

CITY OF MELROSE
MELROSE, MINNESOTA

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED
DECEMBER 31, 2013

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 ANNUAL FINANCIAL REPORT
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INTRODUCTORY SECTION

CITY OF MELROSE
MELROSE, MINNESOTA

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CITY OF MELROSE, MINNESOTA
ELECTED AND APPOINTED OFFICIALS
FOR THE YEAR ENDED DECEMBER 31, 2013

ELECTED

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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	1/1/2014

CITY OFFICIALS - APPOINTED

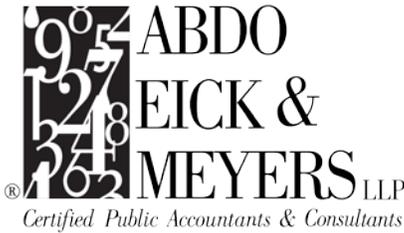
<u>Name</u>	<u>Title</u>
Mike Brethorst	City Administrator
Scott Dymoke	City Attorney
Gary Walz	Community Development Director
John "JJ" Jensen	Police Chief
Patti Haase	City Clerk

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FINANCIAL SECTION
CITY OF MELROSE
MELROSE, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2013

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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, 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, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. The prior year comparative information has been derived from the City's 2012 financial statements and, in our report dated April 2, 2013 we express unmodified opinions on the respective proprietary fund financial statements. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of December 31, 2013, 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 17 and the Schedule of Funding Progress on page 80 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

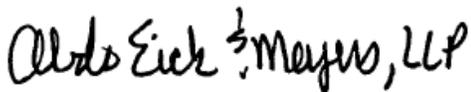
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual fund financial statements and schedules, and statistical schedules and exhibits are presented for 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 statistical schedules and exhibits 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 March 27, 2014, 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
March 27, 2014

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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, 2013.

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 \$49,944,383 (net position). Of this amount, \$20,089,091 (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 \$2,762,702. About half of this increase was due to the sale of the CentraCare building. \$585,000 was received from CentraCare with the remaining balance of principal and interest to be paid over 10 years, which is a total of 1,473,493.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$6,413,502, a decrease of \$1,521,109 in comparison with the prior year. This decrease was primarily a result of the principal payment to refund the 2008 lease revenue bonds. Approximately 84 percent of this total amount, \$5,366,017, is unrestricted and is available for spending at the City's discretion; \$4,168,004 of the unrestricted amount has been committed (\$4,090,050) or assigned (\$77,954) for specific purposes.
- At the end of the current fiscal year, unrestricted fund balance for the General fund was \$1,267,436 or 79 percent of total General fund expenditures. \$93,698 is nonspendable because the funds were either prepaid items or due from other funds. Of the unrestricted balance, \$52,607 was committed and \$1,214,829 was unassigned and available for spending at the City's discretion.
- The City's total debt decreased by \$2,497,805 or 37.9 percent during the current fiscal year. This decrease was a result of the principal payment (\$1,610,000) from escrow on the refunding of the G.O. Improvement Bonds, Series 2005A on February 1, 2013, 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

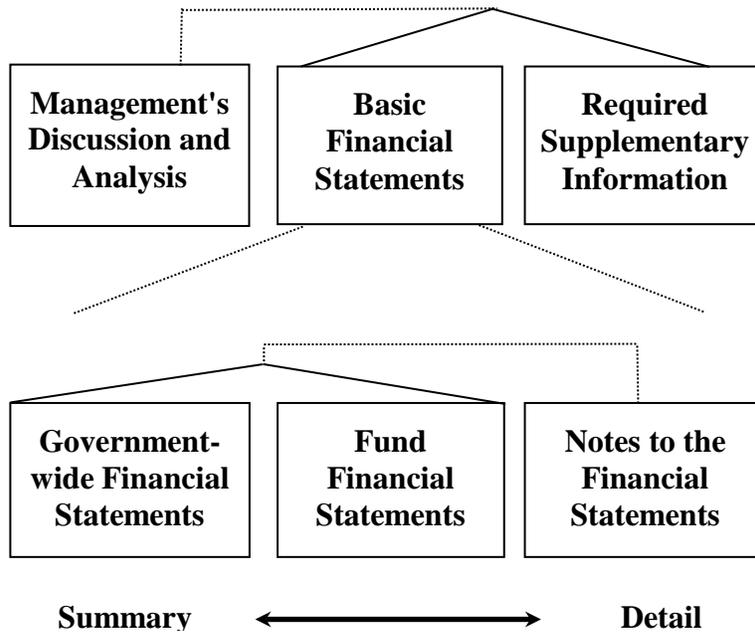


Figure 2 summarizes the major features of the City’s financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis explains the structure and contents of each of the 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 *component unit* for which the City is financially accountable. Financial information for the Melrose Area Development Authority (MADA) is reported as a separate special revenue fund. The MADA, although legally separate, functions for all practical purposes as a department of the City, and therefore has been included as an integral part of the primary government.

The government-wide financial statements start on page 31 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 14 individual governmental funds, four of which are Debt Service funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General fund, the Debt Service funds, and the Capital Improvements fund, all of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements or schedules* elsewhere in this report.

The City adopts an annual appropriated budget for its General fund. 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 36 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 44 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 54 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 55 of this report.

Other information. The combining statements referred to earlier in connection with nonmajor governmental funds are presented following the notes to the financial statements. Combining and individual fund statements and schedules start on page 82 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows of resources exceeded liabilities by \$49,944,383 at the close of the most recent fiscal year.

By far, the largest portion of the City's net position (58 percent) reflects its investment in capital assets (e.g., land, buildings, machinery and equipment), less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of Melrose's Summary of Net Position

	Governmental Activities			Business-type Activities		
	2013	2012	Increase (Decrease)	2013	2012	Increase (Decrease)
Assets						
Current and other assets	\$ 8,548,443	\$ 10,202,217	\$ (1,653,774)	\$ 14,280,568	\$ 14,374,993	\$ (94,425)
Capital assets	14,610,291	14,547,822	62,469	21,156,202	19,949,074	1,207,128
Total assets	23,158,734	24,750,039	(1,591,305)	35,436,770	34,324,067	1,112,703
Deferred outflow of resources						
Deferred charge on refunding	155,775	-	155,775	-	-	-
Liabilities						
Long-term liabilities						
outstanding	4,315,163	6,296,611	(1,981,448)	2,808,297	3,324,654	(516,357)
Other liabilities	139,807	1,562,137	(1,422,330)	1,543,629	709,023	834,606
Total liabilities	4,454,970	7,858,748	(3,403,778)	4,351,926	4,033,677	318,249
Net position						
Net investment in						
capital assets	10,569,743	9,920,543	649,200	18,584,937	16,859,256	1,725,681
Restricted	700,612	2,673,581	(1,972,969)	-	-	-
Unrestricted	7,589,184	4,297,167	3,292,017	12,499,907	13,431,134	(931,227)
Total net position	\$ 18,859,539	\$ 16,891,291	\$ 1,968,248	\$ 31,084,844	\$ 30,290,390	\$ 794,454

Net investment in capital assets (\$29,154,680) represents the largest portion of the City's net position. An additional portion of the City's net position (\$700,612, 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* (\$20,089,091) may be used to meet the City's ongoing obligations to citizens and creditors.

The decrease in the governmental activities current and other assets and long-term liabilities is primarily a result of the principal payment (\$1,610,000) from escrow on the refunding of the G.O. Improvement Bonds, Series 2005A on February 1, 2013. The payment is also reflected in the decrease in restricted net position for the governmental activities.

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

The City's net position increased \$2,762,702 during the current fiscal year. About half of this increase is due to the Special Item reported which was related to the sale of the CentraCare facility as well as revenues exceeding expenses in both the governmental and business-type activities.

