

CITY OF MELROSE  
MELROSE, MINNESOTA

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED  
DECEMBER 31, 2010

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**INTRODUCTORY SECTION**

CITY OF MELROSE  
MELROSE, MINNESOTA

FOR THE YEAR ENDED  
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CITY OF MELROSE, MINNESOTA  
ELECTED AND APPOINTED OFFICIALS  
DECEMBER 31, 2010

**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	1/1/2013
Ralph Wiehoff	Vice Chair	1/1/2011
Dick Christenson	Commission Secretary	1/1/2012

**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

FOR THE YEAR ENDED  
DECEMBER 31, 2010

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5201 Eden Avenue  
Suite 250  
Edina, MN 55436

## INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Council  
City of Melrose, Minnesota

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Melrose, Minnesota (the City), as of and for the year ended December 31, 2010, 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 2009 financial statements and, in our report dated March 24, 2010, 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, 2010, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 30, 2011, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 13 through 23 and Schedule of Funding Progress on page 81, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

March 30, 2011  
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, 2010.

### **Financial Highlights**

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$45,073,294. Of this amount, \$17,558,204 may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$1,115,106.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$5,761,577, an increase of \$105,852 in comparison with the prior year. Approximately 71 percent of this total amount, \$4,115,457, is available for spending at the City's discretion; \$3,533,818 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 \$1,037,087 or 67 percent of total General fund expenditures. \$106,535 is reserved for prepaid items and due from other funds.
- The City's total debt increased by \$420,440 or 3.5 percent during the current fiscal year.

## Overview of the Financial Statements

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

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

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

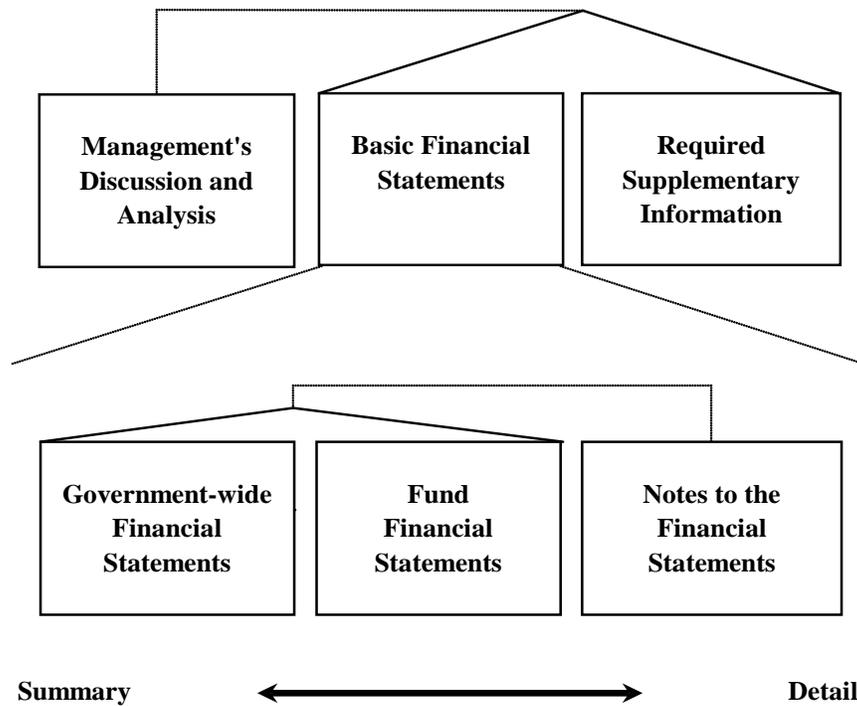


Figure 2 summarizes the major features of the City’s financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis explains the structure and contents of each of the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

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

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

**Government-wide Financial Statements**

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

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

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

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

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

The government-wide financial statements start on page 27 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 16 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 32 of this report.

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

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

The basic proprietary fund financial statements start on page 40 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 50 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 51 of this report.

## Other Information

The combining statements referred to earlier in connection with nonmajor governmental funds are presented following the notes to financial statements. Combining and individual fund statements and schedules start on page 84 of this report.

## Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$45,073,294 at the close of the most recent fiscal year.

By far, the largest portion of the City's net assets (58 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		
	2010	2009	Increase (Decrease)	2010	2009	Increase (Decrease)
<b>Assets</b>						
Current and other assets	\$ 8,228,395	\$ 8,237,248	\$ (8,853)	\$ 14,827,926	\$ 11,883,015	\$ 2,944,911
Capital assets	14,976,922	15,329,312	(352,390)	21,728,793	22,657,720	(928,927)
Total assets	23,205,317	23,566,560	(361,243)	36,556,719	34,540,735	2,015,984
<b>Liabilities</b>						
Long-term liabilities outstanding	5,357,429	6,031,576	(674,147)	7,028,018	5,933,431	1,094,587
Other liabilities	1,495,745	1,452,359	43,386	807,550	731,741	75,809
Total liabilities	6,853,174	7,483,935	(630,761)	7,835,568	6,665,172	1,170,396
<b>Net assets</b>						
Invested in capital assets, net of related debt	9,746,922	9,493,356	253,566	16,262,869	16,938,723	(675,854)
Restricted	1,505,299	1,723,074	(217,775)	-	-	-
Unrestricted	5,099,922	4,866,195	233,727	12,458,282	10,936,840	1,521,442
Total net assets	\$ 16,352,143	\$ 16,082,625	\$ 269,518	\$ 28,721,151	\$ 27,875,563	\$ 845,588

An additional portion of the City's net assets (3 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (\$17,558,204) 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 \$1,115,106 during the current fiscal year. This growth largely reflects decreases in ongoing expenses which have outstripped similar decreases in ongoing revenues.

**Governmental activities:** Governmental activities increased the City's net assets by \$269,518.

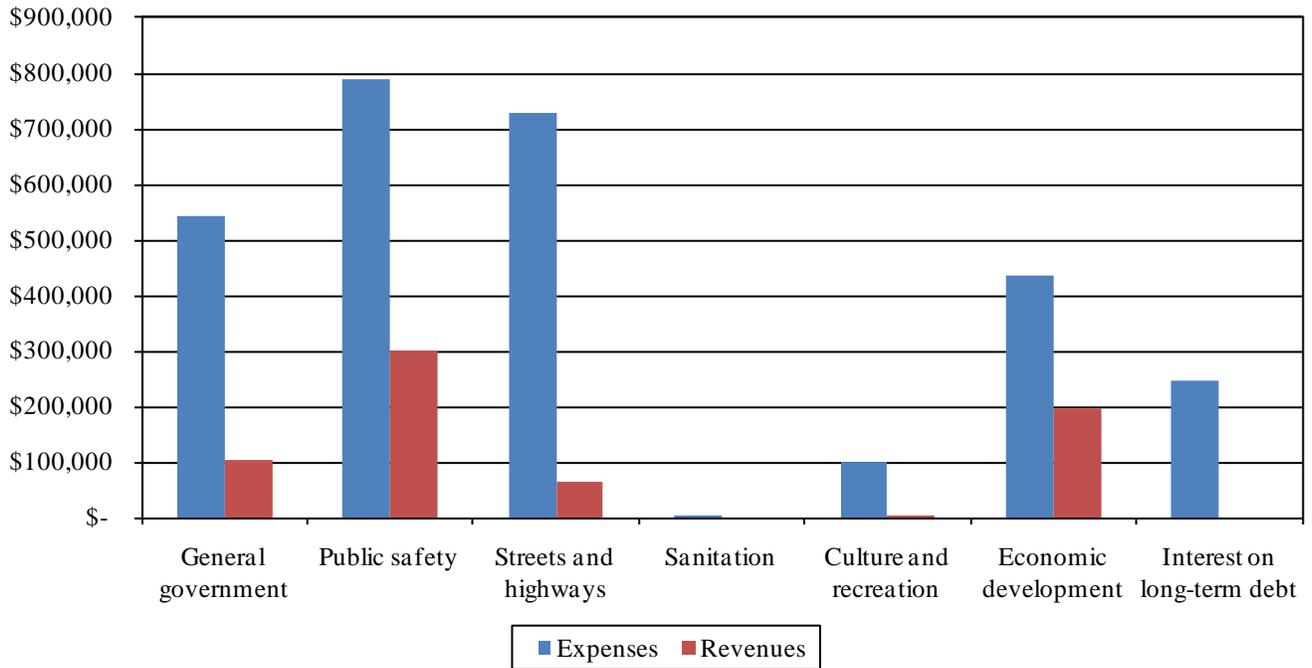
### Changes in Net Assets

	Governmental Activities			Business-type Activities		
	2010	2009	Increase (Decrease)	2010	2009	Increase (Decrease)
Revenues						
Program revenues						
Charges for services	\$ 319,061	\$ 314,044	\$ 5,017	\$ 11,009,417	\$ 11,635,158	\$ (625,741)
Operating grants and contributions	304,100	512,853	(208,753)	184,656	19,647	165,009
Capital grants and contributions	49,921	125,260	(75,339)	-	-	-
General revenues						
Property taxes/tax increments	1,250,354	1,251,198	(844)	-	-	-
Franchise taxes	413,643	363,160	50,483	-	-	-
Grants and contributions not restricted to specific programs	653,711	799,582	(145,871)	-	-	-
Unrestricted investment earnings	118,175	150,972	(32,797)	289,470	284,630	4,840
Total revenues	<u>3,108,965</u>	<u>3,517,069</u>	<u>(408,104)</u>	<u>11,483,543</u>	<u>11,939,435</u>	<u>(455,892)</u>
Expenses						
General government	543,119	649,706	(106,587)	-	-	-
Public safety	790,505	825,952	(35,447)	-	-	-
Streets and highways	728,814	746,552	(17,738)	-	-	-
Sanitation	3,831	3,818	13	-	-	-
Culture and recreation	101,751	91,893	9,858	-	-	-
Economic development	437,406	580,164	(142,758)	-	-	-
Interest on long-term debt	245,375	263,763	(18,388)	-	-	-
Ambulance	-	-	-	423,274	414,125	9,149
Water	-	-	-	711,457	785,483	(74,026)
Wastewater	-	-	-	1,826,465	1,713,743	112,722
Electric	-	-	-	7,665,405	7,530,506	134,899
Total expenses	<u>2,850,801</u>	<u>3,161,848</u>	<u>(311,047)</u>	<u>10,626,601</u>	<u>10,443,857</u>	<u>182,744</u>
Increase in net assets before transfers	258,164	355,221	(97,057)	856,942	1,495,578	(638,636)
Transfers	<u>11,354</u>	<u>40,048</u>	<u>(28,694)</u>	<u>(11,354)</u>	<u>(40,048)</u>	<u>28,694</u>
Change in net assets	269,518	395,269	(125,751)	845,588	1,455,530	(609,942)
Net assets, January 1	<u>16,082,625</u>	<u>15,687,356</u>	<u>395,269</u>	<u>27,875,563</u>	<u>26,420,033</u>	<u>1,455,530</u>
Net assets, December 31	<u>\$ 16,352,143</u>	<u>\$ 16,082,625</u>	<u>\$ 269,518</u>	<u>\$ 28,721,151</u>	<u>\$ 27,875,563</u>	<u>\$ 845,588</u>

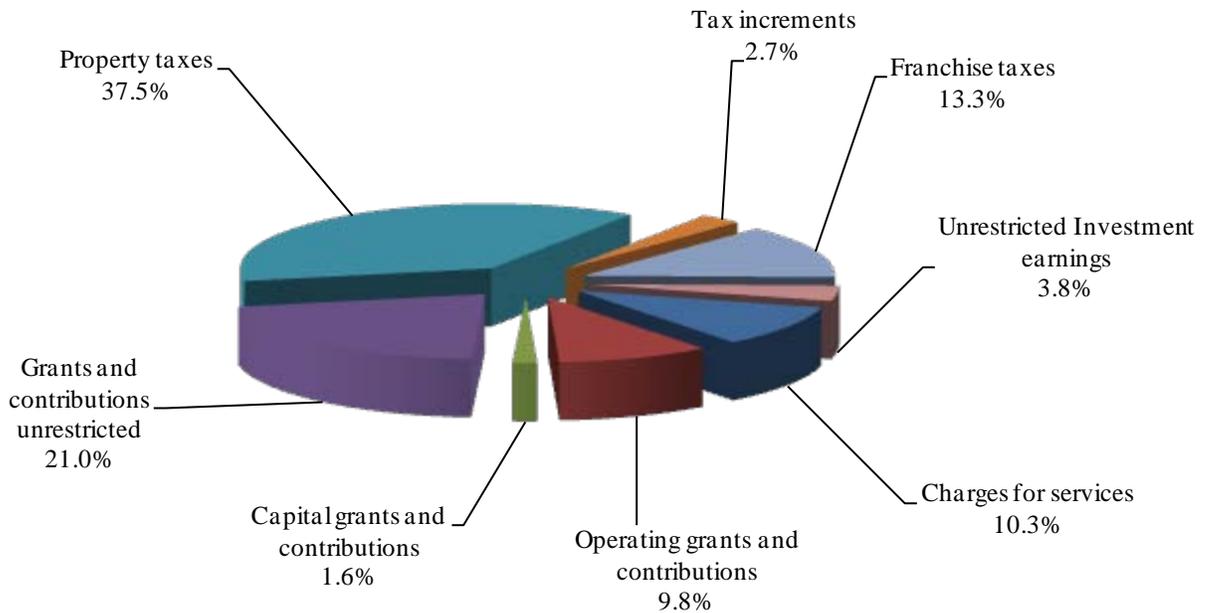
Operating grants and contributions decreased by \$208,753 during the year due to LGA reductions. Expenses in governmental activities decreased in all but two functions. Business type activities charges for services decreased due billing cycle changes in 2009 which resulted in more billing periods in 2009.

