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INDEPENDENT AUDITOR'S REPORT

City Council and Residents
City of Chaska, Minnesota

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, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of December 31, 2010, and the respective changes in financial position and cash flows, where applicable thereof, and the budgetary comparison for the General Fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2011 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

(continued)

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

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 statistical section, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund 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. The 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 information is 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 express no opinion on them.

Malloy, Montague, Karowski, Radaswid & Co., P.A.

June 28, 2011

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, 2010. Please read it in conjunction with the transmittal letter at the front of this report and the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

Government-wide

- The assets of the City exceeded liabilities by \$172.4 million.
- The City's total net assets increased by \$6.22 million or 3.74%.
- The City's total long-term liabilities decreased 26% due mainly to an advance refunding that occurred on the 2000A Electric Revenue Bonds. See discussion under the Long-Term Debt portion of the MD & A for further details.

Fund Level

- The City's governmental funds reported combined ending fund balances of \$6.7 million.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$2.6 million, or 27% of total general fund expenditures of \$9.6 million.
- During the year, the City's governmental expenditures were \$4.7 million more than revenues before considering other financing sources and uses. The largest expenditure was for capital outlay for street and other city improvements.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

The Basic Financial Statements.

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

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

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

Notes to the financial statements.

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

Other information.

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

REPORTING THE CITY AS A WHOLE

The Statement of Net Assets and the Statement of Activities

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

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

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

FUND FINANCIAL STATEMENTS

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

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

The City has three broad categories of fund types:

1. ***Governmental funds*** – Governmental funds typically are used to account for tax-supported (governmental) activities. Most of the City's basic services are included in governmental funds, which focus on (a) how cash and other financial assets that can readily be converted to cash flow in and out and (b) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information on the subsequent page, that explains the relationship (or differences) between them. 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 2010 the City's major funds are: the General Fund, TIF District #4 Revolving Capital Project Fund, and TIF District #14 Downtown Redevelopment Fund. Data from the remaining governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements towards the end of this report.
2. ***Proprietary funds*** – Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long and short-term financial information. In fact, the City's enterprise funds (one type of proprietary fund) are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The proprietary fund financial statements provide separate information for the Electric Utility, Water Utility, Chaska Community Center and Turbine Generator Utility, all of which are considered to be major funds. Individual fund data for each of the Nonmajor proprietary funds is provided in the form of combining statements towards the end of this report. The City has one Internal Service Fund that is reported in a single column in the proprietary fund financial statements and is used to account for the purchase of property, liability, and worker's compensation insurance for all City departments. Costs are then allocated to the departments.

3. **Fiduciary funds** – Fiduciary funds account for assets held on behalf of outside parties, including other governments, or other funds within the City. The City’s only fiduciary fund type is an agency fund. Agency funds account for assets that the City holds on behalf of others as their agent and are custodial in nature. All of the City’s fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the City’s government-wide financial statement because the City cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net Assets The City’s combined net assets were \$172.4 million on December 31, 2010.

Table 1
City of Chaska’s Net Assets

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Current and other assets	\$ 25,328,304	\$ 23,808,783	\$ 48,679,613	\$ 77,711,047	\$ 74,007,917	\$ 101,519,830
Capital assets	147,612,254	143,808,209	41,453,747	43,577,371	189,066,001	187,385,580
Total assets	172,940,558	167,616,992	90,133,360	121,288,418	263,073,918	288,905,410
Noncurrent liabilities	38,077,345	37,337,575	47,058,577	77,537,278	85,135,922	114,874,853
Other liabilities	2,733,584	4,804,043	2,813,437	3,052,882	5,547,021	7,856,925
Total liabilities	40,810,929	42,141,618	49,872,014	80,590,160	90,682,943	122,731,778
Net assets:						
Invested in capital assets, net of related debt	123,268,713	120,015,168	25,788,072	27,181,315	149,056,785	147,196,483
Restricted	14,860,130	11,721,027	3,013,936	4,441,294	17,874,066	16,162,321
Unrestricted (deficit)	(5,999,214)	(6,260,821)	11,459,338	9,075,649	5,460,124	2,814,828
Total net assets	\$ 132,129,629	\$ 125,475,374	\$ 40,261,346	\$ 40,698,258	\$ 172,390,975	\$ 166,173,632

Note: 2009 amounts were adjusted to reflect a prior period adjustment. (See **Note 17** of the basic financial statements.)

The City as a Whole –As noted earlier, net assets may serve over time as a useful indicator of a government’s financial position. In the case of the City of Chaska, assets exceeded liabilities by \$172.4 million on December 31, 2010, which represents an overall improvement of \$6.22 million. The City’s improved financial condition at year-end is the product of many factors. A portion of the improved condition is due to contributions from developers of infrastructure assets.

By far the largest portion of net assets (86% of net assets) reflects the City’s investment in capital assets (e.g. land, buildings, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Chaska’s investment in its capital assets is reported net of related debt, it should be

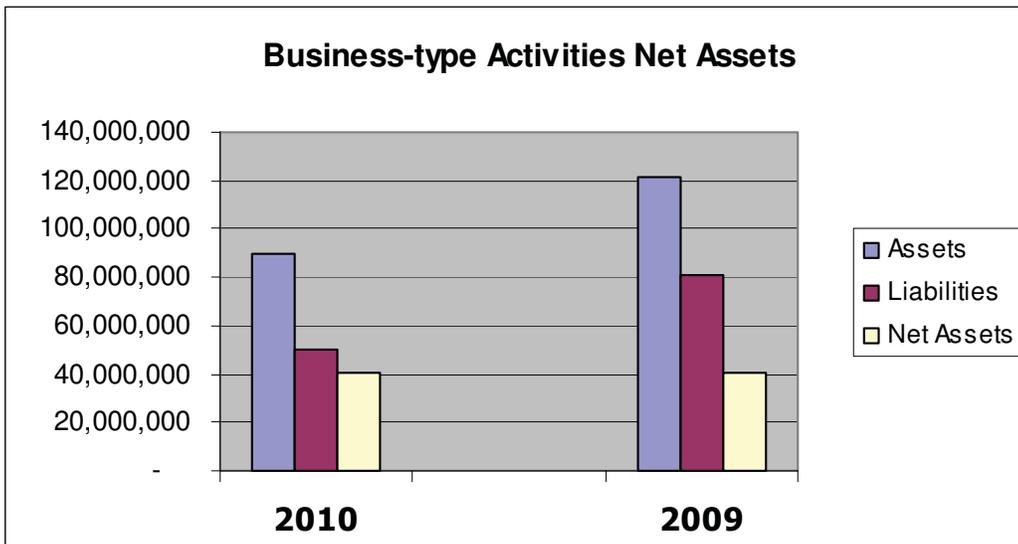
noted that the resources needed to repay this debt must be provided from other sources, since capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City’s net assets (\$17,874,066) represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets (\$5,460,124) may be used to meet the City’s ongoing obligation to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all of the categories of net assets reported for the government as a whole.

Governmental activities – Total net assets of Governmental Activities increased \$6.66 million. Additions of city-wide infrastructure increased capital assets by \$3.8 million.

Business-type Activities – In 2010 net assets decreased by \$.44 million for business-type activities. The Electric fund had an increase in net assets of \$.8 million while the remaining eight enterprise funds had a decrease of net assets in the aggregate of \$1.2 million.



Management's Discussion and Analysis

City of Chaska, Minnesota

For the Year Ended December 31, 2010

Changes in net assets The City's combined change in net assets was an increase of \$6.2 million.

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

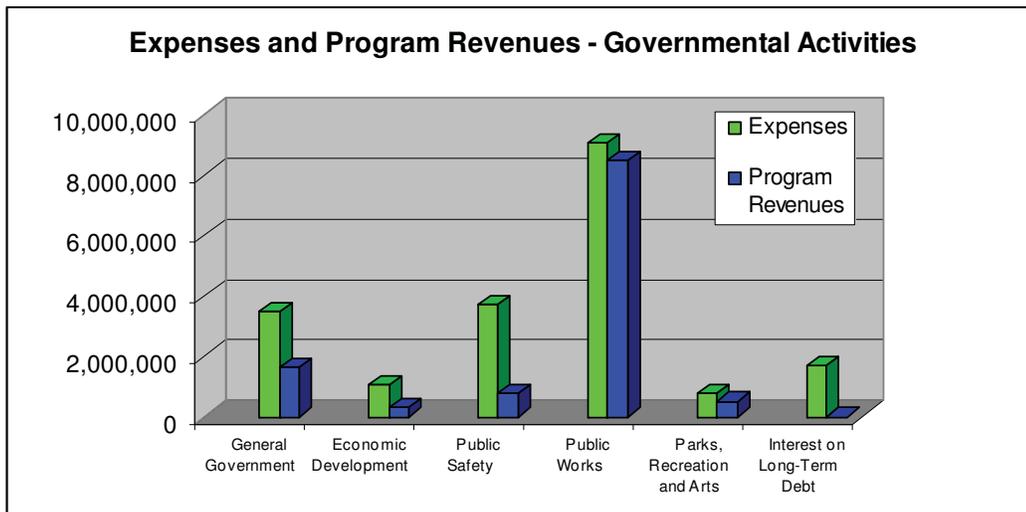
	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Revenues						
Program revenues:						
Charges for services	\$ 2,486,707	\$ 2,172,108	\$ 38,451,778	\$ 34,833,440	\$ 40,938,485	\$ 37,005,548
Operating Grants & Contributions	487,171	6,978,920	-	38,943	487,171	7,017,863
Capital Grants & Contributions	8,723,965	6,119,983	150,453	389,356	8,874,418	6,509,339
General revenues:						
Property taxes	10,610,785	9,783,114	-	-	10,610,785	9,783,114
Franchise taxes	2,723,653	2,469,386	-	-	2,723,653	2,469,386
Grants & Contributions Not Restricted	235,662	546,889	-	-	235,662	546,889
Other general revenues	411,272	568,461	1,203,275	1,621,883	1,614,547	2,190,344
Total revenues	<u>25,679,215</u>	<u>28,638,861</u>	<u>39,805,506</u>	<u>36,883,622</u>	<u>65,484,721</u>	<u>65,522,483</u>
Program expenses						
General Government	3,488,429	3,367,631	-	-	3,488,429	3,367,631
Economic Development	1,064,929	3,087,588	-	-	1,064,929	3,087,588
Public Safety	3,727,256	3,735,496	-	-	3,727,256	3,735,496
Public Works	9,054,937	8,743,805	-	-	9,054,937	8,743,805
Parks Recreation & Arts	787,377	736,427	-	-	787,377	736,427
Interest on long-term debt	1,696,164	2,213,343	-	-	1,696,164	2,213,343
Electric Utility	-	-	24,656,027	22,009,036	24,656,027	22,009,036
Water Utility	-	-	2,332,201	2,297,641	2,332,201	2,297,641
Sewer Utility	-	-	2,433,882	2,256,105	2,433,882	2,256,105
Community Center	-	-	3,855,291	3,835,074	3,855,291	3,835,074
Par 30 Golf	-	-	186,362	183,857	186,362	183,857
Chaska Town Course	-	-	2,067,297	2,024,269	2,067,297	2,024,269
Turbine Generator	-	-	2,948,406	3,443,190	2,948,406	3,443,190
Internet Service Provider	-	-	778,440	960,237	778,440	960,237
Storm Water Utility	-	-	190,380	106,706	190,380	106,706
Total expenses	<u>19,819,092</u>	<u>21,884,290</u>	<u>39,448,286</u>	<u>37,116,115</u>	<u>59,267,378</u>	<u>59,000,405</u>
Excess (deficiency) before transfers	5,860,123	6,754,571	357,220	(232,493)	6,217,343	6,522,078
Transfers	<u>794,132</u>	<u>228,759</u>	<u>(794,132)</u>	<u>(228,759)</u>	<u>-</u>	<u>-</u>
Increase (decrease) in net assets	6,654,255	6,983,330	(436,912)	(461,252)	6,217,343	6,522,078
Net Assets, January 1	127,738,082	120,754,752	40,698,258	41,159,510	168,436,340	161,914,262
Prior Period Adjustment	<u>(2,262,708)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,262,708)</u>	<u>-</u>
Net Assets, December 31	<u>\$ 132,129,629</u>	<u>\$ 127,738,082</u>	<u>\$ 40,261,346</u>	<u>\$ 40,698,258</u>	<u>\$ 172,390,975</u>	<u>\$ 168,436,340</u>

The City as a Whole

- The City as a whole had total revenues of \$65.5 million for the year ended December 31, 2010, a slight decrease of \$37,762 from 2009.
- The total cost of all programs and services was \$59.3 million. The City's expenses are predominantly related to providing services (police, purchasing power for electric service, building inspections, street maintenance, snow removal, etc.) for the citizens of Chaska. The purely administrative activities of the City accounted for just 5.9 % of total costs, as compared to 5.7% of total last year.

