

Government-Wide Financial Statements

City of Chaska

December 31, 2003

CITY OF CHASKA, MINNESOTA

STATEMENT OF NET ASSETS
DECEMBER 31, 2003

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS			
Cash And Investments	\$ 19,646,882	\$ 18,591,224	\$ 38,238,106
Receivables:			
Taxes	373,197	-	373,197
Special Assessments	7,333,447	890	7,334,337
Accounts	94,541	2,489,796	2,584,337
Other Receivables	1,566,928	69,601	1,636,529
Internal Balances	(1,866,066)	1,866,066	-
Due From Other Governments	5,262,106	186,044	5,448,150
Lease Receivable - Current	-	266,970	266,970
Inventories	-	853,151	853,151
Prepaid Items	-	82,918	82,918
Long Term Lease Receivable	-	27,591,124	27,591,124
Restricted Cash & Investments			
Cash with Escrow Agent - Capital Outlay	1,261,152	-	1,261,152
Cash with Escrow Agent - Debt Service	6,361,027	2,535,824	8,896,851
Deferred Charges	59,961	1,014,397	1,074,358
Land Held For Resale	1,185,688	-	1,185,688
Capital Assets (net of accumulated depreciation):			
Land	4,011,024	364,805	4,375,829
Works of Art & Historical Treasures	25,425	-	25,425
Buildings	6,970,294	20,505,098	27,475,392
Other Improvements	3,340,033	154,843	3,494,876
Furniture & Equipment	2,719,184	1,555,399	4,274,583
Infrastructure	6,462,434	7,994,742	14,457,176
Construction in Progress	11,471,748	6,129,439	17,601,187
TOTAL ASSETS	76,279,005	92,252,331	168,531,336
LIABILITIES			
Accounts Payable	742,337	764,333	1,506,670
Salaries Payable	172,808	91,227	264,035
Deposits Payable	-	125,176	125,176
Accrued Interest Payable	209,345	542,401	751,746
Due To Other Governments	100,487	936,344	1,036,831
Unearned Revenue	513,781	-	513,781
Non-current Liabilities:			
Due Within One Year	11,112,395	973,187	12,085,582
Due in More than One Year	56,498,119	48,081,783	104,579,902
TOTAL LIABILITIES	69,349,272	51,514,451	120,863,723
NET ASSETS			
Invested In Capital Net of Related Debt	12,017,122	31,567,896	43,585,018
Restricted for:			
Other Purposes	1,778,395	-	1,778,395
Debt Service	14,981,089	2,535,824	17,516,913
Capital Projects	16,936,993	-	16,936,993
Unrestricted	(38,783,866)	6,634,160	(32,149,706)
TOTAL NET ASSETS	\$ 6,929,733	\$ 40,737,880	\$ 47,667,613

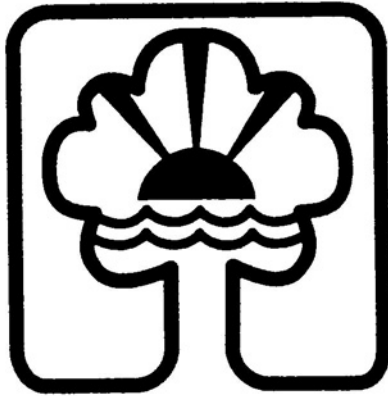
The notes to the financial statements are an integral part of this statement.

CITY OF CHASKA, MINNESOTA

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2003

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS		
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
Governmental Activities:							
General Government	\$ 2,924,252	\$ 1,939,436	\$ 7,590	\$ 23,978	\$ (953,248)	\$ -	\$ (953,248)
Economic Development	1,696,092	455,317	332,204	1,797,159	888,588	-	888,588
Public Safety	3,011,603	138,625	330,535	17,346	(2,525,097)	-	(2,525,097)
Public Works	3,806,878	2,174,988	3,330	8,523,840	6,895,280	-	6,895,280
Parks, Recreation and Arts	493,107	314,035	47,057	88,191	(43,824)	-	(43,824)
Interest on Long-Term Debt	2,968,040	-	-	-	(2,968,040)	-	(2,968,040)
Total Governmental Activities	14,899,972	5,022,401	720,716	10,450,514	1,293,659	-	1,293,659
Business-type Activities:							
Electric	16,095,986	16,615,211	-	3,193	-	522,418	522,418
Water	1,052,297	998,626	-	-	-	(53,671)	(53,671)
Sewer	1,640,848	1,575,299	-	-	-	(65,549)	(65,549)
Community Center	2,662,699	2,212,976	-	-	-	(449,723)	(449,723)
Par 30 Golf Course	200,229	185,930	-	-	-	(14,299)	(14,299)
Chaska Town Course	1,668,554	1,578,239	-	-	-	(90,315)	(90,315)
Turbine Generator	2,077,396	2,421,532	-	-	-	344,136	344,136
Internet Service Provider	313,030	190,895	-	-	-	(122,135)	(122,135)
Total Business-type Activities	25,711,039	25,778,708	-	3,193	-	70,862	70,862
TOTAL	\$ 40,611,011	\$ 30,801,109	\$ 720,716	\$ 10,453,707	1,293,659	70,862	1,364,521
			General Revenues:				
			Property Taxes		5,864,191	-	5,864,191
			Franchise Taxes		1,723,232	-	1,723,232
			Intergovernmental		-	24,706	24,706
			Grants & Contributions Not Restricted to Specific Functions		2,282,549	-	2,282,549
			Investment Earnings		742,891	534,936	1,277,827
			Gain on Disposal of Capital Assets		-	17,907	17,907
			Insurance Proceeds		52,933	289,447	342,380
			Other		72,473	3,466	75,939
			Transfers		1,739,947	(1,739,947)	-
			Total General Revenues & Transfers		12,478,216	(869,485)	11,608,731
			Change in Net Assets		13,771,875	(798,623)	12,973,252
			Net Assets - Beginning		(6,842,142)	41,536,503	34,694,361
			Net Assets - Ending		\$ 6,929,733	\$ 40,737,880	\$ 47,667,613

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



CHASKA

The City reports the following major governmental funds:

- **General Fund** – This 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.
- **General Obligation Tax Increment Crossover Advance Refunding Bond of 1999** - This fund was established in 1999 to cross refund \$4,990,000 of 1994 GO Tax Increment Bonds. This fund qualified (as required by GASB #34) as a major fund based on a large debt service payment that was made in 2003.
- **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.

CITY OF CHASKA, MINNESOTA

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2003

	GENERAL	GO TI X-OVER ADV REF BOND OF 1999	TIF DISTRICT #4 REVOLVING	NONMAJOR GOVERNMENTAL	TOTAL GOVERNMENTAL FUNDS
ASSETS					
Cash And Investments	\$ 2,940,750	\$ 31,949	\$ -	\$ 13,925,816	\$ 16,898,515
Investment With Escrow Agent	-	-	-	7,622,179	7,622,179
Receivables:					
Taxes	234,094	-	91,231	47,872	373,197
Special Assessments	8,689	51,618	393,936	6,879,204	7,333,447
Accounts	65,680	-	-	28,861	94,541
Other Receivables	99,951	-	770,757	694,147	1,564,855
Due from Other Funds	-	-	-	12,755,221	12,755,221
Due From Other Governments	111,791	-	1,440,000	3,710,315	5,262,106
Interfund Receivable	-	-	-	347,626	347,626
Advance to Other Funds	-	-	-	1,382,288	1,382,288
Land Held for Resale	-	-	-	1,185,688	1,185,688
TOTAL ASSETS	\$ 3,460,955	\$ 83,567	\$ 2,695,924	\$ 48,579,217	\$ 54,819,663
LIABILITIES AND FUND BALANCES					
LIABILITIES:					
Accounts Payable	\$ 108,030	\$ -	\$ 417	\$ 632,690	\$ 741,137
Salaries Payable	172,808	-	-	-	172,808
Due To Other Funds	-	-	9,697,851	4,773,574	14,471,425
Due To Other Governments	95,401	-	-	5,086	100,487
Interfund Payable	-	-	141,045	231,581	372,626
Deferred and Unearned Revenue	135,815	51,618	2,684,841	7,553,679	10,425,953
Advance from Other Funds	-	-	503,415	953,873	1,457,288
TOTAL LIABILITIES	512,054	51,618	13,027,569	14,150,483	27,741,724
FUND BALANCES:					
Reserved	-	31,949	-	37,861,991	37,893,940
Unreserved, designated	2,942,252	-	-	1,424,125	4,366,377
Unreserved, undesignated reported in:					
General Fund	6,649	-	-	-	6,649
Special Revenue Funds	-	-	-	36,259	36,259
Capital Project Funds	-	-	(10,331,645)	(4,893,641)	(15,225,286)
TOTAL FUND BALANCES	2,948,901	31,949	(10,331,645)	34,428,734	27,077,939
TOTAL LIABILITIES AND FUND BALANCES	\$ 3,460,955	\$ 83,567	\$ 2,695,924	\$ 48,579,217	\$ 54,819,663

