

**CITY OF WACONIA, MINNESOTA**

**ANNUAL FINANCIAL REPORT**

December 31, 2011



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**CITY OF WACONIA, MINNESOTA**  
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## **INTRODUCTORY SECTION**

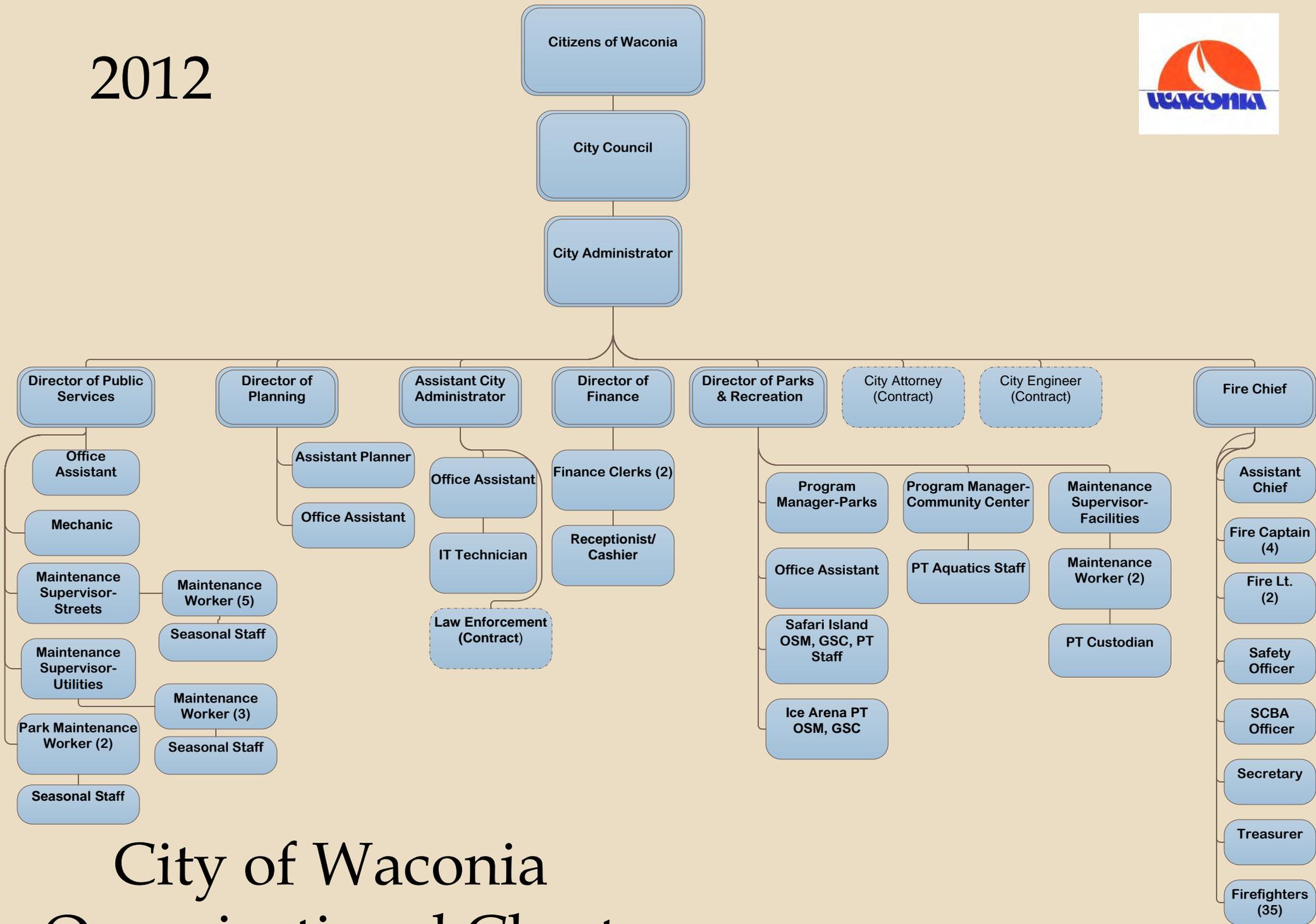
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**CITY OF WACONIA, MINNESOTA**  
**ELECTED OFFICIALS AND ADMINISTRATION**  
December 31, 2011

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| <u>Elected Officials</u> | <u>Position</u>        | <u>Term Expires</u> |
|--------------------------|------------------------|---------------------|
| James Nash               | Mayor                  | December 31, 2012   |
| James Sanborn            | Councilmember, Ward I  | December 31, 2014   |
| Marc Carrier             | Councilmember, Ward I  | December 31, 2012   |
| Larry Millender          | Councilmember, Ward II | December 31, 2012   |
| Kent Bloudek             | Councilmember, Ward II | December 31, 2014   |
| <br><u>Appointed</u>     |                        |                     |
| Susan Arntz              |                        | City Administrator  |
| Nicole Lueck             |                        | Finance Director    |
| Mike Melchert            |                        | City Attorney       |
| Bolton & Menk, Inc.      |                        | City Engineer       |

2012



# City of Waconia Organizational Chart

## **FINANCIAL SECTION**

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## INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and  
Members of the City Council  
City of Waconia, Minnesota

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Waconia, Minnesota, as of and for the year ended December 31, 2011 which collectively comprise the City of Waconia, Minnesota's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Waconia, Minnesota's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year partial comparative information has been derived from the City of Waconia, Minnesota's 2010 financial statements and, in our report dated June 15, 2011; we expressed unqualified opinions on the respective financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Waconia, Minnesota, as of December 31, 2011, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 14 to the financial statements, the City of Waconia, Minnesota adopted the provisions of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, for the year ended December 31, 2011.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 30, 2012 on our consideration of the City of Waconia, Minnesota's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide

an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Waconia, Minnesota's basic financial statements as a whole. The introductory section and the combining fund statements are presented for purposes of additional analysis and are not a required part of the financial statements. The combining fund statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.



HLB TAUTGES REDPATH, LTD.

May 30, 2012

## Management's Discussion and Analysis

As management of the City of Waconia, we offer readers of the City of Waconia's financial statements this narrative overview and analysis of the financial activities of the City of Waconia for the fiscal year ended December 31, 2011. We encourage readers to consider the information presented here.

### Financial Highlights

- The assets of the City of Waconia exceeded its liabilities at the close of the most recent fiscal year by \$89,448,685 (*net assets*). Of this amount, \$10,075,345 (*unrestricted net assets*) may be used to meet the government's ongoing obligation to citizens and creditors.
- The government's total net assets decreased by \$910,232 for 2011 primarily due to unpaid taxes and assessments, combined with a down-turn in revenues and other negative affects relating to the economic recession.
- As of the close of the current fiscal year, the City of Waconia's governmental funds reported combined ending fund balances of \$21,780,334 an increase of \$11,454,578 in comparison with the prior year decrease of \$645,648. A major source of the increase is a cross over refunding debt issuance completed in 2011. Funds are being held in escrow to pay off the old debt service on February 1, 2012.
- At the end of the current fiscal year, the unassigned fund balance for the general fund was \$1,133,609 or 33% percent of total general fund expenditures. The primary reasons for the critically low fund balance at the end of the year are due to the unanticipated reductions in property tax revenue (\$24,838), lower than anticipated building permit revenues (\$75,616), and lower than anticipated investment income (\$106,814).
- The City of Waconia's total long-term debt increased from \$44,618,617 to \$53,780,485 by the end of 2011. The City refunded a bond issue in 2011 and new debt was issued for the purchase of a fire truck. Total debt principal payments made in 2011 were \$3,815,780. Larger debt principal payments continue into 2012.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Waconia's basic financial statements. The City of Waconia's basic financial statements comprise of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The government-wide financial statements are designed to provide readers with a broad overview of the City of Waconia's finances in a manner similar to a private-sector business.

The statement of net assets presents information on all of the City of Waconia's assets and liabilities with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Waconia is improving or deteriorating.

The statement of activities presents information showing how the government's new assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the

underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in the statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Waconia that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges for services (*business-type activities*). The governmental activities of the City of Waconia include general government, public safety, public works, culture and recreation and economic development. The business-type activities of the City of Waconia include water, sewer, storm water, streetlights, and the ice arena.

**Fund financial statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Waconia, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Waconia can be divided into two categories: governmental funds and proprietary funds.

**Governmental funds.** Governmental funds are used to account for essentially the same function reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of Waconia maintains 16 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General Fund, the Safari Island fund, the Permanent Improvement Revolving Capital Project fund, and the Permanent Improvement Revolving Debt fund. All of which are considered to be major funds. Data from the other 12 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report. The basic governmental fund financial statements can be found on pages 24 through 25 of this report.

The City of Waconia adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget. Budgetary information can be found on pages 66 through 69 of this report.

**Proprietary funds.** The City of Waconia maintains one type of proprietary fund. Enterprise funds are used to report the same function presented as business-type activities in the government-wide financial statements. The City of Waconia uses enterprise funds to account for its water, sewer, storm water, streetlights, and the ice arena.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water, sewer, storm water, streetlight, and ice arena funds which are considered to be major funds of the City of Waconia.

The basic proprietary fund financial statements can be found on pages 27 through 29 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 31 through 63 of this report.

**Other information.** The combining statements referred to earlier in this report, in connection with nonmajor funds, are presented immediately following the notes to the financial statements. Combining and individual fund statements and schedules can be found on pages 73 through 79 of this report for the non-major governmental.

### **Government-wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Waconia, assets exceeded liabilities by \$89,448,685 at the close of the most recent fiscal year.

By far the largest portion of the City of Waconia's net assets (75 percent) reflects its investments in capital assets (e.g., land, buildings, machinery, and equipment); less any related debt used to acquire those assets that is still outstanding. The City of Waconia uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City of Waconia's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

A portion of the City of Waconia's net assets (14.1 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets of \$10,075,345 or 11.3% may be used to meet the government's ongoing obligation to citizens and creditors.

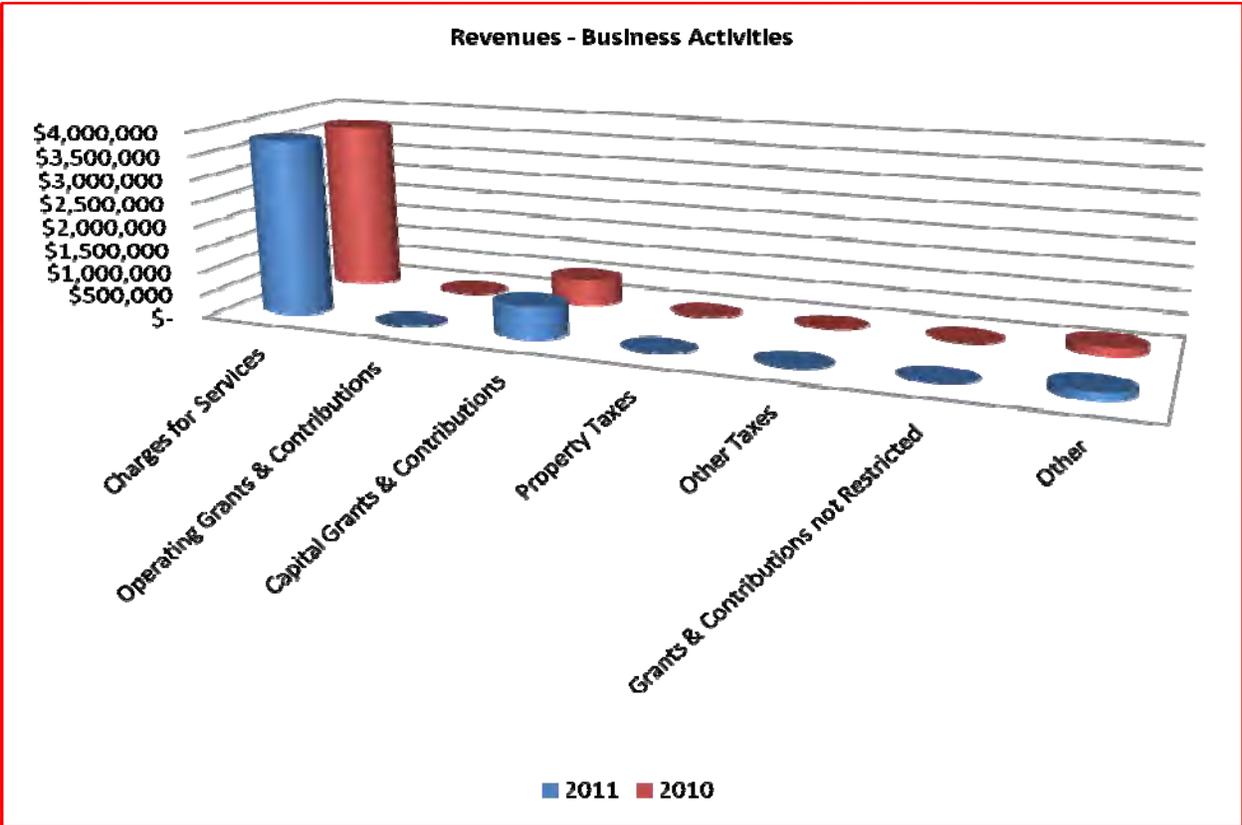
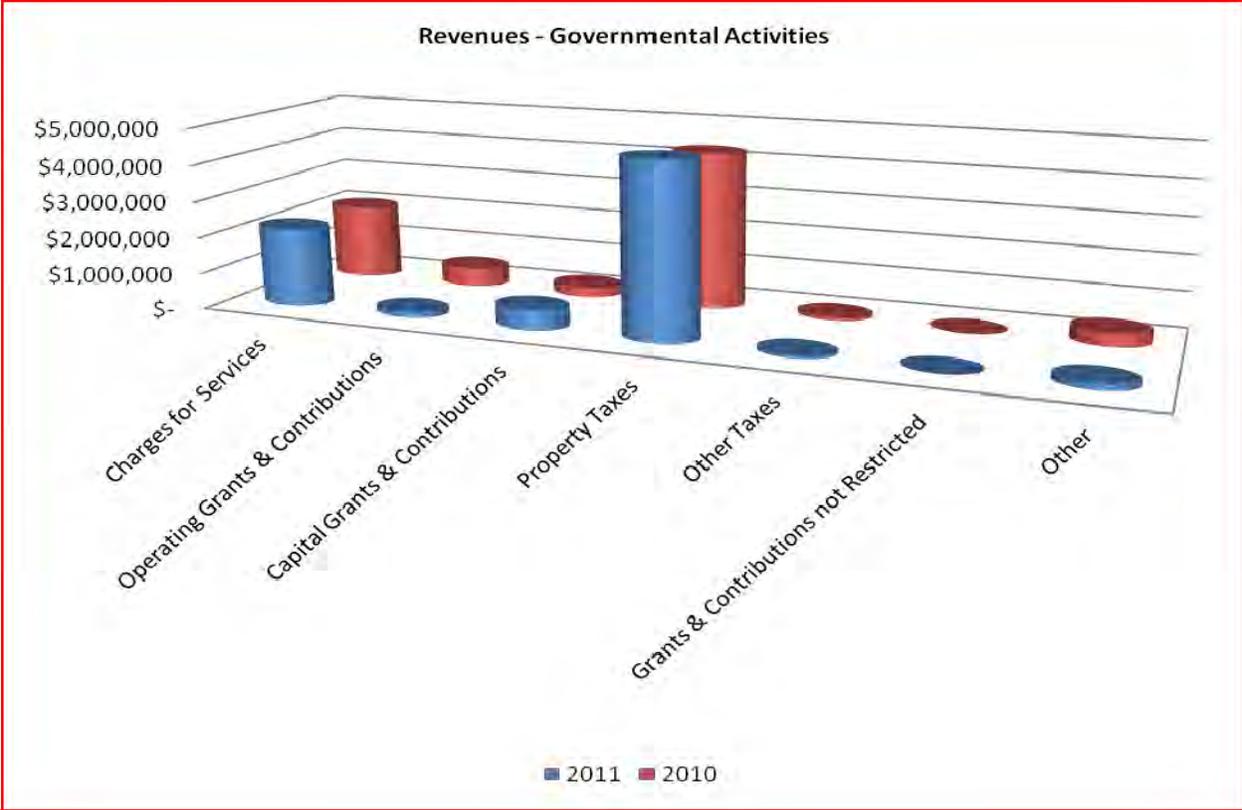
At the end of the current fiscal year, the City of Waconia is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

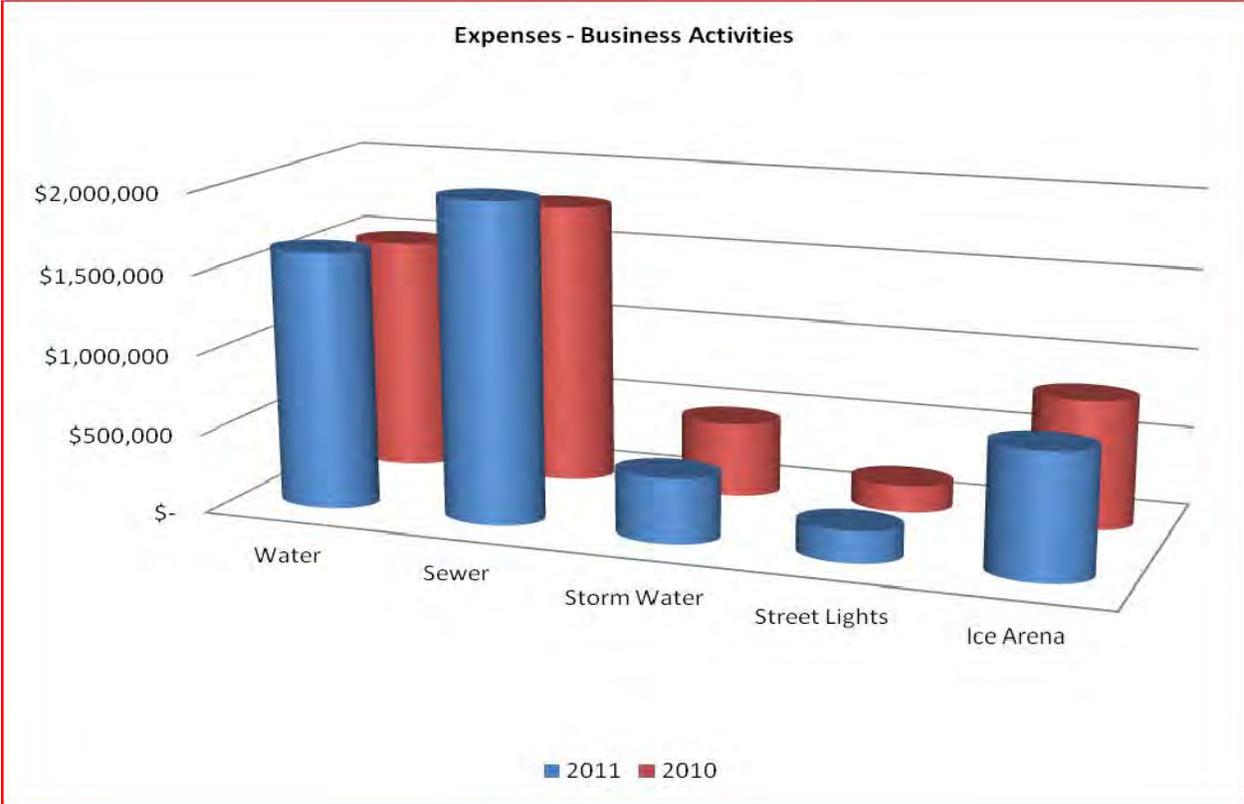
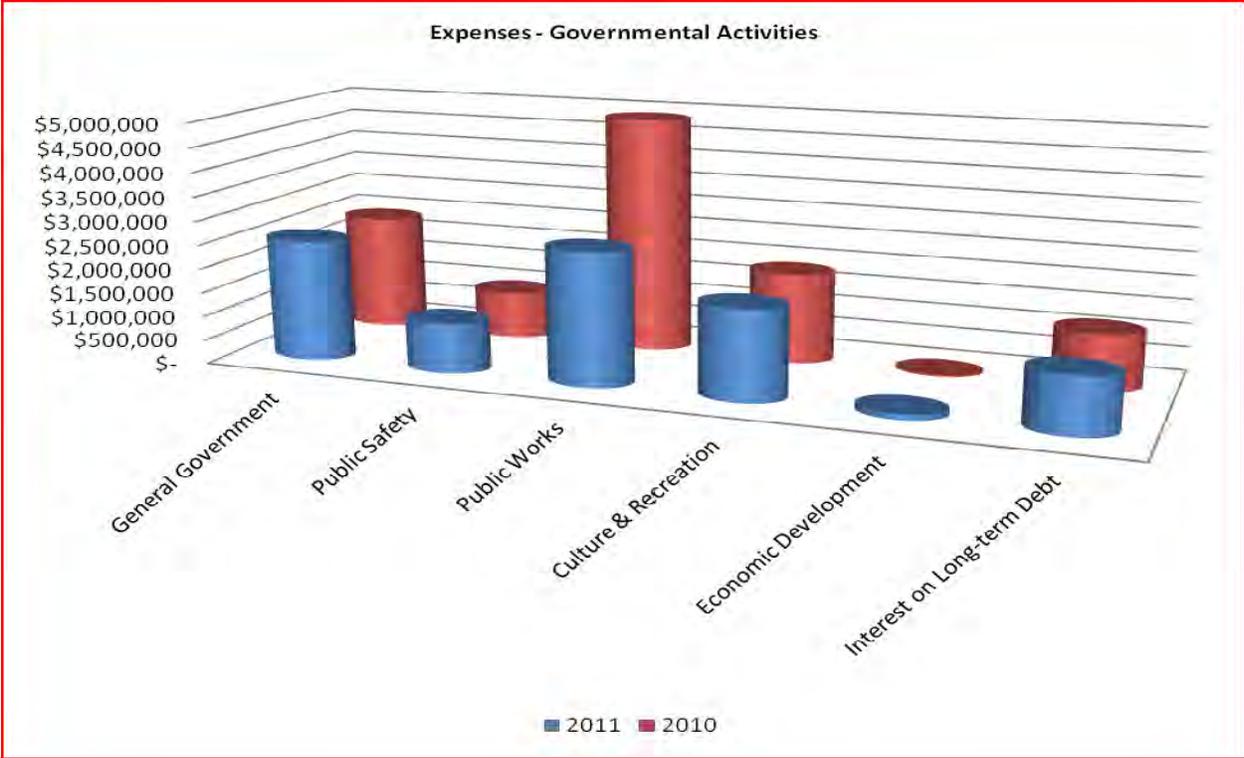
| Net Assets  | Governmental Activities |                      | Business-Type Activities |                      | Totals                |                       |
|---|-------------------------|----------------------|--------------------------|----------------------|-----------------------|-----------------------|
|   | 2011                    | 2010                 | 2011                     | 2010                 | 2011                  | 2010                  |
| Current & Other Assets                                    | \$ 29,631,676           | \$ 17,307,359        | \$ 6,003,907             | \$ 6,013,258         | \$ 35,635,583         | \$ 23,320,617         |
| Capital Assets  | \$ 70,537,532           | \$ 73,005,956        | \$ 39,149,687            | \$ 39,957,622        | \$ 109,687,219        | \$ 112,963,578        |
| <b>Total Assets</b>                                       | <b>\$ 100,169,208</b>   | <b>\$ 90,313,315</b> | <b>\$ 45,153,594</b>     | <b>\$ 45,970,880</b> | <b>\$ 145,322,802</b> | <b>\$ 136,284,195</b> |
| Long-Term Liabilities                                     | \$ 22,325,643           | \$ 25,817,660        | \$ 17,124,149            | \$ 18,828,837        | \$ 39,449,792         | \$ 44,646,497         |
| Other Liabilities   | \$ 15,087,848           | \$ 907,586           | \$ 1,336,477             | \$ 371,195           | \$ 16,424,325         | \$ 1,278,781          |
| <b>Total Liabilities</b>                                  | <b>\$ 37,413,491</b>    | <b>\$ 26,725,246</b> | <b>\$ 18,460,626</b>     | <b>\$ 19,200,032</b> | <b>\$ 55,874,117</b>  | <b>\$ 45,925,278</b>  |
| Net Assets Invested in Capital Assets Net of Related Debt | \$ 45,586,192           | \$ 47,399,823        | \$ 21,219,555            | \$ 21,217,178        | \$ 66,805,747         | \$ 68,617,001         |
| Net Assets Restricted                                     | \$ 12,567,593           | \$ 9,718,452         | \$ -                     | \$ -                 | \$ 12,567,593         | \$ 9,718,452          |
| Net Assets Unrestricted                                   | \$ 4,601,932            | \$ 6,469,794         | \$ 5,473,413             | \$ 5,553,670         | \$ 10,075,345         | \$ 12,023,464         |
| <b>Total Net Assets</b>                                   | <b>\$ 62,755,717</b>    | <b>\$ 63,588,069</b> | <b>\$ 26,692,968</b>     | <b>\$ 26,770,848</b> | <b>\$ 89,448,685</b>  | <b>\$ 90,358,917</b>  |