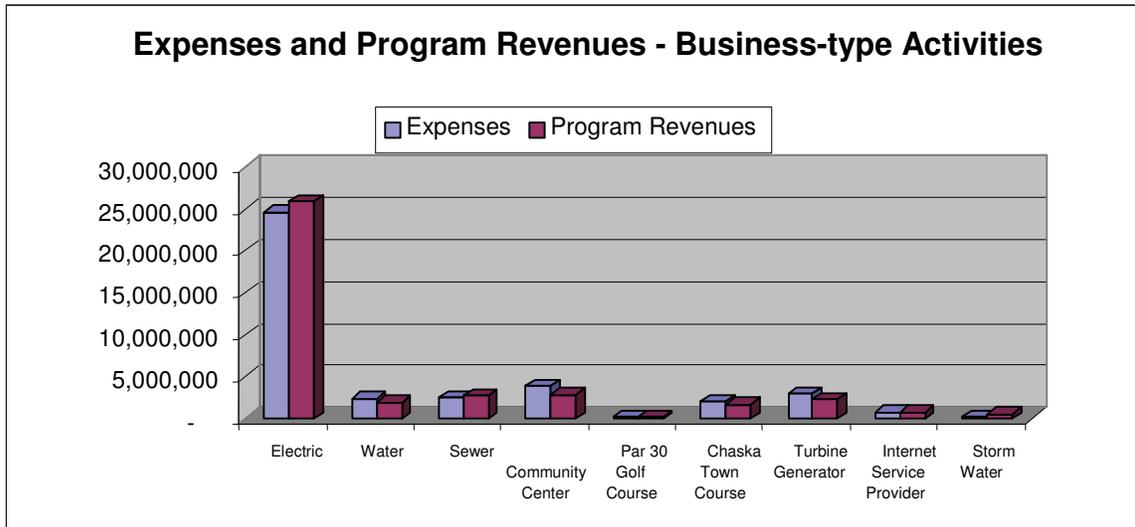
Governmental activities

- The largest source of revenue in governmental activities is Property Taxes. In 2010 41.3% of all revenues were from Property Taxes.
- Capital Grants and Contributions follows Property Taxes as the next major source of revenue at 34.0% of the total governmental activities revenue.
- Operating Grants and Contributions decreased significantly (\$6.5 million) due to accelerated lease revenue payments received in 2009 from the Chaska School District in order to pay-off the outstanding principal balance on the 1999 EDA Lease Revenue Bonds.
- The total costs of all programs and services were \$19.8 million. The cost of providing public safety and street maintenance/construction makes up 64.5% of this total.
- Total revenues surpassed expenses, increasing net assets by \$5.9 million before transfers.



Business-type activities

- Business-type activities showed revenue exceeding expenses before transfers of \$357,220. After transfers were made, net assets decreased by \$436,912.
- Other general revenues consist of investment earnings of \$1,203,275.
- Charges for services increased 10.4% over 2009 (\$3.6 million increase in revenue of which \$2.8 million relates to an increase in electric sales).



FINANCIAL ANALYSIS OF THE GOVERNMENT’S FUNDS

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

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

As the City completed the year, its governmental funds reported a combined fund balance of \$6.7 million.

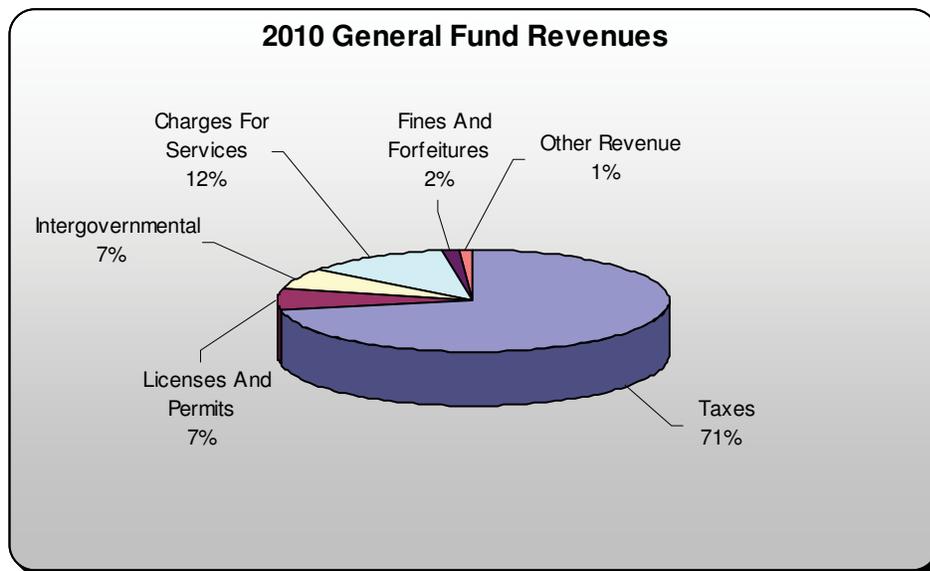
Significant reservations of fund balances are: \$1.3 million for future debt service payments, and \$4.5 million for future construction. See **Note 8** for more detail of reserved/unreserved fund balances.

The City completed the year with an increase in governmental fund balances of \$2.0 million.

Revenues for the City’s governmental funds were \$20.3 million, while total expenditures were \$25.0 million.

The **General Fund** is the chief operating fund of the City of Chaska. At the end of the current fiscal year, unreserved fund balance of the general fund was \$2.6 million. The fund balance of the City of Chaska’s general fund increased by \$70,339. Key factors in the increase are:

- Revenue from electric franchise taxes was \$245,470 more than 2009. This increase was due to a 7.8% increase in kilowatt-hour (kWh) sales from 2009. Franchise tax revenue to the General Fund is calculated at .00849 per kWh sales in the Electric Fund.
- Total revenues and other financing sources were more than the final budgeted amount by \$434,317 due mainly to overages in franchise fee revenue of \$134,653, licenses and permits of \$88,084 and intergovernmental revenue of \$79,500.
- Total expenditures and other financing uses were more than the final budgeted amount by \$363,978. An unbudgeted transfer was done for \$357,000 to fund the street renovation program.



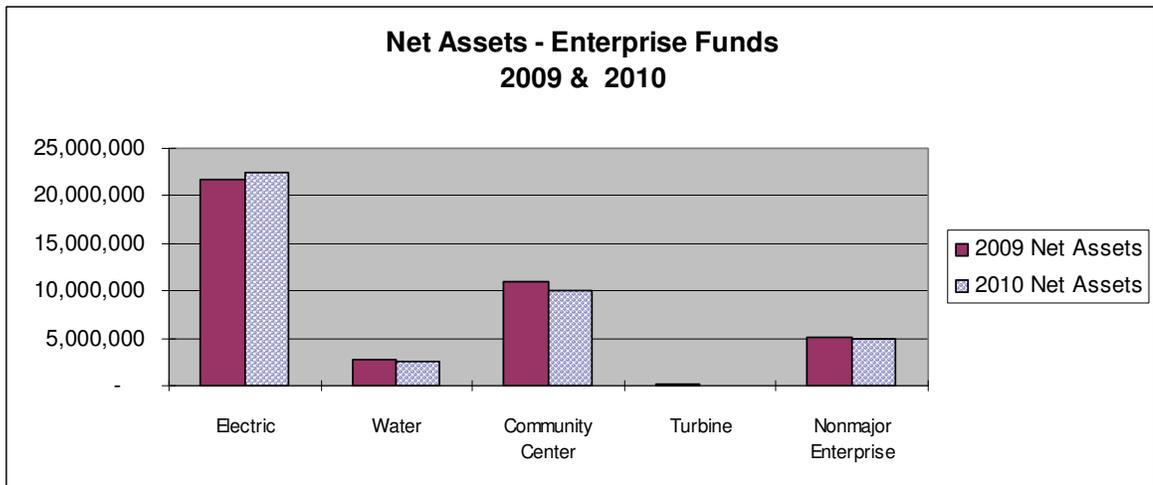
The **TIF District #4 Revolving** fund is the primary fund for collection of all tax increment revenue for all of District #4 projects, thereby producing a large revenue stream (\$5.3 million in tax increment revenue) for one particular fund. In 2008, the District’s term was extended three years and the existing debt of the district was restructured. Due to the restructuring of the debt and the extension of the district, TIF District #4 is reporting a positive fund balance.

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

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

The combined change decreased net assets of enterprise funds by \$415,199. Some of the reasons for this change in net assets are:

- The Electric Fund's net assets increased by \$811,330 in 2010. In 2010, electric rates increased 2.25%; this along with increased demand contributed to an increase in operating income of \$155,741 from 2009.
- The Water Fund had an operating income of \$88,534. A new rate structure as well as implementing the required DNR inclining block rate to promote water conservation has given the Water Fund positive operating income for the first time since 2004.
- As part of the budgeting process, when calculating what fees will be, depreciation expense is not considered. As a direct result of this process, the Chaska Community Center reports operating revenue of \$2.8 million and operating expense (without depreciation) of \$2.7 million; resulting in an operating gain before depreciation of \$63,966. When factoring in depreciation expense (\$938,077), an operating loss results of (\$874,111).
- The Turbine Generator Fund has restricted net assets of \$2.7 million, which represents a restriction for debt service.



General Fund Budgetary Highlights

The final amended budget for the General Fund includes the original adopted budget plus any additional supplemental appropriations that were legislated by the City Council during the year. In 2010, the original budget was not amended; therefore projecting no change in fund balance.

While the City's final amended budget for the general fund anticipated that revenues would equal expenditures and transfers, the City's general fund actually had an excess of revenues over expenditures and transfers of \$70,339.

- Franchise Fee revenue was \$134,653 more than the final budget due mainly to higher electric sales.
- Licenses and Permits were \$88,084 more than the final budget related to an increase in building permit revenue.

- Investment Earnings were 85.5% less than the final budget amount.
- Expenditures in General Government were \$186,822 less than the final budget. One of the several factors that contributed to this is that repairs to the HVAC system and roof at City Hall were budgeted for in 2010 yet the work did not commence until 2011.
- Public Safety expenditures were \$155,452 more than the final budget. The majority (73%) of this overage was in police personal services.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As shown in Table 3, at the end of 2010, the City had \$189.1 million invested in a broad range of capital assets, including police and fire equipment, buildings, park facilities and electric, water and sewer lines. More detailed information on the City of Chaska’s capital assets can be found in **Note 4** of the basic financial statements.

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

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Land	\$ 43,852,388	\$ 43,622,988	\$ 364,805	\$ 364,805	\$ 44,217,193	\$ 43,987,793
Works of Art/Historical Treasures	105,027	105,027	-	-	105,027	105,027
Buildings	5,114,838	5,463,941	29,687,439	31,598,703	34,802,277	37,062,644
Other Improvements	5,555,573	5,160,889	360,490	391,589	5,916,063	5,552,478
Furniture & Equipment	2,135,903	1,940,012	1,696,830	2,131,330	3,832,733	4,071,342
Infrastructure	83,000,456	83,078,476	9,323,977	9,090,944	92,324,433	92,169,420
Construction in Progress	7,848,069	4,436,876	20,206	-	7,868,275	4,436,876
Totals	\$ 147,612,254	\$ 143,808,209	\$ 41,453,747	\$ 43,577,371	\$ 189,066,001	\$ 187,385,580

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

- \$1,205,147 • New street projects (including North Meadows, Scenic View and Hundertmark Roads) recorded as Construction in Progress at Year End – North Meadows and Hundertmark roads are being paid for with proceeds of the 2010A General Obligation Improvement Bonds.
- \$1,137,410 • Infrastructure improvements for West Creek Corporate Center recorded as Construction in Progress.
- \$727,000 • Costs related to additional infrastructure in the Electric and Water Utility Funds.
- \$3,908,000 • Donated land, streets, water mains and hydrants constructed and contributed by developers.

Long-Term Debt

At year-end, the City had \$82.9 million in bonds and notes outstanding, as shown in Table 4. More detailed information about the City's long-term liabilities is presented in **Note 6** to the financial statements.

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

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
General Obligation Bonds (Backed by the City)	\$ 1,300,000	\$ 1,580,000	\$ 12,700,000	\$ 13,425,000	\$ 14,000,000	\$ 15,005,000
General Obligation TI Bonds (Backed by the City)	16,585,000	19,325,000	-	-	16,585,000	19,325,000
General Obligation Imp. Bonds (Backed by the City)	19,230,000	14,580,000	-	-	19,230,000	14,580,000
Revenue bonds and notes (Backed by specific tax and fee revenues)	-	995,000	33,125,000	62,905,000	33,125,000	63,900,000
Totals	\$37,115,000	\$45,740,000	\$45,825,000	\$ 76,385,000	\$ 82,940,000	\$ 112,810,000

New debt resulted from four issues in 2010 as follows:

1. \$3,220,000 in General Obligation Improvement Bonds, Series 2010A with a net effective interest rate of 3.274% (2.00% to 4.00%). The proceeds from the 2010A bonds will be used to finance improvement projects to North Meadows, Hundertmark and Clover Ridge Drive North.
2. \$880,000 in General Obligation Capital Improvement Plan Refunding Bonds, Series 2010B with a net effective interest rate of 1.026% (.40% to 1.10%) The proceeds from the 2010B bonds refunded the series 2001 Chaska EDA Lease Revenue Bonds for interest cost savings.
3. \$2,180,000 in General Obligation Improvement Bonds, Series 2010C with a net effective interest rate of 3.061% (2.00% to 3.75%). The proceeds from the 2010C bonds will be used to finance improvement projects at the West Creek Corporate Center and to install a signal at State Highway 41 and 2nd Street.
4. \$405,000 in Taxable General Obligation Abatement Bonds, Series 2010D with a net effective interest rate of 5.05% (4.00% - 5.25%). These taxable bond proceeds will be used for private purpose development. Debt service will be paid from capitalized interest (2012-2013) and then the remaining twenty one years (2014-2033) using available tax abatement revenues generated from new develop that occurs on the improved sites.

All 2010 issues are backed by the full faith and credit of the City.

The City continues to pay down its debt, retiring \$36.6 million of outstanding bonds in 2010. Of that amount, \$29.8 relates to a refunding that occurred on October 1, 2010 in the Turbine Fund.

