

CITY OF MELROSE
MELROSE, MINNESOTA

ANNUAL FINANCIAL REPORT

YEAR ENDED
DECEMBER 31, 2005

CITY OF MELROSE, MINNESOTA
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INTRODUCTORY SECTION

CITY OF MELROSE
MELROSE, MINNESOTA

YEAR ENDED
DECEMBER 31, 2005

CITY OF MELROSE, MINNESOTA
ELECTED AND APPOINTED OFFICIALS
DECEMBER 31, 2005

ELECTED

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Eric Seanger	Mayor	2006
Tom Budde	Council Member	2006
George Jensen	Council Member	2008
Mary Linnemann	Council Member	2006
Nancy Roering	Council Member	2008

PUBLIC UTILITIES COMMISSION - APPOINTED

Tom Budde	Chair	2005
Ralph Wiehoff	Vice Chair	2007
Lyle Olmscheid	Commission Secretary	2006

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, 2005



Grandview Square
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, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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, 2005, 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 February 23, 2006, 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 should be considered in conjunction with this report in considering 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 nonmajor 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 nonmajor 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.

February 23, 2006
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, 2005.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$39,851,303. Of this amount, \$12,891,687 may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$464,358.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$4,230,867, an increase of \$1,208,530 in comparison with the prior year. Approximately 85 percent of this total amount, \$3,569,318, 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 \$692,028, or 47 percent of total General fund expenditures. While these funds are not legally reserved, they are designated for future purposes.
- The City's total debt increased by \$3,147,754 or 30 percent during the current fiscal year. The key factors in this increase was the issuance of \$2,545,000 in General Obligation Improvement bonds and \$1,330,000 in General Obligation Water Revenue Crossover Refunding bonds. Over \$727,246 in long-term debt was retired during the 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

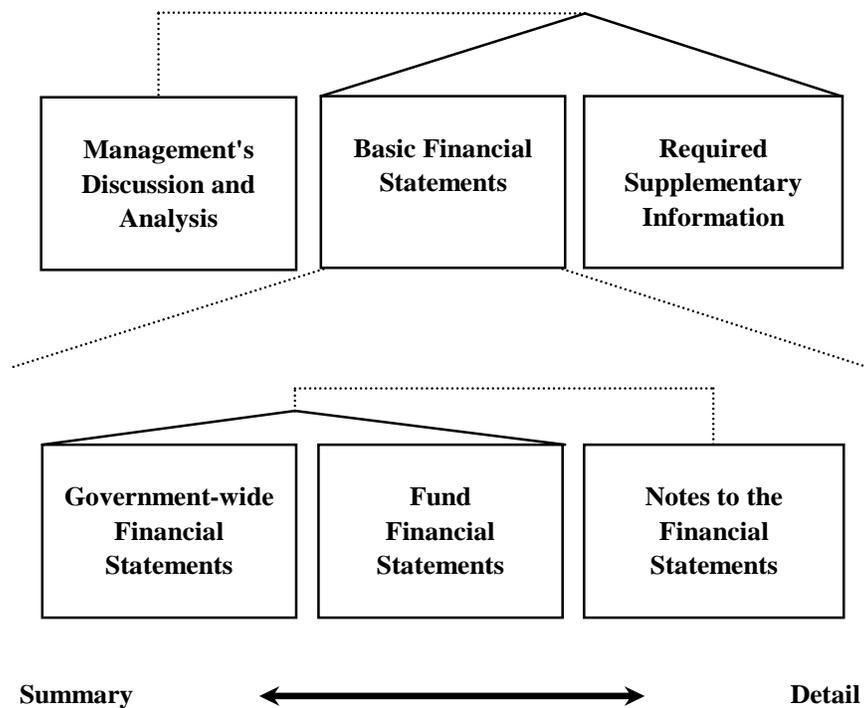


Figure 2 summarizes the major features of the City's financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the 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"> • Statement of Net Assets • Statement of Activities 	<ul style="list-style-type: none"> • Balance Sheet • Statement of Revenues, Expenditures, and Changes in Fund Balances 	<ul style="list-style-type: none"> • Statement of Net Assets • Statement of Revenues, Expenses and Changes in Fund Net Assets • Statement of Cash Flows
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 28 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, the Capital Improvements fund and the 2004 I-94 Industrial Park 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 - 48 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 49 - 66 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 \$39,851,303 at the close of the most recent fiscal year.

By far, the largest portion of the City's net assets (60 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		
	2005	2004	Increase (Decrease)	2005	2004	Increase (Decrease)
Assets						
Current and other assets	\$ 7,020,485	\$ 5,353,741	\$ 1,666,744	\$ 10,954,665	\$ 12,149,860	\$ (1,195,195)
Capital assets	15,152,069	14,172,975	979,094	22,505,911	20,881,061	1,624,850
Total assets	<u>22,172,554</u>	<u>19,526,716</u>	<u>2,645,838</u>	<u>33,460,576</u>	<u>33,030,921</u>	<u>429,655</u>
Liabilities						
Long-term liabilities outstanding	4,775,686	2,609,080	2,166,606	9,045,873	8,070,908	974,965
Other liabilities	1,381,896	1,321,588	60,308	578,372	1,169,117	(590,745)
Total liabilities	<u>6,157,582</u>	<u>3,930,668</u>	<u>2,226,914</u>	<u>9,624,245</u>	<u>9,240,025</u>	<u>384,220</u>
Net assets						
Invested in capital assets, net of related debt	10,420,442	11,610,110	(1,189,668)	13,514,211	12,868,361	645,850
Restricted	3,024,963	2,538,325	486,638	-	-	-
Unrestricted	2,569,567	1,447,613	1,121,954	10,322,120	10,922,535	(600,415)
Total net assets	<u>\$ 16,014,972</u>	<u>\$ 15,596,048</u>	<u>\$ 418,924</u>	<u>\$ 23,836,331</u>	<u>\$ 23,790,896</u>	<u>\$ 45,435</u>

An additional portion of the City's net assets (8 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (\$12,891,687) 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 \$464,358 during the current fiscal year. Approximately \$992,095 is attributable to state aids and special assessments. The remainder of 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 increased the City's net assets by \$418,923, thereby accounting for 90 percent of the total growth in the net assets of the City.

Business-type activities: There was an increase of \$45,435 in net assets reported in connection with the City's business-type activities.

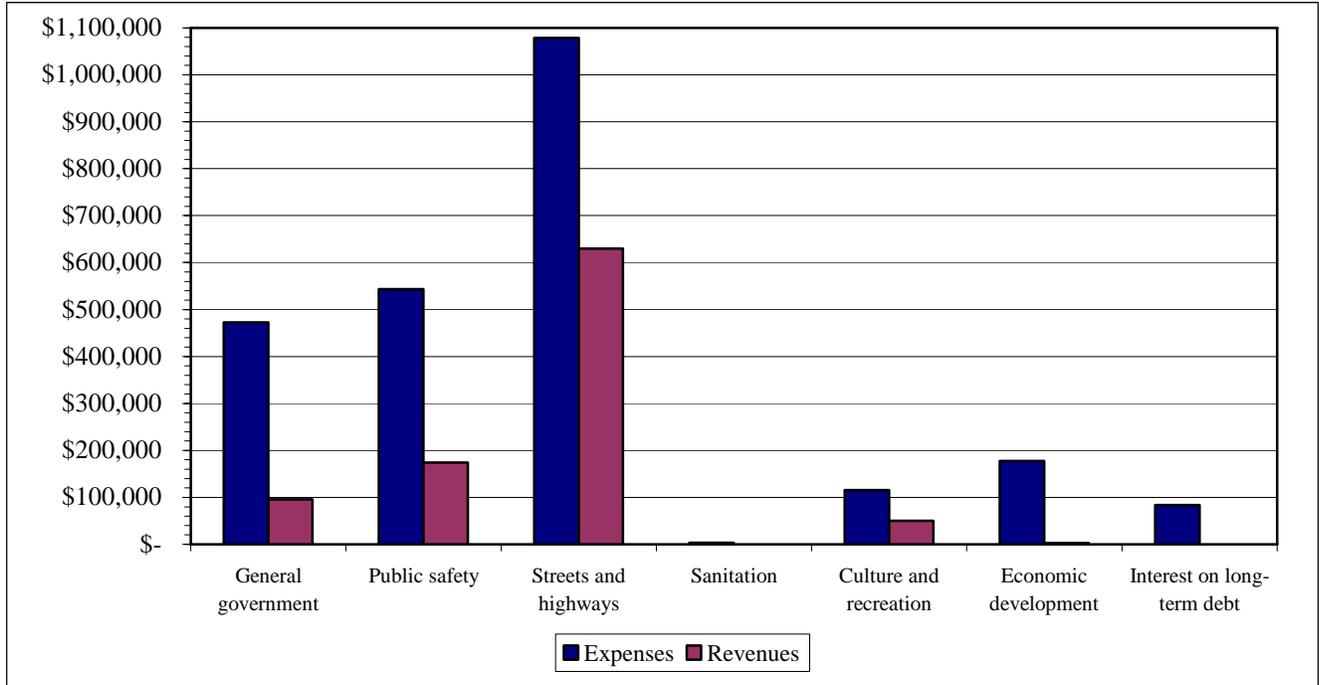
Changes in Net Assets

	Governmental Activities			Business-type Activities		
	2005	2004	Increase (Decrease)	2005	2004	Increase (Decrease)
Revenues						
Program revenues						
Charges for services	\$ 231,461	\$ 407,622	\$ (176,161)	\$ 8,086,608	\$ 7,056,446	\$ 1,030,162
Operating grants and contributions	110,401	168,330	(57,929)	24,224	189,194	(164,970)
Capital grants and contributions	610,516	812,243	(201,727)	-	-	-
General revenues						
Property taxes/tax increments	698,567	613,019	85,548	-	-	-
Franchise taxes	267,465	21,738	245,727	-	-	-
Grants and contributions not restricted to specific programs	746,263	733,326	12,937	-	-	-
Unrestricted Investment earnings	132,964	63,252	69,712	256,917	221,412	35,505
Gain on sale of capital assets	57,983	-	57,983	-	-	-
Total revenues	2,855,620	2,819,530	36,090	8,367,749	7,467,052	900,697
Expenses						
General government	472,814	394,662	78,152	-	-	-
Public safety	543,272	550,843	(7,571)	-	-	-
Streets and highways	1,078,181	189,753	888,428	-	-	-
Sanitation	3,228	3,647	(419)	-	-	-
Culture and recreation	115,446	95,911	19,535	-	-	-
Economic development	177,648	302,797	(125,149)	-	-	-
Interest on long-term debt	83,492	72,646	10,846	-	-	-
Ambulance	-	-	-	304,932	256,911	48,021
Water	-	-	-	730,233	746,518	(16,285)
Wastewater	-	-	-	1,606,757	1,245,893	360,864
Electric	-	-	-	5,643,008	5,025,693	617,315
Total expenses	2,474,081	1,610,259	863,822	8,284,930	7,275,015	1,009,915
Increase in net assets before transfers	381,539	1,209,271	(827,732)	82,819	192,037	(109,218)
Transfers	37,384	512,621	(475,237)	(37,384)	(512,621)	475,237
Change in net assets	418,923	1,721,892	(1,302,969)	45,435	(320,584)	366,019
Net assets, January 1	15,596,049	13,874,156	1,721,893	23,790,896	23,222,812	568,084
Prior period adjustment	-	-	-	-	888,668	(888,668)
Net assets, December 31	\$ 16,014,972	\$ 15,596,048	\$ 418,924	\$ 23,836,331	\$ 23,790,896	\$ 45,435

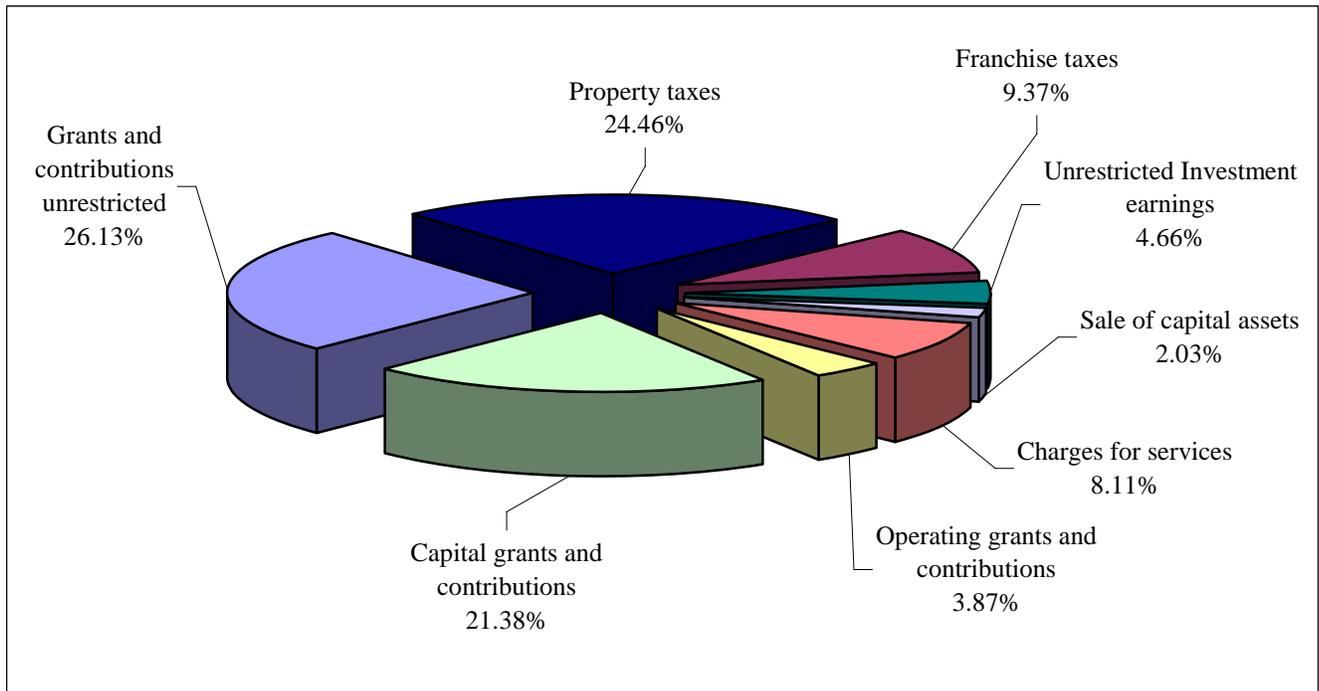
Property tax increased by \$85,548 (14 percent) during the year.

