

**COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE
CITY OF DEEPHAVEN, MINNESOTA**



EST. 1900
Deephaven

For The Fiscal Year Ended December 31, 2012

**COMPREHENSIVE ANNUAL FINANCIAL
REPORT OF THE CITY COUNCIL OF
DEEPHAVEN, MINNESOTA**

*For the Year Ended
December 31, 2012*

Dana Young, City Administrator

**PREPARED BY:
THE DEPARTMENT OF FINANCE**

CITY OF DEEPHAVEN

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CITY OF DEEPHAVEN

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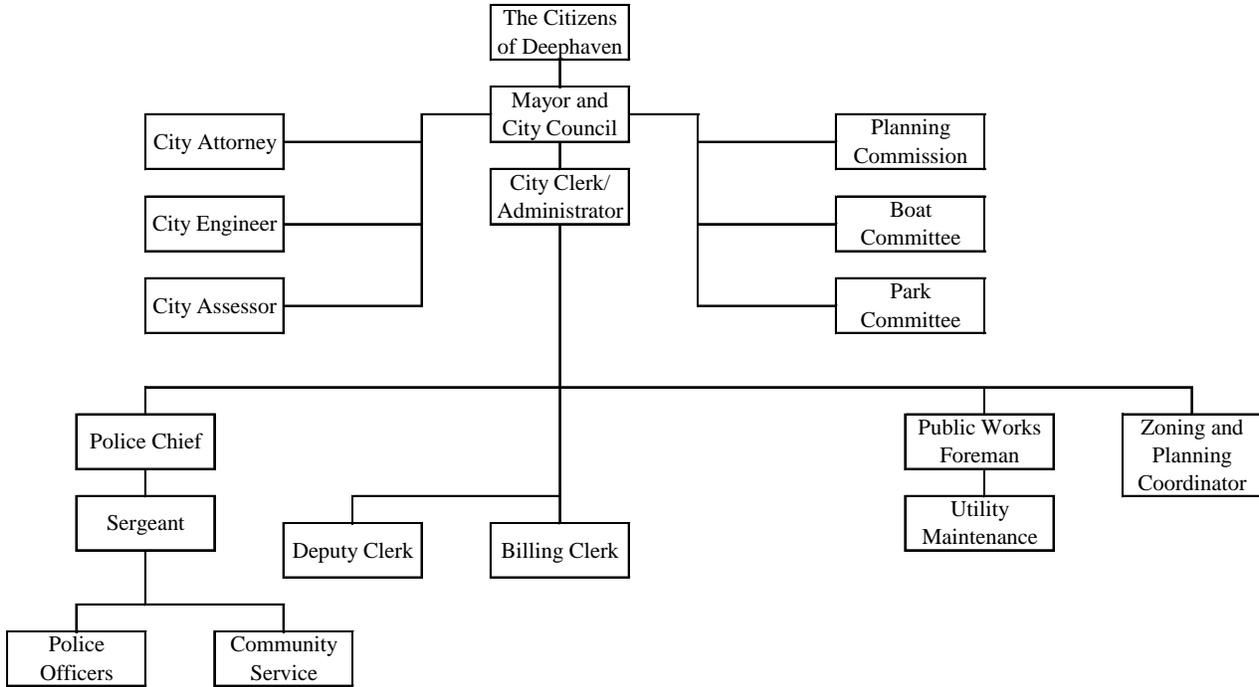
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INTRODUCTORY SECTION

CITY OF DEEPHAVEN
ELECTED OFFICIALS AND ADMINISTRATION
December 31, 2012

<u>Elected Officials</u>	<u>Position</u>	<u>Term Expires</u>
Paul Skrede	Mayor	December 31, 2012
Keith Kask	Council Member	December 31, 2012
John Wheaton	Council Member	December 31, 2012
Josh Hackney	Council Member	December 31, 2014
Darel Gustafson	Council Member	December 31, 2014
<u>Administration</u>		
Dana Young	City Administrator/Clerk/Treasurer	Appointed
Cory Johnson	Police Chief	Appointed
John Menzel	Public Works Foreman	Appointed

CITY OF DEEPHAVEN
ORGANIZATION CHART
December 31, 2012





March 5, 2013

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

The comprehensive annual financial report of the City of Deephaven, Minnesota, for the year ended December 31, 2012, is hereby submitted for your review. The report was prepared in accordance with generally accepted accounting principles (GAAP) as established by the Governmental Accounting Standards Board and meets the requirements of the Minnesota State Auditor's Office.

The report consists of management's representations concerning the finances of the City. Consequently, management assumes full responsibility for the completeness and reliability of all information presented in this report. To provide a reasonable basis for making these representations, management of the City has established internal controls designed to protect the City's assets from loss, theft, or misuse and to provide sufficient reliable information for the preparation of these financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City's internal controls have been designed to provide reasonable, rather than absolute assurance that the financial statements will be free from material misstatements. As management, we assert that to the best of our knowledge and belief, this financial report is complete and reliable in all material respects. Furthermore, all disclosures necessary to enable the reader to have the maximum understanding of the City's financial activity have been included.

Kern DeWenter Viere, a firm of licensed certified public accountants, has audited the City's financial statements. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City for the fiscal year ended December 31, 2012, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. The independent auditor concluded that there was a reasonable basis for rendering an unqualified opinion that the City's financial statements for the fiscal year ended December 31, 2012, are fairly presented in conformity with GAAP. The independent auditor's report is presented on pages 9-11 of the financial section of this report.

GAAP requires that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City's MD&A can be found starting on page 12.

Government Profile

The City of Deephaven was incorporated in 1900. It is a western suburb of the Minneapolis/St. Paul area, located in Western Hennepin County. Deephaven covers an area of 2.3 square miles (or 1,440 acres) with an estimated population of 3,648. It is essentially a residential city, with a small commercial area that primarily serves the local community.

One of Deephaven's chief attractions is Lake Minnetonka with its three deep-cut bays bordering the city. The points and peninsulas overlooking the lake provide some of the City's most beautiful home sites, and the lake furnishes endless opportunities for year-round recreational activities. Summer fun is provided at six public beaches and two city marinas, which accommodates approximately 312 boats ranging in size from slender canoes to luxurious powerboats and sailboats. Deephaven's recreational areas include public parks, which contain tennis courts, baseball fields, platform courts, playground equipment, basketball courts and walking trails. Hiking trails and bike paths connect many recreational areas. During the winter, the trails are utilized for cross-country skiing. Deephaven is truly a haven when it comes to peaceful living and active recreation.

Management of the City is responsible for establishing and maintaining budgetary controls designed to ensure that the assets of the government are protected from loss, theft or misuse, and to ensure that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with GAAP. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City Council. Activities of the General Fund are included in the annual appropriated budget. Project length financial plans are adopted for the Capital Projects Funds. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriate amount) is established by function and activity within an individual fund.

Factors Affecting Financial Condition

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

Local Economic Condition and Outlook

Despite the significant national economic decline beginning in 2008, which spurred a general slowdown in construction activity, total permits and residential housing construction, and the total building permit value for the City of Deephaven has remained surprisingly consistent in recent years with the notable exception of 2011:

	<u>Total Permits Number</u>		<u>Value</u>
2012	506	\$	14,447,728
2011	494		7,579,378
2010	541		13,268,023
2009	399		11,737,115
2008	524		16,664,812
2007	590		13,532,474
2006	622		14,338,000
2005	534		9,384,000
2004	560		10,975,766

More reflective of declining economic conditions, the overall market value of the City of Deephaven has continued its overall decline after many years of consecutive growth. The City's overall market value decreased 3.4% in 2010, 6.8% in 2011, and 1.9% in 2012 signaling the continued softening in the value of residential and commercial properties throughout Deephaven. In addition, market value is expected to decline another 4.1% in 2013 with the expectation that the overall residential housing market will begin to stabilize both regionally and locally beginning in 2014.

The City has adopted land use plans, zoning ordinances and developed shoreland management plans to ensure orderly growth and quality redevelopment. In 2008, the City completed an update to the Comprehensive Plan, which extends to the year 2020.

All of Deephaven is part of Independent School District No. 276, one of the most highly regarded Districts throughout the entire state. Deephaven has one public elementary school and two private schools located within the city.

Commercial areas in Deephaven provide a limited range of commercial goods and services. The largest commercial area in the community is Chowen's Corner, which consists mainly of retail shops and offices. Two smaller commercial areas are located along Trunk Highway 7 / Vine Hill Road and Hwy 101.

Long-Term Financial Planning

Each year, as part of its review of the long-term financial plan of the City, the City Council establishes five primary long-term financial objectives. They include:

1. Maintain property tax levy increases at the annual rate of inflation. This goal has been established partly to adhere to levy limit requirements that have been periodically imposed by the State of Minnesota, but primarily to control the growth of government expenditures to a reasonable rate thereby providing its residents with some assurance that the property tax levy will not increase at a greater rate than wage increases. For the most part, this objective has been met with a 5.7% increase in 2009, a 0% increase in 2010, a 2% increase in 2011, and a 0% increase in both 2012 and 2013.
2. Limit payments for bonded debt and/or facility lease payments to the Excelsior Fire District to approximately \$170,000 per year until the final payment of the fire facility lease is made in 2023. This objective has been met with facility lease payments averaging approximately \$151,000 per year through 2023 and with no immediate plans to issue future debt.
3. Establish an unreserved General Fund Balance that equals or exceeds 90% of current year expenditures. This objective has been met with an unreserved General Fund Balance of 105.1% in 2009, 99.6% in 2010, 102.6% in 2011, and 107.5% in 2012. Longer range projections through 2017 show that the unreserved General Fund Balance will decline to around 91% of current year expenditures as General Fund expenditures increase at a greater rate than revenues.
4. Establish a Capital Improvement Fund reserve of \$350,000 to provide available funding for street, police, park and administrative equipment and to adequately fund future street improvement projects. This objective has been achieved in the short term with a Capital Improvement Fund reserve of \$365,131 in 2009, \$392,824 in 2010, \$360,395 in 2011, and \$384,876 in 2012. Longer range projections show the Capital Improvement Fund reserve will decrease to a low of \$23,094 in 2017 due to the need to reconstruct Vine Hill Bridge and the need to continue an aggressive schedule of street reconstruction projects.

5. Establish utility rates that ensure the ability to finance annual operating costs, the schedule of current and future capital utility projects, and establish utility fund reserves in the amount of \$150,000 in the Water Utility Fund, \$600,000 in the Sewer Utility Fund and \$150,000 in the Storm Water Utility Fund. The Water Utility Fund will continue to meet this objective as its current rate structure is adequate to fund all current and future operating costs and projected capital costs. In the short term, the Storm Water Utility Fund will have a greater difficulty in meeting this objective due to an aggressive slate of capital projects within the next five years. In the longer term, the current rate structure in the Storm Water Utility Fund should be more than adequate to fund all current and future operating costs and projected capital costs. The Sewer Utility Fund will present more of a challenge as projected increases in waste disposal fees and future capital improvements could potentially cause an overall reduction in the Sewer Utility Fund reserve. The City Council has already begun to take the necessary steps to ensure that adequate Sewer Utility Fund reserves are maintained well into the future by approving sewer rate increases in both 2009 and 2010. Projections indicate that another rate increase will be needed in either 2017 or 2018.

Major Initiatives

The City of Deephaven prepares a comprehensive Budget annually and also updates its long range plans and forecasts of key financial indicators. The City reviews the following long-range plans prior to preparing its annual budget:

Capital Improvement Plan
Five Year Budget Forecast
Five Year Park Plan
Five Year Utility Forecast
City Fiscal Policy

Deephaven, along with four other area municipalities, have established the Excelsior Fire District through a joint powers agreement that provides fire services and emergency medical response to all five communities. The joint powers agreement provides Deephaven with partial ownership of the Excelsior Fire District. After adjusting to the annual lease payments for the construction of the two new fire stations in 2003-2006, the City anticipates a continued moderation of annual support to the District in future years.

The City has developed a web site, which can be assessed at www.cityofdeephaven.org.

Awards

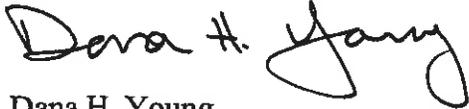
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Deephaven for its comprehensive annual financial report for the fiscal year ended December 31, 2011. This is the 17th consecutive year that the City has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both accounting principles generally accepted in the United States of America and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine eligibility for another certificate.

Acknowledgments

We commend the finance department staff for their hard work and dedication. We want to recognize the firm of Kern DeWenter Viere for their professional assistance. As always, we thank Mayor Skrede and the members of the City Council for your continued interest and support in planning and conducting the financial operations of the City in a very progressive and informed manner.

Respectfully submitted,

A handwritten signature in black ink that reads "Dana H. Young". The signature is written in a cursive style with a large, looping "Y" at the end.

Dana H. Young
City Clerk / Administrator

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Deephaven
Minnesota

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2011

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



Christopher P. Morrill

President

Jeffrey R. Emer

Executive Director

FINANCIAL SECTION



Expert advice. When you need it.SM

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members
of the City Council
City of Deephaven
Deephaven, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of the City of Deephaven, Minnesota, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.



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 and each major fund of the City of Deephaven, Minnesota, as of December, 31 2012, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Implementation of GASB 63

As discussed in Note 12 to the financial statements, the City has adopted the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and Schedule of Funding Progress for Retired Health Plan on pages 12 – 22 and page 54 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Deephaven's basic financial statements. The accompanying supplementary information as listed in the Table of Contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.



Other Information (Continued)

The accompanying supplementary information as listed in the Table of Contents are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information section is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Kern, DeWenter, Viere, Ltd.
KERN, DEWENTER, VIERE, LTD.
St. Cloud, Minnesota
March 5, 2013

CITY OF DEEPHAVEN

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2012

As management of the City of Deephaven (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended December 31, 2012.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded liabilities at the close of the most recent fiscal year by \$ 11,399,416 (total net assets). Of this amount, \$ 3,407,307 (unrestricted total net assets) may be used to meet the City's ongoing obligations to citizens and creditors in accordance with the City's fund designations and fiscal policies.
- The City's total net assets in 2012 decreased by \$ 10,947 in comparison with the prior year.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$ 3,120,516, an increase of \$ 101,861 in comparison with the prior year.
- At the end of the current fiscal year, the General Fund balance was \$ 2,680,768, which included \$ 16,472 that was nonspendable, \$ 176,508 committed for severance and other post employment benefits (OPEB) liability and \$ 2,487,788 for working capital. The total General Fund balance was 107.5% of total 2012 General Fund expenditures.
- The City's governmental activities long-term debt is \$ 176,508. This amount has been designated for accrued compensated absences and OPEB liability. In other words, \$ 117,290 has been designated to pay for one-third accrued sick leave that is paid to City employees upon their retirement with the City and \$ 59,218 has been designated towards the City's outstanding OPEB liability.
- The propriety funds have an ending cash balance of \$ 850,438. This represents a decrease of \$ 140,932 over the prior year due to an aggressive schedule of capital improvement projects undertaken in 2012.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise 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's finances, in a manner similar to a private-sector business.

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

CITY OF DEEPHAVEN
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2012

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The Statement of Activities presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this Statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused sick leave).

Both of the government-wide financial statements distinguish functions of the City 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 (business-type activities). The governmental activities of the City include General Government, Public Safety, Public Works and Parks and Recreation Funds. The business-type activities of the City include Sewer, Water, Storm Water, Marina and Recycling Funds.

The government-wide financial statements can be found on pages 23 through 24 of this report.

FUND FINANCIAL STATEMENTS

A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. The City, 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 can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions 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 city's near-term financial 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 statement. By doing so, readers may better understand the long-term impact of the City's near-term financial decisions. Both the governmental fund Balance Sheet and 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 maintains three individual major 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, Capital Improvement and the Park Improvement Funds.

The City adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided on pages 55 through 59 for this Fund to demonstrate compliance with the budget.

The basic governmental fund financial statements can be found on pages 25 through 29 of this report.