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

### Expenses and Program Revenues - Governmental Activities

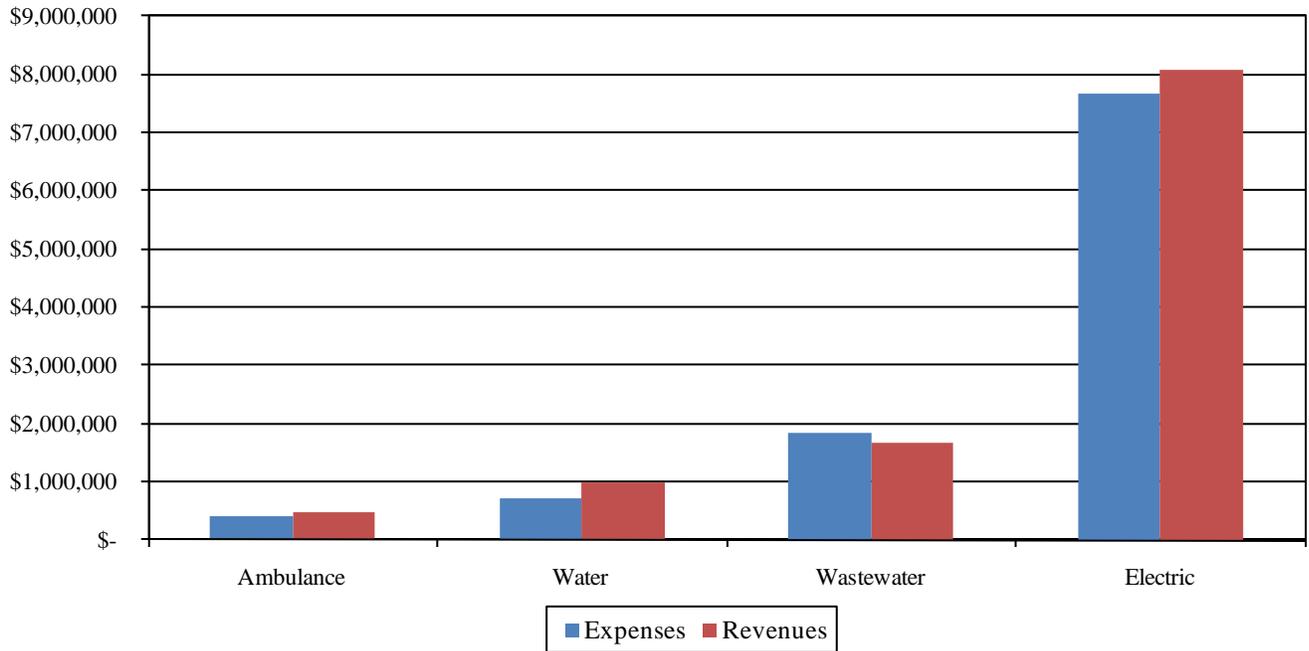


### Revenues by Source - Governmental Activities

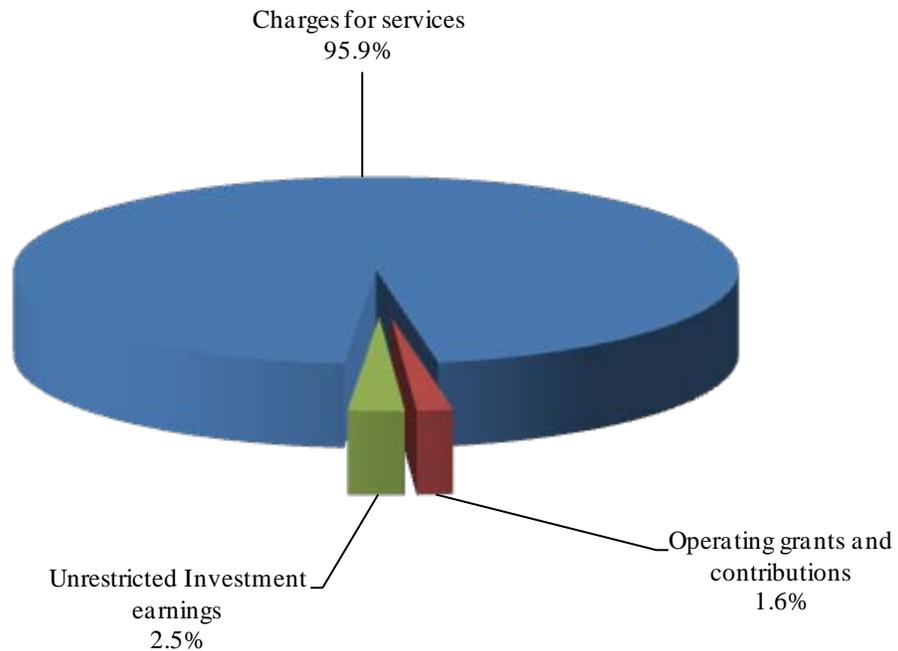


**Business-type activities:** There was an increase of \$845,588 in net assets reported in connection with the City’s business-type activities.

### 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 \$5,761,577, an increase of \$105,852 in comparison with the prior year. Approximately 71 percent of this total amount, \$4,115,457, constitutes *unreserved fund balance*, which is available for spending at the City's discretion. The majority (61 percent) 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. \$98,607 is reserved for due from other fund; \$267,273 is reserved for the repayment of business loans to local businesses; \$1,270,469 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 \$1,143,622. 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 50 percent of current year expenditures and transfers out.

The fund balance of the City's General fund increased \$54,264 during the current fiscal year.

The Debt Service fund has a total fund balance of \$1,270,469, 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 \$9,991.

The Capital Improvements fund has a fund balance of \$2,586,995, all of which is designated for capital improvements in the City. The fund balance increased by \$75,990 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 \$11,213,282. The total increase in net assets for the funds was \$845,588.

### **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 \$693,871, 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, 2010, amounts to \$36,705,715 (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		
	2010	2009	Increase (Decrease)	2010	2009	Increase (Decrease)
Land	\$ 3,191,412	\$ 3,191,412	\$ -	\$ 321,028	\$ 321,028	\$ -
Buildings	3,275,534	3,349,365	(73,831)	585,787	562,216	23,571
Machinery and equipment	942,258	1,032,775	(90,517)	640,132	730,648	(90,516)
Infrastructure	7,567,718	7,673,931	(106,213)	20,157,604	21,043,828	(886,224)
Construction in progress	-	81,829	(81,829)	24,242	-	24,242
<b>Total</b>	<b>\$ 14,976,922</b>	<b>\$ 15,329,312</b>	<b>\$ (352,390)</b>	<b>\$ 21,728,793</b>	<b>\$ 22,657,720</b>	<b>\$ (928,927)</b>

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

- Completion of the 2009 Fifth Street North Improvements.
- Restoration of the Utility Warehouse and construction of a cold storage facility.
- Preliminary engineering work on the 2011 Water Transmission Line Replacement.

Additional information on the City's capital assets can be found in Note 3D starts on page 63 of this report.

**Long-term debt.** At the end of the current fiscal year, the City had total bonded debt outstanding of \$12,090,700. Of this amount, \$2,950,000 is special assessment debt and \$9,140,700 is revenue debt. They are all backed by the full faith and credit of the City.

### Outstanding Debt

	Governmental Activities			Business-type Activities		
	2010	2009	Increase (Decrease)	2010	2009	Increase (Decrease)
G.O. improvement bonds	\$ 2,950,000	\$ 3,580,000	\$ (630,000)	\$ -	\$ -	\$ -
General obligation revenue bonds	-	-	-	6,860,700	5,829,700	1,031,000
Revenue bonds	2,280,000	2,360,000	(80,000)	-	-	-
Unamortized premium on bonds	-	-	-	20,224	-	20,224
Compensated absences	63,949	59,606	4,343	74,281	67,518	6,763
Other postemployment benefits payable	63,480	31,970	31,510	72,813	36,213	36,600
<b>Total</b>	<b>\$ 5,357,429</b>	<b>\$ 6,031,576</b>	<b>\$ (674,147)</b>	<b>\$ 7,028,018</b>	<b>\$ 5,933,431</b>	<b>\$ 1,094,587</b>

The City's total debt increased by \$420,440 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 \$5,600,805. There was no debt applicable to this limit at year end.

Additional information on the City's long-term debt can be found in Note 3F start on page 66 of this report.

### **Economic Factors and Next Year's Budgets and Rates**

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

All of these factors were considered in preparing the City's budget for the 2011 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 1<sup>st</sup> St NE, Melrose, Minnesota 56352.

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**BASIC FINANCIAL STATEMENTS**

CITY OF MELROSE  
MELROSE, MINNESOTA

FOR THE YEAR ENDED  
DECEMBER 31, 2010

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CITY OF MELROSE, MINNESOTA  
STATEMENT OF NET ASSETS  
DECEMBER 31, 2010

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and temporary investments	\$ 5,362,476	\$ 10,388,146	\$ 15,750,622
Cash with fiscal agent	-	2,651,484	2,651,484
Receivables			
Accrued interest	50,834	77,847	128,681
Delinquent taxes	47,750	-	47,750
Accounts, net	41,681	1,102,118	1,143,799
Loans	267,273	-	267,273
Special assessments	916,128	-	916,128
Internal balances	111,780	(111,780)	-
Due from Centracare	1,324,276	-	1,324,276
Inventories	-	562,688	562,688
Prepaid items	9,771	16,401	26,172
Deferred charges	96,426	141,022	237,448
Capital assets			
Non-depreciable			
Land	3,191,412	321,028	3,512,440
Construction in progress	-	24,242	24,242
Depreciable (net of accumulated depreciation)			
Buildings	3,275,534	585,787	3,861,321
Equipment	942,258	640,132	1,582,390
Infrastructure	7,567,718	20,157,604	27,725,322
<b>TOTAL ASSETS</b>	<b>23,205,317</b>	<b>36,556,719</b>	<b>59,762,036</b>
<b>LIABILITIES</b>			
Accounts payable	72,238	732,629	804,867
Accrued interest payable	89,231	51,074	140,305
Customer deposits payable	10,000	23,847	33,847
Unearned revenue	1,324,276	-	1,324,276
Noncurrent liabilities			
Due within one year			
Compensated absences payable	51,959	63,812	115,771
Bonds payable	315,000	399,000	714,000
Due in more than one year			
Compensated absences payable	11,990	10,469	22,459
Bonds payable	4,915,000	6,461,700	11,376,700
Unamortized premium on bonds	-	20,224	20,224
Other postemployment benefits payable	63,480	72,813	136,293
<b>TOTAL LIABILITIES</b>	<b>6,853,174</b>	<b>7,835,568</b>	<b>14,688,742</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	9,746,922	16,262,869	26,009,791
Restricted for			
Debt service	1,505,299	-	1,505,299
Unrestricted	5,099,922	12,458,282	17,558,204
<b>TOTAL NET ASSETS</b>	<b>\$ 16,352,143</b>	<b>\$ 28,721,151</b>	<b>\$ 45,073,294</b>

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

CITY OF MELROSE, MINNESOTA  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2010

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Governmental activities</b>				
General government	\$ 543,119	\$ 62,153	\$ 36,333	\$ 6,370
Public safety	790,505	233,197	68,534	-
Streets and highways	728,814	22,518	-	43,551
Sanitation	3,831	-	-	-
Culture and recreation	101,751	-	3,714	-
Economic development	437,406	1,193	195,519	-
Interest on long-term debt	245,375	-	-	-
Total governmental activities	<u>2,850,801</u>	<u>319,061</u>	<u>304,100</u>	<u>49,921</u>
<b>Business-type activities</b>				
Ambulance	423,274	451,436	22,535	-
Water	711,457	981,434	8,972	-
Wastewater	1,826,465	1,660,923	949	-
Electric	7,665,405	7,915,624	152,200	-
Total business-type activities	<u>10,626,601</u>	<u>11,009,417</u>	<u>184,656</u>	<u>-</u>
Total	<u>\$ 13,477,402</u>	<u>\$ 11,328,478</u>	<u>\$ 488,756</u>	<u>\$ 49,921</u>

General revenues

Taxes

Property taxes, levied for general purposes

Property taxes, levied for debt service

Tax increments

Franchise taxes

State grants and contributions not restricted to specific programs

Unrestricted investment earnings

Transfers

Total general revenues and transfers

Change in net assets

Net assets, January 1

Net assets, December 31

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

Net (Expenses) Revenues and Changes in Net Assets

Governmental Activities	Business-type Activities	Total
\$ (438,263)	\$ -	\$ (438,263)
(488,774)	-	(488,774)
(662,745)	-	(662,745)
(3,831)	-	(3,831)
(98,037)	-	(98,037)
(240,694)	-	(240,694)
(245,375)	-	(245,375)
(2,177,719)	-	(2,177,719)
-	50,697	50,697
-	278,949	278,949
-	(164,593)	(164,593)
-	402,419	402,419
-	567,472	567,472
(2,177,719)	567,472	(1,610,247)
1,006,038	-	1,006,038
160,524	-	160,524
83,792	-	83,792
413,643	-	413,643
653,711	-	653,711
118,175	289,470	407,645
11,354	(11,354)	-
2,447,237	278,116	2,725,353
269,518	845,588	1,115,106
16,082,625	27,875,563	43,958,188
\$ 16,352,143	\$ 28,721,151	\$ 45,073,294

