

Annual Financial Report

City of Melrose

Melrose, Minnesota

For the Year Ended

December 31, 2014

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CITY OF MELROSE
MELROSE, MINNESOTA

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED
DECEMBER 31, 2014

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INTRODUCTORY SECTION

CITY OF MELROSE
MELROSE, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2014

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CITY OF MELROSE, MINNESOTA
 ELECTED AND APPOINTED OFFICIALS
 FOR THE YEAR ENDED DECEMBER 31, 2014

ELECTED

Name	Title	Term Expires
Tim Vogel	Mayor	12/31/2014
Dick Christenson	Council Member	12/31/2014
Joe Finken	Council Member	12/31/2014
Jenny Mayers	Council Member	12/31/2016
Tony Klasen	Council Member	12/31/2016

PUBLIC UTILITIES COMMISSION - APPOINTED

Dick Christenson	Chair	1/1/2015
Lyle Olmscheid	Vice Chair	1/1/2016
Eric Seanger	Commission Secretary	1/1/2017

CITY OFFICIALS - APPOINTED

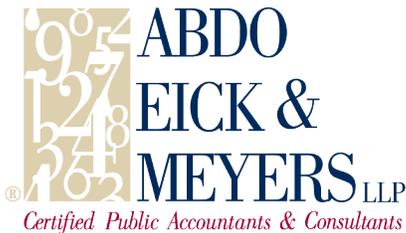
Name	Title
Mike Brethorst	City Administrator
Scott Dymoke	City Attorney
Tessa Beuning	Finance Director
Gary Walz	Community Development Director
Craig Maus	Police Chief
Patti Haase	City Clerk

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FINANCIAL SECTION
CITY OF MELROSE
MELROSE, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2014

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council
City of Melrose, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of governmental activities, the business-type activities, the discretely presented component unit, 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, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City as of December 31, 2014, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis starting on page 15 and the Schedule of Funding Progress on page 72 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

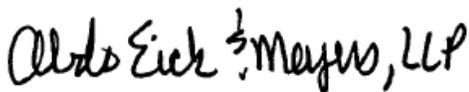
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund financial statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial statements and schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section and have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 6, 2015, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



ABDO, EICK & MEYERS, LLP
Minneapolis, Minnesota
April 6, 2015

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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, 2014.

Financial Highlights

- The assets and deferred outflows of resources of the City exceeded its liabilities at the close of the most recent fiscal year by \$50,847,230 (net position). Of this amount, \$19,478,895 (unrestricted net position) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net position increased by \$1,468,399. The majority of this increase is attributed to the City's business-type funds, which all showed positive operating income during 2014.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$6,607,202, an increase of \$759,252 in comparison with the prior year. This increase was primarily a result of expenditures coming in less than anticipated, as well as the City's fiscal planning to build up fund balances to pay for future projects. Approximately 91 percent of this total amount, \$6,017,883, is unrestricted and is available for spending at the City's discretion; \$4,607,995 of the unrestricted amount has been committed (\$4,525,928) or assigned (\$82,067) for specific purposes.
- At the end of the current fiscal year, unrestricted fund balance for the General fund was \$1,461,150 or 92 percent of total General fund expenditures. \$106,309 is nonspendable because the funds were either prepaid items or due from other funds. Of the unrestricted balance, \$51,262 was committed and \$1,409,888 was unassigned and available for spending at the City's discretion.
- The City's total debt decreased by \$2,003,386 or 44.0 percent during the current fiscal year. This decrease was a result of the payoff of the 1999 PFA Loan for the Water Tower, and the 2005 G.O. Water Revenue Crossover Refunding Bonds, and regularly scheduled debt payments.

Overview of the Financial Statements

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

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

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

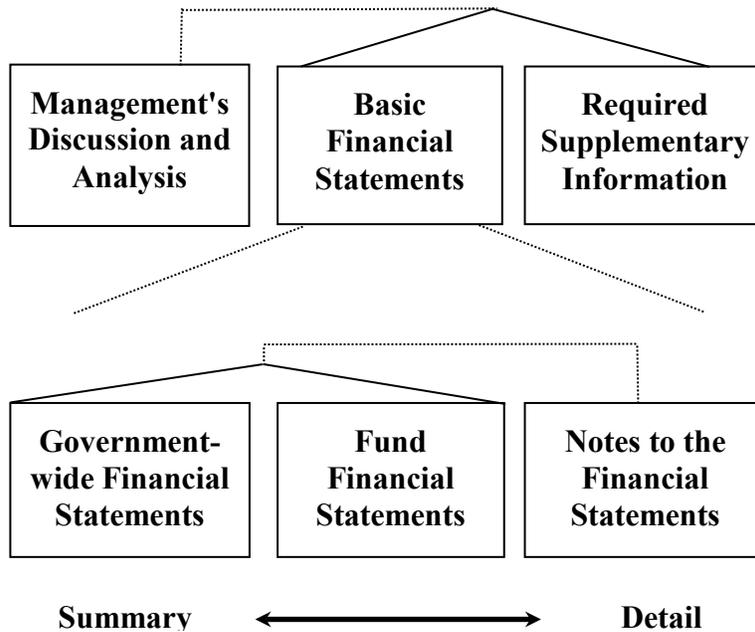


Figure 2 summarizes the major features of the City’s financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis explains the structure and contents of each of the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

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

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

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

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

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

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

The government-wide financial statements include not only the City itself (known as the *primary government*), but also a legally separate Melrose Area Development Authority (MADA) for which the City is financially accountable. Financial information for this component unit is reported separately from the financial information presented for the primary government itself.

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

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

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

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

The City maintains 11 individual governmental funds, two 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. A budgetary comparison statement has been provided for the General fund to demonstrate compliance with this budget.

The basic governmental fund financial statements start on page 34 of this report.

Proprietary fund. The City maintains one type of proprietary fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its Water, Wastewater, Electric, and Ambulance 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 46 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements start on page 47 of this report.

Other information. The combining statements referred to earlier in connection with nonmajor governmental funds are presented following the notes to the financial statements. Combining and individual fund statements and schedules start on page 74 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows of resources exceeded liabilities by \$50,847,230 at the close of the most recent fiscal year.

By far, the largest portion of the City's net position (61 percent) reflects its investment in capital assets (e.g., land, buildings, machinery and equipment), less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of Melrose's Summary of Net Position

	Governmental Activities			Business-type Activities		
	2014	2013	Increase (Decrease)	2014	2013	Increase (Decrease)
Assets						
Current and other assets	\$ 8,349,161	\$ 7,982,891	\$ 366,270	\$ 12,917,085	\$ 14,280,568	\$ (1,363,483)
Capital assets	14,210,912	14,610,291	(399,379)	21,229,119	21,156,202	72,917
Total assets	22,560,073	22,593,182	(33,109)	34,146,204	35,436,770	(1,290,566)
Deferred outflow of resources						
Deferred charge on refunding	144,458	155,775	(11,317)	-	-	-
Liabilities						
Long-term liabilities						
outstanding	3,939,058	4,315,163	(376,105)	1,181,016	2,808,297	(1,627,281)
Other liabilities	95,268	139,807	(44,539)	788,163	1,543,629	(755,466)
Total liabilities	4,034,326	4,454,970	(420,644)	1,969,179	4,351,926	(2,382,747)
Net position						
Net investment in						
capital assets	10,552,095	10,569,743	(17,648)	20,314,107	18,584,937	1,729,170
Restricted	502,133	700,612	(198,479)	-	-	-
Unrestricted	7,615,977	7,023,632	592,345	11,862,918	12,499,907	(636,989)
Total net position	\$ 18,670,205	\$ 18,293,987	\$ 376,218	\$ 32,177,025	\$ 31,084,844	\$ 1,092,181

Net investment in capital assets (\$30,866,202) represents the largest portion of the City's net position. An additional portion of the City's net position (\$502,133, which equals roughly 1 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net position* (\$19,478,895) may be used to meet the City's ongoing obligations to citizens and creditors.

The decrease in the governmental activities long-term liabilities is primarily the result of regular debt service principal payments. Capital assets decreased due to the annual depreciation of assets, as well as disposing of machinery and equipment. However, current assets have an increase. The City was focused on building up cash balances to plan for future projects. The result of these variances is shown in the increase of the net position of governmental funds.

The enterprise funds show a significant decrease in current assets, which is the result of cash being spent on various improvement projects, as well as the pay offs of two bonds. In turn, there is also a decrease in long-term liabilities resulting from those pay offs, as well as the regularly scheduled debt service payments.

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

The City's net position increased \$1,468,399 during the current fiscal year. About 72 percent of this increase is attributed the positive operations of the enterprise funds.

Governmental activities. Governmental activities increased the City's net position by \$376,218. Key elements to this increase are as follows:

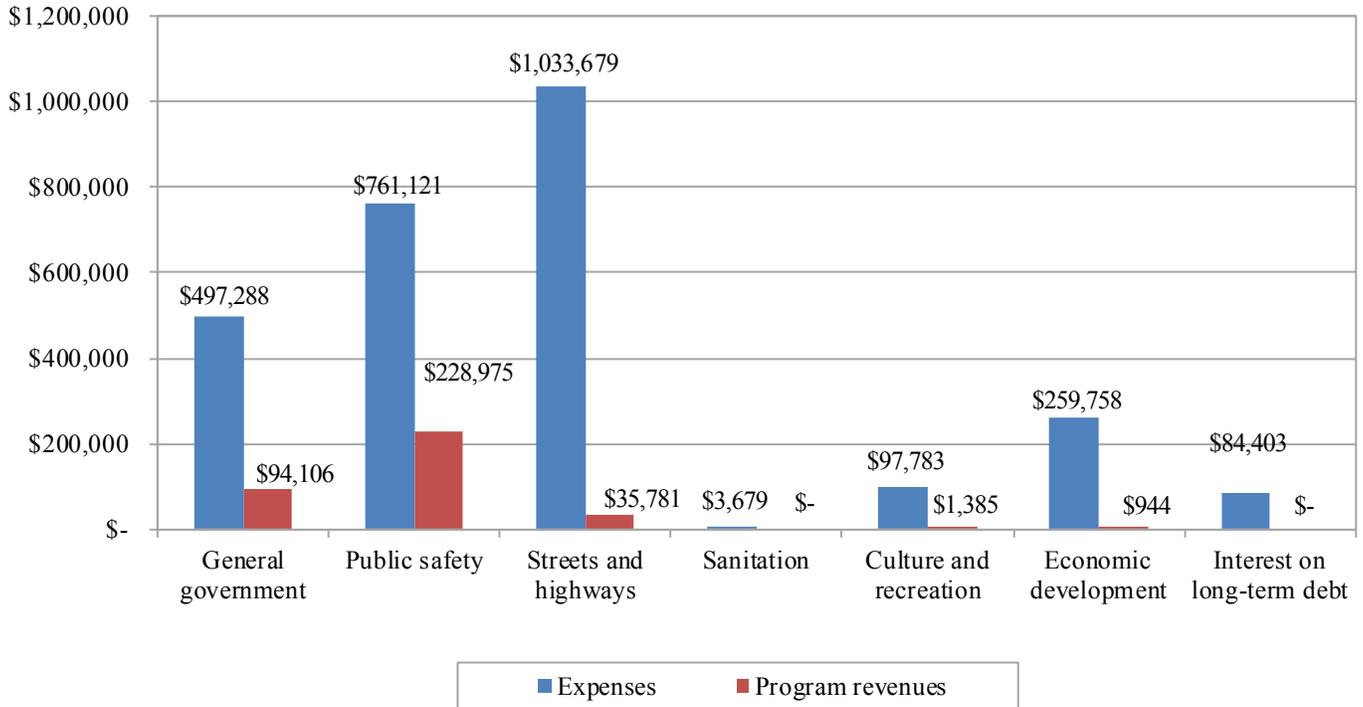
- An increase in the amount of Local Government Aid (LGA) allocated to the City.
- Unrestricted investment earnings increased as a result of market conditions and increases in interest rates on investments.