CITY OF DEEPHAVEN
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2012

FUND FINANCIAL STATEMENTS

Proprietary Funds

The City maintains five major enterprise funds. Enterprise funds are used to report the same functions presented as business-type activities in the governmental-wide financial statements. The City uses enterprise funds to account for water, sewer, storm sewer, marina and recycling operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

The basic proprietary fund financial statements can be found on pages 31 through 33 of this report.

Notes to the Financial Statements

The Notes to the Financial Statements 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 35 through 52 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a city's financial position. In the case of the City, assets exceeded liabilities by \$ 11,399,416 at the close of 2012.

The largest portion of the City's net position (\$ 7,552,361, or 66%) reflects its investment in capital assets (e.g. land, buildings, machinery and equipment). The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending

CITY OF DEEPHAVEN
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2012

GOVERNMENT-WIDE FINANCIAL ANALYSIS

NET POSITION
(In Thousands)

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
ASSETS:						
Current and Other Assets	\$ 3,183	\$ 3,098	\$ 1,064	\$ 1,226	\$ 4,247	\$ 4,324
Capital Assets	4,724	4,751	2,828	2,710	7,552	7,461
Total Assets	\$ 7,907	\$ 7,849	\$ 3,892	\$ 3,936	\$ 11,799	\$ 11,785
LIABILITIES:						
Other Liabilities	\$ 39	\$ 67	\$ 173	\$ 136	\$ 212	\$ 203
Noncurrent Liabilities	176	162	12	10	188	172
Total Liabilities	\$ 215	\$ 229	\$ 185	\$ 146	\$ 400	\$ 375
NET POSITION:						
Invested in Capital Assets	\$ 4,724	\$ 4,752	\$ 2,828	\$ 2,710	\$ 7,552	\$ 7,462
Restricted	440	458	-	-	440	458
Unrestricted	2,528	2,410	879	1,080	3,407	3,490
Total Net Position	\$ 7,692	\$ 7,620	\$ 3,707	\$ 3,790	\$ 11,399	\$ 11,410

A portion of the City's net position represent resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position (\$ 3,407,307) may be used to meet the City's ongoing obligations to citizens and creditors. Restricted net position of \$ 439,748 can only be used for the City's various capital projects.

The City's net position decreased by \$ 10,947 during the current fiscal year; \$ 72,018 increase in governmental activities and an \$ 82,965 decrease in business-type activities. This is an indication that revenues outgained expenses in 2012 for government activities, particularly in the General Fund and Capital Improvement Fund. Capital projects in the Storm Water Fund and Marina Fund were responsible for the decrease in the net position of business-type activities in 2012.

CITY OF DEEPHAVEN
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2012

GOVERNMENT-WIDE FINANCIAL ANALYSIS

There was an increase in governmental activities net position by \$ 72,018 and a decrease in business-type activities net position by \$ 82,965 in 2012. Key elements of this increase are as follows:

CHANGES IN NET POSITION
(In Thousands)

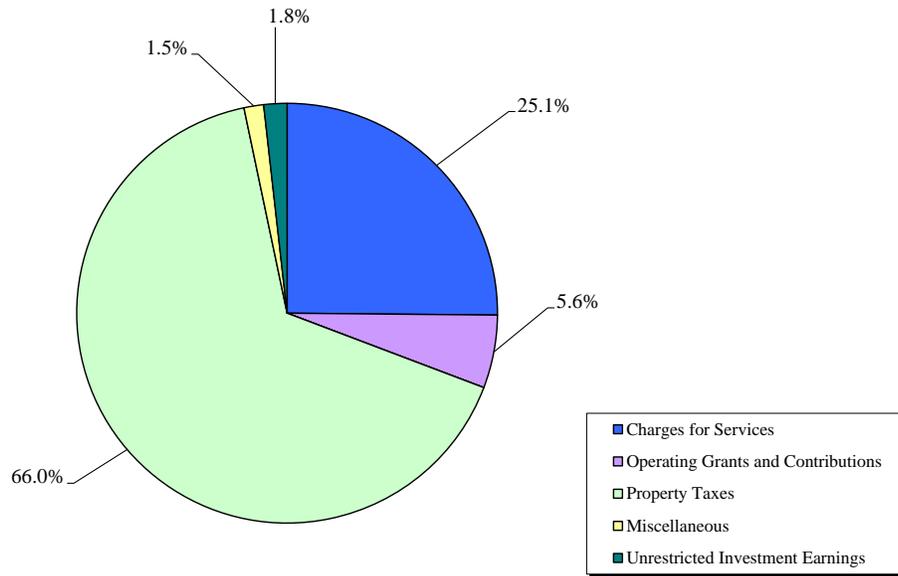
	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
REVENUES:						
Charges for Services	\$ 733	\$ 670	\$ 861	\$ 838	\$ 1,594	\$ 1,508
Operating Grants and Contributions	164	153	12	12	176	165
Capital Grants and Contributions	-	1	-	6	-	7
Property Taxes	1,922	1,910	-	-	1,922	1,910
Miscellaneous	44	89	-	-	44	89
Unrestricted Investment Earnings	52	30	17	13	69	43
Total Revenues	<u>2,915</u>	<u>2,853</u>	<u>890</u>	<u>869</u>	<u>3,805</u>	<u>3,722</u>
EXPENSES:						
General Government	479	447	-	-	479	447
Public Safety	1,431	1,408	-	-	1,431	1,408
Public Works	813	842	-	-	813	842
Parks and Recreation	144	119	-	-	144	119
Water	-	-	80	68	80	68
Sewer	-	-	659	567	659	567
Recycling	-	-	24	24	24	24
Storm Water	-	-	64	43	64	43
Marina	-	-	122	126	122	126
Total Expenses	<u>2,867</u>	<u>2,816</u>	<u>949</u>	<u>828</u>	<u>3,816</u>	<u>3,644</u>
Change in Net Position Before Transfers	48	37	(59)	41	(11)	78
Transfers	<u>24</u>	<u>22</u>	<u>(24)</u>	<u>(22)</u>	<u>-</u>	<u>-</u>
Change in Net Position	72	59	(83)	19	(11)	78
NET POSITION:						
Beginning of Year	<u>7,620</u>	<u>7,561</u>	<u>3,790</u>	<u>3,771</u>	<u>11,410</u>	<u>11,332</u>
End of Year	<u>\$ 7,692</u>	<u>\$ 7,620</u>	<u>\$ 3,707</u>	<u>\$ 3,790</u>	<u>\$ 11,399</u>	<u>\$ 11,410</u>

CITY OF DEEPHAVEN
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2012

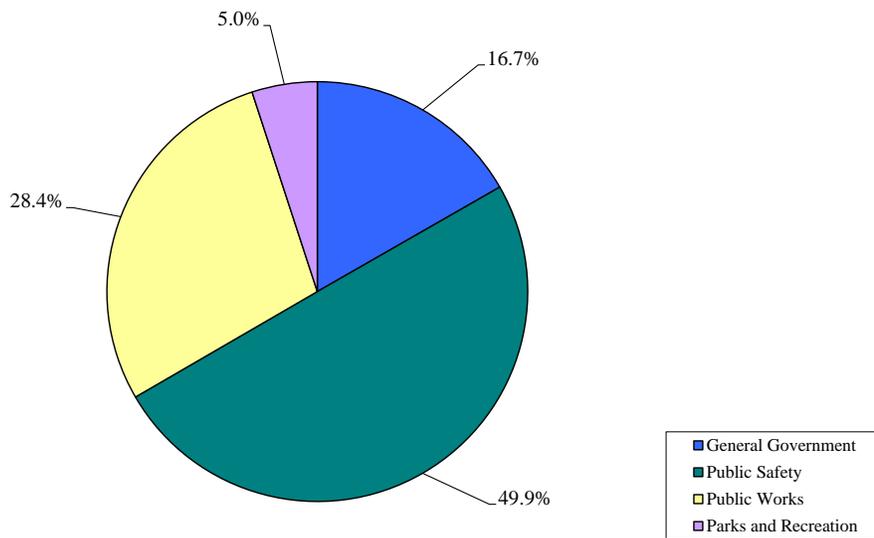
GOVERNMENTAL ACTIVITIES

Governmental activities increased its overall net position by \$ 72,018. Below are specific graphs that provide comparisons of the governmental activities revenues and expenses:

Governmental Activities - Revenues



Governmental Activities - Expenses

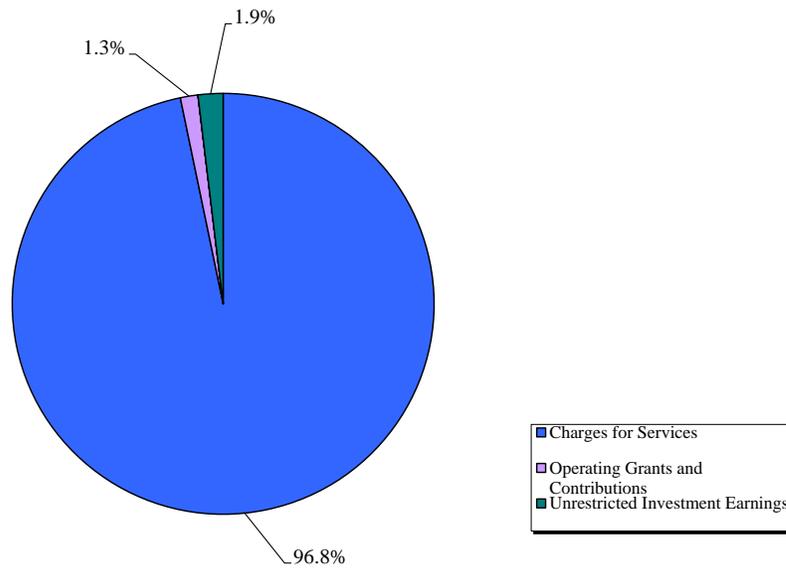


CITY OF DEEPHAVEN
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2012

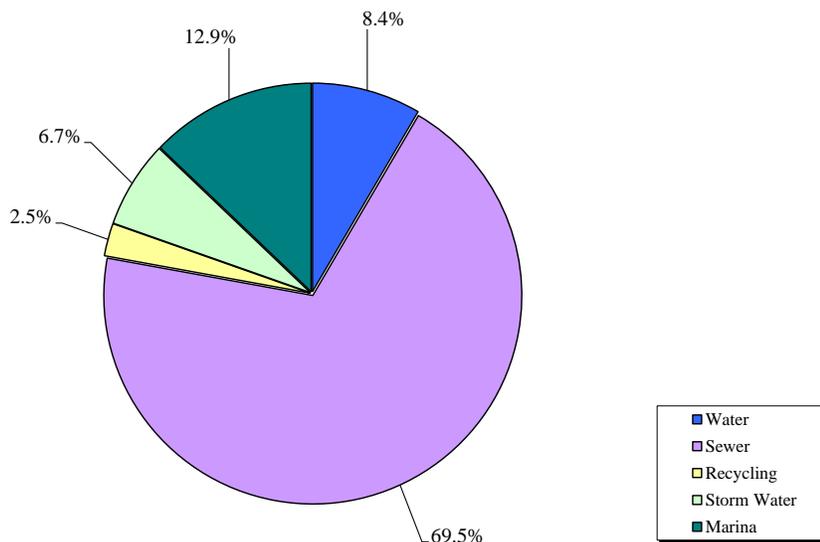
BUSINESS-TYPE ACTIVITIES

Business-type activities decreased its overall net position by \$ 82,965. Below are graphs showing the business-type activities revenue and expense comparisons:

Business-Type Activities - Revenues



Business-Type Activities - Expenses



CITY OF DEEPHAVEN
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2012

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Governmental Funds

The focus of the City'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's financing requirements. In particular, unreserved fund balances may serve as a useful measure of a city's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$ 3,120,516. Of this amount, \$ 16,472 represents amounts already expended for prepaid items and is classified as nonspendable. Other portions of the fund balances are dedicated as follows:

- 1) Restricted to fund park projects (\$ 54,872)
- 2) Committed to pay severance and OPEB liability (\$ 176,508)
- 3) Committed to fund special capital projects (\$ 384,876)

The remaining unassigned balance of \$ 2,487,788 provides for ongoing operating costs.

The General Fund increased \$ 120,276, resulting from higher than expected revenues in the following areas:

- 1) Licenses and Permits were \$ 26,952 higher than budgeted.
- 2) Investment income was \$ 13,539 higher than budgeted.
- 3) Court fine revenues were \$ 28,576 higher than budgeted.
- 4) Load limit fees were \$ 21,275 higher than budgeted.
- 5) State Fire aid in the amount of \$ 93,824 was received by the City and passed onto the Relief Association.

With the exception of Public Safety Department costs, there was an overall reduction in actual General Fund expenditures in comparison to budgeted expenditures that also contributed to the overall increase in General Fund balances. The following General Fund expenditures were significantly below 2012 budget estimates:

- 1) Two substantial dividends from the League of Minnesota Cities Insurance Trust (LMCIT) greatly reduced 2012 worker's compensation (\$ 10,687) and 2012 property and liability insurance costs (\$ 19,810).
- 2) Unseasonably warm weather led to lower than anticipated natural gas costs (\$ 6,675).
- 3) The general lack of snow in 2012 resulted in substantial savings in sand and salt costs (\$ 7,018).
- 4) Lower than expected building permit inspection and plan review contract fees (\$ 8,349).
- 5) The cost of deer management and goose control in the Wildlife Management Department resulted in lower than expected professional service fees (\$ 5,135).
- 6) The cost of street repair and maintenance supplies and street contracted services came in less than expected (\$ 14,807).

The Capital Improvement Fund balance increased \$ 24,481 over the prior year due to the fact that two major capital projects – the Hwy 7 / Vine Hill Street Light Replacement Project and the Vine Hill Bridge Replacement Project – were both postponed until 2013 and 2014, respectively. The Park Improvement Fund balance decreased \$ 42,896 due to the construction of two platform tennis courts in Haralson Park.

CITY OF DEEPHAVEN

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2012

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Propriety Funds

Business-type activities decreased the City's net assets by \$ 82,965, principally due to the fact that there were two significant capital projects undertaken in the Storm Water Fund and the Marina Fund in 2012.

From a cash position, business-type activities decreased \$ 140,932 in 2012. A brief summary of each business-type activity is described below:

- Water Fund – The cash position of the Water Fund increased \$ 10,050 in 2012, which is an indication that the water rate increase enacted back in 2004 continues to be adequate to finance the costs of operating the water system.
- Sewer Fund – The cash position of the Sewer Fund increased \$ 27,323 in 2012. This increase is owed to the positive impact of the last two sewer rate increases in 2010 and 2011 and a moderate level of capital projects undertaken in 2012.
- Recycling Fund – The cash position of the Recycling Fund increased \$ 9,576 in 2012. An increase in the fund balance was anticipated due to the fact the Recycling Grant received from Hennepin County exceeded the costs of reimbursing Waste Management for conducting the 2012 Spring and Fall Cleanup Day.
- Storm Water Fund – The cash position of the Storm Water Fund decreased \$ 106,293 in 2012. This decrease was expected due to undertaking a major storm water project in 2012.
- Marina Fund – The cash position of the Marina Fund decreased \$ 81,588 in 2012. This decrease was expected due to the planned reconstruction of the Carson's Bay Marina in 2012.

BUDGETARY HIGHLIGHTS

General Fund

There were no changes made to the original General Fund Budget. During the year, actual revenues exceeded actual expenditures by \$ 120,276, thus eliminating the need to draw upon existing fund reserves.

General Fund Revenues – With budgeted General Fund revenues of \$ 2,460,475 versus actual General Fund Revenues of \$ 2,614,692, General Fund revenues came in \$ 120,276 higher than anticipated in 2012. A review of General Fund revenues illustrates there were two primary reasons for the surplus of General Fund revenues: 1) fire aid received and passed onto the Relief Association, 2) an overall increase in Licenses & Permit Fees, Charges for Services, Fines & Forfeitures, and Investment Income.

