

CITY OF MELROSE  
MELROSE, MINNESOTA

ANNUAL FINANCIAL REPORT

YEAR ENDED  
DECEMBER 31, 2008



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**INTRODUCTORY SECTION**

CITY OF MELROSE  
MELROSE, MINNESOTA

YEAR ENDED  
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CITY OF MELROSE, MINNESOTA  
ELECTED AND APPOINTED OFFICIALS  
DECEMBER 31, 2008

**ELECTED**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Eric Seanger	Mayor	12/3 1/2010
Tom Budde	Council Member	12/3 1/2010
George Jensen	Council Member	12/3 1/2008
Joe Finken	Council Member	12/3 1/2010
Nancy Roering	Council Member	12/3 1/2008

**PUBLIC UTILITIES COMMISSION - APPOINTED**

Tom Budde	Chair	1/1/2009
Ralph Wiehoff	Vice Chair	1/1/2011
Lyle Olmscheid	Commission Secretary	1/1/2010

**CITY OFFICIALS - APPOINTED**

Brian Beeman	City Administrator
Karen Thostenson	Assistant City Administrator/Treasurer
John Harren	Public Works Director
Scott Dymoke	City Attorney

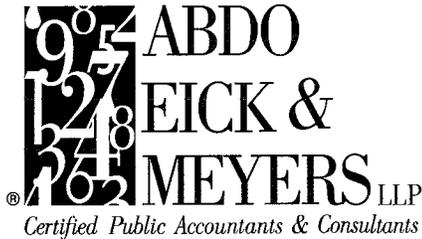


**FINANCIAL SECTION**

CITY OF MELROSE  
MELROSE, MINNESOTA

YEAR ENDED  
DECEMBER 31, 2008





5201 Eden Avenue  
Suite 370  
Edina, MN 55436

## INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Council  
City of Melrose, Minnesota

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Melrose, Minnesota (the City), as of and for the year ended December 31, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year comparative information has been derived from the City's 2007 financial statements and, in our report dated April 3, 2008, we expressed unqualified opinions on the respective proprietary fund financial statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of December 31, 2008, and the respective changes in financial position and cash flows and the respective budgetary comparison for the General fund, where applicable thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages I through XI is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 19, 2009, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.





Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section and the combining and individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

March 19, 2009  
Minneapolis, Minnesota

*Abdo Eick & Meyers, LLP*  
ABDO, EICK & MEYERS, LLP  
*Certified Public Accountants*



## **Management's Discussion and Analysis**

As management of the City of Melrose, Minnesota (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, 2008.

### **Financial Highlights**

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$42,107,389. Of this amount, \$14,761,219 may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$564,857.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$5,155,209, an increase of \$776,660 in comparison with the prior year. Approximately 66 percent of this total amount, \$3,407,745, is available for spending at the City's discretion, but has been designated for specific purposes.
- At the end of the current fiscal year, unreserved fund balance for the General fund was \$741,494 or 45 percent of total General fund expenditures. \$4,793 is reserved for prepaid items, and the remainder is designated for future purposes.
- The City's total debt increased by \$443,190 or 4 percent during the current fiscal year.



### 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 supplemental information in addition to the basic financial statements themselves.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of combining and individual fund financial statements and schedules that further explain and support the information in the financial statements. Figure 1 shows how the required parts of this annual report are arranged and relate to one another. In addition to these required elements, we have included a section with combining and individual fund financial statements and schedules that provide details about nonmajor governmental funds, which are added together and presented in single columns in the basic financial statements.

**Figure 1**  
**Required Components of the**  
**City's Annual Financial Report**

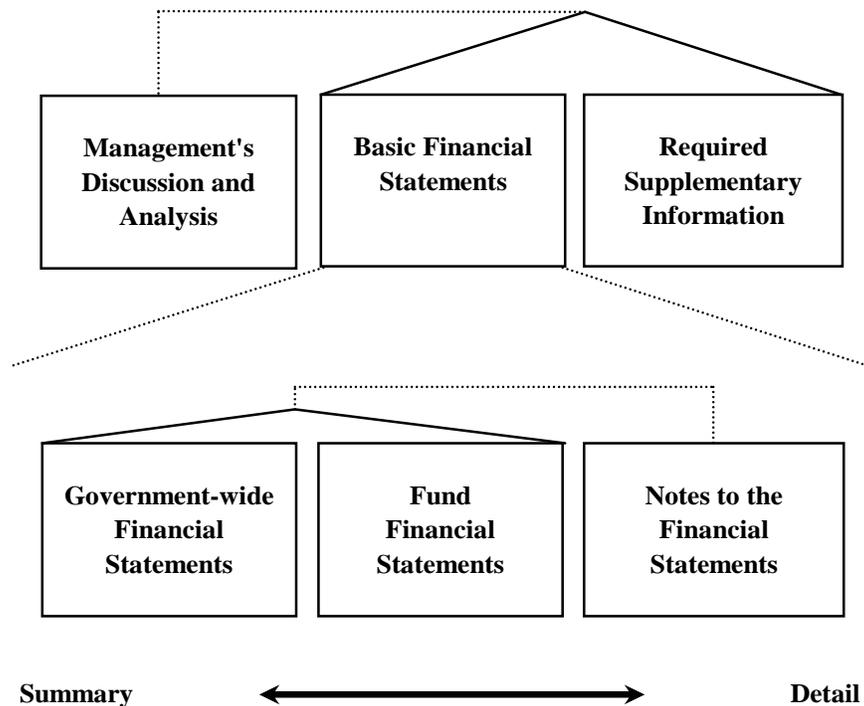




Figure 2 summarizes the major features of the City's financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

**Figure 2**  
**Major features of the Government-wide and Fund Financial Statements**

	Fund Financial Statements		
	Government-wide Statements	Governmental Funds	Proprietary Funds
Scope	Entire City government (except fiduciary funds) and the City's component units	The activities of the City that are not proprietary or fiduciary, such as police, fire and parks	Activities the City operates similar to private businesses, such as the water and sewer system
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of Net Assets</li> <li>• Statement of Activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance Sheet</li> <li>• Statement of Revenues, Expenditures, and Changes in Fund Balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statements of Net Assets</li> <li>• Statements of Revenues, Expenses and Changes in Fund Net Assets</li> <li>• Statements of Cash Flows</li> </ul>
Accounting Basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of in flow/out flow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

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

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

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenue (*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, streets and highways, sanitation, culture and recreation, economic development and interest on long-term debt. The business-type activities of the City include ambulance, water, wastewater and electric.



The government-wide financial statements include not only the City itself (known as the *primary government*), but also a legally separate *component unit* for which the City is financially accountable. Financial information for the Melrose Area Development Authority (MADA) is reported as a separate special revenue fund. The MADA, although legally separate, functions for all practical purposes as a department of the City, and therefore has been included as an integral part of the primary government.

The government-wide financial statements can be found on pages 4 - 6 of this report.

### **Fund Financial Statements**

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, 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 three categories: governmental funds, proprietary funds and fiduciary 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 government's near-term financing requirements.

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

The City maintains 19 individual governmental funds, four of which are Debt Service funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General fund, the Debt Service funds, and the Capital Improvements fund, all of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements or schedules* elsewhere in this report.

The City adopts an annual appropriated budget for its General fund and special revenue funds. A budgetary comparison statement has been provided for the General fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 7 - 13 of this report.

**Proprietary fund.** The City maintains one type of proprietary fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its ambulance, water, wastewater and electric.

The Proprietary fund provides the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for each of the enterprise funds which are considered to be major funds of the City.

The basic proprietary fund financial statements can be found on pages 14 - 23 of this report.

**Fiduciary fund.** The Fiduciary fund is used to account for resources held for the benefit of parties outside the City. The Fiduciary fund is *not* reflected in the government-wide financial statements because the resources of this fund are not available to support the City's own programs. The accounting used for the fiduciary fund is much like that used for the proprietary fund.

The basic fiduciary fund financial statements can be found on pages 24 of this report.

### **Notes to Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 25 - 50 of this report.



**Other Information**

The combining statements referred to earlier in connection with nonmajor governmental funds are presented following the notes to financial statements. Combining and individual fund statements and schedules can be found on pages 51 - 73 of this report.

**Government-wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$41,969,943 at the close of the most recent fiscal year.

By far, the largest portion of the City's net assets (61 percent) reflects its investment in capital assets (e.g., land, buildings, machinery and equipment), less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**Summary of Net Assets**

	Governmental Activities			Business-type Activities		
	2008	2007	Increase (Decrease)	2008	2007	Increase (Decrease)
<b>Assets</b>						
Current and other assets	\$ 7,834,477	\$ 7,022,002	\$ 812,475	\$ 11,256,842	\$ 12,099,425	\$ (842,583)
Capital assets	15,641,950	14,045,837	1,596,113	22,538,020	22,763,478	(225,458)
<b>Total assets</b>	<b>23,476,427</b>	<b>21,067,839</b>	<b>2,408,588</b>	<b>33,794,862</b>	<b>34,862,903</b>	<b>(1,068,041)</b>
<b>Liabilities</b>						
Long-term liabilities outstanding	6,262,126	4,128,262	2,133,864	6,633,258	8,323,932	(1,690,674)
Other liabilities	1,526,945	1,347,974	178,971	741,571	588,042	153,529
<b>Total liabilities</b>	<b>7,789,071</b>	<b>5,476,236</b>	<b>2,312,835</b>	<b>7,374,829</b>	<b>8,911,974</b>	<b>(1,537,145)</b>
<b>Net assets</b>						
Invested in capital assets, net of related debt	9,547,712	10,038,447	(490,735)	16,093,480	14,637,454	1,456,026
Restricted	1,704,978	1,394,385	310,593	-	-	-
Unrestricted	4,434,666	4,158,771	275,895	10,326,553	11,313,475	(986,922)
<b>Total net assets</b>	<b>\$ 15,687,356</b>	<b>\$ 15,591,603</b>	<b>\$ 95,753</b>	<b>\$ 26,420,033</b>	<b>\$ 25,950,929</b>	<b>\$ 469,104</b>

An additional portion of the City's net assets (4 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (\$14,761,219) may be used to meet the City's ongoing obligations to citizens and creditors.

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

The City's net assets increased \$427,411 during the current fiscal year. This growth largely reflects increases in operating grants, investment earnings and the degree to which increases in ongoing revenues have outstripped similar increases in ongoing expenses.



**Governmental activities:** Governmental activities decreased the City's net assets by \$41,693.

**Business-type activities:** There was an increase of \$469,104 in net assets reported in connection with the City's business-type activities.

### Changes in Net Assets

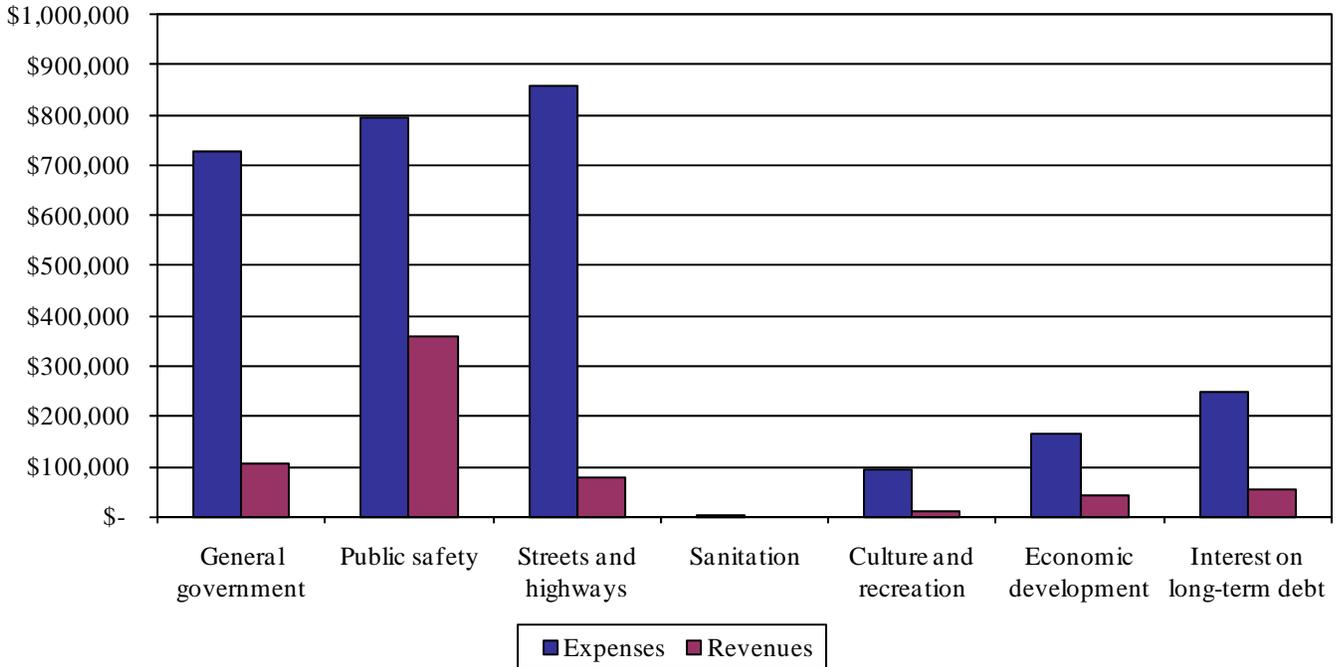
	Governmental Activities			Business-type Activities		
	2008	2007	Increase (Decrease)	2008	2007	Increase (Decrease)
<b>Revenues</b>						
<b>Program revenues</b>						
Charges for services	\$ 306,759	\$ 213,109	\$ 93,650	\$ 9,226,742	\$ 8,483,137	\$ 743,605
Operating grants and contributions	233,697	115,180	118,517	19,507	11,405	8,102
Capital grants and contributions	114,444	83,095	31,349	-	-	-
<b>General revenues</b>						
Property taxes/tax increments	1,163,896	1,009,079	154,817	-	-	-
Franchise taxes	297,977	276,634	21,343	-	-	-
Grants and contributions not restricted to specific programs	764,305	875,847	(111,542)	-	-	-
Unrestricted Investment earnings	206,543	202,438	4,105	439,050	547,291	(108,241)
Gain on sale of capital assets	65,000	33,300	31,700	6,163	-	6,163
<b>Total revenues</b>	<b>3,152,621</b>	<b>2,808,682</b>	<b>343,939</b>	<b>9,691,462</b>	<b>9,041,833</b>	<b>649,629</b>
<b>Expenses</b>						
General government	725,576	649,694	75,882	-	-	-
Public safety	794,637	586,740	207,897	-	-	-
Streets and highways	859,076	317,858	541,218	-	-	-
Sanitation	5,049	4,129	920	-	-	-
Culture and recreation	94,456	125,162	(30,706)	-	-	-
Economic development	167,256	151,998	15,258	-	-	-
Interest on long-term debt	248,602	189,540	59,062	-	-	-
Ambulance	-	-	-	398,344	326,702	71,642
Water	-	-	-	788,729	798,046	(9,317)
Wastewater	-	-	-	1,718,318	1,709,919	8,399
Electric	-	-	-	6,407,182	6,008,472	398,710
<b>Total expenses</b>	<b>2,894,652</b>	<b>2,025,121</b>	<b>869,531</b>	<b>9,312,573</b>	<b>8,843,139</b>	<b>469,434</b>
<b>Increase in net assets before transfers</b>	<b>257,969</b>	<b>783,561</b>	<b>(525,592)</b>	<b>378,889</b>	<b>198,694</b>	<b>180,195</b>
<b>Transfers</b>	<b>(90,215)</b>	<b>(972,317)</b>	<b>882,102</b>	<b>90,215</b>	<b>972,317</b>	<b>(882,102)</b>
<b>Change in net assets</b>	<b>167,754</b>	<b>(188,756)</b>	<b>356,510</b>	<b>469,104</b>	<b>1,171,011</b>	<b>(701,907)</b>
Net assets, January 1	15,591,603	15,780,359	(188,756)	25,950,929	24,779,918	1,171,011
Prior period adjustment	(72,001)	-	(72,001)	-	-	-
<b>Net assets, December 31</b>	<b>\$ 15,687,356</b>	<b>\$ 15,591,603</b>	<b>\$ 95,753</b>	<b>\$ 26,420,033</b>	<b>\$ 25,950,929</b>	<b>\$ 469,104</b>

Property tax increased by \$154,817 (15 percent) during the year.

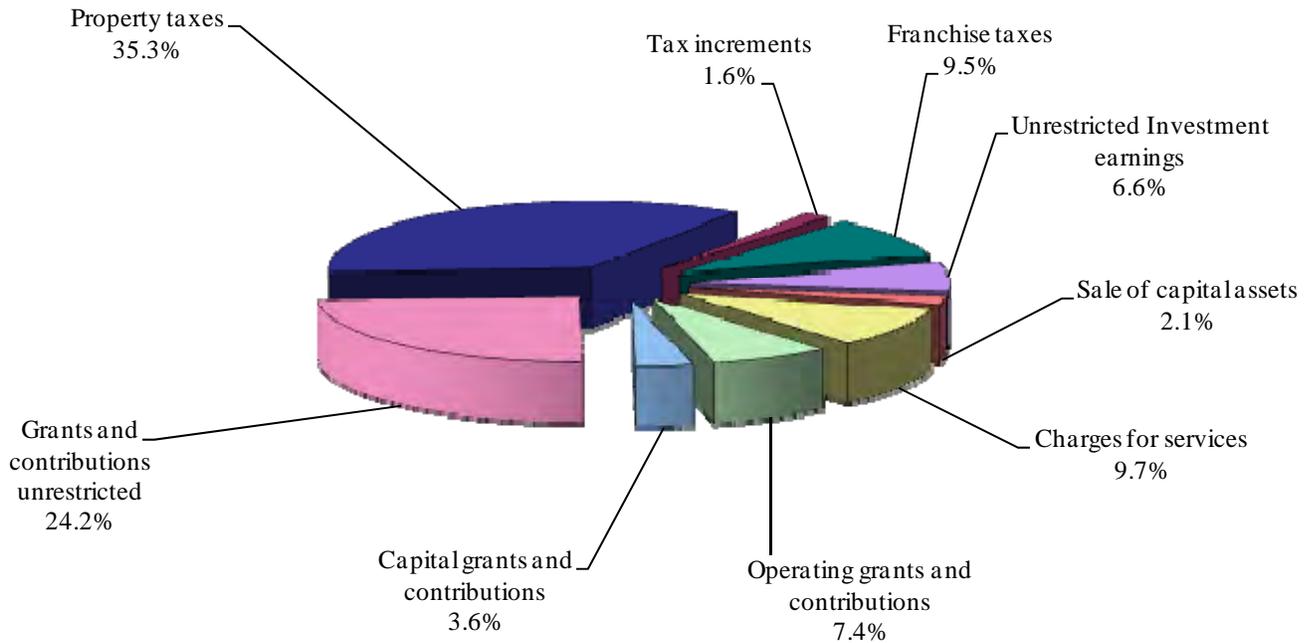


The following graph depicts various governmental activities and shows the revenue and expenses directly related to those activities.

