They moved their entire "Simply Potatoes" line to the facility, with production beginning the first part of 2010. This has created approximately 400 new jobs in the community. An additional 35 jobs in research and development will move into Chaska in the future with Michael's Foods.

Other larger projects are currently in the planning process, including a 120-unit senior independent memory care and assisted living facility at the intersection of Hazeltine Boulevard and Highway 41 along with an additional 120 units of both market rate and affordable rental

units planned directly across the street from this facility. Goodman Group is the developer working on this project, which is slated for the summer of 2013. Aeon Homes is proposing to complete a redevelopment project in downtown Chaska at the southeast corner of First Street and Highway 41. This would add an additional 51 affordable senior units to the community. This is also slated for late 2012. The City is also seeing the development and building of Southwest Christian High School in 2012, creating a building that can house up to 600 students. This school will open for the 2012-2013 school year.

Finally, the City of Chaska is seeing the next phase of corporate/industrial development go forward in the community this summer, with the first phase of infrastructure going into our Chaska Biotech Center development area. Eventually we expect this area to support 8,000-10,000 new jobs on approximately 400 acres adjacent to the new Highway 212 freeway corridor. In 2010, we saw the first phase go forward on the land just off of the northwest quadrant of 212 and Engler Boulevard to support the 250,000 square foot United Health Group (UHG) data center. This will create 25 new jobs, but more importantly; UHG will be a very large electric user, utilizing up to an estimated 20 Megawatts of electricity by 2015. This will provide financial benefit to both our Electric Enterprise Fund and the General Fund through our franchise fee. At the same time, it will provide the economic engine necessary to build the infrastructure that will support the first phase of the Chaska Biotech Center, which will support additional corporate/industrial growth. Sites surrounding the UHG Data Center are now being marketed for additional data center uses, as the infrastructure to support these, including a new electric substation currently under development, will be in place to serve their needs. The City of Chaska will add additional infrastructure in the area during the late summer of 2012 to support additional growth in this area. Finally, the City of Chaska did receive conditional approval in late 2011 for the addition of an interchange off of the 212 freeway at Carver County Road 140, which will open up additional land for Corporate/Industrial development. The City is currently going through a planning study of the 1,000+ acres of land surrounding this interchange, which will put the land uses in place to allow development at this interchange.

Long-term financial planning. Each year the City develops a five-year financial forecast. The primary purpose of the forecast is to project available revenues and anticipated expenditures for all operating funds supported by property tax levies. In addition, the forecast is used to establish the City's maximum tax levy, which is required through the Truth in Taxation public hearing process. In preparing the five-year forecast, every attempt is made to accurately and conservatively estimate revenues and expenditures. The 2012 budget and five-year forecast was developed based on the following objectives:

1. Maintain existing high-quality service levels, making reductions in service levels only when directly associated with decreased need for service.
2. Maintain a policy of keeping a constant tax rate for limiting growth of the tax levy, while also planning levy resources that at a minimum remain constant, thus not inhibiting our ability to maintain existing service levels.
3. Fund replacement of the City's existing capital investments.
4. Fund new programs only after existing, necessary programs are funded.

5. Address the implications of levy limits on local governments and the significant reduction in LGA and the elimination of MVHC, while maintaining current services levels expected by residents.
6. Develop a plan that allows the City to discontinue drawing from General Fund reserves.
7. Continue to fund levy needs of the Street Reconstruction Program.

Key factors which impact both the costs of providing services and the City's revenue resources are changes in Chaska's population and households. The slow down in the volume of building activity and reduced permit revenue is just one of the key challenges in developing the 2012 and five-year budget forecast. Other budget challenges are the State's continued un-allocation of Local Government Aid and the elimination of Market Value Homestead Credit dollars as well as a reduction of taxable market values in the community.

The 2012-2016 forecast strives to balance existing service levels within the forecasted revenues while at the same time maintaining a low property tax rate. Chaska's tax levy continues to be one of the lowest in the metropolitan area and significantly lower than neighboring communities. Results of customer service evaluations indicate that citizens are very happy with the level of services provided by the City.

The City recently updated its Comprehensive Plan which is part of a mandate from Metropolitan Council to make local plans consistent with its updated Regional Development Framework coupled with Chaska's rapid growth and changing conditions. Chaska's 2030 Comprehensive Plan guides the direction of the City in several major areas: land use, transportation, environment, parks and trails, and public facilities. Each of these areas is examined in a *comprehensive* manner, in order to take advantage of opportunities, avoid problems, and work toward building a stronger community.

