

CITY OF MELROSE
MELROSE, MINNESOTA

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED
DECEMBER 31, 2012

THIS PAGE IS LEFT BLANK
INTENTIONALLY

CITY OF MELROSE, MINNESOTA
 ANNUAL FINANCIAL REPORT
 TABLE OF CONTENTS
 FOR THE YEAR ENDED DECEMBER 31, 2012

	<u>Page No.</u>
INTRODUCTORY SECTION	
Elected and Appointed Officials	7
FINANCIAL SECTION	
Independent Auditor's Report	11
Management's Discussion and Analysis	15
Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Position	29
Statement of Activities	30
Fund Financial Statements	
Governmental Funds	
Balance Sheet	34
Reconciliation of the Balance Sheet to the Statement of Net Position	37
Statement of Revenues, Expenditures and Changes in Fund Balances	38
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	40
General Fund	
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual	41
Proprietary Funds	
Statements of Net Position	42
Statements of Revenues, Expenses and Changes in Fund Net Position	46
Statements of Cash Flows	48
Fiduciary Funds	
Statement of Fiduciary Net Position	52
Notes to the Financial Statements	53
Required Supplementary Information	
Schedule of Funding Progress for the Postemployment Benefit Plan	80
Combining and Individual Fund Financial Statements and Schedules	
Nonmajor Governmental Funds	
Combining Balance Sheet	82
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	83
Nonmajor Special Revenue Funds	
Combining Balance Sheet	84
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	86
General Fund	
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual	88
Debt Service Funds	
Combining Balance Sheet	92
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	93
Summary Financial Report	
Revenues and Expenditures for General Operations - Governmental Funds	94

THIS PAGE IS LEFT BLANK
INTENTIONALLY

CITY OF MELROSE, MINNESOTA
ANNUAL FINANCIAL REPORT
TABLE OF CONTENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2012

	<u>Page No.</u>
STATISTICAL SECTION (UNAUDITED)	
Electric Utility Operating Statistics	96
Electric Utility Line Loss	97
Summary of Operations and Unaudited Statics	98
OTHER SCHEDULES AND REQUIRED REPORTS	
Bonds Payable	101
Auditor's Report on Legal Compliance	103
Independent Auditor's Report on Internal Control Over Financial Reporting and on compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	104
Schedule of Findings and Responses	106

THIS PAGE IS LEFT BLANK
INTENTIONALLY

INTRODUCTORY SECTION

CITY OF MELROSE
MELROSE, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2012

THIS PAGE IS LEFT BLANK
INTENTIONALLY

CITY OF MELROSE, MINNESOTA
 ELECTED AND APPOINTED OFFICIALS
 FOR THE YEAR ENDED DECEMBER 31, 2012

ELECTED

Name	Title	Term Expires
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	1/1/2013

CITY OFFICIALS - APPOINTED

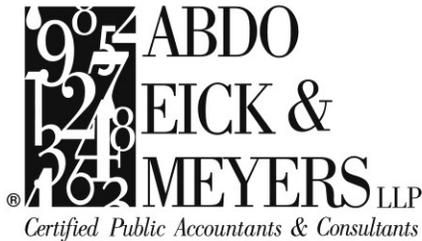
Name	Title
Mike Brethorst	City Administrator
Christy Berscheit	Accountant
John Harren	Public Works Director
Scott Dymoke	City Attorney
Gary Walz	Community Development Director
John "JJ" Jensen	Police Chief
Patty Haase	City Clerk

THIS PAGE IS LEFT BLANK
INTENTIONALLY

FINANCIAL SECTION
CITY OF MELROSE
MELROSE, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2012

THIS PAGE IS LEFT BLANK
INTENTIONALLY



5201 Eden Avenue
Suite 250
Edina, MN 55436

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council
City of Melrose, Minnesota

Report on Financial Statements

We have audited the accompanying financial statements of 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, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. The prior year comparative information has been derived from the City's 2011 financial statements and, in our report dated April 2, 2012 we express 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of December 31, 2012, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the General fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

THIS PAGE IS LEFT BLANK
INTENTIONALLY



Other Matters

Change in Accounting Standards

As described in the Note 8 to the basic financial statements, the City adopted the provisions of Governmental Accounting Standard Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and Statement No. 65, *Items Previously Reported as Assets and Liabilities*, for the year ended December 31, 2012. Adoption of the provisions of these statements results in significant change to the classifications of the components of the financial statements.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis starting on page 15 and the Schedule of Funding Progress on page 80 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

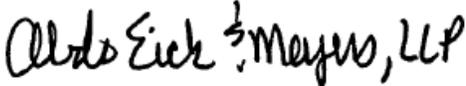
Supplementary Information in Relation to the Financial Statements as a Whole

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 2, 2013, 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* in considering the City's internal control over financial reporting and compliance.

April 2, 2013
Minneapolis, Minnesota


ABDO, EICK & MEYERS, LLP
Certified Public Accountants

THIS PAGE IS LEFT BLANK
INTENTIONALLY

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, 2012.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$47,181,739 (net position). Of this amount, \$17,728,359 (unrestricted net position) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net position increased by \$1,335,247.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$7,934,669, a decrease of \$654,435 in comparison with the prior year. This decrease was primarily a result of the principal payment to refund the 2004 improvement bonds. Approximately 61 percent of this total amount, \$4,810,788, is unrestricted and is available for spending at the City's discretion; \$3,695,652 of the unrestricted amount has been committed (\$3,631,009) or assigned (\$64,643) for specific purposes.
- At the end of the current fiscal year, unrestricted fund balance for the General fund was \$1,180,918 or 79 percent of total General fund expenditures. \$123,964 is nonspendable because the funds were either prepaid items or due from other funds. Of the unrestricted balance, \$48,222 was committed and \$1,132,696 was unassigned and available for spending at the City's discretion.
- The City's total debt decreased by \$3,981,746 or 29.3 percent during the current fiscal year. This decrease was a result of the refunding principal payment of \$695,000 for the G.O. Improvement Bonds, Series 2004B and the \$2,600,000 refunding principal payment for the G.O. Sewer Revenue Bonds of 2004.

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

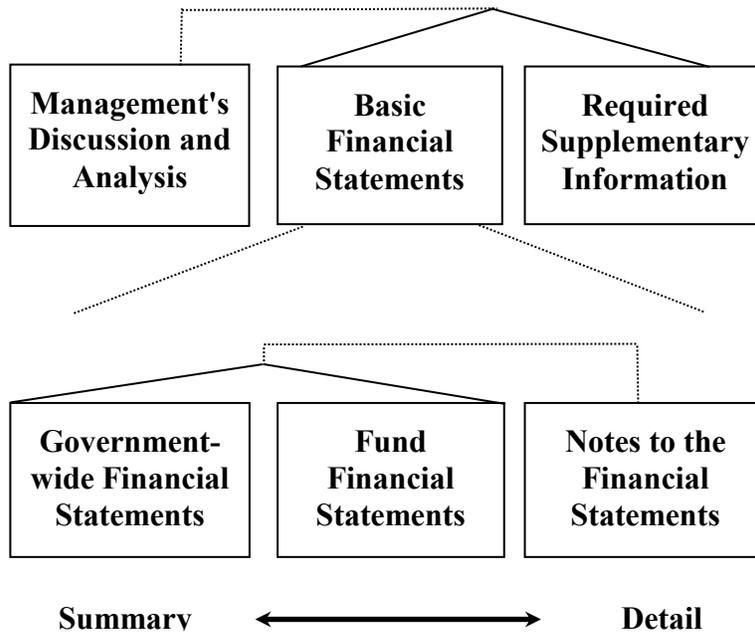


Figure 2 summarizes the major features of the City’s financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis explains the structure and contents of each of the 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 Position • 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 Position • Statements of Revenues, Expenses and Changes in Fund Net Position • 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 deferred outflows/inflows of resources information	All deferred outflows/inflows of resources, regardless of when cash is received or paid.	Only deferred outflows of resources expected to be used up and deferred inflows of resources that come due during the year or soon thereafter; no capital assets included	All deferred outflows/inflows of resources, regardless of when cash is received or paid
Type of inflow/outflow 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 position* presents information on all of the City’s assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position 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 position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of 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 13 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 the financial statements. Combining and individual fund statements and schedules start on page 82 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$47,181,739 at the close of the most recent fiscal year.

By far, the largest portion of the City's net position (57 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 Position

	Governmental Activities			Business-type Activities		
	2012	2011	Increase (Decrease)	2012	2011	Increase (Decrease)
Assets						
Current and other assets	\$ 10,202,217	\$ 10,936,854	\$ (734,637)	\$ 14,374,993	\$ 15,508,469	\$ (1,133,476)
Capital assets	14,547,822	14,529,196	18,626	19,949,074	20,738,843	(789,769)
Total assets	<u>24,750,039</u>	<u>25,466,050</u>	<u>(716,011)</u>	<u>34,324,067</u>	<u>36,247,312</u>	<u>(1,923,245)</u>
Liabilities						
Long-term liabilities						
outstanding	6,296,611	7,282,556	(985,945)	3,324,654	6,320,455	(2,995,801)
Other liabilities	1,562,137	1,592,244	(30,107)	709,023	671,615	37,408
Total liabilities	<u>7,858,748</u>	<u>8,874,800</u>	<u>(1,016,052)</u>	<u>4,033,677</u>	<u>6,992,070</u>	<u>(2,958,393)</u>
Net position						
Net investment in						
capital assets	9,920,543	9,600,186	320,357	16,859,256	14,625,472	2,233,784
Restricted	2,673,581	3,552,690	(879,109)	-	-	-
Unrestricted	4,297,167	3,438,374	858,793	13,431,134	14,629,770	(1,198,636)
Total net position	<u>\$ 16,891,291</u>	<u>\$ 16,591,250</u>	<u>\$ 300,041</u>	<u>\$ 30,290,390</u>	<u>\$ 29,255,242</u>	<u>\$ 1,035,148</u>

Net investment in capital assets (\$26,779,799) represents the largest portion of the City's net position. An additional portion of the City's net position (\$2,673,581, which equals roughly 6 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net position* (\$17,728,359) may be used to meet the City's ongoing obligations to citizens and creditors.

The decrease in the current and other assets and long-term liabilities is primarily a result of the refunding principal payments for the G.O. Improvement Bonds, Series 2004B related to governmental activities (\$695,000) and the refunding principal payment for the G.O. Sewer Revenue Bonds of 2004 related to business-type activities (\$2,600,000). The refunding payment is also reflected in the decrease in restricted net position for the governmental activities.

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

The City's net position increased \$1,335,247 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 position by \$300,099. Key elements to this increase are as follows:

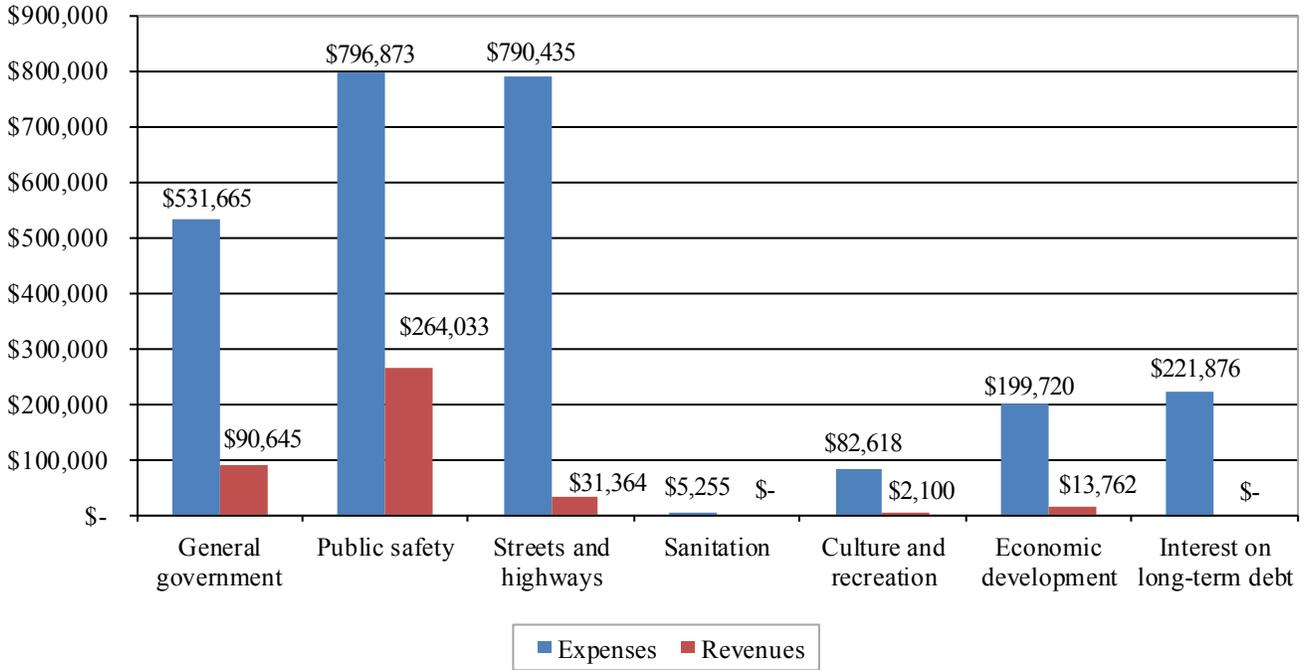
- The City received less grants funding related to public safety and economic development. This was the primary reason for the decrease in operating grants and contributions of \$115,308, and the decrease of \$27,409 in the economic development function of expenses. Although the City received less grant funding for public safety, the City spent more on public safety expenses on vehicles and other capital outlay.
- Unrestricted investment earnings decreased significantly as a result of significant decreases in interest rates on investments.