### Expenses and Program Revenues - Governmental Activities



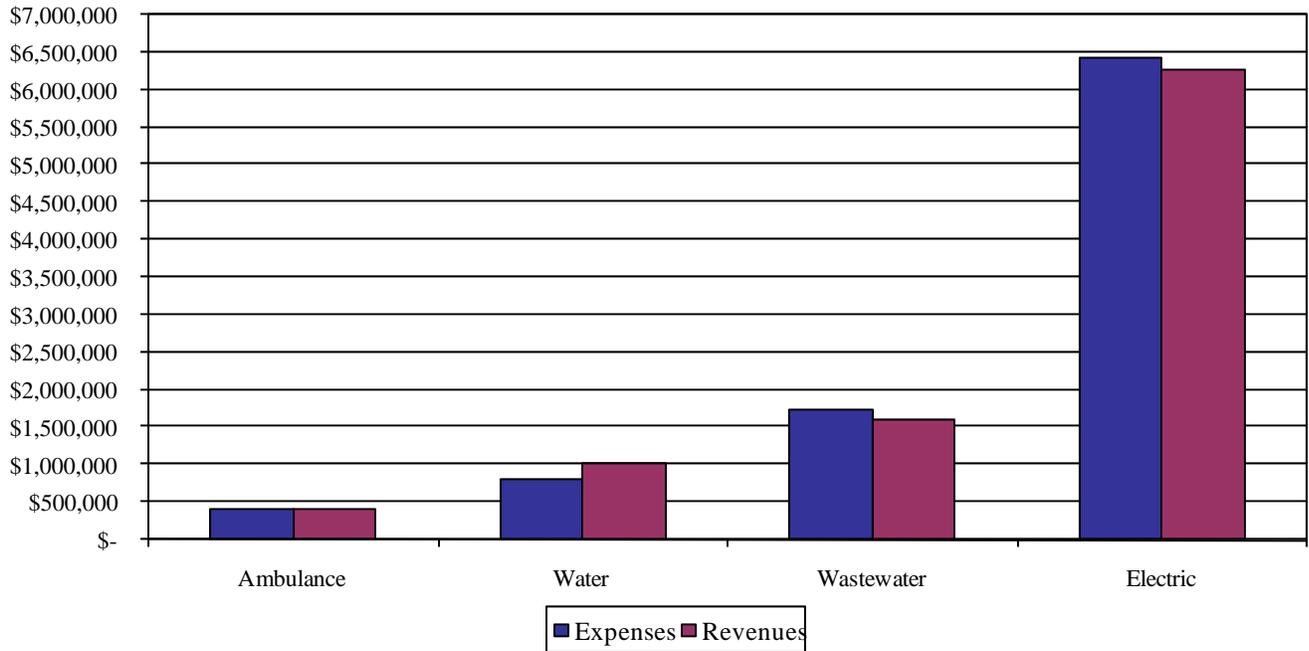
### Revenues by Source - Governmental Activities



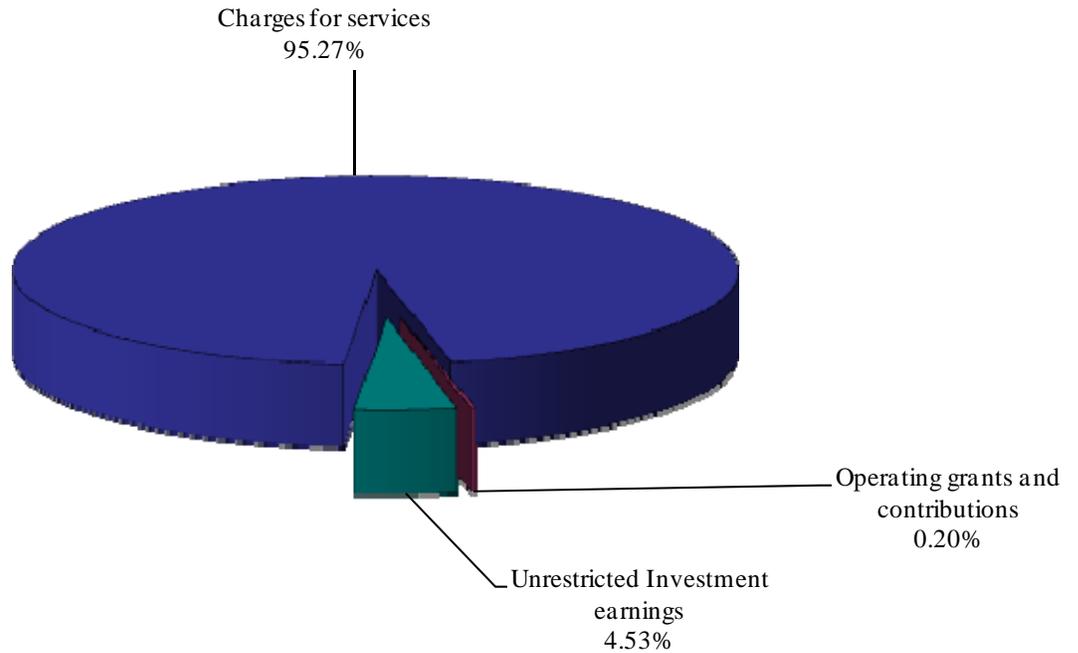


**Business-type activities.** Business-type activities increased the City's net assets by \$469,104. The key element of this increase was investment earnings totaling \$439,050.

**Expenses and Program Revenues - Business-type Activities**



**Revenue by Source - Business-type Activities**





## Financial Analysis of the Government's Funds

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

**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 balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$5,155,209, an increase of \$776,660 in comparison with the prior year. Approximately 66 percent of this total amount, \$3,407,745, constitutes *unreserved fund balance*, which is available for spending at the City's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed for other purposes. \$458,057 is reserved for the repayment of business loans to local businesses; \$1,280,769 is reserved for debt payments and the remainder for prepaid and other items.

The General fund is the chief operating fund of the City. At the end of the current year, the fund balance of the General fund was \$741,494. As a measure of the General fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Total fund balance represents 45 percent of current year expenditures.

The fund balance of the City's General fund decreased \$210,032 during the current fiscal year.

The Debt Service fund has a total fund balance of \$1,280,769, all of which is reserved for the payment of Debt Service. The net increase in fund balance during the current year in the Debt Service fund was \$464,554.

The Capital Improvements fund has a fund balance of \$2,660,333, all of which is designated for capital improvements in the city. The fund balance increased by \$231,348 during the year.

The 2007 Fire and Ambulance Station Capital Projects fund has a fund deficit of \$2,705, all of which is undesignated. The fund balance decreased by \$17,840 during the year.

The Tax Increment Projects fund has a fund deficit of \$293,903, all of which is undesignated.

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

Unrestricted net assets of the enterprise funds at the end of the year amounted to \$10,326,553. The total increase in net assets for the funds was \$469,104.

## General Fund Budgetary Highlights

The City's General fund budget was amended during the year. The budget called for revenues to equal expenses. The original and final budget called for revenues to exceed expenditures by \$156,115 and \$199,902, respectively, before transfers and other financing sources but was equal to expenses after these items.



**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, 2008, amounts to \$38,179,970 (net of accumulated depreciation). This investment in capital assets includes land, structures, improvements, machinery and equipment, park facilities, roads, highways and bridges.

**Capital Assets Net of Depreciation**

	Governmental Activities			Business-type Activities		
	2008	2007	Increase (Decrease)	2008	2007	Increase (Decrease)
Land	\$ 2,949,439	\$ 2,992,191	\$ (42,752)	\$ 321,028	\$ 321,028	\$ -
Buildings	1,446,498	1,512,616	(66,118)	624,945	688,722	(63,777)
Machinery and equipment	1,238,637	1,091,147	147,490	806,709	703,244	103,465
Infrastructure	7,959,601	8,089,218	(129,617)	20,198,486	20,853,553	(655,067)
Construction in progress	2,047,775	360,665	1,687,110	586,852	196,931	389,921
<b>Total</b>	<b>\$ 15,641,950</b>	<b>\$ 14,045,837</b>	<b>\$ 1,596,113</b>	<b>\$ 22,538,020</b>	<b>\$ 22,763,478</b>	<b>\$ (225,458)</b>

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

- Completion of the Generation Relay Improvement project
- Completion of the Tri-Quality Improvements project
- Continuation of the Fire and Ambulance Station Improvement project
- Continuation of the Grit Removal Project

Additional information on the City's capital assets can be found in Note 3D on pages 36 - 37 of this report.

**Long-term debt.** At the end of the current fiscal year, the City had total bonded debt outstanding of \$12,753,700. Of this amount, \$3,830,000 is special assessment debt and \$8,923,700 is revenue debt. They are all backed by the full faith and credit of the City.

**Outstanding Debt**

	Governmental Activities			Business-type Activities		
	2008	2007	Increase (Decrease)	2008	2007	Increase (Decrease)
General obligation bonds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
G.O. improvement bonds	3,830,000	3,995,000	(165,000)	-	-	-
General obligation revenue bonds	-	-	-	6,563,700	8,254,700	(1,691,000)
Revenue bonds	2,360,000	-	2,360,000	-	-	-
Loans	15,900	75,667	(59,767)	-	-	-
Compensated absences	56,226	57,595	(1,369)	69,558	69,232	326
<b>Total</b>	<b>\$ 6,262,126</b>	<b>\$ 4,128,262</b>	<b>\$ 2,133,864</b>	<b>\$ 6,633,258</b>	<b>\$ 8,323,932</b>	<b>\$ (1,690,674)</b>

The City's total debt increased by \$443,190 during the current fiscal year.

Minnesota statutes limit the amount of net general obligation debt a City may issue to 3 percent of the market value of taxable property within the City. Net debt is debt payable solely from ad valorem taxes. The current debt limitation for the City is \$5,285,229 which is significantly in excess of the City's outstanding general obligation debt.

Additional information on the City's long-term debt can be found in Note 3F on pages 40 - 43 of this report.



**Economic Factors and Next Year's Budgets and Rates**

- Property valuations within the City remain stable.
- Inflationary trends in the region compare favorably to national indices.
- The City continues to monitor its utility rates to assure adequate funding will be available to meet upcoming improvements and operations and maintenance.
- The City monitors possible LGA cuts and is positioned to adjust to these possible cuts.
- Rate studies are anticipated for the Water, Wastewater, and Electric Funds in 2009.

All of these factors were considered in preparing the City's budget for the 2009 fiscal year.

**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 the Assistant City Administrator, City of Melrose, 225 East First Street North, Melrose, Minnesota 56352.



**BASIC FINANCIAL STATEMENTS**

CITY OF MELROSE  
MELROSE, MINNESOTA

YEAR ENDED  
DECEMBER 31, 2008

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CITY OF MELROSE, MINNESOTA  
STATEMENT OF NET ASSETS  
DECEMBER 31, 2008

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and temporary investments	\$ 5,113,633	\$ 9,351,468	\$ 14,465,101
Receivables			
Accrued interest	83,060	131,672	214,732
Delinquent taxes	43,280	-	43,280
Accounts	30,195	772,479	802,674
Loans	349,093	-	349,093
Special assessments	1,127,126	-	1,127,126
Internal balances	(292,675)	292,675	-
Due from Centracare	1,260,465	-	1,260,465
Inventories	-	572,622	572,622
Prepaid items	8,638	16,766	25,404
Unamortized bond discount	111,662	119,160	230,822
Capital assets			
Non-depreciable			
Land	2,949,439	321,028	3,270,467
Construction in progress	2,047,775	586,852	2,634,627
Depreciable (net of accumulated depreciation)			
Buildings	1,446,498	624,945	2,071,443
Equipment	1,238,637	806,709	2,045,346
Infrastructure	7,959,601	20,198,486	28,158,087
<b>TOTAL ASSETS</b>	<b>23,476,427</b>	<b>33,794,862</b>	<b>57,271,289</b>
<b>LIABILITIES</b>			
Accounts payable	126,735	662,340	789,075
Accrued interest payable	129,745	57,371	187,116
Customer deposits payable	10,000	21,860	31,860
Unearned revenue	1,260,465	-	1,260,465
Noncurrent liabilities			
Due within one year			
Bonds payable	250,000	251,000	501,000
Compensated absences payable	53,107	56,970	110,077
Loans payable	15,900	-	15,900
Due in more than one year			
Bonds payable	5,940,000	6,312,700	12,252,700
Compensated absences payable	3,119	12,588	15,707
<b>TOTAL LIABILITIES</b>	<b>7,789,071</b>	<b>7,374,829</b>	<b>15,163,900</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	9,547,712	16,093,480	25,641,192
Restricted for			
Debt service	1,704,978	-	1,704,978
Unrestricted	4,434,666	10,326,553	14,761,219
<b>TOTAL NET ASSETS</b>	<b>\$ 15,687,356</b>	<b>\$ 26,420,033</b>	<b>\$ 42,107,389</b>

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

CITY OF MELROSE, MINNESOTA  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2008

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Governmental activities</b>				
General government	\$ 725,576	\$ 90,775	\$ 14,643	\$ -
Public safety	794,637	187,198	172,829	-
Streets and highways	859,076	20,567	-	58,984
Sanitation	5,049	-	-	-
Culture and recreation	94,456	6,950	5,350	-
Economic development	167,256	1,269	40,875	-
Interest on long-term debt	248,602	-	-	55,460
Total governmental activities	<u>2,894,652</u>	<u>306,759</u>	<u>233,697</u>	<u>114,444</u>
<b>Business-type activities</b>				
Ambulance	398,344	376,660	11,165	-
Water	788,729	1,004,684	275	-
Wastewater	1,718,318	1,600,322	890	-
Electric	6,407,182	6,245,076	7,177	-
Total business-type activities	<u>9,312,573</u>	<u>9,226,742</u>	<u>19,507</u>	<u>-</u>
Total	<u>\$ 12,207,225</u>	<u>\$ 9,533,501</u>	<u>\$ 253,204</u>	<u>\$ 114,444</u>

General revenues

Taxes

Property taxes, levied for general purposes

Property taxes, levied for debt service

Tax increments

Franchise taxes

State grants and contributions not restricted to specific programs

Unrestricted investment earnings

Gain on sale of capital assets

Transfers of capital assets

Transfers

Total general revenues, special items and transfers

Change in net assets

Net assets, January 1

Prior period adjustment (note 6)

Net assets, December 31

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

Net (Expenses) Revenues and Changes in Net Assets

<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
\$ (620,158)	\$ -	\$ (620,158)
(434,610)	-	(434,610)
(779,525)	-	(779,525)
(5,049)	-	(5,049)
(82,156)	-	(82,156)
(125,112)	-	(125,112)
(193,142)	-	(193,142)
<u>(2,239,752)</u>	<u>-</u>	<u>(2,239,752)</u>
-	(10,519)	(10,519)
-	216,230	216,230
-	(117,106)	(117,106)
-	(154,929)	(154,929)
<u>-</u>	<u>(66,324)</u>	<u>(66,324)</u>
<u>(2,239,752)</u>	<u>(66,324)</u>	<u>(2,306,076)</u>
793,396	-	793,396
320,716	-	320,716
49,784	-	49,784
297,977	-	297,977
764,305	-	764,305
206,543	439,050	645,593
65,000	6,163	71,163
(193,255)	193,255	-
103,040	(103,040)	-
<u>2,407,506</u>	<u>535,428</u>	<u>2,942,934</u>
167,754	469,104	636,858
15,591,603	25,950,929	41,542,532
<u>(72,001)</u>	<u>-</u>	<u>(72,001)</u>
<u>\$ 15,687,356</u>	<u>\$ 26,420,033</u>	<u>\$ 42,107,389</u>

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**FUND FINANCIAL STATEMENTS**

CITY OF MELROSE  
MELROSE, MINNESOTA

YEAR ENDED  
DECEMBER 31, 2008

CITY OF MELROSE, MINNESOTA  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2008

	General	Debt Service	Capital Improvements
<b>ASSETS</b>			
Cash and temporary investments	\$ 1,044,136	\$ 1,268,163	\$ 2,493,249
Receivables			
Accrued interest	18,371	11,201	51,941
Delinquent taxes	43,280	-	-
Accounts	12,891	1,405	274
Loans	-	-	-
Special assessments	-	553,954	573,172
Due from other governments	-	-	-
Due from other funds	-	-	115,029
Due from Centracare	1,260,465	-	-
Prepaid items	4,793	-	-
	<u>\$ 2,383,936</u>	<u>\$ 1,834,723</u>	<u>\$ 3,233,665</u>
<b>TOTAL ASSETS</b>			
<b>LIABILITIES AND FUND BALANCES (DEFICITS)</b>			
<b>LIABILITIES</b>			
Accounts payable	\$ 43,397	\$ -	\$ 160
Due to other funds	295,300	-	-
Deferred revenue	1,303,745	553,954	573,172
	<u>1,642,442</u>	<u>553,954</u>	<u>573,332</u>
<b>TOTAL LIABILITIES</b>			
<b>FUND BALANCES (DEFICITS)</b>			
Reserved for			
Prepaid items	4,793	-	-
Loans	-	-	-
Debt service	-	1,280,769	-
Unreserved			
Designated - reported in			
General fund	589,522	-	-
Capital projects funds	-	-	2,660,333
Special revenue fund	-	-	-
Undesignated - reported in			
General fund	147,179	-	-
Special revenue funds	-	-	-
Capital project funds	-	-	-
	<u>741,494</u>	<u>1,280,769</u>	<u>2,660,333</u>
<b>TOTAL FUND BALANCES (DEFICITS)</b>			
<b>TOTAL LIABILITIES AND FUND BALANCES (DEFICITS)</b>			
	<u>\$ 2,383,936</u>	<u>\$ 1,834,723</u>	<u>\$ 3,233,665</u>

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

2007 Fire and Ambulance Station	Tax Increment Projects	Other Governmental Funds	Total Governmental Funds
\$ 65,874	\$ 17,699	\$ 224,512	\$ 5,113,633
-	-	1,547	83,060
-	-	-	43,280
-	-	15,625	30,195
-	-	349,093	349,093
-	-	-	1,127,126
-	293,903	-	293,903
-	-	296,528	411,557
-	-	-	1,260,465
-	-	3,845	8,638
<u>\$ 65,874</u>	<u>\$ 311,602</u>	<u>\$ 891,150</u>	<u>\$ 8,720,950</u>
\$ 68,579	\$ 17,699	\$ 6,900	\$ 136,735
-	293,903	115,029	704,232
-	293,903	-	2,724,774
<u>68,579</u>	<u>605,505</u>	<u>121,929</u>	<u>3,565,741</u>
-	-	3,845	8,638
-	-	458,057	458,057
-	-	-	1,280,769
-	-	-	589,522
-	-	-	2,660,333
-	-	87,290	87,290
-	-	-	147,179
-	(293,903)	(76,742)	(370,645)
(2,705)	-	296,771	294,066
<u>(2,705)</u>	<u>(293,903)</u>	<u>769,221</u>	<u>5,155,209</u>
<u>\$ 65,874</u>	<u>\$ 311,602</u>	<u>\$ 891,150</u>	<u>\$ 8,720,950</u>