**Business-type activities.** Business-type activities decreased the City of Waconia's net assets by \$77,880. Key elements of the decrease are as follows:

- Capital grants and contributions decreased \$21,730 from 2010 due to a reduction in anticipated development within the City.
- Business type expenses increased overall \$292,481 from 2010 due to increased capital improvements in the water and sewer funds. Water Tower #2 was rehabilitated in 2011 and several sewer projects were completed including several lift station pump replacements.

| Net Asset Changes                                  | Governmental Activities |                       | Business-Type Activities |                      | Totals                |                       |
|--|-------------------------|-----------------------|--------------------------|----------------------|-----------------------|-----------------------|
|  | 2011                    | 2010                  | 2011                     | 2010                 | 2011                  | 2010                  |
| <b>Revenues</b>                                    |                         |                       |                          |                      |                       |                       |
| <b>Program Revenues</b>                            |                         |                       |                          |                      |                       |                       |
| Charges for Services                               | \$ 2,167,457            | \$ 2,075,077          | \$ 3,762,589             | \$ 3,660,934         | \$ 5,930,046          | \$ 5,736,011          |
| Operating Grants & Contributions                   | \$ 156,823              | \$ 526,479            | \$ -                     | \$ -                 | \$ 156,823            | \$ 526,479            |
| Capital Grants & Contributions                     | \$ 555,758              | \$ 264,021            | \$ 700,000               | \$ 575,425           | \$ 1,255,758          | \$ 839,446            |
| <b>General Revenues</b>                            |                         |                       |                          |                      |                       |                       |
| Property Taxes                                     | \$ 4,745,665            | \$ 4,320,851          | \$ -                     | \$ -                 | \$ 4,745,665          | \$ 4,320,851          |
| Other Taxes  | \$ 72,685               | \$ 85,300             | \$ -                     | \$ -                 | \$ 72,685             | \$ 85,300             |
| Grants & Contributions not Restricted              | \$ -                    | \$ -                  | \$ -                     | \$ -                 | \$ -                  | \$ -                  |
| Other  | \$ 167,437              | \$ 376,556            | \$ 164,748               | \$ 186,478           | \$ 332,185            | \$ 563,034            |
| <b>Total Revenues</b>                              | <b>\$ 7,865,825</b>     | <b>\$ 7,648,284</b>   | <b>\$ 4,627,337</b>      | <b>\$ 4,422,837</b>  | <b>\$ 12,493,162</b>  | <b>\$ 12,071,121</b>  |
| <b>Expenses</b>                                    |                         |                       |                          |                      |                       |                       |
| General Government                                 | \$ 2,518,006            | \$ 2,416,283          | \$ -                     | \$ -                 | \$ 2,518,006          | \$ 2,416,283          |
| Public Safety                                      | \$ 1,045,384            | \$ 980,908            | \$ -                     | \$ -                 | \$ 1,045,384          | \$ 980,908            |
| Public Works                                       | \$ 2,759,445            | \$ 4,900,425          | \$ -                     | \$ -                 | \$ 2,759,445          | \$ 4,900,425          |
| Culture & Recreation                               | \$ 1,886,283            | \$ 1,870,995          | \$ -                     | \$ -                 | \$ 1,886,283          | \$ 1,870,995          |
| Economic Development                               | \$ 117,444              | \$ 34,124             | \$ -                     | \$ -                 | \$ 117,444            | \$ 34,124             |
| Interest on Long-term Debt                         | \$ 1,180,619            | \$ 1,172,728          | \$ -                     | \$ -                 | \$ 1,180,619          | \$ 1,172,728          |
| Water  | \$ -                    | \$ -                  | \$ 1,615,966             | \$ 1,481,617         | \$ 1,615,966          | \$ 1,481,617          |
| Sewer  | \$ -                    | \$ -                  | \$ 1,999,538             | \$ 1,782,315         | \$ 1,999,538          | \$ 1,782,315          |
| Storm Water  | \$ -                    | \$ -                  | \$ 405,616               | \$ 465,297           | \$ 405,616            | \$ 465,297            |
| Street Lights                                      | \$ -                    | \$ -                  | \$ 196,833               | \$ 170,609           | \$ 196,833            | \$ 170,609            |
| Ice Arena  | \$ -                    | \$ -                  | \$ 782,264               | \$ 807,898           | \$ 782,264            | \$ 807,898            |
| <b>Total Expenses</b>                              | <b>\$ 9,507,181</b>     | <b>\$ 11,375,463</b>  | <b>\$ 5,000,217</b>      | <b>\$ 4,707,736</b>  | <b>\$ 14,507,398</b>  | <b>\$ 16,083,199</b>  |
| Increase (Decrease) in Net Assets before Transfers | \$ (1,641,356)          | \$ (3,727,179)        | \$ (372,880)             | \$ (284,899)         | \$ (2,014,236)        | \$ (4,012,078)        |
| Transfers  | \$ (295,000)            | \$ (270,000)          | \$ 295,000               | \$ 270,000           | \$ -                  | \$ -                  |
| <b>Increase (Decrease) in Net Assets</b>           | <b>\$ (1,936,356)</b>   | <b>\$ (3,997,179)</b> | <b>\$ (77,880)</b>       | <b>\$ (14,899)</b>   | <b>\$ (2,014,236)</b> | <b>\$ (4,012,078)</b> |
| Restatement/Prior Period                           | \$ 1,104,004            | \$ -                  | \$ -                     | \$ -                 | \$ 1,104,004          | \$ -                  |
| <b>Net Assets January 1</b>                        | <b>\$ 64,692,073</b>    | <b>\$ 67,585,248</b>  | <b>\$ 26,770,848</b>     | <b>\$ 26,785,747</b> | <b>\$ 91,462,921</b>  | <b>\$ 94,370,995</b>  |
| <b>Net Assets December 31</b>                      | <b>\$ 62,755,717</b>    | <b>\$ 63,588,069</b>  | <b>\$ 26,692,968</b>     | <b>\$ 26,770,848</b> | <b>\$ 89,448,685</b>  | <b>\$ 90,358,917</b>  |





## **Financial Analysis of the Government's Funds**

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

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

As of the end of the current fiscal year, the City of Waconia's governmental funds reported combined ending fund balances of \$21,780,334. Approximately \$1,133,609 of this total amount or 6% constitutes an unassigned fund balance, which is available for spending at the government's discretion. The remainder of fund balance is assigned, restricted, or committed to other governmental activities including debt service payments, economic development loans, and capital projects.

As a measure of the general fund's liquidity, it may be useful to compare unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 33% of total general fund expenditures.

The general fund balance increased by \$1,066,194 during the current fiscal year. Overall, the main reason for this increase was the closure of the economic development fund to the general fund in order to comply with GASB Statement No. 54 requirements.

All debt service funds have a total fund balance of \$15,731,421. These funds are restricted for the payment of debt services. The net increase in fund balance during the current year in the debt service funds was \$12,125,752. This increase is due to refunding of debt in 2011 of the bonds originally issued in 2007 for improvements in the southeast area of the City.

**Proprietary funds.** The City of Waconia's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the water fund at the end of the year amounted to \$1,795,777, the sewer fund \$2,772,214, storm water fund \$868,526, street lights \$174,730 and ice arena fund (\$137,834), for a total of \$5,473,413. Other factors concerning the finances of these five funds have already been addressed in the discussion of the City of Waconia's business-type activities.

## **General Fund Budgetary Highlights**

The actual general fund expenditures of \$3,420,935 were \$26,051 over the general fund budget of \$3,394,884. The primary reason for being over budget in the general fund is the reduction in development within the City of Waconia; this leading to less than anticipated building inspection contracted service needs. The overall transfers-out total \$825,800 to special revenue funds, debt service funds, and ice arena fund impacted the total out-going of resources. Revenues were

\$87,385 under budget; this is primarily due to a reduction interest investment income and lower than anticipated building permit revenue.

### Capital Assets and Debt Administration

**Capital assets.** The City of Waconia’s investment in capital assets for its governmental and business type activities as of December 31, 2011, amount to \$109,687,218 (net of accumulated depreciation). This investment in capital assets includes land, permanent easements, buildings, improvements, machinery, furniture, equipment, park facilities, and roads and highways. The total decrease in the City of Waconia’s overall value of capital assets for the current fiscal year was 2.90%.

#### Major capital asset information for the current fiscal year follows:

| Capital Assets              | Governmental Activities |                      | Business-type Activities |                      | Total                 |                       |
|-----------------------------|-------------------------|----------------------|--------------------------|----------------------|-----------------------|-----------------------|
|                             | 2011                    | 2010                 | 2011                     | 2010                 | 2011                  | 2010                  |
| Land                        | \$ 4,996,187            | \$ 4,996,187         | \$ 206,045               | \$ 206,045           | \$ 5,202,232          | \$ 5,202,232          |
| Permanent Easements         | \$ 219,959              | \$ 159,160           | \$ -                     | \$ -                 | \$ 219,959            | \$ 159,160            |
| Buildings                   | \$ 47,337,794           | \$ 47,337,794        | \$ 16,311,725            | \$ 16,311,725        | \$ 63,649,519         | \$ 63,649,519         |
| Improvements                | \$ 5,574,416            | \$ 5,529,371         | \$ 203,063               | \$ 203,063           | \$ 5,777,479          | \$ 5,732,434          |
| Machinery & Equipment       | \$ 1,728,859            | \$ 1,689,153         | \$ 770,835               | \$ 698,381           | \$ 2,499,694          | \$ 2,387,534          |
| Vehicles                    | \$ 3,266,170            | \$ 2,562,411         | \$ 643,054               | \$ 621,569           | \$ 3,909,224          | \$ 3,183,980          |
| Infrastructure              | \$ 40,757,052           | \$ 40,757,052        | \$ 32,516,803            | \$ 32,271,634        | \$ 73,273,855         | \$ 73,028,686         |
| Construction in Progress    | \$ 679,469              | \$ 566,965           | \$ 1,698,873             | \$ 1,501,570         | \$ 2,378,342          | \$ 2,068,535          |
| Accumulated Depreciation    | \$ (34,022,374)         | \$ (30,592,138)      | \$ (13,200,711)          | \$ (11,856,365)      | \$ (47,223,085)       | \$ (42,448,503)       |
| <b>Total Capital Assets</b> | <b>\$ 70,537,532</b>    | <b>\$ 73,005,956</b> | <b>\$ 39,149,686</b>     | <b>\$ 39,957,621</b> | <b>\$ 109,687,218</b> | <b>\$ 112,963,577</b> |

Additional information on the City of Waconia’s capital assets can be found in Note 5 of this report.

**Long-Term Debt.** At the end of the current fiscal year, the City of Waconia had total debt outstanding of \$53,780,485. Of this amount \$24,765,000 is special assessment debt for which the government is liable in the event of default by the property owner subject to the assessment. The remainder of the City of Waconia’s long-term debt represents bonds secured by specified revenue sources (i.e., water and sewer bonds, tax levy, or capital leases) of \$29,015,485. During the current fiscal year, the City’s total long-term debt increased by \$9,161,869. The increase is due to a cross over refunding of the debt issuance for the 2007A General Obligation debt for improvements to the southeast area of the City. The refunded general obligation debt will be paid off in February 2012.

| Long-Term Debt                                       | Governmental Activities |                      | Business Activities  |                      | Total                |                      |
|--|-------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
|  | 2011                    | 2010                 | 2011                 | 2010                 | 2011                 | 2010                 |
| <b>Bonded Debt</b>                                   |                         |                      |                      |                      |                      |                      |
| General Obligation Debt                              | \$ 3,081,394            | \$ 3,098,935         | \$ -                 | \$ -                 | \$ 3,081,394         | \$ 3,098,935         |
| Special Assessment Debt with Governmental Commitment | \$ 24,765,000           | \$ 15,210,000        | \$ -                 | \$ -                 | \$ 24,765,000        | \$ 15,210,000        |
| Revenue Bonds  | \$ -                    | \$ -                 | \$ 12,655,000        | \$ 13,245,000        | \$ 12,655,000        | \$ 13,245,000        |
| <b>Total Bonded Debt</b>                             | <b>\$ 27,846,394</b>    | <b>\$ 18,308,935</b> | <b>\$ 12,655,000</b> | <b>\$ 13,245,000</b> | <b>\$ 40,501,394</b> | <b>\$ 31,553,935</b> |
| Other Debt   | \$ 947,297              | \$ 192,188           | \$ 85,970            | \$ 79,852            | \$ 1,033,267         | \$ 272,040           |
| Capital Leases & Lease Revenue Bonds                 | \$ 6,970,692            | \$ 7,297,198         | \$ 5,275,132         | \$ 5,495,443         | \$ 12,245,824        | \$ 12,792,641        |
| <b>Total Other Debt</b>                              | <b>\$ 7,917,989</b>     | <b>\$ 7,489,386</b>  | <b>\$ 5,361,102</b>  | <b>\$ 5,575,295</b>  | <b>\$ 13,279,091</b> | <b>\$ 13,064,681</b> |
| <b>Total Long-Term Debt</b>                          | <b>\$ 35,764,383</b>    | <b>\$ 25,798,321</b> | <b>\$ 18,016,102</b> | <b>\$ 18,820,295</b> | <b>\$ 53,780,485</b> | <b>\$ 44,618,616</b> |

- The City of Waconia will be paying approximately \$14,197,203 in principal payments in 2012; this including the refunding principal payment in escrow due in February 2012.
- The City of Waconia received an enhanced bond rating in 2008 and continues to maintain the AA rating from Standard & Poor's on its general obligation debt.

State statutes limit the amount of general obligation debt a governmental entity may issue up to 3 percent of its total assessed valuation. The current debt limitation for the City of Waconia is \$30,297,262. The City of Waconia's current outstanding general obligation debt of \$3,081,394 is well below the maximum allowed.

Additional information on the City of Waconia's long-term debt can be found in Note 6 of this report.

### **2012 Budget and Rate Information**

The following factors were considered in preparing the City of Waconia's budget for the 2012 fiscal year.

- The City's 2012 Taxable Market Value decreased to \$1,009,908,740, down 1.91% from the previous year's market values and the Net Total Tax Capacity decreased to \$9,918,201, down 7%.
- The City of Waconia prepared its 2012 general fund budget of \$4,574,200 for a 7.7% increase in projected general fund expenditures including inter-fund transfers out.
- The City tax rate increased from 41.765% to 43.810% for a 4.9% increase for 2012 and the average valued home realized a city tax bill increase if their valuation remained the same.

### **Requests for Information**

This financial report is designed to provide a general overview of the City of Waconia's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Office of the Finance Director, 201 South Vine Street, Waconia, MN, 55387.

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## **BASIC FINANCIAL STATEMENTS**

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**CITY OF WACONIA, MINNESOTA**  
**STATEMENT OF NET ASSETS**  
December 31, 2011

**Statement 1**

|   | Primary Government         |                             |                     |                     |
|---|----------------------------|-----------------------------|---------------------|---------------------|
|   | Governmental<br>Activities | Business-Type<br>Activities | Totals              |                     |
|   |                            |                             | 2011                | 2010                |
| <b>Assets:</b>                                    |                            |                             |                     |                     |
| Cash and investments                              | \$9,799,452                | \$5,596,509                 | \$15,395,961        | \$15,081,927        |
| Property taxes receivable                         | 155,480                    | -                           | 155,480             | 226,624             |
| Special assessments receivable:                   |                            |                             |                     |                     |
| Delinquent  | 610,910                    | -                           | 610,910             | 777,740             |
| Deferred  | 5,550,633                  | -                           | 5,550,633           | 5,223,236           |
| Accounts receivable - net                         | 161,962                    | 360,464                     | 522,426             | 472,226             |
| Accrued interest                                  | 179,256                    | -                           | 179,256             | 237,548             |
| Prepaid Expense                                   | 20,575                     | 1,473                       | 22,048              | 6,373               |
| Due from other governmental units                 | 158,709                    | -                           | 158,709             | 85,752              |
| Internal balances                                 | 100,000                    | (100,000)                   | -                   | -                   |
| Notes receivable                                  | 595,642                    | -                           | 595,642             | 616,452             |
| Restricted cash in escrow                         | 12,148,571                 | -                           | 12,148,571          | 436,372             |
| Deferred charges                                  | 150,486                    | 145,461                     | 295,947             | 156,367             |
| Capital assets (net of accumulated depreciation): |                            |                             |                     |                     |
| Land  | 4,996,187                  | 206,045                     | 5,202,232           | 5,202,232           |
| Permanent Easements                               | 219,959                    | -                           | 219,959             | 159,160             |
| Construction in progress                          | 679,469                    | 1,698,873                   | 2,378,342           | 2,068,535           |
| Infrastructure                                    | 24,646,317                 | 22,766,125                  | 47,412,442          | 49,684,122          |
| Buildings   | 35,546,589                 | 13,827,689                  | 49,374,278          | 51,014,922          |
| Improvements                                      | 2,492,107                  | 103,689                     | 2,595,796           | 2,867,031           |
| Vehicles  | 1,543,852                  | 175,027                     | 1,718,879           | 1,193,958           |
| Machinery and equipment                           | 413,052                    | 372,239                     | 785,291             | 773,618             |
| Total assets                                      | <u>100,169,208</u>         | <u>45,153,594</u>           | <u>145,322,802</u>  | <u>136,284,195</u>  |
| <b>Liabilities:</b>                               |                            |                             |                     |                     |
| Accounts payable                                  | 356,410                    | 156,829                     | 513,239             | 414,857             |
| Contracts payable                                 | 61,536                     | 30,512                      | 92,048              | 77,392              |
| Due to other governments                          | 12,321                     | 832                         | 13,153              | 7,510               |
| Salaries and benefits payable                     | 84,653                     | 20,075                      | 104,728             | 94,541              |
| Deposits payable                                  | 657,109                    | 4,750                       | 661,859             | 89,627              |
| Accrued interest payable                          | 446,880                    | 219,949                     | 666,829             | 594,854             |
| Bonds payable:                                    |                            |                             |                     |                     |
| Due within one year                               | 12,975,050                 | 840,433                     | 13,815,483          | 2,592,853           |
| Due in more than one year                         | 15,620,597                 | 17,089,699                  | 32,710,296          | 34,456,525          |
| Capital lease payable:                            |                            |                             |                     |                     |
| Due within one year                               | 331,770                    | -                           | 331,770             | 326,506             |
| Due in more than one year                         | 6,638,922                  | -                           | 6,638,922           | 6,970,692           |
| Compensated absences payable:                     |                            |                             |                     |                     |
| Due within one year                               | 162,119                    | 63,097                      | 225,216             | 210,811             |
| Due in more than one year                         | 35,923                     | 22,873                      | 58,796              | 61,230              |
| Other post employment benefits:                   |                            |                             |                     |                     |
| Due in more than one year                         | 30,201                     | 11,577                      | 41,778              | 27,880              |
| Total liabilities                                 | <u>37,413,491</u>          | <u>18,460,626</u>           | <u>55,874,117</u>   | <u>45,925,278</u>   |
| <b>Net assets:</b>                                |                            |                             |                     |                     |
| Invested in capital assets, net of related debt   | 45,586,192                 | 21,219,555                  | 66,805,747          | 68,617,001          |
| Restricted for:                                   |                            |                             |                     |                     |
| Debt service                                      | 10,891,063                 | -                           | 10,891,063          | 9,309,240           |
| Economic development loans                        | 1,216,873                  | -                           | 1,216,873           | 1,254,101           |
| Park dedication                                   | 191,093                    | -                           | 191,093             | 185,128             |
| Other purposes                                    | 268,564                    | -                           | 268,564             | 224,084             |
| Unrestricted                                      | 4,601,932                  | 5,473,413                   | 10,075,345          | 10,769,363          |
| Total net assets                                  | <u>\$62,755,717</u>        | <u>\$26,692,968</u>         | <u>\$89,448,685</u> | <u>\$90,358,917</u> |

The accompanying notes are an integral part of these financial statements.