City of Melrose's Changes in Net Position

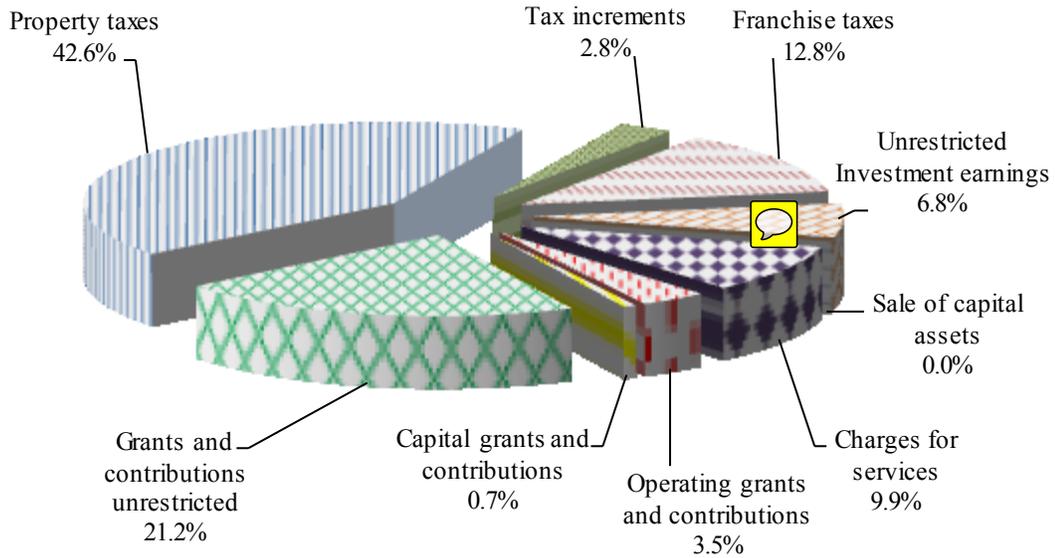
	Governmental Activities			Business-type Activities		
	2012	2011	Increase (Decrease)	2012	2011	Increase (Decrease)
Revenues						
Program revenues						
Charges for services	\$ 279,113	\$ 312,368	\$ (33,255)	\$ 10,902,223	\$ 10,956,792	\$ (54,569)
Operating grants and contributions	102,281	217,589	(115,308)	204,362	187,472	16,890
Capital grants and contributions	20,510	47,505	(26,995)	-	-	-
General revenues						
Property taxes/tax increments	1,325,755	1,282,938	42,817	-	-	-
Franchise taxes	375,252	380,754	(5,502)	-	-	-
Grants and contributions not restricted to specific programs	618,584	657,347	(38,763)	-	-	-
Unrestricted investment earnings	199,904	209,972	(10,068)	332,003	402,782	(70,779)
Gain on sale of capital assets	607	-	607	3,000	-	3,000
Total revenues	2,922,006	3,108,473	(186,467)	11,441,588	11,547,046	(105,458)
Expenses						
General government	531,665	625,379	(93,714)	-	-	-
Public safety	796,873	810,985	(14,112)	-	-	-
Streets and highways	790,435	864,600	(74,165)	-	-	-
Sanitation	5,255	4,515	740	-	-	-
Culture and recreation	82,618	87,438	(4,820)	-	-	-
Economic development	199,720	227,129	(27,409)	-	-	-
Interest on long-term debt	221,876	297,456	(75,580)	-	-	-
Ambulance	-	-	-	459,706	452,404	7,302
Water	-	-	-	674,293	692,225	(17,932)
Wastewater	-	-	-	1,790,203	2,056,823	(266,620)
Electric	-	-	-	7,475,761	7,525,919	(50,158)
Total expenses	2,628,442	2,917,502	(289,060)	10,399,963	10,727,371	(327,408)
Increase in net position before transfers	293,564	190,971	102,593	1,041,625	819,675	221,950
Transfers	6,477	144,562	(138,085)	(6,477)	(144,562)	138,085
Change in net position	300,041	335,533	(35,492)	1,035,148	675,113	360,035
Net position as restated, January 1	16,591,250	16,255,717	335,533	29,255,242	28,580,129	675,113
Net position, December 31	\$ 16,891,291	\$ 16,591,250	\$ 300,041	\$ 30,290,390	\$ 29,255,242	\$ 1,035,148

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

Expenses and Program Revenues - Governmental Activities

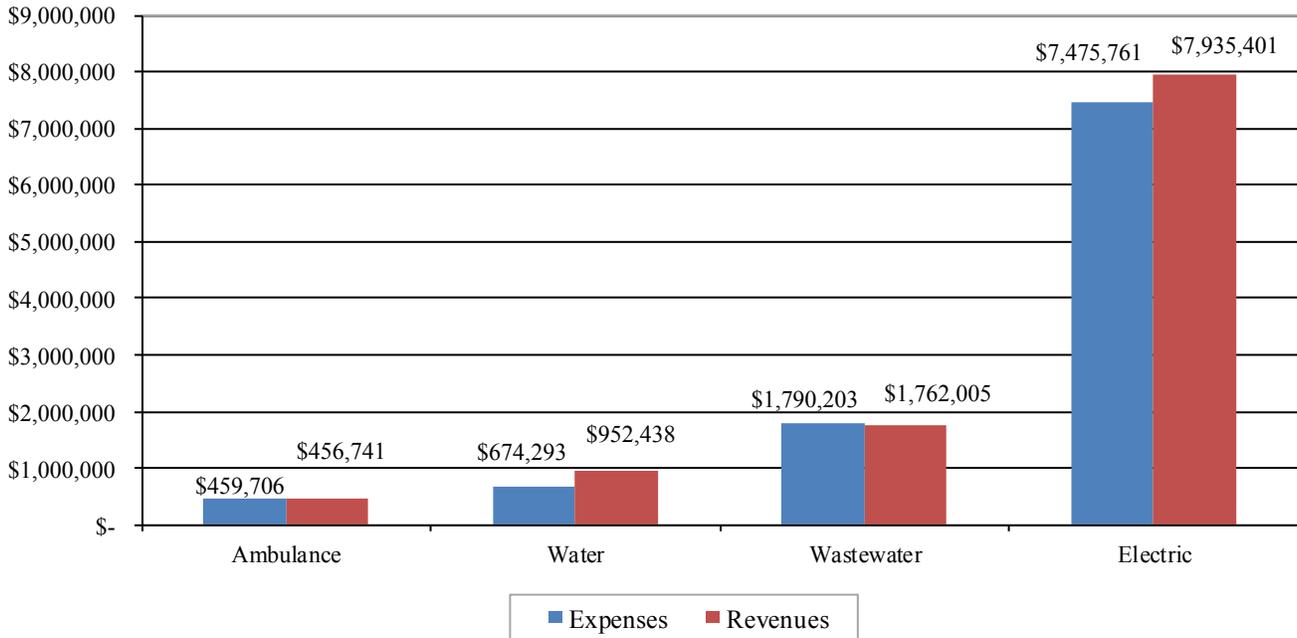


Revenues by Source - Governmental Activities

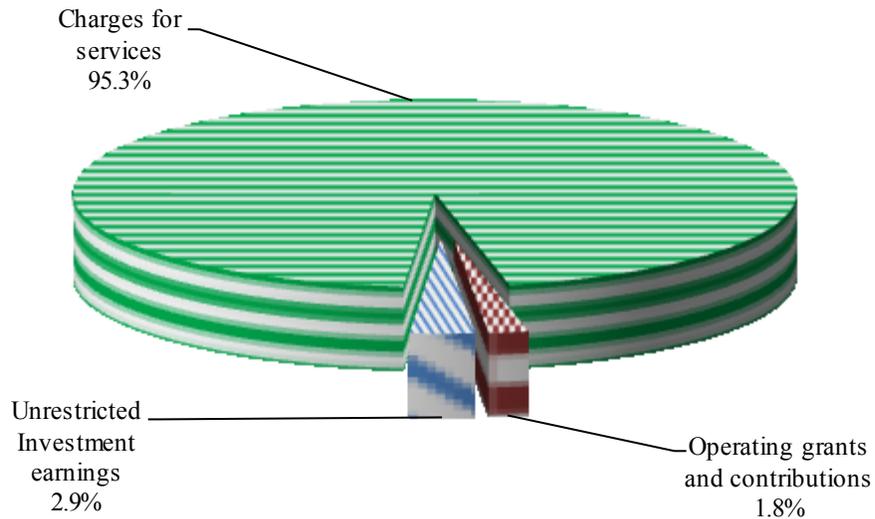


Business-type activities. There was an increase of \$1,035,148 in net position reported in connection with the City's business-type activities.

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 \$7,934,669, a decrease of \$654,435 in comparison with the prior year, primarily as a result of the principal payments for refunding the 2004 G.O. Improvement Bonds. Approximately 61 percent of this total amount, \$4,810,788, constitutes *unrestricted fund balance*, which is available for spending at the City's discretion. Portions of unrestricted fund balance have been committed (\$3,631,009) or assigned (\$64,643) for specific purposes by the City. The remainder of fund balance (\$3,123,881) is not available for new spending because it is either in nonspendable form (\$583,442) or restricted by a third party (\$2,540,439).

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 \$1,304,882. 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 66 and 58 percent of current year expenditures and transfers out, respectively.

The fund balance of the City's General fund increased \$182,076 during the current fiscal year. This was mainly due to expenses significantly under budget expectations.

The Debt Service fund has a total fund balance of \$2,539,917, all of which is restricted for the payment of Debt Service. The net decrease in fund balance during the current year in the Debt Service fund was \$874,663. The decrease was mainly a result of the refunding principal payment of the 2004 Improvement bonds.

The Capital Improvements fund has a fund balance of \$3,372,323 all of which is committed for capital improvements. The fund balance increased by \$322,905 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 position of the enterprise funds at the end of the year amounted to \$13,431,134. The total increase in net position for the funds was \$1,035,148. Some of the significant reasons behind the increase include nonoperating expenses decreasing by approximately \$325,000 and transfers to governmental funds decreasing approximately \$150,000.

General Fund Budgetary Highlights

The City's General fund budget was not amended during the year. The original and final budget called for revenues to exceed expenditures by \$421,457, before other financing sources and uses. Both budgets called for an overall decrease in fund balance of \$230.

Capital Asset and Debt Administration

Capital assets. The City's investment in capital assets for its governmental and business type activities as of December 31, 2012, amounts to \$34,496,896 (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		
	2012	2011	Increase (Decrease)	2012	2011	Increase (Decrease)
Land	\$ 3,191,412	\$ 3,191,412	\$ -	\$ 321,028	\$ 321,028	\$ -
Buildings	3,046,768	3,161,151	(114,383)	502,963	548,664	(45,701)
Machinery and equipment	1,316,528	896,217	420,311	500,433	591,209	(90,776)
Infrastructure	6,993,114	7,280,416	(287,302)	18,324,201	19,242,194	(917,993)
Construction in progress	-	-	-	300,449	35,748	264,701
Total	\$ 14,547,822	\$ 14,529,196	\$ 18,626	\$ 19,949,074	\$ 20,738,843	\$ (789,769)

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

- Completed Waste Water Service line replacement on Country Club Drive
- Completed road improvement project of CR 170 & 6th ST
- Started Automated Metering Infrastructure installation (replacing Water /Electric Meters)
- Initiated replacement of Electric Generators
- Initiated Engineering for replacement of Waste Water Plant Levee.

Additional information on the City's capital assets can be found in Note 3C starts on page 64 of this report.

Long-term debt. At the end of the current fiscal year, the City had total bonded debt outstanding of \$9,124,700. Of this amount, \$3,940,000 is special assessment debt and \$5,184,700 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		
	2012	2011	Increase (Decrease)	2012	2011	Increase (Decrease)
G.O. improvement bonds	\$ 3,940,000 *	\$ 4,875,000 *	\$ (935,000)	\$ -	\$ -	\$ -
General obligation revenue bonds	-	-	-	3,074,700	6,095,700	(3,021,000)
Revenue bonds	2,110,000	2,195,000	(85,000)	-	-	-
Unamortized premium on bonds	12,279	14,010	(1,731)	15,118	17,671	(2,553)
Compensated absences payable	103,642	100,990	2,652	97,103	100,395	(3,292)
Other postemployment benefits payable	130,690	97,556	33,134	137,733	106,689	31,044
Total	<u>\$ 6,296,611</u>	<u>\$ 7,282,556</u>	<u>\$ (985,945)</u>	<u>\$ 3,324,654</u>	<u>\$ 6,320,455</u>	<u>\$ (2,995,801)</u>

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

The City's total debt decreased by \$3,981,746 during the current fiscal year due to the payment of refunded debt. The proceeds for the debt issued to refund these bonds were received in 2011.

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 \$5,512,839. 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 3E start on page 67 of this report.

Economic Factors and Next Year's Budgets and Rates

- Property valuations within the City remain are decreasing.
- 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 2013 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 and/or Accountant, City of Melrose, 225 1st Street Northeast, Melrose, Minnesota 56352.

