

CITY OF MELROSE  
MELROSE, MINNESOTA

ANNUAL FINANCIAL REPORT

YEAR ENDED  
DECEMBER 31, 2007



CITY OF MELROSE, MINNESOTA  
 TABLE OF CONTENTS  
 DECEMBER 31, 2007

Page No.

I. INTRODUCTORY SECTION

Elected and Appointed Officials 1

II. FINANCIAL SECTION

Independent Auditor's Report 2 - 3

Management's Discussion and Analysis I - XI

Basic Financial Statements

Government-wide Financial Statements

Statement of Net Assets 4

Statement of Activities 5 - 6

Fund Financial Statements

Governmental Funds

Balance Sheet 7 - 8

Reconciliation of the Balance Sheet to the Statement of Net Assets 9

Statement of Revenues, Expenditures and Changes in Fund Balances (Deficits) 10 - 11

Reconciliation of the Statement of Revenues, Expenditures and

Changes in Fund Balances (Deficits) to the Statement of Activities 12

General Fund

Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual 13

Proprietary Funds

Statements of Net Assets 14 - 17

Statements of Revenues, Expenses and Changes in Fund Net Assets 18 - 19

Statements of Cash Flows 20 - 23

Fiduciary Funds

Statement of Fiduciary Net Assets 24

Notes to the Financial Statements 25 - 48

Combining and Individual Fund Financial Statements and Schedules

Nonmajor Governmental Funds

Combining Balance Sheet 49

Combining Statement of Revenues, Expenditures and Changes in Fund Balances (Deficits) 50

Nonmajor Special Revenue Funds

Combining Balance Sheet 51 - 53

Combining Schedule of Revenues, Expenditures and Changes in Fund Balances (Deficits) 54 - 56

Melrose Area Development Authority

Schedule of Revenues, Expenditures and Changes in Fund Balances (Deficits) - Budget and Actual 57

Park and Recreation

Schedule of Revenues, Expenditures and Changes in Fund Balances (Deficits) - Budget and Actual 58

Fire Department

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual 59

Nonmajor Capital Projects Funds

Combining Balance Sheet 60 - 61

Combining Schedule of Revenues, Expenditures and Changes in Fund Balances (Deficits) 62 - 63

General Fund

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual 64 - 68

Debt Service Funds

Combining Balance Sheet 69 - 70

Combining Schedule of Revenues, Expenditures and Changes in Fund Balances 71 - 72

Summary Financial Report

Revenues and Expenditures for General Operations - Governmental Funds 73



CITY OF MELROSE, MINNESOTA  
TABLE OF CONTENTS - CONTINUED  
DECEMBER 31, 2007

Page No.

III. OTHER SCHEDULES AND REPORTS

Bonds Payable	74 - 80
Report on Minnesota Legal Compliance	81
Report on Internal Control Over Financial Reporting and on compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	82 - 83
Schedule of Findings and Responses	84



**INTRODUCTORY SECTION**

CITY OF MELROSE  
MELROSE, MINNESOTA

YEAR ENDED  
DECEMBER 31, 2007



CITY OF MELROSE, MINNESOTA  
ELECTED AND APPOINTED OFFICIALS  
DECEMBER 31, 2007

**ELECTED**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Eric Seanger	Mayor	12/31/2010
Tom Budde	Council Member	12/31/2010
George Jensen	Council Member	12/31/2008
Joe Finken	Council Member	12/31/2010
Nancy Roering	Council Member	12/31/2008

**PUBLIC UTILITIES COMMISSION - APPOINTED**

Ralph Wiehoff	Chair	1/1/2008
Tom Budde	Vice Chair	1/1/2009
Lyle Olmscheid	Commission Secretary	1/1/2010

**CITY OFFICIALS - APPOINTED**

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



**FINANCIAL SECTION**

CITY OF MELROSE  
MELROSE, MINNESOTA

YEAR ENDED  
DECEMBER 31, 2007





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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, 2007, 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, 2007, 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 April 3, 2008, 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.

April 3, 2008  
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, 2007.

### **Financial Highlights**

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$41,542,532. Of this amount, \$15,472,246 may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$982,255.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$4,378,549, an increase of \$626,299 in comparison with the prior year. Approximately 72 percent of this total amount, \$3,143,553, 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 \$951,526 or 59 percent of total General fund expenditures. While these funds are not legally reserved, they are designated for future purposes.
- The City's total debt decreased by \$637,701 or 5 percent during the current fiscal year.



### Overview of the Financial Statements

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

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

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

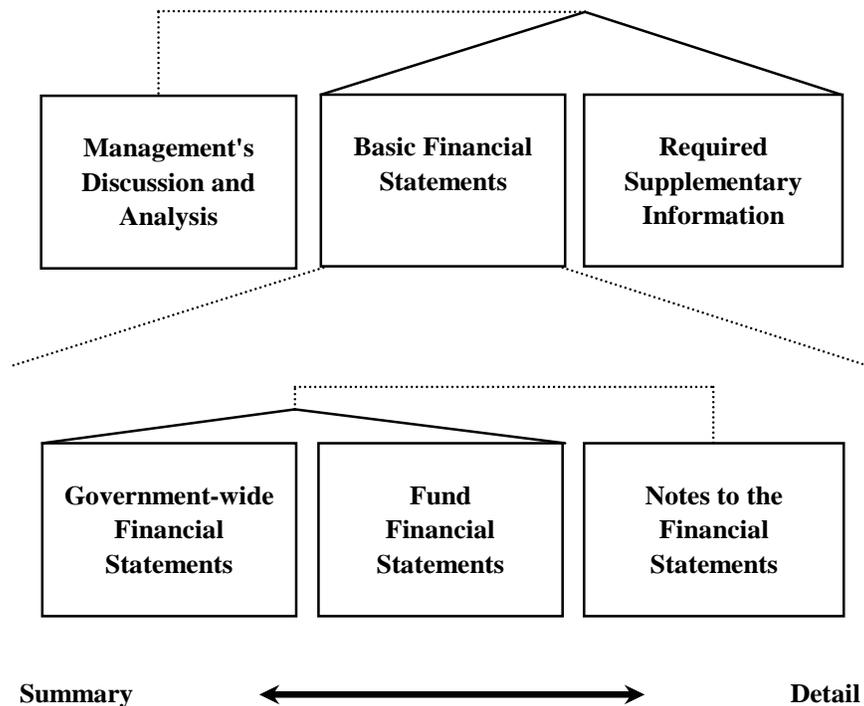




Figure 2 summarizes the major features of the City's financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the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

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

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

**Government-wide Financial Statements**

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

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

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

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenue (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, streets and highways, sanitation, culture and recreation, economic development and interest on long-term debt. The business-type activities of the City include ambulance, water, wastewater and electric.



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

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

### **Fund Financial Statements**

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

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

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

The City maintains 24 individual governmental funds, four of which are Debt Service funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General fund, the Debt Service funds, and the Capital Improvements fund, all of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements or schedules* elsewhere in this report.

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

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

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

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

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

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

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

### **Notes to Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 25 - 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 - 73 of this report.

**Government-wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$41,542,532 at the close of the most recent fiscal year.

By far, the largest portion of the City's net assets (59 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		
	2007	2006	Increase (Decrease)	2007	2006	Increase (Decrease)
<b>Assets</b>						
Current and other assets	\$ 7,022,002	\$ 6,758,035	\$ 263,967	\$ 12,099,425	\$ 11,292,812	\$ 806,613
Capital assets	14,045,837	14,802,525	(756,688)	22,763,478	22,732,074	31,404
<b>Total assets</b>	<b>21,067,839</b>	<b>21,560,560</b>	<b>(492,721)</b>	<b>34,862,903</b>	<b>34,024,886</b>	<b>838,017</b>
<b>Liabilities</b>						
Long-term liabilities outstanding	4,128,262	4,398,664	(270,402)	8,323,932	8,691,231	(367,299)
Other liabilities	1,347,974	1,381,537	(33,563)	588,042	553,737	34,305
<b>Total liabilities</b>	<b>5,476,236</b>	<b>5,780,201</b>	<b>(303,965)</b>	<b>8,911,974</b>	<b>9,244,968</b>	<b>(332,994)</b>
<b>Net assets</b>						
Invested in capital assets, net of related debt	10,038,447	10,458,290	(419,843)	14,637,454	15,399,004	(761,550)
Restricted	1,394,385	3,099,370	(1,704,985)	-	-	-
Unrestricted	4,158,771	2,222,699	1,936,072	11,313,475	9,380,914	1,932,561
<b>Total net assets</b>	<b>\$ 15,591,603</b>	<b>\$ 15,780,359</b>	<b>\$ (188,756)</b>	<b>\$ 25,950,929</b>	<b>\$ 24,779,918</b>	<b>\$ 1,171,011</b>

An additional portion of the City's net assets (3 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (\$15,472,246) 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 \$982,255 during the current fiscal year. Approximately \$875,847 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 decreased the City's net assets by \$188,756.

**Business-type activities:** There was an increase of \$1,171,011 in net assets reported in connection with the City's business-type activities.

### Changes in Net Assets

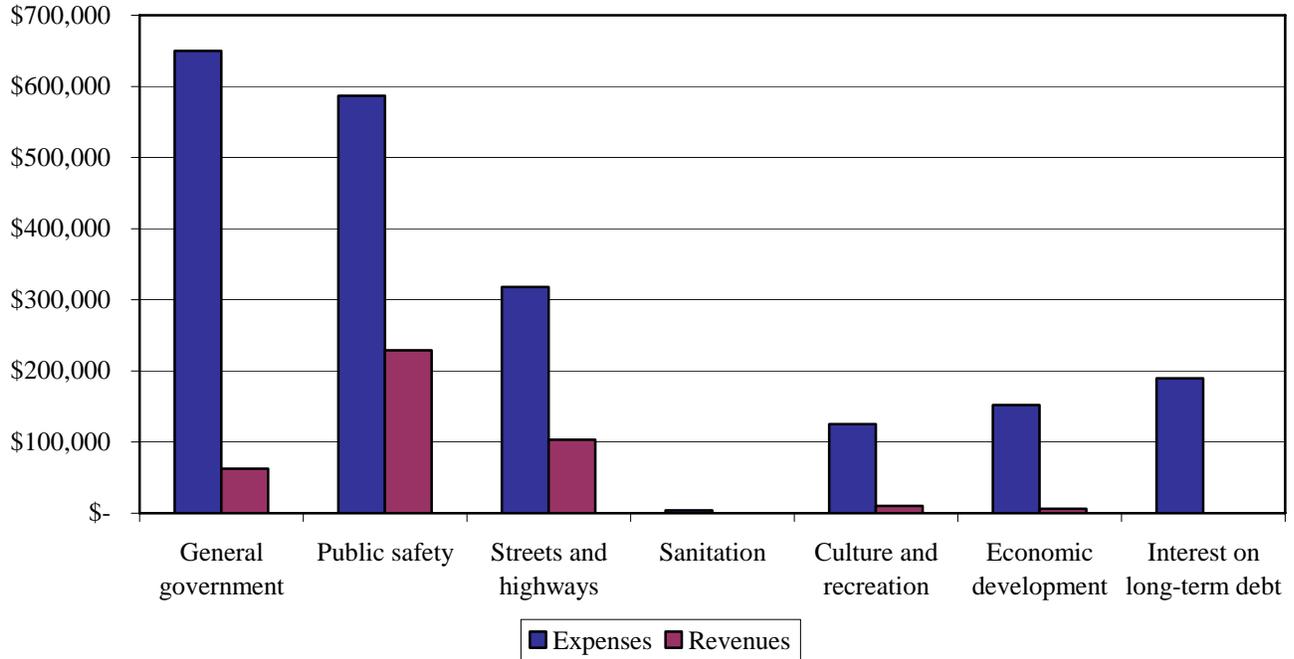
	Governmental Activities			Business-type Activities		
	2007	2006	Increase (Decrease)	2007	2006	Increase (Decrease)
<b>Revenues</b>						
<b>Program revenues</b>						
Charges for services	\$ 213,109	\$ 317,113	\$ (104,004)	\$ 8,483,137	\$ 7,623,476	\$ 859,661
Operating grants and contributio	115,180	148,415	(33,235)	11,405	11,396	9
Capital grants and contributions	83,095	528,722	(445,627)	-	-	-
<b>General revenues</b>						
Property taxes/tax increments	1,009,079	949,082	59,997	-	-	-
Franchise taxes	276,634	248,374	28,260	-	-	-
Grants and contributions not restricted to specific programs	875,847	838,388	37,459	-	-	-
Unrestricted Investment earning	202,438	224,361	(21,923)	547,291	423,055	124,236
Gain on sale of capital assets	33,300	21,111	12,189	-	2,363	(2,363)
Total revenues	<u>2,808,682</u>	<u>3,275,566</u>	<u>(466,884)</u>	<u>9,041,833</u>	<u>8,060,290</u>	<u>981,543</u>
<b>Expenses</b>						
General government	649,694	527,470	122,224	-	-	-
Public safety	586,740	597,063	(10,323)	-	-	-
Streets and highways	317,858	836,189	(518,331)	-	-	-
Sanitation	4,129	3,984	145	-	-	-
Culture and recreation	125,162	72,020	53,142	-	-	-
Economic development	151,998	176,596	(24,598)	-	-	-
Interest on long-term debt	189,540	220,732	(31,192)	-	-	-
Ambulance	-	-	-	326,702	298,995	27,707
Water	-	-	-	798,046	815,907	(17,861)
Wastewater	-	-	-	1,709,919	1,576,482	133,437
Electric	-	-	-	6,008,472	5,501,452	507,020
Total expenses	<u>2,025,121</u>	<u>2,434,054</u>	<u>(408,933)</u>	<u>8,843,139</u>	<u>8,192,836</u>	<u>650,303</u>
<b>Increase in net assets</b>						
before transfers	783,561	841,512	(57,951)	198,694	(132,546)	331,240
Transfers	<u>(972,317)</u>	<u>(1,076,133)</u>	<u>103,816</u>	<u>972,317</u>	<u>1,076,133</u>	<u>(103,816)</u>
Change in net assets	(188,756)	(234,621)	45,865	1,171,011	943,587	227,424
Net assets, January 1	<u>15,780,359</u>	<u>16,014,980</u>	<u>(234,621)</u>	<u>24,779,918</u>	<u>23,836,331</u>	<u>943,587</u>
Net assets, December 31	<u>\$ 15,591,603</u>	<u>\$ 15,780,359</u>	<u>\$ (188,756)</u>	<u>\$ 25,950,929</u>	<u>\$ 24,779,918</u>	<u>\$ 1,171,011</u>

Property tax increased by \$59,997 (6 percent) during the year.

