

CITY OF MELROSE
MELROSE, MINNESOTA

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED
DECEMBER 31, 2011

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INTRODUCTORY SECTION

CITY OF MELROSE
MELROSE, MINNESOTA

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CITY OF MELROSE, MINNESOTA
ELECTED AND APPOINTED OFFICIALS
FOR THE YEAR ENDED DECEMBER 31, 2011

ELECTED

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Tim Vogel	Mayor	12/31/2014
Jenny Mayers	Council Member	12/31/2012
Tony Klasen	Council Member	12/31/2012
Joe Finken	Council Member	12/31/2014
Dick Christenson	Council Member	12/31/2014

PUBLIC UTILITIES COMMISSION - APPOINTED

Lyle Olmscheid	Chair	1/1/2013
Eric Seanger	Vice Chair	1/1/2014
Dick Christenson	Commission Secretary	1/1/2012

CITY OFFICIALS - APPOINTED

<u>Name</u>	<u>Title</u>
Mike Brethorst	City Administrator
Karen Thostenson	Assistant City Administrator/Treasurer
John Harren	Public Works Director
Scott Dymoke	City Attorney

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FINANCIAL SECTION

CITY OF MELROSE
MELROSE, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2011

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5201 Eden Avenue
Suite 250
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, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year comparative information has been derived from the City's 2010 financial statements and, in our report dated March 24, 2011, we expressed unqualified opinions on the respective proprietary fund financial statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of December 31, 2011, 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.

As described in the Note 8 to the basic financial statements, the City adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, for the year ended December 31, 2011. Adoption of the provision of this statement results in significant changes to the classifications of the components of fund balances.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 2, 2012, 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 assessing the results of our audit.

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Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on page 15 and Schedule of Funding Progress on page 82, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

April 2, 2012
Minneapolis, Minnesota

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

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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, 2011.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$46,094,856. Of this amount, \$20,471,508 may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$1,021,562.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$8,589,104, an increase of \$2,827,527 in comparison with the prior year. This increase was a result of revenues in excess of expenditures of \$501,382 and the issuance of \$2,155,000 of refunding bonds. Approximately 57 percent of this total amount, \$4,860,949, is unrestricted and is available for spending at the City's discretion; \$3,877,073 of the unrestricted amount has been committed (\$3,760,182) or assigned (\$116,891) for specific purposes.
- At the end of the current fiscal year, unrestricted fund balance for the General fund was \$1,035,770 or 64 percent of total General fund expenditures and transfers. \$87,036 is nonspendable because the funds were either prepaid items or due from other funds. Of the unrestricted balance, \$45,977 was committed and \$989,793 was unassigned and available for spending at the City's discretion.
- The City's total debt increased by \$1,217,564 or 9.8 percent during the current fiscal year. This increase was primarily a result of the issuance of \$2,155,000 of refunding bonds offset by scheduled principal payments.

Overview of the Financial Statements

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

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

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

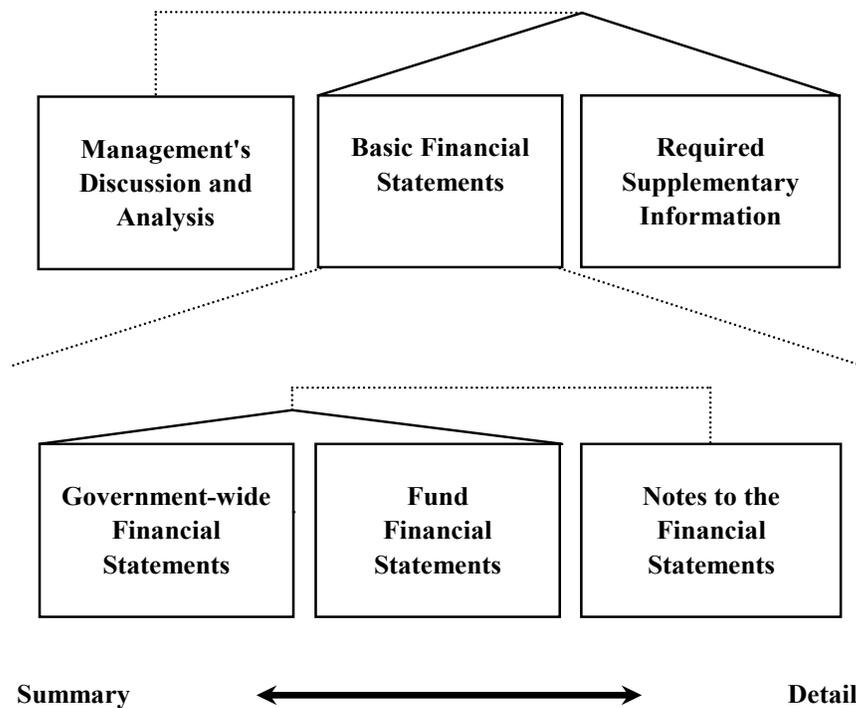


Figure 2 summarizes the major features of the City’s financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis explains the structure and contents of each of the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

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

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

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

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

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

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

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

The government-wide financial statements start on page 29 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 15 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 start on page 34 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 operations.

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 start on page 42 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 start on page 52 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements start on page 53 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 start on page 84 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 \$46,094,856 at the close of the most recent fiscal year.

By far, the largest portion of the City's net assets (48 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.

City of Melrose's Summary of Net Assets

	Governmental Activities			Business-type Activities		
	2011	2010	Increase (Decrease)	2011	2010	Increase (Decrease)
Assets						
Current and other assets	\$ 11,070,049	\$ 8,228,395	\$ 2,841,654	\$ 15,623,638	\$ 14,827,926	\$ 795,712
Capital assets	14,529,196	14,976,922	(447,726)	20,738,843	21,728,793	(989,950)
Total assets	25,599,245	23,205,317	2,393,928	36,362,481	36,556,719	(194,238)
Liabilities						
Long-term liabilities						
outstanding	7,282,556	5,357,429	1,925,127	6,320,455	7,028,018	(707,563)
Other liabilities	1,592,244	1,495,745	96,499	671,615	807,550	(135,935)
Total liabilities	8,874,800	6,853,174	2,021,626	6,992,070	7,835,568	(843,498)
Net assets						
Invested in capital assets, net of related debt	7,445,186	9,746,922	(2,301,736)	14,625,472	16,262,869	(1,637,397)
Restricted	3,552,690	1,505,299	2,047,391	-	-	-
Unrestricted	5,726,569	5,099,922	626,647	14,744,939	12,458,282	2,286,657
Total net assets	\$ 16,724,445	\$ 16,352,143	\$ 372,302	\$ 29,370,411	\$ 28,721,151	\$ 649,260

An additional portion of the City's net assets (8 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (\$20,471,508) 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 \$1,021,562 during the current fiscal year. The increase was primarily the result of revenues exceeding expenses in both the governmental and business-type activities.

Governmental activities. Governmental activities increased the City's net assets by \$372,302. Key elements to this increase are as follows:

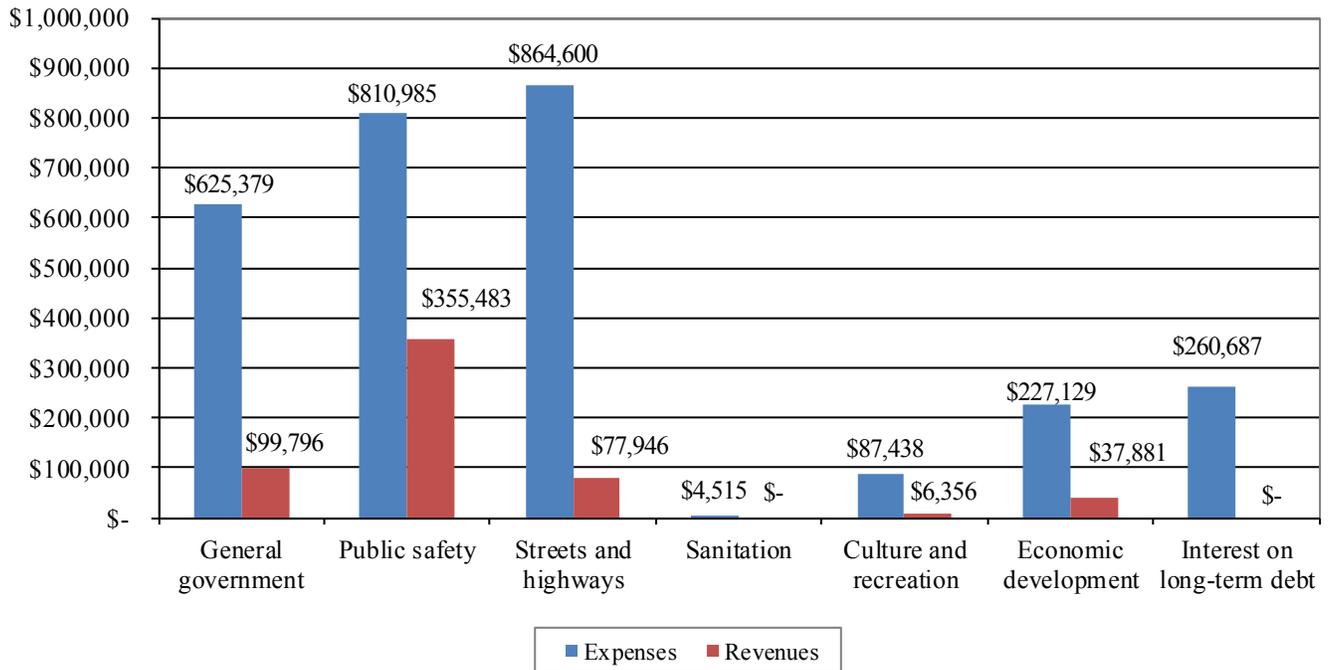
- The City received less grants funding related to economic development. This was the primary reason for the decrease in operating grants and contributions of \$86,511, and the decrease of \$210,277 in the economic development function of expenses.
- Unrestricted investment earnings increased significantly as a result of the 2011 market value adjustment.

City of Melrose's Changes in Net Assets

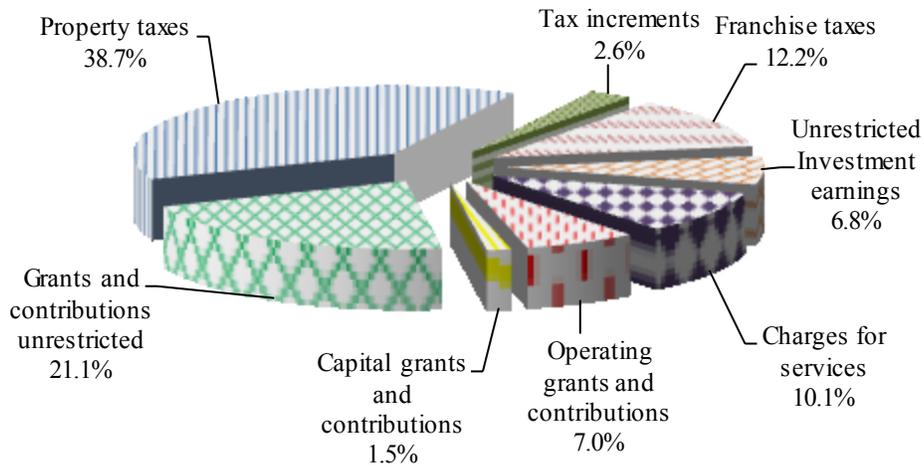
	Governmental Activities			Business-type Activities		
	2011	2010	Increase (Decrease)	2011	2010	Increase (Decrease)
Revenues						
Program revenues						
Charges for services	\$ 312,368	\$ 319,061	\$ (6,693)	\$ 10,956,792	\$ 11,009,417	\$ (52,625)
Operating grants and contributions	217,589	304,100	(86,511)	187,472	184,656	2,816
Capital grants and contributions	47,505	49,921	(2,416)	-	-	-
General revenues						
Property taxes/tax increments	1,282,938	1,250,354	32,584	-	-	-
Franchise taxes	380,754	413,643	(32,889)	-	-	-
Grants and contributions not restricted to specific programs	657,347	653,711	3,636	-	-	-
Unrestricted investment earnings	209,972	118,175	91,797	402,782	289,470	113,312
Total revenues	3,108,473	3,108,965	(492)	11,547,046	11,483,543	63,503
Expenses						
General government	625,379	543,119	82,260	-	-	-
Public safety	810,985	790,505	20,480	-	-	-
Streets and highways	864,600	728,814	135,786	-	-	-
Sanitation	4,515	3,831	684	-	-	-
Culture and recreation	87,438	101,751	(14,313)	-	-	-
Economic development	227,129	437,406	(210,277)	-	-	-
Interest on long-term debt	260,687	245,375	15,312	-	-	-
Ambulance	-	-	-	452,404	423,274	29,130
Water	-	-	-	695,747	711,457	(15,710)
Wastewater	-	-	-	2,079,154	1,826,465	252,689
Electric	-	-	-	7,525,919	7,665,405	(139,486)
Total expenses	2,880,733	2,850,801	29,932	10,753,224	10,626,601	126,623
Increase in net assets before transfers	227,740	258,164	(30,424)	793,822	856,942	(63,120)
Transfers	144,562	11,354	133,208	(144,562)	(11,354)	(133,208)
Change in net assets	372,302	269,518	102,784	649,260	845,588	(196,328)
Net assets, January 1	16,352,143	16,082,625	269,518	28,721,151	27,875,563	845,588
Net assets, December 31	<u>\$ 16,724,445</u>	<u>\$ 16,352,143</u>	<u>\$ 372,302</u>	<u>\$ 29,370,411</u>	<u>\$ 28,721,151</u>	<u>\$ 649,260</u>

