

CITY OF MELROSE
MELROSE, MINNESOTA

ANNUAL FINANCIAL REPORT

YEAR ENDED
DECEMBER 31, 2009

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INTRODUCTORY SECTION

CITY OF MELROSE
MELROSE, MINNESOTA

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CITY OF MELROSE, MINNESOTA
ELECTED AND APPOINTED OFFICIALS
DECEMBER 31, 2009

ELECTED

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Eric Seanger	Mayor	12/31/2010
Tom Budde	Council Member	12/31/2010
Joe Finken	Council Member	12/31/2010
Jenny Mayers	Council Member	12/31/2012
Tony Klasen	Council Member	12/31/2012

PUBLIC UTILITIES COMMISSION - APPOINTED

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

CITY OFFICIALS - APPOINTED

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

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FINANCIAL SECTION

CITY OF MELROSE
MELROSE, MINNESOTA

YEAR ENDED
DECEMBER 31, 2009

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5201 Eden Avenue
Suite 370
Edina, MN 55436

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Council
City of Melrose, Minnesota

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Melrose, Minnesota (the City), as of and for the year ended December 31, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year comparative information has been derived from the City's 2008 financial statements and, in our report dated March 19, 2009, we expressed unqualified opinions on the respective proprietary fund financial statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of December 31, 2009, and the respective changes in financial position and cash flows and the respective budgetary comparison for the General fund, where applicable thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 6 to the basic financial statements, the City adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, for the year ended December 31, 2009.

The Management's Discussion and Analysis on pages 15 through 25 and Schedule of Funding Progress on page 83, are not a required part of the financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

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In accordance with *Government Auditing Standards*, we have also issued our report dated March 24, 2010, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

March 24, 2010
Minneapolis, Minnesota

ABDO, EICK & MEYERS, LLP
Certified Public Accountants

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Management's Discussion and Analysis

As management of the City of Melrose, Minnesota (the City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended December 31, 2009.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$43,958,188. Of this amount, \$15,803,035 may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$1,850,799.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$5,655,725, an increase of \$500,516 in comparison with the prior year. Approximately 72 percent of this total amount, \$4,054,938, is available for spending at the City's discretion; \$3,377,713 of the undesignated amount has been designated for specific purposes.
- At the end of the current fiscal year, unreserved fund balance for the General fund was \$1,080,686 or 48 percent of total General fund expenditures. \$8,672 is reserved for prepaid items.
- The City's total debt decreased by \$930,377 or 7 percent during the current fiscal year.

Overview of the Financial Statements

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

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

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

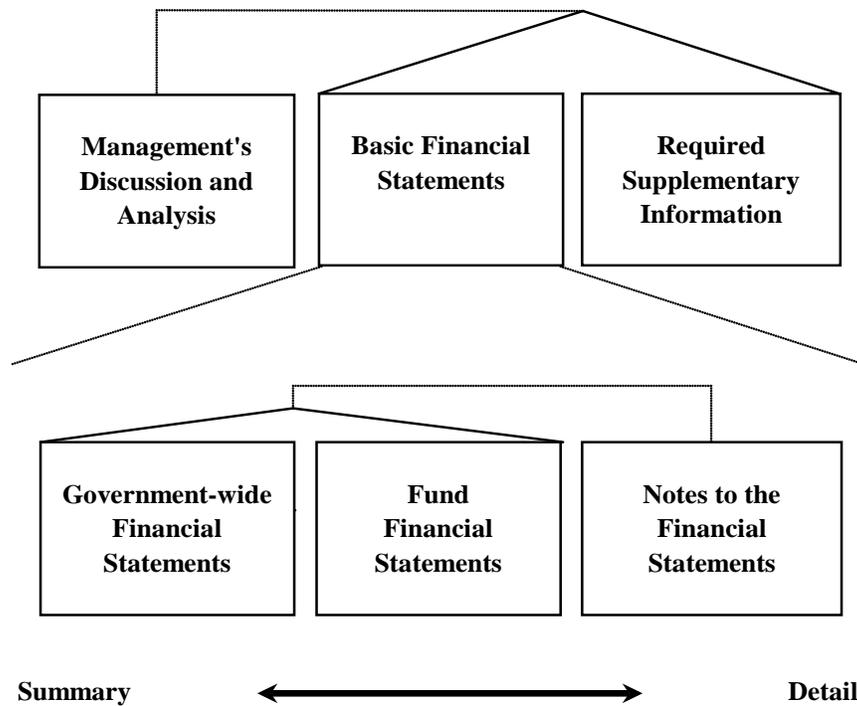


Figure 2 summarizes the major features of the City's financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the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

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

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

Government-wide Financial Statements

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

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

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

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

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

The government-wide financial statements start on page 29 of this report.

Fund Financial Statements

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

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

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

The City maintains 18 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.

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 Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements start on page 53 of this report.

Other Information

The combining statements referred to earlier in connection with nonmajor governmental funds are presented following the notes to financial statements. Combining and individual fund statements and schedules start on page 86 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$43,958,188 at the close of the most recent fiscal year.

By far, the largest portion of the City's net assets (60 percent) reflects its investment in capital assets (e.g., land, buildings, machinery and equipment), less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Summary of Net Assets

	Governmental Activities			Business-type Activities		
	2009	2008	Increase (Decrease)	2009	2008	Increase (Decrease)
Assets						
Current and other assets	\$ 8,237,248	\$ 7,834,477	\$ 402,771	\$ 11,883,015	\$ 11,256,842	\$ 626,173
Capital assets	15,329,312	15,641,950	(312,638)	22,657,720	22,538,020	119,700
Total assets	23,566,560	23,476,427	90,133	34,540,735	33,794,862	745,873
Liabilities						
Long-term liabilities						
outstanding	6,031,576	6,262,126	(230,550)	5,933,431	6,633,258	(699,827)
Other liabilities	1,452,359	1,526,945	(74,586)	731,741	741,571	(9,830)
Total liabilities	7,483,935	7,789,071	(305,136)	6,665,172	7,374,829	(709,657)
Net assets						
Invested in capital assets, net of related debt	9,493,356	9,547,712	(54,356)	16,938,723	16,093,480	845,243
Restricted	1,723,074	1,704,978	18,096	-	-	-
Unrestricted	4,866,195	4,434,666	431,529	10,936,840	10,326,553	610,287
Total net assets	\$ 16,082,625	\$ 15,687,356	\$ 395,269	\$ 27,875,563	\$ 26,420,033	\$ 1,455,530

An additional portion of the City's net assets (4 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (\$15,803,035) may be used to meet the City's ongoing obligations to citizens and creditors.

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

The City's net assets increased \$1,850,799 during the current fiscal year. This growth largely reflects increases in operating grants, investment earnings and the degree to which increases in ongoing revenues have outstripped similar increases in ongoing expenses.

Governmental activities: Governmental activities increased the City's net assets by \$395,269.

Changes in Net Assets

	Governmental Activities			Business-type Activities		
	2009	2008	Increase (Decrease)	2009	2008	Increase (Decrease)
Revenues						
Program revenues						
Charges for services	\$ 314,044	\$ 306,759	\$ 7,285	\$ 11,635,158	\$ 9,226,742	\$ 2,408,416
Operating grants and contributions	512,853	233,697	279,156	19,647	19,507	140
Capital grants and contributions	125,260	114,444	10,816	-	-	-
General revenues						
Property taxes/tax increments	1,251,198	1,163,896	87,302	-	-	-
Franchise taxes	363,160	297,977	65,183	-	-	-
Grants and contributions not restricted to specific programs	799,582	764,305	35,277	-	-	-
Unrestricted Investment earnings	150,972	206,543	(55,571)	284,630	439,050	(154,420)
Gain on sale of capital assets	-	65,000	(65,000)	-	6,163	(6,163)
Total revenues	3,517,069	3,152,621	364,448	11,939,435	9,691,462	2,247,973
Expenses						
General government	649,706	725,576	(75,870)	-	-	-
Public safety	825,952	794,637	31,315	-	-	-
Streets and highways	746,552	859,076	(112,524)	-	-	-
Sanitation	3,818	5,049	(1,231)	-	-	-
Culture and recreation	91,893	94,456	(2,563)	-	-	-
Economic development	580,164	167,256	412,908	-	-	-
Interest on long-term debt	263,763	248,602	15,161	-	-	-
Ambulance	-	-	-	414,125	398,344	15,781
Water	-	-	-	785,483	788,729	(3,246)
Wastewater	-	-	-	1,713,743	1,718,318	(4,575)
Electric	-	-	-	7,530,506	6,407,182	1,123,324
Total expenses	3,161,848	2,894,652	267,196	10,443,857	9,312,573	1,131,284
Increase in net assets before transfers	355,221	257,969	97,252	1,495,578	378,889	1,116,689
Transfers	40,048	(90,215)	130,263	(40,048)	90,215	(130,263)
Change in net assets	395,269	167,754	227,515	1,455,530	469,104	986,426
Net assets, January 1	15,687,356	15,591,603	95,753	26,420,033	25,950,929	469,104
Prior period adjustment	-	(72,001)	72,001	-	-	-
Net assets, December 31	\$ 16,082,625	\$ 15,687,356	\$ 395,269	\$ 27,875,563	\$ 26,420,033	\$ 1,455,530

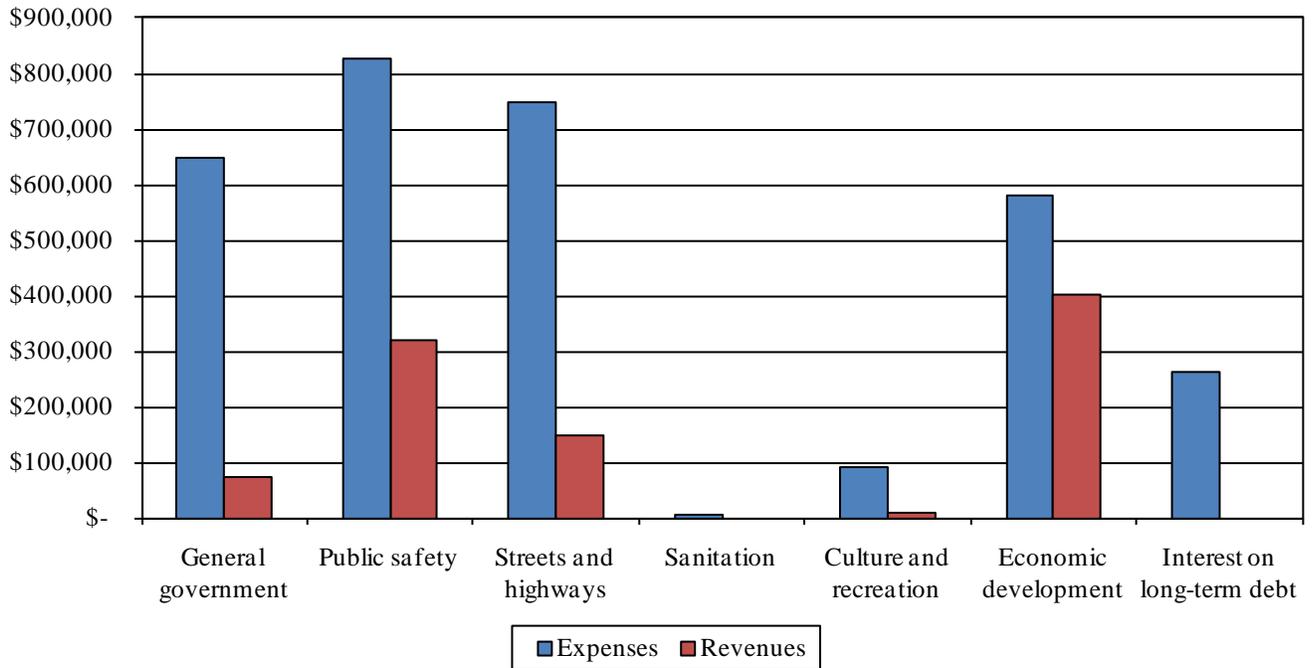
Operating grants and contributions increased by \$279,156 (119 percent) during the year.

The increase in Economic Development was due to DEED grants for housing rehabilitation projects.

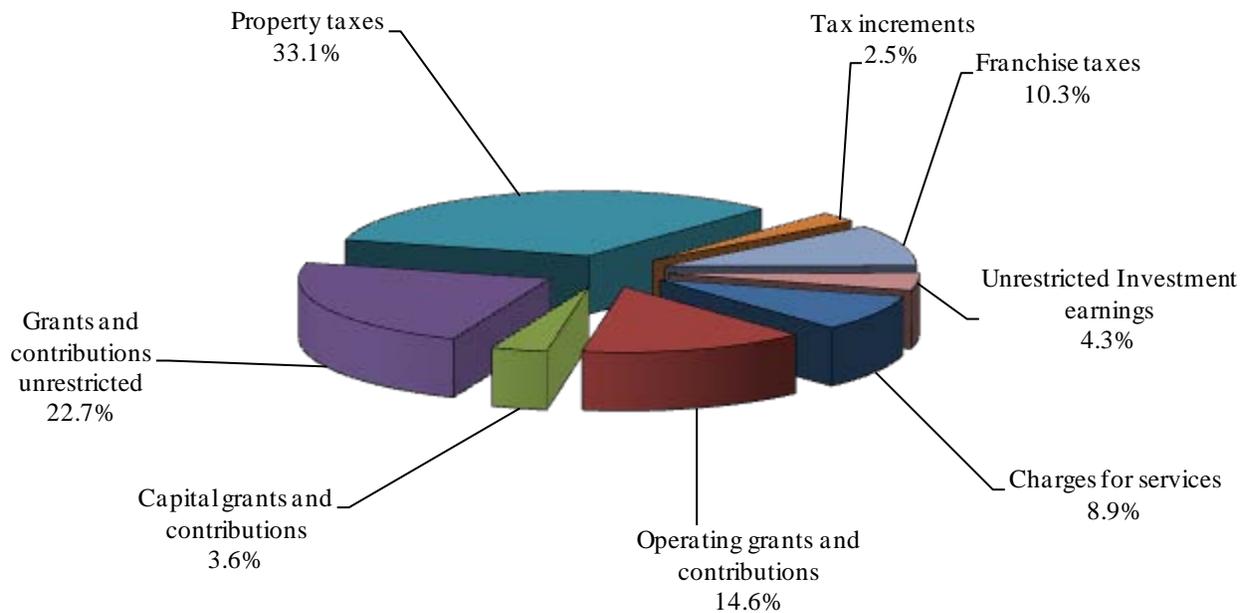
Business type activities charges for services increased due to a combination of rate increases and billing cycle changes.