Governmental activities. Governmental activities increased the City's net position by \$1,960,299. Key elements to this increase are as follows:

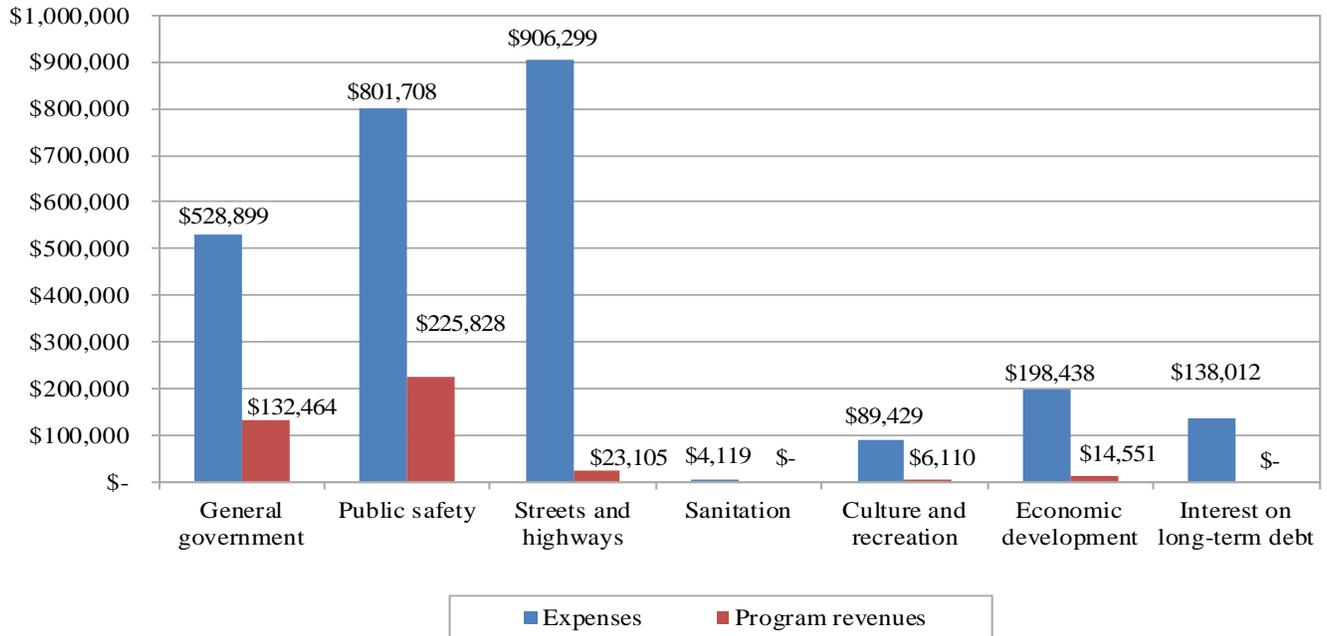
- The City sold the CentraCare facility and signed a note receivable with CentraCare Health Systems resulting in a significant gain on the sale of the assets.
- Unrestricted investment earnings decreased significantly as a result of continued decreases in interest rates on investments as well as a significant decrease in market value of the City's investments.

City of Melrose's Changes in Net Position

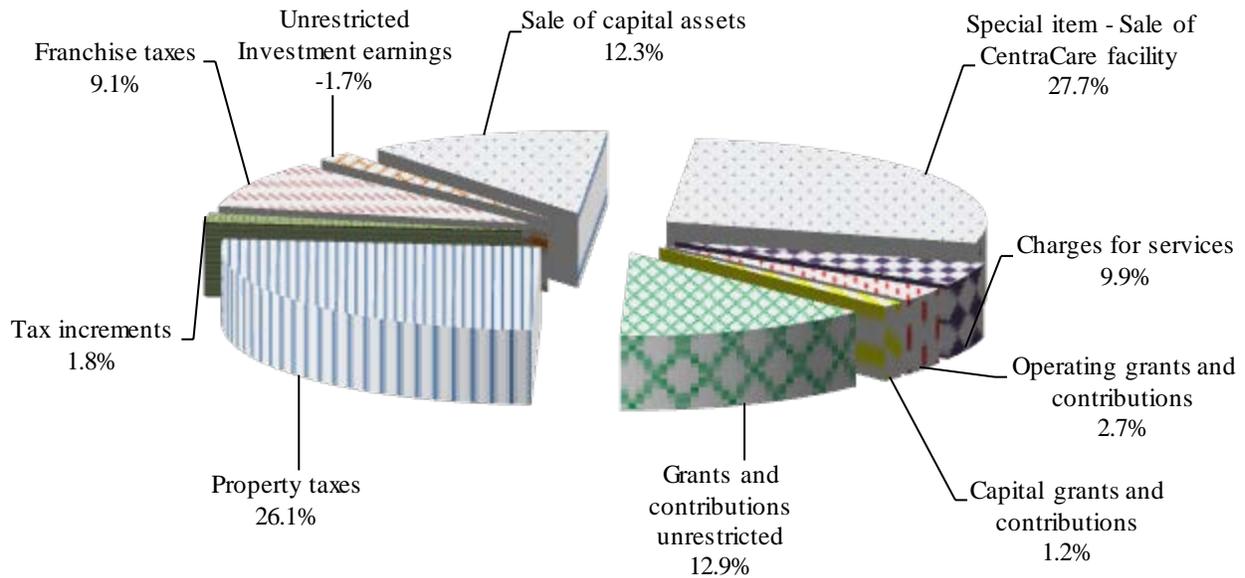
	Governmental Activities			Business-type Activities		
	2013	2012	Increase (Decrease)	2013	2012	Increase (Decrease)
Revenues						
Program revenues						
Charges for services	\$ 216,736	\$ 279,113	\$ (62,377)	\$ 11,390,299	\$ 10,902,223	\$ 488,076
Operating grants and contributions	131,735	102,281	29,454	54,640	204,362	(149,722)
Capital grants and contributions	53,587	20,510	33,077	66,810	-	66,810
General revenues						
Property taxes/tax increments	1,340,177	1,325,755	14,422	-	-	-
Franchise taxes	436,914	375,252	61,662	-	-	-
Grants and contributions not restricted to specific programs	618,006	618,584	(578)	-	-	-
Unrestricted investment earnings	(85,202)	199,904	(285,106)	17,853	332,003	(314,150)
Gain on sale of capital assets	585,750	607	585,143	5,116	3,000	2,116
Total revenues	3,297,703	2,922,006	375,697	11,534,718	11,441,588	93,130
Expenses						
General government	528,899	531,665	(2,766)	-	-	-
Public safety	801,708	796,873	4,835	-	-	-
Streets and highways	906,299	790,435	115,864	-	-	-
Sanitation	4,119	5,255	(1,136)	-	-	-
Culture and recreation	89,429	82,618	6,811	-	-	-
Economic development	198,438	199,720	(1,282)	-	-	-
Interest on long-term debt	138,012	221,876	(83,864)	-	-	-
Water	-	-	-	727,398	674,293	53,105
Wastewater	-	-	-	1,708,964	1,790,203	(81,239)
Electric	-	-	-	7,832,282	7,475,761	356,521
Ambulance	-	-	-	463,671	459,706	3,965
Total expenses	2,666,904	2,628,442	38,462	10,732,315	10,399,963	332,352
Increase in net position						
before transfers and special item	630,799	293,564	337,235	802,403	1,041,625	(239,222)
Transfers	7,949	6,477	1,472	(7,949)	(6,477)	(1,472)
Special item - Sale of CentraCare facility	1,329,500	-	1,329,500	-	-	-
Change in net position	1,968,248	300,041	1,668,207	794,454	1,035,148	(240,694)
Net position, January 1	16,891,291	16,591,250	300,041	30,290,390	29,255,242	1,035,148
Net position, December 31	\$ 18,859,539	\$ 16,891,291	\$ 1,968,248	\$ 31,084,844	\$ 30,290,390	\$ 794,454