**CITY OF WACONIA, MINNESOTA**  
**STATEMENT OF ACTIVITIES**  
For The Year Ended December 31, 2011

| <u>Functions/Programs</u>      | <u>Expenses</u>     | <u>Charges For<br/>Services</u> |
|--------------------------------|---------------------|---------------------------------|
| Primary government:            |                     |                                 |
| Governmental activities:       |                     |                                 |
| General government             | \$2,518,006         | \$783,602                       |
| Public safety                  | 1,045,384           | 447,739                         |
| Public works                   | 2,759,445           | 8,658                           |
| Parks and recreation           | 1,886,283           | 923,658                         |
| Economic development           | 117,444             | 3,800                           |
| Interest on long-term debt     | 1,180,619           | -                               |
| Total governmental activities  | <u>9,507,181</u>    | <u>2,167,457</u>                |
| Business-type activities:      |                     |                                 |
| Water                          | 1,615,966           | 1,271,709                       |
| Sewer                          | 1,999,538           | 1,593,493                       |
| Storm water                    | 405,616             | 377,543                         |
| Street lighting                | 196,833             | 207,324                         |
| Ice arena                      | 782,264             | 312,520                         |
| Total business-type activities | <u>5,000,217</u>    | <u>3,762,589</u>                |
| Total primary government       | <u>\$14,507,398</u> | <u>\$5,930,046</u>              |

The accompanying notes are an integral part of these financial statements.

| Program Revenues  |  | Net (Expense) Revenue and<br>Changes in Net Assets |                             |                     |                     |
|---|--|--|-----------------------------|---------------------|---------------------|
| Operating<br>Grants and<br>Contributions                        | Capital<br>Grants and<br>Contributions | Primary Government                                 |                             | Totals              |                     |
|   |  | Governmental<br>Activities                         | Business-Type<br>Activities | 2011                | 2010                |
| \$14,730  | \$ -                                   | (\$1,719,674)                                      | \$ -                        | (\$1,719,674)       | (\$1,373,646)       |
| 118,932   | -                                      | (\$478,713)  | -                           | (\$478,713)         | (402,143)           |
| 22,834  | 555,758                                | (\$2,172,195)                                      | -                           | (\$2,172,195)       | (4,558,138)         |
| 327   | -                                      | (\$962,298)  | -                           | (\$962,298)         | (969,107)           |
| -   | -                                      | (\$113,644)  | -                           | (\$113,644)         | (34,124)            |
| -   | -                                      | (\$1,180,619)                                      | -                           | (\$1,180,619)       | (1,172,728)         |
| <u>156,823</u>  | <u>555,758</u>                         | <u>(6,627,143)</u>                                 | <u>0</u>                    | <u>(6,627,143)</u>  | <u>(8,509,886)</u>  |
| -   | 323,065                                | -  | (21,192)                    | (21,192)            | (144,724)           |
| -   | 293,375                                | -  | (112,670)                   | (112,670)           | (45,820)            |
| -   | 83,560                                 | -  | 55,487                      | 55,487              | 50,000              |
| -   | -                                      | -  | 10,491                      | 10,491              | 23,043              |
| -   | -                                      | -  | (469,744)                   | (469,744)           | (353,876)           |
| <u>0</u>  | <u>700,000</u>                         | <u>0</u>   | <u>(537,628)</u>            | <u>(537,628)</u>    | <u>(471,377)</u>    |
| <u>\$156,823</u>  | <u>\$1,255,758</u>                     | <u>(6,627,143)</u>                                 | <u>(537,628)</u>            | <u>(7,164,771)</u>  | <u>(8,981,263)</u>  |
| General revenues:   |  |  |                             |                     |                     |
| Property taxes  |  | 4,745,665  | -                           | 4,745,665           | 4,320,851           |
| Tax Increment   |  | 43,280   | -                           | 43,280              | 56,866              |
| Lodging taxes   |  | 29,405   | -                           | 29,405              | 28,434              |
| Grants and contributions not<br>restricted to specific programs |  | -  | -                           | -                   | -                   |
| Unrestricted investment earnings                                |  | 167,437  | 164,748                     | 332,185             | 563,034             |
| Transfers   |  | (295,000)  | 295,000                     | -                   | -                   |
| Total general revenues and transfers                            |  | <u>4,690,787</u>                                   | <u>459,748</u>              | <u>5,150,535</u>    | <u>4,969,185</u>    |
| Change in net assets  |  | <u>(1,936,356)</u>                                 | <u>(77,880)</u>             | <u>(2,014,236)</u>  | <u>(4,012,078)</u>  |
| Net assets - January 1, as previously reported                  |  | 63,588,069   | 26,770,848                  | 90,358,917          | 94,370,995          |
| Prior period adjustment   |  | 1,104,004  | -                           | 1,104,004           | -                   |
| Net assets - January 1, as restated                             |  | <u>64,692,073</u>                                  | <u>26,770,848</u>           | <u>91,462,921</u>   | <u>94,370,995</u>   |
| Net assets - December 31  |  | <u>\$62,755,717</u>                                | <u>\$26,692,968</u>         | <u>\$89,448,685</u> | <u>\$90,358,917</u> |

The accompanying notes are an integral part of these financial statements.

|  | General Fund<br>(101) | Safari Island<br>Special<br>Revenue Fund<br>(231) | Permanent<br>Improvement<br>Revolving<br>Capital Project<br>Fund (103) | Permanent<br>Improvement<br>Revolving Debt<br>Service Fund<br>(303) | Other Gov't<br>Funds | Total Governmental Funds |                     |
|--|-----------------------|---|--|---|----------------------|--------------------------|---------------------|
|  |                       |   |  |   |                      | 2011                     | 2010                |
| <b>Assets</b>  |                       |   |  |   |                      |                          |                     |
| Cash and investments   | \$1,801,546           | \$79,882  | \$2,186,529  | \$3,918,815   | \$1,812,680          | \$9,799,452              | \$9,416,278         |
| Property taxes receivable  | 94,403                | -   | -  | 57,733  | 3,344                | 155,480                  | 226,625             |
| Special assessments receivable:  |                       |   |  |   |                      |                          |                     |
| Delinquent   | 136                   | -   | -  | 610,774   | -                    | 610,910                  | 777,740             |
| Deferred   | -                     | -   | -  | 5,550,633   | -                    | 5,550,633                | 5,223,236           |
| Accounts receivable - net  | 128,673               | 1,945   | -  | 26,826  | 4,518                | 161,962                  | 147,061             |
| Interest receivable  | 179,256               | -   | -  | -   | -                    | 179,256                  | 237,548             |
| Prepaid Expense  | 18,593                | 812   | -  | -   | 1,170                | 20,575                   | 6,374               |
| Due from other governmental units  | 108,804               | 41,749  | -  | 7,918   | 238                  | 158,709                  | 70,132              |
| Interfund loan receivable  | 100,000               | -   | -  | -   | -                    | 100,000                  | 308,289             |
| Notes receivable - net   | -                     | -   | -  | -   | 595,642              | 595,642                  | 616,452             |
| Restricted cash in escrow  | -                     | -   | 555,685  | 11,592,886  | -                    | 12,148,571               | 436,372             |
| <b>Total assets</b>  | <b>\$2,431,411</b>    | <b>\$124,388</b>                                  | <b>\$2,742,214</b>   | <b>\$21,765,585</b>   | <b>\$2,417,592</b>   | <b>\$29,481,190</b>      | <b>\$17,466,107</b> |
| <b>Liabilities and Fund Balance</b>  |                       |   |  |   |                      |                          |                     |
| <b>Liabilities:</b>  |                       |   |  |   |                      |                          |                     |
| Accounts payable   | \$226,426             | \$83,688  | \$22,580   | \$ -  | \$23,716             | \$356,410                | \$321,931           |
| Contracts payable  | -                     | -   | 61,536   | -   | -                    | 61,536                   | 52,665              |
| Due to other governmental units  | 8,438                 | 3,883   | -  | -   | -                    | 12,321                   | 6,734               |
| Salaries payable   | 63,839                | 20,814  | -  | -   | -                    | 84,653                   | 77,690              |
| Deposits payable   | 12,132                | -   | 644,977  | -   | -                    | 657,109                  | 83,179              |
| Deferred revenue   | 94,539                | -   | -  | 6,219,139   | 215,149              | 6,528,827                | 6,439,408           |
| Interfund loan payable   | -                     | -   | -  | -   | -                    | -                        | 158,746             |
| <b>Total liabilities</b>   | <b>405,374</b>        | <b>108,385</b>                                    | <b>729,093</b>   | <b>6,219,139</b>  | <b>238,865</b>       | <b>7,700,856</b>         | <b>7,140,352</b>    |
| <b>Fund balance:</b>   |                       |   |  |   |                      |                          |                     |
| Nonspendable   | 18,593                | 812   | -  | -   | 1,170                | 20,575                   | 6,373               |
| Restricted   | -                     | -   | -  | 15,546,446  | 1,649,698            | 17,196,144               | 5,101,708           |
| Committed  | 873,835               | 15,191  | -  | -   | -                    | 889,026                  | -                   |
| Assigned   | -                     | -   | 2,013,121  | -   | 527,859              | 2,540,980                | 4,264,204           |
| Unassigned   | 1,133,609             | -   | -  | -   | -                    | 1,133,609                | 953,470             |
| <b>Total fund balance (deficit)</b>  | <b>2,026,037</b>      | <b>16,003</b>                                     | <b>2,013,121</b>   | <b>15,546,446</b>   | <b>2,178,727</b>     | <b>21,780,334</b>        | <b>10,325,755</b>   |
| <b>Total liabilities and fund balance</b>  | <b>\$2,431,411</b>    | <b>\$124,388</b>                                  | <b>\$2,742,214</b>   | <b>\$21,765,585</b>   | <b>\$2,417,592</b>   | <b>\$29,481,190</b>      | <b>\$17,466,107</b> |
| Fund balance reported above  |                       |   |  |   |                      | \$21,780,334             | \$10,325,755        |
| Amounts reported for governmental activities in the statement of net assets are different because:   |                       |   |  |   |                      |                          |                     |
| Capital assets used in governmental activities are not financial resources, and therefore, are not reported in the funds.  |                       |   |  |   |                      | 70,537,532               | 73,005,956          |
| Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. Long-term liabilities at year end consist of: |                       |   |  |   |                      |                          |                     |
| Bond principal payable and unamortized bond premium  |                       |   |  |   |                      | (28,595,648)             | (18,308,935)        |
| Capital lease payable  |                       |   |  |   |                      | (6,970,692)              | (7,297,198)         |
| Compensated absences payable   |                       |   |  |   |                      | (198,043)                | (192,188)           |
| Other post employment benefit obligation   |                       |   |  |   |                      | (30,201)                 | (19,339)            |
| Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds:   |                       |   |  |   |                      |                          |                     |
| Delinquent property taxes  |                       |   |  |   |                      | 155,480                  | 226,625             |
| Delinquent special assessments   |                       |   |  |   |                      | 610,910                  | 777,740             |
| Deferred special assessments   |                       |   |  |   |                      | 5,550,633                | 5,223,236           |
| Deferred grants  |                       |   |  |   |                      | 211,806                  | 211,806             |
| Deferred charges   |                       |   |  |   |                      | 150,486                  | -                   |
| Governmental funds do not report a liability for accrued interest due and payable.   |                       |   |  |   |                      | (446,880)                | (365,387)           |
| Net assets of governmental activities  |                       |   |  |   |                      | <b>\$62,755,717</b>      | <b>\$63,588,069</b> |

The accompanying notes are an integral part of these financial statements.

**CITY OF WACONIA, MINNESOTA**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE**  
**GOVERNMENTAL FUNDS**  
For The Year Ended December 31, 2011

**Statement 4**

|   | General            | Safari                                     | Permanent   | Permanent  | Other Gov't        | Total Governmental Funds |                     |
|---|--------------------|--|---|--|--------------------|--------------------------|---------------------|
|   | Fund (101)         | Island<br>Special<br>Revenue<br>Fund (231) | Improvement<br>Revolving<br>Capital Project<br>Fund (103) | Improvement<br>Revolving<br>Debt Service<br>Fund (303) |                    | Funds                    | 2011                |
| <b>Revenues:</b>                            |                    |  |   |  |                    |                          |                     |
| Property taxes                              | \$2,789,051        | \$ -                                       | \$ -  | \$1,920,541  | \$107,217          | \$4,816,809              | \$4,339,528         |
| Tax Increment                               | -                  | -  | -   | -  | 43,280             | 43,280                   | 56,866              |
| Lodging taxes                               | -                  | -  | -   | -  | 29,405             | 29,405                   | 28,434              |
| Special assessments                         | -                  | 399  | -   | 1,267,221  | -                  | 1,267,620                | 748,079             |
| Licenses and permits                        | 359,829            | -  | -   | -  | -                  | 359,829                  | 374,383             |
| Intergovernmental                           | 128,646            | -  | 141,929   | -  | -                  | 270,575                  | 186,940             |
| Charges for services                        | 859,034            | 897,220                                    | 551   | -  | 22,586             | 1,779,391                | 1,674,463           |
| Fines and forfeits                          | 28,030             | -  | -   | -  | 207                | 28,237                   | 26,231              |
| Investment income                           | 9,835              | -  | 86,585  | 300  | 70,718             | 167,438                  | 376,556             |
| Contributions and donations                 | 28,075             | 102  | -   | -  | -                  | 28,177                   | 339,539             |
| Park land dedication                        | -                  | -  | -   | -  | -                  | -                        | -                   |
| Developer reimbursements                    | -                  | -  | -   | 89,645   | -                  | 89,645                   | -                   |
| <b>Total revenues</b>                       | <b>4,202,500</b>   | <b>897,721</b>                             | <b>229,065</b>  | <b>3,277,707</b>                                       | <b>273,413</b>     | <b>8,880,406</b>         | <b>8,151,018</b>    |
| <b>Expenditures:</b>                        |                    |  |   |  |                    |                          |                     |
| <b>Current:</b>                             |                    |  |   |  |                    |                          |                     |
| General government                          | \$1,350,880        | \$ -                                       | \$ -  | \$ -   | \$49,395           | \$1,400,275              | 1,368,074           |
| Public safety                               | 930,036            | -  | -   | -  | -                  | 930,036                  | 888,857             |
| Public works                                | 722,280            | -  | 85,646  | -  | -                  | 807,926                  | 716,917             |
| Parks and recreation                        | 389,719            | 1,042,525                                  | -   | -  | -                  | 1,432,244                | 1,460,379           |
| Economic development                        | 1,304              | -  | -   | -  | 116,140            | 117,444                  | 34,124              |
| <b>Capital outlay:</b>                      |                    |  |   |  |                    |                          |                     |
| General government                          | 19,395             | -  | 60,799  | -  | -                  | 80,194                   | 159,250             |
| Public safety                               | -                  | -  | -   | -  | 720,915            | 720,915                  | 14,512              |
| Public works                                | -                  | -  | 230,705   | -  | 33,862             | 264,567                  | 305,413             |
| Parks and recreation                        | 7,325              | -  | 80,495  | -  | -                  | 87,820                   | 12,558              |
| <b>Debt service:</b>                        |                    |  |   |  |                    |                          |                     |
| Principal                                   | -                  | 15,255                                     | -   | 2,665,000  | 251,251            | 2,931,506                | 2,115,888           |
| Interest and Bond Issuance Cost             | -                  | 1,540                                      | -   | 1,011,552  | 89,063             | 1,102,155                | 1,175,181           |
| <b>Total expenditures</b>                   | <b>3,420,939</b>   | <b>1,059,321</b>                           | <b>457,645</b>  | <b>3,676,552</b>                                       | <b>1,260,626</b>   | <b>9,875,083</b>         | <b>8,251,152</b>    |
| <b>Revenues over (under) expenditures</b>   | <b>781,561</b>     | <b>(161,600)</b>                           | <b>(228,580)</b>  | <b>(398,845)</b>                                       | <b>(987,213)</b>   | <b>(994,677)</b>         | <b>(100,134)</b>    |
| <b>Other financing sources (uses):</b>      |                    |  |   |  |                    |                          |                     |
| Bonds Issued                                | -                  | -  | -   | 11,265,000   | 730,000            | 11,995,000               | 3,390,000           |
| Bond Premium                                | -                  | -  | -   | 709,845  | 39,409             | 749,254                  | -                   |
| Bond Escrow-Refunded                        | -                  | -  | -   | -  | -                  | -                        | (3,665,514)         |
| Transfers in                                | 1,110,433          | 165,800                                    | -   | 650,000  | 165,000            | 2,091,233                | 2,094,922           |
| Transfers out                               | (825,800)          | -  | (650,000)   | -  | (910,433)          | (2,386,233)              | (2,364,922)         |
| <b>Total other financing sources (uses)</b> | <b>284,633</b>     | <b>165,800</b>                             | <b>(650,000)</b>  | <b>12,624,845</b>                                      | <b>23,976</b>      | <b>12,449,254</b>        | <b>(545,514)</b>    |
| <b>Net change in fund balance</b>           | <b>1,066,194</b>   | <b>4,200</b>                               | <b>(878,580)</b>  | <b>12,226,000</b>                                      | <b>(963,235)</b>   | <b>11,454,579</b>        | <b>(645,648)</b>    |
| Fund balance - January 1                    | 959,843            | 11,803                                     | 2,891,701   | 3,320,446  | 3,141,962          | 10,325,755               | 10,971,403          |
| <b>Fund balance - December 31</b>           | <b>\$2,026,037</b> | <b>\$16,003</b>                            | <b>\$2,013,121</b>  | <b>\$15,546,446</b>                                    | <b>\$2,178,727</b> | <b>\$21,780,334</b>      | <b>\$10,325,755</b> |

The accompanying notes are an integral part of these financial statements.

**CITY OF WACONIA, MINNESOTA**  
**RECONCILIATION OF THE STATEMENT OF REVENUES,**  
**EXPENDITURES AND CHANGES IN FUND BALANCES OF**  
**GOVERNMENTAL FUNDS**  
For The Year Ended December 31, 2011

**Statement 5**

|   | <u>2011</u>                 | <u>2010</u>                 |
|---|-----------------------------|-----------------------------|
| Amounts reported for governmental activities in the statement of activities are different because:  |                             |                             |
| Net changes in fund balance - total governmental funds (Statement 4)  | \$11,454,579                | (\$645,648)                 |
| 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:  |                             |                             |
| Depreciation  | (3,496,913)                 | (3,604,953)                 |
| Capital outlay  | 1,153,496                   | 491,733                     |
| Loss on disposal  | (86)                        | -                           |
| Contributions of completed projects to other governmental entities are reported as an expense in the statement of activities.   | (124,921)                   | (2,118,179)                 |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:  |                             |                             |
| Change in delinquent taxes  | (71,144)                    | (18,677)                    |
| Change in deferred and delinquent special assessments   | (943,436)                   | (484,058)                   |
| Principal payments on long-term debt and bond issuance costs are recognized as expenditures in the governmental funds but have no effect on the net assets in the statement of activities:  |                             |                             |
| Principal payments  | 2,931,506                   | 5,781,402                   |
| Bond issuance costs   | 150,486                     | -                           |
| Proceeds from long-term debt are recognized as another financing source in the governmental funds but have no effect on net assets in the statement of activities:  |                             |                             |
| Bond proceeds   | (11,995,000)                | (3,390,000)                 |
| Bond premium  | (749,254)                   | -                           |
| Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. Expenses reported in the statement of activities include the effects of the changes in these expense accruals as follows: |                             |                             |
| Change in compensated absences payable  | (5,855)                     | (2,827)                     |
| Change in other post employment benefits payable  | (10,862)                    | (8,425)                     |
| Change in accrued interest payable  | (81,493)                    | 81,902                      |
| Change in deferred interest expense   | (147,459)                   | (79,449)                    |
| Change in net assets of governmental activities (Statement 2)   | <u><u>(\$1,936,356)</u></u> | <u><u>(\$3,997,179)</u></u> |

The accompanying notes are an integral part of these financial statements.

|   | Business-Type Activities Enterprise Funds |             |                   |                            |                 | Totals       |              |
|---|---|-------------|-------------------|----------------------------|-----------------|--------------|--------------|
|   | Water (601)                               | Sewer (602) | Storm Water (655) | Street Light Utility (668) | Ice Arena (678) | 2011         | 2010         |
|   | <b>Assets:</b>                            |             |                   |                            |                 |              |              |
| <b>Current assets:</b>                          |   |             |                   |                            |                 |              |              |
| Cash and cash equivalents                       | \$1,777,405                               | \$2,747,775 | \$872,245         | \$182,987                  | \$16,097        | \$5,596,509  | \$5,665,650  |
| Due from other governments                      | -   | -           | -                 | -                          | -               | -            | 15,619       |
| Prepaid Expenses                                | -   | -           | -                 | -                          | 1,473           | 1,473        | -            |
| Accounts receivable                             | 133,667                                   | 169,942     | 36,021            | 20,151                     | 683             | \$360,464    | 325,165      |
| Total current assets                            | 1,911,072                                 | 2,917,717   | 908,266           | 203,138                    | 18,253          | 5,958,446    | 6,006,434    |
| <b>Noncurrent assets:</b>                       |   |             |                   |                            |                 |              |              |
| Deferred charges                                | 105,538                                   | 39,923      | -                 | -                          | -               | 145,461      | 156,367      |
| <b>Capital assets:</b>                          |   |             |                   |                            |                 |              |              |
| Land  | 74,045                                    | 55,000      | 77,000            | -                          | -               | 206,045      | 206,045      |
| Infrastructure                                  | 13,700,124                                | 10,679,847  | 8,136,833         | -                          | -               | 32,516,804   | 32,271,634   |
| Buildings                                       | 9,880,592                                 | 303,447     | -                 | -                          | 6,127,686       | 16,311,725   | 16,311,725   |
| Improvements                                    | 15,408                                    | -           | 5,000             | 182,655                    | -               | 203,063      | 203,063      |
| Equipment                                       | 278,774                                   | 473,405     | 14,161            | 4,494                      | -               | 770,834      | 698,381      |
| Vehicles  | 174,194                                   | 399,502     | 68,002            | 1,357                      | -               | 643,055      | 621,569      |
| Construction in progress                        | 83,547                                    | 1,321,704   | 293,621           | -                          | -               | 1,698,872    | 1,501,569    |
| Total capital assets                            | 24,206,684                                | 13,232,905  | 8,594,617         | 188,506                    | 6,127,686       | 52,350,398   | 51,813,986   |
| Less: Allowance for depreciation                | (5,921,974)                               | (3,656,688) | (2,903,352)       | (94,370)                   | (624,327)       | (13,200,711) | (11,856,365) |
| Net capital assets                              | 18,284,710                                | 9,576,217   | 5,691,265         | 94,136                     | 5,503,359       | 39,149,687   | 39,957,621   |
| Total noncurrent assets                         | 18,390,248                                | 9,616,140   | 5,691,265         | 94,136                     | 5,503,359       | 39,295,148   | 40,113,988   |
| Total assets                                    | 20,301,320                                | 12,533,857  | 6,599,531         | 297,274                    | 5,521,612       | 45,253,594   | 46,120,422   |
| <b>Liabilities:</b>                             |   |             |                   |                            |                 |              |              |
| <b>Current liabilities:</b>                     |   |             |                   |                            |                 |              |              |
| Accounts payable                                | 43,673                                    | 61,052      | 8,061             | 25,459                     | 18,584          | 156,829      | 92,926       |
| Contracts payable                               | 2,198                                     | 18,791      | 9,523             | -                          | -               | 30,512       | 24,727       |
| Salaries and benefits payable                   | 5,446                                     | 3,625       | 4,915             | -                          | 6,089           | 20,075       | 16,851       |
| Accrued interest payable                        | 134,428                                   | 72,759      | -                 | -                          | 12,762          | 219,949      | 229,467      |
| Due to other governments                        | 458                                       | -           | -                 | -                          | 374             | 832          | 776          |
| Deposits payable                                | 4,750                                     | -           | -                 | -                          | -               | 4,750        | 6,448        |
| Compensated absences payable - current          | 19,510                                    | 19,293      | 10,596            | 1,962                      | 11,736          | 63,097       | 58,857       |
| Bonds payable - current                         | 365,000                                   | 245,000     | -                 | -                          | 230,433         | 840,433      | 810,312      |
| Total current liabilities                       | 575,463                                   | 420,520     | 33,095            | 27,421                     | 279,978         | 1,336,477    | 1,240,364    |
| <b>Noncurrent liabilities:</b>                  |   |             |                   |                            |                 |              |              |
| Compensated absences payable                    | 7,072                                     | 6,993       | 3,841             | 712                        | 4,255           | 22,873       | 20,995       |
| Other post employment benefits                  | 3,298                                     | 2,913       | 2,804             | 275                        | 2,287           | 11,577       | 8,541        |
| Interfund loan payable                          | -   | -           | -                 | -                          | 100,000         | 100,000      | 149,543      |
| Bonds payable                                   | 7,605,000                                 | 4,440,000   | -                 | -                          | 5,044,699       | 17,089,699   | 17,930,131   |
| Total noncurrent liabilities                    | 7,615,370                                 | 4,449,906   | 6,645             | 987                        | 5,151,241       | 17,224,149   | 18,109,210   |
| Total liabilities                               | 8,190,833                                 | 4,870,426   | 39,740            | 28,408                     | 5,431,219       | 18,560,626   | 19,349,574   |
| <b>Net assets:</b>                              |   |             |                   |                            |                 |              |              |
| Invested in capital assets, net of related debt | 10,314,710                                | 4,891,217   | 5,691,265         | 94,136                     | 228,227         | 21,219,555   | 21,217,178   |
| Unrestricted                                    | 1,795,777                                 | 2,772,214   | 868,526           | 174,730                    | (137,834)       | 5,473,413    | 5,553,670    |
| Total net assets                                | \$12,110,487                              | \$7,663,431 | \$6,559,791       | \$268,866                  | \$90,393        | \$26,692,968 | \$26,770,848 |

The accompanying notes are an integral part of these financial statements.