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

Expenses and Program Revenues - Governmental Activities

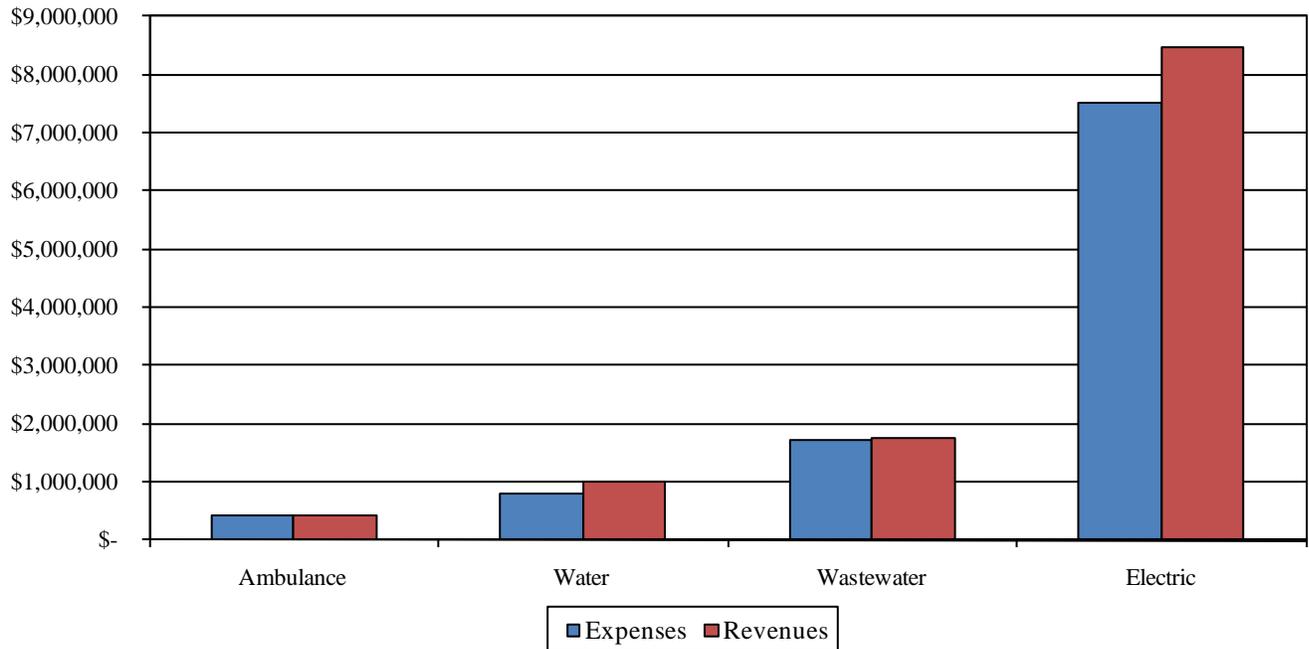


Revenues by Source - Governmental Activities

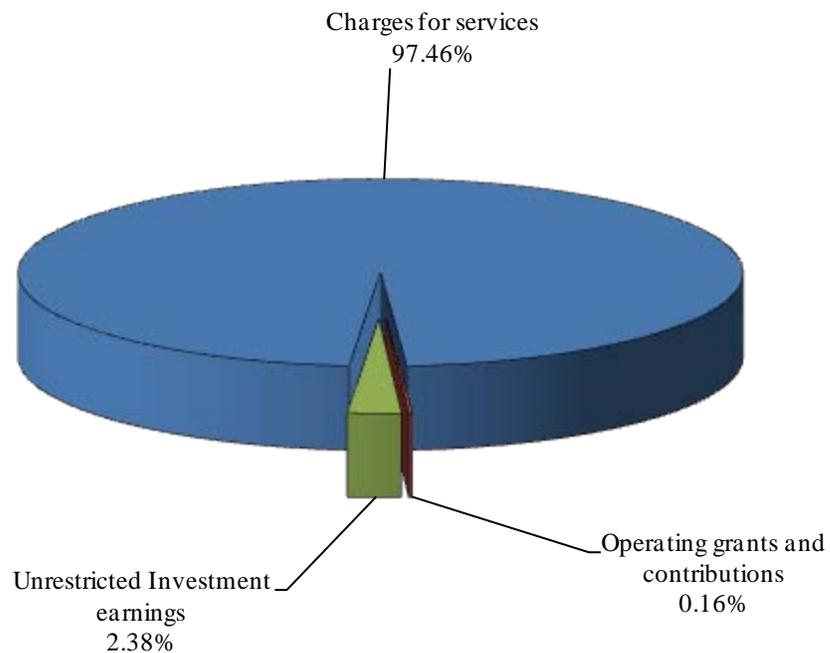


Business-type activities: There was an increase of \$1,455,530 in net assets reported in connection with the City's business-type activities.

Expenses and Program Revenues - Business-type Activities



Revenue by Source - Business-type Activities



Financial Analysis of the Government's Funds

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

Governmental funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$5,655,725, an increase of \$500,516 in comparison with the prior year. Approximately 72 percent of this total amount, \$4,054,938, constitutes *unreserved fund balance*, which is available for spending at the City's discretion. The majority (63%) of the unreserved balance is designated for capital projects and equipment. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed for other purposes. \$308,976 is reserved for the repayment of business loans to local businesses; \$1,280,460 is reserved for debt payments and the remainder for prepaid items.

The General fund is the chief operating fund of the City. At the end of the current year, the fund balance of the General fund was \$1,089,358. As a measure of the General fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Total fund balance represents 49 percent of current year expenditures.

The fund balance of the City's General fund increased \$347,864 during the current fiscal year.

The Debt Service fund has a total fund balance of \$1,280,460, all of which is reserved for the payment of Debt Service. The net decrease in fund balance during the current year in the Debt Service fund was \$309.

The Capital Improvements fund has a fund balance of \$2,511,005, all of which is designated for capital improvements in the City. The fund balance decreased by \$149,328 during the year.

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

Unrestricted net assets of the enterprise funds at the end of the year amounted to \$10,936,840. The total increase in net assets for the funds was \$1,455,530.

General Fund Budgetary Highlights

The City's General fund budget was not amended during the year. The budget called for revenues to equal expenses. The original and final budget called for revenues to exceed expenditures by \$199,902, before other financing sources and uses but was equal to expenses after these items.

Capital Asset and Debt Administration

Capital Assets. The City's investment in capital assets for its governmental and business type activities as of December 31, 2009, amounts to \$37,987,032 (net of accumulated depreciation). This investment in capital assets includes land, structures, improvements, machinery and equipment, park facilities, roads, highways and bridges.

Capital Assets Net of Depreciation

	Governmental Activities			Business-type Activities		
	2009	2008	Increase (Decrease)	2009	2008	Increase (Decrease)
Land	\$ 3,191,412	\$ 2,949,439	\$ 241,973	\$ 321,028	\$ 321,028	\$ -
Buildings	3,349,365	1,446,498	1,902,867	562,216	624,945	(62,729)
Machinery and equipment	1,032,775	1,238,637	(205,862)	730,648	806,709	(76,061)
Infrastructure	7,673,931	7,959,601	(285,670)	21,043,828	20,198,486	845,342
Construction in progress	81,829	2,047,775	(1,965,946)	-	586,852	(586,852)
Total	<u>\$ 15,329,312</u>	<u>\$ 15,641,950</u>	<u>\$ (312,638)</u>	<u>\$ 22,657,720</u>	<u>\$ 22,538,020</u>	<u>\$ 119,700</u>

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

- Completion of the Fire and Ambulance Station Improvement project
- Completion of the MDP Switching Improvements
- Completion of Wastewater construction project
- Continuation of the Fifth Street North Improvements
- Completion of the Railroad Avenue Utility Extension

Additional information on the City's capital assets can be found in Note 3D starts on page 65 of this report.

Long-term debt. At the end of the current fiscal year, the City had total bonded debt outstanding of \$11,769,700. Of this amount, \$3,580,000 is special assessment debt and \$8,189,700 is revenue debt. They are all backed by the full faith and credit of the City.

Outstanding Debt

	Governmental Activities			Business-type Activities		
	2009	2008	Increase (Decrease)	2009	2008	Increase (Decrease)
G.O. improvement bonds	\$ 3,580,000	\$ 3,830,000	\$ (250,000)	\$ -	\$ -	\$ -
General obligation revenue bonds	-	-	-	5,829,700	6,563,700	(734,000)
Revenue bonds	2,360,000	2,360,000	-	-	-	-
Loans	-	15,900	(15,900)	-	-	-
Compensated absences	59,606	56,226	3,380	67,518	69,558	(2,040)
Other postemployment benefits payable	31,970	-	31,970	36,213	-	36,213
Total	\$ 6,031,576	\$ 6,262,126	\$ (230,550)	\$ 5,933,431	\$ 6,633,258	\$ (699,827)

The City's total debt decreased by \$930,377 during the current fiscal year.

Minnesota statutes limit the amount of net general obligation debt a City may issue to 3 percent of the market value of taxable property within the City. Net debt is debt payable solely from ad valorem taxes. The current debt limitation for the City is \$5,467,638 which is significantly in excess of the City's outstanding general obligation debt.

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

Economic Factors and Next Year's Budgets and Rates

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

All of these factors were considered in preparing the City's budget for the 2010 fiscal year.

Requests for Information

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

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BASIC FINANCIAL STATEMENTS

CITY OF MELROSE
MELROSE, MINNESOTA

YEAR ENDED
DECEMBER 31, 2009

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CITY OF MELROSE, MINNESOTA
STATEMENT OF NET ASSETS
DECEMBER 31, 2009

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and temporary investments	\$ 5,084,316	\$ 10,193,472	\$ 15,277,788
Receivables			
Accrued interest	49,631	102,283	151,914
Delinquent taxes	37,592	-	37,592
Accounts	44,206	1,107,393	1,151,599
Loans	308,976	-	308,976
Special assessments	1,082,368	-	1,082,368
Internal balances	222,787	(222,787)	-
Due from Centracare	1,291,977	-	1,291,977
Inventories	-	574,129	574,129
Prepaid items	11,351	17,822	29,173
Unamortized bond discount	104,044	110,703	214,747
Capital assets			
Non-depreciable			
Land	3,191,412	321,028	3,512,440
Construction in progress	81,829	-	81,829
Depreciable (net of accumulated depreciation)			
Buildings	3,349,365	562,216	3,911,581
Equipment	1,032,775	730,648	1,763,423
Infrastructure	7,673,931	21,043,828	28,717,759
TOTAL ASSETS	23,566,560	34,540,735	58,107,295
LIABILITIES			
Accounts payable	55,542	657,856	713,398
Accrued interest payable	94,840	49,595	144,435
Customer deposits payable	10,000	24,290	34,290
Unearned revenue	1,291,977	-	1,291,977
Noncurrent liabilities			
Due within one year			
Bonds payable	370,000	384,000	754,000
Compensated absences payable	50,591	62,267	112,858
Due in more than one year			
Bonds payable	5,570,000	5,445,700	11,015,700
Other postemployment benefits payable	31,970	36,213	68,183
Compensated absences payable	9,015	5,251	14,266
TOTAL LIABILITIES	7,483,935	6,665,172	14,149,107
NET ASSETS			
Invested in capital assets, net of related debt	9,493,356	16,938,723	26,432,079
Restricted for			
Debt service	1,723,074	-	1,723,074
Unrestricted	4,866,195	10,936,840	15,803,035
TOTAL NET ASSETS	\$ 16,082,625	\$ 27,875,563	\$ 43,958,188

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, 2009

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities				
General government	\$ 649,706	\$ 61,291	\$ 12,226	\$ -
Public safety	825,952	224,128	93,963	-
Streets and highways	746,552	22,343	-	125,260
Sanitation	3,818	-	-	-
Culture and recreation	91,893	5,665	4,981	-
Economic development	580,164	617	401,683	-
Interest on long-term debt	263,763	-	-	-
Total governmental activities	<u>3,161,848</u>	<u>314,044</u>	<u>512,853</u>	<u>125,260</u>
Business-type activities				
Ambulance	414,125	401,789	13,132	-
Water	785,483	1,020,789	316	-
Wastewater	1,713,743	1,747,440	890	-
Electric	7,530,506	8,465,140	5,309	-
Total business-type activities	<u>10,443,857</u>	<u>11,635,158</u>	<u>19,647</u>	<u>-</u>
Total	<u>\$ 13,605,705</u>	<u>\$ 11,949,202</u>	<u>\$ 532,500</u>	<u>\$ 125,260</u>

General revenues

Taxes

Property taxes, levied for general purposes

Property taxes, levied for debt service

Tax increments

Franchise taxes

State grants and contributions not restricted to specific programs

Unrestricted investment earnings

Gain on sale of capital assets

Transfers of capital assets

Transfers

Total general revenues, special items and transfers

Change in net assets

Net assets, January 1

Net assets, December 31

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

Net (Expenses) Revenues and Changes in Net Assets

Governmental Activities	Business-type Activities	Total
\$ (576,189)	\$ -	\$ (576,189)
(507,861)	-	(507,861)
(598,949)	-	(598,949)
(3,818)	-	(3,818)
(81,247)	-	(81,247)
(177,864)	-	(177,864)
(263,763)	-	(263,763)
<u>(2,209,691)</u>	<u>-</u>	<u>(2,209,691)</u>
-	796	796
-	235,622	235,622
-	34,587	34,587
-	939,943	939,943
<u>-</u>	<u>1,210,948</u>	<u>1,210,948</u>
<u>(2,209,691)</u>	<u>1,210,948</u>	<u>(998,743)</u>
837,942	-	837,942
325,077	-	325,077
88,179	-	88,179
363,160	-	363,160
799,582	-	799,582
150,972	284,630	435,602
-	-	-
(66,647)	66,647	-
106,695	(106,695)	-
<u>2,604,960</u>	<u>244,582</u>	<u>2,849,542</u>
395,269	1,455,530	1,850,799
<u>15,687,356</u>	<u>26,420,033</u>	<u>42,107,389</u>
<u>\$ 16,082,625</u>	<u>\$ 27,875,563</u>	<u>\$ 43,958,188</u>

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FUND FINANCIAL STATEMENTS

CITY OF MELROSE
MELROSE, MINNESOTA

YEAR ENDED
DECEMBER 31, 2009

CITY OF MELROSE, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2009

	General	Debt Service	Capital Improvements
ASSETS			
Cash and temporary investments	\$ 1,086,983	\$ 1,271,096	\$ 2,395,296
Receivables			
Accrued interest	12,260	8,990	26,602
Delinquent taxes	37,592	-	-
Accounts	36,453	374	3,284
Loans	-	-	-
Special assessments	-	537,454	544,914
Due from other funds	-	-	85,823
Due from Centracare	1,291,977	-	-
Prepaid items	8,672	-	-
	\$ 2,473,937	\$ 1,817,914	\$ 3,055,919
TOTAL ASSETS			
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 55,010	\$ -	\$ -
Due to other funds	-	-	-
Deferred revenue	1,329,569	537,454	544,914
	1,384,579	537,454	544,914
TOTAL LIABILITIES			
FUND BALANCES			
Reserved for			
Prepaid items	8,672	-	-
Loans	-	-	-
Debt service	-	1,280,460	-
Unreserved			
Designated - reported in			
General fund	594,164	-	-
Capital projects funds	-	-	2,511,005
Special revenue fund	-	-	-
Undesignated - reported in			
General fund	486,522	-	-
Capital projects funds	-	-	-
Special revenue funds	-	-	-
	1,089,358	1,280,460	2,511,005
TOTAL FUND BALANCES			
TOTAL LIABILITIES AND FUND BALANCES			
	\$ 2,473,937	\$ 1,817,914	\$ 3,055,919

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

Other Governmental Funds	Total Governmental Funds
\$ 330,941	\$ 5,084,316
1,779	49,631
-	37,592
4,095	44,206
308,976	308,976
-	1,082,368
222,787	308,610
-	1,291,977
2,679	11,351
<u>\$ 871,257</u>	<u>\$ 8,219,027</u>
\$ 10,532	\$ 65,542
85,823	85,823
-	2,411,937
<u>96,355</u>	<u>2,563,302</u>
2,679	11,351
308,976	308,976
-	1,280,460
-	594,164
-	2,511,005
272,544	272,544
-	486,522
39,028	39,028
151,675	151,675
<u>774,902</u>	<u>5,655,725</u>
<u>\$ 871,257</u>	<u>\$ 8,219,027</u>

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CITY OF MELROSE, MINNESOTA
RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
GOVERNMENTAL FUNDS
DECEMBER 31, 2009