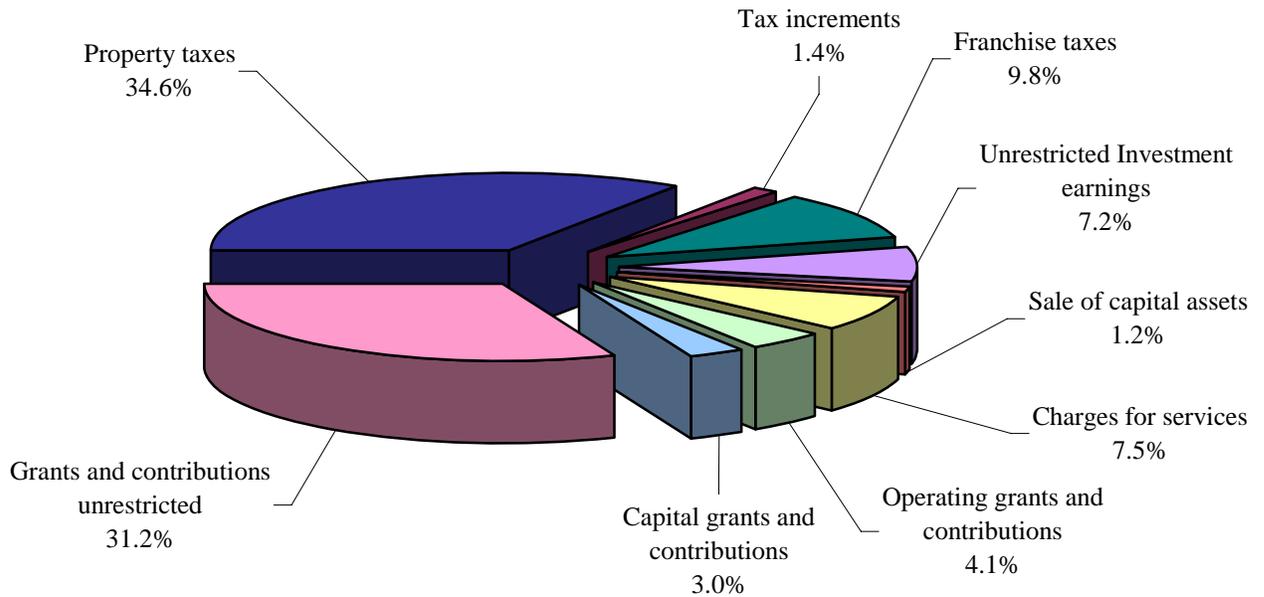


The following graph depicts various governmental activities and shows the revenue and expenses directly related to those activities.

### Expenses and Program Revenues - Governmental Activities



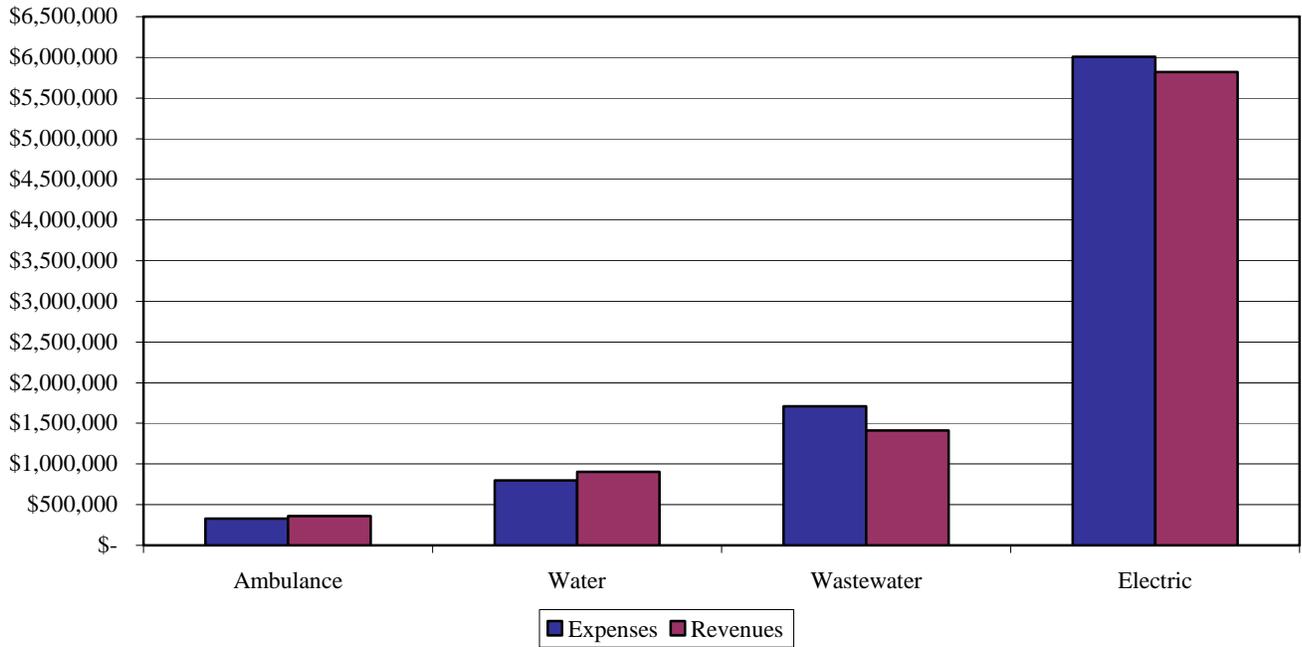
### Revenues by Source - Governmental Activities



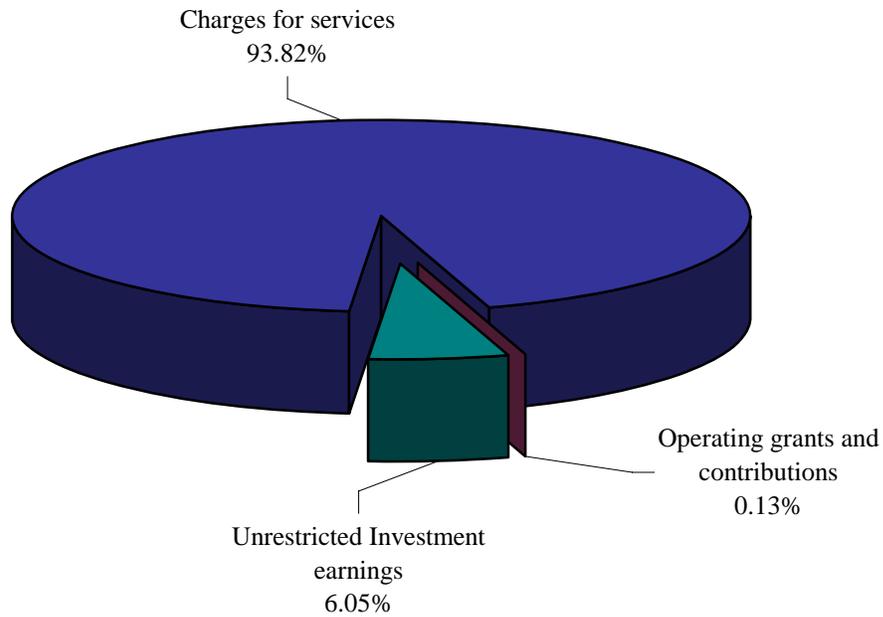


**Business-type activities.** Business-type activities increased the City's net assets by \$1,171,011. The key element of this increase was the receipt of capital assets from governmental funds totaling \$1,017,317.

**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 \$4,378,549, an increase of \$626,299 in comparison with the prior year. Approximately 72 percent of this total amount, \$3,143,553, 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. \$411,684 is reserved for business loans to local businesses; \$816,215 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 \$951,526. As a measure of the General fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Total fund balance represents 60 percent of current year expenditures.

The fund balance of the City's General fund increased \$142,092 during the current fiscal year.

The Debt Service fund has a total fund balance of \$816,215, 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 \$437,804.

The Capital Improvements fund has a fund balance of \$2,428,985, all of which is designated for capital improvements in the city. The fund balance increased by \$344,391 during the year.

**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 \$10,147,175. The total increase in net assets for the funds was \$1,171,011.

## 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 \$125,449 before transfers and other financing sources but were equal to expenses after these items.



**Capital Asset and Debt Administration**

**Capital Assets.** The City's investment in capital assets for its governmental and business type activities as of December 31, 2007, amounts to \$36,809,315 (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		
	2007	2006	Increase (Decrease)	2007	2006	Increase (Decrease)
Land	\$ 2,992,191	\$ 2,515,371	\$ 476,820	\$ 321,028	\$ 246,376	\$ 74,652
Buildings	1,512,616	1,621,004	(108,388)	688,722	752,499	(63,777)
Machinery and equipment	1,091,147	1,046,494	44,653	703,244	790,744	(87,500)
Infrastructure	8,089,218	6,953,035	1,136,183	20,853,553	20,932,761	(79,208)
Construction in progress	360,665	2,666,621	(2,305,956)	196,931	9,694	187,237
<b>Total</b>	<b>\$ 14,045,837</b>	<b>\$ 14,802,525</b>	<b>\$ (756,688)</b>	<b>\$ 22,763,478</b>	<b>\$ 22,732,074</b>	<b>\$ 31,404</b>

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

- Completion of I-94 Industrial Park Improvement projects and the Kraft Drive Extension project.
- Continuation of the Fire and Ambulance Station Improvement project
- Continuation of the Tri-Quality Improvements project

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

**Long-term debt.** At the end of the current fiscal year, the City had total bonded debt outstanding of \$12,325,367. Of this amount, \$3,995,000 is special assessment debt and \$8,254,700 is revenue debt. They are all backed by the full faith and credit of the City.

**Outstanding Debt**

	Governmental Activities			Business-type Activities		
	2007	2006	Increase Decrease	2007	2006	Increase Decrease
General obligation bonds	\$ -	\$ 75,000	\$ (75,000)	\$ -	\$ -	\$ -
G.O. improvement bonds	3,995,000	4,135,000	(140,000)	-	-	-
General obligation revenue bonds	-	-	-	8,254,700	8,630,700	(376,000)
Loans	75,667	134,235	(58,568)	-	-	-
Compensated absences	57,595	54,429	3,166	69,232	60,531	8,701
<b>Total</b>	<b>\$ 4,128,262</b>	<b>\$ 4,398,664</b>	<b>\$ (270,402)</b>	<b>\$ 8,323,932</b>	<b>\$ 8,691,231</b>	<b>\$ (367,299)</b>

The City's total debt decreased by \$637,701 during the current fiscal year.

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 \$3,199,714, 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 - 42 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.
- The City continues to monitor its utility rates to assure adequate funding will be available to meet upcoming improvements and operations and maintenance.
- Rate studies are anticipated for the Water, Wastewater, and Electric Funds in 2008.

All of these factors were considered in preparing the City's budget for the 2008 fiscal year.

**Requests for Information**

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Assistant City Administrator, City of Melrose, 225 East First Street North, Melrose, Minnesota 56352.



**BASIC FINANCIAL STATEMENTS**

CITY OF MELROSE  
MELROSE, MINNESOTA

YEAR ENDED  
DECEMBER 31, 2007

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CITY OF MELROSE, MINNESOTA  
STATEMENT OF NET ASSETS  
DECEMBER 31, 2007

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and temporary investments	\$ 4,180,420	\$ 8,948,829	\$ 13,129,249
Cash with fiscal agent	-	1,294,976	1,294,976
Receivables			
Accrued interest	78,486	158,903	237,389
Delinquent taxes	30,506	-	30,506
Accounts	59,668	735,574	795,242
Loans	422,826	-	422,826
Special assessments	1,259,296	-	1,259,296
Internal balances	(295,300)	295,300	-
Due from Centracare	1,214,900	-	1,214,900
Inventories	-	523,471	523,471
Prepaid items	7,923	13,696	21,619
Unamortized bond discount	63,277	128,676	191,953
Capital assets			
Non-depreciable			
Land	2,992,191	321,028	3,313,219
Construction in progress	360,665	196,931	557,596
Depreciable (net of accumulated depreciation)			
Buildings	1,512,616	688,722	2,201,338
Equipment	1,091,147	703,245	1,794,392
Infrastructure	8,089,218	20,853,552	28,942,770
<b>TOTAL ASSETS</b>	<b>21,067,839</b>	<b>34,862,903</b>	<b>55,930,742</b>
<b>LIABILITIES</b>			
Accounts payable	65,474	493,751	559,225
Accrued interest payable	57,600	70,336	127,936
Customer deposits payable	10,000	23,955	33,955
Unearned revenue	1,214,900	-	1,214,900
Noncurrent liabilities			
Due within one year			
Bonds payable	165,000	396,000	561,000
Compensated absences payable	52,791	63,420	116,211
Loans payable	59,761	-	59,761
Due in more than one year			
Bonds payable	3,830,000	7,858,700	11,688,700
Compensated absences payable	4,804	5,812	10,616
Loans payable	15,906	-	15,906
<b>TOTAL LIABILITIES</b>	<b>5,476,236</b>	<b>8,911,974</b>	<b>14,388,210</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	10,038,447	14,637,454	24,675,901
Restricted for			
Debt service	1,394,385	-	1,394,385
Unrestricted	4,158,771	11,313,475	15,472,246
<b>TOTAL NET ASSETS</b>	<b>\$ 15,591,603</b>	<b>\$ 25,950,929</b>	<b>\$ 41,542,532</b>

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

CITY OF MELROSE, MINNESOTA  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2007

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Governmental activities</b>				
General government	\$ 649,694	\$ 50,973	\$ 11,688	\$ -
Public safety	586,740	137,580	91,613	-
Streets and highways	317,858	20,025	-	83,095
Sanitation	4,129	-	-	-
Culture and recreation	125,162	4,361	5,901	-
Economic development	151,998	170	5,978	-
Interest on long-term debt	189,540	-	-	-
Total governmental activities	<u>2,025,121</u>	<u>213,109</u>	<u>115,180</u>	<u>83,095</u>
<b>Business-type activities</b>				
Ambulance	326,702	351,531	8,251	-
Water	798,046	903,510	316	-
Wastewater	1,709,919	1,409,937	890	-
Electric	6,008,472	5,818,159	1,948	-
Total business-type activities	<u>8,843,139</u>	<u>8,483,137</u>	<u>11,405</u>	<u>-</u>
Total	<u>\$ 10,868,260</u>	<u>\$ 8,696,246</u>	<u>\$ 126,585</u>	<u>\$ 83,095</u>