CITY OF WACONIA, MINNESOTA  
STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN FUND NET ASSETS  
PROPRIETARY FUNDS  
For The Year Ended December 31, 2011

Statement 7

|  | Business-Type Activities Enterprise Funds |             |                      |                               |                    | Totals       |              |
|--|---|-------------|----------------------|-------------------------------|--------------------|--------------|--------------|
|  | Water (601)                               | Sewer (602) | Storm Water<br>(655) | Street Light<br>Utility (668) | Ice Arena<br>(678) | 2011         | 2010         |
|  | Operating revenues:                       |             |                      |                               |                    |              |              |
| Charges for services                   | \$1,183,448                               | \$1,565,415 | \$373,990            | \$207,324                     | \$270,599          | \$3,600,776  | \$3,467,208  |
| Operating expenses:                    |   |             |                      |                               |                    |              |              |
| Wages and salaries                     | 149,897                                   | 139,160     | 97,645               | 13,764                        | 159,105            | 559,571      | 578,641      |
| Employee benefits                      | 52,071                                    | 46,924      | 35,929               | 4,024                         | 44,537             | 183,485      | 183,699      |
| Materials and supplies                 | 108,123                                   | 16,880      | 27,598               | 1,631                         | 8,796              | 163,028      | 167,461      |
| Repairs and maintenance                | 52,413                                    | 68,830      | 10,541               | 1,201                         | 23,055             | 156,040      | 81,577       |
| Professional services                  | 102,374                                   | 1,097,783   | 31,373               | 14,551                        | 32,861             | 1,278,942    | 1,104,881    |
| Insurance                              | 22,308                                    | 12,575      | 9,810                | 5,095                         | 14,282             | 64,070       | 63,603       |
| Utilities                              | 94,406                                    | 36,389      | 2,162                | 145,784                       | 86,997             | 365,738      | 374,643      |
| Depreciation                           | 678,661                                   | 364,665     | 184,645              | 9,938                         | 152,871            | 1,390,780    | 1,305,464    |
| Equipment                              | 6,874                                     | 8,555       | 4,793                | 557                           | 3,329              | 24,108       | 8,860        |
| Miscellaneous                          | 9,929                                     | 9,269       | 1,120                | 288                           | 14,176             | 34,782       | 33,496       |
| Total operating expenses               | 1,277,056                                 | 1,801,030   | 405,616              | 196,833                       | 540,009            | 4,220,544    | 3,902,325    |
| Operating income (loss)                | (93,608)                                  | (235,615)   | (31,626)             | 10,491                        | (269,410)          | (619,768)    | (435,117)    |
| Nonoperating revenues (expenses):      |   |             |                      |                               |                    |              |              |
| Investment income                      | 47,919                                    | 86,199      | 25,118               | 5,512                         | -                  | 164,748      | 186,478      |
| Connection charges                     | 323,065                                   | 293,375     | 83,560               | -                             | -                  | 700,000      | 575,425      |
| Other income                           | 88,261                                    | 28,078      | 3,553                | -                             | 41,921             | 161,813      | 193,726      |
| Interest expense                       | (338,910)                                 | (198,508)   | -                    | -                             | (242,255)          | (779,673)    | (805,411)    |
| Total nonoperating revenues (expenses) | 120,335                                   | 209,144     | 112,231              | 5,512                         | (200,334)          | 246,888      | 150,218      |
| Income (loss) before transfers         | 26,727                                    | (26,471)    | 80,605               | 16,003                        | (469,744)          | (372,880)    | (284,899)    |
| Transfers:                             |   |             |                      |                               |                    |              |              |
| Transfers in                           | -   | -           | -                    | -                             | 495,000            | 495,000      | 495,000      |
| Transfers out                          | (100,000)                                 | (75,000)    | (25,000)             | -                             | -                  | (200,000)    | (225,000)    |
| Total transfers                        | (100,000)                                 | (75,000)    | (25,000)             | -                             | 495,000            | 295,000      | 270,000      |
| Change in net assets                   | (73,273)                                  | (101,471)   | 55,605               | 16,003                        | 25,256             | (77,880)     | (14,899)     |
| Net assets - January 1                 | 12,183,760                                | 7,764,902   | 6,504,186            | 252,863                       | 65,137             | 26,770,848   | 26,785,747   |
| Net assets - December 31               | \$12,110,487                              | \$7,663,431 | \$6,559,791          | \$268,866                     | \$90,393           | \$26,692,968 | \$26,770,848 |

The accompanying notes are an integral part of these financial statements.

Business-Type Activities Enterprise Funds

|   | Water (601) | Sewer (602) | Storm Water<br>(655) | Street Light<br>Utility (668) | Ice Arena<br>(678) | Totals        |             |
|---|-------------|-------------|----------------------|-------------------------------|--------------------|---------------|-------------|
|   |             |             |                      |                               |                    | 2011          | 2010        |
| <b>Cash flows from operating activities:</b>  |             |             |                      |                               |                    |               |             |
| Receipts from customers and users   | \$1,163,536 | \$1,553,223 | \$387,143            | \$206,379                     | \$270,816          | \$3,581,097   | \$3,411,453 |
| Payment to suppliers  | (378,195)   | (1,215,618) | (73,339)             | (167,073)                     | (185,909)          | (\$2,020,134) | (2,009,748) |
| Payment to employees  | (197,252)   | (182,086)   | (135,532)            | (17,392)                      | (198,416)          | (730,678)     | (770,010)   |
| Miscellaneous revenue   | 88,261      | 28,078      | 3,553                | -                             | 41,921             | 161,813       | 193,726     |
| Net cash flows from operating activities  | 676,350     | 183,597     | 181,825              | 21,914                        | (71,588)           | 992,098       | 825,421     |
| <b>Cash flows from noncapital financing activities:</b>   |             |             |                      |                               |                    |               |             |
| Increase (decrease) in due to other funds   | -           | -           | (49,543)             | -                             | -                  | (49,543)      | -           |
| Transfer from other funds   | -           | -           | -                    | -                             | 495,000            | 495,000       | 495,000     |
| Transfer to other funds   | (100,000)   | (75,000)    | (25,000)             | -                             | -                  | (200,000)     | (225,000)   |
| Net cash flows from noncapital financing activities   | (100,000)   | (75,000)    | (74,543)             | -                             | 495,000            | 245,457       | 270,000     |
| <b>Cash flows from capital and related financing activities:</b>                                      |             |             |                      |                               |                    |               |             |
| Principal paid on debt  | (350,000)   | (240,000)   | -                    | -                             | (220,312)          | (810,312)     | (1,055,635) |
| Interest paid on debt   | (337,316)   | (198,183)   | -                    | -                             | (242,788)          | (778,287)     | (804,486)   |
| Receipts from customers for construction  | 323,065     | 293,375     | 83,560               | -                             | -                  | 700,000       | 575,425     |
| Bond proceeds   | -           | -           | -                    | -                             | -                  | -             | -           |
| Acquisition of capital assets   | (213,403)   | (338,148)   | (31,294)             | -                             | -                  | (582,845)     | (1,096,043) |
| Net cash flows from capital and related financing activities  | (577,654)   | (482,956)   | 52,266               | -                             | (463,100)          | (1,471,444)   | (2,380,739) |
| <b>Cash flows from investing activities:</b>  |             |             |                      |                               |                    |               |             |
| Investment income   | 47,919      | 86,199      | 25,118               | 5,512                         | -                  | 164,748       | 186,478     |
| Net increase (decrease) in cash and cash equivalents  | 46,615      | (288,160)   | 184,666              | 27,426                        | (39,688)           | (69,141)      | (1,098,840) |
| Cash and cash equivalents - January 1   | 1,730,790   | 3,035,935   | 687,579              | 155,561                       | 55,785             | 5,665,650     | 6,764,490   |
| Cash and cash equivalents - December 31   | \$1,777,405 | \$2,747,775 | \$872,245            | \$182,987                     | \$16,097           | \$5,596,509   | \$5,665,650 |
| <b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b> |             |             |                      |                               |                    |               |             |
| Operating income (loss)   | (\$93,608)  | (\$235,615) | (\$31,626)           | \$10,491                      | (\$269,410)        | (\$619,768)   | (\$435,117) |
| Adjustments to reconcile operating income (loss) to net cash flows from operating activities:         |             |             |                      |                               |                    |               |             |
| Miscellaneous revenue   | 88,261      | 28,078      | 3,553                | -                             | 41,921             | 161,813       | 193,726     |
| Depreciation  | 678,661     | 364,665     | 184,645              | 9,938                         | 152,871            | 1,390,780     | 1,305,464   |
| Changes in assets and liabilities:  |             |             |                      |                               |                    |               |             |
| Decrease (increase) in accounts receivables   | (19,911)    | (12,192)    | 13,153               | (945)                         | 217                | (19,678)      | (55,755)    |
| Increase (decrease) in accounts payables  | 16,203      | 39,062      | 6,072                | 2,034                         | (2,638)            | 60,733        | (146,527)   |
| Increase (decrease) contracts payable   | 2,198       | (4,399)     | 7,986                | -                             | -                  | 5,785         | (27,842)    |
| Increase (decrease) in due to other governments   | (168)       | -           | -                    | -                             | 224                | 56            | (858)       |
| Increase (decrease) salaries payable  | 324         | (25)        | 759                  | -                             | 2,167              | 3,225         | (2,172)     |
| Increase (decrease) in compensated absences & OPEB  | 4,390       | 4,023       | (2,717)              | 396                           | 3,060              | 9,152         | (5,498)     |
| Total adjustments   | 769,958     | 419,212     | 213,451              | 11,423                        | 197,822            | 1,611,866     | 1,260,538   |
| Net cash provided by operating activities   | \$676,350   | \$183,597   | \$181,825            | \$21,914                      | (\$71,588)         | \$992,098     | \$825,421   |
| <b>Noncash investing, capital and financing activities:</b>   |             |             |                      |                               |                    |               |             |
| None  |             |             |                      |                               |                    |               |             |

**CITY OF WACONIA, MINNESOTA**  
**STATEMENT OF ASSETS AND LIABILITIES**  
**FIDUCIARY FUNDS**  
December 31, 2011

**Statement 9**

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|                      | <u>2011</u>           | <u>2010</u>           |
|----------------------|-----------------------|-----------------------|
| Assets:              |                       |                       |
| Cash and investments | <u>\$1,057</u>        | <u>\$1,057</u>        |
| Total assets         | <u><u>\$1,057</u></u> | <u><u>\$1,057</u></u> |
| Liabilities:         |                       |                       |
| Accounts payable     | <u>\$1,057</u>        | <u>\$1,057</u>        |
| Total liabilities    | <u><u>\$1,057</u></u> | <u><u>\$1,057</u></u> |

The accompanying notes are an integral part of these financial statements.

**Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Waconia, Minnesota (the City) is a statutory City governed by an elected mayor and four council members. The financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units by the Governmental Accounting Standards Board (GASB). The following is a summary of the significant accounting policies.

**A. FINANCIAL REPORTING ENTITY**

As required by accounting principles generally accepted in the United States of America, the financial statements of the reporting entity include those of the City and its component units. Generally, component units are legally separate organizations for which the officials of the primary government are financially accountable.

**COMPONENT UNITS**

The City of Waconia, Minnesota has two component units, the Economic Development Authority (EDA) and the Waconia Housing and Redevelopment Authority (HRA). Both the EDA and HRA are considered component units because the governing boards are substantively the same as that of the City and because the City is in a relationship of financial burden with each of the entities.

The financial position and results of operations of the EDA and HRA component units are presented using the blended method. Blended component units, although legally separate entities, are, in substance, part of the City's operations and as such are reported as Special Revenue Funds, Debt Service Funds, Capital Project Funds and Enterprise Funds. The component units include Governmental Funds using the modified accrual basis of accounting. Separate financial statements are not prepared for the EDA or HRA.

**RELATED ORGANIZATION**

The Waconia Fire Relief Association (the Association) is organized as a nonprofit organization, legally separate from the City, by its members to provide pension and other benefits to such members in accordance with Minnesota Statutes. The Association's Board of Trustees is appointed by the membership of the Association and not by the City Council. All funding is conducted in accordance with Minnesota Statutes, whereby state aid flows to the Association, tax levies are determined by the Association and are only reviewed by the City and the Association pays benefits directly to its members. The Association may certify tax levies to Carver County directly if the City does not carry out this function. Because the Association is fiscally independent of the City, the financial statements of the Association have not been included within the City's reporting entity.

**B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. 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 business-type activity is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or business-type activity. *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 or business-type activity and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or business type activity. Taxes and other items not included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the Proprietary Fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The City's only fiduciary funds are agency funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

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

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

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The City reports the following major governmental funds:

The *General fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Safari Island special revenue fund* accounts for the Safari Island operations. All revenues of the fund are committed for this purpose.

The *Permanent Improvement Revolving debt service fund* accounts for the debt service payments and financing activities of the City's PIR fund.

The *Permanent Improvement Revolving capital projects fund* accounts for the capital improvement activities of the City.

The City reports the following major proprietary funds:

The *Water Utility enterprise fund* accounts for the operations of the City's water utility.

The *Sewer Utility enterprise fund* accounts for the operations of the City's sewer utility.

The *Storm Water Utility enterprise fund* accounts for the operations of the City's storm water utility.

The *Street Light Utility enterprise fund* accounts for the operations of the City's street light utility.

The *Ice Arena enterprise fund* accounts for the operations of the City's ice arena.

Additionally, the City reports the following fund type:

*Crime Prevention Agency Fund* is used to account for assets held by the City as an agent for individuals, private organizations, and other governments. The fund is custodial in nature and does not involve measurement of results of operation.

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 statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are transactions that would be treated as revenues, expenditures or expenses if they involved external organizations, such as buying goods and services or payments in lieu of taxes, are similarly treated when they involve other funds of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services or privileges provided, 2) operating grants and contributions, and 3) capital grants and

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contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

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 of the enterprise funds are charges for service. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both assigned and unassigned resources are available for an allowable use, it is the City's policy to use assigned resources first, then unassigned resources as they are needed.

**D. BUDGETARY INFORMATION**

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the General, Special Revenue, Debt Service, Permanent Improvement Revolving and Enterprise Funds.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the appropriation, is not employed by the City because it is at present not considered necessary to assure effective budgetary control or to facilitate effective cash management.

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to or in December of each year, the City Council adopts an annual budget. The amounts shown in the financial statements as "budget" represent the original budgeted amount and all revisions made during the year.
2. Budgetary control for Capital Project Funds is accomplished through the use of project controls.
3. Appropriations are authorized by the City Council at the fund level, which are the legal levels of budgetary control. Administrative controls are maintained through the establishment of more detailed line item budgets.
4. Any changes in the total budget of each fund must be approved by a majority vote of the City Council.

During 2011, the General fund had actual expenditures of \$3,420,935. This amount was over budgeted expenditures by \$26,051. Safari Island Special Revenue Fund had actual expenditures of \$1,059,321. This amount was under budgeted expenditures by \$34,968.

**E. CASH AND INVESTMENTS**

Cash and investment balances from all funds are pooled and invested to the extent available in authorized investments. Investment income is allocated to individual funds on the basis of the fund's equity in the cash and investment pool.

The City provides temporary advances to funds that have insufficient cash balances by means of an advance from another fund shown as due from other funds in the advancing fund, and due to other funds in the fund with the deficit, until adequate resources are received.

Investments are stated at fair value, based upon quoted market prices as of the balance sheet date.

For purposes of the statement of cash flows, the Proprietary Funds consider all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. All of the cash and investments allocated to the Proprietary Fund types have original maturities of 90 days or less. Therefore the entire balance in such fund types is considered cash equivalents.

**F. PROPERTY TAX REVENUE RECOGNITION**

The City Council annually adopts a tax levy and certifies it to the County in December of each year for collection in the following year. The County is responsible for billing and collecting all property taxes for itself, the City, the local School District and other taxing authorities. Such taxes become a lien on January 1 and are recorded as receivables by the City at that date. Real property taxes are payable (by property owners) on May 15 and October 15 of each calendar year. Personal property taxes are payable by taxpayers on February 28 and June 30 of each year. These taxes are collected by the County and remitted to the City on or before July 15 and December 15 of the same year. Delinquent collections for November and December are received the following January. The City has no ability to enforce payment of property taxes by property owners. The County possesses this authority.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The City recognizes property tax revenue in the period for which the taxes were levied. Uncollectible property taxes are not material and have not been reported.

GOVERNMENTAL FUND FINANCIAL STATEMENTS

The City recognizes property tax revenue when it becomes both measurable and available to finance expenditures of the current period. In practice, current and delinquent taxes and State credits received by the City in July, December and January are recognized as revenue for the current year. Taxes collected by the County by December 31 (remitted to the City the following January) and taxes and credits not received at year end are classified as property taxes receivable. The portion of delinquent taxes not collected by the City in January is fully offset by deferred revenue because they are not available to finance current expenditures.

#### **G. SPECIAL ASSESSMENT REVENUE RECOGNITION**

Special assessments are levied against benefited properties for the cost or a portion of the cost of special assessment improvement projects in accordance with State Statutes. These assessments are collectible by the City over a term of years usually consistent with the term of the related bond issue. Collection of annual installments (including interest) is handled by the County Auditor in the same manner as property taxes. Property owners are allowed to (and often do) prepay future installments without interest or prepayment penalties.

Once a special assessment roll is adopted, the amount attributed to each parcel is a lien upon that property until full payment is made or the amount is determined to be excessive by the City Council or court action. If special assessments are allowed to go delinquent, the property is subject to tax forfeit sale. Proceeds of sales from tax forfeit properties are remitted to the City in payment of delinquent special assessments. Pursuant to State Statutes, a property shall be subject to a tax forfeit sale after three years unless it is homesteaded, agricultural or seasonal recreational land in which event the property is subject to such sale after five years.

#### GOVERNMENT-WIDE FINANCIAL STATEMENTS

The City recognizes special assessment revenue in the period that the assessment roll was adopted by the City Council. Uncollectible special assessments are not material and have not been reported.

#### GOVERNMENTAL FUND FINANCIAL STATEMENTS

Revenue from special assessments is recognized by the City when it becomes measurable and available to finance expenditures of the current fiscal period. In practice, current and delinquent special assessments received by the City are recognized as revenue for the current year. Special assessments that are collected by the County by December 31 (remitted to the City the following January) are also recognized as revenue for the current year. All remaining delinquent, deferred and special deferred assessments receivable in governmental funds are completely offset by deferred revenues.

#### **H. INVENTORIES**

The original cost of materials and supplies has been recorded as expenditures at the time of purchase. The City does not maintain material amounts of inventories of goods and supplies.

#### **I. PREPAID ITEMS**

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

#### **J. CAPITAL ASSETS**

Capital assets which include; property, plant, equipment, infrastructure (e.g., roads, bridges, and sidewalks) and intangible assets (e.g., easements and computer software), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more

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than \$10,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

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. For the year ended December 31, 2011, no interest was capitalized in connection with construction in progress.

Property, plant and equipment of the primary government, as well as the component units, are depreciated using the straight line method over the following estimated useful lives:

| Assets                         |                 |
|--------------------------------|-----------------|
| Permanent Easements            | No Depreciation |
| Land                           | No Depreciation |
| Intangible Assets              | No Depreciation |
| Buildings                      | 40 years        |
| Improvements                   | 5 - 20 years    |
| Furniture, Equipment, Software | 5 - 10 years    |
| Vehicles                       | 5 - 20 years    |
| Infrastructure                 | 20 - 40 years   |

**K. RECEIVABLES AND PAYABLES**

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. Short-term interfund loans are classified as "due from other funds" or "due to other funds" on the balance sheet and are expected to be eliminated in 2011.