THIS PAGE IS LEFT BLANK
INTENTIONALLY

BASIC FINANCIAL STATEMENTS

CITY OF MELROSE
MELROSE, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2012

THIS PAGE IS LEFT BLANK
INTENTIONALLY

CITY OF MELROSE, MINNESOTA
STATEMENT OF NET POSITION
DECEMBER 31, 2012

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and temporary investments	\$ 5,747,620	\$ 12,450,960	\$ 18,198,580
Cash with fiscal agent	1,621,646	-	1,621,646
Receivables			
Accrued interest	35,109	76,351	111,460
Delinquent taxes	72,911	-	72,911
Accounts, net	31,214	1,182,420	1,213,634
Loans	457,951	-	457,951
Special assessments	723,141	-	723,141
Internal balances	85,599	(85,599)	-
Due from CentraCare	1,387,192	-	1,387,192
Inventories	-	698,332	698,332
Prepaid items	39,834	52,529	92,363
Capital assets			
Non-depreciable			
Land	3,191,412	321,028	3,512,440
Construction in progress	-	300,449	300,449
Depreciable (net of accumulated depreciation)			
Buildings	3,046,768	502,963	3,549,731
Equipment	1,316,528	500,433	1,816,961
Infrastructure	6,993,114	18,324,201	25,317,315
TOTAL ASSETS	24,750,039	34,324,067	59,074,106
LIABILITIES			
Accounts payable	74,362	655,527	729,889
Accrued interest payable	90,583	27,046	117,629
Customer deposits payable	10,000	26,450	36,450
Unearned revenue	1,387,192	-	1,387,192
Noncurrent liabilities			
Due within one year	2,017,231	576,687	2,593,918
Due in more than one year	4,279,380	2,747,967	7,027,347
TOTAL LIABILITIES	7,858,748	4,033,677	11,892,425
NET POSITION			
Net investment in capital assets	9,920,543	16,859,256	26,779,799
Restricted for			
Debt service	2,673,059	-	2,673,059
Partners in action activities	522	-	522
Unrestricted	4,297,167	13,431,134	17,728,301
TOTAL NET POSITION	\$ 16,891,291	\$ 30,290,390	\$ 47,181,681

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, 2012

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities				
General government	\$ 531,665	\$ 58,769	\$ 21,871	\$ 10,005
Public safety	796,873	197,741	66,292	-
Streets and highways	790,435	20,859	-	10,505
Sanitation	5,255	-	-	-
Culture and recreation	82,618	-	2,100	-
Economic development	199,720	1,744	12,018	-
Interest on long-term debt	221,876	-	-	-
Total governmental activities	<u>2,628,442</u>	<u>279,113</u>	<u>102,281</u>	<u>20,510</u>
Business-type activities				
Ambulance	459,706	435,805	20,936	-
Water	674,293	951,674	764	-
Wastewater	1,790,203	1,722,742	39,263	-
Electric	7,475,761	7,792,002	143,399	-
Total business-type activities	<u>10,399,963</u>	<u>10,902,223</u>	<u>204,362</u>	<u>-</u>
Total	<u>\$ 13,028,405</u>	<u>\$ 11,181,336</u>	<u>\$ 306,643</u>	<u>\$ 20,510</u>

General revenues

Taxes

Property taxes, levied for general purposes

Property taxes, levied for debt service

Tax increments

Franchise taxes

State grants and contributions not restricted to specific programs

Unrestricted investment earnings

Gain on sale of capital assets

Transfers

Total general revenues and transfers

Change in net position

Net position as restated, January 1

Net position, December 31

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

Net (Expenses) Revenues and Changes in Net Position

<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
\$ (441,020)	\$ -	\$ (441,020)
(532,840)	-	(532,840)
(759,071)	-	(759,071)
(5,255)	-	(5,255)
(80,518)	-	(80,518)
(185,958)	-	(185,958)
(221,876)	-	(221,876)
<u>(2,226,538)</u>	<u>-</u>	<u>(2,226,538)</u>
-	(2,965)	(2,965)
-	278,145	278,145
-	(28,198)	(28,198)
-	459,640	459,640
<u>-</u>	<u>706,622</u>	<u>706,622</u>
<u>(2,226,538)</u>	<u>706,622</u>	<u>(1,519,916)</u>
951,173	-	951,173
294,030	-	294,030
80,552	-	80,552
375,252	-	375,252
618,584	-	618,584
199,904	332,003	531,907
607	3,000	3,607
6,477	(6,477)	-
<u>2,526,579</u>	<u>328,526</u>	<u>2,855,105</u>
300,041	1,035,148	1,335,189
<u>16,591,250</u>	<u>29,255,242</u>	<u>45,846,492</u>
<u>\$ 16,891,291</u>	<u>\$ 30,290,390</u>	<u>\$ 47,181,681</u>

THIS PAGE IS LEFT BLANK
INTENTIONALLY

FUND FINANCIAL STATEMENTS

CITY OF MELROSE
MELROSE, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2012

CITY OF MELROSE, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2012

	General	Debt Service	Capital Improvements
ASSETS			
Cash and temporary investments	\$ 1,204,900	\$ 917,192	\$ 3,275,703
Cash with fiscal agent	-	1,621,646	-
Receivables			
Accrued interest	-	-	35,109
Delinquent taxes	72,911	-	-
Accounts, net	25,135	1,079	245
Loans	-	-	-
Special assessments	-	223,725	499,416
Due from other funds	85,599	-	61,266
Due from Centracare	1,387,192	-	-
Prepaid items	38,365	-	-
	<u>\$ 2,814,102</u>	<u>\$ 2,763,642</u>	<u>\$ 3,871,739</u>
LIABILITIES			
Accounts payable	\$ 39,117	\$ -	\$ -
Customer deposits payable	10,000	-	-
Due to other funds	-	-	-
	<u>49,117</u>	<u>-</u>	<u>-</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - property taxes	72,911	-	-
Unavailable revenue - special assessments	-	223,725	499,416
Unavailable revenue - due from Centracare	1,387,192	-	-
	<u>1,460,103</u>	<u>223,725</u>	<u>499,416</u>
FUND BALANCES			
Nonspendable	123,964	-	-
Restricted	-	2,539,917	-
Committed	48,222	-	3,372,323
Assigned	-	-	-
Unassigned	1,132,696	-	-
	<u>1,304,882</u>	<u>2,539,917</u>	<u>3,372,323</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 2,814,102</u>	<u>\$ 2,763,642</u>	<u>\$ 3,871,739</u>

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

Other Governmental Funds	Total Governmental Funds
\$ 349,825	\$ 5,747,620
-	1,621,646
-	35,109
-	72,911
4,755	31,214
457,951	457,951
-	723,141
-	146,865
-	1,387,192
<u>1,469</u>	<u>39,834</u>
<u>\$ 814,000</u>	<u>\$ 10,263,483</u>
\$ 35,245	\$ 74,362
-	10,000
<u>61,266</u>	<u>61,266</u>
<u>96,511</u>	<u>145,628</u>
-	72,911
-	723,141
-	1,387,192
<u>-</u>	<u>2,183,244</u>
459,420	583,384
522	2,540,439
210,464	3,631,009
64,643	64,643
<u>(17,560)</u>	<u>1,115,136</u>
<u>717,489</u>	<u>7,934,611</u>
<u>\$ 814,000</u>	<u>\$ 10,263,483</u>

THIS PAGE IS LEFT BLANK
INTENTIONALLY

CITY OF MELROSE, MINNESOTA
RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET POSITION
GOVERNMENTAL FUNDS
DECEMBER 31, 2012

Total fund balances - governmental funds	\$ 7,934,611
Amounts reported for governmental activities in the statement of net position 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	21,000,184
Less: accumulated depreciation	(6,452,362)
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	
Bonds payable	(6,050,000)
Plus unamortized bond premium	(12,279)
Compensated absences payable	(103,642)
Other postemployment benefits payable	(130,690)
Some receivables are not available soon enough to pay for the current period's expenditures, and therefore are unavailable in the funds.	
Delinquent property taxes	72,911
Special assessments	723,141
Governmental funds do not report a liability for accrued interest until due and payable.	<u>(90,583)</u>
Total net position - governmental activities	<u><u>\$ 16,891,291</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, 2012

	General	Debt Service	Capital Improvements
REVENUES			
Taxes	\$ 1,320,776	\$ 294,030	\$ -
Licenses and permits	48,217	-	-
Intergovernmental	655,259	-	5,000
Charges for services	63,019	52,257	-
Fines and forfeitures	18,825	-	-
Special assessments	-	13,346	88,679
Interest on investments	29,544	35,288	108,304
Miscellaneous	11,751	-	12,611
TOTAL REVENUES	2,147,391	394,921	214,594
EXPENDITURES			
Current			
General government	443,745	-	-
Public safety	491,013	-	-
Streets and highways	414,043	-	-
Sanitation	5,255	-	-
Culture and recreation	51,285	-	-
Economic development	84,489	-	-
Capital outlay			
General government	-	-	16,134
Public safety	-	-	32,264
Streets and highways	-	-	225,621
Culture and recreation	-	-	9,979
Debt service			
Principal	-	325,000	-
Interest and other charges	1,468	249,584	-
TOTAL EXPENDITURES	1,491,298	574,584	283,998
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	656,093	(179,663)	(69,404)
OTHER FINANCING SOURCES (USES)			
Sale of capital assets	1,502	-	-
Transfers in	-	-	392,309
Principal refunded on bonds	-	(695,000)	-
Transfers out	(475,519)	-	-
TOTAL OTHER FINANCING SOURCES (USES)	(474,017)	(695,000)	392,309
NET CHANGE IN FUND BALANCES	182,076	(874,663)	322,905
FUND BALANCES, JANUARY 1	1,122,806	3,414,580	3,049,418
FUND BALANCES, DECEMBER 31	\$ 1,304,882	\$ 2,539,917	\$ 3,372,323

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

Other Governmental Funds	Total Governmental Funds
\$ 80,552	\$ 1,695,358
-	48,217
26,437	686,696
91,859	207,135
-	18,825
-	102,025
26,768	199,904
19,743	44,105
<u>245,359</u>	<u>3,002,265</u>
-	443,745
145,903	636,916
-	414,043
-	5,255
3,029	54,314
109,728	194,217
-	16,134
359,585	391,849
-	225,621
-	9,979
-	325,000
3,384	254,436
<u>621,629</u>	<u>2,971,509</u>
<u>(376,270)</u>	<u>30,756</u>
1,772	3,274
89,687	481,996
-	(695,000)
-	(475,519)
<u>91,459</u>	<u>(685,249)</u>
(284,811)	(654,493)
<u>1,002,300</u>	<u>8,589,104</u>
<u>\$ 717,489</u>	<u>\$ 7,934,611</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, 2012

Total net change in fund balances - governmental funds \$ (654,493)

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	557,866
Depreciation expense	(536,573)

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 position. Also, governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas the effect of these amounts are delayed 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.

Principal repayments	1,020,000
Amortization of bond premium	1,731

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.

30,829

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	5,649
Special assessments	(86,515)

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.

(2,667)

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	(35,786)
----------------------	----------

Change in net position - governmental activities	\$ 300,041
--------------------------------------------------	------------

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, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes	\$ 1,326,684	\$ 1,326,684	\$ 1,320,776	\$ (5,908)
Licenses and permits	47,000	47,000	48,217	1,217
Intergovernmental	578,966	578,966	655,259	76,293
Charges for services	63,350	63,350	63,019	(331)
Fines and forfeitures	25,750	25,750	18,825	(6,925)
Interest on investments	22,000	22,000	29,544	7,544
Miscellaneous	10,000	10,000	11,751	1,751
TOTAL REVENUES	2,073,750	2,073,750	2,147,391	73,641
EXPENDITURES				
Current				
General government	510,819	510,819	443,745	67,074
Public safety	553,062	553,062	491,013	62,049
Streets and highways	436,912	436,912	414,043	22,869
Sanitation	4,300	4,300	5,255	(955)
Culture and recreation	62,268	62,268	51,285	10,983
Economic development	83,682	83,682	84,489	(807)
Debt service				
Interest and other charges	1,250	1,250	1,468	(218)
TOTAL EXPENDITURES	1,652,293	1,652,293	1,491,298	160,995
EXCESS OF REVENUES OVER EXPENDITURES	421,457	421,457	656,093	234,636
OTHER FINANCING SOURCES (USES)				
Sale of capital assets	-	-	1,502	1,502
Transfers in	45,000	45,000	-	(45,000)
Transfers out	(466,687)	(466,687)	(475,519)	(8,832)
TOTAL OTHER FINANCING SOURCES (USES)	(421,687)	(421,687)	(474,017)	(52,330)
NET CHANGE IN FUND BALANCES	(230)	(230)	182,076	182,306
FUND BALANCES, JANUARY 1	1,122,806	1,122,806	1,122,806	-
FUND BALANCES, DECEMBER 31	\$ 1,122,576	\$ 1,122,576	\$ 1,304,882	\$ 182,306

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

CITY OF MELROSE, MINNESOTA
STATEMENTS OF NET POSITION - CONTINUED ON THE FOLLOWING PAGES
PROPRIETARY FUNDS
DECEMBER 31, 2012 AND 2011

	Business-type Activities - Enterprise funds			
	216		601	
	Ambulance		Water	
	2012	2011	2012	Restated 2011
ASSETS				
CURRENT ASSETS				
Cash and temporary investments	\$ 709,534	\$ 626,014	\$ 2,038,792	\$ 1,726,851
Cash with fiscal agent	-	-	-	-
Receivables				
Accrued interest	-	-	-	-
Accounts, net	68,268	122,798	73,270	64,383
Inventories	-	-	24,489	26,806
Prepaid items	1,866	1,504	4,691	2,650
TOTAL CURRENT ASSETS	779,668	750,316	2,141,242	1,820,690
NONCURRENT ASSETS				
Appropriated funds	-	-	-	-
Capital assets				
Land	-	-	41,123	41,123
Structures and improvements	-	-	7,929,031	7,929,031
Distribution/collection system	-	-	-	-
Plant equipment	418,248	418,248	52,664	52,664
Construction in progress	-	-	-	-
Less accumulated depreciation	(236,997)	(216,384)	(3,876,923)	(3,616,528)
Total capital assets (net of accumulated depreciation)	181,251	201,864	4,145,895	4,406,290
TOTAL NONCURRENT ASSETS	181,251	201,864	4,145,895	4,406,290
TOTAL ASSETS	960,919	952,180	6,287,137	6,226,980