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CITY OF MELROSE, MINNESOTA  
RECONCILIATION OF THE BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2008

Total fund balances - governmental funds	\$ 5,155,209
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.	
Cost of capital assets	20,343,766
Less: accumulated depreciation	(4,701,816)
Long-term liabilities, including bonds payable, 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	(56,226)
Loan payable	(15,900)
Bond principal payable	(6,190,000)
Less bond discount net of accumulated amortization	111,662
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the fund financial statements.	
Delinquent property taxes	43,280
Special assessments	1,127,126
Governmental funds do not report a liability for accrued interest until due and payable.	(129,745)
Total net assets - governmental activities	\$ 15,687,356

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

CITY OF MELROSE, MINNESOTA  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (DEFICITS)  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2008

	General	Debt Service	Capital Improvements
REVENUES			
Taxes	\$ 1,078,599	\$ 320,716	\$ -
Licenses and permits	64,454	-	-
Intergovernmental	798,606	-	-
Charges for services	89,975	34,000	-
Fines and forfeitures	18,625	-	-
Special assessments	-	116,435	74,719
Interest on investments	55,788	37,812	77,752
Miscellaneous	11,243	-	-
TOTAL REVENUES	<u>2,117,290</u>	<u>508,963</u>	<u>152,471</u>
EXPENDITURES			
Current			
General government	613,840	-	-
Public safety	522,034	-	-
Streets and highways	436,539	-	-
Sanitation	5,049	-	-
Culture and recreation	-	-	-
Economic development	76,269	-	-
Capital outlay			
General government	-	-	66,772
Public safety	-	-	-
Streets and highways	-	-	74,135
Debt service			
Principal	-	165,000	-
Interest and other	8,068	156,092	-
TOTAL EXPENDITURES	<u>1,661,799</u>	<u>321,092</u>	<u>140,907</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>455,491</u>	<u>187,871</u>	<u>11,564</u>
OTHER FINANCING SOURCES (USES)			
Sale of land	-	-	65,000
Transfers in	75,495	17,000	336,000
Bonds issued	-	259,683	-
Transfers out	(741,018)	-	(181,216)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(665,523)</u>	<u>276,683</u>	<u>219,784</u>
NET CHANGE IN FUND BALANCES	(210,032)	464,554	231,348
FUND BALANCES (DEFICITS), JANUARY 1	<u>951,526</u>	<u>816,215</u>	<u>2,428,985</u>
FUND BALANCES (DEFICITS), DECEMBER 31	<u>\$ 741,494</u>	<u>\$ 1,280,769</u>	<u>\$ 2,660,333</u>

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

2007 Fire and Ambulance Station	Tax Increment Projects	Other Governmental Funds	Total Governmental Funds
\$ -	\$ 49,784	\$ -	\$ 1,449,099
-	-	-	64,454
-	-	21,209	819,815
-	-	95,136	219,111
-	-	-	18,625
-	-	-	191,154
13,054	-	22,137	206,543
3,172	-	168,341	182,756
<u>16,226</u>	<u>49,784</u>	<u>306,823</u>	<u>3,151,557</u>
-	-	-	613,840
-	-	127,855	649,889
-	-	-	436,539
-	-	-	5,049
-	-	75,556	75,556
-	47,189	43,937	167,395
-	-	-	66,772
2,109,448	-	275,722	2,385,170
-	-	34,443	108,578
-	-	59,767	224,767
-	-	5,222	169,382
<u>2,109,448</u>	<u>47,189</u>	<u>622,502</u>	<u>4,902,937</u>
<u>(2,093,222)</u>	<u>2,595</u>	<u>(315,679)</u>	<u>(1,751,380)</u>
-	-	-	65,000
8,040	-	591,138	1,027,673
2,100,317	-	-	2,360,000
-	-	(2,399)	(924,633)
<u>2,108,357</u>	<u>-</u>	<u>588,739</u>	<u>2,528,040</u>
15,135	2,595	273,060	776,660
<u>(17,840)</u>	<u>(296,498)</u>	<u>496,161</u>	<u>4,378,549</u>
<u>\$ (2,705)</u>	<u>\$ (293,903)</u>	<u>\$ 769,221</u>	<u>\$ 5,155,209</u>

CITY OF MELROSE, MINNESOTA  
RECONCILIATION OF THE STATEMENT OF  
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES (DEFICITS)  
TO THE STATEMENT OF ACTIVITIES  
GOVERNMENTAL FUNDS  
YEAR ENDED DECEMBER 31, 2008

Total net change in fund balances - governmental funds	\$ 776,660
Amounts reported for governmental activities in the statement of activities are different because:	
<p>Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense.</p>	
Capital outlay	2,372,255
Depreciation expense	(510,886)
<p>The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities</p>	
Principal repayments	224,767
Debt issued or incurred	(2,360,000)
Bond discount	55,460
<p>Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due</p>	
	(79,220)
<p>Certain revenues are recognized as soon as they are earned. Under the modified accrual basis of accounting certain revenues cannot be recognized until they are available to liquidate liabilities of the current period</p>	
Property taxes	12,774
Special assessments	(132,170)
<p>Capital assets constructed in capital projects funds but intended for enterprise fund use are transferred in the government-wide financial statements.</p>	
	(193,255)
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds</p>	
Compensated absences	1,369
	1,369
Change in net assets - governmental activities	\$ 167,754

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

CITY OF MELROSE, MINNESOTA  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2008

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 1,095,110	\$ 1,168,207	\$ 1,078,599	\$ (89,608)
Licenses and permits	44,050	44,475	64,454	19,979
Intergovernmental	875,201	877,758	798,606	(79,152)
Charges for services	50,484	51,429	89,975	38,546
Fines and forfeitures	18,000	15,000	18,625	3,625
Interest on investments	22,500	23,000	55,788	32,788
Miscellaneous	3,500	4,000	11,243	7,243
<b>TOTAL REVENUES</b>	<b>2,108,845</b>	<b>2,183,869</b>	<b>2,117,290</b>	<b>(66,579)</b>
EXPENDITURES				
Current				
General government	621,815	609,220	613,840	(4,620)
Public safety	510,706	528,981	522,034	6,947
Streets and highways	406,118	421,600	436,539	(14,939)
Sanitation	3,800	4,200	5,049	(849)
Economic development	75,943	78,748	76,269	2,479
Capital outlay	326,000	357,000	-	357,000
Debt service				
Interest and other charges	8,348	8,348	8,068	280
<b>TOTAL EXPENDITURES</b>	<b>1,952,730</b>	<b>2,008,097</b>	<b>1,661,799</b>	<b>346,298</b>
EXCESS OF REVENUES OVER EXPENDITURES	156,115	175,772	455,491	279,719
OTHER FINANCING SOURCES (USES)				
Transfers in	100,000	70,000	75,495	5,495
Transfers out	(256,115)	(269,902)	(741,018)	(471,116)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(156,115)</b>	<b>(199,902)</b>	<b>(665,523)</b>	<b>(465,621)</b>
NET CHANGE IN FUND BALANCES	-	(24,130)	(210,032)	(185,902)
FUND BALANCES, JANUARY 1	951,526	951,526	951,526	-
FUND BALANCES, DECEMBER 31	<u>\$ 951,526</u>	<u>\$ 927,396</u>	<u>\$ 741,494</u>	<u>\$ (185,902)</u>

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

CITY OF MELROSE, MINNESOTA  
STATEMENTS OF NET ASSETS  
PROPRIETARY FUNDS  
DECEMBER 31, 2008 AND 2007

	Business-type Activities - Enterprise funds			
	Ambulance		Water	
	2008	2007	2008	2007
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash and temporary investments	\$ 483,181	\$ 537,091	\$ 1,912,983	\$ 1,581,994
Cash with fiscal agent	-	-	-	1,294,976
Receivables				
Accrued interest	7,384	13,594	30,777	29,002
Accounts - net	81,838	92,405	79,857	64,819
Due from other funds	-	-	-	-
Inventories	-	-	22,699	22,053
Prepaid items	344	270	4,315	3,293
	<u>572,747</u>	<u>643,360</u>	<u>2,050,631</u>	<u>2,996,137</u>
<b>TOTAL CURRENT ASSETS</b>				
<b>NONCURRENT ASSETS</b>				
Appropriated funds	-	-	-	-
Unamortized bond discount	-	-	40,704	44,150
Capital assets				
Land	-	-	41,123	41,123
Structures and improvements	-	-	7,456,509	7,384,880
Distribution/collection system	-	-	-	-
Plant equipment	412,054	239,000	50,140	46,178
Construction in progress	-	68,700	-	948
Less accumulated depreciation	(145,847)	(124,209)	(2,856,247)	(2,572,844)
	<u>266,207</u>	<u>183,491</u>	<u>4,691,525</u>	<u>4,900,285</u>
<b>Total capital assets (net of accumulated depreciation)</b>				
	<u>266,207</u>	<u>183,491</u>	<u>4,732,229</u>	<u>4,944,435</u>
<b>TOTAL NONCURRENT ASSETS</b>				
	<u>266,207</u>	<u>183,491</u>	<u>4,732,229</u>	<u>4,944,435</u>
<b>TOTAL ASSETS</b>	<u>838,954</u>	<u>826,851</u>	<u>6,782,860</u>	<u>7,940,572</u>

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

Business-type Activities - Enterprise funds - Continued

Wastewater		Electric		Totals	
2008	2007	2008	2007	2008	2007
\$ 2,218,950	\$ 2,237,136	\$ 1,164,407	\$ 925,661	\$ 5,779,521	\$ 5,281,882
-	-	-	-	-	1,294,976
30,968	41,042	62,543	75,265	131,672	158,903
144,189	126,475	466,595	451,875	772,479	735,574
-	-	295,300	295,300	295,300	295,300
20,818	22,080	529,105	479,338	572,622	523,471
5,956	4,549	6,151	5,584	16,766	13,696
<u>2,420,881</u>	<u>2,431,282</u>	<u>2,524,101</u>	<u>2,233,023</u>	<u>7,568,360</u>	<u>8,303,802</u>
-	-	3,571,947	3,666,947	3,571,947	3,666,947
<u>78,456</u>	<u>84,526</u>	<u>-</u>	<u>-</u>	<u>119,160</u>	<u>128,676</u>
63,878	63,878	216,027	216,027	321,028	321,028
19,040,200	18,869,958	-	-	26,496,709	26,254,838
-	-	9,768,064	9,533,894	9,768,064	9,533,894
305,815	301,853	-	-	768,009	587,031
580,267	33,522	6,585	93,761	586,852	196,931
<u>(6,048,832)</u>	<u>(5,414,211)</u>	<u>(6,351,716)</u>	<u>(6,018,980)</u>	<u>(15,402,642)</u>	<u>(14,130,244)</u>
<u>13,941,328</u>	<u>13,855,000</u>	<u>3,638,960</u>	<u>3,824,702</u>	<u>22,538,020</u>	<u>22,763,478</u>
<u>14,019,784</u>	<u>13,939,526</u>	<u>7,210,907</u>	<u>7,491,649</u>	<u>26,229,127</u>	<u>26,559,101</u>
<u>16,440,665</u>	<u>16,370,808</u>	<u>9,735,008</u>	<u>9,724,672</u>	<u>33,797,487</u>	<u>34,862,903</u>

CITY OF MELROSE, MINNESOTA  
STATEMENTS OF NET ASSETS - CONTINUED  
PROPRIETARY FUNDS  
DECEMBER 31, 2008 AND 2007

	Business-type Activities - Enterprise funds - Continued			
	Ambulance		Water	
	2008	2007	2008	2007
<b>LIABILITIES</b>				
<b>CURRENT LIABILITIES</b>				
Accounts and contracts payable	\$ 3,136	\$ 2,942	\$ 12,401	\$ 2,470
Due to other funds	-	-	-	-
Accrued interest payable	-	-	45,982	55,715
Compensated absences payable	-	-	7,684	8,418
Customer deposits payable	-	-	-	-
Current portion of long-term debt	-	-	251,000	231,000
<b>TOTAL CURRENT LIABILITIES</b>	<u>3,136</u>	<u>2,942</u>	<u>317,067</u>	<u>297,603</u>
<b>NONCURRENT LIABILITIES</b>				
Compensated absences payable less current portion above	-	-	770	-
Loans payable less current portion above	-	-	1,847,700	2,003,700
Bonds payable less current portion above	-	-	1,235,000	2,625,000
<b>TOTAL NONCURRENT LIABILITIES</b>	<u>-</u>	<u>-</u>	<u>3,083,470</u>	<u>4,628,700</u>
<b>TOTAL LIABILITIES</b>	<u>3,136</u>	<u>2,942</u>	<u>3,400,537</u>	<u>4,926,303</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	266,207	183,491	1,398,529	84,735
Unrestricted	569,611	640,418	1,983,794	2,929,534
<b>TOTAL NET ASSETS</b>	<u>\$ 835,818</u>	<u>\$ 823,909</u>	<u>\$ 3,382,323</u>	<u>\$ 3,014,269</u>

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

Business-type Activities - Enterprise funds - Continued

Wastewater		Electric		Totals	
2008	2007	2008	2007	2008	2007
\$ 164,127	\$ 47,683	\$ 482,676	\$ 440,656	\$ 662,340	\$ 493,751
2,625	-	-	-	2,625	-
11,389	14,621	-	-	57,371	70,336
17,222	18,098	32,064	36,904	56,970	63,420
-	-	21,860	23,955	21,860	23,955
-	165,000	-	-	251,000	396,000
<u>195,363</u>	<u>245,402</u>	<u>536,600</u>	<u>501,515</u>	<u>1,052,166</u>	<u>1,047,462</u>
1,750	-	10,068	5,812	12,588	5,812
-	-	-	-	1,847,700	2,003,700
<u>3,230,000</u>	<u>3,230,000</u>	<u>-</u>	<u>-</u>	<u>4,465,000</u>	<u>5,855,000</u>
<u>3,231,750</u>	<u>3,230,000</u>	<u>10,068</u>	<u>5,812</u>	<u>6,325,288</u>	<u>7,864,512</u>
<u>3,427,113</u>	<u>3,475,402</u>	<u>546,668</u>	<u>507,327</u>	<u>7,377,454</u>	<u>8,911,974</u>
10,789,784	10,544,526	3,638,960	3,824,702	16,093,480	14,637,454
<u>2,223,768</u>	<u>2,350,880</u>	<u>5,549,380</u>	<u>5,392,643</u>	<u>10,326,553</u>	<u>11,313,475</u>
<u>\$ 13,013,552</u>	<u>\$ 12,895,406</u>	<u>\$ 9,188,340</u>	<u>\$ 9,217,345</u>	<u>\$ 26,420,033</u>	<u>\$ 25,950,929</u>

CITY OF MELROSE, MINNESOTA  
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUNDS  
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	Business-type Activities - Enterprise funds			
	Ambulance		Water	
	2008	2007	2008	2007
OPERATING REVENUES				
Charges for services	\$ 376,660	\$ 351,531	\$ 1,004,684	\$ 903,510
OPERATING EXPENSES				
Production, collection and purchased power	-	-	102,250	84,495
Distribution	-	-	151,423	121,971
Accounting and collection	-	-	12,800	12,263
General and administrative	376,706	310,133	100,143	88,028
Depreciation and amortization	21,638	16,569	283,403	286,637
TOTAL OPERATING EXPENSES	398,344	326,702	650,019	593,394
OPERATING INCOME (LOSS)	(21,684)	24,829	354,665	310,116
NONOPERATING REVENUES (EXPENSES)				
Intergovernmental	-	-	316	316
Interest on investments	22,428	30,854	80,194	131,102
Miscellaneous	11,165	8,251	(41)	-
Gain on sale of fixed assets	-	-	-	-
Interest expense	-	-	(138,710)	(204,652)
TOTAL NONOPERATING REVENUES (EXPENSES)	33,593	39,105	(58,241)	(73,234)
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	11,909	63,934	296,424	236,882
CONTRIBUTIONS OF ASSETS FROM OTHER FUNDS	-	-	71,630	189,986
TRANSFERS OUT	-	(5,000)	-	-
TOTAL CONTRIBUTIONS AND TRANSFERS	-	(5,000)	71,630	189,986
CHANGE IN FUND NET ASSETS	11,909	58,934	368,054	426,868
FUND NET ASSETS, JANUARY 1	823,909	764,975	3,014,269	2,587,401
FUND NET ASSETS, DECEMBER 31	\$ 835,818	\$ 823,909	\$ 3,382,323	\$ 3,014,269

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

Business-type Activities - Enterprise funds - Continued

Wastewater		Electric		Totals	
2008	2007	2008	2007	2008	2007
<u>\$ 1,599,767</u>	<u>\$ 1,409,302</u>	<u>\$ 6,239,696</u>	<u>\$ 5,811,579</u>	<u>\$ 9,220,807</u>	<u>\$ 8,475,922</u>
33,952	29,890	5,002,205	4,645,547	5,138,407	4,759,932
769,812	777,795	299,524	324,592	1,220,759	1,224,358
-	-	13,012	12,712	25,812	24,975
132,670	102,804	759,704	683,061	1,369,223	1,184,026
634,621	643,760	332,737	342,560	1,272,399	1,289,526
<u>1,571,055</u>	<u>1,554,249</u>	<u>6,407,182</u>	<u>6,008,472</u>	<u>9,026,600</u>	<u>8,482,817</u>
<u>28,712</u>	<u>(144,947)</u>	<u>(167,486)</u>	<u>(196,893)</u>	<u>194,207</u>	<u>(6,895)</u>
890	890	1,948	1,948	3,154	3,154
113,627	107,951	222,801	277,384	439,050	547,291
555	635	10,609	6,580	22,288	15,466
-	-	6,163	-	6,163	-
<u>(147,263)</u>	<u>(155,670)</u>	<u>-</u>	<u>-</u>	<u>(285,973)</u>	<u>(360,322)</u>
<u>(32,191)</u>	<u>(46,194)</u>	<u>241,521</u>	<u>285,912</u>	<u>184,682</u>	<u>205,589</u>
<u>(3,479)</u>	<u>(191,141)</u>	<u>74,035</u>	<u>89,019</u>	<u>378,889</u>	<u>198,694</u>
121,625	792,785	-	34,546	193,255	1,017,317
<u>-</u>	<u>-</u>	<u>(103,040)</u>	<u>(40,000)</u>	<u>(103,040)</u>	<u>(45,000)</u>
<u>121,625</u>	<u>792,785</u>	<u>(103,040)</u>	<u>(5,454)</u>	<u>90,215</u>	<u>972,317</u>
118,146	601,644	(29,005)	83,565	469,104	1,171,011
12,895,406	12,293,762	9,217,345	9,133,780	25,950,929	24,779,918
<u>\$ 13,013,552</u>	<u>\$ 12,895,406</u>	<u>\$ 9,188,340</u>	<u>\$ 9,217,345</u>	<u>\$ 26,420,033</u>	<u>\$ 25,950,929</u>