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

Expenses and Program Revenues - Governmental Activities

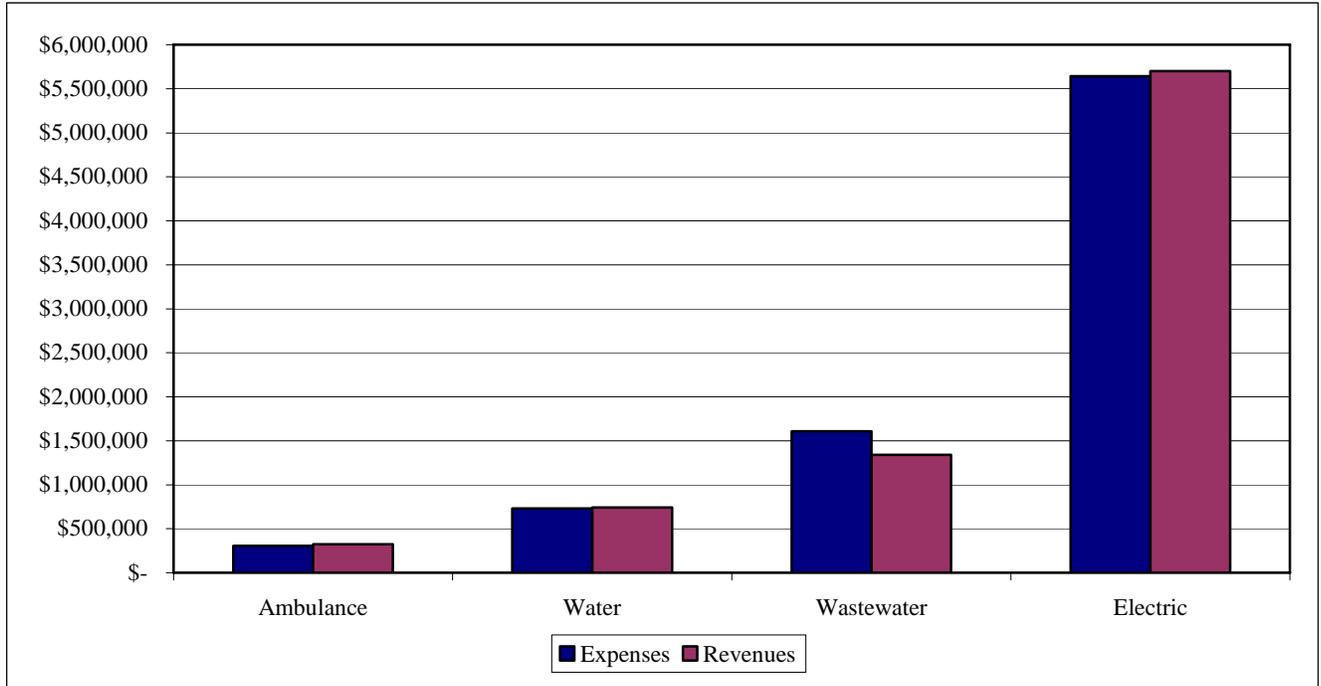


Revenues by Source - Governmental Activities

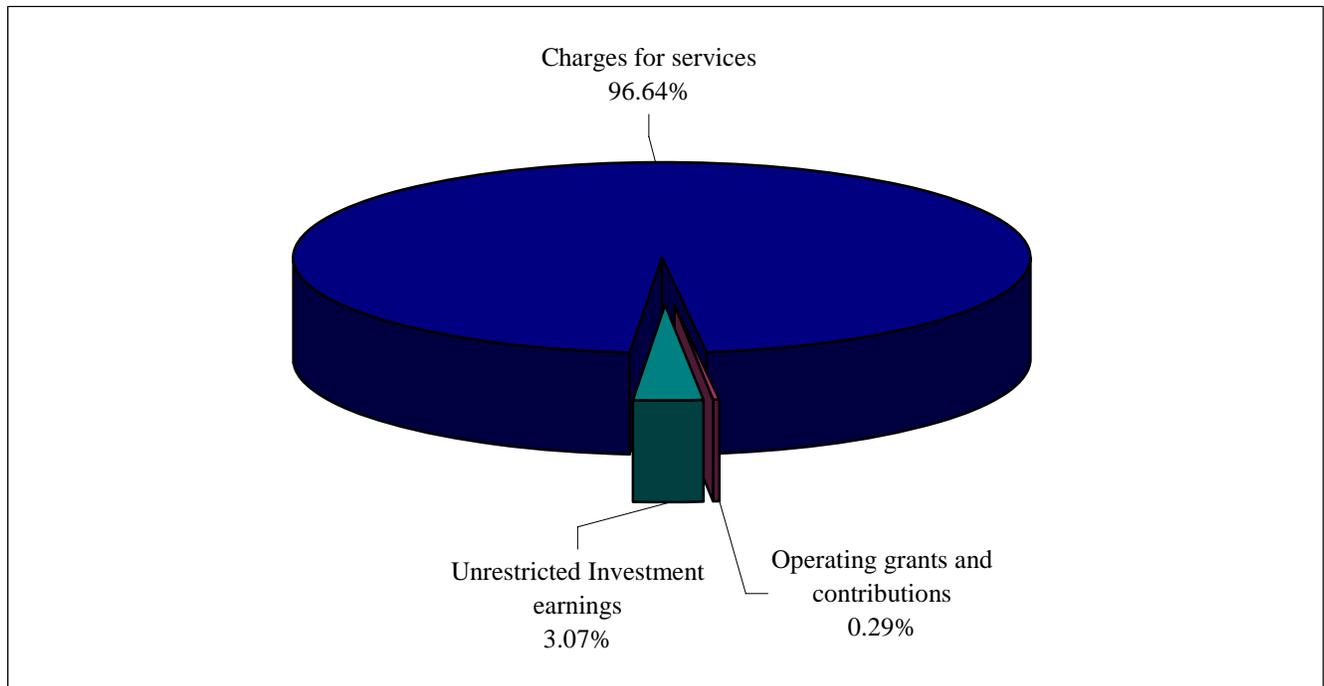


Business-type activities. Business-type activities increased the City's net assets by \$45,435. The key element of this increase was that charges for services increased by 15 percent over the prior year.

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 \$4,230,867, an increase of \$1,208,530 in comparison with the prior year. Approximately 85 percent of this total amount \$3,569,318 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. \$394,859 is reserved for business loans to local businesses, \$194,873 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 \$761,836. 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. Unreserved fund balance represents 47 percent of fund expenditures, while total fund balance represents 52 percent of that same amount.

The fund balance of the City's General fund decreased \$33,765 during the current fiscal year. The key factor in this decrease was that the General fund transferred \$479,241 to other city funds.

The Debt Service fund has a total fund balance of \$194,873, 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 \$59,172.

The Capital Improvements fund has a fund balance of \$2,226,406, all of which is reserved for capital improvements in the city. The fund balance increased by \$16,037 during the year.

The 2004 I-94 Industrial Park Improvements fund has a fund balance of \$167,812 at year end, all of which is designated for the project. The fund balance decreased by \$ 256,627 during the year.

2005 Capital Improvements was a new fund in 2005 and had an ending fund balance of \$323,668 all of which is designated for the 2005 Improvement project.

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 \$10,322,120. The total increase in net assets for the funds was \$45,435. This increase is due to an increase in charges for service.

General Fund Budgetary Highlights

The City's General fund budget was not amended during the year. The budget called for revenues to equal expenses. Revenues exceeded expenditures by \$287,077 before transfers and other financing sources but were under expenses by \$33,765 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, 2005, amounts to \$37,657,980 (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		
	2005	2004	Increase (Decrease)	2005	2004	Increase (Decrease)
Land	\$ 2,515,371	\$ 2,482,421	\$ 32,950	\$ 246,376	\$ 246,376	\$ -
Buildings	1,679,833	2,327,376	(647,543)	816,276	901,944	(85,668)
Improvement other than buildings	-	-	-	-	-	-
Machinery and equipment	963,863	1,024,181	(60,318)	836,106	485,392	350,714
Infrastructure	6,798,263	6,328,229	470,034	20,607,153	16,173,868	4,433,285
Construction in progress	3,194,739	2,010,768	1,183,971	-	3,073,481	(3,073,481)
Total	\$ 15,152,069	\$ 14,172,975	\$ 979,094	\$ 22,505,911	\$ 20,881,061	\$ 1,624,850

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

- 2005 Capital Improvement project
- Continuation of I94 Industrial Park project
- Completion of enterprise fund projects

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 \$13,331,700. Of this amount, \$4,195,000 is special assessment debt, \$8,991,700 is revenue debt and \$145,000 is general obligation equipment certificates. They are all backed by the full faith and credit of the City.

Outstanding Debt

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
General obligation bonds	\$ 145,000	\$ 215,000	\$ -	\$ -	\$ 145,000	\$ 215,000
G.O. improvement bonds	4,195,000	1,710,000	-	-	4,195,000	1,710,000
General obligation revenue bonds	-	-	8,991,700	8,012,700	8,991,700	8,012,700
Capital leases	200,000	390,000	-	-	200,000	390,000
Loans	191,621	247,867	-	-	191,621	247,867
Compensated absences	44,059	46,215	54,173	58,208	98,232	104,423
Total	\$ 4,775,680	\$ 2,609,082	\$ 9,045,873	\$ 8,070,908	\$ 13,821,553	\$ 10,679,990

The City's total debt increased \$3,147,754 during the current fiscal year.

The City issued \$2,545,000 of General Obligation Improvement bonds and \$1,330,000 of General Obligation Water Revenue Crossover Refunding bonds.

Minnesota statutes limit the amount of net general obligation debt a City may issue to 2 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 \$2,713,688, 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 39 - 43 of this report.

Economic Factors and Next Year's Budgets and Rates

- Property valuations within the City remain strong and growing.
- Inflationary trends in the region compare favorably to national indices.

All of these factors were considered in preparing the City's budget for the 2006 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 City Clerk-Treasurer, City of Melrose, 225 East 1st street North, Melrose, Minnesota 56352.

BASIC FINANCIAL STATEMENTS

CITY OF MELROSE
MELROSE, MINNESOTA

YEAR ENDED
DECEMBER 31, 2005

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CITY OF MELROSE, MINNESOTA
STATEMENT OF NET ASSETS
DECEMBER 31, 2005

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and temporary investments	\$ 4,215,039	\$ 7,985,982	\$ 12,201,021
Cash with fiscal agent	-	1,297,630	1,297,630
Receivables			
Accrued interest	46,488	67,542	114,030
Delinquent taxes	12,481	-	12,481
Accounts	45,972	724,630	770,602
Loans	342,434	-	342,434
Special assessments	1,355,979	-	1,355,979
Internal balances	(233,230)	233,230	-
Due from Centracare	1,155,232	-	1,155,232
Inventories	-	480,376	480,376
Prepaid items	6,171	15,535	21,706
Unamortized bond discount	73,919	149,740	223,659
Capital assets			
Non-depreciable			
Land	2,515,371	246,376	2,761,747
Construction in progress	3,194,739	-	3,194,739
Depreciable (net of accumulated depreciation)			
Buildings	1,679,833	816,276	2,496,109
Equipment	963,863	836,106	1,799,969
Infrastructure	6,798,263	20,607,153	27,405,416
TOTAL ASSETS	22,172,554	33,460,576	55,633,130
LIABILITIES			
Accounts payable	160,656	445,075	605,731
Accrued interest payable	51,335	82,462	133,797
Customer deposits payable	10,000	50,835	60,835
Unearned revenue	1,159,905	-	1,159,905
Noncurrent liabilities			
Due within one year			
Bonds payable	130,000	361,000	491,000
Compensated absences payable	16,678	18,315	34,993
Capital leases payable	200,000	-	200,000
Loans payable	57,396	-	57,396
Due in more than one year			
Bonds payable	4,210,000	8,630,700	12,840,700
Compensated absences payable	27,381	35,858	63,239
Loans payable	134,231	-	134,231
TOTAL LIABILITIES	6,157,582	9,624,245	15,781,827
NET ASSETS			
Invested in capital assets, net of related debt	10,420,442	13,514,211	23,934,653
Restricted for			
Debt service	3,024,963	-	3,024,963
Unrestricted	2,569,567	10,322,120	12,891,687
TOTAL NET ASSETS	\$ 16,014,972	\$ 23,836,331	\$ 39,851,303