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**FUND FINANCIAL STATEMENTS**

CITY OF MELROSE  
MELROSE, MINNESOTA

FOR THE YEAR ENDED  
DECEMBER 31, 2010

CITY OF MELROSE, MINNESOTA  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2010

	General	Debt Service	Capital Improvements
<b>ASSETS</b>			
Cash and temporary investments	\$ 1,075,813	\$ 1,270,394	\$ 2,460,319
Receivables			
Accrued interest	-	-	50,834
Delinquent taxes	47,750	-	-
Accounts, net	31,679	75	5,689
Loans	-	-	-
Special assessments	-	324,061	592,067
Due from other funds	98,607	-	77,713
Due from Centracare	1,324,276	-	-
Prepaid items	7,928	-	-
	<u>\$ 2,586,053</u>	<u>\$ 1,594,530</u>	<u>\$ 3,186,622</u>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Accounts payable	\$ 60,405	\$ -	\$ 7,560
Customer deposits payable	10,000	-	-
Due to other funds	-	-	-
Deferred revenue	1,372,026	324,061	592,067
	<u>1,442,431</u>	<u>324,061</u>	<u>599,627</u>
<b>FUND BALANCES</b>			
Reserved for:			
Prepaid items	7,928	-	-
Due from other funds	98,607	-	-
Loans	-	-	-
Debt service	-	1,270,469	-
Unreserved			
Designated - reported in:			
General fund	602,835	-	-
Capital projects funds	-	-	2,586,995
Special revenue fund	-	-	-
Undesignated - reported in:			
General fund	434,252	-	-
Special revenue funds	-	-	-
	<u>1,143,622</u>	<u>1,270,469</u>	<u>2,586,995</u>
<b>TOTAL FUND BALANCES</b>	<u>1,143,622</u>	<u>1,270,469</u>	<u>2,586,995</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 2,586,053</u>	<u>\$ 1,594,530</u>	<u>\$ 3,186,622</u>

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

Other Governmental Funds	Total Governmental Funds
\$ 555,950	\$ 5,362,476
-	50,834
-	47,750
4,238	41,681
267,273	267,273
-	916,128
13,173	189,493
-	1,324,276
1,843	9,771
<u>\$ 842,477</u>	<u>\$ 8,209,682</u>
\$ 4,273	\$ 72,238
-	10,000
77,713	77,713
-	2,288,154
<u>81,986</u>	<u>2,448,105</u>
1,843	9,771
-	98,607
267,273	267,273
-	1,270,469
-	602,835
-	2,586,995
343,988	343,988
-	434,252
147,387	147,387
<u>760,491</u>	<u>5,761,577</u>
<u>\$ 842,477</u>	<u>\$ 8,209,682</u>

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CITY OF MELROSE, MINNESOTA  
RECONCILIATION OF THE BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2010

Total fund balances - governmental funds	\$ 5,761,577
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	20,460,844
Less: accumulated depreciation	(5,483,922)
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	(63,949)
Other postemployment benefits payable	(63,480)
Bond principal payable	(5,230,000)
Less bond discount net of accumulated amortization	96,426
Some receivables are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds.	
Delinquent property taxes	47,750
Special assessments	916,128
Governmental funds do not report a liability for accrued interest until due and payable.	<u>(89,231)</u>
Total net assets - governmental activities	<u><u>\$ 16,352,143</u></u>

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

CITY OF MELROSE, MINNESOTA  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2010

	General	Debt Service	Capital Improvements
REVENUES			
Taxes	\$ 1,409,523	\$ 160,524	\$ -
Licenses and permits	67,062	-	-
Intergovernmental	689,802	-	4,000
Charges for services	68,595	52,257	-
Fines and forfeitures	30,963	-	-
Special assessments	-	134,613	77,548
Interest on investments	6,155	21,532	69,890
Miscellaneous	24,197	-	14,454
	<u>2,296,297</u>	<u>368,926</u>	<u>165,892</u>
TOTAL REVENUES			
EXPENDITURES			
Current			
General government	463,843	-	10
Public safety	519,522	-	-
Streets and highways	395,110	-	-
Sanitation	3,831	-	-
Culture and recreation	77,552	-	-
Economic development	79,329	-	-
Capital outlay			
General government	-	-	3,216
Public safety	-	-	29,181
Streets and highways	-	-	102,773
Debt service			
Principal	-	710,000	-
Interest and other	1,218	237,958	-
	<u>1,540,405</u>	<u>947,958</u>	<u>135,180</u>
TOTAL EXPENDITURES			
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>755,892</u>	<u>(579,032)</u>	<u>30,712</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	62,673	569,041	390,500
Transfers out	(764,301)	-	(345,222)
	<u>(701,628)</u>	<u>569,041</u>	<u>45,278</u>
TOTAL OTHER FINANCING SOURCES (USES)			
NET CHANGE IN FUND BALANCES	54,264	(9,991)	75,990
FUND BALANCES, JANUARY 1	<u>1,089,358</u>	<u>1,280,460</u>	<u>2,511,005</u>
FUND BALANCES, DECEMBER 31	<u>\$ 1,143,622</u>	<u>\$ 1,270,469</u>	<u>\$ 2,586,995</u>

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

Other Governmental Funds	Total Governmental Funds
\$ 83,792	\$ 1,653,839
-	67,062
203,312	897,114
95,579	216,431
-	30,963
-	212,161
20,598	118,175
30,651	69,302
<u>433,932</u>	<u>3,265,047</u>
-	463,853
142,751	662,273
-	395,110
-	3,831
3,783	81,335
352,817	432,146
-	3,216
-	29,181
43,465	146,238
-	710,000
4,190	243,366
<u>547,006</u>	<u>3,170,549</u>
<u>(113,074)</u>	<u>94,498</u>
176,958	1,199,172
<u>(78,295)</u>	<u>(1,187,818)</u>
<u>98,663</u>	<u>11,354</u>
(14,411)	105,852
<u>774,902</u>	<u>5,655,725</u>
<u>\$ 760,491</u>	<u>\$ 5,761,577</u>

CITY OF MELROSE, MINNESOTA  
RECONCILIATION OF THE STATEMENT OF  
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
TO THE STATEMENT OF ACTIVITIES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2010

Total net change in fund balances - governmental funds	\$ 105,852
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	160,385
Depreciation expense	(512,775)
<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	710,000
<p>Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.</p>	
	(2,009)
<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	10,158
Special assessments	(166,240)
<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	(35,853)
	(35,853)
Change in net assets - governmental activities	\$ 269,518

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, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes	\$ 1,375,209	\$ 1,375,209	\$ 1,409,523	\$ 34,314
Licenses and permits	44,700	44,700	67,062	22,362
Intergovernmental	757,687	757,687	689,802	(67,885)
Charges for services	55,529	55,529	68,595	13,066
Fines and forfeitures	21,000	21,000	30,963	9,963
Interest on investments	15,000	15,000	6,155	(8,845)
Miscellaneous	3,500	3,500	24,197	20,697
	<u>2,272,625</u>	<u>2,272,625</u>	<u>2,296,297</u>	<u>23,672</u>
TOTAL REVENUES				
EXPENDITURES				
Current				
General government	514,013	514,013	463,843	50,170
Public safety	516,546	516,546	519,522	(2,976)
Streets and highways	399,565	399,565	395,110	4,455
Sanitation	4,300	4,300	3,831	469
Culture and recreation	63,106	63,106	77,552	(14,446)
Economic development	79,824	79,824	79,329	495
Debt service				
Interest and other	1,400	1,400	1,218	182
	<u>1,578,754</u>	<u>1,578,754</u>	<u>1,540,405</u>	<u>38,349</u>
TOTAL EXPENDITURES				
EXCESS OF REVENUES OVER EXPENDITURES	<u>693,871</u>	<u>693,871</u>	<u>755,892</u>	<u>62,021</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	55,430	55,430	62,673	7,243
Transfers out	(749,301)	(749,301)	(764,301)	(15,000)
	<u>(693,871)</u>	<u>(693,871)</u>	<u>(701,628)</u>	<u>(7,757)</u>
TOTAL OTHER FINANCING SOURCES (USES)				
NET CHANGE IN FUND BALANCES	-	-	54,264	54,264
FUND BALANCES, JANUARY 1	<u>1,089,358</u>	<u>1,089,358</u>	<u>1,089,358</u>	-
FUND BALANCES, DECEMBER 31	<u>\$ 1,089,358</u>	<u>\$ 1,089,358</u>	<u>\$ 1,143,622</u>	<u>\$ 54,264</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, 2010 AND 2009

	Business-type Activities - Enterprise funds			
	<b>216</b>		<b>601</b>	
	Ambulance		Water	
	2010	2009	2010	2009
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash and temporary investments	\$ 593,600	\$ 537,694	\$ 2,144,580	\$ 1,852,839
Cash with fiscal agent	-	-	-	-
Receivables				
Accrued interest	-	4,098	-	26,476
Accounts, net	99,688	68,081	79,659	81,324
Inventories	-	-	22,885	24,366
Prepaid items	1,383	1,229	2,017	2,557
<b>TOTAL CURRENT ASSETS</b>	<b>694,671</b>	<b>611,102</b>	<b>2,249,141</b>	<b>1,987,562</b>
<b>NONCURRENT ASSETS</b>				
Appropriated funds	-	-	-	-
Deferred charges	-	-	33,660	37,182
Capital assets				
Land	-	-	41,123	41,123
Structures and improvements	-	-	7,557,618	7,557,618
Distribution/collection system	-	-	-	-
Plant equipment	412,054	412,054	52,664	52,664
Construction in progress	-	-	24,242	-
Less accumulated depreciation	(194,735)	(170,398)	(3,362,480)	(3,104,963)
Total capital assets (net of accumulated depreciation)	217,319	241,656	4,313,167	4,546,442
<b>TOTAL NONCURRENT ASSETS</b>	<b>217,319</b>	<b>241,656</b>	<b>4,346,827</b>	<b>4,583,624</b>
<b>TOTAL ASSETS</b>	<b>911,990</b>	<b>852,758</b>	<b>6,595,968</b>	<b>6,571,186</b>

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

Business-type Activities - Enterprise funds - Continued

<b>602</b>		<b>604</b>		Totals	
Wastewater		Electric			
2010	2009	2010	2009	2010	2009
\$ 799,865	\$ 1,843,840	\$ 3,703,154	\$ 2,387,152	\$ 7,241,199	\$ 6,621,525
2,651,484	-	-	-	2,651,484	-
-	20,114	77,847	51,595	77,847	102,283
141,169	152,754	781,602	805,234	1,102,118	1,107,393
44,294	43,152	495,509	506,611	562,688	574,129
7,425	6,522	5,576	7,514	16,401	17,822
<u>3,644,237</u>	<u>2,066,382</u>	<u>5,063,688</u>	<u>3,758,106</u>	<u>11,651,737</u>	<u>8,423,152</u>
-	-	3,146,947	3,571,947	3,146,947	3,571,947
<u>107,362</u>	<u>73,521</u>	<u>-</u>	<u>-</u>	<u>141,022</u>	<u>110,703</u>
63,878	63,878	216,027	216,027	321,028	321,028
20,608,993	20,563,071	-	-	28,166,611	28,120,689
-	-	10,206,735	9,982,777	10,206,735	9,982,777
322,990	314,457	-	-	787,708	779,175
-	-	-	-	24,242	-
<u>(7,288,535)</u>	<u>(6,649,683)</u>	<u>(6,931,781)</u>	<u>(6,620,905)</u>	<u>(17,777,531)</u>	<u>(16,545,949)</u>
<u>13,707,326</u>	<u>14,291,723</u>	<u>3,490,981</u>	<u>3,577,899</u>	<u>21,728,793</u>	<u>22,657,720</u>
<u>13,814,688</u>	<u>14,365,244</u>	<u>6,637,928</u>	<u>7,149,846</u>	<u>25,016,762</u>	<u>26,340,370</u>
<u>17,458,925</u>	<u>16,431,626</u>	<u>11,701,616</u>	<u>10,907,952</u>	<u>36,668,499</u>	<u>34,763,522</u>

CITY OF MELROSE, MINNESOTA  
STATEMENTS OF NET ASSETS - CONTINUED  
PROPRIETARY FUNDS  
DECEMBER 31, 2010 AND 2009

	Business-type Activities - Enterprise funds - Continued			
	<b>216</b>		<b>601</b>	
	Ambulance		Water	
	2010	2009	2010	2009
<b>LIABILITIES</b>				
<b>CURRENT LIABILITIES</b>				
Accounts payable	\$ 4,155	\$ 1,695	\$ 43,000	\$ 1,881
Due to other funds	-	-	5,120	86,602
Accrued interest payable	-	-	35,647	38,612
Customer deposits payable	-	-	-	-
Compensated absences payable - current	-	-	8,866	7,628
Bonds payable - current	-	-	239,000	229,000
<b>TOTAL CURRENT LIABILITIES</b>	<b>4,155</b>	<b>1,695</b>	<b>331,633</b>	<b>363,723</b>
<b>NONCURRENT LIABILITIES</b>				
Compensated absences payable	-	-	-	-
Bonds payable	-	-	2,281,700	2,520,700
Unamortized premium on bonds	-	-	-	-
Other postemployment benefits payable	-	-	8,460	4,091
<b>TOTAL NONCURRENT LIABILITIES</b>	<b>-</b>	<b>-</b>	<b>2,290,160</b>	<b>2,524,791</b>
<b>TOTAL LIABILITIES</b>	<b>4,155</b>	<b>1,695</b>	<b>2,621,793</b>	<b>2,888,514</b>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	217,319	241,656	1,792,467	1,796,742
Unrestricted	690,516	609,407	2,181,708	1,885,930
<b>TOTAL NET ASSETS</b>	<b>\$ 907,835</b>	<b>\$ 851,063</b>	<b>\$ 3,974,175</b>	<b>\$ 3,682,672</b>