General revenues

Taxes

Property taxes, levied for general purposes

Property taxes, levied for debt service

Tax increments

Franchise taxes

State grants and contributions not restricted to specific programs

Unrestricted investment earnings

Gain on sale of capital assets

Transfers of capital assets

Transfers

Total general revenues, special items and transfers

Change in net assets

Net assets, January 1

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>
\$ (587,033)	\$ -	\$ (587,033)
(357,547)	-	(357,547)
(214,738)	-	(214,738)
(4,129)	-	(4,129)
(114,900)	-	(114,900)
(145,850)	-	(145,850)
(189,540)	-	(189,540)
<u>(1,613,737)</u>	<u>-</u>	<u>(1,613,737)</u>
-	33,080	33,080
-	105,780	105,780
-	(299,092)	(299,092)
-	(188,365)	(188,365)
<u>-</u>	<u>(348,597)</u>	<u>(348,597)</u>
<u>(1,613,737)</u>	<u>(348,597)</u>	<u>(1,962,334)</u>
657,071	-	657,071
313,752	-	313,752
38,256	-	38,256
276,634	-	276,634
875,847	-	875,847
202,438	547,291	749,729
33,300	-	33,300
(1,017,317)	1,017,317	-
45,000	(45,000)	-
<u>1,424,981</u>	<u>1,519,608</u>	<u>2,944,589</u>
(188,756)	1,171,011	982,255
<u>15,780,359</u>	<u>24,779,918</u>	<u>40,560,277</u>
<u>\$ 15,591,603</u>	<u>\$ 25,950,929</u>	<u>\$ 41,542,532</u>

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**FUND FINANCIAL STATEMENTS**

CITY OF MELROSE  
MELROSE, MINNESOTA

YEAR ENDED  
DECEMBER 31, 2007

CITY OF MELROSE, MINNESOTA  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2007

	General	Debt Service	Capital Improvements
<b>ASSETS</b>			
Cash and temporary investments	\$ 1,256,556	\$ 800,167	\$ 1,947,862
Receivables			
Accrued interest	24,783	2,601	43,494
Delinquent taxes	30,506	-	-
Accounts	10,905	13,447	328
Loans	-	-	-
Special assessments	-	635,770	623,526
Due from other funds	-	-	437,301
Due from Centracare	1,214,900	-	-
Prepaid items	3,501	-	-
	<u>\$ 2,541,151</u>	<u>\$ 1,451,985</u>	<u>\$ 3,052,511</u>
<b>TOTAL ASSETS</b>			
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Accounts payable	\$ 48,919	\$ -	\$ -
Due to other funds	295,300	-	-
Deferred revenue	1,245,406	635,770	623,526
	<u>1,589,625</u>	<u>635,770</u>	<u>623,526</u>
<b>TOTAL LIABILITIES</b>			
<b>FUND BALANCES</b>			
Reserved for			
Prepaid items	3,501	-	-
Loans	-	-	-
Debt service	-	816,215	-
Unreserved			
Designated - reported in			
General fund	584,946	-	-
Capital projects fund	-	-	2,428,985
Special revenue fund	-	-	-
Undesignated - reported in			
General fund	363,079	-	-
Special revenue funds (deficits)	-	-	-
Capital project funds	-	-	-
	<u>951,526</u>	<u>816,215</u>	<u>2,428,985</u>
<b>TOTAL FUND BALANCES</b>			
<b>TOTAL LIABILITIES AND FUND BALANCES</b>			
	<u>\$ 2,541,151</u>	<u>\$ 1,451,985</u>	<u>\$ 3,052,511</u>

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

Other Governmental Funds	Total Governmental Funds
\$ 175,835	\$ 4,180,420
7,608	78,486
-	30,506
34,988	59,668
422,826	422,826
-	1,259,296
296,498	733,799
-	1,214,900
4,422	7,923
<u>\$ 942,177</u>	<u>\$ 7,987,824</u>
\$ 26,555	\$ 75,474
733,799	1,029,099
-	2,504,702
<u>760,354</u>	<u>3,609,275</u>
3,596	7,097
411,684	411,684
-	816,215
-	584,946
-	2,428,985
173,198	173,198
-	363,079
(719,181)	(719,181)
312,526	312,526
<u>181,823</u>	<u>4,378,549</u>
<u>\$ 942,177</u>	<u>\$ 7,987,824</u>

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CITY OF MELROSE, MINNESOTA  
RECONCILIATION OF THE BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2007

Total fund balances - governmental funds	\$ 4,378,549
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	18,236,767
Less: accumulated depreciation	(4,190,930)
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	(57,595)
Loan payable	(75,667)
Bond principal payable	(3,995,000)
Less bond discount net of accumulated amortization	63,277
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	30,506
Special assessments	1,259,296
Governmental funds do not report a liability for accrued interest until due and payable.	(57,600)
Total net assets - governmental activities	\$ 15,591,603

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, 2007

	General	Debt Service	Capital Improvements
REVENUES			
Taxes	\$ 922,549	\$ 313,752	\$ -
Licenses and permits	37,365	-	-
Intergovernmental	899,615	-	-
Charges for services	53,297	-	-
Fines and forfeitures	24,336	-	-
Special assessments	-	275,653	122,457
Interest on investments	47,783	14,668	88,109
Miscellaneous	12,576	-	-
<b>TOTAL REVENUES</b>	<b>1,997,521</b>	<b>604,073</b>	<b>210,566</b>
EXPENDITURES			
Current			
General government	578,733	-	-
Public safety	454,923	-	-
Streets and highways	392,042	-	-
Sanitation	4,129	-	-
Culture and recreation	-	-	-
Economic development	71,739	-	-
Capital outlay			
Public safety	12,054	-	-
Streets and highways	72,463	-	-
Debt service			
Principal	-	215,000	-
Interest and other	9,351	162,915	-
<b>TOTAL EXPENDITURES</b>	<b>1,595,434</b>	<b>377,915</b>	<b>-</b>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	402,087	226,158	210,566
OTHER FINANCING SOURCES (USES)			
Sale of land	31,900	-	-
Transfers in	196,686	229,082	259,860
Transfers out	(488,581)	(17,436)	(126,035)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(259,995)</b>	<b>211,646</b>	<b>133,825</b>
NET CHANGE IN FUND BALANCES	142,092	437,804	344,391
FUND BALANCES, JANUARY 1	809,434	378,411	2,084,594
FUND BALANCES, DECEMBER 31	<u>\$ 951,526</u>	<u>\$ 816,215</u>	<u>\$ 2,428,985</u>

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

Other Governmental Funds	Total Governmental Funds
\$ 38,256	\$ 1,274,557
-	37,365
25,542	925,157
96,101	149,398
-	24,336
-	398,110
51,878	202,438
55,304	67,880
<u>267,081</u>	<u>3,079,241</u>
-	578,733
112,482	567,405
-	392,042
-	4,129
65,243	65,243
58,984	130,723
45,101	57,155
203,940	276,403
58,568	273,568
13,575	185,841
<u>557,893</u>	<u>2,531,242</u>
<u>(290,812)</u>	<u>547,999</u>
1,400	33,300
599,655	1,285,283
<u>(608,231)</u>	<u>(1,240,283)</u>
<u>(7,176)</u>	<u>78,300</u>
(297,988)	626,299
<u>479,811</u>	<u>3,752,250</u>
<u>\$ 181,823</u>	<u>\$ 4,378,549</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, 2007

Total net change in fund balances - governmental funds	\$ 626,299
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	797,288
Depreciation expense	(522,606)
<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	273,568
<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>	
	(4,033)
<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	11,156
Special assessments	(315,015)
<p>Proceeds of the sale of capital assets are shown in the governmental fund financial statements. Only the gain on sale of capital assets is shown for the government-wide financial statements.</p>	
	(14,053)
<p>Capital assets constructed in capital projects funds but intended for enterprise fund use are transferred in the government-wide financial statements.</p>	
	(1,017,317)
<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	(24,043)
	<hr/>
Change in net assets - governmental activities	<u>\$ (188,756)</u>

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, 2007

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Taxes	\$ 951,893	\$ 951,893	\$ 922,549	\$ (29,344)
Licenses and permits	43,750	43,750	37,365	(6,385)
Intergovernmental	878,577	878,577	899,615	21,038
Charges for services	49,284	49,284	53,297	4,013
Fines and forfeitures	17,800	17,800	24,336	6,536
Interest on investments	21,500	21,500	47,783	26,283
Miscellaneous	3,000	3,000	12,576	9,576
<b>TOTAL REVENUES</b>	<b>1,965,804</b>	<b>1,965,804</b>	<b>1,997,521</b>	<b>31,717</b>
<b>EXPENDITURES</b>				
<b>Current</b>				
General government	591,761	591,761	578,733	13,028
Public safety	482,080	482,080	454,923	27,157
Streets and highways	378,048	378,048	392,042	(13,994)
Sanitation	3,550	3,550	4,129	(579)
Economic development	73,721	73,721	71,739	1,982
Capital outlay	286,000	286,000	84,517	201,483
<b>Debt service</b>				
Principal	16,199	16,199	-	16,199
Interest and other charges	8,996	8,996	9,351	(355)
<b>TOTAL EXPENDITURES</b>	<b>1,840,355</b>	<b>1,840,355</b>	<b>1,595,434</b>	<b>244,921</b>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<b>125,449</b>	<b>125,449</b>	<b>402,087</b>	<b>276,638</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Sale of land	-	-	31,900	31,900
Transfers in	105,870	105,870	196,686	90,816
Transfers out	(231,319)	(231,319)	(488,581)	(257,262)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(125,449)</b>	<b>(125,449)</b>	<b>(259,995)</b>	<b>(134,546)</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>-</b>	<b>-</b>	<b>142,092</b>	<b>142,092</b>
<b>FUND BALANCES, JANUARY 1</b>	<b>809,434</b>	<b>809,434</b>	<b>809,434</b>	<b>-</b>
<b>FUND BALANCES, DECEMBER 31</b>	<b>\$ 809,434</b>	<b>\$ 809,434</b>	<b>\$ 951,526</b>	<b>\$ 142,092</b>

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, 2007 AND 2006

	Business-type Activities - Enterprise funds			
	Ambulance		Water	
	2007	2006	2007	2006
ASSETS				
CURRENT ASSETS				
Cash and temporary investments	\$ 537,091	\$ 586,801	\$ 1,581,994	\$ 1,295,552
Cash with fiscal agent	-	-	1,294,976	1,297,630
Receivables				
Accrued interest	13,594	14,894	29,002	28,074
Accounts - net	92,405	72,507	64,819	53,694
Due from other funds	-	-	-	-
Inventories	-	-	22,053	24,366
Prepaid items	270	180	3,293	2,365
	<u>643,360</u>	<u>674,382</u>	<u>2,996,137</u>	<u>2,701,681</u>
TOTAL CURRENT ASSETS				
NONCURRENT ASSETS				
Appropriated funds	-	-	-	-
Unamortized bond discount	-	-	44,150	47,596
Capital assets				
Land	-	-	41,123	41,123
Structures and improvements	-	-	7,384,880	7,194,894
Distribution/collection system	-	-	-	-
Plant equipment	239,000	224,945	46,178	46,178
Construction in progress	68,700	-	948	-
Less accumulated depreciation	(124,209)	(107,640)	(2,572,844)	(2,286,206)
	<u>183,491</u>	<u>117,305</u>	<u>4,900,285</u>	<u>4,995,989</u>
Total capital assets (net of accumulated depreciation)				
TOTAL NONCURRENT ASSETS	<u>183,491</u>	<u>117,305</u>	<u>4,944,435</u>	<u>5,043,585</u>
TOTAL ASSETS	<u>826,851</u>	<u>791,687</u>	<u>7,940,572</u>	<u>7,745,266</u>

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

Business-type Activities - Enterprise funds - Continued

Wastewater		Electric		Totals	
2007	2006	2007	2006	2007	2006
\$ 2,237,136	\$ 1,962,490	\$ 925,661	\$ 757,144	\$ 5,281,882	\$ 4,601,987
-	-	-	-	1,294,976	1,297,630
41,042	39,815	75,265	72,679	158,903	155,462
126,475	113,547	451,875	367,844	735,574	607,592
-	-	295,300	295,300	295,300	295,300
22,080	16,896	479,338	433,261	523,471	474,523
4,549	4,165	5,584	7,453	13,696	14,163
<u>2,431,282</u>	<u>2,136,913</u>	<u>2,233,023</u>	<u>1,933,681</u>	<u>8,303,802</u>	<u>7,446,657</u>
-	-	3,666,947	3,706,947	3,666,947	3,706,947
<u>84,526</u>	<u>91,612</u>	<u>-</u>	<u>-</u>	<u>128,676</u>	<u>139,208</u>
63,878	63,878	216,027	141,375	321,028	246,376
18,869,958	18,077,173	-	-	26,254,838	25,272,067
-	-	9,533,894	9,471,678	9,533,894	9,471,678
301,853	301,853	-	-	587,031	572,976
33,522	-	93,761	9,694	196,931	9,694
<u>(5,414,211)</u>	<u>(4,770,451)</u>	<u>(6,018,980)</u>	<u>(5,676,420)</u>	<u>(14,130,244)</u>	<u>(12,840,717)</u>
<u>13,855,000</u>	<u>13,672,453</u>	<u>3,824,702</u>	<u>3,946,327</u>	<u>22,763,478</u>	<u>22,732,074</u>
<u>13,939,526</u>	<u>13,764,065</u>	<u>7,491,649</u>	<u>7,653,274</u>	<u>26,559,101</u>	<u>26,578,229</u>
<u>16,370,808</u>	<u>15,900,978</u>	<u>9,724,672</u>	<u>9,586,955</u>	<u>34,862,903</u>	<u>34,024,886</u>

CITY OF MELROSE, MINNESOTA  
STATEMENTS OF NET ASSETS - CONTINUED  
PROPRIETARY FUNDS  
DECEMBER 31, 2007 AND 2006

	Business-type Activities - Enterprise funds - Continued			
	Ambulance		Water	
	2007	2006	2007	2006
LIABILITIES				
CURRENT LIABILITIES				
Accounts and contracts payable	\$ 2,942	\$ 26,712	\$ 2,470	\$ 11,471
Accrued interest payable	-	-	55,715	58,958
Compensated absences payable	-	-	8,418	4,143
Customer deposits payable	-	-	-	-
Current portion of long-term debt	-	-	231,000	221,000
TOTAL CURRENT LIABILITIES	<u>2,942</u>	<u>26,712</u>	<u>297,603</u>	<u>295,572</u>
NONCURRENT LIABILITIES				
Compensated absences payable less current portion above	-	-	-	2,593
Loans payable less current portion above	-	-	2,003,700	2,154,700
Bonds payable less current portion above	-	-	2,625,000	2,705,000
TOTAL NONCURRENT LIABILITIES	<u>-</u>	<u>-</u>	<u>4,628,700</u>	<u>4,862,293</u>
TOTAL LIABILITIES	<u>2,942</u>	<u>26,712</u>	<u>4,926,303</u>	<u>5,157,865</u>
NET ASSETS				
Invested in capital assets, net of related debt	183,491	117,305	84,735	(37,115)
Unrestricted	640,418	647,670	2,929,534	2,624,516
TOTAL NET ASSETS	<u>\$ 823,909</u>	<u>\$ 764,975</u>	<u>\$ 3,014,269</u>	<u>\$ 2,587,401</u>

