



PRINCIPALS

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

INDEPENDENT AUDITOR'S REPORT

To the City Council and Management
City of Chaska, Minnesota

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying 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, 2016, 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, 2016, 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 (RSI), 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 RSI 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.

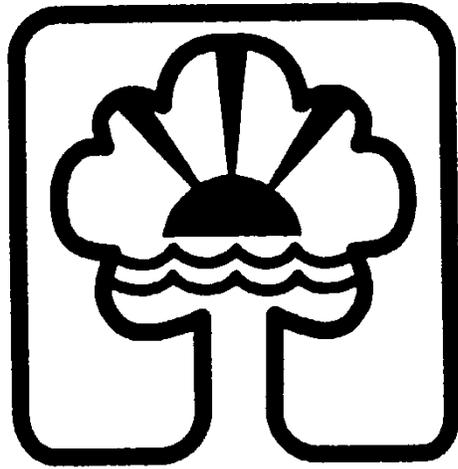
(continued)

OTHER REPORTING REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2017 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 28, 2017



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, 2016. 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

- The assets and deferred outflows of resources of the City exceeded liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$185,437,309 (*net position*). Of that amount, \$19,785,174 is restricted for specific purposes (*restricted net position*) and \$164,374,143 represents the net investment in capital assets. The City's total net position increased \$5,679,224 during the year ended December 31, 2016.
- The City's governmental funds reported combined ending fund balances of \$13.7 million. This is a decrease of \$2.8 million from the prior year. \$8.0 million of this total is restricted for debt service, bonded improvement projects and economic development.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$1.6 million, or 11.3 percent of total general fund expenditures of \$14.3 million.
- The City continued to pay down significant debt during the current fiscal year. Total bonds payable decreased \$5.3 million.

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 in addition to the basic financial statements themselves.

The Basic Financial Statements

The first two (2) 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 below in the *Reporting the City as a Whole* section regarding these statements.) The remaining basic financial statements are *fund financial statements* that focus on individual parts of the City government, reporting the City's operations in more detail than the government-wide statements.

These fund financial statements can be divided into three (3) 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

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 pages 91-95 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 (2) 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 (1) way to measure the City's financial health, or position.

- Over time, increases or decreases in the City's net position is an indicator of whether its financial health is improving or deteriorating.
- 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 infrastructure.
- Governmental activities – Most of the City's basic services are included here, such as General Government, Economic Development, Public Safety, Public Works and Parks, Recreation and Arts. Property taxes, 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 Golf Course, Turbine Generator Utility, Internet Service Provider and Chaska Curling Center 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. Others are established by City Council to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The City has three (3) broad categories of fund types:

1. ***Governmental funds*** – Governmental funds are typically 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. 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 2016, the City's General fund was the only major governmental 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. 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, Turbine Generator Utility and Chaska Curling Center, 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 (1) Internal Service fund that is reported in a single column in the proprietary fund financial statements. This fund 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. 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

City of Chaska - Summary of Net Position

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Assets						
Current and Other Assets	\$ 29,679,201	\$ 35,380,147	\$ 44,942,664	\$ 47,055,121	\$ 74,621,865	\$ 82,435,268
Capital Assets	170,627,632	164,260,206	68,367,474	67,902,128	238,995,106	232,162,334
Total Assets	<u>\$ 200,306,833</u>	<u>\$ 199,640,353</u>	<u>\$ 113,310,138</u>	<u>\$ 114,957,249</u>	<u>\$ 313,616,971</u>	<u>\$ 314,597,602</u>
Deferred Outflows of Resources						
Pension Plan Deferments	<u>\$ 9,631,589</u>	<u>\$ 1,565,789</u>	<u>\$ 2,316,714</u>	<u>\$ 473,129</u>	<u>\$ 11,948,303</u>	<u>\$ 2,038,918</u>
Total Assets and Deferred Outflows	<u>\$ 209,938,422</u>	<u>\$ 201,206,142</u>	<u>\$ 115,626,852</u>	<u>\$ 115,430,378</u>	<u>\$ 325,565,274</u>	<u>\$ 316,636,520</u>
Liabilities						
Other Liabilities	\$ 4,133,394	\$ 5,998,590	\$ 4,622,351	\$ 6,335,284	\$ 8,755,745	\$ 12,333,874
Noncurrent Liabilities	57,965,078	52,186,771	70,606,648	70,686,635	128,571,726	122,873,406
Total Liabilities	<u>\$ 62,098,472</u>	<u>\$ 58,185,361</u>	<u>\$ 75,228,999</u>	<u>\$ 77,021,919</u>	<u>\$ 137,327,471</u>	<u>\$ 135,207,280</u>
Deferred Inflows of Resources						
Pension Plan and Debt Refunding Deferments	<u>\$ 1,752,256</u>	<u>\$ 807,848</u>	<u>\$ 1,048,238</u>	<u>\$ 863,307</u>	<u>\$ 2,800,494</u>	<u>\$ 1,671,155</u>
Net Position						
Net Investment in Capital Assets	\$ 132,552,673	\$ 127,278,758	\$ 31,821,470	\$ 33,274,260	\$ 164,374,143	\$ 160,553,018
Restricted	14,175,353	14,955,015	5,609,821	5,190,437	19,785,174	20,145,452
Unrestricted (deficit)	(640,332)	(20,840)	1,918,324	(919,545)	1,277,992	(940,385)
Total Net Position	<u>\$ 146,087,694</u>	<u>\$ 142,212,933</u>	<u>\$ 39,349,615</u>	<u>\$ 37,545,152</u>	<u>\$ 185,437,309</u>	<u>\$ 179,758,085</u>
Total Liabilities, Deferred Inflows, and Net Position	<u>\$ 209,938,422</u>	<u>\$ 201,206,142</u>	<u>\$ 115,626,852</u>	<u>\$ 115,430,378</u>	<u>\$ 325,565,274</u>	<u>\$ 316,636,520</u>

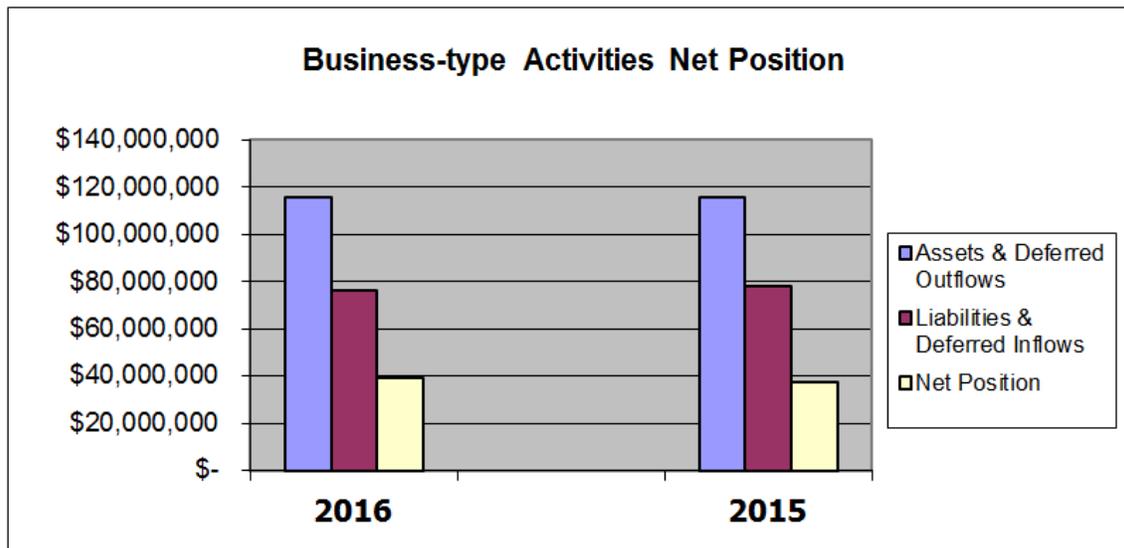
The City as a whole – The City's combined net position was \$185.4 million on December 31, 2016.

The largest portion of net position (88.6 percent) reflects the City's investment in capital assets (e.g. land, buildings, machinery, equipment and infrastructure), less debt used to acquire those assets that is still outstanding. The City uses 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 represents resources that are subject to external restriction on how they may be used. The amount of restricted net position is \$19,785,174. After restrictions, the City is reporting an unrestricted net position of \$1,277,992, an increase of \$2.2 million from the prior year.

Governmental activities – Total net position increased \$3.9 million. During 2016, the City gained \$6.4 million in governmental activities capital assets net of depreciation. Most of this increase is related to developer donated land and improvements. Governmental funds paid down \$3.0 million in bond principal in 2016. The City also recorded significant changes to pension plans deferrals and net pension liability. Deferred outflows of resources increased \$8.1 million from the prior year while the deferred inflows of resources increased \$.9 million. Net pension liability increased \$8.6 million. Additional detail related to the City’s participation in pension plans is discussed later in the Notes to the Financial statements. (Notes 13-16)

Business-type activities – In 2016, net position increased by \$1.8 million. Total assets decreased slightly, but capital assets increased \$.5 million in 2016. This increase is due to completion of the Curling and Event Center and utility infrastructure additions. Total liabilities decreased \$1.8 million. This decrease is due to \$2.0 million in bond principal payments.



Management's Discussion and Analysis

City of Chaska, Minnesota

For the Year Ended December 31, 2016

City of Chaska's Changes in Net Position

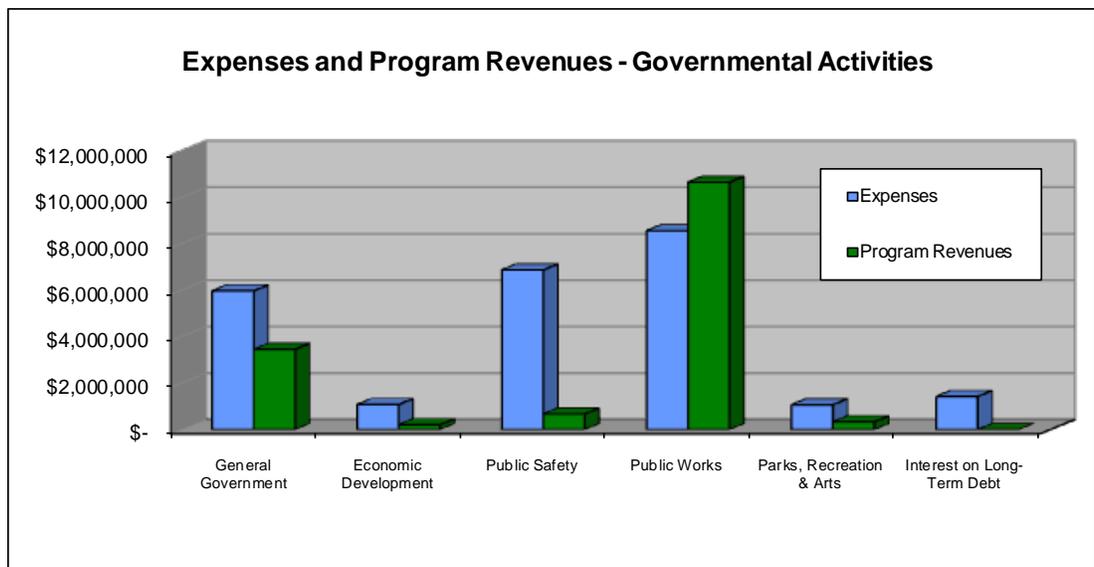
	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Revenues						
Program Revenues:						
Charges for Services	\$ 6,474,075	\$ 5,739,848	\$ 52,710,583	\$ 49,889,392	\$ 59,184,658	\$ 55,629,240
Operating Grants & Contributions	628,278	667,025	100,379	-	728,657	667,025
Capital Grants & Contributions	8,226,427	6,737,538	647,918	181,839	8,874,345	6,919,377
General Revenues:						
Property Taxes	8,189,403	9,063,743	-	-	8,189,403	9,063,743
Franchise Taxes	4,224,548	4,079,404	-	-	4,224,548	4,079,404
Grants & Contributions Not Restricted	585,679	530,868	-	-	585,679	530,868
Other General Revenues	758,838	809,776	305,030	518,966	1,063,868	1,328,742
Total Revenues	<u>29,087,248</u>	<u>27,628,202</u>	<u>53,763,910</u>	<u>50,590,197</u>	<u>82,851,158</u>	<u>78,218,399</u>
Program Expenses						
General Government	5,975,566	5,627,642	-	-	5,975,566	5,627,642
Economic Development	1,078,389	8,778,959	-	-	1,078,389	8,778,959
Public Safety	6,878,111	4,764,269	-	-	6,878,111	4,764,269
Public Works	8,566,638	8,488,231	-	-	8,566,638	8,488,231
Parks, Recreation & Arts	1,067,514	1,210,234	-	-	1,067,514	1,210,234
Interest on Long-term Debt	1,424,886	1,330,444	-	-	1,424,886	1,330,444
Electric	-	-	35,236,356	33,417,358	35,236,356	33,417,358
Water	-	-	2,859,401	2,785,714	2,859,401	2,785,714
Sewer	-	-	3,254,994	3,150,447	3,254,994	3,150,447
Community Center	-	-	4,419,881	4,077,426	4,419,881	4,077,426
Par 30 Golf Course	-	-	240,047	183,136	240,047	183,136
Chaska Town Course	-	-	2,433,909	2,310,651	2,433,909	2,310,651
Turbine Generator	-	-	1,057,383	1,730,079	1,057,383	1,730,079
Internet Service Provider	-	-	168,783	293,951	168,783	293,951
Storm Water	-	-	993,816	760,340	993,816	760,340
Chaska Curling Center	-	-	1,516,260	835,012	1,516,260	835,012
Total Expenses	<u>24,991,104</u>	<u>30,199,779</u>	<u>52,180,830</u>	<u>49,544,114</u>	<u>77,171,934</u>	<u>79,743,893</u>
Excess (Deficiency) Before Transfers	4,096,144	(2,571,577)	1,583,080	1,046,083	5,679,224	(1,525,494)
Transfers	(221,383)	5,086,416	221,383	(5,086,416)	-	-
Increase (Decrease) in Net Position	3,874,761	2,514,839	1,804,463	(4,040,333)	5,679,224	(1,525,494)
Net Position - Beginning	142,212,933	139,698,094	37,545,152	41,585,485	179,758,085	181,283,579
Net Position - Ending	<u>\$ 146,087,694</u>	<u>\$ 142,212,933</u>	<u>\$ 39,349,615</u>	<u>\$ 37,545,152</u>	<u>\$ 185,437,309</u>	<u>\$ 179,758,085</u>

The City as a whole

- As a whole the City had total revenues of \$82.9 million for the year ended December 31, 2016. This is an increase of \$4.6 million from the prior year.
- The total cost of all programs and services was \$77.2 million, a decrease of \$2.6 million from the prior year. The City's expenses are predominantly related to providing services (police, fire, 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 7.7 percent of total costs. This was a .6 percent increase from the prior year.

Governmental activities

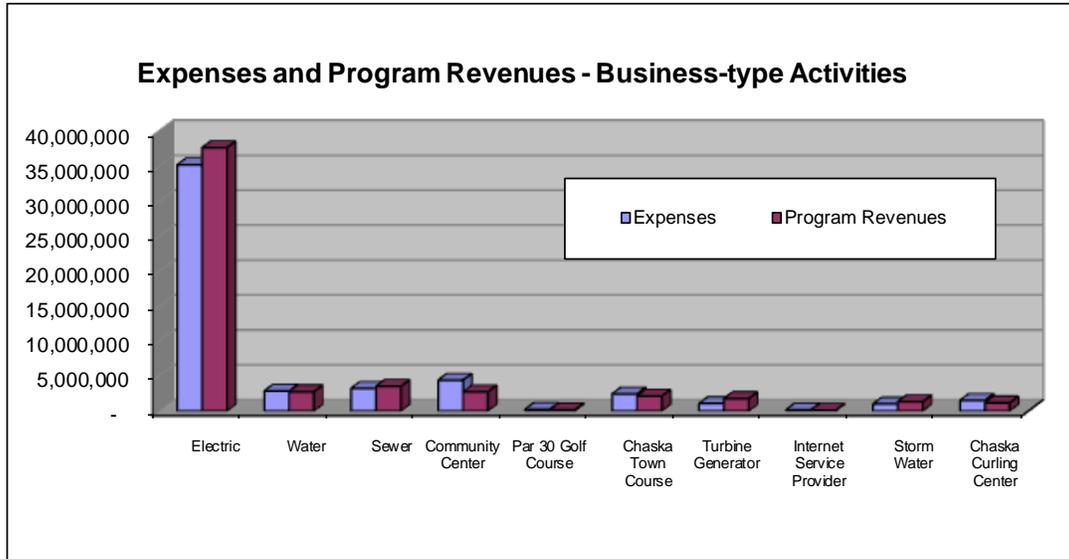
- The largest source of revenue for governmental activities is Capital Grants and Contributions. In 2016, 28.3 percent of all revenues were Capital Grants and Contributions.
- Of the \$8.2 million Capital Grants and Contributions, \$8.1 million is reported in Public Works. This revenue is related to special assessments and state aids for street reconstruction and related improvements.
- Property Taxes were the next major source of revenues at 28.2 percent of the total governmental activities in 2016.
- The total costs of all programs and services were \$25.0 million. The cost of providing public safety and street maintenance/construction makes up 61.8 percent of this total.