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

Business-type Activities - Enterprise funds - Continued

<b>602</b>		<b>604</b>			
Wastewater		Electric		Totals	
2010	2009	2010	2009	2010	2009
\$ 52,094	\$ 73,588	\$ 633,380	\$ 580,692	\$ 732,629	\$ 657,856
11,707	136,185	94,953	-	111,780	222,787
15,427	10,983	-	-	51,074	49,595
-	-	23,847	24,290	23,847	24,290
19,608	16,435	35,338	38,204	63,812	62,267
160,000	155,000	-	-	399,000	384,000
<u>258,836</u>	<u>392,191</u>	<u>787,518</u>	<u>643,186</u>	<u>1,382,142</u>	<u>1,400,795</u>
-	-	10,469	5,251	10,469	5,251
4,180,000	2,925,000	-	-	6,461,700	5,445,700
20,224	-	-	-	20,224	-
18,476	8,815	45,877	23,307	72,813	36,213
<u>4,218,700</u>	<u>2,933,815</u>	<u>56,346</u>	<u>28,558</u>	<u>6,565,206</u>	<u>5,487,164</u>
<u>4,477,536</u>	<u>3,326,006</u>	<u>843,864</u>	<u>671,744</u>	<u>7,947,348</u>	<u>6,887,959</u>
12,007,102	11,211,723	3,490,981	3,577,899	17,507,869	16,828,020
974,287	1,893,897	7,366,771	6,658,309	11,213,282	11,047,543
<u>\$ 12,981,389</u>	<u>\$ 13,105,620</u>	<u>\$ 10,857,752</u>	<u>\$ 10,236,208</u>	<u>\$ 28,721,151</u>	<u>\$ 27,875,563</u>

CITY OF MELROSE, MINNESOTA  
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUNDS  
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	Business-type Activities - Enterprise funds			
	<b>216</b>		<b>601</b>	
	Ambulance		Water	
	2010	2009	2010	2009
OPERATING REVENUES				
Charges for services	\$ 451,436	\$ 401,789	\$ 981,434	\$ 1,020,789
OPERATING EXPENSES				
Production, collection, and purchased power	-	-	115,804	156,476
Distribution	-	-	114,763	136,412
Accounting and collection	-	-	13,453	13,769
General and administrative	398,937	389,574	108,789	103,163
Depreciation	24,337	24,551	257,517	257,417
TOTAL OPERATING EXPENSES	423,274	414,125	610,326	667,237
OPERATING INCOME (LOSS)	28,162	(12,336)	371,108	353,552
NONOPERATING REVENUES (EXPENSES)				
Intergovernmental	-	-	330	316
Interest on investments	6,075	14,449	27,203	55,397
Miscellaneous	22,535	13,132	8,642	-
Interest expense	-	-	(101,131)	(118,246)
TOTAL NONOPERATING REVENUES (EXPENSES)	28,610	27,581	(64,956)	(62,533)
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	56,772	15,245	306,152	291,019
CONTRIBUTIONS OF ASSETS FROM OTHER FUNDS	-	-	-	23,208
TRANSFERS IN	-	-	-	-
TRANSFERS OUT	-	-	(14,649)	(13,878)
TOTAL CONTRIBUTIONS AND TRANSFERS	-	-	(14,649)	9,330
CHANGE IN FUND NET ASSETS	56,772	15,245	291,503	300,349
FUND NET ASSETS, JANUARY 1	851,063	835,818	3,682,672	3,382,323
FUND NET ASSETS, DECEMBER 31	<u>\$ 907,835</u>	<u>\$ 851,063</u>	<u>\$ 3,974,175</u>	<u>\$ 3,682,672</u>

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

Business-type Activities - Enterprise funds - Continued

<b>602</b>		<b>604</b>		Totals	
Wastewater		Electric			
2010	2009	2010	2009	2010	2009
\$ 1,660,803	\$ 1,746,880	\$ 7,911,444	\$ 8,460,960	\$ 11,005,117	\$ 11,630,418
21,110	26,083	6,153,328	6,060,794	6,290,242	6,243,353
889,486	828,905	371,427	360,705	1,375,676	1,326,022
-	-	11,752	12,830	25,205	26,599
135,459	116,705	818,022	782,337	1,461,207	1,391,779
638,852	600,851	310,876	313,840	1,231,582	1,196,659
<u>1,684,907</u>	<u>1,572,544</u>	<u>7,665,405</u>	<u>7,530,506</u>	<u>10,383,912</u>	<u>10,184,412</u>
(24,104)	174,336	246,039	930,454	621,205	1,446,006
876	890	1,950	1,948	3,156	3,154
37,067	50,859	219,125	163,925	289,470	284,630
193	560	154,430	7,541	185,800	21,233
<u>(141,558)</u>	<u>(141,199)</u>	<u>-</u>	<u>-</u>	<u>(242,689)</u>	<u>(259,445)</u>
(103,422)	(88,890)	375,505	173,414	235,737	49,572
(127,526)	85,446	621,544	1,103,868	856,942	1,495,578
-	43,439	-	-	-	66,647
3,295	-	-	-	3,295	-
<u>-</u>	<u>(36,817)</u>	<u>-</u>	<u>(56,000)</u>	<u>(14,649)</u>	<u>(106,695)</u>
3,295	6,622	-	(56,000)	(11,354)	(40,048)
(124,231)	92,068	621,544	1,047,868	845,588	1,455,530
<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>
<u>\$ 12,981,389</u>	<u>\$ 13,105,620</u>	<u>\$ 10,857,752</u>	<u>\$ 10,236,208</u>	<u>\$ 28,721,151</u>	<u>\$ 27,875,563</u>

CITY OF MELROSE, MINNESOTA  
STATEMENTS OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	Business-type Activities - Enterprise funds			
	<b>216</b>		<b>601</b>	
	Ambulance		Water	
	2010	2009	2010	2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from customers and users	\$ 442,364	\$ 428,678	\$ 992,071	\$ 1,019,638
Payments to suppliers	(252,359)	(247,908)	(161,068)	(271,399)
Payments to employees	(144,272)	(143,992)	(142,994)	(145,585)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>45,733</b>	<b>36,778</b>	<b>688,009</b>	<b>602,654</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Transfer from other funds	-	-	-	-
Transfers to other funds	-	-	(14,649)	(13,878)
Decrease in due from other funds	-	-	-	-
Increase (decrease) in due to other funds	-	-	(81,482)	86,602
<b>NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES</b>	<b>-</b>	<b>-</b>	<b>(96,131)</b>	<b>72,724</b>
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>				
Acquisition of property and equipment	-	-	(24,242)	(89,126)
Interest paid on bonds	-	-	(100,574)	(122,094)
Payment to escrow agent for crossover refunding	-	-	-	-
Proceeds of bonds issued received by city	-	-	-	-
Principal paid on bonds	-	-	(229,000)	(584,000)
<b>NET CASH USED BY CAPITAL FINANCING ACTIVITIES</b>	<b>-</b>	<b>-</b>	<b>(353,816)</b>	<b>(795,220)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest received on investments	10,173	17,735	53,679	59,698
Transfer from appropriated funds	-	-	-	-
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<b>10,173</b>	<b>17,735</b>	<b>53,679</b>	<b>59,698</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>55,906</b>	<b>54,513</b>	<b>291,741</b>	<b>(60,144)</b>
<b>CASH AND CASH EQUIVALENTS, JANUARY 1</b>	<b>537,694</b>	<b>483,181</b>	<b>1,852,839</b>	<b>1,912,983</b>
<b>CASH AND CASH EQUIVALENTS, DECEMBER 31</b>	<b>\$ 593,600</b>	<b>\$ 537,694</b>	<b>\$ 2,144,580</b>	<b>\$ 1,852,839</b>

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

Business-type Activities - Enterprise funds - Continued

<b>602</b>		<b>604</b>		Totals	
Wastewater		Electric			
2010	2009	2010	2009	2010	2009
\$ 1,673,457	\$ 1,739,765	\$ 8,091,456	\$ 8,131,810	\$ 11,199,348	\$ 11,319,891
(642,787)	(739,086)	(6,764,947)	(6,558,784)	(7,821,161)	(7,817,177)
<u>(366,968)</u>	<u>(392,973)</u>	<u>(499,375)</u>	<u>(511,675)</u>	<u>(1,153,609)</u>	<u>(1,194,225)</u>
663,702	607,706	827,134	1,061,351	2,224,578	2,308,489
3,295	-	-	-	3,295	-
-	(36,817)	-	(56,000)	(14,649)	(106,695)
-	8,660	-	295,300	-	303,960
<u>(124,478)</u>	<u>124,900</u>	<u>94,953</u>	<u>-</u>	<u>(111,007)</u>	<u>211,502</u>
(121,183)	96,743	94,953	239,300	(122,361)	408,767
(107,660)	(854,602)	(223,958)	(252,779)	(355,860)	(1,196,507)
(131,795)	(136,670)	-	-	(232,369)	(258,764)
(1,250,000)	-	-	-	(1,250,000)	-
3,140	-	-	-	3,140	-
<u>(155,000)</u>	<u>(150,000)</u>	<u>-</u>	<u>-</u>	<u>(384,000)</u>	<u>(734,000)</u>
(1,641,315)	(1,141,272)	(223,958)	(252,779)	(2,219,089)	(2,189,271)
54,821	61,713	192,873	174,873	311,546	314,019
-	-	425,000	-	425,000	-
54,821	61,713	617,873	174,873	736,546	314,019
(1,043,975)	(375,110)	1,316,002	1,222,745	619,674	842,004
1,843,840	2,218,950	2,387,152	1,164,407	6,621,525	5,779,521
<u>\$ 799,865</u>	<u>\$ 1,843,840</u>	<u>\$ 3,703,154</u>	<u>\$ 2,387,152</u>	<u>\$ 7,241,199</u>	<u>\$ 6,621,525</u>

CITY OF MELROSE, MINNESOTA  
STATEMENTS OF CASH FLOWS - CONTINUED  
PROPRIETARY FUNDS  
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	Business-type Activities - Enterprise funds - Continued			
	<b>216</b>		<b>601</b>	
	Ambulance		Water	
	2010	2009	2010	2009
RECONCILIATION OF OPERATING INCOME (LOSS) TO				
NET CASH PROVIDED BY				
OPERATING ACTIVITIES				
Operating income (loss)	\$ 28,162	\$ (12,336)	\$ 371,108	\$ 353,552
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Other income related to operations	22,535	13,132	8,972	316
Depreciation	24,337	24,551	257,517	257,417
(Increase) decrease in assets:				
Accounts receivable	(31,607)	13,757	1,665	(1,467)
Inventory	-	-	1,481	(1,667)
Prepaid items	(154)	(885)	540	1,758
Increase (decrease) in liabilities:				
Accounts payable	2,460	(1,441)	41,119	(10,520)
Compensated absences and OPEB payable	-	-	5,607	3,265
Customer deposits payable	-	-	-	-
	<u>\$ 45,733</u>	<u>\$ 36,778</u>	<u>\$ 688,009</u>	<u>\$ 602,654</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES				
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>\$ -</u>	<u>\$ 23,208</u>
Amortization of deferred charges and bond premium	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,522</u>	<u>\$ 3,522</u>
Discount on bonds issued	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Disposal of fixed assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,701</u>
Loss on disposal of fixed assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Bond issuances costs acquired on short-term account	<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

<b>602</b>		<b>604</b>		Totals	
Wastewater		Electric			
2010	2009	2010	2009	2010	2009
\$ (24,104)	\$ 174,336	\$ 246,039	\$ 930,454	\$ 621,205	\$ 1,446,006
1,069	1,450	156,380	9,489	188,956	24,387
638,852	600,851	310,876	313,840	1,231,582	1,196,659
11,585	(8,565)	23,632	(338,639)	5,275	(334,914)
(1,142)	(22,334)	11,102	22,494	11,441	(1,507)
(903)	(566)	1,938	(1,363)	1,421	(1,056)
25,511	(143,744)	52,688	98,016	121,778	(57,689)
12,834	6,278	24,922	24,630	43,363	34,173
-	-	(443)	2,430	(443)	2,430
<u>\$ 663,702</u>	<u>\$ 607,706</u>	<u>\$ 827,134</u>	<u>\$ 1,061,351</u>	<u>\$ 2,224,578</u>	<u>\$ 2,308,489</u>
<u>\$ -</u>	<u>\$ 53,205</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 53,205</u>
<u>\$ -</u>	<u>\$ 43,439</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 66,647</u>
<u>\$ 5,319</u>	<u>\$ 4,935</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,841</u>	<u>\$ 8,457</u>
<u>\$ 39,580</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 39,580</u>	<u>\$ -</u>
<u>\$ -</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>\$ 6,200</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,200</u>	<u>\$ -</u>

CITY OF MELROSE, MINNESOTA  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
DECEMBER 31, 2010

	<u>Agency</u>
ASSETS	
Cash and temporary investments	<u>\$ 3,204</u>
LIABILITIES	
Accounts payable	<u>\$ 3,204</u>

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

CITY OF MELROSE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010

**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 \$32,299 at December 31, 2010. The total receivable of \$1,324,276 is reflected as due from CentraCare in the General fund.