City of Melrose's Changes in Net Position

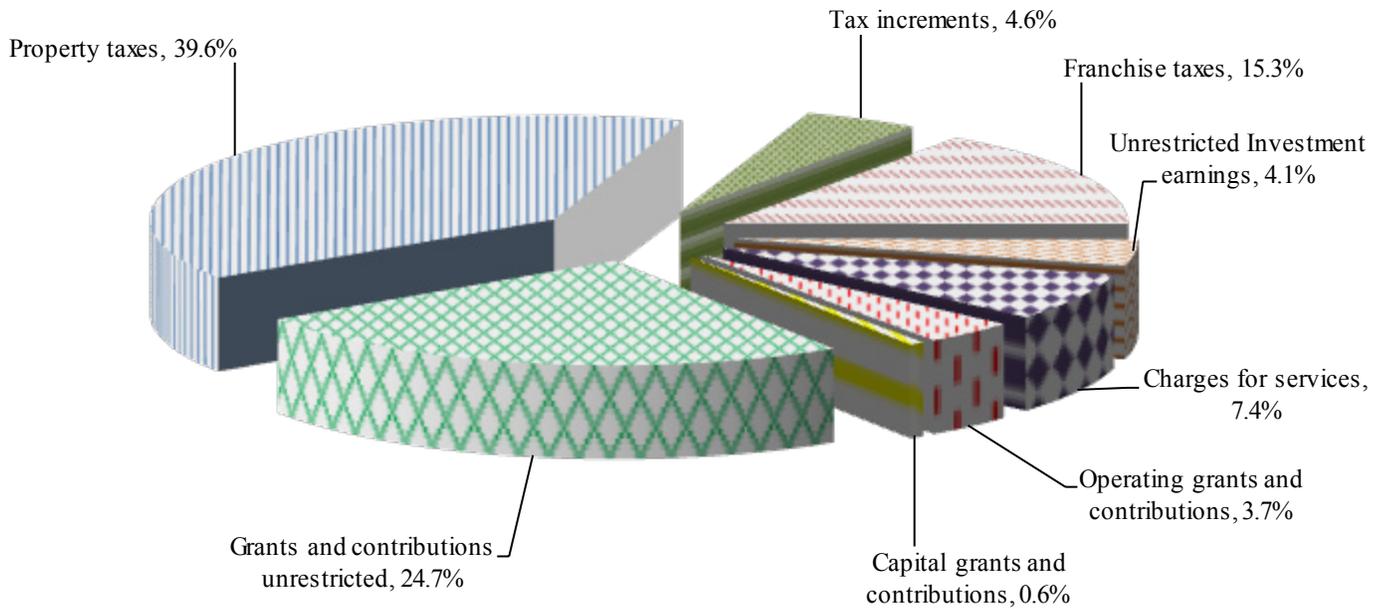
	Governmental Activities			Business-type Activities		
	2014	2013	Increase (Decrease)	2014	2013	Increase (Decrease)
Revenues						
Program revenues						
Charges for services	\$ 229,384	\$ 216,736	\$ 12,648	\$11,543,399	\$11,390,299	\$ 153,100
Operating grants and contributions	114,136	122,431	(8,295)	39,386	54,640	(15,254)
Capital grants and contributions	17,671	53,587	(35,916)	128,313	66,810	61,503
General revenues						
Property taxes/tax increments	1,376,408	1,340,177	36,231	-	-	-
Franchise taxes	477,470	436,914	40,556	-	-	-
Grants and contributions not restricted to specific programs	769,250	618,006	151,244	-	-	-
Unrestricted investment earnings	127,386	(107,467)	234,853	259,736	17,853	241,883
Gain on sale of capital assets	-	585,750	(585,750)	-	5,116	(5,116)
Total revenues	3,111,705	3,266,134	(154,429)	11,970,834	11,534,718	436,116
Expenses						
General government	497,288	528,899	(31,611)	-	-	-
Public safety	761,121	801,708	(40,587)	-	-	-
Streets and highways	1,033,679	906,299	127,380	-	-	-
Sanitation	3,679	4,119	(440)	-	-	-
Culture and recreation	97,783	89,429	8,354	-	-	-
Economic development	259,758	189,128	70,630	-	-	-
Interest on long-term debt	84,403	135,065	(50,662)	-	-	-
Water	-	-	-	673,039	727,398	(54,359)
Wastewater	-	-	-	1,654,047	1,708,964	(54,917)
Electric	-	-	-	8,077,041	7,832,282	244,759
Ambulance	-	-	-	472,302	463,671	8,631
Total expenses	2,737,711	2,654,647	83,064	10,876,429	10,732,315	144,114
Increase in net position before transfers and special item	373,994	611,487	(237,493)	1,094,405	802,403	292,002
Transfers	2,224	7,949	(5,725)	(2,224)	(7,949)	5,725
Special item - Sale of CentraCare facility	-	1,329,500	(1,329,500)	-	-	-
Change in net position	376,218	1,948,936	(1,572,718)	1,092,181	794,454	297,727
Net position, January 1	18,293,987	16,345,051	1,948,936	31,084,844	30,290,390	794,454
Net position, December 31	\$18,670,205	\$18,293,987	\$ 376,218	\$32,177,025	\$31,084,844	\$ 1,092,181

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

Expenses and Program Revenues - Governmental Activities

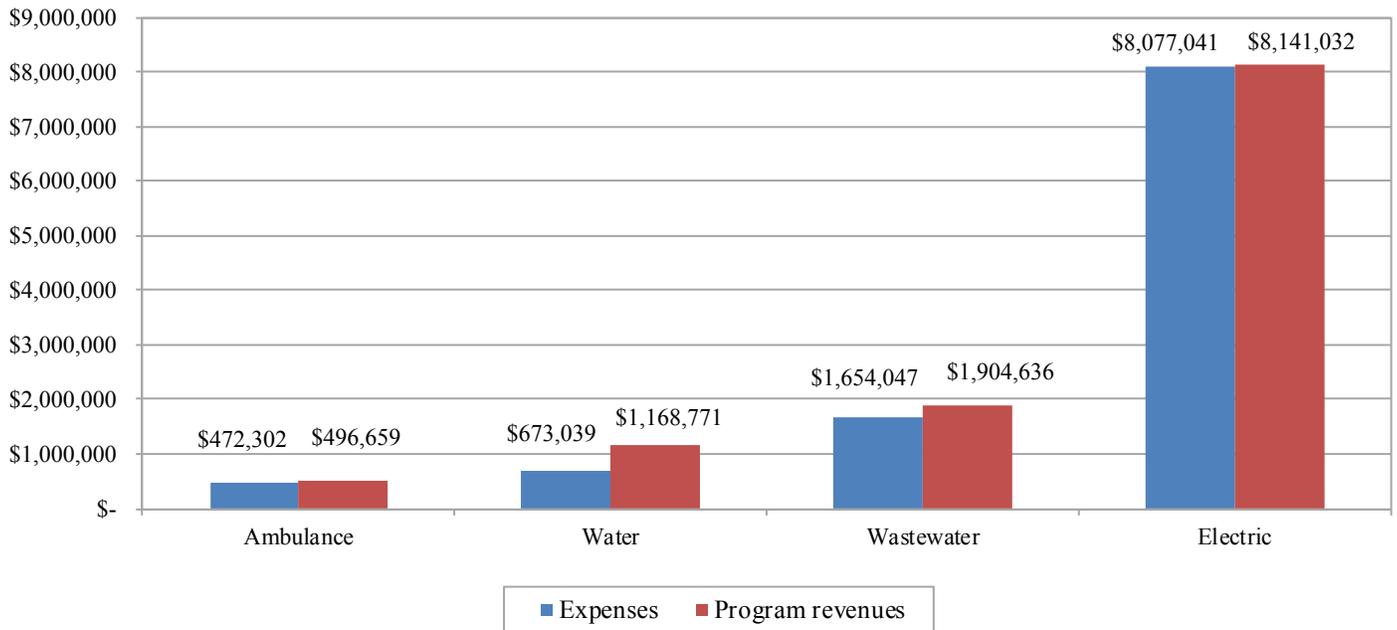


Revenues by Source - Governmental Activities

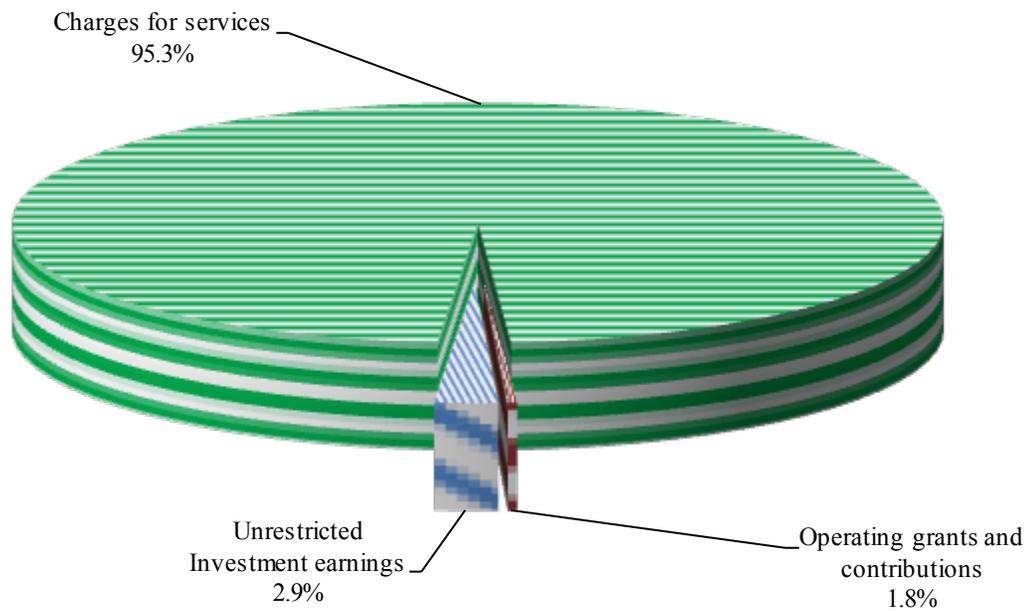


Business-type activities. There was an increase of \$1,092,181 in net position reported in connection with the City’s business-type activities.

Expenses and Program Revenues - Business-type Activities



Revenue by Source - Business-type Activities



Financial Analysis of the Government's Funds

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

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

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$6,607,202, an increase of \$759,252 in comparison with the prior year, primarily as a result of expenditures coming in less an anticipated, as well as the City's fiscal planning to build up fund balances to pay for future projects. Approximately 91 percent of this total amount, \$6,017,883, constitutes *unrestricted fund balance*, which is available for spending at the City's discretion. Portions of unrestricted fund balance have been committed (\$4,525,928) or assigned (\$82,067) for specific purposes by the City. The remainder of fund balance (\$1,409,888) is not available for new spending because it is either in nonspendable form (\$106,883) or restricted by a third party (\$482,436).

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 \$1,567,459. As a measure of the General fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures and transfers out. Total fund balance and unassigned fund balance represent 72 and 64 percent of current year expenditures and transfers out, respectively.

The fund balance of the City's General fund increased \$206,325 during the current fiscal year. This was mainly due to expenses under budget expectations as well as revenues in excess of budget expectations.

The Debt Service fund has a total fund balance of \$467,663, all of which is restricted for the payment of Debt Service. The net decrease in fund balance during the current year in the Debt Service fund was \$85,428. The decrease was mainly a result of the principal payments of the 2013A G.O Capital Improvement Plan Bonds and the 2011A G.O. Improvement Refunding Bond payments. The tax levy did not cover the bond payments going out due to the structuring from the City to absorb some of the accumulated fund balance.

The Capital Improvements fund has a fund balance of \$3,936,376 all of which is committed for capital improvements. The fund balance increased by \$234,916 during the year. The City is consciously building up the cash balances in this fund to fund upcoming capital projects, and reduce the need for bonding.

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

Unrestricted net position of the enterprise funds at the end of the year amounted to \$11,862,918. The total increase in net position for the funds was \$1,092,181. Some of the significant reasons behind the increase include an increase in operating revenues greater than the increase in operating expenses.

General Fund Budgetary Highlights

The City's General fund budget was not amended during the year. The original and final budget called for revenues to exceed expenditures by \$580,415, before other financing sources and uses. Both budgets called for an overall increase in fund balance of \$10,525.

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, 2014, amounts to \$35,440,031 (net of accumulated depreciation). This investment in capital assets includes land, structures, improvements, machinery and equipment, park facilities, roads, highways and bridges.