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

Expenses and Program Revenues - Governmental Activities

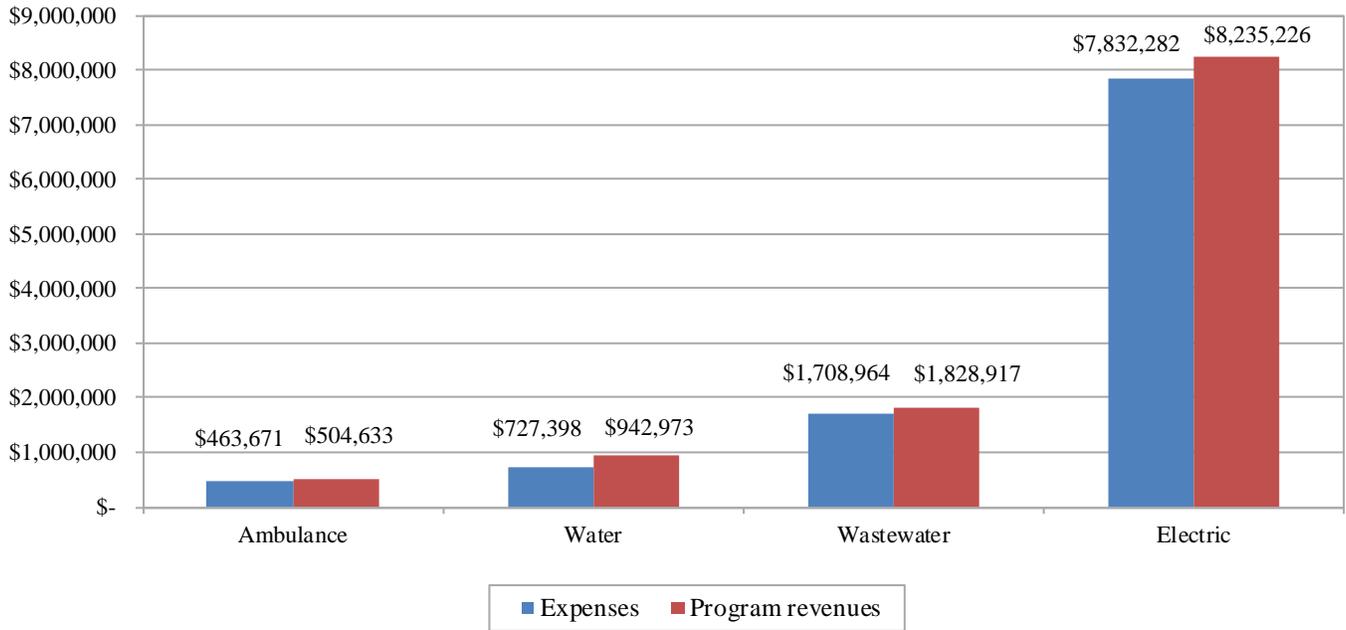


Revenues by Source - Governmental Activities

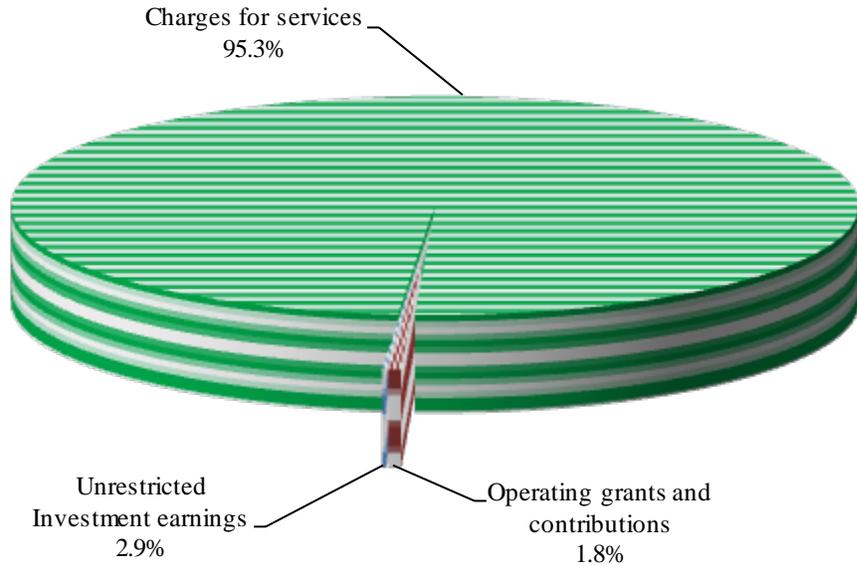


Business-type activities. There was an increase of \$802,403 in net position reported in connection with the City’s business-type activities.

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 \$6,413,502, a decrease of \$1,521,109 in comparison with the prior year, primarily as a result of the principal payments for refunding the 2005A G.O. Improvement bonds. Approximately 84 percent of this total amount, \$5,366,017, constitutes *unrestricted fund balance*, which is available for spending at the City's discretion. Portions of unrestricted fund balance have been committed (\$4,090,050) or assigned (\$77,954) for specific purposes by the City. The remainder of fund balance (\$1,198,013) is not available for new spending because it is either in nonspendable form (\$494,146) or restricted by a third party (\$553,339).

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 \$1,361,134. 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 63 and 56 percent of current year expenditures and transfers out, respectively.

The fund balance of the City's General fund increased \$56,252 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 \$553,091, 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 \$1,986,826. The decrease was mainly a result of the principal payment of the 2005A G.O. Improvement Bonds.

The Capital Improvements fund has a fund balance of \$3,701,460 all of which is committed for capital improvements. The fund balance increased by \$329,137 during the year.

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

Unrestricted net position of the enterprise funds at the end of the year amounted to \$12,499,907. The total increase in net position for the funds was \$794,454. 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 \$541,949, before other financing sources and uses. Both budgets called for an overall increase in fund balance of \$4,990.

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, 2013, amounts to \$35,766,493 (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		
	2013	2012	Increase (Decrease)	2013	2012	Increase (Decrease)
Land	\$ 3,216,640	\$ 3,191,412	\$ 25,228	\$ 346,255	\$ 321,028	\$ 25,227
Buildings	2,932,385	3,046,768	(114,383)	756,336	502,963	253,373
Machinery and equipment	1,411,290	1,316,528	94,762	590,675	500,433	90,242
Infrastructure	7,049,976	6,993,114	56,862	18,206,039	18,324,201	(118,162)
Construction in progress	-	-	-	1,256,897	300,449	956,448
Total	\$ 14,610,291	\$ 14,547,822	\$ 62,469	\$ 21,156,202	\$ 19,949,074	\$ 1,207,128

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

- Purchased two ambulances and three power-pro cots
- Completed Power Plant emissions upgrade
- Completed Automated Metering Infrastructure installation (replacing Water /Electric Meters)
- Completed majority of Electric Generator placement at the Wastewater Treatment Facility and purchased Kramer property for future expansion needs of the Electric and Public Works Departments
- Installed approximately \$86,000 of new playground equipment

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

Long-term debt. At the end of the current fiscal year, the City had total bonded debt outstanding of \$6,588,700. Of this amount, \$4,030,000 is governmental-related debt and \$2,558,700 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		
	2013	2012	Increase (Decrease)	2013	2012	Increase (Decrease)
G.O. improvement bonds	\$ 4,030,000	\$ 3,940,000 *	\$ 90,000	\$ -	\$ -	\$ -
General obligation revenue bonds	-	-	-	2,558,700	3,074,700	(516,000)
Revenue bonds	-	2,110,000	(2,110,000)	-	-	-
Unamortized premium on bonds	10,548	12,279	(1,731)	12,565	15,118	(2,553)
Compensated absences payable	107,494	103,642	3,852	74,164	97,103	(22,939)
Other postemployment benefits payable	167,121	130,690	36,431	162,868	137,733	25,135
Total	<u>\$ 4,315,163</u>	<u>\$ 6,296,611</u>	<u>\$ (1,981,448)</u>	<u>\$ 2,808,297</u>	<u>\$ 3,324,654</u>	<u>\$ (516,357)</u>

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

The City's total debt decreased by \$2,497,805 during the current fiscal year due to the payment of refunded debt as well as regularly 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 \$4,386,894. There was \$1,965,000 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 69 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. Water and Wastewater rate studies are being conducted in 2014.

All of these factors were considered in preparing the City's budget for the 2014 fiscal year.

Requests for Information

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

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF MELROSE
MELROSE, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2013

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CITY OF MELROSE, MINNESOTA
STATEMENT OF NET POSITION
DECEMBER 31, 2013

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and temporary investments	\$ 5,937,647	\$ 12,550,118	\$ 18,487,765
Receivables			
Accrued interest	19,165	64,011	83,176
Delinquent taxes	47,540	-	47,540
Accounts, net	55,576	1,101,818	1,157,394
Loans	399,366	-	399,366
Special assessments	658,238	-	658,238
Internal balances	95,872	(95,872)	-
Due from CentraCare	1,329,500	-	1,329,500
Inventories	-	656,120	656,120
Prepaid items	5,539	4,373	9,912
Capital assets			
Land and construction in progress	3,216,640	1,603,152	4,819,792
Depreciable assets (net of accumulated depreciation)	11,393,651	19,553,050	30,946,701
TOTAL ASSETS	23,158,734	35,436,770	58,595,504
DEFERRED OUTFLOW OF RESOURCES			
Deferred charge on refunding	155,775	-	155,775
LIABILITIES			
Accounts payable	89,663	1,490,400	1,580,063
Accrued interest payable	40,144	23,079	63,223
Customer deposits payable	10,000	30,150	40,150
Noncurrent liabilities			
Due within one year	442,459	1,292,754	1,735,213
Due in more than one year	3,872,704	1,515,543	5,388,247
TOTAL LIABILITIES	4,454,970	4,351,926	8,806,896
NET POSITION			
Net investment in capital assets	10,569,743	18,584,937	29,154,680
Restricted for			
Debt service	700,364	-	700,364
Partners in action activities	248	-	248
Unrestricted	7,589,184	12,499,907	20,089,091
TOTAL NET POSITION	\$ 18,859,539	\$ 31,084,844	\$ 49,944,383

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, 2013

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities				
General government	\$ 528,899	\$ 58,844	\$ 23,631	\$ 49,989
Public safety	801,708	137,093	88,735	-
Streets and highways	906,299	19,507	-	3,598
Sanitation	4,119	-	-	-
Culture and recreation	89,429	-	6,110	-
Economic development	198,438	1,292	13,259	-
Interest on long-term debt	138,012	-	-	-
Total governmental activities	<u>2,666,904</u>	<u>216,736</u>	<u>131,735</u>	<u>53,587</u>
Business-type activities				
Water	727,398	942,353	620	-
Wastewater	1,708,964	1,759,596	2,511	66,810
Electric	7,832,282	8,211,536	23,690	-
Ambulance	463,671	476,814	27,819	-
Total business-type activities	<u>10,732,315</u>	<u>11,390,299</u>	<u>54,640</u>	<u>66,810</u>
Total	<u>\$ 13,399,219</u>	<u>\$ 11,607,035</u>	<u>\$ 186,375</u>	<u>\$ 120,397</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 (loss)