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

Business-type Activities - Enterprise funds

602		604		Totals	
Wastewater		Electric			
2012	Restated 2011	2012	2011	2012	2011
\$ 1,512,937	\$ 1,165,366	\$ 5,189,697	\$ 4,847,601	\$ 9,450,960	\$ 8,365,832
-	2,621,455	-	-	-	2,621,455
-	-	76,351	76,527	76,351	76,527
178,068	146,746	862,814	650,480	1,182,420	984,407
46,179	43,839	627,664	453,043	698,332	523,688
21,060	7,666	24,912	5,404	52,529	17,224
<u>1,758,244</u>	<u>3,985,072</u>	<u>6,781,438</u>	<u>6,033,055</u>	<u>11,460,592</u>	<u>12,589,133</u>
-	-	3,000,000	3,000,000	3,000,000	3,000,000
63,878	63,878	216,027	216,027	321,028	321,028
20,289,227	20,219,707	-	-	28,218,258	28,148,738
-	-	9,892,402	9,838,927	9,892,402	9,838,927
328,018	328,018	-	-	798,930	798,930
-	-	300,449	35,748	300,449	35,748
<u>(8,383,836)</u>	<u>(7,764,365)</u>	<u>(7,084,237)</u>	<u>(6,807,251)</u>	<u>(19,581,993)</u>	<u>(18,404,528)</u>
<u>12,297,287</u>	<u>12,847,238</u>	<u>3,324,641</u>	<u>3,283,451</u>	<u>19,949,074</u>	<u>20,738,843</u>
<u>12,297,287</u>	<u>12,847,238</u>	<u>6,324,641</u>	<u>6,283,451</u>	<u>22,949,074</u>	<u>23,738,843</u>
<u>14,055,531</u>	<u>16,832,310</u>	<u>13,106,079</u>	<u>12,316,506</u>	<u>34,409,666</u>	<u>36,327,976</u>

CITY OF MELROSE, MINNESOTA
STATEMENTS OF NET POSITION - CONTINUED
PROPRIETARY FUNDS
DECEMBER 31, 2012 AND 2011

	Business-type Activities - Enterprise funds			
	216		601	
	Ambulance		Water	
	2012	2011	2012	Restated 2011
LIABILITIES				
CURRENT LIABILITIES				
Accounts payable	\$ 4,914	\$ 5,243	\$ 8,133	\$ 12,916
Due to other funds	-	-	-	-
Accrued interest payable	-	-	24,604	27,996
Customer deposits payable	-	-	-	-
Compensated absences payable - current	-	-	7,643	9,935
Bonds payable - current	-	-	266,000	256,000
TOTAL CURRENT LIABILITIES	4,914	5,243	306,380	306,847
NONCURRENT LIABILITIES				
Compensated absences payable	-	-	1,560	-
Bonds payable	-	-	1,393,700	1,659,700
Unamortized premium on bonds	-	-	-	-
Other postemployment benefits payable	-	-	14,754	11,812
TOTAL NONCURRENT LIABILITIES	-	-	1,410,014	1,671,512
TOTAL LIABILITIES	4,914	5,243	1,716,394	1,978,359
NET POSITION				
Net investment in capital assets	181,251	201,864	2,486,195	2,490,590
Unrestricted	774,754	745,073	2,084,548	1,758,031
TOTAL NET POSITION	\$ 956,005	\$ 946,937	\$ 4,570,743	\$ 4,248,621

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

Business-type Activities - Enterprise funds

602		604			
Wastewater		Electric		Totals	
2012	Restated 2011	2012	2011	2012	2011
\$ 28,497	\$ 46,452	\$ 613,983	\$ 539,188	\$ 655,527	\$ 603,799
-	-	85,599	80,475	85,599	80,475
2,442	12,519	-	-	27,046	40,515
-	-	26,450	27,490	26,450	27,490
16,198	19,115	36,846	34,152	60,687	63,202
250,000	2,765,000	-	-	516,000	3,021,000
<u>297,137</u>	<u>2,843,086</u>	<u>762,878</u>	<u>681,305</u>	<u>1,371,309</u>	<u>3,836,481</u>
2,917	-	31,939	37,193	36,416	37,193
1,165,000	1,415,000	-	-	2,558,700	3,074,700
15,118	17,671	-	-	15,118	17,671
31,037	24,926	91,942	69,951	137,733	106,689
<u>1,214,072</u>	<u>1,457,597</u>	<u>123,881</u>	<u>107,144</u>	<u>2,747,967</u>	<u>3,236,253</u>
<u>1,511,209</u>	<u>4,300,683</u>	<u>886,759</u>	<u>788,449</u>	<u>4,119,276</u>	<u>7,072,734</u>
10,867,169	11,309,567	3,324,641	3,283,451	16,859,256	17,285,472
1,677,153	1,222,060	8,894,679	8,244,606	13,431,134	11,969,770
<u>\$ 12,544,322</u>	<u>\$ 12,531,627</u>	<u>\$ 12,219,320</u>	<u>\$ 11,528,057</u>	<u>\$ 30,290,390</u>	<u>\$ 29,255,242</u>

CITY OF MELROSE, MINNESOTA
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	Business-type Activities - Enterprise funds			
	216		601	
	Ambulance		Water	
	2012	2011	2012	Restated 2011
OPERATING REVENUES				
Charges for services	\$ 435,805	\$ 445,868	\$ 951,674	\$ 949,882
OPERATING EXPENSES				
Production, collection, and purchased power	-	-	107,514	112,075
Distribution	-	-	129,749	123,680
Accounting and collection	-	-	12,842	12,745
General and administrative	439,093	430,755	95,370	94,825
Depreciation	20,613	21,649	260,395	257,976
TOTAL OPERATING EXPENSES	459,706	452,404	605,870	601,301
OPERATING INCOME (LOSS)	(23,901)	(6,536)	345,804	348,581
NONOPERATING REVENUES (EXPENSES)				
Intergovernmental	-	-	345	345
Interest on investments	12,033	16,629	43,977	49,612
Miscellaneous	20,936	29,009	419	492
Gain on sale of fixed assets	-	-	-	-
Loss on disposal of fixed assets	-	-	-	(5,790)
Interest expense	-	-	(68,423)	(85,134)
TOTAL NONOPERATING REVENUES (EXPENSES)	32,969	45,638	(23,682)	(40,475)
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	9,068	39,102	322,122	308,106
CONTRIBUTIONS OF ASSETS FROM OTHER FUNDS	-	-	-	-
TRANSFERS OUT	-	-	-	-
TOTAL CONTRIBUTIONS AND TRANSFERS	-	-	-	-
CHANGE IN NET POSITION	9,068	39,102	322,122	308,106
NET POSITION AS RESTATED, JANUARY 1	946,937	907,835	4,248,621	3,940,515
NET POSITION, DECEMBER 31	\$ 956,005	\$ 946,937	\$ 4,570,743	\$ 4,248,621

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

Business-type Activities - Enterprise funds

602		604		Totals	
Wastewater		Electric			
2012	Restated 2011	2012	2011	2012	2011
<u>\$ 1,727,246</u>	<u>\$ 1,658,618</u>	<u>\$ 7,787,972</u>	<u>\$ 7,898,304</u>	<u>\$ 10,902,697</u>	<u>\$ 10,952,672</u>
31,070	15,690	6,001,893	6,056,088	6,140,477	6,183,853
787,130	827,265	358,646	367,126	1,275,525	1,318,071
-	-	18,363	12,880	31,205	25,625
214,937	120,839	819,873	781,966	1,569,273	1,428,385
<u>619,471</u>	<u>621,716</u>	<u>276,986</u>	<u>303,682</u>	<u>1,177,465</u>	<u>1,205,023</u>
<u>1,652,608</u>	<u>1,585,510</u>	<u>7,475,761</u>	<u>7,521,742</u>	<u>10,193,945</u>	<u>10,160,957</u>
<u>74,638</u>	<u>73,108</u>	<u>312,211</u>	<u>376,562</u>	<u>708,752</u>	<u>791,715</u>
35,486	6,611	2,478	5,957	38,309	12,913
40,893	35,763	235,100	300,778	332,003	402,782
(727)	2,260	144,951	146,918	165,579	178,679
-	-	3,000	-	3,000	-
-	(318,508)	-	(4,177)	-	(328,475)
<u>(137,595)</u>	<u>(152,805)</u>	<u>-</u>	<u>-</u>	<u>(206,018)</u>	<u>(237,939)</u>
<u>(61,943)</u>	<u>(426,679)</u>	<u>385,529</u>	<u>449,476</u>	<u>332,873</u>	<u>27,960</u>
<u>12,695</u>	<u>(353,571)</u>	<u>697,740</u>	<u>826,038</u>	<u>1,041,625</u>	<u>819,675</u>
-	11,330	-	-	-	11,330
<u>-</u>	<u>(159)</u>	<u>(6,477)</u>	<u>(155,733)</u>	<u>(6,477)</u>	<u>(155,892)</u>
<u>-</u>	<u>11,171</u>	<u>(6,477)</u>	<u>(155,733)</u>	<u>(6,477)</u>	<u>(144,562)</u>
12,695	(342,400)	691,263	670,305	1,035,148	675,113
<u>12,531,627</u>	<u>12,874,027</u>	<u>11,528,057</u>	<u>10,857,752</u>	<u>29,255,242</u>	<u>28,580,129</u>
<u>\$ 12,544,322</u>	<u>\$ 12,531,627</u>	<u>\$ 12,219,320</u>	<u>\$ 11,528,057</u>	<u>\$ 30,290,390</u>	<u>\$ 29,255,242</u>

CITY OF MELROSE, MINNESOTA
STATEMENTS OF CASH FLOWS - CONTINUED ON THE FOLLOWING PAGES
PROPRIETARY FUNDS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	Business-type Activities - Enterprise funds			
	216		601	
	Ambulance		Water	
	2012	2011	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers and users	\$ 511,271	\$ 451,767	\$ 943,551	\$ 965,995
Payments to suppliers	(290,009)	(279,168)	(206,397)	(227,196)
Payments to employees	(149,775)	(150,620)	(141,375)	(146,346)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>71,487</u>	<u>21,979</u>	<u>595,779</u>	<u>592,453</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers to other funds	-	-	-	-
Increase (decrease) in due to other funds	-	-	-	(5,120)
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	<u>-</u>	<u>-</u>	<u>-</u>	<u>(5,120)</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES				
Acquisition of property and equipment	-	(6,194)	-	(356,889)
Interest paid on bonds	-	-	(71,815)	(92,785)
Principal paid on bonds	-	-	(256,000)	(605,000)
NET CASH USED BY CAPITAL FINANCING ACTIVITIES	<u>-</u>	<u>(6,194)</u>	<u>(327,815)</u>	<u>(1,054,674)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received on investments	12,033	16,629	43,977	49,612
Transfer from appropriated funds	-	-	-	-
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>12,033</u>	<u>16,629</u>	<u>43,977</u>	<u>49,612</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	83,520	32,414	311,941	(417,729)
CASH AND CASH EQUIVALENTS, JANUARY 1	<u>626,014</u>	<u>593,600</u>	<u>1,726,851</u>	<u>2,144,580</u>
CASH AND CASH EQUIVALENTS, DECEMBER 31	<u>\$ 709,534</u>	<u>\$ 626,014</u>	<u>\$ 2,038,792</u>	<u>\$ 1,726,851</u>

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

Business-type Activities - Enterprise funds

602		604		Totals	
Wastewater		Electric			
2012	2011	2012	2011	2012	2011
\$ 1,730,683	\$ 1,661,912	\$ 7,726,067	\$ 8,182,301	\$ 10,911,572	\$ 11,261,975
(681,794)	(584,471)	(6,735,481)	(6,627,950)	(7,913,681)	(7,718,785)
(378,921)	(372,594)	(564,237)	(588,409)	(1,234,308)	(1,257,969)
<u>669,968</u>	<u>704,847</u>	<u>426,349</u>	<u>965,942</u>	<u>1,763,583</u>	<u>2,285,221</u>
-	(159)	(6,477)	(155,733)	(6,477)	(155,892)
-	(11,707)	5,124	(14,478)	5,124	(31,305)
<u>-</u>	<u>(11,866)</u>	<u>(1,353)</u>	<u>(170,211)</u>	<u>(1,353)</u>	<u>(187,197)</u>
(69,520)	(68,807)	(318,176)	(100,329)	(387,696)	(532,219)
(120,925)	(126,524)	-	-	(192,740)	(219,309)
(165,000)	(160,000)	-	-	(421,000)	(765,000)
<u>(355,445)</u>	<u>(355,331)</u>	<u>(318,176)</u>	<u>(100,329)</u>	<u>(1,001,436)</u>	<u>(1,516,528)</u>
33,048	27,851	235,276	302,098	324,334	396,190
-	-	-	146,947	-	146,947
<u>33,048</u>	<u>27,851</u>	<u>235,276</u>	<u>449,045</u>	<u>324,334</u>	<u>543,137</u>
347,571	365,501	342,096	1,144,447	1,085,128	1,124,633
<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>
<u>\$ 1,512,937</u>	<u>\$ 1,165,366</u>	<u>\$ 5,189,697</u>	<u>\$ 4,847,601</u>	<u>\$ 9,450,960</u>	<u>\$ 8,365,832</u>