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

	Governmental Activities			Business-type Activities		
	2014	2013	Increase (Decrease)	2014	2013	Increase (Decrease)
Land	\$ 3,224,910	\$ 3,216,640	\$ 8,270	\$ 380,444	\$ 346,255	\$ 34,189
Buildings	2,818,000	2,932,385	(114,385)	696,227	756,336	(60,109)
Machinery and equipment	1,358,811	1,411,290	(52,479)	554,928	590,675	(35,747)
Infrastructure	6,780,257	7,049,976	(269,719)	18,791,649	18,206,039	585,610
Construction in progress	28,934	-	28,934	805,871	1,256,897	(451,026)
Total	\$ 14,210,912	\$ 14,610,291	\$ (399,379)	\$ 21,229,119	\$ 21,156,202	\$ 72,917

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

- Completed the 2014 Seal Coat Project
- Completed the Generation Capacity Project
- Completed various electrical infrastructure around the City.
- Purchased five vehicles: the Ford Edge for City use and travel, a new police squad vehicle, a new truck for the Fire Department, a new Public Works truck, and a new Skidloader for the Electric department.
- Work was started on the Levee Project, improvements on the Waste Water Treatment Plant, and the Southwest Substation project. Preliminary work was also started on the 1st St. N/5th Ave. project.

Additional information on the City's capital assets can be found in Note 3C starts on page 58 of this report.

Long-term debt. At the end of the current fiscal year, the City had total bonded debt outstanding of \$4,555,000. Of this amount, \$3,650,000 is governmental-related debt and \$905,000 is enterprise-related debt. They are all backed by the full faith and credit of the City.

City of Melrose's Outstanding Debt

	Governmental Activities			Business-type Activities		
	2014	2013	Increase (Decrease)	2014	2013	Increase (Decrease)
G.O. improvement bonds	\$ 3,650,000	\$ 4,030,000	\$ (380,000)	\$ -	\$ -	\$ -
General obligation revenue bonds	-	-	-	905,000	2,558,700	(1,653,700)
Revenue bonds	-	-	-	-	-	-
Unamortized premium on bonds	8,817	10,548	(1,731)	10,012	12,565	(2,553)
Compensated absences payable	104,915	107,494	(2,579)	95,655	74,164	21,491
Other postemployment benefits payable	175,326	167,121	8,205	170,349	162,868	7,481
Total	<u>\$ 3,939,058</u>	<u>\$ 4,315,163</u>	<u>\$ (376,105)</u>	<u>\$ 1,181,016</u>	<u>\$ 2,808,297</u>	<u>\$ (1,627,281)</u>

The City's total debt decreased by \$2,003,386 during the current fiscal year due to the early pay off of two enterprise bonds, as well as scheduled debt payments.

Minnesota statutes limit the amount of net general obligation debt a City may issue to 3 percent of the market value of taxable property within the City. Net debt is debt payable solely from ad valorem taxes. The current debt limitation for the City is \$4,539,775. There was \$1,875,000 of debt applicable to this limit at year end.

Additional information on the City's long-term debt can be found in Note 3E start on page 61 of this report.

Economic Factors and Next Year's Budgets and Rates

- Property valuations within the City remain are stabilizing and are seeing a slight increases.
- 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. Electric, Water and Wastewater rate studies were conducted in 2014 and projected through 2020.

All of these factors were considered in preparing the City's budget for the 2015 fiscal year.

Requests for Information

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

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF MELROSE
MELROSE, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2014

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CITY OF MELROSE, MINNESOTA
STATEMENT OF NET POSITION
DECEMBER 31, 2014

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Melrose Area Development Authority
ASSETS				
Cash and temporary investments	\$ 6,470,828	\$ 11,251,323	\$ 17,722,151	\$ 325,654
Receivables				
Accrued interest	19,434	56,320	75,754	-
Delinquent taxes	34,125	-	34,125	-
Accounts, net	29,419	1,085,933	1,115,352	-
Loans	-	-	-	338,068
Special assessments	497,389	-	497,389	-
Internal balances	104,611	(104,611)	-	-
Due from component unit	41,690	-	41,690	-
Due from CentraCare	1,146,544	-	1,146,544	-
Inventories	-	619,490	619,490	-
Prepaid items	5,121	8,630	13,751	14
Capital assets				
Land and construction in progress	3,253,844	1,186,315	4,440,159	-
Depreciable assets (net of accumulated depreciation)	10,957,068	20,042,804	30,999,872	-
TOTAL ASSETS	22,560,073	34,146,204	56,706,277	663,736
DEFERRED OUTFLOW OF RESOURCES				
Deferred charge on refunding	144,458	-	144,458	-
LIABILITIES				
Accounts payable	53,901	755,063	808,964	-
Accrued interest payable	31,367	1,592	32,959	-
Customer deposits payable	10,000	31,508	41,508	-
Due to primary government	-	-	-	41,690
Noncurrent liabilities				
Due within one year	498,758	322,281	821,039	-
Due in more than one year	3,440,300	858,735	4,299,035	-
TOTAL LIABILITIES	4,034,326	1,969,179	6,003,505	41,690
NET POSITION				
Net investment in capital assets	10,552,095	20,314,107	30,866,202	-
Restricted for				
Debt service	487,360	-	487,360	-
Partners in action activities	248	-	248	-
TIF Districts	14,525	-	14,525	-
Unrestricted	7,615,977	11,862,918	19,478,895	622,046
TOTAL NET POSITION	\$ 18,670,205	\$ 32,177,025	\$ 50,847,230	\$ 622,046

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, 2014

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government				
Governmental activities				
General government	\$ 497,288	\$ 69,204	\$ 22,204	\$ 2,698
Public safety	761,121	138,553	90,422	-
Streets and highways	1,033,679	20,808	-	14,973
Sanitation	3,679	-	-	-
Culture and recreation	97,783	-	1,385	-
Economic development	259,758	819	125	-
Interest on long-term debt	84,403	-	-	-
Total governmental activities	<u>2,737,711</u>	<u>229,384</u>	<u>114,136</u>	<u>17,671</u>
Business-type activities				
Water	673,039	1,057,442	542	110,787
Wastewater	1,654,047	1,886,175	935	17,526
Electric	8,077,041	8,125,248	15,784	-
Ambulance	472,302	474,534	22,125	-
Total business-type activities	<u>10,876,429</u>	<u>11,543,399</u>	<u>39,386</u>	<u>128,313</u>
Total primary government	<u>\$ 13,614,140</u>	<u>\$ 11,772,783</u>	<u>\$ 153,522</u>	<u>\$ 145,984</u>
Component unit				
Melrose Area Development Authority	<u>\$ 12,331</u>	<u>\$ 38,068</u>	<u>\$ 10,273</u>	<u>\$ -</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 position

Net position, January 1

Net position, December 31

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

Net (Expenses) Revenues and Changes in Net Position

Primary Government			Component Unit
Governmental Activities	Business-type Activities	Total	Economic Development Authority
\$ (403,182)	\$ -	\$ (403,182)	\$ -
(532,146)	-	(532,146)	-
(997,898)	-	(997,898)	-
(3,679)	-	(3,679)	-
(96,398)	-	(96,398)	-
(258,814)	-	(258,814)	-
(84,403)	-	(84,403)	-
<u>(2,376,520)</u>	<u>-</u>	<u>(2,376,520)</u>	<u>-</u>
-	495,732	495,732	-
-	250,589	250,589	-
-	63,991	63,991	-
-	24,357	24,357	-
<u>-</u>	<u>834,669</u>	<u>834,669</u>	<u>-</u>
<u>(2,376,520)</u>	<u>834,669</u>	<u>(1,541,851)</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>36,010</u>
922,279	-	922,279	-
310,000	-	310,000	-
144,129	-	144,129	-
477,470	-	477,470	-
769,250	-	769,250	-
127,386	259,736	387,122	20,484
2,224	(2,224)	-	-
<u>2,752,738</u>	<u>257,512</u>	<u>3,010,250</u>	<u>20,484</u>
376,218	1,092,181	1,468,399	56,494
<u>18,293,987</u>	<u>31,084,844</u>	<u>49,378,831</u>	<u>565,552</u>
<u>\$ 18,670,205</u>	<u>\$ 32,177,025</u>	<u>\$ 50,847,230</u>	<u>\$ 622,046</u>

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FUND FINANCIAL STATEMENTS

CITY OF MELROSE
MELROSE, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2014

CITY OF MELROSE, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2014

	General	Debt Service	Capital Improvements	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and temporary investments	\$ 1,471,283	\$ 467,663	\$ 3,873,470	\$ 658,412	\$ 6,470,828
Receivables					
Accrued interest	-	-	19,434	-	19,434
Delinquent taxes	34,125	-	-	-	34,125
Accounts, net	28,167	-	17	1,235	29,419
Special assessments	-	51,064	446,325	-	497,389
Due from other funds	101,762	-	4,247	-	106,009
Due from component unit	-	-	41,690	-	41,690
Due from CentraCare	-	-	1,146,544	-	1,146,544
Prepaid items	4,547	-	-	574	5,121
TOTAL ASSETS	<u>\$ 1,639,884</u>	<u>\$ 518,727</u>	<u>\$ 5,531,727</u>	<u>\$ 660,221</u>	<u>\$ 8,350,559</u>
LIABILITIES					
Accounts payable	\$ 26,902	\$ -	\$ 2,482	\$ 24,517	\$ 53,901
Customer deposits payable	10,000	-	-	-	10,000
Due to other funds	1,398	-	-	-	1,398
TOTAL LIABILITIES	<u>38,300</u>	<u>-</u>	<u>2,482</u>	<u>24,517</u>	<u>65,299</u>
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue - property taxes	34,125	-	-	-	34,125
Unavailable revenue - special assessments	-	51,064	446,325	-	497,389
Unavailable revenue - due from CentraCare	-	-	1,146,544	-	1,146,544
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>34,125</u>	<u>51,064</u>	<u>1,592,869</u>	<u>-</u>	<u>1,678,058</u>
FUND BALANCES					
Nonspendable	106,309	-	-	574	106,883
Restricted	-	467,663	-	14,773	482,436
Committed	51,262	-	3,936,376	538,290	4,525,928
Assigned	-	-	-	82,067	82,067
Unassigned	1,409,888	-	-	-	1,409,888
TOTAL FUND BALANCES	<u>1,567,459</u>	<u>467,663</u>	<u>3,936,376</u>	<u>635,704</u>	<u>6,607,202</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 1,639,884</u>	<u>\$ 518,727</u>	<u>\$ 5,531,727</u>	<u>\$ 660,221</u>	<u>\$ 8,350,559</u>

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

CITY OF MELROSE, MINNESOTA
RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET POSITION
GOVERNMENTAL FUNDS
DECEMBER 31, 2014

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

Total fund balances - governmental funds	\$ 6,607,202
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.	
Cost of capital assets	21,724,203
Less: accumulated depreciation	(7,513,291)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds.	
Long-term liabilities at year-end consist of	
Bonds payable	(3,650,000)
Plus unamortized bond premium	(8,817)
Deferred charge on refunding	144,458
Compensated absences payable	(104,915)
Other postemployment benefits payable	(175,326)
Some receivables are not available soon enough to pay for the current period's expenditures, and therefore are delayed in the funds.	
Delinquent property taxes receivable	34,125
Special assessments receivable	497,389
Due from CentraCare	1,146,544
Governmental funds do not report a liability for accrued interest until due and payable.	<u>(31,367)</u>
Total net position - governmental activities	<u><u>\$ 18,670,205</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, 2014

	General	Debt Service	Capital Improvements	Other Governmental Funds	Total Governmental Funds
REVENUES					
Taxes	\$ 1,413,164	\$ 310,000	\$ 9,200	\$ 134,929	\$ 1,867,293
Licenses and permits	49,535	-	-	-	49,535
Intergovernmental	804,784	-	-	-	804,784
Charges for services	77,139	52,257	-	85,705	215,101
Fines and forfeitures	15,131	-	-	-	15,131
Special assessments	-	12,229	33,911	-	46,140
Interest on investments	18,543	3,430	100,146	5,267	127,386
Miscellaneous	12,512	-	192,913	5,750	211,175
TOTAL REVENUES	2,390,808	377,916	336,170	231,651	3,336,545
EXPENDITURES					
Current					
General government	436,645	-	-	-	436,645
Public safety	507,440	-	-	114,683	622,123
Streets and highways	483,943	-	-	-	483,943
Sanitation	3,679	-	-	-	3,679
Culture and recreation	65,961	-	-	2,254	68,215
Economic development	91,639	-	-	126,196	217,835
Capital outlay					
General government	-	-	5,718	-	5,718
Public safety	-	-	28,530	34,953	63,483
Streets and highways	-	-	173,086	13,416	186,502
Culture and recreation	-	-	4,892	-	4,892
Economic development	-	-	38,068	-	38,068
Debt service					
Principal	-	380,000	-	-	380,000
Interest and other charges	250	83,344	-	-	83,594
TOTAL EXPENDITURES	1,589,557	463,344	250,294	291,502	2,594,697
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	801,251	(85,428)	85,876	(59,851)	741,848
OTHER FINANCING SOURCES (USES)					
Sale of capital assets	7,240	-	1,100	6,840	15,180
Transfers in	-	-	517,940	456,450	974,390
Transfers out	(602,166)	-	(370,000)	-	(972,166)
TOTAL OTHER FINANCING SOURCES (USES)	(594,926)	-	149,040	463,290	17,404
NET CHANGE IN FUND BALANCES	206,325	(85,428)	234,916	403,439	759,252
FUND BALANCES, JANUARY 1	1,361,134	553,091	3,701,460	232,265	5,847,950
FUND BALANCES, DECEMBER 31	\$ 1,567,459	\$ 467,663	\$ 3,936,376	\$ 635,704	\$ 6,607,202