The City of Deephaven serves as the Fiscal Agent to the Excelsior Fire District and, as a result, receives State Fire Aid from the MN Department of Revenue on behalf of the Excelsior Firefighter's Relief Association. Since the State Fire Aid was an unbudgeted amount in 2012, it increased both General Fund Revenues and Expenditures by \$93,824 in 2012.

CITY OF DEEPHAVEN

**MANAGEMENT’S DISCUSSION AND ANALYSIS
December 31, 2012**

The second reason for the increase in General Fund revenues is due to across-the-board increases in Licenses & Permit Fees, most notably in Building Permit Fees (\$ 26,952), Charges for Services, most notably in our contracts with the cities of Woodland and Greenwood (\$ 16,204), Fines & Forfeitures (\$ 28,576), and Investment Income (\$ 13,539). In general, it was an exceptional year for General Fund Revenues.

General Fund Expenditures – With budgeted General Fund expenditures of \$ 2,456,735 versus actual General Fund expenditures of \$ 2,494,416, General Fund expenditures were \$ 37,681 higher than expected in 2012. The primary reason for General Fund expenditures exceeding 2012 budgeted expenditures by \$ 37,681 is directly attributable to the Public Safety Department. First and foremost, the 2012 Fire Department Budget did not account for the State Aid Payment to the Excelsior Firefighter’s Relief Association in the amount of \$93,824. And second, the 2012 Police Department had higher than expected salary & benefit costs attributable to an additional pay period and overtime costs.

Apart from the Public Safety Department, all other departments within the City combined to be under budget in 2012 by \$75,219, thereby offsetting the additional costs incurred by the Public Safety Department. The following General Fund expenditures were significantly below 2012 budget estimates:

- 1) Worker’s compensation and property and liability insurance dividends (\$ 30,497).
- 2) Natural gas costs (\$ 6,675).
- 3) Sand and salt costs (\$ 7,018).
- 4) Building permit inspection and plan review contract fees (\$ 8,349).
- 5) Professional service fees in the Wildlife Management Department (\$ 5,135).
- 6) Street maintenance supplies and contract service costs (\$ 14,807).

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The City’s investment in capital assets for its governmental and business-type activities as of December 31, 2012 amounted to \$ 7,552,361 (net of accumulated depreciation). This investment in capital assets included land, land improvements, buildings, vehicles and equipment.

	(In Thousands)		2012 Total	2011 Total
	Governmental Activities	Business-Type Activities		
Land	\$ 692	\$ -	\$ 692	\$ 692
Construction in Progress	-	-	-	-
Building	399	-	399	414
Mains, Lifts, Hydrants and Distribution Systems	-	2,526	2,526	2,492
Improvements Other than Buildings	2	26	28	34
Infrastructure	2,653	-	2,653	2,771
Vehicles and Equipment	979	276	1,255	1,059
 Total	 \$ 4,725	 \$ 2,828	 \$ 7,553	 \$ 7,462

CITY OF DEEPHAVEN
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2012

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets (Continued)

Additional information on the City's capital assets can be found in Note 5 of the section entitled Notes to the Financial Statements.

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

- New Phone system for Administration Department (\$ 7,972)
- New Furnace & Air Conditioner for City Hall (\$ 6,025)
- 2011 Caterpillar Loader (\$ 143,314)
- (6) Police Mobile Radios (\$ 23,237)
- Police Wireless Access Point (\$ 6,193)
- Platform Tennis Court Project (\$ 54,845)
- Shuck Park Tennis Court Repainting (\$ 8,400)
- Circle Drive Sewer Main Rehabilitation (\$ 9,375)
- Azure / Rutledge Avenue Storm Sewer Rehabilitation (\$ 153,484)
- Cottagewood Avenue Storm Sewer Rehabilitation (\$ 26,500)
- Carson's Bay Dock Reconstruction project (\$ 101,790)

LONG-TERM DEBT

At the end of the current fiscal year, the City had total long-term debt totaling \$ 188,464 for accrued compensated absences and OPEB liability. Refer to Notes 6 and 11 in the financial statements for further information.

ECONOMIC FACTORS AND FUTURE BUDGET PLANS

The City is a fully developed community that must adjust to relatively slow growth in the future market value of the City. With little "new" tax dollars entering the community, the City must grow increasingly careful with the development of future budgets to control future increases in the property tax levy.

This places an increasing burden on the City to increase other revenue opportunities aside from the property tax levy to offset inflationary increases in supplies, employee salaries, health care and professional services.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to City Hall, 20225 Cottagewood Road, Deephaven, Minnesota 55331.

BASIC FINANCIAL STATEMENTS

CITY OF DEEPHAVEN

STATEMENT OF NET POSITION

December 31, 2012

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS			
Cash and Investments (Including Cash Equivalents)	\$ 3,071,201	\$ 850,438	\$ 3,921,639
Accounts Receivable	23,191	174,289	197,480
Interest Receivable	10,440	-	10,440
Property Taxes Receivable:			
Unremitted	13,568	-	13,568
Delinquent	22,680	-	22,680
Special Assessments Receivable:			
Delinquent	122	11,407	11,529
Deferred	1,076	24,503	25,579
Due from Other Governments	24,396	-	24,396
Prepaid Items	16,472	3,196	19,668
Capital Assets not being Depreciated:			
Land	692,177	-	692,177
Capital Assets Net of Accumulated Depreciation:			
Buildings	398,754	-	398,754
Mains, Lifts, Hydrants and Distribution Systems	-	2,526,380	2,526,380
Improvements Other than Buildings	2,190	25,654	27,844
Infrastructure	2,652,884	-	2,652,884
Vehicles and Equipment	978,099	276,223	1,254,322
	<u>\$ 7,907,250</u>	<u>\$ 3,892,090</u>	<u>\$ 11,799,340</u>
LIABILITIES AND NET POSITION			
Liabilities			
Accounts and Contracts Payable	\$ 28,171	\$ 45,192	\$ 73,363
Salaries and Benefits Payable	3,959	455	4,414
Due to Other Governments	6,622	11,495	18,117
Unearned Revenue	-	115,566	115,566
Compensated Absences Payable:			
Payable Within One Year	11,729	455	12,184
Payable After One Year	105,561	4,099	109,660
OPEB Obligation	59,218	7,402	66,620
Total Liabilities	<u>215,260</u>	<u>184,664</u>	<u>399,924</u>
Net Position			
Net Investment in Capital Assets	4,724,104	2,828,257	7,552,361
Restricted for:			
Park Dedication Fees	54,872	-	54,872
Capital Projects	384,876	-	384,876
Unrestricted	2,528,138	879,169	3,407,307
Total Net Position	<u>7,691,990</u>	<u>3,707,426</u>	<u>11,399,416</u>
	<u>\$ 7,907,250</u>	<u>\$ 3,892,090</u>	<u>\$ 11,799,340</u>

CITY OF DEPHAVEN

**STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2012**

Functions/Programs	Program Revenues			Net (Expense) Revenues and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- Type Activities	Total
Governmental Activities							
General Government	\$ 479,007	\$ 141,817	\$ -	\$ -	\$ (337,190)	\$ -	\$ (337,190)
Public Safety	1,430,795	218,433	147,055	-	(1,065,307)	-	(1,065,307)
Public Works	813,505	372,847	-	168	(440,490)	-	(440,490)
Park and Recreation	144,071	-	16,228	-	(127,843)	-	(127,843)
Total Governmental Activities	<u>2,867,378</u>	<u>733,097</u>	<u>163,283</u>	<u>168</u>	<u>(1,970,830)</u>	<u>-</u>	<u>(1,970,830)</u>
Business-Type Activities							
Water	80,160	74,676	-	-	-	(5,484)	(5,484)
Sewer	659,511	559,066	-	-	-	(100,445)	(100,445)
Recycling	23,759	18,564	12,079	-	-	6,884	6,884
Storm Water	63,532	84,865	-	-	-	21,333	21,333
Marina	122,383	124,141	-	-	-	1,758	1,758
Total Business-Type Activities	<u>949,345</u>	<u>861,312</u>	<u>12,079</u>	<u>-</u>	<u>-</u>	<u>(75,954)</u>	<u>(75,954)</u>
Total Governmental and Business-Type Activities	<u>\$ 3,816,723</u>	<u>\$ 1,594,409</u>	<u>\$ 175,362</u>	<u>\$ 168</u>	<u>(1,970,830)</u>	<u>(75,954)</u>	<u>(2,046,784)</u>
General Revenues							
Property Taxes					1,922,069	-	1,922,069
Unrestricted State Aids					2,569	-	2,569
Unrestricted Investment Earnings					52,231	16,779	69,010
Other General Revenue					41,664	525	42,189
Transfers					24,315	(24,315)	-
Total General Revenues and Transfers					<u>2,042,848</u>	<u>(7,011)</u>	<u>2,035,837</u>
Change in Net Position					<u>72,018</u>	<u>(82,965)</u>	<u>(10,947)</u>
Net Position - Beginning					<u>7,619,972</u>	<u>3,790,391</u>	<u>11,410,363</u>
Net Position - Ending					<u>\$ 7,691,990</u>	<u>\$ 3,707,426</u>	<u>\$ 11,399,416</u>

24 The Notes to the Financial Statements are an integral part of this statement.

MAJOR GOVERNMENTAL FUNDS

CITY OF DEEPHAVEN

**BALANCE SHEET - GOVERNMENTAL FUNDS
December 31, 2012**

	General Fund	Capital Projects		Total Governmental Funds
		Capital Improvement Fund	Park Dedication Fund	
ASSETS				
Cash and Investments	\$ 2,636,270	\$ 380,059	\$ 54,872	\$ 3,071,201
Accounts Receivable	-	23,191	-	23,191
Interest Receivable	10,440	-	-	10,440
Property Taxes Receivable:				
Unremitted	12,157	1,411	-	13,568
Delinquent	22,680	-	-	22,680
Special Assessments Receivable:				
Deferred	1,076	-	-	1,076
Delinquent	122	-	-	122
Due from Other Governments	24,396	-	-	24,396
Prepaid Items	16,472	-	-	16,472
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$ 2,723,613</u>	<u>\$ 404,661</u>	<u>\$ 54,872</u>	<u>\$ 3,183,146</u>
 LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts Payable	\$ 8,386	\$ 19,785	\$ -	\$ 28,171
Salaries and Benefits Payable	3,959	-	-	3,959
Due to Other Governments	6,622	-	-	6,622
Deferred Revenue	23,878	-	-	23,878
Total Liabilities	<u>42,845</u>	<u>19,785</u>	<u>-</u>	<u>62,630</u>
 Fund Balances				
Nonspendable	16,472	-	-	16,472
Restricted	-	-	54,872	54,872
Committed	176,508	384,876	-	561,384
Unassigned	2,487,788	-	-	2,487,788
Total Fund Balances	<u>2,680,768</u>	<u>384,876</u>	<u>54,872</u>	<u>3,120,516</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Liabilities and Fund Balances	<u>\$ 2,723,613</u>	<u>\$ 404,661</u>	<u>\$ 54,872</u>	<u>\$ 3,183,146</u>

CITY OF DEEPHAVEN

**RECONCILIATION OF THE BALANCE SHEET TO
THE STATEMENT OF NET POSITION - GOVERNMENTAL FUNDS
December 31, 2012**

Total Fund Balances - Governmental Funds \$ 3,120,516

Amounts reported for governmental activities in the Statement of Net Position
are different because:

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

Cost of Capital Assets	8,005,308
Less Accumulated Depreciation	(3,281,204)

Long-term liabilities are not due and payable in the current period and,
therefore, are not reported as liabilities in the funds. Long-term
liabilities at year-end consist of:

Compensated Absences Payable	(117,290)
Unfunded OPEB Liability	(59,218)

Delinquent receivables will be collected in subsequent years, but are not
available soon enough to pay for the current period's expenditures and,
therefore, are deferred in the funds.

Taxes	22,680
Special Assessments	122

Revenues in the Statement of Activities that do not provide current
financial resources are not reported as revenues in the funds.

Deferred Special Assessments	<u>1,076</u>
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Total Net Position - Governmental Activities \$ 7,691,990

CITY OF DEEPHAVEN

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
For the Year Ended December 31, 2012**

	<u>General Fund</u>	<u>Capital Projects</u>		<u>Total Governmental Funds</u>
		<u>Capital Improvement Fund</u>	<u>Park Dedication Fund</u>	
REVENUES				
General Property Taxes and Fiscal Disparities	\$ 1,714,053	\$ 195,809	\$ -	\$ 1,909,862
Special Assessments	780	-	-	780
Licenses and Permits	211,812	-	-	211,812
Intergovernmental	143,694	1,142	-	144,836
Charges for Services	343,713	-	-	343,713
Fines	78,576	1,500	-	80,076
Miscellaneous:				
Investment Income	45,539	5,092	1,600	52,231
Contributions and Donations	5,930	-	-	5,930
Franchise Fees	-	92,673	-	92,673
Other	45,345	-	16,228	61,573
Total Revenues	<u>2,589,442</u>	<u>296,216</u>	<u>17,828</u>	<u>2,903,486</u>
EXPENDITURES				
Current				
General Government	464,716	-	-	464,716
Public Safety	1,369,465	-	-	1,369,465
Public Works	576,594	57,795	-	634,389
Parks and Recreation	83,641	-	4,072	87,713
Capital Outlay				
General Government	-	15,270	-	15,270
Public Safety	-	73,571	-	73,571
Public Works	-	143,314	-	143,314
Parks and Recreation	-	8,400	56,652	65,052
Total Expenditures	<u>2,494,416</u>	<u>298,350</u>	<u>60,724</u>	<u>2,853,490</u>
Excess of Revenues Over (Under) Expenditures	95,026	(2,134)	(42,896)	49,996
OTHER FINANCING SOURCES				
Proceeds from Sale of Capital Assets	935	26,615	-	27,550
Transfers In	24,315	-	-	24,315
Total Other Financing Sources	<u>25,250</u>	<u>26,615</u>	<u>-</u>	<u>51,865</u>
Net Change in Fund Balances	120,276	24,481	(42,896)	101,861
FUND BALANCES				
Beginning of Year	<u>2,560,492</u>	<u>360,395</u>	<u>97,768</u>	<u>3,018,655</u>
End of Year	<u>\$ 2,680,768</u>	<u>\$ 384,876</u>	<u>\$ 54,872</u>	<u>\$ 3,120,516</u>

The Notes to the Financial Statements are an integral part of this statement.

CITY OF DEEPHAVEN

**RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES TO
THE STATEMENT OF ACTIVITIES - GOVERNMENTAL FUNDS**

For the Year Ended December 31, 2012

Net Change in Fund Balances - Governmental Funds \$ 101,861

Amounts reported for governmental activities in the Statement of Activities
are different because:

Capital outlay is reported in governmental funds as an expenditure. However,
in the Statement of Activities, the cost of those assets is allocated over the
estimated useful lives as depreciation expense.

Capital Outlay	288,102
Depreciation Expense	(289,613)
Book Value of Disposed Assets	(25,821)

Compensated absences are recognized as paid in the governmental funds
but recognized as the expense is incurred in the Statement of Activities. 2,219

OPEB costs are recognized as paid in the governmental funds but
recognized as the expense is incurred in the Statement of Activities. (16,325)

Certain receivables will be collected in subsequent years, but are not available
soon enough to pay for the current period's expenditures and, therefore, are
deferred in the funds.