Gain on sale of capital assets

Transfers

Special item - Sale of CentraCare facility - Note 7

Total general revenues and transfers and special item

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

<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
\$ (396,435)	\$ -	\$ (396,435)
(575,880)	-	(575,880)
(883,194)	-	(883,194)
(4,119)	-	(4,119)
(83,319)	-	(83,319)
(183,887)	-	(183,887)
(138,012)	-	(138,012)
(2,264,846)	-	(2,264,846)
-	215,575	215,575
-	119,953	119,953
-	402,944	402,944
-	40,962	40,962
-	779,434	779,434
(2,264,846)	779,434	(1,485,412)
955,725	-	955,725
295,000	-	295,000
89,452	-	89,452
436,914	-	436,914
618,006	-	618,006
(85,202)	17,853	(67,349)
585,750	5,116	590,866
7,949	(7,949)	-
1,329,500	-	1,329,500
4,233,094	15,020	4,248,114
1,968,248	794,454	2,762,702
16,891,291	30,290,390	47,181,681
\$ 18,859,539	\$ 31,084,844	\$ 49,944,383

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FUND FINANCIAL STATEMENTS

CITY OF MELROSE
MELROSE, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2013

CITY OF MELROSE, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2013

	General	Debt Service	Capital Improvements
ASSETS			
Cash and temporary investments	\$ 1,274,165	\$ 553,091	\$ 3,625,236
Receivables			
Accrued interest	-	-	19,165
Delinquent taxes	47,540	-	-
Accounts, net	55,208	-	42
Loans	-	-	-
Special assessments	-	187,417	470,821
Due from other funds	89,241	-	59,912
Due from CentraCare	-	-	1,329,500
Prepaid items	4,457	-	-
	<u>\$ 1,470,611</u>	<u>\$ 740,508</u>	<u>\$ 5,504,676</u>
TOTAL ASSETS			
LIABILITIES			
Accounts payable	\$ 51,937	\$ -	\$ 1,577
Customer deposits payable	10,000	-	-
Due to other funds	-	-	1,318
	<u>61,937</u>	<u>-</u>	<u>2,895</u>
TOTAL LIABILITIES			
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - property taxes	47,540	-	-
Unavailable revenue - special assessments	-	187,417	470,821
Unavailable revenue - due from CentraCare	-	-	1,329,500
	<u>47,540</u>	<u>187,417</u>	<u>1,800,321</u>
TOTAL DEFERRED INFLOWS OF RESOURCES			
FUND BALANCES			
Nonspendable	93,698	-	-
Restricted	-	553,091	-
Committed	52,607	-	3,701,460
Assigned	-	-	-
Unassigned	1,214,829	-	-
	<u>1,361,134</u>	<u>553,091</u>	<u>3,701,460</u>
TOTAL FUND BALANCES			
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
	<u>\$ 1,470,611</u>	<u>\$ 740,508</u>	<u>\$ 5,504,676</u>

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

Other Governmental Funds	Total Governmental Funds
\$ 485,155	\$ 5,937,647
-	19,165
-	47,540
326	55,576
399,366	399,366
-	658,238
-	149,153
-	1,329,500
1,082	5,539
\$ 885,929	\$ 8,601,724
\$ 36,149	\$ 89,663
-	10,000
51,963	53,281
88,112	152,944
-	47,540
-	658,238
-	1,329,500
-	2,035,278
400,448	494,146
248	553,339
335,983	4,090,050
77,954	77,954
(16,816)	1,198,013
797,817	6,413,502
\$ 885,929	\$ 8,601,724

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CITY OF MELROSE, MINNESOTA
RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET POSITION
GOVERNMENTAL FUNDS
DECEMBER 31, 2013

Total fund balances - governmental funds	\$ 6,413,502
Amounts reported for governmental activities in the statement of net position are different because	
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.	
Cost of capital assets	21,605,752
Less: accumulated depreciation	(6,995,461)
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	(4,030,000)
Plus unamortized bond premium	(10,548)
Deferred charge on refunding	155,775
Compensated absences payable	(107,494)
Other postemployment benefits payable	(167,121)
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	47,540
Special assessments receivable	658,238
Due from CentraCare	1,329,500
Governmental funds do not report a liability for accrued interest until due and payable.	<u>(40,144)</u>
Total net position - governmental activities	<u><u>\$ 18,859,539</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, 2013

	General	Debt Service	Capital Improvements
REVENUES			
Taxes	\$ 1,418,010	\$ 295,000	\$ 3,052
Licenses and permits	44,421	-	-
Intergovernmental	650,769	-	47,195
Charges for services	62,244	52,257	-
Fines and forfeitures	18,545	-	-
Special assessments	-	12,844	43,598
Interest on investments	19,203	14,865	(144,794)
Miscellaneous	16,671	-	7,578
TOTAL REVENUES	2,229,863	374,966	(43,371)
EXPENDITURES			
Current			
General government	448,253	-	-
Public safety	522,662	-	-
Streets and highways	453,118	-	-
Sanitation	4,119	-	-
Culture and recreation	59,284	-	-
Economic development	90,654	-	-
Miscellaneous	-	-	-
Capital outlay			
General government	-	-	11,137
Public safety	-	-	47,771
Streets and highways	-	-	541,382
Culture and recreation	-	-	102,071
Economic development	23,174	-	-
Debt service			
Principal	-	355,000	-
Interest and other charges	1,218	130,904	-
Bond issuance costs	-	43,796	-
TOTAL EXPENDITURES	1,602,482	529,700	702,361
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	627,381	(154,734)	(745,732)
OTHER FINANCING SOURCES (USES)			
Sale of capital assets	-	-	585,750
Transfers in	-	-	489,119
Principal paid on refunded bonds	-	(1,610,000)	-
Payment to bond escrow	-	(2,187,092)	-
Refunding bonds issued	-	1,965,000	-
Transfers out	(571,129)	-	-
TOTAL OTHER FINANCING SOURCES (USES)	(571,129)	(1,832,092)	1,074,869
NET CHANGE IN FUND BALANCES	56,252	(1,986,826)	329,137
FUND BALANCES, JANUARY 1	1,304,882	2,539,917	3,372,323
FUND BALANCES, DECEMBER 31	<u>\$ 1,361,134</u>	<u>\$ 553,091</u>	<u>\$ 3,701,460</u>

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

Other Governmental Funds	Total Governmental Funds
\$ 86,400	\$ 1,802,462
-	44,421
5,653	703,617
89,199	203,700
-	18,545
-	56,442
25,524	(85,202)
19,674	43,923
<u>226,450</u>	<u>2,787,908</u>
-	448,253
126,566	649,228
-	453,118
-	4,119
4,400	63,684
101,634	192,288
534	534
-	11,137
-	47,771
-	541,382
-	102,071
-	23,174
-	355,000
2,947	135,069
-	43,796
<u>236,081</u>	<u>3,070,624</u>
<u>(9,631)</u>	<u>(282,716)</u>
-	585,750
89,959	579,078
-	(1,610,000)
-	(2,187,092)
-	1,965,000
-	(571,129)
<u>89,959</u>	<u>(1,238,393)</u>
80,328	(1,521,109)
<u>717,489</u>	<u>7,934,611</u>
<u>\$ 797,817</u>	<u>\$ 6,413,502</u>

CITY OF MELROSE, MINNESOTA
RECONCILIATION OF THE STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013

Total net change in fund balances - governmental funds \$ (1,521,109)

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

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense.

Capital outlay	636,924
Depreciation expense	(574,455)

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.

Debt issued	(1,965,000)
Principal repayments	4,152,092
Amortization of bond premium	1,731
Amortization of deferred charge on refunding	(11,317)

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.

50,439

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 1,329,500

Certain revenues are recognized as soon as they are earned. Under the modified accrual basis of accounting certain revenues cannot be recognized until they are available to liquidate liabilities of the current period.