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, 2005

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Grants and Contributions	Capital Grants and Contributions
Governmental activities				
General government	\$ 472,814	\$ 95,872	\$ -	\$ -
Public safety	543,272	110,705	63,440	-
Streets and highways	1,078,181	19,280	-	610,516
Sanitation	3,228	-	-	-
Culture and recreation	115,446	5,604	44,041	-
Economic development	177,648	-	2,920	-
Interest on long-term debt	83,492	-	-	-
Total governmental activities	<u>2,474,081</u>	<u>231,461</u>	<u>110,401</u>	<u>610,516</u>
Business-type activities				
Ambulance	304,932	319,632	6,323	-
Water	730,233	740,744	316	-
Wastewater	1,606,757	1,340,631	890	-
Electric	5,643,008	5,685,601	16,695	-
Total business-type activities	<u>8,284,930</u>	<u>8,086,608</u>	<u>24,224</u>	<u>-</u>
Total	<u>\$ 10,759,011</u>	<u>\$ 8,318,069</u>	<u>\$ 134,625</u>	<u>\$ 610,516</u>

General revenues

Taxes

Property taxes, levied for general purposes

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

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>
\$ (376,942)	\$ -	\$ (376,942)
(369,127)	-	(369,127)
(448,385)	-	(448,385)
(3,228)	-	(3,228)
(65,801)	-	(65,801)
(174,728)	-	(174,728)
(83,492)	-	(83,492)
<u>(1,521,703)</u>	<u>-</u>	<u>(1,521,703)</u>
-	21,023	21,023
-	10,827	10,827
-	(265,236)	(265,236)
-	59,288	59,288
<u>-</u>	<u>(174,098)</u>	<u>(174,098)</u>
<u>(1,521,703)</u>	<u>(174,098)</u>	<u>(1,695,801)</u>
698,567	-	698,567
267,465	-	267,465
746,263	-	746,263
132,964	256,917	389,881
57,983	-	57,983
(228,720)	228,720	-
266,104	(266,104)	-
<u>1,940,626</u>	<u>219,533</u>	<u>2,160,159</u>
418,923	45,435	464,358
<u>15,596,049</u>	<u>23,790,896</u>	<u>39,386,945</u>
<u>\$ 16,014,972</u>	<u>\$ 23,836,331</u>	<u>\$ 39,851,303</u>

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FUND FINANCIAL STATEMENTS

CITY OF MELROSE
MELROSE, MINNESOTA

YEAR ENDED
DECEMBER 31, 2005

CITY OF MELROSE, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2005

	General	Debt Service	Capital Improvements
ASSETS			
Cash and temporary investments	\$ 946,930	\$ 193,783	\$ 1,585,852
Receivables			
Accrued interest	8,699	1,090	24,092
Delinquent taxes	12,481	-	-
Accounts	32,911	-	3,525
Loans	-	-	-
Special assessments	-	939,434	416,545
Due from other governments	-	-	-
Due from other funds	65,646	-	612,937
Due from Centracare	1,155,232	-	-
Prepaid items	4,162	-	-
	<u>\$ 2,226,061</u>	<u>\$ 1,134,307</u>	<u>\$ 2,642,951</u>
LIABILITIES AND FUND BALANCES (DEFICITS)			
LIABILITIES			
Accounts payable	\$ 45,183	\$ -	\$ -
Due to other funds	229,978	-	-
Accrued salaries and benefits payable	16,678	-	-
Deferred revenue	1,172,386	939,434	416,545
	<u>1,464,225</u>	<u>939,434</u>	<u>416,545</u>
FUND BALANCES			
Reserved for			
Prepaid items	4,162	-	-
Due from other funds	65,646	-	-
Loans	-	-	-
Debt service	-	194,873	-
Unreserved			
Designated - reported in			
General fund	582,273	-	-
Capital projects fund	-	-	2,226,406
Special revenue fund	-	-	-
Undesignated - reported in			
General fund	109,755	-	-
Special revenue funds (deficits)	-	-	-
Capital project funds	-	-	-
	<u>761,836</u>	<u>194,873</u>	<u>2,226,406</u>
TOTAL FUND BALANCES	<u>761,836</u>	<u>194,873</u>	<u>2,226,406</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 2,226,061</u>	<u>\$ 1,134,307</u>	<u>\$ 2,642,951</u>

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

2004 I-94 Industrial Park Improvements	2005 Capital Improvements	Other Governmental Funds	Total Governmental Funds
\$ 245,126	\$ 333,370	\$ 909,978	\$ 4,215,039
115	1,286	11,206	46,488
-	-	-	12,481
-	-	4,863	41,299
-	-	342,434	342,434
-	-	-	1,355,979
-	-	283,814	283,814
-	-	279,141	957,724
-	-	-	1,155,232
-	-	2,009	6,171
<u>\$ 245,241</u>	<u>\$ 334,656</u>	<u>\$ 1,833,445</u>	<u>\$ 8,416,661</u>
\$ 77,429	\$ 12,055	\$ 35,989	\$ 170,656
-	-	960,976	1,190,954
-	-	-	16,678
-	-	279,141	2,807,506
<u>77,429</u>	<u>12,055</u>	<u>1,276,106</u>	<u>4,185,794</u>
-	-	2,009	6,171
-	-	-	65,646
-	-	394,859	394,859
-	-	-	194,873
-	-	-	582,273
-	-	-	2,226,406
-	-	121,457	121,457
-	-	-	109,755
-	-	(710,154)	(710,154)
<u>167,812</u>	<u>322,601</u>	<u>749,168</u>	<u>1,239,581</u>
<u>167,812</u>	<u>322,601</u>	<u>557,339</u>	<u>4,230,867</u>
<u>\$ 245,241</u>	<u>\$ 334,656</u>	<u>\$ 1,833,445</u>	<u>\$ 8,416,661</u>

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CITY OF MELROSE, MINNESOTA
RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
GOVERNMENTAL FUNDS
DECEMBER 31, 2005

Total fund balances - governmental funds	\$ 4,230,867
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	18,393,717
Less: accumulated depreciation	(3,241,648)
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	(27,381)
Loan payable	(191,627)
Capital lease payable	(200,000)
Bond principal payable	(4,340,000)
Less bond discount net of accumulated amortization	73,919
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	12,481
Special assessments	1,355,979
Governmental funds do not report a liability for accrued interest until due and payable.	(51,335)
Total net assets - governmental activities	\$ 16,014,972

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, 2005

	General	Debt Service	Capital Improvements
REVENUES			
Taxes	\$ 560,146	\$ 126,908	\$ -
Licenses and permits	43,176	-	-
Intergovernmental	748,650	-	-
Charges for services	343,521	-	-
Fines and forfeitures	14,730	-	-
Special assessments	45	119,468	94,979
Interest on investments	20,226	3,124	71,430
Miscellaneous	19,912	-	-
	1,750,406	249,500	166,409
TOTAL REVENUES			
EXPENDITURES			
Current			
General government	391,538	-	-
Public safety	397,880	-	-
Streets and highways	324,574	-	-
Sanitation removal	3,228	-	-
Culture and recreation	-	-	-
Economic development	66,926	-	-
Capital outlay			
General government	10,200	-	-
Public works	52,732	-	-
Debt service			
Principal	190,000	130,000	-
Interest and other	26,251	65,739	-
	1,463,329	195,739	-
TOTAL EXPENDITURES			
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	287,077	53,761	166,409
OTHER FINANCING SOURCES (USES)			
Sale of land	26,850	-	-
Transfers in	131,549	-	76,978
Bonds issued	-	5,411	-
Discount on bonds issued	-	-	-
Transfers out	(479,241)	-	(227,350)
	(320,842)	5,411	(150,372)
TOTAL OTHER FINANCING SOURCES (USES)			
NET CHANGE IN FUND BALANCES	(33,765)	59,172	16,037
FUND BALANCES (DEFICITS), JANUARY 1	795,601	135,701	2,210,369
FUND BALANCES, DECEMBER 31	\$ 761,836	\$ 194,873	\$ 2,226,406

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

2004 I-94 Industrial Park Improvements	2005 Capital Improvements	Other Governmental Funds	Total Governmental Funds
\$ -	\$ -	32,404	\$ 719,458
-	-	-	43,176
-	-	26,689	775,339
-	-	71,020	414,541
-	-	-	14,730
-	-	-	214,492
9,004	7,294	21,887	132,965
31,439	-	63,175	114,526
<u>40,443</u>	<u>7,294</u>	<u>215,175</u>	<u>2,429,227</u>
-	-	-	391,538
-	-	112,602	510,482
-	-	-	324,574
-	-	-	3,228
-	-	82,859	82,859
-	-	125,338	192,264
-	-	-	10,200
508,575	1,343,778	122,109	2,027,194
-	-	56,240	376,240
-	-	36,519	128,509
<u>508,575</u>	<u>1,343,778</u>	<u>535,667</u>	<u>4,047,088</u>
<u>(468,132)</u>	<u>(1,336,484)</u>	<u>(320,492)</u>	<u>(1,617,861)</u>
-	-	31,133	57,983
-	-	764,168	972,695
215,348	1,688,331	635,910	2,545,000
(3,843)	(28,179)	(10,674)	(42,696)
-	-	-	(706,591)
<u>211,505</u>	<u>1,660,152</u>	<u>1,420,537</u>	<u>2,826,391</u>
(256,627)	323,668	1,100,045	1,208,530
424,439	(1,067)	(542,706)	3,022,337
<u>\$ 167,812</u>	<u>\$ 322,601</u>	<u>\$ 557,339</u>	<u>\$ 4,230,867</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, 2005

Total net change in fund balances - governmental funds	\$ 1,208,530
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	1,629,574
Depreciation expense	(421,760)
<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	376,240
Debt issued or incurred, less issuance costs	(2,545,000)
<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>	
	6,830
<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	1,516
Special assessments	390,228
<p>Capital assets constructed in capital projects funds but intended for enterprise fund use are transferred in the government-wide financial statements.</p>	
	(228,720)
<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	1,485
	1,485
Change in net assets - governmental activities	\$ 418,923

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, 2005

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 465,452	\$ 465,452	\$ 560,146	\$ 94,694
Licenses and permits	46,530	46,530	43,176	(3,354)
Intergovernmental	835,115	835,115	748,650	(86,465)
Charges for services	242,458	242,458	343,521	101,063
Fines and forfeitures	17,000	17,000	14,730	(2,270)
Special assessments	-	-	45	45
Interest on investments	6,000	6,000	20,226	14,226
Miscellaneous	2,000	2,000	19,912	17,912
TOTAL REVENUES	1,614,555	1,614,555	1,750,406	135,851
EXPENDITURES				
Current				
General government	353,868	353,868	391,538	(37,670)
Public safety	435,583	435,583	397,880	37,703
Streets and highways	318,822	318,822	324,574	(5,752)
Sanitation	3,000	3,000	3,228	(228)
Economic development	66,407	66,407	66,926	(519)
Capital outlay	128,000	128,000	62,932	65,068
Debt service				
Principal	204,977	204,977	190,000	14,977
Interest and other charges	19,504	19,504	26,251	(6,747)
TOTAL EXPENDITURES	1,530,161	1,530,161	1,463,329	66,832
EXCESS OF REVENUES OVER EXPENDITURES	84,394	84,394	287,077	202,683
OTHER FINANCING SOURCES (USES)				
Sale of land	-	-	26,850	26,850
Transfers in	130,838	130,838	131,549	711
Transfers out	(215,232)	(215,232)	(479,241)	(264,009)
TOTAL OTHER FINANCING SOURCES (USES)	(84,394)	(84,394)	(320,842)	(236,448)
NET CHANGE IN FUND BALANCES	-	-	(33,765)	(33,765)
FUND BALANCES, JANUARY 1	795,601	795,601	795,601	-
FUND BALANCES, DECEMBER 31	<u>\$ 795,601</u>	<u>\$ 795,601</u>	<u>\$ 761,836</u>	<u>\$ (33,765)</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, 2005 AND 2004

	Business-type Activities - Enterprise funds			
	Ambulance		Water	
	2005	2004	2005	2004
ASSETS				
CURRENT ASSETS				
Cash and temporary investments	\$ 521,669	\$ 458,476	\$ 1,140,805	\$ 1,135,886
Cash with fiscal agent	-	-	1,297,630	-
Receivables				
Accrued interest	5,288	2,777	2,440	9,042
Accounts - net	76,137	89,824	87,168	48,061
Due from other funds	-	-	-	-
Inventories	-	-	22,589	23,918
Prepaid items	211	601	3,400	3,480
TOTAL CURRENT ASSETS	603,305	551,678	2,554,032	1,220,387
NONCURRENT ASSETS				
Appropriated funds	-	-	-	-
Unamortized bond discount	-	-	51,042	19,960
Capital assets				
Land	-	-	41,123	41,123
Structures and improvements	-	-	6,957,902	6,852,311
Distribution/collection system	-	-	-	-
Plant equipment	203,784	203,784	46,178	11,090
Construction in progress	-	-	-	28,540
Less accumulated depreciation	(93,826)	(79,274)	(2,011,549)	(1,761,462)
Total capital assets (net of accumulated depreciati	109,958	124,510	5,033,654	5,171,602
TOTAL NONCURRENT ASSETS	109,958	124,510	5,084,696	5,191,562
TOTAL ASSETS	713,263	676,188	7,638,728	6,411,949