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

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, 2014

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

Total net change in fund balances - governmental funds	\$ 759,252
<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	239,462
Depreciation expense	(621,986)
<p>Governmental funds report a gain (loss) on sale of capital assets to the extent of cash exchanged, whereas the disposition of the assets book value is included in the total gain (loss) in the statement of activities.</p>	
Disposals	(121,012)
Depreciation on disposals	104,157
<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 position. Also, governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas the effect of these amounts are amortized in the statement of activities. The amounts below are the effects of these differences in the treatment of long-term debt and related items.</p>	
Principal repayments	380,000
Amortization of bond premium	1,731
Amortization of deferred charge on refunding	(11,317)
<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>	
	8,777
<p>Revenue recognized due to issuance of long term note receivable. Under the modified accrual basis of accounting in governmental funds certain revenues cannot be recognized until they are available to liquidate liabilities of the current</p>	
	(182,956)
<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	(13,415)
Special assessments	(160,849)
<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	2,579
Other postemployment benefits	(8,205)
	(8,205)
Change in net position - governmental activities	\$ 376,218

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

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CITY OF MELROSE, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2014

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes	\$ 1,357,800	\$ 1,357,800	\$ 1,413,164	\$ 55,364
Licenses and permits	45,250	45,250	49,535	4,285
Intergovernmental	802,955	802,955	804,784	1,829
Charges for services	65,800	65,800	77,139	11,339
Fines and forfeitures	18,700	18,700	15,131	(3,569)
Interest on investments	11,004	11,004	18,543	7,539
Miscellaneous	2,000	2,000	12,512	10,512
TOTAL REVENUES	2,303,509	2,303,509	2,390,808	87,299
EXPENDITURES				
Current				
General government	520,245	520,245	436,645	83,600
Public safety	542,492	542,492	507,440	35,052
Streets and highways	504,630	504,630	483,943	20,687
Sanitation	5,500	5,500	3,679	1,821
Culture and recreation	57,280	57,280	65,961	(8,681)
Economic development	91,947	91,947	91,639	308
Debt service				
Interest and other charges	1,000	1,000	250	750
TOTAL EXPENDITURES	1,723,094	1,723,094	1,589,557	133,537
EXCESS OF REVENUES OVER EXPENDITURES	580,415	580,415	801,251	220,836
OTHER FINANCING SOURCES (USES)				
Sale of capital assets	-	-	7,240	7,240
Transfers out	(569,890)	(569,890)	(602,166)	(32,276)
TOTAL OTHER FINANCING SOURCES (USES)	(569,890)	(569,890)	(594,926)	(25,036)
NET CHANGE IN FUND BALANCES	10,525	10,525	206,325	195,800
FUND BALANCES, JANUARY 1	1,361,134	1,361,134	1,361,134	-
FUND BALANCES, DECEMBER 31	\$ 1,371,659	\$ 1,371,659	\$ 1,567,459	\$ 195,800

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

CITY OF MELROSE, MINNESOTA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2014

	Business-type Activities - Enterprise funds				Totals
	601 Water	602 Wastewater	604 Electric	Nonmajor 216 Ambulance	
ASSETS					
CURRENT ASSETS					
Cash and temporary investments	\$ 1,030,009	\$ 1,778,159	\$ 4,750,462	\$ 692,693	\$ 8,251,323
Receivables					
Accrued interest	-	-	56,320	-	56,320
Accounts, net	116,424	156,576	727,453	85,480	1,085,933
Due from other funds	-	1,398	-	-	1,398
Inventories	21,870	42,071	555,549	-	619,490
Prepaid items	417	4,638	3,301	274	8,630
TOTAL CURRENT ASSETS	1,168,720	1,982,842	6,093,085	778,447	10,023,094
NONCURRENT ASSETS					
Appropriated funds	-	-	3,000,000	-	3,000,000
Capital assets					
Land	41,123	63,878	275,443	-	380,444
Structures and improvements	8,414,916	20,296,060	-	-	28,710,976
Distribution/collection system	-	-	12,253,424	-	12,253,424
Plant equipment	66,054	323,008	-	443,293	832,355
Construction in progress	217,415	256,855	331,601	-	805,871
Less accumulated depreciation	(4,409,980)	(9,602,116)	(7,572,899)	(168,956)	(21,753,951)
Total capital assets (net of accumulated depreciation)	4,329,528	11,337,685	5,287,569	274,337	21,229,119
TOTAL NONCURRENT ASSETS	4,329,528	11,337,685	8,287,569	274,337	24,229,119
TOTAL ASSETS	5,498,248	13,320,527	14,380,654	1,052,784	34,252,213

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

CITY OF MELROSE, MINNESOTA
STATEMENT OF NET POSITION - CONTINUED
PROPRIETARY FUNDS
DECEMBER 31, 2014

	Business-type Activities - Enterprise funds				Totals
	601 Water	602 Wastewater	604 Electric	Nonmajor 216 Ambulance	
LIABILITIES					
CURRENT LIABILITIES					
Accounts payable	\$ 14,709	\$ 57,602	\$ 677,555	\$ 5,197	\$ 755,063
Due to other funds	835	4,077	101,097	-	106,009
Accrued interest payable	-	1,592	-	-	1,592
Customer deposits payable	-	-	31,508	-	31,508
Compensated absences payable - current	6,723	13,947	36,611	-	57,281
Bonds payable - current	-	265,000	-	-	265,000
TOTAL CURRENT LIABILITIES	22,267	342,218	846,771	5,197	1,216,453
NONCURRENT LIABILITIES					
Compensated absences payable	2,492	4,101	31,781	-	38,374
Bonds payable	-	640,000	-	-	640,000
Unamortized premium on bonds	-	10,012	-	-	10,012
Other postemployment benefits payable	17,807	36,876	115,666	-	170,349
TOTAL NONCURRENT LIABILITIES	20,299	690,989	147,447	-	858,735
TOTAL LIABILITIES	42,566	1,033,207	994,218	5,197	2,075,188
NET POSITION					
Net investment in capital assets	4,329,528	10,422,673	5,287,569	274,337	20,314,107
Unrestricted	1,126,154	1,864,647	8,098,867	773,250	11,862,918
TOTAL NET POSITION	\$ 5,455,682	\$ 12,287,320	\$ 13,386,436	\$ 1,047,587	\$ 32,177,025

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

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CITY OF MELROSE, MINNESOTA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014

	Business-type Activities - Enterprise funds				Totals
	601 Water	602 Wastewater	604 Electric	Nonmajor 216 Ambulance	
OPERATING REVENUES					
Charges for services	\$ 1,057,442	\$ 1,886,175	\$ 8,120,686	\$ 474,534	\$ 11,538,837
OPERATING EXPENSES					
Production, collection, and purchased power	109,054	19,189	6,932,596	-	7,060,839
Distribution	154,326	849,857	398,316	-	1,402,499
General and administrative	109,230	154,907	460,668	441,822	1,166,627
Depreciation	284,638	617,280	285,461	30,480	1,217,859
TOTAL OPERATING EXPENSES	657,248	1,641,233	8,077,041	472,302	10,847,824
OPERATING INCOME	400,194	244,942	43,645	2,232	691,013
NONOPERATING REVENUES (EXPENSES)					
Intergovernmental	111,132	18,388	1,953	-	131,473
Interest on investments	21,993	27,955	200,154	9,634	259,736
Miscellaneous	197	73	18,393	22,125	40,788
Gain on sale of fixed assets	-	8,500	-	-	8,500
Interest expense	(15,791)	(21,314)	-	-	(37,105)
TOTAL NONOPERATING REVENUES (EXPENSES)	117,531	33,602	220,500	31,759	403,392
INCOME BEFORE TRANSFERS	517,725	278,544	264,145	33,991	1,094,405
TRANSFERS OUT	-	-	(2,224)	-	(2,224)
CHANGE IN NET POSITION	517,725	278,544	261,921	33,991	1,092,181
NET POSITION, JANUARY 1	4,937,957	12,008,776	13,124,515	1,013,596	31,084,844
NET POSITION, DECEMBER 31	\$ 5,455,682	\$ 12,287,320	\$ 13,386,436	\$ 1,047,587	\$ 32,177,025

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

CITY OF MELROSE, MINNESOTA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014

	Business-type Activities - Enterprise funds				Totals
	601 Water	602 Wastewater	604 Electric	Nonmajor 216 Ambulance	
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers and users	\$ 1,132,078	\$ 1,908,662	\$ 8,178,945	\$ 515,798	\$ 11,735,483
Payments to suppliers	(259,497)	(639,563)	(7,263,012)	(327,092)	(8,489,164)
Payments to employees	(108,914)	(350,549)	(494,671)	(155,191)	(1,109,325)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>763,667</u>	<u>918,550</u>	<u>421,262</u>	<u>33,515</u>	<u>2,136,994</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Transfers to other funds	-	-	(2,224)	-	(2,224)
Increase in due from other funds	-	(80)	-	-	(80)
Increase in due to other funds	835	4,077	3,907	-	8,819
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	<u>835</u>	<u>3,997</u>	<u>1,683</u>	<u>-</u>	<u>6,515</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES					
Acquisition of property and equipment	(211,112)	(122,483)	(1,661,291)	-	(1,994,886)
Interest paid on bonds	(36,845)	(24,300)	-	-	(61,145)
Principal paid on bonds	(1,393,700)	(260,000)	-	-	(1,653,700)
NET CASH PROVIDED (USED) BY CAPITAL FINANCING ACTIVITIES	<u>(1,641,657)</u>	<u>(406,783)</u>	<u>(1,661,291)</u>	<u>-</u>	<u>(3,709,731)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest received on investments	21,993	27,955	241,560	9,634	301,142
Decrease in fair value of investments	-	-	(33,715)	-	(33,715)
NET CASH PROVIDED (USES) BY INVESTING ACTIVITIES	<u>21,993</u>	<u>27,955</u>	<u>207,845</u>	<u>9,634</u>	<u>267,427</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(855,162)</u>	<u>543,719</u>	<u>(1,030,501)</u>	<u>43,149</u>	<u>(1,298,795)</u>
CASH AND CASH EQUIVALENTS, JANUARY 1	<u>1,885,171</u>	<u>1,234,440</u>	<u>5,780,963</u>	<u>649,544</u>	<u>9,550,118</u>
CASH AND CASH EQUIVALENTS, DECEMBER 31	<u>\$ 1,030,009</u>	<u>\$ 1,778,159</u>	<u>\$ 4,750,462</u>	<u>\$ 692,693</u>	<u>\$ 8,251,323</u>

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

CITY OF MELROSE, MINNESOTA
STATEMENT OF CASH FLOWS - CONTINUED
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014

	Business-type Activities - Enterprise funds				Totals
	601 Water	602 Wastewater	604 Electric	Nonmajor 216 Ambulance	
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES					
Operating income	\$ 400,194	\$ 244,942	\$ 43,645	\$ 2,232	\$ 691,013
Adjustments to reconcile operating income to net cash provided (used) by operating activities					
Other income related to operations	111,329	26,961	20,346	22,125	180,761
Depreciation	284,638	617,280	285,461	30,480	1,217,859
(Increase) decrease in assets					
Accounts receivable	(36,693)	(4,474)	37,913	19,139	15,885
Inventory	85	4,401	32,144	-	36,630
Prepaid items	717	(3,964)	(1,564)	554	(4,257)
Increase (decrease) in liabilities					
Accounts payable	343	27,009	(17,564)	(41,015)	(31,227)
Compensated absences and OPEB payable	3,054	6,395	19,523	-	28,972
Customer deposits payable	-	-	1,358	-	1,358
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 763,667</u>	<u>\$ 918,550</u>	<u>\$ 421,262</u>	<u>\$ 33,515</u>	<u>\$ 2,136,994</u>
SCHEDULE OF NONCASH CAPITAL FINANCING ACTIVITIES					
Assets acquired on short-term account	<u>\$ 6,303</u>	<u>\$ 6,635</u>	<u>\$ 44,119</u>	<u>\$ -</u>	<u>\$ 57,057</u>
Amortization of bond premium	<u>\$ -</u>	<u>\$ 2,553</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,553</u>
Disposal of capital assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 55,303</u>	<u>\$ -</u>	<u>\$ 55,303</u>

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

CITY OF MELROSE, MINNESOTA
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
DECEMBER 31, 2014

	<u>Agency</u>
ASSETS	
Cash and temporary investments	\$ 3,593
Accounts receivable	<u>1,223</u>
TOTAL ASSETS	<u>\$ 4,816</u>
LIABILITIES	
Accounts payable	<u>\$ 4,816</u>

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

CITY OF MELROSE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting entity

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

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

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

Included in the City's reporting entity, based upon the application of these criteria, is the following discretely presented component unit. The discretely presented component unit is reported in a separate column in the government-wide financial statements.