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

Expenses and Program Revenues - Governmental Activities

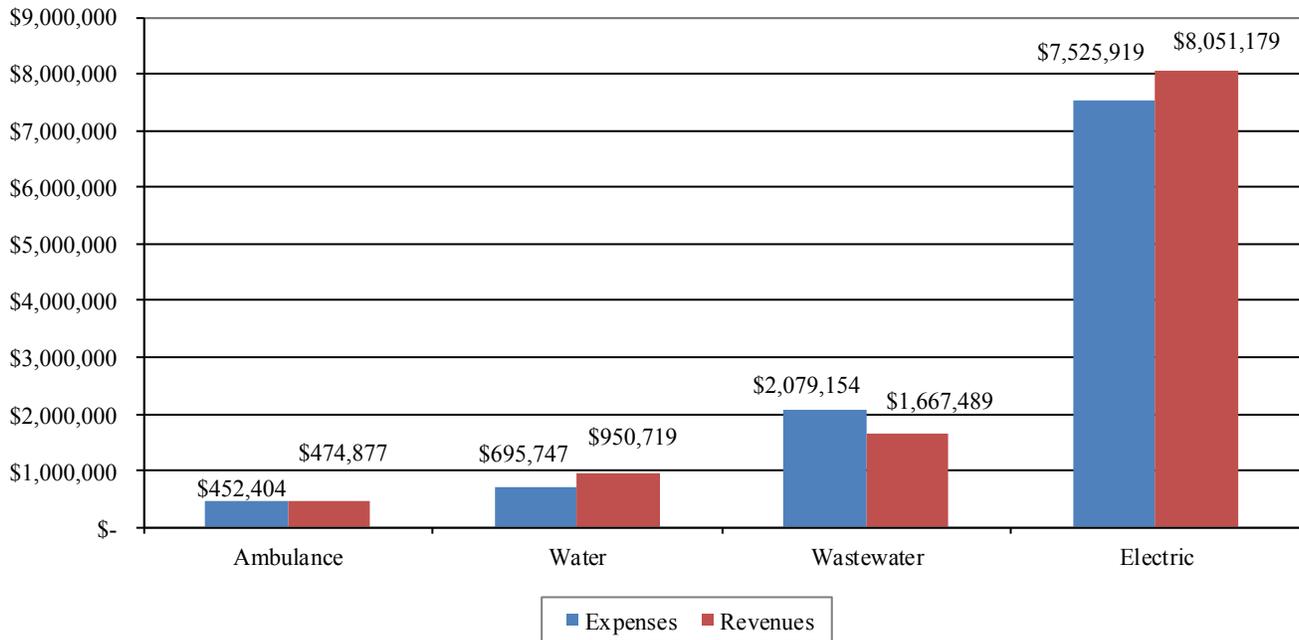


Revenues by Source - Governmental Activities

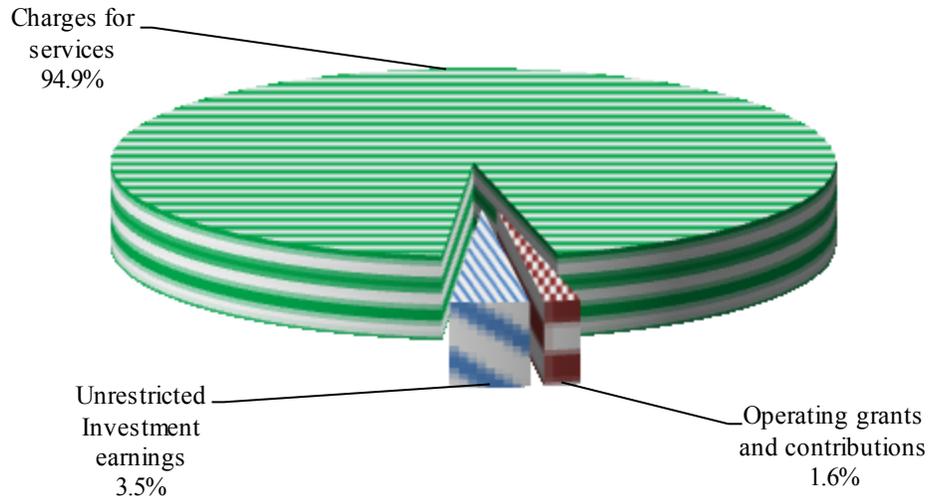


Business-type activities. There was an increase of \$649,260 in net assets reported in connection with the City’s business-type activities.

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, *unassigned 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 \$8,589,104, an increase of \$2,827,527 in comparison with the prior year. Approximately 57 percent of this total amount, \$4,860,949, constitutes *unrestricted fund balance*, which is available for spending at the City's discretion. Portions of unrestricted fund balance have been committed (\$3,760,182) or assigned (\$116,891) for specific purposes by the City. The remainder of fund balance (\$3,728,155) is not available for new spending because it is either in nonspendable form (\$312,800) or restricted by a third party (\$3,415,355).

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 \$1,122,806. As a measure of the General fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures and transfers out. Total fund balance and unassigned fund balance represent 46 and 40 percent of current year expenditures and transfers out, respectively.

The fund balance of the City's General fund decreased \$20,816 during the current fiscal year.

The Debt Service fund has a total fund balance of \$3,414,580, all of which is restricted for the payment of Debt Service. The net increase in fund balance during the current year in the Debt Service fund was \$2,144,111.

The Capital Improvements fund has a fund balance of \$3,049,418 all of which is committed for capital improvements. The fund balance increased by \$462,423 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 \$12,084,939. The total increase in net assets for the funds was \$649,260. Some of the significant reasons behind the increase include operating expenses decreasing by approximately \$200,000 and interest earnings increasing approximately \$100,000.

General Fund Budgetary Highlights

The City's General fund budget was not amended during the year. The budget called for revenues to equal expenses. The original and final budget called for revenues to exceed expenditures by \$790,805, before other financing sources and uses but was equal to expenses after these items.

Capital Asset and Debt Administration

Capital assets. The City's investment in capital assets for its governmental and business type activities as of December 31, 2011, amounts to \$35,268,039 (net of accumulated depreciation). This investment in capital assets includes land, structures, improvements, machinery and equipment, park facilities, roads, highways and bridges.

City of Melrose's Capital Assets (net of depreciation)

	Governmental Activities			Business-type Activities		
	2011	2010	Increase (Decrease)	2011	2010	Increase (Decrease)
Land	\$ 3,191,412	\$ 3,191,412	\$ -	\$ 321,028	\$ 321,028	\$ -
Buildings	3,161,151	3,275,534	(114,383)	548,664	585,787	(37,123)
Machinery and equipment	896,217	942,258	(46,041)	591,209	640,132	(48,923)
Infrastructure	7,280,416	7,567,718	(287,302)	19,242,194	20,157,604	(915,410)
Construction in progress	-	-	-	35,748	24,242	11,506
Total	\$ 14,529,196	\$ 14,976,922	\$ (447,726)	\$ 20,738,843	\$ 21,728,793	\$ (989,950)

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

- Completion of the Water Transmission Line Replacement project.
- Completed the renovation of Well Houses #4 and #5.
- Completed the renovation of the Radiator Room for the Electric department.
- Completed the Daylight Court Street Improvement project.

Additional information on the City's capital assets can be found in Note 3D starts on page 66 of this report.

Long-term debt. At the end of the current fiscal year, the City had total bonded debt outstanding of \$13,165,700. Of this amount, \$4,875,000 is special assessment debt and \$8,290,700 is revenue debt. They are all backed by the full faith and credit of the City.

City of Melrose's Outstanding Debt

	Governmental Activities			Business-type Activities		
	2011	2010	Increase (Decrease)	2011	2010	Increase (Decrease)
G.O. improvement bonds	\$ 4,875,000 *	\$ 2,950,000	\$ 1,925,000	\$ -	\$ -	\$ -
General obligation revenue bonds	-	-	-	6,095,700	6,860,700	(765,000)
Revenue bonds	2,195,000	2,280,000	(85,000)	-	-	-
Unamortized premium on bonds	14,010	-	14,010	17,671	20,224	(2,553)
Compensated absences payable	100,990	63,949	37,041	100,395	74,281	26,114
Other postemployment benefits payable	97,556	63,480	34,076	106,689	72,813	33,876
Total	<u>\$ 7,282,556</u>	<u>\$ 5,357,429</u>	<u>\$ 1,925,127</u>	<u>\$ 6,320,455</u>	<u>\$ 7,028,018</u>	<u>\$ (707,563)</u>

* Includes \$2,155,000 of refunding bonds

The City's total debt increased by \$1,217,564 during the current fiscal year due to the issuance of \$2,155,000 of refunding bonds offset by scheduled principal payments.

Minnesota statutes limit the amount of net general obligation debt a City may issue to 3 percent of the market value of taxable property within the City. Net debt is debt payable solely from ad valorem taxes. The current debt limitation for the City is \$5,661,426. There was no debt applicable to this limit at year end.

Additional information on the City's long-term debt can be found in Note 3F start on page 69 of this report.

Economic Factors and Next Year's Budgets and Rates

- Property valuations within the City remain stable.
- Inflationary trends in the region compare favorably to national indices.
- The City continues to monitor its utility rates to assure adequate funding will be available to meet upcoming improvements and operations and maintenance.
- The City monitors possible LGA cuts and is positioned to adjust to these possible cuts.
- Rate studies were completed for the Water, Wastewater, and Electric funds in 2009 for the years 2010 through 2014. The rates are reviewed and updated, if necessary, on an annual basis.

All of these factors were considered in preparing the City's budget for the 2012 fiscal year.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Administrator/Treasurer and/or Accountant, City of Melrose, 225 1st St NE, Melrose, Minnesota 56352.

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BASIC FINANCIAL STATEMENTS

CITY OF MELROSE
MELROSE, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2011

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CITY OF MELROSE, MINNESOTA
STATEMENT OF NET ASSETS
DECEMBER 31, 2011

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and temporary investments	\$ 5,792,447	\$ 11,365,832	\$ 17,158,279
Cash with fiscal agent	2,360,378	2,621,455	4,981,833
Receivables			
Accrued interest	36,937	76,527	113,464
Delinquent taxes	67,262	-	67,262
Accounts, net	193,370	984,407	1,177,777
Loans	224,350	-	224,350
Special assessments	809,656	-	809,656
Internal balances	80,475	(80,475)	-
Due from Centracare	1,364,004	-	1,364,004
Inventories	-	523,688	523,688
Prepaid items	7,975	17,035	25,010
Deferred charges	133,195	115,169	248,364
Capital assets			
Non-depreciable			
Land	3,191,412	321,028	3,512,440
Construction in progress	-	35,748	35,748
Depreciable (net of accumulated depreciation)			
Buildings	3,161,151	548,664	3,709,815
Equipment	896,217	591,209	1,487,426
Infrastructure	7,280,416	19,242,194	26,522,610
TOTAL ASSETS	25,599,245	36,362,481	61,961,726
LIABILITIES			
Accounts payable	96,828	603,610	700,438
Accrued interest payable	121,412	40,515	161,927
Customer deposits payable	10,000	27,490	37,490
Unearned revenue	1,364,004	-	1,364,004
Noncurrent liabilities			
Due within one year			
Compensated absences payable	63,810	63,202	127,012
Bonds payable	1,020,000	3,021,000	4,041,000
Due in more than one year			
Compensated absences payable	37,180	37,193	74,373
Bonds payable	6,050,000	3,074,700	9,124,700
Unamortized premium on bonds	14,010	17,671	31,681
Other postemployment benefits payable	97,556	106,689	204,245
TOTAL LIABILITIES	8,874,800	6,992,070	15,866,870
NET ASSETS			
Invested in capital assets, net of related debt	7,445,186	14,625,472	22,070,658
Restricted for			
Debt service	3,551,915	-	3,551,915
Partners in action activities	775	-	775
Unrestricted	5,726,569	14,744,939	20,471,508
TOTAL NET ASSETS	\$ 16,724,445	\$ 29,370,411	\$ 46,094,856

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, 2011

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities				
General government	\$ 625,379	\$ 61,521	\$ 36,012	\$ 2,263
Public safety	810,985	216,568	138,915	-
Streets and highways	864,600	32,704	-	45,242
Sanitation	4,515	-	-	-
Culture and recreation	87,438	-	6,356	-
Economic development	227,129	1,575	36,306	-
Interest on long-term debt	260,687	-	-	-
Total governmental activities	<u>2,880,733</u>	<u>312,368</u>	<u>217,589</u>	<u>47,505</u>
Business-type activities				
Ambulance	452,404	445,868	29,009	-
Water	695,747	949,882	837	-
Wastewater	2,079,154	1,658,708	8,781	-
Electric	7,525,919	7,902,334	148,845	-
Total business-type activities	<u>10,753,224</u>	<u>10,956,792</u>	<u>187,472</u>	<u>-</u>
Total	<u>\$ 13,633,957</u>	<u>\$ 11,269,160</u>	<u>\$ 405,061</u>	<u>\$ 47,505</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

Transfers of capital assets

Transfers

Total general revenues 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>
\$ (525,583)	\$ -	\$ (525,583)
(455,502)	-	(455,502)
(786,654)	-	(786,654)
(4,515)	-	(4,515)
(81,082)	-	(81,082)
(189,248)	-	(189,248)
(260,687)	-	(260,687)
<u>(2,303,271)</u>	<u>-</u>	<u>(2,303,271)</u>
-	22,473	22,473
-	254,972	254,972
-	(411,665)	(411,665)
-	525,260	525,260
<u>-</u>	<u>391,040</u>	<u>391,040</u>
<u>(2,303,271)</u>	<u>391,040</u>	<u>(1,912,231)</u>
1,200,660	-	1,200,660
1,217	-	1,217
81,061	-	81,061
380,754	-	380,754
657,347	-	657,347
209,972	402,782	612,754
(11,330)	11,330	-
155,892	(155,892)	-
<u>2,675,573</u>	<u>258,220</u>	<u>2,933,793</u>
372,302	649,260	1,021,562
<u>16,352,143</u>	<u>28,721,151</u>	<u>45,073,294</u>
<u>\$ 16,724,445</u>	<u>\$ 29,370,411</u>	<u>\$ 46,094,856</u>

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FUND FINANCIAL STATEMENTS

CITY OF MELROSE
MELROSE, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2011

CITY OF MELROSE, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2011

	General	Debt Service	Capital Improvements
ASSETS			
Cash and temporary investments	\$ 1,074,723	\$ 1,054,202	\$ 2,847,050
Cash with fiscal agent	-	2,360,378	-
Receivables			
Accrued interest	-	-	36,937
Delinquent taxes	67,262	-	-
Accounts, net	22,810	-	101,931
Loans	-	-	-
Special assessments	-	258,747	550,909
Due from other funds	80,475	-	69,570
Due from Centracare	1,364,004	-	-
Prepaid items	6,561	-	-
	<u>\$ 2,615,835</u>	<u>\$ 3,673,327</u>	<u>\$ 3,606,397</u>
TOTAL ASSETS			
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 51,763	\$ -	\$ 6,070
Customer deposits payable	10,000	-	-
Due to other funds	-	-	-
Deferred revenue	1,431,266	258,747	550,909
	<u>1,493,029</u>	<u>258,747</u>	<u>556,979</u>
TOTAL LIABILITIES			
FUND BALANCES			
Nonspendable	87,036	-	-
Restricted	-	3,414,580	-
Committed	45,977	-	3,049,418
Assigned	-	-	-
Unassigned	989,793	-	-
	<u>1,122,806</u>	<u>3,414,580</u>	<u>3,049,418</u>
TOTAL FUND BALANCES			
TOTAL LIABILITIES AND FUND BALANCES			
	<u>\$ 2,615,835</u>	<u>\$ 3,673,327</u>	<u>\$ 3,606,397</u>