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

Business-type Activities - Enterprise funds - Continued

Wastewater		Electric		Totals	
2007	2006	2007	2006	2007	2006
\$ 47,683	\$ 26,162	\$ 440,656	\$ 386,847	\$ 493,751	\$ 451,192
14,621	17,592	-	-	70,336	76,550
18,098	8,283	36,904	27,632	63,420	40,058
-	-	23,955	25,995	23,955	25,995
165,000	155,000	-	-	396,000	376,000
<u>245,402</u>	<u>207,037</u>	<u>501,515</u>	<u>440,474</u>	<u>1,047,462</u>	<u>969,795</u>
-	5,179	5,812	12,701	5,812	20,473
-	-	-	-	2,003,700	2,154,700
<u>3,230,000</u>	<u>3,395,000</u>	<u>-</u>	<u>-</u>	<u>5,855,000</u>	<u>6,100,000</u>
<u>3,230,000</u>	<u>3,400,179</u>	<u>5,812</u>	<u>12,701</u>	<u>7,864,512</u>	<u>8,275,173</u>
<u>3,475,402</u>	<u>3,607,216</u>	<u>507,327</u>	<u>453,175</u>	<u>8,911,974</u>	<u>9,244,968</u>
10,544,526	10,214,065	3,824,702	3,946,327	14,637,454	14,240,582
2,350,880	2,079,697	5,392,643	5,187,453	11,313,475	10,539,336
<u>\$ 12,895,406</u>	<u>\$ 12,293,762</u>	<u>\$ 9,217,345</u>	<u>\$ 9,133,780</u>	<u>\$ 25,950,929</u>	<u>\$ 24,779,918</u>

CITY OF MELROSE, MINNESOTA  
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUNDS  
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

	Business-type Activities - Enterprise funds			
	Ambulance		Water	
	2007	2006	2007	2006
OPERATING REVENUES				
Charges for services	\$ 351,531	\$ 324,116	\$ 903,510	\$ 786,861
OPERATING EXPENSES				
Production, collection and purchased power	-	-	84,495	96,910
Distribution	-	-	121,971	126,847
Accounting and collection	-	-	12,263	11,224
General and administrative	310,133	285,181	88,028	97,578
Depreciation and amortization	16,569	13,814	286,637	274,657
TOTAL OPERATING EXPENSES	326,702	298,995	593,394	607,216
OPERATING INCOME	24,829	25,121	310,116	179,645
NONOPERATING REVENUES (EXPENSES)				
Intergovernmental	-	-	316	316
Interest on investments	30,854	25,305	131,102	103,826
Miscellaneous	8,251	8,242	-	-
Gain on sale of fixed assets	-	-	-	-
Loss on disposal of fixed assets	-	-	-	-
Interest expense	-	-	(204,652)	(208,691)
TOTAL NONOPERATING REVENUES (EXPENSES)	39,105	33,547	(73,234)	(104,549)
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	63,934	58,668	236,882	75,096
CONTRIBUTIONS OF ASSETS FROM OTHER FUNDS	-	-	189,986	236,992
TRANSFERS OUT	(5,000)	-	-	-
TOTAL CONTRIBUTIONS AND TRANSFERS	(5,000)	-	189,986	236,992
CHANGE IN FUND NET ASSETS	58,934	58,668	426,868	312,088
FUND NET ASSETS, JANUARY 1	764,975	706,307	2,587,401	2,275,313
FUND NET ASSETS, DECEMBER 31	\$ 823,909	\$ 764,975	\$ 3,014,269	\$ 2,587,401

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

Business-type Activities - Enterprise funds - Continued

Wastewater		Electric		Totals	
2007	2006	2007	2006	2007	2006
<u>\$ 1,409,302</u>	<u>\$ 1,331,739</u>	<u>\$ 5,811,579</u>	<u>\$ 5,174,467</u>	<u>\$ 8,475,922</u>	<u>\$ 7,617,183</u>
29,890	27,468	4,645,547	4,170,293	4,759,932	4,294,671
777,795	648,269	324,592	248,054	1,224,358	1,023,170
-	-	12,712	10,633	24,975	21,857
102,804	121,794	683,061	716,909	1,184,026	1,221,462
643,760	616,328	342,560	353,713	1,289,526	1,258,512
<u>1,554,249</u>	<u>1,413,859</u>	<u>6,008,472</u>	<u>5,499,602</u>	<u>8,482,817</u>	<u>7,819,672</u>
<u>(144,947)</u>	<u>(82,120)</u>	<u>(196,893)</u>	<u>(325,135)</u>	<u>(6,895)</u>	<u>(202,489)</u>
890	890	1,948	1,948	3,154	3,154
107,951	84,552	277,384	209,372	547,291	423,055
635	473	6,580	5,820	15,466	14,535
-	-	-	2,363	-	2,363
-	-	-	(1,850)	-	(1,850)
<u>(155,670)</u>	<u>(162,623)</u>	<u>-</u>	<u>-</u>	<u>(360,322)</u>	<u>(371,314)</u>
<u>(46,194)</u>	<u>(76,708)</u>	<u>285,912</u>	<u>217,653</u>	<u>205,589</u>	<u>69,943</u>
<u>(191,141)</u>	<u>(158,828)</u>	<u>89,019</u>	<u>(107,482)</u>	<u>198,694</u>	<u>(132,546)</u>
792,785	965,997	34,546	-	1,017,317	1,202,989
-	-	(40,000)	(126,856)	(45,000)	(126,856)
<u>792,785</u>	<u>965,997</u>	<u>(5,454)</u>	<u>(126,856)</u>	<u>972,317</u>	<u>1,076,133</u>
601,644	807,169	83,565	(234,338)	1,171,011	943,587
<u>12,293,762</u>	<u>11,486,593</u>	<u>9,133,780</u>	<u>9,368,118</u>	<u>24,779,918</u>	<u>23,836,331</u>
<u>\$ 12,895,406</u>	<u>\$ 12,293,762</u>	<u>\$ 9,217,345</u>	<u>\$ 9,133,780</u>	<u>\$ 25,950,929</u>	<u>\$ 24,779,918</u>

CITY OF MELROSE, MINNESOTA  
STATEMENTS OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

	Business-type Activities - Enterprise funds			
	Ambulance		Water	
	2007	2006	2007	2006
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from customers and users	\$ 339,884	\$ 335,988	\$ 892,701	\$ 820,651
Payments to suppliers	(210,604)	(168,664)	(184,459)	(198,817)
Payments to employees	(123,389)	(96,730)	(125,639)	(126,372)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>5,891</u>	<u>70,594</u>	<u>582,603</u>	<u>495,462</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Transfers to other funds	(5,000)	-	-	-
Decrease (increase) in due from other funds	-	-	-	-
Increase (decrease) in due to other funds	-	-	-	-
<b>NET CASH USED BY NONCAPITAL FINANCING ACTIVITIES</b>	<u>(5,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>				
Acquisition of property and equipment	(82,755)	(21,161)	(948)	-
Interest paid on bonds	-	-	(153,546)	(208,314)
Principal paid on bonds	-	-	(223,593)	(210,593)
<b>NET CASH PROVIDED (USED) BY CAPITAL FINANCING ACTIVITIES</b>	<u>(82,755)</u>	<u>(21,161)</u>	<u>(378,087)</u>	<u>(418,907)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest received on investments	32,154	15,699	81,926	78,192
Transfer from appropriated funds	-	-	-	-
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<u>32,154</u>	<u>15,699</u>	<u>81,926</u>	<u>78,192</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(49,710)	65,132	286,442	154,747
<b>CASH AND CASH EQUIVALENTS, JANUARY 1</b>	<u>586,801</u>	<u>521,669</u>	<u>1,295,552</u>	<u>1,140,805</u>
<b>CASH AND CASH EQUIVALENTS, DECEMBER 31</b>	<u>\$ 537,091</u>	<u>\$ 586,801</u>	<u>\$ 1,581,994</u>	<u>\$ 1,295,552</u>

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

Business-type Activities - Enterprise funds - Continued

Wastewater		Electric		Totals	
2007	2006	2007	2006	2007	2006
\$ 1,397,899	\$ 1,336,054	\$ 5,736,076	\$ 5,261,580	\$ 8,366,560	\$ 7,754,273
(504,523)	(436,607)	(5,189,281)	(4,752,123)	(6,088,867)	(5,556,211)
(385,377)	(354,144)	(466,687)	(433,252)	(1,101,092)	(1,010,498)
507,999	545,303	80,108	76,205	1,176,601	1,187,564
-	-	(40,000)	(126,856)	(45,000)	(126,856)
-	-	-	(1,096)	-	(1,096)
-	-	-	(60,973)	-	(60,973)
-	-	(40,000)	(188,925)	(45,000)	(188,925)
(33,522)	(20,018)	(186,389)	(242,356)	(303,614)	(283,535)
(151,555)	(158,380)	-	-	(305,101)	(366,694)
(155,000)	(150,000)	-	-	(378,593)	(360,593)
(340,077)	(328,398)	(186,389)	(242,356)	(987,308)	(1,010,822)
106,724	55,486	274,798	185,758	495,602	335,135
-	-	40,000	115,000	40,000	115,000
106,724	55,486	314,798	300,758	535,602	450,135
274,646	272,391	168,517	(54,318)	679,895	437,952
1,962,490	1,690,099	757,144	811,462	4,601,987	4,164,035
<u>\$ 2,237,136</u>	<u>\$ 1,962,490</u>	<u>\$ 925,661</u>	<u>\$ 757,144</u>	<u>\$ 5,281,882</u>	<u>\$ 4,601,987</u>

CITY OF MELROSE, MINNESOTA  
STATEMENTS OF CASH FLOWS - CONTINUED  
PROPRIETARY FUNDS  
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

	Business-type Activities - Enterprise funds - Continued			
	Ambulance		Water	
	2007	2006	2007	2006
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Operating income	\$ 24,829	\$ 25,121	\$ 310,116	\$ 179,645
Adjustments to reconcile operating income to net cash provided by operating activities:				
Other income related to operations	8,251	8,242	316	316
Depreciation and amortization	16,569	13,814	286,637	274,657
(Increase) decrease in assets:				
Accounts receivable	(19,898)	3,630	(11,125)	33,474
Inventory	-	-	2,313	(1,777)
Prepaid items	(90)	31	(928)	1,035
Increase (decrease) in liabilities:				
Accounts and contracts payable	(23,770)	19,756	(9,001)	7,623
Accrued salaries and benefits payable	-	-	4,275	489
Customer deposits payable	-	-	-	-
 NET CASH PROVIDED BY OPERATING ACTIVITIES	 <u>\$ 5,891</u>	 <u>\$ 70,594</u>	 <u>\$ 582,603</u>	 <u>\$ 495,462</u>
 SCHEDULE OF NONCASH CAPITAL FINANCING ACTIVITIES				
Disposal of fully depreciated capital assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Contribution of assets from other funds	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 189,986</u>	<u>\$ 236,992</u>
Amortization of bond discount	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,446</u>	<u>\$ 3,446</u>

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

Business-type Activities - Enterprise funds - Continued

Wastewater		Electric		Totals	
2007	2006	2007	2006	2007	2006
\$ (144,947)	\$ (82,120)	\$ (196,893)	\$ (325,135)	\$ (6,895)	\$ (202,489)
1,525	1,363	8,528	10,131	18,620	20,052
643,760	616,328	342,560	353,713	1,289,526	1,258,512
(12,928)	2,952	(84,031)	76,982	(127,982)	117,038
(5,184)	(1,089)	(46,077)	8,719	(48,948)	5,853
(384)	795	1,869	(491)	467	1,370
21,521	5,610	53,809	(26,872)	42,559	6,117
4,636	1,464	2,383	3,998	11,294	5,951
-	-	(2,040)	(24,840)	(2,040)	(24,840)
<u>\$ 507,999</u>	<u>\$ 545,303</u>	<u>\$ 80,108</u>	<u>\$ 76,205</u>	<u>\$ 1,176,601</u>	<u>\$ 1,187,564</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 44,174</u>	<u>\$ -</u>	<u>\$ 44,174</u>
<u>\$ 792,785</u>	<u>\$ 965,997</u>	<u>\$ 34,546</u>	<u>\$ -</u>	<u>\$ 1,017,317</u>	<u>\$ 1,202,989</u>
<u>\$ 7,086</u>	<u>\$ 7,086</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,532</u>	<u>\$ 10,532</u>

CITY OF MELROSE, MINNESOTA  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
DECEMBER 31, 2007

	<u>Agency</u>
ASSETS	
Cash and temporary investments	<u>\$          60</u>
LIABILITIES	
Accounts payable	<u>\$          60</u>

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

CITY OF MELROSE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2007

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

**A. Reporting Entity**

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

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

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

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

The City retains title to all fixed assets, including the buildings and equipment, and \$957,800 of working capital was transferred to the nonprofit organization. This amount is increased annually in accordance with the Consumer Price Index for Minnesota for each year the lease has been in effect and is to be remitted to the City when the lease is terminated. The cumulative inflation adjustment is \$257,100 at December 31, 2007. The total receivable of \$1,214,900 is reflected as due from CentraCare in the General fund.

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

**Blended Component Unit**

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

CITY OF MELROSE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2007

**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, 2007

**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 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, 2007

**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, 2007

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

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

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

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

**Property Taxes**

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

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

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

**Accounts Receivable**

Accounts receivable include amounts billed for services provided before year end. The Ambulance, Fire Department and the Electric enterprise funds have an allowance for uncollectible accounts totaling \$10,000, \$1,000 and \$2,000, respectively, at December 31, 2007.

CITY OF MELROSE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2007

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

**Special Assessments**

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

**Interfund Receivables and Payables**

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

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

**Inventories and Prepaid Items**

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

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

**Appropriated funds**

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

Revolving loan funds	\$ 166,947
Future plant expansion	3,000,000
Future capital projects	<u>500,000</u>
Total	<u><u>\$ 3,666,947</u></u>

CITY OF MELROSE, MINNESOTA  
 NOTES TO FINANCIAL STATEMENTS  
 DECEMBER 31, 2007

**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, 2007

**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, 2007

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

**A. Budgetary Information**

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

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

The appropriated budget is prepared by fund, function and department. The City's department heads, with the approval of the City Administrator, may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the Council. The legal level of budgetary control is the department level. Budgeted amounts are as originally adopted, or as amended by the Council. There were no budget amendments during the year.

**B. Deficit Fund Equity**

The following funds had fund balance deficits at December 31, 2007 that will be eliminated with transfers from other funds:

<u>Fund</u>	<u>Amount</u>
Special revenue	
Melrose Area Development Authority	\$ 46,685
Parks and Recreation	387,651
PIA Asset Building	520
Tax Increment Projects	296,498
Capital projects	
2007 Fire and Ambulance Station	17,840

CITY OF MELROSE, MINNESOTA  
 NOTES TO FINANCIAL STATEMENTS  
 DECEMBER 31, 2007

**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 \$10,505,816 and the bank balance was \$10,665,988. Of the bank balance, \$900,000 was covered by federal depository insurance and \$9,559,680 was covered by collateral held by the City's agent in the City's name.

**Investments**

As of December 31, 2007, the City had the following investments that are insured or registered, or securities held by the City or its agent in the City's name.