Discretely presented component unit. The Melrose Area Development Authority (MADA) was created pursuant to Minnesota statutes 469.090 through 469.108 to carry out economic and industrial development and redevelopment within the City in accordance with policies established by the City Council. The MADA can exercise any of the powers enumerated by the authorizing statutes without prior approval of the City Council; however the City has operational responsibility, can remove appointed officials, and modify and approve the budget. The MADA is governed by seven board members consisting of four City Council appointed community members, the Mayor, a council member, and the City Administrator. It is this criterion that results in the EDA being reported as a discretely presented component unit. The EDA does not prepare separate financial statements.

Due to its relationship with the City, the following entity is considered a related organization of the City.

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

CITY OF MELROSE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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. Amounts reported as 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 contribution (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program 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.

B. Measurement focus, basis of accounting and financial statement presentation

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

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

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

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

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

CITY OF MELROSE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are also recorded as unearned revenue.

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

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

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

Additionally, the government reports the following fiduciary fund type:

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

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

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

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.

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.

CITY OF MELROSE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

Deposits and investments

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

Cash balances from all funds are pooled and invested, to the extent available, in certificates of deposit and other authorized investments. Earnings from such investments are allocated on the basis of applicable participation by each of the funds. Market value adjustments to the investments held by the City are reflected in the Capital Improvements and Electric funds because the investments are held in those funds.

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

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

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

Property taxes

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

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

CITY OF MELROSE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Accounts receivable

Accounts receivable include amounts billed for services provided before year end. The Ambulance and Electric enterprise funds and Fire Department nonmajor governmental fund have allowances for uncollectible accounts totaling \$15,000, \$2,000 and \$500, respectively, at December 31, 2014

Special assessments

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

Interfund receivables and payables

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

Inventories and prepaid items

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

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

Appropriated funds

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

Future plant expansion	<u>\$ 3,000,000</u>
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CITY OF MELROSE, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2014

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 are depreciated using the straight-line method over the following estimated useful lives:

Assets	Useful Lives in Years
Buildings and building improvements	7 - 40
Machinery and equipment	5 - 20
Infrastructure	20 - 50

Compensated absences

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

Postemployment benefits other than pensions

Under Minnesota statute 471.61, subdivision 2b., public employers must allow retirees and their dependents to continue coverage indefinitely in an employer-sponsored health care plan, under the following conditions: 1) Retirees must be receiving (or eligible to receive) an annuity from a Minnesota public pension plan, 2) Coverage must continue in group plan until age 65, and retirees must pay no more than the group premium, and 3) Retirees are able to add dependent coverage during open enrollment period or qualifying life event prior to retirement. All premiums are funded on a pay-as-you-go basis. The liability was actuarially determined, in accordance with GASB Statement 45, at January 1, 2012.

CITY OF MELROSE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Long-term obligations

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

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

Deferred outflows/inflows of resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The City only has one item that qualifies for reporting in this category which is a deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

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

Net position

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

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

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

CITY OF MELROSE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Fund balance

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

Nonspendable - Amounts that cannot be spent because they are not in spendable form, such as prepaid items, amounts due from other funds, and loans receivable.

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

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

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

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

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

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

Reclassifications

To better reflect the activity of the primary government and the MADA, the MADA changed its classification of funds. Previously the EDA reported multiple governmental funds. It now reports all activities as a Discretely Presented Component Unit. The total combined beginning net position of the primary government and EDA did not change.

Note 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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

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

CITY OF MELROSE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014

Note 3: DETAILED NOTES ON ALL FUNDS

A. Deposits and investments

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

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

Authorized collateral in lieu of a corporate surety bond includes:

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

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

At year end, the City's carrying amount of deposits was \$7,744,794 and the bank balance was \$7,877,362. Of the bank balance, \$500,000 was covered by federal depository insurance and \$1,000,000 was covered by National Credit Union Share Insurance. The remaining bank balance was covered by collateral held by the City's agent in the City's name.

CITY OF MELROSE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

Investments

As of December 31, 2014 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			
Brokered CD's	N/A	6 months to 1 year	\$ 245,901
Brokered CD's	N/A	1 to 3 years	1,917,108
Brokered CD's	N/A	more than 3 years	<u>731,702</u>
Total Brokered CD's			<u>2,894,711</u>
Local Government Bonds	AAA	less than 6 months	166,091
Local Government Bonds	AAA	1 to 3 years	106,246
Local Government Bonds	AAA	more than 3 years	212,674
Local Government Bonds	AA	less than 6 months	201,515
Local Government Bonds	AA	6 months to 1 year	367,261
Local Government Bonds	AA	1 to 3 years	1,313,764
Local Government Bonds	AA	more than 3 years	1,168,475
Local Government Bonds	A	6 months to 1 year	203,277
Local Government Bonds	A	1 to 3 years	195,946
Local Government Bonds	A	more than 3 years	<u>102,308</u>
Total Local Government Bonds			<u>4,037,557</u>
U.S. Government Bonds	AA	more than 3 years	<u>1,390,322</u>
U.S. Government Securities	AAA	1 to 3 years	309,387
U.S. Government Securities	AAA	more than 3 years	738,915
U.S. Government Securities	AA	more than 3 years	328,443
U.S. Government Securities	A	1 to 3 years	<u>606,584</u>
Total U.S. Government Securities			<u>1,983,329</u>
Total investments			<u>\$ 10,305,919</u>

(1) Ratings were provided by various credit rating agencies where applicable to indicate associated credit risk.

(2) Interest rate risk disclosed using the segmented time distribution method.

N/A Indicated not applicable or available

CITY OF MELROSE, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2014

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

- *Credit Risk.* Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Ratings are provided by various credit rating agencies and where applicable, indicate associated credit risk. Minnesota statutes limit the City's investments.
- *Custodial Credit Risk.* The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. In accordance with its investment policy, the City limits its exposure by purchasing insured or registered investments.
- *Concentration of Credit Risk.* The concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. In accordance with its investment policy, the City manages its exposure by diversifying investments according to type and maturity. The City had invested 5 percent or more of its total investment portfolio in the following issuers as of December 31, 2014: Federal Home Loan Mortgage Corporation 6.3 percent and Federal Home Loan Banks 8.1 percent.
- *Interest Rate Risk.* The interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. In accordance with its investment policy, the City manages its exposure to declines in fair values by limiting long term investments to 30 percent of the portfolio. The maturity of the long term investments cannot exceed ten years.

Cash on hand

Cash in the possession of the City, consisting of un-deposited receipts, petty cash and change funds totals \$685.

Cash summary

A reconciliation of cash as shown on the statement of net position for the City follows:

Carrying amount of deposits	\$ 7,744,794
Investments	10,305,919
Cash on hand	<u>685</u>
Total	<u><u>\$ 18,051,398</u></u>
Cash and temporary investments	
Primary Government	\$ 17,722,151
Agency	3,593
Component Unit - EDA	<u>325,654</u>
Total	<u><u>\$ 18,051,398</u></u>

B. Loans and notes receivable

Primary government

The City issued a \$1,329,500 non-negotiable note receivable to CentraCare. The note consists of semi-annual payments of \$73,675 that will commence on January 1, 2014 and go through July 1, 2023 with an interest rate of 2 percent. At December 31, 2014 the amount outstanding on the note receivable is \$1,146,544.

Discretely presented component unit - MADA

The MADA has funds available for loans to local businesses. At December 31, 2014 the MADA has loans outstanding totaling \$338,068. The terms and interest varies and all are secured by the assets of the business.

CITY OF MELROSE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

C. Capital assets

Capital asset activity for the year ended December 31, 2014 as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets, not being depreciated				
Land	\$ 3,216,640	\$ 8,270	\$ -	\$ 3,224,910
Construction in progress	-	118,868	(89,934)	28,934
Total capital assets, not being depreciated	<u>3,216,640</u>	<u>127,138</u>	<u>(89,934)</u>	<u>3,253,844</u>
Capital assets, being depreciated				
Buildings and building improvements	4,435,625	-	-	4,435,625
Machinery and equipment	2,781,650	112,323	(121,012)	2,772,961
Infrastructure	11,171,838	89,935	-	11,261,773
Total capital assets being depreciated	<u>18,389,113</u>	<u>202,258</u>	<u>(121,012)</u>	<u>18,470,359</u>
Less accumulated depreciation for				
Buildings and building improvements	(1,503,240)	(114,385)	-	(1,617,625)
Machinery and equipment	(1,370,360)	(147,947)	104,157	(1,414,150)
Infrastructure	(4,121,862)	(359,654)	-	(4,481,516)
Total accumulated depreciation	<u>(6,995,462)</u>	<u>(621,986)</u>	<u>104,157</u>	<u>(7,513,291)</u>
Total capital assets, being depreciated, net	<u>11,393,651</u>	<u>(419,728)</u>	<u>(16,855)</u>	<u>10,957,068</u>
Governmental activities capital assets, net	<u>\$ 14,610,291</u>	<u>\$ (292,590)</u>	<u>\$ (106,789)</u>	<u>\$ 14,210,912</u>

CITY OF MELROSE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type activities				
Capital assets, not being depreciated				
Land	\$ 346,255	\$ 34,189	\$ -	\$ 380,444
Construction in progress	<u>1,256,897</u>	<u>959,726</u>	<u>(1,410,752)</u>	<u>805,871</u>
Total capital assets, not being depreciated	<u>1,603,152</u>	<u>993,915</u>	<u>(1,410,752)</u>	<u>1,186,315</u>
Capital assets, being depreciated				
Buildings and building improvements	2,925,802	-	-	2,925,802
Machinery and equipment	1,633,950	53,578	(55,303)	1,632,225
Infrastructure	<u>35,584,693</u>	<u>1,654,035</u>	<u>-</u>	<u>37,238,728</u>
Total capital assets, being depreciated	<u>40,144,445</u>	<u>1,707,613</u>	<u>(55,303)</u>	<u>41,796,755</u>
Less accumulated depreciation for				
Buildings and building improvements	(2,169,466)	(60,109)	-	(2,229,575)
Machinery and equipment	(1,043,275)	(89,325)	55,303	(1,077,297)
Infrastructure	<u>(17,378,654)</u>	<u>(1,068,425)</u>	<u>-</u>	<u>(18,447,079)</u>
Total accumulated depreciation	<u>(20,591,395)</u>	<u>(1,217,859)</u>	<u>55,303</u>	<u>(21,753,951)</u>
Total capital assets, being depreciated, net	<u>19,553,050</u>	<u>489,754</u>	<u>-</u>	<u>20,042,804</u>
Business-type activities capital assets, net	<u>\$ 21,156,202</u>	<u>\$ 1,483,669</u>	<u>\$ (1,410,752)</u>	<u>\$ 21,229,119</u>

Depreciation expense was charged to functions/programs of the City as follows:

Governmental activities		
General government		\$ 61,948
Public safety		134,319
Streets and highways		397,424
Culture and recreation		25,978
Economic development		<u>2,317</u>
Total depreciation expense - governmental activities		<u>\$ 621,986</u>
Business-type activities		
Water		\$ 284,638
Wastewater		617,280
Electric		285,461
Ambulance		<u>30,480</u>
Total depreciation expense - business-type activities		<u>\$ 1,217,859</u>

CITY OF MELROSE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

D. Interfund receivables, payables and transfers

Interfund balances

Receivable Fund	Payable Fund	Amount	Purpose
Capital Improvements	Electric	\$ 4,247	City center maintenance contribution; expense reimbursement
General	Electric	90,248	Franchise fees
General	Electric	6,602	Expense Reimbursement
General	Water	835	Expense Reimbursement
General	Wastewater	4,077	Expense Reimbursement
Water	General	1,398	Expense Reimbursement
Total		<u>\$ 107,407</u>	

Interfund transfers

Fund	Transfer in		
	Capital Improvements	Other Governmental Funds	Total
Transfer out			
General	\$ 515,716	\$ 86,450	\$ 602,166
Capital Improvements	-	370,000	370,000
Electric	2,224	-	2,224
Total transfers out	<u>\$ 517,940</u>	<u>\$ 456,450</u>	<u>\$ 974,390</u>

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

CITY OF MELROSE, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2014

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

E. Long-term debt

General obligation bonds

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

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

<u>Description</u>	<u>Authorized and Issued</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Balance at Year End</u>
G.O. Capital Improvement Plan Bonds, Series 2013A	\$ 1,965,000	1.00 - 2.25 %	05/01/13	02/01/28	<u>\$ 1,875,000</u>

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

<u>Year Ending December 31,</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 125,000	\$ 29,700	\$ 154,700
2016	125,000	28,450	153,450
2017	125,000	27,200	152,200
2018	125,000	25,950	150,950
2019	125,000	24,544	149,544
2020-2024	670,000	92,362	762,362
2025-2028	580,000	25,719	605,719
Total	<u>\$ 1,875,000</u>	<u>\$ 253,925</u>	<u>\$ 2,128,925</u>

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 City relies on combined assessment, tax levy and cash balances from prepayments to cover debt payments.

<u>Description</u>	<u>Authorized and Issued</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Balance at Year End</u>
G.O. Improvement Refunding Bonds, Series 2011A	\$ 2,155,000	2.00 - 2.85 %	04/13/12	02/01/20	<u>\$ 1,775,000</u>

CITY OF MELROSE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

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

<u>Year Ending December 31,</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 320,000	\$ 38,168	\$ 358,168
2016	320,000	31,767	351,767
2017	315,000	25,103	340,103
2018	315,000	17,778	332,778
2019	315,000	9,668	324,668
2020	190,000	2,707	192,707
Total	<u>\$ 1,775,000</u>	<u>\$ 125,191</u>	<u>\$ 1,900,191</u>

General obligation revenue bonds

The following bonds were issued to finance capital improvements to the enterprise funds. They will be repaid from future net revenues pledged from the Wastewater fund and are backed by the taxing power of the City. Annual principal and interest payments on the bonds are expected to require less than 16 percent of the net revenues from the Wastewater funds. Principal and interest paid for the current year and total customer net revenues for the Wastewater fund were \$284,300 and \$1,886,175, respectively.

<u>Description</u>	<u>Authorized and Issued</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Balance at Year End</u>
G.O. Sewer Revenue Crossover Refunding Bonds, Series 2010A	1,415,000	2.00 - 2.45	11/01/10	12/01/18	<u>\$ 905,000</u>

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

<u>Year Ending December 31,</u>	<u>Business-type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 265,000	\$ 19,100	\$ 284,100
2016	265,000	13,800	278,800
2017	275,000	8,500	283,500
2018	100,000	2,450	102,450
Total	<u>\$ 905,000</u>	<u>\$ 43,850</u>	<u>\$ 948,850</u>

CITY OF MELROSE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

Changes in long-term liabilities

Long-term liability activity for the year ended December 31, 2014 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities					
Bonds payable					
G.O. Bonds	\$ 1,965,000	\$ -	\$ (90,000)	\$ 1,875,000	\$ 125,000
General obligation improvement bonds	2,065,000	-	(290,000)	1,775,000	320,000
Unamortized premium on bonds	<u>10,548</u>	<u>-</u>	<u>(1,731)</u>	<u>8,817</u>	<u>-</u>
Total bonds payable	4,040,548	-	(381,731)	3,658,817	445,000
Compensated absences	107,494	51,179	(53,758)	104,915	53,758
Other postemployment benefits payable	<u>167,121</u>	<u>42,220</u>	<u>(34,015)</u>	<u>175,326</u>	<u>-</u>
Governmental activity long-term liabilities	<u>\$ 4,315,163</u>	<u>\$ 93,399</u>	<u>\$ (469,504)</u>	<u>\$ 3,939,058</u>	<u>\$ 498,758</u>
Business-type activities					
Bonds payable					
General obligation revenue bonds	\$ 2,558,700	\$ -	\$ (1,653,700)	\$ 905,000	\$ 265,000
Unamortized premium on bonds	<u>12,565</u>	<u>-</u>	<u>(2,553)</u>	<u>10,012</u>	<u>-</u>
Total bonds payable	2,571,265	-	(1,656,253)	915,012	265,000
Compensated absences	74,164	78,772	(57,281)	95,655	57,281
Other postemployment benefits payable	<u>162,868</u>	<u>38,493</u>	<u>(31,012)</u>	<u>170,349</u>	<u>-</u>
Business-type activity long-term liabilities	<u>\$ 2,808,297</u>	<u>\$ 117,265</u>	<u>\$ (1,744,546)</u>	<u>\$ 1,181,016</u>	<u>\$ 322,281</u>

CITY OF MELROSE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

F. Components of fund balance

At December 31, 2014 portions of the City's fund balance are not available for appropriation due to not being in spendable form (Nonspendable), legal restrictions (Restricted), City Council action (Committed), policy and/or intent (Assigned). The following is a summary of the components of fund balance:

	General	Debt Service	Capital Improvements	Other Governmental Funds	Total Governmental Funds
Nonspendable					
Prepaid items	\$ 4,547	\$ -	\$ -	\$ 574	\$ 5,121
Due from other funds	101,762	-	-	-	101,762
Total nonspendable	\$ 106,309	\$ -	\$ -	\$ 574	\$ 106,883
Restricted for					
Debt service	\$ -	\$ 467,663	\$ -	\$ -	\$ 467,663
Partners in action activities	-	-	-	248	248
TIF	-	-	-	14,525	14,525
Total restricted	\$ -	\$ 467,663	\$ -	\$ 14,773	\$ 482,436
Committed to					
Insurance reserve	\$ 10,794	\$ -	\$ -	\$ -	\$ 10,794
Compensated absences	40,468	-	-	-	40,468
Public works equipment	-	-	86,479	-	86,479
Street improvements	-	-	1,648,807	-	1,648,807
Park and recreation	-	-	249,628	-	249,628
City center maintenance	-	-	59,602	-	59,602
Sidewalk program	-	-	32,887	-	32,887
Police car replacement	-	-	27,081	-	27,081
Future land development	-	-	82,714	-	82,714
Planning and zoning	-	-	23,988	-	23,988
Police equipment	-	-	22,418	-	22,418
Fire equipment	-	-	-	179,795	179,795
Office equipment	-	-	29,066	-	29,066
CentraCare	-	-	437,493	-	437,493
Capital improvements	-	-	1,236,213	-	1,236,213
Bridge Improvements	-	-	-	358,495	358,495
Total committed	\$ 51,262	\$ -	\$ 3,936,376	\$ 538,290	\$ 4,525,928
Assigned to					
Senior activity center	\$ -	\$ -	\$ -	\$ 2,219	\$ 2,219
Tri-cap bus	-	-	-	3,490	3,490
Yellow bike program	-	-	-	1,686	1,686
Fire department	-	-	-	74,672	74,672
Total assigned	\$ -	\$ -	\$ -	\$ 82,067	\$ 82,067

CITY OF MELROSE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014

Note 4: DEFINED BENEFIT PENSION PLANS - STATEWIDE

A. Plan description

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

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

PERA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by Minnesota statute and vest after five 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.

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

CITY OF MELROSE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014

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. GERF Basic Plan members and Coordinated Plan members are required to contribute 9.10 percent and 6.25 percent, respectively, of their annual covered salary in 2014. PEPFF members are required to contribute 10.2 percent of their annual covered salary in 2014. In 2014, the City was required to contribute the following percentages of annual covered payroll: 11.78 percent for Basic Plan members, 7.25 percent for Coordinated Plan members, and 15.3 percent for PEPFF members. The City's contributions to the Public Employees Retirement Fund for the years ended December 31, 2014, 2013, and 2012 were \$91,627, \$102,848, and \$95,334, respectively. The City's contributions to the PEPFF for the years ending December 31, 2014, 2013, and 2012 were \$36,950, \$37,560, and \$37,026, , respectively. The City's contributions were equal to the contractually required contributions for each year as set by Minnesota statute.

The City Council members are covered by the Public Employees Defined Contribution Plan (PEDCP), a multiple-employer unearned compensation plan administered by the Public Employees Retirement Association of Minnesota (PERA). The PEDCP is a tax qualified plan under Section 401(a) of the Internal Revenue Code and all contributions by or on behalf of employees are tax deferred until the time of withdrawal.

The City's and Council member's contribution to the PEDCP for the year ending December 31, 2014 was \$1,165.

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 5 taxable market value of property was \$151,325,836 and the debt limit was \$4,539,775. There was \$1,875,000 of 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 on a quarterly basis.

CITY OF MELROSE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014

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, 2014, there were two series of revenue bonds outstanding, with balances of \$6,750,000 for Proliant Dairy Inc. and \$692,490 for Oak Ridge Manor Apartments of Melrose Limited Partnership.

E. Contingencies and concentrations

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.

Concentrations

The City receives a significant amount of its annual General fund revenue from the State of Minnesota from the Local Government Aid (LGA). The amount received in 2014 was \$766,370 for LGA. This accounted for 32 percent of General fund revenue.

Note 6: POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

A. Plan description

The City administers a single-employer defined benefit healthcare plan ("the Retiree Health Plan"). The plan provides healthcare insurance for eligible retirees and their spouses through the City's group health insurance plan until Medicare age, which covers both active and retired members. There are 25 active participants, made up of both union and non-union employees. The benefit provisions for union employees are established through negotiations between the City and the union representing City employees and are renegotiated at the expiration of each Collective Bargaining Agreement. Benefit provisions for non-union employees are established by the City Council and Utilities Commission as part of the annual budget each year. The Retiree Health Plan does not issue a publicly available financial report.

B. Funding policy

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

The City has historically funded these liabilities on a pay-as-you-go basis. Contribution requirements are negotiated between the City and union representatives at the expiration of each Collective Bargaining Agreement. At the present time, retiree benefits are provided for three participating employees. The City does not contribute any of the cost of current year premiums for eligible retired plan members and their spouses. For fiscal year 2014 the City contributed \$65,027 to the plan. Retired plan members receiving benefits contribute 100 percent of their premium costs. As of January 1, 2012 there were four retirees and beneficiaries receiving health benefits from the plan.

CITY OF MELROSE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014

Note 6: POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS - CONTINUED

C. Annual OPEB cost and net OPEB obligation

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

The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation to the Retiree Health Plan:

Annual required contribution	\$ 82,693
Interest on net OPEB obligation	9,900
Adjustment to annual required contribution	<u>(11,880)</u>
 Annual OPEB cost (expense)	 80,713
 Contributions made	 <u>(65,027)</u>
 Increase in net OPEB obligation	 15,686
 Net OPEB obligation - beginning of year	 <u>329,989</u>
 Net OPEB obligation - end of year	 <u><u>\$ 345,675</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 2014, 2013 and 2012, follows:

Year Ending	Trend Information		
	Annual OPEB Cost	Percentage Annual OPEB Contributed	Net OPEB Obligation
12/31/14	\$ 80,713	80.6 %	\$ 345,675
12/31/13	81,082	24.1	329,989
12/31/12	81,467	21.2	268,423

D. Funded status and funding progress

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

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

CITY OF MELROSE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014

Note 6: POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS - CONTINUED

E. Methods and assumptions

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

The following simplifying assumptions were made:

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

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

Mortality - Life expectancies were based on mortality tables from the National Center for Health Statistics. The 2008 United States Life Tables for Males and for Females were used.