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

Other Governmental Funds	Total Governmental Funds
\$ 816,472	\$ 5,792,447
-	2,360,378
-	36,937
-	67,262
68,629	193,370
224,350	224,350
-	809,656
-	150,045
-	1,364,004
1,414	7,975
<u>\$ 1,110,865</u>	<u>\$ 11,006,424</u>

\$ 38,995	\$ 96,828
-	10,000
69,570	69,570
-	2,240,922
<u>108,565</u>	<u>2,417,320</u>

225,764	312,800
775	3,415,355
664,787	3,760,182
116,891	116,891
(5,917)	983,876
<u>1,002,300</u>	<u>8,589,104</u>
<u>\$ 1,110,865</u>	<u>\$ 11,006,424</u>

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CITY OF MELROSE, MINNESOTA
RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
GOVERNMENTAL FUNDS
DECEMBER 31, 2011

Total fund balances - governmental funds	\$ 8,589,104
Amounts reported for governmental activities in the statement of net assets are different because	
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.	
Cost of capital assets	20,469,157
Less: accumulated depreciation	(5,939,961)
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	
Bond principal payable	(7,070,000)
Less deferred charges, net of accumulated amortization	133,195
Plus unamortized bond premium	(14,010)
Compensated absences payable	(100,990)
Other postemployment benefits payable	(97,556)
Some receivables are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds.	
Delinquent property taxes	67,262
Special assessments	809,656
Governmental funds do not report a liability for accrued interest until due and payable.	<u>(121,412)</u>
Total net assets - governmental activities	<u><u>\$ 16,724,445</u></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
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011

	General	Debt Service	Capital Improvements
REVENUES			
Taxes	\$ 1,561,902	\$ 1,217	\$ -
Licenses and permits	50,592	-	-
Intergovernmental	697,180	-	-
Charges for services	66,951	52,257	-
Fines and forfeitures	27,774	-	-
Special assessments	-	77,695	76,282
Interest on investments	23,980	27,369	131,744
Miscellaneous	11,555	-	24,977
TOTAL REVENUES	2,439,934	158,538	233,003
EXPENDITURES			
Current			
General government	494,674	-	-
Public safety	532,136	-	-
Streets and highways	445,912	-	53,333
Sanitation	4,515	-	-
Culture and recreation	49,628	-	-
Economic development	83,226	-	-
Capital outlay			
General government	-	-	47,820
Public safety	-	-	-
Streets and highways	-	-	39,488
Culture and recreation	-	-	-
Debt service			
Principal	-	315,000	-
Interest and fiscal charges	786	208,958	-
Bond issuance costs	-	52,990	-
TOTAL EXPENDITURES	1,610,877	576,948	140,641
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	829,057	(418,410)	92,362
OTHER FINANCING SOURCES (USES)			
Transfers in	-	392,268	370,061
Premium on bonds issued	-	15,253	-
Bonds issued	-	2,155,000	-
Transfers out	(849,873)	-	-
TOTAL OTHER FINANCING SOURCES (USES)	(849,873)	2,562,521	370,061
NET CHANGE IN FUND BALANCES	(20,816)	2,144,111	462,423
FUND BALANCES, JANUARY 1	1,143,622	1,270,469	2,586,995
FUND BALANCES, DECEMBER 31	\$ 1,122,806	\$ 3,414,580	\$ 3,049,418

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

Other Governmental Funds	Total Governmental Funds
\$ 81,061	\$ 1,644,180
-	50,592
130,004	827,184
97,545	216,753
-	27,774
-	153,977
26,879	209,972
28,469	65,001
<u>363,958</u>	<u>3,195,433</u>
-	494,674
138,921	671,057
159	499,404
-	4,515
4,730	54,358
133,024	216,250
-	47,820
70,629	70,629
-	39,488
14,338	14,338
-	315,000
3,784	213,528
-	52,990
<u>365,585</u>	<u>2,694,051</u>
<u>(1,627)</u>	<u>501,382</u>
379,474	1,141,803
-	15,253
-	2,155,000
<u>(136,038)</u>	<u>(985,911)</u>
<u>243,436</u>	<u>2,326,145</u>
241,809	2,827,527
<u>760,491</u>	<u>5,761,577</u>
<u>\$ 1,002,300</u>	<u>\$ 8,589,104</u>

CITY OF MELROSE, MINNESOTA
RECONCILIATION OF THE STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011

Total net change in fund balances - governmental funds \$ 2,827,527

Amounts reported for governmental activities in the statement
of activities are different because

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.

Capital outlay	81,959
Depreciation expense	(517,734)

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. The amounts below are the effects of these differences in the treatment of long-term debt and related items.

Debt issued	(2,155,000)
Less: deferral of bond issuance costs	51,905
Plus: premium received on debt issued	(15,253)
Principal repayments	315,000
Amortization of deferred charges and bond premium	(13,893)

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.

(32,181)

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.

Property taxes	19,512
Special assessments	(106,472)

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.	(621)
--	-------

Capital assets constructed in capital projects funds but intended for enterprise fund use are transferred in the government-wide financial statements.

(11,330)

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.

Compensated absences	(71,117)
----------------------	----------

Change in net assets - governmental activities	\$ 372,302
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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, 2011

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes	\$ 1,564,686	\$ 1,564,686	\$ 1,561,902	\$ (2,784)
Licenses and permits	45,900	45,900	50,592	4,692
Intergovernmental	711,034	711,034	697,180	(13,854)
Charges for services	60,733	60,733	66,951	6,218
Fines and forfeitures	23,500	23,500	27,774	4,274
Interest on investments	13,600	13,600	23,980	10,380
Miscellaneous	4,500	4,500	11,555	7,055
TOTAL REVENUES	2,423,953	2,423,953	2,439,934	15,981
EXPENDITURES				
Current				
General government	538,532	538,532	494,674	43,858
Public safety	528,971	528,971	532,136	(3,165)
Streets and highways	410,473	410,473	445,912	(35,439)
Sanitation	4,300	4,300	4,515	(215)
Culture and recreation	68,145	68,145	49,628	18,517
Economic development	81,477	81,477	83,226	(1,749)
Debt service				
Interest and other	1,250	1,250	786	464
TOTAL EXPENDITURES	1,633,148	1,633,148	1,610,877	22,271
EXCESS OF REVENUES OVER EXPENDITURES	790,805	790,805	829,057	38,252
OTHER FINANCING SOURCES (USES)				
Transfers in	40,000	40,000	-	(40,000)
Transfers out	(830,805)	(830,805)	(849,873)	(19,068)
TOTAL OTHER FINANCING SOURCES (USES)	(790,805)	(790,805)	(849,873)	(59,068)
NET CHANGE IN FUND BALANCES	-	-	(20,816)	(20,816)
FUND BALANCES, JANUARY 1	1,143,622	1,143,622	1,143,622	-
FUND BALANCES, DECEMBER 31	\$ 1,143,622	\$ 1,143,622	\$ 1,122,806	\$ (20,816)

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

CITY OF MELROSE, MINNESOTA
STATEMENTS OF NET ASSETS - CONTINUED ON THE FOLLOWING PAGES
PROPRIETARY FUNDS
DECEMBER 31, 2011 AND 2010

	Business-type Activities - Enterprise funds			
	216		601	
	Ambulance		Water	
	2011	2010	2011	2010
ASSETS				
CURRENT ASSETS				
Cash and temporary investments	\$ 626,014	\$ 593,600	\$ 1,726,851	\$ 2,144,580
Cash with fiscal agent	-	-	-	-
Receivables				
Accrued interest	-	-	-	-
Accounts, net	122,798	99,688	64,383	79,659
Inventories	-	-	26,806	22,885
Prepaid items	1,315	1,383	2,650	2,017
	<u>750,127</u>	<u>694,671</u>	<u>1,820,690</u>	<u>2,249,141</u>
TOTAL CURRENT ASSETS				
NONCURRENT ASSETS				
Appropriated funds	-	-	-	-
Deferred charges	-	-	30,138	33,660
Capital assets				
Land	-	-	41,123	41,123
Structures and improvements	-	-	7,929,031	7,557,618
Distribution/collection system	-	-	-	-
Plant equipment	418,248	412,054	52,664	52,664
Construction in progress	-	-	-	24,242
Less accumulated depreciation	(216,384)	(194,735)	(3,616,528)	(3,362,480)
	<u>201,864</u>	<u>217,319</u>	<u>4,406,290</u>	<u>4,313,167</u>
Total capital assets (net of accumulated depreciation)				
	<u>201,864</u>	<u>217,319</u>	<u>4,436,428</u>	<u>4,346,827</u>
TOTAL NONCURRENT ASSETS				
	<u>201,864</u>	<u>217,319</u>	<u>4,436,428</u>	<u>4,346,827</u>
TOTAL ASSETS	<u>951,991</u>	<u>911,990</u>	<u>6,257,118</u>	<u>6,595,968</u>

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

Business-type Activities - Enterprise funds

602		604		Totals	
Wastewater		Electric			
2011	2010	2011	2010	2011	2010
\$ 1,165,366	\$ 799,865	\$ 4,847,601	\$ 3,703,154	\$ 8,365,832	\$ 7,241,199
2,621,455	2,651,484	-	-	2,621,455	2,651,484
-	-	76,527	77,847	76,527	77,847
146,746	141,169	650,480	781,602	984,407	1,102,118
43,839	44,294	453,043	495,509	523,688	562,688
7,666	7,425	5,404	5,576	17,035	16,401
<u>3,985,072</u>	<u>3,644,237</u>	<u>6,033,055</u>	<u>5,063,688</u>	<u>12,588,944</u>	<u>11,651,737</u>
-	-	3,000,000	3,146,947	3,000,000	3,146,947
<u>85,031</u>	<u>107,362</u>	<u>-</u>	<u>-</u>	<u>115,169</u>	<u>141,022</u>
63,878	63,878	216,027	216,027	321,028	321,028
20,219,707	20,608,993	-	-	28,148,738	28,166,611
-	-	9,838,927	10,206,735	9,838,927	10,206,735
328,018	322,990	-	-	798,930	787,708
-	-	35,748	-	35,748	24,242
<u>(7,764,365)</u>	<u>(7,288,535)</u>	<u>(6,807,251)</u>	<u>(6,931,781)</u>	<u>(18,404,528)</u>	<u>(17,777,531)</u>
<u>12,847,238</u>	<u>13,707,326</u>	<u>3,283,451</u>	<u>3,490,981</u>	<u>20,738,843</u>	<u>21,728,793</u>
<u>12,932,269</u>	<u>13,814,688</u>	<u>6,283,451</u>	<u>6,637,928</u>	<u>23,854,012</u>	<u>25,016,762</u>
<u>16,917,341</u>	<u>17,458,925</u>	<u>12,316,506</u>	<u>11,701,616</u>	<u>36,442,956</u>	<u>36,668,499</u>

CITY OF MELROSE, MINNESOTA
STATEMENTS OF NET ASSETS - CONTINUED
PROPRIETARY FUNDS
DECEMBER 31, 2011 AND 2010

	Business-type Activities - Enterprise funds			
	216		601	
	Ambulance		Water	
	2011	2010	2011	2010
LIABILITIES				
CURRENT LIABILITIES				
Accounts payable	\$ 5,243	\$ 4,155	\$ 12,916	\$ 43,000
Due to other funds	-	-	-	5,120
Accrued interest payable	-	-	27,996	35,647
Customer deposits payable	-	-	-	-
Compensated absences payable - current	(189)	-	9,935	8,866
Bonds payable - current	-	-	256,000	239,000
TOTAL CURRENT LIABILITIES	5,054	4,155	306,847	331,633
NONCURRENT LIABILITIES				
Compensated absences payable	-	-	-	-
Bonds payable	-	-	1,659,700	2,281,700
Unamortized premium on bonds	-	-	-	-
Other postemployment benefits payable	-	-	11,812	8,460
TOTAL NONCURRENT LIABILITIES	-	-	1,671,512	2,290,160
TOTAL LIABILITIES	5,054	4,155	1,978,359	2,621,793
NET ASSETS				
Invested in capital assets, net of related debt	201,864	217,319	2,490,590	1,792,467
Unrestricted	745,073	690,516	1,788,169	2,181,708
TOTAL NET ASSETS	\$ 946,937	\$ 907,835	\$ 4,278,759	\$ 3,974,175

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

Business-type Activities - Enterprise funds

602		604		Totals	
Wastewater		Electric			
2011	2010	2011	2010	2011	2010
\$ 46,452	\$ 52,094	\$ 539,188	\$ 633,380	\$ 603,799	\$ 732,629
-	11,707	80,475	94,953	80,475	111,780
12,519	15,427	-	-	40,515	51,074
-	-	27,490	23,847	27,490	23,847
19,115	19,608	34,152	35,338	63,013	63,812
<u>2,765,000</u>	<u>160,000</u>	<u>-</u>	<u>-</u>	<u>3,021,000</u>	<u>399,000</u>
<u>2,843,086</u>	<u>258,836</u>	<u>681,305</u>	<u>787,518</u>	<u>3,836,292</u>	<u>1,382,142</u>
-	-	37,193	10,469	37,193	10,469
1,415,000	4,180,000	-	-	3,074,700	6,461,700
17,671	20,224	-	-	17,671	20,224
<u>24,926</u>	<u>18,476</u>	<u>69,951</u>	<u>45,877</u>	<u>106,689</u>	<u>72,813</u>
<u>1,457,597</u>	<u>4,218,700</u>	<u>107,144</u>	<u>56,346</u>	<u>3,236,253</u>	<u>6,565,206</u>
<u>4,300,683</u>	<u>4,477,536</u>	<u>788,449</u>	<u>843,864</u>	<u>7,072,545</u>	<u>7,947,348</u>
11,309,567	12,007,102	3,283,451	3,490,981	17,285,472	17,507,869
<u>1,307,091</u>	<u>974,287</u>	<u>8,244,606</u>	<u>7,366,771</u>	<u>12,084,939</u>	<u>11,213,282</u>
<u>\$ 12,616,658</u>	<u>\$ 12,981,389</u>	<u>\$ 11,528,057</u>	<u>\$ 10,857,752</u>	<u>\$ 29,370,411</u>	<u>\$ 28,721,151</u>