Property Taxes Delinquent	12,207
Special Assessments	(612)
	<hr/>

Change in Net Position- Governmental Activities \$ 72,018

CITY OF DEEPHAVEN

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended December 31, 2012**

	<u>Original and Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget - Over (Under)</u>
REVENUES			
General Property Taxes and Fiscal Disparities	\$ 1,741,124	\$ 1,714,053	\$ (27,071)
Special Assessments	1,100	780	(320)
Licenses and Permits	184,860	211,812	26,952
Intergovernmental	58,651	143,694	85,043
Charges for Services	327,509	343,713	16,204
Fines and Forfeitures	50,000	78,576	28,576
Miscellaneous Revenues:			
Investment Income	32,000	45,539	13,539
Contributions and Donations	100	5,930	5,830
Other	40,616	45,345	4,729
Total Revenues	<u>2,435,960</u>	<u>2,589,442</u>	<u>153,482</u>
EXPENDITURES			
Current			
General Government	490,769	464,716	(26,053)
Public Safety	1,256,565	1,369,465	112,900
Public Works	623,651	576,594	(47,057)
Park and Recreation	85,750	83,641	(2,109)
Total Expenditures	<u>2,456,735</u>	<u>2,494,416</u>	<u>37,681</u>
Excess of Revenues Over (Under) Expenditures	(20,775)	95,026	115,801
OTHER FINANCING SOURCES			
Proceeds from Sale of Capital Asset	200	935	735
Transfers In	24,315	24,315	-
Total Other Financing Sources	<u>24,515</u>	<u>25,250</u>	<u>735</u>
Net Change in Fund Balances	<u>\$ 3,740</u>	120,276	<u>\$ 116,536</u>
FUND BALANCES			
Beginning of Year		<u>2,560,492</u>	
End of Year		<u>\$ 2,680,768</u>	

The Notes to the Financial Statements are an integral part of this statement.

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PROPRIETARY FUNDS

CITY OF DEEPHAVEN

STATEMENT OF NET POSITION - PROPRIETARY FUNDS
December 31, 2012

	Water	Sewer	Recycling	Storm Water	Marina	Total
ASSETS						
Current Assets						
Cash and Investments	\$ 154,080	\$ 510,227	\$ 16,485	\$ 68,413	\$ 101,233	\$ 850,438
Accounts Receivable	15,816	136,065	219	22,189	-	174,289
Special Assessments Receivable:						
Delinquent	3,807	3,602	3,998	-	-	11,407
Deferred	544	23,959	-	-	-	24,503
Prepaid Items	46	2,569	-	74	507	3,196
Total Current Assets	<u>174,293</u>	<u>676,422</u>	<u>20,702</u>	<u>90,676</u>	<u>101,740</u>	<u>1,063,833</u>
Noncurrent Assets						
Capital Assets:						
Mains, Lifts, Hydrants and Distribution Systems	736,250	6,010,745	-	486,090	-	7,233,085
Improvements	-	-	-	-	102,190	102,190
Vehicles and Equipment	23,481	25,624	-	-	333,509	382,614
Total Capital Assets	<u>759,731</u>	<u>6,036,369</u>	<u>-</u>	<u>486,090</u>	<u>435,699</u>	<u>7,717,889</u>
Less Accumulated Depreciation	(395,910)	(4,310,133)	-	(34,045)	(149,544)	(4,889,632)
Net Capital Assets	<u>363,821</u>	<u>1,726,236</u>	<u>-</u>	<u>452,045</u>	<u>286,155</u>	<u>2,828,257</u>
Total Assets	<u>\$ 538,114</u>	<u>\$ 2,402,658</u>	<u>\$ 20,702</u>	<u>\$ 542,721</u>	<u>\$ 387,895</u>	<u>\$ 3,892,090</u>
LIABILITIES AND NET POSITION						
Current Liabilities						
Accounts and Contracts Payable	\$ -	\$ 837	\$ 4,412	\$ 39,943	\$ -	\$ 45,192
Salaries and Benefits Payable	12	322	-	31	90	455
Due to Other Governments	11,495	-	-	-	-	11,495
Unearned Revenue	-	-	-	-	115,566	115,566
Long-Term Liabilities Due Within One Year	10	241	-	77	127	455
Total Current Liabilities	<u>11,517</u>	<u>1,400</u>	<u>4,412</u>	<u>40,051</u>	<u>115,783</u>	<u>173,163</u>
Noncurrent Liabilities						
Compensated Absences	100	2,412	-	770	1,272	4,554
Unfunded OPEB Liability	231	5,182	-	416	1,573	7,402
Less Amount Due Within One Year	(10)	(241)	-	(77)	(127)	(455)
Total Noncurrent Liabilities	<u>321</u>	<u>7,353</u>	<u>-</u>	<u>1,109</u>	<u>2,718</u>	<u>11,501</u>
Total Liabilities	<u>11,838</u>	<u>8,753</u>	<u>4,412</u>	<u>41,160</u>	<u>118,501</u>	<u>184,664</u>
Net Position						
Investment in Capital Assets	363,821	1,726,236	-	452,045	286,155	2,828,257
Unrestricted	162,455	667,669	16,290	49,516	(16,761)	879,169
Total Net Position	<u>526,276</u>	<u>2,393,905</u>	<u>16,290</u>	<u>501,561</u>	<u>269,394</u>	<u>3,707,426</u>
Total Liabilities and Net Position	<u>\$ 538,114</u>	<u>\$ 2,402,658</u>	<u>\$ 20,702</u>	<u>\$ 542,721</u>	<u>\$ 387,895</u>	<u>\$ 3,892,090</u>

CITY OF DEEPHAVEN

**STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN FUND NET POSITION - PROPRIETARY FUNDS
For the Year Ended December 31, 2012**

	<u>Water</u>	<u>Sewer</u>	<u>Recycling</u>	<u>Storm Water</u>	<u>Marina</u>	<u>Total</u>
OPERATING REVENUES						
Charges for Services	\$ 74,656	\$ 549,329	\$ 18,524	\$ 84,865	\$ 124,141	\$ 851,515
Permits, Hook-up Fees and Penalties	20	5,007	40	-	-	5,067
Other Income	-	4,730	12,079	-	525	17,334
Total Operating Revenues	<u>74,676</u>	<u>559,066</u>	<u>30,643</u>	<u>84,865</u>	<u>124,666</u>	<u>873,916</u>
OPERATING EXPENSES						
Disposal Charges	-	294,782	-	-	-	294,782
Water Charges	57,929	-	-	-	-	57,929
Wages and Benefits	4,213	109,706	-	9,908	40,334	164,161
Repairs and Maintenance	1,260	17,372	-	-	2,777	21,409
Supplies	46	68,947	89	174	287	69,543
Utilities	-	5,989	-	-	704	6,693
Other	1,424	32,608	23,670	42,757	61,345	161,804
Depreciation	15,288	130,107	-	10,693	16,936	173,024
Total Operating Expenses	<u>80,160</u>	<u>659,511</u>	<u>23,759</u>	<u>63,532</u>	<u>122,383</u>	<u>949,345</u>
Operating Income (Loss)	(5,484)	(100,445)	6,884	21,333	2,283	(75,429)
NONOPERATING REVENUES						
Interest Income	2,662	9,654	256	2,674	1,533	16,779
Income (Loss) before Transfers	(2,822)	(90,791)	7,140	24,007	3,816	(58,650)
Transfers Out	-	(24,315)	-	-	-	(24,315)
Change in Net Position	(2,822)	(115,106)	7,140	24,007	3,816	(82,965)
NET POSITION						
Beginning of Year	<u>529,098</u>	<u>2,509,011</u>	<u>9,150</u>	<u>477,554</u>	<u>265,578</u>	<u>3,790,391</u>
End of Year	<u>\$ 526,276</u>	<u>\$ 2,393,905</u>	<u>\$ 16,290</u>	<u>\$ 501,561</u>	<u>\$ 269,394</u>	<u>\$ 3,707,426</u>

CITY OF DEEPHAVEN

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
For the Year Ended December 31, 2012

	Water	Sewer	Recycling	Storm Water	Marina	Total
CASH FLOWS - OPERATING ACTIVITIES						
Receipts from Customers and Users	\$ 72,363	\$ 553,237	\$ 17,693	\$ 84,545	\$ 123,583	\$ 851,421
Payments to Suppliers	(60,725)	(396,700)	(20,452)	(3,588)	(64,895)	(546,360)
Payments to Employees	(4,250)	(109,908)	-	(9,940)	(40,544)	(164,642)
Received from Other Sources	-	4,730	12,079	-	525	17,334
Net Cash Flows - Operating Activities	<u>7,388</u>	<u>51,359</u>	<u>9,320</u>	<u>71,017</u>	<u>18,669</u>	<u>157,753</u>
CASH FLOWS - NONCAPITAL FINANCING ACTIVITIES						
Transfer Out	-	(24,315)	-	-	-	(24,315)
CASH FLOWS - CAPITAL AND RELATED FINANCING ACTIVITIES						
Acquisition of Capital Assets	-	(9,375)	-	(179,984)	(101,790)	(291,149)
CASH FLOWS - INVESTING ACTIVITIES						
Interest and Dividends Received	<u>2,662</u>	<u>9,654</u>	<u>256</u>	<u>2,674</u>	<u>1,533</u>	<u>16,779</u>
Net Change in Cash and Cash Equivalents	10,050	27,323	9,576	(106,293)	(81,588)	(140,932)
CASH AND CASH EQUIVALENTS						
Beginning of Year	<u>144,030</u>	<u>482,904</u>	<u>6,909</u>	<u>174,706</u>	<u>182,821</u>	<u>991,370</u>
End of Year	<u>\$ 154,080</u>	<u>\$ 510,227</u>	<u>\$ 16,485</u>	<u>\$ 68,413</u>	<u>\$ 101,233</u>	<u>\$ 850,438</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH - FLOWS - OPERATING ACTIVITIES						
Operating Income (Loss)	\$ (5,484)	\$ (100,445)	\$ 6,884	\$ 21,333	\$ 2,283	\$ (75,429)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Flows - Operating Activities:						
Depreciation Expense	15,288	130,107	-	10,693	16,936	173,024
Accounts Receivable	344	(497)	(219)	(320)	-	(692)
Special Assessments Receivable	(2,657)	(602)	(652)	-	-	(3,911)
Prepaid Items	24	25,005	-	24	471	25,524
Accounts and Contracts Payable	-	201	3,307	39,319	(253)	42,574
Salaries and Benefits Payable	(84)	(1,942)	-	(202)	(622)	(2,850)
Due to Other Governments	(90)	(2,208)	-	-	-	(2,298)
OPEB Obligation	73	1,650	-	132	501	2,356
Unearned Revenue	-	-	-	-	(558)	(558)
Compensated Absences Payable	(26)	90	-	38	(89)	13
Total Adjustments	<u>12,872</u>	<u>151,804</u>	<u>2,436</u>	<u>49,684</u>	<u>16,386</u>	<u>233,182</u>
Net Cash Flows - Operating Activities	<u>\$ 7,388</u>	<u>\$ 51,359</u>	<u>\$ 9,320</u>	<u>\$ 71,017</u>	<u>\$ 18,669</u>	<u>\$ 157,753</u>

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**NOTES TO BASIC
FINANCIAL STATEMENTS**

CITY OF DEEPHAVEN

NOTES TO THE FINANCIAL STATEMENTS December 31, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Deephaven is a statutory city governed by an elected mayor and four council members. The accompanying financial statements present the government entities for which the government is considered to be financially accountable.

The financial statements present the City and its component units. The City includes all funds, organizations, institutions, agencies, departments and offices that are not legally separate from such. Component units are legally separate organizations for which the elected officials of the City are financially accountable and are included within the basic financial statements of the City because of the significance of their operational or financial relationships with the City.

The City is considered financially accountable for a component unit if it appoints a voting majority of the organization's governing body and it is able to impose its will on the organization by significantly influencing the programs, projects, activities or level of services performed or provided by the organization or there is a potential for the organization to provide specific financial benefits to or impose specific financial burdens on, the City.

As a result of applying the component unit definition criteria above, certain organizations have been defined and are presented in this report as follows:

Joint Ventures and Jointly Governed Organizations – The relationship of the City with the Excelsior Fire District is disclosed as a joint venture because the City does not appoint a voting majority of the governing body.

For the category above, the specific entity is identified as follows:

1. Joint Venture

The City belongs to the Excelsior Fire District (the "District") which is made up of five member cities. The primary purpose of this organization is to provide fire protection services to the member cities. The City has no equity interest in the District as of December 31, 2012. In accordance with *Minnesota Statutes*, the City retains a commitment to fund a percentage of the unfunded pension liability of the District. The pension obligation was fully funded at December 31, 2012.

In connection with the construction of the two fire safety facilities, the Shorewood Economic Development Authority (EDA) has issued three bonds totaling \$ 7,120,000 on behalf of the District and its member cities. All five member cities contribute annually towards the bonded debt payments and will do so until the bond payments end in the year 2023. Annual debt service payments are determined each year based on several factors, including tax capacity.

During the 2012 fiscal year, the City paid \$ 261,618 to the District for fire services provided and \$ 150,898 debt service payments. During 2007, these bonds were refinanced by a crossover refunding bond. To obtain a copy of the Shorewood Economic District contact the City.

CITY OF DEEPHAVEN

NOTES TO THE FINANCIAL STATEMENTS December 31, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the governmental and enterprise activities of the City. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. 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 segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues. Internally dedicated revenues are reported as general revenues rather than program revenues.

Separate financial statements are provided for governmental funds and proprietary funds. 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.

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 revenues to be available if they are collected within 60 days of the end of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

CITY OF DEEPHAVEN

NOTES TO THE FINANCIAL STATEMENTS December 31, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

Description of Funds:

Major Governmental Funds:

General Fund – This Fund is the City’s primary operating fund. It accounts for all financial resources of the general City, except those required to be accounted for in another fund.

Capital Improvement Capital Project Fund – This Fund accounts for revenues and expenditures related to City capital improvements other than specific projects accounted for in other funds.

Park Dedication Capital Project Fund – This Fund accounts for the revenue and expenditures related to City park improvements.

Proprietary Funds:

Water Fund – This Fund accounts for the operations of the City’s water services.

Sewer Fund – This Fund accounts for the operations of the City’s sewer services.

Recycling Fund – This Fund accounts for the operations of the City’s recycling services.

Storm Water Fund – This Fund accounts for the operations of the City’s storm water services.

Marina Fund – This Fund accounts for the operations of the City’s marina on Lake Minnetonka.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City’s public utility funds and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenues and expenses from nonoperating 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 City’s enterprise funds are charges to customers for sales and services. 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 nonoperating revenues and expenses.

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

CITY OF DEEPHAVEN

NOTES TO THE FINANCIAL STATEMENTS December 31, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

D. Assets, Liabilities and Net Position or Equity

1. Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. Investments are stated at market value.

Minnesota Statutes require all deposits made by cities with financial institutions to be collateralized in an amount equal to 110% of deposits in excess of Federal Deposit Insurance Corporation (FDIC) insurance.

Minnesota Statutes authorizes the City to invest in obligations of the U.S. Treasury, agencies and instrumentalities, share of investment companies whose only investments are in the aforementioned securities, obligations of the State of Minnesota or its municipalities, bankers' acceptances, future contracts, repurchase and reverse repurchase agreements and commercial paper of the highest quality with a maturity of no longer than 270 days and in the Minnesota Municipal Investment Pool.

Custodial Credit Risk – Deposits: For deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City's policy states all deposits must be fully insured and collateralized in the name of the City, subject to release by the City Administrator/Clerk/Treasurer.

Interest Rate Risk: This is the risk that market values of securities in a portfolio would decrease due to changes in market interest rates. The City's investment policy states the City should manage its interest rates based on liquidity, safety and the overall return on the investment.

Credit Risk: This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State law limits investments in commercial paper and corporate bonds to be in the top two ratings issued by nationally recognized statistical rating organizations. The City's investment policy lists the allowable investments as government securities, certificates of deposit, repurchase agreements, any general obligation security of the State of Minnesota or any of its municipalities, state-wide investment pool and money market mutual funds.

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 states the City will attempt to diversify its investments according to type and maturity. No more than 30% of the total investment should extend beyond 5 years and the City shall not invest in investments with a maturity exceeding 20 years.

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 investments or collateral securities that are in the possession of an outside party. The City's investment policy states when a broker/dealer holds investments purchased by the City in safekeeping, the broker/dealer must provide asset protection of \$ 500,000 through the Securities Investor Protector Corporation (SIPC) and at least another \$ 2 million supplemental insurance protection.

CITY OF DEEPHAVEN

NOTES TO THE FINANCIAL STATEMENTS December 31, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

D. Assets, Liabilities and Net Position or Equity (Continued)

2. Receivables and Payables

All trade and property tax receivables are shown at a gross amount since both are assessable to the property taxes and are collectible upon the sale of the property.