Long-term interfund loans, if any, are classified as "interfund loan receivable/payable." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Uncollectible property taxes and special assessments are not material and have not been reported. Notes receivable have been reported net of estimated uncollectible accounts which at December 31, 2011 was \$70,494. Because utility bills are considered liens on property, no estimated uncollectible amounts are established. Uncollectible amounts are not material for other receivables.

**L. COMPENSATED ABSENCES**

Employees accrue paid time off (PTO) based on years of service with the City. The maximum number of PTO hours that an employee may accrue is 432. Upon termination, employees are compensated for the full amount of unused PTO leave, provided they leave in good standing as specified in the personnel policy. Employees, who were eligible for an extended sick leave bank in 2009, were allowed to establish such a leave bank. No additional hours may be accrued to this bank and upon termination; a qualified employee will be compensated for 35% of their extended sick leave bank up to 336 hours. Accumulated PTO is accrued when incurred in proprietary funds. A liability for these amounts is reported in governmental funds only if they have matured,

for example, as a result of employee resignations and retirements. In accordance with the provisions of the Statement of Government Accounting Standards No. 16, *Accounting for Compensated Absences*, no liability is recorded for nonvesting accumulating rights to receive sick pay benefits.

#### M. LONG-TERM OBLIGATIONS

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. 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.

#### N. FUND BALANCE CLASSIFICATIONS

In the fund financial statements, governmental funds report fund balance in classifications that disclose constraints for which amounts in those funds can be spent. These classifications are as follows:

**Nonspendable** - consists of amounts that cannot be spent because they are not in spendable form, such as prepaid items.

**Restricted** - consists of amounts related to externally imposed constraints established by creditors, grantors, contributors; or constraints imposed by state statutory provisions.

**Committed** - consists of amounts that are constrained for specific purposes that are internally imposed by formal action (resolution) of the City Council. The committed amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by resolution.

**Assigned** – consists of amounts intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed:

- In governmental funds other than the General Fund, assigned fund balances represent the remaining amount that is not restricted or committed.
- In the General Fund, assigned amounts represent intended uses established by the governing body itself or by an official to which the governing body delegates the authority. Currently, no individual has been delegated this authority because no fund balance is assigned in the General Fund.

**Unassigned** – is the residual classification for the General Fund and also reflects negative residual amounts in other funds.

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

When committed, assigned or unassigned resources are available for use, it is the City's policy to use resources in the following order; 1) committed, 2) assigned, and 3) unassigned.

**O. INTERFUND TRANSACTIONS**

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

**P. RESTRICTED ASSETS**

Certain proceeds from the 2007 EDA Refunding Revenue Bonds and the 2011A Improvement Bonds have resources set aside for their repayment. These funds are classified as restricted assets in the financial statements. The funds are maintained in the City's bank account and their use is limited by the debt agreement.

**Q. NET ASSETS**

Net assets represent the difference between assets and liabilities in the government-wide 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 statements when there are limitations on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

**R. USE OF ESTIMATES**

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates that affect amounts reported in the financial statements during the reporting period. Actual results could differ from such estimates.

**S. RECLASSIFICATIONS**

Certain amounts in the prior year have been reclassified to conform with the current year presentation.

**T. COMPARATIVE TOTALS**

The basic financial statements and schedules and combining fund financial statements include certain prior-year summarized comparative information in total but not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the City's financial statements for the year ended December 31, 2010, from which the summarized information was derived.

**Note 2 DEPOSITS AND INVESTMENTS**

**A. DEPOSITS**

In accordance with Minnesota Statutes, the City maintains deposits at those depository banks authorized by the City Council, all of which are members of the Federal Reserve System.

Custodial Credit Risk - Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City has a deposit and investment policy which addresses custodial credit risk for deposits, stating the primary objectives, in priority order, of the investment activities shall be safety, liquidity and return. Minnesota Statutes require that insurance, surety bonds or collateral protect all City deposits. The market value of collateral pledged must equal 110% of deposits not covered by insurance or bonds. As of December 31, 2011, the bank balance of the City's deposits was covered by federal depository insurance or covered by collateral pledged and held in the City's name.

Minnesota Statutes require that securities pledged as collateral be held in safekeeping by the City Treasurer or in a financial institution other than that furnishing the collateral. Authorized collateral includes the following:

- a) United States government treasury bills, treasury notes and treasury bonds;
- b) Issues of United States government agencies and instrumentalities as quoted by a recognized industry quotation service available to the government entity;
- c) General obligation securities of any state or local government with taxing powers which is rated "A" or better by a national bond rating service, or revenue obligation securities of any state or local government with taxing powers which is rated "AA" or better by a national bond rating service;
- d) General obligation securities of a local government with taxing powers may be pledged as collateral against funds deposited by that same local government entity;
- e) Irrevocable standby letters of credit issued by Federal Home Loan Banks to a municipality accompanied by written evidence that the bank's public debt is rated "AA" or better by Moody's Investors Service, Inc. or Standard & Poor's Corporation; and
- f) Time deposits that are fully insured by any Federal agency.

At December 31, 2011 the carrying amount of the City's deposits with financial institutions was \$5,232,287.

**B. INVESTMENTS**

Minnesota Statutes authorize the City to invest in the following:

- a) Direct obligations or obligations guaranteed by the United States or its agencies, its instrumentalities or organizations created by an act of congress, excluding mortgage-backed securities defined as high risk.
- b) Shares of investment companies registered under the Federal Investment Company Act of 1940 and whose only investments are in securities described in (a) above, general obligation tax-exempt securities, or repurchase or reverse repurchase agreements.
- c) State and local securities as follows:
  - 1) any security which is a general obligation of any state or local government with taxing powers which is rated "A" or better by a national bond rating service;
  - 2) any security which is a revenue obligation of any state or local government with taxing powers which is rated "AA" or better by a national bond rating service; and
  - 3) a general obligation of the Minnesota housing finance agency which is a moral obligation of the State of Minnesota and is rated "A" or better by a national bond rating agency.
- d) Bankers acceptance of United States banks.
- e) Commercial paper issued by United States corporations or their Canadian subsidiaries, of the highest quality, and maturing in 270 days or less.
- f) Repurchase or reverse repurchase agreements 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; certain Minnesota securities broker-dealers; or, a bank qualified as a depositor.
- g) General obligation temporary bonds of the same governmental entity issued under section 429.091, subdivision 7; 469.178, subdivision 5; or 475.61, subdivision 6.

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As of December 31, 2011 the City had the following investments and maturities:

| Investment Type                 | Rating | Fair Value          | Investment Maturities (in Years) |                    |                     |
|---------------------------------|--------|---------------------|----------------------------------|--------------------|---------------------|
|                                 |        |                     | Less Than 1                      | 1-5                | 6-10                |
| Money Market                    | NR     | \$28,823            | \$28,823                         | \$ -               | \$ -                |
| Brokered CD's                   | NR     | \$6,596,599         | 1,755,390                        | 4,697,565          | 143,645             |
| Federal Farm Credit Banks       | AA+    | 466,963             | -                                | 466,963            | -                   |
| Federal Home Loan Banks         | AA+    | 571,062             | -                                | 215,176            | 355,886             |
| Federal Home Loan Mortgage Corp | Aaa    | 801,903             | -                                | -                  | 801,903             |
| Municipal Bonds                 | A+     | 422,988             | -                                | 422,988            | -                   |
| Municipal Bonds                 | Aa1    | 417,577             | -                                | 417,577            | -                   |
| Municipal Bonds                 | Aa2    | 535,576             | -                                | 535,576            | -                   |
| Municipal Bonds                 | AAA    | 322,440             | -                                | 322,440            | -                   |
| <b>Total</b>                    |        | <b>\$10,163,931</b> | <b>\$1,784,213</b>               | <b>\$7,078,284</b> | <b>\$1,301,434</b>  |
|                                 |        |                     | Total investments                |                    | \$10,163,931        |
|                                 |        |                     | Deposits                         |                    | 5,232,287           |
|                                 |        |                     | Restricted cash in escrow        |                    | 12,148,571          |
|                                 |        |                     | Petty cash                       |                    | 800                 |
|                                 |        |                     | Total cash and investments       |                    | <u>\$27,545,589</u> |

Following is a reconciliation of the City's cash and investment balances as of December 31, 2011:

|  |                     |
|--|---------------------|
| Cash and investments (statement 1)           | \$15,395,961        |
| Restricted cash in escrow (statement 1)      | 12,148,571          |
| Fiduciary cash and investments (statement 9) | 1,057               |
|  | <u>\$27,545,589</u> |

**C. INVESTMENT RISKS**

The City is authorized to invest in government securities, certificates of deposit, prime commercial paper, any security which is a general obligation of the State of Minnesota or any of its municipalities, state-wide investment pools which invest in authorized instruments according to Minnesota Statutes 118A and money market mutual funds which invest in authorized investments according to Minnesota Statutes 118A. Specific risk information for the City is as follows:  
Interest rate risk – This is the risk that market value of securities in a portfolio would decrease due to changes in market interest rates. The City's investment policy states the City will attempt to diversify its investments according to type and maturity. The portfolio, as much as possible, will contain both short-term and long-term investments. The City will attempt to match its investments with anticipated cash flow requirements.

Extended maturities may be utilized to take advantage of higher yields and to match investment maturities with debt obligation; however, no more than 20% of the total investments should extend beyond five years. Unless prior City Council approval is received, no investment with a maturity exceeding 10 years will be purchased. The City will attempt to diversify its investment portfolio according to broker-dealer or financial institutions. No more than 50% of the entire investments portfolio shall be held with one broker.

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Credit risk – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Minnesota Statutes 118A.04 and 118A.05 limits investments in the top two ratings issued by nationally recognized statistical rating organizations. The City’s investment policy does not specifically address credit risk.

Custodial credit risk – investments – For an investment, this is the risk that in the event of the failure of the counterparty, the City will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The City’s investment policy addresses this risk and states that when a broker-dealer holds investments purchased by the City in safekeeping, the broker must provide asset protection of \$500,000 through the Securities Investor Protector Corporation (SIPC) and at least another \$49.5 million of supplemental insurance protections. As of December 31, 2011, all investments of the City were insured, registered and held by the City or its agent in the City’s name.

Concentration of credit risk – This is the risk of loss attributed to the magnitude of an investment in a single issuer. The City’s investment policy has addressed concentration of credit risk as to diversification so the impact of potential losses from any one type of security or from any one individual issuer will be minimized. The City’s investment policy states the City will attempt to diversify their investments according to type and maturity. As of December 31, 2011, the City was exposed to concentration of credit risk because individual investments noted below were equal to or exceeded 5% of the City’s total investment portfolio:

|                                       |    |
|---------------------------------------|----|
| Federal Home Loan Mortgage Corp Notes | 5% |
|---------------------------------------|----|

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**Note 3 RECEIVABLES**

Significant receivables balances not expected to be collected within one year of December 31, 2011 are as follows:

|                                | Primary Government |                                     |                  | Total              |
|--------------------------------|--------------------|-------------------------------------|------------------|--------------------|
|                                | Major Funds        |                                     |                  |                    |
|                                | General            | Permanent Improvement Revolving DSF | Non major Funds  |                    |
| Special assessments receivable | \$ -               | \$5,912,596                         | \$ -             | \$5,912,596        |
| Property taxes receivable      | 40,048             | 24,492                              | 1,419            | 65,959             |
| Notes receivable               | 8,095              | -                                   | 541,829          | 549,924            |
| Interfund loan receivable      | 100,000            | -                                   | -                | 100,000            |
| Other receivables              | 30,089             | -                                   | -                | 30,089             |
| <b>Total</b>                   | <b>\$178,232</b>   | <b>\$5,937,088</b>                  | <b>\$543,248</b> | <b>\$6,658,568</b> |

Further details regarding the uncertainty of collection of special assessments receivable can be found at Note 9D.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

|   | Unavailable        | Unearned    |
|---|--------------------|-------------|
| Delinquent property taxes receivable (General Fund)                 | \$94,403           | \$ -        |
| Delinquent property taxes receivable (PIR Debt Service Fund)        | 57,733             | -           |
| Delinquent property taxes receivable (Nonmajor Funds)               | 3,344              | -           |
| Special assessments not yet due (PIR Debt Service Fund)             | 3,677,354          | -           |
| Delinquent special assessments receivable (General Fund)            | 136                | -           |
| Delinquent special assessments receivable (PIR Debt Service Fund)   | 610,774            | -           |
| Developer agreements receivable not yet due (PIR Debt Service Fund) | 1,873,279          | -           |
| Developer note receivable not yet due (Nonmajor Funds)              | 211,806            | -           |
| <b>Total deferred/unearned revenue</b>                              | <b>\$6,528,829</b> | <b>\$ -</b> |

**CITY OF WACONIA, MINNESOTA**  
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**Note 4 INTERFUND LOANS RECEIVABLE/PAYABLE AND TRANSFERS**

The City Council has approved two interfund loans. The first loan completed in 2006 was from the Special Revenue fund committed for Economic Development to the Ice Arena fund for start-up expenditures. Another loan was approved in 2009 from the Special Revenue fund committed for Economic Development to the General Fund and Storm Water Fund for the voluntary buyout option financing costs. The City Council approved the close of the Special Revenue fund committed for Economic Development in 2011 in accordance with GASB Statement No. 54. Because of the close of this fund, the loan receivables and payable are now recognized in the general fund.

Amounts reported as interfund receivable/payable at December 31, 2011 are as follows:

| Major Funds: | <u>Interfund Loan<br/>Receivable</u> | <u>Interfund Loan<br/>Payable</u> |
|--------------|--------------------------------------|-----------------------------------|
| General Fund | 100,000                              | -                                 |
| Ice Arena    | -                                    | 100,000                           |
| Total        | <u>\$100,000</u>                     | <u>\$100,000</u>                  |

Interfund transfers:

|                 | <u>General</u>     | <u>Safari<br/>Island</u> | <u>Permanent<br/>Improvement<br/>Revolving DSF</u> | <u>Ice Arena</u> | <u>Nonmajor</u>  | <u>Total</u>       |
|-----------------|--------------------|--------------------------|--|------------------|------------------|--------------------|
| Transfers out:  |                    |                          |  |                  |                  |                    |
| General Fund    |                    | \$165,800                |  | \$495,000        | \$165,000        | \$825,800          |
| PIR Capital     |                    |                          | 650,000  |                  |                  | \$650,000          |
| Nonmajor Funds  | 910,433            |                          |  |                  |                  | \$910,433          |
| Water Fund      | 100,000            |                          |  |                  |                  | \$100,000          |
| Sewer Fund      | 75,000             |                          |  |                  |                  | \$75,000           |
| Stormwater Fund | 25,000             |                          |  |                  |                  | \$25,000           |
| Totals          | <u>\$1,110,433</u> | <u>\$165,800</u>         | <u>\$650,000</u>                                   | <u>\$495,000</u> | <u>\$165,000</u> | <u>\$2,586,233</u> |

Interfund transfers allow the City to allocate financial resources to the funds that receive benefit from services provided by another fund or to establish or close out funds. All of the City's interfund transfers fall under that category. All of the 2011 transfers are considered routine and consistent with previous practices.

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**Note 5 CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2011 was as follows:

| <b>Primary Government</b>                    | <u>Beginning<br/>Balance</u> | <u>Increases</u>     | <u>Decreases</u>   | <u>Ending<br/>Balance</u> |
|--|------------------------------|----------------------|--------------------|---------------------------|
| Governmental activities:                     |                              |                      |                    |                           |
| Capital assets, not being depreciated:       |                              |                      |                    |                           |
| Land and land improvements                   | \$4,996,187                  | \$ -                 | \$ -               | \$4,996,187               |
| Permanent easements                          | 159,160                      | 60,799               | -                  | \$219,959                 |
| Construction in progress                     | 566,965                      | 1,028,575            | (916,071)          | \$679,469                 |
| Total capital assets, not being depreciated  | <u>5,722,312</u>             | <u>1,089,374</u>     | <u>(916,071)</u>   | <u>5,895,615</u>          |
| Capital assets, being depreciated:           |                              |                      |                    |                           |
| Buildings                                    | 47,337,794                   | -                    | -                  | 47,337,794                |
| Vehicles                                     | 2,562,411                    | 720,915              | (17,156)           | 3,266,170                 |
| Machinery and equipment                      | 1,689,153                    | 66,447               | (26,741)           | 1,728,859                 |
| Improvements                                 | 5,529,371                    | 73,776               | (28,731)           | 5,574,416                 |
| Infrastructure                               | 40,757,052                   | -                    | -                  | 40,757,052                |
| Total capital assets, not being depreciated  | <u>97,875,781</u>            | <u>861,138</u>       | <u>(72,628)</u>    | <u>98,664,291</u>         |
| Less accumulated depreciation for:           |                              |                      |                    |                           |
| Buildings                                    | 10,567,390                   | 1,223,815            | -                  | 11,791,205                |
| Vehicles                                     | 1,554,579                    | 184,037              | (16,298)           | 1,722,318                 |
| Machinery and equipment                      | 1,221,923                    | 116,968              | (23,084)           | 1,315,807                 |
| Improvements                                 | 2,776,795                    | 332,808              | (27,294)           | 3,082,309                 |
| Infrastructure                               | 14,471,450                   | 1,639,285            | -                  | 16,110,735                |
| Total accumulated depreciation               | <u>30,592,138</u>            | <u>3,496,913</u>     | <u>(66,676)</u>    | <u>34,022,374</u>         |
| Total capital assets being depreciated - net | <u>67,283,643</u>            | <u>(2,635,775)</u>   | <u>(5,951)</u>     | <u>64,641,917</u>         |
| Governmental activities capital assets - net | <u>\$73,005,956</u>          | <u>(\$1,546,401)</u> | <u>(\$922,022)</u> | <u>\$70,537,532</u>       |

**CITY OF WACONIA, MINNESOTA**  
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| <b>Business Type</b>                          | <u>Beginning<br/>Balance</u> | <u>Increases</u>   | <u>Decreases</u>   | <u>Ending<br/>Balance</u> |
|---|------------------------------|--------------------|--------------------|---------------------------|
| Business-type activities:                     |                              |                    |                    |                           |
| Capital assets, not being depreciated:        |                              |                    |                    |                           |
| Land and land improvements                    | \$206,045                    | \$ -               | \$ -               | \$206,045                 |
| Construction in progress                      | 1,501,570                    | 582,845            | (385,542)          | 1,698,873                 |
| Total capital assets, being depreciated       | <u>1,707,615</u>             | <u>582,845</u>     | <u>(385,542)</u>   | <u>1,904,918</u>          |
| Capital assets, being depreciated:            |                              |                    |                    |                           |
| Buildings                                     | 16,311,725                   | -                  | -                  | 16,311,725                |
| Machinery and equipment                       | 698,381                      | 113,587            | (41,133)           | 770,835                   |
| Vehicles                                      | 621,569                      | 26,786             | (5,301)            | 643,054                   |
| Improvements                                  | 203,063                      | -                  | -                  | 203,063                   |
| Infrastructure                                | 32,271,634                   | 245,169            | -                  | 32,516,803                |
| Total capital assets, being depreciated       | <u>50,106,371</u>            | <u>385,542</u>     | <u>(46,434)</u>    | <u>50,445,480</u>         |
| Less accumulated depreciation for:            |                              |                    |                    |                           |
| Buildings                                     | 2,067,207                    | 416,829            | -                  | 2,484,036                 |
| Machinery and equipment                       | 391,993                      | 47,735             | (41,133)           | 398,595                   |
| Vehicles                                      | 435,443                      | 37,886             | (5,301)            | 468,028                   |
| Improvements                                  | 88,608                       | 10,766             | -                  | 99,374                    |
| Infrastructure                                | 8,873,114                    | 877,564            | -                  | 9,750,678                 |
| Total accumulated depreciation                | <u>11,856,365</u>            | <u>1,390,780</u>   | <u>(46,434)</u>    | <u>13,200,711</u>         |
| Total capital assets being depreciated - net  | <u>38,250,006</u>            | <u>(1,005,237)</u> | <u>0</u>           | <u>37,244,769</u>         |
| Business-type activities capital assets - net | <u>\$39,957,621</u>          | <u>(\$422,392)</u> | <u>(\$385,542)</u> | <u>\$39,149,687</u>       |

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

|   |                    |
|---|--------------------|
| Governmental activities:  |                    |
| General government  | \$1,115,436        |
| Public safety   | 115,348            |
| Public works, including depreciation of general infrastructure assets | 1,820,882          |
| Parks and recreation  | 445,247            |
| Total depreciation expense - governmental activities                  | <u>\$3,496,913</u> |
| Business-type activities:   |                    |
| Water   | \$678,661          |
| Sewer   | 364,665            |
| Storm sewer   | 184,645            |
| Street lighting   | 9,938              |
| Ice arena   | 152,871            |
| Total depreciation expense - business-type activities                 | <u>\$1,390,780</u> |

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**Note 6 LONG-TERM DEBTS**

The City issues long-term debt to provide for the acquisition and construction of major capital facilities and improvement projects. The City's long-term debt is segregated between the amounts to be repaid from governmental activities and amounts to be repaid from business-type activities.