CITY OF MELROSE, MINNESOTA
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	Business-type Activities - Enterprise funds			
	216		601	
	Ambulance		Water	
	2011	2010	2011	2010
OPERATING REVENUES				
Charges for services	\$ 445,868	\$ 451,436	\$ 949,882	\$ 981,434
OPERATING EXPENSES				
Production, collection, and purchased power	-	-	112,075	115,804
Distribution	-	-	123,680	114,763
Accounting and collection	-	-	12,745	13,453
General and administrative	430,755	398,937	94,825	108,789
Depreciation	21,649	24,337	257,976	257,517
TOTAL OPERATING EXPENSES	452,404	423,274	601,301	610,326
OPERATING INCOME (LOSS)	(6,536)	28,162	348,581	371,108
NONOPERATING REVENUES (EXPENSES)				
Intergovernmental	-	-	345	330
Interest on investments	16,629	6,075	49,612	27,203
Miscellaneous	29,009	22,535	492	8,642
Loss on disposal of fixed assets	-	-	(5,790)	-
Interest expense	-	-	(88,656)	(101,131)
TOTAL NONOPERATING REVENUES (EXPENSES)	45,638	28,610	(43,997)	(64,956)
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	39,102	56,772	304,584	306,152
CONTRIBUTIONS OF ASSETS FROM OTHER FUNDS	-	-	-	-
TRANSFERS IN	-	-	-	-
TRANSFERS OUT	-	-	-	(14,649)
TOTAL CONTRIBUTIONS AND TRANSFERS	-	-	-	(14,649)
CHANGE IN FUND NET ASSETS	39,102	56,772	304,584	291,503
FUND NET ASSETS, JANUARY 1	907,835	851,063	3,974,175	3,682,672
FUND NET ASSETS, DECEMBER 31	\$ 946,937	\$ 907,835	\$ 4,278,759	\$ 3,974,175

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

Business-type Activities - Enterprise funds

602		604			
Wastewater		Electric		Totals	
2011	2010	2011	2010	2011	2010
<u>\$ 1,658,618</u>	<u>\$ 1,660,803</u>	<u>\$ 7,898,304</u>	<u>\$ 7,911,444</u>	<u>\$ 10,952,672</u>	<u>\$ 11,005,117</u>
15,690	21,110	6,056,088	6,153,328	6,183,853	6,290,242
827,265	889,486	367,126	371,427	1,318,071	1,375,676
-	-	12,880	11,752	25,625	25,205
120,839	135,459	781,966	818,022	1,428,385	1,461,207
<u>621,716</u>	<u>638,852</u>	<u>303,682</u>	<u>310,876</u>	<u>1,205,023</u>	<u>1,231,582</u>
<u>1,585,510</u>	<u>1,684,907</u>	<u>7,521,742</u>	<u>7,665,405</u>	<u>10,160,957</u>	<u>10,383,912</u>
<u>73,108</u>	<u>(24,104)</u>	<u>376,562</u>	<u>246,039</u>	<u>791,715</u>	<u>621,205</u>
6,611	876	5,957	1,950	12,913	3,156
35,763	37,067	300,778	219,125	402,782	289,470
2,260	193	146,918	154,430	178,679	185,800
(318,508)	-	(4,177)	-	(328,475)	-
<u>(175,136)</u>	<u>(141,558)</u>	<u>-</u>	<u>-</u>	<u>(263,792)</u>	<u>(242,689)</u>
<u>(449,010)</u>	<u>(103,422)</u>	<u>449,476</u>	<u>375,505</u>	<u>2,107</u>	<u>235,737</u>
<u>(375,902)</u>	<u>(127,526)</u>	<u>826,038</u>	<u>621,544</u>	<u>793,822</u>	<u>856,942</u>
11,330	-	-	-	11,330	-
-	3,295	-	-	-	3,295
<u>(159)</u>	<u>-</u>	<u>(155,733)</u>	<u>-</u>	<u>(155,892)</u>	<u>(14,649)</u>
<u>11,171</u>	<u>3,295</u>	<u>(155,733)</u>	<u>-</u>	<u>(144,562)</u>	<u>(11,354)</u>
(364,731)	(124,231)	670,305	621,544	649,260	845,588
<u>12,981,389</u>	<u>13,105,620</u>	<u>10,857,752</u>	<u>10,236,208</u>	<u>28,721,151</u>	<u>27,875,563</u>
<u>\$ 12,616,658</u>	<u>\$ 12,981,389</u>	<u>\$ 11,528,057</u>	<u>\$ 10,857,752</u>	<u>\$ 29,370,411</u>	<u>\$ 28,721,151</u>

CITY OF MELROSE, MINNESOTA
STATEMENTS OF CASH FLOWS - CONTINUED ON THE FOLLOWING PAGES
PROPRIETARY FUNDS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	Business-type Activities - Enterprise funds			
	216		601	
	Ambulance		Water	
	2011	2010	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers and users	\$ 451,767	\$ 442,364	\$ 965,995	\$ 992,071
Payments to suppliers	(279,168)	(252,359)	(227,278)	(161,068)
Payments to employees	(150,620)	(144,272)	(146,264)	(142,994)
NET CASH PROVIDED BY OPERATING ACTIVITIES	21,979	45,733	592,453	688,009
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfer from other funds	-	-	-	-
Transfers to other funds	-	-	-	(14,649)
Decrease in due from other funds	-	-	-	-
Increase (decrease) in due to other funds	-	-	(5,120)	(81,482)
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	-	-	(5,120)	(96,131)
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES				
Acquisition of property and equipment	(6,194)	-	(356,889)	(24,242)
Interest paid on bonds	-	-	(92,785)	(100,574)
Payment to escrow agent for crossover refunding	-	-	-	-
Proceeds of bonds issued received by city	-	-	-	-
Principal paid on bonds	-	-	(605,000)	(229,000)
NET CASH USED BY CAPITAL FINANCING ACTIVITIES	(6,194)	-	(1,054,674)	(353,816)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received on investments	16,629	10,173	49,612	53,679
Transfer from appropriated funds	-	-	-	-
NET CASH PROVIDED BY INVESTING ACTIVITIES	16,629	10,173	49,612	53,679
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	32,414	55,906	(417,729)	291,741
CASH AND CASH EQUIVALENTS, JANUARY 1	593,600	537,694	2,144,580	1,852,839
CASH AND CASH EQUIVALENTS, DECEMBER 31	\$ 626,014	\$ 593,600	\$ 1,726,851	\$ 2,144,580

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

Business-type Activities - Enterprise funds

602		604		Totals	
Wastewater		Electric			
2011	2010	2011	2010	2011	2010
\$ 1,661,912	\$ 1,673,457	\$ 8,182,301	\$ 8,091,456	\$ 11,261,975	\$ 11,199,348
(584,471)	(642,787)	(6,628,058)	(6,764,947)	(7,718,975)	(7,821,161)
(372,594)	(366,968)	(588,301)	(499,375)	(1,257,779)	(1,153,609)
<u>704,847</u>	<u>663,702</u>	<u>965,942</u>	<u>827,134</u>	<u>2,285,221</u>	<u>2,224,578</u>
-	3,295	-	-	-	3,295
(159)	-	(155,733)	-	(155,892)	(14,649)
-	8,660	-	-	-	8,660
(11,707)	(133,138)	(14,478)	94,953	(31,305)	(119,667)
<u>(11,866)</u>	<u>(121,183)</u>	<u>(170,211)</u>	<u>94,953</u>	<u>(187,197)</u>	<u>(122,361)</u>
(68,807)	(107,660)	(100,329)	(223,958)	(532,219)	(355,860)
(126,524)	(131,795)	-	-	(219,309)	(232,369)
-	(1,250,000)	-	-	-	(1,250,000)
-	3,140	-	-	-	3,140
(160,000)	(155,000)	-	-	(765,000)	(384,000)
<u>(355,331)</u>	<u>(1,641,315)</u>	<u>(100,329)</u>	<u>(223,958)</u>	<u>(1,516,528)</u>	<u>(2,219,089)</u>
27,851	54,821	302,098	192,873	396,190	311,546
-	-	146,947	425,000	146,947	425,000
<u>27,851</u>	<u>54,821</u>	<u>449,045</u>	<u>617,873</u>	<u>543,137</u>	<u>736,546</u>
365,501	(1,043,975)	1,144,447	1,316,002	1,124,633	619,674
<u>799,865</u>	<u>1,843,840</u>	<u>3,703,154</u>	<u>2,387,152</u>	<u>7,241,199</u>	<u>6,621,525</u>
<u>\$ 1,165,366</u>	<u>\$ 799,865</u>	<u>\$ 4,847,601</u>	<u>\$ 3,703,154</u>	<u>\$ 8,365,832</u>	<u>\$ 7,241,199</u>

CITY OF MELROSE, MINNESOTA
STATEMENTS OF CASH FLOWS - CONTINUED
PROPRIETARY FUNDS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	Business-type Activities - Enterprise funds			
	216		601	
	Ambulance		Water	
	2011	2010	2011	2010
RECONCILIATION OF OPERATING INCOME (LOSS) TO				
NET CASH PROVIDED BY				
OPERATING ACTIVITIES				
Operating income (loss)	\$ (6,536)	\$ 28,162	\$ 348,581	\$ 371,108
Adjustments to reconcile operating income (loss) to net cash provided by operating activities				
Other income related to operations	29,009	22,535	837	8,972
Depreciation	21,649	24,337	257,976	257,517
(Increase) decrease in assets				
Accounts receivable	(23,110)	(31,607)	15,276	1,665
Inventory	-	-	(3,921)	1,481
Prepaid items	68	(154)	(633)	540
Increase (decrease) in liabilities				
Accounts payable	1,088	2,460	(30,084)	41,119
Compensated absences and OPEB payable	(189)	-	4,421	5,607
Customer deposits payable	-	-	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 21,979</u>	<u>\$ 45,733</u>	<u>\$ 592,453</u>	<u>\$ 688,009</u>
SCHEDULE OF NONCASH				
CAPITAL FINANCING ACTIVITIES				
Contribution of assets from other funds	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Amortization of deferred charges and bond premium	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,522</u>	<u>\$ 3,522</u>
Discount on bonds issued	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Disposal of fixed assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,718</u>	<u>\$ -</u>
Bond issuances costs acquired on short-term account	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Interest paid on bonds from escrow	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

Business-type Activities - Enterprise funds

602		604		Totals	
Wastewater		Electric			
2011	2010	2011	2010	2011	2010
\$ 73,108	\$ (24,104)	\$ 376,562	\$ 246,039	\$ 791,715	\$ 621,205
8,871	1,069	152,875	156,380	191,592	188,956
621,716	638,852	303,682	310,876	1,205,023	1,231,582
(5,577)	11,585	131,122	23,632	117,711	5,275
455	(1,142)	42,466	11,102	39,000	11,441
(241)	(903)	172	1,938	(634)	1,421
558	25,511	(94,192)	52,688	(122,630)	121,778
5,957	12,834	49,612	24,922	59,801	43,363
-	-	3,643	(443)	3,643	(443)
<u>\$ 704,847</u>	<u>\$ 663,702</u>	<u>\$ 965,942</u>	<u>\$ 827,134</u>	<u>\$ 2,285,221</u>	<u>\$ 2,224,578</u>
<u>\$ 11,330</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,330</u>	<u>\$ -</u>
<u>\$ 19,778</u>	<u>\$ 5,319</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 23,300</u>	<u>\$ 8,841</u>
<u>\$ -</u>	<u>\$ 39,580</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 39,580</u>
<u>\$ 464,395</u>	<u>\$ -</u>	<u>\$ 432,389</u>	<u>\$ -</u>	<u>\$ 906,502</u>	<u>\$ -</u>
<u>\$ -</u>	<u>\$ 6,200</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,200</u>
<u>\$ 31,742</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF MELROSE, MINNESOTA
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2011

	<u>Agency</u>
ASSETS	
Cash and temporary investments	<u>\$ 2,508</u>
LIABILITIES	
Accounts payable	<u>\$ 2,508</u>

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

CITY OF MELROSE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

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 \$406,204 at December 31, 2011. The total receivable of \$1,364,004 is reflected as due from CentraCare in the General fund.

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

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

CITY OF MELROSE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

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 activities) 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 THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

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 THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

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 contributions, 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 THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

1. Direct obligations or obligations guaranteed by the United States or its agencies.
2. Shares of investment companies registered under the Federal Investment Company Act of 1940 and received the highest credit rating, rated in one of the two highest rating categories by a statistical rating agency, and have a final maturity of thirteen months or less.
3. General obligations of a state or local government with taxing powers rated "A" or better; revenue obligations rated "AA" or better.
4. General obligations of the Minnesota Housing Finance Agency rated "A" or better.
5. Bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System.
6. Commercial paper issued by United States banks corporations or their Canadian subsidiaries, of highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less.
7. Repurchase or reverse repurchase agreements and securities lending agreements with financial institutions qualified as a "depository" by the government entity, 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.
8. Guaranteed investment contracts (GIC's) issued or guaranteed by a United States commercial bank, a domestic branch of a foreign bank, a United States insurance company, or its Canadian subsidiary, whose similar debt obligations were rated in one of the top two rating categories by a nationally recognized rating agency.

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.

CITY OF MELROSE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Accounts receivable

Accounts receivable include amounts billed for services provided before year end. The Ambulance and Electric enterprise funds and Fire Department nonmajor governmental fund have allowances for uncollectible accounts totaling \$10,000, \$2,000 and \$1,000, respectively, at December 31, 2011.

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 included in unrestricted net assets on the balance sheet.

Future plant expansion	<u>\$ 3,000,000</u>
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CITY OF MELROSE, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2011

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 backtrending (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. The General fund is typically used to liquidate governmental compensated absences payable.

CITY OF MELROSE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Postemployment benefits other than pensions

Under Minnesota statute 471.61, subdivision 2b., public employers must allow retirees and their dependents to continue coverage indefinitely in an employer-sponsored health care plan, under the following conditions: 1) Retirees must be receiving (or eligible to receive) an annuity from a Minnesota public pension plan, 2) Coverage must continue in group plan until age 65, and retirees must pay no more than the group premium, and 3) Retirees may obtain dependent coverage immediately before retirement. All premiums are funded on a pay-as-you-go basis. The liability was actuarially determined, in accordance with GASB Statement 45, at December 31, 2008.

Long-term obligations

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

CITY OF MELROSE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Fund balance

In the fund financial statements, fund balance is divided into five classifications based primarily on the extent to which the City is bound to observe constraints imposed upon the use of resources reported in the governmental funds. These classifications are defined as follows:

Nonspendable - Amounts that cannot be spent because they are not in spendable form, such as prepaid items.

Restricted - Amounts related to externally imposed constraints established by creditors, grantors or contributors; or constraints imposed by state statutory provisions.