CITY OF MELROSE, MINNESOTA
STATEMENTS OF CASH FLOWS - CONTINUED
PROPRIETARY FUNDS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	Business-type Activities - Enterprise funds			
	216		601	
	Ambulance		Water	
	2012	2011	2012	2011
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Operating income (loss)	\$ (23,901)	\$ (6,536)	\$ 345,804	\$ 348,581
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities				
Other income related to operations	20,936	29,009	764	837
Depreciation	20,613	21,649	260,395	257,976
(Increase) decrease in assets				
Accounts receivable	54,530	(23,110)	(8,887)	15,276
Inventory	-	-	2,317	(3,921)
Prepaid items	(362)	68	(2,041)	(633)
Increase (decrease) in liabilities				
Accounts payable	(329)	1,088	(4,783)	(30,084)
Compensated absences and OPEB payable	-	(189)	2,210	4,421
Customer deposits payable	-	-	-	-
	<u>71,487</u>	<u>21,979</u>	<u>595,779</u>	<u>592,453</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
SCHEDULE OF NONCASH				
CAPITAL FINANCING ACTIVITIES				
Contribution of assets from other funds	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Amortization of bond premium	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Disposal of fixed assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,718</u>
Interest paid on bonds from escrow	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Principal 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			
2012	2011	2012	2011	2012	2011
\$ 74,638	\$ 73,108	\$ 312,211	\$ 376,562	\$ 708,752	\$ 791,715
34,759	8,871	150,429	152,875	206,888	191,592
619,471	621,716	276,986	303,682	1,177,465	1,205,023
(31,322)	(5,577)	(212,334)	131,122	(198,013)	117,711
(2,340)	455	(174,621)	42,466	(174,644)	39,000
(13,394)	(241)	(19,508)	172	(35,305)	(634)
(17,955)	558	74,795	(94,192)	51,728	(122,630)
6,111	5,957	19,431	49,612	27,752	59,801
-	-	(1,040)	3,643	(1,040)	3,643
<u>\$ 669,968</u>	<u>\$ 704,847</u>	<u>\$ 426,349</u>	<u>\$ 965,942</u>	<u>\$ 1,763,583</u>	<u>\$ 2,285,221</u>
<u>\$ -</u>	<u>\$ 11,330</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,330</u>
<u>\$ 2,553</u>	<u>\$ 2,553</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,553</u>	<u>\$ 2,553</u>
<u>\$ -</u>	<u>\$ 464,395</u>	<u>\$ -</u>	<u>\$ 432,389</u>	<u>\$ -</u>	<u>\$ 906,502</u>
<u>\$ 29,300</u>	<u>\$ 31,742</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 29,300</u>	<u>\$ 31,742</u>
<u>\$ 2,600,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,600,000</u>	<u>\$ -</u>

CITY OF MELROSE, MINNESOTA
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
DECEMBER 31, 2012

	<u>Agency</u>
ASSETS	
Cash and temporary investments	<u>\$ 6,545</u>
LIABILITIES	
Accounts payable	<u>\$ 6,545</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, 2012

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 City Council composed of an elected Mayor and four elected City Council Members. The City Council exercises legislative authority and determines all matters of policy. The City 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 City Council appointed members who serve overlapping three-year terms. Minnesota statutes provide the City 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 City 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. There was an amendment to the lease during fiscal 2000. This amendment addresses the additional costs of Phase II which CentraCare incurred with the hospital construction. The City of Melrose is liable for the unamortized cost of Phase II less the amount of funds that the City of Melrose donated to the Organization for hospital construction, if the City were to terminate the lease early.

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 \$429,392 at December 31, 2012. The total receivable of \$1,387,192 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 City Council. The seven-member Board consists of one City Council member and four other City 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 City Council. Therefore, the activities are blended and reported in a separate special revenue fund. Separate financial statements are not issued for this component unit. The MADA has a December 31 year end.

CITY OF MELROSE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the 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.

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.

Unearned 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 unearned revenue.

CITY OF MELROSE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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.

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.

CITY OF MELROSE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

D. Assets, liabilities, deferred inflows of resources, and net position/fund balance

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.

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 City 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 agricultural 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 inflow of resources 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, 2012

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 \$15,000, \$2,000 and \$2,500, respectively, at December 31, 2012

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 inflow of resources 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 position on the balance sheet.

Future plant expansion	<u>\$ 3,000,000</u>
------------------------	---------------------

CITY OF MELROSE, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2012

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.

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 are able to add dependent coverage during open enrollment period or qualifying life event prior to retirement. All premiums are funded on a pay-as-you-go basis. The liability was actuarially determined, in accordance with GASB Statement 45, at January 1, 2012.

CITY OF MELROSE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Long-term obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net position. The recognition of bond premiums and discounts are delayed and amortized over the life of the bonds using the straight-line method for governmental activities. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as an expense in the period incurred.

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.

Deferred inflows of resources

In addition to liabilities, the governmental funds balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has only one type of item, which arises only under a modified accrual basis of accounting that qualifies as needing to be reported in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from three sources: property taxes, special assessments, and due from Centracare. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Net position

In the government-wide financial statements, net position represents the difference between assets and liabilities and deferred inflows of resources. Net position is displayed in three components:

- a. Net investment in capital assets - Consists of capital assets, net of accumulated depreciation reduced by any outstanding debt attributable to acquire capital assets.
- b. Restricted net position - Consist of net position balances 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 position - All other net position balances that do not meet the definition of “restricted” or “Net investment in capital assets”.

CITY OF MELROSE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

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, which is the City's highest level of decision-making authority. Committed amounts cannot be used for any other purpose unless the City 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 City Council itself or by an official to which the governing body delegates the authority. The City 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

Note 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary information

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

In August of each year, all departments of the City submit requests for appropriations to the City Administrator so that a budget may be prepared. Before September 15, the proposed budget is presented to the City Council for review. The City 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 City Council. The legal level of budgetary control is the department level. Budgeted amounts are as originally adopted, or as amended by the City Council. There were no budget amendments during the year.

CITY OF MELROSE, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2012

Note 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY - CONTINUED

B. Deficit fund equity

The following fund had a fund balance deficit at December 31, 2012 that will be eliminated with future revenues in excess of expenditures:

Fund	Amount
Nonmajor	
Melrose Area Development Authority (MADA)	\$ 17,536

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 City 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 \$7,513,994 and the bank balance was \$7,590,810. Of the bank balance, \$500,000 was covered by federal depository insurance and \$1,000,000 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, 2012

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

Investments

As of December 31, 2012 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.

<u>Types of Investments</u>	<u>Credit Quality/ Ratings (1)</u>	<u>Segmented Time Distribution (2)</u>	<u>Carrying Amount</u>
Pooled investments			
Money Market Mutual funds	N/A	less than 6 months	\$ 141,726
Non-pooled investments			
Brokered CD's	N/A	less than 6 months	492,763
Brokered CD's	N/A	6 months to 1 year	636,163
Brokered CD's	N/A	1 to 3 years	1,174,975
Brokered CD's	N/A	more than 3 years	1,198,368
Total Brokered CD's			<u>3,502,269</u>
Local Government Bonds	AAA	6 months to 1 year	152,552
Local Government Bonds	AAA	1 to 3 years	339,811
Local Government Bonds	AAA	more than 3 years	1,168,261
Local Government Bonds	AA	1 to 3 years	1,349,261
Local Government Bonds	AA	more than 3 years	1,810,803
Local Government Bonds	A	1 to 3 years	327,984
Local Government Bonds	A	more than 3 years	105,225
Total Local Government Bonds			<u>5,253,897</u>
U.S. Government Bonds	AAA	more than 3 years	251,785
U.S. Government Securities	AAA	more than 3 years	672,320
U.S. Government Securities	AA	more than 3 years	133,541
U.S. Government Securities	A	1 to 3 years	100,000
U.S. Government Securities	A	more than 3 years	634,908
Total U.S. Government Securities			<u>1,540,769</u>
U.S. Treasury Securities	AAA	less than 6 months	1,621,646
Total non-pooled investments			<u>12,170,366</u>
Total investments			<u>\$ 12,312,092</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, 2012

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 \$685.

Cash summary

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

Carrying amount of deposits	\$ 7,513,994
Investments	12,312,092
Cash on hand	<u>685</u>
Total	<u><u>\$ 19,826,771</u></u>
Cash	
Government wide	
Cash and temporary investments	\$ 18,198,580
Cash with fiscal agent	1,621,646
Agency	<u>6,545</u>
Total	<u><u>\$ 19,826,771</u></u>

B. Loans receivable

The City has funds available for loans to local businesses. At December 31, 2012 the City has loans outstanding totaling \$457,951 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, 2012

Note 3: DETAILED NOTES ON ALL FUNDS – CONTINUED

C. Capital assets

Capital asset activity for the year ended December 31, 2012 as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
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	2,043,628	557,866	(26,839)	2,574,655
Infrastructure	10,798,492	-	-	10,798,492
Total capital assets being depreciated	<u>17,277,745</u>	<u>557,866</u>	<u>(26,839)</u>	<u>17,808,772</u>
Less accumulated depreciation for				
Buildings	(1,274,474)	(114,383)	-	(1,388,857)
Machinery and equipment	(1,147,411)	(134,888)	24,172	(1,258,127)
Infrastructure	(3,518,076)	(287,302)	-	(3,805,378)
Total accumulated depreciation	<u>(5,939,961)</u>	<u>(536,573)</u>	<u>24,172</u>	<u>(6,452,362)</u>
Total capital assets, being depreciated, net	<u>11,337,784</u>	<u>21,293</u>	<u>(2,667)</u>	<u>11,356,410</u>
Governmental activities capital assets, net	<u>\$ 14,529,196</u>	<u>\$ 21,293</u>	<u>\$ (2,667)</u>	<u>\$ 14,547,822</u>

CITY OF MELROSE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

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	35,748	287,291	(22,590)	300,449
Total capital assets, not being depreciated	356,776	287,291	(22,590)	621,477
Capital assets, being depreciated				
Buildings	2,619,366	-	-	2,619,366
Machinery and equipment	1,600,526	-	-	1,600,526
Infrastructure	34,566,703	122,995	-	34,689,698
Total capital assets, being depreciated	38,786,595	122,995	-	38,909,590
Less accumulated depreciation for				
Buildings	(2,070,702)	(45,701)	-	(2,116,403)
Machinery and equipment	(1,009,317)	(90,776)	-	(1,100,093)
Infrastructure	(15,324,509)	(1,040,988)	-	(16,365,497)
Total accumulated depreciation	(18,404,528)	(1,177,465)	-	(19,581,993)
Total capital assets, being depreciated, net	20,382,067	(1,054,470)	-	19,327,597
Business-type activities capital assets, net	\$ 20,738,843	\$ (767,179)	\$ (22,590)	\$ 19,949,074
Governmental activities				
General government				\$ 66,062
Public safety				137,347
Streets and highways				314,839
Culture and recreation				18,325
Total depreciation expense - governmental activities				\$ 536,573
Business-type activities				
Ambulance				\$ 20,613
Water				260,395
Wastewater				619,471
Electric				276,986
Total depreciation expense - business-type activities				\$ 1,177,465

CITY OF MELROSE, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2012

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

D. Interfund receivables, payables and transfers

Interfund balances

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	<u>Purpose</u>
Capital Improvements	Nonmajor governmental	\$ 61,266	GCI loan
General	Electric	<u>85,599</u>	Franchise fees
Total		<u>\$ 146,865</u>	

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

Interfund transfers

<u>Fund</u>	<u>Transfer in</u>		<u>Total</u>
	<u>Capital Improvements</u>	<u>Other Governmental Funds</u>	
Transfer out			
General	\$ 385,832	\$ 89,687	\$ 475,519
Electric	<u>6,477</u>	<u>-</u>	<u>6,477</u>
	<u>\$ 392,309</u>	<u>\$ 89,687</u>	<u>\$ 481,996</u>

- The transfer from the General fund to the Capital Improvements fund was for capital purchases and City Center maintenance.
- The transfer from the General fund to the Other Governmental funds was for fire department operations and Tri-Cap Business operations.
- The transfer from the Electric funds to the Capital Improvements fund was for City Center maintenance.