Turnover - Non-group-specific age-based turnover data from GASB Statement No. 45 were used as the basis for assigning active members a probability of remaining employed until the assumed retirement age and for developing an expected future working lifetime assumption for purposes of allocating to periods the present value of total benefits to be paid.

Healthcare cost trend rate - The expected rate of increase in healthcare insurance premiums was based on actual rate changes for 2012 and 2013 along with projections of the Office of the Actuary at the Centers for Medicare & Medicaid Services. A rate increase of 12.9 percent initially in 2013, reduced to an ultimate average rate increase of 5.85 percent after six years, was used.

Health insurance premiums - 2012 and 2013 health insurance premiums for retirees were used as the basis for calculation of the present value of total benefits to be paid.

Inflation rate - The expected long-term inflation assumption of 2.48 percent was based on projected changes in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) in *The 2011 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds* for an intermediate growth scenario.

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

Based on the historical and expected returns of the City's short-term investment portfolio, a discount rate of 3.0 percent was used. In addition, a simplified version of the entry age actuarial cost method was used. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2014 was thirty years.

Note 7: TRANSACTIONS BETWEEN THE PRIMARY GOVERNMENT AND ITS COMPONENT UNIT

The City conducts routine transactions with its component unit for services provided. The City provides administrative and financial services for MADA activities. In addition, the Capital Improvements fund provided \$38,068 for operations. The Capital Improvement fund made a loan to the MADA fund to finance the purchase of land, and at year-end the outstanding balance is \$41,690, after \$10,273 of loan payments in fiscal year 2014. The Tax Increment Projects fund contributed \$10,273 to MADA for payments on the land loan.

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REQUIRED SUPPLEMENTARY INFORMATION

CITY OF MELROSE
MELROSE, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2014

CITY OF MELROSE, MINNESOTA
 REQUIRED SUPPLEMENTARY INFORMATION
 DECEMBER 31, 2014

Schedule of funding progress for the postemployment benefit plan

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
01/01/12	\$ -	\$ 1,005,011	\$ 1,005,011	- %	\$ 1,290,509	77.9 %
12/31/08	-	1,071,933	1,071,933	-	1,567,030	68.4

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

CITY OF MELROSE
MELROSE, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2014

CITY OF MELROSE, MINNESOTA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
DECEMBER 31, 2014

	Special Revenue	Capital Projects		Total Nonmajor Governmental Funds
		5th Ave. Bridge Improvements	Tax Increment Projects	
ASSETS				
Cash and temporary investments	\$ 272,834	\$ 358,495	\$ 27,083	\$ 658,412
Accounts receivable, net	1,235	-	-	1,235
Prepaid items	574	-	-	574
TOTAL ASSETS	\$ 274,643	\$ 358,495	\$ 27,083	\$ 660,221
LIABILITIES				
Accounts payable	\$ 11,959	\$ -	\$ 12,558	\$ 24,517
FUND BALANCES				
Nonspendable prepaid items	574	-	-	574
Restricted for				
Partners in action activities	248	-	-	248
TIF Districts	-	-	14,525	14,525
Committed to				
Fire equipment	179,795	-	-	179,795
Bridge improvements	-	358,495	-	358,495
Assigned	82,067	-	-	82,067
TOTAL FUND BALANCES	262,684	358,495	14,525	635,704
TOTAL LIABILITIES AND FUND BALANCES	\$ 274,643	\$ 358,495	\$ 27,083	\$ 660,221

CITY OF MELROSE, MINNESOTA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2014

	Special Revenue	Capital Projects		Total Nonmajor Governmental Funds
		5th Ave. Bridge Improvements	Tax Increment Projects	
REVENUES				
Tax increments	\$ -	\$ -	\$ 134,929	\$ 134,929
Charges for services	85,705	-	-	85,705
Interest on investments	3,356	1,911	-	5,267
Miscellaneous	5,750	-	-	5,750
TOTAL REVENUES	94,811	1,911	134,929	231,651
EXPENDITURES				
Current				
Public safety	114,683	-	-	114,683
Culture and recreation	2,254	-	-	2,254
Economic development	5,792	-	120,404	126,196
Miscellaneous	-	-	-	-
Capital outlay				
Public safety	34,953	-	-	34,953
Streets and highways	-	13,416	-	13,416
TOTAL EXPENDITURES	157,682	13,416	120,404	291,502
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(62,871)	(11,505)	14,525	(59,851)
OTHER FINANCING SOURCES				
Sale of capital assets	6,840	-	-	6,840
Transfers in	86,450	370,000	-	456,450
TOTAL OTHER FINANCING SOURCES	93,290	370,000	-	463,290
NET CHANGE IN FUND BALANCES	30,419	358,495	14,525	403,439
FUND BALANCES, JANUARY 1	232,265	-	-	232,265
FUND BALANCES, DECEMBER 31	\$ 262,684	\$ 358,495	\$ 14,525	\$ 635,704

CITY OF MELROSE, MINNESOTA
NONMAJOR SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
DECEMBER 31, 2014

	Senior Activity Center	PIA Asset Building	Tri-Cap Bus
ASSETS			
Cash and temporary investments	\$ 2,219	\$ 248	\$ 4,310
Accounts receivable, net	-	-	-
Prepaid items	-	-	-
	-	-	-
TOTAL ASSETS	\$ 2,219	\$ 248	\$ 4,310
LIABILITIES			
Accounts payable	\$ -	\$ -	\$ 820
FUND BALANCES			
Nonspendable prepaid items	-	-	-
Restricted for partners in action activities	-	248	-
Committed to fire equipment	-	-	-
Assigned	2,219	-	3,490
	2,219	-	3,490
TOTAL FUND BALANCES	2,219	248	3,490
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,219	\$ 248	\$ 4,310

<u>Yellow Bike Program</u>	<u>Fire Department</u>	<u>Total</u>
\$ 1,686	\$ 264,371	\$ 272,834
-	1,235	1,235
-	574	574
<u>\$ 1,686</u>	<u>\$ 266,180</u>	<u>\$ 274,643</u>
\$ -	\$ 11,139	\$ 11,959
-	574	574
-	-	248
-	179,795	179,795
1,686	74,672	82,067
<u>1,686</u>	<u>255,041</u>	<u>262,684</u>
<u>\$ 1,686</u>	<u>\$ 266,180</u>	<u>\$ 274,643</u>

CITY OF MELROSE, MINNESOTA
NONMAJOR SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUE, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2014

	Senior Activity Center	PIA Asset Building	Tri-Cap Bus
REVENUES			
Charges for services	\$ -	\$ -	\$ 819
Interest on investments	-	-	-
Miscellaneous			
Contributions and donations	75	-	125
Other	1,310	-	-
	<u>1,385</u>	<u>-</u>	<u>944</u>
TOTAL REVENUES			
EXPENDITURES			
Current			
Public safety			
Personal services	-	-	-
Supplies	-	-	-
Other services and charges	-	-	-
Culture and recreation			
Other services and charges	2,041	-	-
Economic development			
Other services and charges	-	-	5,792
Capital outlay			
Public safety	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL EXPENDITURES			
	<u>2,041</u>	<u>-</u>	<u>5,792</u>
DEFICIENCY OF REVENUES UNDER EXPENDITURES			
	<u>(656)</u>	<u>-</u>	<u>(4,848)</u>
OTHER FINANCING SOURCES			
Sale of capital assets	-	-	-
Transfers in	-	-	2,500
	<u>-</u>	<u>-</u>	<u>2,500</u>
TOTAL OTHER FINANCING SOURCES			
	<u>-</u>	<u>-</u>	<u>2,500</u>
NET CHANGE IN FUND BALANCES			
	(656)	-	(2,348)
FUND BALANCES, JANUARY 1			
	<u>2,875</u>	<u>248</u>	<u>5,838</u>
FUND BALANCES, DECEMBER 31			
	<u>\$ 2,219</u>	<u>\$ 248</u>	<u>\$ 3,490</u>

<u>Yellow Bike Program</u>	<u>Fire Department</u>	<u>Total</u>
\$ -	\$ 84,886	\$ 85,705
-	3,356	3,356
-	550	750
-	3,690	5,000
<u>-</u>	<u>92,482</u>	<u>94,811</u>
-	37,632	37,632
-	15,608	15,608
-	61,443	61,443
213	-	2,254
-	-	5,792
<u>-</u>	<u>34,953</u>	<u>34,953</u>
<u>213</u>	<u>149,636</u>	<u>157,682</u>
<u>(213)</u>	<u>(57,154)</u>	<u>(62,871)</u>
-	6,840	6,840
<u>-</u>	<u>83,950</u>	<u>86,450</u>
<u>-</u>	<u>90,790</u>	<u>93,290</u>
(213)	33,636	30,419
<u>1,899</u>	<u>221,405</u>	<u>232,265</u>
<u>\$ 1,686</u>	<u>\$ 255,041</u>	<u>\$ 262,684</u>

CITY OF MELROSE, MINNESOTA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - CONTINUED ON THE FOLLOWING PAGES
FOR THE YEAR ENDED DECEMBER 31, 2014
(With comparative actual amounts for the year ended December 31, 2013)

	2014				2013
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
REVENUES					
Taxes					
Property taxes	\$ 936,000	\$ 936,000	\$ 935,694	\$ (306)	\$ 981,096
Franchise fees	421,800	421,800	477,470	55,670	436,914
Total	<u>1,357,800</u>	<u>1,357,800</u>	<u>1,413,164</u>	<u>55,364</u>	<u>1,418,010</u>
Licenses and permits					
Business	17,750	17,750	18,620	870	20,551
Nonbusiness	27,500	27,500	30,915	3,415	23,870
Total	<u>45,250</u>	<u>45,250</u>	<u>49,535</u>	<u>4,285</u>	<u>44,421</u>
Intergovernmental					
State					
Local government aid	766,370	766,370	766,370	-	614,850
Property tax credits	-	-	295	295	571
Police state aid	32,000	32,000	31,421	(579)	29,557
Other	4,585	4,585	6,698	2,113	5,791
Total	<u>802,955</u>	<u>802,955</u>	<u>804,784</u>	<u>1,829</u>	<u>650,769</u>
Charges for services					
General government	33,900	33,900	37,443	3,543	30,699
Public safety	1,350	1,350	2,365	1,015	497
Streets and highways	19,600	19,600	23,663	4,063	19,656
Culture and recreation	10,950	10,950	13,668	2,718	11,392
Total	<u>65,800</u>	<u>65,800</u>	<u>77,139</u>	<u>11,339</u>	<u>62,244</u>
Fines and forfeitures	<u>18,700</u>	<u>18,700</u>	<u>15,131</u>	<u>(3,569)</u>	<u>18,545</u>
Interest on investments	<u>11,004</u>	<u>11,004</u>	<u>18,543</u>	<u>7,539</u>	<u>19,203</u>
Miscellaneous					
Contributions and donations	-	-	725	725	6,450
Other	2,000	2,000	11,787	9,787	10,221
Total	<u>2,000</u>	<u>2,000</u>	<u>12,512</u>	<u>10,512</u>	<u>16,671</u>
TOTAL REVENUES	<u>2,303,509</u>	<u>2,303,509</u>	<u>2,390,808</u>	<u>87,299</u>	<u>2,229,863</u>

CITY OF MELROSE, MINNESOTA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2014
(With comparative actual amounts for the year ended December 31, 2013)

	2014				2013
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
EXPENDITURES					
Current					
General government					
Legislative					
Personal services	\$ 15,092	\$ 15,092	\$ 15,162	\$ (70)	\$ 15,074
Other services and charges	6,700	6,700	6,684	16	5,069
Total	<u>21,792</u>	<u>21,792</u>	<u>21,846</u>	<u>(54)</u>	<u>20,143</u>
Executive					
Personal services	4,983	4,983	4,966	17	4,996
Other services and charges	1,800	1,800	60	1,740	730
Total	<u>6,783</u>	<u>6,783</u>	<u>5,026</u>	<u>1,757</u>	<u>5,726</u>
City administrator					
Personal services	56,368	56,368	58,726	(2,358)	53,841
Supplies	600	600	630	(30)	489
Other services and charges	4,980	4,980	3,998	982	5,114
Total	<u>61,948</u>	<u>61,948</u>	<u>63,354</u>	<u>(1,406)</u>	<u>59,444</u>
Financial administration					
Personal services	241,898	241,898	161,442	80,456	188,399
Supplies	5,250	5,250	5,474	(224)	4,467
Other services and charges	123,713	123,713	132,110	(8,397)	115,425
Total	<u>370,861</u>	<u>370,861</u>	<u>299,026</u>	<u>71,835</u>	<u>308,291</u>
Assessing					
Other services and charges	17,500	17,500	16,998	502	16,894
Cable communications					
Other services and charges	3,370	3,370	3,321	49	2,834
City attorney					
Other services and charges	35,050	35,050	25,067	9,983	31,258
Planning and zoning					
Personal services	2,191	2,191	1,852	339	2,352
Other services and charges	750	750	155	595	1,311
Total	<u>2,941</u>	<u>2,941</u>	<u>2,007</u>	<u>934</u>	<u>3,663</u>
Total general government	<u>520,245</u>	<u>520,245</u>	<u>436,645</u>	<u>83,600</u>	<u>448,253</u>