In 2005, the Turbine fund issued \$30,735,000 in Electric Revenue Refunding Bonds to enable the City to achieve a debt service savings of \$2,594,566, a present value savings of \$1,508,627. Both the 2005 refunding bonds and the refunded bonds (\$34,580,000 Electric Revenue Series 2000A Bonds) had been recorded as long-term debt in the Turbine Fund until the crossover date (October 1, 2010) when all except for \$100,000 of the Series 2000A bonds were refunded.

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

Under Minnesota State Statutes, the general obligation bonded debt issued by the City is subject to a legal debt limitation based on 3% of market value. At December 31, 2010, the City's legal debt limit was \$72,226,000. 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 2011 budget. Specifically, three major revenue issues needed to be addressed:

1. An overall reduction of 6.68% in taxable market values in the community.
2. The State's continued un-allocation of both Local Government Aid and Market Value Homestead Credit dollars.
3. The continued slowdown in the construction activity, which has significantly reduced building permit revenue.

To address these issues in 2011, staff has identified approximately \$450,000 of deferrals of planned expenditures, including some scheduled equipment replacements, as well as a reduction of nearly \$200,000 in expenditures, including a reduction in our street maintenance activities. In addition, the proposed budget also continues to include not filling the 3 positions that were eliminated in 2009 from the Community Development department.

These factors were taken into account when adopting the General Fund budget for 2011. Projected revenues and other financing sources available for appropriation in the General Fund budget are \$9,744,066, an increase of .74% over the final 2010 budget of \$9,672,965. The City's property tax capacity rate for 2011 is 23.788%, a 7.95% increase over the 2010 rate. Budgeted expenditures are expected to rise nearly .74% to \$9,744,066, an increase of \$71,101 over the final 2010 budget. General assumptions that were used to calculate general fund expenditures were:

- On average, personnel costs would increase at an overall rate of 1.5% annually.
- Operating costs would increase at a rate of 1%, which is down from 2% utilized in the past several years.
- The City would maintain its current levels of service, only reducing in areas where we have seen a reduction in the need for services (i.e. Community Development reductions).
- The City would fully fund its equipment replacement schedule.
- Continue to contribute tax levy amount necessary to fund Street Reconstruction Program.
- No drawdown of General Fund reserves.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

Government-Wide Financial Statements

City of Chaska

December 31, 2010

CITY OF CHASKA, MINNESOTA

STATEMENT OF NET ASSETS
DECEMBER 31, 2010

<u>ASSETS</u>	<u>GOVERNMENTAL ACTIVITIES</u>	<u>BUSINESS-TYPE ACTIVITIES</u>	<u>TOTAL</u>
Cash And Investments	\$ 13,823,539	\$ 8,583,732	\$ 22,407,271
Receivables:			
Taxes	459,026	-	459,026
Special Assessments	10,670,231	51,702	10,721,933
Accounts	229,943	4,468,756	4,698,699
Interest	7,566	4,864	12,430
Notes	689,709	-	689,709
Internal Balances	(4,417,708)	4,417,708	-
Due From Other Governments	126,270	66,365	192,635
Lease Receivable - Current	-	485,001	485,001
Inventories	-	1,156,361	1,156,361
Prepaid Items:			
Net Pension Obligation	374,106	-	374,106
Long Term Lease Receivable	-	24,924,149	24,924,149
Restricted Cash & Investments:			
Cash with Escrow Agent - Debt Service	-	3,344,543	3,344,543
Accrued Interest on Investments	-	43,165	43,165
Deferred Charges	603,757	1,133,267	1,737,024
Land Held For Resale	2,761,865	-	2,761,865
Capital Assets (net of accumulated depreciation):			
Land	43,852,388	364,805	44,217,193
Works of Art & Historical Treasures	105,027	-	105,027
Buildings	5,114,838	29,687,439	34,802,277
Other Improvements	5,555,573	360,490	5,916,063
Furniture & Equipment	2,135,903	1,696,830	3,832,733
Infrastructure	83,000,456	9,323,977	92,324,433
Construction in Progress	7,848,069	20,206	7,868,275
TOTAL ASSETS	172,940,558	90,133,360	263,073,918
<u>LIABILITIES</u>			
Accounts Payable	829,952	248,018	1,077,970
Salaries Payable	137,650	78,629	216,279
Deposits Payable	-	220,054	220,054
Accrued Interest Payable	447,685	427,022	874,707
Due To Other Governments	185,316	1,636,783	1,822,099
Unearned Revenue	1,132,981	202,931	1,335,912
Non-current Liabilities:			
Due Within One Year	5,781,045	2,051,455	7,832,500
Due in More than One Year	32,296,300	45,007,122	77,303,422
TOTAL LIABILITIES	40,810,929	49,872,014	90,682,943
<u>NET ASSETS</u>			
Invested In Capital Assets, Net of Related Debt	123,268,713	25,788,072	149,056,785
Restricted for:			
Special Purposes	812,731	-	812,731
Capital Acquisition	907,751	-	907,751
Debt Service	8,925,218	3,013,936	11,939,154
Capital Projects	4,214,430	-	4,214,430
Unrestricted	(5,999,214)	11,459,338	5,460,124
TOTAL NET ASSETS	\$ 132,129,629	\$ 40,261,346	\$ 172,390,975

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, 2010

FUNCTIONS/PROGRAMS	PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS			
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
Governmental Activities:							
General Government	\$ 3,488,429	\$ 1,612,310	\$ 28,581	\$ 9,581	\$ (1,837,957)	\$ -	\$ (1,837,957)
Economic Development	1,064,929	154,000	70,173	71,497	(769,259)	-	(769,259)
Public Safety	3,727,256	232,360	328,387	194,663	(2,971,846)	-	(2,971,846)
Parks, Recreation and Arts	9,054,937	443,436	59,630	7,977,862	(574,009)	-	(574,009)
Interest on Long-Term Debt	787,377	44,601	400	470,362	(272,014)	-	(272,014)
Interest on Long-Term Debt	1,696,164	-	-	-	(1,696,164)	-	(1,696,164)
Total Governmental Activities	19,819,092	2,486,707	487,171	8,723,965	(8,121,249)	-	(8,121,249)
Business-type Activities:							
Electric	24,656,027	25,773,647	-	89,958	-	1,207,578	1,207,578
Water	2,332,201	1,890,992	-	12,597	-	(428,612)	(428,612)
Sewer	2,433,882	2,653,297	-	3,475	-	222,890	222,890
Community Center	3,855,291	2,801,498	-	-	-	(1,053,793)	(1,053,793)
Par 30 Golf Course	186,362	166,251	-	-	-	(20,111)	(20,111)
Chaska Town Course	2,067,297	1,643,670	-	44,423	-	(379,204)	(379,204)
Turbine Generator	2,948,406	2,269,732	-	-	-	(678,674)	(678,674)
Internet Service Provider	778,440	747,703	-	-	-	(30,737)	(30,737)
Storm Water	190,380	504,988	-	-	-	314,608	314,608
Total Business-type Activities	39,448,286	38,451,778	-	150,453	-	(846,055)	(846,055)
TOTAL	\$ 59,267,378	\$ 40,938,485	\$ 487,171	\$ 8,874,418	(8,121,249)	(846,055)	(8,967,304)
General Revenues:							
Property Taxes					10,610,785	-	10,610,785
Franchise Taxes					2,723,653	-	2,723,653
Grants & Contributions Not Restricted to Specific Functions					235,662	-	235,662
Investment Earnings					54,613	1,203,275	1,257,888
Other					356,659	-	356,659
Transfers					794,132	(794,132)	-
Total General Revenues & Transfers					14,775,504	409,143	15,184,647
Change in Net Assets					6,654,255	(436,912)	6,217,343
Net Assets - Beginning					127,738,082	40,698,258	168,436,340
Prior Period Adjustment					(2,262,708)	-	(2,262,708)
Net Assets - Beginning - as restated					125,475,374	40,698,258	166,173,632
Net Assets - Ending					\$ 132,129,629	\$ 40,261,346	\$ 172,390,975

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



CHASKA

CITY OF CHASKA, MINNESOTA

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2010

	GENERAL	TIF DISTRICT #4 REVOLVING	DIST #14 DOWNTOWN REDEVELOPMENT	NONMAJOR GOVERNMENTAL	TOTAL GOVERNMENTAL FUNDS
ASSETS					
Cash And Investments	\$ 2,719,429	\$ 1,829,286	\$ 23,582	\$ 5,112,581	\$ 9,684,878
Receivables:					
Taxes	186,925	217,748	17,761	36,592	459,026
Special Assessments	1,340	538,329	79,723	10,050,839	10,670,231
Accounts	83,558	109,119	1,075	36,191	229,943
Interest	1,796	798	-	1,710	4,304
Notes Receivable	10,416	385,825	-	293,468	689,709
Due from Other Funds	-	-	-	2,922,994	2,922,994
Due From Other Governments	29,159	-	-	97,111	126,270
Interfund Receivable	-	-	-	88,866	88,866
Land Held for Resale	-	-	2,761,865	-	2,761,865
TOTAL ASSETS	\$ 3,032,623	\$ 3,081,105	\$ 2,884,006	\$ 18,640,352	\$ 27,638,086
LIABILITIES AND FUND BALANCES					
LIABILITIES:					
Accounts Payable	\$ 138,717	\$ -	\$ -	\$ 691,235	\$ 829,952
Salaries Payable	137,650	-	-	-	137,650
Due To Other Funds	-	-	-	2,922,994	2,922,994
Due To Other Governments	38,790	-	-	146,526	185,316
Interfund Payable	-	-	-	88,866	88,866
Deferred and Unearned Revenue	150,983	1,223,086	797,483	10,240,155	12,411,707
Advance from Other Funds	-	-	4,145,474	170,000	4,315,474
TOTAL LIABILITIES	466,140	1,223,086	4,942,957	14,259,776	20,891,959
FUND BALANCES:					
Reserved	-	1,858,019	2,761,865	5,993,821	10,613,705
Unreserved, Designated Reported In:					
General Fund	2,554,797	-	-	-	2,554,797
Special Revenue Funds	-	-	-	1,653,808	1,653,808
Unreserved, Undesignated Reported In:					
General Fund	11,686	-	-	-	11,686
Special Revenue Funds	-	-	-	(849,952)	(849,952)
Capital Project Funds	-	-	(4,820,816)	(2,417,101)	(7,237,917)
TOTAL FUND BALANCES	2,566,483	1,858,019	(2,058,951)	4,380,576	6,746,127
TOTAL LIABILITIES AND FUND BALANCES	\$ 3,032,623	\$ 3,081,105	\$ 2,884,006	\$ 18,640,352	\$ 27,638,086

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 ASSETS
DECEMBER 31, 2010

Total fund balances - governmental funds \$ 6,746,127

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

Issuance costs are recorded as expenditures in the current period in the governmental funds.
Under full accrual, the expenditures are recorded as deferred charges and amortized over the life of the debt. 603,757

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

Cost of Capital Assets 199,623,707
Less: Accumulated Depreciation (52,011,453)

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 373,709
Police Contracted Services 5,744
Tax Increment Agreement 19,918
Special Assessments 10,587,084
Notes Receivable 292,271

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 assets.

4,141,923

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

(102,234)

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

374,106

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

(447,685)

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

Due within one year (5,781,045)
Due in more than one year (32,296,300)

Net assets of governmental activities

\$ 132,129,629

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, 2010

	GENERAL	TIF DISTRICT #4 REVOLVING	DIST #14 DOWNTOWN REDEVELOPMENT	NONMAJOR GOVERNMENTAL	TOTAL GOVERNMENTAL FUNDS
REVENUES					
Taxes:					
Property	\$ 4,243,951	\$ 5,260,934	\$ 141,649	\$ 1,016,448	\$ 10,662,982
Franchise	2,723,653	-	-	-	2,723,653
Licenses and Permits	677,005	-	-	-	677,005
Intergovernmental	624,088	55,138	12,905	1,609,997	2,302,128
Charges for Services	1,150,226	-	-	498,016	1,648,242
Fines and Forfeitures	145,979	-	-	-	145,979
Special Assessments	763	-	-	1,575,980	1,576,743
Other Revenue	108,414	107,458	13,501	323,992	553,365
TOTAL REVENUES	9,674,079	5,423,530	168,055	5,024,433	20,290,097
EXPENDITURES					
CURRENT:					
General Government	3,012,864	-	-	73,735	3,086,599
Economic Development	-	161,368	344,950	419,989	926,307
Public Safety	3,697,083	-	-	-	3,697,083
Public Works	2,373,673	-	-	1,612,126	3,985,799
Parks, Recreation and Arts	471,323	-	-	118,675	589,998
DEBT SERVICE:					
Principal	-	-	-	5,055,000	5,055,000
Interest	-	45,629	171,713	1,470,294	1,687,636
Refunding Contribution	-	-	-	145,488	145,488
Issuance Costs & Fiscal Agent Fees	-	-	-	168,964	168,964
CAPITAL OUTLAY	-	-	-	5,650,639	5,650,639
TOTAL EXPENDITURES	9,554,943	206,997	516,663	14,714,910	24,993,513
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	119,136	5,216,533	(348,608)	(9,690,477)	(4,703,416)
OTHER FINANCING SOURCES (USES)					
Transfers In	433,203	100,109	-	6,706,985	7,240,297
Transfers Out	(482,000)	(2,500,360)	(102,159)	(3,338,459)	(6,422,978)
Bonds Issued	-	-	-	5,805,000	5,805,000
Refunding Bonds Issued	-	-	-	880,000	880,000
Premium on Bonds Issued	-	-	-	39,071	39,071
Payment on Refunded Bonds	-	-	-	(849,512)	(849,512)
Sale of Capital Assets	-	-	-	8,466	8,466
TOTAL OTHER FINANCING SOURCES AND (USES)	(48,797)	(2,400,251)	(102,159)	9,251,551	6,700,344
NET CHANGE IN FUND BALANCES	70,339	2,816,282	(450,767)	(438,926)	1,996,928
FUND BALANCES, January 1	2,496,144	(958,263)	(1,608,184)	4,819,502	4,749,199
FUND BALANCES, December 31	\$ 2,566,483	\$ 1,858,019	\$ (2,058,951)	\$ 4,380,576	\$ 6,746,127