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

Business-type Activities -
Enterprise funds - Continued

Wastewater		Electric		Totals	
2005	2004	2005	2004	2005	2004
\$ 1,690,099	\$ 4,183,303	\$ 811,462	\$ 817,554	\$ 4,164,035	\$ 6,595,219
-	-	-	-	1,297,630	-
10,749	32,481	49,065	40,150	67,542	84,450
116,499	114,811	444,826	419,680	724,630	672,376
-	8,329	294,203	289,301	294,203	297,630
15,807	16,453	441,980	468,020	480,376	508,391
4,960	6,125	6,964	6,236	15,535	16,442
<u>1,838,114</u>	<u>4,361,502</u>	<u>2,048,500</u>	<u>2,040,941</u>	<u>7,043,951</u>	<u>8,174,508</u>
-	-	3,821,947	3,971,947	3,821,947	3,971,947
<u>98,698</u>	<u>105,783</u>	<u>-</u>	<u>-</u>	<u>149,740</u>	<u>125,743</u>
63,878	63,878	141,375	141,375	246,376	246,376
17,098,967	-	-	-	24,056,869	6,852,311
-	13,360,758	9,285,040	7,895,195	9,285,040	21,255,953
295,099	11,090	-	524,701	545,061	750,665
-	2,616,352	-	428,589	-	3,073,481
<u>(4,155,178)</u>	<u>(4,459,056)</u>	<u>(5,366,882)</u>	<u>(4,997,933)</u>	<u>(11,627,435)</u>	<u>(11,297,725)</u>
<u>13,302,766</u>	<u>11,593,022</u>	<u>4,059,533</u>	<u>3,991,927</u>	<u>22,505,911</u>	<u>20,881,061</u>
<u>13,401,464</u>	<u>11,698,805</u>	<u>7,881,480</u>	<u>7,963,874</u>	<u>26,477,598</u>	<u>24,978,751</u>
<u>15,239,578</u>	<u>16,060,307</u>	<u>9,929,980</u>	<u>10,004,815</u>	<u>33,521,549</u>	<u>33,153,259</u>

CITY OF MELROSE, MINNESOTA
STATEMENTS OF NET ASSETS - CONTINUED
PROPRIETARY FUNDS
DECEMBER 31, 2005 AND 2004

	Business-type Activities - Enterprise funds			
	Ambulance		Water	
	2005	2004	2005	2004
LIABILITIES				
CURRENT LIABILITIES				
Accounts and contracts payable	\$ 6,956	\$ 6,606	\$ 3,848	\$ 7,348
Due to other funds	-	-	-	25,718
Accrued interest payable	-	-	62,027	62,902
Accrued salaries and benefits payable	-	-	5,840	6,659
Customer deposits payable	-	-	-	-
Current portion of long-term debt	-	-	211,000	196,000
TOTAL CURRENT LIABILITIES	6,956	6,606	282,715	298,627
NONCURRENT LIABILITIES				
Loans payable less current portion above	-	-	2,300,700	2,446,700
Bonds payable less current portion above	-	-	2,780,000	1,525,000
TOTAL NONCURRENT LIABILITIES	-	-	5,080,700	3,971,700
TOTAL LIABILITIES	6,956	6,606	5,363,415	4,270,327
NET ASSETS				
Invested in capital assets, net of related debt	109,958	124,510	(258,046)	1,003,902
Unrestricted	596,349	545,072	2,533,359	1,137,720
TOTAL NET ASSETS	\$ 706,307	\$ 669,582	\$ 2,275,313	\$ 2,141,622

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

Business-type Activities -
Enterprise funds - Continued

Wastewater		Electric		Totals	
2005	2004	2005	2004	2005	2004
\$ 20,552	\$ 545,522	\$ 413,719	\$ 473,557	\$ 445,075	\$ 1,033,033
-	62,868	60,973	33,752	60,973	122,338
20,435	23,154	-	-	82,462	86,056
11,998	12,348	36,335	39,201	54,173	58,208
-	-	50,835	50,028	50,835	50,028
150,000	135,000	-	-	361,000	331,000
<u>202,985</u>	<u>778,892</u>	<u>561,862</u>	<u>596,538</u>	<u>1,054,518</u>	<u>1,680,663</u>
-	-	-	-	2,300,700	2,446,700
<u>3,550,000</u>	<u>3,710,000</u>	<u>-</u>	<u>-</u>	<u>6,330,000</u>	<u>5,235,000</u>
<u>3,550,000</u>	<u>3,710,000</u>	<u>-</u>	<u>-</u>	<u>8,630,700</u>	<u>7,681,700</u>
<u>3,752,985</u>	<u>4,488,892</u>	<u>561,862</u>	<u>596,538</u>	<u>9,685,218</u>	<u>9,362,363</u>
9,602,766	7,748,022	4,059,533	3,991,927	13,514,211	12,868,361
<u>1,883,827</u>	<u>3,823,393</u>	<u>5,308,585</u>	<u>5,416,350</u>	<u>10,322,120</u>	<u>10,922,535</u>
<u>\$ 11,486,593</u>	<u>\$ 11,571,415</u>	<u>\$ 9,368,118</u>	<u>\$ 9,408,277</u>	<u>\$ 23,836,331</u>	<u>\$ 23,790,896</u>

CITY OF MELROSE, MINNESOTA
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	Business-type Activities - Enterprise funds			
	Ambulance		Water	
	2005	2004	2005	2004
OPERATING REVENUES				
Charges for services	\$ 319,632	\$ 277,962	\$ 740,744	\$ 659,160
OPERATING EXPENSES				
Production, collection and purchased power	-	-	80,365	75,120
Distribution	-	-	99,028	114,781
Accounting and collection	-	-	40,625	33,640
General and administrative	290,380	240,928	90,162	107,393
Depreciation and amortization	14,552	15,983	250,087	242,855
TOTAL OPERATING EXPENSES	304,932	256,911	560,267	573,789
OPERATING INCOME	14,700	21,051	180,477	85,371
NONOPERATING REVENUES (EXPENSES)				
Intergovernmental	-	-	316	316
Interest on investments	15,702	8,337	30,781	27,421
Miscellaneous	6,323	4,763	-	-
Earnings in Utilities Plus	-	-	-	-
Gain on sale of fixed assets	-	-	-	-
Loss on disposal of fixed assets	-	-	-	-
Interest expense	-	-	(169,966)	(172,729)
TOTAL NONOPERATING REVENUES (EXPENSES)	22,025	13,100	(138,869)	(144,992)
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	36,725	34,151	41,608	(59,621)
CONTRIBUTIONS OF ASSETS FROM OTHER FUNDS	-	-	101,349	-
TRANSFERS OUT	-	-	(9,266)	(190,607)
TOTAL CONTRIBUTIONS AND TRANSFERS	-	-	92,083	(190,607)
CHANGE IN FUND NET ASSETS	36,725	34,151	133,691	(250,228)
FUND NET ASSETS, JANUARY 1	669,582	635,431	2,141,622	1,981,660
PRIOR PERIOD ADJUSTMENT	-	-	-	410,190
FUND NET ASSETS, JANUARY 1 (RESTATE)	669,582	635,431	2,141,622	2,391,850
FUND NET ASSETS, DECEMBER 31	\$ 706,307	\$ 669,582	\$ 2,275,313	\$ 2,141,622

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

Business-type Activities -
Enterprise funds - Continued

Wastewater		Electric		Totals	
2005	2004	2005	2004	2005	2004
\$ 1,339,806	\$ 1,181,425	\$ 5,680,141	\$ 4,920,582	\$ 8,080,323	\$ 7,039,129
18,685	15,891	4,223,292	3,581,141	4,322,342	3,672,152
612,295	558,388	314,931	256,264	1,026,254	929,433
-	-	11,851	9,312	52,476	42,952
112,050	138,135	722,820	668,131	1,215,412	1,154,587
443,074	437,752	368,950	395,605	1,076,663	1,092,195
1,186,104	1,150,166	5,641,844	4,910,453	7,693,147	6,891,319
153,702	31,259	38,297	10,129	387,176	147,810
-	-	1,948	1,948	2,264	2,264
68,160	76,476	142,274	109,178	256,917	221,412
1,715	9,999	4,296	6,429	12,334	21,191
-	-	-	48,348	-	48,348
-	5,000	14,747	128,600	14,747	133,600
(251,381)	-	-	(114,132)	(251,381)	(114,132)
(169,272)	(95,727)	-	-	(339,238)	(268,456)
(350,778)	(4,252)	163,265	180,371	(304,357)	44,227
(197,076)	27,007	201,562	190,500	82,819	192,037
127,371	-	-	-	228,720	-
(15,117)	(224,094)	(241,721)	(97,920)	(266,104)	(512,621)
112,254	(224,094)	(241,721)	(97,920)	(37,384)	(512,621)
(84,822)	(197,087)	(40,159)	92,580	45,435	(320,584)
11,571,415	11,280,411	9,408,277	9,325,310	23,790,896	23,222,812
-	488,091	-	(9,613)	-	888,668
11,571,415	11,768,502	9,408,277	9,315,697	23,790,896	24,111,480
\$ 11,486,593	\$ 11,571,415	\$ 9,368,118	\$ 9,408,277	\$ 23,836,331	\$ 23,790,896

CITY OF MELROSE, MINNESOTA
STATEMENTS OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	Business-type Activities - Enterprise funds			
	Ambulance		Water	
	2005	2004	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers and users	\$ 339,642	\$ 259,234	\$ 701,953	\$ 662,046
Payments to suppliers	(197,510)	(145,299)	(220,141)	(221,188)
Payments to employees	(92,130)	(92,200)	(92,949)	(107,874)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>50,002</u>	<u>21,735</u>	<u>388,863</u>	<u>332,984</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers to other funds	-	-	(9,266)	(190,607)
Decrease (increase) in due from other funds	-	-	-	(238,314)
Increase (decrease) in due to other funds	-	-	(25,718)	25,718
NET CASH USED BY NONCAPITAL FINANCING ACTIVITIES	<u>-</u>	<u>-</u>	<u>(34,984)</u>	<u>(403,203)</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES				
Acquisition of property and equipment	-	-	(10,790)	(49,828)
Interest paid on bonds	-	-	(169,553)	(176,988)
Payment on short term account to acquire capital assets	-	-	-	-
Bond issuance costs paid	-	-	-	-
Proceeds of bonds issued	-	-	-	-
Principal paid on bonds	-	-	(206,000)	(196,000)
NET CASH PROVIDED (USED) BY CAPITAL FINANCING ACTIVITIES	<u>-</u>	<u>-</u>	<u>(386,343)</u>	<u>(422,816)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received on investments	13,191	6,592	37,383	26,984
Transfer from appropriated funds	-	-	-	-
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>13,191</u>	<u>6,592</u>	<u>37,383</u>	<u>26,984</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	63,193	28,327	4,919	(466,051)
CASH AND CASH EQUIVALENTS, JANUARY 1	<u>458,476</u>	<u>430,149</u>	<u>1,135,886</u>	<u>1,601,937</u>
CASH AND CASH EQUIVALENTS, DECEMBER 31	<u>\$ 521,669</u>	<u>\$ 458,476</u>	<u>\$ 1,140,805</u>	<u>\$ 1,135,886</u>

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

Business-type Activities -
Enterprise funds - continued

Wastewater		Electric		Totals	
2005	2004	2005	2004	2005	2004
\$ 1,339,833	\$ 1,472,700	\$ 5,675,986	\$ 5,054,976	\$ 8,057,414	\$ 7,448,956
(783,567)	(476,714)	(5,214,483)	(4,104,090)	(6,415,701)	(4,947,291)
(92,480)	(86,238)	(94,996)	(416,912)	(372,555)	(703,224)
<u>463,786</u>	<u>909,748</u>	<u>366,507</u>	<u>533,974</u>	<u>1,269,158</u>	<u>1,798,441</u>
(15,117)	(224,094)	(241,721)	(97,920)	(266,104)	(512,621)
8,329	(8,329)	(4,902)	(9,293)	3,427	(255,936)
(62,868)	54,208	27,221	(12,769)	(61,365)	67,157
<u>(69,656)</u>	<u>(178,215)</u>	<u>(219,402)</u>	<u>(119,982)</u>	<u>(324,042)</u>	<u>(701,400)</u>
(2,276,828)	(1,852,632)	(436,556)	(574,888)	(2,724,174)	(2,477,348)
(164,906)	(86,865)	-	-	(334,459)	(263,853)
(390,492)	-	-	-	(390,492)	-
-	(21,148)	-	-	-	(21,148)
-	3,148,965	-	-	-	3,148,965
(145,000)	(135,000)	-	-	(351,000)	(331,000)
<u>(2,977,226)</u>	<u>1,053,320</u>	<u>(436,556)</u>	<u>(574,888)</u>	<u>(3,800,125)</u>	<u>55,616</u>
89,892	60,161	133,359	92,668	273,825	186,405
-	-	150,000	-	150,000	-
<u>89,892</u>	<u>60,161</u>	<u>283,359</u>	<u>92,668</u>	<u>423,825</u>	<u>186,405</u>
(2,493,204)	1,845,014	(6,092)	(68,228)	(2,431,184)	1,339,062
<u>4,183,303</u>	<u>2,338,289</u>	<u>817,554</u>	<u>885,782</u>	<u>6,595,219</u>	<u>5,256,157</u>
<u>\$ 1,690,099</u>	<u>\$ 4,183,303</u>	<u>\$ 811,462</u>	<u>\$ 817,554</u>	<u>\$ 4,164,035</u>	<u>\$ 6,595,219</u>