The City levies its property tax for the subsequent year during the month of December. December 28 is the last day the City can certify a tax levy to the County Auditor for collection the following year. Such taxes become a lien on January 1 and are recorded as receivables by the City at that date. The property tax is recorded as revenue when it becomes measurable and available. Hennepin County is the collecting agency for the levy and remits the collections to the City three times a year. The tax levy notice is mailed in March with the first half of the payment due on May 15 and the second half due on October 15. Taxes not collected as of December 31 each year are shown as delinquent taxes receivable.

The County Auditor prepares the tax list for all taxable property in the City, applying the applicable tax rate to the tax capacity of individual properties, to arrive at the actual tax for each property. The County Auditor also collects all special assessments, except for certain prepayments paid directly to the City.

The County Auditor submits the list of taxes and special assessments to be collected on each parcel of property to the County Treasurer in January of each year.

3. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

4. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, sidewalks and similar items), 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 than \$ 1,000 and an estimated useful life in excess of three years. 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.

CITY OF DEEPHAVEN

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

D. Assets, Liabilities and Net Position or Equity (Continued)

4. Capital Assets (Continued)

Property, plant and equipment of the City are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Bridges	40
Mains and Lines	30 - 50
Buildings and Improvements	15 - 50
Streets	15 - 25
Vehicles and Equipment	3 - 25

5. Compensated Absences

Under terms of union contracts and personnel policies, the City's employees are granted vacation in varying amounts depending on length of service and union contract or employee classification. All full-time employees accumulate eight hours of sick leave per month of service. Upon termination, employees are paid for all unused vacation. Any employee who leaves the City under honorable condition is eligible for severance pay. Severance pay is one-third of unused accumulated sick leave.

6. Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenditures/expense during the reporting period. Actual results could differ from those estimates.

7. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term obligations are reported as liabilities in the applicable governmental activities, the business-type activities or proprietary fund type Statement of Net Position. Long-term liabilities consist of compensated absences and OPEB obligations.

In the fund financial statements, governmental fund types recognize noncurrent liabilities to the extent they have matured or will be liquidated with expendable, available financial resources.

CITY OF DEEPHAVEN

NOTES TO THE FINANCIAL STATEMENTS December 31, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

D Assets, Liabilities and Net Position or Equity (Continued)

8. Net Position

Net position represents the difference between assets and liabilities in the government-wide financial statements. Net position invested in capital assets consists of capital assets, net of accumulated depreciation. Net position is reported as restricted in the government-wide financial statement when there are limitations on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

9. Fund Equity

a. Classification

In the fund financial statements, governmental funds report fund classifications that comprise a hierarchy based primarily on the extent to which the City is bound to honor constraints on the specific purpose for which amounts in those funds can be spent.

- Nonspendable Fund Balance – These are amounts that cannot be spent because they are not in spendable form.
- Restricted Fund Balance – These are amounts that are restricted to specific purposes either by a) constraints placed on the use of resources by creditors, grantors, contributors, or laws or regulations of other governments or b) imposed by law through enabling legislation.
- Committed Fund Balance – These are amounts that can only be used for specific purposes pursuant to constraints imposed by the City Council (highest level of decision making authority) through resolution.
- Assigned Fund Balance – These are amounts that are constrained by the City's intent to be used for specific purposes but are neither restricted nor committed. Assignments are made by the City Administrator/Clerk/Treasurer based on the City Council's direction.
- Unassigned Fund Balance – These are residual amounts in the General Fund not reported in any other classification. The General Fund is the only fund that can report a positive unassigned fund balance. Other funds would report a negative unassigned fund balance should the total of nonspendable, restricted and committed fund balances exceed the total net resources of that fund.

CITY OF DEEPHAVEN

NOTES TO THE FINANCIAL STATEMENTS December 31, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

D. Assets, Liabilities and Net Position or Equity (Continued)

The City applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used. The City considers restricted to be spent first when an expenditure is incurred where both restricted and unrestricted fund balance is available. In addition, expenditures are applied to fund balances based on this hierarchy: committed, assigned and unassigned. The amounts are considered to have been spent when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

b. Minimum Fund Balance

The City's General Fund minimum fund balance is an amount equivalent to 80% of the following year's operating budget.

10. Use of Estimates

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

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

The City Council adopts an annual budget for all funds. The amounts shown in the financial statements for the General Fund as "budget" represent the original budgeted amount. The City follows these procedures in establishing the budgetary data reflected in the financial statements.

1. The City Administrator/Clerk/Treasurer compiles the budget requests into an overall preliminary City budget.
2. The City Administrator/Clerk/Treasurer presents the proposed budget to the City Council. The budget resolution adopted by the City Council sets forth the budgets at the function level for all of the funds.
3. Formal budgetary integration is employed as a management control device during the year.

The budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriations lapse at year-end. The detailed budget schedule provided in the supplementary information is presented on the same basis. No revisions to the budgets were made during the year.

CITY OF DEEPHAVEN

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

B. Expenditures Exceeding Appropriations

Expenditures exceeded appropriations in the following fund for the year ended at December 31, 2012:

	<u>Expenditures</u>	<u>Appropriations</u>
General Fund	\$ 2,494,416	\$ 2,456,735
Capital Improvement Fund	298,100	298,350
Park Dedication Fund	4,000	60,724

NOTE 3 – DEPOSITS AND INVESTMENTS

Cash balances of the City’s funds are combined (pooled) and invested to the extent available in various investments authorized by *Minnesota Statutes*. Each fund’s portion of this pool is displayed in the financial statements as “cash and investments”. For purposes of identifying risk of investing public funds, the balances and related restrictions are summarized on the following page.

A. Deposits

Custodial Credit Risk – Deposits: As of December 31, 2012, the City’s bank balance was not exposed to custodial credit risk because it was fully insured through the FDIC as well as collateral pledged and a Federal Home Loan Bank standby letter of credit and were independently verified through audit procedures. The City’s deposits had a book balance as follows:

Checking and Money Market Savings	\$ 972,053
Certificates of Deposit	<u>1,524,684</u>
Total Deposits	<u>\$ 2,496,737</u>

CITY OF DEEPHAVEN

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

NOTE 3 – DEPOSITS AND INVESTMENTS

B. Investments

As of December 31, 2012, the City had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities</u>	
		<u>Less than One Year</u>	<u>1-5 Years</u>
Brokered Certificates of Deposit	\$ 1,404,987	\$ 97,372	\$ 1,307,615
FHLMC Note	818	-	818
Brokered Money Market	18,847	18,847	-
 Total	 <u>\$ 1,424,652</u>	 <u>\$ 116,219</u>	 <u>\$ 1,308,433</u>
	<u>Maturity</u>		<u>Maximum Investments</u>
	Less than One Year		8%
	1-5 Years		92%

Credit Risk: As of December 31, 2012, the City's investment in FHLMC note was rated AAA by Standard and Poor's (S&P) and Aaa by Moody's investors services. The remaining investments were unrated.

Concentration Credit Risk: As of December 31, 2012, the following investments, brokered CDs, of the City composed more than 5% of the City's portfolio:

Capmark Bank, UT	6.8%
FirstBank, PR	7.1%
American Express, UT	17.4%
Goldman Sachs, NY	7.5%
M & I Bank, WI	7.2%
GE Money Bank, UT	7.2%
OneWest Bank, CA	14.1%
Mutual Bank, IN	7.2%
Goldman Sachs, NY	7.4%
GE Capital, UT	10.1%

CITY OF DEEPHAVEN

**NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012**

NOTE 3 – DEPOSITS AND INVESTMENTS

C. Balances

Summary of cash deposits and investments as of December 31, 2012 were as follows:

Deposits (Note 3.A.)	\$ 2,496,737
Investments	1,424,652
Petty Cash	<u>250</u>
Total Deposits and Investments	<u>\$ 3,921,639</u>

Deposits and investments are presented in the December 31, 2012 basic financial statements as follows:

Statement of Net Position:

Cash and Investments (Including Cash and Cash Equivalents)	<u>\$ 3,921,639</u>
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NOTE 4 – INTERFUND TRANSFERS

The following is a summary of the City's transfers for the year ended December 31, 2012:

	<u>Transfer Out</u>
	<u>Sewer</u>
Transfer In:	
General	<u>\$ 24,315</u>

The above transfer was made for the purpose of payments in lieu of taxes.

CITY OF DEEPHAVEN

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012

NOTE 5 – CAPITAL ASSETS

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital Assets not being Depreciated:				
Land	\$ 692,177	\$ -	\$ -	\$ 692,177
Capital Assets being Depreciated:				
Buildings	1,224,077	6,025	-	1,230,102
Improvements Other than Buildings	5,484	-	-	5,484
Infrastructure	3,570,477	-	-	3,570,477
Vehicles and Equipment	2,398,822	282,077	173,831	2,507,068
Total Capital Assets being Depreciated	7,198,860	288,102	173,831	7,313,131
Less Accumulated Depreciation for:				
Buildings	810,304	21,044	-	831,348
Improvements Other than Buildings	2,928	366	-	3,294
Infrastructure	799,315	118,278	-	917,593
Vehicles and Equipment	1,527,054	149,925	148,010	1,528,969
Total Accumulated Depreciation	3,139,601	289,613	148,010	3,281,204
Total Capital Assets being Depreciated, Net	4,059,259	(1,511)	25,821	4,031,927
Governmental Activities Capital Assets, Net	\$ 4,751,436	\$ (1,511)	\$ 25,821	\$ 4,724,104
Business-Type Activities:				
Capital Assets being Depreciated:				
Mains, Lifts, Hydrants and Distribution Systems	\$ 7,043,726	\$ 189,359	\$ -	\$ 7,233,085
Improvements Other than Buildings	102,190	-	-	102,190
Vehicles and Equipment	280,824	101,790	-	382,614
Total Capital Assets being Depreciated	7,426,740	291,149	-	7,717,889
Less Accumulated Depreciation for:				
Mains, Lifts, Hydrants and Distribution Systems	4,551,246	155,459	-	4,706,705
Improvements Other than Buildings	71,573	4,963	-	76,536
Vehicles and Equipment	93,789	12,602	-	106,391
Total Accumulated Depreciation	4,716,608	173,024	-	4,889,632
Business-Type Activities Capital Assets, Net	\$ 2,710,132	\$ 118,125	\$ -	\$ 2,828,257

CITY OF DEEPHAVEN

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012

NOTE 5 – CAPITAL ASSETS

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

Governmental Activities:

General Government	\$ 4,742
Public Safety	42,090
Public Works	188,230
Parks and Recreation	<u>54,551</u>

Total Depreciation Expense - Governmental Activities \$ 289,613

Business-Type Activities:

Water	\$ 15,288
Sewer	130,107
Storm Water	10,693
Marina	<u>16,936</u>

Total Depreciation Expense - Business-Type Activities \$ 173,024

NOTE 6 – LONG-TERM DEBT

A. Conduit Debt Obligations

Conduit debt obligations are certain limited obligation revenue bonds or similar debt instruments issued for the express purpose of providing capital financing for a specific third party. The City has issued revenue bonds to provide funding to private sector entities for projects deemed to be in the public interest. Although these bonds bear the name of the City, the City has no obligation for such debt. Accordingly, the bonds are not reported as liabilities in the financial statements of the City.

As of December 31, 2012, the City's outstanding conduit debt balances consisted of the following:

\$ 2,555,000 Minnesota Education Facilities Revenue Note (Excelsior Covenant Preschool Project), Series 2007	\$ 1,961,812
\$ 1,000,000 Minnesota Education Facilities Revenue Note (Benilde-St. Margaret School), Series 2011	<u>951,808</u>
Total	<u>\$ 2,913,620</u>

CITY OF DEEPHAVEN

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012

NOTE 6 – LONG-TERM DEBT

B. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2012 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities:					
Compensated Absences	\$ 119,510	\$ 93,608	\$ 95,288	\$ 117,830	\$ 11,729
Business-Type Activities:					
Compensated Absences	<u>4,541</u>	<u>6,255</u>	<u>6,243</u>	<u>4,553</u>	<u>455</u>
Total Long-Term Liabilities	<u>\$ 124,051</u>	<u>\$ 99,863</u>	<u>\$ 101,531</u>	<u>\$ 122,383</u>	<u>\$ 12,184</u>

For governmental activities, the General Fund typically liquidates the liability related to compensated absences.

NOTE 7 – FUND BALANCE DETAIL

Fund equity balances are classified as follows to reflect the limitations and restrictions of the respective funds.

	<u>General Fund</u>	<u>Capital Improvement Fund</u>	<u>Park Dedication Fund</u>	<u>Total</u>
Nonspendable:				
Prepays	\$ 16,472	\$ -	\$ -	\$ 16,472
Restricted:				
Park Dedication Fees	-	-	54,872	54,872
Committed:				
Compensated Absences	117,290	-	-	117,290
OPEB Obligation	59,218	-	-	59,218
Capital Projects	<u>-</u>	<u>384,876</u>	<u>-</u>	<u>384,876</u>
Total Committed	176,508	384,876	-	561,384
Unassigned	<u>2,487,788</u>	<u>-</u>	<u>-</u>	<u>2,487,788</u>
Total	<u>\$ 2,680,768</u>	<u>\$ 384,876</u>	<u>\$ 54,872</u>	<u>\$ 3,120,516</u>

CITY OF DEEPHAVEN

NOTES TO THE FINANCIAL STATEMENTS December 31, 2012

NOTE 8 – RISK MANAGEMENT

The City purchases commercial insurance coverage through the LMCIT with other cities in the state which is a public entity risk pool currently operating as a common risk management and insurance program. The City pays an annual premium to the LMCIT for its insurance coverage. The LMCIT is self sustaining through commercial companies for excess claims. The City is covered through the pool for any claims incurred but unreported, however, retains risk for the deductible portion of its insurance policies. The amount of these deductibles is considered immaterial to the financial statements.

The City's workers' compensation insurance policy is retrospectively rated. With this type of policy, final premiums are determined after loss experience, workers' compensation rates and salaries for the year are known. The final premium adjustment was recorded in the year the adjustment was made.

During the year ended December 31, 2012, there were no significant reductions in insurance coverage from the prior year. Settled claims have not exceeded the City's commercial coverage in any of the past three years.

NOTE 9 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Public Employees' Retirement Association

A. Plan Description

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

GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan. All police officers, fire-fighters and peace officers who qualify for membership by statute are covered by the PEPFF. Members who are employed in a county correctional institution as a correctional guard or officer, a joint jailer/dispatcher, or as a supervisor of correctional guards or officers or of joint jailers/dispatchers and are directly responsible for the direct security, custody and control of the county correctional institution and its inmates are covered by the PECF.

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.

CITY OF DEEPHAVEN

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

NOTE 9 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Public Employees' Retirement Association (Continued)

A Plan Description (Continued)

Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 % of average salary for each of the first 10 years of service and 2.7% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first 10 years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 2.7% of average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year of service. For PEPFF members, the annuity accrual rate is 3.0% for each year of service. The annuity accrual rate is 1.9% for each year of service for PECF members. For all PEPFF members, PECF members and GERF members hired prior to July 1, 1989 whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 55 for PEPFF and PECF members and 65 for Basic and Coordinated members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for Coordinated members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

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

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

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

CITY OF DEEPHAVEN

NOTES TO THE FINANCIAL STATEMENTS December 31, 2012

NOTE 9– DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Public Employees’ Retirement Association (Continued)

B. Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The City makes annual contributions to the pension plans equal to the amount required by state statutes. GERP Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.25%, respectively, of their annual covered salary in 2012. PEPFF members were required to contribute 9.6% of their annual covered salary in 2012. PECF members were required to contribute 5.83% of their annual covered salary. In 2012, the City of Deephaven was required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan members, 7.25% for Coordinated Plan members, 14.4% for PEPFF members and 8.75% for PECF members. The City’s contributions to the Public Employees Retirement Fund for the years ending December 31, 2012, 2011 and 2010 were \$ 39,142, \$ 38,472, and \$ 40,485, respectively. The City’s contributions to the Public Employees Police & Fire Fund for the years ending December 31, 2012, 2011 and 2010 were \$ 75,336, \$ 69,869, and \$ 64,117, respectively. The City’s contributions were equal to the contractually required contributions for each year as set by state statute.