CITY OF MELROSE, MINNESOTA  
STATEMENTS OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	Business-type Activities - Enterprise funds			
	Ambulance		Water	
	2008	2007	2008	2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from customers and users	\$ 398,392	\$ 339,884	\$ 989,962	\$ 892,701
Payments to suppliers	(236,992)	(210,604)	(237,756)	(184,459)
Payments to employees	(139,594)	(123,389)	(121,331)	(125,639)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>21,806</u>	<u>5,891</u>	<u>630,875</u>	<u>582,603</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Transfers to other funds	-	(5,000)	-	-
Decrease in due from other funds	-	-	-	-
Increase (decrease) in due to other funds	-	-	-	-
<b>NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES</b>	<u>-</u>	<u>(5,000)</u>	<u>-</u>	<u>-</u>
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>				
Acquisition of property and equipment	(104,354)	(82,755)	(3,013)	(948)
Interest paid on bonds	-	-	(94,094)	(153,546)
Principal paid on bonds	-	-	(230,230)	(223,593)
<b>NET CASH USED BY CAPITAL FINANCING ACTIVITIES</b>	<u>(104,354)</u>	<u>(82,755)</u>	<u>(327,337)</u>	<u>(378,087)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest received on investments	28,638	32,154	27,451	81,926
Transfer from appropriated funds	-	-	-	-
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<u>28,638</u>	<u>32,154</u>	<u>27,451</u>	<u>81,926</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<u>(53,910)</u>	<u>(49,710)</u>	<u>330,989</u>	<u>286,442</u>
<b>CASH AND CASH EQUIVALENTS, JANUARY 1</b>	<u>537,091</u>	<u>586,801</u>	<u>1,581,994</u>	<u>1,295,552</u>
<b>CASH AND CASH EQUIVALENTS, DECEMBER 31</b>	<u>\$ 483,181</u>	<u>\$ 537,091</u>	<u>\$ 1,912,983</u>	<u>\$ 1,581,994</u>

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

Business-type Activities - Enterprise funds - Continued

Wastewater		Electric		Totals	
2008	2007	2008	2007	2008	2007
\$ 1,583,498	\$ 1,397,899	\$ 6,243,696	\$ 5,736,076	\$ 9,215,548	\$ 8,366,560
(415,832)	(504,523)	(5,601,088)	(5,189,281)	(6,491,668)	(6,088,867)
(403,429)	(385,377)	(484,350)	(466,687)	(1,148,704)	(1,101,092)
<u>764,237</u>	<u>507,999</u>	<u>158,258</u>	<u>80,108</u>	<u>1,575,176</u>	<u>1,176,601</u>
-	-	(103,040)	(40,000)	(103,040)	(45,000)
-	8,660	-	(1)	-	8,659
<u>2,625</u>	<u>(8,660)</u>	<u>-</u>	<u>-</u>	<u>2,625</u>	<u>(8,660)</u>
<u>2,625</u>	<u>-</u>	<u>(103,040)</u>	<u>(40,001)</u>	<u>(100,415)</u>	<u>(45,001)</u>
(599,324)	(33,522)	(146,995)	(186,388)	(853,686)	(303,613)
(144,425)	(151,555)	-	-	(238,519)	(305,101)
(165,000)	(155,000)	-	-	(395,230)	(378,593)
<u>(908,749)</u>	<u>(340,077)</u>	<u>(146,995)</u>	<u>(186,388)</u>	<u>(1,487,435)</u>	<u>(987,307)</u>
123,701	106,724	235,523	274,798	415,313	495,602
-	-	95,000	40,000	95,000	40,000
<u>123,701</u>	<u>106,724</u>	<u>330,523</u>	<u>314,798</u>	<u>510,313</u>	<u>535,602</u>
(18,186)	274,646	238,746	168,517	497,639	679,895
<u>2,237,136</u>	<u>1,962,490</u>	<u>925,661</u>	<u>757,144</u>	<u>5,281,882</u>	<u>4,601,987</u>
<u>\$ 2,218,950</u>	<u>\$ 2,237,136</u>	<u>\$ 1,164,407</u>	<u>\$ 925,661</u>	<u>\$ 5,779,521</u>	<u>\$ 5,281,882</u>

CITY OF MELROSE, MINNESOTA  
STATEMENTS OF CASH FLOWS - CONTINUED  
PROPRIETARY FUNDS  
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	Business-type Activities - Enterprise funds - Continued			
	Ambulance		Water	
	2008	2007	2008	2007
RECONCILIATION OF OPERATING INCOME (LOSS) TO				
NET CASH PROVIDED BY				
OPERATING ACTIVITIES				
Operating income (loss)	\$ (21,684)	\$ 24,829	\$ 354,665	\$ 310,116
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Other income related to operations	11,165	8,251	316	316
Depreciation and amortization	21,638	16,569	283,403	286,637
(Increase) decrease in assets:				
Accounts receivable	10,567	(19,898)	(15,038)	(11,125)
Inventory	-	-	(646)	2,313
Prepaid items	(74)	(90)	(1,022)	(928)
Increase (decrease) in liabilities:				
Accounts and contracts payable	194	(23,770)	9,931	(9,001)
Accrued salaries and benefits payable	-	-	(734)	4,275
Customer deposits payable	-	-	-	-
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 21,806</u>	<u>\$ 5,891</u>	<u>\$ 630,875</u>	<u>\$ 582,603</u>
SCHEDULE OF NONCASH CAPITAL FINANCING ACTIVITIES				
Contribution of assets from other funds	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 71,630</u>	<u>\$ 189,986</u>
Amortization of bond discount	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,446</u>	<u>\$ 3,446</u>

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

Business-type Activities - Enterprise funds - Continued

Wastewater		Electric		Totals	
2008	2007	2008	2007	2008	2007
\$ 28,712	\$ (144,947)	\$ (167,486)	\$ (196,893)	\$ 194,207	\$ (6,895)
1,445	1,525	18,720	8,528	31,646	18,620
634,621	643,760	332,737	342,560	1,272,399	1,289,526
(17,714)	(12,928)	(14,720)	(84,031)	(36,905)	(127,982)
1,262	(5,184)	(49,767)	(46,077)	(49,151)	(48,948)
(1,407)	(384)	(567)	1,869	(3,070)	467
116,444	21,521	42,020	53,809	168,589	42,559
874	4,636	(584)	2,383	(444)	11,294
-	-	(2,095)	(2,040)	(2,095)	(2,040)
<u>\$ 764,237</u>	<u>\$ 507,999</u>	<u>\$ 158,258</u>	<u>\$ 80,108</u>	<u>\$ 1,575,176</u>	<u>\$ 1,176,601</u>
<u>\$ 121,625</u>	<u>\$ 792,785</u>	<u>\$ -</u>	<u>\$ 34,546</u>	<u>\$ 193,255</u>	<u>\$ 1,017,317</u>
<u>\$ 6,070</u>	<u>\$ 7,086</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,516</u>	<u>\$ 10,532</u>

CITY OF MELROSE, MINNESOTA  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
DECEMBER 31, 2008

	<u>Agency</u>
ASSETS	
Cash and temporary investments	<u>\$ 1,890</u>
LIABILITIES	
Accounts payable	<u>\$ 1,890</u>

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

CITY OF MELROSE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2008

**Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

The City of Melrose, Minnesota (the City) operates under the "Optional Plan A" form of government as defined in the State of Minnesota statutes. Under this plan, the government of the City is directed by a Council composed of an elected Mayor and four elected Council Members. The Council exercises legislative authority and determines all matters of policy. The Council appoints personnel responsible for the proper administration of all affairs relating to the City.

The City has considered all potential units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the primary government to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the primary government. The Melrose Public Utilities Commission (the Commission) is considered to be part of the City's government.

The Commission was established and statutory authority is provided in accordance with chapter 412.321 of the Minnesota statutes. The Commission has three Council appointed members who serve overlapping three-year terms. Minnesota statutes provide the Council all the discretionary authority necessary to operate the utilities except as its powers have been delegated to the Commission. The Utility funds include the Water, Wastewater and Electric funds and are included with the enterprise funds of this report. The Electric fund purchases the majority of its power from Missouri River Energy Services and the Western Area Power Administration. Separate financial statements are not issued for the Commission.

The Council established the Melrose Health Services Board (the Board) by ordinance to manage the Melrose Hospital, Pine Villa Care Center Nursing Home and Park View Center Apartments. The Board's authority was consistent with the provisions of the ordinance and the laws governing the City. As of July 1, 1997, the City leased the operations of the organization, including Melrose Hospital, Pine Villa Care Center Nursing Home and Park View Center Apartments, to a newly formed nonprofit 501(c)(3) organization and disbanded the Board. The lease provides no revenue for the City since all administration is provided by the non-profit organization.

The City retains title to all fixed assets, including the buildings and equipment, and \$957,800 of working capital was transferred to the nonprofit organization. This amount is increased annually in accordance with the Consumer Price Index for Minnesota for each year the lease has been in effect and is to be remitted to the City when the lease is terminated. The cumulative inflation adjustment is \$45,565 at December 31, 2008. The total receivable of \$1,260,465 is reflected as due from CentraCare in the General fund.

Component units, although legally separate entities are, in substance, part of the City's operations and so data from these units are combined with data of the primary government.

**Blended Component Unit**

The Melrose Area Development Authority (MADA) was created pursuant to Minnesota statutes 469.090 through 469.108 to carry out economic and industrial development and redevelopment within the City in accordance with policies established by the Council. The seven-member Board consists of one Council member and four other Council appointed members, the Mayor and City Administrator. The MADA can exercise any of the powers enumerated by the authorizing statutes without prior approval of the Council. Therefore, the activities are blended and reported in a separate special revenue fund. Separate financial statements are not issued for this component unit. The MADA has a December 31<sup>st</sup> year end.

CITY OF MELROSE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2008

**Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**Related Entity**

The Housing and Redevelopment Authority (HRA) was created pursuant to chapter 487 of the Minnesota Session Laws of 1947. The only activity of the HRA is the management of a federally funded housing project on behalf of the U.S. Department of Housing and Urban Development (HUD). Since there is no financial burden, this entity is not presented. Separate financial statements are issued and can be obtained from the City.

**B. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the City and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are 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*.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary 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 and fiduciary 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 government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available.

CITY OF MELROSE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2008

**Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, grants, entitlement and donations. On an accrual basis, revenue from property taxes is recognized in the year for which the tax is levied. Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are also recorded as deferred revenue. On the modified accrual basis, receivables that will not be collected within the available period have also been reported as deferred revenue in the fund financial statements.

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

The City reports the following major governmental funds:

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

The *Debt Service fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

The *Capital Improvements fund* accounts for the resources to complete capital project development.

The *2007 Fire and Ambulance Station* accounts for the construction of the new public safety facility.

The *Tax Increment Projects fund* accounts for resources to complete tax increment project development.

The City reports the following major proprietary funds:

The *Ambulance fund* accounts for the activities of the City's ambulance service.

The *Water fund* accounts for the activities of the City's water distribution system.

The *Wastewater fund* accounts for the activities of the City's wastewater collection operations.

The *Electric fund* accounts for the activities of the City's production and distribution of electricity.

Additionally, the government reports the following fiduciary fund type:

The *Fiduciary fund* accounts for assets held by the City in a trustee capacity or as an agent on behalf of others.

The *Agency fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. This fund is used to account for assets that the City holds for others in an agency capacity.

CITY OF MELROSE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2008

**Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

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

As a general rule, the effect of interfund activity has been eliminated from government-wide financial statements. Exceptions to this general rule are charges between the City's electric and sewer functions 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.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contribution, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues.

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 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.

**D. Assets, Liabilities and Net Assets or Equity**

**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.

Cash balances from all funds are pooled and invested, to the extent available, in certificates of deposit and other authorized investments. Earnings from such investments are allocated on the basis of applicable participation by each of the funds.

CITY OF MELROSE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2008

**Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

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

- a. Direct obligations or obligations guaranteed by the United States or its agencies.
- b. Shares of investment companies registered under the Federal Investment Company Act of 1940 and whose only investments are in securities in (a) above.
- c. General obligations of the State of Minnesota or any of its municipalities.
- d. Banker's acceptances of United States banks eligible for purchase by the Federal Reserve System.
- e. Commercial paper issued by United States banks corporations or their Canadian subsidiaries, of highest quality, and maturing in 270 days or less.
- f. Repurchase or reverse repurchase agreements with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.
- g. Guaranteed investment contracts (GIC's) issued or guaranteed by United States commercial banks or domestic branches of foreign banks or United States insurance companies if similar debt obligations of the issuer or the collateral pledged by the issuer is in the top two rating categories, or in the top three rating categories for long-term GIC's issued by Minnesota banks.

Investments for the City are reported at fair value. The broker money market investment pool operates in accordance with appropriate State laws and regulations. The reported value of the pool is the same as the fair value of the pool share.

**Property Taxes**

The Council annually adopts a tax levy and certifies it to the County in December for collection the following year. The County is responsible for collecting all property taxes for the City. These taxes attach an enforceable lien on taxable property within the City on January 1 and are payable by the property owners in two installments. The taxes are collected by the County Treasurer and tax settlements are made to the City during January, June and November each year.

Taxes payable on homestead property, as defined by Minnesota statutes, are partially reduced by a market value credit aid. The credit is paid to the City by the State of Minnesota (the State) in lieu of taxes levied against the homestead property. The State remits this credit in two equal installments in October and December each year.

Delinquent taxes receivable include the past six years' uncollected taxes. Delinquent taxes have been offset by a deferred revenue liability for delinquent taxes not received within 60 days after year end in the fund financial statements.

**Accounts Receivable**

Accounts receivable include amounts billed for services provided before year end. The Ambulance, Fire Department and the Electric enterprise funds have an allowance for uncollectible accounts totaling \$10,000, \$1,000 and \$2,000, respectively, at December 31, 2008.

CITY OF MELROSE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2008

**Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**Special Assessments**

Special assessments represent the financing for public improvements paid for by benefiting property owners. These assessments are recorded as receivables upon certification to the County. Special assessments are recognized as revenue when they are annually certified to the County or received in cash or within 60 days after year end. All governmental special assessments receivable are offset by a deferred revenue liability in the fund financial statements.

**Interfund Receivables and Payables**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds as reported in the fund financial statements are offset by a fund balance reserve account in applicable governmental funds to indicate they are not available for appropriation and are not expendable available financial resources.

**Inventories and Prepaid Items**

All inventories are stated at the lower of cost or market on the first-in, first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

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

**Appropriated funds**

Certain resources are set-aside for specific purposes in the Electric enterprise fund. They are identified as appropriated funds on the balance sheet and are made up of the following:

Revolving loan funds	\$ 71,947
Future plant expansion	3,000,000
Future capital projects	<u>500,000</u>
Total	<u>\$ 3,571,947</u>

CITY OF MELROSE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2008

**Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**Capital Assets**

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, 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 \$5,000 (amount not rounded) 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. The City reports infrastructure assets on a network and subsystem basis. Accordingly, the amounts spent for the construction or acquisition on infrastructure assets are capitalized and reported in the government-wide financial statements regardless of their amount.

In the case of the initial capitalization of general infrastructure assets (i.e., those reported by governmental activities) the City chose to include all such items regardless of their acquisition date or amount. The City was able to estimate the historical cost for the initial reporting of these assets through back trending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year). As the City constructs or acquires additional capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost.

Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations the City values these capital assets at the estimated fair value of the item at the date of its donation.

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

Assets	Useful Lives in Years
Buildings and Building Improvements	7 - 40
Equipment and Vehicles	5 - 20
Vehicles	4 - 15
Infrastructure	7 - 50

**Compensated Absences**

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is also a provision for payout of unpaid accumulated sick leave when an employee separates from service with the City. All vacation pay is accrued when incurred in the governmental and proprietary funds. It is expected the vacation pay will be liquidated with expendable available financial resources. A liability for accumulated sick leave is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

CITY OF MELROSE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2008

**Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**Long-term Obligations**

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net assets. Beginning January 1, 2004, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method for governmental activities. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognized bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**Net Assets**

In the government-wide financial statements, net assets represent the difference between assets and liabilities. Net assets are displayed in three components:

- a. Invested in capital assets, net of related debt - Consists of capital assets, net of accumulated depreciation reduced by any outstanding debt attributable to acquire capital assets.
- b. Restricted net assets - Consist of net assets restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws or regulations of other governments.
- c. Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

**Fund Equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Reservations of retained earnings are limited to outside third-party restrictions. Designations of fund balance represent tentative management plans that are subject to change.

**Comparative Data/Reclassifications**

Comparative data for the prior year have been presented only for the enterprise funds financial statements in order to provide an understanding of the changes in the financial position and operations of these funds. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation

CITY OF MELROSE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2008

**Note 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. Budgetary Information**

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General and all special revenue funds. All annual appropriations lapse at fiscal year end. The City does not use encumbrance accounting.

In August of each year, all departments of the City submit requests for appropriations to the City Administrator so that a budget may be prepared. Before September 15<sup>th</sup>, the proposed budget is presented to the Council for review. The Council holds public hearings and a final budget is prepared and adopted in December.

The appropriated budget is prepared by fund, function and department. The City's department heads, with the approval of the City Administrator, may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the Council. The legal level of budgetary control is the department level. Budgeted amounts are as originally adopted, or as amended by the Council. There were budget amendments during the year.

**B. Deficit Fund Equity**

The following funds had fund balance deficits at December 31, 2008 that will be eliminated with transfers from other funds:

Fund	Amount
Special revenue	
Melrose Area Development Authority	\$ 19,244
Parks and Recreation	63,837
Tax Increment Projects	293,903
Capital projects	
2007 Fire and Ambulance Station	2,705

CITY OF MELROSE, MINNESOTA  
 NOTES TO FINANCIAL STATEMENTS  
 DECEMBER 31, 2008

**Note 3: DETAILED NOTES ON ALL FUNDS**

**A. Deposits and Investments**

Custodial credit risk for deposits and investments is the risk that in the event of a bank failure, the City's deposits and investments may not be returned or the City will not be able to recover collateral securities in the possession of an outside party. In accordance with Minnesota statutes and as authorized by the Council, the City maintains deposits at those depository banks, all of which are members of the Federal Reserve System.

Minnesota statutes require that all City deposits be protected by insurance, surety bond or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance or bonds.

Authorized collateral includes the legal investments described below, as well as certain first mortgage notes, and certain other State or local government obligations. Minnesota statutes require that securities pledged as collateral be held in safekeeping by the City or in a financial institution other than that furnishing the collateral.