CITY OF MELROSE, MINNESOTA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2014
(With comparative actual amounts for the year ended December 31, 2013)

	2014				2013
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
EXPENDITURES - CONTINUED					
Current - continued					
Public safety					
Police					
Personal services	\$ 447,692	\$ 447,692	\$ 429,313	\$ 18,379	\$ 424,141
Supplies	24,000	24,000	18,955	5,045	23,973
Other services and charges	47,550	47,550	42,253	5,297	40,049
Total	519,242	519,242	490,521	28,721	488,163
Building inspection					
Other services and charges	23,250	23,250	16,919	6,331	34,499
Total public safety	542,492	542,492	507,440	35,052	522,662
Streets and highways					
Streets					
Personal services	249,409	249,409	216,148	33,261	212,892
Supplies	65,983	65,983	66,252	(269)	53,816
Other services and charges	49,650	49,650	39,299	10,351	34,817
Total	365,042	365,042	321,699	43,343	301,525
Snow and ice removal					
Personal services	55,588	55,588	75,960	(20,372)	69,606
Supplies	34,000	34,000	36,633	(2,633)	34,779
Other services and charges	2,000	2,000	1,427	573	615
Total	91,588	91,588	114,020	(22,432)	105,000
Street lighting					
Other services and charges	48,000	48,000	48,224	(224)	46,593
Total streets and highways	504,630	504,630	483,943	20,687	453,118
Sanitation					
Supplies	2,000	2,000	907	1,093	1,399
Other services and charges	3,500	3,500	2,772	728	2,720
Total sanitation	5,500	5,500	3,679	1,821	4,119

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, 2014
(With comparative actual amounts for the year ended December 31, 2013)

	2014			Variance with Final Budget	2013
	Budgeted Amounts		Actual Amounts		Actual Amounts
	Original	Final			
EXPENDITURES - CONTINUED					
Current - continued					
Culture and recreation					
Personal services	\$ 27,230	\$ 27,230	\$ 41,578	\$ (14,348)	\$ 34,391
Supplies	4,500	4,500	2,367	2,133	3,251
Other services and charges	25,550	25,550	22,016	3,534	21,642
Total culture and recreation	<u>57,280</u>	<u>57,280</u>	<u>65,961</u>	<u>(8,681)</u>	<u>59,284</u>
Economic development					
Industrial/commercial development					
Personal services	91,947	91,947	91,639	308	90,654
Total current expenditures	1,722,094	1,722,094	1,589,307	132,787	1,578,090
Capital outlay					
Economic development	-	-	-	-	23,174
Debt service					
Interest and other charges	1,000	1,000	250	750	1,218
TOTAL EXPENDITURES	<u>1,723,094</u>	<u>1,723,094</u>	<u>1,589,557</u>	<u>133,537</u>	<u>1,602,482</u>
EXCESS OF REVENUES OVER EXPENDITURES					
	<u>580,415</u>	<u>580,415</u>	<u>801,251</u>	<u>220,836</u>	<u>627,381</u>
OTHER FINANCING SOURCES (USES)					
Sale of capital assets	-	-	7,240	7,240	-
Transfers out	(569,890)	(569,890)	(602,166)	(32,276)	(571,129)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(569,890)</u>	<u>(569,890)</u>	<u>(594,926)</u>	<u>(25,036)</u>	<u>(571,129)</u>
NET CHANGE IN FUND BALANCES	10,525	10,525	206,325	195,800	56,252
FUND BALANCES, JANUARY 1	<u>1,361,134</u>	<u>1,361,134</u>	<u>1,361,134</u>	<u>-</u>	<u>1,304,882</u>
FUND BALANCES, DECEMBER 31	<u>\$ 1,371,659</u>	<u>\$ 1,371,659</u>	<u>\$ 1,567,459</u>	<u>\$ 195,800</u>	<u>\$ 1,361,134</u>

CITY OF MELROSE, MINNESOTA
DEBT SERVICE FUNDS
COMBINING BALANCE SHEET
DECEMBER 31, 2014

	<u>G.O. Refunding Bonds of 2011</u>	<u>Improvement Bonds of 2013</u>	<u>Total</u>
ASSETS			
Cash and temporary investments	\$ 315,038	\$ 152,625	\$ 467,663
Special assessments receivable	<u>51,064</u>	<u>-</u>	<u>51,064</u>
TOTAL ASSETS	<u><u>\$ 366,102</u></u>	<u><u>\$ 152,625</u></u>	<u><u>\$ 518,727</u></u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - special assessments	\$ 51,064	\$ -	\$ 51,064
FUND BALANCES			
Restricted for debt service	<u>315,038</u>	<u>152,625</u>	<u>467,663</u>
TOTAL DEFERRED INFLOWS AND FUND BALANCES	<u><u>\$ 366,102</u></u>	<u><u>\$ 152,625</u></u>	<u><u>\$ 518,727</u></u>

CITY OF MELROSE, MINNESOTA
DEBT SERVICE FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2014

	G.O Refunding Bonds of 2011	Improvement Bonds of 2013	Total
REVENUES			
Property taxes	\$ 230,000	\$ 80,000	\$ 310,000
Charges for services	-	52,257	52,257
Special assessments	12,229	-	12,229
Interest on investments	2,791	639	3,430
	<u>245,020</u>	<u>132,896</u>	<u>377,916</u>
TOTAL REVENUES			
EXPENDITURES			
Debt service			
Principal	290,000	90,000	380,000
Interest and other charges	44,763	38,581	83,344
	<u>334,763</u>	<u>128,581</u>	<u>463,344</u>
TOTAL EXPENDITURES			
NET CHANGE IN FUND BALANCES	(89,743)	4,315	(85,428)
FUND BALANCES, JANUARY 1	<u>404,781</u>	<u>148,310</u>	<u>553,091</u>
FUND BALANCES, DECEMBER 31	<u>\$ 315,038</u>	<u>\$ 152,625</u>	<u>\$ 467,663</u>

CITY OF MELROSE, MINNESOTA
MELROSE AREA DEVELOPMENT AUTHORITY
(DISCRETELY PRESENTED COMPONENT UNIT)
COMBINING BALANCE SHEET
DECEMBER 31, 2014

	Melrose Area Development Authority (MADA)	MADA Revolving Loan	Total
ASSETS			
Cash and temporary investments	\$ 64,097	\$ 261,557	\$ 325,654
Loans receivable	-	338,068	338,068
Prepaid items	14	-	14
	\$ 64,111	\$ 599,625	\$ 663,736
TOTAL ASSETS			
LIABILITIES			
Due to primary government	\$ 41,690	\$ -	\$ 41,690
FUND BALANCES			
Nonspendable prepaid items	14	-	14
Committed to revolving loans	-	599,625	599,625
Assigned	22,407	-	22,407
	22,421	599,625	622,046
TOTAL FUND BALANCES			
TOTAL LIABILITIES AND FUND BALANCES			
	\$ 64,111	\$ 599,625	\$ 663,736

CITY OF MELROSE, MINNESOTA
MELROSE AREA DEVELOPMENT AUTHORITY
(DISCRETELY PRESENTED COMPONENT UNIT)
COMBINING STATEMENT OF REVENUE, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2014

	Melrose Area Development Authority (MADA)	MADA Revolving Loan	Total
REVENUES			
Charges for services	\$ 38,068	\$ -	\$ 38,068
Interest on investments	3,227	17,257	20,484
Miscellaneous	10,273	-	10,273
	<u>51,568</u>	<u>17,257</u>	<u>68,825</u>
TOTAL REVENUES			
EXPENDITURES			
Current			
Economic development	9,861	-	9,861
Debt service			
Interest and other	2,470	-	2,470
	<u>12,331</u>	<u>-</u>	<u>12,331</u>
TOTAL EXPENDITURES			
NET CHANGE IN FUND BALANCES	39,237	17,257	56,494
FUND BALANCES, JANUARY 1	<u>(16,816)</u>	<u>582,368</u>	<u>565,552</u>
FUND BALANCES, DECEMBER 31	<u>\$ 22,421</u>	<u>\$ 599,625</u>	<u>\$ 622,046</u>

CITY OF MELROSE, MINNESOTA
SUMMARY FINANCIAL REPORT
REVENUES AND EXPENDITURES FOR GENERAL OPERATIONS
GOVERNMENTAL FUNDS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	Totals		Percent Increase (Decrease)
	2014	2013	
REVENUES			
Taxes	\$ 1,867,293	\$ 1,802,462	3.60 %
Licenses and permits	49,535	44,421	11.51
Intergovernmental	804,784	703,617	14.38
Charges for services	215,101	203,700	5.60
Fines and forfeits	15,131	18,545	(18.41)
Special assessments	46,140	56,442	(18.25)
Interest on investments	127,386	(85,202)	(249.51)
Miscellaneous	211,175	43,923	380.78
TOTAL REVENUES	\$ 3,336,545	\$ 2,787,908	19.68 %
Per Capita	\$ 918	\$ 768	19.55 %
EXPENDITURES			
Current			
General government	\$ 436,645	\$ 448,253	(2.59) %
Public safety	622,123	649,228	(4.17)
Streets and highways	483,943	453,118	6.80
Sanitation	3,679	4,119	(10.68)
Culture and recreation	68,215	63,684	7.11
Economic development	217,835	192,288	13.29
Miscellaneous	-	534	(100.00)
Capital outlay			
General government	5,718	11,137	(48.66)
Public safety	63,483	47,771	32.89
Streets and highways	186,502	541,382	(65.55)
Culture and recreation	4,892	102,071	(95.21)
Economic development	38,068	23,174	64.27
Debt service			
Principal	380,000	355,000	7.04
Interest and other charges	83,594	135,069	(38.11)
Bond issuance costs	-	43,796	(100.00)
TOTAL EXPENDITURES	\$ 2,594,697	\$ 3,070,624	(15.50) %
Per Capita	\$ 714	\$ 845	(15.59) %
Total Long-term Indebtedness	\$ 3,650,000	\$ 4,030,000	(9.43) %
Per Capita	1,004	1,110	(9.53)
General Fund Balance - December 31	\$ 1,567,459	\$ 1,361,134	15.16 %
Per Capita	431	375	15.03

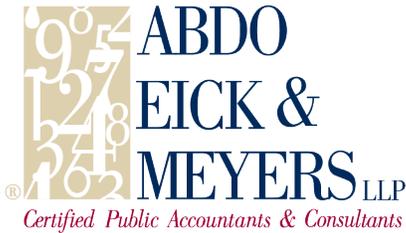
The purpose of this report is to provide a summary of financial information concerning the City of Melrose to interested citizens. The complete financial statements may be examined at City Hall, 221 E 1st St N, Melrose, MN 56352. Questions about this report should be directed to the Finance Director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

OTHER REPORTS

CITY OF MELROSE
MELROSE, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2014

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INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE

Honorable Mayor and City Council
City of Melrose, Minnesota

We have audited, 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 the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, 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, 2014, and the related notes to the financial statements, and have issued our report thereon dated April 6, 2015.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minnesota Statute §6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories.

In connection with our audit, nothing came to our attention that caused us to believe that the City failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City's noncompliance with the above referenced provisions.

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. Accordingly, this communication is not suitable for any other purpose.

ABDO, EICK & MEYERS, LLP
Minneapolis, Minnesota
April 6, 2015



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

Honorable Mayor and City Council
City of Melrose, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, 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, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated April 6, 2015.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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

Abdo Eick & Meyers, LLP

ABDO, EICK & MEYERS, LLP
Minneapolis, Minnesota
April 6, 2015