NOTE 10 – COMMITMENTS

A. Legal Claims

The City had legal claims pending at year-end. Although the outcome of these lawsuits is not presently determinable, the City’s management believes the City will not incur any material monetary loss resulting from these claims. No loss has been recorded on the City’s financial statements relating to these claims.

NOTE 11 – POST EMPLOYMENT HEALTH CARE PLAN

A. Plan Description

The City provides a single-employer defined benefit health care plan to eligible retirees and their spouses. The plan offers medical coverage. Medical coverage is administered by Blue Cross Blue Shield. It is the City’s policy to periodically review its medical coverage, and to obtain requests for proposals in order to provide the most favorable benefits and premiums for City employees and retirees.

B. Funding Policy

Retirees and their spouses can participate in the health care plan at the same premium rate as City employees. Retirees and their spouses are responsible for 100% of these rates. This results in the retirees receiving an implicit rate subsidy. Contribution requirements are established by the City, based on the contract terms with Blue Cross Blue Shield. The required contributions are based on projected pay-as-you-go financing requirements. For fiscal year 2012, the City contributed \$ 11,172 to the plan. As of January 1, 2012, there were 2 retirees receiving health benefits from the City’s health plan.

CITY OF DEEPHAVEN

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012

NOTE 11 – POST EMPLOYMENT HEALTH CARE PLAN

C. Annual OPEB Cost and Net OPEB Obligation

The City’s annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the City, 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 following table shows the components of the City’s annual OPEB cost of the year, the amount actually contributed to the plan and changes in the City’s net OPEB obligation to the plan.

ARC	\$ 29,547
Interest on Net OPEB Obligation	2,157
Adjustment to ARC	<u>(1,850)</u>
Annual OPEB Cost (Expense)	29,854
Contributions Made	<u>(11,172)</u>
Increase in Net OPEB Obligation	18,682
Net OPEB Obligation - Beginning of Year	<u>47,938</u>
 Net OPEB Obligation - End of Year	 <u><u>\$ 66,620</u></u>

The City’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for the following three years:

<u>Fiscal Year</u> <u>Ended</u>	<u>Annual</u> <u>Cost</u>	<u>Employer</u> <u>Contribution</u>	<u>Percentage of Annual</u> <u>OPEB Cost</u> <u>Contributed</u>	<u>Net OPEB</u> <u>Obligation</u>
12/31/12	\$ 29,854	\$ 11,172	37%	\$ 66,620
12/31/11	30,383	10,680	35%	47,938
12/31/10	29,621	7,786	26%	28,235

D. Funded Status and Funding Progress

As of January 1, 2012, the most recent actuarial valuation date, the City had no assets deposited to fund the Plan. The actuarial accrued liability for benefits was \$ 196,767 and the actuarial value of assets was \$ 0, resulting in an unfunded actuarial accrued liability (UAAL) of \$ 196,767. The covered payroll (annual payroll of active employees covered by the plan) was \$ 954,784, and the ratio of the UAAL to the covered payroll was 21%.

CITY OF DEEPHAVEN

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

NOTE 11 – POST EMPLOYMENT HEALTH CARE PLAN

D. Funded Status and Funding Progress (Continued)

Actuarial valuations 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 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 for the Retiree Health Plan, presented as required supplementary information following the Notes to the Financial Statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

E. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the Plan as understood by the employer and the 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 effects of short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations.

At the January 1, 2012 actuarial valuation date, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4.5% discount rate, which is based on the investment yield expected to finance benefits. The actuarial assumption for payroll growth was 3.75%. The post retirement benefit increase is the same as the insurance rate increase as liability is only implicit rate. The City currently does not plan to prefund for this benefit. At the actuarial valuation date, the annual health care cost trend rate was calculated to be 9% initially, reduced incrementally to an ultimate rate of 5% after 10 years. Both rates included a 3% inflation assumption. The UAAL is being amortized on a level percentage of projected payroll on an open basis. The remaining amortization period at January 1, 2012 was 30 years.

NOTE 12 – CHANGE IN ACCOUNTING PRINCIPLE

For the year ended December 31, 2012, the City implemented GASB Statement No. 63. This implementation resulted in the establishment of categories outside of assets and liabilities titled deferred outflows and deferred inflows. The Statement also retitled Net Assets as Net Position.

NOTE 13 – SUBSEQUENT EVENTS

The City has evaluated subsequent events through March 5, 2013, the date which the financial statements were available to be issued.

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**REQUIRED SUPPLEMENTARY
INFORMATION**

CITY OF DEEPHAVEN

REQUIRED SUPPLEMENTARY INFORMATION
December 31, 2012

Schedule of Funding Progress for Retiree Health Plan

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability</u>	<u>Unfunded Actuarial Accrued Liability</u>	<u>Funded Ratio</u>	<u>Estimated Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
01/01/08	\$ -	\$ 281,775	\$ 281,775	0.0%	\$ 1,017,814	27.7%
01/01/10	-	173,758	173,758	0.0%	973,662	17.8%
01/01/12	-	196,767	196,767	0.0%	954,784	20.6%

See Note 11 in the Notes to the Financial Statements for more detail on this Schedule.

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SUPPLEMENTARY INFORMATION

CITY OF DEEPHAVEN

**SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended December 31, 2012**

	<u>Original and Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget - Over (Under)</u>
REVENUES			
General Property Taxes and Fiscal Disparities	\$ 1,741,124	\$ 1,714,053	\$ (27,071)
Special Assessments	1,100	780	(320)
Licenses and Permits	184,860	211,812	26,952
Intergovernmental Revenues:			
PERA Aid	2,501	2,569	68
Post Board Reimbursement	2,450	-	(2,450)
Fire Aid	-	93,824	93,824
Police Retirement Aid	45,000	47,301	2,301
Road and Other Aid	8,700	-	(8,700)
Total Intergovernmental Revenues	<u>58,651</u>	<u>143,694</u>	<u>85,043</u>
Charges for Services:			
General Government	20,000	26,225	6,225
Public Safety	24,168	29,331	5,163
Public Works	8,800	26,719	17,919
City of Greenwood	107,628	96,419	(11,209)
City of Woodland	166,913	164,272	(2,641)
Other	-	747	747
Total Charges for Services	<u>327,509</u>	<u>343,713</u>	<u>16,204</u>
Fines and Forfeitures	50,000	78,576	28,576
Miscellaneous Revenues:			
Investment Income	32,000	45,539	13,539
Contributions and Donations	100	5,930	5,830
Other	40,616	45,345	4,729
Total Miscellaneous Revenues	<u>72,716</u>	<u>96,814</u>	<u>24,098</u>
Total Revenues	<u>2,435,960</u>	<u>2,589,442</u>	<u>153,482</u>

EXPENDITURES

General Government

Mayor and Council:

Personnel Services	13,200	13,200	-
Benefits	1,009	1,009	-
Other Services and Charges	5,400	6,287	887
Total Mayor and Council	<u>19,609</u>	<u>20,496</u>	<u>887</u>

CITY OF DEEPHAVEN

**SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended December 31, 2012
(Continued)**

	<u>Original and Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget - Over (Under)</u>
EXPENDITURES			
General Government (Continued)			
Elections:			
Personnel Services	\$ 4,675	\$ 5,617	\$ 942
Other Services and Charges	4,200	3,438	(762)
Total Elections	<u>8,875</u>	<u>9,055</u>	<u>180</u>
Administrative and Finance:			
Personnel Services	166,839	173,010	6,171
Benefits	24,859	26,096	1,237
Other Services and Charges	68,126	67,999	(127)
Total Administrative and Finance	<u>259,824</u>	<u>267,105</u>	<u>7,281</u>
Assessing	48,911	48,952	41
Auditing Services	15,850	15,770	(80)
Legal Services	6,000	5,229	(771)
Other General Government	131,700	98,109	(33,591)
Total General Government	<u>490,769</u>	<u>464,716</u>	<u>(26,053)</u>
Public Safety			
Police:			
Personnel Services	544,282	567,320	23,038
Benefits	95,734	100,444	4,710
Prosecution Services	41,388	41,024	(364)
Other Services and Charges	162,451	154,337	(8,114)
Total Police	<u>843,855</u>	<u>863,125</u>	<u>19,270</u>
Fire:			
Other Services and Charges	412,710	506,340	93,630
Total Public Safety	<u>1,256,565</u>	<u>1,369,465</u>	<u>112,900</u>
Public Works			
Engineering Fees	2,000	363	(1,637)
Administration:			
Personnel Services	190,689	198,518	7,829
Benefits	56,245	56,864	619
Other Services and Charges	67,490	48,964	(18,526)
Total Administration	<u>314,424</u>	<u>304,346</u>	<u>(10,078)</u>

CITY OF DEEPHAVEN

**SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended December 31, 2012
(Continued)**

	<u>Original and Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget - Over (Under)</u>
EXPENDITURES			
Public Works (Continued)			
Streets:			
Utility Services	\$ 26,400	\$ 23,996	\$ (2,404)
Street Repair and Maintenance	79,500	54,282	(25,218)
Total Streets	<u>105,900</u>	<u>78,278</u>	<u>(27,622)</u>
Planning and Zoning:			
Personnel Services	82,484	84,003	1,519
Benefits	25,588	25,570	(18)
Professional Services	82,000	67,029	(14,971)
Other Services and Charges	11,255	17,005	5,750
Total Planning and Zoning	<u>201,327</u>	<u>193,607</u>	<u>(7,720)</u>
Total Public Works	<u>623,651</u>	<u>576,594</u>	<u>(47,057)</u>
 Parks and Recreation			
Wildlife Management	13,100	14,587	1,487
Professional Services	40,300	38,010	(2,290)
Other	32,350	31,044	(1,306)
Total Parks and Recreation	<u>85,750</u>	<u>83,641</u>	<u>(2,109)</u>
Total Expenditures	<u>2,456,735</u>	<u>2,494,416</u>	<u>37,681</u>
 Excess of Revenues Over (Under) Expenditures	 (20,775)	 95,026	 115,801
 OTHER FINANCING SOURCES			
Proceeds from Sale of Capital Assets	200	935	735
Transfers In	24,315	24,315	-
Total Other Financing Sources	<u>24,515</u>	<u>25,250</u>	<u>735</u>
 Net Change in Fund Balances	 <u>\$ 3,740</u>	 120,276	 <u>\$ 116,536</u>
 FUND BALANCES			
Beginning of Year		<u>2,560,492</u>	
End of Year		<u>\$ 2,680,768</u>	

CITY OF DEEPHAVEN

**SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - CAPITAL IMPROVEMENT FUND
For the Year Ended December 31, 2012**

	<u>Original and Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget - Over (Under)</u>
REVENUES			
General Property Taxes and Fiscal Disparities	\$ 200,000	\$ 195,809	\$ (4,191)
Intergovernmental Revenue:			
Road and Other Aid	2,600	1,142	(1,458)
Fines and Forfeitures	-	1,500	1,500
Miscellaneous Revenues:			
Investment Income	1,750	5,092	3,342
Franchise Fees	92,000	92,673	673
Total Miscellaneous Revenues	<u>93,750</u>	<u>97,765</u>	<u>4,015</u>
Total Revenues	<u>296,350</u>	<u>296,216</u>	<u>(134)</u>
EXPENDITURES			
General Government			
Capital Outlay	2,400	15,270	12,870
Public Safety			
Police:			
Capital Outlay	13,200	73,571	60,371
Public Works			
Streets:			
Street Repair and Maintenance	150,000	57,795	(92,205)
Capital Outlay	132,500	143,314	10,814
Total Streets	<u>282,500</u>	<u>201,109</u>	<u>(81,391)</u>
Park and Recreation			
Capital Outlay	-	8,400	8,400
Total Expenditures	<u>298,100</u>	<u>298,350</u>	<u>250</u>
Excess of Revenues			
Under Expenditures	(1,750)	(2,134)	(384)
OTHER FINANCING SOURCES			
Proceeds from Sale of Capital Assets	-	26,615	26,615
Net Change in Fund Balances	<u>\$ (1,750)</u>	24,481	<u>\$ 26,231</u>
FUND BALANCES			
Beginning of Year		<u>360,395</u>	
End of Year		<u>\$ 384,876</u>	

CITY OF DEEPHAVEN

**SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - PARK DEDICATION FUND
For the Year Ended December 31, 2012**

	<u>Original and Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget - Over (Under)</u>
REVENUES			
Miscellaneous Revenues			
Investment Income	\$ 800	\$ 1,600	\$ 800
Other	4,000	16,228	12,228
Total Revenues	<u>4,800</u>	<u>17,828</u>	<u>13,028</u>
EXPENDITURES			
Park and Recreation			
Other	4,000	4,072	72
Capital Outlay	-	56,652	56,652
Total Expenditures	<u>4,000</u>	<u>60,724</u>	<u>56,724</u>
Net Change in Fund Balances	<u>\$ 800</u>	(42,896)	<u>\$ (43,696)</u>
FUND BALANCES			
Beginning of Year		<u>97,768</u>	
End of Year		<u>\$ 54,872</u>	

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STATISTICAL SECTION

CITY OF DEEPHAVEN
STATISTICAL SECTION
December 31, 2012

This part of the City's Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosures and required supplementary information say about the City's overall financial health.

Contents

Financial Trends

These schedules contain trend information to help the reader understand how the City's financial performance has changed over time.

Revenue Capacity

These schedules contain information to help the reader assess the factors tax affecting the City's ability to generate its individual income sales.

Debt Capacity

These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.

Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.

Operating Information

These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs.

Sources: Unless otherwise noted, the information in these schedules is derived from the Comprehensive Annual Financial Report for the relevant year.

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CITY OF DEEPHAVEN

Table 1

NET POSITION BY COMPONENT
Last Nine Fiscal Years
(Unaudited)

	Fiscal Year								
	2004	2005	2006	2007	2008	2009	2010	2011	2012
Governmental Activities									
Net Investment in Capital Assets	\$ 5,189,044	\$ 5,151,234	\$ 5,059,462	\$ 4,974,229	\$ 4,907,661	\$ 4,913,579	\$ 4,748,385	\$ 4,751,436	\$ 4,724,104
Restricted	-	-	-	-	536,821	433,824	465,546	458,163	439,748
Unrestricted	2,430,084	2,439,493	2,485,099	2,738,771	2,330,953	2,403,353	2,347,748	2,410,373	2,528,138
Total Governmental Activities Net Position	\$ 7,619,128	\$ 7,590,727	\$ 7,544,561	\$ 7,713,000	\$ 7,775,435	\$ 7,750,756	\$ 7,561,679	\$ 7,619,972	\$ 7,691,990
Business-Type Activities									
Net Investment in Capital Assets	\$ 2,931,008	\$ 2,799,872	\$ 2,790,472	\$ 2,669,863	\$ 2,671,641	\$ 2,878,023	\$ 2,754,165	\$ 2,710,132	\$ 2,828,257
Unrestricted	1,060,947	1,075,162	1,057,152	1,272,540	1,225,658	956,137	1,016,488	1,080,259	879,169
Total Business-Type Activities Net Position	\$ 3,991,955	\$ 3,875,034	\$ 3,847,624	\$ 3,942,403	\$ 3,897,299	\$ 3,834,160	\$ 3,770,653	\$ 3,790,391	\$ 3,707,426
Primary Government									
Net Investment in Capital Assets	\$ 8,120,052	\$ 7,951,106	\$ 7,849,934	\$ 7,644,092	\$ 7,579,302	\$ 7,791,602	\$ 7,502,550	\$ 7,461,568	\$ 7,552,361
Restricted	-	-	-	-	536,821	433,824	465,546	458,163	439,748
Unrestricted	3,491,031	3,514,655	3,542,251	4,011,311	3,556,611	3,359,490	3,364,236	3,490,632	3,407,307
Total Primary Government Net Position	\$ 11,611,083	\$ 11,465,761	\$ 11,392,185	\$ 11,655,403	\$ 11,672,734	\$ 11,584,916	\$ 11,332,332	\$ 11,410,363	\$ 11,399,416

The City implemented GASB Statement No. 34 in the year 2004.