Business-type activities

- Business-type activities reported revenue exceeding expenses of \$1.6 million before transfers. After transfers were made, net position increased to \$1.8 million.
- Charges for services increased 5.7 percent, or \$2.8 million from the prior year. Electric sales increased \$1.9 million. The Chaska Curling Center had its first full year of operations reporting revenue of \$1.2 million, or, \$1.1 million more than 2015. All other funds accounted for a net decrease of \$0.2 million. Total business-type revenue increased \$3.2 million.

- Expenses were \$2.6 million higher, or a 5.3 percent increase, compared to 2015. The Electric fund’s expenses increased \$1.8 million due to higher administration costs, franchise fees and depreciation. The Chaska Curling Center’s expenses increased \$.7 million from the prior year, due to its first full year of operations. All other funds accounted for the \$.1 million increase.



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.

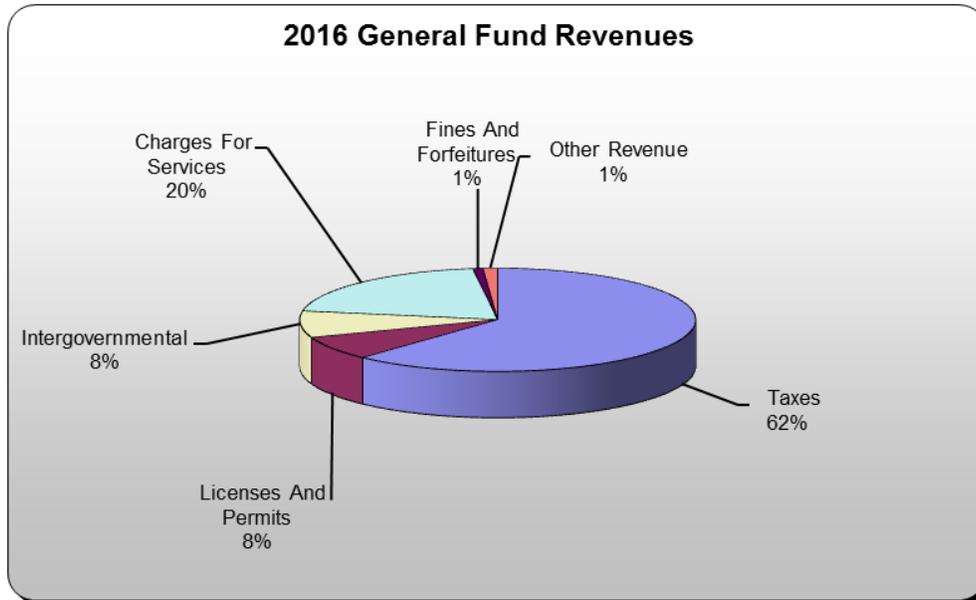
Governmental funds. The focus of the City of Chaska’s governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the City of Chaska’s financing requirements. In particular, assigned and unassigned fund balance 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 \$13.7 million. The most significant restriction of fund balances was \$7.4 million for future debt service payments. See **Note 8** for more detail on fund balances availability.

The City completed the year with a decrease in governmental fund balances of \$2.8 million. Revenues for the City’s governmental funds were \$24.4 million, while total expenditures were \$27.0 million. Property taxes, franchise taxes and charges for services are the most significant sources of revenue (73 percent) while capital outlay is the most significant expenditure (21 percent).

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 \$1.6 million. The fund balance of the City of Chaska's General fund decreased \$545,873. Key factors in the change are:

- In 2016, total revenues and other financing sources were \$242,697 less than budget, while total expenditures and other financing uses were \$303,176 over budget.
- Differences between budgeted and actual revenue include property taxes \$136,305 lower than budget. Franchise taxes and intergovernmental revenue were slightly higher than budget by \$76,548 and \$67,636 respectively. The gas franchise fee helped elevate the franchise tax revenue and police department liaison services accounted for most of the increase in intergovernmental revenue. Charges for services were \$114,071 less than budget due to lower administrative fee collections. Other revenue was \$149,436 less than budget due to the nature of budgeting miscellaneous revenue collections.
- Differences between budgeted and actual expenditures include general government which was over budget by \$322,351. Public safety was over budget by \$367,236 while Public Works was under budget by \$353,523. Areas that general government were over budget include engineering, Mayor/Council, and Administration departments. Engineering was over budget by \$124,917 partially due to the use of consultants for engineering services. Mayor/Council was over budget by \$168,720. This overage includes some costs related to special events held in the City, as Chaska was the host City for the 2016 Ryder Cup. Administration was over budget by \$80,145. Professional and contractual services provided on various projects contributed to this overage. Public Safety overages were mainly related to services provided during the Ryder Cup. Public Safety (police and fire) were present each day at the course which resulted in increased personnel services costs. The Public Works street department expenditures were under budget by \$497,639 as the department took on fewer street projects in 2016 to ensure street construction did not interfere with the Ryder Cup.

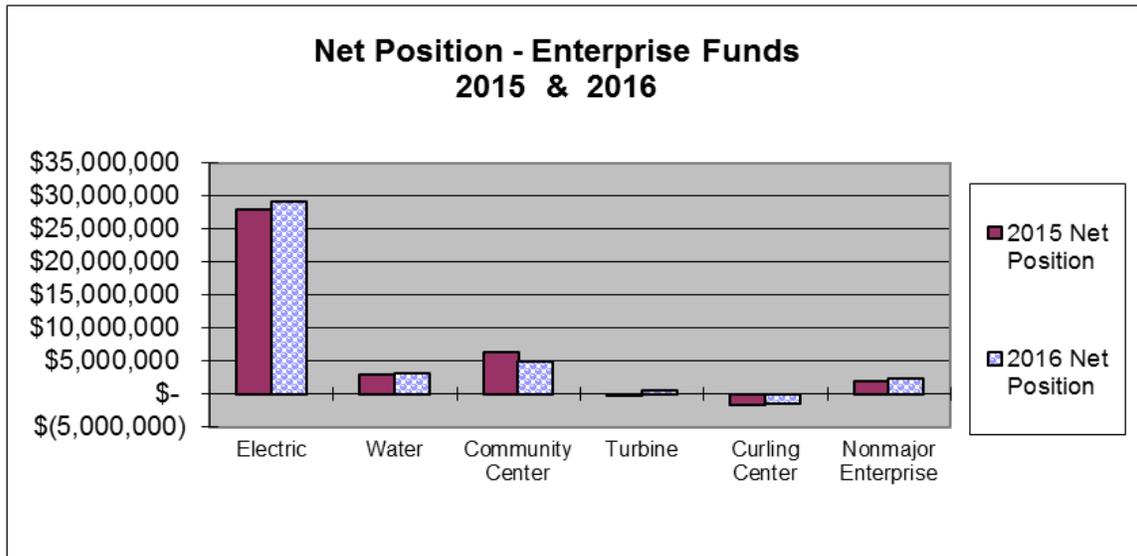


Proprietary Funds. The statements for proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

The combined change of all current year enterprise funds operations increased net position by \$1.8 million.

- The Electric fund's operating income was \$2,318,763. Operating revenue increased \$1.9 million, (5.4 percent), from last year. Capital assets (net of depreciation) increased \$353,660 with the addition of lines, poles and transformers as the City expands its service to new residential and industrial customers.
- The Water fund had operating income of \$219,601, which was \$109,924 greater than the prior year. Operating revenue increased \$180,858 from the prior year. The water fund paid down \$425,000 of outstanding debt and transferred out \$108,680 to other funds to support water system improvement projects.
- The Chaska Community Center had operating revenues of \$2,735,432 and operating expenses (less depreciation) of \$3,470,538. When factoring in depreciation expense (\$725,578), the operating loss was \$1,460,684. When calculating and setting Community Center fees, recouping depreciation expense is not considered.
- The Turbine Generator Fund received \$1.8 million in lease revenue. The change in net position increased \$789,631. During 2016, this fund paid down \$1,070,000 in bonded debt.
- The Chaska Curling Center finished its first full year of operations in 2016. The fund reported operating revenue of \$1,173,795 and operating expenses of \$977,288 resulting

in operating income of \$196,507. After non-operating revenues, non-operating expenses, and transfers, net position increased \$140,128.



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 2016, the original budget was not amended; therefore projecting no change in fund balance.

While the City's original and final budget for the general fund anticipated that revenues would equal expenditures, the City's General fund actually reported revenues lower and expenditures higher than budget.

- Total revenue and other financing sources were \$242,697 lower than budget.
- Property taxes were \$136,305 less than budget, primarily due to a \$90,243 loss related to delinquent excess tax increment as calculated by the County.
- Intergovernmental Revenue surpassed budget by \$67,636. One key factor was the police department liaison program generating an additional \$35,898.
- Other Revenue was \$149,436 under budget for various reasons. Sources of this additional revenue include special assessments, payments, interest earnings, contributions and miscellaneous revenues.
- Public Safety expenditures were \$367,236 more than the final budget. Fire protection services were 40% of this overage. Police activities make up the other 60%. Staffing police officers and fire personnel at the 2016 Ryder Cup event was a significant factor in the personnel services overages.

- Public Works and Park, Recreation and Arts were under budget by \$353,523 and \$81,669 respectively. More than half (51 percent) of the Public Works underage can be attributed to personnel vacancies where full-time expenditures were \$179,050 below budget. Similarly, an opening for full-time personnel at Firemen's Park resulted in a budget variance of \$53,619, accounting for the majority of the underage for Parks, Recreation and Arts.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As shown in Capital Asset table below, at the end of 2016, the City had \$239 million invested in a broad range of capital assets, including police and fire equipment, buildings, park facilities, 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.

Capital Assets at Year End - Net of Depreciation

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Land	\$ 50,362,938	\$ 49,267,479	\$ 1,222,364	\$ 1,222,364	\$ 51,585,302	\$ 50,489,843
Works of Art/Historical Treasures	105,027	105,027	-	-	105,027	105,027
Buildings	2,912,308	3,226,481	40,313,668	24,845,789	43,225,976	28,072,270
Other Improvements	13,166,296	3,977,243	1,185,043	1,312,397	14,351,339	5,289,640
Furniture & Equipment	3,418,768	2,317,975	4,287,168	2,420,647	7,705,936	4,738,622
Infrastructure	94,046,659	84,820,326	20,468,276	19,890,946	114,514,935	104,711,272
Construction in Progress	6,615,636	20,545,675	890,955	18,209,985	7,506,591	38,755,660
Totals	\$170,627,632	\$164,260,206	\$ 68,367,474	\$ 67,902,128	\$238,995,106	\$232,162,334

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

- \$ 5,771,650 - Accepted developer donated land, improvements and infrastructure in 2016.
- \$ 1,724,778 - Added to the Firemen's Park project improvements. The park project was completed in 2016. It is financed with the 2015B and 2015D EDA Lease Revenue Bonds.
- \$ 1,410,273 - Completed the 2015 downtown street reconstruction projects. Improvements included streets, alley and parking lot improvements. These street projects are finance with the 2015B General Obligation Improvement Bonds.
- \$ 687,985 - Added to the City's Curling Center project improvements. The project was completed in 2016. It is financed with the 2015A and 2015C EDA Taxable Lease Revenue Bonds.

Long-Term Debt

At year-end, the City had \$100.7 million in bonds and notes outstanding, as shown in the table below. More detailed information about the City's long-term liabilities is presented in **Note 6** to the financial statements.

City of Chaska's Outstanding Debt						
(Does Not Include Premiums, Compensated Absences, Claims and Judgments Payable, Other Post-Employment Benefits or Net Pension Liabilities)						
	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
G.O. Equipment Certificates (Backed by the City)	\$ 740,000	\$ 975,000	\$ -	\$ -	\$ 740,000	\$ 975,000
G.O. Bonds (Backed by the City)	1,835,000	2,315,000	15,745,000	16,170,000	17,580,000	18,485,000
G.O. Tax Increment Bonds (Backed by the City)	1,255,000	1,350,000	-	-	1,255,000	1,350,000
G.O. Improvement Bonds (Backed by the City)	25,510,000	27,705,000	-	-	25,510,000	27,705,000
Revenue Bonds and Notes (Backed by specific tax and fee revenues)	-	-	23,475,000	24,695,000	23,475,000	24,695,000
EDA Lease Revenue Bonds (Backed by specific tax and fee revenues)	10,085,000	10,085,000	21,960,000	22,275,000	32,045,000	32,360,000
Promissory Note Payable (Backed by the City)	119,300	128,068	-	-	119,300	128,068
Totals	<u>\$ 39,544,300</u>	<u>\$ 42,558,068</u>	<u>\$ 61,180,000</u>	<u>\$ 63,140,000</u>	<u>\$ 100,724,300</u>	<u>\$ 105,698,068</u>

The City continues to pay down its debt, retiring \$4,973,768 of outstanding bonds and notes in 2016.

The City of Chaska's General Obligation bonds carry an AA rating by Standard and Poor's Corporation, the City of Chaska Electric Revenue Bonds are rated A2 by Moody's and the Chaska EDA Lease Revenue Bonds carry an AA- rating by Standard and Poor's Corporation, as of last review.

Under Minnesota State Statutes, the general obligation bonded debt issued by the City is subject to a legal debt limitation based on 3 percent of market value. At December 31, 2016, the City's legal debt margin was \$75,720,684. 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 2017 budget. Specifically, five (5) major economic issues were considered:

1. Market Values across the community increased by an average of 3.18 percent. This will bring our overall property values in the community to just over \$2.6 billion, the highest level in our community's history.
2. With the reincorporation of our values from the decertified TIF District #4 in 2015, our Local Government Aid will go down by approximately \$250,000, from the level of just over \$500,000 in 2016.
3. We are once again seeing an increase in population, with our population increasing to just under 26,000 residents.
4. Our Electric fund revenue has continued to increase significantly, increasing revenues by \$1.9 million in 2016, as we have seen a significant amount of Economic Development activity occur in the last four (4) years, including data center development and additions to existing industrial businesses, driving up this usage. This has had a positive impact on the electric franchise fee coming back to our General fund.
5. We continue to see a good mix of commercial, industrial and residential growth in the community

As we look at 2017, we continue to see a positive trend in the market, as both commercial and industrial economic development activities occur and are planned in the community, while residential development continues moving in a positive and measured direction. These activities have a positive impact on our electric franchise fee to the General fund. It also helps increase new market values in the community, which we have provided additional tax resources to support our service levels, without having a negative impact on existing properties in the community. During the recession period from 2008-2013, the City needed to defer many planned expenditures as a strategy to balance the budget. In 2014 the City established the Capital Improvement Program to properly maintain current assets and in 2017 CIP implementation is completed to ensure appropriate dedicated resources to continue reinvesting in critical needs.

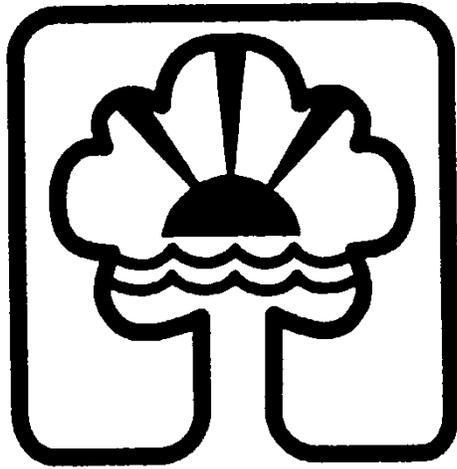
These factors were taken into account when adopting the General fund budget for 2017. Projected General fund revenues and other financing sources available for appropriation are equal to budgeted expenditures of \$15,049,480. Budgeted revenues and expenditures are a 6.93 percent increase over the 2016 operating budget with an actual increase of \$975,287. General assumptions used to calculate the 2017 operating budget were:

- Utilize budgeting objectives developed.
- Increase the tax levy by 8.7 percent due to new growth and inflation, with an additional \$250,000 representing the fourth year of implementation of our Capital Improvement Program.