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, 2003**

Total fund balances - governmental funds \$ 27,077,939

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. 59,961

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

Cost of Capital Assets	44,864,049
Less: Accumulated Depreciation	(9,863,907)

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. 9,912,172

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. 2,749,240

Internal balances from business-type activities for internal service fund services. (49,862)

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. (209,345)

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

Due within one year	(11,112,395)
Due in more than one year	(56,498,119)
	(67,610,514)

Net assets of governmental activities \$ 6,929,733

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, 2003

	GENERAL	GO TI X-OVER ADV REF BOND OF 1999	TIF DISTRICT #4 REVOLVING	NONMAJOR GOVERNMENTAL	TOTAL GOVERNMENTAL FUNDS
REVENUES					
Taxes:					
Property	\$ 1,851,471	\$ -	\$ 3,630,543	\$ 425,269	\$ 5,907,283
Franchise Fee	1,723,232	-	-	-	1,723,232
Licenses and Permits	1,237,583	-	-	-	1,237,583
Intergovernmental	1,322,095	-	-	3,289,557	4,611,652
Charges for Services	870,907	-	-	2,346,878	3,217,785
Fines and Forfeitures	120,025	-	-	-	120,025
Special Assessments	7,705	22,758	36,654	2,278,908	2,346,025
Other Revenue	107,348	-	587,940	1,826,246	2,521,534
TOTAL REVENUES	7,240,366	22,758	4,255,137	10,166,858	21,685,119
EXPENDITURES					
CURRENT:					
General Government	2,352,891	-	-	364,337	2,717,228
Economic Development	-	-	571,932	742,664	1,314,596
Public Safety	2,649,588	-	-	23,703	2,673,291
Public Works	1,675,301	-	-	872,454	2,547,755
Parks, Recreation and Arts	328,235	-	-	33,455	361,690
DEBT SERVICE:					
Principal	-	2,575,000	-	6,870,000	9,445,000
Interest	-	142,763	158,081	2,678,570	2,979,414
Issuance Costs & Fiscal Agent Fees	-	-	-	84,162	84,162
CAPITAL OUTLAY	20,873	-	-	4,834,140	4,855,013
TOTAL EXPENDITURES	7,026,888	2,717,763	730,013	16,503,485	26,978,149
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	213,478	(2,695,005)	3,525,124	(6,336,627)	(5,293,030)
OTHER FINANCING SOURCES (USES)					
Transfers In	119,046	2,717,763	-	7,214,473	10,051,282
Transfers Out	(52,275)	-	(6,240,863)	(2,018,197)	(8,311,335)
Bonds Issued	-	-	-	6,220,000	6,220,000
Premium on Bonds Issued	-	-	-	244,170	244,170
Sale of Capital Assets	-	-	-	187,304	187,304
TOTAL OTHER FINANCING SOURCES AND USES	66,771	2,717,763	(6,240,863)	11,847,750	8,391,421
NET CHANGE IN FUND BALANCES	280,249	22,758	(2,715,739)	5,511,123	3,098,391
FUND BALANCES, January 1	2,668,652	9,191	(7,615,906)	28,917,611	23,979,548
FUND BALANCES, December 31	\$ 2,948,901	\$ 31,949	\$ (10,331,645)	\$ 34,428,734	\$ 27,077,939

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, 2003

Total net change in fund balances - governmental funds	\$ 3,098,391
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, the expenditures are recorded as deferred charges and amortized over the life of the debt.	59,961
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	4,515,792
Less: Depreciation Expense	(1,433,885)
Donations of capital assets typically are not reported in the governmental funds. Such donations must be reported, however, in both of the government-wide financial statements. This amount represents revenue from developer donated capital assets.	
	6,287,809
In the governmental funds, proceeds from the sale of capital assets are recorded as revenue in the current year. However, on the government-wide reports, the gain or loss on the sale is reflected as a revenue or expense.	
	(200,441)
Certain revenues are recognized as soon as it is earned. Under modified accrual basis of accounting, certain revenues cannot be recognized until they are available to liquidate liabilities of the current period.	
	(1,130,003)
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)	(7,447,585)
Reductions to long-term debt (increases governmental fund balances)	9,860,189
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.	
	11,374
Internal service funds are used by management to charge the costs of property & liability insurance to individual funds. This amount represents the change in net assets of internal service funds, which is reported with governmental activities.	
	<u>150,273</u>
Change in net asset - governmental activities	<u>\$ 13,771,875</u>

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

CITY OF CHASKA, MINNESOTA

**GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2003**

	BUDGETED AMOUNTS		ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
REVENUES:				
Taxes:				
Property	\$ 1,830,300	\$ 1,830,300	\$ 1,851,471	\$ 21,171
Franchise Fee	1,742,000	1,742,000	1,723,232	(18,768)
Licenses And Permits	922,957	976,207	1,237,583	261,376
Intergovernmental	1,584,616	1,266,215	1,322,095	55,880
Charges For Services	831,572	918,337	870,907	(47,430)
Fines And Forfeitures	49,980	59,980	120,025	60,045
Special Assessments	2,500	2,500	7,705	5,205
Other Revenue	94,400	97,400	107,348	9,948
TOTAL REVENUES	7,058,325	6,892,939	7,240,366	347,427
EXPENDITURES:				
Current:				
General Government	2,444,830	2,386,150	2,352,891	33,259
Public Safety	2,546,243	2,509,847	2,649,588	(139,741)
Public Works	1,743,687	1,739,927	1,675,301	64,626
Parks, Recreation and Arts	335,131	333,131	328,235	4,896
Capital Outlay	10,934	10,934	20,873	(9,939)
TOTAL EXPENDITURES	7,080,825	6,979,989	7,026,888	(46,899)
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(22,500)	(87,050)	213,478	300,528
OTHER FINANCING SOURCES (USES):				
Transfers In	87,500	112,500	119,046	6,546
Transfers Out	(65,000)	(47,700)	(52,275)	(4,575)
TOTAL OTHER FINANCING SOURCES (USES)	22,500	64,800	66,771	1,971
NET CHANGE IN FUND BALANCES	-	(22,250)	280,249	302,499
FUND BALANCES, January 1	2,668,652	2,668,652	2,668,652	-
FUND BALANCES, December 31	\$ 2,668,652	\$ 2,646,402	\$ 2,948,901	\$ 302,499

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

The City reports the following four major enterprise funds:

Electric Fund	This fund is used to accounts 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.

The City has one internal service fund:

Self Insurance Fund	This fund is used to account for the purchase of property, liability, workers' compensation, life and health insurance for all City departments. Costs are allocated to the departments.
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CITY OF CHASKA, MINNESOTA

**STATEMENT OF NET ASSETS
 PROPRIETARY FUNDS
 DECEMBER 31, 2003**

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS		
	ELECTRIC	WATER	COMMUNITY CENTER
ASSETS			
Current:			
Cash And Investments	\$ 4,710,301	\$ 9,849,338	\$ 867,494
Receivables:			
Special Assessments:			
Delinquent	890	-	-
Accounts:			
Current	1,427,530	48,683	126,598
Unbilled	642,634	35,233	7,078
Allowance For Uncollectible Accounts	(12,472)	(481)	(165)
Other	6,880	15,587	1,014
Due From Other Funds	2,720,104	-	-
Due From Other Governments	23,277	5,980	156,587
Interfund:			
Receivable	25,000	-	-
Lease Receivable	-	-	-
Inventories	741,339	62,965	-
Prepaid Items	-	-	-
Total Current Assets	10,285,483	10,017,305	1,158,606
Long-Term Receivable:			
Lease Receivable	-	-	-
Advance To Other Funds	75,000	-	-
Total Long-Term Receivable	75,000	-	-
Restricted Assets:			
Cash And Investments with Escrow Agent	-	-	-
Deferred Charges			
	-	279,754	-
Capital Assets:			
Land	240,721	33,618	90,466
Buildings	5,079,032	1,724,525	16,194,594
Other Improvements	-	-	179,656
Furniture & Equipment	1,295,310	366,380	567,596
Infrastructure:			
Lines, Poles, Transformers and Others	10,563,335	-	-
Pumps, Mains and Others	-	2,888,425	-
Construction In Progress	-	6,129,439	-
Total Capital Assets	17,178,398	11,142,387	17,032,312
Less: Accumulated Depreciation	(7,415,265)	(3,242,264)	(5,974,954)
Total Net Capital Assets	9,763,133	7,900,123	11,057,358
TOTAL ASSETS	20,123,616	18,197,182	12,215,964