Types of Investments	Credit Quality/ Ratings (1)	Segmented Time Distribution (2)	Fair Value and Carrying Amount	Cost
Non-pooled investments				
U.S. Government Securities	AAA	6 months to 1 year	\$ 700,441	\$ 700,000
U.S. Government Securities	AAA	more than 3 years	<u>1,922,349</u>	<u>1,900,000</u>
Total investments			<u>\$ 2,622,790</u>	<u>\$ 2,600,000</u>

1. Ratings were provided by Moody's.
2. Interest rate risk disclosed using the segmented time distribution method.

CITY OF MELROSE, MINNESOTA  
 NOTES TO FINANCIAL STATEMENTS  
 DECEMBER 31, 2007

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

**Cash on Hand**

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

**Cash Summary**

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

Carrying amount of deposits	\$ 10,505,816
Investments	2,622,790
Cash on hand	<u>703</u>
Total	<u><u>\$ 13,129,309</u></u>
Cash	
Government wide	\$ 13,129,249
Agency	<u>60</u>
Total	<u><u>\$ 13,129,309</u></u>

**B. Loans Receivable**

The City has funds available for loans to local businesses. At December 31, 2007 the City has loans outstanding totaling \$422,826 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, 2007 is comprised of the following:

	<u>Unavailable</u>	<u>Unearned</u>
General		
Delinquent taxes	\$ 30,506	\$ -
Due from Centracare	-	1,214,900
Capital Improvements		
Special assessments	623,526	-
Debt Service		
Special assessments	<u>635,770</u>	<u>-</u>
Total	<u><u>\$ 1,289,802</u></u>	<u><u>\$ 1,214,900</u></u>

CITY OF MELROSE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2007

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

**D. Capital Assets**

Capital asset activity for the year ended December 31, 2007 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental activities</b>				
Capital assets, not being depreciated				
Land	\$ 2,515,371	\$ 490,873	\$ (14,053)	\$ 2,992,191
Construction in progress	<u>2,666,621</u>	<u>141,511</u>	<u>(2,447,467)</u>	<u>360,665</u>
Total capital assets, not being depreciated	<u>5,181,992</u>	<u>632,384</u>	<u>(2,461,520)</u>	<u>3,352,856</u>
Capital assets, being depreciated				
Buildings	2,495,019	-	-	2,495,019
Machinery and equipment	1,785,357	164,904	-	1,950,261
Infrastructure	<u>9,008,481</u>	<u>1,430,150</u>	<u>-</u>	<u>10,438,631</u>
Total capital assets being depreciated	<u>13,288,857</u>	<u>1,595,054</u>	<u>-</u>	<u>14,883,911</u>
Less accumulated depreciation for				
Buildings	(874,015)	(108,388)	-	(982,403)
Machinery and equipment	(738,863)	(120,252)	-	(859,114)
Infrastructure	<u>(2,055,447)</u>	<u>(293,966)</u>	<u>-</u>	<u>(2,349,413)</u>
Total accumulated depreciation	<u>(3,668,325)</u>	<u>(522,606)</u>	<u>-</u>	<u>(4,190,930)</u>
Total capital assets, being depreciated, net	<u>9,620,532</u>	<u>1,072,448</u>	<u>-</u>	<u>10,692,981</u>
Governmental activities capital assets, net	<u>\$ 14,802,524</u>	<u>\$ 1,704,832</u>	<u>\$ (2,461,520)</u>	<u>\$ 14,045,837</u>

CITY OF MELROSE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2007

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

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Business-type activities</b>				
Capital assets, not being depreciated				
Land	\$ 246,376	\$ 74,652	\$ -	\$ 321,028
Construction in progress	9,694	187,237	-	196,931
Total capital assets, not being depreciated	256,070	261,889	-	517,959
Capital assets, being depreciated				
Buildings	2,510,920	-	-	2,510,920
Machinery and equipment	1,384,506	14,055	-	1,398,561
Infrastructure	31,421,295	1,044,987	-	32,466,282
Total capital assets being depreciated	35,316,721	1,059,042	-	36,375,763
Less accumulated depreciation for				
Buildings	(1,758,421)	(63,777)	-	(1,822,198)
Machinery and equipment	(593,762)	(101,554)	-	(695,316)
Infrastructure	(10,488,534)	(1,124,195)	-	(11,612,730)
Total accumulated depreciation	(12,840,717)	(1,289,526)	-	(14,130,244)
Total capital assets, being depreciated, net	22,476,004	(230,484)	-	22,245,519
Business-type activities capital assets, net	\$ 22,732,074	\$ 31,405	\$ -	\$ 22,763,478
 <b>Governmental activities</b>				
General government				\$ 74,205
Public safety				58,219
Culture and recreation				59,919
Public works				330,263
Total depreciation expense - governmental activities				\$ 522,606
 <b>Business-type activities</b>				
Ambulance				\$ 16,569
Water				286,637
Wastewater				643,760
Electric				342,560
Total depreciation expense - business-type activities				\$ 1,289,526

CITY OF MELROSE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2007

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

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

**Interfund Balances**

Receivable Fund	Payable Fund	Amount	Purpose
Electric	General	\$ 295,300	Land purchase loan
Capital Improvements	Nonmajor governmental	437,301	Park and GCI loan
Nonmajor governmental	Nonmajor governmental	<u>296,498</u>	TIF from Jennie-O site
Total		<u>\$ 1,029,099</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	Debt Service	Capital Improvements	Nonmajor governmental funds	
Transfer out:					
General	\$ -	\$ -	\$ 242,860	\$ 245,721	\$ 488,581
Debt service	-	-	-	17,436	17,436
Capital improvements	126,035	-	-	-	126,035
Nonmajor governmental	70,651	229,082	12,000	296,498	608,231
Ambulance enterprise	-	-	5,000	-	5,000
Electric enterprise	-	-	-	40,000	40,000
Total transfers out	<u>\$ 196,686</u>	<u>\$ 229,082</u>	<u>\$ 259,860</u>	<u>\$ 599,655</u>	<u>\$ 1,285,283</u>

- The transfer from the General fund to MADA was done to fund their budgeted expenditures.
- 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 nonmajor governmental funds was for the City's share of fire department operations, to fund the park's budgeted expenditures and to close a fund.
- The transfer from Capital Improvement to the General fund was completed for capital costs approved in prior years but purchased in the current year.
- The \$12,000 transfer from the nonmajor fund to the Capital Improvement fund was a result of transferring unspent budgeted costs.
- The \$17,436 transfer from the Debt Service fund to the nonmajor fund was done to close the completed debt fund.

CITY OF MELROSE, MINNESOTA  
 NOTES TO FINANCIAL STATEMENTS  
 DECEMBER 31, 2007

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

- The transfer from the Electric fund to the nonmajor governmental fund was for the transfer of revolving loan funds.
- The transfer from the Ambulance fund to the Capital Improvement fund was a result of transferring unspent budgeted costs.
- A fund closing transfer totaling \$299,733 was made from the nonmajor capital projects to the General fund (\$70,651) and to the debt service funds (\$229,082).
- A transfer of \$296,498 was made between nonmajor governmental funds to eliminate an interfund receivable.

**F. Long-term Debt**

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

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

**General Obligation Improvement Bonds**

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

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
G.O. Improvement Bonds, Series 2002	\$ 835,000	2.25 - 5.00 %	06/01/02	12/01/17	\$ 540,000
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>2,470,000</u>
Total G.O. Improvement Bonds					<u><u>\$ 3,995,000</u></u>

CITY OF MELROSE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2007

**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
2008	\$ 165,000	\$ 156,076	\$ 321,076
2009	250,000	149,065	399,065
2010	290,000	139,750	429,750
2011	300,000	129,265	429,265
2012	310,000	118,223	428,223
2013-2017	1,550,000	419,618	1,969,618
2018-2021	1,130,000	94,641	1,224,641
Total	<u>\$ 3,995,000</u>	<u>\$ 1,206,638</u>	<u>\$ 5,201,638</u>

**Loans Payable**

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

Total loans payable \$ 75,667

Annual requirement to maturity for loans payable is as follows:

Year Ending December 31,	Governmental Activities		
	Principal	Interest	Total
2008	\$ 59,761	\$ 1,083	\$ 60,844
2009	15,906	80	15,986
Total	<u>\$ 75,667</u>	<u>\$ 1,163</u>	<u>\$ 76,830</u>

CITY OF MELROSE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2007

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

**General Obligation Revenue Bonds**

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

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
G.O. Water Revenue Bonds of 1998	\$ 1,890,000	4.70 - 5.20 %	04/01/98	08/01/20	\$ 1,375,000
G.O. Wastewater Revenue Bonds of 1998	1,350,000	4.70-5.20	04/01/98	08/01/08	165,000
1999 PFA Loan - Wells 8 and 9	599,219	3.54	04/22/99	08/20/18	394,000
1999 PFA Loan - Water Tower	2,500,000	3.48	05/27/99	08/20/19	1,760,700
G.O. Sewer Revenue Bonds of 2004	3,230,000	3.25 - 4.75	06/01/04	12/01/24	3,230,000
G.O. Water Revenue Crossover Refunding	1,330,000	3.20 - 4.25	09/01/05	08/01/20	<u>1,330,000</u>
Total G.O. Revenue Bonds					<u><u>\$ 8,254,700</u></u>

Revenue bonds debt service requirements to maturity are as follows:

Year Ending December 31,	Business-type Activities		
	Principal	Interest	Total
2008	\$ 396,000	\$ 289,422	\$ 685,422
2009	481,000	323,537	804,537
2010	501,000	306,334	807,334
2011	522,000	287,977	809,977
2012	538,000	268,476	806,476
2013-2017	3,033,000	1,008,590	4,041,590
2018-2022	2,248,700	376,894	2,625,594
2023-2024	<u>535,000</u>	<u>38,475</u>	<u>573,475</u>
Total	<u><u>\$ 8,254,700</u></u>	<u><u>\$ 2,899,705</u></u>	<u><u>\$ 11,154,405</u></u>

CITY OF MELROSE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2007

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

*Changes in Long-term Liabilities.* Long-term liability activity for the year ended December 31, 2007, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
<b>Governmental activities</b>					
Bonds payable					
General obligation					
improvement bonds	\$ 4,135,000	\$ -	\$ (140,000)	\$ 3,995,000	\$ 165,000
General obligation bonds	75,000	-	(75,000)	-	-
Loans payable	134,235	-	(58,568)	75,667	59,761
Total bonds payable	4,344,235	-	(273,568)	4,070,667	224,761
Compensated absences	54,429	55,957	(52,791)	57,595	52,791
Governmental activity long-term liabilities	<u>\$ 4,398,664</u>	<u>\$ 55,957</u>	<u>\$ (326,359)</u>	<u>\$ 4,128,262</u>	<u>\$ 277,552</u>
<b>Business-type activities</b>					
Bonds payable					
General obligation					
revenue bonds	\$ 8,630,700	\$ -	\$ (376,000)	8,254,700	396,000
Compensated absences	60,531	72,121	(63,420)	69,232	63,420
Business-type activity long-term liabilities	<u>\$ 8,691,231</u>	<u>\$ 72,121</u>	<u>\$ (439,420)</u>	<u>\$ 8,323,932</u>	<u>\$ 459,420</u>

**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.

CITY OF MELROSE, MINNESOTA  
 NOTES TO FINANCIAL STATEMENTS  
 DECEMBER 31, 2007

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

**G. Tax Increment Districts**

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

	<u>Jennie-O</u>	<u>Park Place</u>	<u>Marine and Sport</u>
Authorizing law	M.S. 469	M.S. 469	M.S. 469
Type of district	Redevelopment	Housing	Economic
Year established	6/93	6/97	6/99
Duration of district	23 years	25 years	9 years
Tax capacity			
Original	\$ 15,346	\$ 360	\$ 791
Current	<u>16,634</u>	<u>7,965</u>	<u>6,074</u>
Captured - retained	<u>\$ 1,288</u>	<u>\$ 7,605</u>	<u>\$ 5,283</u>
	<u>Carstens Ind., Inc.</u>	<u>GCI Builders</u>	<u>Central MN Federal CU</u>
Authorizing law	M.S. 469	M.S. 469	M.S. 469
Type of district	Economic	Redevelopment	Redevelopment
Year established	7/00	8/27/2004	8/8/2006
Duration of district	9 years	26 years	26 years
Tax capacity			
Original	\$ 3,004	\$ 1,925	\$ 3,999
Current	<u>8,652</u>	<u>12,873</u>	<u>4,068</u>
Captured - retained	<u>\$ 5,648</u>	<u>\$ 10,948</u>	<u>\$ 69</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, 2007

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

**H. Fund Equity Reservations and Designations**

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

Fund	Purpose	Amount
<b>Fund balance - Reserved</b>		
General	Prepaid items	\$ 3,501
Debt service	Debt service	816,215
Nonmajor governmental	Prepaid items	3,596
	Loans	411,684
Total reserved fund balance		<u>\$ 1,234,996</u>
<b>Fund balance - Unreserved - Designated</b>		
General	Insurance reserve	\$ 4,785
	Compensated absences	30,161
	Working capital	550,000
Capital Improvements	Public Works equipment	11,111
	Street improvements	378,619
	Sidewalk program	25,120
	Police car replacement	43,058
	Future land development	82,336
	Planning and zoning	40,421
	Police equipment	6,023
	Office equipment	21,777
	Capital improvements	1,820,520
	Nonmajor governmental	Loans
Soccer		422
Senior Center		2,726
Tri-Cap Bus		3,630
Fire equipment		18,357
Fire vehicle replacement		137,299
Total designated fund balance		<u>\$ 3,187,129</u>

CITY OF MELROSE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2007

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

**A. Plan Description**

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

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

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

Two methods are used to compute benefits for PERF's Coordinated and Basic Plan members. The retiring member receives the higher of the step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan is 2.2 percent of average salary for each of the first 10 years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first 10 years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan for each year of service. For all PEPFF members and for PERF members whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. A reduced retirement annuity is also available to eligible members seeking early retirement.

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

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

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

CITY OF MELROSE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2007

**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 5.75 percent, respectively, of their annual covered salary. Contribution rates in the Coordinated Plan will increase in 2008 to 6.0 percent. PEPFF members are required to contribute 7.8 percent of their annual covered salary. That rate will increase to 8.6 percent in 2008. The City is required to contribute the following percentages of annual covered payroll: 11.78 percent for Basic Plan PERF members, 6.25 percent for Coordinated Plan PERF members, and 11.7 percent for PEPFF members. Employer contribution rates for the Coordinated Plan and PEPFF will increase to 6.5 percent and 12.9 percent, respectively, effective January 1, 2008. The City's contributions to the PERF for the year ended December 31, 2007, 2006 and 2005 were \$71,955, \$69,479 and \$62,311, respectively. The City's contributions to the PEPFF for the years ending December 31, 2007, 2006 and 2005 were \$18,718, \$23,018 and \$18,735, 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 2007 taxable market value of property was \$159,985,700 and the debt limit was \$3,199,714. There was no debt applicable to this limit at year end.