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, 2010

Total net change in fund balances - governmental funds	\$ 1,996,928
Amounts reported for governmental activities in the Statement of Activities are different because:	
Issuance costs are recorded as expenditures in the current period in the governmental funds.	
Under full accrual, issuance costs are recorded as deferred charges and amortized over the life of the debt.	109,525
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Further detail on increases/decreases can be found in the note on capital assets. (Increases include donations of capital assets and Construction in Progress that is reclassified.)	
Capital Outlay	8,517,344
Less: Depreciation Expense	(4,713,299)
Under modified accrual basis of accounting, certain revenues cannot be recognized until they are available to liquidate liabilities of the current period. Under the full accrual basis of accounting, these revenues are recognized when earned.	
	1,266,536
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Further detail on the additions and reductions can be found in the note on long-term debt.	
Additions to long-term debt (reduces governmental fund balances)	(7,195,131)
Reductions to long-term debt (increases governmental fund balances)	6,455,361
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.	
	(8,528)
Net pension obligation activity is not recognized in the Governmental Funds but recognized as the expense/revenue is incurred in the Statement of Activities.	
	(15,450)
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.	
	219,256
Internal service fund profit allocated to business-type activities.	<u>21,713</u>
Change in net assets - governmental activities	<u>\$ 6,654,255</u>

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, 2010**

	ORIGINAL AND FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
REVENUES:			
Taxes:			
Property	\$ 4,211,111	\$ 4,243,951	\$ 32,840
Franchise	2,589,000	2,723,653	134,653
Licenses And Permits	588,921	677,005	88,084
Intergovernmental	544,588	624,088	79,500
Charges For Services	1,088,483	1,150,226	61,743
Fines And Forfeitures	129,469	145,979	16,510
Special Assessments	-	763	763
Other Revenue	163,393	108,414	(54,979)
TOTAL REVENUES	9,314,965	9,674,079	359,114
EXPENDITURES:			
Current:			
General Government	3,199,686	3,012,864	186,822
Public Safety	3,541,631	3,697,083	(155,452)
Public Works	2,456,404	2,373,673	82,731
Parks, Recreation and Arts	475,244	471,323	3,921
TOTAL EXPENDITURES	9,672,965	9,554,943	118,022
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(358,000)	119,136	477,136
OTHER FINANCING SOURCES (USES):			
Transfers In	358,000	433,203	75,203
Transfers Out	-	(482,000)	(482,000)
TOTAL OTHER FINANCING SOURCES (USES)	358,000	(48,797)	(406,797)
NET CHANGE IN FUND BALANCES	-	70,339	70,339
FUND BALANCES, January 1	2,496,144	2,496,144	-
FUND BALANCES, December 31	\$ 2,496,144	\$ 2,566,483	\$ 70,339

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

CITY OF CHASKA, MINNESOTA

STATEMENT OF NET ASSETS
 PROPRIETARY FUNDS
 DECEMBER 31, 2010

	<u>BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS</u>		
	<u>ELECTRIC</u>	<u>WATER</u>	<u>COMMUNITY CENTER</u>
<u>ASSETS</u>			
Current Assets:			
Cash And Investments	\$ 3,933,342	\$ 838,217	\$ 514,718
Restricted Assets:			
Cash And Investments With Escrow Agent	-	-	272,880
Accrued Interest On Investments	-	-	-
Receivables:			
Special Assessments	40,994	123	-
Accounts:			
Current	2,468,455	135,170	219,666
Unbilled	1,065,708	59,803	-
Allowance For Uncollectible Accounts	(24,694)	(1,385)	(2,276)
Interest	3,518	-	-
Due From Other Funds	1,535,122	-	-
Due From Other Governments	2,255	3,375	56,994
Interfund Receivable	28,217	-	-
Lease Receivable	-	-	-
Inventories	995,940	109,612	-
Total Current Assets	<u>10,048,857</u>	<u>1,144,915</u>	<u>1,061,982</u>
Noncurrent Assets:			
Restricted Cash And Investments with Escrow Agent	-	-	-
Lease Receivable	-	-	-
Advance To Other Funds	5,541,872	-	-
Deferred Charges	-	217,464	72,743
Capital Assets:			
Land	240,721	33,618	90,466
Buildings	5,079,031	17,255,218	21,989,179
Other Improvements	-	-	367,941
Furniture & Equipment	1,346,253	386,295	1,353,480
Infrastructure	14,943,258	3,435,338	-
Construction in Progress	20,206	-	-
Less: Accumulated Depreciation	<u>(11,458,211)</u>	<u>(7,060,873)</u>	<u>(11,657,395)</u>
Total Net Capital Assets	<u>10,171,258</u>	<u>14,049,596</u>	<u>12,143,671</u>
Total Noncurrent Assets	<u>15,713,130</u>	<u>14,267,060</u>	<u>12,216,414</u>
TOTAL ASSETS	<u>25,761,987</u>	<u>15,411,975</u>	<u>13,278,396</u>

			GOVERNMENTAL ACTIVITIES- INTERNAL SERVICE FUND
<u>TURBINE GENERATOR</u>	<u>NONMAJOR ENTERPRISE</u>	<u>TOTALS</u>	
\$ 865,160	\$ 2,432,295	\$ 8,583,732	\$ 4,138,661
627,150	-	900,030	-
43,165	-	43,165	-
-	10,585	51,702	-
-	426,497	3,249,788	-
-	126,112	1,251,623	-
-	(4,300)	(32,655)	-
-	1,346	4,864	3,262
-	-	1,535,122	-
-	3,741	66,365	-
32,252	-	60,469	-
485,001	-	485,001	-
-	50,809	1,156,361	-
<u>2,052,728</u>	<u>3,047,085</u>	<u>17,355,567</u>	<u>4,141,923</u>
2,444,513	-	2,444,513	-
24,924,149	-	24,924,149	-
1,159,252	-	6,701,124	-
843,060	-	1,133,267	-
-	-	364,805	-
-	8,265,839	52,589,267	-
-	229,269	597,210	-
-	3,766,455	6,852,483	-
-	1,528,400	19,906,996	-
-	-	20,206	-
-	(8,700,741)	(38,877,220)	-
-	5,089,222	41,453,747	-
<u>29,370,974</u>	<u>5,089,222</u>	<u>76,656,800</u>	<u>-</u>
<u>31,423,702</u>	<u>8,136,307</u>	<u>94,012,367</u>	<u>4,141,923</u>

(Continued)

CITY OF CHASKA, MINNESOTA

**STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2010**

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS		
	ELECTRIC	WATER	COMMUNITY CENTER
LIABILITIES			
Current Liabilities:			
Accounts Payable	119,880	5,586	74,914
Salaries Payable	26,258	7,034	27,046
Deposits Payable	115,653	-	36,263
Compensated Absences	97,440	32,694	44,940
Accrued Interest Payable	-	41,567	10,165
Due To Other Funds	-	-	-
Due To Other Governments	1,616,256	3,910	12,633
Interfund Payable	32,252	-	-
Revenue Bonds Payable	-	865,000	-
Unearned Revenue	40,994	123	55,499
Total Current Liabilities	2,048,733	955,914	261,460
Noncurrent Liabilities:			
Compensated Absences	40,727	12,527	47,355
Advance From Other Funds	1,159,252	-	-
Revenue Bonds Payable	-	11,835,000	2,900,000
Unamortized Premium On Revenue Bonds	-	61,680	3,995
Other Post Employment Benefits	16,956	6,363	14,252
Total Noncurrent Liabilities	1,216,935	11,915,570	2,965,602
TOTAL LIABILITIES	3,265,668	12,871,484	3,227,062
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	10,171,258	1,287,916	9,239,676
Restricted For Debt Service	-	-	272,880
Unrestricted	12,325,061	1,252,575	538,778
TOTAL NET ASSETS	\$ 22,496,319	\$ 2,540,491	\$ 10,051,334

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

(Continued)

<u>TURBINE GENERATOR</u>	<u>NONMAJOR ENTERPRISE</u>	<u>TOTALS</u>	<u>GOVERNMENTAL ACTIVITIES- INTERNAL SERVICE FUND</u>
-	47,638	248,018	-
-	18,291	78,629	-
-	68,138	220,054	-
-	71,381	246,455	-
375,290	-	427,022	-
-	1,535,122	1,535,122	-
-	3,984	1,636,783	-
-	28,217	60,469	-
940,000	-	1,805,000	-
-	106,315	202,931	-
<u>1,315,290</u>	<u>1,879,086</u>	<u>6,460,483</u>	<u>-</u>
-	33,963	134,572	-
-	1,226,398	2,385,650	-
29,285,000	-	44,020,000	-
740,520	-	806,195	-
-	8,784	46,355	-
<u>30,025,520</u>	<u>1,269,145</u>	<u>47,392,772</u>	<u>-</u>
<u>31,340,810</u>	<u>3,148,231</u>	<u>53,853,255</u>	<u>-</u>
-	5,089,222	25,788,072	-
2,741,056	-	3,013,936	-
<u>(2,658,164)</u>	<u>(101,146)</u>	<u>11,357,104</u>	<u>4,141,923</u>
<u>\$ 82,892</u>	<u>\$ 4,988,076</u>	<u>40,159,112</u>	<u>\$ 4,141,923</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds		<u>102,234</u>	
Net assets of business-type activities		<u>\$ 40,261,346</u>	

CITY OF CHASKA, MINNESOTA

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2010

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS		
	ELECTRIC	WATER	COMMUNITY CENTER
OPERATING REVENUES:			
Sales	\$ 25,773,647	\$ 1,887,617	\$ 2,801,498
OPERATING EXPENSES:			
Production	18,756,309	361,659	-
Distribution / Collections	1,758,186	456,113	-
Administration	961,979	308,399	2,737,532
Franchise Fees	2,501,470	-	-
Depreciation	644,746	672,912	938,077
TOTAL OPERATING EXPENSES	24,622,690	1,799,083	3,675,609
OPERATING INCOME (LOSS)	1,150,957	88,534	(874,111)
NON-OPERATING REVENUES:			
Investment Earnings	177,319	4,039	1,757
Intergovernmental	-	3,375	-
Payments	-	-	-
Gain on Sale Of Capital Assets	24,000	-	-
Miscellaneous Refunds And Reimbursements	15,599	880	-
TOTAL NON-OPERATING REVENUES	216,918	8,294	1,757
NON-OPERATING EXPENSES:			
Interest	73,804	517,741	121,740
Issuance Costs & Fiscal Agent Fees	-	20,218	5,679
Loss on Sale of Capital Assets	-	-	-
TOTAL NON-OPERATING EXPENSES	73,804	537,959	127,419
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	1,294,071	(441,131)	(999,773)
CAPITAL CONTRIBUTIONS	74,359	11,717	-
TRANSFERS IN (OUT)			
Transfers In	-	252,470	287,000
Transfers Out	(557,100)	(44,100)	(126,568)
TOTAL TRANSFERS IN (OUT)	(557,100)	208,370	160,432
CHANGE IN NET ASSETS	811,330	(221,044)	(839,341)
NET ASSETS, January 1	21,684,989	2,761,535	10,890,675
NET ASSETS, December 31	\$ 22,496,319	\$ 2,540,491	\$ 10,051,334

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

			GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUND
TURBINE GENERATOR	OTHER NONMAJOR ENTERPRISE	TOTALS	
\$ 2,195,718	\$ 5,711,821	\$ 38,370,301	\$ 604,897
-	1,650,211	20,768,179	-
-	652,083	2,866,382	-
110,353	2,495,680	6,613,943	578,978
-	-	2,501,470	-
-	867,065	3,122,800	-
110,353	5,665,039	35,872,774	578,978
2,085,365	46,782	2,497,527	25,919
1,014,478	5,682	1,203,275	12,595
-	3,375	6,750	-
73,804	-	73,804	-
-	6,106	30,106	-
210	45,136	61,825	203,929
1,088,492	60,299	1,375,760	216,524
2,793,150	-	3,506,435	-
44,903	-	70,800	-
-	6,670	6,670	-
2,838,053	6,670	3,583,905	-
335,804	100,411	289,382	242,443
-	3,475	89,551	-
-	19,700	559,170	-
(405,000)	(220,534)	(1,353,302)	(23,187)
(405,000)	(200,834)	(794,132)	(23,187)
(69,196)	(96,948)	(415,199)	219,256
152,088	5,085,024	40,574,311	3,922,667
\$ 82,892	\$ 4,988,076	\$ 40,159,112	\$ 4,141,923
Change in net assets - total Enterprise Funds		(415,199)	
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds		(21,713)	
Change in net assets - Business-type Activities		\$ (436,912)	