CITY OF MELROSE, MINNESOTA
STATEMENTS OF CASH FLOWS - CONTINUED
PROPRIETARY FUNDS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	Business-type Activities - Enterprise funds			
	Ambulance		Water	
	2005	2004	2005	2004
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Operating income	\$ 14,700	\$ 21,051	\$ 180,477	\$ 85,371
Adjustments to reconcile operating income to net cash provided by operating activities:				
Other income related to operations	6,323	4,763	316	316
Depreciation	14,552	15,983	250,087	241,567
Amortization of bond discount and other assets	-	-	-	1,288
(Increase) decrease in assets:				
Accounts receivable	13,687	(23,491)	(39,107)	2,570
Due from other governments	-	-	-	-
Inventory	-	-	1,329	(2,962)
Prepaid items	390	(85)	80	(1,554)
Increase (decrease) in liabilities:				
Accounts and contracts payable	350	3,584	(3,500)	2,841
Accrued salaries and benefits payable	-	(70)	(819)	3,547
Customer deposits payable	-	-	-	-
 NET CASH PROVIDED BY OPERATING ACTIVITIES	 <u>\$ 50,002</u>	 <u>\$ 21,735</u>	 <u>\$ 388,863</u>	 <u>\$ 332,984</u>
 SCHEDULE OF NONCASH CAPITAL FINANCING ACTIVITIES				
Prior period adjustment	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 410,190</u>
Assets acquired on short-term account	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Disposal of capital assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Contribution of assets from other funds	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 101,349</u>	<u>\$ -</u>
Amortization of bond discount	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,288</u>	<u>\$ -</u>
Proceeds of refunding bonds placed in escrow	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,297,630</u>	<u>\$ -</u>
Discount on bonds issued	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 32,370</u>	<u>\$ -</u>

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

Business-type Activities -
Enterprise funds - continued

Wastewater		Electric		Total	
2005	2004	2005	2004	2005	2004
\$ 153,702	\$ 31,259	\$ 38,297	\$ 10,129	\$ 387,176	\$ 147,810
1,715	14,999	20,991	182,236	29,345	202,314
443,074	437,752	368,950	395,605	1,076,663	1,090,907
-	-	-	-	-	1,288
(1,688)	(25,088)	(25,146)	(54,271)	(52,254)	(100,280)
-	301,364	-	-	-	301,364
646	13,752	26,040	(160,835)	28,015	(150,045)
1,165	(1,428)	(728)	(366)	907	(3,433)
(134,478)	131,246	(59,838)	136,593	(197,466)	274,264
(350)	5,892	(2,866)	21,543	(4,035)	30,912
-	-	807	3,340	807	3,340
<u>\$ 463,786</u>	<u>\$ 909,748</u>	<u>\$ 366,507</u>	<u>\$ 533,974</u>	<u>\$ 1,269,158</u>	<u>\$ 1,798,441</u>
<u>\$ -</u>	<u>\$ 488,091</u>	<u>\$ -</u>	<u>\$ (9,613)</u>	<u>\$ -</u>	<u>\$ 888,668</u>
<u>\$ -</u>	<u>\$ 390,492</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 390,492</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 111,034</u>	<u>\$ -</u>	<u>\$ 111,034</u>
<u>\$ 127,371</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 228,720</u>	<u>\$ -</u>
<u>\$ 7,085</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,373</u>	<u>\$ -</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,297,630</u>	<u>\$ -</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 32,370</u>	<u>\$ -</u>

CITY OF MELROSE, MINNESOTA
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2005

	<u>Agency</u>
ASSETS	
Cash and temporary investments	<u>\$ 260</u>
LIABILITIES	
Accounts payable	<u>\$ 260</u>

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

CITY OF MELROSE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

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 Xcel Energy 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 \$197,432 at December 31, 2005. The total receivable of \$1,155,232 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 31st year end.

CITY OF MELROSE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

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, 2005

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 *2004 I-94 Industrial Park Improvements* fund accounts for the acquisition of capital assets or construction for this major capital project not being financed by proprietary funds.

The *2005 Capital Improvements* fund accounts for the 2005 Trunk Utility Extension & Daylight Court Improvements financed with bond proceeds

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, 2005

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, 2005

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

1. Direct obligations or obligations guaranteed by the United States or its agencies.
2. Shares of investment companies registered under the Federal Investment Company Act of 1940 and whose only investments are in securities in (a) above.
3. General obligations of the State of Minnesota or any of its municipalities.
4. Banker's acceptances of United States banks eligible for purchase by the Federal Reserve System.
5. Commercial paper issued by United States banks corporations or their Canadian subsidiaries, of highest quality, and maturing in 270 days or less.
6. 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.
7. 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, 2005.

CITY OF MELROSE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

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:

Demand side management funds	\$ 321,947
Future plant expansion	3,000,000
Future capital projects	<u>500,000</u>
Total	<u><u>\$ 3,821,947</u></u>

CITY OF MELROSE, MINNESOTA
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2005

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, 2005

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, 2005

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 15th, 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 no budget amendments during the year.

B. Deficit Fund Equity

The following funds had fund balance deficits at December 31, 2005 that will be eliminated with transfers from other funds:

<u>Fund</u>	<u>Amount</u>
Special revenue	
Melrose Area Development Authority	\$ 175,757
Parks and Recreation	539,119
Capital projects	
Tri Quality Improvement	4,190
EBM Improvement	4,220

CITY OF MELROSE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

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 (140 percent in the case of mortgage notes pledged).

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 \$12,050,578 and the bank balance was \$12,240,364. Of the bank balance, \$900,000 was covered by federal depository insurance and \$11,340,364 was covered by collateral held by the City's agent in the City's name.

Investments

At year end, the City's investment balances were as follows:

Types of Investments	Credit Quality/ Ratings (1)	Segmented Time Distribution (2)	Fair Value and Carrying Amount	Cost
Non-pooled investments				
U.S. Government Securities	AAA	1 to 3 years	<u>\$ 150,000</u>	<u>\$ 150,000</u>

(1) Ratings were provided by Moodys.

(2) Interest rate risk is disclosed using the segmented time distribution method.

Cash on Hand

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

CITY OF MELROSE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

Note 3: DETAILED NOTES ON ALL FUNDS – CONTINUED

Cash Summary

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

Carrying amount of deposits	\$ 12,050,578
Investments	150,000
Cash on hand	<u>703</u>
Total	<u><u>\$ 12,201,281</u></u>
Cash	
Government wide	\$ 12,201,021
Agency	<u>260</u>
Total	<u><u>\$ 12,201,281</u></u>

B. Loans Receivable

The City has funds available for loans to local businesses. At December 31, 2005 the City has loans outstanding totaling \$342,434 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, 2005 is comprised of the following:

	Unavailable	Unearned
General		
Delinquent taxes	\$ 12,481	\$ -
Special assessments	-	-
Interfund borrowing		4,673
Due from Centracare	-	1,155,232
Capital Improvements		
Special assessments	416,545	-
Debt Service		
Special assessments	939,434	-
Nonmajor governmental		
Interfund borrowing	<u>279,141</u>	<u>-</u>
Total	<u><u>\$ 1,647,601</u></u>	<u><u>\$ 1,159,905</u></u>

CITY OF MELROSE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

D. Capital Assets

Capital asset activity for the year ended December 31, 2005 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets, not being depreciated				
Land	\$ 2,482,421	\$ 32,950	\$ -	\$ 2,515,371
Construction in progress	2,010,768	1,546,522	(362,551)	3,194,739
Total capital assets, not being depreciated	<u>4,493,189</u>	<u>1,579,472</u>	<u>(362,551)</u>	<u>5,710,110</u>
Capital assets, being depreciated				
Buildings	2,495,019	-	-	2,495,019
Machinery and equipment	1,565,956	50,102	-	1,616,058
Infrastructure	8,438,699	133,831	-	8,572,530
Total capital assets being depreciated	<u>12,499,674</u>	<u>183,933</u>	<u>-</u>	<u>12,683,607</u>
Less accumulated depreciation for				
Buildings	(748,238)	(66,948)	-	(815,186)
Machinery and equipment	(541,775)	(110,420)	-	(652,195)
Infrastructure	(1,529,874)	(244,393)	-	(1,774,267)
Total accumulated depreciation	<u>(2,819,888)</u>	<u>(421,761)</u>	<u>-</u>	<u>(3,241,648)</u>
Total capital assets, being depreciated, net	<u>9,679,786</u>	<u>(237,828)</u>	<u>-</u>	<u>9,441,959</u>
Governmental activities capital assets, net	<u>\$ 14,172,975</u>	<u>\$ 1,341,644</u>	<u>\$ (362,551)</u>	<u>\$ 15,152,069</u>

CITY OF MELROSE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities				
Capital assets, not being depreciated				
Land	\$ 246,376	\$ -	\$ -	\$ 246,376
Construction in progress	3,073,481	2,430,453	(5,503,934)	-
Total capital assets, not being depreciated	3,319,857	2,430,453	(5,503,934)	246,376
Capital assets, being depreciated				
Buildings	2,510,920	-	-	2,510,920
Machinery and equipment	950,453	425,808	-	1,376,261
Infrastructure	25,400,475	5,607,398	(1,008,082)	29,999,791
Total capital assets being depreciated	28,858,930	6,033,206	(1,008,082)	33,886,972
Less accumulated depreciation for				
Buildings	(1,608,906)	(85,738)	-	(1,694,644)
Machinery and equipment	(465,061)	(75,094)	-	(540,155)
Infrastructure	(9,223,759)	(915,831)	(746,952)	(9,392,638)
Total accumulated depreciation	(11,297,726)	(1,076,663)	(746,952)	(11,627,437)
Total capital assets, being depreciated, net	17,561,204	4,956,543	(1,755,034)	22,259,535
Business-type activities capital assets, net	\$ 20,881,061	\$ 7,386,996	\$ (7,258,968)	\$ 22,505,911
 Governmental activities				
General government				\$ 74,295
Public safety				54,129
Public works				282,978
Culture and recreation				10,359
Total depreciation expense - governmental activities				\$ 421,761
 Business-type activities				
Ambulance				\$ 14,552
Water				250,087
Wastewater				443,074
Electric				368,950
Total depreciation expense - business-type activities				\$ 1,076,663

CITY OF MELROSE, MINNESOTA
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2005

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

E. Interfund Receivables, Payables and Transfers

Interfund Balances

Receivable Fund	Payable Fund	Amount
General	Electric	\$ 198,203
	Capital Improvements	31,775
Nonmajor governmental funds	General	4,673
	Capital Improvements	581,162
	Electric	96,000
	Nonmajor governmental fund	279,141
Electric	General	60,973
Total		<u>\$ 1,251,927</u>

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

Interfund Transfers

Fund	Transfer in:				Total
	General fund	Capital Improvements	2004 I-94 Industrial Park Improvements	Nonmajor governmental funds	
Transfer out:					
General	\$ -	\$ 76,978	\$ -	\$ 402,263	\$ 479,241
Capital improvements	79,828	-	-	147,522	227,350
Water enterprise	-	-	-	9,266	9,266
Wastewater enterprise	-	-	-	15,117	15,117
Electric enterprise	51,721	-	-	190,000	241,721
Total transfers out	<u>\$ 131,549</u>	<u>\$ 76,978</u>	<u>\$ -</u>	<u>\$ 764,168</u>	<u>\$ 972,695</u>

The transfer from the General fund to MADA was done to fund their budgeted expenditures and to eliminate interfund borrowing.

The transfer from the General fund to the Capital Improvement Fund was a result of transferring unspent budgeted costs.

The transfer from the General fund to the Fire fund was for the City's share of fire department operations.

The transfer from the General fund to the Parks and Recreation fund was done to fund their budgeted expenditures.

The transfer from Capital Improvement to the General fund was completed for capital costs approved in prior years but purchased in the current year and the annual transfer of interest for General fund operating costs.

The transfer from the Capital Improvement fund to a nonmajor capital project fund was completed to internally finance the project and to eliminate the interfund loan between other funds.

The transfer from the Electric fund to the General fund was for the electric share of the City Center lease payment.

The transfer from the Electric fund to the Revolving loan fund was for the transfer of revolving loan funds.

The transfers from the Water and Wastewater were completed for their share of Railroad Avenue Improvements.

CITY OF MELROSE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

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 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 Bonds

The following bonds were issued to purchase equipment. They are backed by the full faith and credit of the City.

	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
G.O. Equipment Certificates	\$ 280,000	2.25 - 2.50 %	03/01/03	12/01/07	<u>\$ 145,000</u>

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

Year Ending December 31,	Governmental Activities		
	Principal	Interest	Total
2006	\$ 70,000	\$ 3,450	\$ 73,450
2007	75,000	1,875	76,875
Total	<u>\$ 145,000</u>	<u>\$ 5,325</u>	<u>\$ 150,325</u>

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.

	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	\$ 665,000
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	3.00 - 4.40	09/01/05	02/01/21	<u>2,545,000</u>
Total G.O. Improvement Bonds					<u>\$ 4,195,000</u>

CITY OF MELROSE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

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

Year Ending December 31,	Governmental Activities		
	Principal	Interest	Total
2006	\$ 60,000	\$ 155,966	\$ 215,966
2007	140,000	161,040	301,040
2008	165,000	156,075	321,075
2009	250,000	149,065	399,065
2010	290,000	139,750	429,750
2011 - 2015	1,450,000	534,528	1,984,528
2016 - 2020	1,615,000	222,270	1,837,270
2021 - 2024	225,000	4,950	229,950
Total	<u>\$ 4,195,000</u>	<u>\$ 1,523,644</u>	<u>\$ 5,718,644</u>

Capital Leases Payable

During 1989, the City entered into a lease agreement, with option to purchase, as lessee for financing the construction of a City administration office, library, police and community center. The total estimated project cost was \$2,000,000 and was financed by a financial group. The original lease was refunded with new certificates in 1997. Title remains with the City during this period so long as they are not in default of terms in the lease agreement. The City is responsible for all operating expenses, insurance, etc. The lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the date of its inception. This obligation is not backed by the full faith and credit of the City.