*Interest rate risk* - In accordance with its investment policy, the City manages its exposure to declines in fair values by limiting long term investments to 30 percent of the portfolio. The maturity of the long term investments cannot exceed ten years.

At year end, the City's carrying amount of deposits was \$8,881,573 and the bank balance was \$12,123,274. Of the bank balance, \$2,050,000 was covered by federal depository insurance and \$10,073,274 was covered by collateral held by the City's agent in the City's name.

**Investments**

As of December 31, 2008, the City had the following investments that are insured or registered, or securities held by the City or its agent in the City's name.

Types of Investments	Credit Quality/ Ratings (1)	Segmented Time Distribution (2)	Carrying Amount
Non-pooled investments			
Negotiable CD's	N/A	less than 6 months	\$ 780,627
Negotiable CD's	N/A	6 months to 1 year	1,364,431
Negotiable CD's	N/A	1 to 3 years	342,176
Negotiable CD's	N/A	more than 3 years	656,078
U.S. Government Securities	AAA	more than 3 years	<u>2,383,196</u>
Total non-pooled investments			5,526,508
Pooled investments			
Northland Securities			
Money Market Mutual funds	N/A	less than 6 months	<u>58,207</u>
Total investments			<u><u>\$ 5,584,715</u></u>

1. Ratings were provided by Moody's.
  2. Interest rate risk disclosed using the segmented time distribution method.
- N/A Indicated not applicable or available

CITY OF MELROSE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2008

**Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED**

**Cash on Hand**

Cash in the possession of the City, consisting of un-deposited receipts, petty cash and change funds totals \$703.

**Cash Summary**

A reconciliation of cash as shown on the Statement of Net Assets for the City follows:

Carrying amount of deposits	\$ 8,881,573
Investments	5,584,715
Cash on hand	<u>703</u>
Total	<u><u>\$ 14,466,991</u></u>
Cash	
Government wide	\$ 14,465,101
Agency	<u>1,890</u>
Total	<u><u>\$ 14,466,991</u></u>

**B. Loans Receivable**

The City has funds available for loans to local businesses. At December 31, 2008 the City has loans outstanding totaling \$349,093 in the special revenue funds. The terms and interest varies and all are secured by the assets of the business.

**C. Deferred Revenue**

Deferred revenue in the governmental funds at December 31, 2008 is comprised of the following:

	Unavailable	Unearned
General		
Delinquent taxes	\$ 43,280	\$ -
Due from Centracare	-	1,260,465
Capital Improvements		
Special assessments	573,172	-
Debt Service		
Special assessments	553,954	-
Special Revenue		
Due from other governments	<u>293,903</u>	<u>-</u>
Total	<u><u>\$ 1,464,309</u></u>	<u><u>\$ 1,260,465</u></u>

CITY OF MELROSE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2008

**Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED**

**D. Capital Assets**

Capital asset activity for the year ended December 31, 2008 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental activities</b>				
Capital assets, not being depreciated				
Land	\$ 2,992,191	\$ 29,249	\$ (636,845)	\$ 2,384,595
Construction in progress	360,665	2,062,726	(375,616)	2,047,775
	<u>3,352,856</u>	<u>2,091,975</u>	<u>(1,012,461)</u>	<u>4,432,370</u>
Total capital assets, not being depreciated				
Capital assets, being depreciated				
Buildings	2,495,019	564,844	-	3,059,863
Machinery and equipment	1,950,261	280,280	-	2,230,541
Infrastructure	10,438,631	182,361	-	10,620,992
	<u>14,883,911</u>	<u>1,027,485</u>	<u>-</u>	<u>15,911,396</u>
Total capital assets being depreciated				
Less accumulated depreciation for				
Buildings	(1,097,255)	(88,712)	-	(1,185,967)
Machinery and equipment	(859,114)	(132,790)	-	(991,904)
Infrastructure	(2,349,413)	(311,978)	-	(2,661,391)
	<u>(4,305,782)</u>	<u>(533,480)</u>	<u>-</u>	<u>(4,839,262)</u>
Total accumulated depreciation				
Total capital assets, being depreciated, net	<u>10,578,129</u>	<u>494,005</u>	<u>-</u>	<u>11,072,134</u>
Governmental activities capital assets, net	<u>\$ 13,930,985</u>	<u>\$ 2,585,980</u>	<u>\$ (1,012,461)</u>	<u>\$ 15,504,504</u>

CITY OF MELROSE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2008

**Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED**

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Business-type activities</b>				
Capital assets, not being depreciated				
Land	\$ 321,028	\$ -	\$ -	\$ 321,028
Construction in progress	196,931	578,330	(188,409)	586,852
Total capital assets, not being depreciated	517,959	578,330	(188,409)	907,880
Capital assets, being depreciated				
Buildings	2,510,920	-	-	2,510,920
Machinery and equipment	1,398,561	201,551	-	1,600,112
Infrastructure	32,466,282	455,468	-	32,921,750
Total capital assets being depreciated	36,375,763	657,019	-	37,032,782
Less accumulated depreciation for				
Buildings	(1,822,198)	(63,777)	-	(1,885,975)
Machinery and equipment	(695,316)	(98,087)	-	(793,403)
Infrastructure	(11,612,730)	(1,110,535)	-	(12,723,264)
Total accumulated depreciation	(14,130,244)	(1,272,399)	-	(15,402,642)
Total capital assets, being depreciated, net	22,245,519	(615,380)	-	21,630,140
Business-type activities capital assets, net	\$ 22,763,478	\$ (37,050)	\$ (188,409)	\$ 22,538,020
 <b>Governmental activities</b>				
General government				\$ 74,544
Public safety				68,533
Culture and recreation				41,494
Public works				348,909
Total depreciation expense - governmental activities				\$ 533,480
 <b>Business-type activities</b>				
Ambulance				\$ 21,638
Water				283,403
Wastewater				634,621
Electric				332,737
Total depreciation expense - business-type activities				\$ 1,272,399

CITY OF MELROSE, MINNESOTA  
 NOTES TO FINANCIAL STATEMENTS  
 DECEMBER 31, 2008

**Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED**

**Construction Commitments**

The City has active construction projects as of December 31, 2008. The City's commitments with contractors are as follows:

Project	Spent to date	Remaining Commitment
Fire and Ambulance Station Improvements	\$ 2,047,776	\$ 101,162
Grit Removal Project	580,276	318,607
MDP Switching Improvements	6,585	143,415
Total	<u>\$ 2,634,637</u>	<u>\$ 563,184</u>

**E. Interfund Receivables, Payables and Transfers**

**Interfund Balances**

Receivable Fund	Payable Fund	Amount	Purpose
Electric	General	\$ 295,300	Land purchase loan
Capital Improvements	Nonmajor governmental	115,029	Park and GCI loan
Nonmajor governmental	Nonmajor governmental	293,903	TIF from Jennie-O site
Nonmajor governmental	Wastewater	2,625	Reimbursement for costs
Total		<u>\$ 706,857</u>	

The majority of the interfund borrowing was for financing of projects. It will be repaid according to internal schedules.

CITY OF MELROSE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2008

**Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED**

**Interfund Transfers**

Fund	Transfer in:		
	General fund	Debt Service	Capital Improvements
Transfer out:			
General	\$ -	\$ -	\$ 336,000
Capital improvements	75,495	17,000	-
Nonmajor governmental	-	-	-
Electric enterprise	-	-	-
Total transfers out	<u>\$ 75,495</u>	<u>\$ 17,000</u>	<u>\$ 336,000</u>
Fund	2007 Fire and Ambulance Station	Nonmajor governmental funds	Total
Transfer out:			
General	\$ -	\$ 405,018	\$ 741,018
Capital improvements	-	88,721	181,216
Nonmajor governmental	-	2,399	2,399
Electric enterprise	8,040	95,000	103,040
Total transfers out	<u>\$ 8,040</u>	<u>\$ 591,138</u>	<u>\$ 1,027,673</u>

- The transfer from the General fund to the Capital Improvements fund was a result of transferring unspent budgeted costs for capital outlay.
- The transfer to from the General fund to Non-major funds was done to fund their budgeted expenditures and project costs.
- The transfer from Capital Improvements to the General fund was completed to transfer interest earned to be used against General operating costs.
- The transfer from Capital Improvements to the debt service was completed for its share of bond costs.
- The transfer from Capital Improvements to the non-major funds was to pay off the Sauk River Park loan.
- The transfer within non-major funds was done to reimburse prior project costs.
- The transfer from the Electric fund to the Fire and Ambulance Station was for the transfer of its share of the project
- The transfer from the Electric fund to the non-major funds was for revolving loan funds.

CITY OF MELROSE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2008

**Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED**

**F. Long-term Debt**

*General Obligation Bonds.* The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for general government activities. In addition, bonds have been issued to refund general obligation revenue bonds.

General obligation bonds are direct obligations and pledge the full faith and credit of the City. General obligation bonds currently outstanding are as follows:

**General Obligation Improvement Bonds**

The following bonds were issued to finance various improvements and will be repaid from special assessments levied on the properties benefiting from the improvements and ad valorem tax levies. All special assessment debt is backed by the full faith and credit of the City. Each year the combined assessment and tax levy equals 105 percent of the amount required for debt service. The excess of 5 percent is to cover any delinquencies in tax or assessment payments.

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
G.O. Improvement Bonds, Series 2002	\$ 835,000	2.25 - 5.00 %	06/01/02	12/01/17	\$ 475,000
G.O. Improvement Bonds, Series 2004B	985,000	2.75 - 4.30	10/01/04	02/01/20	985,000
G.O. Improvement Bonds, Series 2005A	2,545,000	3.50 - 4.40	09/01/05	02/01/21	<u>2,370,000</u>
Total G.O. Improvement Bonds					<u>\$ 3,830,000</u>

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

Year Ending December 31,	Governmental Activities		
	Principal	Interest	Total
2009	\$ 250,000	\$ 149,065	\$ 399,065
2010	290,000	139,750	429,750
2011	300,000	129,265	429,265
2012	310,000	118,223	428,223
2013	275,000	106,320	381,320
2014-2018	1,565,000	355,818	1,920,818
2019-2021	<u>840,000</u>	<u>52,123</u>	<u>892,123</u>
Total	<u>\$ 3,830,000</u>	<u>\$ 1,050,564</u>	<u>\$ 4,880,564</u>

CITY OF MELROSE, MINNESOTA  
 NOTES TO FINANCIAL STATEMENTS  
 DECEMBER 31, 2008

**Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED**

**Revenue Bonds**

The following bond was issued by the Melrose Area Development Authority (MADA) of the City. The bond was issued to finance the City's Fire and Ambulance Station. The annual debt service requirements will be met by a combination of rent charged to the Fire and Ambulance departments each year based on usage, budgeted payments, and the remainder to be levied.

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
Public Project Lease Revenue Bonds of 2008	\$ 2,360,000	2.90 - 4.70 %	04/24/08	02/01/29	<u>\$ 2,360,000</u>

Revenue bonds debt service requirements to maturity are as follows:

Year Ending December 31,	Governmental Activities		
	Principal	Interest	Total
2009	\$ -	\$ 132,490	\$ 132,490
2010	80,000	98,208	178,208
2011	85,000	95,688	180,688
2012	85,000	92,925	177,925
2013	90,000	89,948	179,948
2014-2018	495,000	396,638	891,638
2019-2023	600,000	284,279	884,279
2024-2028	750,000	132,143	882,143
2029	175,000	4,113	179,113
Total	<u>\$ 2,360,000</u>	<u>\$ 1,326,432</u>	<u>\$ 3,686,432</u>

**Loans Payable**

The City entered into a loan agreement and a promissory note on March 1, 1999 to borrow \$500,000 at a 2 percent interest rate. The loan funds were used to fund a revolving loan program for the MADA. The loan is secured by a certificate of deposit owned by the Melrose Public Utilities. The loan requires quarterly payments through March 31, 2009.

Total loans payable \$ 15,906

Annual requirement to maturity for loans payable is as follows:

Year Ending December 31,	Governmental Activities		
	Principal	Interest	Total
2009	<u>\$ 15,906</u>	<u>\$ 80</u>	<u>\$ 15,986</u>

CITY OF MELROSE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2008

**Note 3: DETAILED NOTES ON ALL FUNDS- CONTINUED**

**General Obligation Revenue Bonds**

The following bonds were issued to finance capital improvements to the Water and Wastewater funds. They will be retired from net revenue of the Water and Wastewater Funds and are backed by the full faith and credit of the City.

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
1999 G.O. Water Revenue Notes (Wells 8 and 9)	599,219	3.54 %	04/22/99	08/20/18	\$ 364,000
1999 G.O. Water Revenue Notes (Water Tower)	2,500,000	3.48	05/27/99	08/20/19	1,639,700
G.O. Sewer Revenue Bonds of 2004	3,230,000	3.25 - 4.75	06/01/04	12/01/24	3,230,000
G.O. Water Revenue Crossover Refunding	1,330,000	3.20 - 4.25	09/01/05	08/01/20	<u>1,330,000</u>
Total G.O. Revenue Bonds					<u>\$ 6,563,700</u>

G.O. Revenue bonds debt service requirements to maturity are as follows:

Year Ending December 31,	Business-type Activities		
	Principal	Interest	Total
2009	\$ 401,000	\$ 257,519	\$ 658,519
2010	416,000	244,157	660,157
2011	432,000	229,965	661,965
2012	443,000	214,963	657,963
2013	459,000	199,226	658,226
2014-2018	2,577,000	724,346	3,301,346
2019-2023	1,560,700	255,370	1,816,070
2024	<u>275,000</u>	<u>13,063</u>	<u>288,063</u>
Total	<u>\$ 6,563,700</u>	<u>\$ 2,138,609</u>	<u>\$ 8,702,309</u>

CITY OF MELROSE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2008

**Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED**

*Changes in Long-term Liabilities.* Long-term liability activity for the year ended December 31, 2008, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
<b>Governmental activities</b>					
Bonds payable					
General obligation improvement bonds	\$ 3,995,000	\$ -	\$ (165,000)	\$ 3,830,000	\$ 250,000
Revenue Bonds	-	2,360,000	-	2,360,000	-
Loans payable	75,667	-	(59,767)	15,900	15,900
Total bonds payable	4,070,667	2,360,000	(224,767)	6,205,900	265,900
Compensated absences	57,595	51,738	(53,107)	56,226	53,107
Governmental activity long-term liabilities	<u>\$ 4,128,262</u>	<u>\$ 2,411,738</u>	<u>\$ (277,874)</u>	<u>\$ 6,262,126</u>	<u>\$ 319,007</u>
<b>Business-type activities</b>					
Bonds payable					
General obligation revenue bonds	\$ 8,254,700	\$ -	\$(1,691,000)	\$ 6,563,700	\$ 251,000
Compensated absences	69,232	57,295	(56,969)	69,558	56,970
Business-type activity long-term liabilities	<u>\$ 8,323,932</u>	<u>\$ 57,295</u>	<u>\$ (1,747,969)</u>	<u>\$ 6,633,258</u>	<u>\$ 307,970</u>

CITY OF MELROSE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2008

**Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED**

**G. Tax Increment Districts**

The City is the administering authority for the following tax increment financing districts:

	<u>Jennie-O</u>	<u>Park Place</u>	<u>Marine and Sport</u>
Authorizing law	M.S. 469	M.S. 469	M.S. 469
Type of district	Redevelopment	Housing	Economic
Year established	6/93	6/97	6/99
Duration of district	23 years	25 years	9 years
Tax capacity			
Original	\$ 15,346	\$ 360	\$ 804
Current	<u>17,398</u>	<u>8,803</u>	<u>6,468</u>
Captured - retained	<u>\$ 2,052</u>	<u>\$ 8,443</u>	<u>\$ 5,664</u>
	<u>Carstens Ind., Inc.</u>	<u>GCI Builders</u>	<u>Central MN Federal CU</u>
Authorizing law	M.S. 469	M.S. 469	M.S. 469
Type of district	Economic	Redevelopment	Redevelopment
Year established	7/00	8/27/2004	8/8/2006
Duration of district	9 years	26 years	26 years
Tax capacity			
Original	\$ 3,082	\$ 1,925	\$ 4,246
Current	<u>9,084</u>	<u>13,351</u>	<u>10,160</u>
Captured - retained	<u>\$ 6,002</u>	<u>\$ 11,426</u>	<u>\$ 5,914</u>

The City has not issued any debt in connection with these pay-as-you-go districts.

CITY OF MELROSE, MINNESOTA  
 NOTES TO FINANCIAL STATEMENTS  
 DECEMBER 31, 2008

**Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED**

**H. Fund Equity Reservations and Designations**

The components of fund equity are described in Note 1. Certain reservations and designations have been made in the following funds:

Fund	Purpose	Amount
<b>Fund balance - Reserved</b>		
General	Prepaid items	\$ 4,793
Debt service	Debt service	1,280,769
Nonmajor governmental	Prepaid items	3,845
	Loans	458,057
Total reserved fund balance		\$ 1,747,464
 <b>Fund balance - Unreserved - Designated</b>		
General	Insurance reserve	\$ 3,571
	Compensated absences	35,951
Capital Improvements	Working capital	550,000
	Public Works equipment	52,642
	Street improvements	564,247
	Sidewalk program	32,114
	Police car replacement	63,998
	Future land development	96,006
	Planning and zoning	51,431
	Police equipment	11,606
	Office equipment	17,483
	Capital improvements	1,770,806
	Nonmajor governmental	Loans
Senior Center		2,611
Tri-Cap Bus		678
Fire equipment		8,189
Fire vehicle replacement		64,930
Total designated fund balance		\$ 3,337,145

CITY OF MELROSE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2008

**Note 4: DEFINED BENEFIT PENSION PLANS - STATEWIDE**

**A. Plan Description**

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

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

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

Two methods are used to compute benefits for PERF's Coordinated and Basic Plan members. The retiring member receives the higher of the 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 is 2.2 percent of average salary for each of the first 10 years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first 10 years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan for each year of service. For all PEPFF members and for PERF members whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. 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 normal 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 reduce the monthly normal annuity amount, because the annuity is payable over joint lives. Members may also leave their contributions in the fund upon termination of public service in order to qualify for a deferred annuity at retirement age. Refunds of contributions are available at any time to members who leave public service, but before retirement benefits begin.

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

PERA issues a publicly available financial report that includes financial statements and required supplementary information for PERF and PEPFF. That report may be obtained on the web at [www.mnpera.org](http://www.mnpera.org), by writing to PERA, 60 Empire Street, #200, St. Paul, Minnesota 55102 or by calling (651) 296-7460 or 1-800-652-9026.