Committed - Amounts constrained for specific purposes that are internally imposed by formal action (resolution) of the City Council (the Council), which is the City's highest level of decision-making authority. Committed amounts cannot be used for any other purpose unless the Council modifies or rescinds the commitment by resolution.

Assigned - Amounts constrained for specific purposes that are internally imposed. In governmental funds other than the General fund, assigned fund balance represents all remaining amounts that are not classified as nonspendable and are neither restricted nor committed. In the General fund, assigned amounts represent intended uses established by the Council itself or by an official to which the governing body delegates the authority. The Council has adopted a fund balance policy which delegates the authority to assign amounts for specific purposes to the City Administrator.

Unassigned - The residual classification for the General fund and also negative residual amounts in other funds.

The City considers restricted amounts to be spent first when both restricted and unrestricted fund balance is available. Additionally, the City would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

The City has formally adopted a fund balance policy for the General fund. The City's policy is to maintain a minimum unassigned fund balance of 35-50 percent of budgeted operating expenditures for cash-flow timing needs.

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 THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

Note 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary information

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

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

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

B. Deficit fund equity

The following fund had a fund balance deficit at December 31, 2011 that will be eliminated with future revenues in excess of expenditures:

Fund	Amount
Nonmajor	
Melrose Area Development Authority (MADA)	\$ 5,893

CITY OF MELROSE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

Note 3: DETAILED NOTES ON ALL FUNDS

A. Deposits and investments

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

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

Authorized collateral in lieu of a corporate surety bond includes:

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

Minnesota statutes require that all collateral shall be placed in safekeeping in a restricted account at a Federal Reserve Bank, or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral. The selection should be approved by the City.

At year end, the City's carrying amount of deposits was \$6,993,502 and the bank balance was \$7,058,968. Of the bank balance, \$500,000 was covered by federal depository insurance and \$1,003,107 was covered by National Credit Union Share Insurance. The remaining bank balance was covered by collateral held by the City's agent in the City's name.

CITY OF MELROSE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

Investments

As of December 31, 2011, the City had the following investments that are insured or registered, or securities held by the City or its agent in the City's name.

Types of Investments	Credit Quality/ Ratings (1)	Segmented Time Distribution (2)	Carrying Amount
Pooled investments			
Money Market Mutual funds	N/A	less than 6 months	\$ 31,863
Non-pooled investments			
Brokered CD's	N/A	less than 6 months	96,287
Brokered CD's	N/A	1 to 3 years	2,155,168
Brokered CD's	N/A	more than 3 years	370,197
Total Brokered CD's			<u>2,621,652</u>
Local Government Bonds	AAA	1 to 3 years	330,881
Local Government Bonds	AAA	more than 3 years	1,337,946
Local Government Bonds	AA	1 to 3 years	597,125
Local Government Bonds	AA	more than 3 years	2,125,931
Local Government Bonds	A	1 to 3 years	122,608
Local Government Bonds	A	more than 3 years	114,720
Total Local Government Bonds			<u>4,629,211</u>
U.S. Government Bonds	AAA	more than 3 years	655,529
U.S. Government Securities	AAA	less than 6 months	737,971
U.S. Government Securities	AAA	6 months to 1 year	2,622,450
U.S. Government Securities	AAA	1 to 3 years	1,621,409
U.S. Government Securities	AAA	more than 3 years	1,287,828
U.S. Government Securities	AA	less than 6 months	201,892
U.S. Government Securities	AA	more than 3 years	131,496
U.S. Government Securities	A	6 months to 1 year	504,875
U.S. Government Securities	A	more than 3 years	102,239
Total U.S. Government Securities			<u>7,210,160</u>
Total non-pooled investments			<u>15,116,552</u>
Total investments			<u>\$ 15,148,415</u>

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

CITY OF MELROSE, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2011

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

- *Credit Risk.* Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Ratings are provided by various credit rating agencies and where applicable, indicate associated credit risk. Minnesota statutes limit the City's investments.
- *Custodial Credit Risk.* The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. In accordance with its investment policy, the City limits its exposure by purchasing insured or registered investments.
- *Concentration of Credit Risk.* The concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. In accordance with its investment policy, the City manages its exposure by diversifying investments according to type and maturity.
- *Interest Rate Risk.* The interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. 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.

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	\$ 6,993,502
Investments	15,148,415
Cash on hand	<u>703</u>
Total	<u><u>\$ 22,142,620</u></u>
Cash	
Government wide	
Cash and temporary investments	\$ 17,158,279
Cash with fiscal agent	4,981,833
Agency	<u>2,508</u>
Total	<u><u>\$ 22,142,620</u></u>

B. Loans receivable

The City has funds available for loans to local businesses. At December 31, 2011 the City has loans outstanding totaling \$224,350 in the special revenue funds. The terms and interest varies and all are secured by the assets of the business.

CITY OF MELROSE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

C. Deferred revenue

Deferred revenue in the governmental funds at December 31, 2011 is comprised of the following:

	Unavailable	Unearned
General		
Delinquent taxes	\$ 67,262	\$ -
Due from Centracare	-	1,364,004
Capital Improvements		
Special assessments	550,909	-
Debt Service		
Special assessments	258,747	-
Total	\$ 876,918	\$ 1,364,004

D. Capital assets

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets, not being depreciated				
Land	\$ 3,191,412	\$ -	\$ -	\$ 3,191,412
Capital assets, being depreciated				
Buildings	4,435,625	-	-	4,435,625
Machinery and equipment	2,035,315	70,629	(62,316)	2,043,628
Infrastructure	10,798,492	-	-	10,798,492
Total capital assets being depreciated	17,269,432	70,629	(62,316)	17,277,745
Less accumulated depreciation for				
Buildings	(1,160,091)	(114,383)	-	(1,274,474)
Machinery and equipment	(1,093,057)	(116,049)	61,695	(1,147,411)
Infrastructure	(3,230,774)	(287,302)	-	(3,518,076)
Total accumulated depreciation	(5,483,922)	(517,734)	61,695	(5,939,961)
Total capital assets, being depreciated, net	11,785,510	(447,105)	(621)	11,337,784
Governmental activities capital assets, net	\$ 14,976,922	\$ (447,105)	\$ (621)	\$ 14,529,196

CITY OF MELROSE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities				
Capital assets, not being depreciated				
Land	\$ 321,028	\$ -	\$ -	\$ 321,028
Construction in progress	24,242	392,637	(381,131)	35,748
Total capital assets, not being depreciated	345,270	392,637	(381,131)	356,776
Capital assets, being depreciated				
Buildings	2,597,043	22,323	-	2,619,366
Machinery and equipment	1,606,510	75,000	(80,984)	1,600,526
Infrastructure	34,957,501	434,720	(825,518)	34,566,703
Total capital assets, being depreciated	39,161,054	532,043	(906,502)	38,786,595
Less accumulated depreciation for				
Buildings	(2,011,256)	(59,446)	-	(2,070,702)
Machinery and equipment	(966,378)	(96,550)	53,611	(1,009,317)
Infrastructure	(14,799,897)	(1,049,027)	524,415	(15,324,509)
Total accumulated depreciation	(17,777,531)	(1,205,023)	578,026	(18,404,528)
Total capital assets, being depreciated, net	21,383,523	(672,980)	(328,476)	20,382,067
Business-type activities capital assets, net	\$ 21,728,793	\$ (280,343)	\$ (709,607)	\$ 20,738,843
Governmental activities				
General government				\$ 68,050
Public safety				119,349
Culture and recreation				311,593
Public works				18,742
Total depreciation expense - governmental activities				\$ 517,734
Business-type activities				
Ambulance				\$ 21,649
Water				257,976
Wastewater				621,716
Electric				303,682
Total depreciation expense - business-type activities				\$ 1,205,023

CITY OF MELROSE, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2011

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

E. Interfund receivables, payables and transfers

Interfund balances

Receivable Fund	Payable Fund	Amount	Purpose
Capital Improvements	Nonmajor governmental	\$ 69,570	GCI loan
General	Electric	<u>80,475</u>	Franchise fees
Total		<u>\$ 150,045</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			
	Debt Service	Capital Improvements	Nonmajor	Total
Transfer out				
General	\$ 256,230	\$ 361,275	\$ 232,368	\$ 849,873
Nonmajor Governmental	136,038	-	-	136,038
Wastewater	-	-	159	159
Electric	-	<u>8,786</u>	<u>146,947</u>	<u>155,733</u>
	<u>\$ 392,268</u>	<u>\$ 370,061</u>	<u>\$ 379,474</u>	<u>\$ 1,141,803</u>

- The transfer from the General fund to the Debt Service fund was to cover debt payments for reduced levies.
- The transfer from the General fund to the Capital Improvements fund was for capital purchases.
- The transfer from the General fund to the Nonmajor funds was for fire department operations and MADA expenditures.
- The transfer from the Nonmajor funds to the Debt Service fund was for bond costs.
- The transfer from the Nonmajor funds to the Wastewater fund was to reimburse for project costs.

CITY OF MELROSE, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2011

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

F. Long-term debt

General obligation bonds

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

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

General obligation improvement bonds

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

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
G.O. Improvement Bonds, Series 2004B	\$ 985,000	3.40 %	10/01/04	02/01/12	\$ 770,000
G.O. Improvement Bonds, Series 2005A	2,545,000	3.50-3.60	09/01/05	02/01/13	1,950,000
G.O. Improvement Refunding Bonds, Series 2011A	2,155,000	2.00-2.85	04/13/12	02/01/20	<u>2,155,000</u>
Total G.O. Improvement Bonds					<u>\$ 4,875,000</u>

CITY OF MELROSE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

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
2012	\$ 935,000	\$ 156,658	\$ 1,091,658
2013	1,875,000	84,718	1,959,718
2014	290,000	44,268	334,268
2015	320,000	38,168	358,168
2016	320,000	31,768	351,768
2017-2020	1,135,000	55,256	1,190,256
Total	<u>\$ 4,875,000</u>	<u>\$ 410,836</u>	<u>\$ 5,285,836</u>

Revenue bonds

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

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
Public Project Lease Revenue Bonds of 2008	\$ 2,360,000	3.30-4.70 %	04/24/08	02/01/29	<u>\$ 2,195,000</u>

Revenue bonds debt service requirements to maturity are as follows:

Year Ending December 31,	Governmental Activities		
	Principal	Interest	Total
2012	\$ 85,000	\$ 92,925	\$ 177,925
2013	90,000	89,948	179,948
2014	90,000	86,753	176,753
2015	95,000	83,351	178,351
2016	100,000	79,620	179,620
2017-2021	555,000	333,320	888,320
2022-2026	685,000	198,290	883,290
2027-2029	495,000	35,838	530,838
Total	<u>\$ 2,195,000</u>	<u>\$ 1,000,044</u>	<u>\$ 3,195,045</u>

CITY OF MELROSE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

Note 3: DETAILED NOTES ON ALL FUNDS- CONTINUED

General obligation revenue bonds

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

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
1999 G.O. Water Revenue Notes (Water Tower)	\$ 2,500,000	3.48 %	05/27/99	08/20/19	\$ 885,700
G.O. Sewer Revenue Bonds of 2004	3,230,000	3.65	06/01/04	12/01/12	2,765,000
G.O. Water Revenue Crossover Refunding	1,330,000	3.50 - 4.25	09/01/05	08/01/20	1,030,000
G.O. Sewer Revenue Crossover Refunding Bonds, Series 2010A	1,415,000	2.00 - 2.45	11/01/10	12/01/18	<u>1,415,000</u>
Total G.O. Revenue Bonds					<u><u>\$ 6,095,700</u></u>

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

Year Ending December 31,	Business-type Activities		
	Principal	Interest	Total
2012	\$ 3,021,000	\$ 222,039	\$ 3,243,039
2013	516,000	92,186	608,186
2014	537,000	77,851	614,851
2015	552,000	62,413	614,413
2016	563,000	46,502	609,502
2017-2020	<u>906,700</u>	<u>57,281</u>	<u>963,981</u>
Total	<u><u>\$ 6,095,700</u></u>	<u><u>\$ 558,272</u></u>	<u><u>\$ 6,653,972</u></u>

CITY OF MELROSE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

Changes in long-term liabilities

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities					
Bonds payable					
General obligation					
improvement bonds	\$ 2,950,000	\$ 2,155,000	\$ (230,000)	\$ 4,875,000	\$ 935,000
Revenue Bonds	<u>2,280,000</u>	<u>-</u>	<u>(85,000)</u>	<u>2,195,000</u>	<u>85,000</u>
Total bonds payable	5,230,000	2,155,000	(315,000)	7,070,000	1,020,000
Unamortized premium on bonds	-	15,253	(1,243)	14,010	-
Compensated absences	63,949	100,851	(63,810)	100,990	63,810
Other postemployment					
benefits payable	<u>63,480</u>	<u>34,076</u>	<u>-</u>	<u>97,556</u>	<u>-</u>
Governmental activity					
long-term liabilities	<u>\$ 5,357,429</u>	<u>\$ 2,305,180</u>	<u>\$ (380,053)</u>	<u>\$ 7,282,556</u>	<u>\$ 1,083,810</u>
Business-type activities					
Bonds payable					
General obligation					
revenue bonds	\$ 6,860,700	\$ -	\$ (765,000)	\$ 6,095,700	\$ 3,021,000
Unamortized premium on bonds	20,224	-	(2,553)	17,671	-
Compensated absences	74,281	89,316	(63,202)	100,395	63,202
Other postemployment					
benefits payable	<u>72,813</u>	<u>33,876</u>	<u>-</u>	<u>106,689</u>	<u>-</u>
Business-type activity					
long-term liabilities	<u>\$ 7,028,018</u>	<u>\$ 123,192</u>	<u>\$ (830,755)</u>	<u>\$ 6,320,455</u>	<u>\$ 3,084,202</u>

CITY OF MELROSE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

G. Components of fund balance

At December 31, 2011, portions of the City's fund balance are not available for appropriation due to not being in spendable form (Nonspendable), legal restrictions (Restricted), City Council action (Committed), policy and/or intent (Assigned). The following is a summary of the components of fund balance:

	General	Debt Service	Capital Improvements	Other Governmental Funds	Total Governmental Funds
Nonspendable					
Prepaid items	\$ 6,561	\$ -	\$ -	\$ 1,414	\$ 7,975
Due from other funds	80,475	-	-	-	80,475
Loans receivable	-	-	-	224,350	224,350
Total nonspendable	\$ 87,036	\$ -	\$ -	\$ 225,764	\$ 312,800
Restricted for					
Debt service	\$ -	\$ 3,414,580	\$ -	\$ -	\$ 3,414,580
Partners in action activities	-	-	-	775	775
Total restricted	\$ -	\$ 3,414,580	\$ -	\$ 775	\$ 3,415,355
Committed to					
Insurance reserve	\$ 5,509	\$ -	\$ -	\$ -	\$ 5,509
Compensated absences	40,468	-	-	-	40,468
Public works equipment	-	-	234,788	-	234,788
Street improvements	-	-	1,128,952	-	1,128,952
Park and recreation	-	-	60,583	-	60,583
City center maintenance	-	-	25,198	-	25,198
Sidewalk program	-	-	35,164	-	35,164
Police car replacement	-	-	80,165	-	80,165
Future land development	-	-	27,278	-	27,278
Planning and zoning	-	-	21,542	-	21,542
Police equipment	-	-	14,363	-	14,363
Fire equipment	-	-	-	340,438	340,438
Office equipment	-	-	10,956	-	10,956
Capital improvements	-	-	1,410,429	-	1,410,429
Revolving loans	-	-	-	324,349	324,349
Total committed	\$ 45,977	\$ -	\$ 3,049,418	\$ 664,787	\$ 3,760,182
Assigned to					
Senior activity center	\$ -	\$ -	\$ -	\$ 3,993	\$ 3,993
Tri-cap bus	-	-	-	3,012	3,012
Fire department	-	-	-	109,886	109,886
Total assigned	\$ -	\$ -	\$ -	\$ 116,891	\$ 116,891

CITY OF MELROSE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

Note 4: DEFINED BENEFIT PENSION PLANS - STATEWIDE

A. Plan description

All full-time and certain part-time employees of the City of Melrose are covered by defined benefit plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Fund (GERF) 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.

GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan. All police officers, fire fighters and peace officers who qualify for membership by 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 PERA'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 PEPFF members, the annuity accrual rate is 3.0 percent for each year of service. For all PEPFF members and GERF members hired prior to July 1, 1989 whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 55 for PEPFF members and 65 for Basic and Coordinated members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for Coordinated members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

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

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

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

CITY OF MELROSE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

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. GERS Basic Plan members and Coordinated Plan members are required to contribute 9.10 percent and 6.25 percent, respectively, of their annual covered salary in 2011. PEPFF members are required to contribute 9.60 percent of their annual covered salary in 2011. In 2011, the City was required to contribute the following percentages of annual covered payroll: 11.78 percent for Basic Plan GERS members, 7.25 percent for Coordinated Plan GERS members, and 14.40 percent for PEPFF members. The City's contributions to the General Employees Retirement Fund for the year ended December 31, 2011, 2010 and 2009 were \$92,156, \$83,867, and \$84,113, respectively. The City's contributions to the PEPFF for the years ending December 31, 2011, 2010 and 2009 were \$40,294, \$38,183, and \$38,001, respectively. The City's contributions were equal to the contractually required contributions for each year as set by Minnesota statute.

Note 5: OTHER INFORMATION

A. Risk management

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

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

B. Legal debt margin

The City's statutory debt limit is computed as 3 percent of the taxable market value of property within the City. Long-term debt issued and financed partially or entirely by special assessments or the net revenues of enterprise fund operations is excluded from the debt limit computation. The 2011 taxable market value of property was \$188,714,200 and the debt limit was \$5,661,426. 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 THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

Note 5: OTHER INFORMATION-CONTINUED

D. Conduit debt

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

As of December 31, 2011, there were two series of revenue bonds outstanding, with an aggregate principal payable amount of \$8,976,010.

E. Commitment and contingencies

Tax increment districts

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

F. Concentrations

The City receives a significant amount of its annual General fund revenue from the State of Minnesota from the Local Government Aid (LGA) and Market Value Homestead Credit (MVHC) programs. The amount received in 2011 was \$614,850 and \$36,328 for LGA and MVHC, respectively. This accounted for 27 percent of General fund revenue.

CITY OF MELROSE, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2011

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, 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	\$	22,040
Contributions made		
State Aid		22,040
Actuarial valuation date		12/31/11
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 THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

Note 6: VOLUNTEER FIREFIGHTER'S RELIEF ASSOCIATION - CONTINUED

<u>Year Ending</u>	<u>Three Year Trend Information</u>		
	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
12/31/11	\$ 22,040	100.0 %	\$ -
12/31/10	19,904	100.0	-
12/31/09	18,418	100.0	-

<u>Required Supplementary Information</u>					
<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability</u>	<u>Assets in Excess of (Unfunded) Accrued Liability</u>	<u>Funded Rate</u>	<u>Pension Benefit Per Year of Service</u>
12/31/11	*	*	*	*	\$ 1,250
12/31/10	\$ 326,205	\$ 351,783	\$ (25,578)	92.7 %	1,250
12/31/09	318,898	363,958	(45,060)	87.6	1,250
12/31/08	288,479	362,483	(74,004)	79.6	1,250
12/30/07	349,073	341,033	8,040	102.4	1,250
12/31/06	302,251	302,296	(45)	100.0	1,200

* - At the time of report preparation, information is unavailable.

Note 7: POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

A. Plan description

The City administers a single-employer defined benefit healthcare plan (“the Retiree Health Plan”). The plan provides healthcare insurance for eligible retirees and their spouses through the City's group health insurance plan until Medicare age, which covers both active and retired members. There are 27 active participants, made up of both union and non-union employees. The benefit provisions for union employees are established through negotiations between the City and the union representing City employees and are renegotiated at the expiration of each Collective Bargaining Agreement. Benefit provisions for non-union employees are established by the Council and Utilities Commission as part of the annual budget each year. The Retiree Health Plan does not issue a publicly available financial report.

B. Funding policy

The City has historically funded these liabilities on a pay-as-you-go basis. Contribution requirements are negotiated between the City and union representatives at the expiration of each Collective Bargaining Agreement. At the present time, retiree benefits are provided for two participating employees. The City does not contribute any of the cost of current year premiums for eligible retired plan members and their spouses. For fiscal year 2011, the City contributed \$17,693 to the plan. Retired plan members receiving benefits contribute 100 percent of their premium costs. As of January 1, 2009 there were two retiree's receiving health benefits from the plan.

CITY OF MELROSE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

Note 7: POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS - CONTINUED

C. Annual OPEB cost and net OPEB obligation

The City's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the *annual required contribution of the employer (ARC)*. The City has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement 45 for employers in plans with fewer than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation to the Retiree Health Plan:

Annual required contribution	\$ 84,340
Interest on net OPEB obligation	6,133
Adjustment to annual required contribution	<u>(4,828)</u>
 Annual OPEB cost (expense)	 85,645
 Contributions made	 <u>(17,693)</u>
 Increase in net OPEB obligation	 67,952
 Net OPEB obligation - beginning of year	 <u>136,293</u>
 Net OPEB obligation - end of year	 <u><u>\$ 204,245</u></u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for fiscal years 2011, 2010, and 2009 follows:

Year Ending	Trend Information		
	Annual OPEB Cost	Percentage Annual OPEB Contributed	Net OPEB Obligation
12/31/11	\$ 85,645	20.7 %	\$ 204,245
12/31/10	84,993	19.9	136,293
12/31/09	84,340	19.2	68,183

D. Funded status and funding progress

As of December 31, 2008, the actuarial accrued liability for benefits was \$1,071,933, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$1,567,030, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 68.4 percent.

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

CITY OF MELROSE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

Note 7: POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS - CONTINUED

E. Methods and assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The following simplifying assumptions were made:

Retirement age for active employees - Based on the rule of 90 calculation (years of service plus age), historical average age of retirement, and expectations of management, the retirement age for active plan members was determined on an individual level. In addition, spouses of retired employees were assumed to continue on the plan for the lesser of eighteen months after the retired employee reaches Medicare age or until the spouse reaches Medicare age.

Marital status - Marital status of members at the calculation date was assumed to continue throughout retirement.

Mortality - Life expectancies were based on mortality tables from the National Center for Health Statistics. The 2004 United States Life Tables for Males and for Females were used.

Turnover - Non-group-specific age-based turnover data from GASB Statement 45 were used as the basis for assigning active members a probability of remaining employed until the assumed retirement age and for developing an expected future working lifetime assumption for purposes of allocating to periods the present value of total benefits to be paid.

Healthcare cost trend rate - The expected rate of increase in healthcare insurance premiums was based on projections of the Office of the Actuary at the Centers for Medicare & Medicaid Services. A rate of 4.5 percent initially, reduced to an ultimate rate of 6.0 percent after six years, was used.

Health insurance premiums - 2008 and 2009 health insurance premiums for retirees were used as the basis for calculation of the present value of total benefits to be paid.

Inflation rate - The expected long-term inflation assumption of 4.09 percent was based on projected changes in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) in *The 2008 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds* for an intermediate growth scenario.

Payroll growth rate - The expected long-term payroll growth rate was assumed to equal the rate of inflation.

Based on the historical and expected returns of the City's short-term investment portfolio, a discount rate of 4.5 percent was used. In addition, a simplified version of the entry age actuarial cost method was used. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2011, was thirty years.

Note 8: ACCOUNTING CHANGE

GASB Statement 54 "*Fund Balance Reporting and Governmental Fund Type Definitions*" enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The City implemented this standard for fiscal year end December 31, 2011. Changes to governmental fund type fund balance reporting is reflected in the financial statements and schedules and related disclosures are included in Note 1 and Note 3.

**REQUIRED SUPPLEMENTARY
INFORMATION**

CITY OF MELROSE
MELROSE, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2011

CITY OF MELROSE, MINNESOTA
 REQUIRED SUPPLEMENTARY INFORMATION
 DECEMBER 31, 2011

Schedule of funding progress for the postemployment benefit plan

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/08	\$ -	\$ 1,071,933	\$ 1,071,933	- %	\$ 1,567,030	68.4%

**COMBINING AND INDIVIDUAL FUND
FINANCIAL STATEMENTS AND SCHEDULES**

CITY OF MELROSE
MELROSE, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2011

CITY OF MELROSE, MINNESOTA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
DECEMBER 31, 2011

	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Total Nonmajor Governmental Funds</u>
ASSETS			
Cash and temporary investments (deficits)	\$ 783,637	\$ 32,835	\$ 816,472
Receivables			
Accounts, net	68,629	-	68,629
Loans	224,350	-	224,350
Prepaid items	1,414	-	1,414
	<u>1,414</u>	<u>-</u>	<u>1,414</u>
 TOTAL ASSETS	 <u>\$ 1,078,030</u>	 <u>\$ 32,835</u>	 <u>\$ 1,110,865</u>
 LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 6,160	\$ 32,835	\$ 38,995
Due to other funds	69,570	-	69,570
	<u>69,570</u>	<u>-</u>	<u>69,570</u>
 TOTAL LIABILITIES	 <u>75,730</u>	 <u>32,835</u>	 <u>108,565</u>
 FUND BALANCES			
Nonspendable			
Prepaid items	1,414	-	1,414
Loans receivable	224,350	-	224,350
Restricted for			
Partners in action activities	775	-	775
Committed to			
Fire equipment	340,438	-	340,438
Revolving loans	324,349	-	324,349
Assigned	116,891	-	116,891
Unassigned	(5,917)	-	(5,917)
	<u>(5,917)</u>	<u>-</u>	<u>(5,917)</u>
 TOTAL FUND BALANCES	 <u>1,002,300</u>	 <u>-</u>	 <u>1,002,300</u>
 TOTAL LIABILITIES AND FUND BALANCES	 <u>\$ 1,078,030</u>	 <u>\$ 32,835</u>	 <u>\$ 1,110,865</u>

CITY OF MELROSE, MINNESOTA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2011

	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Total Nonmajor Governmental Funds</u>
REVENUES			
Tax increments	\$ -	\$ 81,061	\$ 81,061
Intergovernmental	115,666	14,338	130,004
Charges for services	97,545	-	97,545
Interest on investments	26,879	-	26,879
Miscellaneous	28,469	-	28,469
	<u>268,559</u>	<u>95,399</u>	<u>363,958</u>
TOTAL REVENUES			
EXPENDITURES			
Current			
Public safety	138,921	-	138,921
Streets and highways	-	159	159
Culture and recreation	4,730	-	4,730
Economic development	51,963	81,061	133,024
Capital outlay			
Public safety	70,629	-	70,629
Culture and recreation	-	14,338	14,338
Debt service			
Interest and other	3,784	-	3,784
	<u>270,027</u>	<u>95,558</u>	<u>365,585</u>
TOTAL EXPENDITURES			
DEFICIENCY OF REVENUES UNDER EXPENDITURES	<u>(1,468)</u>	<u>(159)</u>	<u>(1,627)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	379,315	159	379,474
Transfers out	<u>(136,038)</u>	<u>-</u>	<u>(136,038)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>243,277</u>	<u>159</u>	<u>243,436</u>
NET CHANGE IN FUND BALANCES	241,809	-	241,809
FUND BALANCES, JANUARY 1	<u>760,491</u>	<u>-</u>	<u>760,491</u>
FUND BALANCES, DECEMBER 31	<u>\$ 1,002,300</u>	<u>\$ -</u>	<u>\$ 1,002,300</u>

CITY OF MELROSE, MINNESOTA
NONMAJOR SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
DECEMBER 31, 2011

	Melrose Area Development Authority (MADA)	MADA Revolving Loan	Senior Activity Center
ASSETS			
Cash and temporary investments	\$ 65,653	\$ 323,384	\$ 4,123
Receivable			
Accounts, net	-	965	75
Loans	-	224,350	-
Prepaid items	24	-	-
	<u>65,677</u>	<u>548,699</u>	<u>4,198</u>
TOTAL ASSETS			
	<u>\$ 65,677</u>	<u>\$ 548,699</u>	<u>\$ 4,198</u>
LIABILITIES AND FUND BALANCES (DEFICITS)			
LIABILITIES			
Accounts payable	\$ 2,000	\$ -	\$ 205
Due to other funds	69,570	-	-
	<u>71,570</u>	<u>-</u>	<u>205</u>
TOTAL LIABILITIES			
	<u>71,570</u>	<u>-</u>	<u>205</u>
FUND BALANCES (DEFICITS)			
Nonspendable			
Prepaid items	24	-	-
Loans receivable	-	224,350	-
Restricted for			
Partners in action activities	-	-	-
Committed to			
Fire equipment	-	-	-
Revolving loans	-	324,349	-
Assigned	-	-	3,993
Unassigned	(5,917)	-	-
	<u>(5,893)</u>	<u>548,699</u>	<u>3,993</u>
TOTAL FUND BALANCES (DEFICITS)			
	<u>(5,893)</u>	<u>548,699</u>	<u>3,993</u>
TOTAL LIABILITIES AND FUND BALANCES (DEFICITS)			
	<u>\$ 65,677</u>	<u>\$ 548,699</u>	<u>\$ 4,198</u>