	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
Refunding Certificates of Participation and Capital Lease	\$ 1,530,000	5.75 %	12/01/97	08/01/06	<u>\$ 200,000</u>

Annual requirement to maturity for capital leases is as follows:

Year Ending December 31,	Governmental Activities		
	Principal	Interest	Total
2006	<u>\$ 200,000</u>	<u>\$ 7,425</u>	<u>\$ 207,425</u>

CITY OF MELROSE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

Note 3: DETAILED NOTES ON ALL FUNDS- CONTINUED

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 of \$15,211 through March 31, 2009.

Total loans payable \$ 191,621

Annual requirement to maturity for loans payable is as follows:

Year Ending December 31,	Governmental Activities		
	Principal	Interest	Total
2006	\$ 57,396	\$ 3,448	\$ 60,844
2007	58,568	2,276	60,844
2008	59,761	1,083	60,844
2009	15,896	80	15,976
Total	<u>\$ 191,621</u>	<u>\$ 6,887</u>	<u>\$ 198,508</u>

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.

	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
G.O. Water Revenue Bonds of 1998	\$ 1,890,000	4.55 - 5.20 %	04/01/98	08/01/20	\$ 1,520,000
G.O. Wastewater Revenue Bonds of 1998	1,350,000	4.55 - 4.70	04/01/98	08/01/08	470,000
1999 PFA Loan - Wells 8 and 9	599,219	3.54	04/22/99	08/20/18	451,000
1999 PFA Loan - Water Tower	2,500,000	3.48	05/27/99	08/20/19	1,990,700
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 Refuning	1,330,000	3.20 4.25	09/01/05	08/01/20	1,330,000
Total G.O. Revenue Bonds					<u>\$ 8,991,700</u>

CITY OF MELROSE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

Revenue bonds debt service requirements to maturity are as follows:

Year Ending December 31,	Governmental Activities		
	Principal	Interest	Total
2006	\$ 60,000	\$ 155,966	\$ 215,966
2007	140,000	161,040	301,040
2008	165,000	156,075	321,075
2009	250,000	149,065	399,065
2010	290,000	139,750	429,750
2011 - 2015	1,450,000	534,528	1,984,528
2016 - 2020	1,615,000	222,270	1,837,270
2021 - 2024	225,000	4,950	229,950
Total	<u>\$ 4,195,000</u>	<u>\$ 1,523,644</u>	<u>\$ 5,718,644</u>

Changes in Long-term Liabilities. Long-term liability activity for the year ended December 31, 2005, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Governmental activities					
Bonds payable					
General obligation					
improvement bonds	\$ 1,710,000	\$ 2,545,000	\$ (60,000)	\$ 4,195,000	\$ 60,000
General obligation bonds	215,000	-	(70,000)	145,000	70,000
Capital leases	390,000	-	(190,000)	200,000	200,000
Loans	247,867	-	(56,246)	191,621	57,396
Total bonds payable	<u>2,562,867</u>	<u>2,545,000</u>	<u>(376,246)</u>	<u>4,731,621</u>	<u>387,396</u>
Compensated absences	<u>46,215</u>	<u>44,059</u>	<u>(46,215)</u>	<u>44,059</u>	<u>16,678</u>
Governmental activity long-term liabilities	<u>\$ 2,609,082</u>	<u>\$ 2,589,059</u>	<u>\$ (422,461)</u>	<u>\$ 4,775,680</u>	<u>\$ 404,074</u>
Business-type activities					
Bonds payable					
General obligation					
revenue bonds	\$ 8,012,700	\$ 1,330,000	\$ (351,000)	8,991,700	361,000
Compensated absences	<u>58,208</u>	<u>54,173</u>	<u>(58,208)</u>	<u>54,173</u>	<u>18,315</u>
Business-type activity long-term liabilities	<u>\$ 8,070,908</u>	<u>\$ 1,384,173</u>	<u>\$ (409,208)</u>	<u>\$ 9,045,873</u>	<u>\$ 379,315</u>

CITY OF MELROSE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

Crossover Refunding

On September 1, 2005 the City issued General Obligation Refunding Bonds, Series 2005 for \$1,330,000. The Refunding Bonds were issued with a net interest cost of 3.933 percent to refund the 2009 through 2020 maturities of the City's General Obligation Water and Sewer Revenue Bonds, Series 1998. The refunded bonds earned an average coupon rate of 5.13 percent. It is estimated that the City will reduce its aggregate debt service payments by approximately \$85,137 over the 12 years and obtain an economic gain (difference between the present values of the old and new debt service payments) of \$48,622. The net proceeds of the 2005 bonds will provide for payment of interest on the 2005 issue and to call \$1,295,000 of bonds outstanding on February 1, 2008.

G. Tax Increment Districts

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

	<u>Jennie-O No. 4</u>	<u>Post Office No. 6</u>	<u>Park Place No. 7</u>
Authorizing law	M.S. 469	M.S. 469	M.S. 469
Type of district	Redevelopment	Redevelopment	Housing
Year established	6/93	4/94	6/97
Duration of district	23 years	23 years	25 years
Tax capacity			
Original	\$ 15,346	\$ 591	\$ 600
Current	<u>15,074</u>	<u>4,460</u>	<u>13,846</u>
Captured - retained	<u>\$ -</u>	<u>\$ 3,869</u>	<u>\$ 13,246</u>
	<u>Marine and Sport</u>	<u>Carstens Ind., Inc.</u>	<u>EBM # 5</u>
Authorizing law	M.S. 469	M.S. 469	M.S. 469
Type of district	Economic	Economic	Redevelopment
Year established	6/99	7/00	8/27/2004
Duration of district	9 years	9 years	26 years
Tax capacity			
Original	\$ 765	\$ 2,854	\$ 2,066
Current	<u>5,536</u>	<u>7,998</u>	<u>2,148</u>
Captured - retained	<u>\$ 4,771</u>	<u>\$ 5,144</u>	<u>\$ 82</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, 2005

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	
Fund balance - Reserved			
General	Prepaid items	\$ 4,162	
	Due from other funds	65,646	
Debt service	Debt service	194,873	
Nonmajor governmental	Prepaid items	2,009	
	Loans	394,859	
Total reserved fund balance		<u>\$ 661,549</u>	
Fund balance - Unreserved - Designated			
General	Insurance reserve	\$ 4,892	
	Compensated absences	27,381	
	Working capital	550,000	
	Police car replacement	16,571	
Capital Improvements	Future land development	75,554	
	Public Works equipment	8,656	
	Office equipment	20,165	
	Street improvements	78,779	
	Police equipment	12,994	
	Planning and zoning	11,460	
	Sidewalk program	12,472	
	Capital equipment	1,989,755	
	Nonmajor governmental	Loans	10,133
		Soccer	422
Senior Center		2,735	
Building		854	
Fire protective gear		30,535	
Fire vehicle replacement		76,778	
Total designated fund balance		<u>\$ 2,930,136</u>	

CITY OF MELROSE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

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, 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, 2005

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 9.10 percent and 5.10 percent, respectively, of their annual covered salary. PEPFF members are required to contribute 6.20 percent of their annual covered salary. The City is required to contribute the following percentages of annual covered payroll: 11.78 percent for Basic Plan PERF members and 5.53 percent for Coordinated Plan PERF members. The City's contributions to the PERF for the year ended December 31, 2005, 2004 and 2003 were \$57,465, \$58,319 and \$63,757, respectively. The City's contributions to the PEPFF for the years ending December 31, 2005, 2004 and 2003 were \$21,184, \$19,643 and \$18,291, 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 2 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 2004 taxable market value of property was \$135,684,400 and the debt limit was \$2,713,688. There was \$145,000 of 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, 2005

Note 6: 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, Post Office Box 216, 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	\$	28,904
Contributions made		
City (Voluntary)		2,377
City (Required)		2,215
State Aid		26,689
Actuarial valuation date		12/31/05
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, 2005

Note 6: VOLUNTEER FIREFIGHTER'S RELIEF ASSOCIATION

Year Ending	Three Year Trend Information		
	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
12/31/05	\$ 28,904	108.2 %	\$ -
12/31/04	27,865	103.4	-
12/31/03	24,459	108.0	-

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
12/31/05	\$ 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, 2005

CITY OF MELROSE, MINNESOTA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
DECEMBER 31, 2005

	Special Revenue	Capital Projects	Total Nonmajor Governmental Funds
ASSETS			
Cash and temporary investments	\$ 151,468	\$ 758,510	\$ 909,978
Receivables			
Accrued interest	2,672	8,534	11,206
Loans	342,434	-	342,434
Accounts - net	4,863	-	4,863
Due from other governments	283,814	-	283,814
Due from other funds	-	279,141	279,141
Prepaid items	2,009	-	2,009
	<u>\$ 787,260</u>	<u>\$ 1,046,185</u>	<u>\$ 1,833,445</u>
TOTAL ASSETS			
LIABILITIES AND FUND BALANCES (DEFICITS)			
LIABILITIES			
Accounts payable	\$ 18,113	\$ 17,876	\$ 35,989
Due to other funds	960,976	-	960,976
Deferred revenue	-	279,141	279,141
	<u>979,089</u>	<u>297,017</u>	<u>1,276,106</u>
TOTAL LIABILITIES			
FUND BALANCES (DEFICITS)			
Reserved for prepaid items	2,009	-	2,009
Reserved for loans	394,859	-	394,859
Unreserved			
Designated	121,457	-	121,457
Undesignated	(710,154)	749,168	39,014
	<u>(191,829)</u>	<u>749,168</u>	<u>557,339</u>
TOTAL FUND BALANCES (DEFICITS)			
TOTAL LIABILITIES AND FUND BALANCES (DEFICITS)			
	<u>\$ 787,260</u>	<u>\$ 1,046,185</u>	<u>\$ 1,833,445</u>

CITY OF MELROSE, MINNESOTA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES (DEFICITS)
FOR THE YEAR ENDED DECEMBER 31, 2005

	Special Revenue	Capital Projects	Total Nonmajor Governmental Funds
REVENUES			
Tax increments	\$ 32,404	\$ -	\$ 32,404
Intergovernmental	26,689	-	26,689
Charges for services	71,020	-	71,020
Interest on investments	10,626	11,261	21,887
Miscellaneous	63,175	-	63,175
TOTAL REVENUES	203,914	11,261	215,175
EXPENDITURES			
Current			
Public safety	112,602	-	112,602
Culture and recreation	82,859	-	82,859
Economic development	125,338	-	125,338
Capital outlay			
Public works	-	122,109	122,109
Debt service			
Principal	56,240	-	56,240
Interest and other charges	36,519	-	36,519
TOTAL EXPENDITURES	413,558	122,109	535,667
DEFICIENCY OF REVENUES UNDER EXPENDITURES	(209,644)	(110,848)	(320,492)
OTHER FINANCING SOURCES			
Sale of capital assets	31,133		31,133
Transfers in	592,263	171,905	764,168
Bond proceeds	-	635,910	635,910
Discount on bonds issued	-	(10,674)	(10,674)
TOTAL OTHER FINANCING SOURCES	623,396	797,141	1,420,537
NET CHANGE IN FUND BALANCES	413,752	686,293	1,100,045
FUND BALANCES (DEFICITS), JANUARY 1	(605,581)	62,875	(542,706)
FUND BALANCES (DEFICITS), DECEMBER 31	\$ (191,829)	\$ 749,168	\$ 557,339

CITY OF MELROSE, MINNESOTA
NONMAJOR SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
DECEMBER 31, 2005

	Business Improvement Loans	Melrose Area Development Authority (MADA)	Parks and Recreation	MADA Revolving Loan
ASSETS				
Cash and temporary investments (deficit)	\$ 10,133	\$ 25,616	\$ (69,899)	\$ 55,093
Receivable				
Accrued interest	-	520	524	-
Loans	-	2,668	-	339,766
Accounts - net	-	2,843	-	-
Due from other governments	-	-	-	-
Prepaid items	-	27	592	-
TOTAL ASSETS	<u>\$ 10,133</u>	<u>\$ 31,674</u>	<u>\$ (68,783)</u>	<u>\$ 394,859</u>
LIABILITIES AND FUND BALANCES (DEFICITS)				
LIABILITIES				
Accounts payable	\$ -	\$ 247	\$ 358	\$ -
Due to other funds	-	207,184	469,978	-
TOTAL LIABILITIES	<u>-</u>	<u>207,431</u>	<u>470,336</u>	<u>-</u>
FUND BALANCES (DEFICITS)				
Reserved for prepaid items	-	27	592	-
Reserved for outstanding loans	-	-	-	394,859
Unreserved				
Designated	10,133	-	-	-
Undesignated	-	(175,784)	(539,711)	-
TOTAL FUND BALANCES (DEFICITS)	<u>10,133</u>	<u>(175,757)</u>	<u>(539,119)</u>	<u>394,859</u>
TOTAL LIABILITIES AND FUND BALANCES (DEFICITS)	<u>\$ 10,133</u>	<u>\$ 31,674</u>	<u>\$ (68,783)</u>	<u>\$ 394,859</u>