Total fund balances - governmental funds	\$ 5,655,725
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.	
Cost of capital assets	20,300,459
Less: accumulated depreciation	(4,971,147)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds.	
Long-term liabilities at year-end consist of:	
Compensated absences payable	(59,606)
Other postemployment benefits payable	(31,970)
Bond principal payable	(5,940,000)
Less bond discount net of accumulated amortization	104,044
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the fund financial statements.	
Delinquent property taxes	37,592
Special assessments	1,082,368
Governmental funds do not report a liability for accrued interest until due and payable.	(94,840)
Total net assets - governmental activities	\$ 16,082,625

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, 2009

	General	Debt Service	Capital Improvements
REVENUES			
Taxes	\$ 1,206,790	\$ 325,077	\$ -
Licenses and permits	66,591	-	-
Intergovernmental	837,404	-	-
Charges for services	62,047	52,257	-
Fines and forfeitures	24,153	-	-
Special assessments	-	45,197	75,123
Interest on investments	23,702	35,144	71,779
Miscellaneous	10,442	-	3,800
TOTAL REVENUES	<u>2,231,129</u>	<u>457,675</u>	<u>150,702</u>
EXPENDITURES			
Current			
General government	500,315	-	1,335
Public safety	519,505	-	-
Streets and highways	412,401	-	-
Sanitation	3,818	-	-
Culture and recreation	-	-	-
Economic development	79,160	-	-
Capital outlay			
General government	-	-	166,066
Public safety	-	-	-
Streets and highways	-	-	-
Culture and recreation	-	-	-
Debt service			
Principal	-	250,000	-
Interest and other	4,892	281,556	-
TOTAL EXPENDITURES	<u>1,520,091</u>	<u>531,556</u>	<u>167,401</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>711,038</u>	<u>(73,881)</u>	<u>(16,699)</u>
OTHER FINANCING SOURCES (USES)			
Sale of capital assets	1,300	-	-
Transfers in	356,331	73,572	467,392
Transfers out	(720,805)	-	(600,021)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(363,174)</u>	<u>73,572</u>	<u>(132,629)</u>
NET CHANGE IN FUND BALANCES	347,864	(309)	(149,328)
FUND BALANCES, JANUARY 1	<u>741,494</u>	<u>1,280,769</u>	<u>2,660,333</u>
FUND BALANCES, DECEMBER 31	<u>\$ 1,089,358</u>	<u>\$ 1,280,460</u>	<u>\$ 2,511,005</u>

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

Other Governmental Funds	Total Governmental Funds
\$ 88,179	\$ 1,620,046
-	66,591
455,966	1,293,370
103,214	217,518
-	24,153
-	120,320
20,347	150,972
60,303	74,545
<u>728,009</u>	<u>3,567,515</u>
-	501,650
145,461	664,966
-	412,401
-	3,818
72,450	72,450
497,119	576,279
-	166,066
33,816	33,816
255,221	255,221
30,537	30,537
15,900	265,900
4,602	291,050
<u>1,055,106</u>	<u>3,274,154</u>
<u>(327,097)</u>	<u>293,361</u>
99,160	100,460
929,093	1,826,388
<u>(398,867)</u>	<u>(1,719,693)</u>
<u>629,386</u>	<u>207,155</u>
302,289	500,516
472,613	5,155,209
<u>\$ 774,902</u>	<u>\$ 5,655,725</u>

CITY OF MELROSE, MINNESOTA
RECONCILIATION OF THE STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2009

Total net change in fund balances - governmental funds	\$ 500,516
Amounts reported for governmental activities in the statement of activities are different because:	
<p>Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense.</p>	
Capital outlay	464,902
Depreciation expense	(527,293)
<p>The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities</p>	
Principal repayments	265,900
<p>Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due</p>	
	27,287
<p>Certain revenues are recognized as soon as they are earned. Under the modified accrual basis of accounting certain revenues cannot be recognized until they are available to liquidate liabilities of the current period</p>	
Property taxes	(5,688)
Special assessments	(44,758)
<p>Proceeds of the sale of capital assets are shown in the governmental fund financial statements. Only the gain on sale of capital assets is shown for the government-wide financial statements.</p>	
	(183,600)
<p>Capital assets constructed in capital projects funds but intended for enterprise fund use are transferred in the government-wide financial statements.</p>	
	(66,647)
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds</p>	
Compensated absences	(35,350)
	(35,350)
Change in net assets - governmental activities	\$ 395,269

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, 2009

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 1,168,830	\$ 1,168,830	\$ 1,206,790	\$ 37,960
Licenses and permits	44,475	44,475	66,591	22,116
Intergovernmental	901,265	901,265	837,404	(63,861)
Charges for services	51,429	51,429	62,047	10,618
Fines and forfeitures	15,000	15,000	24,153	9,153
Interest on investments	23,000	23,000	23,702	702
Miscellaneous	4,000	4,000	10,442	6,442
TOTAL REVENUES	2,207,999	2,207,999	2,231,129	23,130
EXPENDITURES				
Current				
General government	609,220	609,220	500,315	108,905
Public safety	528,981	528,981	519,505	9,476
Streets and highways	421,600	421,600	412,401	9,199
Sanitation	4,200	4,200	3,818	382
Economic development	78,748	78,748	79,160	(412)
Capital outlay	357,000	357,000	-	357,000
Debt service				
Interest and other charges	8,348	8,348	4,892	3,456
TOTAL EXPENDITURES	2,008,097	2,008,097	1,520,091	488,006
EXCESS OF REVENUES OVER EXPENDITURES	199,902	199,902	711,038	511,136
OTHER FINANCING SOURCES (USES)				
Sale of capital assets	-	-	1,300	1,300
Transfers in	70,000	70,000	356,331	286,331
Transfers out	(269,902)	(269,902)	(720,805)	(450,903)
TOTAL OTHER FINANCING SOURCES (USES)	(199,902)	(199,902)	(363,174)	(163,272)
NET CHANGE IN FUND BALANCES	-	-	347,864	347,864
FUND BALANCES, JANUARY 1	741,494	741,494	741,494	-
FUND BALANCES, DECEMBER 31	<u>\$ 741,494</u>	<u>\$ 741,494</u>	<u>\$ 1,089,358</u>	<u>\$ 347,864</u>

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

CITY OF MELROSE, MINNESOTA
 STATEMENTS OF NET ASSETS
 PROPRIETARY FUNDS
 DECEMBER 31, 2009 AND 2008

	Business-type Activities - Enterprise funds			
	Ambulance		Water	
	2009	2008	2009	2008
ASSETS				
CURRENT ASSETS				
Cash and temporary investments	\$ 537,694	\$ 483,181	\$ 1,852,839	\$ 1,912,983
Receivables				
Accrued interest	4,098	7,384	26,476	30,777
Accounts - net	68,081	81,838	81,324	79,857
Due from other funds	-	-	-	-
Inventories	-	-	24,366	22,699
Prepaid items	1,229	344	2,557	4,315
TOTAL CURRENT ASSETS	<u>611,102</u>	<u>572,747</u>	<u>1,987,562</u>	<u>2,050,631</u>
NONCURRENT ASSETS				
Appropriated funds	-	-	-	-
Unamortized bond discount	-	-	37,182	40,704
Capital assets				
Land	-	-	41,123	41,123
Structures and improvements	-	-	7,557,618	7,456,509
Distribution/collection system	-	-	-	-
Plant equipment	412,054	412,054	52,664	50,140
Construction in progress	-	-	-	-
Less accumulated depreciation	<u>(170,398)</u>	<u>(145,847)</u>	<u>(3,104,963)</u>	<u>(2,856,247)</u>
Total capital assets (net of accumulated depreciation)	<u>241,656</u>	<u>266,207</u>	<u>4,546,442</u>	<u>4,691,525</u>
TOTAL NONCURRENT ASSETS	<u>241,656</u>	<u>266,207</u>	<u>4,583,624</u>	<u>4,732,229</u>
TOTAL ASSETS	<u>852,758</u>	<u>838,954</u>	<u>6,571,186</u>	<u>6,782,860</u>

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

Business-type Activities - Enterprise funds - Continued

Wastewater		Electric		Totals	
2009	2008	2009	2008	2009	2008
\$ 1,843,840	\$ 2,218,950	\$ 2,387,152	\$ 1,164,407	\$ 6,621,525	\$ 5,779,521
20,114	30,968	51,595	62,543	102,283	131,672
152,754	144,189	805,234	466,595	1,107,393	772,479
-	-	-	295,300	-	295,300
43,152	20,818	506,611	529,105	574,129	572,622
6,522	5,956	7,514	6,151	17,822	16,766
<u>2,066,382</u>	<u>2,420,881</u>	<u>3,758,106</u>	<u>2,524,101</u>	<u>8,423,152</u>	<u>7,568,360</u>
-	-	3,571,947	3,571,947	3,571,947	3,571,947
<u>73,521</u>	<u>78,456</u>	<u>-</u>	<u>-</u>	<u>110,703</u>	<u>119,160</u>
63,878	63,878	216,027	216,027	321,028	321,028
20,563,071	19,040,200	-	-	28,120,689	26,496,709
-	-	9,982,777	9,768,064	9,982,777	9,768,064
314,457	305,815	-	-	779,175	768,009
-	580,267	-	6,585	-	586,852
<u>(6,649,683)</u>	<u>(6,048,832)</u>	<u>(6,620,905)</u>	<u>(6,351,716)</u>	<u>(16,545,949)</u>	<u>(15,402,642)</u>
<u>14,291,723</u>	<u>13,941,328</u>	<u>3,577,899</u>	<u>3,638,960</u>	<u>22,657,720</u>	<u>22,538,020</u>
<u>14,365,244</u>	<u>14,019,784</u>	<u>7,149,846</u>	<u>7,210,907</u>	<u>26,340,370</u>	<u>26,229,127</u>
<u>16,431,626</u>	<u>16,440,665</u>	<u>10,907,952</u>	<u>9,735,008</u>	<u>34,763,522</u>	<u>33,797,487</u>

CITY OF MELROSE, MINNESOTA
STATEMENTS OF NET ASSETS - CONTINUED
PROPRIETARY FUNDS
DECEMBER 31, 2009 AND 2008

	Business-type Activities - Enterprise funds - Continued			
	Ambulance		Water	
	2009	2008	2009	2008
LIABILITIES				
CURRENT LIABILITIES				
Accounts payable	\$ 1,695	\$ 3,136	\$ 1,881	\$ 12,401
Due to other funds	-	-	86,602	-
Accrued interest payable	-	-	38,612	45,982
Compensated absences payable	-	-	7,628	7,684
Customer deposits payable	-	-	-	-
Current portion of long-term debt	-	-	229,000	251,000
TOTAL CURRENT LIABILITIES	<u>1,695</u>	<u>3,136</u>	<u>363,723</u>	<u>317,067</u>
NONCURRENT LIABILITIES				
Other postemployment benefits payable	-	-	4,091	-
Compensated absences payable less current portion above	-	-	-	770
Loans payable less current portion above	-	-	1,385,700	1,847,700
Bonds payable less current portion above	-	-	1,135,000	1,235,000
TOTAL NONCURRENT LIABILITIES	<u>-</u>	<u>-</u>	<u>2,524,791</u>	<u>3,083,470</u>
TOTAL LIABILITIES	<u>1,695</u>	<u>3,136</u>	<u>2,888,514</u>	<u>3,400,537</u>
NET ASSETS				
Invested in capital assets, net of related debt	241,656	266,207	1,833,924	1,398,529
Unrestricted	609,407	569,611	1,848,748	1,983,794
TOTAL NET ASSETS	<u>\$ 851,063</u>	<u>\$ 835,818</u>	<u>\$ 3,682,672</u>	<u>\$ 3,382,323</u>

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

Business-type Activities - Enterprise funds - Continued

Wastewater		Electric		Totals	
2009	2008	2009	2008	2009	2008
\$ 73,588	\$ 164,127	\$ 580,692	\$ 482,676	\$ 657,856	\$ 662,340
136,185	2,625	-	-	222,787	2,625
10,983	11,389	-	-	49,595	57,371
16,435	17,222	38,204	32,064	62,267	56,970
-	-	24,290	21,860	24,290	21,860
155,000	-	-	-	384,000	251,000
<u>392,191</u>	<u>195,363</u>	<u>643,186</u>	<u>536,600</u>	<u>1,400,795</u>	<u>1,052,166</u>
8,815	-	23,307	-	36,213	-
-	1,750	5,251	10,068	5,251	12,588
-	-	-	-	1,385,700	1,847,700
<u>2,925,000</u>	<u>3,230,000</u>	<u>-</u>	<u>-</u>	<u>4,060,000</u>	<u>4,465,000</u>
<u>2,933,815</u>	<u>3,231,750</u>	<u>28,558</u>	<u>10,068</u>	<u>5,487,164</u>	<u>6,325,288</u>
<u>3,326,006</u>	<u>3,427,113</u>	<u>671,744</u>	<u>546,668</u>	<u>6,887,959</u>	<u>7,377,454</u>
11,285,244	10,789,784	3,577,899	3,638,960	16,938,723	16,093,480
1,820,376	2,223,768	6,658,309	5,549,380	10,936,840	10,326,553
<u>\$ 13,105,620</u>	<u>\$ 13,013,552</u>	<u>\$ 10,236,208</u>	<u>\$ 9,188,340</u>	<u>\$ 27,875,563</u>	<u>\$ 26,420,033</u>

CITY OF MELROSE, MINNESOTA
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	Business-type Activities - Enterprise funds			
	Ambulance		Water	
	2009	2008	2009	2008
OPERATING REVENUES				
Charges for services	\$ 401,789	\$ 376,660	\$ 1,020,789	\$ 1,004,684
OPERATING EXPENSES				
Production, collection and purchased power	-	-	156,476	102,250
Distribution	-	-	136,412	151,423
Accounting and collection	-	-	13,769	12,800
General and administrative	389,574	376,706	103,163	100,143
Depreciation and amortization	24,551	21,638	257,417	283,403
TOTAL OPERATING EXPENSES	414,125	398,344	667,237	650,019
OPERATING INCOME (LOSS)	(12,336)	(21,684)	353,552	354,665
NONOPERATING REVENUES (EXPENSES)				
Intergovernmental	-	-	316	316
Interest on investments	14,449	22,428	55,397	80,194
Miscellaneous	13,132	11,165	-	(41)
Gain on sale of fixed assets	-	-	-	-
Interest expense	-	-	(118,246)	(138,710)
TOTAL NONOPERATING REVENUES (EXPENSES)	27,581	33,593	(62,533)	(58,241)
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	15,245	11,909	291,019	296,424
CONTRIBUTIONS OF ASSETS FROM OTHER FUNDS	-	-	23,208	71,630
TRANSFERS OUT	-	-	(13,878)	-
TOTAL CONTRIBUTIONS AND TRANSFERS	-	-	9,330	71,630
CHANGE IN FUND NET ASSETS	15,245	11,909	300,349	368,054
FUND NET ASSETS, JANUARY 1	835,818	823,909	3,382,323	3,014,269
FUND NET ASSETS, DECEMBER 31	\$ 851,063	\$ 835,818	\$ 3,682,672	\$ 3,382,323