CITY OF MELROSE, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2012

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

E. 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 2005A	\$ 2,545,000	3.50-3.60 %	09/01/05	02/01/13	\$ 1,785,000
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>\$ 3,940,000</u>

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

Year Ending December 31,	Governmental Activities		
	Principal	Interest	Total
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	315,000	25,103	340,103
2018-2020	<u>820,000</u>	<u>30,151</u>	<u>850,151</u>
Total	<u>\$ 3,940,000</u>	<u>\$ 254,176</u>	<u>\$ 4,194,176</u>

CITY OF MELROSE, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2012

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

Revenue bonds

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

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
Public Project Lease Revenue Bonds of 2008	\$ 2,360,000	3.30-4.70 %	04/24/08	02/01/29	<u>\$ 2,110,000</u>

Revenue bonds debt service requirements to maturity are as follows:

Year Ending December 31,	Governmental Activities		
	Principal	Interest	Total
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	105,000	75,570	180,570
2018-2022	575,000	309,540	884,540
2023-2027	715,000	166,123	881,123
2028-2029	340,000	16,215	356,215
Total	<u>\$ 2,110,000</u>	<u>\$ 907,119</u>	<u>\$ 3,017,120</u>

CITY OF MELROSE, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2012

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	\$ 734,700
G.O. Water Revenue Crossover Refunding	1,330,000	3.50 - 4.25	09/01/05	08/01/20	925,000
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>\$ 3,074,700</u></u>

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

Year Ending December 31,	Business-type Activities		
	Principal	Interest	Total
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	481,700	30,181	511,881
2018-2020	<u>425,000</u>	<u>27,099</u>	<u>452,099</u>
Total	<u><u>\$ 3,074,700</u></u>	<u><u>\$ 336,232</u></u>	<u><u>\$ 3,410,932</u></u>

CITY OF MELROSE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

Changes in long-term liabilities

Long-term liability activity for the year ended December 31, 2012 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	\$ 4,875,000	\$ -	\$ (935,000)	\$ 3,940,000	\$ 1,875,000
Revenue Bonds	<u>2,195,000</u>	<u>-</u>	<u>(85,000)</u>	<u>2,110,000</u>	<u>90,000</u>
Total bonds payable	7,070,000	-	(1,020,000)	6,050,000	1,965,000
Unamortized premium on bonds	14,010	-	(1,731)	12,279	-
Compensated absences	100,990	54,883	(52,231)	103,642	52,231
Other postemployment benefits payable	<u>97,556</u>	<u>33,134</u>	<u>-</u>	<u>130,690</u>	<u>-</u>
Governmental activity long-term liabilities	<u>\$ 7,282,556</u>	<u>\$ 88,017</u>	<u>\$ (1,073,962)</u>	<u>\$ 6,296,611</u>	<u>\$ 2,017,231</u>
Business-type activities					
Bonds payable					
General obligation					
revenue bonds	\$ 6,095,700	\$ -	\$ (3,021,000)	\$ 3,074,700	\$ 516,000
Unamortized premium on bonds	17,671	-	(2,553)	15,118	-
Compensated absences	100,395	57,395	(60,687)	97,103	60,687
Other postemployment benefits payable	<u>106,689</u>	<u>31,044</u>	<u>-</u>	<u>137,733</u>	<u>-</u>
Business-type activity long-term liabilities	<u>\$ 6,320,455</u>	<u>\$ 88,439</u>	<u>\$ (3,084,240)</u>	<u>\$ 3,324,654</u>	<u>\$ 576,687</u>

CITY OF MELROSE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

F. Components of fund balance

At December 31, 2012 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	\$ 38,365	\$ -	\$ -	\$ 1,469	\$ 39,834
Due from other funds	85,599	-	-	457,951	543,550
Total nonspendable	\$ 123,964	\$ -	\$ -	\$ 459,420	\$ 583,384
Restricted for					
Debt service	\$ -	\$ 2,539,917	\$ -	\$ -	\$ 2,539,917
Partners in action activities	-	-	-	522	522
Total restricted	\$ -	\$ 2,539,917	\$ -	\$ 522	\$ 2,540,439
Committed to					
Insurance reserve	7,754	\$ -	\$ -	\$ -	\$ 7,754
Compensated absences	40,468	-	-	-	40,468
Public works equipment	-	-	115,068	-	115,068
Street improvements	-	-	1,398,120	-	1,398,120
Park and recreation	-	-	99,119	-	99,119
City center maintenance	-	-	29,615	-	29,615
Sidewalk program	-	-	35,452	-	35,452
Police car replacement	-	-	58,376	-	58,376
Future land development	-	-	44,078	-	44,078
Planning and zoning	-	-	23,453	-	23,453
Police equipment	-	-	17,002	-	17,002
Fire equipment	-	-	-	104,639	104,639
Office equipment	-	-	13,062	-	13,062
Capital improvements	-	-	1,499,700	-	1,499,700
Revolving loans	-	-	-	105,825	105,825
Total committed	\$ 48,222	\$ -	\$ 3,333,045	\$ 210,464	\$ 3,591,731
Assigned to					
Senior activity center	\$ -	\$ -	\$ -	\$ 3,064	\$ 3,064
Tri-cap bus	-	-	-	3,741	3,741
Fire department	-	-	-	57,838	57,838
Total assigned	\$ -	\$ -	\$ -	\$ 64,643	\$ 64,643

CITY OF MELROSE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

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 (800) 652-9026.

CITY OF MELROSE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

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. GERP 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 2012. PEPFF members are required to contribute 9.60 percent of their annual covered salary in 2012. In 2012, the City was required to contribute the following percentages of annual covered payroll: 11.78 percent for Basic Plan GERP members, 7.25 percent for Coordinated Plan GERP members, and 14.40 percent for PEPFF members. The City's contributions to the General Employees Retirement Fund for the year ended December 31, 2012, 2011, and 2010 were \$95,334, \$92,156, and \$83,867, respectively. The City's contributions to the PEPFF for the years ending December 31, 2012, 2011, and 2010 were \$37,026, \$40,294, and \$38,183, 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 2012 taxable market value of property was \$183,761,300 and the debt limit was \$5,512,839. 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.

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, 2012, there were two series of revenue bonds outstanding, with an aggregate principal payable amount of \$8,466,210.

CITY OF MELROSE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

Note 5: OTHER INFORMATION - CONTINUED

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). The amount received in 2012 was \$614,850 for LGA. This accounted for 29 percent of General fund revenue.

Note 6: 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 25 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 City 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

All retirees of the City have the option under state law to continue their medical insurance coverage through the City from the time of retirement until the employee reaches the age of eligibility for Medicare. For members of all employee groups, the retiree must pay the full premium to continue coverage for medical insurance. The City is legally required to include any retirees for whom it provides health insurance coverage in the same insurance pool as its active employees. Consequently, participating retirees are considered to receive a secondary benefit known as an "implicit rate subsidy." This benefit relates to the assumption that the retiree is receiving a more favorable premium rate than they would otherwise be able to obtain if purchasing insurance on their own, due to being included in the same pool with the City's younger and statistically healthier active employees.

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 three 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 2012 the City contributed \$17,289 to the plan. Retired plan members receiving benefits contribute 100 percent of their premium costs. As of January 1, 2012 there were four retiree's and beneficiaries receiving health benefits from the plan.

CITY OF MELROSE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

Note 6: 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	\$ 82,693
Interest on net OPEB obligation	6,127
Adjustment to annual required contribution	<u>(7,353)</u>
 Annual OPEB cost (expense)	 81,467
 Contributions made	 <u>(17,289)</u>
 Increase in net OPEB obligation	 64,178
 Net OPEB obligation - beginning of year	 <u>204,245</u>
 Net OPEB obligation - end of year	 <u><u>\$ 268,423</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 2012, 2011 and 2010, follows:

Year Ending	Trend Information		
	Annual OPEB Cost	Percentage Annual OPEB Contributed	Net OPEB Obligation
12/31/12	\$ 81,467	21.2 %	\$ 268,423
12/31/11	85,645	20.7	204,245
12/31/10	84,993	19.9	136,293

D. Funded status and funding progress

As of January 1, 2012, the actuarial accrued liability for benefits was \$1,005,011, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$1,290,509, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 77.9 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, 2012

Note 6: 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 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 2008 United States Life Tables for Males and for Females were used.

Turnover - Non-group-specific age-based turnover data from GASB Statement No. 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 actual rate changes for 2012 and 2013 along with projections of the Office of the Actuary at the Centers for Medicare & Medicaid Services. A rate increase of 12.9 percent initially in 2013, reduced to an ultimate average rate increase of 5.85 percent after six years, was used.

Health insurance premiums - 2012 and 2013 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 2.48 percent was based on projected changes in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) in *The 2011 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 3.0 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, 2012 was thirty years.

CITY OF MELROSE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

Note 7: CHANGE IN ACCOUNTING PRINCIPLE

During fiscal year 2012, the City implemented several new accounting pronouncements issued by the Government Accounting Standards Board (GASB), including Statement No. 63, “*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*” and Statement No. 65, “*Items Previously Reported as Assets and Liabilities*”. These standards required a retroactive implementation which resulted in the restatement of beginning balances in the December 31, 2012 financial statements. Changes related to these standards are reflected in the financial statements and schedules and related disclosures are included in Note 1.

As a result of the restatement of beginning balances, the following schedule reconciles the previously reported December 31, 2010 balances to the December 31, 2012 financial statements:

Activities/Fund	Net Position December 31, 2010 as Previously Reported	(1) Restatement	Net Position January 1, 2011 as Previously Reported
Governmental activities	\$ 16,352,143	\$ (96,426)	\$ 16,255,717
Proprietary funds			
Ambulance	\$ 907,835	\$ -	\$ 907,835
Water	3,974,175	(33,660)	3,940,515
Wastewater	12,981,389	(107,362)	12,874,027
Electric	10,857,752	-	10,857,752
Total business-type activities	\$ 28,721,151	\$ (141,022)	\$ 28,580,129

As a result of the restatement of beginning balances, the following schedule reconciles the previously reported December 31, 2011 balances to the December 31, 2012 financial statements:

Activities/Fund	Net Position December 31, 2011 as Previously Reported	(1) Restatement	Net Position January 1, 2012 as Previously Reported
Governmental activities	\$ 16,724,445	\$ (133,195)	\$ 16,591,250
Proprietary funds			
Ambulance	\$ 946,937	\$ -	\$ 946,937
Water	4,278,759	(30,138)	4,248,621
Wastewater	12,616,658	(85,031)	12,531,627
Electric	11,528,057	-	11,528,057
Total business-type activities	\$ 29,370,411	\$ (115,169)	\$ 29,255,242

THIS PAGE IS LEFT BLANK
INTENTIONALLY

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF MELROSE
MELROSE, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2012

CITY OF MELROSE, MINNESOTA
 REQUIRED SUPPLEMENTARY INFORMATION
 DECEMBER 31, 2012

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
01/01/12	\$ -	\$ 1,005,011	\$ 1,005,011	- %	\$ 1,290,509	77.9 %
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, 2012

CITY OF MELROSE, MINNESOTA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
DECEMBER 31, 2012

	<u>Special Revenue</u>	<u>Capital Project Tax Increment Projects</u>	<u>Total Nonmajor Governmental Funds</u>
ASSETS			
Cash and temporary investments	\$ 317,055	\$ 32,770	\$ 349,825
Receivables			
Accounts, net	4,755	-	4,755
Loans	457,951	-	457,951
Prepaid items	1,469	-	1,469
	<u>1,469</u>	<u>-</u>	<u>1,469</u>
TOTAL ASSETS	<u><u>\$ 781,230</u></u>	<u><u>\$ 32,770</u></u>	<u><u>\$ 814,000</u></u>
LIABILITIES			
Accounts payable	\$ 2,475	\$ 32,770	\$ 35,245
Due to other funds	61,266	-	61,266
	<u>61,266</u>	<u>-</u>	<u>61,266</u>
TOTAL LIABILITIES	<u>63,741</u>	<u>32,770</u>	<u>96,511</u>
FUND BALANCES			
Nonspendable			
Prepaid items	1,469	-	1,469
Loans receivable	457,951	-	457,951
Restricted for			
Partners in action activities	522	-	522
Committed to			
Fire equipment	104,639	-	104,639
Revolving loans	105,825	-	105,825
Assigned	64,643	-	64,643
Unassigned	(17,560)	-	(17,560)
	<u>(17,560)</u>	<u>-</u>	<u>(17,560)</u>
TOTAL FUND BALANCES	<u>717,489</u>	<u>-</u>	<u>717,489</u>
TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$ 781,230</u></u>	<u><u>\$ 32,770</u></u>	<u><u>\$ 814,000</u></u>

CITY OF MELROSE, MINNESOTA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2012

	Special Revenue	Capital Project Tax Increment Projects	Total Nonmajor Governmental Funds
REVENUES			
Tax increments	\$ -	\$ 80,552	\$ 80,552
Intergovernmental	26,437	-	26,437
Charges for services	91,859	-	91,859
Interest on investments	26,768	-	26,768
Miscellaneous	19,743	-	19,743
TOTAL REVENUES	164,807	80,552	245,359
EXPENDITURES			
Current			
Public safety	145,903	-	145,903
Culture and recreation	3,029	-	3,029
Economic development	29,176	80,552	109,728
Capital outlay			
Public safety	359,585	-	359,585
Debt service			
Interest and other	3,384	-	3,384
TOTAL EXPENDITURES	541,077	80,552	621,629
DEFICIENCY OF REVENUES UNDER EXPENDITURES	(376,270)	-	(376,270)
OTHER FINANCING SOURCES (USES)			
Sale of capital assets	1,772	-	1,772
Transfers in	89,687	-	89,687
TOTAL OTHER FINANCING SOURCES (USES)	91,459	-	91,459
NET CHANGE IN FUND BALANCES	(284,811)	-	(284,811)
FUND BALANCES, JANUARY 1	1,002,300	-	1,002,300
FUND BALANCES, DECEMBER 31	\$ 717,489	\$ -	\$ 717,489