Property taxes	(25,371)
Special assessments	(64,903)

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Compensated absences	(3,852)
Other postemployment benefits	(36,431)

Change in net position - governmental activities \$ 1,968,248

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

CITY OF MELROSE, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2013

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes	\$ 1,376,000	\$ 1,376,000	\$ 1,418,010	\$ 42,010
Licenses and permits	48,250	48,250	44,421	(3,829)
Intergovernmental	628,961	628,961	650,769	21,808
Charges for services	62,850	62,850	62,244	(606)
Fines and forfeitures	25,750	25,750	18,545	(7,205)
Interest on investments	12,000	12,000	19,203	7,203
Miscellaneous	10,000	10,000	16,671	6,671
TOTAL REVENUES	2,163,811	2,163,811	2,229,863	66,052
EXPENDITURES				
Current				
General government	490,963	490,963	448,253	42,710
Public safety	513,211	513,211	522,662	(9,451)
Streets and highways	468,813	468,813	453,118	15,695
Sanitation	4,600	4,600	4,119	481
Culture and recreation	55,244	55,244	59,284	(4,040)
Economic development	88,031	88,031	90,654	(2,623)
Capital outlay	-	-	23,174	(23,174)
Debt service				
Interest and other charges	1,000	1,000	1,218	(218)
TOTAL EXPENDITURES	1,621,862	1,621,862	1,602,482	19,380
EXCESS OF REVENUES OVER EXPENDITURES	541,949	541,949	627,381	85,432
OTHER FINANCING SOURCES (USES)				
Transfers in	40,000	40,000	-	(40,000)
Transfers out	(576,959)	(576,959)	(571,129)	5,830
TOTAL OTHER FINANCING SOURCES (USES)	(536,959)	(536,959)	(571,129)	(34,170)
NET CHANGE IN FUND BALANCES	4,990	4,990	56,252	51,262
FUND BALANCES, JANUARY 1	1,304,882	1,304,882	1,304,882	-
FUND BALANCES, DECEMBER 31	\$ 1,309,872	\$ 1,309,872	\$ 1,361,134	\$ 51,262

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

CITY OF MELROSE, MINNESOTA
STATEMENTS OF NET POSITION - CONTINUED ON THE FOLLOWING PAGES
PROPRIETARY FUNDS
DECEMBER 31, 2013 AND 2012

	Business-type Activities - Enterprise funds			
	601		602	
	Water		Wastewater	
	2013	2012	2013	2012
ASSETS				
CURRENT ASSETS				
Cash and temporary investments	\$ 1,885,171	\$ 2,038,792	\$ 1,234,440	\$ 1,512,937
Receivables				
Accrued interest	-	-	-	-
Accounts, net	79,731	73,270	152,102	178,068
Due from other funds	-	-	1,318	-
Inventories	21,955	24,489	46,472	46,179
Prepaid items	1,134	4,691	674	21,060
TOTAL CURRENT ASSETS	1,987,991	2,141,242	1,435,006	1,758,244
NONCURRENT ASSETS				
Appropriated funds	-	-	-	-
Capital assets				
Land	41,123	41,123	63,878	63,878
Structures and improvements	8,414,916	7,929,031	20,289,227	20,289,227
Distribution/collection system	-	-	-	-
Plant equipment	66,054	52,664	323,008	328,018
Construction in progress	-	-	134,570	-
Less accumulated depreciation	(4,125,342)	(3,876,923)	(8,984,836)	(8,383,836)
Total capital assets (net of accumulated depreciation)	4,396,751	4,145,895	11,825,847	12,297,287
TOTAL NONCURRENT ASSETS	4,396,751	4,145,895	11,825,847	12,297,287
TOTAL ASSETS	6,384,742	6,287,137	13,260,853	14,055,531

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

Business-type Activities - Enterprise funds

604		Nonmajor			
Electric		216			
		Ambulance		Totals	
<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
\$ 5,780,963	\$ 5,189,697	\$ 649,544	\$ 709,534	\$ 9,550,118	\$ 9,450,960
64,011	76,351	-	-	64,011	76,351
765,366	862,814	104,619	68,268	1,101,818	1,182,420
-	-	-	-	1,318	-
587,693	627,664	-	-	656,120	698,332
<u>1,737</u>	<u>24,912</u>	<u>828</u>	<u>1,866</u>	<u>4,373</u>	<u>52,529</u>
<u>7,199,770</u>	<u>6,781,438</u>	<u>754,991</u>	<u>779,668</u>	<u>11,377,758</u>	<u>11,460,592</u>
<u>3,000,000</u>	<u>3,000,000</u>	<u>-</u>	<u>-</u>	<u>3,000,000</u>	<u>3,000,000</u>
241,254	216,027	-	-	346,255	321,028
-	-	-	-	28,704,143	28,218,258
10,607,947	9,892,402	-	-	10,607,947	9,892,402
-	-	443,293	418,248	832,355	798,930
1,122,327	300,449	-	-	1,256,897	300,449
<u>(7,342,741)</u>	<u>(7,084,237)</u>	<u>(138,476)</u>	<u>(236,997)</u>	<u>(20,591,395)</u>	<u>(19,581,993)</u>
<u>4,628,787</u>	<u>3,324,641</u>	<u>304,817</u>	<u>181,251</u>	<u>21,156,202</u>	<u>19,949,074</u>
<u>7,628,787</u>	<u>6,324,641</u>	<u>304,817</u>	<u>181,251</u>	<u>24,156,202</u>	<u>22,949,074</u>
<u>14,828,557</u>	<u>13,106,079</u>	<u>1,059,808</u>	<u>960,919</u>	<u>35,533,960</u>	<u>34,409,666</u>

CITY OF MELROSE, MINNESOTA
STATEMENTS OF NET POSITION - CONTINUED
PROPRIETARY FUNDS
DECEMBER 31, 2013 AND 2012

	Business-type Activities - Enterprise funds			
	601		602	
	Water		Wastewater	
	2013	2012	2013	2012
LIABILITIES				
CURRENT LIABILITIES				
Accounts payable	\$ 8,063	\$ 8,133	\$ 23,958	\$ 28,497
Due to other funds	-	-	-	-
Accrued interest payable	21,054	24,604	2,025	2,442
Customer deposits payable	-	-	-	-
Compensated absences payable - current	6,882	7,643	13,064	16,198
Bonds payable - current	977,000	266,000	260,000	250,000
TOTAL CURRENT LIABILITIES	1,012,999	306,380	299,047	297,137
NONCURRENT LIABILITIES				
Compensated absences payable	-	1,560	-	2,917
Bonds payable	416,700	1,393,700	905,000	1,165,000
Unamortized premium on bonds	-	-	12,565	15,118
Other postemployment benefits payable	17,086	14,754	35,465	31,037
TOTAL NONCURRENT LIABILITIES	433,786	1,410,014	953,030	1,214,072
TOTAL LIABILITIES	1,446,785	1,716,394	1,252,077	1,511,209
NET POSITION				
Net investment in capital assets	3,003,051	2,486,195	10,648,282	10,867,169
Unrestricted	1,934,906	2,084,548	1,360,494	1,677,153
TOTAL NET POSITION	\$ 4,937,957	\$ 4,570,743	\$ 12,008,776	\$ 12,544,322

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

Business-type Activities - Enterprise funds

604		Nonmajor			
Electric		216		Totals	
		Ambulance			
<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
\$ 1,412,167	\$ 613,983	\$ 46,212	\$ 4,914	\$ 1,490,400	\$ 655,527
97,190	85,599	-	-	97,190	85,599
-	-	-	-	23,079	27,046
30,150	26,450	-	-	30,150	26,450
35,808	36,846	-	-	55,754	60,687
-	-	-	-	1,237,000	516,000
<u>1,575,315</u>	<u>762,878</u>	<u>46,212</u>	<u>4,914</u>	<u>2,933,573</u>	<u>1,371,309</u>
18,410	31,939	-	-	18,410	36,416
-	-	-	-	1,321,700	2,558,700
-	-	-	-	12,565	15,118
110,317	91,942	-	-	162,868	137,733
<u>128,727</u>	<u>123,881</u>	<u>-</u>	<u>-</u>	<u>1,515,543</u>	<u>2,747,967</u>
<u>1,704,042</u>	<u>886,759</u>	<u>46,212</u>	<u>4,914</u>	<u>4,449,116</u>	<u>4,119,276</u>
4,628,787	3,324,641	304,817	181,251	18,584,937	16,859,256
8,495,728	8,894,679	708,779	774,754	12,499,907	13,431,134
<u>\$ 13,124,515</u>	<u>\$ 12,219,320</u>	<u>\$ 1,013,596</u>	<u>\$ 956,005</u>	<u>\$ 31,084,844</u>	<u>\$ 30,290,390</u>

CITY OF MELROSE, MINNESOTA
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	Business-type Activities - Enterprise funds			
	601		602	
	Water		Wastewater	
	2013	2012	2013	2012
OPERATING REVENUES				
Charges for services	\$ 942,353	\$ 951,674	\$ 1,760,167	\$ 1,727,246
OPERATING EXPENSES				
Production, collection, and purchased power	159,253	107,514	47,723	31,070
Distribution	149,996	129,749	879,168	787,130
Accounting and collection	7,253	12,842	-	-
General and administrative	91,297	95,370	136,343	214,937
Depreciation	260,264	260,395	619,400	619,471
TOTAL OPERATING EXPENSES	668,063	605,870	1,682,634	1,652,608
OPERATING INCOME (LOSS)	274,290	345,804	77,533	74,638
NONOPERATING REVENUES (EXPENSES)				
Intergovernmental	345	345	67,672	35,486
Investment income (loss)	50,581	43,977	43,443	40,893
Miscellaneous	275	419	1,078	(727)
Gain on sale of fixed assets	1,058	-	1,058	-
Interest expense	(59,335)	(68,423)	(26,330)	(137,595)
TOTAL NONOPERATING REVENUES (EXPENSES)	(7,076)	(23,682)	86,921	(61,943)
INCOME (LOSS) BEFORE TRANSFERS	267,214	322,122	164,454	12,695
TRANSFERS IN	100,000	-	-	-
TRANSFERS OUT	-	-	(700,000)	-
CHANGE IN NET POSITION	367,214	322,122	(535,546)	12,695
NET POSITION, JANUARY 1	4,570,743	4,248,621	12,544,322	12,531,627
NET POSITION, DECEMBER 31	\$ 4,937,957	\$ 4,570,743	\$ 12,008,776	\$ 12,544,322