- Move into the fourth (4) -year of implementing Priorities I and II of the Capital Improvement Program, bringing the total additional revenues in 2017 to the CIP of \$1 million.
- Continue the 5 percent Gas Franchise Fee in 2017 with those revenues dedicated to the CIP program.
- Continuation of the \$300,000 annual tax levy to the EDA fund and into the future to support the "Community Building Fund".
- Increase operational costs 1 percent and personnel salaries 3 percent.
- Assume normal continuation of the Street Reconstruction Program.
- 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, investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City of Chaska's Administrative Services Department.



CHASKA

Government-Wide Financial Statements

City of Chaska, Minnesota

For the Year Ended December 31, 2016

CITY OF CHASKA, MINNESOTA

STATEMENT OF NET POSITION
DECEMBER 31, 2016

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS			
Cash And Investments	\$ 20,783,650	\$ 8,419,473	\$ 29,203,123
Receivables:			
Taxes	177,654	-	177,654
Special Assessments	9,710,850	62,965	9,773,815
Accounts, Net of Allowance	219,828	5,687,437	5,907,265
Interest	29,070	164,843	193,913
Leases	-	20,492,586	20,492,586
Notes	149,378	-	149,378
Internal Balances	(2,748,070)	2,748,070	-
Due From Other Governments	286,286	68,075	354,361
Inventories	-	1,446,422	1,446,422
Net Pension Asset	7,858	-	7,858
Restricted Assets:			
Cash with Escrow Agent - Debt Service	985,123	5,851,570	6,836,693
Accrued Interest	-	1,223	1,223
Land Held For Resale	77,574	-	77,574
Capital Assets:			
Not Depreciated	57,083,601	2,113,319	59,196,920
Net of Depreciation	113,544,031	66,254,155	179,798,186
TOTAL ASSETS	200,306,833	113,310,138	313,616,971
DEFERRED OUTFLOWS OF RESOURCES			
Pension Plan Deferments	9,631,589	2,316,714	11,948,303
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 209,938,422	\$ 115,626,852	\$ 325,565,274
LIABILITIES			
Accounts Payable	\$ 900,571	\$ 621,231	\$ 1,521,802
Salaries Payable	316,263	200,678	516,941
Deposits Payable	42,300	333,611	375,911
Accrued Interest Payable	539,604	591,626	1,131,230
Due To Other Governments	29,046	2,203,072	2,232,118
Unearned Revenue	2,305,610	672,133	2,977,743
Non-current Liabilities:			
Due Within One Year	3,882,711	3,504,945	7,387,656
Due in More than One Year	54,082,367	67,101,703	121,184,070
TOTAL LIABILITIES	62,098,472	75,228,999	137,327,471
DEFERRED INFLOWS OF RESOURCES			
Debt Refunding Deferments	-	518,364	518,364
Pension Plan Deferments	1,752,256	529,874	2,282,130
TOTAL DEFERRED INFLOWS OF RESOURCES	1,752,256	1,048,238	2,800,494
NET POSITION			
Net Investment in Capital Assets	132,552,673	31,821,470	164,374,143
Restricted for:			
Special Purposes	34,063	-	34,063
Capital Projects	3,891,837	-	3,891,837
Debt Service	9,410,177	5,609,821	15,019,998
Economic Development	630,964	-	630,964
Fire Relief Pensions	208,312	-	208,312
Unrestricted	(640,332)	1,918,324	1,277,992
TOTAL NET POSITION	146,087,694	39,349,615	185,437,309
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	\$ 209,938,422	\$ 115,626,852	\$ 325,565,274

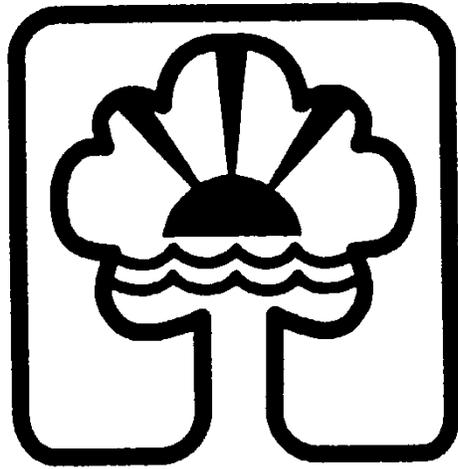
The notes to the financial statements are an integral part of this statement.

CITY OF CHASKA, MINNESOTA

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2016

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION		
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
Governmental Activities:							
General Government	\$ 5,975,566	\$ 3,381,482	\$ 77,095	\$ -	\$ (2,516,989)	\$ -	\$ (2,516,989)
Economic Development	1,078,389	77,421	38,291	94,176	(868,501)	-	(868,501)
Public Safety	6,878,111	180,603	490,150	2,748	(6,204,610)	-	(6,204,610)
Public Works	8,566,638	2,516,820	22,442	8,112,628	2,085,252	-	2,085,252
Parks, Recreation and Arts	1,067,514	317,749	300	16,875	(732,590)	-	(732,590)
Interest on Long-Term Debt	1,424,886	-	-	-	(1,424,886)	-	(1,424,886)
Total Governmental Activities	24,991,104	6,474,075	628,278	8,226,427	(9,662,324)	-	(9,662,324)
Business-type Activities:							
Electric	35,236,356	37,500,384	6,914	196,794	-	2,467,736	2,467,736
Water	2,859,401	2,714,932	2,033	48,133	-	(94,303)	(94,303)
Sewer	3,254,994	3,423,610	2,033	112,991	-	283,640	283,640
Community Center	4,419,881	2,735,432	5,287	-	-	(1,679,162)	(1,679,162)
Par 30 Golf Course	240,047	170,732	407	-	-	(68,908)	(68,908)
Chaska Town Course	2,433,909	2,137,035	2,847	-	-	(294,027)	(294,027)
Turbine Generator	1,057,383	1,781,846	-	-	-	724,463	724,463
Internet Service Provider	168,783	103,569	-	-	-	(65,214)	(65,214)
Storm Water	993,816	969,248	80,045	290,000	-	345,477	345,477
Chaska Curling Center	1,516,260	1,173,795	813	-	-	(341,652)	(341,652)
Total Business-type Activities	52,180,830	52,710,583	100,379	647,918	-	1,278,050	1,278,050
TOTAL	\$ 77,171,934	\$ 59,184,658	\$ 728,657	\$ 8,874,345	(9,662,324)	1,278,050	(8,384,274)
General Revenues:							
Property Taxes					8,189,403	-	8,189,403
Franchise Taxes					4,224,548	-	4,224,548
Grants & Contributions Not Restricted to Specific Functions					585,679	-	585,679
Investment Earnings					247,978	241,753	489,731
Other					510,860	63,277	574,137
Transfers					(221,383)	221,383	-
Total General Revenues & Transfers					13,537,085	526,413	14,063,498
Change in Net Position					3,874,761	1,804,463	5,679,224
Net Position - Beginning					142,212,933	37,545,152	179,758,085
Net Position - Ending					\$ 146,087,694	\$ 39,349,615	\$ 185,437,309

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



CHASKA

Governmental Funds

City of Chaska, Minnesota

For the Year Ended December 31, 2016

CITY OF CHASKA, MINNESOTA

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2016

	GENERAL	NONMAJOR GOVERNMENTAL	TOTAL GOVERNMENTAL FUNDS
ASSETS			
Cash And Investments	\$ 2,712,822	\$ 13,198,073	\$ 15,910,895
Cash With Escrow Agent	-	985,123	985,123
Receivables:			
Taxes	116,323	61,331	177,654
Special Assessments	761	9,710,089	9,710,850
Accounts, Net of Allowance	207,621	12,207	219,828
Interest	4,957	15,712	20,669
Notes	31,102	118,276	149,378
Due From Other Funds	-	2,086,716	2,086,716
Due From Other Governments	9,750	276,536	286,286
Interfund Receivable	-	101,866	101,866
Advance To Other Funds	-	745,867	745,867
Land Held For Resale	-	77,574	77,574
TOTAL ASSETS	\$ 3,083,336	\$ 27,389,370	\$ 30,472,706
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
LIABILITIES:			
Accounts Payable	\$ 112,423	\$ 786,745	\$ 899,168
Salaries Payable	316,263	-	316,263
Deposits Payable	100	42,200	42,300
Due To Other Funds	-	2,757,630	2,757,630
Due To Other Governments	29,046	-	29,046
Interfund Payable	-	597,083	597,083
Advance from Other Funds	-	2,164,450	2,164,450
Unearned Revenue	-	2,305,610	2,305,610
TOTAL LIABILITIES	457,832	8,653,718	9,111,550
DEFERRED INFLOWS OF RESOURCES:			
Unavailable Revenue - Taxes	54,084	35,245	89,329
Unavailable Revenue - Special Assessments	761	7,445,084	7,445,845
Unavailable Revenue - Notes Receivable	31,102	56,276	87,378
TOTAL DEFERRED INFLOWS OF RESOURCES	85,947	7,536,605	7,622,552
FUND BALANCES:			
Restricted	-	8,022,515	8,022,515
Committed	924,378	2,456,381	3,380,759
Assigned	-	6,646,255	6,646,255
Unassigned	1,615,179	(5,926,104)	(4,310,925)
TOTAL FUND BALANCES	2,539,557	11,199,047	13,738,604
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 3,083,336	\$ 27,389,370	\$ 30,472,706

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, 2016

Total fund balances - governmental funds \$ 13,738,604

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	246,711,658
Less: Accumulated Depreciation	(76,084,026)

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	89,329
Special Assessments	7,445,845
Notes Receivable	87,378

Governmental funds do not report long-term amounts related to pensions that are included in governmental activities net position.

Deferred Outflows - Pension Plan Deferments	9,631,589
Deferred Inflows - Pension Plan Deferments	(1,752,256)

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.

4,879,753

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

(163,356)

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

7,858

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.

(539,604)

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

Due within one year	(3,882,711)
Due in more than one year	(54,082,367)

Net position of governmental activities

\$ 146,087,694

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, 2016

	<u>GENERAL</u>	<u>NONMAJOR GOVERNMENTAL</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
<u>REVENUES</u>			
Taxes:			
Property	\$ 4,286,622	\$ 3,959,594	\$ 8,246,216
Franchise	4,224,548	-	4,224,548
Licenses and Permits	1,033,383	-	1,033,383
Intergovernmental	1,135,212	1,637,493	2,772,705
Charges for Services	2,791,405	2,525,056	5,316,461
Fines and Forfeitures	104,226	-	104,226
Special Assessments	8,795	2,112,617	2,121,412
Other Revenue	156,048	444,041	600,089
TOTAL REVENUES	13,740,239	10,678,801	24,419,040
<u>EXPENDITURES</u>			
CURRENT:			
General Government	5,166,624	61,835	5,228,459
Economic Development	-	1,070,364	1,070,364
Public Safety	5,270,617	-	5,270,617
Public Works	3,162,451	1,374,589	4,537,040
Parks, Recreation and Arts	728,896	99,169	828,065
DEBT SERVICE:			
Principal	-	3,013,768	3,013,768
Interest	-	1,429,478	1,429,478
Issuance Costs & Fiscal Agent Fees	-	4,725	4,725
CAPITAL OUTLAY	-	5,633,034	5,633,034
TOTAL EXPENDITURES	14,328,588	12,686,962	27,015,550
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(588,349)	(2,008,161)	(2,596,510)
<u>OTHER FINANCING SOURCES (USES)</u>			
Transfers In	91,257	6,150,963	6,242,220
Transfers Out	(48,781)	(6,374,353)	(6,423,134)
Sale of Capital Assets	-	25,856	25,856
TOTAL OTHER FINANCING SOURCES AND (USES)	42,476	(197,534)	(155,058)
NET CHANGE IN FUND BALANCES	(545,873)	(2,205,695)	(2,751,568)
FUND BALANCES, JANUARY 1	3,085,430	13,404,742	16,490,172
FUND BALANCES, DECEMBER 31	\$ 2,539,557	\$ 11,199,047	\$ 13,738,604

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, 2016

Total net change in fund balances - governmental funds \$ (2,751,568)

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 and 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	12,340,550
Less: Depreciation Expense	(5,937,531)
Net book value of assets sold or disposed	(31,524)
Asset Transfer	(4,069)

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.

Delinquent Taxes	(56,814)
Special Assessments	(1,458,127)
Notes Receivable	22,936

Long-term debt and other long-term liabilities provide current financial resources to governmental funds, while the repayment of long-term debt and liabilities consume 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 liabilities.

Additions to long-term liabilities (reduces governmental fund balances)	(12,476,225)
Reductions to long-term liabilities (increases governmental fund balances)	6,697,918

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

Net Pension Asset	7,858
Deferred Outflows - Pension Plan Deferments	8,065,800
Deferred Inflows - Pension Plan Deferments	(944,408)

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.

4,592

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.

438,872

Internal service fund profit allocated to business-type activities.

(43,499)

Change in net position - governmental activities

\$ 3,874,761

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, 2016**

	ORIGINAL AND FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
REVENUES:			
Taxes:			
Property	\$ 4,422,927	\$ 4,286,622	\$ (136,305)
Franchise	4,148,000	4,224,548	76,548
Licenses And Permits	1,109,530	1,033,383	(76,147)
Intergovernmental	1,067,576	1,135,212	67,636
Charges For Services	2,905,476	2,791,405	(114,071)
Fines And Forfeitures	115,200	104,226	(10,974)
Special Assessments	-	8,795	8,795
Other Revenue	305,484	156,048	(149,436)
TOTAL REVENUES	14,074,193	13,740,239	(333,954)
EXPENDITURES:			
Current:			
General Government	4,844,273	5,166,624	(322,351)
Public Safety	4,903,381	5,270,617	(367,236)
Public Works	3,515,974	3,162,451	353,523
Parks, Recreation and Arts	810,565	728,896	81,669
TOTAL EXPENDITURES	14,074,193	14,328,588	(254,395)
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	-	(588,349)	(588,349)
OTHER FINANCING SOURCES (USES):			
Transfers In	-	91,257	91,257
Transfers Out	-	(48,781)	(48,781)
TOTAL OTHER FINANCING SOURCES (USES)	-	42,476	42,476
NET CHANGE IN FUND BALANCES	-	(545,873)	(545,873)
FUND BALANCES, January 1	3,085,430	3,085,430	-
FUND BALANCES, December 31	\$ 3,085,430	\$ 2,539,557	\$ (545,873)