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

***Blended component unit***

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

CITY OF MELROSE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010

**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, 2010

**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, 2010

**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, 2010

**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, 2010

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

***Accounts receivable***

Accounts receivable include amounts billed for services provided before year end. The Ambulance and Electric enterprise funds and Fire Department nonmajor governmental fund have allowances for uncollectible accounts totaling \$10,000, \$2,000 and \$1,000, respectively, at December 31, 2010.

***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	\$ 146,947
Future plant expansion	<u>3,000,000</u>
Total	<u><u>\$ 3,146,947</u></u>

CITY OF MELROSE, MINNESOTA  
 NOTES TO FINANCIAL STATEMENTS  
 DECEMBER 31, 2010

**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, 2010

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

***Postemployment benefits other than pensions***

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

***Long-term obligations***

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

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

***Net assets***

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

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

***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, 2010

**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 15<sup>th</sup>, the proposed budget is presented to the Council for review. The Council holds public hearings and a final budget is prepared and adopted in December.

The appropriated budget is prepared by fund, function and department. The City's department heads, with the approval of the 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 fund had a fund balance deficit at December 31, 2010 that will be eliminated with transfers from other funds:

<u>Fund</u>	<u>Amount</u>
Special revenue	
Melrose Area Development Authority (MADA)	<u>\$ 4,101</u>

CITY OF MELROSE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010

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

**A. Deposits and investments**

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

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

Authorized collateral in lieu of a corporate surety bond includes:

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

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

At year end, the City's carrying amount of deposits was \$6,775,139 and the bank balance was \$6,849,623. Of the bank balance, \$500,000 was covered by federal depository insurance and \$982,858 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, 2010

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

***Investments***

As of December 31, 2010, 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	\$ 196,357
Negotiable CD's	N/A	6 months to 1 year	353,994
Negotiable CD's	N/A	1 to 3 years	1,335,241
Negotiable CD's	N/A	more than 3 years	453,346
U.S. Government Securities	AAA	less than 6 months	13,121
U.S. Government Securities	AAA	6 months to 1 year	10,710
U.S. Government Securities	AAA	1 to 3 years	2,781,947
U.S. Government Securities	AAA	more than 3 years	<u>6,452,281</u>
Total non-pooled investments			11,596,997
Pooled investments			
Money Market Mutual funds	N/A	less than 6 months	<u>32,471</u>
Total investments			<u><u>\$ 11,629,468</u></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, 2010

**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	\$ 6,775,139
Investments	11,629,468
Cash on hand	<u>703</u>
Total	<u><u>\$ 18,405,310</u></u>
Cash	
Government wide	
Cash and temporary investments	\$ 15,750,622
Cash with fiscal agent	2,651,484
Agency	<u>3,204</u>
Total	<u><u>\$ 18,405,310</u></u>

**B. Loans receivable**

The City has funds available for loans to local businesses. At December 31, 2010 the City has loans outstanding totaling \$267,273 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, 2010 is comprised of the following:

	<u>Unavailable</u>	<u>Unearned</u>
General		
Delinquent taxes	\$ 47,750	\$ -
Due from Centracare	-	1,324,276
Capital Improvements		
Special assessments	592,067	-
Debt Service		
Special assessments	<u>324,061</u>	<u>-</u>
Total	<u><u>\$ 963,878</u></u>	<u><u>\$ 1,324,276</u></u>

CITY OF MELROSE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010

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

**D. Capital assets**

Capital asset activity for the year ended December 31, 2010 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental activities</b>				
Capital assets, not being depreciated				
Land	\$ 3,191,412	\$ -	\$ -	\$ 3,191,412
Construction in progress	<u>81,829</u>	<u>-</u>	<u>(81,829)</u>	<u>-</u>
Total capital assets, not being depreciated	<u>3,273,241</u>	<u>-</u>	<u>(81,829)</u>	<u>3,191,412</u>
Capital assets, being depreciated				
Buildings	4,395,582	40,043	-	4,435,625
Machinery and equipment	2,010,644	24,671	-	2,035,315
Infrastructure	<u>10,620,992</u>	<u>177,500</u>	<u>-</u>	<u>10,798,492</u>
Total capital assets being depreciated	<u>17,027,218</u>	<u>242,214</u>	<u>-</u>	<u>17,269,432</u>
Less accumulated depreciation for				
Buildings	(1,046,217)	(113,874)	-	(1,160,091)
Machinery and equipment	(977,869)	(115,188)	-	(1,093,057)
Infrastructure	<u>(2,947,061)</u>	<u>(283,713)</u>	<u>-</u>	<u>(3,230,774)</u>
Total accumulated depreciation	<u>(4,971,147)</u>	<u>(512,775)</u>	<u>-</u>	<u>(5,483,922)</u>
Total capital assets, being depreciated, net	<u>12,056,071</u>	<u>(270,561)</u>	<u>-</u>	<u>11,785,510</u>
Governmental activities capital assets, net	<u>\$ 15,329,312</u>	<u>\$ (270,561)</u>	<u>\$ (81,829)</u>	<u>\$ 14,976,922</u>

CITY OF MELROSE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010

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

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Business-type activities</b>				
Capital assets, not being depreciated				
Land	\$ 321,028	\$ -	\$ -	\$ 321,028
Construction in progress	-	24,242	-	24,242
Total capital assets, not being depreciated	321,028	24,242	-	345,270
Capital assets, being depreciated				
Buildings	2,510,920	86,123	-	2,597,043
Machinery and equipment	1,597,977	8,533	-	1,606,510
Infrastructure	34,773,744	183,757	-	34,957,501
Total capital assets, being depreciated	38,882,641	278,413	-	39,161,054
Less accumulated depreciation for				
Buildings	(1,948,704)	(62,552)	-	(2,011,256)
Machinery and equipment	(867,329)	(99,049)	-	(966,378)
Infrastructure	(13,729,916)	(1,069,981)	-	(14,799,897)
Total accumulated depreciation	(16,545,949)	(1,231,582)	-	(17,777,531)
Total capital assets, being depreciated, net	22,336,692	(953,169)	-	21,383,523
Business-type activities capital assets, net	\$ 22,657,720	\$ (928,927)	\$ -	\$ 21,728,793
 <b>Governmental activities</b>				
General government				\$ 68,372
Public safety				114,222
Culture and recreation				309,765
Public works				20,416
Total depreciation expense - governmental activities				\$ 512,775
 <b>Business-type activities</b>				
Ambulance				\$ 24,337
Water				257,517
Wastewater				638,852
Electric				310,876
Total depreciation expense - business-type activities				\$ 1,231,582

CITY OF MELROSE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010

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

**E. Interfund receivables, payables and transfers**

*Interfund balances*

Receivable Fund	Payable Fund	Amount	Purpose
Capital Improvements	Nonmajor governmental	\$ 77,713	GCI loan
General	Water	1,827	Reimbursement for costs
General	Wastewater	1,827	Reimbursement for costs
General	Electric	94,953	Reimbursement for costs
Nonmajor governmental	Water	3,293	Reimbursement for costs
Nonmajor governmental	Wastewater	9,880	Reimbursement for costs
Total		<u>\$ 189,493</u>	

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

*Interfund transfers*

Fund	Transfer in:		
	General	Debt Service	Capital Improvements
Transfer out:			
General	\$ -	\$ 213,202	\$ 381,500
Capital improvements	62,673	280,839	-
Nonmajor governmental	-	75,000	-
Water enterprise	-	-	9,000
Total transfers out	<u>\$ 62,673</u>	<u>\$ 569,041</u>	<u>\$ 390,500</u>

Fund	Transfer in:		
	Nonmajor Governmental	Wastewater	Total
Transfer out:			
General	\$ 169,599	\$ -	\$ 764,301
Capital improvements	1,710	-	345,222
Nonmajor governmental	-	3,295	78,295
Water enterprise	5,649	-	14,649
Total transfers out	<u>\$ 176,958</u>	<u>\$ 3,295</u>	<u>\$ 1,202,467</u>

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

CITY OF MELROSE, MINNESOTA  
 NOTES TO FINANCIAL STATEMENTS  
 DECEMBER 31, 2010

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

- The transfer from the Capital Improvements fund to the General fund was budgeted for operations.
- The transfer from the Capital Improvements fund to the Debt Service fund was to close a 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 fund was for bond costs.
- The transfer from the Nonmajor funds to the Wastewater fund was to reimburse for project costs.
- The transfer from the Water fund to the Capital Improvements fund was for capital purchases.
- The transfer from the Water fund to the Nonmajor funds was for project costs.

**F. Long-term debt**

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

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

***General obligation improvement bonds***

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

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
G.O. Improvement Bonds, Series 2004B	\$ 985,000	3.20 - 4.30 %	10/01/04	02/01/20	\$ 845,000
G.O. Improvement Bonds, Series 2005A	2,545,000	3.40 - 4.40	09/01/05	02/01/21	<u>2,105,000</u>
Total G.O. Improvement Bonds					<u><u>\$ 2,950,000</u></u>

CITY OF MELROSE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010

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

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

Year Ending December 31,	Governmental Activities		
	Principal	Interest	Total
2011	\$ 230,000	\$ 113,270	\$ 343,270
2012	240,000	105,273	345,273
2013	255,000	96,520	351,520
2014	245,000	87,130	332,130
2015	280,000	76,770	356,770
2016-2020	1,475,000	209,290	1,684,290
2021	225,000	4,950	229,950
Total	<u>\$ 2,950,000</u>	<u>\$ 693,203</u>	<u>\$ 3,643,203</u>

**Revenue bonds**

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

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
Public Project Lease Revenue Bonds of 2008	\$ 2,360,000	3.20 - 4.70 %	04/24/08	02/01/29	<u>\$ 2,280,000</u>

Revenue bonds debt service requirements to maturity are as follows:

Year Ending December 31,	Governmental Activities		
	Principal	Interest	Total
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	95,000	83,351	178,351
2016-2020	535,000	355,760	890,760
2021-2025	655,000	228,718	883,718
2026-2029	645,000	62,590	707,590
Total	<u>\$ 2,280,000</u>	<u>\$ 1,095,733</u>	<u>\$ 3,375,733</u>

CITY OF MELROSE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010

**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	\$ 1,385,700
G.O. Sewer Revenue Bonds of 2004	3,230,000	3.50 - 4.75	06/01/04	12/01/12	2,925,000
G.O. Water Revenue Crossover Refunding	1,330,000	3.40 - 4.25	09/01/05	08/01/20	1,135,000
G.O. Sewer Revenue Crossover Refunding Bonds, Series 2010A	1,415,000	2.00 - 2.45	11/01/10	12/01/18	<u>1,415,000</u>
Total G.O. Revenue Bonds					<u><u>\$ 6,860,700</u></u>

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

Year Ending December 31,	Business-type Activities		
	Principal	Interest	Total
2011	\$ 399,000	\$ 251,051	\$ 650,051
2012	3,009,000	234,776	3,243,776
2013	503,000	105,340	608,340
2014	523,000	91,458	614,458
2015	538,000	76,507	614,507
2016-2020	<u>1,888,700</u>	<u>151,577</u>	<u>2,040,277</u>
Total	<u><u>\$ 6,860,700</u></u>	<u><u>\$ 910,709</u></u>	<u><u>\$ 7,771,409</u></u>

CITY OF MELROSE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010

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

*Changes in Long-term Liabilities.* Long-term liability activity for the year ended December 31, 2010, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
<b>Governmental activities</b>					
Bonds payable					
General obligation					
improvement bonds	\$ 3,580,000	\$ -	\$ (630,000)	\$ 2,950,000	\$ 230,000
Revenue Bonds	2,360,000	-	(80,000)	2,280,000	85,000
Total bonds payable	5,940,000	-	(710,000)	5,230,000	315,000
Compensated absences	59,606	56,302	(51,959)	63,949	51,959
Other postemployment benefits payable	31,970	31,510	-	63,480	-
Governmental activity long-term liabilities	<u>\$ 6,031,576</u>	<u>\$ 87,812</u>	<u>\$ (761,959)</u>	<u>\$ 5,357,429</u>	<u>\$ 366,959</u>
<b>Business-type activities</b>					
Bonds payable					
General obligation					
revenue bonds	\$ 5,829,700	\$ 1,415,000	\$ (384,000)	\$ 6,860,700	\$ 399,000
Unamortized premium on bonds	-	20,644	(420)	20,224	-
Compensated absences	67,518	70,575	(63,812)	74,281	63,812
Other postemployment benefits payable	36,213	36,600	-	72,813	-
Business-type activity long-term liabilities	<u>\$ 5,933,431</u>	<u>\$ 1,542,819</u>	<u>\$ (448,232)</u>	<u>\$ 7,028,018</u>	<u>\$ 462,812</u>

***Crossover Refunding***

On November 1, 2010 the City issued \$1,415,000 of G.O. Sewer Revenue Crossover Refunding Bonds, Series 2010A, bearing an average coupon rate of 2.13 percent, to provide resources for the crossover refunding of \$2,600,000 of the outstanding principal of the G.O. Sewer Revenue Bonds of 2004 on December 1, 2012. The proceeds of the Series 2010A Bonds and a transfer of \$1,250,000 from the City were deposited into an Escrow Account which shall pay issuance costs and purchase securities bearing interest to provide sufficient funds to pay the interest on the 2010A bonds and pay the \$2,600,000 called Revenue Bonds of 2004 on December 1, 2012. The City will continue to pay, as due, principal and interest on the 2004 Bonds at the rates and amounts specified to the call date (December 1, 2012). As a result of the refunding issue, the City will save \$675,420 in debt service payments and achieve an economic gain (the present value of the difference between the old and the new debt service) of \$331,802.