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

Business-type Activities - Enterprise funds

604		Nonmajor			
Electric		216		Totals	
2013	2012	2013	2012	2013	2012
		Ambulance			
\$ 8,207,389	\$ 7,787,972	\$ 476,814	\$ 435,805	\$ 11,386,723	\$ 10,902,697
6,490,488	6,001,893	-	-	6,697,464	6,140,477
253,565	358,646	-	-	1,282,729	1,275,525
6,266	18,363	-	-	13,519	31,205
823,459	819,873	442,227	439,093	1,493,326	1,569,273
258,504	276,986	21,444	20,613	1,159,612	1,177,465
7,832,282	7,475,761	463,671	459,706	10,646,650	10,193,945
375,107	312,211	13,143	(23,901)	740,073	708,752
1,953	2,478	-	-	69,970	38,309
(89,800)	235,100	13,629	12,033	17,853	332,003
25,884	144,951	27,819	20,936	55,056	165,579
-	3,000	3,000	-	5,116	3,000
-	-	-	-	(85,665)	(206,018)
(61,963)	385,529	44,448	32,969	62,330	332,873
313,144	697,740	57,591	9,068	802,403	1,041,625
600,000	-	-	-	700,000	-
(7,949)	(6,477)	-	-	(707,949)	(6,477)
905,195	691,263	57,591	9,068	794,454	1,035,148
12,219,320	11,528,057	956,005	946,937	30,290,390	29,255,242
<u>\$ 13,124,515</u>	<u>\$ 12,219,320</u>	<u>\$ 1,013,596</u>	<u>\$ 956,005</u>	<u>\$ 31,084,844</u>	<u>\$ 30,290,390</u>

CITY OF MELROSE, MINNESOTA
STATEMENTS OF CASH FLOWS - CONTINUED ON THE FOLLOWING PAGES
PROPRIETARY FUNDS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	Business-type Activities - Enterprise funds			
	601 Water		602 Wastewater	
	2013	2012	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers and users	\$ 937,570	\$ 943,551	\$ 1,855,941	\$ 1,730,683
Payments to suppliers	(263,285)	(206,397)	(666,578)	(681,794)
Payments to employees	(138,482)	(141,375)	(382,725)	(378,921)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	535,803	595,779	806,638	669,968
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfer from other funds	100,000	-	-	-
Transfers to other funds	-	-	(700,000)	-
Increase in due from other funds	-	-	(1,318)	-
Increase in due to other funds	-	-	-	-
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	100,000	-	(701,318)	-
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES				
Acquisition of property and equipment	(511,120)	-	(147,960)	(69,520)
Cash received with asset trade-in	-	-	-	-
Interest paid on bonds	(62,885)	(71,815)	(29,300)	(120,925)
Principal paid on bonds	(266,000)	(256,000)	(250,000)	(165,000)
NET CASH PROVIDED (USED) BY CAPITAL FINANCING ACTIVITIES	(840,005)	(327,815)	(427,260)	(355,445)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received on investments	50,581	43,977	43,443	33,048
Decrease in fair value of investments	-	-	-	-
NET CASH PROVIDED (USES) BY INVESTING ACTIVITIES	50,581	43,977	43,443	33,048
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(153,621)	311,941	(278,497)	347,571
CASH AND CASH EQUIVALENTS, JANUARY 1	2,038,792	1,726,851	1,512,937	1,165,366
CASH AND CASH EQUIVALENTS, DECEMBER 31	\$ 1,885,171	\$ 2,038,792	\$ 1,234,440	\$ 1,512,937

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

Business-type Activities - Enterprise funds

604		Nonmajor			
Electric		216			
		Ambulance		Totals	
2013	2012	2013	2012	2013	2012
\$ 8,332,674	\$ 7,726,067	\$ 471,282	\$ 511,271	\$ 11,597,467	\$ 10,911,572
(7,057,764)	(6,735,481)	(236,037)	(290,009)	(8,223,664)	(7,913,681)
(408,343)	(564,237)	(163,854)	(149,775)	(1,093,404)	(1,234,308)
<u>866,567</u>	<u>426,349</u>	<u>71,391</u>	<u>71,487</u>	<u>2,280,399</u>	<u>1,763,583</u>
600,000	-	-	-	700,000	-
(7,949)	(6,477)	-	-	(707,949)	(6,477)
-	-	-	-	(1,318)	-
<u>11,591</u>	<u>5,124</u>	<u>-</u>	<u>-</u>	<u>11,591</u>	<u>5,124</u>
<u>603,642</u>	<u>(1,353)</u>	<u>-</u>	<u>-</u>	<u>2,324</u>	<u>(1,353)</u>
(801,483)	(318,176)	(215,010)	-	(1,675,573)	(387,696)
-	-	70,000	-	70,000	-
-	-	-	-	(92,185)	(192,740)
-	-	-	-	(516,000)	(421,000)
<u>(801,483)</u>	<u>(318,176)</u>	<u>(145,010)</u>	<u>-</u>	<u>(2,213,758)</u>	<u>(1,001,436)</u>
177,967	235,276	13,629	12,033	285,620	324,334
(255,427)	-	-	-	(255,427)	-
<u>(77,460)</u>	<u>235,276</u>	<u>13,629</u>	<u>12,033</u>	<u>30,193</u>	<u>324,334</u>
591,266	342,096	(59,990)	83,520	99,158	1,085,128
<u>5,189,697</u>	<u>4,847,601</u>	<u>709,534</u>	<u>626,014</u>	<u>9,450,960</u>	<u>8,365,832</u>
<u>\$ 5,780,963</u>	<u>\$ 5,189,697</u>	<u>\$ 649,544</u>	<u>\$ 709,534</u>	<u>\$ 9,550,118</u>	<u>\$ 9,450,960</u>

CITY OF MELROSE, MINNESOTA
STATEMENTS OF CASH FLOWS - CONTINUED
PROPRIETARY FUNDS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	Business-type Activities - Enterprise funds			
	601 Water		602 Wastewater	
	2013	2012	2013	2012
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
Operating income (loss)	\$ 274,290	\$ 345,804	\$ 77,533	\$ 74,638
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities				
Other income related to operations	1,678	764	69,808	34,759
Depreciation	260,264	260,395	619,400	619,471
(Increase) decrease in assets				
Accounts receivable	(6,461)	(8,887)	25,966	(31,322)
Inventory	2,534	2,317	(293)	(2,340)
Prepaid items	3,557	(2,041)	20,386	(13,394)
Increase (decrease) in liabilities				
Accounts payable	(70)	(4,783)	(4,539)	(17,955)
Compensated absences and OPEB payable	11	2,210	(1,623)	6,111
Customer deposits payable	-	-	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u><u>\$ 535,803</u></u>	<u><u>\$ 595,779</u></u>	<u><u>\$ 806,638</u></u>	<u><u>\$ 669,968</u></u>
SCHEDULE OF NONCASH				
CAPITAL FINANCING ACTIVITIES				
Assets acquired on short-term account	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Amortization of bond premium	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,553</u>	<u>\$ 2,553</u>
Disposal of fixed assets	<u>\$ 11,845</u>	<u>\$ -</u>	<u>\$ 18,400</u>	<u>\$ -</u>
Loss on disposal of fixed assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Interest paid on bonds from escrow	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 29,300</u>
Principal paid on bonds from escrow	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,600,000</u>

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

Business-type Activities - Enterprise funds

604		Nonmajor			
Electric		216			
		Ambulance		Totals	
2013	2012	2013	2012	2013	2012
\$ 375,107	\$ 312,211	\$ 13,143	\$ (23,901)	\$ 740,073	\$ 708,752
27,837	150,429	30,819	20,936	130,142	206,888
258,504	276,986	21,444	20,613	1,159,612	1,177,465
97,448	(212,334)	(36,351)	54,530	80,602	(198,013)
39,971	(174,621)	-	-	42,212	(174,644)
23,175	(19,508)	1,038	(362)	48,156	(35,305)
37,017	74,795	41,298	(329)	73,706	51,728
3,808	19,431	-	-	2,196	27,752
3,700	(1,040)	-	-	3,700	(1,040)
<u>\$ 866,567</u>	<u>\$ 426,349</u>	<u>\$ 71,391</u>	<u>\$ 71,487</u>	<u>\$ 2,280,399</u>	<u>\$ 1,763,583</u>
<u>\$ 761,167</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 761,167</u>	<u>\$ -</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,553</u>	<u>\$ 2,553</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 247,496</u>	<u>\$ -</u>	<u>\$ 277,741</u>	<u>\$ -</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 57,531</u>	<u>\$ -</u>	<u>\$ 57,531</u>	<u>\$ -</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 29,300</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,600,000</u>

CITY OF MELROSE, MINNESOTA
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
DECEMBER 31, 2013

	<u>Agency</u>
ASSETS	
Cash and temporary investments	<u>\$ 3,064</u>
LIABILITIES	
Accounts payable	<u>\$ 3,064</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, 2013

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.