**C. Electric Franchise Fee**

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

CITY OF MELROSE, MINNESOTA  
 NOTES TO FINANCIAL STATEMENTS  
 DECEMBER 31, 2007

**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	\$	25,488
Contributions made		
City (Voluntary)		1,254
City (Required)		1,446
State Aid		24,042
Actuarial valuation date		12/31/07
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, 2007

**Note 6: VOLUNTEER FIREFIGHTER'S RELIEF ASSOCIATION - CONTINUED**

Year Ending	Three Year Trend Information		
	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
12/31/07	\$ 25,488	104.9 %	\$ -
12/31/06	27,917	107.2	-
12/31/05	28,904	108.2	-

Required Supplementary Information					
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Assets in Excess of (Unfunded) Accrued Liability	Funded Rate	Pension Benefit Per Year of Service
12/31/07	\$ 349,073	\$ 341,033	\$ 8,040	102.4 %	\$ 1,250
12/30/06	302,251	302,296	(45)	100.0	1,200
12/31/05	293,087	317,757	(24,670)	92.2	1,200
12/31/04	290,245	330,705	(40,460)	87.8	1,200
12/31/03	254,981	276,350	(21,369)	92.3	1,000
12/31/02	249,123	281,490	(32,367)	88.5	1,000

**COMBINING AND INDIVIDUAL FUND  
FINANCIAL STATEMENTS**

CITY OF MELROSE  
MELROSE, MINNESOTA

YEAR ENDED  
DECEMBER 31, 2007

CITY OF MELROSE, MINNESOTA  
NONMAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEET  
DECEMBER 31, 2007

	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Total Nonmajor Governmental Funds</u>
<b>ASSETS</b>			
Cash and temporary investments	\$ 156,815	\$ 19,020	\$ 175,835
Receivables			
Accrued interest	4,750	2,858	7,608
Loans	422,826	-	422,826
Accounts - net	34,988	-	34,988
Due from other funds	-	296,498	296,498
Prepaid items	4,422	-	4,422
	<u>4,422</u>	<u>-</u>	<u>4,422</u>
TOTAL ASSETS	<u>\$ 623,801</u>	<u>\$ 318,376</u>	<u>\$ 942,177</u>
<b>LIABILITIES AND FUND BALANCES (DEFICITS)</b>			
<b>LIABILITIES</b>			
Accounts payable	\$ 20,705	\$ 5,850	\$ 26,555
Due to other funds	733,799	-	733,799
	<u>733,799</u>	<u>-</u>	<u>733,799</u>
TOTAL LIABILITIES	<u>754,504</u>	<u>5,850</u>	<u>760,354</u>
<b>FUND BALANCES (DEFICITS)</b>			
Reserved for prepaid items	3,596	-	3,596
Reserved for loans	411,684	-	411,684
Unreserved			
Designated	173,198	-	173,198
Undesignated	(719,181)	312,526	(406,655)
	<u>(719,181)</u>	<u>312,526</u>	<u>(406,655)</u>
TOTAL FUND BALANCES (DEFICITS)	<u>(130,703)</u>	<u>312,526</u>	<u>181,823</u>
TOTAL LIABILITIES AND FUND BALANCES (DEFICITS)	<u>\$ 623,801</u>	<u>\$ 318,376</u>	<u>\$ 942,177</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, 2007

	Special Revenue	Capital Projects	Total Nonmajor Governmental Funds
REVENUES			
Tax increments	\$ 38,256	\$ -	\$ 38,256
Intergovernmental	25,542	-	25,542
Charges for services	96,101	-	96,101
Interest on investments	29,832	22,046	51,878
Miscellaneous	52,576	2,728	55,304
TOTAL REVENUES	242,307	24,774	267,081
EXPENDITURES			
Current			
Public safety	112,482	-	112,482
Culture and recreation	65,243	-	65,243
Economic development	58,984	-	58,984
Capital outlay			
Public safety	25,607	19,494	45,101
Streets and highways	-	203,940	203,940
Debt service			
Principal	58,568	-	58,568
Interest and other charges	13,575	-	13,575
TOTAL EXPENDITURES	334,459	223,434	557,893
DEFICIENCY OF REVENUES UNDER EXPENDITURES	(92,152)	(198,660)	(290,812)
OTHER FINANCING SOURCES			
Sale of capital assets	1,400	-	1,400
Transfers in	288,755	310,900	599,655
Transfers out	(308,498)	(299,733)	(608,231)
TOTAL OTHER FINANCING SOURCES	(18,343)	11,167	(7,176)
NET CHANGE IN FUND BALANCES	(110,495)	(187,493)	(297,988)
FUND BALANCES (DEFICITS), JANUARY 1	(20,208)	500,019	479,811
FUND BALANCES (DEFICITS), DECEMBER 31	\$ (130,703)	\$ 312,526	\$ 181,823

CITY OF MELROSE, MINNESOTA  
NONMAJOR SPECIAL REVENUE FUNDS  
COMBINING BALANCE SHEET  
DECEMBER 31, 2007

	Business Improvement Loans	Melrose Area Development Authority (MADA)	Parks and Recreation
<b>ASSETS</b>			
Cash and temporary investments (deficit)	\$ 10,764	\$ 52,446	\$ (50,257)
Receivable			
Accrued interest	-	1,317	201
Loans	-	-	-
Accounts - net	-	-	24
Prepaid items	-	21	805
	-	21	805
TOTAL ASSETS	\$ 10,764	\$ 53,784	\$ (49,227)
<b>LIABILITIES AND FUND BALANCES (DEFICITS)</b>			
<b>LIABILITIES</b>			
Accounts payable	\$ -	\$ 515	\$ 1,077
Due to other funds	-	99,954	337,347
	-	99,954	337,347
TOTAL LIABILITIES	-	100,469	338,424
<b>FUND BALANCES (DEFICITS)</b>			
Reserved for prepaid items	-	-	-
Reserved for outstanding loans	-	-	-
Unreserved			
Designated	10,764	-	-
Undesignated	-	(46,685)	(387,651)
	-	(46,685)	(387,651)
TOTAL FUND BALANCES (DEFICITS)	10,764	(46,685)	(387,651)
TOTAL LIABILITIES AND FUND BALANCES (DEFICITS)	\$ 10,764	\$ 53,784	\$ (49,227)

<u>MADA Revolving Loan</u>	<u>Soccer League</u>	<u>Senior Activity Center</u>	<u>PIA Asset Building</u>	<u>Tri-Cap Bus</u>	<u>Fire Department</u>
\$ (11,142)	\$ 422	\$ 3,120	\$ (488)	\$ 5,487	\$ 133,840
-	-	-	-	-	3,232
422,826	-	-	-	-	-
-	-	-	-	-	34,964
-	-	-	-	-	3,596
<u>\$ 411,684</u>	<u>\$ 422</u>	<u>\$ 3,120</u>	<u>\$ (488)</u>	<u>\$ 5,487</u>	<u>\$ 175,632</u>
\$ -	\$ -	\$ 394	\$ 32	\$ 1,857	\$ 4,207
-	-	-	-	-	-
-	-	394	32	1,857	4,207
-	-	-	-	-	3,596
411,684	-	-	-	-	-
-	422	2,726	-	3,630	155,656
-	-	-	(520)	-	12,173
<u>411,684</u>	<u>422</u>	<u>2,726</u>	<u>(520)</u>	<u>3,630</u>	<u>171,425</u>
<u>\$ 411,684</u>	<u>\$ 422</u>	<u>\$ 3,120</u>	<u>\$ (488)</u>	<u>\$ 5,487</u>	<u>\$ 175,632</u>

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CITY OF MELROSE, MINNESOTA  
NONMAJOR SPECIAL REVENUE FUNDS  
COMBINING BALANCE SHEET - CONTINUED  
DECEMBER 31, 2007

	Tax Increment Projects	Total
<b>ASSETS</b>		
Cash and temporary investments (deficit)	\$ 12,623	\$ 156,815
Receivable		
Accrued interest	-	4,750
Loans	-	422,826
Accounts - net	-	34,988
Prepaid items	-	4,422
TOTAL ASSETS	\$ 12,623	\$ 623,801
<b>LIABILITIES AND FUND BALANCES (DEFICITS)</b>		
<b>LIABILITIES</b>		
Accounts payable	\$ 12,623	\$ 20,705
Due to other funds	296,498	733,799
TOTAL LIABILITIES	309,121	754,504
<b>FUND BALANCES (DEFICITS)</b>		
Reserved for prepaid items	-	3,596
Reserved for outstanding loans	-	411,684
Unreserved		
Designated	-	173,198
Undesignated	(296,498)	(719,181)
TOTAL FUND BALANCES (DEFICITS)	(296,498)	(130,703)
TOTAL LIABILITIES AND FUND BALANCES (DEFICITS)	\$ 12,623	\$ 623,801

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, 2007

	Business Improvement Loans	Melrose Area Development Authority (MADA)	Parks and Recreation
<b>REVENUES</b>			
Tax increments	\$ -	\$ -	\$ -
Intergovernmental	-	-	-
Charges for services	-	-	4,361
Interest on investments	343	13,329	744
Miscellaneous			
Contributions and donations	-	-	-
Other	-	-	107
	343	13,329	5,212
<b>TOTAL REVENUES</b>			
<b>EXPENDITURES</b>			
Current			
Personal services	-	2,180	32,153
Supplies	-	414	4,604
Other services and charges	-	6,915	22,866
Debt service			
Principal	-	-	-
Interest and other charges	-	10,516	-
Capital outlay			
Public safety	-	-	-
	-	20,025	59,623
<b>TOTAL EXPENDITURES</b>			
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>			
	343	(6,696)	(54,411)
<b>OTHER FINANCING SOURCES (USES)</b>			
Sale of capital assets	-	-	-
Transfers in	-	22,600	147,762
Transfers out	-	-	-
	-	22,600	147,762
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>			
<b>NET CHANGE IN FUND BALANCES</b>			
	343	15,904	93,351
<b>FUND BALANCES (DEFICITS), JANUARY 1</b>			
	10,421	(62,589)	(481,002)
<b>FUND BALANCES (DEFICITS), DECEMBER 31</b>			
	\$ 10,764	\$ (46,685)	\$ (387,651)

<u>MADA Revolving Loan</u>	<u>Soccer League</u>	<u>Senior Activity Center</u>	<u>PIA Asset Building</u>	<u>Tri-Cap Bus</u>	<u>Fire Department</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	1,500	24,042
-	-	-	-	170	91,570
11,942	-	-	-	-	3,474
-	-	-	2,000	2,850	38,575
-	-	5,794	-	-	3,250
<u>11,942</u>	<u>-</u>	<u>5,794</u>	<u>2,000</u>	<u>4,520</u>	<u>160,911</u>
-	-	-	-	-	59,419
-	-	-	-	-	24,630
-	-	5,620	3,243	7,976	28,433
58,568	-	-	-	-	-
3,059	-	-	-	-	-
-	-	-	-	-	25,607
<u>61,627</u>	<u>-</u>	<u>5,620</u>	<u>3,243</u>	<u>7,976</u>	<u>138,089</u>
<u>(49,685)</u>	<u>-</u>	<u>174</u>	<u>(1,243)</u>	<u>(3,456)</u>	<u>22,822</u>
-	-	-	-	-	1,400
40,000	-	-	-	-	78,393
-	-	-	-	-	(12,000)
<u>40,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>67,793</u>
(9,685)	-	174	(1,243)	(3,456)	90,615
<u>421,369</u>	<u>422</u>	<u>2,552</u>	<u>723</u>	<u>7,086</u>	<u>80,810</u>
<u>\$ 411,684</u>	<u>\$ 422</u>	<u>\$ 2,726</u>	<u>\$ (520)</u>	<u>\$ 3,630</u>	<u>\$ 171,425</u>

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CITY OF MELROSE, MINNESOTA  
NONMAJOR SPECIAL REVENUE FUNDS  
COMBINING SCHEDULE OF REVENUE, EXPENDITURES  
AND CHANGES IN FUND BALANCES (DEFICITS) - CONTINUED  
FOR THE YEAR ENDED DECEMBER 31, 2007

	Tax Increment Projects	Total
REVENUES		
Tax increments	\$ 38,256	\$ 38,256
Intergovernmental	-	25,542
Charges for services	-	96,101
Interest on investments	-	29,832
Miscellaneous		
Contributions and donations	-	43,425
Other	-	9,151
TOTAL REVENUES	38,256	242,307
EXPENDITURES		
Current		
Personal services	-	93,752
Supplies	-	29,648
Other services and charges	38,256	113,309
Debt service		
Principal	-	58,568
Interest and other charges	-	13,575
Capital outlay		
Public safety	-	25,607
TOTAL EXPENDITURES	38,256	334,459
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	-	(92,152)
OTHER FINANCING SOURCES (USES)		
Sale of capital assets	-	1,400
Transfers in	-	288,755
Transfers out	(296,498)	(308,498)
TOTAL OTHER FINANCING SOURCES (USES)	(296,498)	(18,343)
NET CHANGE IN FUND BALANCES	(296,498)	(110,495)
FUND BALANCES (DEFICITS), JANUARY 1	-	(20,208)
FUND BALANCES (DEFICITS), DECEMBER 31	\$ (296,498)	\$ (130,703)

CITY OF MELROSE, MINNESOTA  
MELROSE AREA DEVELOPMENT AUTHORITY  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (DEFICITS) -  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED DECEMBER 31, 2007  
(With comparative actual amounts for the year ended December 31, 2006)

	2007			Variance with Final Budget - Positive (Negative)	2006
	Budgeted Amounts		Actual Amounts		Actual Amounts
	Original	Final			
REVENUES					
Interest on investments	\$ 5,000	\$ 5,000	\$ 13,329	\$ 8,329	\$ 12,954
Miscellaneous	5,000	5,000	-	(5,000)	12,768
<b>TOTAL REVENUES</b>	<b>10,000</b>	<b>10,000</b>	<b>13,329</b>	<b>3,329</b>	<b>25,722</b>
EXPENDITURES					
Economic development					
Personal services	5,479	5,479	2,180	3,299	1,420
Supplies	1,000	1,000	414	586	210
Other services and charges	21,121	21,121	6,915	14,206	55,503
Debt service					
Interest and other charges	5,000	5,000	10,516	(5,516)	11,421
<b>TOTAL EXPENDITURES</b>	<b>32,600</b>	<b>32,600</b>	<b>20,025</b>	<b>12,575</b>	<b>68,554</b>
DEFICIENCY OF REVENUES UNDER EXPENDITURES	(22,600)	(22,600)	(6,696)	15,904	(42,832)
OTHER FINANCING SOURCES					
Sale of capital assets	-	-	-	-	20,000
Transfers in	22,600	22,600	22,600	-	136,000
<b>TOTAL OTHER FINANCING SOURCES</b>	<b>22,600</b>	<b>22,600</b>	<b>22,600</b>	<b>-</b>	<b>156,000</b>
NET CHANGE IN FUND BALANCES	-	-	15,904	15,904	113,168
FUND BALANCES (DEFICITS), JANUARY 1	(62,589)	(62,589)	(62,589)	-	(175,757)
FUND BALANCES (DEFICITS), DECEMBER 31	<u>\$ (62,589)</u>	<u>\$ (62,589)</u>	<u>\$ (46,685)</u>	<u>\$ 15,904</u>	<u>\$ (62,589)</u>