Major Initiatives

In 2009, a wind turbine was installed as part of the Home Town Wind Power Program. The wind turbine was installed to help the City meet its renewable energy requirements established by the State of Minnesota. The State requires that all electric utilities need to produce 12% of their electricity from renewable sources by 2012 and 25% by the year 2025. While the Home Town Wind Power Program is only a small part of meeting our overall requirements, it is a first step in the process to make sure we are in compliance with all statutory requirements for renewable energy. The City of Chaska, through their power agency (MMPA), also developed a utility-grade 42 megawatt (MW) wind farm called Oak Glen Wind Farm outside of Blooming Prairie, Minnesota, to also meet these goals. This wind farm was opened in the fall of 2011 and has been very successful in its initial operations.

The City's other main initiative has been with the development of our Downtown Mater plan. Chaska has a historic downtown core with commercial buildings and homes over 100 years old. A major focus of this initiative is to define how the City, businesses and residents reinvest back into this unique area, to make it economically viable into the future.

City of Chaska, Minnesota

For the Year Ended December 31, 2011

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Chaska for its comprehensive annual financial report (CAFR) for fiscal year ended December 31, 2010. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

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

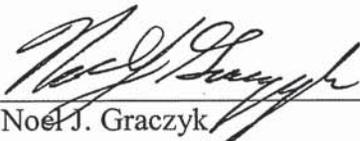
A Certificate of Achievement is valid for a period of one year only. The City of Chaska has received a Certificate of Achievement for the last twenty-two consecutive years (fiscal years ended 1989-2010). We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to GFOA.

Acknowledgements

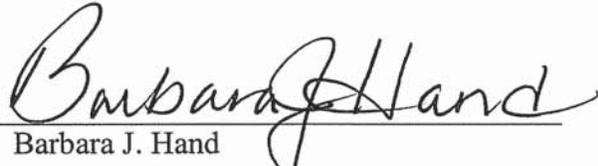
The preparation of this report was made possible by the dedicated service of the City staff, and in particular, members of the Administrative Services Department.

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

Respectfully Submitted,



Noel J. Graczyk
Administrative Services Director
Treasurer
City of Chaska



Barbara J. Hand
Assistant Finance Director
City of Chaska



Lisa M. Nelson
Accountant
City of Chaska

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

City of Chaska
Minnesota

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2010

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



Linda C. Danison

President

Jeffrey R. Emer

Executive Director

Organizational and Administrative Structure

City of Chaska

December 31, 2011

ORGANIZATIONAL STRUCTURE

City of Chaska Residents and Businesses

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

ADMINISTRATIVE STRUCTURE [449 Employees (117-7-6-319)]