CITY OF MELROSE, MINNESOTA
NONMAJOR SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
DECEMBER 31, 2012

	Melrose Area Development Authority (MADA)	MADA Revolving Loan	Senior Activity Center
ASSETS			
Cash and temporary investments	\$ 44,139	\$ 105,825	\$ 3,202
Receivable			
Accounts, net	-	-	-
Loans	-	457,951	-
Prepaid items	24	-	-
	<u>44,163</u>	<u>563,776</u>	<u>3,202</u>
TOTAL ASSETS	<u>\$ 44,163</u>	<u>\$ 563,776</u>	<u>\$ 3,202</u>
LIABILITIES			
Accounts payable	\$ 433	\$ -	\$ 138
Due to other funds	61,266	-	-
	<u>61,699</u>	<u>-</u>	<u>138</u>
TOTAL LIABILITIES	<u>61,699</u>	<u>-</u>	<u>138</u>
FUND BALANCES			
Nonspendable			
Prepaid items	24	-	-
Loans receivable	-	457,951	-
Restricted for			
Partners in action activities	-	-	-
Committed to			
Fire equipment	-	-	-
Revolving loans	-	105,825	-
Assigned	-	-	3,064
Unassigned	(17,560)	-	-
	<u>(17,536)</u>	<u>563,776</u>	<u>3,064</u>
TOTAL FUND BALANCES	<u>(17,536)</u>	<u>563,776</u>	<u>3,064</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 44,163</u>	<u>\$ 563,776</u>	<u>\$ 3,202</u>

<u>PIA Asset Building</u>	<u>Tri-Cap Bus</u>	<u>Fire Department</u>	<u>Total</u>
\$ 522	\$ 4,141	\$ 159,226	\$ 317,055
-	-	4,755	4,755
-	-	-	457,951
-	-	1,445	1,469
<u>\$ 522</u>	<u>\$ 4,141</u>	<u>\$ 165,426</u>	<u>\$ 781,230</u>
\$ -	\$ 400	\$ 1,504	\$ 2,475
-	-	-	61,266
-	400	1,504	63,741
-	-	1,445	1,469
-	-	-	457,951
522	-	-	522
-	-	104,639	104,639
-	-	-	105,825
-	3,741	57,838	64,643
-	-	-	(17,560)
<u>522</u>	<u>3,741</u>	<u>163,922</u>	<u>717,489</u>
<u>\$ 522</u>	<u>\$ 4,141</u>	<u>\$ 165,426</u>	<u>\$ 781,230</u>

CITY OF MELROSE, MINNESOTA
NONMAJOR SPECIAL REVENUE FUNDS
COMBINING SCHEDULE OF REVENUE, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2012

	Melrose Area Development Authority (MADA)	MADA Revolving Loan	Senior Activity Center
	<u> </u>	<u> </u>	<u> </u>
REVENUES			
Intergovernmental	\$ -	\$ -	\$ -
Charges for services	-	-	-
Interest on investments	5,011	15,077	-
Miscellaneous			
Contributions and donations	-	-	150
Other	8,633	-	1,950
	<u>13,644</u>	<u>15,077</u>	<u>2,100</u>
TOTAL REVENUES			
EXPENDITURES			
Current			
Public safety			
Personal services	-	-	-
Supplies	-	-	-
Other services and charges	-	-	-
Culture and recreation			
Other services and charges	-	-	3,029
Economic development			
Personal services	1,928	-	-
Supplies	325	-	-
Other services and charges	19,650	-	-
Capital outlay			
Public safety	-	-	-
Debt service			
Interest and other	3,384	-	-
	<u>25,287</u>	<u>-</u>	<u>3,029</u>
TOTAL EXPENDITURES			
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(11,643)</u>	<u>15,077</u>	<u>(929)</u>
OTHER FINANCING SOURCES			
Sale of capital assets	-	-	-
Transfers in	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL OTHER FINANCING SOURCES			
NET CHANGE IN FUND BALANCES	(11,643)	15,077	(929)
FUND BALANCES, JANUARY 1	<u>(5,893)</u>	<u>548,699</u>	<u>3,993</u>
FUND BALANCES, DECEMBER 31	<u>\$ (17,536)</u>	<u>\$ 563,776</u>	<u>\$ 3,064</u>

<u>PIA Asset Building</u>	<u>Tri-Cap Bus</u>	<u>Fire Department</u>	<u>Total</u>
\$ -	\$ -	\$ 26,437	\$ 26,437
-	1,744	90,115	91,859
-	-	6,680	26,768
-	3,385	2,678	6,213
<u>120</u>	<u>-</u>	<u>2,827</u>	<u>13,530</u>
<u>120</u>	<u>5,129</u>	<u>128,737</u>	<u>164,807</u>
-	-	61,539	61,539
-	-	11,423	11,423
-	-	72,941	72,941
-	-	-	3,029
-	-	-	1,928
-	-	-	325
373	6,900	-	26,923
-	-	359,585	359,585
-	-	-	3,384
<u>373</u>	<u>6,900</u>	<u>505,488</u>	<u>541,077</u>
<u>(253)</u>	<u>(1,771)</u>	<u>(376,751)</u>	<u>(376,270)</u>
-	-	1,772	1,772
-	2,500	87,187	89,687
-	2,500	88,959	91,459
(253)	729	(287,792)	(284,811)
<u>775</u>	<u>3,012</u>	<u>451,714</u>	<u>1,002,300</u>
<u>\$ 522</u>	<u>\$ 3,741</u>	<u>\$ 163,922</u>	<u>\$ 717,489</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, 2012
(With comparative actual amounts for the year ended December 31, 2011)

	2012			Variance with Final Budget	2011
	Budgeted Amounts		Actual		Actual
	Original	Final	Amounts		Amounts
REVENUES					
Taxes					
Property taxes	\$ 936,684	\$ 936,684	\$ 945,524	\$ 8,840	\$ 1,181,148
Franchise fees	390,000	390,000	375,252	(14,748)	380,754
Total	<u>1,326,684</u>	<u>1,326,684</u>	<u>1,320,776</u>	<u>(5,908)</u>	<u>1,561,902</u>
Licenses and permits					
Business	17,000	17,000	19,230	2,230	17,783
Nonbusiness	30,000	30,000	28,987	(1,013)	32,809
Total	<u>47,000</u>	<u>47,000</u>	<u>48,217</u>	<u>1,217</u>	<u>50,592</u>
Intergovernmental					
Federal					
FEMA grant	-	-	750	750	3,584
State					
Local government aid	541,115	541,115	614,850	73,735	614,850
Property tax credits	-	-	399	399	36,328
Police state aid	33,261	33,261	32,363	(898)	33,261
Other	4,590	4,590	6,897	2,307	9,157
Total	<u>578,966</u>	<u>578,966</u>	<u>655,259</u>	<u>76,293</u>	<u>697,180</u>
Charges for services					
General government	29,850	29,850	30,634	784	33,001
Public safety	1,600	1,600	1,399	(201)	1,970
Streets and highways	19,200	19,200	19,758	558	18,899
Culture and recreation	12,700	12,700	11,228	(1,472)	13,081
Total	<u>63,350</u>	<u>63,350</u>	<u>63,019</u>	<u>(331)</u>	<u>66,951</u>
Fines and forfeitures	<u>25,750</u>	<u>25,750</u>	<u>18,825</u>	<u>(6,925)</u>	<u>27,774</u>
Interest on investments	<u>22,000</u>	<u>22,000</u>	<u>29,544</u>	<u>7,544</u>	<u>23,980</u>
Miscellaneous					
Contributions and donations	-	-	3,235	3,235	595
Other	10,000	10,000	8,516	(1,484)	10,960
Total	<u>10,000</u>	<u>10,000</u>	<u>11,751</u>	<u>1,751</u>	<u>11,555</u>
TOTAL REVENUES	<u>2,073,750</u>	<u>2,073,750</u>	<u>2,147,391</u>	<u>73,641</u>	<u>2,439,934</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, 2012
(With comparative actual amounts for the year ended December 31, 2011)

EXPENDITURES	2012				2011
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
Current					
General government					
Legislative					
Personal services	\$ 15,092	\$ 15,092	\$ 15,029	\$ 63	\$ 15,030
Other services and charges	5,600	5,600	5,725	(125)	5,360
Total	20,692	20,692	20,754	(62)	20,390
Executive					
Personal services	5,022	5,022	4,971	51	4,971
Other services and charges	1,050	1,050	1,813	(763)	1,287
Total	6,072	6,072	6,784	(712)	6,258
City administrator					
Personal services	55,850	55,850	51,677	4,173	44,173
Supplies	1,000	1,000	460	540	67
Other services and charges	4,500	4,500	3,182	1,318	3,161
Total	61,350	61,350	55,319	6,031	47,401
Financial administration					
Personal services	218,669	218,669	195,679	22,990	202,395
Supplies	5,700	5,700	4,236	1,464	5,110
Other services and charges	117,820	117,820	98,551	19,269	136,765
Total	342,189	342,189	298,466	43,723	344,270
Assessing					
Other services and charges	17,750	17,750	16,450	1,300	16,164
Cable communications					
Other services and charges	3,425	3,425	3,096	329	3,032
City attorney					
Other services and charges	56,050	56,050	39,081	16,969	54,941
Planning and zoning					
Personal services	2,691	2,691	2,121	570	1,582
Other services and charges	600	600	1,674	(1,074)	636
Total	3,291	3,291	3,795	(504)	2,218
Total general government	510,819	510,819	443,745	67,074	494,674

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, 2012
(With comparative actual amounts for the year ended December 31, 2011)

	2012				2011
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
EXPENDITURES - CONTINUED					
Current - continued					
Public safety					
Police					
Personal services	\$ 468,812	\$ 468,812	\$ 414,727	\$ 54,085	\$ 444,734
Supplies	24,500	24,500	20,446	4,054	24,806
Other services and charges	36,500	36,500	28,401	8,099	34,444
Total	529,812	529,812	463,574	66,238	503,984
Building inspection					
Other services and charges	23,250	23,250	27,439	(4,189)	28,152
Total public safety	553,062	553,062	491,013	62,049	532,136
Streets and highways					
Streets					
Personal services	216,907	216,907	231,922	(15,015)	215,369
Supplies	52,250	52,250	52,432	(182)	55,846
Other services and charges	41,750	41,750	40,409	1,341	43,046
Total	310,907	310,907	324,763	(13,856)	314,261
Snow and ice removal					
Personal services	53,855	53,855	23,540	30,315	47,286
Supplies	28,000	28,000	16,624	11,376	37,489
Other services and charges	150	150	2,755	(2,605)	2,096
Total	82,005	82,005	42,919	39,086	86,871
Street lighting					
Other services and charges	44,000	44,000	46,361	(2,361)	44,780
Total streets and highways	436,912	436,912	414,043	22,869	445,912
Sanitation					
Supplies	1,600	1,600	1,730	(130)	1,249
Other services and charges	2,700	2,700	3,525	(825)	3,266
Total sanitation	4,300	4,300	5,255	(955)	4,515

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, 2012
(With comparative actual amounts for the year ended December 31, 2011)

	2012			Variance with Final Budget	2011
	Budgeted Amounts		Actual		Actual
	Original	Final	Amounts		Amounts
EXPENDITURES - CONTINUED					
Current - continued					
Culture and recreation					
Personal services	\$ 32,918	\$ 32,918	\$ 27,109	\$ 5,809	\$ 22,734
Supplies	3,700	3,700	2,879	821	4,121
Other services and charges	25,650	25,650	21,297	4,353	22,773
Total culture and recreation	<u>62,268</u>	<u>62,268</u>	<u>51,285</u>	<u>10,983</u>	<u>49,628</u>
Economic development					
Industrial/commercial development					
Personal services	83,682	83,682	84,481	(799)	81,618
Supplies	-	-	-	-	1,600
Other services and charges	-	-	8	(8)	8
Total economic development	<u>83,682</u>	<u>83,682</u>	<u>84,489</u>	<u>(807)</u>	<u>83,226</u>
Total current expenditures	1,651,043	1,651,043	1,489,830	161,213	1,610,091
Debt service					
Interest and other charges	1,250	1,250	1,468	(218)	786
TOTAL EXPENDITURES	<u>1,652,293</u>	<u>1,652,293</u>	<u>1,491,298</u>	<u>160,995</u>	<u>1,610,877</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>421,457</u>	<u>421,457</u>	<u>656,093</u>	<u>234,636</u>	<u>829,057</u>
OTHER FINANCING SOURCES (USES)					
Sale of capital assets	-	-	1,502	1,502	-
Transfers in	45,000	45,000	-	(45,000)	-
Transfers out	(466,687)	(466,687)	(475,519)	(8,832)	(849,873)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(421,687)</u>	<u>(421,687)</u>	<u>(474,017)</u>	<u>(52,330)</u>	<u>(849,873)</u>
NET CHANGE IN FUND BALANCES	(230)	(230)	182,076	182,306	(20,816)
FUND BALANCES, JANUARY 1	<u>1,122,806</u>	<u>1,122,806</u>	<u>1,122,806</u>	<u>-</u>	<u>1,143,622</u>
FUND BALANCES, DECEMBER 31	<u>\$ 1,122,576</u>	<u>\$ 1,122,576</u>	<u>\$ 1,304,882</u>	<u>\$ 182,306</u>	<u>\$ 1,122,806</u>

CITY OF MELROSE, MINNESOTA
DEBT SERVICE FUNDS
COMBINING BALANCE SHEET
DECEMBER 31, 2012

	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	\$ -	\$ 214,134	\$ 417,500	\$ 285,558	\$ 917,192
Cash with fiscal agent	-	1,621,646	-	-	1,621,646
Receivables					
Accounts	-	218	462	399	1,079
Special assessments	-	-	-	223,725	223,725
TOTAL ASSETS	\$ -	\$ 1,835,998	\$ 417,962	\$ 509,682	\$ 2,763,642
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue - special assessments	\$ -	\$ -	\$ -	\$ 223,725	\$ 223,725
FUND BALANCES					
Restricted for debt service	-	1,835,998	417,962	285,957	2,539,917
TOTAL DEFERRED INFLOWS AND FUND BALANCES	\$ -	\$ 1,835,998	\$ 417,962	\$ 509,682	\$ 2,763,642