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

Proprietary Funds

City of Chaska, Minnesota

For the Year Ended December 31, 2016

CITY OF CHASKA, MINNESOTA

STATEMENT OF NET POSITION
 PROPRIETARY FUNDS
 DECEMBER 31, 2016

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS							GOVERNMENTAL ACTIVITIES- INTERNAL SERVICE FUND
	ELECTRIC	WATER	COMMUNITY CENTER	TURBINE GENERATOR	CURLING CENTER	NONMAJOR ENTERPRISE	TOTALS	
ASSETS								
Current Assets:								
Cash And Investments	\$ 4,418,023	\$ 2,049,248	\$ -	\$ 4,586	\$ -	\$ 1,947,616	\$ 8,419,473	\$ 4,872,755
Restricted Assets:								
Cash And Investments	56,475	-	-	1,415,926	1,713	-	1,474,114	-
Accrued Interest On Investments	-	-	-	1,223	-	-	1,223	-
Receivables:								
Special Assessments	1,698	520	-	-	-	60,747	62,965	-
Accounts:								
Current	3,119,483	196,296	214,459	-	77,979	426,303	4,034,520	-
Unbilled	1,493,636	71,638	-	-	-	147,984	1,713,258	-
Allowance For Uncollectible Accounts	(46,747)	(2,943)	(3,090)	-	(1,170)	(6,391)	(60,341)	-
Interest	13,707	3,354	-	146,166	-	1,616	164,843	8,401
Due From Other Funds	5,821,578	-	-	-	-	-	5,821,578	-
Due From Other Governments	3,252	2,381	61,843	-	-	599	68,075	-
Interfund Receivable	597,083	-	-	45,854	-	-	642,937	-
Lease Receivable	-	-	-	761,615	-	-	761,615	-
Inventories	1,250,656	131,406	-	-	-	64,360	1,446,422	-
Total Current Assets	16,728,844	2,451,900	273,212	2,375,370	78,522	2,642,834	24,550,682	4,881,156
Noncurrent Assets:								
Restricted Cash And Investments	244,354	-	544,651	2,165,497	1,422,954	-	4,377,456	-
Lease Receivable	-	-	-	19,730,971	-	-	19,730,971	-
Advance To Other Funds	2,164,450	-	-	920,455	-	-	3,084,905	-
Capital Assets:								
Land	778,843	222,130	90,466	-	-	130,925	1,222,364	-
Buildings	4,774,312	17,255,218	25,271,730	-	16,958,250	8,380,433	72,639,943	-
Other Improvements	-	1,271,864	497,262	-	-	284,619	2,053,745	-
Furniture & Equipment	1,536,672	468,003	2,159,342	-	1,827,223	3,617,511	9,608,751	-
Infrastructure	24,983,272	4,759,760	-	-	-	4,503,970	34,247,002	-
Construction in Progress	823,560	-	-	-	-	67,395	890,955	-
Less: Accumulated Depreciation	(15,342,029)	(11,216,077)	(16,071,105)	-	(125,700)	(9,540,375)	(52,295,286)	-
Total Net Capital Assets	17,554,630	12,760,898	11,947,695	-	18,659,773	7,444,478	68,367,474	-
Total Noncurrent Assets	19,963,434	12,760,898	12,492,346	22,816,923	20,082,727	7,444,478	95,560,806	-
TOTAL ASSETS	36,692,278	15,212,798	12,765,558	25,192,293	20,161,249	10,087,312	120,111,488	4,881,156
DEFERRED OUTFLOWS OF RESOURCES								
Pension Plan Deferments	748,288	231,860	588,277	-	70,907	677,382	2,316,714	-
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 37,440,566	\$ 15,444,658	\$ 13,353,835	\$ 25,192,293	\$ 20,232,156	\$ 10,764,694	\$ 122,428,202	\$ 4,881,156
LIABILITIES								
Current Liabilities:								
Accounts Payable	\$ 33,906	\$ 23,108	\$ 54,615	\$ -	\$ 444,955	\$ 64,647	\$ 621,231	\$ 1,403
Salaries Payable	59,522	18,796	61,002	-	14,788	46,570	200,678	-
Deposits Payable	146,638	-	50,506	-	23,000	113,467	333,611	-
Compensated Absences	126,234	40,812	63,344	-	3,252	91,303	324,945	-
Accrued Interest Payable	20,218	36,558	17,364	241,263	222,885	53,338	591,626	-
Due To Other Funds	-	-	329,279	-	4,444,575	376,810	5,150,664	-
Due To Other Governments	2,098,181	18,329	16,326	62,973	984	6,279	2,203,072	-
Interfund Payable	45,854	-	-	-	-	101,866	147,720	-
Revenue Bonds Payable	145,000	482,000	325,000	1,110,000	940,000	178,000	3,180,000	-
Unearned Revenue	1,698	520	307,557	-	194,446	167,912	672,133	-
Total Current Liabilities	2,677,251	620,123	1,224,993	1,414,236	6,288,885	1,200,192	13,425,680	1,403
Noncurrent Liabilities:								
Compensated Absences	60,373	12,210	53,630	-	14,410	46,666	187,289	-
Advance From Other Funds	920,455	-	-	-	-	745,867	1,666,322	-
Revenue Bonds Payable	2,657,070	10,862,808	5,387,579	22,569,994	15,325,000	4,487,140	61,289,591	-
Other Post Employment Benefits	81,135	16,917	32,340	-	423	64,333	195,148	-
Net Pension Liability	1,710,046	587,125	1,422,460	-	78,752	1,631,292	5,429,675	-
Total Noncurrent Liabilities	5,429,079	11,479,060	6,896,009	22,569,994	15,418,585	6,975,298	68,768,025	-
TOTAL LIABILITIES	8,106,330	12,099,183	8,121,002	23,984,230	21,707,470	8,175,490	82,193,705	1,403
DEFERRED INFLOWS OF RESOURCES								
Debt Refunding Deferments	-	-	-	518,364	-	-	518,364	-
Pension Plan Deferments	167,307	56,871	138,390	-	8,537	158,769	529,874	-
TOTAL DEFERRED INFLOWS OF RESOURCES	167,307	56,871	138,390	518,364	8,537	158,769	1,048,238	-
NET POSITION								
Net Investment In Capital Assets	14,752,560	2,005,570	6,235,116	-	2,396,483	6,431,741	31,821,470	-
Restricted For Debt Service	300,829	-	544,651	3,341,383	1,422,958	-	5,609,821	-
Unrestricted	14,113,540	1,283,034	(1,685,324)	(2,651,684)	(5,303,292)	(4,001,306)	1,754,968	4,879,753
TOTAL NET POSITION	29,166,929	3,288,604	5,094,443	689,699	(1,483,851)	2,430,435	39,186,259	4,879,753
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION								
	\$ 37,440,566	\$ 15,444,658	\$ 13,353,835	\$ 25,192,293	\$ 20,232,156	\$ 10,764,694	122,428,202	\$ 4,881,156

Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds 163,356

Net Position of business-type activities \$ 39,349,615

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, 2016

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS						TOTALS	GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUND
	ELECTRIC	WATER	COMMUNITY CENTER	TURBINE GENERATOR	CURLING CENTER	NONMAJOR ENTERPRISE		
CASH FLOWS FROM OPERATING ACTIVITIES:								
Receipts From Customers And Users	\$ 37,432,355	\$ 2,708,915	\$ 3,099,835	\$ 1,781,846	\$ 1,355,062	\$ 6,840,682	\$ 53,218,695	\$ 760,669
Payments To Suppliers	(32,114,207)	(1,093,381)	(1,457,239)	(297,995)	(2,783,433)	(4,180,069)	(41,926,324)	(657,438)
Payments To Employees	(1,745,650)	(587,014)	(1,886,632)	-	(360,558)	(1,966,245)	(6,546,099)	-
Miscellaneous Receipts	-	-	-	-	-	-	-	295,814
Net Cash Provided (Used) By Operating Activities	<u>3,572,498</u>	<u>1,028,520</u>	<u>(244,036)</u>	<u>1,483,851</u>	<u>(1,788,929)</u>	<u>694,368</u>	<u>4,746,272</u>	<u>399,045</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:								
Transfers From Other Funds	6,351	641,148	432,000	-	485,825	692,646	2,257,970	-
Transfers To Other Funds	(1,456,800)	(108,680)	-	-	-	(475,176)	(2,040,656)	(36,400)
Due From Other Funds	(197,054)	-	-	-	-	-	(197,054)	-
Due To Other Funds	-	-	329,279	-	(519,933)	362,371	171,717	-
Interfund Loans To Other Funds	(3,901)	-	-	43,242	-	-	39,341	-
Interest Payments On Interfund Loans	-	-	-	60,977	-	-	60,977	-
Intergovernmental	77,979	2,033	5,287	-	813	85,332	171,444	-
Net Cash Provided (Used) By Non-Capital Financing Activities	<u>(1,573,425)</u>	<u>534,501</u>	<u>766,566</u>	<u>104,219</u>	<u>(33,295)</u>	<u>665,173</u>	<u>463,739</u>	<u>(36,400)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:								
Capital Contributions	196,794	48,133	-	-	-	402,991	647,918	-
Principal Paid On Bonds	(150,000)	(425,000)	(315,000)	(1,070,000)	-	-	(1,960,000)	-
Interest And Fiscal Charges	(83,870)	(376,598)	(220,620)	(1,014,350)	(485,825)	(76,099)	(2,257,362)	-
Proceeds From Sale Of Capital Assets	2,300	-	-	-	-	-	2,300	-
Construction And Acquisition of Capital Assets	(1,333,297)	(220,100)	(38,283)	-	(687,985)	(1,447,302)	(3,726,967)	-
Transfers From Other Funds	-	2,500	-	-	-	2,500	5,000	-
Transfers To Other Funds	-	-	-	-	(5,000)	-	(5,000)	-
Lease Payments Received	-	-	-	704,338	-	-	704,338	-
Interfund Loan Payments to Other Funds	(43,242)	-	-	-	-	(96,867)	(140,109)	-
Interest Payments On Interfund Loans	(60,977)	-	-	-	-	(22,265)	(83,242)	-
Net Cash Provided (Used) By Capital And Related Financing Activities	<u>(1,472,292)</u>	<u>(971,065)</u>	<u>(573,903)</u>	<u>(1,380,012)</u>	<u>(1,178,810)</u>	<u>(1,237,042)</u>	<u>(6,813,124)</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES:								
Interest On Investments	206,016	20,849	2,812	2,968	1,349	10,706	244,700	52,220
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	732,797	612,805	(48,561)	211,026	(2,999,685)	133,205	(1,358,413)	414,865
CASH AND CASH EQUIVALENTS, January 1	3,986,055	1,436,443	593,212	3,374,983	4,424,352	1,814,411	15,629,456	4,457,890
CASH AND CASH EQUIVALENTS, December 31	<u>\$ 4,718,852</u>	<u>\$ 2,049,248</u>	<u>\$ 544,651</u>	<u>\$ 3,586,009</u>	<u>\$ 1,424,667</u>	<u>\$ 1,947,616</u>	<u>\$ 14,271,043</u>	<u>\$ 4,872,755</u>
CASH AND CASH EQUIVALENTS:								
Cash And Investments	\$ 4,418,023	\$ 2,049,248	\$ -	\$ 4,586	\$ -	\$ 1,947,616	\$ 8,419,473	\$ 4,872,755
Restricted Assets-Revenue Bonds:								
Cash And Investments	300,829	-	544,651	3,581,423	1,424,667	-	5,851,570	-
Total Cash And Cash Equivalents	<u>\$ 4,718,852</u>	<u>\$ 2,049,248</u>	<u>\$ 544,651</u>	<u>\$ 3,586,009</u>	<u>\$ 1,424,667</u>	<u>\$ 1,947,616</u>	<u>\$ 14,271,043</u>	<u>\$ 4,872,755</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:								
Operating Income (Loss)	\$ 2,318,763	\$ 219,601	\$ (1,460,684)	\$ 1,477,514	\$ 196,507	\$ (148,563)	\$ 2,603,138	\$ 129,596
Adjustments To Reconcile Operating Income (Loss) To Net Cash Provided (Used) By Operating Activities:								
Depreciation Expense	979,637	734,816	725,578	-	51,977	754,893	3,246,901	-
Allowance For Uncollectible Accounts	(657)	38	(504)	-	551	328	(244)	-
Miscellaneous Receipts	-	-	-	-	-	-	-	295,814
(Increase) Decrease In Assets And Deferred Outflows:								
Special Assessments	(1,698)	8	-	-	-	8,842	7,152	-
Accounts Receivable	(43,229)	(6,268)	100,701	-	(36,730)	(29,469)	(14,995)	-
Due From Other Governments	4,102	(41)	22,661	-	-	22,395	49,117	-
Inventory	139,791	36,328	-	-	-	(786)	175,333	-
Deferred Outflows	(602,710)	(177,268)	(460,896)	-	(70,907)	(531,804)	(1,843,585)	-
Increase (Decrease) In Liabilities And Deferred Inflows:								
Accounts Payable	(37,633)	8,460	30,278	-	(2,246,776)	(109,162)	(2,354,833)	(26,365)
Salaries Payable	5,661	1,298	7,626	-	7,084	8,178	29,847	-
Deposits Payable	(28,245)	-	4,181	-	23,000	27,412	26,348	-
Compensated Absences Payable	(7,970)	3,273	(3,395)	-	10,700	10,220	12,828	-
Net Pension Liability	669,396	196,881	511,891	-	78,752	590,642	2,047,562	-
Due To Other Governments	94,550	(18,600)	(27,645)	6,337	(6,493)	(3,295)	44,854	-
Unearned Revenue	1,698	246	237,364	-	194,446	6,980	440,734	-
Other Post Employment Benefits	8,479	8,406	13,319	-	423	23,531	54,158	-
Deferred Inflows - Pensions	72,563	21,342	55,489	-	8,537	64,026	221,957	-
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 3,572,498	\$ 1,028,520	\$ (244,036)	\$ 1,483,851	\$ (1,788,929)	\$ 694,368	\$ 4,746,272	\$ 399,045
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:								
Contributions of Capital Assets	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,069	\$ 4,069	\$ -
Amortization of Bond Premiums	\$ 1,138	\$ 14,962	\$ 1,117	\$ 213,573	\$ -	\$ 3,745	\$ 234,535	\$ -
Amortization of Gain on Refunding	\$ -	\$ -	\$ -	\$ 37,026	\$ -	\$ -	\$ 37,026	\$ -

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

CITY OF CHASKA, MINNESOTA

**STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
DECEMBER 31, 2016**

	AGENCY FUNDS
<u>ASSETS</u>	
Cash And Cash Equivalents	\$ 281,429
Accounts Receivable	8,567
Due From Other Funds	<u>3,645</u>
TOTAL ASSETS	<u>\$ 293,641</u>
 <u>LIABILITIES</u>	
Accounts Payable	\$ 4,922
Due To Other Funds	3,645
Deposits Payable	175,734
Due To Other Governments	<u>109,340</u>
TOTAL LIABILITIES	<u>\$ 293,641</u>

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 (4) 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. The City also operates a community center, two (2) golf courses, internet service, gas turbine generator and a curling and event center.

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 fund:

- 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.

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.
- **Curling Center** – This fund is used to account for the operations of the City’s Curling and Event Center.

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. 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.
 - **Police Evidence Cash Fund** – This fund is used to account for the cash funds held as evidence by the Chaska Police Department.

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 basis of accounting. However, debt service expenditures, as well as expenditures related to compensated absences, pensions, other post-employment benefits, 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, deferred outflows of resources and all liabilities, including long-term liabilities and deferred inflows of resources 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 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.

The City categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

See Note 2 for the City's recurring fair value measurements as of year-end.

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 20th. 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 governmental 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, 2016 the delinquent special assessment receivable balance is \$41,472.

- **Trade Receivables**

All trade receivables are shown net of an allowance for uncollectibles on the Statement of Net Position. On December 31, 2016 the allowance for uncollectible accounts is \$63,503.

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 the first in-first out (FIFO) method. Inventories are recorded as expenses when consumed.

I) 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. Investment earnings on these assets are allocated directly to the appropriate funds.

J) 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 acquisition 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.

K) 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.

L) Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has one (1) item that qualifies for reporting in this category. It is the deferred outflows of resources related to pensions reported in the government-wide and enterprise funds Statement of Net Position. This deferred outflow results from differences between expected and actual experience, changes of assumptions, difference between projected and actual earnings on pension plan investments and from contributions to the plan subsequent to the measurement date and before the end of the reporting period. These amounts are deferred and amortized as required under pension standards.

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 periods and so will not be recognized as an inflow of resources (revenue) until that time. The City has three (3) types of items that qualify for reporting in this category.

The first item, unavailable revenue, arises only under the modified accrual basis of accounting and therefore is only reported in the governmental funds balance sheet. 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.

The second item, deferred inflows of resources related to debt refundings, is reported in the government-wide and enterprise funds Statement of Net Position. This deferred inflow results from the differences between the resources required to refund debt and the net carrying amount of the refunded issue. These amounts are deferred and amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter.

The third item, deferred inflows of resources related to pensions, is reported in the government-wide and enterprise funds Statement of Net Position. This deferred inflow results from differences between expected and actual experience, changes of assumptions, and differences between projected and actual earnings on pension plan investments. These amounts are deferred and amortized as required under pension standards.

M) 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.

N) 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.

O) 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 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.

P) 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.

Q) Use of Estimates

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements, and the reported amounts of revenue and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

R) Pensions

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA’s fiduciary net position have been determined on the same basis as they are reported by PERA except that PERA’s fiscal year end is June 30. For this purpose, plan contributions are recognized as of employer paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

The PERA has a special funding situation created by a direct aid contribution made by the State of Minnesota. The direct aid is a result of the merger of the Minneapolis Employees Retirement fund into the PERA on January 1, 2015.

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Chaska Fire Department Relief Association (CFDRAPP) and additions to/deductions from CFDRAPP’s

fiduciary net position have been determined on the same basis as they are reported as of December 31, 2016. Investments are reported at fair value.