CITY OF CHASKA, MINNESOTA

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS		
	ELECTRIC	WATER	COMMUNITY CENTER
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts From Customers And Users	\$ 25,408,056	\$ 1,865,205	\$ 2,748,061
Payments To Suppliers	(22,544,311)	(705,202)	(1,172,683)
Payments To Employees	(1,396,550)	(418,552)	(1,550,042)
Miscellaneous Receipts (Payments)	15,599	-	-
Net Cash Provided (Used) By Operating Activities	<u>1,482,794</u>	<u>741,451</u>	<u>25,336</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:			
Transfers From Other Funds	-	252,470	287,000
Transfers To Other Funds	(557,100)	(44,100)	-
Due From Other Funds	217,943	-	-
Due To Other Funds	-	-	-
Interfund Loans To Other Funds	(99,074)	-	-
Intergovernmental	-	3,375	-
Net Cash Provided (Used) By Non-Capital Financing Activities	<u>(438,231)</u>	<u>211,745</u>	<u>287,000</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Deferred Issuance Charges	-	18,118	4,279
Capital Contributions	74,359	11,717	-
Principal Paid On Bonds	-	(725,000)	-
Interest And Fiscal Charges	-	(551,970)	(127,654)
Proceeds From Sale Of Capital Assets	24,000	-	-
Construction And Acquisition of Capital Assets	(704,737)	(196,524)	-
Lease Principal Received	-	-	-
Transfers From Other Funds	-	-	-
Transfers To Other Funds	-	-	(126,568)
Interfund Loans From Other Funds	(30,415)	-	-
Interest Payments On Interfund Loans	(73,804)	-	-
Net Cash Provided (Used) By Capital And Related Financing Activities	<u>(710,597)</u>	<u>(1,443,659)</u>	<u>(249,943)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest On Investments	<u>176,110</u>	<u>4,290</u>	<u>1,757</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	510,076	(486,173)	64,150
CASH AND CASH EQUIVALENTS, January 1	3,423,266	1,324,390	723,448
CASH AND CASH EQUIVALENTS, December 31	<u>\$ 3,933,342</u>	<u>\$ 838,217</u>	<u>\$ 787,598</u>
CASH AND CASH EQUIVALENTS:			
Cash And Investments	\$ 3,933,342	\$ 838,217	\$ 514,718
Restricted Assets-Revenue Bonds:			
Cash And Investments	-	-	272,880
Total Cash And Cash Equivalents	<u>\$ 3,933,342</u>	<u>\$ 838,217</u>	<u>\$ 787,598</u>

			GOVERNMENTAL
			ACTIVITIES -
			INTERNAL
TURBINE	OTHER		SERVICE
GENERATOR	NONMAJOR	TOTALS	FUND
	ENTERPRISE		
\$ 2,195,718	\$ 5,698,013	\$ 37,915,053	\$ 604,897
(110,353)	(3,285,245)	(27,817,794)	(578,978)
-	(1,495,802)	(4,860,946)	-
210	713	16,522	203,929
<u>2,085,575</u>	<u>917,679</u>	<u>5,252,835</u>	<u>229,848</u>
-	-	539,470	-
(405,000)	(220,534)	(1,226,734)	(23,187)
-	-	217,943	-
-	(217,943)	(217,943)	-
104,219	-	5,145	-
-	3,375	6,750	-
<u>(300,781)</u>	<u>(435,102)</u>	<u>(675,369)</u>	<u>(23,187)</u>
42,153	-	64,550	-
-	3,475	89,551	-
(29,780,000)	-	(30,505,000)	-
(3,318,084)	-	(3,997,708)	-
-	6,106	30,106	-
-	(104,585)	(1,005,846)	-
445,350	-	445,350	-
-	19,700	19,700	-
-	-	(126,568)	-
-	(28,217)	(58,632)	-
-	-	(73,804)	-
<u>(32,610,581)</u>	<u>(103,521)</u>	<u>(35,118,301)</u>	<u>-</u>
<u>1,301,340</u>	<u>5,510</u>	<u>1,489,007</u>	<u>12,047</u>
(29,524,447)	384,566	(29,051,828)	218,708
33,461,270	2,047,729	40,980,103	3,919,953
<u>\$ 3,936,823</u>	<u>\$ 2,432,295</u>	<u>\$ 11,928,275</u>	<u>\$ 4,138,661</u>
\$ 865,160	\$ 2,432,295	\$ 8,583,732	\$ 4,138,661
3,071,663	-	3,344,543	-
<u>\$ 3,936,823</u>	<u>\$ 2,432,295</u>	<u>\$ 11,928,275</u>	<u>\$ 4,138,661</u>

(Continued)

CITY OF CHASKA, MINNESOTA

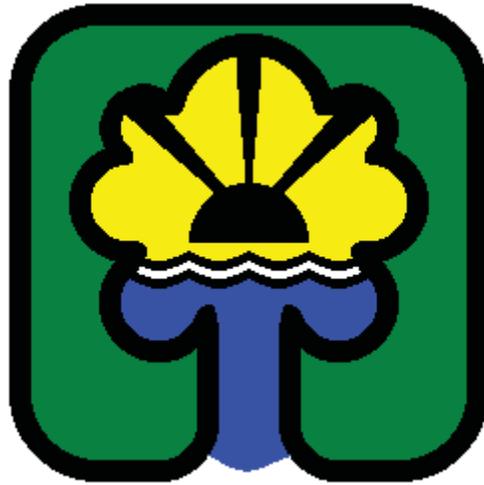
**STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2010**

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS		
	ELECTRIC	WATER	COMMUNITY CENTER
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating Income (Loss)	\$ 1,150,957	\$ 88,534	\$ (874,111)
Adjustments To Reconcile Operating Income (Loss) To Net Cash Provided (Used) By Operating Activities:			
Depreciation Expense	644,746	672,912	938,077
Allowance For Uncollectible Accounts	5,167	479	1,915
Miscellaneous Receipts	15,599	880	-
(Increase) Decrease In Assets:			
Special Assessments	(10,151)	(9)	-
Accounts Receivable	(527,526)	(19,516)	(56,793)
Due From Other Governments	144,318	(3,375)	(630)
Inventory	(199,304)	(1,330)	-
Increase (Decrease) In Liabilities:			
Accounts Payable	28,189	(6,033)	18,327
Salaries Payable	(12,627)	(4,015)	(14,079)
Deposits Payable	12,450	-	4,592
Compensated Absences Payable	20,991	7,221	8,168
Due To Other Governments	195,049	3,898	(1,631)
Unearned Revenue	10,151	9	(2,521)
Other Post Employment Benefits	4,785	1,796	4,022
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 1,482,794	\$ 741,451	\$ 25,336

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

(Continued)

<u>TURBINE GENERATOR</u>	<u>OTHER NONMAJOR ENTERPRISE</u>	<u>TOTALS</u>	<u>GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUND</u>
\$ 2,085,365	\$ 46,782	\$ 2,497,527	\$ 25,919
-	867,065	3,122,800	-
-	796	8,357	-
210	713	17,402	203,929
-	(5,940)	(16,100)	-
-	(50,789)	(654,624)	-
-	47,650	187,963	-
-	9,013	(191,621)	-
-	(3,095)	37,388	-
-	(9,592)	(40,313)	-
-	8,136	25,178	-
-	19,244	55,624	-
-	(1,122)	196,194	-
-	(13,661)	(6,022)	-
-	2,479	13,082	-
<u>\$ 2,085,575</u>	<u>\$ 917,679</u>	<u>\$ 5,252,835</u>	<u>\$ 229,848</u>



CHASKA

CITY OF CHASKA, MINNESOTA

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2010**

	<u>AGENCY FUNDS</u>
<u>ASSETS</u>	
Cash And Cash Equivalents	<u>\$ 32,895</u>
<u>LIABILITIES</u>	
Deposits Payable	<u>\$ 32,895</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 modified, form of government according to applicable State of Minnesota statutes. The Plan A, as modified, form prescribes a modified Administrator-Council form of organization. The Council consists of an elected mayor and four council members. The City provides the following services: public safety, highways and streets, culture-recreation, public improvements, planning and zoning, and general administration. The City operates utilities in the areas of electric, water, sewer, and storm water and also operates a community center, two golf courses, internet service and a gas turbine generator.

The financial statements of the City are prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies that the City follows are described below to enhance the usefulness of the financial statements to the reader.

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 its 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 organization has been defined and is presented as if they were part of the City in this report as follows:

Blended component unit –

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

Assets and that 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 are 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 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, liabilities, 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 column in the fund financial statements.

Major Governmental Funds

The City of Chaska reports the following major governmental funds:

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

Major Proprietary Funds

The City of Chaska reports the following major proprietary funds:

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

Other Funds – The City reports the following other funds:

- ***Internal Service Funds*** account for operations that provide services to other departments or agencies of the government on a cost reimbursement basis. The City of Chaska has one Internal Service Fund – the Self-Insurance Fund. This fund is used to account for the purchase of property, liability, and workers’ compensation insurance for all City departments. Costs are allocated to individual departments.
- ***Fiduciary Funds*** account for assets held on behalf of outside parties, including other governments, or other funds within the City. The City’s only fiduciary fund type is an agency fund. Agency funds account for assets that the City holds on behalf of others as their agent and are custodial in nature. The following is a list of the City’s Fiduciary funds:
 - **Builders’ Deposit Fund.** This Agency 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 Agency fund is used to account for assets held in a custodial capacity in the form of billings to developers for contractual services.
 - **MCES Collection Fund.** This Agency 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 the Metropolitan Council Environmental Services (MCES).

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

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 distort the direct costs and program revenues reported for the various functions concerned.

C) Measurement Focus and Basis of Accounting

Government-Wide Financial Statements:

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 assets. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Fund Financial Statements:

Governmental Funds

Governmental Funds use a *current financial resources measurement focus* and the *modified accrual basis of accounting*. This means that only current assets and current liabilities are generally included on the balance sheets. As stated earlier, the government-wide financial statements use an economic resources measurement focus and the accrual basis of accounting. Therefore, a reconciliation on the governmental funds statements becomes necessary to explain the difference in balances between the government-wide statements and the governmental fund statements.

The reported fund balance (net current assets) is considered a measure of "available, spendable resources". Governmental funds operating statements present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available, spendable resources" during a period. Their revenues are recognized when they become measurable and available and thus susceptible to accrual. "Measurable" means the amount of the transaction can be determined and "available" means collectable within the current period or soon enough thereafter to be used to pay liabilities of the current period.

The City generally considers revenues as available if they are collected within 60 days after year-end. Grants and similar revenues are recognized when all requirements imposed by the provider have been met. Major revenues that are susceptible to accrual include property taxes, special assessments, intergovernmental revenues, charges for services, and interest on investments. Major revenues that are not susceptible to accrual include licenses and permits, fees and miscellaneous revenue. Such revenues are recorded only as received because they are not measurable until collected.

The City reports deferred revenue on its governmental balance sheet. Deferred revenue arises when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Unearned amounts are always reported as deferred revenue; earned amounts also are reported as deferred revenue until they are available to

liquidate liabilities of the current period. Examples of unearned revenue would be grant monies that are received prior to the occurrence of qualifying expenditures. In subsequent periods when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the balance sheet and revenue is recognized.

Expenditures are generally recognized under the modified accrual basis of accounting where the expenditure is recorded when the related fund liability is incurred, except for principal and interest on long-term debt, compensated absences, and other post-employment benefits, which are recognized when due.

Proprietary and Fiduciary Funds

Proprietary funds are accounted for on a flow of *economic resources measurement focus* and *accrual basis of accounting*. This means that all assets, including capital assets, and all liabilities, including long-term liabilities, associated with fund activity are included on the Statement of Net Assets. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets. Revenues are recognized when they are earned, and expenses are recognized at the time liabilities are incurred. Fiduciary funds also utilize the *accrual basis of accounting*. The City has only one Fiduciary Fund type, an agency fund, which is custodial in nature (assets equal liabilities) and does not have a measurement focus.

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 and Special Revenue funds are adopted on a basis consistent with United States generally accepted accounting principles. The three non-major special revenue funds with budgets are the Mount Pleasant Maintenance & Care fund, the Chaska EDA fund and 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. 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.

F) Receivables**1. PROPERTY TAX**

Property tax levies are levied by the City Council and must be levied on or before five 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.

A portion of the property taxes levied is paid by the State of Minnesota through Market Value Credit, which is usually included in intergovernmental revenue in the financial statements.

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 at that date. Revenues are accrued in the year collectable net of delinquencies.

Property taxes may be paid by taxpayers in two equal installments, on May 15 and October 15. The County provides tax settlements to cities and other local governments three 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 fully offset by deferred revenue, 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.

2. SPECIAL ASSESSMENTS

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

The City recognizes special assessment revenue in the government-wide financial statements when the assessment rolls are levied. In the fund financial statements, the City recognizes special assessment revenue when it becomes both measurable and available. Current assessments, which remain unpaid at December 31 are classified as delinquent receivables and together with deferred assessments are fully offset by deferred

revenue because it is not known when they will be available to finance current expenditures.

3. TRADE RECEIVABLES

All trade receivables are shown net of an allowance for uncollectibles on the Statement of Net Assets. On December 31, 2010 the allowance for uncollectible accounts was \$33,615.

G) Short-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 portion of lending/borrowing arrangements (advances) are classified as “interfund receivables/payables”.

H) Inventory

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

I) Advances to Other Funds

Long-term interfund loan receivables are reported as advances and are offset equally by a fund balance reserve in the governmental fund statements, which indicates that they do not constitute expendable available financial resources and therefore are not available for appropriation.

J) Land Held for Resale

Land 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 business. These assets are stated at the lower of cost or net realizable value.