CITY OF MELROSE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2008

**Note 4: DEFINED BENEFIT PENSION PLANS - STATEWIDE - 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 Minnesota statutes. PERF Basic Plan members and Coordinated Plan members are required to contribute 9.1 percent and 6.0 percent, respectively, of their annual covered salary in 2008. PEPFF members are required to contribute 8.6 percent of their annual covered salary in 2008. That rate will increase to 9.4 percent in 2009. The City is required to contribute the following percentages of annual covered payroll: 11.78 percent for Basic Plan PERF members, 6.5 percent for Coordinated Plan PERF members, and 12.9 percent for PEPFF members. Employer contribution rates for the Coordinated Plan and PEPFF will increase to 6.75 percent and 14.1 percent, respectively, effective January 1, 2009. The City's contributions to the Public Employees Retirement Fund for the year ended December 31, 2008, 2007 and 2006 were \$84,009, \$71,955 and \$69,479, respectively. The City's contributions to the PEPFF for the years ending December 31, 2008, 2007 and 2006 were \$33,572, \$18,718 and \$23,018, respectively. The City's contributions were equal to the contractually required contributions for each year as set by Minnesota statute.

**Note 5: OTHER INFORMATION**

**A. Risk Management**

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters for which the City carries insurance. The City obtains insurance through participation in the League of Minnesota Cities Insurance Trust (LMCIT), which is a risk sharing pool with approximately 800 other governmental units. The City pays an annual premium to LMCIT for its workers compensation and property and casualty insurance. The LMCIT is self-sustaining through member premiums and will reinsure for claims above a prescribed dollar amount for each insurance event. Settled claims have not exceeded the City's coverage in any of the past three fiscal years.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities, if any, include an amount for claims that have been incurred but not reported (IBNRs). The City's management is not aware of any incurred but not reported claims.

**B. Legal Debt Margin**

The City's statutory debt limit is computed as 3 percent of the taxable market value of property within the City. Long-term debt issued and financed partially or entirely by special assessments or the net revenues of enterprise fund operations is excluded from the debt limit computation. The 2008 taxable market value of property was \$176,174,300 and the debt limit was \$5,285,229. There was no debt applicable to this limit at year end.

**C. Electric Franchise Fee**

In 2002, the Commission passed a resolution to establish a 5 percent franchise fee on all electric sales within the City limits. The franchise fee collections are remitted to the General fund.

CITY OF MELROSE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2008

**Note 5: OTHER INFORMATION-CONTINUED**

**D. Conduit Debt**

From time to time, the City has issued revenue bonds to provide financial assistance to private-sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payment received from the benefited entity. Neither the City, the State, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

As of December 31, 2008, there were two series of revenue bonds outstanding, with an aggregate principal payable amount of \$10,808,479

**E. Commitment and Contingencies**

**Tax Increment Districts**

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

**F. Concentrations**

The City receives a significant amount of its annual General fund revenue from the State of Minnesota from the Local Government Aid (LGA) and Market Value Homestead Credit (MVHC) programs. The amount received in 2008 was \$654,768 and \$106,347 for LGA and MVHC, respectively. This accounted for 36 percent of General fund revenue. The State of Minnesota has proposed adjustments to LGA in the 2009 and 2010 budgets. As of the date of this report the effect of any un-allotment on the aids is not determinable.

**Note 6: PRIOR PERIOD ADJUSTMENTS**

The City made a prior period adjustment of \$72,001 in the government-wide financial statements to remove land that had been sold in a prior year.

CITY OF MELROSE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2008

**Note 7: VOLUNTEER FIREFIGHTER’S RELIEF ASSOCIATION**

**A. Plan Description**

All members of the Melrose Fire Department (the Department) are covered by a defined benefit plan administered by the Melrose Firemen’s Relief Association (the Association). The plan is a single employer retirement plan and is established and administered in accordance with Minnesota statute, chapter 69.

The Association maintains a separate Special fund to accumulate assets to fund the retirement benefits earned by the Department’s membership. Funding for the Association is derived from an insurance premium tax in accordance with the Volunteer Firefighter’s Relief Association Financing Guidelines Act of 1971 (chapter 261 as amended by chapter 509 of Minnesota statutes 1980). Funds are also derived from investment income.

The Association issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to Melrose Firemen’s Relief Association, 225 East First Street North, Melrose, Minnesota 56352.

**B. Funding Policy**

The financial requirements of the Special fund are determined in accordance with section 69.772 of the Minnesota statutes, which requires the payment of pension benefits in a lump sum or optionally in annual installments. The benefits are payable after age 50, 20 years of service, and 10 years of Association membership or upon death. The City’s annual pension cost for the current year and related information for the plan is as follows:

Annual pension cost	\$ 20,709
Contributions made	
City (Voluntary)	2,700
State Aid	20,709
Actuarial valuation date	12/31/08
Actuarial cost method	Entry age normal
Amortization method	Level dollar closed
Remaining amortization period	
Normal cost	20 years
Prior service cost	10 years
Asset valuation method	Market
Actuarial assumptions	
Investment rate of return	5%
Projected salary increases	N/A
Inflation rate	N/A
Cost of living adjustments	None

CITY OF MELROSE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2008

**Note 7: VOLUNTEER FIREFIGHTER'S RELIEF ASSOCIATION - CONTINUED**

Year Ending	Three Year Trend Information		
	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
12/31/08	\$ 20,709	113.0 %	\$ -
12/31/07	25,488	104.9	-
12/31/06	27,917	107.2	-

Required Supplementary Information					
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Assets in Excess of (Unfunded) Accrued Liability	Funded Rate	Pension Benefit Per Year of Service
12/31/08	\$ 288,479	\$ 362,483	\$ (74,004)	79.6 %	1,250
12/31/07	349,073	341,033	8,040	102.4	1,250
12/30/06	302,251	302,296	(45)	100.0	1,200
12/31/05	293,087	317,757	(24,670)	92.2	1,200
12/31/04	290,245	330,705	(40,460)	87.8	1,200
12/31/03	254,981	276,350	(21,369)	92.3	1,000

**COMBINING AND INDIVIDUAL FUND  
FINANCIAL STATEMENTS**

CITY OF MELROSE  
MELROSE, MINNESOTA

YEAR ENDED  
DECEMBER 31, 2008

CITY OF MELROSE, MINNESOTA  
NONMAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEET  
DECEMBER 31, 2008

	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Total Nonmajor Governmental Funds</u>
<b>ASSETS</b>			
Cash and temporary investments	\$ 218,758	\$ 5,754	\$ 224,512
Receivables			
Accrued interest	1,547	-	1,547
Loans	349,093	-	349,093
Accounts - net	15,625	-	15,625
Due from other funds	-	296,528	296,528
Prepaid items	3,845	-	3,845
	<u>3,845</u>	<u>-</u>	<u>3,845</u>
TOTAL ASSETS	<u>\$ 588,868</u>	<u>\$ 302,282</u>	<u>\$ 891,150</u>
<b>LIABILITIES AND FUND BALANCES (DEFICITS)</b>			
<b>LIABILITIES</b>			
Accounts payable	\$ 1,389	\$ 5,511	\$ 6,900
Due to other funds	115,029	-	115,029
	<u>115,029</u>	<u>-</u>	<u>115,029</u>
TOTAL LIABILITIES	<u>116,418</u>	<u>5,511</u>	<u>121,929</u>
<b>FUND BALANCES (DEFICITS)</b>			
Reserved for prepaid items	3,845	-	3,845
Reserved for loans	458,057	-	458,057
Unreserved			
Designated	87,290	-	87,290
Undesignated	(76,742)	296,771	220,029
	<u>(76,742)</u>	<u>296,771</u>	<u>220,029</u>
TOTAL FUND BALANCES (DEFICITS)	<u>472,450</u>	<u>296,771</u>	<u>769,221</u>
TOTAL LIABILITIES AND FUND BALANCES (DEFICITS)	<u>\$ 588,868</u>	<u>\$ 302,282</u>	<u>\$ 891,150</u>

CITY OF MELROSE, MINNESOTA  
NONMAJOR GOVERNMENTAL FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED DECEMBER 31, 2008

	Special Revenue	Capital Projects	Total Nonmajor Governmental Funds
REVENUES			
Intergovernmental	\$ 21,209	\$ -	\$ 21,209
Charges for services	95,136	-	95,136
Interest on investments	21,456	681	22,137
Miscellaneous	165,775	2,566	168,341
TOTAL REVENUES	303,576	3,247	306,823
EXPENDITURES			
Current			
Public safety	127,855	-	127,855
Culture and recreation	75,556	-	75,556
Economic development	43,937	-	43,937
Capital outlay			
Public safety	275,722	-	275,722
Streets and highways	-	34,443	34,443
Debt service			
Principal	59,767	-	59,767
Interest and other charges	5,222	-	5,222
TOTAL EXPENDITURES	588,059	34,443	622,502
DEFICIENCY OF REVENUES UNDER EXPENDITURES	(284,483)	(31,196)	(315,679)
OTHER FINANCING SOURCES (USES)			
Transfers in	591,138	-	591,138
Transfers out	-	(2,399)	(2,399)
TOTAL OTHER FINANCING SOURCES (USES)	591,138	(2,399)	588,739
NET CHANGE IN FUND BALANCES	306,655	(33,595)	273,060
FUND BALANCES, JANUARY 1	165,795	330,366	496,161
FUND BALANCES, DECEMBER 31	\$ 472,450	\$ 296,771	\$ 769,221

CITY OF MELROSE, MINNESOTA  
NONMAJOR SPECIAL REVENUE FUNDS  
COMBINING BALANCE SHEET  
DECEMBER 31, 2008

	Business Improvement Loans	Melrose Area Development Authority (MADA)	Parks and Recreation
<b>ASSETS</b>			
Cash and temporary investments (deficit)	\$ 10,882	\$ 72,632	\$ (42,159)
Receivable			
Accrued interest	-	880	159
Loans	-	-	-
Accounts - net	-	-	-
Prepaid items	-	7	887
	<u>\$ 10,882</u>	<u>\$ 73,519</u>	<u>\$ (41,113)</u>
<b>TOTAL ASSETS</b>			
	<u>\$ 10,882</u>	<u>\$ 73,519</u>	<u>\$ (41,113)</u>
<b>LIABILITIES AND FUND BALANCES (DEFICITS)</b>			
<b>LIABILITIES</b>			
Accounts payable	\$ -	\$ 57	\$ 401
Due to other funds	-	92,706	22,323
	<u>-</u>	<u>92,763</u>	<u>22,724</u>
<b>TOTAL LIABILITIES</b>			
	<u>-</u>	<u>92,763</u>	<u>22,724</u>
<b>FUND BALANCES (DEFICITS)</b>			
Reserved for prepaid items	-	7	887
Reserved for outstanding loans	-	-	-
Unreserved			
Designated	10,882	-	-
Undesignated	-	(19,251)	(64,724)
	<u>10,882</u>	<u>(19,244)</u>	<u>(63,837)</u>
<b>TOTAL FUND BALANCES (DEFICITS)</b>			
	<u>10,882</u>	<u>(19,244)</u>	<u>(63,837)</u>
<b>TOTAL LIABILITIES AND FUND BALANCES (DEFICITS)</b>			
	<u>\$ 10,882</u>	<u>\$ 73,519</u>	<u>\$ (41,113)</u>

<u>MADA Revolving Loan</u>	<u>Soccer League</u>	<u>Senior Activity Center</u>	<u>PIA Asset Building</u>	<u>Tri-Cap Bus</u>	<u>Fire Department</u>
\$ 108,456	\$ -	\$ 2,611	\$ 2,025	\$ 1,078	\$ 63,233
508	-	-	-	-	-
349,093	-	-	-	-	-
-	-	-	-	-	15,625
-	-	-	-	-	2,951
<u>\$ 458,057</u>	<u>\$ -</u>	<u>\$ 2,611</u>	<u>\$ 2,025</u>	<u>\$ 1,078</u>	<u>\$ 81,809</u>
\$ -	\$ -	\$ -	\$ -	\$ 400	\$ 531
-	-	-	-	-	-
-	-	-	-	400	531
-	-	-	-	-	2,951
458,057	-	-	-	-	-
-	-	2,611	-	678	73,119
-	-	-	2,025	-	5,208
<u>458,057</u>	<u>-</u>	<u>2,611</u>	<u>2,025</u>	<u>678</u>	<u>81,278</u>
<u>\$ 458,057</u>	<u>\$ -</u>	<u>\$ 2,611</u>	<u>\$ 2,025</u>	<u>\$ 1,078</u>	<u>\$ 81,809</u>

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CITY OF MELROSE, MINNESOTA  
NONMAJOR SPECIAL REVENUE FUNDS  
COMBINING BALANCE SHEET - CONTINUED  
DECEMBER 31, 2008

	Total
<b>ASSETS</b>	
Cash and temporary investments (deficit)	\$ 218,758
Receivable	
Accrued interest	1,547
Loans	349,093
Accounts - net	15,625
Prepaid items	3,845
TOTAL ASSETS	\$ 588,868
<b>LIABILITIES AND FUND BALANCES (DEFICITS)</b>	
<b>LIABILITIES</b>	
Accounts payable	\$ 1,389
Due to other funds	115,029
TOTAL LIABILITIES	116,418
<b>FUND BALANCES (DEFICITS)</b>	
Reserved for prepaid items	3,845
Reserved for outstanding loans	458,057
Unreserved	
Designated	87,290
Undesignated	(76,742)
TOTAL FUND BALANCES (DEFICITS)	472,450
TOTAL LIABILITIES AND FUND BALANCES (DEFICITS)	\$ 588,868

CITY OF MELROSE, MINNESOTA  
NONMAJOR SPECIAL REVENUE FUNDS  
COMBINING SCHEDULE OF REVENUE, EXPENDITURES  
AND CHANGES IN FUND BALANCES (DEFICITS)  
FOR THE YEAR ENDED DECEMBER 31, 2008

	Business Improvement Loans	Melrose Area Development Authority (MADA)	Parks and Recreation
<b>REVENUES</b>			
Intergovernmental	\$ -	\$ -	\$ -
Charges for services	-	-	6,950
Interest on investments	118	6,452	248
Miscellaneous			
Contributions and donations	-	-	1,400
Other	-	34,898	84
<b>TOTAL REVENUES</b>	<u>118</u>	<u>41,350</u>	<u>8,682</u>
<b>EXPENDITURES</b>			
Current			
Personal services	-	1,034	39,609
Supplies	-	106	6,358
Other services and charges	-	31,124	25,186
Debt service			
Principal	-	-	-
Interest and other charges	-	4,145	-
Capital outlay			
Public safety	-	-	-
<b>TOTAL EXPENDITURES</b>	<u>-</u>	<u>36,409</u>	<u>71,153</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	118	4,941	(62,471)
<b>OTHER FINANCING SOURCES</b>			
Transfers in	-	22,500	386,285
<b>NET CHANGE IN FUND BALANCES</b>	118	27,441	323,814
<b>FUND BALANCES (DEFICITS), JANUARY 1</b>	<u>10,764</u>	<u>(46,685)</u>	<u>(387,651)</u>
<b>FUND BALANCES (DEFICITS), DECEMBER 31</b>	<u><u>\$ 10,882</u></u>	<u><u>\$ (19,244)</u></u>	<u><u>\$ (63,837)</u></u>

<u>MADA Revolving Loan</u>	<u>Soccer League</u>	<u>Senior Activity Center</u>	<u>PIA Asset Building</u>	<u>Tri-Cap Bus</u>	<u>Fire Department</u>
\$ -	\$ -	\$ -	\$ -	\$ 500	\$ 20,709
-	-	-	-	1,269	86,917
12,237	-	-	-	-	2,401
-	-	295	4,000	5,477	30,550
-	-	3,571	-	-	85,500
<u>12,237</u>	<u>-</u>	<u>3,866</u>	<u>4,000</u>	<u>7,246</u>	<u>226,077</u>
-	-	-	-	-	53,114
-	-	-	-	-	25,028
20	422	3,981	1,455	10,198	49,713
59,767	-	-	-	-	-
1,077	-	-	-	-	-
-	-	-	-	-	275,722
<u>60,864</u>	<u>422</u>	<u>3,981</u>	<u>1,455</u>	<u>10,198</u>	<u>403,577</u>
(48,627)	(422)	(115)	2,545	(2,952)	(177,500)
<u>95,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>87,353</u>
46,373	(422)	(115)	2,545	(2,952)	(90,147)
<u>411,684</u>	<u>422</u>	<u>2,726</u>	<u>(520)</u>	<u>3,630</u>	<u>171,425</u>
<u>\$ 458,057</u>	<u>\$ -</u>	<u>\$ 2,611</u>	<u>\$ 2,025</u>	<u>\$ 678</u>	<u>\$ 81,278</u>

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CITY OF MELROSE, MINNESOTA  
NONMAJOR SPECIAL REVENUE FUNDS  
COMBINING SCHEDULE OF REVENUE, EXPENDITURES  
AND CHANGES IN FUND BALANCES (DEFICITS) - CONTINUED  
FOR THE YEAR ENDED DECEMBER 31, 2008

	Total
REVENUES	
Intergovernmental	\$ 21,209
Charges for services	95,136
Interest on investments	21,456
Miscellaneous	
Contributions and donations	41,722
Other	124,053
	303,576
 TOTAL REVENUES	 303,576
 EXPENDITURES	
Current	
Personal services	93,757
Supplies	31,492
Other services and charges	122,099
Debt service	
Principal	59,767
Interest and other charges	5,222
Capital outlay	
Public safety	275,722
	588,059
 TOTAL EXPENDITURES	 588,059
 EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	 (284,483)
 OTHER FINANCING SOURCES	
Transfers in	591,138
	306,655
NET CHANGE IN FUND BALANCES	306,655
 FUND BALANCES (DEFICITS), JANUARY 1	 165,795
 FUND BALANCES (DEFICITS), DECEMBER 31	 \$ 472,450

CITY OF MELROSE, MINNESOTA  
MELROSE AREA DEVELOPMENT AUTHORITY  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (DEFICITS) -  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED DECEMBER 31, 2008  
(With comparative actual amounts for the year ended December 31, 2007)

	2008			Variance with Final Budget - Positive (Negative)	2007
	Budgeted Amounts		Actual Amounts		Actual Amounts
	Original	Final			
REVENUES					
Interest on investments	\$ 5,000	\$ 6,800	\$ 6,452	\$ (348)	\$ 13,329
Miscellaneous	5,000	5,000	34,898	29,898	-
<b>TOTAL REVENUES</b>	<b>10,000</b>	<b>11,800</b>	<b>41,350</b>	<b>29,550</b>	<b>13,329</b>
EXPENDITURES					
Economic development					
Personal services	5,473	3,858	1,034	2,824	2,180
Supplies	500	450	106	344	414
Other services and charges	21,527	14,477	31,124	(16,647)	6,915
Debt service					
Interest and other charges	5,000	5,000	4,145	855	10,516
<b>TOTAL EXPENDITURES</b>	<b>32,500</b>	<b>23,785</b>	<b>36,409</b>	<b>(12,624)</b>	<b>20,025</b>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(22,500)	(11,985)	4,941	16,926	(6,696)
OTHER FINANCING SOURCES (USES)					
Transfers in	22,500	85,557	22,500	(63,057)	22,600
Transfers out	-	(73,572)	-	73,572	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>22,500</b>	<b>11,985</b>	<b>22,500</b>	<b>10,515</b>	<b>22,600</b>
NET CHANGE IN FUND BALANCES	-	-	27,441	27,441	15,904
FUND BALANCES (DEFICITS), JANUARY 1	(46,685)	(46,685)	(46,685)	-	(62,589)
FUND BALANCES (DEFICITS), DECEMBER 31	<u>\$ (46,685)</u>	<u>\$ (46,685)</u>	<u>\$ (19,244)</u>	<u>\$ 27,441</u>	<u>\$ (46,685)</u>