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

Business-type Activities - Enterprise funds - Continued

Wastewater		Electric		Totals	
2009	2008	2009	2008	2009	2008
\$ 1,746,880	\$ 1,599,767	\$ 8,460,960	\$ 6,239,696	\$ 11,630,418	\$ 9,220,807
26,083	33,952	6,060,794	5,002,205	6,243,353	5,138,407
828,905	769,812	360,705	299,524	1,326,022	1,220,759
-	-	12,830	13,012	26,599	25,812
116,705	132,670	782,337	759,704	1,391,779	1,369,223
600,851	634,621	313,840	332,737	1,196,659	1,272,399
<u>1,572,544</u>	<u>1,571,055</u>	<u>7,530,506</u>	<u>6,407,182</u>	<u>10,184,412</u>	<u>9,026,600</u>
174,336	28,712	930,454	(167,486)	1,446,006	194,207
890	890	1,948	1,948	3,154	3,154
50,859	113,627	163,925	222,801	284,630	439,050
560	555	7,541	10,609	21,233	22,288
-	-	-	6,163	-	6,163
<u>(141,199)</u>	<u>(147,263)</u>	<u>-</u>	<u>-</u>	<u>(259,445)</u>	<u>(285,973)</u>
<u>(88,890)</u>	<u>(32,191)</u>	<u>173,414</u>	<u>241,521</u>	<u>49,572</u>	<u>184,682</u>
85,446	(3,479)	1,103,868	74,035	1,495,578	378,889
43,439	121,625	-	-	66,647	193,255
<u>(36,817)</u>	<u>-</u>	<u>(56,000)</u>	<u>(103,040)</u>	<u>(106,695)</u>	<u>(103,040)</u>
<u>6,622</u>	<u>121,625</u>	<u>(56,000)</u>	<u>(103,040)</u>	<u>(40,048)</u>	<u>90,215</u>
92,068	118,146	1,047,868	(29,005)	1,455,530	469,104
<u>13,013,552</u>	<u>12,895,406</u>	<u>9,188,340</u>	<u>9,217,345</u>	<u>26,420,033</u>	<u>25,950,929</u>
<u>\$ 13,105,620</u>	<u>\$ 13,013,552</u>	<u>\$ 10,236,208</u>	<u>\$ 9,188,340</u>	<u>\$ 27,875,563</u>	<u>\$ 26,420,033</u>

CITY OF MELROSE, MINNESOTA
STATEMENTS OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	Business-type Activities - Enterprise funds			
	Ambulance		Water	
	2009	2008	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers and users	\$ 428,678	\$ 398,392	\$ 1,019,638	\$ 989,962
Payments to suppliers	(247,908)	(236,992)	(271,399)	(237,689)
Payments to employees	(143,992)	(139,594)	(145,585)	(121,398)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>36,778</u>	<u>21,806</u>	<u>602,654</u>	<u>630,875</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers to other funds	-	-	(13,878)	-
Decrease in due from other funds	-	-	-	-
Increase (decrease) in due to other funds	-	-	86,602	-
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	<u>-</u>	<u>-</u>	<u>72,724</u>	<u>-</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES				
Acquisition of property and equipment	-	(104,354)	(89,126)	(3,013)
Interest paid on bonds	-	-	(122,094)	(94,094)
Principal paid on bonds	-	-	(584,000)	(230,230)
NET CASH USED BY CAPITAL FINANCING ACTIVITIES	<u>-</u>	<u>(104,354)</u>	<u>(795,220)</u>	<u>(327,337)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received on investments	17,735	28,638	59,698	27,451
Transfer from appropriated funds	-	-	-	-
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>17,735</u>	<u>28,638</u>	<u>59,698</u>	<u>27,451</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	54,513	(53,910)	(60,144)	330,989
CASH AND CASH EQUIVALENTS, JANUARY 1	<u>483,181</u>	<u>537,091</u>	<u>1,912,983</u>	<u>1,581,994</u>
CASH AND CASH EQUIVALENTS, DECEMBER 31	<u>\$ 537,694</u>	<u>\$ 483,181</u>	<u>\$ 1,852,839</u>	<u>\$ 1,912,983</u>

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

Business-type Activities - Enterprise funds - Continued

Wastewater		Electric		Totals	
2009	2008	2009	2008	2009	2008
\$ 1,739,765	\$ 1,583,498	\$ 8,131,810	\$ 6,243,696	\$ 11,319,891	\$ 9,215,548
(739,086)	(415,832)	(6,558,803)	(5,601,088)	(7,817,196)	(6,491,601)
(392,973)	(403,429)	(511,656)	(484,350)	(1,194,206)	(1,148,771)
<u>607,706</u>	<u>764,237</u>	<u>1,061,351</u>	<u>158,258</u>	<u>2,308,489</u>	<u>1,575,176</u>
(36,817)	-	(56,000)	(103,040)	(106,695)	(103,040)
-	8,660	295,300	-	295,300	8,660
<u>133,560</u>	<u>(6,035)</u>	<u>-</u>	<u>-</u>	<u>220,162</u>	<u>(6,035)</u>
<u>96,743</u>	<u>2,625</u>	<u>239,300</u>	<u>(103,040)</u>	<u>408,767</u>	<u>(100,415)</u>
(854,602)	(599,324)	(252,779)	(146,995)	(1,196,507)	(853,686)
(136,670)	(144,425)	-	-	(258,764)	(238,519)
(150,000)	(165,000)	-	-	(734,000)	(395,230)
<u>(1,141,272)</u>	<u>(908,749)</u>	<u>(252,779)</u>	<u>(146,995)</u>	<u>(2,189,271)</u>	<u>(1,487,435)</u>
61,713	123,701	174,873	235,523	314,019	415,313
-	-	-	95,000	-	95,000
<u>61,713</u>	<u>123,701</u>	<u>174,873</u>	<u>330,523</u>	<u>314,019</u>	<u>510,313</u>
(375,110)	(18,186)	1,222,745	238,746	842,004	497,639
<u>2,218,950</u>	<u>2,237,136</u>	<u>1,164,407</u>	<u>925,661</u>	<u>5,779,521</u>	<u>5,281,882</u>
<u>\$ 1,843,840</u>	<u>\$ 2,218,950</u>	<u>\$ 2,387,152</u>	<u>\$ 1,164,407</u>	<u>\$ 6,621,525</u>	<u>\$ 5,779,521</u>

CITY OF MELROSE, MINNESOTA
STATEMENTS OF CASH FLOWS - CONTINUED
PROPRIETARY FUNDS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	Business-type Activities - Enterprise funds - Continued			
	Ambulance		Water	
	2009	2008	2009	2008
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Operating income (loss)	\$ (12,336)	\$ (21,684)	\$ 353,552	\$ 354,665
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Other income related to operations	13,132	11,165	316	316
Depreciation	24,551	21,638	257,417	283,403
(Increase) decrease in assets:				
Accounts receivable	13,757	10,567	(1,467)	(15,038)
Inventory	-	-	(1,667)	(646)
Prepaid items	(885)	(74)	1,758	(1,022)
Increase (decrease) in liabilities:				
Accounts payable	(1,441)	194	(10,520)	9,931
Accrued salaries and benefits payable	-	-	3,265	(734)
Customer deposits payable	-	-	-	-
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 36,778</u>	<u>\$ 21,806</u>	<u>\$ 602,654</u>	<u>\$ 630,875</u>
SCHEDULE OF NONCASH CAPITAL FINANCING ACTIVITIES				
Assets acquired on short-term account	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Contribution of assets from other funds	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 23,208</u>	<u>\$ 71,630</u>
Amortization of bond discount	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,522</u>	<u>\$ 3,446</u>
Disposal of fixed assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,701</u>	<u>\$ -</u>
Loss on disposal of fixed assets	<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 - Continued

Wastewater		Electric		Totals	
2009	2008	2009	2008	2009	2008
\$ 174,336	\$ 28,712	\$ 930,454	\$ (167,486)	\$ 1,446,006	\$ 194,207
1,450	1,445	9,489	18,720	24,387	31,646
600,851	634,621	313,840	332,737	1,196,659	1,272,399
(8,565)	(17,714)	(338,639)	(14,720)	(334,914)	(36,905)
(22,334)	1,262	22,494	(49,767)	(1,507)	(49,151)
(566)	(1,407)	(1,363)	(567)	(1,056)	(3,070)
(143,744)	116,444	98,016	42,020	(57,689)	168,589
6,278	874	24,630	(584)	34,173	(444)
-	-	2,430	(2,095)	2,430	(2,095)
<u>\$ 607,706</u>	<u>\$ 764,237</u>	<u>\$ 1,061,351</u>	<u>\$ 158,258</u>	<u>\$ 2,308,489</u>	<u>\$ 1,575,176</u>
<u>\$ 53,205</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 53,205</u>	<u>\$ -</u>
<u>\$ 43,439</u>	<u>\$ 121,625</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 66,647</u>	<u>\$ 193,255</u>
<u>\$ 4,935</u>	<u>\$ 6,070</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,457</u>	<u>\$ 9,516</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 59,149</u>	<u>\$ -</u>	<u>\$ 67,850</u>	<u>\$ -</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,498</u>	<u>\$ -</u>	<u>\$ 14,498</u>	<u>\$ -</u>

CITY OF MELROSE, MINNESOTA
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2009

	<u>Agency</u>
ASSETS	
Cash and temporary investments	<u>\$ 651</u>
LIABILITIES	
Accounts payable	<u>\$ 651</u>

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

CITY OF MELROSE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

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

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

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

The City retains title to all fixed assets, including the buildings and equipment, and \$957,800 of working capital was transferred to the nonprofit organization. This amount is increased annually in accordance with the Consumer Price Index for Minnesota for each year the lease has been in effect and is to be remitted to the City when the lease is terminated. The cumulative inflation adjustment is \$45,565 at December 31, 2009. The total receivable of \$1,291,977 is reflected as due from CentraCare in the General fund.

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

Blended Component Unit

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

CITY OF MELROSE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Related Entity

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

B. Government-wide and Fund Financial Statements

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

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

CITY OF MELROSE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

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

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

The City reports the following major governmental funds:

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

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

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

The City reports the following major proprietary funds:

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

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

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

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

Additionally, the government reports the following fiduciary fund type:

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

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

CITY OF MELROSE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

As a general rule, the effect of interfund activity has been eliminated from government-wide financial statements. Exceptions to this general rule are charges between the City's electric and sewer functions and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities and Net Assets or Equity

Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

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

CITY OF MELROSE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

1. Direct obligations or obligations guaranteed by the United States or its agencies.
2. Shares of investment companies registered under the Federal Investment Company Act of 1940 and received the highest credit rating, rated in one of the two highest rating categories by a statistical rating agency, and have a final maturity of thirteen months or less.
3. General obligations of a state or local government with taxing powers rated "A" or better; revenue obligations rated "AA" or better.
4. General obligations of the Minnesota Housing Finance Agency rated "A" or better.
5. Bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System.
6. Commercial paper issued by United States banks corporations or their Canadian subsidiaries, of highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less.
7. Repurchase or reverse repurchase agreements and securities lending agreements with financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.
8. Guaranteed investment contracts (GIC's) issued or guaranteed by a United States commercial bank, a domestic branch of a foreign bank, a United States insurance company, or its Canadian subsidiary, whose similar debt obligations were rated in one of the top two rating categories by a nationally recognized rating agency.

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

Property Taxes

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

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

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

CITY OF MELROSE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Accounts Receivable

Accounts receivable include amounts billed for services provided before year end. The Ambulance, Fire Department and the Electric enterprise funds have an allowance for uncollectible accounts totaling \$10,000, \$1,000 and \$2,000, respectively, at December 31, 2009.

Special Assessments

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

Interfund Receivables and Payables

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

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

Inventories and Prepaid Items

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

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

Appropriated funds

Certain resources are set-aside for specific purposes in the Electric enterprise fund. They are included in unrestricted net assets on the balance sheet.

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

CITY OF MELROSE, MINNESOTA
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2009

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. The City reports infrastructure assets on a network and subsystem basis. Accordingly, the amounts spent for the construction or acquisition on infrastructure assets are capitalized and reported in the government-wide financial statements regardless of their amount.

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

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

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

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

Compensated Absences

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

CITY OF MELROSE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Postemployment Benefits Other Than Pensions

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

Long-term Obligations

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

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

Net Assets

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

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

Fund Equity

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

Comparative Data/Reclassifications

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

CITY OF MELROSE, MINNESOTA
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2009

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 Assistant City Administrator so that a budget may be prepared. Before September 15th, the proposed budget is presented to the Council for review. The Council holds public hearings and a final budget is prepared and adopted in December.

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

B. Deficit Fund Equity

The following funds had fund balance deficits at December 31, 2009 that will be eliminated with transfers from other funds:

Fund	Amount
Special revenue	
Melrose Area Development Authority	\$ 10,507

C. Excess of Disbursements over Appropriations

For the year ended December 31, 2009 disbursements exceeded appropriations in the following funds:

Fund	Budget	Actual	Excess of Expenditures Over Appropriations
MADA Revolving Loan	\$ 23,785	\$ 405,113	\$ 381,328
Parks and Recreation	93,016	97,943	4,927

The excess was funded by excess receipts and transfers in from other funds.

CITY OF MELROSE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009

Note 3: DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

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

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

Authorized collateral in lieu of a corporate surety bond includes:

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

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

At year end, the City's carrying amount of deposits was \$9,252,705 and the bank balance was \$9,341,395. Of the bank balance, \$750,000 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 FINANCIAL STATEMENTS
DECEMBER 31, 2009

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

Investments

As of December 31, 2009, the City had the following investments that are insured or registered, or securities held by the City or its agent in the City's name.

Types of Investments	Credit Quality/ Ratings (1)	Segmented Time Distribution (2)	Carrying Amount
Non-pooled investments			
Negotiable CD's	N/A	less than 6 months	\$ 199,294
Negotiable CD's	N/A	6 months to 1 year	98,361
Negotiable CD's	N/A	1 to 3 years	749,567
Negotiable CD's	N/A	more than 3 years	1,424,858
U.S. Government Securities	AAA	6 months to 1 year	147,234
U.S. Government Securities	AAA	more than 3 years	<u>3,287,717</u>
Total non-pooled investments			5,907,031
Pooled investments			
Money Market Mutual funds	N/A	less than 6 months	<u>118,000</u>
Total investments			<u>\$ 6,025,031</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

- *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.

CITY OF MELROSE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

Cash on Hand

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

Cash Summary

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

Carrying amount of deposits	\$ 9,252,705
Investments	6,025,031
Cash on hand	<u>703</u>
Total	<u><u>\$ 15,278,439</u></u>
Cash	
Government wide	\$ 15,277,788
Agency	<u>651</u>
Total	<u><u>\$ 15,278,439</u></u>

B. Loans Receivable

The City has funds available for loans to local businesses. At December 31, 2009 the City has loans outstanding totaling \$308,976 in the special revenue funds. The terms and interest varies and all are secured by the assets of the business.