<u>TURBINE GENERATOR</u>	<u>NONMAJOR ENTERPRISE</u>	<u>TOTALS</u>	<u>GOVERNMENTAL ACTIVITIES- INTERNAL SERVICE FUND</u>
\$ 1,567,065	\$ 1,597,026	\$ 18,591,224	\$ 2,748,367
-	-	890	-
-	136,251	1,739,062	-
-	80,251	765,196	-
-	(1,344)	(14,462)	-
44,742	1,378	69,601	2,073
-	-	2,720,104	-
-	200	186,044	-
21,393	-	46,393	-
266,970	-	266,970	-
-	48,847	853,151	-
-	82,918	82,918	-
<u>1,900,170</u>	<u>1,945,527</u>	<u>25,307,091</u>	<u>2,750,440</u>
27,591,124	-	27,591,124	-
1,349,899	-	1,424,899	-
<u>28,941,023</u>	<u>-</u>	<u>29,016,023</u>	<u>-</u>
<u>2,535,824</u>	<u>-</u>	<u>2,535,824</u>	<u>-</u>
<u>734,643</u>	<u>-</u>	<u>1,014,397</u>	<u>-</u>
-	-	364,805	-
-	8,366,157	31,364,308	-
-	21,313	200,969	-
-	1,575,341	3,804,627	-
-	-	10,563,335	-
-	2,410,559	5,298,984	-
-	-	6,129,439	-
-	12,373,370	57,726,467	-
-	(4,389,658)	(21,022,141)	-
-	7,983,712	36,704,326	-
<u>34,111,660</u>	<u>9,929,239</u>	<u>94,577,661</u>	<u>2,750,440</u>

(Continued)

CITY OF CHASKA, MINNESOTA

**STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2003**

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS		
	<u>ELECTRIC</u>	<u>WATER</u>	<u>COMMUNITY CENTER</u>
<u>LIABILITIES</u>			
Current Liabilities:			
Accounts Payable	6,019	655,345	53,325
Salaries Payable	29,774	9,213	31,194
Deposits Payable	88,460	-	-
Compensated Absences	79,036	15,265	46,929
Accrued Interest Payable	-	47,894	-
Due To Other Funds	-	506,491	-
Due To Other Governments	909,789	2,982	14,885
Interfund Payable	21,393	-	-
Revenue Bonds Payable	-	280,000	-
Total Current Liabilities	<u>1,134,471</u>	<u>1,517,190</u>	<u>146,333</u>
Non-current Liabilities:			
Advance From Other Funds	1,349,899	-	-
Revenue Bonds Payable	-	15,037,390	-
Total Non-current Liabilities	<u>1,349,899</u>	<u>15,037,390</u>	<u>-</u>
TOTAL LIABILITIES	<u>2,484,370</u>	<u>16,554,580</u>	<u>146,333</u>
<u>NET ASSETS</u>			
Invested in Capital Net of Related Debt	9,763,133	2,763,693	11,057,358
Restricted	-	-	-
Unrestricted	<u>7,876,113</u>	<u>(1,121,091)</u>	<u>1,012,273</u>
TOTAL NET ASSETS	<u>\$ 17,639,246</u>	<u>\$ 1,642,602</u>	<u>\$ 12,069,631</u>

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>
-	49,644	764,333	1,200
-	21,046	91,227	-
-	36,716	125,176	-
-	51,350	192,580	-
494,507	-	542,401	-
-	497,409	1,003,900	-
-	8,688	936,344	-
-	-	21,393	-
555,000	-	835,000	-
<u>1,049,507</u>	<u>664,853</u>	<u>4,512,354</u>	<u>1,200</u>
-	-	1,349,899	-
32,990,000	-	48,027,390	-
<u>32,990,000</u>	<u>-</u>	<u>49,377,289</u>	<u>-</u>
<u>34,039,507</u>	<u>664,853</u>	<u>53,889,643</u>	<u>1,200</u>
-	7,983,712	31,567,896	-
2,535,824	-	2,535,824	-
(2,463,671)	1,280,674	6,584,298	2,749,240
<u>\$ 72,153</u>	<u>\$ 9,264,386</u>	<u>\$ 40,688,018</u>	<u>\$ 2,749,240</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds		<u>49,862</u>	
Net assets of business-type activities		<u>\$ 40,737,880</u>	

CITY OF CHASKA, MINNESOTA

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2003**

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS		
	ELECTRIC	WATER	COMMUNITY CENTER
OPERATING REVENUES:			
Sales	\$ 16,363,577	\$ 991,408	\$ 2,104,864
OPERATING EXPENSES:			
Production	12,340,739	178,303	-
Distribution / Collections	1,045,074	410,190	-
Administration	444,115	154,151	2,028,899
Franchise Fees	1,594,000	-	-
Depreciation	603,677	199,308	648,416
TOTAL OPERATING EXPENSES	16,027,605	941,952	2,677,315
OPERATING INCOME (LOSS)	335,972	49,456	(572,451)
NON-OPERATING REVENUES:			
Special Assessments	3,193	-	-
Investment Earnings	167,003	120,567	21,484
Intergovernmental	18,726	5,980	108,110
Payments	2,667	-	-
Gain On Disposal Of Capital Assets	8,000	-	-
Insurance Proceeds	-	-	-
TOTAL NON-OPERATING REVENUES	199,589	126,547	129,594
NON-OPERATING EXPENSES:			
Interest	84,045	117,993	-
Issuance Costs & Fiscal Agent Fees	-	889	-
TOTAL NON-OPERATING EXPENSES	84,045	118,882	-
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	451,516	57,121	(442,857)
CAPITAL CONTRIBUTIONS	252,436	7,218	-
TRANSFER IN (OUT)			
Transfers In	-	29,627	100,000
Transfers Out	(531,518)	(53,400)	(261,256)
Total Transfers In (Out)	(531,518)	(23,773)	(161,256)
CHANGE IN NET ASSETS	172,434	40,566	(604,113)
NET ASSETS, January 1	17,466,812	1,602,036	12,673,744
NET ASSETS, December 31	\$ 17,639,246	\$ 1,642,602	\$ 12,069,631

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

			GOVERNMENTAL
			ACTIVITIES -
			INTERNAL
			SERVICE
			FUND
TURBINE GENERATOR	OTHER NONMAJOR ENTERPRISE	TOTALS	
\$ 2,337,487	\$ 3,524,372	\$ 25,321,708	\$ 487,077
-	1,151,331	13,670,373	-
-	278,513	1,733,777	-
49,783	1,762,123	4,439,071	330,996
-	-	1,594,000	-
-	641,739	2,093,140	-
49,783	3,833,706	23,530,361	330,996
2,287,704	(309,334)	1,791,347	156,081
-	-	3,193	-
194,508	31,374	534,936	44,054
-	-	132,816	-
84,045	-	86,712	-
-	9,907	17,907	-
-	289,447	289,447	-
278,553	330,728	1,065,011	44,054
1,997,904	-	2,199,942	-
29,709	-	30,598	-
2,027,613	-	2,230,540	-
538,644	21,394	625,818	200,135
-	5,990	265,644	-
-	-	129,627	-
(555,000)	(468,400)	(1,869,574)	-
(555,000)	(468,400)	(1,739,947)	-
(16,356)	(441,016)	(848,485)	200,135
88,509	9,705,402	41,536,503	2,549,105
\$ 72,153	\$ 9,264,386	\$ 40,688,018	\$ 2,749,240
Change in net assets - total Enterprise Funds		\$ (848,485)	
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds		49,862	
Change in net assets - Business-type Activities		\$ (798,623)	

CITY OF CHASKA, MINNESOTA

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2003**

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS		
	ELECTRIC	WATER	COMMUNITY CENTER
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts From Customers And Users	\$ 16,291,567	\$ 984,154	\$ 1,999,034
Payments To Suppliers	(14,287,619)	(332,138)	(973,193)
Payments To Employees	(786,432)	(294,856)	(1,048,554)
Net Cash Provided (Used) By Operating Activities	<u>1,217,516</u>	<u>357,160</u>	<u>(22,713)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:			
Transfers From Other Funds	-	29,627	100,000
Transfers To Other Funds	(531,518)	(53,400)	(261,256)
Advance To Other Funds	(21,393)	-	-
Interfund Loans From Other Funds	335,000	-	-
Interfund Loans To Other Funds	(1,943,912)	(242,635)	-
Intergovernmental	18,726	5,980	108,110
Miscellaneous Refunds/Reimbursements	2,667	-	-
Net Cash Provided (Used) By Non-Capital Financing Activities	<u>(2,140,430)</u>	<u>(260,428)</u>	<u>(53,146)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Proceeds from Revenue Bonds	-	15,202,390	-
Deferred Issuance Charges	-	(277,455)	-
Capital Contributions	252,436	7,218	-
Trade In Of Capital Assets	-	-	-
Principal Paid On Bonds	-	(35,000)	-
Interest And Fiscal Charges	(84,045)	(87,163)	-
Insurance Proceeds From Fire	-	-	-
Proceeds From Sales Of Capital Assets	8,000	-	-
Construction And Acquisition of Capital Assets	(1,011,423)	(5,177,951)	(111,245)
Special Assessments	3,193	-	-
Lease Principal Received	-	-	-
Net Cash Provided (Used) By Capital And Related Financing Activities	<u>(831,839)</u>	<u>9,632,039</u>	<u>(111,245)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest On Investments	<u>174,173</u>	<u>120,567</u>	<u>22,443</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,580,580)	9,849,338	(164,661)
CASH AND CASH EQUIVALENTS, January 1	6,290,881	-	1,032,155
CASH AND CASH EQUIVALENTS, December 31	<u>\$ 4,710,301</u>	<u>\$ 9,849,338</u>	<u>\$ 867,494</u>
CASH AND CASH EQUIVALENTS:			
Cash And Investments	\$ 4,710,301	\$ 9,849,338	\$ 867,494
Restricted Assets-Revenue Bonds:			
Cash And Investments	-	-	-
Total Cash And Cash Equivalents	<u>\$ 4,710,301</u>	<u>\$ 9,849,338</u>	<u>\$ 867,494</u>