<u>PIA Asset Building</u>	<u>Tri-Cap Bus</u>	<u>Fire Department</u>	<u>Total</u>
\$ 775	\$ 3,412	\$ 386,290	\$ 783,637
-	-	67,589	68,629
-	-	-	224,350
-	-	1,390	1,414
<u>\$ 775</u>	<u>\$ 3,412</u>	<u>\$ 455,269</u>	<u>\$ 1,078,030</u>
\$ -	\$ 400	\$ 3,555	\$ 6,160
-	-	-	69,570
-	400	3,555	75,730
-	-	1,390	1,414
-	-	-	224,350
775	-	-	775
-	-	340,438	340,438
-	-	-	324,349
-	3,012	109,886	116,891
-	-	-	(5,917)
<u>775</u>	<u>3,012</u>	<u>451,714</u>	<u>1,002,300</u>
<u>\$ 775</u>	<u>\$ 3,412</u>	<u>\$ 455,269</u>	<u>\$ 1,078,030</u>

CITY OF MELROSE, MINNESOTA
NONMAJOR SPECIAL REVENUE FUNDS
COMBINING SCHEDULE OF REVENUE, EXPENDITURES
AND CHANGES IN FUND BALANCES (DEFICITS)
FOR THE YEAR ENDED DECEMBER 31, 2011

	Melrose Area Development Authority (MADA)	MADA Revolving Loan	Senior Activity Center
REVENUES			
Intergovernmental	\$ 23,542	\$ -	\$ -
Charges for services	-	-	-
Interest on investments	5,903	11,317	-
Miscellaneous			
Contributions and donations	-	-	2,075
Other	8,144	-	4,281
	<u>37,589</u>	<u>11,317</u>	<u>6,356</u>
TOTAL REVENUES			
EXPENDITURES			
Current			
Public safety			
Personal services	-	-	-
Supplies	-	-	-
Other services and charges	-	-	-
Culture and recreation			
Other services and charges	-	-	4,730
Economic development			
Personal services	2,008	-	-
Other services and charges	42,848	-	-
Capital outlay			
Public safety	-	-	-
Debt service			
Interest and other	3,784	-	-
	<u>48,640</u>	<u>-</u>	<u>4,730</u>
TOTAL EXPENDITURES			
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES			
	<u>(11,051)</u>	<u>11,317</u>	<u>1,626</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	136,038	146,947	-
Transfers out	(136,038)	-	-
	<u>-</u>	<u>146,947</u>	<u>-</u>
TOTAL OTHER FINANCING SOURCES (USES)			
NET CHANGE IN FUND BALANCES			
	(11,051)	158,264	1,626
FUND BALANCES, JANUARY 1			
	<u>5,158</u>	<u>390,435</u>	<u>2,367</u>
FUND BALANCES (DEFICITS), DECEMBER 31			
	<u><u>\$ (5,893)</u></u>	<u><u>\$ 548,699</u></u>	<u><u>\$ 3,993</u></u>

<u>PIA Asset Building</u>	<u>Tri-Cap Bus</u>	<u>Fire Department</u>	<u>Total</u>
\$ -	\$ -	\$ 92,124	\$ 115,666
-	1,575	95,970	97,545
-	-	9,659	26,879
-	4,620	5,861	12,556
<u>119</u>	<u>-</u>	<u>3,369</u>	<u>15,913</u>
<u>119</u>	<u>6,195</u>	<u>206,983</u>	<u>268,559</u>
-	-	55,914	55,914
-	-	13,189	13,189
-	-	69,818	69,818
-	-	-	4,730
-	-	-	2,008
<u>1,007</u>	<u>6,100</u>	<u>-</u>	<u>49,955</u>
-	-	70,629	70,629
<u>-</u>	<u>-</u>	<u>-</u>	<u>3,784</u>
<u>1,007</u>	<u>6,100</u>	<u>209,550</u>	<u>270,027</u>
<u>(888)</u>	<u>95</u>	<u>(2,567)</u>	<u>(1,468)</u>
-	2,500	93,830	379,315
<u>-</u>	<u>-</u>	<u>-</u>	<u>(136,038)</u>
<u>-</u>	<u>2,500</u>	<u>93,830</u>	<u>243,277</u>
<u>(888)</u>	<u>2,595</u>	<u>91,263</u>	<u>241,809</u>
<u>1,663</u>	<u>417</u>	<u>360,451</u>	<u>760,491</u>
<u>\$ 775</u>	<u>\$ 3,012</u>	<u>\$ 451,714</u>	<u>\$ 1,002,300</u>

CITY OF MELROSE, MINNESOTA
NONMAJOR CAPITAL PROJECTS FUNDS
COMBINING BALANCE SHEET
DECEMBER 31, 2011

	Ship Grant	Tax Increment Projects	12th Avenue East Improvements	Total
ASSETS				
Cash and temporary investments	\$ -	\$ 32,835	\$ -	\$ 32,835
LIABILITIES				
Accounts payable	\$ -	\$ 32,835	\$ -	\$ 32,835

CITY OF MELROSE, MINNESOTA
NONMAJOR CAPITAL PROJECTS FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2011

	Ship Grant	Tax Increment Projects	12th Avenue East Improvements	Total
REVENUES				
Tax increments	\$ -	\$ 81,061	\$ -	\$ 81,061
Intergovernmental	14,338	-	-	14,338
TOTAL REVENUES	<u>14,338</u>	<u>81,061</u>	<u>-</u>	<u>95,399</u>
EXPENDITURES				
Current				
Economic development				
Other services and charges	-	81,061	159	81,220
Capital outlay				
Culture and recreation	14,338	-	-	14,338
TOTAL EXPENDITURES	<u>14,338</u>	<u>81,061</u>	<u>159</u>	<u>95,558</u>
DEFICIENCY OF REVENUES UNDER EXPENDITURES	<u>-</u>	<u>-</u>	<u>(159)</u>	<u>(159)</u>
OTHER FINANCING SOURCES				
Transfers in	-	-	159	159
NET CHANGE IN FUND BALANCES	-	-	-	-
FUND BALANCES, JANUARY 1	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES, DECEMBER 31	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF MELROSE, MINNESOTA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - CONTINUED ON THE FOLLOWING PAGES
FOR THE YEAR ENDED DECEMBER 31, 2011
(With comparative actual amounts for the year ended December 31, 2010)

	2011			Variance with Final Budget	2010
	Budgeted Amounts		Actual		Actual
	Original	Final	Amounts		Amounts
REVENUES					
Taxes					
Property taxes	\$ 1,177,686	\$ 1,177,686	\$ 1,181,148	\$ 3,462	\$ 995,880
Franchise fees	387,000	387,000	380,754	(6,246)	413,643
Total	<u>1,564,686</u>	<u>1,564,686</u>	<u>1,561,902</u>	<u>(2,784)</u>	<u>1,409,523</u>
Licenses and permits					
Business	17,400	17,400	17,783	383	17,298
Nonbusiness	28,500	28,500	32,809	4,309	49,764
Total	<u>45,900</u>	<u>45,900</u>	<u>50,592</u>	<u>4,692</u>	<u>67,062</u>
Intergovernmental					
Federal					
FEMA grant	-	-	3,584	3,584	-
State					
Local government aid	568,115	568,115	614,850	46,735	614,850
Property tax credits	104,578	104,578	36,328	(68,250)	36,274
Police state aid	33,751	33,751	33,261	(490)	33,092
Other	4,590	4,590	9,157	4,567	5,586
Total	<u>711,034</u>	<u>711,034</u>	<u>697,180</u>	<u>(13,854)</u>	<u>689,802</u>
Charges for services					
General government	29,950	29,950	33,001	3,051	35,798
Public safety	1,250	1,250	1,970	720	1,490
Streets and highways	19,533	19,533	18,899	(634)	20,011
Culture and recreation	10,000	10,000	13,081	3,081	11,296
Total	<u>60,733</u>	<u>60,733</u>	<u>66,951</u>	<u>6,218</u>	<u>68,595</u>
Fines and forfeitures	<u>23,500</u>	<u>23,500</u>	<u>27,774</u>	<u>4,274</u>	<u>30,963</u>
Interest on investments	<u>13,600</u>	<u>13,600</u>	<u>23,980</u>	<u>10,380</u>	<u>6,155</u>
Miscellaneous					
Contributions and donations	-	-	595	595	1,250
Other	4,500	4,500	10,960	6,460	22,947
Total	<u>4,500</u>	<u>4,500</u>	<u>11,555</u>	<u>7,055</u>	<u>24,197</u>
TOTAL REVENUES	<u>2,423,953</u>	<u>2,423,953</u>	<u>2,439,934</u>	<u>15,981</u>	<u>2,296,297</u>

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, 2011
(With comparative actual amounts for the year ended December 31, 2010)

	2011			Variance with Final Budget	2010
	Budgeted Amounts		Actual Amounts		Actual Amounts
	Original	Final			
EXPENDITURES					
Current					
General government					
Legislative					
Personal services	\$ 15,092	\$ 15,092	\$ 15,030	\$ 62	\$ 15,123
Other services and charges	5,300	5,300	5,360	(60)	6,094
Total	20,392	20,392	20,390	2	21,217
Executive					
Personal services	5,022	5,022	4,971	51	5,052
Other services and charges	500	500	1,287	(787)	400
Total	5,522	5,522	6,258	(736)	5,452
City administrator					
Personal services	54,124	54,124	44,173	9,951	12,911
Supplies	-	-	67	(67)	560
Other services and charges	3,500	3,500	3,161	339	-
Total	57,624	57,624	47,401	10,223	13,471
Financial administration					
Personal services	222,569	222,569	202,395	20,174	220,729
Supplies	5,700	5,700	5,110	590	4,091
Other services and charges	140,284	140,284	136,765	3,519	130,832
Total	368,553	368,553	344,270	24,283	355,652
Assessing					
Other services and charges	18,500	18,500	16,164	2,336	18,162
Cable communications					
Other services and charges	3,450	3,450	3,032	418	2,713
City attorney					
Other services and charges	61,050	61,050	54,941	6,109	45,705
Planning and zoning					
Personal services	2,691	2,691	1,582	1,109	1,389
Other services and charges	750	750	636	114	82
Total	3,441	3,441	2,218	1,223	1,471
Total general government	538,532	538,532	494,674	43,858	463,843

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, 2011
(With comparative actual amounts for the year ended December 31, 2010)

	2011			Variance with Final Budget	2010
	Budgeted Amounts		Actual		Actual
	Original	Final	Amounts		Amounts
EXPENDITURES - CONTINUED					
Current - Continued					
Public safety					
Police					
Personal services	\$ 445,471	\$ 445,471	\$ 444,734	\$ 737	\$ 423,368
Supplies	24,600	24,600	24,806	(206)	19,960
Other services and charges	35,650	35,650	34,444	1,206	30,226
Total	505,721	505,721	503,984	1,737	473,554
Building inspection					
Other services and charges	23,250	23,250	28,152	(4,902)	45,968
Total public safety	528,971	528,971	532,136	(3,165)	519,522
Streets and highways					
Streets					
Personal services	210,288	210,288	215,369	(5,081)	186,837
Supplies	46,750	46,750	55,846	(9,096)	45,526
Other services and charges	41,230	41,230	43,046	(1,816)	38,303
Total	298,268	298,268	314,261	(15,993)	270,666
Snow and ice removal					
Personal services	44,555	44,555	47,286	(2,731)	46,391
Supplies	21,500	21,500	37,489	(15,989)	26,429
Other services and charges	150	150	2,096	(1,946)	-
Total	66,205	66,205	86,871	(20,666)	72,820
Street lighting					
Other services and charges	46,000	46,000	44,780	1,220	51,624
Total streets and highways	410,473	410,473	445,912	(35,439)	395,110
Sanitation					
Supplies	1,600	1,600	1,249	351	1,070
Other services and charges	2,700	2,700	3,266	(566)	2,761
Total sanitation	4,300	4,300	4,515	(215)	3,831
Culture and recreation					
Personal services	37,775	37,775	22,734	15,041	44,428
Supplies	3,600	3,600	4,121	(521)	5,591
Other services and charges	26,770	26,770	22,773	3,997	27,533
Total culture and recreation	68,145	68,145	49,628	18,517	77,552

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, 2011
(With comparative actual amounts for the year ended December 31, 2010)

	2011			Variance with Final Budget	2010
	Budgeted Amounts		Actual Amounts		Actual Amounts
	Original	Final			
EXPENDITURES - CONTINUED					
Current - Continued					
Economic development					
Industrial/commercial development					
Personal services	\$ 81,470	\$ 81,470	\$ 81,618	\$ (148)	\$ 79,324
Supplies	-	-	1,600	(1,600)	-
Other services and charges	7	7	8	(1)	5
Total economic development	<u>81,477</u>	<u>81,477</u>	<u>83,226</u>	<u>(1,749)</u>	<u>79,329</u>
Total current expenditures	1,631,898	1,631,898	1,610,091	21,807	1,539,187
Debt service					
Interest and other charges	1,250	1,250	786	464	1,218
TOTAL EXPENDITURES	<u>1,633,148</u>	<u>1,633,148</u>	<u>1,610,877</u>	<u>22,271</u>	<u>1,540,405</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>790,805</u>	<u>790,805</u>	<u>829,057</u>	<u>38,252</u>	<u>755,892</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	40,000	40,000	-	(40,000)	62,673
Transfers out	<u>(830,805)</u>	<u>(830,805)</u>	<u>(849,873)</u>	<u>(19,068)</u>	<u>(764,301)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(790,805)</u>	<u>(790,805)</u>	<u>(849,873)</u>	<u>(59,068)</u>	<u>(701,628)</u>
NET CHANGE IN FUND BALANCES	-	-	(20,816)	(20,816)	54,264
FUND BALANCES, JANUARY 1	<u>1,143,622</u>	<u>1,143,622</u>	<u>1,143,622</u>	<u>-</u>	<u>1,089,358</u>
FUND BALANCES, DECEMBER 31	<u>\$ 1,143,622</u>	<u>\$ 1,143,622</u>	<u>\$ 1,122,806</u>	<u>\$ (20,816)</u>	<u>\$ 1,143,622</u>