C. Deferred Revenue

Deferred revenue in the governmental funds at December 31, 2009 is comprised of the following:

	Unavailable	Unearned
General		
Delinquent taxes	\$ 37,592	\$ -
Due from Centracare	-	1,291,977
Capital Improvements		
Special assessments	544,914	-
Debt Service		
Special assessments	<u>537,454</u>	<u>-</u>
Total	<u><u>\$ 1,119,960</u></u>	<u><u>\$ 1,291,977</u></u>

CITY OF MELROSE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

D. Capital Assets

Capital asset activity for the year ended December 31, 2009 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets, not being depreciated				
Land	\$ 2,949,439	\$ 241,973	\$ -	\$ 3,191,412
Construction in progress	<u>2,047,775</u>	<u>109,617</u>	<u>(2,075,563)</u>	<u>81,829</u>
Total capital assets, not being depreciated	<u>4,997,214</u>	<u>351,590</u>	<u>(2,075,563)</u>	<u>3,273,241</u>
Capital assets, being depreciated				
Buildings	2,495,019	2,075,563	(175,000)	4,395,582
Machinery and equipment	2,230,541	46,665	(266,562)	2,010,644
Infrastructure	<u>10,620,992</u>	<u>66,647</u>	<u>(66,647)</u>	<u>10,620,992</u>
Total capital assets being depreciated	<u>15,346,552</u>	<u>2,188,875</u>	<u>(508,209)</u>	<u>17,027,218</u>
Less accumulated depreciation for				
Buildings	(1,048,521)	(118,008)	120,312	(1,046,217)
Machinery and equipment	(991,904)	(123,615)	137,650	(977,869)
Infrastructure	<u>(2,661,391)</u>	<u>(285,670)</u>	<u>-</u>	<u>(2,947,061)</u>
Total accumulated depreciation	<u>(4,701,816)</u>	<u>(527,293)</u>	<u>257,962</u>	<u>(4,971,147)</u>
Total capital assets, being depreciated, net	<u>10,644,736</u>	<u>1,661,582</u>	<u>(250,247)</u>	<u>12,056,071</u>
Governmental activities capital assets, net	<u>\$ 15,641,950</u>	<u>\$ 2,013,172</u>	<u>\$ (2,325,810)</u>	<u>\$ 15,329,312</u>

CITY OF MELROSE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009

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	586,852	941,253	(1,528,105)	-
Total capital assets, not being depreciated	907,880	941,253	(1,528,105)	321,028
Capital assets, being depreciated				
Buildings	2,510,920	-	-	2,510,920
Machinery and equipment	1,600,112	21,265	(23,400)	1,597,977
Infrastructure	32,921,750	1,896,444	(44,450)	34,773,744
Total capital assets being depreciated	37,032,782	1,917,709	(67,850)	38,882,641
Less accumulated depreciation for				
Buildings	(1,885,975)	(62,729)	-	(1,948,704)
Machinery and equipment	(793,403)	(97,326)	23,400	(867,329)
Infrastructure	(12,723,264)	(1,036,604)	29,951	(13,729,916)
Total accumulated depreciation	(15,402,642)	(1,196,659)	53,351	(16,545,949)
Total capital assets, being depreciated, net	21,630,140	721,050	(14,499)	22,336,692
Business-type activities capital assets, net	\$ 22,538,020	\$ 1,662,303	\$ (1,542,604)	\$ 22,657,720
 Governmental activities				
General government				\$ 73,971
Public safety				121,708
Culture and recreation				19,443
Public works				312,171
Total depreciation expense - governmental activities				\$ 527,293
 Business-type activities				
Ambulance				\$ 24,551
Water				257,417
Wastewater				600,851
Electric				313,840
Total depreciation expense - business-type activities				\$ 1,196,659

CITY OF MELROSE, MINNESOTA
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2009

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

Construction Commitments

The City has an active construction project as of December 31, 2009. The City's commitment with contractors is as follows:

Project	Spent to date	Remaining Commitment
Fifth Street North Improvements	<u>\$ 81,829</u>	<u>\$ 32,000</u>

E. Interfund Receivables, Payables and Transfers

Interfund Balances

Receivable Fund	Payable Fund	Amount	Purpose
Capital Improvements	Nonmajor governmental	\$ 85,823	GCI loan
Nonmajor governmental	Water	86,602	Reimbursement for costs
Nonmajor governmental	Wastewater	136,185	Reimbursement for costs
Total		<u>\$ 308,610</u>	

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

CITY OF MELROSE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

Interfund Transfers

Fund	Transfer in:				Total
	General	Debt Service	Capital Improvements	Nonmajor Governmental	
Transfer out:					
General	\$ -	\$ -	\$ 380,000	\$ 340,805	\$ 720,805
Capital improvements	356,331	-	-	243,690	600,021
Nonmajor governmental	-	73,572	31,392	293,903	398,867
Water enterprise	-	-	-	13,878	13,878
Wastewater enterprise	-	-	-	36,817	36,817
Electric enterprise	-	-	56,000	-	56,000
Total transfers out	\$ 356,331	\$ 73,572	\$ 467,392	\$ 929,093	\$ 1,826,388

- The transfer from the General fund to the Capital Improvements fund was for capital purchases.
- The transfer from the General fund to the Nonmajor funds was for fire department operations, MADA expenditures, and budgeted park and recreation projects.
- The transfer from the Capital Improvements fund to the General fund was to pay off a loan that was due to the Electric fund.
- The transfer from the Capital Improvements fund to the Nonmajor funds was for capital expenditures.
- The transfer from the Nonmajor funds to the debt service funds was for bond costs.
- The transfer from the Nonmajor funds to the Cap Imp fund to close funds.
- The transfer between the Nonmajor funds was to close funds.
- The transfer from water and waste water to the Nonmajor funds was for project costs.
- The transfer from the electric to the Capital Improvements fund was for its share of property acquisition.

CITY OF MELROSE, MINNESOTA
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2009

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

F. Long-term Debt

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

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

General Obligation Improvement Bonds

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

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
G.O. Improvement Bonds, Series 2002	\$ 835,000	4.25 - 5.00 %	06/01/02	12/01/17	\$ 410,000
G.O. Improvement Bonds, Series 2004B	985,000	3.00 - 4.30	10/01/04	02/01/20	915,000
G.O. Improvement Bonds, Series 2005A	2,545,000	3.50 - 4.40	09/01/05	02/01/21	<u>2,255,000</u>
Total G.O. Improvement Bonds					<u>\$ 3,580,000</u>

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

Year Ending December 31,	Governmental Activities		
	Principal	Interest	Total
2010	\$ 290,000	\$ 139,750	\$ 429,750
2011	300,000	129,265	429,265
2012	310,000	118,223	428,223
2013	275,000	106,320	381,320
2014	265,000	96,010	361,010
2015-2019	1,595,000	290,088	1,885,088
2020-2021	<u>545,000</u>	<u>21,842</u>	<u>566,842</u>
Total	<u>\$ 3,580,000</u>	<u>\$ 901,498</u>	<u>\$ 4,481,498</u>

CITY OF MELROSE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

Revenue Bonds

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

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

Revenue bonds debt service requirements to maturity are as follows:

Year Ending December 31,	Governmental Activities		
	Principal	Interest	Total
2010	\$ 80,000	\$ 98,208	\$ 178,208
2011	85,000	95,688	180,688
2012	85,000	92,925	177,925
2013	90,000	89,948	179,948
2014	90,000	86,753	176,753
2015-2019	515,000	376,848	891,848
2020-2024	625,000	257,370	882,370
2025-2029	790,000	96,199	886,199
Total	<u>\$ 2,360,000</u>	<u>\$ 1,193,939</u>	<u>\$ 3,553,939</u>

CITY OF MELROSE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009

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	\$ 1,514,700
G.O. Sewer Revenue Bonds of 2004	3,230,000	3.40 - 4.75	06/01/04	12/01/24	3,080,000
G.O. Water Revenue Crossover Refunding	1,330,000	3.30 - 4.25	09/01/05	08/01/20	<u>1,235,000</u>
Total G.O. Revenue Bonds					<u><u>\$ 5,829,700</u></u>

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

Year Ending December 31,	Business-type Activities		
	Principal	Interest	Total
2010	\$ 384,000	\$ 232,369	\$ 616,369
2011	399,000	219,309	618,309
2012	409,000	205,476	614,476
2013	423,000	190,942	613,942
2014	443,000	175,685	618,685
2015-2019	2,461,700	609,977	3,071,677
2020-2024	<u>1,310,000</u>	<u>185,558</u>	<u>1,495,558</u>
Total	<u><u>\$ 5,829,700</u></u>	<u><u>\$ 1,819,316</u></u>	<u><u>\$ 7,649,016</u></u>

CITY OF MELROSE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

Changes in Long-term Liabilities. Long-term liability activity for the year ended December 31, 2009, 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	\$ 3,830,000	\$ -	\$ (250,000)	\$ 3,580,000	\$ 290,000
Revenue Bonds	2,360,000	-	-	2,360,000	80,000
Loans payable	15,900	-	(15,900)	-	-
Total bonds payable	6,205,900	-	(265,900)	5,940,000	370,000
Compensated absences	56,226	53,971	(50,591)	59,606	50,591
Other postemployment benefits payable	-	31,970	-	31,970	-
Governmental activity long-term liabilities	<u>\$ 6,262,126</u>	<u>\$ 53,971</u>	<u>\$ (316,491)</u>	<u>\$ 5,999,606</u>	<u>\$ 420,591</u>
Business-type activities					
Bonds payable					
General obligation					
revenue bonds	\$ 6,563,700	\$ -	\$ (734,000)	\$ 5,829,700	\$ 384,000
Compensated absences	69,558	60,226	(62,266)	67,518	62,267
Other postemployment benefits payable	-	36,213	-	36,213	-
Business-type activity long-term liabilities	<u>\$ 6,633,258</u>	<u>\$ 96,439</u>	<u>\$ (796,266)</u>	<u>\$ 5,933,431</u>	<u>\$ 446,267</u>

CITY OF MELROSE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

G. Fund Equity Reservations and Designations

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

Fund	Purpose	Amount
Fund balance - Reserved		
General	Prepaid items	\$ 8,672
Debt service	Debt service	1,280,460
Nonmajor governmental	Prepaid items	2,679
	Loans	308,976
Total reserved fund balance		\$ 1,600,787
 Fund balance - Unreserved - Designated		
General	Insurance reserve	\$ 8,213
	Compensated absences	35,951
	Working capital	550,000
Capital Improvements	Public Works equipment	114,623
	Street improvements	650,383
	Park and recreation	28,523
	City center maintenance	20,000
	Sidewalk program	33,340
	Police car replacement	81,356
	Future land development	12,961
	Planning and zoning	56,318
	Police equipment	16,078
	Office equipment	11,043
	Capital improvements	1,486,380
Nonmajor governmental	Loans	9,092
	Senior Center	2,436
	Tri-Cap Bus	1,365
	Fire equipment	9,861
	Fire vehicle replacement	249,790
Total designated fund balance		\$ 3,377,713

CITY OF MELROSE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009

Note 4: DEFINED BENEFIT PENSION PLANS - STATEWIDE

A. Plan Description

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

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

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

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

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

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

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

CITY OF MELROSE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009

Note 4: DEFINED BENEFIT PENSION PLANS - STATEWIDE - CONTINUED

B. Funding Policy

Minnesota statutes, chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the State legislature. The City makes annual contributions to the pension plans equal to the amount required by Minnesota statutes. PERF Basic Plan members and Coordinated Plan members are required to contribute 9.1 percent and 6.0 percent, respectively, of their annual covered salary in 2008. PEPFF members are required to contribute 9.4 percent of their annual covered salary in 2009. The City is required to contribute the following percentages of annual covered payroll: 11.78 percent for Basic Plan PERF members, 6.75 percent for Coordinated Plan PERF members, and 14.1 percent for PEPFF members. Employer contribution rates for the Coordinated Plan and PEPFF will increase to 7.00 percent, effective January 1, 2010. The City's contributions to the Public Employees Retirement Fund for the year ended December 31, 2009, 2008 and 2007 were \$84,113, \$84,009 and \$71,955, respectively. The City's contributions to the PEPFF for the years ending December 31, 2009, 2008 and 2007 were \$38,001, \$33,572 and \$18,718, 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 2009 taxable market value of property was \$182,254,600 and the debt limit was \$5,467,638. There was no debt applicable to this limit at year end.

C. Electric Franchise Fee

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

CITY OF MELROSE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009

Note 5: OTHER INFORMATION-CONTINUED

D. Conduit Debt

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

As of December 31, 2009, there were two series of revenue bonds outstanding, with an aggregate principal payable amount of \$10,743,500.

E. Commitment and Contingencies

Tax Increment Districts

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

F. Concentrations

The City receives a significant amount of its annual General fund revenue from the State of Minnesota from the Local Government Aid (LGA) and Market Value Homestead Credit (MVHC) programs. The amount received in 2009 was \$691,268 and \$105,724 for LGA and MVHC, respectively. This accounted for 36 percent of General fund revenue. The State of Minnesota has proposed unallotments calculated as a percent of the total pay 2009 revenue base. For cities, the revenue base is equal to the certified levy plus certified local government aid (LGA) plus taconite aid. Cities with populations under 1,000 are exempt if their adjusted net tax capacity per capita is below the statewide average. The proposed unallotments for cities has been limited to \$22 per capita in pay 2009 and \$55 per capita in pay 2010. The proposed unallotment percentages for 2010 are equal to 7.644 percent of the 2009 revenue base for cities.

CITY OF MELROSE, MINNESOTA
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2009

Note 6: VOLUNTEER FIREFIGHTER'S RELIEF ASSOCIATION

A. Plan Description

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

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

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

B. Funding Policy

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

Annual pension cost	\$	18,418
Contributions made		
City (Voluntary)		2,700
State Aid		18,418
Actuarial valuation date		12/31/09
Actuarial cost method		Entry age normal
Amortization method		Level dollar closed
Remaining amortization period		
Normal cost		20 years
Prior service cost		10 years
Asset valuation method		Market
Actuarial assumptions		
Investment rate of return		5%
Projected salary increases		N/A
Inflation rate		N/A
Cost of living adjustments		None

CITY OF MELROSE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009

Note 6: VOLUNTEER FIREFIGHTER'S RELIEF ASSOCIATION - CONTINUED

Year Ending	Three Year Trend Information		
	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
12/31/09	\$ 18,418	100.0 %	\$ -
12/31/08	20,709	100.0	-
12/31/07	25,488	100.0	-

Required Supplementary Information					
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Assets in Excess of (Unfunded) Accrued Liability	Funded Rate	Pension Benefit Per Year of Service
12/31/09	\$ 318,898	\$ 363,958	\$ (45,060)	87.6 %	\$ 1,250
12/31/08	288,479	362,483	(74,004)	79.6	1,250
12/31/07	349,073	341,033	8,040	102.4	1,250
12/30/06	302,251	302,296	(45)	100.0	1,200
12/31/05	293,087	317,757	(24,670)	92.2	1,200
12/31/04	290,245	330,705	(40,460)	87.8	1,200

Note 7: POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

In 2009, the City prospectively implemented the requirements of GASB No. 45 *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*.

A. Plan Description

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

B. Funding Policy

The City has historically funded these liabilities on a pay-as-you-go basis. Contribution requirements are negotiated between the City and union representatives at the expiration of each Collective Bargaining Agreement. At the present time, retiree benefits are provided for two participating employees. The City does not contribute any of the cost of current year premiums for eligible retired plan members and their spouses. For fiscal year 2009, the City contributed \$16,156 to the plan. Retired plan members receiving benefits contribute 100 percent of their premium costs.

CITY OF MELROSE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009

Note 7: POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS - CONTINUED

C. Annual OPEB Cost and Net OPEB Obligation

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

Annual required contribution	\$	84,340
Interest on net OPEB obligation		-
Adjustment to annual required contribution		-
		-
Annual OPEB cost (expense)		84,340
Contributions made		(16,156)
		(16,156)
Increase in net OPEB obligation		68,184
Net OPEB obligation - beginning of year		-
		-
Net OPEB obligation - end of year	\$	68,184

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

Year Ending	Trend Information		
	Annual OPEB Cost	Percentage Annual OPEB Contributed	Net OPEB Obligation
12/31/09	\$ 84,340	19.2 %	\$ 68,184

D. Funded Status and Funding Progress

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

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

CITY OF MELROSE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009

Note 7: POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS - CONTINUED

E. Methods and Assumptions

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

The following simplifying assumptions were made:

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

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

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

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

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

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

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

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

Based on the historical and expected returns of the City's short-term investment portfolio, a discount rate of 4.5 percent was used. In addition, a simplified version of the entry age actuarial cost method was used. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2009, was thirty years.