			GOVERNMENTAL
			ACTIVITIES -
			INTERNAL
			SERVICE
			FUND
<u>TURBINE</u>	<u>OTHER</u>	<u>TOTALS</u>	
<u>GENERATOR</u>	<u>NONMAJOR</u>		
	<u>ENTERPRISE</u>		
\$ 2,337,487	\$ 3,508,621	\$ 25,120,863	\$ 487,077
(165,177)	(2,255,403)	(18,013,530)	(360,335)
-	(1,011,134)	(3,140,976)	-
<u>2,172,310</u>	<u>242,084</u>	<u>3,966,357</u>	<u>126,742</u>
-	-	129,627	-
(555,000)	(468,400)	(1,869,574)	-
-	-	(21,393)	-
21,393	171,562	527,955	-
(1,219)	-	(2,187,766)	-
1,173,276	814	1,306,906	-
-	-	2,667	-
<u>638,450</u>	<u>(296,024)</u>	<u>(2,111,578)</u>	<u>-</u>
-	-	15,202,390	-
(2,500)	-	(279,955)	-
-	5,990	265,644	-
-	9,907	9,907	-
(530,000)	-	(565,000)	-
(2,004,529)	-	(2,175,737)	-
-	289,447	289,447	-
-	-	8,000	-
-	(278,226)	(6,578,845)	-
-	-	3,193	-
245,145	-	245,145	-
<u>(2,291,884)</u>	<u>27,118</u>	<u>6,424,189</u>	<u>-</u>
<u>278,553</u>	<u>32,458</u>	<u>628,194</u>	<u>45,892</u>
797,429	5,636	8,907,162	172,724
3,305,460	1,591,390	12,219,886	2,575,733
<u>\$ 4,102,889</u>	<u>\$ 1,597,026</u>	<u>\$ 21,127,048</u>	<u>\$ 2,748,367</u>
\$ 1,567,065	\$ 1,597,026	\$ 18,591,224	\$ 2,748,367
2,535,824	-	2,535,824	-
<u>\$ 4,102,889</u>	<u>\$ 1,597,026</u>	<u>\$ 21,127,048</u>	<u>\$ 2,748,367</u>

(Continued)

CITY OF CHASKA, MINNESOTA

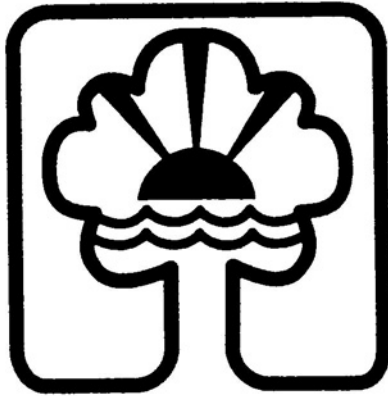
**STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2003**

	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)	\$ 335,972	\$ 49,456	\$ (572,451)
Adjustments To Reconcile Operating Income (Loss) To Net Cash Provided (Used) By Operating Activities:			
Depreciation Expense	603,677	199,308	648,416
Allowance For Uncollectible Accounts	1,933	(135)	(211)
(Increase) Decrease In Assets:			
Special Assessments Deferred	1,841	-	-
Accounts Receivable	(151,015)	(6,187)	16,686
Due From Other Governments	77,962	(932)	(122,305)
Inventory	265,474	16,046	-
Prepaid Items	-	-	-
Increase (Decrease) In Liabilities:			
Accounts Payable	(49,537)	93,673	(8,920)
Contracts Payable	-	-	-
Salaries Payable	17,081	4,743	16,680
Deposits Payable	(492)	-	-
Deferred Revenue	(2,731)	-	-
Due To Other Governments	117,351	1,188	(608)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 1,217,516	\$ 357,160	\$ (22,713)

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>
\$ 2,287,704	\$ (309,334)	\$ 1,791,347	\$ 156,081
-	641,739	2,093,140	-
-	(127)	1,460	-
-	-	1,841	-
-	(15,624)	(156,140)	-
-	-	(45,275)	-
-	11,852	293,372	-
-	12,651	12,651	-
(114,475)	(10,140)	(89,399)	(29,339)
-	(98,382)	(98,382)	-
-	13,522	52,026	-
-	(7,846)	(8,338)	-
-	-	(2,731)	-
(919)	3,773	120,785	-
<u>\$ 2,172,310</u>	<u>\$ 242,084</u>	<u>\$ 3,966,357</u>	<u>\$ 126,742</u>



CHASKA

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

CITY OF CHASKA, MINNESOTA

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2003**

	AGENCY FUNDS
<u>ASSETS</u>	
Cash And Cash Equivalents	\$ 201,279
Receivables:	
Accounts	8,296
Other	2,451
Due From Other Funds	2,086
Due From Other Governments	101
	<hr/>
TOTAL ASSETS	\$ 214,213
	<hr/> <hr/>
<u>LIABILITIES</u>	
Accounts Payable	\$ 8,762
Due To Other Funds	2,086
Due To Other Governments	49,725
Deposits Payable	153,640
	<hr/>
TOTAL LIABILITIES	\$ 214,213
	<hr/> <hr/>

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 also operates utilities in the areas of electric, water and sewer and also operates a community center, two golf courses, an 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) New Accounting Pronouncements

For the year ended December 31, 2003, the City has implemented GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. GASB Statement No. 34 creates new basic financial statements for reporting on the City’s financial activities. The financial statements now include government-wide financial statements prepared on the accrual basis of accounting, and fund financial statements which present information for individual major funds rather than by fund type, which had been the mode of presentation in previously issued financial statements. Nonmajor funds are presented in total in one column in the fund financial statements.

The implementation of GASB Statement No. 34 caused the opening fund balances at December 31, 2002 to be restated in terms of “net assets” (governmental activities) as follows:

Total Fund Balances - Governmental Funds - at December 31, 2002	\$	23,894,001
Net Capital Assets (additional detail in Note 5 - Capital Assets)	\$	25,830,867
Long-Term Debt (additional detail in Note 7 -Long-Term Debt)	\$	(70,023,118)
Accrued Interest	\$	(220,719)
Net assets of Internal Service funds that are included in Governmental		
Activities for purposes of entity-wide reporting	\$	2,549,105
Revenues deferred on modified accrual basis of accounting,		
but recognized on full accrual basis	\$	11,042,175
Reclassification of Trust Funds as Special Revenue Funds	\$	85,547
		<hr/>
Net assets at December 31, 2002	\$	<u>(6,842,142)</u>

B) 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 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.

C) 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 functions. 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 rather than by fund type; which had been the mode of presentation in previously issued financial statements. 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.
- **Debt Service Fund – General Obligation Tax Increment Crossover Advance Refunding Bond of 1999**. This fund was established in 1999 to cross refund \$4,990,000 of 1994 GO Tax Increment Bonds.
- **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.

Major Proprietary Funds

The City of Chaska reports the following major Proprietary funds:

- **Electric Fund** – This fund is used to accounts 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, workers' compensation, life and health insurance for all City departments. Costs are allocated to the 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 the collection of assets in the form of deposits from builders.
 - **Developers' Fund.** This Agency fund is used to account for the collections of assets in the form of deposits from developers.
 - **MCES Collection Fund.** This Agency fund is used to account for the collection of assets in the form of sewer availability charges and contributed to the Metropolitan Council Environmental Services (MCES).

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statement 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 fees 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.

D) 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 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 considers property taxes 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. A one-year availability period is used for revenue recognition for all other governmental fund revenues. Major revenues that are susceptible to accrual include property taxes, special assessments, intergovernmental revenues, and 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. Deferred revenue includes resources received by the government before it has legal claim to it, such as when the grant monies 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 combined 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 which is 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 balance sheets. 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. 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 revenues for all of the City of Chaska's enterprise funds and internal service funds 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.

E) Budgetary Accounting

Budgets for the General fund and for certain Special Revenue funds (schedules are included in the financial statements) are adopted on a basis consistent with United States generally accepted accounting principles. These adopted budgets are prepared on the modified accrual basis for General and Special Revenue funds. All annual appropriations lapse at fiscal year-end.

F) 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.

G) 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 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.

Taxes, which remain unpaid at December 31, are classified as "delinquent taxes receivable" and are fully offset by deferred revenue in the governmental fund statements because they are not 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

The principal and interest portion of special assessments is recognized as revenue in the year when collected in the governmental funds. Both the principal and interest on special assessments are payable in installments over a term of years that matches the scheduled payments for the bond issue which financed the project. Special assessments, which remain unpaid at December 31, are classified as "special assessments receivable" and are fully offset by deferred revenue in the fund financial statements because they are not available to finance current expenditures.