CITY OF MELROSE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010

**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
<b>Fund balance - Reserved</b>		
General	Prepaid items	\$ 7,928
	Due from other funds	98,607
Debt Service	Debt service	1,270,469
Nonmajor governmental	Prepaid items	1,843
	Loans	<u>267,273</u>
Total reserved fund balance		<u>\$ 1,646,120</u>
<b>Fund balance - Unreserved - Designated</b>		
General	Insurance reserve	\$ 12,367
	Compensated absences	40,468
	Working capital	550,000
Capital Improvements	Public works equipment	174,727
	Street improvements	856,913
	Park and recreation	30,634
	City center maintenance	35,455
	Sidewalk program	34,098
	Police car replacement	68,534
	Future land development	12,963
	Planning and zoning	51,074
	Police equipment	13,933
	Office equipment	10,079
	Capital improvements	1,298,585
Nonmajor governmental	Loans	9,259
	Senior center	2,367
	Tri-cap bus	417
	Fire equipment	<u>331,945</u>
Total designated fund balance		<u>\$ 3,533,818</u>

CITY OF MELROSE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010

**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 General Employees Retirement Fund (GERF) and the Public Employees Police and Fire Fund (PEPFF), which are cost sharing, multiple-employer retirement plans. These plans are established and administered in accordance with Minnesota statutes, chapters 353 and 356.

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

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

Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of the step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan is 2.2 percent of average salary for each of the first 10 years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first 10 years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan for each year of service. For PEPFF members, the annuity accrual rate is 3.0 percent for each year of service. For all PEPFF members and GERF members hired prior to July 1, 1989 whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 55 for PEPFF members and 65 for Basic and Coordinated members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for Coordinated members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

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

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

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

CITY OF MELROSE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010

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

**B. Funding policy**

Minnesota statutes, chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the State legislature. The City makes annual contributions to the pension plans equal to the amount required by Minnesota statutes. GERP Basic Plan members and Coordinated Plan members are required to contribute 9.1 percent and 6.0 percent, respectively, of their annual covered salary in 2010. PEPFF members are required to contribute 9.4 percent of their annual covered salary in 2010. In 2010, the City was required to contribute the following percentages of annual covered payroll: 11.78 percent for Basic Plan GERP members, 7.0 percent for Coordinated Plan GERP members, and 14.1 percent for PEPFF members. The City's contributions to the General Employees Retirement Fund for the year ended December 31, 2010, 2009 and 2008 were \$83,867, \$84,113 and \$84,009, respectively. The City's contributions to the PEPFF for the years ending December 31, 2010, 2009 and 2008 were \$38,183, \$38,001 and \$33,572, 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 2010 taxable market value of property was \$186,693,500 and the debt limit was \$5,600,805. 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, 2010

**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, 2010, there were two series of revenue bonds outstanding, with an aggregate principal payable amount of \$9,485,350.

**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 2010 was \$614,850 and \$36,274 for LGA and MVHC, respectively. This accounted for 28 percent of General fund revenue.

CITY OF MELROSE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010

**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	\$	19,904
Contributions made		
State Aid		19,904
Actuarial valuation date		12/31/10
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, 2010

**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
12/31/10	\$ 19,904	100.0 %	\$ -
12/31/09	18,418	100.0	-
12/31/08	20,709	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
12/31/10	*	*	*	* %	*
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

\* 2010 information not available.

**Note 7: POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS**

**A. Plan description**

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

**B. Funding policy**

The City has historically funded these liabilities on a pay-as-you-go basis. Contribution requirements are negotiated between the City and union representatives at the expiration of each Collective Bargaining Agreement. At the present time, retiree benefits are provided for two participating employees. The City does not contribute any of the cost of current year premiums for eligible retired plan members and their spouses. For fiscal year 2010, the City contributed \$16,883 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, 2010

**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	3,068
Adjustment to annual required contribution	<u>(2,415)</u>
 Annual OPEB cost (expense)	 84,993
 Contributions made	 <u>(16,883)</u>
 Increase in net OPEB obligation	 68,110
 Net OPEB obligation - beginning of year	 <u>68,183</u>
 Net OPEB obligation - end of year	 <u><u>\$ 136,293</u></u>

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

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

**D. Funded status and funding progress**

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

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

CITY OF MELROSE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010

**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, 2010, was thirty years.

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**REQUIRED SUPPLEMENTARY  
INFORMATION**

CITY OF MELROSE  
MELROSE, MINNESOTA

FOR THE YEAR ENDED  
DECEMBER 31, 2010

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CITY OF MELROSE, MINNESOTA  
 REQUIRED SUPPLEMENTARY INFORMATION  
 DECEMBER 31, 2010

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

FOR THE YEAR ENDED  
DECEMBER 31, 2010

CITY OF MELROSE, MINNESOTA  
NONMAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEET  
DECEMBER 31, 2010

	Special Revenue	Capital Projects	Total Nonmajor Governmental Funds
<b>ASSETS</b>			
Cash and temporary investments (deficits)	\$ 566,692	\$ (10,742)	\$ 555,950
Receivables			
Accounts, net	4,238	-	4,238
Loans	267,273	-	267,273
Due from other funds	-	13,173	13,173
Prepaid items	1,843	-	1,843
TOTAL ASSETS	\$ 840,046	\$ 2,431	\$ 842,477
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Accounts payable	\$ 1,842	\$ 2,431	\$ 4,273
Due to other funds	77,713	-	77,713
TOTAL LIABILITIES	79,555	2,431	81,986
<b>FUND BALANCES</b>			
Reserved for prepaid items	1,843	-	1,843
Reserved for loans	267,273	-	267,273
Unreserved			
Designated	343,988	-	343,988
Undesignated	147,387	-	147,387
TOTAL FUND BALANCES	760,491	-	760,491
TOTAL LIABILITIES AND FUND BALANCES	\$ 840,046	\$ 2,431	\$ 842,477

CITY OF MELROSE, MINNESOTA  
NONMAJOR GOVERNMENTAL FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED DECEMBER 31, 2010

	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Total Nonmajor Governmental Funds</u>
REVENUES			
Tax increments	\$ 83,792	\$ -	\$ 83,792
Intergovernmental	203,312	-	203,312
Charges for services	95,579	-	95,579
Interest on investments	20,225	373	20,598
Miscellaneous	30,651	-	30,651
	<u>433,559</u>	<u>373</u>	<u>433,932</u>
TOTAL REVENUES			
EXPENDITURES			
Current			
Public safety	142,751	-	142,751
Culture and recreation	3,783	-	3,783
Economic development	352,817	-	352,817
Capital outlay			
Streets and highways	-	43,465	43,465
Debt service			
Interest and other	4,190	-	4,190
	<u>503,541</u>	<u>43,465</u>	<u>547,006</u>
TOTAL EXPENDITURES			
DEFICIENCY OF REVENUES UNDER EXPENDITURES	<u>(69,982)</u>	<u>(43,092)</u>	<u>(113,074)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	169,599	7,359	176,958
Transfers out	(75,000)	(3,295)	(78,295)
	<u>94,599</u>	<u>4,064</u>	<u>98,663</u>
TOTAL OTHER FINANCING SOURCES (USES)			
NET CHANGE IN FUND BALANCES	24,617	(39,028)	(14,411)
FUND BALANCES, JANUARY 1	<u>735,874</u>	<u>39,028</u>	<u>774,902</u>
FUND BALANCES, DECEMBER 31	<u>\$ 760,491</u>	<u>\$ -</u>	<u>\$ 760,491</u>

CITY OF MELROSE, MINNESOTA  
NONMAJOR SPECIAL REVENUE FUNDS  
COMBINING BALANCE SHEET  
DECEMBER 31, 2010

	Business Improvement Loans	Melrose Area Development Authority (MADA)	MADA Revolving Loan
<b>ASSETS</b>			
Cash and temporary investments	\$ 9,259	\$ 73,667	\$ 123,162
Receivable			
Accounts, net	-	-	-
Loans	-	-	267,273
Prepaid items	-	6	-
	<u>9,259</u>	<u>73,673</u>	<u>390,435</u>
<b>TOTAL ASSETS</b>	<u>\$ 9,259</u>	<u>\$ 73,673</u>	<u>\$ 390,435</u>
<b>LIABILITIES AND FUND BALANCES (DEFICITS)</b>			
<b>LIABILITIES</b>			
Accounts payable	\$ -	\$ 61	\$ -
Due to other funds	-	77,713	-
	<u>-</u>	<u>77,774</u>	<u>-</u>
<b>TOTAL LIABILITIES</b>	<u>-</u>	<u>77,774</u>	<u>-</u>
<b>FUND BALANCES (DEFICITS)</b>			
Reserved for prepaid items	-	6	-
Reserved for loans	-	-	267,273
Unreserved			
Designated	9,259	-	-
Undesignated	-	(4,107)	123,162
	<u>9,259</u>	<u>(4,107)</u>	<u>390,435</u>
<b>TOTAL FUND BALANCES (DEFICITS)</b>	<u>9,259</u>	<u>(4,101)</u>	<u>390,435</u>
<b>TOTAL LIABILITIES AND FUND BALANCES (DEFICITS)</b>	<u>\$ 9,259</u>	<u>\$ 73,673</u>	<u>\$ 390,435</u>

Senior Activity Center	PIA Asset Building	Tri-Cap Bus	Fire Department	Tax Increment Projects	Total
\$ 2,292	\$ 1,663	\$ 817	\$ 355,832	\$ -	\$ 566,692
75	-	-	4,163	-	4,238
-	-	-	-	-	267,273
-	-	-	1,837	-	1,843
<u>\$ 2,367</u>	<u>\$ 1,663</u>	<u>\$ 817</u>	<u>\$ 361,832</u>	<u>\$ -</u>	<u>\$ 840,046</u>
\$ -	\$ -	\$ 400	\$ 1,381	\$ -	\$ 1,842
-	-	-	-	-	77,713
-	-	400	1,381	-	79,555
-	-	-	1,837	-	1,843
-	-	-	-	-	267,273
2,367	-	417	331,945	-	343,988
-	1,663	-	26,669	-	147,387
<u>2,367</u>	<u>1,663</u>	<u>417</u>	<u>360,451</u>	<u>-</u>	<u>760,491</u>
<u>\$ 2,367</u>	<u>\$ 1,663</u>	<u>\$ 817</u>	<u>\$ 361,832</u>	<u>\$ -</u>	<u>\$ 840,046</u>

CITY OF MELROSE, MINNESOTA  
NONMAJOR SPECIAL REVENUE FUNDS  
COMBINING SCHEDULE OF REVENUE, EXPENDITURES  
AND CHANGES IN FUND BALANCES (DEFICITS)  
FOR THE YEAR ENDED DECEMBER 31, 2010

	Business Improvement Loans	Melrose Area Development Authority (MADA)	MADA Revolving Loan
<b>REVENUES</b>			
Tax increments	\$ -	\$ -	\$ -
Intergovernmental	-	183,408	-
Charges for services	-	-	-
Interest on investments	167	5,243	11,445
Miscellaneous			
Contributions and donations	-	-	-
Other	-	8,111	-
	<u>167</u>	<u>196,762</u>	<u>11,445</u>
<b>TOTAL REVENUES</b>			
	<u>167</u>	<u>196,762</u>	<u>11,445</u>
<b>EXPENDITURES</b>			
Current			
Personal services	-	992	-
Supplies	-	61	-
Other services and charges	-	185,113	75,000
Debt service			
Interest and other	-	4,190	-
	<u>-</u>	<u>4,190</u>	<u>-</u>
<b>TOTAL EXPENDITURES</b>			
	<u>-</u>	<u>190,356</u>	<u>75,000</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>			
	<u>167</u>	<u>6,406</u>	<u>(63,555)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	-	75,000	-
Transfers out	-	(75,000)	-
	<u>-</u>	<u>(75,000)</u>	<u>-</u>
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>			
	<u>-</u>	<u>-</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCES</b>			
	167	6,406	(63,555)
<b>FUND BALANCES (DEFICITS), JANUARY 1</b>			
	<u>9,092</u>	<u>(10,507)</u>	<u>453,990</u>
<b>FUND BALANCES (DEFICITS), DECEMBER 31</b>			
	<u>\$ 9,259</u>	<u>\$ (4,101)</u>	<u>\$ 390,435</u>