K) Restricted Assets

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

L) Capital Assets

Capital assets, which include land, building and structures, equipment and infrastructure assets (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 record exists. Donated capital assets are valued at their estimated fair market value on the date received. The costs of normal maintenance and repairs that do not add to the value of, or materially extend the life of the asset are recorded as expenditures. The City uses the following capitalization policy:

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

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

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

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

M) Compensated Absences

The City compensates all eligible employees upon termination for unused vacation, personal leave, and compensatory time. Union employees, by contract, are entitled to sick leave at the rate of eight (8) hours for each calendar month of full-time service (union employees who have chosen 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. A liability for these amounts are reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

N) 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 assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

O) Fund Balance

The difference between fund assets and liabilities is "Fund Balance" on the governmental fund statements. Governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designated fund balances represent tentative plans for future use of financial resources.

P) Net Assets

Net assets represent the difference between assets and liabilities in the government-wide and proprietary fund financial statements. Net assets invested in capital assets, net of related debt 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 assets are reported as restricted in the government-wide financial statement when there are limitations on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

Q) 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 assets represents

interfund receivable or payable between the two types of activities: governmental and business-type.

Note 2 Compliance and Accountability

A) Budget

The City follows these procedures in establishing the annual budgetary data:

1. City Administrative Services Director prepares history of actual revenues and expenditures for the prior two years and an estimate for the current year.
2. Department heads review the history and estimate the coming year's revenues and expenditures and project for the subsequent five years. Department heads submit their five-year budgets to the City Administrative Services Director.
3. Department budgets are reviewed and combined into a total five-year budget by the City Administrator and City Administrative Services Director.
4. The City Administrator recommends the five-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 and Council, Communication, 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 reserves 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 reserves 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, 2010, expenditures exceeded appropriations in the Chaska EDA special revenue fund by \$171,906. Variances in the Chaska EDA fund were funded by greater than expected revenue and anticipated future revenues.

C) Nonmajor Funds with Negative Equity

The following nonmajor funds maintained a deficit fund balance/net asset position at December 31, 2010:

Special Revenue Funds:

Chaska EDA Fund	\$ 158,531
Park Development Fund	746,057

Capital Project Funds:

TIF Dist #10 - Nordic Track	88,866
TIF Dist #16 - Chaska Gateway	3,325
2008 Improvement Projects	246,078
2010 Improvement Projects	1,308,272
Major Road Construction	563,354
Annual Street Replacement	207,206

Enterprise Funds:

Internet Service Provider	2,414,184
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The deficits in the Special Revenue Funds relate to development of EDA properties that have not received full financing and parkland development which is supported by developer's fees and special assessments. Anticipated EDA revenue and assessment revenue collected in future years will eliminate these deficits.

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

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

Note 3 Cash and Investments

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

A) Deposits

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

Statement of Net Assets - Government-Wide	
Cash and Investments	\$ 22,407,271
Restricted Cash and Investments	3,344,543
	<u>25,751,814</u>
Statement of Net Assets - Fiduciary Funds	
Cash and Investments	32,895
Total Cash and Investments	<u>\$ 25,784,709</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 – In the case of deposits, this is the risk that in the event of bank failure, the City's deposits may be lost.

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

Authorized collateral includes the legal investments described below under "credit risk", as well as; certain first mortgage notes and certain other state or local government obligations. Minnesota Statutes require that securities pledged as collateral be held in safekeeping by the City or in a financial institution other than that furnishing the collateral. The City's investment policies do not further address limiting exposure to custodial credit risk for deposits.

Deposit balances at December 31, 2010 are as follows:

	<u>Bank Balance</u>	<u>Carrying Amount</u>
Total Bank Deposits	\$ 4,392,728	\$ 3,809,471

City of Chaska, Minnesota

December 31, 2010

At December 31, 2010, all deposits were insured, or collateralized by securities held by the City's agent in the City's name.

B) Investments

The City has the following investments at year-end:

Investment Type	Credit Risk		Interest Risk - Maturity Duration in Years			Total
	Rating	Agency	Less Than 1	1 to 5	More than 5	
Guaranteed Investment Contract	N/A	N/A	-	-	2,444,513	2,444,513
U.S. Government Agencies	AAA	S&P	-	-	4,633,317	4,633,317
Investments in Mutual Funds & Money Markets						
First American Treasury Obligations	AAAm	S&P	N/A	N/A	N/A	272,880
100% Treasury MM Fund	AAAm	S&P	N/A	N/A	N/A	1,005,774
Minnesota Municipal MM Fund	N/R	N/A	N/A	N/A	N/A	13,615,044
Total Investments			\$ -	\$ -	\$ 7,077,830	21,971,528
					Total Deposits	3,809,471
					Petty Cash	3,710
N/A - Not Applicable					Total Deposits and Investments	\$ 25,784,709
N/R - Not Rated						

The Minnesota Municipal Money Market Fund (4M Fund) is an external investment pool regulated by Minnesota Statutes and the Board of Directors of the League of Minnesota Cities. The 4M Fund is an unrated 2a7-like pool and the fair value of the position in the pool is the same as the value of the pool shares.

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

Custodial Credit Risk – For investments, this 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 – This 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 of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of thirteen months or less; general obligations rated "A" or better; revenue obligations rated "AA" or better; general obligations of the Minnesota Housing Finance Agency rated "A" or better; bankers acceptances of United States banks eligible for purchase by the Federal Reserve System; commercial paper issued

by United States corporations or their Canadian subsidiaries, rated of the highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less; Guaranteed Investment Contracts guaranteed by a United States commercial bank, domestic branch of a foreign bank, or a United States insurance company, with a credit quality in one of the top two highest categories; repurchase or reverse purchase agreements and securities lending agreements with financial institutions qualified as a “depository” by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, that are a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers. The City’s investment policies do not further address credit risk.

Concentration Risk – This is the risk associated with investing a significant portion of the City’s investment (considered 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 policies do not limit the concentration of investments. At year-end, the City had more than 5% of its investments in Federal Home Loan Mortgage Corp. and a Guaranteed Investment Contract with MBIA Inc. These investments comprise 21.09% and 11.13%, respectively, of the City’s total investments.

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

City of Chaska, Minnesota

December 31, 2010

Note 4 Capital Assets

Capital Asset activity for Governmental activities for the year ended December 31, 2010 is as follows:

	BALANCE JAN. 1, 2010	INCREASES	DECREASES	RECLASS & TRANSFERS	BALANCE DEC. 31, 2010
Governmental activities:					
Capital assets, not being depreciated:					
Land	\$ 43,622,988	\$ -	\$ -	\$ 229,400	\$ 43,852,388
Works of Art/Treasures	105,027	-	-	-	105,027
Construction In Progress	4,436,876	7,838,069	(2,530)	(4,424,346)	7,848,069
Total capital assets, not being depreciated	48,164,891	7,838,069	(2,530)	(4,194,946)	51,805,484
Capital assets, being depreciated:					
Buildings	10,408,403	-	-	-	10,408,403
Other Improvements	10,226,191	34,699	-	733,734	10,994,624
Furniture & Equipment	7,288,055	620,015	(125,154)	-	7,782,916
Infrastructure	115,113,134	57,934	-	3,461,212	118,632,280
Total capital assets being depreciated	143,035,783	712,648	(125,154)	4,194,946	147,818,223
Less accumulated depreciation for:					
Buildings	(4,944,462)	(349,103)	-	-	(5,293,565)
Other Improvements	(5,065,302)	(373,749)	-	-	(5,439,051)
Furniture & Equipment	(5,348,043)	(393,281)	94,311	-	(5,647,013)
Infrastructure	(32,034,658)	(3,597,166)	-	-	(35,631,824)
Total accumulated depreciation	(47,392,465)	(4,713,299)	94,311	-	(52,011,453)
Total capital assets, being depreciated, net	95,643,318	(4,000,651)	(30,843)	4,194,946	95,806,770
Governmental activities capital assets, net	\$ 143,808,209	\$ 3,837,418	\$ (33,373)	\$ -	\$ 147,612,254

Notes To The Financial Statements

City of Chaska, Minnesota

December 31, 2010

Capital Asset activity for Business-Type activities for the year ended December 31, 2010 is as follows:

	BALANCE JAN. 1, 2010	INCREASES	DECREASES	RECLASS & TRANSFERS	BALANCE DEC. 31, 2010
Business-type activities:					
Capital assets, not being depreciated:					
Land	\$ 364,805	\$ -	\$ -	\$ -	\$ 364,805
Construction In Progress	-	20,206	-	-	20,206
Total capital assets, not being depreciated	364,805	20,206	-	-	385,011
Capital assets, being depreciated:					
Buildings	52,589,267	-	-	-	52,589,267
Other Improvements	597,210	-	-	-	597,210
Furniture & Equipment	6,726,082	264,313	(137,912)	-	6,852,483
Infrastructure	19,180,025	726,971	-	-	19,906,996
Total capital assets, being depreciated	79,092,584	991,284	(137,912)	-	79,945,956
Less accumulated depreciation for:					
Buildings	(20,990,564)	(1,911,264)	-	-	(22,901,828)
Other Improvements	(205,621)	(31,099)	-	-	(236,720)
Furniture & Equipment	(4,594,752)	(686,499)	125,598	-	(5,155,653)
Infrastructure	(10,089,081)	(493,938)	-	-	(10,583,019)
Total accumulated depreciation	(35,880,018)	(3,122,800)	125,598	-	(38,877,220)
Total capital assets, being depreciated, net	43,212,566	(2,131,516)	(12,314)	-	41,068,736
Business-type activities capital assets, net	\$ 43,577,371	\$ (2,131,516)	\$ (12,314)	\$ -	\$ 41,453,747

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

Governmental Activities:

General Government	\$294,577
Economic Development	5,606
Public Safety	197,314
Public Works	4,044,662
Parks, Recreation & Arts	<u>171,140</u>

Total Depreciation Expense –
Governmental Activities \$4,713,299

Business-Type Activities:

Electric	\$644,746
Water	672,912
Community Center	938,077
Sewer	94,013
Chaska Par 30	8,200
Chaska Town Course	514,872
Internet Service Provider	<u>249,980</u>

Total Depreciation Expense –
Business-Type Activities \$3,122,800

Note 5 Lease Receivable Agreement

The City of Chaska has entered into a Lease Receivable Agreement with the Minnesota Municipal Power Agency (MMPA) in which the City agrees to sell MMPA the peaking power and peaking power capacity of the City's gas turbine generator for a thirty-year period commencing May 1, 2001. MMPA receives the sole right to operate the facility and to use the power generated from such operation for the term of the agreement. MMPA is responsible for all expenses of operating and maintaining the facility for this period, with the exception of insurance, which is to be purchased by the City. Under the agreement, MMPA will pay the City an amount representing the total cost to the City of constructing the facility plus a predetermined rate of return and interest. The payments are to be made in equal monthly installments over the thirty-year term of the agreement. The total project costs to the City of constructing the facility were \$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 parties gives MMPA the annual option to continue this agreement for an additional twenty-year period beginning May 1, 2031. The agreement calls for annual payments of \$500,000 to be made in equal monthly installments. MMPA will have the annual option to cancel the agreement for any of the twenty additional years by giving the City ninety days written notice in advance of May 1st of the year the option will not be exercised. MMPA will continue to have this option for the twenty-year life of the agreement, even if it chooses not to exercise the option in one or more years during the term of the agreement.

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

Year Ending December 31,	Lease Receivable	
	Principal	Interest
2011	\$ 485,001	\$ 2,156,067
2012	528,181	2,112,887
2013	575,203	2,065,865
2014	626,413	2,014,655
2015	682,185	1,958,883
2016-2020	4,437,572	8,767,768
2021-2025	6,797,423	6,407,917
2026-2030	10,412,232	2,793,108
2031	864,940	15,478
Total	<u>\$ 25,409,150</u>	<u>\$ 28,292,628</u>

City of Chaska, Minnesota

December 31, 2010

Note 6 Long-Term Debt

Long-term liability for the year ended December 31, 2010, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<u>Governmental Activities:</u>					
Bonds Payable:					
General Obligation Bonds:					
Equipment Certificates	\$ 1,580,000	\$ -	\$ (280,000)	\$ 1,300,000	\$ 300,000
Tax Increment Bonds	19,325,000	405,000	(3,145,000)	16,585,000	3,110,000
Improvement Bonds	14,580,000	6,280,000	(1,630,000)	19,230,000	1,985,000
Revenue Bonds	995,000	-	(995,000)	-	-
Plus: Premium	326,090	39,071	(44,290)	320,871	-
Total Bonds Payable	<u>36,806,090</u>	<u>6,724,071</u>	<u>(6,094,290)</u>	<u>37,435,871</u>	<u>5,395,000</u>
Compensated Absences	469,272	428,519	(342,994)	554,797	386,045
Other Post Employment Benefits	<u>62,213</u>	<u>42,541</u>	<u>(18,077)</u>	<u>86,677</u>	<u>-</u>
Governmental Activity					
Long-term Liabilities	<u>\$ 37,337,575</u>	<u>\$ 7,195,131</u>	<u>\$ (6,455,361)</u>	<u>\$ 38,077,345</u>	<u>\$ 5,781,045</u>
<u>Business-type Activities:</u>					
Bonds Payable:					
General Obligation Revenue Bonds	\$ 13,425,000	\$ -	\$ (725,000)	\$ 12,700,000	\$ 865,000
Revenue Bonds	62,905,000	-	(29,780,000)	33,125,000	940,000
Plus: Premium	848,602	-	(42,407)	806,195	-
Total Bonds Payable	<u>77,178,602</u>	<u>-</u>	<u>(30,547,407)</u>	<u>46,631,195</u>	<u>1,805,000</u>
Compensated absences	325,403	294,005	(238,381)	381,027	246,455
Other Post Employment Benefits	<u>33,273</u>	<u>22,748</u>	<u>(9,666)</u>	<u>46,355</u>	<u>-</u>
Business-type Activity					
Long-term Liabilities	<u>\$ 77,537,278</u>	<u>\$ 316,753</u>	<u>\$(30,795,454)</u>	<u>\$ 47,058,577</u>	<u>\$ 2,051,455</u>

For the Governmental Activities, compensated absences and other post-employment benefits are generally liquidated by the General Fund.