3. TRADE RECEIVABLES

All trade receivables are shown net of an allowance for uncollectibles.

H) 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". Short-term interfund loans are classified as "interfund receivables/payables".

I) Inventory

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

J) Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2003 are recorded as prepaid items. Prepaid items are accounted for using the consumption method.

K) Advances to Other Funds

Non-current portions of 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.

L) 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.

M) Restricted Assets and Investments With Escrow Agent

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. In the governmental fund financial statements these proceeds are listed as Investments with Escrow Agent. In the debt service funds, the proceeds of a crossover refunding bond issue held by the refunding bond escrow agent are reported as investments with escrow agent. These proceeds and any interest earned thereon can only be used to retire the related bond issue being refunded on its crossover refunding date (the date at which the refunded issue is callable), or to pay interest on the refunding issue until that time.

N) 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.

Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The total interest expense incurred by the City relating to construction during the current fiscal year was \$379,526. Of this amount, \$258,959 was included as part of the cost of capital assets under construction in connection with the water treatment facilities project.

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. The City uses a \$5,000 capitalization policy. 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.

In accordance with GASB 34 ¶148, the City of Chaska has chosen to report infrastructure assets prospectively beginning in the year of implementation (2003). The government-wide financial statements include infrastructure assets that were completed in 2003 only. The City will retroactively report (1981–2002) all major general infrastructure assets by December 31, 2007.

O) Compensated Absences

The City compensates all 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. 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.

P) 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.

Q) 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.

R) 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 imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

S) 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, 2003, expenditures exceeded appropriations in the general fund by \$46,899. This variance was funded by greater than anticipated revenues.

C) Nonmajor Funds with Negative Equity

The following nonmajor funds maintained a deficit fund balance/net asset position at December 31, 2003:

Special Revenue Fund:

Chaska EDA	\$	42,122
Community Land Trust		538

Capital Project Funds:

Unfinanced Improvement Projects	1,643,927
2000 Improvement Projects	110,535
2003 Improvement Projects	189,329
Public Facilities Capital Improvements	251,281
EDA Lease Revenue Bond Projects	180,435
Highway 312 Improvements	904

Enterprise Funds:

Internet Service Provider	181,923
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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.

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 combined balance sheet as "Cash and Investments". An indication of the level of risk assumed by the City at year-end is categorized as follows:

A) Deposits

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, 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.

Deposit balances at December 31, 2003 are as follows:

	<u>Bank Balance</u>	<u>Carrying Amount</u>
Total Bank Deposits	\$ 2,554,702	\$ 2,102,613

At December 31, 2003, all deposits were insured, or collateralized by securities held by the City's agent in the City's name.

B) Investments

The City may also invest idle funds as authorized by Minnesota Statutes, as follows:

- 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 and receives the highest credit rating, is 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

Notes To The Financial Statements

City of Chaska, Minnesota

December, 31 2003

- Commercial paper issued by United States' corporations or their Canadian subsidiaries, of the highest category by at least two nationally recognized rating agencies, and maturing in 270 days or less
- Guaranteed Investment Contracts guaranteed by the United States commercial bank, domestic branch of a foreign bank, or a United States insurance company, and 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, a primary reporting dealer in U. S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers
- Future contracts sold under authority of Minnesota Statutes 471.56, subd. 5.

The City's investments are categorized below to give an indication of the level of risk assumed at year-end. *Category 1* includes investments that are insured or registered or for which the City or its agent in the City's name holds the securities. *Category 2* includes uninsured and unregistered investments for which the securities are held by the counterpart's trust department or agent in the City's name. *Category 3* includes uninsured and unregistered investments for which securities are held by the counterpart.

Investment balances at December 31, 2003 are as follows:

	Credit Risk Category			Fair Value
	1	2	3	
U.S. Government Securities	\$ 5,039,566	\$ -	\$ -	\$ 5,039,566
Commercial Paper	999,470	-	-	999,470
Negotiable Certificates of Deposit	988,459	-	-	988,459
Guaranteed Investment Contracts	-----Unclassified-----			12,385,162
Open End Mutual Funds	-----Unclassified-----			27,079,363
Total Investments	\$ 7,027,495	\$ -	\$ -	\$ 46,492,020
Total Deposits				2,102,613
Petty Cash				2,755
Total Deposits and Investments				\$ 48,597,388

Notes To The Financial Statements

City of Chaska, Minnesota

December, 31 2003

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

Statement of Net Assets - Government-Wide	
Cash and Investments	\$ 38,238,106
Restricted Cash and Investments w/Escrow Agent:	
For Capital Outlay	1,261,152
For Debt Service	<u>8,896,851</u>
	48,396,109
Statement of Net Assets - Fiduciary Funds	
Cash and Investments	<u>201,279</u>
Total Cash and Investments	<u><u>48,597,388</u></u>

Note 4 Detail of Other Receivables

Other receivables as of year-end for the City's individual major funds and nonmajor, internal service, and fiduciary funds are as follows:

	Governmental Funds					
	General	TIF District #4	Nonmajor	Internal	Government	Fiduciary
	Fund	Revolving	Governmental	Service	Wide	Funds
	Fund	Fund	Funds	Fund	Total	Funds
Other Receivables:						
Interest	\$ 2,034	\$ -	\$ 11,298	\$ 2,073	\$ 15,405	\$ -
Contracts	-	180,293	-	-	180,293	-
Notes	97,917	590,464	682,849	-	1,371,230	-
Other	-	-	-	-	-	2,451
Total Other Receivables	<u>\$ 99,951</u>	<u>\$ 770,757</u>	<u>\$694,147</u>	<u>\$ 2,073</u>	<u>\$ 1,566,928</u>	<u>\$ 2,451</u>
Business-type Activities - Enterprise Funds						
	Electric	Water	Chaska	Turbine	Nonmajor	Total
	Fund	Fund	Community	Generator	Enterprise	
	Fund	Fund	Center	Generator	Funds	Total
Other Receivables:						
Interest	<u>\$ 6,880</u>	<u>\$ 15,587</u>	<u>\$ 1,014</u>	<u>\$ 44,742</u>	<u>\$ 1,378</u>	<u>\$ 69,601</u>

\$1,259,679 of the \$1,371,230 Notes Receivable balance is not expected to be received within one year. \$174,951 of the \$180,293 Contracts receivable balance is not expected to be received within one year. In the governmental funds, these amounts have been deferred based on the availability criteria.

Notes To The Financial Statements

City of Chaska, Minnesota

December, 31 2003

Note 5 Capital Assets

Capital Asset activity for Governmental activities for the year ended December 31, 2003 is as follows:

	(1) Balance Jan. 1, 2003	(2) Adjustments	Restated Balance Jan 1, 2003	Increases	Decreases	Balance Dec. 31, 2003
Governmental activities:						
Capital assets, not being depreciated:						
Land	\$ 4,183,328	\$ -	\$ 4,183,328	\$ 15,000	\$ (187,304)	\$ 4,011,024
Works of Art/Treasures	-	-	-	25,425	-	25,425
Construction In Progress	-	8,393,498	8,393,498	9,283,487	(6,205,237)	11,471,748
Total capital assets, not being depreciated	4,183,328	8,393,498	12,576,826	9,323,912	(6,392,541)	15,508,197
Capital assets, being depreciated:						
Buildings And Structures	9,873,580	-	9,873,580	-	-	9,873,580
Improvements Other Than Buildings And Structures	5,892,150	-	5,892,150	69,346	-	5,961,497
Infrastructure	-	-	-	6,701,574	-	6,701,574
Furniture And Equipment	6,284,884	-	6,284,884	914,006	(379,688)	6,819,201
Total capital assets being depreciated	22,050,614	-	22,050,614	7,684,926	(379,688)	29,355,852
Less accumulated depreciation for:						
Buildings And Structures	-	(2,571,694)	(2,571,694)	(331,592)	-	(2,903,286)
Improvements Other Than Buildings And Structures	-	(2,352,423)	(2,352,423)	(269,041)	-	(2,621,464)
Infrastructure	-	-	-	(239,140)	-	(239,140)
Furniture And Equipment:	-	(3,872,456)	(3,872,456)	(594,112)	366,551	(4,100,017)
Total accumulated depreciation	-	(8,796,573)	(8,796,573)	(1,433,885)	366,551	(9,863,907)
Total capital assets, being depreciated, net	22,050,614	(8,796,573)	13,254,041	6,251,041	(13,137)	19,491,945
Governmental activities capital assets, net	\$ 26,233,942	\$ (403,075)	\$ 25,830,867	\$ 15,574,953	\$ (6,405,678)	\$ 35,000,142

(1) Ties to amount reported in December 31, 2002 financial report.