As of December 31, 2011, the long-term bonded debt of the financial reporting entity consisted of the following:

|                                       | Interest<br>Rates | Issue<br>Date | Maturity<br>Date | Original<br>Issue   | Payable<br>12/31/11 |
|---------------------------------------|-------------------|---------------|------------------|---------------------|---------------------|
| <b>Primary Government</b>             |                   |               |                  |                     |                     |
| Governmental Activities:              |                   |               |                  |                     |                     |
| G.O. Improvement Bonds:               |                   |               |                  |                     |                     |
| Improvement Bonds of 2002A            | 2.5% - 4.1%       | 6/3/2002      | 12/1/2012        | \$1,590,000         | \$150,000           |
| Improvement Bonds of 2007A            | 4.00%             | 3/1/2007      | 2/1/2018         | 17,000,000          | 12,620,000          |
| Improvement Bonds of 2010A            | 2% - 3.75%        | 10/13/2010    | 2/1/2028         | 3,390,000           | 3,081,394           |
| Improvement Bonds of 2011A            | 3.00%             | 9/13/2011     | 2/1/2018         | 11,265,000          | 11,265,000          |
| Improvement Bonds for Equipment 2011A | 3.00%             | 9/13/2011     | 2/1/2020         | 730,000             | 730,000             |
| Total G.O. Improvement Bonds          |                   |               |                  | <u>33,975,000</u>   | <u>27,846,394</u>   |
| Leases/Public Project Revenue Bonds:  |                   |               |                  |                     |                     |
| 2007 EDA Refunding Revenue Bonds      | 4.35% - 4.50%     | 10/1/2007     | 10/1/2022        | 1,838,283           | 1,444,824           |
| Capital leases:                       |                   |               |                  |                     |                     |
| EDA Public Project Bonds of 2007C     | 3.88% - 4.00%     | 3/20/2007     | 2/1/2029         | 6,120,000           | 5,515,000           |
| Safari Island Equipment Lease         | 8.0%              | 9/17/2008     | 8/17/2012        | 57,704              | 10,868              |
| Total capital leases                  |                   |               |                  | <u>6,177,704</u>    | <u>5,525,868</u>    |
| Bond Premium                          |                   |               |                  | N/A                 | 749,254             |
| Compensated absences                  |                   |               |                  | N/A                 | 198,043             |
| Total governmental activities         |                   |               |                  | <u>\$41,990,987</u> | <u>\$35,764,383</u> |
| Business-Type Activities:             |                   |               |                  |                     |                     |
| G.O. Revenue Bonds:                   |                   |               |                  |                     |                     |
| Water Revenue Bonds of 2006A          | 4.00% - 4.25%     | 6/7/2006      | 2/1/2026         | 3,275,000           | 2,725,000           |
| Sewer Revenue Bonds of 2006C          | 4.00% - 4.10%     | 9/26/2006     | 2/1/2026         | 5,105,000           | 4,300,000           |
| Water Revenue Bonds of 2007B          | 3.88% - 4.25%     | 3/1/2007      | 2/1/2027         | 6,115,000           | 5,245,000           |
| Sewer Revenue Refunding Bonds of 2009 | 2.5% - 3.75%      | 3/24/2009     | 6/1/2017         | 470,000             | 385,000             |
| Total G.O. Revenue Bonds              |                   |               |                  | <u>14,965,000</u>   | <u>12,655,000</u>   |
| Leases/Public Project Revenue Bonds:  |                   |               |                  |                     |                     |
| 2007 HRA Public Project Revenue Bonds | 2.45% - 4.40%     | 12/11/2007    | 12/11/2027       | 6,100,000           | 5,275,131           |
| Compensated absences                  |                   |               |                  |                     |                     |
| Total business-type activities        |                   |               |                  | <u>N/A</u>          | <u>85,970</u>       |
|                                       |                   |               |                  | <u>\$21,065,000</u> | <u>\$18,016,101</u> |

For the governmental activities, compensated absences are generally liquidated by the General Fund.

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Annual debt service requirements to maturity for long-term debt are as follows:

| Year Ending<br>December 31 | G.O. Improvement Bonds  |             | Capital Leases/Public<br>Project Revenue Bonds |             | G.O. Revenue Bonds       |             | Leases/Public<br>Project Revenue Bonds |             | Total              |              |
|----------------------------|-------------------------|-------------|--|-------------|--------------------------|-------------|--|-------------|--------------------|--------------|
|                            | Governmental Activities |             | Governmental Activities                        |             | Business-Type Activities |             | Business-Type Activities               |             | Primary Government |              |
|                            | Principal               | Interest    | Principal                                      | Interest    | Principal                | Interest    | Principal                              | Interest    | Principal          | Interest     |
| 2012                       | 12,881,394              | 661,686     | 331,770  | 275,790     | 610,000                  | 499,412     | 230,433                                | 232,667     | 14,053,597         | 1,669,555    |
| 2013                       | 1,980,000               | 413,094     | 335,768  | 262,069     | 630,000                  | 475,584     | 241,019                                | 222,081     | 3,186,787          | 1,372,827    |
| 2014                       | 2,035,000               | 354,469     | 350,856  | 248,068     | 665,000                  | 450,554     | 252,091                                | 211,008     | 3,302,947          | 1,264,099    |
| 2015                       | 2,100,000               | 293,656     | 366,179  | 233,446     | 690,000                  | 424,229     | 263,672                                | 199,427     | 3,419,851          | 1,150,758    |
| 2016                       | 2,170,000               | 230,444     | 381,746  | 218,192     | 720,000                  | 396,842     | 275,785                                | 187,314     | 3,547,531          | 1,032,792    |
| 2017                       | 2,235,000               | 165,231     | 392,568  | 202,391     | 755,000                  | 368,130     | 288,455                                | 174,645     | 3,671,023          | 910,397      |
| 2018                       | 2,195,000               | 99,669      | 413,658  | 185,935     | 790,000                  | 337,884     | 301,706                                | 161,393     | 3,700,364          | 784,880      |
| 2019                       | 275,000                 | 63,519      | 430,028  | 168,715     | 820,000                  | 305,946     | 315,566                                | 147,533     | 1,840,594          | 685,712      |
| 2020                       | 280,000                 | 55,991      | 446,691  | 150,815     | 805,000                  | 273,165     | 330,064                                | 133,036     | 1,861,755          | 613,007      |
| 2021                       | 190,000                 | 49,525      | 463,660  | 132,183     | 845,000                  | 239,551     | 345,227                                | 117,873     | 1,843,887          | 539,132      |
| 2022                       | 195,000                 | 44,109      | 457,768  | 112,759     | 885,000                  | 204,055     | 361,086                                | 102,013     | 1,898,854          | 462,936      |
| 2023                       | 200,000                 | 38,306      | 330,000  | 97,145      | 925,000                  | 166,754     | 377,675                                | 85,425      | 1,832,675          | 387,630      |
| 2024                       | 210,000                 | 32,156      | 345,000  | 83,814      | 975,000                  | 127,244     | 395,025                                | 68,075      | 1,925,025          | 311,289      |
| 2025                       | 215,000                 | 25,781      | 355,000  | 69,900      | 1,020,000                | 85,400      | 413,171                                | 49,927      | 2,003,171          | 231,008      |
| 2026                       | 220,000                 | 18,981      | 370,000  | 55,400      | 1,070,000                | 41,565      | 432,153                                | 30,946      | 2,092,153          | 146,892      |
| 2027                       | 230,000                 | 11,669      | 385,000  | 40,300      | 450,000                  | 9,562       | 452,003                                | 11,093      | 1,517,003          | 72,624       |
| 2028                       | 235,000                 | 3,966       | 400,000  | 24,600      | -                        | -           | -                                      | -           | 635,000            | 28,566       |
| 2029                       | -                       | -           | 415,000  | 8,300       | -                        | -           | -                                      | -           | 415,000            | 8,300        |
| Total                      | \$27,846,394            | \$2,562,252 | \$6,970,692                                    | \$2,569,822 | \$12,655,000             | \$4,405,875 | \$5,275,131                            | \$2,134,456 | \$52,747,217       | \$11,672,405 |

**CHANGE IN LONG-TERM LIABILITIES**

Long-term liability activity for the year ended December 31, 2011, was as follows:

|                                     | Balance<br>12/31/10 | Additions           | Reductions         | Balance<br>12/31/11 | Due Within<br>One Year |
|-------------------------------------|---------------------|---------------------|--------------------|---------------------|------------------------|
| <b>Governmental Activities:</b>     |                     |                     |                    |                     |                        |
| G.O. Improvement bonds              | \$18,308,935        | \$11,995,000        | \$2,457,541        | \$27,846,394        | \$12,881,394           |
| Leases/Public Project Revenue bonds | 1,546,075           | -                   | 101,251            | \$1,444,824         | 105,902                |
| Capital leases                      | 5,751,123           | -                   | 225,255            | \$5,525,868         | 225,868                |
| Bond Premium                        | -                   | 749,254             | -                  | \$749,254           | 93,657                 |
| Compensated absences                | 192,188             | 169,829             | 163,974            | \$198,043           | 162,119                |
| Total governmental activities       | <u>\$25,798,321</u> | <u>\$12,914,083</u> | <u>\$2,948,021</u> | <u>\$35,764,383</u> | <u>\$13,468,940</u>    |
| <b>Business Type Activities:</b>    |                     |                     |                    |                     |                        |
| G.O. Revenue bonds                  | \$13,245,000        | \$ -                | \$590,000          | \$12,655,000        | \$610,000              |
| Leases/Public Project Revenue bonds | 5,495,443           | -                   | 220,312            | \$5,275,131         | 230,433                |
| Compensated absences                | 79,853              | 63,564              | 57,447             | \$85,970            | 63,098                 |
| Total business type activities      | <u>\$18,820,296</u> | <u>\$63,564</u>     | <u>\$867,759</u>   | <u>\$18,016,101</u> | <u>\$903,531</u>       |

**REFUNDING & NEW ISSUES**

On September 13, 2011, the City issued \$11,995,000 in General Obligation Bonds Series 2011A with an average interest rate of 3.00% for refunding of General Obligation Improvement Bonds Series 2007A and 2006B in addition to new funds for the purchase of an aerial ladder fire truck.

The City advance refunded \$10,615,000 of outstanding 2007A Series Bonds with an average interest rate of 4.00%. The net proceeds were used to purchase U.S. government securities in the amount of

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\$11,156,212. Those securities were deposited in an irrevocable trust with an escrow agent to provide for the interest on the refunding bonds through the crossover date and called principal on the refunded bonds on February 1, 2012. The City advance refunded the 2007A General Obligation Improvement Bonds to reduce its total debt service payments over the next 7 years by \$877,734 and to obtain an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$841,661.

The City is responsible for the debt service of the refunded bonds through the crossover date (February 1, 2012) and the debt service of the refunding bonds after the crossover date. The debt service of the refunding bonds through the crossover date is payable from the escrow account. Assets held with the escrow agent total \$11,156,212 at December 31, 2011.

The financial statements present each bond issue and the escrow account assets pursuant to GASB No. 7. The effect on the financial statements is to report greater debt than, in substance, the City will be responsible for paying.

The refunding portion of the GO Bonds of 2011A are crossover refunding bonds whereby the City and the escrow agent are responsible for debt service payments as follows:

| Year Ending<br>December 31, | Refunded<br>Bonds Total | Refunding<br>Bonds Total | Debt Service Commitment |              |
|-----------------------------|-------------------------|--------------------------|-------------------------|--------------|
|                             |                         |                          | Escrow<br>Account       | City         |
| 2012                        | \$12,872,400            | \$281,298                | \$11,157,073            | \$1,996,625  |
| 2013                        | -                       | 1,924,000                | -                       | 1,924,000    |
| 2014                        | -                       | 1,924,350                | -                       | 1,924,350    |
| 2015                        | -                       | 1,928,125                | -                       | 1,928,125    |
| 2016                        | -                       | 1,935,175                | -                       | 1,935,175    |
| 2017                        | -                       | 1,940,425                | -                       | 1,940,425    |
| 2018                        | -                       | 1,948,800                | -                       | 1,948,800    |
| Total                       | \$12,872,400            | \$11,882,173             | \$11,157,073            | \$13,597,500 |

Along with the advance refunding, the City issued funds for the current refunding of General Obligation Improvement Bonds Series 2006B. The \$650,000 issue previously held an average interest rate of 4.50%. In total, the refunding of this bond reduced debt service payments over the next 6 years by \$53,098 with an economic gain of \$51,312.

In addition to the two bond refundings, the City issued \$730,000 of new debt for the purchase of an aerial ladder fire truck. The City purchased the used fire truck in August of 2011 and plans to levy for the annual debt service payments starting in 2012.

**LEASES/PUBLIC PROJECT REVENUE BONDS**

During 2000, the Waconia EDA entered into a lease agreement with Independent School District No. 110 for a portion of a building to be used for Community Center operations. As authorized by the Community Center Lease Agreement, the Waconia EDA also entered into an agreement to sublease the Community Center to the City. Community Center Public Project Revenue Bonds of \$3,250,000 were issued by the Waconia EDA during 2000 to fund a portion of the Community Center construction.

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During 2007, the Waconia EDA refunded the bonds in an amount of \$1,838,283, which amends the lease payments made by the City under a sublease agreement. The lease payments approximate debt service on the bonds.

During 2007, the Waconia HRA entered into a lease agreement to sublease the ice arena to the City. Public Project Revenue Bonds of 2007 of \$6,100,000 were issued by the Waconia HRA during 2007 to fund a portion of the ice arena construction. The lease payments approximate debt service on the bonds.

CAPITAL LEASES PAYABLE

EDA PUBLIC PROJECT BONDS OF 2007C (PUBLIC SERVICES FACILITY)

During 2007, the Waconia EDA issued \$6,120,000 Public Project Revenue Bonds of 2007C. The proceeds were used by the City for construction of a public services facility, which the City is leasing from the Waconia EDA with an option to purchase. Lease payments made by the City approximate the debt service on the bonds. The cost of the assets acquired through the lease was \$5,580,750 and accumulated depreciation on these assets at December 31, 2011 is \$537,713.

SAFARI ISLAND EQUIPMENT LEASE

During 2008, the City leased exercise equipment for the Safari Island Community Center. The present value of future minimum lease payments as of December 31, 2011 is \$10,868. The lease is payable in monthly installments and matures in August, 2012. The cost of the assets acquired through the lease was \$53,050 and accumulated depreciation on these assets at December 31, 2011 is \$10,080.

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**REVENUE PLEDGED**

Future revenue pledged for the payment of long-term debt is as follows:

| Bond Issue                      | Use of Proceeds             | Revenue Pledged                         |                               |                | Current Year                     |                             |                          |
|---------------------------------|-----------------------------|---|-------------------------------|----------------|----------------------------------|-----------------------------|--------------------------|
|                                 |                             | Type                                    | Percent of Total Debt Service | Term of Pledge | Remaining Principal and Interest | Principal and Interest Paid | Pledged Revenue Received |
| Improvement Bonds of 2002A      | Infrastructure improvements | Special assessments                     | 80%                           | 2002-2012      | \$156,225                        | \$162,300                   | \$ -                     |
| Improvement Bonds of 2011A      | Infrastructure improvements | Special assessments                     | 72%                           | 2011-2018      | \$12,590,048                     | \$ -                        | \$42,258                 |
| Improvement Bonds of 2007A      | Infrastructure improvements | Special assessments                     | 71%                           | 2007-2012      | \$12,872,400                     | \$2,055,200                 | \$909,364                |
| Safari Island Equipment Lease   | Exercise equipment          | User charges                            | 100%                          | 2008-2012      | \$11,197                         | \$16,796                    | \$897,220                |
| Water Revenue Bonds of 2006A    | Infrastructure improvements | Water usage charges                     | 100%                          | 2007-2025      | \$3,669,659                      | \$239,538                   | \$1,183,448              |
| Sewer Revenue Bonds of 2006C    | Infrastructure improvements | Sewer usage charges                     | 100%                          | 2007-2025      | \$5,768,212                      | \$372,695                   | \$1,565,415              |
| Water Revenue Bonds of 2007B    | Infrastructure improvements | Water usage charges                     | 100%                          | 2007-2026      | \$7,185,391                      | \$442,778                   | \$1,183,448              |
| Sewer Revenue Bonds of 2009A    | Infrastructure improvements | Sewer usage charges                     | 100%                          | 2010-2019      | \$437,613                        | \$57,438                    | \$1,565,415              |
| 2007 HRA Public Project Revenue | Ice Arena                   | Arena usage charges<br>WHA commitment * | 100%                          | 2008-2027      | \$7,409,587                      | \$463,099                   | \$270,599                |

\*The 2007 HRA Public Project Revenue Bonds issued for the purpose of constructing an ice arena have a commitment from the Waconia Hockey Association for a total annual capital contribution of \$50,000.

**Note 7 PENSION PLANS**

**A. PUBLIC EMPLOYEES RETIREMENT ASSOCIATION DEFINED BENEFIT PLANS**

**PLAN DESCRIPTION –**

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

GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan. All police officers, firefighters 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.

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

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

**FUNDING POLICY**

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The City makes annual contributions to the pension plans equal to the amount required by state statutes. GERF Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.25%, respectively, of their annual covered salary in 2011. PEPFF members were required to contribute 9.6% of their annual covered salary in 2011. The City is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan GERF members, 7.25% for Coordinated Plan GERF members, and 14.4% for PEPFF members. The City's contributions to the General Employees Retirement Fund for the years ending December 31, 2011, 2010, and 2009 were \$142,587, \$140,012, and \$146,942 respectively. The City's contributions were equal to the contractually required contributions for each year as set by state statute.

**B. RETIREMENT – WACONIA FIRE RELIEF ASSOCIATION**

PLAN DESCRIPTION

All members of the Waconia Fire Department are covered by a defined benefit plan administered by the Waconia Fire Relief Association. The plan is a single employer retirement plan and is established and administered in accordance with Minnesota Statute, Chapter 69. The Association is comprised of volunteers and therefore there is no covered payroll.

The Relief Association provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established in accordance with State Statute, and vest after ten years of credited service. The defined retirement benefits are based on a member’s years of service. Benefit provisions can be amended by the Relief Association within the parameters provided by State Statutes.

The Relief Association issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Waconia Fire Relief Association, 26 Maple Street South, Waconia, Minnesota, 55387.

FUNDING POLICY

Minnesota Statutes Chapter 69.772 sets the minimum contribution requirement for the City of Waconia and State Aid on an annual basis. These statutes are established and amended by the state legislature. The Association is comprised of volunteers; therefore, members have no contribution requirements. During 2011, the City recognized as revenue and as an expenditure on-behalf payments of \$54,120 made by the State of Minnesota for the Fire Relief Association. The City’s annual pension cost and related information for the three most recent years available (2008-2010) is as follows:

|   |                     |
|---|---------------------|
| Annual pension cost - total             | \$70,389            |
| Contributions made                      |                     |
| City                                    | \$24,000            |
| State aid - pass-through                | \$46,389            |
| Actuarial valuation date                | 12/31/10            |
| Actuarial cost method                   | Entry age normal    |
| Amortization method                     | Level dollar Closed |
| Remaining amortization period:          |                     |
| Normal cost                             | 20 years            |
| Prior service cost                      | 10 years            |
| Asset valuation method                  | Market              |
| Statutory assumptions:                  |                     |
| Investment rate of return               | 5%                  |
| Administrations expense increase        | 3.5%                |
| State aid contribution                  | 100%                |
| Amortization of pension benefit surplus | 10%                 |

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**THREE-YEAR TREND INFORMATION**

| <u>Year Ended</u> | <u>Annual Pension Cost (APC)</u> | <u>Percentage of APC Contributed</u> | <u>Net Pension Obligation</u> |
|-------------------|----------------------------------|--------------------------------------|-------------------------------|
| 12/31/2008        | 59,977                           | 100%                                 | -                             |
| 12/31/2009        | 52,919                           | 100%                                 | -                             |
| 12/31/2010        | 70,389                           | 100%                                 | -                             |

**REQUIRED SUPPLEMENTARY INFORMATION**

| <u>Valuation Date</u> | <u>Statutory Value of Assets</u> | <u>Statutory Accrued Liability (AAL)</u> | <u>(Unfunded)/ Assets in Excess of SAL (USAL)</u> | <u>Funded Ratio</u> |
|-----------------------|----------------------------------|--|---|---------------------|
| 12/31/2008            | 628,574                          | 908,671                                  | (280,097)   | 69%                 |
| 12/31/2009            | 849,143                          | 984,203                                  | (135,060)   | 86%                 |
| 12/31/2010            | 987,131                          | 988,230                                  | 1,099   | 100%                |

**Note 8 OTHER POST-EMPLOYMENT BENEFITS**

In 2009, the City prospectively implemented the requirement of a new accounting pronouncement, GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*.

**A. PLAN DESCRIPTION**

In addition to providing the pension benefits described in Note 7, the City provides post-employment health care benefits (as defined in paragraph B) for retired employees through a single-employer defined benefit plan. The City of Waconia, Minnesota OPEB plan is administered by the City. The authority to provide these benefits is established in Minnesota Statutes Sections 471.61 Subd. 2a, and 299A.465. The benefits, benefit levels, employee contributions and employer contributions are governed by the City and can be amended by the City through its personnel manual and collective bargaining agreements with employee groups. The Plan is not accounted for as a trust fund, as an irrevocable trust has not been established to account for the plan. The Plan does not issue a separate report.

**B. BENEFITS PROVIDED**

Retirees

The City is required by State Statute to allow retirees to continue participation in the City's group health insurance plan if the individual terminates service with the City through service retirement or disability retirement. Employees who satisfy the rule of 90 or attain age 55 and have completed 3 years of service at termination can immediately commence medical benefits. Retirees may obtain dependent coverage while the participating retiree is under age 65. Covered spouses may

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continue coverage after the retiree's death. The surviving spouse of an active employee may continue coverage in the group health insurance plan after the employee's death.

All health care coverage is provided through the City's group health insurance plans. The retiree is required to pay 100% of their premium cost for the City-sponsored group health insurance plan in which they participate. The premium is a blended rate determined on the entire active and retiree population. Since the projected claims costs for retirees exceed the blended premium paid by retirees, the retirees are receiving an implicit rate subsidy (benefit). The coverage levels are the same as those afforded to active employees. Upon a retiree reaching age 65 years of age, Medicare becomes the primary insurer and the City's plan becomes secondary.

**C. PARTICIPANTS**

As of the most recent valuation dated January 1, 2009 participants consisted of:

|   |           |
|---|-----------|
| Retirees and beneficiaries currently purchasing health insurance through the City | 1         |
| Active employees  | <u>35</u> |
| Total   | <u>36</u> |
| Participating employers   | <u>1</u>  |

**D. FUNDING POLICY**

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

**E. ANNUAL OPEB COSTS AND NET OPEB OBLIGATION**

The City's annual other post employment benefit (OPEB) cost is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The net OPEB obligation as of December 31, 2011, was calculated as follows:

|   |                 |
|---|-----------------|
| Annual required contribution (ARC)      | \$26,773        |
| Interest on net OPEB obligation         | 1,115           |
| Adjustment to ARC                       | <u>(1,612)</u>  |
| Annual OPEB cost                        | 26,276          |
| Contributions made during the year      | <u>(12,379)</u> |
| Increase in net OPEB obligation         | 13,897          |
| Net OPEB obligation - beginning of year | <u>27,881</u>   |
| Net OPEB obligation - end of year       | <u>\$41,778</u> |

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The net OPEB obligation is allocated as follows:

|                           |                 |
|---------------------------|-----------------|
| Governmental Activities:  | \$30,201        |
| Business Type Activities: | <u>\$11,577</u> |
|                           | <u>\$41,778</u> |

For governmental activities, the net OPEB obligation is generally liquidated by the General Fund. The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2009, 2010, and 2011 are listed below:

| Fiscal Year<br>Ended | Annual OPEB<br>Cost | Employer<br>Contributions | Percentage of<br>Annual OPEB Cost<br>Contributed | Net OPEB<br>Obligation |
|----------------------|---------------------|---------------------------|--|------------------------|
| December 31, 2009    | \$25,161            | \$9,427                   | 37.5%  | \$15,734               |
| December 31, 2010    | \$25,790            | \$13,643                  | 52.9%  | \$27,881               |
| December 31, 2011    | \$26,276            | \$12,379                  | 47.1%  | \$41,778               |

**F. FUNDED STATUS AND FUNDING PROGRESS**

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

| Actuarial<br>Valuation<br>Date | Actuarial<br>Value of Assets<br>(a) | Actuarial<br>Accrued<br>Liability (AAL)*<br>(b) | Unfunded<br>Actuarial<br>Accrued<br>Liability (UAAL)<br>(b-a) | Funded<br>Ratio<br>(a/b) | Covered<br>Payroll<br>(c) | UAAL as a<br>Percentage of<br>Covered Payroll<br>( (b-a) / c ) |
|--------------------------------|-------------------------------------|---|---|--------------------------|---------------------------|--|
| January 1, 2009                | \$ -                                | \$171,863                                       | \$171,863   | 0.0%                     | \$2,620,456               | 6.6%   |

\*Using the entry age normal actuarial pay cost method.