CITY OF MELROSE, MINNESOTA  
PARKS AND RECREATION  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (DEFICITS)-  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED DECEMBER 31, 2007  
(With comparative actual amounts for the year ended December 31, 2006)

	2007			Variance with Final Budget - Positive (Negative)	2006
	Budgeted Amounts		Actual Amounts		Actual Amounts
	Original	Final			
<b>REVENUES</b>					
Charges for services	\$ 5,000	\$ 5,000	\$ 4,361	\$ (639)	\$ 4,425
Interest on investments	-	-	744	744	995
Miscellaneous	-	-	107	107	10,597
<b>TOTAL REVENUES</b>	<b>5,000</b>	<b>5,000</b>	<b>5,212</b>	<b>212</b>	<b>16,017</b>
<b>EXPENDITURES</b>					
Parks and recreation					
Personal services	40,691	40,691	32,153	8,538	28,942
Supplies	6,300	6,300	4,604	1,696	5,881
Other services and charges	28,335	28,335	22,866	5,469	23,269
Debt service					
Principal	60,000	60,000	-	60,000	-
Interest and other charges	-	-	-	-	18,799
<b>TOTAL EXPENDITURES</b>	<b>135,326</b>	<b>135,326</b>	<b>59,623</b>	<b>75,703</b>	<b>76,891</b>
<b>DEFICIENCY OF REVENUES UNDER EXPENDITURES</b>	<b>(130,326)</b>	<b>(130,326)</b>	<b>(54,411)</b>	<b>75,915</b>	<b>(60,874)</b>
<b>OTHER FINANCING SOURCES</b>					
Transfers in	130,326	130,326	147,762	17,436	118,991
<b>NET CHANGE IN FUND BALANCES</b>	<b>-</b>	<b>-</b>	<b>93,351</b>	<b>93,351</b>	<b>58,117</b>
<b>FUND BALANCES (DEFICITS), JANUARY 1</b>	<b>(481,002)</b>	<b>(481,002)</b>	<b>(481,002)</b>	<b>-</b>	<b>(539,119)</b>
<b>FUND BALANCES (DEFICITS), DECEMBER 31</b>	<b>\$ (481,002)</b>	<b>\$ (481,002)</b>	<b>\$ (387,651)</b>	<b>\$ 93,351</b>	<b>\$ (481,002)</b>

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CITY OF MELROSE, MINNESOTA  
FIRE DEPARTMENT  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (DEFICITS) -  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED DECEMBER 31, 2007  
(With comparative actual amounts for the year ended December 31, 2006)

	2007			Variance with Final Budget - Positive (Negative)	2006
	Budgeted Amounts		Actual Amounts		Actual Amounts
	Original	Final			
<b>REVENUES</b>					
Intergovernmental	\$ 28,581	\$ 28,581	\$ 24,042	\$ (4,539)	\$ 27,917
Charges for services	162,533	162,533	91,570	(70,963)	75,775
Interest on investments	-	-	3,474	3,474	3,603
Miscellaneous	-	-	41,825	41,825	38,550
<b>TOTAL REVENUES</b>	<b>191,114</b>	<b>191,114</b>	<b>160,911</b>	<b>(30,203)</b>	<b>145,845</b>
<b>EXPENDITURES</b>					
Public safety					
Personal services	59,264	59,264	59,419	(155)	56,780
Supplies	16,900	16,900	24,630	(7,730)	28,961
Other services and charges	33,950	33,950	28,433	5,517	26,034
Capital Outlay	49,000	49,000	25,607	23,393	134,929
<b>TOTAL EXPENDITURES</b>	<b>159,114</b>	<b>159,114</b>	<b>138,089</b>	<b>21,025</b>	<b>246,704</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>32,000</b>	<b>32,000</b>	<b>22,822</b>	<b>(9,178)</b>	<b>(100,859)</b>
<b>OTHER FINANCING SOURCES</b>					
Sale of capital assets	-	-	1,400	1,400	1,111
Transfers in	-	-	78,393	78,393	66,514
<b>TOTAL OTHER FINANCING SOURCES</b>	<b>-</b>	<b>-</b>	<b>79,793</b>	<b>79,793</b>	<b>67,625</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>32,000</b>	<b>32,000</b>	<b>102,615</b>	<b>70,615</b>	<b>(33,234)</b>
<b>FUND BALANCES, JANUARY 1</b>	<b>80,810</b>	<b>80,810</b>	<b>80,810</b>	<b>-</b>	<b>114,044</b>
<b>FUND BALANCES, DECEMBER 31</b>	<b>\$ 112,810</b>	<b>\$ 112,810</b>	<b>\$ 183,425</b>	<b>\$ 70,615</b>	<b>\$ 80,810</b>

CITY OF MELROSE, MINNESOTA  
NONMAJOR CAPITAL PROJECTS FUNDS  
COMBINING BALANCE SHEET  
DECEMBER 31, 2007

	1992 Abandoned Railroad Property Project	2003 Equipment	2006 Kraft Drive Extension
	<u>          </u>	<u>          </u>	<u>          </u>
<b>ASSETS</b>			
Cash and temporary investments (deficit)	\$ 2,399	\$ -	\$ 1,528
Receivables			
Accrued interest	-	-	1,282
Due from other funds	<u>296,498</u>	<u>-</u>	<u>-</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 298,897</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 2,810</u></u>
<b>LIABILITIES AND FUND BALANCES (DEFICITS)</b>			
<b>LIABILITIES</b>			
Accounts payable	\$ -	\$ -	\$ 2,810
<b>FUND BALANCES (DEFICITS)</b>			
Unreserved - undesignated	<u>298,897</u>	<u>-</u>	<u>-</u>
<b>TOTAL LIABILITIES AND FUND BALANCES (DEFICITS)</b>	<u><u>\$ 298,897</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 2,810</u></u>

2004 I-94 Industrial Park Improvements	2005 Capital Improvements	2006 Tri Quality Improvement	2006 EBM Improvements	2007 Fire and Ambulance Station	Total
\$ (1,025)	\$ (5)	\$ 31,431	\$ -	\$ (15,308)	\$ 19,020
1,025	513	38	-	-	2,858
-	-	-	-	-	296,498
<u>\$ -</u>	<u>\$ 508</u>	<u>\$ 31,469</u>	<u>\$ -</u>	<u>\$ (15,308)</u>	<u>\$ 318,376</u>
\$ -	\$ 508	\$ -	\$ -	\$ 2,532	\$ 5,850
-	-	31,469	-	(17,840)	312,526
<u>\$ -</u>	<u>\$ 508</u>	<u>\$ 31,469</u>	<u>\$ -</u>	<u>\$ (15,308)</u>	<u>\$ 318,376</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, 2007

	1992 Abandoned Railroad Property Project	2003 Equipment	2006 Kraft Drive Extension
REVENUES			
Interest on investments	\$ -	\$ 1,464	\$ 9,471
Miscellaneous	1,628	-	-
	1,628	1,464	9,471
TOTAL REVENUES			
EXPENDITURES			
Capital outlay			
Public safety	-	-	-
Streets and highways	-	78,178	78,987
	-	78,178	78,987
TOTAL EXPENDITURES			
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	1,628	(76,714)	(69,516)
OTHER FINANCING SOURCES (USES)			
Transfers in	296,498	-	-
Transfer out	-	-	(136,805)
	296,498	-	(136,805)
TOTAL OTHER FINANCING SOURCES (USES)			
NET CHANGE IN FUND BALANCES	298,126	(76,714)	(206,321)
FUND BALANCES (DEFICITS), JANUARY 1	771	76,714	206,321
FUND BALANCES (DEFICITS), DECEMBER 31	\$ 298,897	\$ -	\$ -

2004 I-94 Industrial Park Improvements	2005 Capital Improvements	2006 Tri Quality Improvement	2006 EBM Improvements	2007 Fire and Ambulance Station	Total
\$ 7,328	\$ 2,428	\$ 1,343	\$ -	\$ 12	\$ 22,046
-	-	-	-	1,100	2,728
<u>7,328</u>	<u>2,428</u>	<u>1,343</u>	<u>-</u>	<u>1,112</u>	<u>24,774</u>
-	-	-	-	19,494	19,494
<u>31,896</u>	<u>3,744</u>	<u>11,135</u>	<u>-</u>	<u>-</u>	<u>203,940</u>
<u>31,896</u>	<u>3,744</u>	<u>11,135</u>	<u>-</u>	<u>19,494</u>	<u>223,434</u>
<u>(24,568)</u>	<u>(1,316)</u>	<u>(9,792)</u>	<u>-</u>	<u>(18,382)</u>	<u>(198,660)</u>
-	-	-	14,402	-	310,900
<u>(100,951)</u>	<u>(61,977)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(299,733)</u>
<u>(100,951)</u>	<u>(61,977)</u>	<u>-</u>	<u>14,402</u>	<u>-</u>	<u>11,167</u>
<u>(125,519)</u>	<u>(63,293)</u>	<u>(9,792)</u>	<u>14,402</u>	<u>(18,382)</u>	<u>(187,493)</u>
<u>125,519</u>	<u>63,293</u>	<u>41,261</u>	<u>(14,402)</u>	<u>542</u>	<u>500,019</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 31,469</u>	<u>\$ -</u>	<u>\$ (17,840)</u>	<u>\$ 312,526</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, 2007  
(With comparative actual amounts for the year ended December 31, 2006)

	2007			Variance with Final Budget - Positive (Negative)	2006
	Budgeted Amounts		Actual Amounts		Actual Amounts
	Original	Final			
<b>REVENUES</b>					
Taxes					
Property taxes	\$ 669,893	\$ 669,893	\$ 645,915	\$ (23,978)	\$ 575,734
Franchise fees	282,000	282,000	276,634	(5,366)	248,374
Total	951,893	951,893	922,549	(29,344)	824,108
Licenses and permits					
Business	17,250	17,250	17,696	446	17,236
Nonbusiness	26,500	26,500	19,669	(6,831)	29,089
Total	43,750	43,750	37,365	(6,385)	46,325
Intergovernmental					
State					
Local government aid	760,286	760,286	760,286	-	725,849
Property tax credits	86,665	86,665	110,083	23,418	104,113
Police state aid	27,236	27,236	23,018	(4,218)	18,735
Other	4,390	4,390	6,228	1,838	4,916
County					
Other	-	-	-	-	76,531
Total	878,577	878,577	899,615	21,038	930,144
Charges for services					
General government	26,750	26,750	27,761	1,011	49,169
Public safety	2,250	2,250	2,503	253	1,562
Streets and highways	17,284	17,284	19,984	2,700	18,642
Culture and recreation	3,000	3,000	3,049	49	4,720
Total	49,284	49,284	53,297	4,013	74,093
Fines and forfeitures	17,800	17,800	24,336	6,536	18,669
Interest on investments	21,500	21,500	47,783	26,283	43,284
Miscellaneous					
Contributions and donations	-	-	758	758	5,700
Other	3,000	3,000	11,818	8,818	23,372
Total	3,000	3,000	12,576	9,576	29,072
TOTAL REVENUES	1,965,804	1,965,804	1,997,521	31,717	1,965,695

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, 2007  
(With comparative actual amounts for the year ended December 31, 2006)

	2007			Variance with Final Budget - Positive (Negative)	2006
	Budgeted Amounts		Actual Amounts		Actual Amounts
	Original	Final			
EXPENDITURES					
Current					
General government					
Legislative					
Personal services	\$ 15,092	\$ 15,092	\$ 14,997	\$ 95	\$ 12,935
Other services and charges	5,800	5,800	7,414	(1,614)	4,284
Total	<u>20,892</u>	<u>20,892</u>	<u>22,411</u>	<u>(1,519)</u>	<u>17,219</u>
Executive					
Personal services	5,022	5,022	5,022	-	4,333
Other services and charges	500	500	50	450	220
Total	<u>5,522</u>	<u>5,522</u>	<u>5,072</u>	<u>450</u>	<u>4,553</u>
City administrator					
Personal services	86,483	86,483	74,477	12,006	36,077
Supplies	250	250	-	250	128
Other services and charges	9,300	9,300	8,853	447	5,555
Total	<u>96,033</u>	<u>96,033</u>	<u>83,330</u>	<u>12,703</u>	<u>41,760</u>
Financial administration					
Personal services	196,596	196,596	188,453	8,143	176,557
Supplies	6,500	6,500	5,329	1,171	5,456
Other services and charges	146,360	146,360	165,010	(18,650)	103,968
Total	<u>349,456</u>	<u>349,456</u>	<u>358,792</u>	<u>(9,336)</u>	<u>285,981</u>
Assessing					
Personal services	11,497	11,497	6,064	5,433	10,834
Other services and charges	350	350	-	350	221
Total	<u>11,847</u>	<u>11,847</u>	<u>6,064</u>	<u>5,783</u>	<u>11,055</u>
Cable communications					
Other services and charges	24,708	24,708	26,884	(2,176)	24,734
City attorney					
Other services and charges	78,550	78,550	72,519	6,031	65,791

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, 2007  
(With comparative actual amounts for the year ended December 31, 2006)

	2007			Variance with Final Budget - Positive (Negative)	2006
	Budgeted Amounts		Actual Amounts		Actual Amounts
	Original	Final			
EXPENDITURES - CONTINUED					
Current - Continued					
General government - continued					
Planning and zoning					
Personal services	\$ 2,153	\$ 2,153	\$ 2,352	\$ (199)	\$ 2,277
Other services and charges	2,600	2,600	1,309	1,291	2,506
Total	4,753	4,753	3,661	1,092	4,783
Total general government	591,761	591,761	578,733	13,028	455,876
Public safety					
Police					
Personal services	396,255	396,255	378,286	17,969	342,822
Supplies	26,000	26,000	26,941	(941)	19,155
Other services and charges	38,575	38,575	30,711	7,864	40,841
Total	460,830	460,830	435,938	24,892	402,818
Building inspection					
Other services and charges	21,250	21,250	18,985	2,265	26,430
Total public safety	482,080	482,080	454,923	27,157	429,248
Streets and highways					
Streets					
Personal services	220,201	220,201	216,179	4,022	230,079
Supplies	39,500	39,500	46,636	(7,136)	47,970
Other services and charges	36,671	36,671	33,241	3,430	31,015
Total	296,372	296,372	296,056	316	309,064
Snow and ice removal					
Personal services	39,099	39,099	36,283	2,816	20,579
Supplies	18,500	18,500	29,421	(10,921)	12,252
Other services and charges	350	350	87	263	36
Total	57,949	57,949	65,791	(7,842)	32,867
Street lighting					
Other services and charges	23,727	23,727	30,195	(6,468)	24,774
Total streets and highways	378,048	378,048	392,042	(13,994)	366,705