(2) Adjustments relate to infrastructure Construction in Progress that had not been captured prior to January 1, 2003. These prior year costs, as well as accumulated depreciation on beginning capital assets balances, are included in the restated January 1, 2003 net governmental activities capital assets balance due to implementation of GASB #34.

Notes To The Financial Statements

City of Chaska, Minnesota

December, 31 2003

Capital Asset activity for Business-Type activities for the year ended December 31, 2003 is as follows:

	Balance Jan. 1, 2003	Increases	Decreases	Balance Dec. 31, 2003
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 364,805	\$ -	\$ -	\$ 364,805
Construction in Progress	502,360	5,627,079	-	6,129,439
Total capital assets, not being depreciated:	867,165	5,627,079	-	6,494,244
Capital assets, being depreciated:				
Buildings And Structures	31,195,039	169,269	-	31,364,308
Improvements Other Than Buildings And Structures	91,838	109,131	-	200,969
Furniture and Equipment	3,657,457	258,360	(111,190)	3,804,627
Infrastructure:				
Line, Poles, Transformers, and Other	9,697,838	865,497	-	10,563,335
Pumps, Mains, and Other	5,222,530	76,454	-	5,298,984
Total Capital assets, being depreciated	49,864,702	1,478,711	(111,190)	51,232,223
Less accumulated depreciation for:				
Buildings And Structures	(9,664,639)	(1,194,571)	-	(10,859,210)
Improvements Other Than Buildings And Structures	(40,374)	(5,752)	-	(46,126)
Furniture and Equipment	(1,977,554)	(381,055)	109,381	(2,249,228)
Infrastructure:				
Line, Poles, Transformers, and Other	(3,949,567)	(326,108)	-	(4,275,675)
Pumps, Mains, and Other	(3,406,248)	(185,654)	-	(3,591,902)
Total accumulated depreciation	(19,038,382)	(2,093,140)	109,381	(21,022,141)
Total capital assets, being depreciated, net	30,826,320	(614,429)	(1,809)	30,210,082
Business-type activities capital assets, net	\$ 31,693,485	\$ 5,012,650	\$ (1,809)	\$ 36,704,326

City of Chaska, Minnesota

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

Governmental Activities:

General Government	\$313,509
Economic Development	12,595
Public Safety	371,051
Public Works	621,890
Parks, Recreation & Arts	<u>114,840</u>

Total Depreciation Expense –
Governmental Activities \$1,433,885

Business-Type Activities:

Electric	\$603,677
Water	199,308
Sewer	117,881
Community Center	648,416
Chaska Par 30	11,334
Chaska Town Course	436,218
Internet Service Provider	<u>76,306</u>

Total Depreciation Expenses –
Business-Type Activities \$2,093,140

Note 6 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

Notes To The Financial Statements

City of Chaska, Minnesota

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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 thru April 1, 2031 are as follows:

Year Ending December 31,	Lease Receivable	
	Principal	Interest
2004	\$ 266,970	\$ 2,374,098
2005	290,738	2,350,330
2006	316,624	2,324,444
2007	344,812	2,296,256
2008	375,510	2,265,558
2009-2013	2,442,675	10,762,665
2014-2018	3,741,671	9,463,669
2019-2023	5,731,453	7,473,887
2024-2028	8,779,384	4,425,956
2029-2031	5,568,257	594,297
Total	\$ 27,858,094	\$ 44,331,160

Notes To The Financial Statements

City of Chaska, Minnesota

December, 31 2003

Note 7 Long-Term Debt

Long-term liability for the year ended December 31, 2003, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities:					
Bonds payable:					
General Obligation bonds:					
Equipment Certificates	\$ 1,115,000	\$ -	\$ (355,000)	\$ 760,000	\$ 370,000
Tax Increment Bonds	40,354,450	6,220,000	(5,381,288)	41,193,162	8,523,162
Accreted Value	3,873,559	634,124	(938,712)	3,568,971	-
Improvement Bonds	9,725,000	-	(1,450,000)	8,275,000	1,360,000
Revenue Bonds	14,590,000	-	(1,320,000)	13,270,000	585,000
Plus: Premium	-	244,170	(61,041)	183,129	-
Total bonds payable	<u>69,658,009</u>	<u>7,098,294</u>	<u>(9,506,041)</u>	<u>67,250,262</u>	<u>10,838,162</u>
Compensated absences	<u>365,109</u>	<u>349,291</u>	<u>(354,148)</u>	<u>360,252</u>	<u>274,233</u>
Governmental Activity					
Long-term liabilities	<u>\$ 70,023,118</u>	<u>\$ 7,447,585</u>	<u>\$ (9,860,189)</u>	<u>\$ 67,610,514</u>	<u>\$ 11,112,395</u>
Business-type activities:					
Bonds payable:					
General Obligation Revenue Bonds	\$ 150,000	\$ 15,150,000	\$ (35,000)	\$ 15,265,000	\$ 280,000
Revenue Bonds	34,075,000	-	(530,000)	33,545,000	555,000
Plus: Premium	-	52,390	-	52,390	-
Total bonds payable	<u>34,225,000</u>	<u>15,202,390</u>	<u>(565,000)</u>	<u>48,862,390</u>	<u>835,000</u>
Compensated absences	<u>162,037</u>	<u>196,908</u>	<u>(166,365)</u>	<u>192,580</u>	<u>138,187</u>
Business-type activity					
Long-term liabilities	<u>\$ 34,387,037</u>	<u>\$ 15,399,298</u>	<u>\$ (731,365)</u>	<u>\$ 49,054,970</u>	<u>\$ 973,187</u>

For the governmental activities, compensated absences 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.

Notes To The Financial Statements

City of Chaska, Minnesota

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Outstanding General Obligation Equipment Certificates consist of the following issues:

\$760,000 G.O. Equipment Certificates of 2001 dated June 1, 2001; principal due in varying annual installments of \$175,000 to \$205,000 through December 1, 2005

\$530,000 G.O. Equipment Certificates dated September 1, 2002; principal due in varying annual installments of \$170,000 to \$180,000 through December 1, 2005

<u>Purpose</u>	<u>Interest Rates</u>	<u>Outstanding Amount</u>
Governmental activities	1.5 - 3.9%	\$760,000

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>
2004	\$ 370,000	\$ 23,155
2005	390,000	12,343
Total	<u>\$ 760,000</u>	<u>\$ 35,498</u>

Outstanding General Obligation Tax Increment Bonds consist of the following issues:

\$14,070,834 G.O. Tax Increment Capital Appreciation Bonds of 1995 Series A dated April 17, 1995; principal due in varying annual installments of \$623,277 to \$2,488,342; cross-over refunding date of December 1, 2004

\$4,510,000 G.O. Tax Increment Bonds dated March 1, 1998; principal due in varying annual installments of \$275,000 to \$800,000 through December 1, 2010

\$12,120,000 G.O. Tax Increment Bonds of 1999 dated March 1, 1999; principal due in varying annual installments of \$620,000 to \$3,000,000 through December 1, 2010

\$670,000 G.O. Tax Increment Bonds of 1999 dated March 1, 1999; principal due in varying annual installments of \$70,000 to \$125,000 through December 1, 2010

\$5,075,000 G.O. Tax Increment Refunding Bonds of 1999 dated May 1, 1999; principal due in varying annual installments of \$1,200,000 to \$2,575,000 through December 1, 2004

\$4,675,000 G.O. Tax Increment Bonds dated August 1, 2000; principal in varying installments of \$125,000 to \$1,000,000 through December 1, 2010

Notes To The Financial Statements

City of Chaska, Minnesota

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\$1,140,000 G.O. Taxable Tax Increment Bonds dated August 1, 2000; principal due in varying annual installments of \$100,000 to \$165,000 through December 1, 2010

\$2,220,000 G.O. Taxable Tax Increment Bonds dated October 1, 2001; principal due in varying annual installments of \$310,000 to \$600,000 through December 1, 2006

\$3,550,000 G.O. Tax Increment Cross-over Refunding Bonds dated February 1, 2002; principal due in varying annual installments of \$725,000 to \$1,400,000 through December 1, 2008

\$1,555,000 G.O. Taxable Tax Increment Refunding Bonds dated September 1, 2002; due in varying annual installments of \$150,000 to \$280,000 through December 1, 2010

\$6,220,000 G.O. Cross-over Refunding Tax Increment bonds dated May 1, 2003; due in varying annual installments of \$2,795,000 to \$3,425,000 through December 1, 2006

<u>Purpose</u>	<u>Interest Rates</u>	<u>Outstanding Amount</u>
Governmental activities	3.7 - 7.4%	\$ 30,887,133
Governmental activities - refunding	2.75 - 5.2%	<u>13,875,000</u>
		<u>\$ 44,762,133</u>

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

<u>Year Ending December 31</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2004	\$ 8,523,162	\$ 6,058,954
2005	4,890,000	1,356,365
2006	5,760,000	1,183,155
2007	5,710,000	971,783
2008	6,210,000	732,093
2009-2013	<u>10,100,000</u>	<u>713,342</u>
	41,193,162	<u>\$ 11,015,692</u>
Plus Accreted Value	<u>3,568,971</u>	
Total	<u>\$ 44,762,133</u>	