S) Assets Held for Resale

Assets held for resale represent various property purchases made by the City with the intent to sell in order to increase tax base or attract new businesses. These assets are stated at the lower of cost or fair value. Assets held for resale has a Level 2 fair value measurement category using the same accounting principles generally accepted in the United States of America's hierarchy as discussed earlier in these notes.

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, 2016, expenditures exceeded appropriations in the General fund by \$254,395, and the Chaska EDA Special Revenue fund by \$219,373. Variances in the General fund were offset with fund balance. Variances in the Chaska EDA fund were offset by special assessment revenue, other revenue and a transfer which were greater than expected. The remaining difference was offset with fund balance.

C) Nonmajor Funds with Negative Equity

The following nonmajor funds maintained a deficit fund balance/net position at December 31, 2016:

Special Revenue Fund	
Chaska EDA	\$ 688,606
Capital Project Funds	
Permanent Improvement Revolving/Sewer	\$ 45,445
Public Facilities Capital Improvement	30,377
Housing Improvement Area Projects	1,313,398
2014 Flood Event	269,536
TIF Dist #14 - Downtown Redevelopment	1,842,293
TIF Dist #17 - Chaska Preserve	279,801
TIF Dist #18 - Chaska Building Center	595,580
TIF Dist #19 - Chaska Heights	11,503
2010 Improvement Projects	2,026
2013 Improvement Projects	45,201
2015 Improvement Projects	18,738
Public Improvement Projects	167,377
Enterprise Funds	
Sewer	\$ 201,621
Par 30 Golf	132,922

The deficit in the Chaska EDA fund is due to various economic development projects. Some of these projects have not received final funding. 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 deficits in the Sewer fund and Par 30 fund relate to the implementation of GASB 68 in 2015. The Sewer fund's 2016 operations reduced the negative net position from year-end

2015 to year-end 2016, but did not eliminate it. A portion of Par 30's deficit is from ongoing operations. Revenue from future operations will eliminate these deficits.

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 Investments	\$29,203,123
Restricted Cash and Investments	6,836,693
	<u>36,039,816</u>
Statement of Net Position - Fiduciary Funds	
Cash and Cash Equivalents	281,429
Total Cash and Investments	<u><u>\$36,321,245</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.

Notes to the Financial Statements

City of Chaska, Minnesota

For the Year Ended December 31, 2016

Deposit balances at December 31, 2016 are as follows:

	<u>Bank Balance</u>	<u>Carrying Amount</u>
Total Bank Deposits	\$3,515,907	\$2,838,347

At December 31, 2016, 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		Fair Value	Interest Risk - Maturity Duration in Years			Total
	Rating	Agency	Using	Less Than 1	1 to 5	More than 5	
U.S. Treasury Strips	AA+	S&P	Level 1	\$ -	\$ 978,880	\$ -	\$ 978,880
U.S. Treasury Strips	N/R	N/R	Level 1	-	1,261,796	-	1,261,796
U.S. Government Agencies	AA+	S&P	Level 1	-	1,148,102	-	1,148,102
U.S. Government Agencies	AA+	S&P	Level 2	-	400,422	-	400,422
U.S. Government Agencies	AA-	S&P	Level 1	-	2,655,240	-	2,655,240
State and Local Bonds	AA	S&P	Level 1	1,013,357	-	-	1,013,357
State and Local Bonds	AA-	S&P	Level 1	-	1,025,080	-	1,025,080
State and Local Bonds	Aa1	Moodys	Level 1	216,759	-	-	216,759
State and Local Bonds	Aa2	Moodys	Level 1	-	201,498	-	201,498
State and Local Bonds	A	S&P	Level 1	305,098	-	-	305,098
State and Local Bonds	Baa1	Moodys	Level 1	-	253,268	-	253,268
Negotiable CD's	N/R	N/R	Level 1	1,985,838	247,247	-	2,233,085
Commercial Paper	A-1	S&P	Level 3	2,679,848	N/A	N/A	2,679,848
Investments in Mutual Funds & Money Markets							
First American Treasury Obligations	AAAm	S&P	N/A	N/A	N/A	N/A	274,593
100% Treasury MM Fund	AAAm	S&P	N/A	N/A	N/A	N/A	3,181,001
Minnesota Municipal MM Fund	N/R	N/R	N/A	N/A	N/A	N/A	15,654,871
Total Investments:				<u>\$ 6,200,899</u>	<u>\$ 7,192,653</u>	<u>\$ -</u>	33,482,898
						Total Deposits	2,833,797
						Petty Cash and Change Funds	4,550
						Total Deposits and Investments	<u>\$ 36,321,245</u>

N/A - Not Applicable
N/R - Not Rated

The Minnesota Municipal Money Market fund (4M Fund) is an external investment pool not registered with the Securities and Exchange Commission (SEC) that follows the same regulatory rules of the SEC. The 4M Fund is sponsored by the League of Minnesota Cities. Investments are purchased and regulated according to Minnesota Statutes.

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 (13) 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 (2) 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 (5) 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 (5) percent of its investments in the following:

<u>Issuer</u>	<u>Percent</u>	<u>Amount</u>
Federal National Mortgage Association	7.93%	\$ 2,655,240
US Bank Commercial Paper	8.00%	2,679,848

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, 2016, was as follows:

	BEGINNING BALANCE	INCREASES	DECREASES	RECLASS & TRANSFERS	ENDING BALANCE
Governmental Activities					
Capital assets, not being depreciated:					
Land	\$ 49,267,479	\$ 1,094,909	\$ -	\$ 550	\$ 50,362,938
Works of Art/Treasures	105,027	-	-	-	105,027
Construction In Progress	20,545,675	1,882,712	-	(15,812,751)	6,615,636
Total capital assets, not being depreciated:	69,918,181	2,977,621	-	(15,812,201)	57,083,601
Capital assets, being depreciated:					
Buildings	9,865,909	-	-	-	9,865,909
Other Improvements	11,011,111	1,751,867	-	7,849,944	20,612,922
Furniture & Equipment	8,714,866	1,471,481	(661,658)	163,911	9,688,600
Infrastructure	135,462,930	6,139,581	-	7,858,115	149,460,626
Total capital assets being depreciated:	165,054,816	9,362,929	(661,658)	15,871,970	189,628,057
Less accumulated depreciation for:					
Buildings	(6,639,428)	(314,173)	-	-	(6,953,601)
Other Improvements	(7,033,868)	(412,758)	-	-	(7,446,626)
Furniture & Equipment	(6,396,891)	(439,237)	630,134	(63,838)	(6,269,832)
Infrastructure	(50,642,604)	(4,771,363)	-	-	(55,413,967)
Total accumulated depreciation:	(70,712,791)	(5,937,531)	630,134	(63,838)	(76,084,026)
Total capital assets, being depreciated, net:	94,342,025	3,425,398	(31,524)	15,808,132	113,544,031
Governmental activities capital assets, net:	\$ 164,260,206	\$ 6,403,019	\$ (31,524)	\$ (4,069)	\$ 170,627,632
Business-Type Activities					
Capital assets, not being depreciated:					
Land	\$ 1,222,364	\$ -	\$ -	\$ -	\$ 1,222,364
Construction In Progress	18,209,985	890,955	-	(18,209,985)	890,955
Total capital assets, not being depreciated:	19,432,349	890,955	-	(18,209,985)	2,113,319
Capital assets, being depreciated:					
Buildings	55,601,117	495,527	-	16,543,299	72,639,943
Other Improvements	2,076,203	-	(22,458)	-	2,053,745
Furniture & Equipment	7,817,805	884,307	(514,060)	1,420,699	9,608,751
Infrastructure	32,604,604	1,456,178	-	186,220	34,247,002
Total capital assets, being depreciated:	98,099,729	2,836,012	(536,518)	18,150,218	118,549,441
Less accumulated depreciation for:					
Buildings	(30,755,328)	(1,570,947)	-	-	(32,326,275)
Other Improvements	(763,806)	(127,354)	22,458	-	(868,702)
Furniture & Equipment	(5,397,158)	(483,532)	495,271	63,836	(5,321,583)
Infrastructure	(12,713,658)	(1,065,068)	-	-	(13,778,726)
Total accumulated depreciation:	(49,629,950)	(3,246,901)	517,729	63,836	(52,295,286)
Total capital assets, being depreciated, net:	48,469,779	(410,889)	(18,789)	18,214,054	66,254,155
Business-type activities capital assets, net:	\$ 67,902,128	\$ 480,066	\$ (18,789)	\$ 4,069	\$ 68,367,474

City of Chaska, Minnesota

For the Year Ended December 31, 2016

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

<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
General Government	\$ 296,443	Electric	\$ 979,637
Economic Development	7,970	Water	734,816
Public Safety	266,545	Community Center	725,578
Public Works	5,061,866	Chaska Curling Center	51,977
Parks, Recreation and Arts	304,707	Sewer	73,154
Total Depreciation Expense -		Chaska Par 30	3,940
Governmental Activities:	<u>\$ 5,937,531</u>	Chaska Town Course	480,570
		Internet Service Provider	63,011
		Storm Water	134,218
		Total Depreciation Expense -	
		Business-Type Activities:	<u>\$ 3,246,901</u>

Note 5 Lease Receivable Agreements

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 (30) 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 (30)-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 (20)-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 (20) additional years by giving the City ninety days written notice in advance of May 1st of the year the option will not be exercised.

Notes to the Financial Statements

City of Chaska, Minnesota

For the Year Ended December 31, 2016

Annual lease payments through April 1, 2031 are as follows:

Year Ending December 31,	Lease Receivable	
	Principal	Interest
2017	\$ 761,615	\$ 1,724,569
2018	829,422	1,656,762
2019	903,266	1,582,918
2020	983,683	1,502,501
2021	1,071,261	1,414,923
2022-2026	6,968,493	5,462,427
2027-2031	8,974,846	1,798,618
Total	<u>\$ 20,492,586</u>	<u>\$ 15,142,718</u>

Note 6 Long-Term Liabilities

Long-term liabilities for the year ended December 31, 2016 are as follows:

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds Payable					
General Obligation Bonds:					
Equipment Certificates	\$ 975,000	\$ -	\$ (235,000)	\$ 740,000	\$ 95,000
General Obligation Bonds	2,315,000	-	(480,000)	1,835,000	200,000
Tax Increment Bonds	1,350,000	-	(95,000)	1,255,000	100,000
Improvement Bonds	27,705,000	-	(2,195,000)	25,510,000	2,385,000
EDA Lease Revenue Bonds	10,085,000	-	-	10,085,000	270,000
Plus: Premium	1,908,544	-	(125,369)	1,783,175	-
Total Bonds Payable:	<u>44,338,544</u>	<u>-</u>	<u>(3,130,369)</u>	<u>41,208,175</u>	<u>3,050,000</u>
Notes Payable					
Promissory Note Payable:	128,068	-	(8,768)	119,300	11,302
Claims and Judgments Payable	-	250,000	-	250,000	250,000
Compensated Absences	852,664	680,184	(608,470)	924,378	571,409
Other Post Employment Benefits	413,994	54,361	(9,940)	458,415	-
Net Pension Liability	<u>6,453,501</u>	<u>11,491,680</u>	<u>(2,940,371)</u>	<u>15,004,810</u>	<u>-</u>
Governmental Activity Long-term Liabilities:	<u>\$52,186,771</u>	<u>\$12,476,225</u>	<u>\$ (6,697,918)</u>	<u>\$57,965,078</u>	<u>\$ 3,882,711</u>

Note: The Net Pension Liability reductions reflected above do not reflect \$7,858 of contributions to the Chaska Fire Department Relief Association Pension Plan. Plan contributions for 2016 exceeded the amount necessary to eliminate the accumulated Net Pension Liability, resulting in a Net Pension Asset at year-end.

Notes to the Financial Statements

City of Chaska, Minnesota

For the Year Ended December 31, 2016

<u>Business-type Activities</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds Payable:					
General Obligation Revenue Bonds	\$ 16,170,000	\$ -	\$ (425,000)	\$ 15,745,000	\$ 660,000
Revenue Bonds	24,695,000	-	(1,220,000)	23,475,000	1,255,000
EDA Lease Revenue Bonds	22,275,000	-	(315,000)	21,960,000	1,265,000
Plus: Premium	3,524,126	-	(234,535)	3,289,591	-
Total Bonds Payable:	<u>66,664,126</u>	<u>-</u>	<u>(2,194,535)</u>	<u>64,469,591</u>	<u>3,180,000</u>
Compensated absences	499,406	392,717	(379,889)	512,234	324,945
Other Post Employment Benefits	140,990	66,277	(12,119)	195,148	-
Net Pension Liability	<u>3,382,113</u>	<u>2,791,965</u>	<u>(744,403)</u>	<u>5,429,675</u>	<u>-</u>
Business-type Activity					
Long-term Liabilities:	<u>\$ 70,686,635</u>	<u>\$ 3,250,959</u>	<u>\$ (3,330,946)</u>	<u>\$ 70,606,648</u>	<u>\$ 3,504,945</u>

For the Governmental Activities, compensated absences, claims and judgements, other post-employment benefits and net pension liabilities are generally liquidated by the General fund. Business-type Activities, compensated absences, other post-employment benefits and net pension liabilities are liquidated within the respective enterprise fund.

Bonds Payable:

The City issues general obligation bonds to provide funds for the construction of capital projects and acquisition of equipment. General obligation bonds have been issued for both governmental and business-type activities.

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. Bonds in the business-type activities will be repaid with the net revenues of the utility issuing the bonds. 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.

The City of Chaska and the Chaska Economic Development Authority also issue revenue bonds. Revenue bonds are supported by income derived from lease agreements or specific fee revenues to pay for debt service.

Notes to the Financial Statements

City of Chaska, Minnesota

For the Year Ended December 31, 2016

Bonds outstanding for the year ended December 31, 2016 are as follows:

	<u>Issue Date</u>	<u>Final Maturity Date</u>	<u>Interest Rate</u>	<u>Original Issue</u>	<u>Outstanding 12/31/2016</u>
Governmental Activities					
Bonds Payable					
General Obligation Bonds					
Equipment Certificates					
G.O. Equipment Certificates, Series 2013C	08/15/13	02/01/23	0.90-3.10%	\$ 915,000	\$ 740,000
General Obligation Bonds					
G.O. Bonds, Series 2011B	09/15/11	02/01/27	2.00-3.25%	3,455,000	1,835,000
Tax Increment Bonds					
G.O. Taxable TI Bonds, Series 2008E	11/15/08	02/01/31	6.25-7.50%	565,000	480,000
G.O. Taxable Abatement Bonds, Series 2010D	09/15/10	02/01/33	4.00-5.25%	405,000	405,000
G.O. Taxable TI Cross-over Refunding Bonds, Series 2013B	08/15/13	12/01/21	2.00-2.75%	580,000	370,000
Total Tax Increment Bonds				1,550,000	1,255,000
Improvement Bonds					
G.O. Improvement Bonds, Series 2008C	11/15/08	02/01/29	3.00-5.13%	3,645,000	1,680,000
G.O. Improvement Bonds, Series 2010A	07/01/10	02/01/31	2.00-4.00%	3,220,000	1,920,000
G.O. Improvement Bonds, Series 2010C	09/15/10	02/01/33	2.00-3.75%	2,180,000	1,845,000
G.O. Improvement Bonds, Series 2012A	08/15/12	02/01/28	2.00-2.40%	2,430,000	1,990,000
G.O. Improvement Bonds, Series 2013A	08/15/13	02/01/35	2.00-4.00%	3,330,000	3,075,000
G.O. Improvement Bonds, Series 2014A	12/30/14	02/01/30	0.70-3.00%	5,785,000	5,330,000
G.O. Improvement Bonds, Series 2015B	08/15/15	02/01/31	3.00-5.00%	5,940,000	5,940,000
G.O. Improvement Refunding, Series 2009B	10/01/09	12/01/20	2.00-3.00%	1,995,000	420,000
G.O. Cross-over Refunding, Series 2012B	08/15/12	02/01/27	2.00-2.30%	4,675,000	3,310,000
Total Improvement Bonds				33,200,000	25,510,000
EDA Lease Revenue Bonds					
Lease Revenue Bonds, Series 2015B	04/15/15	02/01/35	2.00-4.00%	9,000,000	9,000,000
Lease Revenue Bonds, Series 2015D	12/30/15	02/01/26	2.00-4.00%	1,085,000	1,085,000
Total EDA Lease Revenue Bonds				10,085,000	10,085,000
Premium					
				2,092,142	1,783,175
Total Bonds Payable - Governmental Activities				\$51,297,142	\$41,208,175
Business-type Activities					
Bonds Payable					
General Obligation Revenue Bonds					
G.O. Water Revenue Partial Advance Refunding Bonds, Series 2009A					
	10/01/09	12/01/22	2.00-3.25%	\$ 1,495,000	\$ 795,000
G.O. Water Revenue Refunding Bonds, Series 2011A	09/15/11	12/01/32	2.00-4.00%	11,435,000	9,780,000
G.O. Utility Revenue Bonds, Series 2015C	12/30/15	02/01/36	2.00-4.00%	5,170,000	5,170,000
Total General Obligation Revenue Bonds				18,100,000	15,745,000
Revenue Bonds					
Electric Utility Revenue Bonds, Series 2011D	12/22/11	10/01/31	2.00-3.65%	3,535,000	2,785,000
Electric Revenue Refunding Bonds, Series 2015A	10/01/15	10/01/30	2.00-5.00%	21,760,000	20,690,000
Total Revenue Bonds				25,295,000	23,475,000
EDA Lease Revenue Bonds					
Lease Revenue Bonds, Series 2007A	06/01/07	12/01/27	4.00-4.40%	2,900,000	2,305,000
Lease Revenue and Limited Tax Bonds, Series 2013A	07/18/13	12/01/33	2.00-4.00%	3,850,000	3,390,000
Taxable Lease Revenue Bonds, Series 2015A	04/15/15	02/01/35	1.22-4.40%	12,855,000	12,855,000
Taxable Lease Revenue Bonds, Series 2015C	12/30/15	02/01/31	1.53-4.57%	3,410,000	3,410,000
Total EDA Lease Revenue Bonds				23,015,000	21,960,000
Premium					
				3,617,089	3,289,591
Total Bonds Payable - Business-type Activities				\$70,027,089	\$64,469,591

General Obligation Bonds:

The City issues the following types of general obligation bonds:

- Equipment certificates provide funding for the acquisition of equipment and vehicles for various departments.
- G.O. bonds provide financing for various infrastructure improvement projects.
- Tax Increment bonds provide financing for the construction of streets and utilities and the acquisition of property for business development.
- Improvement bonds provide financing for construction projects such as streets and utilities.