Senior Activity Center	PIA Asset Building	Tri-Cap Bus	Fire Department	Tax Increment Projects	Total
\$ -	\$ -	\$ -	\$ -	\$ 83,792	\$ 83,792
-	-	-	19,904	-	203,312
-	-	1,193	94,386	-	95,579
-	-	-	3,370	-	20,225
70	-	4,000	7,283	-	11,353
3,644	136	-	7,407	-	19,298
<u>3,714</u>	<u>136</u>	<u>5,193</u>	<u>132,350</u>	<u>83,792</u>	<u>433,559</u>
-	-	-	52,784	-	53,776
-	-	-	19,139	-	19,200
3,783	1,718	6,141	70,828	83,792	426,375
-	-	-	-	-	4,190
<u>3,783</u>	<u>1,718</u>	<u>6,141</u>	<u>142,751</u>	<u>83,792</u>	<u>503,541</u>
<u>(69)</u>	<u>(1,582)</u>	<u>(948)</u>	<u>(10,401)</u>	<u>-</u>	<u>(69,982)</u>
-	-	-	94,599	-	169,599
-	-	-	-	-	(75,000)
-	-	-	94,599	-	94,599
(69)	(1,582)	(948)	84,198	-	24,617
<u>2,436</u>	<u>3,245</u>	<u>1,365</u>	<u>276,253</u>	<u>-</u>	<u>735,874</u>
<u>\$ 2,367</u>	<u>\$ 1,663</u>	<u>\$ 417</u>	<u>\$ 360,451</u>	<u>\$ -</u>	<u>\$ 760,491</u>

CITY OF MELROSE, MINNESOTA  
NONMAJOR CAPITAL PROJECTS FUNDS  
COMBINING BALANCE SHEET  
DECEMBER 31, 2010

	<u>2009 Capital Improvements</u>	<u>12th Avenue East Improvements</u>	<u>Total</u>
<b>ASSETS</b>			
Cash and temporary investments (deficits)	\$ -	\$ (10,742)	\$ (10,742)
Due from other funds	<u>-</u>	<u>13,173</u>	<u>13,173</u>
<b>TOTAL ASSETS</b>	<u><u>\$ -</u></u>	<u><u>\$ 2,431</u></u>	<u><u>\$ 2,431</u></u>
<b>LIABILITIES</b>			
Accounts payable	<u><u>\$ -</u></u>	<u><u>\$ 2,431</u></u>	<u><u>\$ 2,431</u></u>

CITY OF MELROSE, MINNESOTA  
NONMAJOR CAPITAL PROJECTS FUNDS  
COMBINING SCHEDULE OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED DECEMBER 31, 2010

	2009 Capital Improvements	12th Avenue East Improvements	Total
REVENUES			
Interest on investments	\$ 373	\$ -	\$ 373
EXPENDITURES			
Capital outlay			
Streets and highways	43,465	-	43,465
DEFICIENCY OF REVENUES UNDER EXPENDITURES	(43,092)	-	(43,092)
OTHER FINANCING SOURCES (USES)			
Transfers in	7,359	-	7,359
Transfer out	(3,295)	-	(3,295)
TOTAL OTHER FINANCING SOURCES (USES)	4,064	-	4,064
NET CHANGE IN FUND BALANCES	(39,028)	-	(39,028)
FUND BALANCES, JANUARY 1	39,028	-	39,028
FUND BALANCES, DECEMBER 31	\$ -	\$ -	\$ -

CITY OF MELROSE, MINNESOTA  
GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED DECEMBER 31, 2010  
(With comparative actual amounts for the year ended December 31, 2009)

	2010				2009
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
<b>REVENUES</b>					
Taxes					
Property taxes	\$ 1,001,309	\$ 1,001,309	\$ 995,880	\$ (5,429)	\$ 843,630
Franchise fees	373,900	373,900	413,643	39,743	363,160
Total	1,375,209	1,375,209	1,409,523	34,314	1,206,790
Licenses and permits					
Business	17,000	17,000	17,298	298	16,456
Nonbusiness	27,700	27,700	49,764	22,064	50,135
Total	44,700	44,700	67,062	22,362	66,591
Intergovernmental					
State					
Local government aid	614,850	614,850	614,850	-	691,268
Property tax credits	104,496	104,496	36,274	(68,222)	105,724
Police state aid	33,751	33,751	33,092	(659)	33,440
Other	4,590	4,590	5,586	996	6,972
Total	757,687	757,687	689,802	(67,885)	837,404
Charges for services					
General government	26,850	26,850	35,798	8,948	38,701
Public safety	2,000	2,000	1,490	(510)	1,693
Streets and highways	18,829	18,829	20,011	1,182	19,323
Culture and recreation	7,850	7,850	11,296	3,446	2,330
Total	55,529	55,529	68,595	13,066	62,047
Fines and forfeitures	21,000	21,000	30,963	9,963	24,153
Interest on investments	15,000	15,000	6,155	(8,845)	23,702
Miscellaneous					
Contributions and donations	-	-	1,250	1,250	450
Other	3,500	3,500	22,947	19,447	9,992
Total	3,500	3,500	24,197	20,697	10,442
<b>TOTAL REVENUES</b>	<b>2,272,625</b>	<b>2,272,625</b>	<b>2,296,297</b>	<b>23,672</b>	<b>2,231,129</b>

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, 2010  
(With comparative actual amounts for the year ended December 31, 2009)

	2010				2009
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
EXPENDITURES					
Current					
General government					
Legislative					
Personal services	\$ 15,092	\$ 15,092	\$ 15,123	\$ (31)	\$ 15,039
Other services and charges	5,300	5,300	6,094	(794)	4,400
Total	20,392	20,392	21,217	(825)	19,439
Executive					
Personal services	5,022	5,022	5,052	(30)	5,022
Other services and charges	100	100	400	(300)	204
Total	5,122	5,122	5,452	(330)	5,226
City administrator					
Personal services	-	-	12,911	(12,911)	53,826
Supplies	150	150	560	(410)	-
Other services and charges	500	500	-	500	828
Total	650	650	13,471	(12,821)	54,654
Financial administration					
Personal services	233,432	233,432	220,729	12,703	180,268
Supplies	5,700	5,700	4,091	1,609	4,273
Other services and charges	143,822	143,822	130,832	12,990	117,944
Total	382,954	382,954	355,652	27,302	302,485
Assessing					
Other services and charges	18,500	18,500	18,162	338	17,240
Cable communications					
Other services and charges	21,354	21,354	2,713	18,641	27,127
City attorney					
Other services and charges	61,600	61,600	45,705	15,895	71,464
Planning and zoning					
Personal services	2,691	2,691	1,389	1,302	2,196
Other services and charges	750	750	82	668	484
Total	3,441	3,441	1,471	1,970	2,680
Total general government	514,013	514,013	463,843	50,170	500,315

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, 2010  
(With comparative actual amounts for the year ended December 31, 2009)

	2010				2009
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
EXPENDITURES - CONTINUED					
Current - Continued					
Public safety					
Police					
Personal services	\$ 431,996	\$ 431,996	\$ 423,368	\$ 8,628	\$ 419,619
Supplies	24,600	24,600	19,960	4,640	22,234
Other services and charges	36,700	36,700	30,226	6,474	32,853
Total	493,296	493,296	473,554	19,742	474,706
Building inspection					
Other services and charges	23,250	23,250	45,968	(22,718)	44,799
Total public safety	516,546	516,546	519,522	(2,976)	519,505
Streets and highways					
Streets					
Personal services	205,929	205,929	186,837	19,092	223,252
Supplies	43,500	43,500	45,526	(2,026)	41,300
Other services and charges	39,925	39,925	38,303	1,622	34,945
Total	289,354	289,354	270,666	18,688	299,497
Snow and ice removal					
Personal services	45,061	45,061	46,391	(1,330)	46,336
Supplies	23,000	23,000	26,429	(3,429)	24,266
Other services and charges	150	150	-	150	-
Total	68,211	68,211	72,820	(4,609)	70,602
Street lighting					
Other services and charges	42,000	42,000	51,624	(9,624)	42,302
Total streets and highways	399,565	399,565	395,110	4,455	412,401
Sanitation					
Supplies	1,800	1,800	1,070	730	981
Other services and charges	2,500	2,500	2,761	(261)	2,837
Total sanitation	4,300	4,300	3,831	469	3,818
Culture and recreation					
Personal services	32,006	32,006	44,428	(12,422)	-
Supplies	3,600	3,600	5,591	(1,991)	-
Other services and charges	27,500	27,500	27,533	(33)	-
Total culture and recreation	63,106	63,106	77,552	(14,446)	-

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, 2010  
(With comparative actual amounts for the year ended December 31, 2009)

	2010				2009
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
EXPENDITURES - CONTINUED					
Current - Continued					
Economic development					
Industrial/commercial development					
Personal services	\$ 79,817	\$ 79,817	\$ 79,324	\$ 493	\$ 79,159
Other services and charges	7	7	5	2	1
Total economic development	<u>79,824</u>	<u>79,824</u>	<u>79,329</u>	<u>495</u>	<u>79,160</u>
Total current expenditures	1,577,354	1,577,354	1,539,187	38,167	1,515,199
Debt service					
Interest and other charges	<u>1,400</u>	<u>1,400</u>	<u>1,218</u>	<u>182</u>	<u>4,892</u>
TOTAL EXPENDITURES	<u>1,578,754</u>	<u>1,578,754</u>	<u>1,540,405</u>	<u>38,349</u>	<u>1,520,091</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>693,871</u>	<u>693,871</u>	<u>755,892</u>	<u>62,021</u>	<u>711,038</u>
OTHER FINANCING SOURCES (USES)					
Sale of capital assets	-	-	-	-	1,300
Transfers in	55,430	55,430	62,673	7,243	356,331
Transfers out	<u>(749,301)</u>	<u>(749,301)</u>	<u>(764,301)</u>	<u>(15,000)</u>	<u>(720,805)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(693,871)</u>	<u>(693,871)</u>	<u>(701,628)</u>	<u>(7,757)</u>	<u>(363,174)</u>
NET CHANGE IN FUND BALANCES	-	-	54,264	54,264	347,864
FUND BALANCES, JANUARY 1	<u>1,089,358</u>	<u>1,089,358</u>	<u>1,089,358</u>	-	<u>741,494</u>
FUND BALANCES, DECEMBER 31	<u>\$ 1,089,358</u>	<u>\$ 1,089,358</u>	<u>\$ 1,143,622</u>	<u>\$ 54,264</u>	<u>\$ 1,089,358</u>

CITY OF MELROSE, MINNESOTA  
DEBT SERVICE FUNDS  
COMBINING BALANCE SHEET  
DECEMBER 31, 2010

	Improvement Bonds of 2002	Improvement Bonds of 2004	Improvement Bonds of 2005
<b>ASSETS</b>			
Cash and temporary investments	\$ -	\$ 175,081	\$ 706,581
Accounts receivable	-	29	26
Special assessments receivable			
Delinquent	-	-	45,533
Deferred	-	120,000	158,528
	-	120,000	158,528
TOTAL ASSETS	\$ -	\$ 295,110	\$ 910,668
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Deferred revenue	\$ -	\$ 120,000	\$ 204,061
<b>FUND BALANCES</b>			
Reserved for debt service	-	175,110	706,607
TOTAL LIABILITIES AND FUND BALANCES	\$ -	\$ 295,110	\$ 910,668

Lease Revenue

Bonds of 2008	Total
\$ 388,732	\$ 1,270,394
20	75
-	45,533
-	278,528
<u>\$ 388,752</u>	<u>\$ 1,594,530</u>

\$ - \$ 324,061

<u>388,752</u>	<u>1,270,469</u>
<u>\$ 388,752</u>	<u>\$ 1,594,530</u>

CITY OF MELROSE, MINNESOTA  
DEBT SERVICE FUNDS  
COMBINING SCHEDULE OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED DECEMBER 31, 2010

	Improvement Bonds of 2002	Improvement Bonds of 2004	Improvement Bonds of 2005
REVENUES			
General property taxes	\$ 34,578	\$ 60,990	\$ 17,737
Charges for services	-	-	-
Special assessments	16,455	21,800	96,358
Interest on investments	424	1,571	5,599
	<u>51,457</u>	<u>84,361</u>	<u>119,694</u>
TOTAL REVENUES			
EXPENDITURES			
Debt service			
Principal	410,000	70,000	150,000
Interest and fiscal charges	18,970	33,810	86,970
	<u>428,970</u>	<u>103,810</u>	<u>236,970</u>
TOTAL EXPENDITURES			
DEFICIENCY OF REVENUES UNDER EXPENDITURES	(377,513)	(19,449)	(117,276)
OTHER FINANCING SOURCES			
Transfers in	325,815	22,060	146,166
	<u>325,815</u>	<u>22,060</u>	<u>146,166</u>
NET CHANGE IN FUND BALANCES	(51,698)	2,611	28,890
FUND BALANCES, JANUARY 1	<u>51,698</u>	<u>172,499</u>	<u>677,717</u>
FUND BALANCES, DECEMBER 31	<u>\$ -</u>	<u>\$ 175,110</u>	<u>\$ 706,607</u>

Lease Revenue  
 Bonds of  
 2008

Total

\$ 47,219	\$ 160,524
52,257	52,257
-	134,613
13,938	21,532
<u>113,414</u>	<u>368,926</u>
80,000	710,000
98,208	237,958
<u>178,208</u>	<u>947,958</u>
(64,794)	(579,032)
<u>75,000</u>	<u>569,041</u>
10,206	(9,991)
<u>378,546</u>	<u>1,280,460</u>
<u>\$ 388,752</u>	<u>\$ 1,270,469</u>

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**SUPPLEMENTARY INFORMATION  
(UNAUDITED)**

CITY OF MELROSE  
MELROSE, MINNESOTA

FOR THE YEAR ENDED  
DECEMBER 31, 2010

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CITY OF MELROSE, MINNESOTA  
SUMMARY FINANCIAL REPORT  
REVENUES AND EXPENDITURES FOR GENERAL OPERATIONS  
GOVERNMENTAL FUNDS  
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	Totals		Percent Increase (Decrease)
	2010	2009	
<b>REVENUES</b>			
Taxes	\$ 1,653,839	\$ 1,620,046	2.09 %
Licenses and permits	67,062	66,591	0.71
Intergovernmental	897,114	1,293,370	(30.64)
Charges for services	216,431	217,518	(0.50)
Fines and forfeits	30,963	24,153	28.20
Special assessments	212,161	120,320	76.33
Interest on investments	118,175	150,972	(21.72)
Miscellaneous	69,302	74,545	(7.03)
<b>TOTAL REVENUES</b>	<b>\$ 3,265,047</b>	<b>\$ 3,567,515</b>	<b>(8.48) %</b>
Per Capita	\$ 960	\$ 1,078	(10.93) %
<b>EXPENDITURES</b>			
Current			
General government	\$ 463,853	\$ 501,650	(7.53) %
Public safety	662,273	664,966	(0.40)
Streets and highways	395,110	412,401	(4.19)
Sanitation	3,831	3,818	
Culture and recreation	81,335	72,450	12.26
Economic development	432,146	576,279	(25.01)
Capital outlay			
General government	3,216	166,066	(98.06)
Public safety	29,181	33,816	(13.71)
Streets and highways	146,238	255,221	(42.70)
Culture and recreation	-	30,537	100.00
Debt service			
Principal	710,000	265,900	167.02
Interest and other	243,366	291,050	(16.38)
<b>TOTAL EXPENDITURES</b>	<b>\$ 3,170,549</b>	<b>\$ 3,274,154</b>	<b>(3.16) %</b>
Per Capita	\$ 932	\$ 989	(5.76) %
Total Long-term Indebtedness	\$ 5,230,000	\$ 5,990,591	(12.70) %
Per Capita	1,538	1,810	(15.03)
General Fund Balance - December 31	\$ 1,143,622	\$ 1,089,358	4.98 %
Per Capita	336	329	2.17

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.