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

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

B. Government-wide and fund financial statements

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. 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.

CITY OF MELROSE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

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

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

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

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

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

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

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, 2013

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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.

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, 2013

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

D. Assets, deferred inflows/outflows of resources, liabilities, 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, 2013

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Accounts receivable

Accounts receivable include amounts billed for services provided before year end. The Ambulance and Electric enterprise funds and Fire Department nonmajor governmental fund have allowances for uncollectible accounts totaling \$15,000, \$2,000 and \$2,500, respectively, at December 31, 2013

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, 2013

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Capital assets

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

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

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

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

Assets	Useful Lives in Years
Buildings and building improvements	7 - 40
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, 2013

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".

CITY OF MELROSE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013

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.

Comparative data/reclassifications

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

Note 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary information

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

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

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

CITY OF MELROSE, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2013

Note 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY - CONTINUED

B. Deficit fund equity

The following fund had a fund balance deficit at December 31, 2013 that will be eliminated with future revenues in excess of expenditures:

Fund	Amount
Nonmajor	
Melrose Area Development Authority (MADA)	\$ 16,816

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 \$8,337,332 and the bank balance was \$8,448,816. 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, 2013

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

Investments

As of December 31, 2013 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	less than 6 months	\$ 255,607
Brokered CD's	N/A	6 months to 1 year	667,827
Brokered CD's	N/A	1 to 3 years	742,909
Brokered CD's	N/A	more than 3 years	936,351
Total Brokered CD's			<u>2,602,694</u>
Local Government Bonds	AAA	1 to 3 years	167,191
Local Government Bonds	AAA	more than 3 years	722,284
Local Government Bonds	AA	less than 6 months	550,133
Local Government Bonds	AA	1 to 3 years	1,706,641
Local Government Bonds	AA	more than 3 years	1,421,252
Local Government Bonds	A	less than 6 months	60,067
Local Government Bonds	A	1 to 3 years	408,364
Local Government Bonds	A	more than 3 years	98,893
Total Local Government Bonds			<u>5,134,825</u>
U.S. Government Bonds	AA	more than 3 years	470,063
U.S. Government Securities	AAA	1 to 3 years	313,518
U.S. Government Securities	AAA	more than 3 years	697,785
U.S. Government Securities	AA	more than 3 years	317,403
U.S. Government Securities	A	1 to 3 years	373,992
U.S. Government Securities	A	more than 3 years	242,532
Total U.S. Government Securities			<u>1,945,230</u>
Total investments			<u><u>\$ 10,152,812</u></u>

(1) Ratings were provided by Moody's.

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

N/A Indicated not applicable or available

CITY OF MELROSE, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2013

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

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

Cash on hand

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

Cash summary

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

Carrying amount of deposits	\$ 8,337,332
Investments	10,152,812
Cash on hand	<u>685</u>
Total	<u><u>\$ 18,490,829</u></u>
Cash and temporary investments	
Primary Government	\$ 18,487,765
Agency	<u>3,064</u>
Total	<u><u>\$ 18,490,829</u></u>

B. Loans and notes receivable

The City has funds available for loans to local businesses. At December 31, 2013 the City has loans outstanding totaling \$399,366 in the special revenue funds. The terms and interest varies and all are secured by the assets of the business.

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, 2013 the amount outstanding on the note receivable is \$1,329,500.

CITY OF MELROSE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

C. Capital assets

Capital asset activity for the year ended December 31, 2013 as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets, not being depreciated				
Land	\$ 3,191,412	\$ 25,228	\$ -	\$ 3,216,640
Capital assets, being depreciated				
Buildings and building improvements	4,435,625	-	-	4,435,625
Machinery and equipment	2,574,655	265,835	(58,840)	2,781,650
Infrastructure	10,798,492	373,346	-	11,171,838
Total capital assets being depreciated	17,808,772	639,181	(58,840)	18,389,113
Less accumulated depreciation for				
Buildings and building improvements	(1,388,857)	(114,383)	-	(1,503,240)
Machinery and equipment	(1,258,127)	(143,588)	31,355	(1,370,360)
Infrastructure	(3,805,378)	(316,484)	-	(4,121,862)
Total accumulated depreciation	(6,452,362)	(574,455)	31,355	(6,995,462)
Total capital assets, being depreciated, net	11,356,410	64,726	(27,485)	11,393,651
Governmental activities capital assets, net	\$ 14,547,822	\$ 89,954	\$ (27,485)	\$ 14,610,291

CITY OF MELROSE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013

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	\$ 321,028	\$ 25,227	\$ -	\$ 346,255
Construction in progress	<u>300,449</u>	<u>2,169,722</u>	<u>(1,213,274)</u>	<u>1,256,897</u>
Total capital assets, not being depreciated	<u>621,477</u>	<u>2,194,949</u>	<u>(1,213,274)</u>	<u>1,603,152</u>
Capital assets, being depreciated				
Buildings and building improvements	2,619,366	306,436	-	2,925,802
Machinery and equipment	1,600,526	299,320	(265,896)	1,633,950
Infrastructure	<u>34,689,698</u>	<u>906,840</u>	<u>(11,845)</u>	<u>35,584,693</u>
Total capital assets, being depreciated	<u>38,909,590</u>	<u>1,512,596</u>	<u>(277,741)</u>	<u>40,144,445</u>
Less accumulated depreciation for				
Buildings and building improvements	(2,116,403)	(53,063)	-	(2,169,466)
Machinery and equipment	(1,100,093)	(81,547)	138,365	(1,043,275)
Infrastructure	<u>(16,365,497)</u>	<u>(1,025,002)</u>	<u>11,845</u>	<u>(17,378,654)</u>
Total accumulated depreciation	<u>(19,581,993)</u>	<u>(1,159,612)</u>	<u>150,210</u>	<u>(20,591,395)</u>
Total capital assets, being depreciated, net	<u>19,327,597</u>	<u>352,984</u>	<u>(127,531)</u>	<u>19,553,050</u>
Business-type activities capital assets, net	<u>\$ 19,949,074</u>	<u>\$ 2,547,933</u>	<u>\$ (1,340,805)</u>	<u>\$ 21,156,202</u>

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

Governmental activities		
General government		\$ 63,825
Public safety		140,119
Streets and highways		350,910
Culture and recreation		<u>19,601</u>
Total depreciation expense - governmental activities		<u>\$ 574,455</u>
Business-type activities		
Water		\$ 260,264
Wastewater		619,400
Electric		258,504
Ambulance		<u>21,444</u>
Total depreciation expense - business-type activities		<u>\$ 1,159,612</u>

CITY OF MELROSE, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2013

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

D. Interfund receivables, payables and transfers

Interfund balances

Receivable Fund	Payable Fund	Amount	Purpose
Capital Improvements	Nonmajor governmental	\$ 51,963	GCI loan
General	Electric	89,241	Franchise fees
Capital Improvements	Electric	7,949	City center maintenance contribution
Sewer	Capital Improvements	1,318	Collection system maintenance costs
Total		<u>\$ 150,471</u>	

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

Interfund transfers

Fund	Transfer in				
	Capital Improvements	Other Governmental Funds	Water	Electric	Total
Transfer out					
General	\$ 481,170	\$ 89,959	\$ -	\$ -	\$ 571,129
Wastewater	-	-	100,000	600,000	700,000
Electric	7,949	-	-	-	7,949
Total transfers out	<u>\$ 489,119</u>	<u>\$ 89,959</u>	<u>\$ 100,000</u>	<u>\$ 600,000</u>	<u>\$ 1,279,078</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 Electric funds to the Capital Improvements fund was for City Center maintenance.
- The transfer from the Wastewater fund to the Water and Electric funds to reimburse those funds for the Wastewater fund's portion of the AMI project costs and the generator.

CITY OF MELROSE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013

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:

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

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

Year Ending December 31,	Governmental Activities		
	Principal	Interest	Total
2014	\$ 90,000	\$ 38,581	\$ 128,581
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
2019-2023	655,000	103,169	758,169
2024-2028	720,000	39,456	759,456
Total	<u>\$ 1,965,000</u>	<u>\$ 292,506</u>	<u>\$ 2,257,506</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 combined assessment and tax levy equals 105 percent of the amount required for debt service. The excess of 5 percent is to cover any delinquencies in tax or assessment payments.