Annual debt service requirements to maturity are as follows:

Year Ending December 31	Governmental Activities							
	G.O. Equipment Certificates		G.O. Bonds		G.O. Tax Increment Bonds		G.O. Improvement Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2017	\$ 95,000	\$ 16,690	\$ 200,000	\$ 50,188	\$ 100,000	\$ 62,388	\$ 2,385,000	\$ 780,400
2018	100,000	15,077	200,000	45,437	105,000	59,262	2,215,000	720,551
2019	105,000	13,075	205,000	40,375	105,000	55,963	2,105,000	655,073
2020	105,000	10,739	215,000	34,587	110,000	52,337	1,950,000	591,227
2021	110,000	8,075	215,000	28,138	115,000	48,213	1,820,000	528,946
2022 - 2026	225,000	6,888	675,000	67,938	255,000	188,625	8,585,000	1,779,586
2027 - 2031	-	-	125,000	2,031	380,000	88,381	6,060,000	510,134
2032 - 2035	-	-	-	-	85,000	4,594	390,000	21,731
Total:	<u>\$ 740,000</u>	<u>\$ 70,544</u>	<u>\$ 1,835,000</u>	<u>\$ 268,694</u>	<u>\$ 1,255,000</u>	<u>\$ 559,763</u>	<u>\$25,510,000</u>	<u>\$5,587,648</u>

General Obligation Revenue Bonds:

The City issues GO Revenue bonds to construct or expand utility systems. Bonds will be repaid with the net revenues of the Water, Sewer and Storm Water Utility.

Annual debt service requirements to maturity are as follows:

Year Ending December 31	Business-type Activities	
	G.O. Revenue Bonds	
	Principal	Interest
2017	\$ 660,000	\$ 500,000
2018	720,000	484,050
2019	775,000	464,600
2020	805,000	443,450
2021	865,000	421,500
2022 - 2026	4,305,000	1,712,287
2027 - 2031	5,155,000	962,619
2032 - 2036	2,460,000	162,600
Total:	<u>\$ 15,745,000</u>	<u>\$ 5,151,106</u>

City of Chaska, Minnesota

For the Year Ended December 31, 2016

Revenue Bonds:

Revenue bonds issued by the City are supported by income derived from specific fee revenues to pay for debt service. These Electric Revenue Bonds will be repaid with net revenues of the Electric Utility and Lease Revenue in the Turbine Generator fund.

Annual debt service requirements to maturity are as follows:

Year Ending December 31	Business-type Activities	
	Revenue Bonds	
	Principal	Interest
2017	\$ 1,255,000	\$ 1,045,920
2018	1,300,000	1,009,720
2019	1,355,000	960,920
2020	1,380,000	933,820
2021	1,440,000	869,220
2022 - 2026	8,300,000	3,256,110
2027 - 2031	8,445,000	1,059,293
Total:	<u>\$ 23,475,000</u>	<u>\$ 9,135,003</u>

EDA Lease Revenue Bonds:

EDA Lease revenue bonds are supported by income derived from lease agreements to pay for debt service.

Annual debt service requirements to maturity are as follows:

Year Ending December 31	Governmental Activities		Business-type Activities	
	EDA Lease Revenue Bonds		EDA Lease Revenue Bonds	
	Principal	Interest	Principal	Interest
2017	\$ 270,000	\$ 369,950	\$ 1,265,000	\$ 737,290
2018	270,000	364,550	1,300,000	712,959
2019	275,000	359,100	1,325,000	683,728
2020	280,000	353,050	1,360,000	650,074
2021	290,000	345,400	1,400,000	611,807
2022 - 2026	1,980,000	1,568,175	7,170,000	2,356,704
2027 - 2031	3,440,000	1,011,000	5,225,000	1,192,569
2032 - 2035	3,280,000	269,000	2,915,000	247,626
Total:	<u>\$ 10,085,000</u>	<u>\$ 4,640,225</u>	<u>\$ 21,960,000</u>	<u>\$ 7,192,757</u>

Notes to the Financial Statements

City of Chaska, Minnesota

For the Year Ended December 31, 2016

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 2011 note was renewed in 2016 for a second five (5)-year term. This note is paid by the Chaska EDA fund.

Promissory Note outstanding for the year ended December 31, 2016 is as follows:

	Issue Date	Final Maturity Date	Interest Rates	Original Issue	Outstanding 12/31/2016
<u>Governmental Activities:</u>					
Promissory Note Payable	11/21/16	11/15/21	4.75%	\$ 120,319	\$ 119,300

Promissory note requirements to maturity are as follows:

Year Ending December 31	Governmental Activities	
	Principal	Interest
2017	\$ 11,302	\$ 5,498
2018	11,859	4,941
2019	12,443	4,357
2020	13,044	3,756
2021	70,652	2,872
	<u>\$ 119,300</u>	<u>\$ 21,424</u>

Revenue Pledged:

Future revenue pledged for the payment of long-term debt (revenue bonds) is 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 Paid	Pledged Revenue Received
<u>GO Water Revenue Bonds:</u>							
Refunding Bonds of 2009	Water Treatment Plant and Water Systems						\$ 2,714,932
Refunding Bonds of 2011	Partial Advance Refund 2003 Bonds	Utility Charges	100%	2009 - 2022	\$ 885,400	\$ 152,400	
	Refund 2003 Bonds	Utility Charges	100%	2011 - 2032	13,144,994	639,538	
<u>GO Utility Revenue Bonds:</u>							
GO Utility Revenue Bonds of 2015	Water, Sanitary Sewer and Storm Water System Improvements	Utility Charges	100%	2015 - 2036	6,865,712	84,510	7,107,790
<u>Electric Revenue Bonds:</u>							
Electric Revenue Refunding Bonds 2015	Refund 2000A and 2005A Series Bonds	Lease Revenue	100%	2015 - 2030	29,061,950	2,077,850	1,781,846
Electric Bonds of 2011	Electric Substation and Improvements	Utility Charges	100%	2011 - 2031	3,548,053	233,870	37,500,384
<u>EDA Lease Revenue Bonds:</u>							
Lease Revenue Bonds of 2007	Community Center Additions and Improvements						2,735,432
Lease Revenue and Limited Tax Revenue Bonds of 2013	Sr. Center Addition/Community Center	Lease Revenue	100%	2007 - 2027	2,947,540	264,575	
Taxable Lease Revenue Bonds of 2015	Ice Arenas, Pool and Ventilation Systems	Lease Revenue	100%	2013 - 2033	4,580,708	268,295	
Series 2015A	Curling Center, Event Center and Restaurant Building Construction	Lease Revenue	100%	2015 - 2035	17,083,630	412,427	1,173,795
Series 2015C	Furniture, Fixtures and Equipment	Lease Revenue	100%	2015 - 2031	4,540,879	71,798	
Lease Revenue Bonds of 2015	Firemen's Park Improvements						825,932
Series 2015B	Park Improvements and Construction	Lease Revenue	100%	2015 - 2035	13,437,000	338,400	
Series 2015D	Fixtures and Equipment	Lease Revenue	100%	2015 - 2026	1,288,225	20,074	

Tax Abatements:

The City of Chaska has implemented a Business Incentive Policy (in accordance with Minnesota Statutes, Sections 116J.993 to 116J.995) to assist developers with solutions that increase employment opportunities, improve and develop facilities in the City and increase the availability of essential services. Under this policy, the City provides City Tax Abatement (in accordance with Minnesota Statutes, Section 469.1813, subdivision 8) for up to three (3) times a new developer's total property taxes. The City of Chaska currently has five (5) agreements that would be considered tax abatements under GASB #77.

- In 2013, the City entered into a development agreement with Ridgeview Two Twelve North Addition, LLC to provide assistance for the construction of facility improvements. These improvements would create quality employment positions in the City while increasing resident's access to vital services. The City provides assistance for the costs of: soil correction, architectural enhancement, and fire safety, which are reimbursed using City Tax Abatements with maximum amount of assistance provided equal to \$777,926 over 20 years. The City's obligation and the agreement are terminated the earlier of 20 payments or the Developer has been paid \$777,926 in Tax Abatement payments. The City rebated \$32,341 to Ridgeview Two Twelve North Addition, LLC in 2016.
- In 2014, the City entered into a development agreement with IP Stream Minneapolis, LLC to provide assistance for construction of 115,000 foot data center. This agreement ensures the development of a site that is underutilized, creating quality employment opportunities in the City while increasing the tax base and generating substantial revenue for the City. The City provides assistance for the costs of: site acquisition and improvements to be reimbursed using City Tax Abatements with maximum amount of assistance provided equal to \$1,228,500 over 20 years. The City's obligation and the agreement are terminated the earlier of 20 payments or the Developer has been paid \$1,228,500 in Tax Abatement payments. The City rebated \$29,563 to IP Stream Minneapolis, LLC in 2016.
- In 2014, the City entered into a development agreement with Lucrum Properties, LLC to provide assistance for construction of 24,864 foot expansion of an existing manufacturing facility. This agreement ensures the expansion of the development site in order to create more quality employment opportunities in the City. The City provides assistance for the costs of: storm water and grading improvements, permit fees and development charges, footings and parking lot improvements to be reimbursed using City Tax Abatements with maximum amount of assistance provided equal to \$144,699 over 20 years. The City's obligation and the agreement are terminated the earlier of 20 payments or the Developer has been paid \$144,699 in Tax Abatement payments. The City rebated \$5,031 to Lucrum Properties, LLC in 2016.
- In 2015, the City entered into a development agreement with Lifecore Biomedical, LLC to provide assistance for the expansion of their existing facilities. This agreement ensures the expansion and the development of a property that is underutilized, increases the City's tax base and encourages a high quality business to expand their operations in the City. The City provides assistance for the costs of: site preparation and grading to be reimbursed using City Tax Abatements with maximum amount of assistance provided equal to \$144,623 over 20

years. The City's obligation and the agreement are terminated the earlier of 20 payments or the Developer has been paid \$144,623 in Tax Abatement payments. The City did not rebate Lifecore Biomedical, LLC in 2016. This agreement will commence in 2017.

- In 2016, the City entered into a development agreement with U.S. Bank National Association, to provide City Assistance for the construction of a new data center. This agreement ensures the development of a site that is currently underutilized, creating quality employment opportunities in the City while increasing the tax base and generating substantial revenue for the City. The City provides assistance for some of the costs incurred in constructing the data center on the property using City Tax Abatements with maximum amount of assistance provided equal to \$548,000 over 20 years. The City's obligation and the agreement are terminated the earlier of 20 payments or the Developer has been paid \$548,000 in Tax Abatement payments. The City did not rebate U.S. Bank National Association in 2016. This agreement will commence in 2018.

Tax Increment Pay-As-You-Go Financing Revenue Notes:

The Chaska Economic Development Authority (EDA) has entered into private development agreements to facilitate the financing of certain projects established by the Chaska Housing and Redevelopment Authority (pursuant to Minnesota Statutes, Sections 469.001 to 469.047). The costs of these projects are financed using tax increment generated from established tax increment financing districts (pursuant to Minnesota Statutes, Sections 469.174 to 469.179). As of December 31, 2016, the Chaska Economic Development Authority has five (5) agreements considered Tax Increment Pay-As-You-Go Financing Revenue Notes under GASB #77. The 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 note and any outstanding balance is cancelled at the end of the agreement term, whether or not they have been repaid. 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.

- In 2002, the Chaska EDA entered into a development agreement with Chaska Place Apartments at 6.5 percent interest with payments due through 2023. The City rebated \$133,079 to Chaska Place Apartments in 2016. The outstanding balance as of December 31, 2016 is \$1,365,377.
- In 2007, the Chaska EDA entered into a development agreement with Clover Field Sinclair Limited Partnership at 5.65 percent interest with payments due through 2029. The City rebated \$133,389 to Clover Field Sinclair Limited Partnership in 2016. The outstanding balance as of December 31, 2016 is \$3,965,268.
- In 2004, the Chaska EDA entered into a development agreement with City Square, LLC with an outstanding balance as of December 31, 2016 of \$123,121 and decertification date scheduled on or before December 31, 2031. The City did not rebate City Square, LLC. in 2016.
- In 2015, the Chaska EDA entered into a development agreement with Chaska Heights Senior Living, LLC at a simple non-compounding interest rate of 3.25 percent on a principal not to

exceed \$2,874,667 with rebate payments beginning on August 1, 2018 and concluding on or before February 1, 2044.

- In 2016, the Chaska EDA entered into a development agreement with Creek's Run Phase II, LLC at a simple non-compounding interest rate of 4.5 percent on a principal not to exceed \$242,500 with rebate payments beginning on August 1, 2018 and concluding on or before February 1, 2036.

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, excluding the bonds mentioned below. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

As of December 31, 2016, there were seven (7) series of IRBs outstanding. The aggregate principal amount payable for the four (4) series issued after July 1, 1995, was \$5,394,674. 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, 2016, there were five (5) series of HRBs outstanding. The aggregate principal amounts payable for the three (3) series issued after July 1, 1995 was \$8,790,000. 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, 2016 are as follows:

Due To/From Other Funds		
<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Nonmajor Governmental	Nonmajor Governmental	\$2,086,716
Electric	Nonmajor Governmental	670,914
Electric	Community Center	329,279
Electric	Curling Center	4,444,575
Electric	Nonmajor Enterprise	376,810
Fiduciary	Fiduciary	3,645
Total:		<u><u>\$7,911,939</u></u>

The \$7,911,939 in Due To / Due From Other Funds eliminate temporary cash deficits in the respective funds.

Interfund Receivables/Payables And 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>
Electric	Nonmajor Governmental	\$ 597,083	\$ -	\$ 597,083	1
Electric	Nonmajor Governmental	-	1,858,425	1,858,425	2
Electric	Nonmajor Governmental	-	306,025	306,025	3
Turbine Generator	Electric	45,854	920,455	966,309	4
Nonmajor Governmental	Nonmajor Enterprise	101,866	745,867	847,733	5,6
Total:		<u><u>\$ 744,803</u></u>	<u><u>\$ 3,830,772</u></u>	<u><u>\$ 4,575,575</u></u>	

Explanation of Interfund Receivables / Payables and 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 \$597,083 will be made from tax increment generated by the districts as it becomes available.
- (2) This 2007 loan from the Electric fund provides interim financing for TIF District #14 project costs. Repayment of the outstanding balance of \$1,858,425 will be made from tax increment generated by the district as it becomes available.
- (3) This interfund loan from the Electric fund provides interim financing to TIF District #17 for project costs. Repayment of the outstanding balance of \$306,025 will be made from tax increment generated by the district as it becomes available.
- (4) A long-term interfund loan between the Electric fund and the Turbine Generator fund was made in 2001 to finance a substation. Of the \$966,309 owed at year end, \$920,455 is considered due in more than one (1) year.