**G. ACTUARIAL METHODS AND ASSUMPTIONS**

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

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the

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

In the January 1, 2009 actuarial valuation, the Projected Unit Credit cost method was used. The actuarial assumptions included a 4.0% investment rate of return (net of administrative expenses) and an initial annual health care cost trend rate of 10% reduced by .5% each year to arrive at an ultimate health care cost trend rate of 5.0%. The actuarial value of assets was \$0. The plan's unfunded actuarial accrued liability is being amortized as a level dollar amount over 30 years on an open basis. The remaining amortization period at December 31, 2011, was 27 years.

**Note 9 CONTINGENCIES**

**A. LITIGATION**

The City attorney has indicated that existing and pending lawsuits, claims and other actions in which the City is a defendant are either covered by insurance; of an immaterial amount; or, in the judgment of the City attorney, remotely recoverable by plaintiffs.

**B. FEDERAL AND STATE FUNDS**

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

**C. TAX INCREMENT DISTRICTS**

The City's tax increment districts are subject to review by the State of Minnesota Office of the State Auditor (OSA). Any disallowed claims or misuse of tax increments could become a liability of the applicable fund. Management has indicated that they are not aware of any instances of noncompliance which would have a material effect on the financial statements.

**D. COLLECTION OF SPECIAL ASSESSMENTS RECEIVABLE**

The City of Waconia and Plowshares Development, Inc. entered into a master development agreement on July 13, 2007 for development and infrastructure improvements otherwise known as the Interlaken Development. The City issued 429 Special Assessment Bonds in order to finance the improvements. Special Assessments were certified to the tax rolls with the first scheduled assessment principal and interest payments due in 2008.

In late 2008, the City was notified that Plowshares Development failed to make the second half special assessment payment due in 2008. As expected, the City did not receive scheduled special assessment payments from Plowshares Development in 2009 and 2010. The City received a payment in 2011 totaling \$89,645 which represented a portion of the judgement and court claim

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against Plowshares Development and Lakeland Construction. All special assessments and taxes are still due and payable on each parcel assessed which are currently bank owned.

The City is seeing increased turn over of these properties throughout 2011. In addition, as of December 31, 2011 additional claims were pending in court for those assessments identified as "Parcel C." The City anticipates to collect portions of this assessments from the land owners when the area is annexed into the City and a final plat is approved by a developer.

The City has budgeted for inter-fund transfers from the PIR capital project fund to the PIR debt service fund to ensure that cash is available for the bond payments. Total special assessments outstanding due from Plowshares Development at December 31, 2011 are approximately \$3,000,212, including \$609,351 of delinquent assessments.

**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 subject to a deductible of \$500 per occurrence. 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 various amounts. For property and casualty coverage, the City has a \$500 deductible per occurrence with no annual maximum.

The City carries commercial insurance for all other risks of loss, including life, employee health and accident 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 fiscal years.

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**Note 11 CONDUIT DEBT**

The City issued debt on behalf of the following entities to provide financial assistance for projects that are deemed to be in the public interest. The City is not obligated in any matter, as the bonds do not constitute a general obligation or indebtedness of the City, and are payable solely from revenues pledged from the entities below. At December 31, 2011, the aggregate principal amount of the conduit debt obligation outstanding amounted to:

| <u>Entity</u>              | <u>Principal<br/>Balance</u> |
|----------------------------|------------------------------|
| St. Joseph Catholic School | \$1,058,695                  |
| Trinity Lutheran School    | 3,789,406                    |
| Good Samaritan             | 935,000                      |
| Millitronics               | 980,000                      |
| Auburn Meadows             | 8,500,000                    |
| Ridgeview Medical Center   | <u>3,187,859</u>             |
| Total                      | <u>\$18,450,960</u>          |

**Note 12 LEASE REVENUE**

**A. CELL TOWER LEASE REVENUE**

The City receives revenue from agreements for the lease of space above its water towers and on City property to communication companies. The space is used for antennas and other equipment necessary to provide radio communications. For accounting purposes, the leases are considered operating leases. Lease revenue for the year ended December 31, 2011 totaled \$139,927. Terms of each lease are as follows:

| <u>Lessee</u>   | <u>Terms</u>                                 | <u>Current Term</u>  |
|-----------------|--|----------------------|
| AT&T            | \$17,405 per year with 4.5% annual increases | 1/1/2008-12/31/2012  |
| T-Mobile        | \$14,570 per year with 4.5% annual increases | 1/1/2008-12/31/2012  |
| Verizon         | \$18,506 per year with 5% annual increases   | 1/1/2007-12/31/2011  |
| Sprint/Nextel   | \$23,619 per year with 5% annual increases   | 1/1/2006-12/31/2015  |
| Sprint/Nextel   | \$15,225 per year with 5% annual increases   | 1/1/2004-12/31/2013  |
| Sprint/Spectrum | \$22,500 per year with 4% annual increases   | 8/25/2010-12/31/2015 |
| TIM             | \$3,600 per year with 4% annual increases    | 9/1/2009-9/1/2012    |

**B. OLD PUBLIC WORKS FACILITY**

The City receives revenue for the lease of the old public works facility at 1250 Highway 284 which at year end had a cost of \$267,233 and a net book value of \$101,966. For accounting purposes, the lease is considered an operating lease. The lease agreement requires monthly base rent payments of \$3,210 through June 2016. Upon expiration of the initial term, the term of the lease automatically renews for successive terms of one year each until either the City or lessee gives written notice of termination. For each renewal term, the base rent amount shall be an amount equal to the base rent paid during the preceding year plus four percent (4%).

The lease agreement requires additional rent equal to the tenant's share of operating costs. For 2011, the monthly base rent was \$3,210 and the monthly additional rent was \$712.

In addition to the lease listed above, the City entered into a second lease at this facility with another party that commenced on August 1, 2011. For accounting purposes, the lease is considered an operating lease. The lease agreement requires monthly base rent payments of \$1,000 and is a month to month lease with 30 days notice of termination.

**C. RIDGEVIEW MEDICAL CENTER**

The City receives revenue for the lease of the hospital known as Ridgeview Medical Center, which at year end had a cost of \$34,968,602 and a net book value of \$25,343,194. For accounting purposes, the lease is considered an operating lease. The initial lease term is for the period January 1, 2000 to December 31, 2029. Provided the lessee is then in material compliance with all terms and conditions of the lease agreement, the lessee may renew the agreement for one additional term of January 1, 2030 to December 31, 2059.

The lease agreement requires the lessee to pay "base rent" and "additional rent." The base rent is an amount equal to the debt service on debt obligations that were outstanding at the inception of the lease. These debt obligations have been extinguished.

As payment for the non-bond financed assets, the lessee will pay additional rent ("additional rent") to the City. The additional rent for years 1 through 10 of the initial term shall equal the hospital system's 7 year rolling average of income from operations (beginning with the average for fiscal years 1993 through 1999), with a minimum annual payment of \$325,000 and a maximum annual payment of \$425,000 per year.

During the years 11-20, 21-30 (and 31-40, 41-50 and 51-60, if lessee renews the agreement pursuant to Section 2.2 of the agreement) of the term, additional rent shall be determined by the same formula as above, except the minimum annual payment for each applicable ten-year period shall be equal to the average of the annual payments made by lessee to the City during the previous ten years of annual payments. The maximum annual payment during each of such ten (10) year terms for each such period shall be \$100,000 more than the minimum.

Lease revenue for the year ended December 31, 2011 totaled \$325,000.

**D. SAFARI ISLAND COMMUNITY CENTER**

The City receives revenue from a shared use agreement with ISD No. 110. The term of the agreement is March 2000 through February 2030. The lease agreement requires payment of \$105,000 per year payable in twelve equal monthly payments for the first twenty years of the agreement. However, for each year of the first 20 years of the agreement, the annual amount payable shall be the payment amount for the preceding year increased by one percent (1%). For years 21 through 30, the annual payment shall be the payment amount for the preceding year without further increase.

**Note 13 TAX INCREMENT DISTRICTS**

The City of Waconia has three tax increment districts.

**A. TAX INCREMENT FINANCING DISTRICT NO. 1 (WORKFORCE HOUSING)**

Tax increment derived from the Workforce Housing TIF District is being used to make payments towards an outstanding tax increment pay-as-you-go revenue note. The note is not a general obligation of the City and is payable solely from available tax increments. Accordingly, the note is not reflected in the financial statements of the City. A summary of the note is as follows:

Tax Increment Revenue Note (MWF Properties, LLC Project) – issued in 2009 in the principal sum of \$300,000 with an interest rate of 6.50% per annum. Principal and interest payments shall be paid commencing September 1, 2010 and each March 1 and September 1 of each year thereafter to and including March 1, 2020. Payments are payable solely from tax increments, which shall mean 90% of the tax increments derived from the tax increment property and received by the City. The City shall have no obligation to pay unpaid balance of principal or accrued interest that may remain after the final payment on March 1, 2020. At December 31, 2011 the principal amount outstanding on the note was \$269,869.

**B. TAX INCREMENT FINANCING DISTRICT NO. 2 (AUBURN MEADOWS)**

Tax Increment District No. 2 was established in 2011, but has had no financial activity. Anticipated payments of tax increment will be received in 2012.

The district was created for development of a senior housing facility, day care center, and adult day care facility. Construction started on the senior housing facility portion of the project in late in 2011. The other portions of the project are expected to start and complete construction in 2012.

**C. TAX INCREMENT FINANCING DISTRICT NO.3 (CHERRY STREET)**

Tax Increment District No. 3 was established in 2011, but has had no financial activity. Anticipated payments of tax increment for this project are expected to be received in 2012.

The district was created for development of a restaurant facility (Ground Round), an expansion to the existing AmericInn Hotel, and an office condominium facility. Construction has not started on any portion of the projects associated with this tax increment district as of December 31, 2011. However, the restaurant facility (Ground Round) is expected to start construction in the spring 2012.

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**Note 14 FUND BALANCE**

**A. REPORTING AND DEFINITIONS**

The City adopted the provisions of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* for the year ending December 31, 2011. This standard changed fund balance classifications for governmental fund statements. Definitions for the new classifications are included in Note 1N.

The implementation of GASB Statement No. 54 also resulted in the reclassification of the Capital Equipment Fund and the Park Dedication Fund. These funds had been presented as nonmajor special revenue funds and have been reclassified as nonmajor capital project funds.

At December 31, 2011, a summary of the governmental fund balance classifications is as follows:

|  | General Fund        | Safari Island    | PIR Capital         | PIR Debt Service     | Other Governmental Activity | Total                |
|--|---------------------|------------------|---------------------|----------------------|-----------------------------|----------------------|
| Nonspendable - prepaid items                 | \$ 18,593           | \$ 812           | \$ -                | \$ -                 | \$ 1,170                    | \$ 20,575            |
| Restricted for debt service                  | -                   | -                | -                   | 15,546,446           | 184,975                     | 15,731,421           |
| Restricted for public education              | -                   | -                | -                   | -                    | 38,779                      | 38,779               |
| Restricted for economic development loans    | -                   | -                | -                   | -                    | 1,216,873                   | 1,216,873            |
| Restricted for park improvements             | -                   | -                | -                   | -                    | 191,093                     | 191,093              |
| Restricted for tourism                       | -                   | -                | -                   | -                    | 921                         | 921                  |
| Restricted for tax increment purposes        | -                   | -                | -                   | -                    | 17,058                      | 17,058               |
| Committed for economic development           | 873,835             | -                | -                   | -                    | -                           | 873,835              |
| Committed for Safari Island Community Center | -                   | 15,191           | -                   | -                    | -                           | 15,191               |
| Assigned for capital improvements            | -                   | -                | 2,013,121           | -                    | 527,858                     | 2,540,979            |
| Unassigned                                   | <u>1,133,609</u>    | -                | -                   | -                    | -                           | <u>1,133,609</u>     |
| Total  | <u>\$ 2,026,037</u> | <u>\$ 16,003</u> | <u>\$ 2,013,121</u> | <u>\$ 15,546,446</u> | <u>\$ 2,178,727</u>         | <u>\$ 21,780,334</u> |

**B. MINIMUM GENERAL FUND UNASSIGNED FUND BALANCE POLICY**

A healthy unassigned fund balance is needed to provide cash flow to pay expenditures when due. The City receives a majority of its tax collections and state aids twice a year. A healthy unassigned fund balance allows for cash flow while the City waits to receive its aids and taxes. The unassigned fund balance is also a security against unforeseen changes or needs, i.e. natural disasters, loss of state aids, etc.

The general fund unassigned fund balance should be approximately 50% of actual expenses of the general fund, less annual transfers. The unassigned fund balance of the general fund should never fall below 40% of operating expenditures. Should the unassigned fund balance fall below the 50% threshold, the City will strive toward regaining the minimum threshold during the next budget process and forecast the timing of the unassigned fund balance improvement within the long-term financial plan.

**Note 15 RECENTLY ISSUED ACCOUNTING STANDARDS**

The Governmental Accounting Standards Boards (GASB) recently approved the following statements which were not implemented for these financial statements, but may affect the City in future years:

**Statement No. 61** *The Financial Reporting Entity Omnibus – An Amendment of GASB No. 14 and No. 34.* The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2012.

**Statement No. 62** *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.* The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2011.

**Statement No. 63** *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.* The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2011.

**Statement No. 64** *Derivative Instruments: Application of Hedge Accounting Termination Provisions – An Amendment of GASB No. 53.* The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2011.

**Statement No. 65** *Items Previously Reported as Assets & Liabilities.* The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012.

**Statement No. 66** *Technical Corrections – 2012 – An Amendment of GASB No.10 and No.62.* The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012.

The effect these standards may have on future financial statements is not determinable at this time.

**Note 16 PRIOR PERIOD ADJUSTMENT**

During 2011, the City recorded a developer receivable in the amount of \$1,104,004. This amount is owed to the City as a result of reimbursable infrastructure improvements completed by the City during 2007 and should have been recorded at that time. Accordingly, beginning net assets on the Statement of Activities have been restated at January 1, 2011. The restatement has no effect on fund balance.

## **REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF WACONIA, MINNESOTA**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND (101)**  
For The Year Ended December 31, 2011  
With Comparative Actual Amounts For The Year Ended December 31, 2010

|                                     | Budgeted Amounts |                  | 2011 Actual<br>Amounts | Variance with<br>Final Budget -<br>Positive<br>(Negative) | 2010 Actual<br>Amounts |
|-------------------------------------|------------------|------------------|------------------------|---|------------------------|
|                                     | Original         | Final            |                        |   |                        |
| <b>Revenues:</b>                    |                  |                  |                        |   |                        |
| Property taxes                      | \$2,680,236      | \$2,680,236      | \$2,789,051            | \$108,815   | \$2,832,455            |
| Licenses and permits                | 436,965          | 436,965          | 359,828                | (77,137)  | 374,383                |
| <b>Intergovernmental:</b>           |                  |                  |                        |   |                        |
| Market value credit aid             | -                | -                | 718                    | 718   | 653                    |
| Fire aid                            | 43,000           | 43,000           | 54,120                 | 11,120  | 46,389                 |
| Other grants and aids               | 85,843           | 85,843           | 73,807                 | (12,036)  | 85,886                 |
| <b>Charges for services:</b>        |                  |                  |                        |   |                        |
| General government                  | 693,037          | 698,037          | 717,282                | 19,245  | 583,016                |
| Public safety                       | 99,500           | 99,500           | 107,205                | 7,705   | 115,092                |
| Public works                        | 6,500            | 6,500            | 8,107                  | 1,607   | 5,170                  |
| Parks and recreation                | 21,150           | 21,150           | 26,438                 | 5,288   | 23,268                 |
| Fines and forfeits                  | 28,500           | 28,500           | 28,030                 | (470)   | 26,171                 |
| Investment income                   | 180,000          | 180,000          | 9,835                  | (170,165)   | 163,111                |
| Contributions and donations         | 10,150           | 10,150           | 28,075                 | 17,925  | 14,100                 |
| Total revenues                      | <u>4,284,881</u> | <u>4,289,881</u> | <u>4,202,496</u>       | <u>(87,385)</u>   | <u>4,269,694</u>       |
| <b>Expenditures:</b>                |                  |                  |                        |   |                        |
| <b>General government:</b>          |                  |                  |                        |   |                        |
| Mayor and council                   | 20,900           | 20,900           | 20,322                 | 578   | 15,235                 |
| Administrative and finance          | 704,303          | 671,371          | 711,558                | (40,188)  | 828,126                |
| Other general government            | 609,279          | 636,813          | 639,696                | (2,883)   | 452,741                |
| Total general government            | <u>1,334,482</u> | <u>1,329,084</u> | <u>1,371,576</u>       | <u>(42,492)</u>   | <u>1,296,102</u>       |
| <b>Public safety:</b>               |                  |                  |                        |   |                        |
| Police                              | 563,340          | 563,340          | 562,969                | 371   | 561,841                |
| Fire                                | 259,080          | 259,080          | 289,003                | (29,923)  | 259,398                |
| Other public safety                 | 118,625          | 118,625          | 78,064                 | 40,561  | 67,618                 |
| Total public safety                 | <u>941,045</u>   | <u>941,045</u>   | <u>930,036</u>         | <u>11,009</u>   | <u>888,857</u>         |
| <b>Public works:</b>                |                  |                  |                        |   |                        |
| <b>Streets and highways:</b>        |                  |                  |                        |   |                        |
| Street maintenance and storm sewers | 650,882          | 662,666          | 661,649                | 1,017   | 600,061                |
| Snow and ice removal                | 66,000           | 60,000           | 60,631                 | (631)   | 92,033                 |
| Total public works                  | <u>716,882</u>   | <u>722,666</u>   | <u>722,281</u>         | <u>386</u>  | <u>692,094</u>         |
| Parks and recreation                | <u>402,276</u>   | <u>402,089</u>   | <u>397,043</u>         | <u>5,046</u>  | <u>418,969</u>         |
| <b>Debt service:</b>                |                  |                  |                        |   |                        |
| Principal                           | -                | -                | -                      | -   | 105,000                |
| Interest and other charges          | -                | -                | -                      | -   | 174,616                |
| Total debt service                  | <u>0</u>         | <u>0</u>         | <u>0</u>               | <u>0</u>  | <u>279,616</u>         |
| Total expenditures                  | <u>3,394,684</u> | <u>3,394,884</u> | <u>3,420,935</u>       | <u>(26,051)</u>   | <u>3,575,638</u>       |

**CITY OF WACONIA, MINNESOTA**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND (101)**  
For The Year Ended December 31, 2011  
With Comparative Actual Amounts For The Year Ended December 31, 2010

|                                      | Budgeted Amounts                   |                         | 2011 Actual<br>Amounts    | Variance with<br>Final Budget -<br>Positive<br>(Negative) | 2010 Actual<br>Amounts  |
|--------------------------------------|------------------------------------|-------------------------|---------------------------|---|-------------------------|
|                                      | Original                           | Final                   |                           |   |                         |
|                                      | Revenues over (under) expenditures | <u>\$890,197</u>        |                           |   |                         |
| Other financing sources (uses):      |                                    |                         |                           |   |                         |
| Transfers in                         | 245,000                            | 246,000                 | 1,110,433                 | 864,433   | 816,922                 |
| Transfers out                        | <u>(856,469)</u>                   | <u>(862,269)</u>        | <u>(825,800)</u>          | <u>36,469</u>   | <u>(1,513,000)</u>      |
| Total other financing sources (uses) | <u>(611,469)</u>                   | <u>(616,269)</u>        | <u>284,633</u>            | <u>900,902</u>  | <u>(696,078)</u>        |
| Net change in fund balance           | <u><u>\$278,728</u></u>            | <u><u>\$278,728</u></u> | 1,066,194                 | <u><u>\$787,466</u></u>                                   | (2,022)                 |
| Fund balance - January 1             |                                    |                         | <u>959,843</u>            |   | <u>961,865</u>          |
| Fund balance - December 31           |                                    |                         | <u><u>\$2,026,037</u></u> |   | <u><u>\$959,843</u></u> |

**CITY OF WACONIA, MINNESOTA**

REQUIRED SUPPLEMENTARY INFORMATION

**Statement 11**

BUDGETARY COMPARISON SCHEDULE - SAFARI ISLAND SPECIAL REVENUE FUND (231)

For The Year Ended December 31, 2011

With Comparative Actual Amounts For The Year Ended December 31, 2010

|                                    | Budgeted Amounts |                  | 2011 Actual<br>Amounts | Variance with<br>Final Budget -<br>Positive<br>(Negative) | 2010 Actual<br>Amounts |
|------------------------------------|------------------|------------------|------------------------|---|------------------------|
|                                    | Original         | Final            |                        |   |                        |
| <b>Revenues:</b>                   |                  |                  |                        |   |                        |
| Special Assessments                | \$0              | \$0              | \$374                  |   |                        |
| Charges for services               | 928,435          | 928,435          | 897,220                | (\$31,215)  | \$878,012              |
| Investment income                  | 1,530            | 1,530            | 25                     | (1,505)   | -                      |
| Contributions and donations        | 100              | 100              | 102                    | 2   | 8                      |
| Total revenues                     | <u>930,065</u>   | <u>930,065</u>   | <u>897,721</u>         | <u>(32,718)</u>   | <u>878,020</u>         |
| <b>Expenditures:</b>               |                  |                  |                        |   |                        |
| Current:                           |                  |                  |                        |   |                        |
| Parks and recreation               | 1,071,693        | 1,077,493        | 1,042,525              | 34,968  | 1,041,410              |
| Debt service:                      |                  |                  |                        |   |                        |
| Principal                          | 15,255           | 15,255           | 15,255                 | -   | 14,084                 |
| Interest                           | 1,540            | 1,540            | 1,540                  | -   | 2,710                  |
| Total expenditures                 | <u>1,088,489</u> | <u>1,094,289</u> | <u>1,059,321</u>       | <u>34,968</u>   | <u>1,058,204</u>       |
| Revenues over (under) expenditures | <u>(158,424)</u> | <u>(164,224)</u> | <u>(161,600)</u>       | <u>(67,686)</u>   | <u>(180,184)</u>       |
| <b>Other financing sources:</b>    |                  |                  |                        |   |                        |
| Transfers in                       | <u>160,000</u>   | <u>165,800</u>   | <u>165,800</u>         | <u>-</u>  | <u>198,000</u>         |
| Total other financing sources      | <u>160,000</u>   | <u>165,800</u>   | <u>165,800</u>         | <u>-</u>  | <u>198,000</u>         |
| Net change in fund balance         | <u>\$1,576</u>   | <u>\$1,576</u>   | 4,200                  | <u>(\$67,686)</u>   | 17,816                 |
| Fund balance - January 1           |                  |                  | <u>11,803</u>          |   | <u>(6,013)</u>         |
| Fund balance - December 31         |                  |                  | <u>\$16,003</u>        |   | <u>\$11,803</u>        |

**CITY OF WACONIA, MINNESOTA**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE - NOTE TO RSI**  
December 31, 2011

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**Note A BUDGETARY INFORMATION**

The City of Waconia's budget is legally adopted on a basis consistent with accounting principles generally accepted in the United States of America. The legal level of budgetary control is at the fund level.