General Obligation Bonds:

General obligation debt is supported by the “full faith and credit” of the City. The City has obligated itself to levy ad valorem taxes in the event of any deficiency in the general obligation debt service funds.

City of Chaska, Minnesota

December 31, 2010

General Obligation Equipment Certificates:

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

General obligation equipment certificates currently outstanding are as follows:

	<u>Original Issue</u>	<u>Interest Rates</u>	<u>Issue Date</u>	<u>Final Maturity Date</u>	<u>Outstanding Amount</u>
Governmental Activities:					
G.O. Equipment Certificates	\$ 955,000	3.75%	12/15/06	12/01/13	\$ 525,000
G.O. Equipment Certificates	885,000	4.00-4.25%	11/15/08	02/01/16	775,000
					<u>\$ 1,300,000</u>

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

<u>Year Ending December 31</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2011	\$ 300,000	\$ 48,975
2012	310,000	37,325
2013	285,000	25,388
2014	130,000	14,287
2015	135,000	8,819
2016	140,000	2,975
<u>Total</u>	<u>\$ 1,300,000</u>	<u>\$ 137,769</u>

General Obligation Tax Increment Bonds:

The City issues tax increment bonds to provide funding for the construction of streets and utilities, and the acquisition of property for business development. These bonds will be repaid through tax increments collected from properties in the benefiting tax increment district. The City is obligated for the payment of tax increment debt not covered by the collection of tax increments.

City of Chaska, Minnesota

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General obligation tax increment bonds currently outstanding are as follows:

	Original Issue	Interest Rates	Issue Date	Final Maturity Date	Outstanding Amount
Governmental Activities:					
G.O. Tax Increment Bonds	\$ 890,000	4.00-6.20%	06/15/04	12/01/21	\$ 705,000
G.O. Taxable T.I. Bonds	565,000	6.25-7.50%	11/15/08	02/01/31	565,000
G.O. Taxable Abatement Bonds	405,000	4.00-5.25%	09/15/10	02/01/33	405,000
Governmental Activities - Refunding:					
G.O. T.I. Crossover Refunding	2,470,000	3.60-3.75%	06/15/04	12/01/13	1,845,000
G.O. T.I. Refunding	14,385,000	4.00-5.00%	11/01/08	02/01/15	12,330,000
G.O. Taxable T.I. Refunding	870,000	4.50-5.75%	11/01/08	02/01/15	735,000
					\$ 16,585,000

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

Year Ending December 31	Governmental Activities	
	Principal	Interest
2011	\$ 3,110,000	\$ 719,342
2012	3,165,000	596,804
2013	3,305,000	454,762
2014	2,785,000	297,068
2015	2,880,000	157,250
2016-2020	500,000	352,700
2021-2025	315,000	208,773
2026-2030	350,000	111,956
2031-2033	175,000	11,981
Total	\$ 16,585,000	\$ 2,910,636

General Obligation Improvement Bonds:

The City issues improvement bonds to provide funding for the construction of streets and utilities. These bonds will be repaid from amounts levied against the property owners benefited by construction. The City is obligated for the payment of debt not covered through the collection of special assessments. Any obligation by the City would be paid from property taxes.

City of Chaska, Minnesota

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General obligation improvement bonds currently outstanding are as follows:

	Original Issue	Interest Rates	Issue Date	Final Maturity Date	Outstanding Amount
Governmental Activities:					
G.O. Taxable Improvement Bonds	\$ 555,000	2.75-4.90%	09/01/02	12/01/12	\$ 100,000
G.O. Improvement Bonds	455,000	1.50-3.75%	09/01/02	12/01/12	80,000
G.O. Improvement Bonds	8,595,000	3.50-4.13%	12/15/06	12/01/27	6,475,000
G.O. Improvement Bonds	3,645,000	3.00-5.13%	11/15/08	02/01/29	3,235,000
G.O. Improvement Bonds	3,220,000	2.00-4.00%	07/01/10	02/01/31	3,220,000
G.O. Improvement Bonds	2,180,000	2.00-3.75%	09/15/10	02/01/33	2,180,000
Governmental Activities - Refunding:					
G.O. Capital Improvement Plan Refunding Bonds	2,780,000	1.10-3.70%	03/01/04	12/01/15	1,335,000
G.O. Improvement Refunding	1,995,000	2.00-3.00%	10/01/09	12/01/20	1,725,000
G.O. Capital Improvement Plan Refunding Bonds	880,000	.40-1.10%	09/15/10	02/01/15	880,000
					<u>\$ 19,230,000</u>

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

Year Ending December 31	Governmental Activities	
	Principal	Interest
2011	\$ 1,985,000	\$ 629,929
2012	1,815,000	573,617
2013	1,765,000	521,171
2014	1,805,000	470,256
2015	1,850,000	413,926
2016-2020	5,160,000	1,382,954
2021-2025	2,885,000	709,368
2026-2030	1,605,000	207,553
2031-2033	360,000	17,363
Total	<u>\$ 19,230,000</u>	<u>\$ 4,926,137</u>

General Obligation Revenue Bonds:

In 2003, the City issued G.O. Revenue Bonds to expand its existing water system and construct a new water treatment plant.

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In 2009, the City issued G.O. Revenue Bonds to advance refund a portion of the 2003 bonds.

The City has two General Obligation Revenue Bonds Outstanding.

	Original Issue	Interest Rates	Issue Date	Final Maturity Date	Outstanding Amount
Business-type Activities:					
G.O. Water Revenue Bonds	\$ 15,150,000	2.25-4.40%	05/01/03	12/01/22	\$ 11,205,000
Business-type Activities - Refunding:					
G.O. Water Revenue Partial Advance Refunding Bonds	1,495,000	2.00-3.25%	10/01/09	12/01/22	<u>1,495,000</u>
					<u>\$ 12,700,000</u>

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

Year Ending December 31	Business-type Activities	
	Principal	Interest
2011	\$ 865,000	\$ 498,795
2012	890,000	469,308
2013	920,000	437,945
2014	945,000	403,445
2015	985,000	367,295
2016-2020	5,535,000	1,234,975
2021-2022	2,560,000	165,220
Total	<u>\$ 12,700,000</u>	<u>\$ 3,576,983</u>

Revenue Bonds:

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

The City has three outstanding bond series issued for various purposes.

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

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considered an asset of MMPA. The Turbine fund financial statement reports a lease receivable and the outstanding bonds.

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

The 2007 EDA Lease Revenue bonds provide funding for a senior center addition to the Chaska Community Center.

Revenue bonds currently outstanding are as follows:

	Original Issue	Interest Rates	Issue Date	Final Maturity Date	Outstanding Amount
Business-type Activities:					
Electric Revenue Bonds	\$ 34,580,000	4.90-6.10%	07/01/00	10/01/30	\$ 100,000
EDA Lease Revenue Bonds	2,900,000	4.00-4.40%	06/01/07	12/01/27	2,900,000
Business-type Activities - Refunding:					
Electric Revenue Refunding Bonds	30,735,000	3.00-5.00%	04/01/05	10/01/30	<u>30,125,000</u>
					<u>\$ 33,125,000</u>

Revenue bond debt service requirements to maturity are as follows:

Year Ending December 31	Business-type Activities	
	Principal	Interest
2011	\$ 940,000	\$ 1,623,135
2012	975,000	1,585,535
2013	1,155,000	1,546,535
2014	1,205,000	1,500,335
2015	1,250,000	1,451,075
2016-2020	7,235,000	6,294,008
2021-2025	9,300,000	4,239,265
2026-2030	11,065,000	1,673,630
Total	<u>\$ 33,125,000</u>	<u>\$ 19,913,518</u>

2010 Activity

On July 1, 2010 the City of Chaska issued \$3,220,000 in General Obligation Improvement Bonds, Series 2010A with a net effective interest rate of 3.274% (2.00% to 4.00%) to finance

three street and infrastructure improvement projects; North Meadows, Hundertmark and Clover Ridge Drive Extension North. The maturity date is February 1, 2031. These bonds are backed by the full faith and credit of the City.

On September 15, 2010 the City of Chaska issued \$880,000 in General Obligation Capital Improvement Plan Refunding Bonds, Series 2010B with a net effective interest rate of 1.026% (.40% to 1.10%) to refund the remaining outstanding maturities of the \$1,650,000 Public Facility Lease Revenue Bonds of 2001. The maturity date is February 1, 2015. The purpose of this current refunding is to take advantage of interest cost savings and to acquire the facility previously being leased by the City. This refunding will decrease future net debt service by \$65,089 resulting in a present value savings of \$69,472. These bonds are backed by the full faith and credit of the City.

On September 15, 2010 the City of Chaska issued \$2,180,000 in General Obligation Improvement Bonds, Series 2010C with a net effective interest rate of 3.061% (2.00% to 3.75%). The bonds were issued to finance (i) the developer portion of the West Creek project, (ii) the water trunk portion of the West Creek project, (iii) the sanitary sewer portion of the West Creek project, and (iv) the Highway 41 traffic signal. The maturity date is February 1, 2033. These bonds are backed by the full faith and credit of the City.

On September 15, 2010 the City of Chaska issued \$405,000 in General Obligation Taxable Tax Abatement Bonds, Series 2010D with a net effective interest rate of 5.05% (4.00% to 5.25%). Proceeds of the Abatement Bonds will be used to finance site-grading improvements on the private property related to the City's West Creek improvement project. Because of the private activity nature of the project, the Abatement Bonds will be taxable. The maturity date is February 1, 2033. These bonds are backed by the full faith and credit of the City and secured by a pledge of tax abatement revenue.

On October 1, 2010 all outstanding principal with the exception of \$100,000 of the \$34,580,000 Electric Revenue Series 2000A bonds were advance refunded. The refunding bonds (\$30,735,000) were issued on April 20th, 2005. The purpose of this refunding was to enable the City to achieve a debt service savings of \$2,594,566, a present value savings in 2005 of \$1,508,627.

NOTES PAYABLE:

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

As of December 31, 2010, the City has two outstanding notes payable, which are for North Meadows Apartments and Clover Field Sinclair, LP. The note for North Meadows Apartments was issued in 2002 at 6.5% interest with payments due through 2023. The outstanding balance as of December 31, 2010 is \$1,318,176. The note for Clover Field Sinclair, LP was issued in 2007 at 5.65% interest with payments due through 2029. The outstanding balance as of December 31,

2010 is \$3,577,291. These amounts have not been included in long-term debt because of the nature of the notes in that repayment is required only if sufficient tax increments are received.

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

CONDUIT DEBT:

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

As of December 31, 2010, there were six series of IRBs outstanding. The aggregate principal amount payable for the one series issued after July 1, 1995, was \$1,055,000. The aggregate principal amount payable for the five series issued prior to July 1, 1995, could not be determined; however, their original issue amounts totaled \$16,870,000.

As of December 31, 2010, there were nine series of HRBs outstanding. The aggregate principal amounts payable for the seven series issued after July 1, 1995 was \$13,605,000. The aggregate principal amount payable for the two 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 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.

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Note 7 Interfund Receivables, Payables and Transfers

The composition of interfund balances as of December 31, 2010 are as follows:

Due To/From Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	<u>Purpose</u>
Other Nonmajor Governmental Electric	Other Nonmajor Governmental Other Nonmajor Proprietary	\$ 2,922,994 1,535,122	1 1
Total		<u>\$ 4,458,116</u>	

***Interfund Receivables/Payables:
Advances To/From Other Funds:***

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Interfund Receivables/ Payables</u>	<u>Advances To/From</u>	<u>Total</u>	<u>Purpose</u>
Other Nonmajor Governmental Electric Fund	Other Nonmajor Governmental District #14 Downtown Redevelopment	\$ 88,866 -	\$ - 4,145,474	\$ 88,866 4,145,474	2 3, 4
Electric Fund Turbine	Other Nonmajor Governmental Electric Fund	- 32,252	170,000 1,159,252	170,000 1,191,504	5 6
Electric Fund	Other Nonmajor Proprietary	28,217	1,226,398	1,254,615	7, 8
Total		<u>\$ 149,335</u>	<u>\$ 6,701,124</u>	<u>\$ 6,850,459</u>	

Explanation of Purpose for Receivables/Payables & Advances To/From Other Funds:

- (1) \$4,458,116 in the Due To/Due From Other Funds eliminate what would have been a negative cash balance in the fund.
- (2) This loan eliminates what would have been negative cash in TIF District funds. Repayment of the outstanding balance of \$88,866 will be made from tax increment generated by the district as it becomes available.
- (3) This 2004 loan from the Electric Fund to finance TIF District #14 project costs will be paid plus interest when the Block 53 property is developed. The amount outstanding as of 12/31/10 is \$1,478,054.
- (4) This 2007 loan from the Electric Fund provides interim financing for TIF District #14 project costs. The loan will be repaid from available cash as development of Block 6 occurs. The amount outstanding as of 12/31/10 is \$2,667,420.
- (5) In 2007, the Electric Fund loaned the Chaska EDA fund \$780,000 for construction costs related to a downtown property. \$610,000 was repaid in 2009. The outstanding balance of \$170,000 will be repaid as cash becomes available.