**REQUIRED SUPPLEMENTARY
INFORMATION**

CITY OF MELROSE
MELROSE, MINNESOTA

YEAR ENDED
DECEMBER 31, 2009

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CITY OF MELROSE, MINNESOTA
 REQUIRED SUPPLEMENTARY INFORMATION
 DECEMBER 31, 2009

Schedule of Funding Progress for the Postemployment Benefit Plan

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

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**COMBINING AND INDIVIDUAL FUND
FINANCIAL STATEMENTS**

CITY OF MELROSE
MELROSE, MINNESOTA

YEAR ENDED
DECEMBER 31, 2009

CITY OF MELROSE, MINNESOTA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
DECEMBER 31, 2009

	Special Revenue	Capital Projects	Total Nonmajor Governmental Funds
ASSETS			
Cash and temporary investments (deficits)	\$ 508,961	\$ (178,020)	\$ 330,941
Receivables			
Accrued interest	1,779	-	1,779
Loans	308,976	-	308,976
Accounts - net	4,095	-	4,095
Due from other funds	-	222,787	222,787
Prepaid items	2,679	-	2,679
TOTAL ASSETS	\$ 826,490	\$ 44,767	\$ 871,257
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 4,793	\$ 5,739	\$ 10,532
Due to other funds	85,823	-	85,823
TOTAL LIABILITIES	90,616	5,739	96,355
FUND BALANCES			
Reserved for prepaid items	2,679	-	2,679
Reserved for loans	308,976	-	308,976
Unreserved			
Designated	272,544	-	272,544
Undesignated	151,675	39,028	190,703
TOTAL FUND BALANCES	735,874	39,028	774,902
TOTAL LIABILITIES AND FUND BALANCES	\$ 826,490	\$ 44,767	\$ 871,257

CITY OF MELROSE, MINNESOTA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2009

	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Total Nonmajor Governmental Funds</u>
REVENUES			
Tax increments	\$ 88,179	\$ -	\$ 88,179
Intergovernmental	406,268	49,698	455,966
Charges for services	103,214	-	103,214
Interest on investments	19,865	482	20,347
Miscellaneous	57,803	2,500	60,303
	<u>675,329</u>	<u>52,680</u>	<u>728,009</u>
 EXPENDITURES			
Current			
Public safety	145,461	-	145,461
Culture and recreation	72,450	-	72,450
Economic development	497,119	-	497,119
Capital outlay			
Public safety	6,028	27,788	33,816
Streets and highways	-	255,221	255,221
Culture and recreation	30,537	-	30,537
Debt service			
Principal	15,900	-	15,900
Interest and other charges	4,602	-	4,602
	<u>772,097</u>	<u>283,009</u>	<u>1,055,106</u>
 DEFICIENCY OF REVENUES UNDER EXPENDITURES	 <u>(96,768)</u>	 <u>(230,329)</u>	 <u>(327,097)</u>
 OTHER FINANCING SOURCES (USES)			
Sale of capital assets	99,160	-	99,160
Transfers in	657,031	272,062	929,093
Transfers out	(102,096)	(296,771)	(398,867)
	<u>654,095</u>	<u>(24,709)</u>	<u>629,386</u>
 NET CHANGE IN FUND BALANCES	 557,327	 (255,038)	 302,289
 FUND BALANCES, JANUARY 1	 <u>178,547</u>	 <u>294,066</u>	 <u>472,613</u>
 FUND BALANCES, DECEMBER 31	 <u>\$ 735,874</u>	 <u>\$ 39,028</u>	 <u>\$ 774,902</u>

CITY OF MELROSE, MINNESOTA
NONMAJOR SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
DECEMBER 31, 2009

	Business Improvement Loans	Melrose Area Development Authority (MADA)	Parks and Recreation
ASSETS			
Cash and temporary investments (deficits)	\$ 9,092	\$ 75,036	\$ 174
Receivable			
Accrued interest	-	265	-
Loans	-	-	-
Accounts - net	-	-	-
Prepaid items	-	15	-
	<u>\$ 9,092</u>	<u>\$ 75,316</u>	<u>\$ 174</u>
TOTAL ASSETS			
	<u>\$ 9,092</u>	<u>\$ 75,316</u>	<u>\$ 174</u>
LIABILITIES AND FUND BALANCES (DEFICITS)			
LIABILITIES			
Accounts payable	\$ -	\$ -	\$ 174
Due to other funds	-	85,823	-
	<u>-</u>	<u>85,823</u>	<u>174</u>
TOTAL LIABILITIES			
	<u>-</u>	<u>85,823</u>	<u>174</u>
FUND BALANCES (DEFICITS)			
Reserved for prepaid items	-	15	-
Reserved for loans	-	-	-
Unreserved			
Designated	9,092	-	-
Undesignated	-	(10,522)	-
	<u>9,092</u>	<u>(10,522)</u>	<u>-</u>
TOTAL FUND BALANCES (DEFICITS)			
	<u>9,092</u>	<u>(10,507)</u>	<u>-</u>
TOTAL LIABILITIES AND FUND BALANCES (DEFICITS)			
	<u>\$ 9,092</u>	<u>\$ 75,316</u>	<u>\$ 174</u>

MADA Revolving Loan	Senior Activity Center	PIA Asset Building	Tri-Cap Bus	Fire Department
\$ 145,014	\$ 2,560	\$ 3,245	\$ 1,765	\$ 272,075
-	-	-	-	1,514
308,976	-	-	-	-
-	-	-	-	4,095
-	-	-	-	2,664
<u>\$ 453,990</u>	<u>\$ 2,560</u>	<u>\$ 3,245</u>	<u>\$ 1,765</u>	<u>\$ 280,348</u>
\$ -	\$ 124	\$ -	\$ 400	\$ 4,095
-	-	-	-	-
-	124	-	400	4,095
-	-	-	-	2,664
308,976	-	-	-	-
-	2,436	-	1,365	259,651
145,014	-	3,245	-	13,938
<u>453,990</u>	<u>2,436</u>	<u>3,245</u>	<u>1,365</u>	<u>276,253</u>
<u>\$ 453,990</u>	<u>\$ 2,560</u>	<u>\$ 3,245</u>	<u>\$ 1,765</u>	<u>\$ 280,348</u>

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CITY OF MELROSE, MINNESOTA
NONMAJOR SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET - CONTINUED
DECEMBER 31, 2009

	Tax Increment Projects	Total
ASSETS		
Cash and temporary investments (deficit)	\$ -	\$ 508,961
Receivable		
Accrued interest	-	1,779
Loans	-	308,976
Accounts - net	-	4,095
Prepaid items	-	2,679
	-	2,679
TOTAL ASSETS	\$ -	\$ 826,490
LIABILITIES AND FUND BALANCES (DEFICITS)		
LIABILITIES		
Accounts payable	\$ -	\$ 4,793
Due to other funds	-	85,823
	-	85,823
TOTAL LIABILITIES	-	90,616
FUND BALANCES (DEFICITS)		
Reserved for prepaid items	-	2,679
Reserved for loans	-	308,976
Unreserved		
Designated	-	272,544
Undesignated	-	151,675
	-	151,675
TOTAL FUND BALANCES (DEFICITS)	-	735,874
TOTAL LIABILITIES AND FUND BALANCES (DEFICITS)	\$ -	\$ 826,490

CITY OF MELROSE, MINNESOTA
NONMAJOR SPECIAL REVENUE FUNDS
COMBINING SCHEDULE OF REVENUE, EXPENDITURES
AND CHANGES IN FUND BALANCES (DEFICITS)
FOR THE YEAR ENDED DECEMBER 31, 2009

	Business Improvement Loans	Melrose Area Development Authority (MADA)	Parks and Recreation
REVENUES			
Tax increments	\$ -	\$ -	\$ -
Intergovernmental	-	388,850	-
Charges for services	-	-	5,665
Interest on investments	142	6,132	190
Miscellaneous			
Contributions and donations	-	-	-
Other	-	6,883	112
	<u>142</u>	<u>401,865</u>	<u>5,967</u>
TOTAL REVENUES			
EXPENDITURES			
Current			
Personal services	-	764	38,907
Supplies	-	213	7,608
Other services and charges	1,932	399,587	20,891
Capital outlay			
Public safety	-	-	-
Culture and recreation	-	-	30,537
Debt service			
Principal	-	-	-
Interest and other charges	-	4,549	-
	<u>1,932</u>	<u>405,113</u>	<u>97,943</u>
TOTAL EXPENDITURES			
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(1,790)</u>	<u>(3,248)</u>	<u>(91,976)</u>
OTHER FINANCING SOURCES (USES)			
Sale of capital assets	-	-	-
Transfers in	-	85,557	184,337
Transfers out	-	(73,572)	(28,524)
	<u>-</u>	<u>11,985</u>	<u>155,813</u>
TOTAL OTHER FINANCING SOURCES (USES)			
NET CHANGE IN FUND BALANCES	(1,790)	8,737	63,837
FUND BALANCES (DEFICITS), JANUARY 1	<u>10,882</u>	<u>(19,244)</u>	<u>(63,837)</u>
FUND BALANCES (DEFICITS), DECEMBER 31	<u>\$ 9,092</u>	<u>\$ (10,507)</u>	<u>\$ -</u>

<u>MADA Revolving Loan</u>	<u>Senior Activity Center</u>	<u>PIA Asset Building</u>	<u>Tri-Cap Bus</u>	<u>Fire Department</u>
\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	17,418
-	-	-	617	96,932
11,886	-	-	-	1,515
-	110	1,750	5,950	37,500
-	4,759	34	-	705
<u>11,886</u>	<u>4,869</u>	<u>1,784</u>	<u>6,567</u>	<u>154,070</u>
-	-	-	-	49,493
-	-	-	-	19,955
-	5,044	564	5,880	76,013
-	-	-	-	6,028
-	-	-	-	-
15,900	-	-	-	-
53	-	-	-	-
<u>15,953</u>	<u>5,044</u>	<u>564</u>	<u>5,880</u>	<u>151,489</u>
<u>(4,067)</u>	<u>(175)</u>	<u>1,220</u>	<u>687</u>	<u>2,581</u>
-	-	-	-	99,160
-	-	-	-	93,234
-	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>192,394</u>
(4,067)	(175)	1,220	687	194,975
458,057	2,611	2,025	678	81,278
<u>\$ 453,990</u>	<u>\$ 2,436</u>	<u>\$ 3,245</u>	<u>\$ 1,365</u>	<u>\$ 276,253</u>

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CITY OF MELROSE, MINNESOTA
NONMAJOR SPECIAL REVENUE FUNDS
COMBINING SCHEDULE OF REVENUE, EXPENDITURES
AND CHANGES IN FUND BALANCES (DEFICITS) - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2009

	Tax Increment Projects	Total
	<u> </u>	<u> </u>
REVENUES		
Tax increments	\$ 88,179	\$ 88,179
Intergovernmental	-	406,268
Charges for services	-	103,214
Interest on investments	-	19,865
Miscellaneous		
Contributions and donations	-	45,310
Other	-	12,493
	<u>88,179</u>	<u>675,329</u>
TOTAL REVENUES		
EXPENDITURES		
Current		
Personal services	-	89,164
Supplies	-	27,776
Other services and charges	88,179	598,090
Capital outlay		
Public safety	-	6,028
Culture and recreation	-	30,537
Debt service		
Principal	-	15,900
Interest and other charges	-	4,602
	<u>88,179</u>	<u>772,097</u>
TOTAL EXPENDITURES		
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>-</u>	<u>(96,768)</u>
OTHER FINANCING SOURCES (USES)		
Sale of capital assets	-	99,160
Transfers in	293,903	657,031
Transfers out	-	(102,096)
	<u>293,903</u>	<u>654,095</u>
TOTAL OTHER FINANCING SOURCES (USES)		
NET CHANGE IN FUND BALANCES	293,903	557,327
FUND BALANCES (DEFICITS), JANUARY 1	<u>(293,903)</u>	<u>178,547</u>
FUND BALANCES (DEFICITS), DECEMBER 31	<u>\$ -</u>	<u>\$ 735,874</u>

CITY OF MELROSE, MINNESOTA
MELROSE AREA DEVELOPMENT AUTHORITY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (DEFICITS) -
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2009
(With comparative actual amounts for the year ended December 31, 2008)

	2009			Variance with Final Budget - Positive (Negative)	2008
	Budgeted Amounts		Actual Amounts		Actual Amounts
	Original	Final			
REVENUES					
Intergovernmental	\$ -	\$ -	\$ 388,850	\$ 388,850	\$ 25,150
Interest on investments	6,800	6,800	6,132	(668)	6,452
Miscellaneous	5,000	5,000	6,883	1,883	9,748
TOTAL REVENUES	11,800	11,800	401,865	390,065	41,350
EXPENDITURES					
Economic development					
Personal services	3,858	3,858	764	3,094	1,034
Supplies	450	450	213	237	106
Other services and charges	14,477	14,477	399,587	(385,110)	31,124
Debt service					
Interest and other charges	5,000	5,000	4,549	451	4,145
TOTAL EXPENDITURES	23,785	23,785	405,113	(381,328)	36,409
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(11,985)	(11,985)	(3,248)	8,737	4,941
OTHER FINANCING SOURCES (USES)					
Transfers in	85,557	85,557	85,557	-	22,500
Transfers out	(73,572)	(73,572)	(73,572)	-	-
TOTAL OTHER FINANCING SOURCES (USES)	11,985	11,985	11,985	-	22,500
NET CHANGE IN FUND BALANCES	-	-	8,737	8,737	27,441
FUND BALANCES (DEFICITS), JANUARY 1	(19,244)	(19,244)	(19,244)	-	(46,685)
FUND BALANCES (DEFICITS), DECEMBER 31	<u>\$ (19,244)</u>	<u>\$ (19,244)</u>	<u>\$ (10,507)</u>	<u>\$ 8,737</u>	<u>\$ (19,244)</u>

CITY OF MELROSE, MINNESOTA
PARKS AND RECREATION
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (DEFICITS) -
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2009
(With comparative actual amounts for the year ended December 31, 2008)

	2009			Variance with Final Budget - Positive (Negative)	2008
	Budgeted Amounts		Actual Amounts		Actual Amounts
	Original	Final			
REVENUES					
Charges for services	\$ 5,000	\$ 5,000	\$ 5,665	\$ 665	\$ 6,950
Interest on investments	-	-	190	190	248
Miscellaneous	100	100	112	12	1,484
TOTAL REVENUES	5,100	5,100	5,967	867	8,682
EXPENDITURES					
Parks and recreation					
Personal services	37,366	37,366	38,907	(1,541)	39,609
Supplies	6,500	6,500	7,608	(1,108)	6,358
Other services and charges	29,150	29,150	20,891	8,259	25,186
Capital outlay	20,000	20,000	30,537	(10,537)	-
TOTAL EXPENDITURES	93,016	93,016	97,943	(4,927)	71,153
DEFICIENCY OF REVENUES UNDER EXPENDITURES	(87,916)	(87,916)	(91,976)	(4,060)	(62,471)
OTHER FINANCING SOURCES (USES)					
Transfers in	87,916	87,916	184,337	96,421	386,285
Transfers out	-	-	(28,524)	(28,524)	-
TOTAL OTHER FINANCING SOURCES (USES)	87,916	87,916	155,813	67,897	386,285
NET CHANGE IN FUND BALANCES	-	-	63,837	63,837	323,814
FUND BALANCES (DEFICITS), JANUARY 1	(63,837)	(63,837)	(63,837)	-	(387,651)
FUND BALANCES (DEFICITS), DECEMBER 31	<u>\$ (63,837)</u>	<u>\$ (63,837)</u>	<u>\$ -</u>	<u>\$ 63,837</u>	<u>\$ (63,837)</u>

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CITY OF MELROSE, MINNESOTA
FIRE DEPARTMENT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2009
(With comparative actual amounts for the year ended December 31, 2008)