Outstanding General Obligation Improvement Bonds consist of the following issues:

\$7,565,000 G.O. Improvement Bonds dated June 1, 2001; principal due in varying annual installments of \$1,065,000 to \$500,000 through December 1, 2011

\$1,420,000 G.O. Improvement Refunding Bonds dated October 1, 2001; principal due in varying annual installments of \$100,000 to \$110,000 through December 1, 2007

Notes To The Financial Statements

City of Chaska, Minnesota

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\$455,000 G.O. Improvement Bonds dated September 1, 2002; principal due in varying annual installments of \$40,000 to \$75,000 through December 1, 2012

\$555,000 G.O. Taxable Improvement Bonds dated September 1, 2002; principal due in varying annual installments of \$50,000 to \$60,000 through December 1, 2012

<u>Purpose</u>	<u>Interest Rates</u>	<u>Outstanding Amount</u>
Governmental activities	1.5 - 4.9%	\$ 7,375,000
Governmental activities - refunding	2.5 - 3.6%	900,000
		<u>\$ 8,275,000</u>

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

<u>Year Ending December 31</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2004	\$ 1,360,000	\$ 330,475
2005	1,305,000	282,425
2006	1,305,000	233,868
2007	1,245,000	183,625
2008	1,145,000	133,345
2009-2013	1,915,000	177,855
Total	<u>\$ 8,275,000</u>	<u>\$ 1,341,593</u>

Outstanding General Obligation Revenue Bonds consist of the following issues:

\$1,130,000 G.O. Water Revenue Bonds of 1996 dated May 1, 1996; principal due in varying annual installments of \$40,000 to \$200,000 through December 1, 2006

\$15,150,000 G.O. Water Revenue Bonds dated May 1, 2003; principal due in varying annual installments of \$245,000 to \$1,160,000 through December 1, 2022

<u>Purpose</u>	<u>Original Amount</u>	<u>Interest Rates</u>	<u>Outstanding Amount</u>
Water Treatment Facilities - Water Fund	\$16,280,000	2.25 - 4.8%	\$15,265,000

Notes To The Financial Statements

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

Year Ending December 31	Business-type Activities	
	Principal	Interest
2004	\$ 280,000	\$ 574,728
2005	390,000	567,596
2006	595,000	557,821
2007	675,000	542,026
2008	690,000	525,152
2009-2013	3,760,000	2,284,000
2014-2018	4,520,000	1,504,475
2019-2023	4,355,000	485,110
Total	<u>\$ 15,265,000</u>	<u>\$ 7,040,908</u>

Revenue Bonds:

Outstanding Revenue Bonds consist of the following issues:

\$4,175,000 Public Facilities Lease Revenue Bonds of 1995 dated May 1, 1995; principal due in varying annual installments of \$105,000 to \$375,000 through December 1, 2015

\$890,000 Lease Revenue Bonds dated April 1, 1997; principal due in varying annual installments of \$75,000 to \$140,000 through December 1, 2007

\$295,000 Lease Revenue Bonds dated May 1, 1998; principal due in varying annual installments of \$5,000 to \$225,000 through December 1, 2008

\$9,150,000 EDA School Facilities Lease Revenue Refunding Bonds dated June 1, 1999; principal due in varying annual installments of \$25,000 to \$1,440,000

\$34,580,000 Electric Revenue Bonds dated July 1, 2000; principal due in varying annual installments of \$505,000 to \$2,390,000 through October 1, 2030

\$1,650,000 Public Facilities Lease Revenue Bond dated October 1, 2001; principal due in varying annual installments of \$25,000 to \$360,000 through December 1, 2014

\$325,000 Public Facilities Lease Revenue Bond dated March 1, 2002; principal due in varying annual installments of \$105,000 to \$110,000 through December 1, 2005

Purpose	Original	Interest Rates	Outstanding
	Amount		Amount
Governmental activities	\$ 6,150,000	2.75 - 6.0%	\$ 4,955,000
Governmental activities - refunding	9,150,000	5.13 - 5.35%	8,315,000
Turbine Generator Fund	<u>34,580,000</u>	4.5% - 6.1%	<u>33,545,000</u>
			<u>\$ 46,815,000</u>

Notes To The Financial Statements

City of Chaska, Minnesota

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Revenue bond debt service requirements to maturity are as follows:

Year Ending December 31	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2004	\$ 585,000	\$ 611,320	\$ 555,000	\$ 1,978,029
2005	615,000	674,051	585,000	1,950,279
2006	630,000	563,715	610,000	1,921,029
2007	655,000	613,020	645,000	1,887,479
2008	790,000	580,005	680,000	1,851,681
2009-2013	4,540,000	2,247,246	4,025,000	8,643,050
2014-2018	4,015,000	975,453	5,285,000	7,378,386
2019-2023	1,440,000	79,200	7,070,000	5,601,700
2024-2028	-	-	9,455,000	3,206,730
2029-2033	-	-	4,635,000	428,220
Total	<u>\$ 13,270,000</u>	<u>\$ 6,344,010</u>	<u>\$ 33,545,000</u>	<u>\$ 34,846,583</u>

2003 Issues

On May 1, 2003 the City issued \$6,220,000 General Obligation Tax Increment Crossover Refunding Bonds with a net effective interest rate of 1.934% (interest rate on the bonds is 3%) to provide moneys to cross refund the outstanding General Obligation Capital Appreciation Bonds of 1995. The purpose of the refunding is to enable the City to achieve a debt service savings of \$254,550, a present value savings of \$240,183. The maturity date of the new bonds is December 1, 2006. The crossover date of the refunding is December 1, 2004 and as a result, the liability for both of these bonds is reported on the government-wide financial statements as of December 31, 2003.

On May 1, 2003 the City issued \$15,150,000 General Obligation Water Revenue Bonds to finance the City's water system including an expansion of its existing water treatment plant. The interest rates on the bonds range from 2.25 to 4.40 percent with a maturity date of December 1, 2022.

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, 2003, the City has one outstanding note payable which is for Entegris, Inc., (formerly Flouroware, Inc.). This note was issued in 1997 at 8.5% interest with payments due through 2010. The outstanding balance as of December 31, 2003 is \$1,763,715. This amount has not been included in long-term debt because of the nature of these 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) 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 bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the 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, 2003, there were seven series of IRBs outstanding. The aggregate principal amount payable for the one series issued after July 1, 1995, was \$1,830,000. The aggregate principal amount payable for the six series issued prior to July 1, 1995, could not be determined; however, their original issue amounts totaled \$17,502,500.

As of December 31, 2003, there were twelve series of HRBs outstanding. The aggregate principal amounts payable for the series issued after July 1, 1995 was \$15,205,691. 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 \$10,595,000.

Notes To The Financial Statements

City of Chaska, Minnesota

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Note 8 Interfund Receivables, Payables and Transfers

The composition of interfund balances as of December 31, 2003 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	District #4 Revolving	\$ 9,697,851	1
Other Nonmajor Governmental	Other Nonmajor Governmental	3,057,370	1
Electric	Other Nonmajor Governmental	1,716,204	2
Electric	Water	506,491	1
Electric	Chaska Town Course	223,391	1
Electric	Other Nonmajor Business-Type	274,018	1
Fiduciary	Fiduciary	<u>2,086</u>	1
Total		<u><u>\$ 15,477,411</u></u>	

Interfund receivables/payables:

Advances from/to other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	<u>Purpose</u>
Electric Fund	Other Nonmajor Governmental	\$ 100,000	3
Other Nonmajor Governmental	District #4 Revolving	644,460	4
Other Nonmajor Governmental	Other Nonmajor Governmental	1,085,454	4
Turbine	Electric Fund	<u>1,371,292</u>	5
Total		<u><u>\$ 3,201,206</u></u>	

Interfund transfers:

	Transfers In:						<u>Total</u>
	<u>Governmental Activities</u>			<u>Business-Type Activities</u>			
	General Fund	X-Over Adv Ref Bond	Other Nonmajor	Water	Community Center		
Transfers Out:							
General Fund	\$ -	\$ -	\$ 52,275	\$ -	\$ -	\$ 52,275	
District #4 Revolving	-	2,717,763	3,523,100	-	-	6,240,863	
Electric	-	-	426,731	4,787	100,000	531,518	
Water	-	-	53,400	-	-	53,400	
Community Center	-	-	261,256	-	-	261,256	
Turbine	105,000	-	450,000	-	-	555,000	
Other Nonmajor Governmental	14,046	-	1,979,311	24,840	-	2,018,197	
Other Nonmajor Business-Type	-	-	468,400	-	-	468,400	
	<u>\$ 119,046</u>	<u>\$ 2,717,763</u>	<u>\$ 7,214,473</u>	<u>\$ 29,627</u>	<u>\$ 100,000</u>	<u>\$ 10,180,909</u>	

Explanation of Purpose for Receivables/Payables & Advances to/from other funds:

- (1) The City's interfund receivables and payables eliminates what would have been a negative cash balance in the fund. The City settled the interfund payables in early 2004.
- (2) TIF District #15 (Downtown Redevelopment) has financed first year project costs with a loan from the Electric Fund. The loan, plus interest, will be paid in full when bonds are sold to finance the project in 2004.
- (3) The Electric Fund made a loan to Public Facilities Improvement Fund in 1994 for Facility Construction. \$75,000 of the amount outstanding amount will be not be paid within the year.
- (4) This receivable/payable represents a loan between the City of Chaska and Chaska EDA in order to redevelop Tax Increment Districts. Repayment of the loan principal and interest has and will be made from tax increment generated from the Districts. Of this amount, \$1,382,288 will not be paid within the next year.
- (5) A long-term interfund loan made between the Electric Fund and the Turbine Fund was made in 2001 to finance a substation. Of the \$1,371,292 owed at 12/31/03, \$1,349,899 represents the portion that will not be paid within the year.