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- (6) A long-term interfund loan between the Electric Fund and the Turbine Fund was made in 2001 to finance a substation. Of the \$1,191,504 owed at 12/31/10, \$1,159,252 will not be paid within the year.
- (7) This interfund loan from the Electric Fund to Chaska.net was used to develop the expanded wireless internet service. The entire loan amount of \$1,169,964 is expected to remain outstanding throughout 2011.
- (8) In 2006, the City financed \$381,000 for equipment purchases for the Town Course through an interfund loan from the Electric Fund. Of the \$84,651 outstanding, \$56,434 will not be paid within the year.

Interfund Transfers:

	Transfers In:						Total
	Governmental Activities			Business-Type Activities			
Transfers Out:	General Fund	District #4 Revolving	Other Nonmajor	Water	Community Center	Other Nonmajor	
General Fund	\$ -	\$ -	\$ 482,000	\$ -	\$ -	\$ -	\$ 482,000
District #4 Revolving	-	-	2,500,360	-	-	-	2,500,360
District #14 Downtown Redevelopment	-	-	102,159	-	-	-	102,159
Other Nonmajor Governmental	88,682	100,109	2,871,198	252,470	26,000	-	3,338,459
Electric	-	-	276,400	-	261,000	19,700	557,100
Water	-	-	44,100	-	-	-	44,100
Community Center	-	-	126,568	-	-	-	126,568
Turbine	105,000	-	300,000	-	-	-	405,000
Other Nonmajor Business-Type	216,334	-	4,200	-	-	-	220,534
Internal Service Fund	23,187	-	-	-	-	-	23,187
	<u>\$ 433,203</u>	<u>\$ 100,109</u>	<u>\$ 6,706,985</u>	<u>\$ 252,470</u>	<u>\$ 287,000</u>	<u>\$ 19,700</u>	<u>\$ 7,799,467</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 Reserved and Unreserved-Designated Fund Balance

The following table identifies fund balances of the Governmental Funds in greater detail than is presented on the face of the financial statements:

Governmental Fund Balances As of December 31, 2010							
	General	TIF Dist #4 Revolving	TIF Dist #14 Downtown Redevelopmt	Nonmajor Special Revenue	Nonmajor Debt Service	Nonmajor Capital Projects	Totals
Fund Balances:							
Reserved for Debt Requirements	\$ -	\$ -	\$ -	\$ -	\$ 1,317,075	\$ -	\$ 1,317,075
Reserved for Economic Development	-	1,858,019	-	-	-	-	1,858,019
Reserved for Land Held for Resale	-	-	2,761,865	-	-	-	2,761,865
Reserved for Construction	-	-	-	-	-	4,473,805	4,473,805
Reserved for Mt. Pleasant Perpetual Care	-	-	-	202,352	-	-	202,352
Reserved for Concerts in the Park	-	-	-	589	-	-	589
Total Reserved Fund Balances:	-	1,858,019	2,761,865	202,941	1,317,075	4,473,805	10,613,705
Unreserved Fund Balances:							
Designated for Capital Outlay Acquisition	-	-	-	1,653,808	-	-	1,653,808
Designated for Compensated Balances	554,797	-	-	-	-	-	554,797
Designated for Working Capital	2,000,000	-	-	-	-	-	2,000,000
Total Designated Fund Balances:	2,554,797	-	-	1,653,808	-	-	4,208,605
Undesignated	11,686	-	(4,820,816)	(849,952)	-	(2,417,101)	(8,076,183)
Total Unreserved Fund Balances:	2,566,483	-	(4,820,816)	803,856	-	(2,417,101)	(3,867,578)
Total Fund Balances	<u>\$ 2,566,483</u>	<u>\$ 1,858,019</u>	<u>\$(2,058,951)</u>	<u>\$ 1,006,797</u>	<u>\$ 1,317,075</u>	<u>\$ 2,056,704</u>	<u>\$ 6,746,127</u>

Note 9 Risk Management

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

Workers compensation coverage is provided through a pooled self-insurance program through the League of Minnesota Cities Insurance Trust (LMCIT). The City pays an annual premium to LMCIT. The City is subject to supplemental assessments if deemed necessary by the LMCIT. The LMCIT reinsures through Workers Compensation Reinsurance Association (WCRA) as required by law. For workers compensation, the City is not subject to a deductible. The City's workers compensation coverage is retrospectively rated. With this type of coverage, final premiums are determined after loss experience is known. The amount of premium adjustment, if any, is considered immaterial and not recorded until received or paid.

Property and casualty insurance coverage is provided through a pooled self-insurance program through the LMCIT. The City pays an annual premium to the LMCIT. The City is subject to supplemental assessments if deemed necessary by the LMCIT. The LMCIT reinsures through commercial companies for claims in excess of various amounts. The City retains risk for the

deductible portion of the insurance policies and for any exclusion from the insurance policies. These amounts are considered immaterial to the financial statements.

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

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

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

Note 10 Committed Contracts

At December 31, 2010, the City had commitments for six uncompleted construction contracts with a remaining balance of \$940,195.

Note 11 Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

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

Note 12 Jointly Governed Organization

The City, in conjunction with ten other municipalities that provide distribution of electric services, comprise the Minnesota Municipal Power Agency (MMPA). MMPA began operations on July 1, 1995. MMPA purchases power that is purchased and distributed by the eleven municipalities that operate electric distribution systems. MMPA's board of directors is comprised of one member from each participating entity. Except for minimum purchase requirements, no participant has any obligation, entitlement, or residual interest. The City's purchases of power from MMPA for the year ended December 31, 2010 were \$18,761,148. MMPA issues an annual financial report that may be obtained by writing MMPA, 200 S. 6th Street, Suite 300, Minneapolis, MN 55402, or by calling (612) 349-6868.

Note 13 Defined Benefit Pension Plans – Statewide**A) Plan Description**

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

GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan. All police officers, fire fighters and peace officers who qualify for membership by statute are covered by the PEPFF.

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

Two 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 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 10 years of service and 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 PEPFF members, the annuity accrual rate is 3.0 percent for each year of service. For all PEPFF and GERF members hired prior to July 1, 1989 whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 55 for PEPFF members and 65 for Basic and Coordinated members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for Coordinated members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

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

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

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

B) Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The City makes annual contributions to the pension plans equal to the amount required by state statutes. GERF Basic Plan members and Coordinated Plan members were required to contribute 9.10% and 6.0%, respectively, of their annual covered salary in 2010. PEPFF members were required to contribute 9.4% of their annual covered salary in 2010. In 2010, the City of Chaska was required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan members, 7.00% for Coordinated Plan members, and 14.1% for PEPFF members.

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

	<u>GERF</u>	<u>PEPFF</u>
December 31, 2008	\$ 379,651	\$ 242,240
December 31, 2009	431,165	294,150
December 31, 2010	438,146	284,587

Note 14 Defined Contribution Plan – Statewide

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

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. *Minnesota Statutes*, Chapter 353D.03, specifies plan provisions, including the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes 5 percent of salary which is matched by the elected official's employer. Employer and employee contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2 percent of employer contributions and twenty-five hundredths of one percent of the assets in each member's account annually.

City of Chaska, Minnesota

December 31, 2010

Total contributions made by the City of Chaska during fiscal year 2010 were:

Contribution Amount		Percentage of Covered Payroll		Required Rates
Employee	Employer	Employee	Employer	
\$1,774	\$1,774	5.00%	5.00%	5.00%

Note 15 Other Post-Employment Benefits

In 2008, the City prospectively implemented GASB Statement No. 45, Accounting and Financial Reporting by Employers for Post-Employment Benefits Other than Pensions.

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% 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, 2008 participants consisted of:

Retirees and beneficiaries currently purchasing health insurance through the City	5
Active Employees	<u>117</u>
Total	<u><u>122</u></u>
Participating employers	<u><u>1</u></u>

D) Funding Policy

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

E) Annual OPEB Costs and Net OPEB Obligation

The City's annual other post-employment benefit (OPEB) cost is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The annual OPEB cost is accrued in the government-wide and proprietary funds financial statements as it is earned. OPEB benefits are recorded on a pay-as-you-go basis in the governmental funds. The net OPEB obligation as of December 31, 2010 was calculated as follows:

Annual Required Contribution	\$ 61,470
Interest on net OPEB obligation	3,819
Adjustment to Annual Required Contribution	<u>(5,522)</u>
Annual OPEB Cost	59,767
Contributions made during the year	<u>(22,221)</u>
Increase (decrease) in net OPEB obligation	37,546
Net OPEB obligation beginning of year	95,486
Net OPEB obligation end of year	<u><u>\$ 133,032</u></u>

The City first had an actuarial valuation performed for the plan as of January 1, 2008 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, 2010. The city's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2008 (year of implementation), 2009 and 2010 are as follows:

<u>Fiscal Year Ending</u>	<u>Annual OPEB Cost</u>	<u>Percent Contributed</u>	<u>Net OBEB Obligation</u>
12/31/2008	\$ 61,470	16.97%	\$ 51,041
12/31/2009	60,560	26.61%	95,486
12/31/2010	59,767	37.18%	133,032

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. 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>Total Unfunded Actuarial Liability (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
01/01/08	-	\$484,551	\$484,551	0.0%	\$6,894,120	7.03%

*Using the projected unit credit cost method

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

G) Actuarial Methods and Assumptions

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

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

In the January 1, 2008 actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 4% investment rate of return (net of administrative expenses) and an initial annual health care cost trend rate of 10% reduced by .50% each year

to arrive at an ultimate health cost trend rate of 5%. The actuarial value of assets was \$0.00. The plans unfunded actuarial accrued liability is being amortized using the level dollar amount over 30 years on an open basis. The remaining amortization period at January 1, 2008, was 30 years.

Note 16 Defined Benefit Pension Plans – Local

A) Plan Description

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

B) Funding Policy

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

C) Annual Pension Cost and Net Pension Obligations

For 2010, the City of Chaska's annual pension cost of \$286,795 was greater than the City's required contribution of \$246,000. The annual required contribution for the year was determined as part of the December 31, 2009 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 5% investment rate of return, (b) no projected salary increases and (c) no cost-of-living adjustments. Both (a) and (b) include an inflation component of 0.0%. The actuarial value of assets was determined using fair value based on current market value. The unfunded actuarial accrued liability is being amortized as a level dollar on a closed basis. The remaining amortization period at December 31, 2009 was 9 years (December 31, 2018).

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

Notes To The Financial Statements

City of Chaska, Minnesota

December 31, 2010

Total contributions to the CFDRAPP for the year ended December 31, 2010 were as follows:

<u>Contribution</u>	<u>Amount</u>
State of Minnesota	\$ 83,772
City of Chaska:	
Formula	122,573
Additional	65,000
Total City Contribution	<u>187,573</u>
Total Actual Contribution	<u>\$ 271,345</u>

D) Three-Year Trend Information

<u>Fiscal Year Ending</u>	<u>City</u>	<u>State</u>	<u>Total</u>	<u>Annual Pension Cost</u>	<u>Percent Contributed</u>	<u>Pension Obligation</u>
12/31/2008	\$187,021	\$93,732	\$280,753	\$248,952	112.77%	(\$378,968)
12/31/2009	186,807	79,332	266,139	255,551	104.14%	(389,556)
12/31/2010	187,573	83,772	271,345	286,795	94.61%	(374,106)

Annual Required Contribution	\$ 246,000
Interest on net pension obligation	(19,478)
Adjustment to annual required contribution	60,273
Annual Pension Cost	<u>286,795</u>
Contributions made	(271,345)
(Increase) decrease in negative net pension obligation	<u>15,450</u>
Negative net pension obligation beginning of year	(389,556)
Negative net pension obligation end of year	<u><u>(\$374,106)</u></u>

E) Schedule of Funding Progress

<u>Fiscal Year Ended</u>	<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability</u>	<u>Total Unfunded Actuarial Liability</u>	<u>Funded Ratio</u>	<u>Pension Benefit per Month</u>	
						<u>Per Month of Service</u>	<u>Estimated Per Year of Service</u>
12/31/2008	12/31/07	\$3,757,850	\$4,829,810	\$1,071,960	77.8%	\$ 1.9750	\$ 23.70
12/31/2009	12/31/07	3,757,850	4,829,810	1,071,960	77.8%	1.9750	23.70
12/31/2010	12/31/09	3,660,038	4,862,491	1,202,453	75.3%	1.9750	23.70

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

Note 17 Prior Period Adjustment

Deferred Revenue previously recognized as revenue (increasing net assets) on the government-wide Statement of Activities was determined to be unearned revenue. A prior period adjustment in the amount of \$2,273,296 has reduced net assets to reflect this.

The negative net pension obligation on the Statement of Net Assets for the CFDRAPP is now being reported for the current fiscal period. Previously there was a one-year lag between what was reported in the City's government-wide financial statements and the current fiscal period. A prior period adjustment in the amount of \$10,588 has increased net assets to reflect this.

Both of these adjustments had no affect on the fund financial statements.

Schedule of Funding Progress - Other Post-Employment Benefit Plan

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Total Unfunded Actuarial Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
01/01/08	-	\$484,551	\$484,551	0.0%	\$6,894,120	7.03%

This schedule was implemented in 2008, and therefore only contains one year of data.