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, 2007  
(With comparative actual amounts for the year ended December 31, 2006)

	2007			Variance with Final Budget - Positive (Negative)	2006
	Budgeted Amounts		Actual Amounts		Actual Amounts
	Original	Final			
<b>EXPENDITURES - CONTINUED</b>					
Current - Continued					
Sanitation					
Supplies	\$ 1,050	\$ 1,050	\$ 739	\$ 311	\$ 865
Other services and charges	2,500	2,500	3,390	(890)	3,119
Total sanitation	3,550	3,550	4,129	(579)	3,984
Economic development					
Industrial/commercial development					
Personal services	73,715	73,715	71,732	1,983	71,118
Other services and charges	6	6	7	(1)	6
Total economic development	73,721	73,721	71,739	1,982	71,124
Total current expenditures	1,529,160	1,529,160	1,501,566	27,594	1,326,937
Capital outlay					
Public safety	35,000	35,000	12,054	22,946	11,957
Street and highways	251,000	251,000	72,463	178,537	52,700
Total capital outlay	286,000	286,000	84,517	201,483	64,657
Debt service					
Principal	16,199	16,199	-	16,199	200,000
Interest and other charges	8,996	8,996	9,351	(355)	15,794
Total debt service	25,195	25,195	9,351	15,844	215,794
<b>TOTAL EXPENDITURES</b>	<b>1,840,355</b>	<b>1,840,355</b>	<b>1,595,434</b>	<b>244,921</b>	<b>1,607,388</b>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>					
	125,449	125,449	402,087	276,638	358,307
<b>OTHER FINANCING SOURCES (USES)</b>					
Sale of land	-	-	31,900	31,900	-
Transfers in	105,870	105,870	196,686	90,816	148,191
Transfers out	(231,319)	(231,319)	(488,581)	(257,262)	(458,901)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(125,449)</b>	<b>(125,449)</b>	<b>(259,995)</b>	<b>(134,546)</b>	<b>(310,710)</b>

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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, 2007  
(With comparative actual amounts for the year ended December 31, 2006)

	2007			Variance with Final Budget - Positive (Negative)	2006
	Budgeted Amounts		Actual Amounts		Actual Amounts
	Original	Final			
NET CHANGE IN FUND BALANCES	\$ -	\$ -	\$ 142,092	\$ 142,092	\$ 47,597
FUND BALANCES, JANUARY 1	<u>809,434</u>	<u>809,434</u>	<u>809,434</u>	<u>-</u>	<u>761,837</u>
FUND BALANCES, DECEMBER 31	<u><u>\$ 809,434</u></u>	<u><u>\$ 809,434</u></u>	<u><u>\$ 951,526</u></u>	<u><u>\$ 142,092</u></u>	<u><u>\$ 809,434</u></u>

CITY OF MELROSE, MINNESOTA  
DEBT SERVICE FUNDS  
COMBINING BALANCE SHEET  
DECEMBER 31, 2007

	<u>Improvement Bonds of 2002</u>	<u>Equipment Certificates of 2003</u>	<u>Improvement Bonds of 2004</u>
<b>ASSETS</b>			
Cash and temporary investments (deficits)	\$ 68,734	\$ (609)	\$ 100,793
Accrued interest receivable	563	-	1,312
Accounts receivable	2,869	609	79
Special assessments receivable			
Delinquent	-	-	-
Deferred	141,229	-	160,000
	<u>141,229</u>	<u>-</u>	<u>160,000</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 213,395</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 262,184</u></u>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Deferred revenue	\$ 141,229	\$ -	\$ 160,000
<b>FUND BALANCES</b>			
Reserved for debt service	<u>72,166</u>	<u>-</u>	<u>102,184</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u><u>\$ 213,395</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 262,184</u></u>

Improvement Bonds of 2005	Total
\$ 631,249	\$ 800,167
726	2,601
9,890	13,447
3,086	3,086
<u>331,455</u>	<u>632,684</u>
<u>\$ 976,406</u>	<u>\$ 1,451,985</u>
\$ 334,541	\$ 635,770
<u>641,865</u>	<u>816,215</u>
<u>\$ 976,406</u>	<u>\$ 1,451,985</u>

CITY OF MELROSE, MINNESOTA  
DEBT SERVICE FUNDS  
COMBINING SCHEDULE OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED DECEMBER 31, 2007

	Improvement Bonds of 2002	Equipment Certificates of 2003	Improvement Bonds of 2004
REVENUES			
General property taxes	\$ 52,953	\$ 80,719	\$ 9,139
Special assessments	17,658	-	24,340
Interest on investments	4,354	1,096	4,278
TOTAL REVENUES	74,965	81,815	37,757
EXPENDITURES			
Debt service			
Principal	65,000	75,000	-
Interest and fiscal charges	26,510	1,875	36,785
TOTAL EXPENDITURES	91,510	76,875	36,785
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(16,545)	4,940	972
OTHER FINANCING SOURCES (USES)			
Transfers in	-	-	-
Transfers out	-	(17,436)	-
TOTAL OTHER FINANCING SOURCES (USES)	-	(17,436)	-
NET CHANGE IN FUND BALANCES	(16,545)	(12,496)	972
FUND BALANCES, JANUARY 1	88,711	12,496	101,212
FUND BALANCES, DECEMBER 31	\$ 72,166	\$ -	\$ 102,184

Improvement Bonds of 2005	Total
\$ 170,941	\$ 313,752
233,655	275,653
4,940	14,668
<u>409,536</u>	<u>604,073</u>
75,000	215,000
<u>97,745</u>	<u>162,915</u>
<u>172,745</u>	<u>377,915</u>
<u>236,791</u>	<u>226,158</u>
229,082	229,082
<u>-</u>	<u>(17,436)</u>
<u>229,082</u>	<u>211,646</u>
465,873	437,804
<u>175,992</u>	<u>378,411</u>
<u>\$ 641,865</u>	<u>\$ 816,215</u>

CITY OF MELROSE, MINNESOTA  
SUMMARY FINANCIAL REPORT  
REVENUES AND EXPENDITURES FOR GENERAL OPERATIONS  
GOVERNMENTAL FUNDS  
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

	Totals		Percent Increase (Decrease)
	2007	2006	
<b>REVENUES</b>			
Taxes	\$ 1,274,557	\$ 1,190,587	7.05 %
Special assessments	398,110	233,859	70.24
Licenses and permits	37,365	46,325	(19.34)
Intergovernmental	925,157	958,061	(3.43)
Charges for services	149,398	154,293	(3.17)
Fines and forfeits	24,336	18,669	30.36
Investment earnings	202,438	224,361	(9.77)
Miscellaneous	67,880	203,099	(66.58)
<b>TOTAL REVENUES</b>	<b>\$ 3,079,241</b>	<b>\$ 3,029,254</b>	1.65
Per Capita	935.37	925.53	1.06
<b>EXPENDITURES</b>			
Current			
General government	\$ 578,733	\$ 455,876	26.95 %
Public safety	567,405	541,023	4.88
Streets and highways	396,171	370,689	6.87
Culture and recreation	65,243	61,662	5.81
Economic development	130,723	177,379	(26.30)
Capital outlay			
Public safety	57,155	147,036	(61.13)
Streets and highways	276,403	1,306,684	(78.85)
Debt service			
Principal	273,568	387,389	(29.38)
Interest and other charges	185,841	208,102	(10.70)
<b>TOTAL EXPENDITURES</b>	<b>\$ 2,531,242</b>	<b>\$ 3,655,840</b>	(30.76)
Per Capita	768.91	1,116.97	(31.16)
Total Long-term Indebtedness	\$ 4,123,458	\$ 4,365,112	(5.54) %
Per Capita	1,252.57	1,333.67	(6.08)
General Fund Balance - December 31	\$ 951,526	\$ 809,434	17.55 %
Per Capita	289.04	247.31	16.87

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, 2007

CITY OF MELROSE, MINNESOTA  
 BONDS PAYABLE  
 DECEMBER 31, 2007

Bond Issue	Date Issued	Final Maturity Date	Interest Dates	Interest Rate	Annual Serial Payments		Authorized and Issued	Bonds	
					Amount	Year		Retired	Outstanding
<b>Governmental Fund Debt</b>									
<b>General Obligation Improvement</b>									
Bonds of 2002	06/01/2002	12/01/2017	6-1;12-1	3.90 %	\$ 65,000	2008	\$ 835,000	\$ 295,000	\$ 540,000
				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, 2007

Bond Issue	Date Issued	Final Maturity Date	Interest Dates	Interest Rate	Annual Serial Payments		Bonds		
					Amount	Year	Authorized and Issued	Retired	Outstanding
Governmental Fund Debt - Continued									
General Obligation Equipment Certificates of 2003	03/31/2003	12/01/2007	6-1;12-1	2.50 %	\$ -	-	\$ 280,000	\$ 280,000	\$ -
General Obligation Improvement Bonds of 2004									
	10/01/2004	02/01/2020	2-1;8-1	- %	\$ -	-	\$ 985,000	\$ -	\$ 985,000
				2.75	70,000	2008			
				3.00	70,000	2009			
				3.20	75,000	2010			
				3.40	75,000	2011			
				3.60	80,000	2012			
				3.75	80,000	2013			
				3.90	80,000	2014			
				4.00	85,000	2015			
				4.05	90,000	2016			
				4.10	90,000	2017			
				4.20	95,000	2018			
				4.30	95,000	2019			
						2020			

CITY OF MELROSE, MINNESOTA  
 BONDS PAYABLE - CONTINUED  
 DECEMBER 31, 2007

Bond Issue	Date Issued	Final Maturity Date	Interest Dates	Interest Rate	Annual Serial Payments		Bonds		
					Amount	Year	Authorized and Issued	Retired	Outstanding
Governmental Fund Debt - Continued									
General Obligation Improvement									
Bonds of 2005	09/01/2005	02/01/2021	2-1;8-1	3.00 %	\$ 100,000	2008	\$ 2,545,000	\$ 75,000	\$ 2,470,000
				3.50	115,000	2009			
				3.50	150,000	2010			
				3.40	155,000	2011			
				3.50	165,000	2012			
				3.60	175,000	2013			
				4.00	165,000	2014			
				4.00	200,000	2015			
				4.00	200,000	2016			
				4.00	195,000	2017			
				4.00	200,000	2018			
				4.40	200,000	2019			
				4.40	225,000	2020			
				4.40	225,000	2021			
Total Governmental Fund Bonded Debt							4,645,000	650,000	3,995,000

CITY OF MELROSE, MINNESOTA  
 BONDS PAYABLE - CONTINUED  
 DECEMBER 31, 2007

Bond Issue	Date Issued	Final Maturity Date	Interest Dates	Interest Rate	Annual Serial Payments		Bonds		
					Amount	Year	Authorized and Issued	Retired	Outstanding
<b>Enterprise Fund Debt</b>									
General Obligation Water									
Revenue Bonds of 1998	04/01/1998	08/01/2020	2-1;8-1	4.70 %	\$ 80,000	2008	\$ 1,890,000	\$ 515,000	\$ 1,375,000
				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	4.70 %	\$ 165,000	2008	\$ 1,350,000	\$ 1,185,000	\$ 165,000

CITY OF MELROSE, MINNESOTA  
 BONDS PAYABLE - CONTINUED  
 DECEMBER 31, 2007

Bond Issue	Date Issued	Final Maturity Date	Interest Dates	Interest Rate	Annual Serial Payments		Bonds		
					Amount	Year	Authorized and Issued	Retired	Outstanding
<b>Enterprise Fund Debt - Continued</b>									
1999 PFA Loan - Wells 8 and 9	01/26/1999	08/20/2018	2-20;8-20	3.54 %	\$ 30,000	2008	\$ 599,219	\$ 205,219	\$ 394,000
				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 %	\$ 121,000	2008	\$ 2,500,000	\$ 739,300	\$ 1,760,700
				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, 2007

Bond Issue	Date Issued	Final Maturity Date	Interest Dates	Interest Rate	Annual Serial Payments		Bonds			
					Amount	Year	Authorized and Issued	Retired	Outstanding	
Enterprise Fund Debt - Continued										
General Obligation Sewer Revenue										
Bonds of 2004	06/01/2004	12/01/2024		- %	\$	2008	\$	3,230,000	\$	3,230,000
				3.25	150,000	2009				
				3.40	155,000	2010				
				3.50	160,000	2011				
				3.65	165,000	2012				
				3.75	170,000	2013				
				3.85	180,000	2014				
				4.00	185,000	2015				
				4.15	190,000	2016				
				4.30	200,000	2017				
				4.40	210,000	2018				
				4.50	215,000	2019				
				4.60	225,000	2020				
				4.65	240,000	2021				
				4.75	250,000	2022				
				4.75	260,000	2023				
				4.75	275,000	2024				

CITY OF MELROSE, MINNESOTA  
 BONDS PAYABLE - CONTINUED  
 DECEMBER 31, 2007

Bond Issue	Date Issued	Final Maturity Date	Interest Dates	Interest Rate	Annual Serial Payments		Bonds		
					Amount	Year	Authorized and Issued	Retired	Outstanding
Enterprise Fund Debt - Continued									
General Obligation Refunding									
Bonds of 2005	09/20/2005	08/01/2020		3.20 %	\$ -	2008	\$ 1,330,000	\$ -	\$ 1,330,000
				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			
							10,899,219	2,644,519	8,254,700
Total Enterprise Fund Bonded Debt									
							\$ 15,544,219	\$ 3,294,519	\$ 12,249,700
Total All Funds Bonded Debt									



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Grandview Square  
5201 Eden Avenue  
Suite 370  
Edina, MN 55436

## REPORT ON MINNESOTA LEGAL COMPLIANCE

Honorable Mayor and Council  
City of Melrose, Minnesota

We have audited financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Melrose, Minnesota (the City), as of and for the year ended December 31, 2007, which collectively comprise the City's basic financial statements, and have issued our report thereon dated April 3, 2008.

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

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

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

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

April 3, 2008  
Minneapolis, Minnesota

  
ABDO, EICK & MEYERS, LLP  
Certified Public Accountants

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Grandview Square  
5201 Eden Avenue  
Suite 370  
Edina, MN 55436

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, 2007, which collectively comprise the City's basic financial statements, and have issued our report thereon April 3, 2008. 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 of the financial statements of the City as of and for the year ended December 31, 2007, in accordance with auditing standards generally accepted in the United States of America, we consider the City's internal control over financial reporting (internal control) as a basis of designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiency 2007-1 described in the accompanying schedule of findings and managements responses to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.



**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 April 3, 2008.

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.

April 3, 2008  
Minneapolis, Minnesota

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

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CITY OF MELROSE, MINNESOTA  
SCHEDULE OF FINDINGS AND RESPONSES  
DECEMBER 31, 2007

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