Soccer League	Senior Activity Center	PIA Asset Building	Fire Department	Tax Increment Projects	Total
\$ 422	\$ 2,735	\$ 854	\$ 112,730	\$ 13,784	\$ 151,468
-	-	-	1,628	-	2,672
-	-	-	-	-	342,434
-	-	-	2,020	-	4,863
-	-	-	-	283,814	283,814
-	-	-	1,390	-	2,009
<u>\$ 422</u>	<u>\$ 2,735</u>	<u>\$ 854</u>	<u>\$ 117,768</u>	<u>\$ 297,598</u>	<u>\$ 787,260</u>
\$ -	\$ -	\$ -	\$ 3,724	\$ 13,784	\$ 18,113
-	-	-	-	283,814	960,976
-	-	-	3,724	297,598	979,089
-	-	-	1,390	-	2,009
-	-	-	-	-	394,859
422	2,735	854	107,313	-	121,457
-	-	-	5,341	-	(710,154)
<u>422</u>	<u>2,735</u>	<u>854</u>	<u>114,044</u>	<u>-</u>	<u>(191,829)</u>
<u>\$ 422</u>	<u>\$ 2,735</u>	<u>\$ 854</u>	<u>\$ 117,768</u>	<u>\$ 297,598</u>	<u>\$ 787,260</u>

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, 2005

	Business Improvement Loans	Melrose Area Development Authority (MADA)	Parks and Recreation	MADA Revolving Loan
REVENUES				
Tax increments	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	-	-	-
Charges for services	-	-	5,604	-
Interest on investments	183	972	567	7,121
Miscellaneous				
Contributions and donations	-	-	40,300	-
Other	-	2,920	50	-
TOTAL REVENUES	183	3,892	46,521	7,121
EXPENDITURES				
Current				
Personal services	-	1,711	43,640	-
Supplies	-	261	10,288	-
Other services and charges	7,500	82,492	26,159	-
Debt service				
Principal	-	-	-	56,240
Interest and other charges	-	9,687	22,228	4,604
TOTAL EXPENDITURES	7,500	94,151	102,315	60,844
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(7,317)	(90,259)	(55,794)	(53,723)
OTHER FINANCING SOURCES				
Sale of capital assets	-	30,000	-	-
Transfers in	-	222,031	119,248	190,000
TOTAL OTHER FINANCING SOURCES	-	252,031	119,248	190,000
NET CHANGE IN FUND BALANCES	(7,317)	161,772	63,454	136,277
FUND BALANCES (DEFICITS), JANUARY 1	17,450	(337,529)	(602,573)	258,582
FUND BALANCES (DEFICITS), DECEMBER 31	\$ 10,133	\$ (175,757)	\$ (539,119)	\$ 394,859

Soccer League	Senior Activity Center	PIA Asset Building	Fire Department	Tax Increment Projects	Total
\$ -	\$ -	\$ -	\$ -	\$ 32,404	\$ 32,404
-	-	-	26,689	-	26,689
-	-	-	65,416	-	71,020
-	-	-	1,783	-	10,626
-	-	-	-	-	-
-	-	-	11,878	-	52,178
-	3,691	-	4,336	-	10,997
-	3,691	-	110,102	32,404	203,914
-	-	-	54,811	-	100,162
-	-	-	26,824	-	37,373
-	2,772	970	30,967	32,404	183,264
-	-	-	-	-	56,240
-	-	-	-	-	36,519
-	2,772	970	112,602	32,404	413,558
-	919	(970)	(2,500)	-	(209,644)
-	-	-	1,133	-	31,133
-	-	-	60,984	-	592,263
-	-	-	62,117	-	623,396
-	919	(970)	59,617	-	413,752
422	1,816	1,824	54,427	-	(605,581)
\$ 422	\$ 2,735	\$ 854	\$ 114,044	\$ -	\$ (191,829)

CITY OF MELROSE, MINNESOTA
NONMAJOR CAPITAL PROJECTS FUNDS
COMBINING BALANCE SHEET
DECEMBER 31, 2005

	1992 Abandoned Railroad Property Project	2003 Capital Improvements	2003 Equipment	Kraft Drive Extension
ASSETS				
Cash and temporary investments (deficit)	\$ 503	\$ 5,045	\$ 120,932	\$ 632,030
Accrued interest receivable	-	-	1,991	6,543
Due from other funds	279,141	-	-	-
TOTAL ASSETS	\$ 279,644	\$ 5,045	\$ 122,923	\$ 638,573
LIABILITIES AND FUND BALANCES (DEFICITS)				
LIABILITIES				
Accounts payable	\$ -	\$ 5,045	\$ 3,540	\$ 881
Deferred revenue	279,141	-	-	-
TOTAL LIABILITIES	279,141	5,045	3,540	881
FUND BALANCES (DEFICITS)				
Unreserved - undesignated	503	-	119,383	637,692
TOTAL LIABILITIES AND FUND BALANCES (DEFICITS)	\$ 279,644	\$ 5,045	\$ 122,923	\$ 638,573

<u>Tri Quality Improvement</u>	<u>EBM Improvements</u>	<u>Total</u>
\$ -	\$ -	\$ 758,510
-	-	8,534
-	-	279,141
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,046,185</u>
\$ 4,190	\$ 4,220	\$ 17,876
-	-	279,141
<u>4,190</u>	<u>4,220</u>	<u>297,017</u>
(4,190)	(4,220)	749,168
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,046,185</u>

CITY OF MELROSE, MINNESOTA
NONMAJOR CAPITAL PROJECTS FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES (DEFICITS)
FOR THE YEAR ENDED DECEMBER 31, 2005

	1992 Abandoned Railroad Property Project	2003 Capital Improvements	2003 Equipment	Kraft Drive Extension
REVENUES				
Interest on investments	\$ 4	\$ 40	\$ 4,200	\$ 7,017
EXPENDITURES				
Capital outlay				
Public works	-	30,168	50,409	33,122
Culture and recreation	-	-	-	-
Economic development	-	-	-	-
TOTAL EXPENDITURES	-	30,168	50,409	33,122
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	4	(30,128)	(46,209)	(26,105)
OTHER FINANCING SOURCES				
Transfers in	147,522	24,383	-	-
Bond proceeds	-	-	-	635,910
Discount on bonds issued	-	-	-	(10,674)
TOTAL OTHER FINANCING SOURCES	147,522	24,383	-	625,236
NET CHANGE IN FUND BALANCES	147,526	(5,745)	(46,209)	599,131
FUND BALANCES (DEFICITS), JANUARY 1	(147,023)	5,745	165,592	38,561
FUND BALANCES (DEFICITS), DECEMBER 31	\$ 503	\$ -	\$ 119,383	\$ 637,692

<u>Tri Quality Improvement</u>	<u>EBM Improvements</u>	<u>Total</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,261</u>
<u>4,190</u>	<u>4,220</u>	<u>122,109</u>
<u>-</u>	<u>-</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>-</u>
<u>4,190</u>	<u>4,220</u>	<u>122,109</u>
<u>(4,190)</u>	<u>(4,220)</u>	<u>(110,848)</u>
<u>-</u>	<u>-</u>	<u>171,905</u>
<u>-</u>	<u>-</u>	<u>635,910</u>
<u>-</u>	<u>-</u>	<u>(10,674)</u>
<u>-</u>	<u>-</u>	<u>797,141</u>
<u>(4,190)</u>	<u>(4,220)</u>	<u>686,293</u>
<u>-</u>	<u>-</u>	<u>62,875</u>
<u>\$ (4,190)</u>	<u>\$ (4,220)</u>	<u>\$ 749,168</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, 2005
(With comparative actual amounts for the year ended December 31, 2004)

	2005			Variance with Final Budget - Positive (Negative)	2004
	Budgeted Amounts		Actual Amounts		Actual Amounts
	Original	Final			
REVENUES					
Taxes					
Property taxes	\$ 444,326	\$ 444,326	\$ 537,739	\$ 93,413	\$ 445,007
Cable franchise fees	21,126	21,126	22,407	1,281	21,738
Total	465,452	465,452	560,146	94,694	466,745
Licenses and permits					
Business	16,180	16,180	15,055	(1,125)	16,363
Nonbusiness	30,350	30,350	28,121	(2,229)	30,310
Total	46,530	46,530	43,176	(3,354)	46,673
Intergovernmental					
State					
Local government aid	631,484	631,484	631,484	-	621,282
Property tax credits	177,071	177,071	92,277	(84,794)	86,665
Police state aid	21,469	21,469	19,643	(1,826)	18,292
Other	5,091	5,091	5,246	155	5,097
Total	835,115	835,115	748,650	(86,465)	731,336
Charges for services					
General government	220,474	220,474	317,194	96,720	228,392
Public safety	1,400	1,400	1,779	379	1,640
Public works	17,584	17,584	21,374	3,790	20,011
Culture and recreation	3,000	3,000	3,174	174	2,708
Total	242,458	242,458	343,521	101,063	252,751
Special assessments	-	-	45	45	-
Fines and forfeitures	17,000	17,000	14,730	(2,270)	24,270
Interest on investments	6,000	6,000	20,226	14,226	12,447
Miscellaneous					
Contributions and donations	-	-	197	197	200
Other	2,000	2,000	19,715	17,715	22,589
Total	2,000	2,000	19,912	17,912	22,789
TOTAL REVENUES	1,614,555	1,614,555	1,750,406	135,851	1,557,011

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, 2005
(With comparative actual amounts for the year ended December 31, 2004)

	2005			Variance with Final Budget - Positive (Negative)	2004
	Budgeted Amounts		Actual Amounts		Actual Amounts
	Original	Final			
EXPENDITURES					
Current					
General government					
Legislative					
Personal services	\$ 13,025	\$ 13,025	\$ 12,962	\$ 63	\$ 12,962
Other services and charges	4,320	4,320	2,314	2,006	2,081
Total	17,345	17,345	15,276	2,069	15,043
Executive					
Personal services	4,333	4,333	4,306	27	4,333
Other services and charges	675	675	20	655	-
Total	5,008	5,008	4,326	682	4,333
City administrator					
Personal services	37,131	37,131	38,890	(1,759)	31,984
Supplies	-	-	163	(163)	199
Other services and charges	900	900	7,493	(6,593)	368
Total	38,031	38,031	46,546	(8,515)	32,551
Financial administration					
Personal services	133,472	133,472	133,787	(315)	127,029
Supplies	5,000	5,000	3,759	1,241	3,825
Other services and charges	70,766	70,766	79,047	(8,281)	81,422
Total	209,238	209,238	216,593	(7,355)	212,276
Assessing					
Personal services	10,734	10,734	10,369	365	9,937
Other services and charges	375	375	242	133	102
Total	11,109	11,109	10,611	498	10,039
Cable communications					
Other services and charges	23,434	23,434	24,922	(1,488)	23,982
City attorney					
Other services and charges	44,050	44,050	69,547	(25,497)	41,818

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, 2005
(With comparative actual amounts for the year ended December 31, 2004)

	2005			Variance with Final Budget - Positive (Negative)	2004
	Budgeted Amounts		Actual Amounts		Actual Amounts
	Original	Final			
EXPENDITURES - CONTINUED					
Current - Continued					
General government - Continued					
Planning and zoning					
Personal services	\$ 2,153	\$ 2,153	\$ 2,158	\$ (5)	\$ 1,620
Other services and charges	3,500	3,500	1,559	1,941	1,403
Total	5,653	5,653	3,717	1,936	3,023
Total general government	353,868	353,868	391,538	(37,670)	343,065
Public safety					
Police					
Personal services	349,568	349,568	316,107	33,461	316,469
Supplies	19,200	19,200	19,437	(237)	17,077
Other services and charges	40,050	40,050	34,763	5,287	30,887
Total	408,818	408,818	370,307	38,511	364,433
Building inspection					
Other services and charges	26,765	26,765	27,573	(808)	25,770
Fire					
Other services and charges	-	-	-	-	123
Total public safety	435,583	435,583	397,880	37,703	390,326
Streets and highways					
Streets					
Personal services	187,850	187,850	183,654	4,196	174,050
Supplies	29,950	29,950	34,151	(4,201)	35,864
Other services and charges	30,530	30,530	26,460	4,070	29,894
Total	248,330	248,330	244,265	4,065	239,808
Snow and ice removal					
Personal services	36,692	36,692	35,884	808	17,737
Supplies	18,500	18,500	23,865	(5,365)	14,410
Other services and charges	300	300	40	260	526
Total	55,492	55,492	59,789	(4,297)	32,673

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, 2005
(With comparative actual amounts for the year ended December 31, 2004)