CITY OF MELROSE, MINNESOTA
DEBT SERVICE FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2012

	Improvement Bonds of 2004	Improvement Bonds of 2005	Lease Revenue Bonds of 2008	G.O Refunding Bonds of 2011	Total
REVENUES					
Property taxes	\$ -	\$ 33,923	\$ 127,553	\$ 132,554	\$ 294,030
Charges for services	-	-	52,257	-	52,257
Special assessments	-	-	-	13,346	13,346
Interest on investments	2,592	18,878	8,738	5,080	35,288
	<u>2,592</u>	<u>18,878</u>	<u>8,738</u>	<u>5,080</u>	<u>35,288</u>
TOTAL REVENUES	<u>2,592</u>	<u>52,801</u>	<u>188,548</u>	<u>150,980</u>	<u>394,921</u>
EXPENDITURES					
Debt service					
Principal	75,000	165,000	85,000	-	325,000
Interest and other charges	28,739	119,785	92,925	8,135	249,584
	<u>28,739</u>	<u>119,785</u>	<u>92,925</u>	<u>8,135</u>	<u>249,584</u>
TOTAL EXPENDITURES	<u>103,739</u>	<u>284,785</u>	<u>177,925</u>	<u>8,135</u>	<u>574,584</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(101,147)</u>	<u>(231,984)</u>	<u>10,623</u>	<u>142,845</u>	<u>(179,663)</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	-	-	-	143,026	143,026
Transfers out	(143,026)	-	-	-	(143,026)
Principal refunded on bonds	(695,000)	-	-	-	(695,000)
	<u>(695,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(695,000)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(838,026)</u>	<u>-</u>	<u>-</u>	<u>143,026</u>	<u>(695,000)</u>
NET CHANGE IN FUND BALANCES	<u>(939,173)</u>	<u>(231,984)</u>	<u>10,623</u>	<u>285,871</u>	<u>(874,663)</u>
FUND BALANCES, JANUARY 1	<u>939,173</u>	<u>2,067,982</u>	<u>407,339</u>	<u>86</u>	<u>3,414,580</u>
FUND BALANCES, DECEMBER 31	<u>\$ -</u>	<u>\$ 1,835,998</u>	<u>\$ 417,962</u>	<u>\$ 285,957</u>	<u>\$ 2,539,917</u>

CITY OF MELROSE, MINNESOTA
SUMMARY FINANCIAL REPORT
REVENUES AND EXPENDITURES FOR GENERAL OPERATIONS
GOVERNMENTAL FUNDS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	Totals		Percent Increase (Decrease)
	2012	2011	
REVENUES			
Taxes	\$ 1,695,358	\$ 1,644,180	3.11 %
Licenses and permits	48,217	50,592	(4.69)
Intergovernmental	686,696	827,184	(16.98)
Charges for services	207,135	216,753	(4.44)
Fines and forfeits	18,825	27,774	(32.22)
Special assessments	102,025	153,977	(33.74)
Interest on investments	199,904	209,972	(4.79)
Miscellaneous	44,105	65,001	(32.15)
TOTAL REVENUES	\$ 3,002,265	\$ 3,195,433	(6.05) %
Per Capita	\$ 829	\$ 888	(6.67) %
EXPENDITURES			
Current			
General government	\$ 443,745	\$ 494,674	(10.30) %
Public safety	636,916	671,057	(5.09)
Streets and highways	414,043	499,404	(17.09)
Sanitation	5,255	4,515	16.39
Culture and recreation	54,314	54,358	(0.08)
Economic development	194,217	216,250	(10.19)
Capital outlay			
General government	16,134	47,820	(66.26)
Public safety	391,849	70,629	454.80
Streets and highways	225,621	39,488	471.37
Culture and recreation	9,979	14,338	(30.40)
Debt service			
Principal	325,000	315,000	3.17
Interest and other charges	254,436	213,528	19.16
Bond issuance costs	-	52,990	(100.00)
TOTAL EXPENDITURES	\$ 2,971,509	\$ 2,694,051	10.30 %
Per Capita	\$ 820	\$ 749	9.57 %
Total Long-term Indebtedness	\$ 6,050,000	\$ 7,070,000	(14.43) %
Per Capita	1,670	1,965	(14.99)
General Fund Balance - December 31	\$ 1,304,882	\$ 1,122,806	16.22 %
Per Capita	360	312	15.45

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, 2012

CITY OF MELROSE, MINNESOTA
MELROSE ELECTRIC UTILITIES
ELECTRIC UTILITY OPERATING STATISTICS (UNAUDITED)
FOR THE YEARS ENDED DECEMBER 31, 2012, 2011, 2010, AND 2009

	<u>2009</u>	<u>2010 Peer Group</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
<u>Financial Ratios</u>					
Revenue per KWH					
Residential Customers	\$ 0.078	\$ 0.106	\$ 0.083	\$ 0.081	\$ 0.0820
Commercial Customers	\$ 0.082	\$ 0.090	\$ 0.083	\$ 0.080	\$ 0.0790
Industrial Customers	\$ 0.064	\$ 0.079	\$ 0.064	\$ 0.063	\$ 0.0630
Times Interest Earned	N/A	3.36	N/A	N/A	N/A
Debt Service Coverage	N/A	2.30	N/A	N/A	N/A
Uncollectible Accounts per Revenue Dollar	\$ 0.0002	\$ 0.0015	\$ 0.0002	\$ 0.0010	\$ 0.0001
<u>Operating Ratios</u>					
Total O&M Expense per KWH Sold	\$ 0.066	\$ 0.055	\$ 0.072	\$ 0.069	\$ 0.070
Total Distribution and O&M Expense (Excluding Power Supply Exp.) per retail customer	\$ 402	\$ 553	\$ 404	\$ 397	\$ 375
Purchased Power per KWH	\$ 0.053	\$ 0.044	\$ 0.055	\$ 0.053	\$ 0.058
Distribution O&M Expense per Retail Customer	\$ 215	\$ 213	\$ 220	\$ 217	\$ 212
Distribution O&M Expense per Circuit Mile	\$ 7,361	\$ 5,687	\$ 7,580 *	\$ 7,492 *	\$ 7,319
Customer Accounting, Service, and Sales, Administrative and General Expense per Retail Customer	\$ 193	\$ 262	\$ 192	\$ 206	\$ 229
<u>Other Ratios</u>					
Labor Expense per Worker- Hour	\$ 26.23	\$ 30.76	\$ 26.75	\$ 27.85	\$ 27.85
Energy Loss Percentage	5.70%	3.76%	4.30%	1.90%	-4.60%
System Load Factor	77.59%	56.80%	77.05%	75.40%	75.60%

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, 2010". The report presented data of financial and operating ratios for 188 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, 2012, 2011, AND 2010

Source of Energy, Disposition of Energy and Percentage Relations	2010		2011		2012	
	KWH	Percent	KWH	Percent	KWH	Percent
Purchased energy	\$ 112,091,888	100.2 %	\$ 112,046,940	100.2 %	\$ 103,004,346	100.2 %
Energy consumed by station	(244,120)	(0.2)	(255,480)	(0.2)	(254,240)	(0.2)
Total net energy outgoing feeders	111,847,768	100.0	111,791,460	100.0	102,750,106	100.0
Net distributed energy	(106,996,468)	(95.7)	(109,658,153)	(98.1)	(107,518,002)	(104.6)
Energy lost in distribution system	<u>\$ 4,851,300</u>	<u>4.3%</u>	<u>\$ 2,133,307</u>	<u>1.9%</u>	<u>\$ (4,767,896)</u>	<u>-4.6% *</u>

* As a result of the timing of meter readings of new and used meters, distributed energy exceeded purchased energy.

CITY OF MELROSE, MINNESOTA
MELROSE WATER UTILITIES
SUMMARY OF OPERATIONS AND UNAUDITED STATISTICS
FOR THE YEARS ENDED DECEMBER 31, 2012, 2011, AND 2010

SUMMARY OF OPERATIONS

	<u>2010</u>	<u>2011</u>	<u>2012</u>
OPERATING REVENUES			
Sales of water	\$ 954,215	\$ 926,127	\$ 926,071
Miscellaneous	<u>27,219</u>	<u>23,755</u>	<u>25,603</u>
TOTAL OPERATING REVENUES	<u>981,434</u>	<u>949,882</u>	<u>951,674</u>
OPERATING EXPENSES			
Operating expenses less depreciation	352,809	343,325	345,475
Depreciation	<u>257,517</u>	<u>257,976</u>	<u>260,395</u>
TOTAL OPERATING EXPENSES	<u>610,326</u>	<u>601,301</u>	<u>605,870</u>
TOTAL OPERATING INCOME	<u><u>\$ 371,108</u></u>	<u><u>\$ 348,581</u></u>	<u><u>\$ 345,804</u></u>
PERCENT OF CHANGE			
Sales of water	-2.63%	-2.94%	-0.01%

**UNAUDITED STATISTICS
MISCELLANEOUS**

	<u>2010</u>	<u>2011</u>	<u>2012</u>
WATER PUMPED (gallons)	658,790,535	631,748,846	635,918,999
WATER SOLD (gallons)	634,137,742	651,122,273	610,940,915
Percent of line loss	3.74%	(3.07%)	3.93%
Revenues per 1,000 gallons pumped	\$ 1.49	\$ 1.50	\$ 1.50
Revenues per 1,000 gallons sold	\$ 1.55	\$ 1.46	\$ 1.56
Labor cost per customer	\$ 120.62	\$ 124.60	\$ 121.97
O&M per customer	\$ 188.60	\$ 176.59	\$ 180.38
Number of customers	1,139	1,139	1,141

OTHER SCHEDULES AND REQUIRED REPORTS

CITY OF MELROSE
MELROSE, MINNESOTA

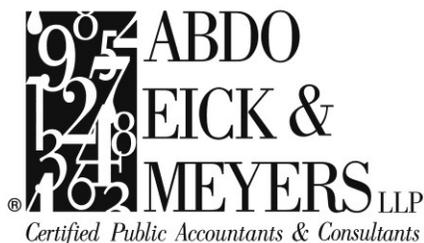
FOR THE YEAR ENDED
DECEMBER 31, 2012

THIS PAGE IS LEFT BLANK
INTENTIONALLY

CITY OF MELROSE, MINNESOTA
 BONDS PAYABLE
 DECEMBER 31, 2012

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 2005	09/01/2005	02/01/2013	2-1;8-1	3.60 %	\$ 1,785,000	2013	\$ 2,545,000	\$ 760,000	\$ 1,785,000
Public Project Lease Revenue Bonds of 2008	04/24/2008	02/01/2029	2-1;8-1	3.50 %	\$ 90,000	2013	\$ 2,360,000	\$ 250,000	\$ 2,110,000
				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 %	\$ 90,000	2013	\$ 2,155,000	\$ -	\$ 2,155,000
				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>\$ 7,060,000</u>	<u>\$ 1,010,000</u>	<u>\$ 6,050,000</u>

THIS PAGE IS LEFT BLANK
INTENTIONALLY



5201 Eden Avenue
Suite 250
Edina, MN 55436

AUDITOR'S REPORT ON LEGAL COMPLIANCE

Honorable Mayor and City 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, 2012, which collectively comprise the City's basic financial statements, and have issued our report thereon April 2, 2013.

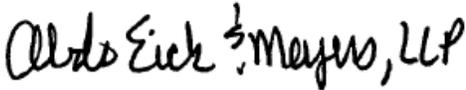
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the Minnesota Office of the State Auditor pursuant to Minnesota statute, section 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 Political Subdivisions* covers seven main categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. 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.

The purpose of this report is solely to describe the scope of our testing of compliance with certain provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, and the result of that testing, and not to provide an opinion on the City's compliance with those provisions. Accordingly, this report is not suitable for any other purpose.

April 2, 2013
Minneapolis, Minnesota


ABDO, EICK & MEYERS, LLP
Certified Public Accountants



5201 Eden Avenue
Suite 250
Edina, MN 55436

INDEPENDENT AUDITOR'S 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 City Council
City of Melrose, Minnesota

We have audited, in accordance with the 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, 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, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated April 2, 2013.

Internal Control Over Financial Reporting

Management of the City is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We identified certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as items 2012-1 and 2012-2 that we consider to be significant deficiencies.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from 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*.

The City's Response to Findings

The City's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

April 2, 2013
Minneapolis, Minnesota

ABDO, EICK & MEYERS, LLP
Certified Public Accountants

CITY OF MELROSE, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2012

Finding Description

2012-1 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 City 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.

CITY OF MELROSE, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2012

Finding Description

2012-2 Reconciliation of investments

Condition: During our audit, we noted that reconciliations were not completed for the City's investment accounts and finance system entries are not always completed for each transaction.

Criteria: Timely reconciliations are an important control activity in the City's overall internal control structure.

Cause: An investment report derived from a complex tracking system is prepared monthly and from our review it appears to contain most of the data necessary to agree the investments to the finance system, however, due to staff turnover, it appears that there was not a procedure in place to ensure the report was agreed to the finance system.

Effect: As a result there was unrecorded interest at year end.

Recommendation: We recommend that the City utilize a schedule of investment activity that can be reconciled to transactions in the finance system. Implementing this recommendation will not result in any additional cost and will ensure that finance system data is complete.

Management response:

The City has developed a stream lined tracking and reconciliation procedures and an investment schedule that will allow for complete reconciliation to the finance system.