Source: City of Deephaven financial records

Table 2

CITY OF DEERHAVEN
CHANGES IN NET POSITION
Last Nine Fiscal Years
(Unaudited)

	Fiscal Year								
	2004	2005	2006	2007	2008	2009	2010	2011	2012
EXPENSES									
Governmental Activities									
General Government	\$ 395,883	\$ 343,094	\$ 383,642	\$ 465,744	\$ 504,634	\$ 468,161	\$ 502,985	\$ 447,182	\$ 479,007
Public Safety	977,293	1,019,762	1,069,557	1,138,533	1,157,123	1,237,012	1,260,436	1,407,646	1,430,795
Public Works	678,002	781,727	928,776	836,628	851,220	873,465	1,037,303	841,784	813,505
Parks and Recreation	107,325	124,667	135,130	137,179	136,025	144,238	129,720	119,517	144,071
Other	122,548	122,548	90,075	-	-	-	-	-	-
Total Governmental Activities Expenses	<u>2,281,051</u>	<u>2,391,798</u>	<u>2,607,180</u>	<u>2,577,584</u>	<u>2,649,002</u>	<u>2,722,876</u>	<u>2,930,444</u>	<u>2,816,129</u>	<u>\$2,867,378</u>
Business-Type Activities									
Sewer	420,715	535,990	619,992	526,404	586,727	619,056	601,636	567,494	659,511
Water	55,004	59,110	60,522	65,807	79,291	81,168	69,953	68,183	80,160
Storm Water	13,714	31,069	28,216	43,765	20,496	34,795	32,512	43,011	63,532
Marina	68,028	81,312	99,097	104,937	99,877	121,418	124,629	125,785	122,383
Recycling	-	-	22,457	20,262	22,533	29,607	20,008	23,956	23,759
Total Business-Type Activities Expenses	<u>557,461</u>	<u>707,481</u>	<u>830,284</u>	<u>761,175</u>	<u>808,924</u>	<u>886,044</u>	<u>848,738</u>	<u>828,429</u>	<u>949,345</u>
Total Primary Government Expenses	<u>\$ 2,838,512</u>	<u>\$ 3,099,279</u>	<u>\$ 3,437,464</u>	<u>\$ 3,338,759</u>	<u>\$ 3,457,926</u>	<u>\$ 3,608,920</u>	<u>\$ 3,779,182</u>	<u>\$ 3,644,558</u>	<u>\$ 3,816,723</u>
PROGRAM REVENUES									
Governmental Activities									
Charges for Service:									
General Government	\$ 60,914	\$ 467,161	\$ 475,768	\$ 108,290	\$ 100,468	\$ 96,938	\$ 114,442	\$ 127,964	\$ 141,817
Public Safety	430,695	85,679	66,790	155,222	169,689	178,783	199,235	187,903	218,433
Public Works	168,465	7,912	10,227	390,429	414,009	332,005	361,434	326,000	372,847
Parks and Recreation	-	-	-	127,053	-	-	-	28,000	-
Other	-	99,120	114,448	-	-	-	-	-	-
Operating Grants and Contributions	64,001	-	74,217	57,922	54,936	64,657	59,373	152,695	163,283
Capital Grants and Contributions	36,613	-	-	9,196	1,204	46,767	8,279	1,085	168
Total Governmental Activities	<u>760,688</u>	<u>659,872</u>	<u>741,450</u>	<u>848,112</u>	<u>740,306</u>	<u>719,150</u>	<u>742,763</u>	<u>823,647</u>	<u>896,548</u>
Business-Type Activities									
Charges for Service:									
Sewer	364,218	362,826	403,820	426,846	421,381	430,724	490,856	548,746	559,066
Water	48,997	51,483	58,152	65,807	68,563	67,777	62,766	64,395	74,676
Recycling	-	-	7,072	10,690	10,459	16,755	11,962	15,482	18,564
Storm Water	17,026	33,388	85,173	85,417	84,767	83,232	84,820	84,993	84,865
Marina	96,577	84,923	89,962	118,479	124,156	128,965	128,129	124,542	124,141
Operating Grants and Contributions	20,191	13,189	23,347	10,396	12,098	12,011	12,370	12,248	12,079
Capital Grants and Contributions	-	-	-	-	-	16,000	-	6,560	-
Total Business-Type Activities	<u>547,009</u>	<u>545,809</u>	<u>667,526</u>	<u>717,635</u>	<u>721,424</u>	<u>755,464</u>	<u>790,903</u>	<u>856,966</u>	<u>873,391</u>
Total Primary Government Revenues	<u>\$ 1,307,697</u>	<u>\$ 1,205,681</u>	<u>\$ 1,408,976</u>	<u>\$ 1,565,747</u>	<u>\$ 1,461,730</u>	<u>\$ 1,474,614</u>	<u>\$ 1,533,666</u>	<u>\$ 1,680,613</u>	<u>\$ 1,769,939</u>
NET EXPENSE									
Governmental Activities	\$ (1,520,563)	\$ (1,731,926)	\$ (1,865,730)	\$ (1,729,472)	\$ (1,908,696)	\$ (2,003,726)	\$ (2,187,681)	\$ (1,992,482)	\$ (1,970,830)
Business-Type Activities	(10,452)	(161,672)	(162,758)	(43,550)	(87,500)	(130,580)	(57,835)	28,537	(75,954)
Total Primary Government Net Expense	<u>\$ (1,530,815)</u>	<u>\$ (1,893,598)</u>	<u>\$ (2,028,488)</u>	<u>\$ (1,773,022)</u>	<u>\$ (1,996,196)</u>	<u>\$ (2,134,306)</u>	<u>\$ (2,245,516)</u>	<u>\$ (1,963,945)</u>	<u>\$ (2,046,784)</u>

The City implemented GASB Statement No. 34 in the year 2004.
Source: City of Deerhaven financial records

CITY OF DEERHAVEN
Table 2
CHANGES IN NET POSITION
Last Nine Fiscal Years
(Unaudited)

	Fiscal Year								
	2004	2005	2006	2007	2008	2009	2010	2011	2012
GENERAL REVENUES AND OTHER									
CHANGES IN NET POSITION									
Governmental Activities									
Property Tax	\$ 1,387,934	\$ 1,569,335	\$ 1,658,764	\$ 1,784,869	\$ 1,780,490	\$ 1,878,584	\$ 1,879,440	\$ 1,909,458	\$ 1,922,069
Unrestricted State Aid	-	-	-	33,675	16,673	2,790	2,473	2,515	2,569
Unrestricted Investment Earnings	56,143	63,324	100,814	119,352	119,490	69,415	38,224	30,363	52,231
Other General Revenues	51,922	31,837	75,375	31,874	34,287	62,461	57,877	86,903	41,664
Transfers	166,569	15,775	(15,389)	18,141	20,191	(34,203)	20,590	21,536	24,315
Total Governmental Activities	1,662,568	1,680,271	1,819,564	1,987,911	1,971,131	1,979,047	1,998,604	2,050,775	2,042,848
Business-Type Activities									
Unrestricted Investment Earnings	25,795	28,976	46,439	59,692	58,163	33,238	14,918	12,737	16,779
Other General Revenues	4,170	-	73,520	6,778	4,424	-	-	-	525
Transfers	(166,569)	15,775	15,389	(18,141)	(20,191)	34,203	(20,590)	(21,536)	(24,315)
Total Business-Type Activities	(136,604)	44,751	135,348	48,329	42,396	67,441	(5,672)	(8,799)	(7,011)
Total Primary Government	\$ 1,525,964	\$ 1,725,022	\$ 1,954,912	\$ 2,036,240	\$ 2,013,527	\$ 2,046,488	\$ 1,992,932	\$ 2,041,976	\$ 2,035,837
CHANGES IN NET POSITION									
Governmental Activities	\$ 142,205	\$ (51,655)	\$ (46,166)	\$ 258,439	\$ 62,435	\$ (24,679)	\$ (189,077)	\$ 58,293	\$ 72,018
Business-Type Activities	(147,056)	(116,921)	(27,410)	4,779	(45,104)	(63,139)	(63,507)	19,738	(82,965)
Total Primary Government	\$ (4,851)	\$ (168,576)	\$ (73,576)	\$ 263,218	\$ 17,331	\$ (87,818)	\$ (252,584)	\$ 78,031	\$ (10,947)

The City implemented GASB Statement No. 34 in the year 2004.
Source: City of Deerhaven financial records

CITY OF DEEPHAVEN

**FUND BALANCES OF GOVERNMENTAL FUNDS
Last Ten Fiscal Years
(Unaudited)**

	Fiscal Year				
	2003	2004	2005	2006	2007
GENERAL FUND					
Reserved	\$ -	\$ -	\$ -	\$ -	\$ 18,850
Unreserved	2,026,337	2,043,475	2,119,084	2,213,499	2,350,611
Nonspendable	-	-	-	-	-
Committed	-	-	-	-	-
Unassigned	-	-	-	-	-
Total General Fund	<u>\$ 2,026,337</u>	<u>\$ 2,043,475</u>	<u>\$ 2,119,084</u>	<u>\$ 2,213,499</u>	<u>\$ 2,369,461</u>
ALL OTHER GOVERNMENTAL FUNDS					
Reserved	\$ -	\$ -	\$ -	\$ -	\$ 37
Unreserved, Reported in:					
Capital Projects Funds	602,243	471,167	416,409	392,600	478,295
Restricted	-	-	-	-	-
Committed	-	-	-	-	-
Total All Other Governmental Funds	<u>\$ 602,243</u>	<u>\$ 471,167</u>	<u>\$ 416,409</u>	<u>\$ 392,600</u>	<u>\$ 478,332</u>

Source: City of Deephaven financial records
Note: GASB 54 was implemented in 2011.

Table 3

Fiscal Year				
2008	2009	2010	2011	2012
\$ 19,583	\$ 18,392	\$ 22,350	\$ -	\$ -
2,383,853	2,455,051	2,451,621	-	-
-	-	-	22,348	16,472
-	-	-	155,000	176,508
-	-	-	2,383,144	2,487,788
<u>\$ 2,403,436</u>	<u>\$ 2,473,443</u>	<u>\$ 2,473,971</u>	<u>\$ 2,560,492</u>	<u>\$ 2,680,768</u>
\$ 41	\$ -	\$ 54	\$ -	\$ -
536,821	433,824	465,546	-	-
-	-	-	97,768	54,872
-	-	-	360,395	384,876
<u>\$ 536,862</u>	<u>\$ 433,824</u>	<u>\$ 465,600</u>	<u>\$ 458,163</u>	<u>\$ 439,748</u>

CITY OF DEEPHAVEN

**Changes in Fund Balances of Governmental Funds
Last Ten Fiscal Years
(Unaudited)**

	2003	2004	2005	2006	2007
REVENUES					
Taxes	\$ 1,316,725	\$ 1,393,045	\$ 1,569,335	\$ 1,658,764	\$ 1,779,718
Special Assessments	-	38,698	7,888	6,739	2,890
Licenses and Permits	245,957	213,415	205,680	253,754	228,658
Intergovernmental	76,428	75,087	54,804	74,217	90,137
Charges for Services	283,497	292,537	298,599	256,067	283,577
Fines and Penalties	84,714	62,870	56,473	42,964	42,267
Franchise Fees	-	91,252	99,120	114,448	88,479
Interest Income	-	56,143	63,324	100,814	119,352
Miscellaneous Revenues	225,095	54,198	26,792	78,636	171,347
Total Revenues	<u>2,232,416</u>	<u>2,277,245</u>	<u>2,382,015</u>	<u>2,586,403</u>	<u>2,806,425</u>
EXPENDITURES					
General Government	397,538	395,300	358,497	347,236	444,895
Public Safety	881,917	942,149	984,121	1,030,852	1,098,381
Public Works	564,785	605,582	611,962	776,365	674,424
Parks and Recreation	56,756	48,617	63,172	68,176	78,537
Fixed and Other	78,121	122,548	92,846	96,437	-
Capital Outlay	396,683	443,556	234,791	181,342	208,623
Total Expenditures	<u>2,375,800</u>	<u>2,557,752</u>	<u>2,345,389</u>	<u>2,500,408</u>	<u>2,504,860</u>
OTHER FINANCING SOURCES (USES)					
Proceeds from Sale of Capital Asset	-	-	-	-	11,988
Transfers In	315,889	234,402	18,725	18,211	18,141
Transfers Out	<u>(300,000)</u>	<u>(67,833)</u>	<u>(34,500)</u>	<u>(33,600)</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>15,889</u>	<u>166,569</u>	<u>(15,775)</u>	<u>(15,389)</u>	<u>30,129</u>
Net Change in Fund Balances	<u>\$ (127,495)</u>	<u>\$ (113,938)</u>	<u>\$ 20,851</u>	<u>\$ 70,606</u>	<u>\$ 331,694</u>

Table 4

<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
\$ 1,769,182	\$ 1,869,847	\$ 1,900,473	\$ 1,916,148	\$1,909,862
4,707	2,319	2,662	1,743	780
226,195	188,755	198,040	151,989	211,812
68,873	77,785	58,673	162,439	144,836
314,121	270,447	313,596	330,612	343,713
40,785	45,824	72,491	58,016	80,076
92,667	92,015	91,977	92,953	92,673
119,490	69,415	38,224	30,363	52,231
47,421	62,808	59,036	107,682	67,503
<u>2,683,441</u>	<u>2,679,215</u>	<u>2,735,172</u>	<u>2,851,945</u>	<u>2,903,486</u>
479,541	448,887	486,622	445,153	464,716
1,128,643	1,170,420	1,184,430	1,336,875	1,369,465
700,035	659,159	742,231	660,783	634,389
79,017	85,969	72,867	65,952	87,713
-	-	-	-	-
<u>232,332</u>	<u>375,063</u>	<u>238,329</u>	<u>293,923</u>	<u>297,207</u>
<u>2,619,568</u>	<u>2,739,498</u>	<u>2,724,479</u>	<u>2,802,686</u>	<u>2,853,490</u>
8,441	6,547	1,021	8,289	27,550
20,191	20,705	20,590	21,536	24,315
-	-	-	-	-
<u>28,632</u>	<u>27,252</u>	<u>21,611</u>	<u>29,825</u>	<u>51,865</u>
<u>\$ 92,505</u>	<u>\$ (33,031)</u>	<u>\$ 32,304</u>	<u>\$ 79,084</u>	<u>101,861</u>

CITY OF DEEPHAVEN

**Tax Capacity and Estimated Actual Value of Taxable Property
Last Ten Fiscal Years
(Unaudited)**

Levy Year	Collection Year	Real Property		Ratio of Tax Capacity to Total Estimated Actual Value	Total City Levy Amounts
		Tax Capacity	Estimated Market Value		
2002	2003	6,514,830	\$ 607,420,100	1.1%	\$ 1,310,407
2003	2004	7,430,513	686,899,600	1.1%	1,386,722
2004	2005	8,648,000	782,311,000	1.1%	1,583,878
2005	2006	9,892,113	939,884,600	1.1%	1,671,165
2006	2007	11,181,602	995,692,300	1.1%	1,784,344
2007	2008	12,494,365	1,103,467,700	1.1%	1,784,344
2008	2009	12,508,003	1,102,852,900	1.1%	1,885,370
2009	2010	12,067,361	1,064,980,400	1.1%	1,885,370
2010	2011	11,178,216	992,653,900	1.1%	1,922,124
2011	2012	10,838,330	973,857,600	1.1%	1,922,207