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

<p>Assistant Administrator, Economic Development Coordinator (1-0-0-0)</p> <p>Administrative Services (14-6-0-0) (1-0-0-0) Administrative Services Director (Treasurer) (1-0-0-0) Assistant Finance Director (1-0-0-0) Accountant (1-0-0-0) Senior Accounting Clerk (3-1-0-0) Accounting Clerk (1-0-0-0) Utility Billing Coordinator (2-1-0-0) Utility Account Clerk (0-4-0-0) Customer Service Representative (1-0-0-0) Information Systems Manager (3-0-0-0) IS Network Engineer/Field Support</p> <p>Community Development (6-0-0-0) (1-0-0-0) Senior Clerk/Admin. Secretary (1-0-0-0) Fire Marshall (1-0-0-0) Building Official (2-0-0-0) Building Inspector (1-0-0-0) Utility Inspector</p> <p>Planning Services (2-0-0-0) (1-0-0-0) Director of Planning and Development (1-0-0-0) City Planner</p> <p>Engineering Services (2-0-0-0) (1-0-0-0) City Engineer (1-0-0-0) Civil Engineer II</p> <p>Police Services (27-1-0-0) [24 licensed officers] (1-0-0-0) Chief of Police (1-0-0-0) Captain (5-0-0-0) Sergeant (3-0-0-0) Detective (2-0-0-0) School Resource Officer (11-0-0-0) Patrol Officer (1-0-0-0) Community Partnership Officer (1-0-0-0) Community Service Officer (2-1-0-0) Secretary/Administrative Assistant</p> <p>Public Works Services (16-0-2-13) (1-0-0-0) Public Works Superintendent (1-0-0-0) Public Works Foreman (2-0-0-0) Street & Park Leadworkers (1-0-0-0) Mechanic Foreman (2-0-0-0) Mechanic (9-0-0-0) Maintenance III (0-0-2-13) Laborer</p>	<p>Electric Utility Services (14-0-0-0) (1-0-0-0) Electrical Director (1-0-0-0) Assistant Electrical Director (1-0-0-0) Electric Foreman (6-0-0-0) Lineworker III (2-0-0-0) Lineworker I (1-0-0-0) Lead Lineworker (1-0-0-0) Metering/Substation Lineworker (1-0-0-0) Office/Inventory Clerk</p> <p>Water and Sewer Utility Services (9-0-0-1) (1-0-0-0) Utility Superintendent (1-0-0-0) Water/Sewer Foreman (2-0-0-0) LeadWorker (5-0-0-0) Maintenance III and II (0-0-0-1) Laborer</p> <p>Parks Recreation and Arts (19-0-1-239) (1-0-0-0) Parks, Recreation and Arts Director</p> <p style="margin-left: 20px;">Parks Recreation and Arts (5-0-0-13) (1-0-0-0) Assistant Park, Recreation, Arts Director (2-0-0-0) Recreation Program Support (2-0-0-0) Cable TV (0-0-0-11) Rink Attendant, Outside (0-0-0-2) Cable TV Camera Operator</p> <p style="margin-left: 20px;">Community Center (13-0-1-226) (1-0-0-0) Ice Arena Manager (1-0-0-0) Maintenance Supervisor (1-0-0-0) Facility Coordinator (1-0-0-0) Aquatics Coordinator (1-0-0-0) Front Desk Supervisor/Coordinator (2-0-0-0) Recreational Programmer (1-0-0-0) Fitness Coordinator (1-0-1-0) Activities Coordinator (0-0-0-14) Rink Attendant/Monitor/Referee (4-0-0-18) Custodian/Maintenance (0-0-0-71) Pool Staff and Instructors (0-0-0-15) Front Desk/Cashier (0-0-0-21) Day Care (0-0-0-21) Fitness Instructor (0-0-0-66) Activities Instructor/Assistant</p> <p>Golf Courses (6-0-3-66) (1-0-0-0) Golf Professional (1-0-1-0) Assistant Golf Professionals</p> <p style="margin-left: 20px;">Chaska Town Course (3-0-2-55) (1-0-0-0) Golf Superintendent (2-0-2-0) Greenskeeper (0-0-0-40) Course Staff (0-0-0-15) Seasonal Maintenance</p> <p style="margin-left: 20px;">Chaska Par Thirty (1-0-0-11) (1-0-0-0) Greenskeeper (0-0-0-9) Course Staff (0-0-0-2) Seasonal Maintenance</p>
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CHASKA VOLUNTEER FIRE DEPARTMENT

Chaska Volunteer Fire Department
 39 Active Volunteers

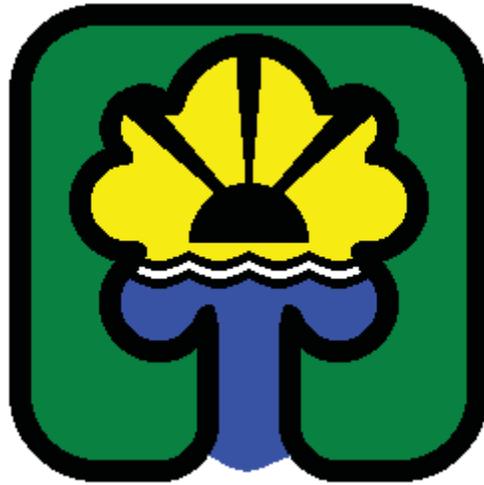
Key to Number of Employees:
 (Regular Full-Time - Regular Part-Time - Seasonal Full-Time - Seasonal Part-Time)

Elected Officials

MAYOR:	Term of Office	
	From	To
Mark Windschitl	01-01-2011	12-31-2012
COUNCIL MEMBERS:		
Scott Millard, First Ward	01-01-2011	12-31-2014
Gregory Boe, Second Ward	01-01-2009	12-31-2012
Christopher Schulz, Third Ward	01-01-2011	12-31-2014
Richard Ford, Fourth Ward	01-01-2009	12-31-2012

Administrative Officials

	<u>NAME</u>
CITY STAFF:	
City Administrator (City Clerk)	Matt Podhradsky
Administrative Services Director (City Treasurer)	Noel Graczyk
Director of Planning and Development	Kevin Ringwald
City Engineer	William Monk
Chief of Police	Scott Knight
Fire Chief	Daniel Anderson
Public Works Superintendent	Timothy Wiebe
Director of Parks, Recreation & Arts	Thomas Redman
Electrical Director	Dan Geiger
Utility Superintendent	Dean Hylland
Golf Professional	John Kellin
Executive Director of Chaska Economic Development Authority	Matt Podhradsky
INDEPENDENT CONSULTANT:	
City Attorney	Luke Melchert



CHASKA