	2005			Variance with Final Budget - Positive (Negative)	2004
	Budgeted Amounts		Actual Amounts		Actual Amounts
	Original	Final			
EXPENDITURES - CONTINUED					
Current - Continued					
Streets and highways - continued					
Street lighting					
Other services and charges	\$ 15,000	\$ 15,000	\$ 20,520	\$ (5,520)	\$ 16,122
Total streets and highways	318,822	318,822	324,574	(5,752)	288,603
Sanitation					
Supplies	1,000	1,000	908	92	644
Other services and charges	2,000	2,000	2,320	(320)	3,003
Total sanitation	3,000	3,000	3,228	(228)	3,647
Economic development					
Industrial/commercial development					
Personal services	66,401	66,401	66,920	(519)	62,656
Other services and charges	6	6	6	-	6
Total economic development	66,407	66,407	66,926	(519)	62,662
Total current expenditures	1,177,680	1,177,680	1,184,146	(6,466)	1,088,303
Capital outlay					
General government	-	-	10,200	(10,200)	-
Street and highways	128,000	128,000	52,732	75,268	11,838
Total capital outlay	128,000	128,000	62,932	65,068	11,838
Debt service					
Principal	204,977	204,977	190,000	14,977	180,000
Interest and other charges	19,504	19,504	26,251	(6,747)	28,386
Total debt service	224,481	224,481	216,251	8,230	208,386
TOTAL EXPENDITURES	1,530,161	1,530,161	1,463,329	66,832	1,308,527
EXCESS OF REVENUES OVER EXPENDITURES					
	84,394	84,394	287,077	202,683	248,484

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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, 2005
(With comparative actual amounts for the year ended December 31, 2004)

	2005			Variance with Final Budget - Positive (Negative)	2004
	Budgeted Amounts		Actual Amounts		Actual Amounts
	Original	Final			
OTHER FINANCING SOURCES (USES)					
Sale of land	\$ -	\$ -	\$ 26,850	\$ 26,850	\$ 80,700
Transfers in	130,838	130,838	131,549	711	127,806
Transfers out	(215,232)	(215,232)	(479,241)	(264,009)	(349,355)
 TOTAL OTHER FINANCING SOURCES (USES)	 (84,394)	 (84,394)	 (320,842)	 (236,448)	 (140,849)
 NET CHANGE IN FUND BALANCES	 -	 -	 (33,765)	 (33,765)	 107,635
FUND BALANCES, JANUARY 1	795,601	795,601	795,601	-	687,966
FUND BALANCES, DECEMBER 31	<u>\$ 795,601</u>	<u>\$ 795,601</u>	<u>\$ 761,836</u>	<u>\$ (33,765)</u>	<u>\$ 795,601</u>

CITY OF MELROSE, MINNESOTA
DEBT SERVICE FUNDS
COMBINING BALANCE SHEET
DECEMBER 31, 2005

	Improvement Bonds of 2002	Equipment Certificates of 2003	Improvement Bonds of 2004	Improvement Bonds of 2005	Total
ASSETS					
Cash and temporary investments	\$ 103,762	\$ 8,134	\$ 76,428	\$ 5,459	\$ 193,783
Accrued interest receivable	545	-	545	-	1,090
Special assessments receivable					
Deferred	<u>168,821</u>	<u>-</u>	<u>210,000</u>	<u>560,613</u>	<u>939,434</u>
TOTAL ASSETS	<u><u>\$ 273,128</u></u>	<u><u>\$ 8,134</u></u>	<u><u>\$ 286,973</u></u>	<u><u>\$ 566,072</u></u>	<u><u>\$ 1,134,307</u></u>
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Deferred revenue	\$ 168,821	\$ -	\$ 210,000	\$ 560,613	\$ 939,434
FUND BALANCES					
Reserved for debt service	<u>104,307</u>	<u>8,134</u>	<u>76,973</u>	<u>5,459</u>	<u>194,873</u>
TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$ 273,128</u></u>	<u><u>\$ 8,134</u></u>	<u><u>\$ 286,973</u></u>	<u><u>\$ 566,072</u></u>	<u><u>\$ 1,134,307</u></u>

CITY OF MELROSE, MINNESOTA
DEBT SERVICE FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2005

	Improvement Bonds of 2002	Equipment Certificates of 2003	Improvement Bonds of 2004	Improvement Bonds of 2005	Total
REVENUES					
General property taxes	\$ 48,499	\$ 78,409	\$ -	\$ -	\$ 126,908
Special assessments	61,723	-	57,745	-	119,468
Interest on investments	1,744	289	1,043	48	3,124
TOTAL REVENUES	111,966	78,698	58,788	48	249,500
EXPENDITURES					
Debt service					
Principal	60,000	70,000	-	-	130,000
Interest and fiscal charges	30,410	4,675	30,654	-	65,739
TOTAL EXPENDITURES	90,410	74,675	30,654	-	195,739
EXCESS OF REVENUES OVER EXPENDITURES	21,556	4,023	28,134	48	53,761
OTHER FINANCING SOURCES					
Bonds issued	-	-	-	5,411	5,411
NET CHANGE IN FUND BALANCES	21,556	4,023	28,134	5,459	59,172
FUND BALANCES, JANUARY 1	82,751	4,111	48,839	-	135,701
FUND BALANCES, DECEMBER 31	\$ 104,307	\$ 8,134	\$ 76,973	\$ 5,459	\$ 194,873

CITY OF MELROSE, MINNESOTA
SUMMARY FINANCIAL REPORT
REVENUES AND EXPENDITURES FOR GENERAL OPERATIONS
GOVERNMENTAL FUNDS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	Total 2005	Total 2004	Percent Increase (Decrease)
REVENUES			
Taxes	\$ 719,458	\$ 629,878	14.22 %
Special assessments	214,492	202,619	5.86
Licenses and permits	43,176	46,673	(7.49)
Intergovernmental	775,339	759,201	2.13
Charges for services	414,541	334,172	24.05
Fines and forfeits	14,730	24,270	(39.31)
Investment earnings	132,965	87,740	51.54
Miscellaneous	114,526	515,833	(77.80)
	<u>\$ 2,429,227</u>	<u>\$ 2,600,386</u>	<u>(6.58) %</u>
TOTAL RECEIPTS			
Per Capita	744.02	796.44	(6.58) %
EXPENDITURES			
Current			
General government	\$ 391,538	\$ 343,065	14.13 %
Public safety	510,482	515,444	(0.96)
Streets and highways	327,802	288,603	13.58
Culture and recreation	82,859	82,076	0.95
Economic development	192,264	119,093	61.44
Capital outlay			
General government	10,200	-	100.00
Public safety	-	173,163	(100.00)
Streets and highways	2,027,194	1,665,500	21.72
Culture and recreation	-	17,669	(100.00)
Economic development	-	18,424	(100.00)
Debt service			
Principal	376,240	365,105	3.05
Interest and other charges	128,509	113,514	13.21
	<u>\$ 4,047,088</u>	<u>\$ 3,701,656</u>	<u>9.33 %</u>
TOTAL DISBURSEMENTS			
Per Capita	1,239.54	1,133.74	9.33
Total Long-term Indebtness	\$ 4,748,305	\$ 2,562,865	85.27 %
Per Capita	1,454.30	784.95	85.27
General Fund Balance - December 31	\$ 761,836	\$ 795,601	(4.24) %
Per Capita	233.33	243.68	(4.25)

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.

OTHER SCHEDULES AND REPORTS

CITY OF MELROSE
MELROSE, MINNESOTA

YEAR ENDED
DECEMBER 31, 2005

CITY OF MELROSE, MINNESOTA
 BONDS PAYABLE
 DECEMBER 31, 2005

Governmental Fund Debt	Date Issued	Final Maturity Date	Interest Dates	Interest Rate	Annual		Bonds		
					Serial Payments Amount	Year	Authorized and Issued	Retired	Outstanding
General Obligation Improvement Bonds of 2002	06/01/2002	12/01/2017	6-1;12-1	3.40 %	\$ 60,000	2006	\$ 835,000	\$ 170,000	\$ 665,000
				3.60	65,000	2007			
				3.90	65,000	2008			
				4.10	65,000	2009			
				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, 2005

Bond Issue	Date Issued	Final Maturity Date	Interest Dates	Interest Rate	Annual Serial Payments		Bonds		
					Amount	Year	Authorized and Issued	Retired Outstanding	
General Obligation Equipment Certificates of 2003	03/31/2003	12/01/2007	6-1;12-1	2.25 %	\$ 70,000	2006	\$ 280,000	\$ 135,000	\$ 145,000
				2.50	75,000	2007			
General Obligation Improvement Bonds of 2004	10/01/2004	02/01/2020	2-1;8-1	- %	\$ -	2006	\$ 985,000	\$ -	\$ 985,000
				-	-	2007			
				-	-	2008			
				2.75	70,000	2009			
				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, 2005

Bond Issue	Date Issued	Final Maturity Date	Interest Dates	Interest Rate	Annual Serial Payments		Bonds			
					Amount	Year	Authorized and Issued	Retired	Outstanding	
General Obligation Improvement Bonds of 2005	09/01/2005	02/01/2021	2-1;8-1	- %	\$ 75,000	2006	\$ 2,545,000	\$ -	\$ 2,545,000	
				3.00	100,000	2007				
				3.00	115,000	2008				
				3.50	150,000	2009				
				3.50	155,000	2010				
				3.40	165,000	2011				
				3.50	175,000	2012				
				3.60	165,000	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				
Total Governmental Fund Bonded Debt								\$ 4,645,000	305,000	\$ 4,340,000

CITY OF MELROSE, MINNESOTA
 BONDS PAYABLE - CONTINUED
 DECEMBER 31, 2005

Bond Issue	Date Issued	Final Maturity Date	Interest Dates	Interest Rate	Annual Payments		Bonds		
					Serial Amount	Year	Authorized and Issued	Retired Outstanding	
Enterprise Fund Debt									
General Obligation Water Revenue Bonds of 1998	04/01/1998	08/01/2020	2-1;8-1	4.55 %	\$ 70,000	2006	\$ 1,890,000	\$ 370,000	\$ 1,520,000
				4.60	75,000	2007			
				4.70	80,000	2008			
				4.80	80,000	2009			
				4.90	85,000	2010			
				5.00	90,000	2011			
				5.00	95,000	2012			
				5.10	100,000	2013			
				5.10	105,000	2014			
				5.15	110,000	2015			
				5.15	115,000	2016			
				5.15	120,000	2017			
				5.20	125,000	2018			
				5.20	130,000	2019			
				5.20	140,000	2020			
General Obligation Wastewater Revenue Bonds of 1998									
	04/01/1998	08/01/2008	2-1;8-1	4.55 %	\$ 150,000	2006	\$ 1,350,000	\$ 880,000	\$ 470,000
				4.60	155,000	2007			
				4.70	165,000	2008			

CITY OF MELROSE, MINNESOTA
 BONDS PAYABLE - CONTINUED
 DECEMBER 31, 2005

Bond Issue	Date Issued	Final Maturity Date	Interest Dates	Interest Rate	Annual Serial Payments		Bonds		
					Amount	Year	Authorized and Issued	Retired	Outstanding
1999 PFA Loan - Wells 8 and 9	01/26/1999	08/20/2018	2-20;8-20	3.54 %	\$ 28,000	2006	\$ 599,219	\$ 148,219	\$ 451,000
				3.54	29,000	2007			
				3.54	30,000	2008			
				3.54	31,000	2009			
				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 PFA Loan - Water Tower	04/13/1999	08/20/2019	2-20;8-20	3.48 %	\$ 113,000	2006	\$ 2,500,000	\$ 509,300	\$ 1,990,700
				3.48	117,000	2007			
				3.48	121,000	2008			
				3.48	125,000	2009			
				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, 2005

Bond Issue	Date Issued	Final Maturity Date	Interest Dates	Interest Rate	Annual Serial Payments	Bonds		
						Authorized and Issued	Retired Outstanding	
General Obligation Sewer Revenue Bonds of 2004	06/01/2004	12/01/2024		- %	\$ -	\$ 3,230,000	\$ -	\$ 3,230,000
				-	-			
				-	-			
				3.25	150,000			
				3.40	155,000			
				3.50	160,000			
				3.65	165,000			
				3.75	170,000			
				3.85	180,000			
				4.00	185,000			
				4.15	190,000			
				4.30	200,000			
				4.40	210,000			
				4.50	215,000			
				4.60	225,000			
				4.65	240,000			
				4.75	250,000			
				4.75	260,000			
				4.75	275,000			

CITY OF MELROSE, MINNESOTA
 BONDS PAYABLE - CONTINUED
 DECEMBER 31, 2005

Bond Issue	Date Issued	Final Maturity Date	Interest Dates	Interest Rate	Annual Serial Payments		Authorized and Issued	Bonds	
					Amount	Year		Retired	Outstanding
General Obligation Refunding Bonds of 2005				3.20 %	\$ -	2006	\$ 1,330,000	\$ -	\$ 1,330,000
		09/20/2005	08/01/2020	3.20	-	2007			
				3.20	-	2008			
				3.20	95,000	2009			
				3.40	100,000	2010			
				3.50	105,000	2011			
				3.65	105,000	2012			
				3.75	110,000	2013			
				3.85	115,000	2014			
				4.00	120,000	2015			
			4.15	125,000	2016				
			4.30	130,000	2017				
			4.40	130,000	2018				
			4.50	135,000	2019				
			4.60	60,000	2020				
Total Enterprise Fund Bonded Debt							10,899,219	1,907,519	8,991,700
Total All Funds Bonded Debt							\$ 15,544,219	2,212,519	\$ 13,331,700



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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, 2005, which collectively comprise the City's basic financial statements, and have issued our report thereon dated February 23, 2006. 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 six main categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness and claims and disbursements 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.

February 23, 2006
Minneapolis, Minnesota

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

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Honorable Mayor and Council
City of Melrose, Minnesota

We have audited the 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, 2005, which collectively comprise the City's basic financial statements, and have issued our report thereon dated February 23, 2006. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be 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*.

However, we noted certain matters that we reported to management of the City, in a separate letter dated February 23, 2006

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.

February 23, 2006
Minneapolis, Minnesota

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