Notes to the Financial Statements

City of Chaska, Minnesota

For the Year Ended December 31, 2016

- (5) This interfund loan from the Equipment Acquisition fund to the Town Course fund was used for budgeted 2013 and 2014 golf equipment purchases. Of the \$266,400 outstanding, \$34,200 is due in one (1) year.
- (6) This interfund loan from the Equipment Acquisition fund to the Town Course fund and Storm Water fund was used to finance budgeted 2015 equipment purchases in these enterprise funds. Of the \$581,333 outstanding at year end, \$67,666 is due in one year.

	Transfers In							
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>					
	General Fund	Nonmajor	Electric	Water	Community Center	Curling Center	Nonmajor	Total
Transfers Out								
General Fund	\$ -	\$ 33,781	\$ -	\$ -	\$ -	\$ -	\$ 15,000	\$ 48,781
Nonmajor Governmental	54,857	4,743,526	6,351	641,148	-	485,825	442,646	6,374,353
Electric	-	910,800	-	-	432,000	-	114,000	1,456,800
Water	-	55,680	-	-	-	-	53,000	108,680
Curling Center	-	-	-	2,500	-	-	2,500	5,000
Nonmajor Enterprise	-	407,176	-	-	-	-	68,000	475,176
Internal Service Fund	36,400	-	-	-	-	-	-	36,400
	<u>\$ 91,257</u>	<u>\$ 6,150,963</u>	<u>\$ 6,351</u>	<u>\$ 643,648</u>	<u>\$ 432,000</u>	<u>\$ 485,825</u>	<u>\$ 695,146</u>	<u>\$ 8,505,190</u>

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, 2016 are as follows:

	<u>General</u>	<u>Nonmajor Governmental</u>	<u>Totals</u>
<u>Restricted for:</u>			
Mt. Pleasant Cemetary Care	\$ -	\$ 11,207	\$ 11,207
Housing Loan Program	-	13,183	13,183
Job Creation	-	1,719	1,719
Debt Requirements	-	7,350,646	7,350,646
Economic Development	-	630,964	630,964
Fire Protection Improvements	-	3,711	3,711
Unspent Bond Proceeds	-	11,085	11,085
Total Restricted Fund Balances	<u>-</u>	<u>8,022,515</u>	<u>8,022,515</u>
<u>Committed to:</u>			
Compensated Absences	924,378	-	924,378
Mt. Pleasant Cemetary Care	-	229,606	229,606
Economic Development	-	58,481	58,481
Concerts in the Park	-	362	362
Street Improvement Program	-	2,094,944	2,094,944
Street Reconstruction	-	72,988	72,988
Total Committed Fund Balances	<u>924,378</u>	<u>2,456,381</u>	<u>3,380,759</u>
<u>Assigned to:</u>			
Mt. Pleasant Cemetary Care	-	11,975	11,975
Concerts in the Park	-	233	233
Fire Protection Improvements	-	136,321	136,321
Capital Equipment	-	1,236,805	1,236,805
Southwest Chaska Improvements	-	139,596	139,596
Park Improvements	-	1,935,794	1,935,794
Community Fund Projects	-	1,415,362	1,415,362
Capital Improvements	-	1,770,169	1,770,169
Total Assigned Fund Balances	<u>-</u>	<u>6,646,255</u>	<u>6,646,255</u>
<u>Unassigned</u>	<u>1,615,179</u>	<u>(5,926,104)</u>	<u>(4,310,925)</u>
Total Fund Balances	<u>\$ 2,539,557</u>	<u>\$ 11,199,047</u>	<u>\$ 13,738,604</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 (3) 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, 2016, the City had commitments for two (2) uncompleted construction contracts with a remaining balance of \$256,505.

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. The City's government-wide financial statements include a judgement payable of \$250,000 related to the legal actions being litigated by the City's insurance carrier and as ordered as a settlement by the court. Claims and judgments are typically paid from the General fund. Management is not aware of any other legal claims expected to have a material financial effect.

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. At year-end the amount of arbitrage liability, for the Electric Revenue Refunding Bonds Series 2015A was determined be zero (0).

Note 12 Jointly Governed Organizations

The City, in conjunction with eleven 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 twelve (12) 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, 2016 were \$25,960,667. MMPA issues an annual financial report that may be obtained by writing MMPA, 220 S. 6th Street, Suite 1300, Minneapolis, MN 55402, or by calling (612) 349-6868.

Note 13 Defined Benefit Pension Plans

Employees of the City participate in three (3) defined benefit pension plans. Two (2) of the plans are state-wide cost-sharing, multiple employer defined benefit pension plans administered by the PERA of Minnesota: the General Employees Retirement fund and the Public Employees Police and Fire fund. The third is a single-employer defined benefit pension plan administered through the Chaska Fire Department Relief Association. The details of the City's participation in each of these plans are presented later in these notes. The following table summarizes the impact of these plans on the City's government-wide financial statements.

	PERA Pension Plans			Chaska	
	General Employees Retirement Fund	Public Employees Police & Fire Fund	Total	Fire Department Relief Association	Total All Plans
Net Pension Asset	\$ -	\$ -	\$ -	\$ 7,858	\$ 7,858
Deferred Outflows	4,455,217	7,266,855	11,722,072	226,231	11,948,303
Net Pension Liability	10,441,682	9,992,803	20,434,485	-	20,434,485
Deferred Inflows	1,018,988	1,237,365	2,256,353	25,777	2,282,130
Pension Revenue	40,669	22,410	63,079	151,139	214,218
Pension Expense	1,443,963	1,714,674	3,158,637	185,416	3,344,053

Note 14 Defined Benefit Pension Plans – State-wide**A) Plan Description**

The City of Chaska participates in the following cost-sharing multiple employer defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA's defined benefit pension plans are established and administered in accordance with *Minnesota Statutes*, Chapters 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401 (a) of the Internal Revenue Code.

1. General Employees Retirement Plan (General Employees Plan (accounted for in the General Employees fund))

All full-time and certain part-time employees of the City of Chaska are covered by the General Employees Plan. General Employees Plan 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. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

2. Public Employees Police and Fire Plan (Police and Fire Plan (accounted for in the Police and Fire Fund))

The Police and Fire Plan originally established for police and firefighters not covered by a local relief association, now covers all police and firefighters hired since 1980. Effective July 1, 1999, the Police and Fire Plan also covers police officers and firefighters belonging to local relief associations that elected merge with and transfer assets and administration to PERA.

Benefits Provided

PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state legislature.

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90 percent funded for two (2) consecutive years are given 2.5 percent increases. Members in plans that have not exceeded 90 percent funded, or have fallen below 80 percent, are given 1 percent increases.

The benefit provisions stated in the following 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.

1. General Employees Plan Benefits

General Employees Plan 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 2.2 percent of average salary for each of the first ten (10) years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first ten (10) years of 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

2. Police and Fire Plan Benefits

Benefits for the Police and Fire Plan members first hired after June 30, 2010, but before July 1, 2014, vest on a prorated basis from 50 percent after five (5) years up to 100 percent after ten (10) years of credited service. Benefits for Police and Fire Plan members first hired after June 30, 2014, vest on a prorated basis from 50 percent after ten (10) years up to 100 percent after twenty (20) years of credited service. The annuity accrual rate is 3 percent of

average salary for each year of service. For Police and Fire Plan members who were first hired prior to July 1, 1989, a full annuity is available when age plus years of service equal at least 90.

B) Contributions

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state legislature.

1. General Employees Fund Contributions

Coordinated Plan members were required to contribute 6.5 percent of their annual covered salary in calendar year 2016. The City of Chaska was required to contribute 7.5 percent for Coordinated Plan members in calendar year 2016. The City of Chaska's contributions to the General Employees fund for the year ended December 31, 2016, were \$622,514. The City of Chaska's contributions were equal to the required contributions as set by state statute.

2. Police and Fire Fund Contributions

Plan members were required to contribute 10.8 percent of their annual covered salary in calendar year 2016. The City of Chaska was required to contribute 16.2 percent of pay for members in calendar year 2016. The City of Chaska's contributions to the Police and Fire fund for the year ended December 31, 2016 were \$421,074. The City of Chaska's contributions were equal to the required contributions as set by state statute.

C) Pension Costs

1. General Employees Fund Pension Costs

At December 31, 2016, the City of Chaska reported a liability of \$10,441,682 for its proportionate share of the General Employees fund's net pension liability. The City of Chaska's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$6 million to the fund in 2016. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the City of Chaska totaled \$136,394. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City of Chaska's proportion of the net pension liability was based on the City of Chaska's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the City of Chaska's proportion share was .1286 percent which was an increase of .0031 percent from its proportion measured as of June 30, 2015.

For the year ended December 31, 2016, the City of Chaska recognized pension expense of \$1,443,963 for its proportionate share of the General Employees Plan's pension expense. In addition, the City of Chaska recognized an additional \$40,669 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$6 million to the General Employees fund.

Notes to the Financial Statements

City of Chaska, Minnesota

For the Year Ended December 31, 2016

At December 31, 2016, the City of Chaska reported its proportionate share of the General Employees Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 842,832
Changes in actuarial assumptions	2,044,491	-
Differences between projected and actual investment earnings	1,970,470	-
Changes in proportion	120,494	176,156
Contributions paid to PERA subsequent to the measurement date	319,762	-
Total	\$ 4,455,217	\$ 1,018,988

\$319,762 reported as deferred outflows of resources related to pensions resulting from City of Chaska contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31:	Pension Expense Amount
2017	\$ 847,304
2018	847,304
2019	1,044,686
2020	377,173
	\$ 3,116,467

2. Police and Fire Pension Costs

At December 31, 2016, the City of Chaska reported a liability of \$9,992,803 for its proportionate share of the Police and Fire Fund's net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City of Chaska's proportion of the net pension liability was based on the City of Chaska's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the City of Chaska's proportion was .249 percent which was a decrease of .007 percent from its proportion measured as of June 30, 2015. The City of Chaska also recognized \$22,410 for the year ended December 31, 2016 as revenue and an offsetting reduction of net pension liability for its proportionate share of the State of Minnesota's on-behalf contributions to the Police and Fire fund. Legislation passed in 2013 require the State of Minnesota to begin contributing \$9 million to the Police and Fire fund each year, starting in fiscal year 2014.

For the year ended December 31, 2016, the City of Chaska recognized pension expense of \$1,714,674 for its proportionate share of the Police and Fire Plan's pension expense.

Notes to the Financial Statements

City of Chaska, Minnesota

For the Year Ended December 31, 2016

At December 31, 2016, the City of Chaska reported its proportionate share of the Police and Fire Plan’s deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 1,156,683
Changes in actuarial assumptions	5,499,476	-
Differences between projected and actual investment earnings	1,535,365	-
Changes in proportion	-	80,682
Contributions paid to PERA subsequent to the measurement date	232,014	-
Total	\$ 7,266,855	\$ 1,237,365

\$232,014 reported as deferred outflows of resources related to pensions resulting from the City of Chaska’s contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31:	Pension Expense Amount
2017	\$ 1,248,351
2018	1,248,351
2019	1,248,351
2020	1,121,650
2021	930,773
	\$ 5,797,476

D) Actuarial Assumptions

The total pension liability in the June 30, 2016, actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Active Member Payroll Growth	3.25% per year
Investment Rate of Return	7.50%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2014 tables for the General Employees Plan and RP-2000 tables for the Police and Fire Plan for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be: one (1) percent per year for all future years for the General Employees Plan and Police and Fire Plan.

Actuarial assumptions used in the June 30, 2016, valuation were based on the results of actuarial experience studies. The most recent four (4)-year experience study in the General Employees Plan was completed in 2015. The experience study for the Police and Fire Plan was for the period July 1, 2004 through June 30, 2009.

The following changes in actuarial assumptions occurred in 2016:

General Employees Fund

- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year through 2035 and 2.5 percent per year thereafter to 1.0% per year for all future years.
- The assumed investment return was changed from 7.9 percent to 7.5 percent. The single discount rate was changed from 7.9 percent to 7.5 percent.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, and inflation were decreased by 0.25 percent to 3.25 percent for payroll growth and 2.5 percent for inflation.

Police and Fire Fund

- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year through 2037 and 2.5 percent thereafter to 1.0 percent per year for all future years.
- The assumed investment return was changed from 7.9 percent to 7.5 percent. The single discount rate changed from 7.9 percent to 5.6 percent.
- The assumed future salary increases, payroll growth, and inflation were decreased by 0.25 percent to 3.25 percent for payroll growth and 2.50 percent for inflation.

The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness on a regular basis of the long-term expected rate of return using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Stocks	45%	5.50%
International Stocks	15%	6.00%
Bonds	18%	1.45%
Alternative Assets	20%	6.40%
Cash	2%	0.50%
Total	<u>100%</u>	

E) Discount Rate

The discount rate to measure the total pension liability in 2016 was 7.5 percent, a reduction from the 7.9 percent used in 2015. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at the rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees fund was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on

pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

In the Police and Fire fund, the fiduciary net position was projected to be available to make all projected future benefit payments of current plan member through June 30, 2056. Beginning in fiscal years ended June 30, 2057, when projected benefit payments exceed the funds' projected fiduciary net position, benefit payments were discounted at the municipal bond rate of 2.85 percent based on an index of 20-year general obligation bonds with an average AA credit rating at the measurement date. An equivalent single discount rate of 5.6 percent for the Police and Fire fund produced approximately the same present value of projected benefits when applied to all years of projected benefits as the present value of projected benefits using 7.5 percent applied to all years of projected benefits through the point of asset depletion and 2.85 percent after.

F) Pension Liability Sensitivity

The following presents the City of Chaska's proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate disclosed in the preceding paragraph, as well as what the City of Chaska's proportionate share of the net pension liability would be if it were calculated using a discount rate one (1) percentage point lower or one (1) percentage point higher than the current discount rate:

	General Employees Fund		Police and Fire Fund	
1% Increase in Discount Rate	8.50%	\$ 6,826,669	6.60%	\$ 6,727,935
Current Discount Rate	7.50%	10,441,682	5.60%	9,992,803
1% Decrease in Discount Rate	6.50%	14,830,283	4.60%	13,988,598

G) Pension Plan Fiduciary Net Position

Detailed information about each pension plan's fiduciary net position is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the internet at www.mnpera.org.

Note 15 Defined Contribution Plan

Four (4) council members of the City of Chaska are covered by the Defined Contribution Plan, a multiple-employer deferred compensation plan administered by PERA. The Defined Contribution Plan 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.

The defined contribution plan consists of individual accounts paying a lump-sum benefit, plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses, therefore, there is no future liability to the employer. *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 five (5) 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 contributions 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 two (2) percent of employer contributions and twenty-five hundredths of one percent (.0025) of the assets in each member's account annually.

Pension expense for the year is equal to contributions made. Total contributions made by the City of Chaska during fiscal year 2016 are as follows:

Amount		Percentage of Covered Payroll		Required Rates
Employees	Employer	Employees	Employer	
\$1,453	\$1,453	5.00%	5.00%	5.00%

Note 16 Defined Benefit Pension Plans – Fire Relief Association

A) General Information about the Pension Plan

Plan Description - All members of the Chaska Fire Department (CFD) are covered by a defined benefit pension plan, Chaska Fire Department Relief Association Pension Plan (CFDRAPP), administered by the Chaska Fire Department Relief Association (CFDRA). CFDRAPP is a single-employer defined benefit pension plan. Minnesota Statutes, Chapter 69 grants the authority to the CFDRA Board (CFDRA Board) to establish and amend benefit terms with consenting approval by the Chaska City Council. CFDRA issues a publicly available financial report that can be obtained by writing to City of Chaska, One City Hall Plaza, Chaska, MN 55318-1962 or by calling (952) 448-9200.

Benefits Provided - The plan provides retirement and disability benefits to plan members and beneficiaries.

- Monthly Service Pension: \$2.085 per month of service with a maximum of 360 months for members starting prior November 4, 2013. In lieu of monthly payment member may elect a lump sum benefit.
- Lump Sum Service Pension: \$6,255 per year of service for members starting on or after November 4, 2013 based on completed years of service up to 25 years.
- Deferred Service Pensions: with termination prior to age 50 and at least ten (10) years of service, a deferred pension is payable at age 50 and reduced four (4) percent for each year of service less than 20 years.
- Survivor Benefits: spouse, children or estate receive 100 percent of the member's lump sum benefit.
- Disability Benefit: A disabled member will receive the amount of their monthly service pension based on credited service as of the date eligible.