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## **COMBINING FUND STATEMENTS**

## **NONMAJOR GOVERNMENTAL FUNDS**

**CITY OF WACONIA, MINNESOTA**  
**COMBINING BALANCE SHEET**  
**NONMAJOR GOVERNMENTAL FUNDS**

December 31, 2011  
 With Comparative Totals For December 31, 2010

|   | Public<br>Education<br>(107) | Revolving Loan<br>(202) | BCC Revolving<br>Loan (204) | Facility<br>Leasing<br>(221) | Logo<br>Merchandise<br>(223) |
|---|------------------------------|-------------------------|-----------------------------|------------------------------|------------------------------|
| <b>Assets</b>                             |                              |                         |                             |                              |                              |
| Cash and investments                      | \$34,260                     | \$577,491               | \$256,757                   | \$ -                         | \$ -                         |
| Taxes receivable                          | -                            | -                       | -                           | -                            | -                            |
| Accounts receivable                       | 4,518                        | -                       | -                           | -                            | -                            |
| Prepaid Expense                           | 1,170                        | -                       | -                           | -                            | -                            |
| Due from other governments                | -                            | -                       | -                           | -                            | -                            |
| Interfund loan receivable                 | -                            | -                       | -                           | -                            | -                            |
| Notes receivable - net                    | -                            | 363,645                 | 20,191                      | -                            | -                            |
| <b>Total assets</b>                       | <b>\$39,948</b>              | <b>\$941,136</b>        | <b>\$276,948</b>            | <b>\$0</b>                   | <b>\$0</b>                   |
| <b>Liabilities and Fund Balance</b>       |                              |                         |                             |                              |                              |
| <b>Liabilities:</b>                       |                              |                         |                             |                              |                              |
| Accounts payable                          | \$ -                         | \$1,211                 | \$ -                        | \$ -                         | \$ -                         |
| Deposits payable                          | -                            | -                       | -                           | -                            | -                            |
| Due to other governments                  | -                            | -                       | -                           | -                            | -                            |
| Deferred revenue                          | -                            | -                       | -                           | -                            | -                            |
| <b>Total liabilities</b>                  | <b>0</b>                     | <b>1,211</b>            | <b>0</b>                    | <b>0</b>                     | <b>0</b>                     |
| <b>Fund balance:</b>                      |                              |                         |                             |                              |                              |
| Nonspendable                              | \$1,170                      | \$ -                    | \$ -                        | \$ -                         | \$ -                         |
| Restricted                                | 38,778                       | 939,925                 | 276,948                     | -                            | -                            |
| Committed                                 | -                            | -                       | -                           | -                            | -                            |
| Assigned                                  | -                            | -                       | -                           | -                            | -                            |
| Unassigned                                | -                            | -                       | -                           | -                            | -                            |
| <b>Total fund balance</b>                 | <b>39,948</b>                | <b>939,925</b>          | <b>276,948</b>              | <b>0</b>                     | <b>0</b>                     |
| <b>Total liabilities and fund balance</b> | <b>\$39,948</b>              | <b>\$941,136</b>        | <b>\$276,948</b>            | <b>\$0</b>                   | <b>\$0</b>                   |

**CITY OF WACONIA, MINNESOTA**  
**COMBINING BALANCE SHEET**  
**NONMAJOR GOVERNMENTAL FUNDS**  
December 31, 2011  
With Comparative Totals For December 31, 2010

|   | Economic<br>Development<br>(227) | Lodging Tax<br>(701) | Total<br>Nonmajor<br>Special<br>Revenue<br>Funds | EDA - CC<br>Revenue<br>Bonds of<br>2004/2007<br>(344) |
|---|----------------------------------|----------------------|--|---|
| <b>Assets</b>                             |                                  |                      |  |   |
| Cash and investments                      | \$ -                             | \$3,950              | <b>\$872,458</b>                                 | \$61,243  |
| Taxes receivable                          | -                                | -                    | -  | -   |
| Accounts receivable                       | -                                | -                    | <b>4,518</b>                                     | -   |
| Prepaid Expense                           | -                                | -                    | <b>1,170</b>                                     | -   |
| Due from other governments                | -                                | -                    | -  | -   |
| Interfund loan receivable                 | -                                | -                    | -  | -   |
| Notes receivable - net                    | -                                | -                    | <b>383,836</b>                                   | -   |
| <b>Total assets</b>                       | <b>\$0</b>                       | <b>\$3,950</b>       | <b>\$1,261,982</b>                               | <b>\$61,243</b>                                       |
| <b>Liabilities and Fund Balance</b>       |                                  |                      |  |   |
| <b>Liabilities:</b>                       |                                  |                      |  |   |
| Accounts payable                          | \$ -                             | \$3,029              | <b>\$4,240</b>                                   | \$ -  |
| Deposits payable                          | -                                | -                    | -  | -   |
| Due to other governments                  | -                                | -                    | -  | -   |
| Deferred revenue                          | -                                | -                    | -  | -   |
| <b>Total liabilities</b>                  | <b>0</b>                         | <b>3,029</b>         | <b>4,240</b>                                     | <b>0</b>  |
| <b>Fund balance:</b>                      |                                  |                      |  |   |
| Nonspendable                              | \$ -                             | \$ -                 | <b>\$1,170</b>                                   | \$ -  |
| Restricted                                | -                                | 921                  | <b>1,256,572</b>                                 | 61,243  |
| Committed                                 | -                                | -                    | -  | -   |
| Assigned                                  | -                                | -                    | -  | -   |
| Unassigned                                | -                                | -                    | -  | -   |
| <b>Total fund balance</b>                 | <b>0</b>                         | <b>921</b>           | <b>1,257,742</b>                                 | <b>61,243</b>   |
| <b>Total liabilities and fund balance</b> | <b>\$0</b>                       | <b>\$3,950</b>       | <b>\$1,261,982</b>                               | <b>\$61,243</b>                                       |

| Refundings<br>Bonds of 2002<br>(346) | Total<br>Nonmajor<br>Debt Service<br>Funds | Capital<br>Equipment<br>(105) | Park<br>Dedication<br>(210) | TIF #1<br>Workforce<br>Housing (410) | Total<br>Nonmajor<br>Capital<br>Project<br>Funds | Totals             |                    |
|--------------------------------------|--|-------------------------------|-----------------------------|--------------------------------------|--|--------------------|--------------------|
|                                      |  |                               |                             |                                      |  | 2011               | 2010               |
| \$123,493                            | <b>\$184,736</b>                           | \$527,859                     | \$191,093                   | \$36,534                             | <b>\$755,486</b>                                 | \$1,812,680        | \$2,472,587        |
| 2,383                                | <b>2,383</b>                               | 961                           | -                           | -                                    | <b>961</b>                                       | 3,344              | 4,695              |
| -                                    | -  | -                             | -                           | -                                    | -  | 4,518              | 10,004             |
| -                                    | -  | -                             | -                           | -                                    | -  | 1,170              | -                  |
| 238                                  | <b>238</b>                                 | -                             | -                           | -                                    | -  | 238                | 354                |
| -                                    | -  | -                             | -                           | -                                    | -  | -                  | 308,289            |
| -                                    | -  | -                             | -                           | 211,806                              | <b>211,806</b>                                   | 595,642            | 616,452            |
| <u>\$126,114</u>                     | <u><b>\$187,357</b></u>                    | <u>\$528,820</u>              | <u>\$191,093</u>            | <u>\$248,340</u>                     | <u><b>\$968,253</b></u>                          | <u>\$2,417,592</u> | <u>\$3,412,381</u> |
| \$ -                                 | \$ -                                       | \$ -                          | \$ -                        | \$19,476                             | <b>\$19,476</b>                                  | \$23,716           | \$42,786           |
| -                                    | -  | -                             | -                           | -                                    | -  | -                  | 11,132             |
| -                                    | -  | -                             | -                           | -                                    | -  | -                  | -                  |
| 2,382                                | <b>2,382</b>                               | 961                           | -                           | 211,806                              | <b>212,767</b>                                   | 215,149            | 216,501            |
| <u>2,382</u>                         | <u><b>2,382</b></u>                        | <u>961</u>                    | <u>0</u>                    | <u>231,282</u>                       | <u><b>232,243</b></u>                            | <u>238,865</u>     | <u>270,419</u>     |
| \$ -                                 | \$ -                                       | \$ -                          | \$ -                        | \$ -                                 | \$ -   | \$1,170            | -                  |
| 123,732                              | <b>184,975</b>                             | -                             | 191,093                     | 17,058                               | <b>208,151</b>                                   | 1,649,698          | \$1,781,262        |
| -                                    | -  | -                             | -                           | -                                    | -  | -                  | -                  |
| -                                    | -  | 527,859                       | -                           | -                                    | <b>527,859</b>                                   | 527,859            | 1,360,700          |
| -                                    | -  | -                             | -                           | -                                    | -  | -                  | -                  |
| <u>123,732</u>                       | <u><b>184,975</b></u>                      | <u>527,859</u>                | <u>191,093</u>              | <u>17,058</u>                        | <u><b>736,010</b></u>                            | <u>2,178,727</u>   | <u>3,141,962</u>   |
| <u>\$126,114</u>                     | <u><b>\$187,357</b></u>                    | <u>\$528,820</u>              | <u>\$191,093</u>            | <u>\$248,340</u>                     | <u><b>\$968,253</b></u>                          | <u>\$2,417,592</u> | <u>\$3,412,381</u> |

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**CITY OF WACONIA, MINNESOTA**  
**COMBINING STATEMENT OF REVENUES,**  
**EXPENDITURES AND CHANGES IN FUND BALANCE**  
**NONMAJOR GOVERNMENTAL FUNDS**  
For The Year Ended December 31, 2011  
With Comparative Totals For The Year Ended December 31, 2010

**Statement 13**  
**Page 1 of 2**

|  | Public<br>Education<br>(107) | Revolving<br>Loan (202) | BCC Revolving<br>Loan (204) | Facility<br>Leasing<br>(221) | Logo<br>Merchandise<br>(223) |
|--|------------------------------|-------------------------|-----------------------------|------------------------------|------------------------------|
| <b>Revenues:</b>                       |                              |                         |                             |                              |                              |
| Property taxes                         | \$ -                         | \$ -                    | \$ -                        | \$ -                         | \$ -                         |
| Tax Increment                          | -                            | -                       | -                           | -                            | -                            |
| Lodging Taxes                          | -                            | -                       | -                           | -                            | -                            |
| Intergovernmental                      | -                            | -                       | -                           | -                            | -                            |
| Charges for services                   | 18,993                       | 2,865                   | 728                         | -                            | -                            |
| Fines and forfeits                     | -                            | 207                     | -                           | -                            | -                            |
| Investment income                      | 1,196                        | 34,671                  | 8,566                       | -                            | -                            |
| Rents                                  | -                            | -                       | -                           | -                            | -                            |
| Park land dedication                   | -                            | -                       | -                           | -                            | -                            |
| Total revenues                         | <u>20,189</u>                | <u>37,743</u>           | <u>9,294</u>                | <u>0</u>                     | <u>0</u>                     |
| <b>Expenditures:</b>                   |                              |                         |                             |                              |                              |
| <b>Current:</b>                        |                              |                         |                             |                              |                              |
| General government                     | \$10,165                     | \$ -                    | \$ -                        | \$ -                         | \$ -                         |
| Public works                           | -                            | -                       | -                           | -                            | -                            |
| Economic development                   | -                            | 84,265                  | -                           | -                            | -                            |
| <b>Capital outlay:</b>                 |                              |                         |                             |                              |                              |
| Public works                           | -                            | -                       | -                           | -                            | -                            |
| Public safety                          | -                            | -                       | -                           | -                            | -                            |
| <b>Debt service:</b>                   |                              |                         |                             |                              |                              |
| Principal                              | -                            | -                       | -                           | -                            | -                            |
| Interest and Bond Issuance Costs       | -                            | -                       | -                           | -                            | -                            |
| Total expenditures                     | <u>10,165</u>                | <u>84,265</u>           | <u>0</u>                    | <u>0</u>                     | <u>0</u>                     |
| Revenues over (under) expenditures     | <u>10,024</u>                | <u>(46,522)</u>         | <u>9,294</u>                | <u>0</u>                     | <u>0</u>                     |
| <b>Other financing sources (uses):</b> |                              |                         |                             |                              |                              |
| Bond Proceeds                          | \$ -                         | \$ -                    | \$ -                        | \$ -                         | \$ -                         |
| Bond Premium                           | -                            | -                       | -                           | -                            | -                            |
| Transfers in                           | -                            | -                       | -                           | -                            | -                            |
| Transfers out                          | (10,000)                     | -                       | -                           | (22,311)                     | (2,809)                      |
| Total other financing sources (uses)   | <u>(10,000)</u>              | <u>0</u>                | <u>0</u>                    | <u>(22,311)</u>              | <u>(2,809)</u>               |
| Net change in fund balance             | 24                           | (46,522)                | 9,294                       | (22,311)                     | (2,809)                      |
| Fund balance - January 1               | <u>39,924</u>                | <u>986,447</u>          | <u>267,654</u>              | <u>22,311</u>                | <u>2,809</u>                 |
| Fund balance - December 31             | <u><u>\$39,948</u></u>       | <u><u>\$939,925</u></u> | <u><u>\$276,948</u></u>     | <u><u>\$0</u></u>            | <u><u>\$0</u></u>            |

**CITY OF WACONIA, MINNESOTA**  
**COMBINING STATEMENT OF REVENUES,**  
**EXPENDITURES AND CHANGES IN FUND BALANCE**  
**NONMAJOR GOVERNMENTAL FUNDS**  
For The Year Ended December 31, 2011  
With Comparative Totals For The Year Ended December 31, 2010

|  | Economic<br>Development<br>(227) | Lodging Tax<br>(701) | <b>Total Nonmajor<br/>Special Revenue<br/>Funds</b> | EDA - CC<br>Revenue Bonds<br>of 2004/2007<br>(344) |
|--|----------------------------------|----------------------|---|--|
| <b>Revenues:</b>                       |                                  |                      |   |  |
| Property taxes                         | \$ -                             | \$ -                 | \$ -  | \$ -   |
| Tax Increment                          | -                                | -                    | -   | -  |
| Lodging taxes                          | -                                | 29,405               | <b>29,405</b>                                       | -  |
| Intergovernmental                      | -                                | -                    | -   | -  |
| Charges for services                   | -                                | -                    | <b>22,586</b>                                       | -  |
| Fines and forfeits                     | -                                | -                    | <b>207</b>  | -  |
| Investment income                      | -                                | 260                  | <b>44,693</b>                                       | -  |
| Rents                                  | -                                | -                    | -   | -  |
| Park land dedication                   | -                                | -                    | -   | -  |
| Total revenues                         | <u>0</u>                         | <u>29,665</u>        | <u><b>96,891</b></u>                                | <u>0</u>   |
| <b>Expenditures:</b>                   |                                  |                      |   |  |
| <b>Current:</b>                        |                                  |                      |   |  |
| General government                     | \$ -                             | \$ -                 | <b>\$10,165</b>                                     | \$ -   |
| Public Works                           | -                                | -                    | -   | -  |
| Economic development                   | -                                | 31,875               | <b>116,140</b>                                      | -  |
| <b>Capital outlay:</b>                 |                                  |                      |   |  |
| Public works                           | -                                | -                    | -   | -  |
| Public safety                          | -                                | -                    | -   | -  |
| <b>Debt service:</b>                   |                                  |                      |   |  |
| Principal                              | -                                | -                    | -   | 101,251  |
| Interest and other                     | -                                | -                    | -   | 67,502   |
| Total expenditures                     | <u>0</u>                         | <u>31,875</u>        | <u><b>126,305</b></u>                               | <u>168,753</u>                                     |
| Revenues over (under) expenditures     | <u>0</u>                         | <u>(2,210)</u>       | <u><b>(29,414)</b></u>                              | <u>(168,753)</u>                                   |
| <b>Other financing sources (uses):</b> |                                  |                      |   |  |
| Bond Proceeds                          | \$ -                             | \$ -                 | \$ -  | \$ -   |
| Bond Premium                           | -                                | -                    | -   | -  |
| Transfers in                           | -                                | -                    | -   | 165,000  |
| Transfers out                          | (873,835)                        | (1,478)              | <b>(910,433)</b>                                    | -  |
| Total other financing sources (uses)   | <u>(873,835)</u>                 | <u>(1,478)</u>       | <u><b>(910,433)</b></u>                             | <u>165,000</u>                                     |
| Net change in fund balance             | (873,835)                        | (3,688)              | <b>(939,847)</b>                                    | (3,753)  |
| Fund balance - January 1               | <u>873,835</u>                   | <u>4,609</u>         | <u><b>2,197,589</b></u>                             | <u>64,996</u>                                      |
| Fund balance - December 31             | <u>\$0</u>                       | <u>\$921</u>         | <u><b>\$1,257,742</b></u>                           | <u>\$61,243</u>                                    |

| Refunding<br>Bonds of<br>2002 (346) | Total<br>Nonmajor<br>Debt<br>Service<br>Funds | Capital<br>Equipment<br>(105) | Park<br>Dedication<br>(210) | TIF #1<br>Workforce<br>Housing<br>(410) | Total<br>Nonmajor<br>Capital<br>Project<br>Funds | Totals             |                    |
|-------------------------------------|---|-------------------------------|-----------------------------|---|--|--------------------|--------------------|
|                                     |   |                               |                             |   |  | 2011               | 2010               |
|                                     |   |                               |                             |   |  | \$59,525           | <b>\$59,525</b>    |
| -                                   | -   | -                             | -                           | 43,280                                  | <b>43,280</b>                                    | 43,280             | 56,866             |
| -                                   | -   | -                             | -                           | -                                       | -  | 29,405             | 28,434             |
| -                                   | -   | -                             | -                           | -                                       | -  | -                  | 6,250              |
| -                                   | -   | -                             | -                           | -                                       | -  | 22,586             | 21,854             |
| -                                   | -   | -                             | -                           | -                                       | -  | 207                | 60                 |
| 6,711                               | <b>6,711</b>                                  | 12,619                        | 5,965                       | 730                                     | <b>19,314</b>                                    | 70,718             | 97,220             |
| -                                   | -   | -                             | -                           | -                                       | -  | -                  | 42,999             |
| -                                   | -   | -                             | -                           | -                                       | -  | -                  | -                  |
| <u>66,236</u>                       | <u><b>66,236</b></u>                          | <u>60,311</u>                 | <u>5,965</u>                | <u>44,010</u>                           | <u><b>110,286</b></u>                            | <u>273,413</u>     | <u>344,217</u>     |
| \$ -                                | \$ -  | \$ -                          | \$ -                        | \$39,230                                | <b>\$39,230</b>                                  | 49,395             | 69,980             |
| -                                   | -   | -                             | -                           | -                                       | -  | -                  | 4,088              |
| -                                   | -   | -                             | -                           | -                                       | -  | 116,140            | 34,124             |
| -                                   | -   | 33,862                        | -                           | -                                       | <b>33,862</b>                                    | 33,862             | -                  |
| -                                   | -   | 720,915                       | -                           | -                                       | <b>720,915</b>                                   | 720,915            | 14,512             |
| 150,000                             | <b>251,251</b>                                | -                             | -                           | -                                       | -  | 251,251            | 246,804            |
| 12,731                              | <b>80,233</b>                                 | 8,830                         | -                           | -                                       | <b>8,830</b>                                     | 89,063             | 90,530             |
| <u>162,731</u>                      | <u><b>331,484</b></u>                         | <u>763,607</u>                | <u>0</u>                    | <u>39,230</u>                           | <u><b>802,837</b></u>                            | <u>1,260,626</u>   | <u>460,038</u>     |
| (96,495)                            | <b>(265,248)</b>                              | (703,296)                     | 5,965                       | 4,780                                   | <b>(692,551)</b>                                 | (987,213)          | (115,821)          |
| \$ -                                | \$ -  | \$730,000                     | \$ -                        | \$ -                                    | <b>\$730,000</b>                                 | 730,000            | -                  |
| -                                   | -   | 39,409                        | -                           | -                                       | <b>39,409</b>                                    | 39,409             | -                  |
| -                                   | <b>165,000</b>                                | -                             | -                           | -                                       | -  | 165,000            | 170,000            |
| -                                   | -   | -                             | -                           | -                                       | -  | (910,433)          | (101,922)          |
| <u>0</u>                            | <u><b>165,000</b></u>                         | <u>769,409</u>                | <u>0</u>                    | <u>0</u>                                | <u><b>769,409</b></u>                            | <u>23,976</u>      | <u>68,078</u>      |
| (96,495)                            | <b>(100,248)</b>                              | 66,113                        | 5,965                       | 4,780                                   | <b>76,858</b>                                    | (963,235)          | (47,742)           |
| 220,227                             | <b>285,223</b>                                | 461,746                       | 185,128                     | 12,278                                  | <b>659,152</b>                                   | 3,141,962          | 3,189,704          |
| <u>\$123,732</u>                    | <u><b>\$184,975</b></u>                       | <u>\$527,859</u>              | <u>\$191,093</u>            | <u>\$17,058</u>                         | <u><b>\$736,010</b></u>                          | <u>\$2,178,727</u> | <u>\$3,141,962</u> |

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