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.

Notes To The Financial Statements

City of Chaska, Minnesota

December 31, 2003

Note 9 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:

	GO TI						
	<u>General</u>	<u>X-Over</u>	<u>Adv Ref</u>	<u>Dist #4</u>	<u>Nonmajor</u>	<u>Nonmajor</u>	<u>Nonmajor</u>
		<u>Bond of 1999</u>	<u>Revolving</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	
Fund Balances:							
Reserved for Community Center	\$ -	\$ -	\$ -	\$ 35,095	\$ -	\$ -	
Reserved for Debt Requirements	-	31,949	-	-	3,872,173	-	
Reserved for Refunding Bonds	-	-	-	-	6,362,818	-	
Reserved for Advance to Other Funds	-	-	-	-	-	1,382,288	
Reserved for Construction	-	-	-	-	-	24,934,587	
Reserved for Mt. Pleasant Perpetual Care	-	-	-	88,982	-	-	
Reserved for Grace Gibson Foundation	-	-	-	360	-	-	
Reserved for Redevelopment	-	-	-	-	-	1,185,688	
Total Reserved Fund Balances:	-	31,949	-	124,437	10,234,991	27,502,563	
Unreserved Fund Balances:							
Designated for Capital Outlay Acquisition	-	-	-	1,424,125	-	-	
Designated for Compensated Balances	360,252	-	-	-	-	-	
Designated for Working Capital	2,582,000	-	-	-	-	-	
Total Designated Fund Balances:	2,942,252	-	-	1,424,125	-	-	
Undesignated	6,649	-	(10,331,645)	36,259	-	(4,893,641)	
Total Unreserved Fund Balances:	2,948,901	-	(10,331,645)	1,460,384	-	(4,893,641)	
Total Fund Balances	\$2,948,901	\$ 31,949	\$ (10,331,645)	\$ 1,584,821	\$10,234,991	\$ 22,608,922	

Note 10 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 11 Committed Contracts

At December 31, 2003, the City had commitments for ten uncompleted construction contracts with a remaining balance of \$7,714,058.

Note 12 Right-of-Way

At December 31, 2003 the City had acquired in name eighteen properties for a total cost of \$6,434,698 for State Highway 312 right-of-way under the Metropolitan Council Right-of-Way Acquisition Loan Fund (RALF).

Under the RALF program, the City is obligated to return to the Metropolitan Council the proceeds of all RALF properties sold to the State of Minnesota. These RALF obligations and related properties have not been recorded since they do not represent true resources or liabilities of the City.

Note 13 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 14 Jointly Governed Organization

The City, in conjunction with seven other municipalities that provide distribution of electric services, created the Minnesota Municipal Power Agency (MMPA). MMPA began operations on July 1, 1995. MMPA purchases power that is purchased and distributed by the eight 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, 2003 were \$ 12,225,033. MMPA issues an annual financial report which may be obtained by writing MMPA, P.O. Box 339, 2015 First Avenue, Anoka, MN 55303, or by calling (763) 323-3337.

Note 15 Subsequent Events

On March 1st, 2004 the City issued General Obligation Capital Improvement Plan Refunding Bonds in the aggregate principal amount of \$2,780,000, with a net effective interest rate of 3.127% (1.10% to 3.70%) to refund the remaining outstanding maturities of the City Economic Development Authority's \$4,175,000 Public Facilities Lease Revenue Bonds, Series 1995 and to finance the acquisition of the fire department building and the driver and vehicle services building. The maturity date is December 1, 2015. These bonds are backed by the full faith and credit of the City.

On June 2nd, 2004 the City will issue \$6,650,000 in General Obligation Improvement Bonds with a net effective interest rate of 3.4998% (1.75% - 4.50%). Proceeds of the Improvements Bonds, together with funds from the Metropolitan Council and the City, will be used to finance street improvements projects in the City, including Bavaria Road and First Street. The maturity date is December 1, 2020. These bonds are backed by the full faith and credit of the City.

On June 2nd, 2004 the City will issue \$2,470,000 in General Obligation Tax Increment Refunding Bonds with a net effective interest rate of 3.7522% (3.60% - 3.75%). Proceeds of the Refunding Bonds will be used to refund, in advance of their maturity, the Series 1998 Bonds, currently outstanding in the aggregate principal amount of \$3,050,000. This refunding is being undertaken to allow the City to take advantage of lower interest rates and to restructure its annual debt service requirements. The maturity date is December 1, 2013. These bonds are backed by the full faith and credit of the City.

On June 2nd, 2004 the City will issue \$890,000 in Taxable General Obligation Tax Increment Bonds with a net effective interest rate of 5.9338% (4.00% - 6.20%). Proceeds of the Taxable Bonds, will be used to finance public improvements to Block 53 in the City's Tax Increment District No. 14. The Taxable Bonds are being used as taxable obligations under state and federal tax laws as a result of contractual commitments by private entities regarding minimum assessed values of properties benefiting from the proceeds of the Taxable Bonds. The maturity date is December 1, 2021. These bonds are backed by the full faith and credit of the City.

On June 2nd, 2004 the City will issue \$815,000 in General Obligation Equipment Certificates with a net effective interest rate of 2.7121% (2.10%-3.00%). Proceeds of the Certificates will be used to finance the acquisition of various items of capital equipment for City departments. The maturity date is December 1, 2008. These bonds are backed by the full faith and credit of the City.

Note 16 Defined Benefit Pension Plans - Statewide

1. 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 Public Employees Retirement Fund (PERF) 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 Statute*, Chapters 353 and 356.

PERF 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 PERF'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 PERF 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 is 55 for PEPFF 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 PERF and PEPFF. That report may be obtained from their website at mnpera.org, by writing to PERA, 60 Empire Drive, Suite 200, St. Paul, Minnesota, 55103 or by calling (651) 296-7460 or 1-800-652-9026.

2. 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. PERF Basic Plan members and Coordinated Plan members are required to contribute 9.10% and 5.10%, respectively, of their annual covered salary. PEPFF members are required to contribute 6.20% of their annual covered salary. The City of Chaska is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan PERF members, 5.53% for Coordinated Plan PERF members, and 9.3% 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>PERF</u>	<u>PEPFF</u>
December 31, 2001	\$ 197,018	\$ 90,173
December 31, 2002	225,369	105,420
December 31, 2003	241,193	129,104

Note 17 Defined Contribution Plan – Statewide

Two 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 the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible

City of Chaska, Minnesota

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elected official who decides to participate contributes 5 percent of salary, which is matched by the elected official's employer. For salaried employees, employer contributions are a fixed percentage of salary. 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 four-tenths of one percent of the assets in each members account annually.

Amount		Percentage of Covered Payroll		Required
Employees	Employer	Employees	Employer	Rates
\$ 414	\$ 414	5.00%	5.00%	5.00%

Note 18 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 CVFDRAPP. 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 2002, the City of Chaska's annual pension cost of \$202,230 was equal to the City's required and actual contribution. The annual required contribution for the year was determined as part of the December 31, 2000 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, 2002 was 14 years (December 31, 2016).

Notes To The Financial Statements

City of Chaska, Minnesota

December 31, 2003

Total annual pension costs for the CFDRAPP for the year ended December 31, 2002 were as follows:

<u>Contribution</u>	<u>Amount</u>
State of Minnesota	\$ 72,232
City of Chaska:	
Tax Levy	64,998
Additional	65,000
Total City Contribution	<u>129,998</u>
Total Annual Pension Cost	<u>\$ 202,230</u>

D) Three-Year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contribution</u>	<u>Net Pension Obligation</u>
12/31/2000	165,225	100.0%	-
12/31/2001	197,269	100.0%	-
12/31/2002	202,230	100.0%	-

E) Required Supplementary Information, Schedule of Funding Progress

<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>
01/01/00 (1)	2,561,022	3,580,316	1,019,294	71.5%	1.8000	21.60
12/31/00	2,610,018	3,812,238	1,202,220	68.5%	1.8000	21.60
12/31/02	2,358,094	4,017,005	1,658,911	58.7%	1.8000	21.60

Notes: (1) Changes in plan benefit provisions and revised economic assumptions.

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