Members covered by benefit terms - At December 31, 2015, pension plan membership consisted of the following as used to determine Net Pension Liability (Asset) as of December 31, 2016:

Inactive Members Currently Receiving Benefits	43
Beneficiaries Currently Receiving Benefits	11
Inactive Members Entitled to But Not Yet Receiving Benefits	12
Active Members	35
Total members	<u>101</u>

Contributions - Minnesota Statutes, Chapter 424 and 424A, authorize pension benefits for volunteer fire relief associations. The CFDRAPP is funded by fire state aid, investment earnings, and, if necessary, employer contributions as specified in Minnesota Statutes and voluntary City contributions. The State of Minnesota contributed \$151,139 in fire state aid to the CFDRAPP on behalf of the CFD for the year ended December 31, 2016, which was recorded as revenue. Required City contributions are calculated annually based on statutory provisions. The City made all required contributions and additional voluntary contributions to the plan for the year ended December 31, 2016 totaling \$276,146. The City's contributions exceed the required contributions as set by State Statutes. Furthermore members of the CFD have no obligation to contribute to the plan.

B) Net Pension Liability

The CFDRAPP's net pension liability was measured as of December 31, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions - The total pension liability in the December 31, 2016 actuarial valuation was determined using the entry age normal actuarial cost method and the following actuarial assumptions, applied to all periods included in the measurement:

- Inflation 2.75 percent
- Salary increases N/A
- Investment rate of return 6.25 percent, net of pension plan investment expense including inflation
- 20 year municipal bond yield 3.78 percent

Mortality rates were based on the following:

- Healthy Pre-Retirement - RP-2000 non-annuitant generational mortality projected with scale AA, white collar adjustment, male rates set back two (2) years, female rates set back two (2) years.
- Healthy Post-Retirement - RP-2000 annuitant generational mortality projected with scale AA, white collar adjustment, without age adjustments.

- Disabled - RP-2000 healthy annuitant mortality table, white collar adjustments, set forward eight (8) years for males and females.

The demographic actuarial assumptions used in the December 31, 2016 valuation were based on the same assumptions used in the June 30, 2016 PERA Police and Fire actuarial valuations, expect that the fire relief uses a separate retirement rate assumption based on a review completed in May 2015. The economic actuarial assumptions are reviewed annually as part of the fire relief’s actuarial valuation.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of the geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	35%	5.58%
International Equity	20%	5.71%
Fixed Income	10%	2.27%
Real Estate and Alternatives	10%	4.44%
Cash and Equivalents	25%	0.84%
Total	100%	

Discount Rate - The discount rate used to measure the total pension liability was 6.25 percent. The projected cash flows used to determine the discount rate assumed that contributions to the plan will be made as specified in Minnesota Statutes. Based on those assumptions and considering the funding ratio of the plan, the fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits payments to determine the total pension liability.

Notes to the Financial Statements

City of Chaska, Minnesota

For the Year Ended December 31, 2016

C) Changes in the Net Pension Liability

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
Beginning Balance - January 1, 2016	\$ 5,202,177	\$ 4,779,383	\$ 422,794
Changes For The Year:			
Service Cost	74,777	-	74,777
Interest	318,368	-	318,368
Contributions - State and Local	-	427,285	(427,285)
Net Investment Income	-	408,073	(408,073)
Benefit Payments	(451,119)	(451,119)	-
Administrative Costs	-	(11,561)	11,561
Total Net Changes	(57,974)	372,678	(430,652)
Ending Balance - December 31, 2016	\$ 5,144,203	\$ 5,152,061	\$ (7,858)

Sensitivity of the net pension liability (asset) to changes in the discount rate - The following presents the net pension liability (asset) of the CFDRAPP, calculated using the discount rate of 6.25 percent, as well as what the CFDRAPP's net pension asset would be if it were calculated using a discount rate that is 1 percentage point lower (5.25 percent) or 1 percentage point higher (7.25 percent) than the current rate:

	Net Pension Liability (Asset)
1% Decrease in Discount Rate (5.25%)	\$503,515
Current Discount Rate (6.25%)	(7,858)
1% Increase in Discount Rate (7.25%)	(438,948)

Pension Plan Fiduciary Net Position - Detailed information about the CFDRAPP pension plan's fiduciary net position is available in the separately issued CFDRAPP financial report.

D) Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended December 31, 2016, the CFDRAPP recognized pension expense of \$185,416. At December 31, 2016, the CFDRAPP reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	\$ -	\$ 25,777
Differences Between Projected and Actual Earnings on Pension Plan Investments	226,231	-
Total	\$ 226,231	\$ 25,777

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended December 31:</u>	<u>Pension Expense Amount</u>
2017	\$ 74,873
2018	74,873
2019	74,871
2020	(24,163)
	<u>\$ 200,454</u>

Note 17 Other Post-Employment Benefits

A) Plan Description

In addition to providing the pension benefits described in Note 13, 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 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, 2016 participants consisted of:

Retirees and beneficiaries currently purchasing health insurance through the City	2
Active Employees	129
Total	<u>131</u>
Participating Employers	<u>1</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, 2016 was calculated as follows:

Annual Required Contribution	\$ 130,875
Interest on Net OPEB Obligation	19,425
Adjustment to Annual Required Contribution	<u>(29,662)</u>
Annual OPEB Cost	120,638
Contributions Made During the Year	<u>(22,059)</u>
Increase (Decrease) in Net OPEB Obligation	98,579
Net OPEB Obligation Beginning of Year	<u>554,984</u>
Net OPEB Obligation End of Year	<u>\$ 653,563</u>

The City had an actuarial valuation performed for the plan as of January 1, 2016 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, 2016. The city's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2014, 2015 and 2016 are as follows:

<u>Fiscal Year</u> <u>Ending</u>	<u>Annual</u> <u>OPEB Cost</u>	<u>Percent</u> <u>Contributed</u>	<u>OPEB</u> <u>Obligation</u>
December 31, 2014	\$ 126,472	15.00%	\$ 447,751
December 31, 2015	131,596	18.51%	554,984
December 31, 2016	120,638	18.29%	653,563

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, 2011	\$ -	\$ 725,699	\$ 725,699	0.00%	\$ 7,816,638	9.30%
January 1, 2014	-	1,174,997	1,174,997	0.00%	8,431,114	14.00%
January 1, 2016	-	1,111,587	1,111,587	0.00%	9,489,688	11.70%

*Using the projected unit credit cost method

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, 2016 actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 3.50 percent investment rate of return (net of administrative expenses) and an initial annual health care cost trend rate of 6.75 percent reduced by .25 percent each year to arrive at an ultimate health cost trend rate of 5 percent. This rate includes a 2.50 percent inflation assumption. Salary increases have not been included in this calculation. 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 a closed basis. The remaining amortization period at January 1, 2016, was 30 years.

Required Supplementary Information

City of Chaska, Minnesota

For the Year Ended December 31, 2016

Schedule of Funding Progress - Other Post-Employment Benefit Plan

<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, 2011	\$ -	\$ 725,699	\$ 725,699	0.00%	\$ 7,816,638	9.30%
January 1, 2014	-	1,174,997	1,174,997	0.00%	8,431,114	14.00%
January 1, 2016	-	1,111,587	1,111,587	0.00%	9,489,688	11.70%

Required Supplementary Information

City of Chaska, Minnesota

For the Year Ended December 31, 2016

PERA – General Employees Retirement Fund Schedule of City’s and Non-Employer Proportionate Share of Net Pension Liability

City Fiscal Year-End Date	PERA Fiscal Year-End Date (Measurement Date)	City’s Proportion of the Net Pension Liability	City’s Proportionate Share of the Net Pension Liability	City’s Proportionate Share of the State of Minnesota’s Net Pension Liability	Proportionate Share of the Net Pension Liability and the City’s Share of the State of Minnesota’s Net Pension Liability	City’s Covered Payroll	City’s Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
12/31/2015	06/30/2015	0.13%	\$ 6,504,061	\$ -	\$ 6,504,061	\$ 7,374,827	88.19%	78.19%
12/31/2016	06/30/2016	0.13%	10,441,682	136,394	10,578,076	7,962,313	131.14%	68.90%

PERA – General Employees Retirement Fund Schedule of City Contributions

City Fiscal Year-End Date	Statutorily Required Contributions	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
12/31/2015	\$ 573,571	\$ 573,571	\$ -	\$ 7,647,695	7.50%
12/31/2016	622,514	622,514	-	8,301,166	7.50%

Notes to the Schedule:

Changes in Plan Provisions. On January 1, 2015, the Minneapolis Employees Retirement Fund was merged into the GERS, which increased the total pension liability by \$1.1 billion and increased the fiduciary plan net position by \$892 million. Upon consolidation, state and employer contributions were revised.

Changes in Actuarial Assumptions. (1) 2015 Changes – The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2030 and 2.50 percent per year thereafter to 1.00 percent per year through 2035 and 2.50 percent per year thereafter. (2) 2016 Changes – The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2035 and 2.50 percent per year thereafter to 1.00 percent per year for all future years. The assumed investment return was changed from 7.90 percent to 7.50 percent. The single discount rate was changed from 7.90 percent to 7.50 percent. Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, and inflation were decreased by 0.25 percent to 3.25 percent for payroll growth and 2.50 percent for inflation.

The City implemented GASB Statement No. 68 in fiscal 2015 (using a June 30, 2015 measurement date). This schedule is intended to present ten-year trend information. Additional years will be added as they become available.

Required Supplementary Information

City of Chaska, Minnesota

For the Year Ended December 31, 2016

PERA – Public Employees Police and Fire Fund Schedule of City’s Proportionate Share of Net Pension Liability

City Fiscal Year-End Date	PERA Fiscal Year-End Date (Measurement Date)	City’s Proportion of the Net Pension Liability	City’s Proportionate Share of the Net Pension Liability	City’s Covered Payroll	City’s Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
12/31/2015	06/30/2015	0.26%	\$ 2,908,759	\$ 2,345,969	123.99%	86.60%
12/31/2016	06/30/2016	0.25%	9,992,803	2,397,786	416.75%	63.90%

PERA – Public Employees Police and Fire Fund Schedule of City Contributions

City Fiscal Year-End Date	Statutorily Required Contributions	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
12/31/2015	\$ 384,775	\$ 384,775	\$ -	\$ 2,375,153	16.20%
12/31/2016	421,074	421,074	-	2,600,914	16.20%

Notes to the Schedule:

Changes in Plan Provisions. The post-retirement benefit increase to be paid after attainment of the 90.0 percent funding threshold was changed, from inflation up to 2.5 percent, to a fixed rate of 2.5 percent.

Changes in Actuarial Assumptions. (1) 2015 Changes – The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2030 and 2.50 percent per year thereafter to 1.0 percent per year through 2037 and 2.50 percent per year thereafter. (2) 2016 Changes – The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2037 and 2.50 percent thereafter to 1.00 percent per year for all future years. The assumed investment return was changed from 7.90 percent to 7.50 percent. The single discount rate was changed from 7.90 percent to 5.60 percent. The assumed future salary increases, payroll growth, and inflation were decreased by 0.25 percent to 3.25 percent for payroll growth and 2.50 percent for inflation.

The City implemented GASB Statement No. 68 in fiscal 2015 (using a June 30, 2015 measurement date). This schedule is intended to present ten-year trend information. Additional years will be added as they become available.

**Chaska Fire Department Relief Association Pension Plan (CFDRAPP),
Schedule of Changes in Net Pension Liability and Related Ratios**

	<u>2016</u>	<u>2015</u>
Total Pension Liability		
Service Cost	\$ 74,777	\$ 76,662
Interest	318,368	323,774
Changes of Benefits Terms	-	-
Differences Between Expected & Actual Experience	-	(42,040)
Changes of Assumptions	-	-
Benefit Payments, Including Refunds of Member Contributions	<u>(451,119)</u>	<u>(517,365)</u>
Net Change in Total Pension Liability	(60,474)	(158,969)
Total Pension Liability – Beginning	<u>5,202,177</u>	<u>5,361,146</u>
Total Pension Liability - Ending (a)	<u>\$5,144,203</u>	<u>\$5,202,177</u>
Plan Fiduciary Net Position		
Contributions - Employer	\$ 427,285	\$ 401,321
Contributions - Member	-	-
Net investment Income	408,073	(220,343)
Benefit payments, Including Refunds of Member Contributions	(451,119)	(517,365)
Administrative Expense	(11,561)	(4,226)
Other	<u>-</u>	<u>-</u>
Net Change in Plan Fiduciary Net Position	\$ 372,678	\$ (340,613)
Plan Fiduciary Net Position - Beginning	<u>4,779,383</u>	<u>5,119,996</u>
Plan Fiduciary Net Position - Ending (b)	<u>\$5,152,061</u>	<u>\$ 4,779,383</u>
City’s Net Pension Liability (Asset) - Ending (a) - (b)	\$ (7,858)	\$ 422,794
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	100.15%	91.87%

Chaska Fire Department Relief Association Pension Plan (CFDRAPP), Schedule of City Contributions

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Actuarially Determined Contribution(ADC) ¹	\$ 265,347	\$ 267,302	\$ 267,302	\$ 293,799	\$ 293,799	\$ 246,000	\$ 246,000	\$ 221,350	\$ 221,350	\$ 256,756
Contributions in Relation to the ADC	427,285	401,321	361,296	364,512	298,250	299,930	271,345	266,139	280,753	288,314
Contribution Deficiency (Excess)	\$ (161,938)	\$ (134,019)	\$ (93,994)	\$ (70,713)	\$ (4,451)	\$ (53,930)	\$ (25,345)	\$ (44,789)	\$ (59,403)	\$ (31,558)

Valuation Date:

Actuarially determined contribution rates are calculated as of December 31, either two (2) or three (3) years prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determined contribution rates:

Actuarial Cost Method	Entry Age Normal actuarial level dollar cost method
Amortization Method	Actuarial Losses - Amortize loss over ten years per Minnesota Statutes 69.773, Subd 4. (d)(3)(i). Plan Changes - Amortize over 20 years per Minnesota Statutes 69.773, Subd 4. (d)(3)(v).
Remaining Amortization Period	Eight years as of December 31, 2016
Asset Valuation Method	Market Value
Inflation	2.75 percent
Salary Increases	0 percent, including inflation
Investment Rate of Return	5.0 percent as per Minnesota State Statutes Chapter 356.215, Subdivision 8
Retirement Age	The latest of age 50 or after 20 years of service
Mortality	RP-2000 Combined Mortality Table, fully generational

Other Information:

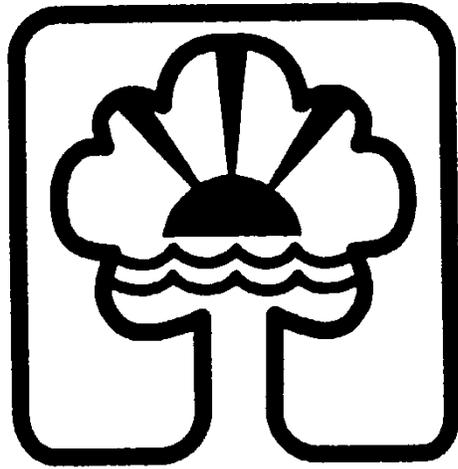
In 2009, benefit terms were modified to eliminate funeral benefits. The benefit for surviving child was modified from \$25 per month to 25 percent of the members benefit payable at age 50.

In 2011, benefits terms were modified to change the surviving spouse benefits from 75 percent of the member’s monthly benefit for life to 100 percent of the member’s monthly benefit for life. The survivor benefit for surviving children was modified to change the benefit from 25 percent to 100 percent of the member’s monthly pension.

In 2013, benefit terms were modified to add a \$6,000 per year of service lump sum benefit option for individuals who became members before November 4, 2013. Individuals that became members after November 4, 2013 are only entitled to a lump sum service pension.

In 2014, benefit terms were modified to increase the monthly benefit from \$1.9750 to \$2.0850 per month of service and the increase the lump sum benefit from \$6,000 to \$6,255 per year of service effective as of June 1, 2014.

Notes to Schedule¹ ADC amounts are equal to statutory requirements under MN Statutes 424A.092 and 69.773.



CHASKA