	2009			Variance with Final Budget - Positive (Negative)	2008
	Budgeted Amounts		Actual Amounts		Actual Amounts
	Original	Final			
REVENUES					
Intergovernmental	\$ 24,042	\$ 24,042	\$ 17,418	\$ (6,624)	\$ 20,709
Charges for services	200,326	200,326	96,932	(103,394)	86,917
Interest on investments	-	-	1,515	1,515	2,401
Miscellaneous	-	-	38,205	38,205	116,050
TOTAL REVENUES	224,368	224,368	154,070	(70,298)	226,077
EXPENDITURES					
Public safety					
Personal services	57,616	57,616	49,493	8,123	53,114
Supplies	19,133	19,133	19,955	(822)	25,028
Other services and charges	72,419	72,419	76,013	(3,594)	49,713
Capital outlay	50,200	50,200	6,028	44,172	275,722
TOTAL EXPENDITURES	199,368	199,368	151,489	47,879	403,577
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	25,000	25,000	2,581	(22,419)	(177,500)
OTHER FINANCING SOURCES					
Sale of capital assets	-	-	99,160	99,160	-
Transfers in	-	-	93,234	93,234	87,353
TOTAL OTHER FINANCING SOURCES	-	-	192,394	192,394	87,353
NET CHANGE IN FUND BALANCES	25,000	25,000	194,975	169,975	(90,147)
FUND BALANCES, JANUARY 1	81,278	81,278	81,278	-	171,425
FUND BALANCES, DECEMBER 31	<u>\$ 106,278</u>	<u>\$ 106,278</u>	<u>\$ 276,253</u>	<u>\$ 169,975</u>	<u>\$ 81,278</u>

CITY OF MELROSE, MINNESOTA
NONMAJOR CAPITAL PROJECTS FUNDS
COMBINING BALANCE SHEET
DECEMBER 31, 2009

	2007 Fire and Ambulance Station	1992 Abandoned Railroad Property Project	2006 Tri Quality Improvement
ASSETS			
Cash and temporary investments (deficits)	\$ -	\$ -	\$ -
Due from other funds	-	-	-
	<u> </u>	<u> </u>	<u> </u>
TOTAL ASSETS	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ -	\$ -	\$ -
FUND BALANCES			
Unreserved - undesignated	-	-	-
	<u> </u>	<u> </u>	<u> </u>
TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

2009 Capital	
<u>Improvements</u>	<u>Total</u>
\$ (178,020)	\$ (178,020)
<u>222,787</u>	<u>222,787</u>
<u>\$ 44,767</u>	<u>\$ 44,767</u>
\$ 5,739	\$ 5,739
<u>39,028</u>	<u>39,028</u>
<u>\$ 44,767</u>	<u>\$ 44,767</u>

CITY OF MELROSE, MINNESOTA
NONMAJOR CAPITAL PROJECTS FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES (DEFICITS)
FOR THE YEAR ENDED DECEMBER 31, 2009

	2007 Fire and Ambulance Station	1992 Abandoned Railroad Property Project	2006 Tri Quality Improvement
REVENUES			
Intergovernmental	\$ -	\$ -	\$ -
Interest on investments	482	-	-
Miscellaneous	2,500	-	-
	<hr/>	<hr/>	<hr/>
TOTAL REVENUES	2,982	-	-
	<hr/>	<hr/>	<hr/>
EXPENDITURES			
Capital outlay			
Public safety	27,788	-	-
Streets and highways	-	-	-
	<hr/>	<hr/>	<hr/>
TOTAL EXPENDITURES	27,788	-	-
	<hr/>	<hr/>	<hr/>
DEFICIENCY OF REVENUES UNDER EXPENDITURES	(24,806)	-	-
OTHER FINANCING SOURCES (USES)			
Transfers in	27,511	-	-
Transfer out	-	(296,498)	(273)
	<hr/>	<hr/>	<hr/>
TOTAL OTHER FINANCING SOURCES (USES)	27,511	(296,498)	(273)
	<hr/>	<hr/>	<hr/>
NET CHANGE IN FUND BALANCES	2,705	(296,498)	(273)
FUND BALANCES (DEFICITS), JANUARY 1	(2,705)	296,498	273
	<hr/>	<hr/>	<hr/>
FUND BALANCES, DECEMBER 31	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

2009 Capital Improvements		Total	
\$ 49,698	\$ 49,698		
-	482		
-	2,500		
<u>49,698</u>	<u>52,680</u>		
-	27,788		
<u>255,221</u>	<u>255,221</u>		
<u>255,221</u>	<u>283,009</u>		
(205,523)	(230,329)		
244,551	272,062		
-	(296,771)		
<u>244,551</u>	<u>(24,709)</u>		
39,028	(255,038)		
-	294,066		
<u>\$ 39,028</u>	<u>\$ 39,028</u>		

CITY OF MELROSE, MINNESOTA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2009
(With comparative actual amounts for the year ended December 31, 2008)

	2009			Variance with Final Budget - Positive (Negative)	2008
	Budgeted Amounts		Actual Amounts		Actual Amounts
	Original	Final			
REVENUES					
Taxes					
Property taxes	\$ 831,855	\$ 831,855	\$ 843,630	\$ 11,775	\$ 780,622
Franchise fees	336,975	336,975	363,160	26,185	297,977
Total	1,168,830	1,168,830	1,206,790	37,960	1,078,599
Licenses and permits					
Business	16,975	16,975	16,456	(519)	17,282
Nonbusiness	27,500	27,500	50,135	22,635	47,172
Total	44,475	44,475	66,591	22,116	64,454
Intergovernmental					
State					
Local government aid	758,166	758,166	691,268	(66,898)	654,768
Property tax credits	105,724	105,724	105,724	-	106,347
Police state aid	32,785	32,785	33,440	655	28,077
Other	4,590	4,590	6,972	2,382	9,414
Total	901,265	901,265	837,404	(63,861)	798,606
Charges for services					
General government	27,100	27,100	38,701	11,601	67,673
Public safety	2,000	2,000	1,693	(307)	1,302
Streets and highways	19,829	19,829	19,323	(506)	18,420
Culture and recreation	2,500	2,500	2,330	(170)	2,580
Total	51,429	51,429	62,047	10,618	89,975
Fines and forfeitures	15,000	15,000	24,153	9,153	18,625
Interest on investments	23,000	23,000	23,702	702	55,788
Miscellaneous					
Contributions and donations	-	-	450	450	600
Other	4,000	4,000	9,992	5,992	10,643
Total	4,000	4,000	10,442	6,442	11,243
TOTAL REVENUES	2,207,999	2,207,999	2,231,129	23,130	2,117,290

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, 2009
(With comparative actual amounts for the year ended December 31, 2008)

	2009			Variance with Final Budget - Positive (Negative)	2008
	Budgeted Amounts		Actual Amounts		Actual Amounts
	Original	Final			
EXPENDITURES					
Current					
General government					
Legislative					
Personal services	\$ 15,092	\$ 15,092	\$ 15,039	\$ 53	\$ 15,050
Other services and charges	8,600	8,600	4,400	4,200	5,315
Total	23,692	23,692	19,439	4,253	20,365
Executive					
Personal services	5,022	5,022	5,022	-	5,022
Other services and charges	500	500	204	296	116
Total	5,522	5,522	5,226	296	5,138
City administrator					
Personal services	84,214	84,214	53,826	30,388	77,647
Supplies	-	-	-	-	147
Other services and charges	4,800	4,800	828	3,972	4,637
Total	89,014	89,014	54,654	34,360	82,431
Financial administration					
Personal services	208,026	208,026	180,268	27,758	200,937
Supplies	6,000	6,000	4,273	1,727	4,809
Other services and charges	158,545	158,545	117,944	40,601	174,185
Total	372,571	372,571	302,485	70,086	379,931
Assessing					
Other services and charges	19,614	19,614	17,240	2,374	18,681
Cable communications					
Other services and charges	26,508	26,508	27,127	(619)	27,899
City attorney					
Other services and charges	66,600	66,600	71,464	(4,864)	72,007
Planning and zoning					
Personal services	3,499	3,499	2,196	1,303	3,467
Other services and charges	2,200	2,200	484	1,716	3,921
Total	5,699	5,699	2,680	3,019	7,388
Total general government	609,220	609,220	500,315	108,905	613,840

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, 2009
(With comparative actual amounts for the year ended December 31, 2008)

	2009			Variance with Final Budget - Positive (Negative)	2008
	Budgeted Amounts		Actual Amounts		Actual Amounts
	Original	Final			
EXPENDITURES - CONTINUED					
Current - Continued					
Public safety					
Police					
Personal services	\$ 433,881	\$ 433,881	\$ 419,619	\$ 14,262	\$ 403,500
Supplies	29,000	29,000	22,234	6,766	28,725
Other services and charges	42,850	42,850	32,853	9,997	38,407
Total	<u>505,731</u>	<u>505,731</u>	<u>474,706</u>	<u>31,025</u>	<u>470,632</u>
Building inspection					
Other services and charges	23,250	23,250	44,799	(21,549)	51,402
Total public safety	<u>528,981</u>	<u>528,981</u>	<u>519,505</u>	<u>9,476</u>	<u>522,034</u>
Streets and highways					
Streets					
Personal services	232,554	232,554	223,252	9,302	238,648
Supplies	45,900	45,900	41,300	4,600	71,987
Other services and charges	39,890	39,890	34,945	4,945	41,009
Total	<u>318,344</u>	<u>318,344</u>	<u>299,497</u>	<u>18,847</u>	<u>351,644</u>
Snow and ice removal					
Personal services	40,006	40,006	46,336	(6,330)	29,855
Supplies	25,000	25,000	24,266	734	20,663
Other services and charges	250	250	-	250	60
Total	<u>65,256</u>	<u>65,256</u>	<u>70,602</u>	<u>(5,346)</u>	<u>50,578</u>
Street lighting					
Other services and charges	38,000	38,000	42,302	(4,302)	34,317
Total streets and highways	<u>421,600</u>	<u>421,600</u>	<u>412,401</u>	<u>9,199</u>	<u>436,539</u>
Sanitation					
Supplies	1,700	1,700	981	719	2,331
Other services and charges	2,500	2,500	2,837	(337)	2,718
Total sanitation	<u>4,200</u>	<u>4,200</u>	<u>3,818</u>	<u>382</u>	<u>5,049</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, 2009
(With comparative actual amounts for the year ended December 31, 2008)

	2009			Variance with Final Budget - Positive (Negative)	2008
	Budgeted Amounts		Actual Amounts		Actual Amounts
	Original	Final			
EXPENDITURES - CONTINUED					
Current - Continued					
Economic development					
Industrial/commercial development					
Personal services	\$ 78,741	\$ 78,741	\$ 79,159	\$ (418)	\$ 76,268
Other services and charges	7	7	1	6	1
Total economic development	78,748	78,748	79,160	(412)	76,269
Total current expenditures	1,642,749	1,642,749	1,515,199	127,550	1,653,731
Capital outlay					
General government	3,000	3,000	-	3,000	-
Public safety	19,000	19,000	-	19,000	-
Street and highways	335,000	335,000	-	335,000	-
Total capital outlay	357,000	357,000	-	357,000	-
Debt service					
Interest and other charges	8,348	8,348	4,892	3,456	8,068
TOTAL EXPENDITURES	2,008,097	2,008,097	1,520,091	488,006	1,661,799
EXCESS OF REVENUES OVER EXPENDITURES	199,902	199,902	711,038	511,136	455,491
OTHER FINANCING SOURCES (USES)					
Sale of capital assets	-	-	1,300	1,300	-
Transfers in	70,000	70,000	356,331	286,331	75,495
Transfers out	(269,902)	(269,902)	(720,805)	(450,903)	(741,018)
TOTAL OTHER FINANCING SOURCES (USES)	(199,902)	(199,902)	(363,174)	(163,272)	(665,523)
NET CHANGE IN FUND BALANCES	-	-	347,864	347,864	(210,032)
FUND BALANCES, JANUARY 1	741,494	741,494	741,494	-	951,526
FUND BALANCES, DECEMBER 31	\$ 741,494	\$ 741,494	\$ 1,089,358	\$ 347,864	\$ 741,494

CITY OF MELROSE, MINNESOTA
DEBT SERVICE FUNDS
COMBINING BALANCE SHEET
DECEMBER 31, 2009

	Improvement Bonds of 2002	Improvement Bonds of 2004	Improvement Bonds of 2005
ASSETS			
Cash and temporary investments	\$ 51,145	\$ 171,958	\$ 669,499
Accrued interest receivable	474	454	8,062
Accounts receivable	79	87	156
Special assessments receivable			
Delinquent	-	-	28,740
Deferred	118,653	133,333	256,728
	<u>118,653</u>	<u>133,333</u>	<u>256,728</u>
 TOTAL ASSETS	<u>\$ 170,351</u>	<u>\$ 305,832</u>	<u>\$ 963,185</u>
 LIABILITIES AND FUND BALANCES			
LIABILITIES			
Deferred revenue	\$ 118,653	\$ 133,333	\$ 285,468
 FUND BALANCES			
Reserved for debt service	<u>51,698</u>	<u>172,499</u>	<u>677,717</u>
 TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 170,351</u>	<u>\$ 305,832</u>	<u>\$ 963,185</u>

Lease Revenue

Bonds of 2008	Total
\$ 378,494	\$ 1,271,096
-	8,990
52	374
-	28,740
-	508,714
<u>\$ 378,546</u>	<u>\$ 1,817,914</u>

\$ -	\$ 537,454
------	------------

<u>378,546</u>	<u>1,280,460</u>
<u>\$ 378,546</u>	<u>\$ 1,817,914</u>

CITY OF MELROSE, MINNESOTA
DEBT SERVICE FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2009

	Improvement Bonds of 2002	Improvement Bonds of 2004	Improvement Bonds of 2005
	<u> </u>	<u> </u>	<u> </u>
REVENUES			
General property taxes	\$ 68,767	\$ 75,511	\$ 135,620
Charges for services	-	-	-
Special assessments	8,007	22,647	14,543
Interest on investments	1,352	1,905	15,156
	<u> </u>	<u> </u>	<u> </u>
TOTAL REVENUES	78,126	100,063	165,319
	<u> </u>	<u> </u>	<u> </u>
EXPENDITURES			
Debt service			
Principal	65,000	70,000	115,000
Interest and fiscal charges	21,635	35,823	91,608
	<u> </u>	<u> </u>	<u> </u>
TOTAL EXPENDITURES	86,635	105,823	206,608
	<u> </u>	<u> </u>	<u> </u>
DEFICIENCY OF REVENUES UNDER EXPENDITURES	(8,509)	(5,760)	(41,289)
OTHER FINANCING SOURCES			
Transfers in	-	-	-
	<u> </u>	<u> </u>	<u> </u>
NET CHANGE IN FUND BALANCES	(8,509)	(5,760)	(41,289)
FUND BALANCES, JANUARY 1	60,207	178,259	719,006
	<u> </u>	<u> </u>	<u> </u>
FUND BALANCES, DECEMBER 31	<u>\$ 51,698</u>	<u>\$ 172,499</u>	<u>\$ 677,717</u>

Lease Revenue Bonds of 2008	Total
\$ 45,179	\$ 325,077
52,257	52,257
-	45,197
<u>16,731</u>	<u>35,144</u>
114,167	457,675
-	250,000
<u>132,490</u>	<u>281,556</u>
<u>132,490</u>	<u>531,556</u>
(18,323)	(73,881)
<u>73,572</u>	<u>73,572</u>
55,249	(309)
<u>323,297</u>	<u>1,280,769</u>
<u>\$ 378,546</u>	<u>\$ 1,280,460</u>