CITY OF MELROSE, MINNESOTA
DEBT SERVICE FUNDS
COMBINING BALANCE SHEET
DECEMBER 31, 2011

	Improvement Bonds of 2004	Improvement Bonds of 2005	Lease Revenue Bonds of 2008	G.O. Refunding Bonds of 2011	Total
ASSETS					
Cash and temporary investments	\$ 231,694	\$ 415,083	\$ 407,339	\$ 86	\$ 1,054,202
Cash with fiscal agent	707,479	1,652,899	-	-	2,360,378
Special assessments receivable					
Delinquent	-	66,738	-	-	66,738
Deferred	53,333	138,676	-	-	192,009
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL ASSETS	<u><u>\$ 992,506</u></u>	<u><u>\$ 2,273,396</u></u>	<u><u>\$ 407,339</u></u>	<u><u>\$ 86</u></u>	<u><u>\$ 3,673,327</u></u>
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Deferred revenue	\$ 53,333	\$ 205,414	\$ -	\$ -	\$ 258,747
FUND BALANCES					
Restricted for debt service	939,173	2,067,982	407,339	86	3,414,580
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$ 992,506</u></u>	<u><u>\$ 2,273,396</u></u>	<u><u>\$ 407,339</u></u>	<u><u>\$ 86</u></u>	<u><u>\$ 3,673,327</u></u>

CITY OF MELROSE, MINNESOTA
DEBT SERVICE FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2011

	Improvement Bonds of 2004	Improvement Bonds of 2005	Lease Revenue Bonds of 2008	G.O Refunding Bonds of 2011	Total
REVENUES					
Property taxes	\$ 359	\$ 674	\$ 184	\$ -	\$ 1,217
Charges for services	-	-	52,257	-	52,257
Special assessments	74,287	3,408	-	-	77,695
Interest on investments	3,217	13,270	10,796	86	27,369
TOTAL REVENUES	77,863	17,352	63,237	86	158,538
EXPENDITURES					
Debt service					
Principal	75,000	155,000	85,000	-	315,000
Interest and fiscal charges	31,560	81,710	95,688	-	208,958
Bond issuance costs	18,427	34,563	-	-	52,990
TOTAL EXPENDITURES	124,987	271,273	180,688	-	576,948
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(47,124)	(253,921)	(117,451)	86	(418,410)
OTHER FINANCING SOURCES					
Transfers in	85,282	170,948	136,038	-	392,268
Premium on bonds issued	5,905	9,348	-	-	15,253
Bonds issued	720,000	1,435,000	-	-	2,155,000
TOTAL OTHER FINANCING SOURCES	811,187	1,615,296	136,038	-	2,562,521
NET CHANGE IN FUND BALANCES	764,063	1,361,375	18,587	86	2,144,111
FUND BALANCES, JANUARY 1	175,110	706,607	388,752	-	1,270,469
FUND BALANCES, DECEMBER 31	\$ 939,173	\$ 2,067,982	\$ 407,339	\$ 86	\$ 3,414,580

CITY OF MELROSE, MINNESOTA
SUMMARY FINANCIAL REPORT
REVENUES AND EXPENDITURES FOR GENERAL OPERATIONS
GOVERNMENTAL FUNDS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	Totals		Percent Increase (Decrease)
	2011	2010	
REVENUES			
Taxes	\$ 1,644,180	\$ 1,653,839	(0.58) %
Licenses and permits	50,592	67,062	(24.56)
Intergovernmental	827,184	897,114	(7.79)
Charges for services	216,753	216,431	0.15
Fines and forfeits	27,774	30,963	(10.30)
Special assessments	153,977	212,161	(27.42)
Interest on investments	209,972	118,175	77.68
Miscellaneous	65,001	69,302	(6.21)
	<u>\$ 3,195,433</u>	<u>\$ 3,265,047</u>	(2.13) %
TOTAL REVENUES			
Per Capita	\$ 888	\$ 960	(7.49) %
EXPENDITURES			
Current			
General government	\$ 494,674	\$ 463,853	6.64 %
Public safety	671,057	662,273	1.33
Streets and highways	499,404	395,110	26.40
Sanitation	4,515	3,831	17.85
Culture and recreation	54,358	81,335	(33.17)
Economic development	216,250	432,146	(49.96)
Capital outlay			
General government	47,820	3,216	1,386.94
Public safety	70,629	29,181	142.04
Streets and highways	39,488	146,238	(73.00)
Culture and recreation	14,338	-	100.00
Debt service			
Principal	315,000	710,000	(55.63)
Interest and other	213,528	243,366	(12.26)
Bond issuance costs	52,990	-	100.00
	<u>\$ 2,694,051</u>	<u>\$ 3,170,549</u>	(15.03) %
TOTAL EXPENDITURES			
Per Capita	\$ 749	\$ 932	(19.68) %
Total Long-term Indebtedness	\$ 7,070,000	\$ 5,990,591	18.02 %
Per Capita	1,965	1,761	11.56
General Fund Balance - December 31	\$ 1,122,806	\$ 1,089,358	3.07 %
Per Capita	312	320	(2.58)

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 the City Administrator at (320) 256-4278.

**STATISTICAL SECTION
(UNAUDITED)**

CITY OF MELROSE
MELROSE, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2011

CITY OF MELROSE, MINNESOTA
MELROSE ELECTRIC UTILITIES
ELECTRIC UTILITY OPERATING STATISTICS (UNAUDITED)
FOR THE YEARS ENDED DECEMBER 31, 2011, 2010, AND 2009

	<u>2009 Peer Group</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
<u>Financial Ratios</u>				
Revenue per KWH				
Residential Customers	\$ 0.105	\$ 0.078	\$ 0.083	\$ 0.081
Commercial Customers	\$ 0.103	\$ 0.082	\$ 0.083	\$ 0.080
Industrial Customers	\$ 0.079	\$ 0.064	\$ 0.064	\$ 0.063
Times Interest Earned	6.29	N/A	N/A	N/A
Debt Service Coverage	3.12	N/A	N/A	N/A
Uncollectible Accounts per Revenue Dollar	\$ 0.0008	\$ 0.0002	\$ 0.0002	\$ 0.0010
<u>Operating Ratios</u>				
Total O&M Expense per KWH Sold	\$ 0.066	\$ 0.066	\$ 0.072	\$ 0.070
Total Distribution and O&M Expense (Excluding Power Supply Exp.) per retail customer	\$ 454	\$ 402	\$ 404	\$ 397
Purchased Power per KWH	\$ 0.054	\$ 0.053	\$ 0.055	\$ 0.053
Distribution O&M Expense per Retail Customer	\$ 215	\$ 215	\$ 220	\$ 217
Distribution O&M Expense per Circuit Mile	\$ 5,806	\$ 7,361 *	\$ 7,580 *	\$ 7,492
Customer Accounting, Service, and Sales, Administrative and General Expense per Retail Customer	\$ 254	\$ 193	\$ 192	\$ 206
<u>Other Ratios</u>				
Labor Expense per Worker- Hour	\$ 32.84	\$ 26.23	\$ 26.75	\$ 27.85
Energy Loss Percentage	2.28%	5.70%	4.30%	1.90%
System Load Factor	58.60%	77.59%	77.05%	75.40%

Represents the Melrose Electric Utility
APPA peer group ratio

The peer group data was derived from a report issued by the American Public Power Association (APPA) titled, "Selected Financial and Operating Ratios of Public Power Systems, 2009". The report presented data of financial and operating ratios for 170 of the largest publicly owned electric utilities in the United States and averaged the ratios based on number of customers. The ratios presented are those for utilities with 2,000 to 5,000 customers. The ratios can be a useful tool in assessing electric utility performance. However, as it stated in the report, these ratios do not provide definitive information and the level of any indicator should not be taken as the "correct" performance.

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

CITY OF MELROSE, MINNESOTA
MELROSE ELECTRIC UTILITIES
ELECTRIC UTILITY LINE LOSS (UNAUDITED)
FOR THE YEARS ENDED DECEMBER 31, 2011, 2010, AND 2009

Source of Energy, Disposition of Energy and Percentage Relations	2009		2010		2011	
	KWH	Percent	KWH	Percent	KWH	Percent
Purchased energy	\$ 118,006,176	100.2 %	\$ 112,091,888	100.2 %	\$ 112,046,940	100.2 %
Energy consumed by station	(267,640)	(0.2)	(244,120)	(0.2)	(255,480)	(0.2)
Total net energy outgoing feeders	117,738,536	100.0	111,847,768	100.0	111,791,460	100.0
Net distributed energy	(111,026,782)	(94.3)	(106,996,468)	(95.7)	(109,658,153)	(98.1)
Energy lost in distribution system	<u>\$ 6,711,754</u>	<u>5.7%</u>	<u>\$ 4,851,300</u>	<u>4.3%</u>	<u>\$ 2,133,307</u>	<u>1.9%</u>

CITY OF MELROSE, MINNESOTA
MELROSE WATER UTILITIES
SUMMARY OF OPERATIONS AND UNAUDITED STATISTICS
FOR THE YEARS ENDED DECEMBER 31, 2011, 2010, AND 2009

SUMMARY OF OPERATIONS

	<u>2009</u>	<u>2010</u>	<u>2011</u>
OPERATING REVENUES			
Sales of water	\$ 980,032	\$ 954,215	\$ 926,127
Miscellaneous	40,757	27,219	23,755
	<u>1,020,789</u>	<u>981,434</u>	<u>949,882</u>
OPERATING EXPENSES			
Operating expenses less depreciation	409,820	352,809	343,325
Depreciation	<u>257,417</u>	<u>257,517</u>	<u>257,976</u>
	<u>667,237</u>	<u>610,326</u>	<u>601,301</u>
TOTAL OPERATING INCOME	<u>\$ 353,552</u>	<u>\$ 371,108</u>	<u>\$ 348,581</u>
PERCENT OF CHANGE			
Sales of water	11.11%	-2.63%	-2.94%

**UNAUDITED STATISTICS
MISCELLANEOUS**

	<u>2009</u>	<u>2010</u>	<u>2011</u>
WATER PUMPED (gallons)	676,592,505	658,790,535	631,748,846
WATER SOLD (gallons)	645,192,263	634,137,742	651,122,273
Percent of line loss	4.64%	3.74%	(3.07%)
Revenues per 1,000 gallons pumped	\$ 1.51	\$ 1.49	\$ 1.50
Revenues per 1,000 gallons sold	\$ 1.58	\$ 1.55	\$ 1.46
Labor cost per customer	\$ 125.95	\$ 120.62	\$ 124.53
O&M per customer	\$ 236.13	\$ 188.60	\$ 176.59
Number of customers	1,130	1,139	1,139

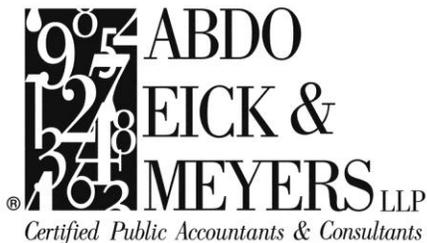
**OTHER SCHEDULES AND
REQUIRED REPORTS**

CITY OF MELROSE
MELROSE, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2011

CITY OF MELROSE, MINNESOTA
BONDS PAYABLE
DECEMBER 31, 2011

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										
General Obligation Improvement Bonds of 2004	10/01/2004	02/01/2012	2-1;8-1	3.40 %	\$ 770,000	2012	\$ 985,000	\$ 215,000	\$ 770,000	
General Obligation Improvement Bonds of 2005	09/01/2005	02/01/2013	2-1;8-1	3.50 %	\$ 165,000	2012	\$ 2,545,000	\$ 595,000	\$ 1,950,000	
				3.60	1,785,000	2013				
Public Project Lease Revenue Bonds of 2008	04/24/2008	02/01/2029	2-1;8-1	3.30 %	\$ 85,000	2012	\$ 2,360,000	\$ 165,000	\$ 2,195,000	
				3.50	90,000	2013				
				3.60	90,000	2014				
				3.75	95,000	2015				
				3.90	100,000	2016				
				4.00	105,000	2017				
				4.05	105,000	2018				
				4.10	110,000	2019				
				4.25	115,000	2020				
				4.40	120,000	2021				
				4.40	125,000	2022				
				4.55	130,000	2023				
				4.55	135,000	2024				
				4.65	145,000	2025				
4.65	150,000	2026								
4.70	155,000	2027								
4.70	165,000	2028								
4.70	175,000	2029								
General Obligation Improvement Bonds of 2011	04/13/2011	02/01/2020	2-1;8-1	2.00 %	\$ -	2012	\$ 2,155,000	\$ -	\$ 2,155,000	
				2.00	90,000	2013				
				2.00	290,000	2014				
				2.00	320,000	2015				
				2.00	320,000	2016				
				2.20	315,000	2017				
				2.45	315,000	2018				
				2.70	315,000	2019				
				2.85	190,000	2020				
Total Governmental Fund Bonded Debt								<u>\$ 8,045,000</u>	<u>\$ 975,000</u>	<u>\$ 7,070,000</u>



5201 Eden Avenue
Suite 250
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, 2011, which collectively comprise the City's basic financial statements, and have issued our report thereon dated April 2, 2012.

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, 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 2, 2012
Minneapolis, Minnesota

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

5201 Eden Avenue
Suite 250
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, 2011, which collectively comprise the City's basic financial statements, and have issued our report thereon dated April 2, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A deficiency in internal control 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying Schedule of Findings and Responses as finding 2011-1, which we consider to be a significant deficiency in internal control over financial reporting. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.



Compliance and Other Matters

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

We also noted certain matters involving the internal control over financial reporting that we reported to management of the City in a separate letter dated April 2, 2012.

The City's responses to the finding identified in our audit are described in the accompanying Schedule of Findings and Responses. We did not audit the City's response and, accordingly, we express no opinion on it.

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 2, 2012
Minneapolis, Minnesota

ABDO, EICK & MEYERS, LLP
Certified Public Accountants

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CITY OF MELROSE, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2011

Finding Description

2011-1 Preparation of financial statements

Condition: As in prior years, we were requested to draft the audited financial statements and related footnote disclosures as part of our regular audit services. Recent auditing standards require auditors to communicate this situation to the Council as an internal control deficiency. Ultimately, it is management's responsibility to provide for the preparation of your statements and footnotes, and the responsibility of the auditor to determine the fairness of presentation of those statements. It is our responsibility to inform you that this deficiency could result in a material misstatement to the financial statements that could have been prevented or detected by your management. Essentially, the auditors cannot be part of your internal control process.

Criteria: Internal controls should be in place to provide reasonable assurance over financial reporting.

Cause: 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.

Effect: 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.

Recommendation: 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.

Management response:

For now, the City's management accepts the degree of risk associated with this condition and thoroughly reviews a draft of the financial statements.