CITY OF MELROSE, MINNESOTA  
PARKS AND RECREATION  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (DEFICITS) -  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED DECEMBER 31, 2008  
(With comparative actual amounts for the year ended December 31, 2007)

	2008			2007	
	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)	Actual Amounts
	Original	Final			
REVENUES					
Charges for services	\$ 5,000	\$ 5,000	\$ 6,950	\$ 1,950	\$ 4,361
Interest on investments	-	-	248	248	744
Miscellaneous	100	100	1,484	1,384	107
<b>TOTAL REVENUES</b>	<b>5,100</b>	<b>5,100</b>	<b>8,682</b>	<b>3,582</b>	<b>5,212</b>
EXPENDITURES					
Parks and recreation					
Personal services	41,420	37,366	39,609	(2,243)	32,153
Supplies	6,809	6,500	6,358	142	4,604
Other services and charges	28,133	29,150	25,186	3,964	22,866
Capital outlay	-	20,000	-	20,000	-
Debt service					
Principal	75,000	-	-	-	-
<b>TOTAL EXPENDITURES</b>	<b>151,362</b>	<b>93,016</b>	<b>71,153</b>	<b>21,863</b>	<b>59,623</b>
DEFICIENCY OF REVENUES UNDER EXPENDITURES	(146,262)	(87,916)	(62,471)	25,445	(54,411)
OTHER FINANCING SOURCES					
Transfers in	146,262	98,764	386,285	287,521	147,762
NET CHANGE IN FUND BALANCES	-	10,848	323,814	312,966	93,351
FUND BALANCES (DEFICITS), JANUARY 1	(387,651)	(387,651)	(387,651)	-	(481,002)
FUND BALANCES (DEFICITS), DECEMBER 31	<u>\$ (387,651)</u>	<u>\$ (376,803)</u>	<u>\$ (63,837)</u>	<u>\$ 312,966</u>	<u>\$ (387,651)</u>

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CITY OF MELROSE, MINNESOTA  
FIRE DEPARTMENT  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED DECEMBER 31, 2008  
(With comparative actual amounts for the year ended December 31, 2007)

	2008			Variance with Final Budget - Positive (Negative)	2007
	Budgeted Amounts		Actual Amounts		Actual Amounts
	Original	Final			
REVENUES					
Intergovernmental	\$ 30,617	24,042	\$ 20,709	\$ (3,333)	\$ 24,042
Charges for services	178,824	200,326	86,917	(113,409)	91,570
Interest on investments	-	-	2,401	2,401	3,474
Miscellaneous	-	-	116,050	116,050	41,825
<b>TOTAL REVENUES</b>	<b>209,441</b>	<b>224,368</b>	<b>226,077</b>	<b>1,709</b>	<b>160,911</b>
EXPENDITURES					
Public safety					
Personal services	63,191	57,616	53,114	4,502	59,419
Supplies	17,900	19,133	25,028	(5,895)	24,630
Other services and charges	55,750	72,419	49,713	22,706	28,433
Capital outlay	52,600	50,200	275,722	(225,522)	25,607
<b>TOTAL EXPENDITURES</b>	<b>189,441</b>	<b>199,368</b>	<b>403,577</b>	<b>(204,209)</b>	<b>138,089</b>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	20,000	25,000	(177,500)	(202,500)	22,822
OTHER FINANCING SOURCES (USES)					
Sale of capital assets	-	-	-	-	1,400
Transfers in	-	-	87,353	87,353	78,393
Transfers out	-	-	-	-	(12,000)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>-</b>	<b>-</b>	<b>87,353</b>	<b>87,353</b>	<b>67,793</b>
NET CHANGE IN FUND BALANCES	20,000	25,000	(90,147)	(115,147)	90,615
FUND BALANCES, JANUARY 1	171,425	171,425	171,425	-	80,810
FUND BALANCES, DECEMBER 31	<u>\$ 191,425</u>	<u>\$ 196,425</u>	<u>\$ 81,278</u>	<u>\$ (115,147)</u>	<u>\$ 171,425</u>

CITY OF MELROSE, MINNESOTA  
NONMAJOR CAPITAL PROJECTS FUNDS  
COMBINING BALANCE SHEET  
DECEMBER 31, 2008

	1992 Abandoned Railroad Property Project	2006 Tri Quality Improvement	<u>Total</u>
<b>ASSETS</b>			
Cash and temporary investments	\$ 2,595	\$ 3,159	\$ 5,754
Due from other funds	<u>293,903</u>	<u>2,625</u>	<u>296,528</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 296,498</u></u>	<u><u>\$ 5,784</u></u>	<u><u>\$ 302,282</u></u>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Accounts payable	\$ -	\$ 5,511	\$ 5,511
<b>FUND BALANCES</b>			
Unreserved - undesignated	<u>296,498</u>	<u>273</u>	<u>296,771</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u><u>\$ 296,498</u></u>	<u><u>\$ 5,784</u></u>	<u><u>\$ 302,282</u></u>

CITY OF MELROSE, MINNESOTA  
NONMAJOR CAPITAL PROJECTS FUNDS  
COMBINING SCHEDULE OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED DECEMBER 31, 2008

	1992 Abandoned Railroad Property Project	2006 Tri Quality Improvement	<u>Total</u>
REVENUES			
Interest on investments	\$ -	\$ 681	\$ 681
Miscellaneous	-	2,566	2,566
	<u>-</u>	<u>3,247</u>	<u>3,247</u>
TOTAL REVENUES			
EXPENDITURES			
Capital outlay			
Streets and highways	-	34,443	34,443
	<u>-</u>	<u>34,443</u>	<u>34,443</u>
DEFICIENCY OF REVENUES UNDER EXPENDITURES	-	(31,196)	(31,196)
OTHER FINANCING USES			
Transfer out	(2,399)	-	(2,399)
	<u>(2,399)</u>	<u>-</u>	<u>(2,399)</u>
NET CHANGE IN FUND BALANCES	(2,399)	(31,196)	(33,595)
FUND BALANCES, JANUARY 1	298,897	31,469	330,366
	<u>298,897</u>	<u>31,469</u>	<u>330,366</u>
FUND BALANCES, DECEMBER 31	<u>\$ 296,498</u>	<u>\$ 273</u>	<u>\$ 296,771</u>

CITY OF MELROSE, MINNESOTA  
GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED DECEMBER 31, 2008  
(With comparative actual amounts for the year ended December 31, 2007)

	2008			Variance with Final Budget - Positive (Negative)	2007
	Budgeted Amounts		Actual Amounts		Actual Amounts
	Original	Final			
<b>REVENUES</b>					
Taxes					
Property taxes	\$ 783,110	\$ 831,232	\$ 780,622	\$ (50,610)	\$ 645,915
Franchise fees	312,000	336,975	297,977	(38,998)	276,634
Total	1,095,110	1,168,207	1,078,599	(89,608)	922,549
Licenses and permits					
Business	17,050	16,975	17,282	307	17,696
Nonbusiness	27,000	27,500	47,172	19,672	19,669
Total	44,050	44,475	64,454	19,979	37,365
Intergovernmental					
State					
Local government aid	734,036	734,036	654,768	(79,268)	760,286
Property tax credits	106,347	106,347	106,347	-	110,083
Police state aid	30,728	32,785	28,077	(4,708)	23,018
Other	4,090	4,590	9,414	4,824	6,228
Total	875,201	877,758	798,606	(79,152)	899,615
Charges for services					
General government	27,250	27,100	67,673	40,573	27,761
Public safety	2,750	2,000	1,302	(698)	2,503
Streets and highways	17,484	19,829	18,420	(1,409)	19,984
Culture and recreation	3,000	2,500	2,580	80	3,049
Total	50,484	51,429	89,975	38,546	53,297
Fines and forfeitures	18,000	15,000	18,625	3,625	24,336
Interest on investments	22,500	23,000	55,788	32,788	47,783
Miscellaneous					
Contributions and donations	-	-	600	600	758
Other	3,500	4,000	10,643	6,643	11,818
Total	3,500	4,000	11,243	7,243	12,576
TOTAL REVENUES	2,108,845	2,183,869	2,117,290	(66,579)	1,997,521

CITY OF MELROSE, MINNESOTA  
GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL - CONTINUED  
FOR THE YEAR ENDED DECEMBER 31, 2008  
(With comparative actual amounts for the year ended December 31, 2007)

	2008			Variance with Final Budget - Positive (Negative)	2007
	Budgeted Amounts		Actual Amounts		Actual Amounts
	Original	Final			
EXPENDITURES					
Current					
General government					
Legislative					
Personal services	\$ 15,092	\$ 15,092	\$ 15,050	\$ 42	\$ 14,997
Other services and charges	11,230	8,600	5,315	3,285	7,414
Total	<u>26,322</u>	<u>23,692</u>	<u>20,365</u>	<u>3,327</u>	<u>22,411</u>
Executive					
Personal services	5,022	5,022	5,022	-	5,022
Other services and charges	550	500	116	384	50
Total	<u>5,572</u>	<u>5,522</u>	<u>5,138</u>	<u>384</u>	<u>5,072</u>
City administrator					
Personal services	82,683	84,214	77,647	6,567	74,477
Supplies	150	-	147	(147)	-
Other services and charges	6,800	4,800	4,637	163	8,853
Total	<u>89,633</u>	<u>89,014</u>	<u>82,431</u>	<u>6,583</u>	<u>83,330</u>
Financial administration					
Personal services	215,324	208,026	200,937	7,089	188,453
Supplies	6,500	6,000	4,809	1,191	5,329
Other services and charges	158,650	158,545	174,185	(15,640)	165,010
Total	<u>380,474</u>	<u>372,571</u>	<u>379,931</u>	<u>(7,360)</u>	<u>358,792</u>
Assessing					
Personal services	-	-	-	-	6,064
Other services and charges	16,765	19,614	18,681	933	-
Total	<u>16,765</u>	<u>19,614</u>	<u>18,681</u>	<u>933</u>	<u>6,064</u>
Cable communications					
Other services and charges	24,708	26,508	27,899	(1,391)	26,884
City attorney					
Other services and charges	73,550	66,600	72,007	(5,407)	72,519

CITY OF MELROSE, MINNESOTA  
GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL - CONTINUED  
FOR THE YEAR ENDED DECEMBER 31, 2008  
(With comparative actual amounts for the year ended December 31, 2007)

	2008			Variance with Final Budget - Positive (Negative)	2007
	Budgeted Amounts		Actual Amounts		Actual Amounts
	Original	Final			
<b>EXPENDITURES - CONTINUED</b>					
Current - Continued					
General government - continued					
Planning and zoning					
Personal services	\$ 2,691	\$ 3,499	\$ 3,467	\$ 32	\$ 2,352
Other services and charges	2,100	2,200	3,921	(1,721)	1,309
Total	4,791	5,699	7,388	(1,689)	3,661
Total general government	621,815	609,220	613,840	(4,620)	578,733
Public safety					
Police					
Personal services	414,106	433,881	403,500	30,381	378,286
Supplies	30,300	29,000	28,725	275	26,941
Other services and charges	43,050	42,850	38,407	4,443	30,711
Total	487,456	505,731	470,632	35,099	435,938
Building inspection					
Other services and charges	23,250	23,250	51,402	(28,152)	18,985
Total public safety	510,706	528,981	522,034	6,947	454,923
Streets and highways					
Streets					
Personal services	228,185	232,554	238,648	(6,094)	216,179
Supplies	44,980	45,900	71,987	(26,087)	46,636
Other services and charges	42,087	39,890	41,009	(1,119)	33,241
Total	315,252	318,344	351,644	(33,300)	296,056
Snow and ice removal					
Personal services	40,516	40,006	29,855	10,151	36,283
Supplies	21,000	25,000	20,663	4,337	29,421
Other services and charges	350	250	60	190	87
Total	61,866	65,256	50,578	14,678	65,791
Street lighting					
Other services and charges	29,000	38,000	34,317	3,683	30,195
Total streets and highways	406,118	421,600	436,539	(14,939)	392,042

CITY OF MELROSE, MINNESOTA  
GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL - CONTINUED  
FOR THE YEAR ENDED DECEMBER 31, 2008  
(With comparative actual amounts for the year ended December 31, 2007)

	2008			Variance with Final Budget - Positive (Negative)	2007
	Budgeted Amounts		Actual Amounts		Actual Amounts
	Original	Final			
EXPENDITURES - CONTINUED					
Current - Continued					
Sanitation					
Supplies	\$ 1,050	\$ 1,700	\$ 2,331	\$ (631)	\$ 739
Other services and charges	2,750	2,500	2,718	(218)	3,390
Total sanitation	3,800	4,200	5,049	(849)	4,129
Economic development					
Industrial/commercial development					
Personal services	75,936	78,741	76,268	2,473	71,732
Other services and charges	7	7	1	6	7
Total economic development	75,943	78,748	76,269	2,479	71,739
Total current expenditures	1,618,382	1,642,749	1,653,731	(10,982)	1,501,566
Capital outlay					
General government	5,000	3,000	-	3,000	-
Public safety	25,000	19,000	-	19,000	12,054
Street and highways	296,000	335,000	-	335,000	72,463
Total capital outlay	326,000	357,000	-	357,000	84,517
Debt service					
Principal	-	-	-	-	-
Interest and other charges	8,348	8,348	8,068	280	9,351
Total debt service	8,348	8,348	8,068	280	9,351
TOTAL EXPENDITURES	1,952,730	2,008,097	1,661,799	346,298	1,595,434
EXCESS OF REVENUES OVER EXPENDITURES	156,115	175,772	455,491	279,719	402,087
OTHER FINANCING SOURCES (USES)					
Sale of land	-	-	-	-	31,900
Transfers in	100,000	70,000	75,495	5,495	196,686
Transfers out	(256,115)	(269,902)	(741,018)	(471,116)	(488,581)
TOTAL OTHER FINANCING SOURCES (USES)	(156,115)	(199,902)	(665,523)	(465,621)	(259,995)

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CITY OF MELROSE, MINNESOTA  
GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL - CONTINUED  
FOR THE YEAR ENDED DECEMBER 31, 2008  
(With comparative actual amounts for the year ended December 31, 2007)

	2008			Variance with Final Budget - Positive (Negative)	2007
	Budgeted Amounts		Actual Amounts		Actual Amounts
	Original	Final			
NET CHANGE IN FUND BALANCES	\$ -	\$ (24,130)	\$ (210,032)	\$ (185,902)	\$ 142,092
FUND BALANCES, JANUARY 1	<u>951,526</u>	<u>951,526</u>	<u>951,526</u>	-	<u>809,434</u>
FUND BALANCES, DECEMBER 31	<u>\$ 951,526</u>	<u>\$ 927,396</u>	<u>\$ 741,494</u>	<u>\$ (185,902)</u>	<u>\$ 951,526</u>

CITY OF MELROSE, MINNESOTA  
DEBT SERVICE FUNDS  
COMBINING BALANCE SHEET  
DECEMBER 31, 2008

	Improvement Bonds of 2002	Improvement Bonds of 2004	Improvement Bonds of 2005
<b>ASSETS</b>			
Cash and temporary investments	\$ 59,497	\$ 175,235	\$ 710,820
Accrued interest receivable	482	2,685	7,348
Accounts receivable	228	339	838
Special assessments receivable			
Delinquent	-	-	3,086
Deferred	123,670	146,667	280,531
	<u>123,670</u>	<u>146,667</u>	<u>280,531</u>
 TOTAL ASSETS	<u>\$ 183,877</u>	<u>\$ 324,926</u>	<u>\$ 1,002,623</u>
 <b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Deferred revenue	\$ 123,670	\$ 146,667	\$ 283,617
 <b>FUND BALANCES</b>			
Reserved for debt service	<u>60,207</u>	<u>178,259</u>	<u>719,006</u>
 TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 183,877</u>	<u>\$ 324,926</u>	<u>\$ 1,002,623</u>

Lease Revenue	
Bonds of	Total
2008	
\$ 322,611	\$ 1,268,163
686	11,201
-	1,405
-	3,086
-	550,868
<u>\$ 323,297</u>	<u>\$ 1,834,723</u>
\$ -	\$ 553,954
<u>323,297</u>	<u>1,280,769</u>
<u>\$ 323,297</u>	<u>\$ 1,834,723</u>

CITY OF MELROSE, MINNESOTA  
DEBT SERVICE FUNDS  
COMBINING SCHEDULE OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED DECEMBER 31, 2008

	Improvement Bonds of 2002	Improvement Bonds of 2004	Improvement Bonds of 2005
REVENUES			
General property taxes	\$ 52,373	\$ 84,013	\$ 184,330
Charges for services	-	-	-
Special assessments	22,304	23,493	70,638
Interest on investments	2,534	5,359	17,305
TOTAL REVENUES	<u>77,211</u>	<u>112,865</u>	<u>272,273</u>
EXPENDITURES			
Debt service			
Principal	65,000	-	100,000
Interest and fiscal charges	24,170	36,790	95,132
TOTAL EXPENDITURES	<u>89,170</u>	<u>36,790</u>	<u>195,132</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(11,959)</u>	<u>76,075</u>	<u>77,141</u>
OTHER FINANCING SOURCES			
Transfers in	-	-	-
Bonds issued	-	-	-
TOTAL OTHER FINANCING SOURCES	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	(11,959)	76,075	77,141
FUND BALANCES, JANUARY 1	<u>72,166</u>	<u>102,184</u>	<u>641,865</u>
FUND BALANCES, DECEMBER 31	<u>\$ 60,207</u>	<u>\$ 178,259</u>	<u>\$ 719,006</u>

Lease Revenue Bonds of 2008	Total
\$ -	\$ 320,716
34,000	34,000
-	116,435
12,614	37,812
<u>46,614</u>	<u>508,963</u>
-	165,000
-	156,092
<u>-</u>	<u>321,092</u>
<u>46,614</u>	<u>187,871</u>
17,000	17,000
259,683	259,683
<u>276,683</u>	<u>276,683</u>
323,297	464,554
-	816,215
<u>\$ 323,297</u>	<u>\$ 1,280,769</u>

CITY OF MELROSE, MINNESOTA  
SUMMARY FINANCIAL REPORT  
REVENUES AND EXPENDITURES FOR GENERAL OPERATIONS  
GOVERNMENTAL FUNDS  
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	Totals		Percent Increase (Decrease)
	2008	2007	
<b>REVENUES</b>			
Taxes	\$ 1,449,099	\$ 1,274,557	13.69 %
Special assessments	191,154	398,110	(51.98)
Licenses and permits	64,454	37,365	72.50
Intergovernmental	819,815	925,157	(11.39)
Charges for services	219,111	149,398	46.66
Fines and forfeits	18,625	24,336	(23.47)
Investment earnings	206,543	202,438	2.03
Miscellaneous	182,756	67,880	169.23
<b>TOTAL REVENUES</b>	<b>\$ 3,151,557</b>	<b>\$ 3,079,241</b>	<b>2.35</b>
Per Capita	953.28	935.37	1.91
<b>EXPENDITURES</b>			
<b>Current</b>			
General government	\$ 613,840	\$ 578,733	6.07 %
Public safety	649,889	567,405	14.54
Streets and highways	441,588	396,171	11.46
Culture and recreation	75,556	65,243	15.81
Economic development	167,395	130,723	28.05
<b>Capital outlay</b>			
General government	66,772	-	100.00
Public safety	2,385,170	57,155	4,073.16
Streets and highways	108,578	276,403	(60.72)
<b>Debt service</b>			
Principal	224,767	273,568	(17.84)
Interest and other charges	169,382	185,841	(8.86)
<b>TOTAL EXPENDITURES</b>	<b>\$ 4,902,937</b>	<b>\$ 2,531,242</b>	<b>93.70</b>
Per Capita	1,483.04	768.91	92.88
<b>Total Long-term Indebtedness</b>	<b>\$ 6,259,007</b>	<b>\$ 4,123,458</b>	<b>51.79 %</b>
Per Capita	1,893.23	1,252.57	51.15
<b>General Fund Balance - December 31</b>	<b>\$ 741,494</b>	<b>\$ 951,526</b>	<b>(22.07) %</b>
Per Capita	224.29	289.04	(22.40)

The purpose of this report is to provide a summary of financial information concerning the City of Melrose to interested citizens. The complete financial statements may be examined at City Hall, 221 E 1st St N Melrose, MN 56352. Questions about this report should be directed to Karen Thostenson, Assistant City Administrator at (320) 256-4278.