CITY OF MELROSE, MINNESOTA
SUMMARY FINANCIAL REPORT
REVENUES AND EXPENDITURES FOR GENERAL OPERATIONS
GOVERNMENTAL FUNDS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	Totals		Percent Increase (Decrease)
	2009	2008	
REVENUES			
Taxes	\$ 1,620,046	\$ 1,449,099	11.80 %
Special assessments	120,320	191,154	(37.06)
Licenses and permits	66,591	64,454	3.32
Intergovernmental	1,293,370	819,815	57.76
Charges for services	217,518	219,111	(0.73)
Fines and forfeits	24,153	18,625	29.68
Interest on investments	150,972	206,543	(26.91)
Miscellaneous	74,545	182,756	(59.21)
TOTAL REVENUES	\$ 3,567,515	\$ 3,151,557	13.20
Per Capita	1,077.80	953.28	13.06
EXPENDITURES			
Current			
General government	\$ 501,650	\$ 613,840	(18.28) %
Public safety	664,966	649,889	2.32
Streets and highways	416,219	441,588	(5.74)
Culture and recreation	72,450	75,556	(4.11)
Economic development	576,279	167,395	244.26
Capital outlay			
General government	166,066	66,772	148.71
Public safety	33,816	2,385,170	(98.58)
Streets and highways	255,221	108,578	135.06
Culture and recreation	30,537	-	100.00
Debt service			
Principal	265,900	224,767	18.30
Interest and other charges	291,050	169,382	71.83
TOTAL EXPENDITURES	\$ 3,274,154	\$ 4,902,937	(33.22)
Per Capita	989.17	1,483.04	(33.30)
Total Long-term Indebtedness	\$ 5,990,591	\$ 6,259,007	(4.29) %
Per Capita	1,809.85	1,893.23	(4.40)
General Fund Balance - December 31	\$ 1,089,358	\$ 741,494	46.91 %
Per Capita	329.11	224.29	46.73

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

**STATISTICAL SECTION
(UNAUDITED)**

CITY OF MELROSE
MELROSE, MINNESOTA

YEAR ENDED
DECEMBER 31, 2009

CITY OF MELROSE, MINNESOTA
MELROSE ELECTRIC UTILITIES
ELECTRIC UTILITY OPERATING STATISTICS (UNAUDITED)
YEARS ENDED DECEMBER 31, 2009, 2008, AND 2007

	2007 Peer Group	2007	2008	2009
<u>Financial Ratios</u>				
Revenue per KWH				
Residential Customers	\$ 0.083	\$ 0.057	\$ 0.062	\$ 0.078
Commercial Customers	\$ 0.074	\$ 0.061	\$ 0.067	\$ 0.082
Industrial Customers	\$ 0.059	\$ 0.048	\$ 0.049	\$ 0.064
Times Interest Earned	7.14	N/A	N/A	N/A
Debt Service Coverage	5.03	N/A	N/A	N/A
Uncollectible Accounts per Revenue Dollar	\$ 0.0026	\$ 0.0001	\$ 0.0008	\$ 0.0002
<u>Operating Ratios</u>				
Total O&M Expense per KWH Sold	\$ 0.059	\$ 0.056	\$ 0.058	\$ 0.066
Total Distribution and O&M Expense (Excluding Power Supply Exp.) per retail customer	\$ 464	\$ 415	\$ 390	\$ 402
Purchased Power per KWH	\$ 0.042	\$ 0.041	\$ 0.044	\$ 0.053
Distribution O&M Expense per Retail Customer	\$ 188	\$ 200	\$ 180	\$ 215
Distribution O&M Expense per Circuit Mile	\$ 6,609	\$ 6,752 *	\$ 6,479 *	\$ 7,361
Customer Accounting, Service, and Sales, Administrative and General Expense per Retail Customer	\$ 212	\$ 194	\$ 213	\$ 193
<u>Other Ratios</u>				
Labor Expense per Worker- Hour	\$ 25.93	\$ 25.35	\$ 26.21	\$ 26.23
Energy Loss Percentage	5.07%	2.60%	1.40%	5.70%
System Load Factor	57.40%	77.40%	77.40%	77.59%

**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 Utilities, 2007". The report presented data of financial and operating ratios for 208 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)
YEARS ENDED DECEMBER 31, 2009, 2008, AND 2007

Source of Energy, Disposition of Energy and Percentage Relations	2007		2008		2009	
	KWH	Percent	KWH	Percent	KWH	Percent
Purchased energy	\$ 111,078,378	100.2 %	\$ 111,641,740	100.2 %	\$ 118,006,176	100.2 %
Energy consumed by station	(238,510)	(0.2)	(198,250)	(0.2)	(267,640)	(0.2)
Total net energy outgoing feeders	110,839,868	100.0	111,443,490	100.0	117,738,536	100.0
Net distributed energy	(107,940,959)	(97.4)	(109,911,907)	(98.6)	(111,026,782)	(94.3)
Energy lost in distribution system	\$ 2,898,909	2.6% %	\$ 1,531,583	1.4% %	\$ 6,711,754	5.7% %

CITY OF MELROSE, MINNESOTA
MELROSE WATER UTILITIES
SUMMARY OF OPERATIONS AND UNAUDITED STATISTICS
YEARS ENDED DECEMBER 31, 2009, 2008, AND 2007

SUMMARY OF OPERATIONS

	<u>2007</u>	<u>2008</u>	<u>2009</u>
OPERATING REVENUES			
Sales of water	\$ 882,024	\$ 967,031	\$ 980,032
Miscellaneous	21,486	37,653	40,757
	<u>903,510</u>	<u>1,004,684</u>	<u>1,020,789</u>
OPERATING EXPENSES			
Operating expenses less depreciation	306,757	366,616	409,820
Depreciation	286,637	283,403	257,417
	<u>593,394</u>	<u>650,019</u>	<u>667,237</u>
TOTAL OPERATING INCOME	<u>\$ 288,630</u>	<u>\$ 317,012</u>	<u>\$ 312,795</u>
PERCENT OF CHANGE			
Sales of water	15.36%	9.64%	1.34%

**UNAUDITED STATISTICS
MISCELLANEOUS**

	<u>2007</u>	<u>2008</u>	<u>2009</u>
WATER PUMPED (gallons)	720,057,990	716,845,005	676,592,505
WATER SOLD (gallons)	694,296,000	694,296,000	645,192,263
Percent of line loss	3.58%	3.15%	4.64%
Revenues per 1,000 gallons pumped	\$ 1.25	\$ 1.40	\$ 1.51
Revenues per 1,000 gallons sold	\$ 1.30	\$ 1.45	\$ 1.58
Labor cost per customer	\$ 109.14	\$ 107.80	\$ 125.95
O&M per customer	\$ 166.24	\$ 215.16	\$ 236.13
Number of customers	1,112	1,133	1,130

OTHER SCHEDULES AND REPORTS

CITY OF MELROSE
MELROSE, MINNESOTA

YEAR ENDED
DECEMBER 31, 2009

CITY OF MELROSE, MINNESOTA
 BONDS PAYABLE
 DECEMBER 31, 2009

Bond Issue	Date Issued	Final Maturity Date	Interest Dates	Interest Rate	Annual Payments		Bonds			
					Serial Amount	Year	Authorized and Issued	Retired	Outstanding	
Governmental Fund Debt										
General Obligation Improvement										
Bonds of 2002	06/01/2002	12/01/2017	6-1;12-1	4.25 %	\$ 70,000	2010	\$ 835,000	\$ 425,000	\$ 410,000	
				4.35	70,000	2011				
				4.50	70,000	2012				
				4.60	20,000	2013				
				4.70	20,000	2014				
				4.80	20,000	2015				
				4.90	20,000	2016				
				5.00	120,000	2017				

CITY OF MELROSE, MINNESOTA
 BONDS PAYABLE - CONTINUED
 DECEMBER 31, 2009

Bond Issue	Date Issued	Final Maturity Date	Interest Dates	Interest Rate	Annual Serial Payments		Bonds		
					Amount	Year	Authorized and Issued	Retired	Outstanding
Governmental Fund Debt - Continued									
General Obligation Improvement									
Bonds of 2004	10/01/2004	02/01/2020	2-1;8-1	3.00 %	\$ 70,000	2010	\$ 985,000	\$ 70,000	\$ 915,000
				3.20	75,000	2011			
				3.40	75,000	2012			
				3.60	80,000	2013			
				3.75	80,000	2014			
				3.90	80,000	2015			
				4.00	85,000	2016			
				4.05	90,000	2017			
				4.10	90,000	2018			
				4.20	95,000	2019			
				4.30	95,000	2020			
General Obligation Improvement									
Bonds of 2005	09/01/2005	02/01/2021	2-1;8-1	3.50 %	\$ 150,000	2010	\$ 2,545,000	\$ 290,000	\$ 2,255,000
				3.40	155,000	2011			
				3.50	165,000	2012			
				3.60	175,000	2013			
				4.00	165,000	2014			
				4.00	200,000	2015			
				4.00	200,000	2016			
				4.00	195,000	2017			
				4.00	200,000	2018			
				4.40	200,000	2019			
				4.40	225,000	2020			
				4.40	225,000	2021			

CITY OF MELROSE, MINNESOTA
 BONDS PAYABLE - CONTINUED
 DECEMBER 31, 2009

Bond Issue	Date Issued	Final Maturity Date	Interest Dates	Interest Rate	Annual Serial Payments		Bonds		
					Amount	Year	Authorized and Issued	Retired	Outstanding
Governmental Fund Debt - Continued									
Public Project Lease Revenue									
Bonds of 2008	04/24/2008	02/01/2029	2-1;8-1	2.90 %	\$ 80,000	2010	\$ 2,360,000	\$ -	\$ 2,360,000
				3.20	85,000	2011			
				3.30	85,000	2012			
				3.50	90,000	2013			
				3.60	90,000	2014			
				3.75	95,000	2015			
				3.90	100,000	2016			
				4.00	105,000	2017			
				4.05	105,000	2018			
				4.10	110,000	2019			
				4.25	115,000	2020			
				4.40	120,000	2021			
				4.40	125,000	2022			
				4.55	130,000	2023			
				4.55	135,000	2024			
				4.65	145,000	2025			
				4.65	150,000	2026			
				4.70	155,000	2027			
				4.70	165,000	2028			
				4.70	175,000	2029			
							6,725,000	785,000	5,940,000

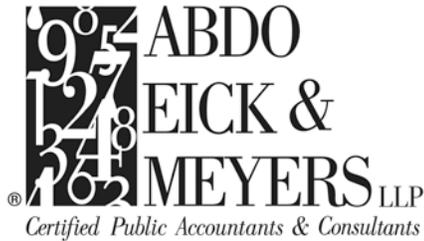
Total Governmental Fund Bonded Debt

CITY OF MELROSE, MINNESOTA
 BONDS PAYABLE - CONTINUED
 DECEMBER 31, 2009

Enterprise Fund Debt	Bond Issue Date	Date Issued	Final Maturity Date	Interest Dates	Interest Rate	Annual Serial Payments		Bonds		
						Amount	Year	Authorized and Issued	Retired	Outstanding
1999 G.O. Water Revenue Notes (Water Tower)	04/13/1999	08/20/2019	08/20/2019	2-20;8-20	3.48 %	\$ 129,000	2010	\$ 2,500,000	\$ 985,300	\$ 1,514,700
					3.48	134,000	2011			
					3.48	139,000	2012			
					3.48	143,000	2013			
					3.48	148,000	2014			
					3.48	153,000	2015			
					3.48	159,000	2016			
					3.48	164,000	2017			
					3.48	170,000	2018			
					3.48	175,700	2019			
General Obligation Sewer Revenue Bonds of 2004	06/01/2004	12/01/2024	12/01/2024	6-1;12-1	3.40 %	\$ 155,000	2010	\$ 3,230,000	\$ 150,000	\$ 3,080,000
					3.50	160,000	2011			
					3.65	165,000	2012			
					3.75	170,000	2013			
					3.85	180,000	2014			
					4.00	185,000	2015			
					4.15	190,000	2016			
					4.30	200,000	2017			
					4.40	210,000	2018			
					4.50	215,000	2019			
					4.60	225,000	2020			
					4.65	240,000	2021			
					4.75	250,000	2022			
					4.75	260,000	2023			
					4.75	275,000	2024			

CITY OF MELROSE, MINNESOTA
 BONDS PAYABLE - CONTINUED
 DECEMBER 31, 2009

Bond Issue	Date Issued	Final Maturity Date	Interest Dates	Interest Rate	Annual Serial Payments		Bonds		
					Amount	Year	Authorized and Issued	Retired	Outstanding
Enterprise Fund Debt - Continued									
General Obligation Refunding									
Bonds of 2005	09/20/2005	08/01/2020	2-1;8-1	3.30 %	\$ 100,000	2010	\$ 1,330,000	\$ 95,000	\$ 1,235,000
				3.40	105,000	2011			
				3.50	105,000	2012			
				3.55	110,000	2013			
				4.00	115,000	2014			
				4.00	120,000	2015			
				4.00	125,000	2016			
				4.00	130,000	2017			
				4.25	130,000	2018			
				4.25	135,000	2019			
				4.25	60,000	2020			
Total Enterprise Fund Bonded Debt							7,060,000	1,230,300	5,829,700
Total All Funds Bonded Debt							\$ 13,785,000	\$ 2,015,300	\$ 11,769,700



5201 Eden Avenue
Suite 370
Edina, MN 55436

REPORT ON MINNESOTA LEGAL COMPLIANCE

Honorable Mayor and Council
City of Melrose, Minnesota

We have audited financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Melrose, Minnesota (the City), as of and for the year ended December 31, 2009, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 24, 2010.

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

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

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

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

ABDO, EICK & MEYERS, LLP
Certified Public Accountants

March 24, 2010
Minneapolis, Minnesota

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

Honorable Mayor and Council
City of Melrose, Minnesota

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Melrose, Minnesota (the City), as of and for the year ended December 31, 2009, which collectively comprise the City's basic financial statements, and have issued our report thereon March 24, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis of designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying Schedule of Findings and Responses as finding 2009-1, which we consider to be a significant deficiency in internal control over financial reporting. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

We also noted certain matters involving the internal control over financial reporting that we reported to management of the City in a separate letter March 24, 2010.

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

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

ABDO, EICK & MEYERS, LLP
Certified Public Accountants

March 24, 2010
Minneapolis, Minnesota

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CITY OF MELROSE, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2009

<u>Finding</u>	<u>Description</u>
2009-1	Preparation of Financial Statements (Finding since 2007)
<i>Condition:</i>	As in prior years, we were requested to draft the audited financial statements and related footnote disclosures as part of our regular audit services. Recent auditing standards require auditors to communicate this situation to the Council as an internal control deficiency. Ultimately, it is management's responsibility to provide for the preparation of your statements and footnotes, and the responsibility of the auditor to determine the fairness of presentation of those statements. It is our responsibility to inform you that this deficiency could result in a material misstatement to the financial statements that could have been prevented or detected by your management. Essentially, the auditors cannot be part of your internal control process.
<i>Criteria:</i>	Internal controls should be in place to provide reasonable assurance over financial reporting.
<i>Cause:</i>	From a practical standpoint we do both for you at the same time in connection with our audit. This is not unusual for us to do with an organization of your size.
<i>Effect:</i>	The effectiveness of the internal control system relies on enforcement by management. The effect of deficiencies in internal controls can result in undetected errors in financial reporting.
<i>Recommendation:</i>	It is your responsibility to make the ultimate decision to accept this degree of risk associated with this condition because of cost or other considerations. As in prior years, we have instructed management to review a draft of the auditor prepared financials in detail for their accuracy; we have answered any questions they might have, and have encouraged research of any accounting guidance in connection with the adequacy and appropriateness of classification of disclosure in your statements. We are satisfied that the appropriate steps have been taken to provide you with the completed financial statements. While the City is reviewing the financial statements we recommend that a disclosure checklist be utilized to ensure all required disclosures are presented and the City should agree its financial software to the numbers reported in the financial statements.
<i>Management Response:</i>	For now, the City's management accepts the degree of risk associated with this condition and thoroughly reviews a draft of the financial statements.