Source: Hennepin County Taxpayer Services Department

Note - School District Tax Capacity Rate does not include levy referendum

Table 5

Tax Capacity Rates					
<u>General</u> <u>Revenue</u>	<u>Special</u>	<u>Total</u> <u>City</u>	<u>Total</u> <u>School</u>	<u>Total</u> <u>County</u>	<u>Total</u>
Tax Capacity per \$ 1,000 of Assessed Value					
20.114	0.000	20.114	24.215	50.607	94.936
18.663	0.000	18.663	23.125	47.324	89.112
18.310	0.000	18.310	21.989	44.172	84.471
16.874	0.000	16.874	22.952	48.801	88.627
15.936	0.000	15.936	24.793	39.129	79.858
14.263	0.000	14.263	17.980	38.571	70.814
15.091	0.000	15.091	17.186	40.413	72.690
15.603	0.000	15.603	18.657	42.640	76.900
17.222	10.740	17.222	21.269	45.840	95.071
17.776	11.170	17.776	23.014	48.777	100.737

CITY OF DEEPHAVEN

Table 6

**Property Tax Levies and Collections
Last Ten Fiscal Years
(Unaudited)**

<u>Year Ended December 31,</u>	<u>Total Levy</u>	<u>Collection of Current Year's Levy (1)</u>	<u>Percentage of Levy Collected</u>	<u>Collection of Prior Year's Levy</u>	<u>Total Collections</u>	<u>Percentage of Total Collections to Levy</u>
2003	\$ 1,282,253	\$ 1,271,974	99.20	\$ 10,279	\$ 1,282,253	100.00%
2004	1,386,722	1,352,986	97.57	33,736	1,386,722	100.00%
2005	1,583,878	1,555,261	98.19	28,617	1,583,878	100.00%
2006	1,671,165	1,642,735	98.30	28,203	1,670,938	99.99%
2007	1,784,344	1,767,370	99.05	16,974	1,784,344	100.00%
2008	1,784,344	1,751,753	98.17	31,484	1,783,237	99.94%
2009	1,885,370	1,855,373	98.41	27,009	1,882,382	99.84%
2010	1,885,370	1,864,518	98.89	17,086	1,881,604	99.80%
2011	1,922,124	1,897,536	98.72	-	1,897,536	98.72%
2012	1,922,207	1,905,721	99.14	3,603	1,909,324	99.33%

(1) Including Fiscal Disparities

CITY OF DEEPHAVEN

Table 7

**PRINCIPAL TAXPAYERS
Current Year and Nine Years Ago
(Unaudited)**

Property ID No.	Type of Business	2012			2003		
		Net Tax Capacity Value	Rank	Percentage of Total Tax Capacity Value	Net Tax Capacity Value	Rank	Percentage of Total Tax Capacity Value
13-117-23-13-0002	Residential	\$ 74,063	1	0.69%	\$ 60,800	3	0.93%
18-117-22-23-0017	Residential	68,163	2	0.64%	73,125	1	1.12%
13-117-23-43-0006	Residential	67,025	3	0.63%	63,375	2	0.97%
13-117-23-42-0003	Residential	59,100	4	0.55%	45,688	9	0.70%
13-117-23-43-0004	Residential	54,625	5	0.51%	50,125	7	0.77%
13-117-23-13-0001	Residential	53,688	6	0.50%	54,725	4	0.84%
23-117-23-41-0004	Residential	51,850	7	0.49%	37,863	10	0.58%
24-117-23-14-0002	Residential	51,163	8	0.48%	47,088	5	0.72%
24-117-23-11-0029	Residential	50,275	9	0.47%	36,300	8	0.56%
23-117-23-41-0015	Residential	49,938	10	0.47%	48,125		0.74%
13-117-23-42-0010	Residential	49,450	11	0.46%	48,700	6	0.75%
13-117-23-43-0009	Residential	42,113	12	0.39%	23,125		0.35%
		<u>\$ 671,453</u>		6.29%	<u>\$ 589,039</u>		9.04%

CITY OF DEEPHAVEN

Table 8

SPECIAL ASSESSMENTS LEVIES AND COLLECTIONS
Last Ten Fiscal Years
(Unaudited)

<u>Year Ended December 31,</u>	<u>Total Levied</u>	<u>Total Collections</u>	<u>Total Outstanding Assessments</u>
2003	\$ 48,276	\$ 48,747	\$ 318
2004	47,110	45,961	3,496
2005	41,160	32,320	3,279
2006	10,000	29,025	3,516
2007	17,010	25,416	3,752
2008	22,021	17,731	5,057
2009	20,109	25,451	4,971
2010	23,206	24,929	2,451
2011	31,847	33,016	1,602
2012	38,729	37,302	3,808

Collection includes Special Assessment principal and interest.
Source: Hennepin County Tax Settlement Reports

CITY OF DEEPHAVEN

Table 9

**DIRECT AND OVERLAPPING
GOVERNMENTAL ACTIVITIES DEBT
As of December 31, 2012
(Unaudited)**

GOVERNMENTAL UNIT	<u>Net G.O. Bonded Debt Outstanding</u>	<u>Estimated Percentage Applicable (1)</u>	<u>Estimated Share of Direct and Overlapping Debt</u>
Direct Debt			
City of Deephaven	\$ -	100.00%	\$ -
Overlapping Debt			
Hennepin County (2)	686,885,000	0.77%	5,289,015
Independent School District No. 276, Minnetonka (2)	103,479,528	1.69%	17,488,044
Three Rivers Park District (2)	70,525,000	1.05%	740,513
Metro Transit (2)	234,818,022	0.46%	1,080,163
Hennepin Regional RR Authority (2)	39,110,000	0.77%	301,147
Total Overlapping Debt	<u>1,134,817,550</u>		<u>24,898,882</u>
Total Direct and Overlapping Debt	<u><u>\$ 1,134,817,550</u></u>		<u><u>\$ 24,898,882</u></u>

(1) Based on Percentage of Tax Capacity to Total

(2) Source - Hennepin County

(2) Source - Independent School District No. 276, Minnetonka

CITY OF DEEPHAVEN

**LEGAL DEBT MARGIN INFORMATION
Last Ten Fiscal Years
(Unaudited)**

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Estimated Market Value (2)	<u>\$ 607,405,800</u>	<u>\$ 686,899,600</u>	<u>\$ 782,311,000</u>	<u>\$ 939,884,600</u>	<u>\$ 995,692,300</u>
Debt Limit - 2% of Market Value (1)	\$ 12,148,116	\$ 13,737,992	\$ 15,646,220	\$ 18,797,692	\$ 19,913,846
Amount of Debt Applicable to Debt Limit					
Net Debt Applicable to Limit (3)	<u>1,779,289</u>	<u>1,779,289</u>	<u>1,726,809</u>	<u>1,649,338</u>	<u>1,730,089</u>
Legal Debt Margin	<u>\$ 10,368,827</u>	<u>\$ 11,958,703</u>	<u>\$ 13,919,411</u>	<u>\$ 17,148,354</u>	<u>\$ 18,183,757</u>
Total Net Debt Applicable to the Limit as a Percentage of Debt Limit	14.65%	12.95%	11.04%	8.77%	8.69%

(1) *Minnesota Statutes* Section 475.53, Limit on Net Debt. Subdivision 1. Generally, except as otherwise provided in Section 475.51 to 475.75, no municipality, except a school district or a city of the first class, shall incur or be subject to a net debt in excess of 2% of the market value.

Note: Although the annual lease payment to the fire district is not considered as debt service, it does apply to the City's debt limit.

(2) Source: Hennepin County Taxpayer Services Department

(3) Source: City of Deephaven financial records

Table 10

<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
<u>\$ 1,103,467,700</u>	<u>\$ 1,102,852,900</u>	<u>\$ 1,064,980,400</u>	<u>\$ 992,653,900</u>	<u>\$ 973,857,600</u>
\$ 22,069,354	\$ 22,057,058	\$ 21,299,608	\$ 19,853,078	\$ 19,477,152
<u>1,653,621</u>	<u>1,645,027</u>	<u>1,502,020</u>	<u>1,381,562</u>	<u>1,381,310</u>
<u>\$ 20,415,733</u>	<u>\$ 20,412,031</u>	<u>\$ 19,797,588</u>	<u>\$ 18,471,516</u>	<u>\$ 18,095,842</u>
7.49%	7.46%	7.05%	6.96%	7.09%

CITY OF DEEPHAVEN

Table 11

**DEMOGRAPHICS AND ECONOMIC STATISTICS
Last Ten Fiscal Years
(Unaudited)**

<u>Year</u>	<u>Population (1)</u>	<u>Deephaven Public School Enrollment (2)</u>	<u>Minnesota Unemployment Rate (3)</u>	<u>Median Household Income (4)</u>	<u>Total Personal Income (4)</u>	<u>Per Capita Personal Income (4)</u>
2003	3,881	550	4.0%	(5)	(5)	(5)
2004	3,855	558	4.4%	(5)	(5)	(5)
2005	3,900	516	3.8%	(5)	(5)	(5)
2006	3,853	477	3.7%	(5)	(5)	(5)
2007	3,767	484	4.3%	(5)	(5)	(5)
2008	3,774	432	5.9%	(5)	(5)	(5)
2009	3,800	516	7.0%	(5)	(5)	(5)
2010	3,820	559	7.0%	\$124,200	\$ 281,534,000	\$ 73,700
2011	3,642	560	5.7%	\$128,600	\$281,890,800	\$77,400
2012	3,648 (5)	633	5.0%	(5)	(5)	(5)

(1) Source: Minnesota State Demographer

(2) Source: Minnetonka Public Schools: Estimated Enrollment of Deephaven Elementary School

(3) Source: Bureau of Labor Statistics

(4) Source: Metropolitan Council

(5) Information is not available.

CITY OF DEEPHAVEN

Table 12

PRINCIPAL EMPLOYERS
Current Year and Nine Years Ago
(Unaudited)

Employer	Product/Service	2012			2003		
		Number of Employees	Rank	Percentage of Total City Employment	Number of Employees	Rank	Percentage of Total City Employment
Deephaven Elementary School	Public Education	100	1	39.2 %	70	1	30.6 %
St. Therese Church/School	Religious Church/School	61	2	23.9	59	2	25.8
Streeter & Associates	Building Contractor	42	3	16.5	32	3	14.0
Grace Luthern Church/School	Religious Church/School	15	5	5.9	22	4	9.6
City of Deephaven	City Government	18	4	7.1	20	5	8.7
Steiner & Koppleman	Building Contractor	8	7	3.1	16	6	7.0
Kyle Hunt & Partners, Inc.	Building Contractor	11	6	4.3	10	7	4.4
		<u>255</u>		<u>100.0 %</u>	<u>229</u>		<u>100.0 %</u>

Note: The above includes the largest principal employers of the City. Further information is not available.
 Source: City of Deephaven Administrative Office

CITY OF DEEPHAVEN

**FULL-TIME EQUIVALENTS BY PROGRAM
Last Ten Fiscal Years
(Unaudited)**

FUNCTION/PROGRAM	Full-Time - Equivalent Employees as of December 31,				
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
General Government	6	6	5.5	6	6
Public Safety	8	8	8	8	8
Public Works	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>
Total	<u><u>19</u></u>	<u><u>19</u></u>	<u><u>18.5</u></u>	<u><u>19</u></u>	<u><u>19</u></u>

Notes: A full-time employee is scheduled to work 40 hours per week. Full-time equivalent employment is calculated by dividing total labor hours by 40.

Source: *City of Deephaven financial records*

Table 13

Full-Time - Equivalent Employees as of December 31,				
<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
6	6	6	6	6
7	8	8	8	8
<u>5</u>	<u>5</u>	<u>5</u>	<u>4</u>	<u>4</u>
<u><u>18</u></u>	<u><u>19</u></u>	<u><u>19</u></u>	<u><u>18</u></u>	<u><u>18</u></u>

CITY OF DEEPHAVEN

**CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM
Last Ten Fiscal Years
(Unaudited)**

FUNCTION/PROGRAM	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Public Safety				
Police Stations	1	1	1	1
Police Patrol Units	4	4	4	4
Fire Stations	1	1	1	1
Fire Response Units	7	7	7	7
Public Works				
Streets (Miles)	32	32	32	32
Traffic Signals	-	-	-	-
Culture and Recreation				
Parks	6	6	6	6
Campgrounds	1	1	1	1
Beaches	6	6	6	6
Marina				
Dock Slips	92	92	92	92
Buoys	53	53	53	53
Slides	125	125	125	125
Canoe Racks	32	32	32	32
Utilities				
Sewer Lift Stations	9	9	9	9

Notes: No capital asset indicators are available for the general government function.

Source: Various City Departments

Table 14

<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
1	1	1	1	1	1
4	4	4	4	4	4
1	2	2	2	2	2
7	7	7	7	7	7
32	32	32	32	32	32
-	-	-	-	-	-
6	8	8	8	8	8
1	1	1	1	1	1
6	6	6	6	6	6
92	100	112	112	112	112
53	53	53	53	53	53
125	115	115	115	115	115
32	32	32	32	32	32
9	9	9	9	9	9

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CITY OF DEEPHAVEN

Table 15

**SCHEDULE OF BUILDING PERMITS AND CONSTRUCTION
Last 10 Fiscal Years
(Unaudited)**

<u>Year</u>	<u>Number</u>	<u>Value</u>
2003	605	\$ 13,353,874
2004	560	10,975,766
2005	534	9,384,000
2006	622	14,338,000
2007	590	13,532,474
2008	524	16,664,812
2009	399	11,737,115
2010	541	13,268,023
2011	494	7,579,378
2012	506	14,447,728

Note: Other operating information is not available.

Source: Deephaven Planning Department. Permits include building, plumbing, mechanical, electrical and demolition.

CITY OF DEEPHAVEN

**OPERATING INDICATORS BY FUNCTION/PROGRAM
Last Ten Fiscal Years
(Unaudited)**

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Public Safety				
Police:				
Physical Arrests	(1)	(1)	(1)	(1)
Parking Violations	(1)	(1)	(1)	(1)
Traffic Violations	(1)	(1)	(1)	(1)
Fire:				
Number of Calls Answered	(1)	(1)	811	786
Inspections	(1)	(1)	(1)	(1)
Public Works				
Street Maintenance:				
Miles of City Maintained	32	32	32	32
Planning:				
Number of Planning Applications Received	22	12	25	15
Number of Building Permits Reviewed	605	560	534	622
Park and Recreation				
Parks and Trails:				
Number of Parks Maintained	12	12	12	12
Miles of Trail and Sidewalk Maintained	2	2	2	2
Playgrounds	(1)	(1)	(1)	(1)
Ice Skating Rinks	(1)	(1)	(1)	(1)
Beaches	(1)	(1)	(1)	(1)
Municipal Sewer				
Number of Customers	1,434	1,437	1,439	1,436
New Connections	5	3	2	0
The City sewage disposal is through the Metropolitan Waste Control Commission.				
Municipal Water				
Number of Customers	(1)	(1)	(1)	(1)
The City purchases water from the municipalities of Minnetonka and Shorewood.				
Recycling				
Curbside Recycling Picked Up on City-Wide Clean Up Day (In Tons)	501	489	498	577
Marina				
Dock Slips	80	80	80	80
Shore Space	15	15	15	15
Buoys	53	53	53	53
Slides	125	125	125	125
Canoe Racks	32	32	32	32
Storm Water				
Number of Utility Customer Accounts	1,433	1,435	1,436	1,435

(1) Information not available

Note: Indicators are not available for the general government function.

Source: Various City departments

Table 16

<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
(1)	59	106	225	220	299
(1)	224	172	211	190	236
(1)	443	741	2,204	2,971	3,050
751	733	657	732	651	639
(1)	460	524	707	664	601
32	32	32	32	32	32
18	16	13	10	12	21
590	524	399	541	494	506
12	12	13	13	13	13
2	2	2	2	2	2
(1)	5	5	5	5	5
(1)	4	4	4	4	4
(1)	6	6	6	6	6
1,460	1,461	1,468	1,468	1,468	1,474
24	1	7	0	0	6
(1)	144	144	145	144	144
557	544	508	474	405	393
80	90	93	93	95	95
15	15	15	15	17	17
53	53	53	53	53	53
125	115	115	115	115	113
32	32	32	32	32	32
1,461	1,463	1,470	1,470	1,469	1,472