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**STATISTICAL SECTION  
(UNAUDITED)**

CITY OF MELROSE  
MELROSE, MINNESOTA

FOR THE YEAR ENDED  
DECEMBER 31, 2010

CITY OF MELROSE, MINNESOTA  
MELROSE ELECTRIC UTILITIES  
ELECTRIC UTILITY OPERATING STATISTICS (UNAUDITED)  
FOR THE YEARS ENDED DECEMBER 31, 2010, 2009, AND 2008

	<u>2008 Peer Group</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
<b><u>Financial Ratios</u></b>				
Revenue per KWH				
Residential Customers	\$ 0.100	\$ 0.062	\$ 0.078	\$ 0.083
Commercial Customers	\$ 0.082	\$ 0.067	\$ 0.082	\$ 0.083
Industrial Customers	\$ 0.070	\$ 0.049	\$ 0.064	\$ 0.064
Times Interest Earned	5.12	N/A	N/A	N/A
Debt Service Coverage	1.67	N/A	N/A	N/A
Uncollectible Accounts per Revenue Dollar	\$ 0.0019	\$ 0.0008	\$ 0.0002	\$ 0.0002
<b><u>Operating Ratios</u></b>				
Total O&M Expense per KWH Sold	\$ 0.067	\$ 0.058	\$ 0.066	\$ 0.072
Total Distribution and O&M Expense (Excluding Power Supply Exp.) per retail customer	\$ 546	\$ 390	\$ 402	\$ 404
Purchased Power per KWH	\$ 0.052	\$ 0.044	\$ 0.053	\$ 0.055
Distribution O&M Expense per Retail Customer	\$ 204	\$ 180	\$ 215	\$ 220
Distribution O&M Expense per Circuit Mile	\$ 4,937	\$ 6,479 *	\$ 7,361 *	\$ 7,580 *
Customer Accounting, Service, and Sales, Administrative and General Expense per Retail Customer	\$ 221	\$ 213	\$ 193	\$ 192
<b><u>Other Ratios</u></b>				
Labor Expense per Worker- Hour	\$ 29.05	\$ 26.21	\$ 26.23	\$ 26.75
Energy Loss Percentage	3.69%	1.40%	5.70%	4.30%
System Load Factor	61.20%	77.40%	77.59%	77.05%

**Represents the Melrose Electric Utility**

**APPA peer group ratio**

The peer group data was derived from a report issued by the American Public Power Association (APPA) titled, "Selected Financial and Operating Ratios of Public Power Systems, 2008". The report presented data of financial and operating ratios for 213 of the largest publicly owned electric utilities in the United States and averaged the ratios based on number of customers. The ratios presented are those for utilities with 2,000 to 5,000 customers. The ratios can be a useful tool in assessing electric utility performance. However, as it stated in the report, these ratios do not provide definitive information and the level of any indicator should not be taken as the "correct" performance.

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

CITY OF MELROSE, MINNESOTA  
MELROSE ELECTRIC UTILITIES  
ELECTRIC UTILITY LINE LOSS (UNAUDITED)  
FOR THE YEARS ENDED DECEMBER 31, 2010, 2009, AND 2008

Source of Energy, Disposition of Energy and Percentage Relations	2008		2009		2010	
	KWH	Percent	KWH	Percent	KWH	Percent
Purchased energy	\$ 111,641,740	100.2 %	\$ 118,006,176	100.2 %	\$ 112,091,888	100.2 %
Energy consumed by station	(198,250)	(0.2)	(267,640)	(0.2)	(244,120)	(0.2)
Total net energy outgoing feeders	111,443,490	100.0	117,738,536	100.0	111,847,768	100.0
Net distributed energy	(109,911,907)	(98.6)	(111,026,782)	(94.3)	(106,996,468)	(95.7)
Energy lost in distribution system	\$ 1,531,583	1.4% %	\$ 6,711,754	5.7% %	\$ 4,851,300	4.3% %

CITY OF MELROSE, MINNESOTA  
MELROSE WATER UTILITIES  
SUMMARY OF OPERATIONS AND UNAUDITED STATISTICS  
FOR THE YEARS ENDED DECEMBER 31, 2010, 2009, AND 2008

**SUMMARY OF OPERATIONS**

	<u>2008</u>	<u>2009</u>	<u>2010</u>
OPERATING REVENUES			
Sales of water	\$ 967,031	\$ 980,032	\$ 954,215
Miscellaneous	37,653	40,757	27,219
	<u>1,004,684</u>	<u>1,020,789</u>	<u>981,434</u>
TOTAL OPERATING REVENUES			
OPERATING EXPENSES			
Operating expenses less depreciation	366,616	409,820	352,809
Depreciation	283,403	257,417	257,517
	<u>650,019</u>	<u>667,237</u>	<u>610,326</u>
TOTAL OPERATING EXPENSES			
TOTAL OPERATING INCOME	<u>\$ 354,665</u>	<u>\$ 353,552</u>	<u>\$ 371,108</u>
PERCENT OF CHANGE			
Sales of water	9.64%	1.34%	-2.63%

**UNAUDITED STATISTICS  
MISCELLANEOUS**

	<u>2008</u>	<u>2009</u>	<u>2010</u>
WATER PUMPED (gallons)	716,845,005	676,592,505	658,790,535
WATER SOLD (gallons)	694,296,000	645,192,263	634,137,742
Percent of line loss	3.15%	4.64%	3.74%
Revenues per 1,000 gallons pumped	\$ 1.40	\$ 1.51	\$ 1.49
Revenues per 1,000 gallons sold	\$ 1.45	\$ 1.58	\$ 1.55
Labor cost per customer	\$ 107.80	\$ 125.95	\$ 120.62
O&M per customer	\$ 215.16	\$ 236.13	\$ 188.60
Number of customers	1,133	1,130	1,139

**OTHER SCHEDULES AND  
REQUIRED REPORTS**

CITY OF MELROSE  
MELROSE, MINNESOTA

FOR THE YEAR ENDED  
DECEMBER 31, 2010

CITY OF MELROSE, MINNESOTA  
 BONDS PAYABLE  
 DECEMBER 31, 2010

Bond Issue	Date Issued	Final Maturity Date	Interest Dates	Interest Rate	Annual Serial Payments		Bonds		
					Amount	Year	Authorized and Issued	Retired	Outstanding
Governmental Fund Debt									
General Obligation Improvement Bonds of 2004	10/01/2004	02/01/2020	2-1;8-1	3.20 %	\$ 75,000	2011	\$ 985,000	\$ 140,000	\$ 845,000
				3.40	75,000	2012			
				3.60	80,000	2013			
				3.75	80,000	2014			
				3.90	80,000	2015			
				4.00	85,000	2016			
				4.05	90,000	2017			
				4.10	90,000	2018			
				4.20	95,000	2019			
				4.30	95,000	2020			

CITY OF MELROSE, MINNESOTA  
 BONDS PAYABLE - CONTINUED  
 DECEMBER 31, 2010

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 - Continued									
General Obligation Improvement									
Bonds of 2005	09/01/2005	02/01/2021	2-1;8-1	3.40 %	\$ 155,000	2011	\$ 2,545,000	\$ 440,000	\$ 2,105,000
				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, 2010

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	3.20 %	\$ 85,000	2011	\$ 2,360,000	\$ 80,000	\$ 2,280,000	
				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				
Total Governmental Fund Bonded Debt								5,890,000	660,000	5,230,000

CITY OF MELROSE, MINNESOTA  
 BONDS PAYABLE - CONTINUED  
 DECEMBER 31, 2010

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									
1999 G.O. Water Revenue Notes (Water Tower)	04/13/1999	08/20/2019	2-20;8-20	3.48 %	\$ 134,000	2011	\$ 2,500,000	\$ 1,114,300	\$ 1,385,700
				3.48	139,000	2012			
				3.48	143,000	2013			
				3.48	148,000	2014			
				3.48	153,000	2015			
				3.48	159,000	2016			
				3.48	164,000	2017			
				3.48	170,000	2018			
				3.48	175,700	2019			

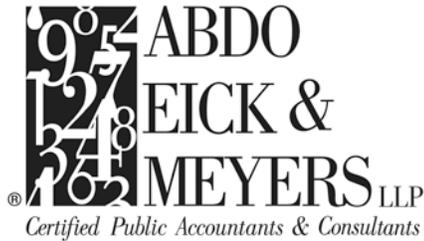
CITY OF MELROSE, MINNESOTA  
 BONDS PAYABLE - CONTINUED  
 DECEMBER 31, 2010

Bond Issue	Date Issued	Final Maturity Date	Interest Dates	Interest Rate	Annual Payments		Bonds		
					Serial Amount	Year	Authorized and Issued	Retired	Outstanding
Enterprise Fund Debt - Continued									
General Obligation Sewer Revenue									
Bonds of 2004	06/01/2004	12/01/2024	6-1;12-1	3.50 %	\$ 160,000	2011	\$ 3,230,000	\$ 305,000	\$ 2,925,000
				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, 2010

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	3.40 %	\$ 105,000	2011	\$ 1,330,000	\$ 195,000	\$ 1,135,000	
				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				
Bonds of 2010							\$ 1,415,000	\$ -	\$ 1,415,000	
Enterprise Fund Debt - Continued										
General Obligation Crossover Refunding										
Bonds of 2010	11/01/2010	12/01/2018	6-1;12-1	2.00 %	\$ 250,000	2013	\$ 1,415,000	\$ -	\$ 1,415,000	
				2.00	260,000	2014				
				2.00	265,000	2015				
				2.00	265,000	2016				
				2.00	275,000	2017				
				2.45	100,000	2018				
Total Enterprise Fund Bonded Debt							8,475,000	1,614,300	6,860,700	
Total All Funds Bonded Debt							\$ 14,365,000	\$ 2,274,300	\$ 12,090,700	

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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, 2010, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 30, 2011.

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

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

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

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

ABDO, EICK & MEYERS, LLP  
*Certified Public Accountants*

March 30, 2011  
Minneapolis, Minnesota



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5201 Eden Avenue  
Suite 250  
Edina, MN 55436

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

Honorable Mayor and Council  
City of Melrose, Minnesota

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Melrose, Minnesota (the City), as of and for the year ended December 31, 2010, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 30, 2011. 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 2010-1, which we consider to be a significant deficiency in internal control over financial reporting. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.



### Compliance and Other Matters

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

We also noted certain matters involving the internal control over financial reporting that we reported to management of the City in a separate letter dated March 30, 2011.

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

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

ABDO, EICK & MEYERS, LLP  
*Certified Public Accountants*

March 30, 2011  
Minneapolis, Minnesota

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CITY OF MELROSE, MINNESOTA  
SCHEDULE OF FINDINGS AND RESPONSES  
DECEMBER 31, 2010

Finding

Description

**2010-1**

**Preparation of Financial Statements (Finding since 2007)**

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

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

*Cause:* From a practical standpoint we do both for you at the same time in connection with our audit. This is not unusual for us to do with an organization of your size.

*Effect:* The effectiveness of the internal control system relies on enforcement by management. The effect of deficiencies in internal controls can result in undetected errors in financial reporting.

*Recommendation:* It is your responsibility to make the ultimate decision to accept this degree of risk associated with this condition because of cost or other considerations. As in prior years, we have instructed management to review a draft of the auditor prepared financials in detail for their accuracy; we have answered any questions they might have, and have encouraged research of any accounting guidance in connection with the adequacy and appropriateness of classification of disclosure in your statements. We are satisfied that the appropriate steps have been taken to provide you with the completed financial statements. While the City is reviewing the financial statements we recommend that a disclosure checklist be utilized to ensure all required disclosures are presented and the City should agree its financial software to the numbers reported in the financial statements.

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