**STATISTICAL SECTION  
(UNAUDITED)**

CITY OF MELROSE  
MELROSE, MINNESOTA

YEAR ENDED  
DECEMBER 31, 2008

CITY OF MELROSE, MINNESOTA  
MELROSE ELECTRIC UTILITIES  
ELECTRIC UTILITY OPERATING STATISTICS (UNAUDITED)  
YEARS ENDED DECEMBER 31, 2008, 2007, AND 2006

	<u>2006 Peer Group</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
<b><u>Financial Ratios</u></b>				
Revenue per KWH				
Residential Customers	\$ 0.088	\$ 0.051	\$ 0.057	\$ 0.062
Commercial Customers	\$ 0.070	\$ 0.055	\$ 0.061	\$ 0.067
Industrial Customers	\$ 0.060	\$ 0.043	\$ 0.048	\$ 0.049
Times Interest Earned	5.37	N/A	N/A	N/A
Debt Service Coverage	1.98	N/A	N/A	N/A
Uncollectible Accounts per Revenue Dollar	\$ 0.0007	\$ 0.0003	\$ 0.0001	\$ 0.0008
<b><u>Operating Ratios</u></b>				
Total O&M Expense per KWH Sold	\$ 0.057	\$ 0.051	\$ 0.056	\$ 0.058
Total Distribution and O&M Expense (Excluding Power Supply Exp.) per retail customer	\$ 314	\$ 376	\$ 415	\$ 390
Purchased Power per KWH	\$ 0.042	\$ 0.037	\$ 0.041	\$ 0.044
Distribution O&M Expense per Retail Customer	\$ 191	\$ 153	\$ 200	\$ 180
Distribution O&M Expense per Circuit Mile	\$ 4,207	\$ 5,212 *	\$ 6,752 *	\$ 6,479
Customer Accounting, Service, and Sales, Administrative and General Expense per Retail Customer	\$ 153	\$ 208	\$ 194	\$ 213
<b><u>Other Ratios</u></b>				
Labor Expense per Worker- Hour	\$ 26.50	\$ 24.56	\$ 25.35	\$ 26.21
Energy Loss Percentage	4.05%	1.90%	2.60%	1.40%
System Load Factor	56.70%	78.30%	77.40%	78.00%

**Represents the Melrose Electric Utility  
APPA peer group ratio**

The peer group data was derived from a report issued by the American Public Power Association (APPA) titled, "Selected Financial and Operating Ratios of Public Power Systems, 2006". The report presented data of financial and operating ratios for 214 of the largest publicly owned electric utilities in the United States and averaged the ratios based on number of customers. The ratios presented are those for utilities with 2,000 to 5,000 customers. The ratios can be a useful tool in assessing electric utility performance. However, as it stated in the report, these ratios do not provide definitive information and the level of any indicator should not be taken as the "correct" performance.

\* The City of Melrose has a unique situation with a large amount of rural territory which affects their circuit mile cost. Therefore, this could contribute to higher circuit mile costs compared to the peer group.

**Other Items**

The City received a request from Missouri River Energy Services to separately identify transmission plant assets. As a member of Missouri River Energy Services interested in signing a Transmission Service Agreement (T-1) and Member Transmission Lease agreement (MTL) in the future we found it beneficial to disclose the value of these assets. The total facility gross plant from a Handy-Whitman estimation of transmission facilities is \$160,472. This amount is embedded within the electric utility assets on the enterprise balance sheet.

CITY OF MELROSE, MINNESOTA  
MELROSE ELECTRIC UTILITIES  
ELECTRIC UTILITY LINE LOSS (UNAUDITED)  
YEARS ENDED DECEMBER 31, 2008, 2007, AND 2006

Source of Energy, Disposition of Energy and Percentage Relations	2006		2007		2008	
	KWH	Percent	KWH	Percent	KWH	Percent
Purchased energy	\$ 109,824,964	100.2 %	\$ 111,078,378	100.2 %	\$ 111,641,740	100.2 %
Energy consumed by station	(273,360)	(0.2)	(238,510)	(0.2)	(198,250)	(0.2)
Total net energy outgoing feeders	109,551,604	100.0	110,839,868	100.0	111,443,490	100.0
Net distributed energy	(107,423,953)	(98.1)	(107,940,959)	(97.4)	(109,911,907)	(98.6)
Energy lost in distribution system	\$ 2,127,651	1.9% %	\$ 2,898,909	2.6% %	\$ 1,531,583	1.4% %

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**OTHER SCHEDULES AND REPORTS**

CITY OF MELROSE  
MELROSE, MINNESOTA

YEAR ENDED  
DECEMBER 31, 2008

CITY OF MELROSE, MINNESOTA  
 BONDS PAYABLE  
 DECEMBER 31, 2008

Bond Issue	Date Issued	Final Maturity Date	Interest Dates	Interest Rate	Annual Serial Payments		Authorized and Issued	Bonds	
					Amount	Year		Retired	Outstanding
Governmental Fund Debt									
General Obligation Improvement Bonds of 2002	06/01/2002	12/01/2017	6-1;12-1	4.10 %	\$ 65,000	2009	\$ 835,000	\$ 360,000	\$ 475,000
				4.25	70,000	2010			
				4.35	70,000	2011			
				4.50	70,000	2012			
				4.60	20,000	2013			
				4.70	20,000	2014			
				4.80	20,000	2015			
				4.90	20,000	2016			
				5.00	120,000	2017			

CITY OF MELROSE, MINNESOTA  
 BONDS PAYABLE - CONTINUED  
 DECEMBER 31, 2008

Bond Issue	Date Issued	Final Maturity Date	Interest Dates	Interest Rate	Annual Serial Payments		Bonds		
					Amount	Year	Authorized and Issued	Retired	Outstanding
Governmental Fund Debt - Continued									
General Obligation Improvement									
Bonds of 2004	10/01/2004	02/01/2020	2-1;8-1	2.75 %	\$ 70,000	2009	\$ 985,000	\$ -	\$ 985,000
				3.00	70,000	2010			
				3.20	75,000	2011			
				3.40	75,000	2012			
				3.60	80,000	2013			
				3.75	80,000	2014			
				3.90	80,000	2015			
				4.00	85,000	2016			
				4.05	90,000	2017			
				4.10	90,000	2018			
				4.20	95,000	2019			
				4.30	95,000	2020			

CITY OF MELROSE, MINNESOTA  
 BONDS PAYABLE - CONTINUED  
 DECEMBER 31, 2008

Bond Issue	Date Issued	Final Maturity Date	Interest Dates	Interest Rate	Annual Serial Payments		Bonds		
					Amount	Year	Authorized and Issued	Retired	Outstanding
Governmental Fund Debt - Continued									
General Obligation Improvement									
Bonds of 2005	09/01/2005	02/01/2021	2-1;8-1	3.50 %	\$ 115,000	2009	\$ 2,545,000	\$ 175,000	\$ 2,370,000
				3.50	150,000	2010			
				3.40	155,000	2011			
				3.50	165,000	2012			
				3.60	175,000	2013			
				4.00	165,000	2014			
				4.00	200,000	2015			
				4.00	200,000	2016			
				4.00	195,000	2017			
				4.00	200,000	2018			
				4.40	200,000	2019			
				4.40	225,000	2020			
				4.40	225,000	2021			

CITY OF MELROSE, MINNESOTA  
 BONDS PAYABLE - CONTINUED  
 DECEMBER 31, 2008

Bond Issue	Date Issued	Final Maturity Date	Interest Dates	Interest Rate	Annual Serial Payments		Authorized and Issued	Bonds		
					Amount	Year		Retired	Outstanding	
Governmental Fund Debt - Continued										
Public Project Lease Revenue										
Bonds of 2008	04/24/2008	02/01/2029	2-1;8-1	- %	\$ -	2009	\$ 2,360,000	\$ -	\$ 2,360,000	
				2.90	80,000	2010				
				3.20	85,000	2011				
				3.30	85,000	2012				
				3.50	90,000	2013				
				3.60	90,000	2014				
				3.75	95,000	2015				
				3.90	100,000	2016				
				4.00	105,000	2017				
				4.05	105,000	2018				
				4.10	110,000	2019				
				4.25	115,000	2020				
				4.40	120,000	2021				
				4.40	125,000	2022				
				4.55	130,000	2023				
				4.55	135,000	2024				
				4.65	145,000	2025				
				4.65	150,000	2026				
				4.70	155,000	2027				
				4.70	165,000	2028				
				4.70	175,000	2029				
Total Governmental Fund Bonded Debt								7,005,000	815,000	6,190,000

CITY OF MELROSE, MINNESOTA  
 BONDS PAYABLE - CONTINUED  
 DECEMBER 31, 2008

Bond Issue	Date Issued	Final Maturity Date	Interest Dates	Interest Rate	Annual Serial Payments		Bonds		
					Amount	Year	Authorized and Issued	Retired	Outstanding
<b>Enterprise Fund Debt</b>									
General Obligation Water Revenue Bonds of 1998	04/01/1998	08/01/2020	2-1;8-1	- %	\$ -	2009	\$ 1,890,000	\$ 1,890,000	\$ -
<b>General Obligation Wastewater Revenue Bonds of 1998</b>									
	04/01/1998	08/01/2008	2-1;8-1	- %	\$ -	2009	\$ 1,350,000	\$ 1,350,000	\$ -

CITY OF MELROSE, MINNESOTA  
 BONDS PAYABLE - CONTINUED  
 DECEMBER 31, 2008

Bond Issue	Date Issued	Final Maturity Date	Interest Dates	Interest Rate	Annual Serial Payments		Bonds		
					Amount	Year	Authorized and Issued	Retired	Outstanding
<b>Enterprise Fund Debt - Continued</b>									
1999 G.O. Water Revenue Notes									
(Wells 8 and 9)	01/26/1999	08/20/2018	2-20;8-20	3.54 %	\$ 31,000	2009	\$ 599,219	\$ 235,219	\$ 364,000
				3.54	32,000	2010			
				3.54	33,000	2011			
				3.54	34,000	2012			
				3.54	36,000	2013			
				3.54	37,000	2014			
				3.54	38,000	2015			
				3.54	39,000	2016			
				3.54	41,000	2017			
				3.54	43,000	2018			
1999 G.O. Water Revenue Notes									
(Water Tower)	04/13/1999	08/20/2019	2-20;8-20	3.48 %	\$ 125,000	2009	\$ 2,500,000	\$ 860,300	\$ 1,639,700
				3.48	129,000	2010			
				3.48	134,000	2011			
				3.48	139,000	2012			
				3.48	143,000	2013			
				3.48	148,000	2014			
				3.48	153,000	2015			
				3.48	159,000	2016			
				3.48	164,000	2017			
				3.48	170,000	2018			
				3.48	175,700	2019			

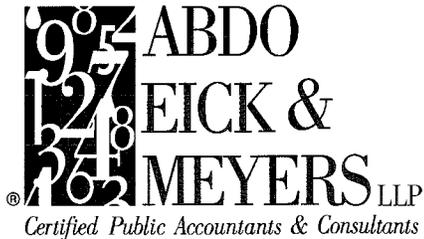
CITY OF MELROSE, MINNESOTA  
 BONDS PAYABLE - CONTINUED  
 DECEMBER 31, 2008

Bond Issue	Date Issued	Final Maturity Date	Interest Dates	Interest Rate	Annual Serial Payments		Bonds		
					Amount	Year	Authorized and Issued	Retired	Outstanding
Enterprise Fund Debt - Continued									
General Obligation Sewer Revenue									
Bonds of 2004	06/01/2004	12/01/2024	6-1;12-1	3.25 %	\$ 150,000	2009	\$ 3,230,000	\$ -	\$ 3,230,000
				3.40	155,000	2010			
				3.50	160,000	2011			
				3.65	165,000	2012			
				3.75	170,000	2013			
				3.85	180,000	2014			
				4.00	185,000	2015			
				4.15	190,000	2016			
				4.30	200,000	2017			
				4.40	210,000	2018			
				4.50	215,000	2019			
				4.60	225,000	2020			
				4.65	240,000	2021			
				4.75	250,000	2022			
				4.75	260,000	2023			
				4.75	275,000	2024			

CITY OF MELROSE, MINNESOTA  
 BONDS PAYABLE - CONTINUED  
 DECEMBER 31, 2008

Bond Issue	Date Issued	Final Maturity Date	Interest Dates	Interest Rate	Annual Serial Payments		Bonds			
					Amount	Year	Authorized and Issued	Retired	Outstanding	
Enterprise Fund Debt - Continued										
General Obligation Refunding										
Bonds of 2005	09/20/2005	08/01/2020	2-1;8-1	3.20 %	\$ 95,000	2009	\$ 1,330,000	\$ -	\$ 1,330,000	
				3.30	100,000	2010				
				3.40	105,000	2011				
				3.50	105,000	2012				
				3.55	110,000	2013				
				4.00	115,000	2014				
				4.00	120,000	2015				
				4.00	125,000	2016				
				4.00	130,000	2017				
				4.25	130,000	2018				
				4.25	135,000	2019				
				4.25	60,000	2020				
Total Enterprise Fund Bonded Debt								10,899,219	4,335,519	6,563,700
Total All Funds Bonded Debt								\$ 17,904,219	\$ 5,150,519	\$ 12,753,700

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5201 Eden Avenue  
Suite 370  
Edina, MN 55436

## REPORT ON MINNESOTA LEGAL COMPLIANCE

Honorable Mayor and Council  
City of Melrose, Minnesota

We have audited financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Melrose, Minnesota (the City), as of and for the year ended December 31, 2008, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 19, 2009.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government*, promulgated by the Minnesota Office of the State Auditor pursuant to Minnesota statute, section 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures, as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Local Government* covers seven main categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness and claims and disbursements, tax increment financing, and miscellaneous provisions. Our study included all of the listed categories.

The results of our tests indicate that for the items tested, the City complied with the material terms and conditions of applicable legal provisions.

This report is intended solely for the information and use of the Council, management, others within the City and the Minnesota Office of the State Auditor and is not intended to be and should not be used by anyone other than these specified parties.

March 19, 2009  
Minneapolis, Minnesota

  
ABDO, EICK & MEYERS, LLP  
Certified Public Accountants





Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiencies described above are not material weaknesses.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We also noted certain matters involving the internal control over financial reporting that we reported to management of the City in a separate letter March 19, 2009.

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the City's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Council, management, others within the City and the Minnesota Office of the State Auditor and is not intended to be and should not be used by anyone other than these specified parties.

March 19, 2009  
Minneapolis, Minnesota

*Abdo Eick & Meyers, LLP*  
ABDO, EICK & MEYERS, LLP  
*Certified Public Accountants*

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CITY OF MELROSE, MINNESOTA  
SCHEDULE OF FINDINGS AND RESPONSES  
DECEMBER 31, 2008

<u>Finding</u>	<u>Description</u>
<b>2008-1</b>	<b>Preparation of Financial Statements (Finding since 2007)</b>
<i>Condition:</i>	As in prior years, we were requested to draft the audited financial statements and related footnote disclosures as part of our regular audit services. Recent auditing standards require auditors to communicate this situation to the Council as an internal control deficiency. Ultimately, it is management's responsibility to provide for the preparation of your statements and footnotes, and the responsibility of the auditor to determine the fairness of presentation of those statements. It is our responsibility to inform you that this deficiency could result in a material misstatement to the financial statements that could have been prevented or detected by your management. Essentially, the auditors cannot be part of your internal control process.
<i>Criteria:</i>	Internal controls should be in place to provide reasonable assurance over financial reporting.
<i>Cause:</i>	From a practical standpoint we do both for you at the same time in connection with our audit. This is not unusual for us to do with an organization of your size.
<i>Effect:</i>	The effectiveness of the internal control system relies on enforcement by management. The effect of deficiencies in internal controls can result in undetected errors in financial reporting.
<i>Recommendation:</i>	It is your responsibility to make the ultimate decision to accept this degree of risk associated with this condition because of cost or other considerations. As in prior years, we have instructed management to review a draft of the auditor prepared financials in detail for their accuracy; we have answered any questions they might have, and have encouraged research of any accounting guidance in connection with the adequacy and appropriateness of classification of disclosure in your statements. We are satisfied that the appropriate steps have been taken to provide you with the completed financial statements. While the City is reviewing the financial statements we recommend that a disclosure checklist be utilized to ensure all required disclosures are presented and the City should agree its financial software to the numbers reported in the financial statements.
<i>Management Response:</i>	For now, the City's management accepts the degree of risk associated with this condition and thoroughly reviews a draft of the financial statements.