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
G.O. Improvement Refunding Bonds, Series 2011A	\$ 2,155,000	2.00 - 2.85 %	04/13/12	02/01/20	<u>\$ 2,065,000</u>

CITY OF MELROSE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

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

Year Ending December 31,	Governmental Activities		
	Principal	Interest	Total
2014	\$ 290,000	\$ 44,268	\$ 334,268
2015	320,000	38,168	358,168
2016	320,000	31,768	351,768
2017	315,000	25,103	340,103
2018	315,000	17,779	332,779
2019-2023	505,000	12,376	517,376
Total	<u>\$ 2,065,000</u>	<u>\$ 169,462</u>	<u>\$ 2,234,462</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 Water and Wastewater funds and are backed by the taxing power of the City. Annual principal and interest payments on the bonds are expected to require less than 35 and 16 percent of the net revenues from the Water and Wastewater funds, respectively. Principal and interest paid for the current year and total customer net revenues for the Water fund were \$328,885 and \$942,353, respectively. Principal and interest paid for the current year and total customer net revenues for the Wastewater fund were \$279,300 and \$1,760,167, respectively.

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
1999 G.O. Water Revenue Notes (Water Tower)	\$ 2,500,000	3.48 %	05/27/99	08/20/17	\$ 578,700
G.O. Water Revenue Crossover Refunding of 2005	1,330,000	3.50 - 4.25	09/01/05	02/01/14	815,000
G.O. Sewer Revenue Crossover Refunding Bonds, Series 2010A	1,415,000	2.00 - 2.45	11/01/10	12/01/18	<u>1,165,000</u>
Total G.O. Revenue Bonds					<u>\$ 2,558,700</u>

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

Year Ending December 31,	Business-type Activities		
	Principal	Interest	Total
2014	\$ 1,237,000	\$ 61,145	\$ 1,298,145
2015	432,000	33,601	465,601
2016	438,000	22,490	460,490
2017	351,700	11,169	362,869
2018	100,000	2,450	102,450
Total	<u>\$ 2,558,700</u>	<u>\$ 130,855</u>	<u>\$ 2,689,555</u>

CITY OF MELROSE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

Changes in long-term liabilities

Long-term liability activity for the year ended December 31, 2013 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Governmental activities					
Bonds payable					
G.O. Bonds	\$ -	\$ 1,965,000	\$ -	\$ 1,965,000	\$ 90,000
General obligation improvement bonds	3,940,000	-	(1,875,000)	2,065,000	290,000
Revenue bonds	2,110,000	-	(2,110,000)	-	-
Unamortized premium on bonds	12,279	-	(1,731)	10,548	-
Total bonds payable	6,062,279	-	(3,986,731)	2,075,548	290,000
Compensated absences	103,642	66,311	(62,459)	107,494	62,459
Other postemployment benefits payable	130,690	47,979	(11,548)	167,121	-
Governmental activity long-term liabilities	<u>\$ 6,296,611</u>	<u>\$ 114,290</u>	<u>\$ (4,060,738)</u>	<u>\$ 2,350,163</u>	<u>\$ 352,459</u>
Business-type activities					
Bonds payable					
General obligation revenue bonds	\$ 3,074,700	\$ -	\$ (516,000)	\$ 2,558,700	\$ 1,237,000
Unamortized premium on bonds	15,118	-	(2,553)	12,565	-
Total bonds payable	3,089,818	-	(518,553)	2,571,265	1,237,000
Compensated absences	97,103	37,636	(60,575)	74,164	55,754
Other postemployment benefits payable	137,733	33,103	(7,968)	162,868	-
Business-type activity long-term liabilities	<u>\$ 3,324,654</u>	<u>\$ 70,739</u>	<u>\$ (587,096)</u>	<u>\$ 2,808,297</u>	<u>\$ 1,292,754</u>

CITY OF MELROSE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

F. Components of fund balance

At December 31, 2013 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	\$ 4,457	\$ -	\$ -	\$ 1,082	\$ 5,539
Due from other funds	89,241	-	-	-	89,241
Loans receivable	-	-	-	399,366	399,366
Total nonspendable	\$ 93,698	\$ -	\$ -	\$ 400,448	\$ 494,146
Restricted for					
Debt service	\$ -	\$ 553,091	\$ -	\$ -	\$ 553,091
Partners in action activities	-	-	-	248	248
Total restricted	\$ -	\$ 553,091	\$ -	\$ 248	\$ 553,339
Committed to					
Insurance reserve	12,139	\$ -	\$ -	\$ -	\$ 12,139
Compensated absences	40,468	-	-	-	40,468
Public works equipment	-	-	79,523	-	79,523
Street improvements	-	-	1,357,196	-	1,357,196
Park and recreation	-	-	76,716	-	76,716
City center maintenance	-	-	55,073	-	55,073
Sidewalk program	-	-	35,848	-	35,848
Police car replacement	-	-	35,757	-	35,757
Future land development	-	-	72,733	-	72,733
Planning and zoning	-	-	23,715	-	23,715
Police equipment	-	-	19,691	-	19,691
Fire equipment	-	-	-	152,981	152,981
Office equipment	-	-	27,694	-	27,694
Capital improvements	-	-	1,917,514	-	1,917,514
Revolving loans	-	-	-	183,002	183,002
Total committed	\$ 52,607	\$ -	\$ 3,701,460	\$ 335,983	\$ 4,090,050
Assigned to					
Senior activity center	\$ -	\$ -	\$ -	\$ 2,875	\$ 2,875
Tri-cap bus	-	-	-	5,838	5,838
Yellow bike program	-	-	-	1,899	1,899
Fire department	-	-	-	67,342	67,342
Total assigned	\$ -	\$ -	\$ -	\$ 77,954	\$ 77,954

CITY OF MELROSE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013

Note 4: DEFINED BENEFIT PENSION PLANS - STATEWIDE

A. Plan description

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

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

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

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

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

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

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

CITY OF MELROSE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013

Note 4: DEFINED BENEFIT PENSION PLANS - STATEWIDE - CONTINUED

B. Funding policy

Minnesota statutes, chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the State legislature. The City makes annual contributions to the pension plans equal to the amount required by Minnesota statutes. GERS Basic Plan members and Coordinated Plan members are required to contribute 9.10 percent and 6.25 percent, respectively, of their annual covered salary in 2013. PEPFF members are required to contribute 9.60 percent of their annual covered salary in 2013. In 2013, the City was required to contribute the following percentages of annual covered payroll: 11.78 percent for Basic Plan GERS members, 7.25 percent for Coordinated Plan GERS members, and 14.40 percent for PEPFF members. The City's contributions to the General Employees Retirement Fund for the year ended December 31, 2013, 2012, and 2011 were \$102,848, \$95,334, and \$92,156, respectively. The City's contributions to the PEPFF for the years ending December 31, 2013, 2012, and 2011 were \$37,560, \$37,026, and \$40,294, 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, 2013 was \$1,170.

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 2013 taxable market value of property was \$146,229,800 and the debt limit was \$4,386,894. There was \$1,965,000 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, 2013

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, 2013, there were two series of revenue bonds outstanding, with an aggregate principal payable amount of \$7,955,781.

E. Commitment and contingencies

Tax increment districts

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

F. Concentrations

The City receives a significant amount of its annual General fund revenue from the State of Minnesota from the Local Government Aid (LGA). The amount received in 2013 was \$614,850 for LGA. This accounted for 28 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 2013 the City contributed \$19,516 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, 2013

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	8,053
Adjustment to annual required contribution	<u>(9,664)</u>
 Annual OPEB cost (expense)	 81,082
 Contributions made	 <u>(19,516)</u>
 Increase in net OPEB obligation	 61,566
 Net OPEB obligation - beginning of year	 <u>268,423</u>
 Net OPEB obligation - end of year	 <u><u>\$ 329,989</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 2013, 2012 and 2011, follows:

Year Ending	Trend Information		
	Annual OPEB Cost	Percentage Annual OPEB Contributed	Net OPEB Obligation
12/31/13	\$ 81,082	24.1 %	\$ 329,989
12/31/12	81,467	21.2	268,423
12/31/11	85,645	20.7	204,245

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, 2013

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, 2013 was thirty years.

Note 7: SPECIAL ITEM - SALE OF CENTRACARE FACILITY

The City sold the Centracare facility to CentraCare Health Systems on July 1, 2013. The transaction consisted of the sale of two parcels of land to CentraCare as well as the issuance of a \$1,329,500 non-negotiable note receivable. The note is receivable from Centracare with semi-annually payments scheduled starting January 1, 2014 through July 1, 2023 at 2 percent interest. The sale of the facility resulted in the recognition of \$1,329,500 of revenue as noted as a special item.

Note 8: SUBSEQUENT EVENTS

The City approved to prepay the remaining \$815,000 of outstanding 2005 G.O. Water Revenue Crossover Refunding Bonds, which occurred on January 9, 2014. By prepaying the bonds, the City saved roughly \$113,000 on future interest payments.

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REQUIRED SUPPLEMENTARY INFORMATION

CITY OF MELROSE
MELROSE, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2013

CITY OF MELROSE, MINNESOTA
 REQUIRED SUPPLEMENTARY INFORMATION
 DECEMBER 31, 2013

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, 2013

CITY OF MELROSE, MINNESOTA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
DECEMBER 31, 2013

	<u>Special Revenue</u>	<u>Capital Projects Tax Increment Projects</u>	<u>Total Nonmajor Governmental Funds</u>
ASSETS			
Cash and temporary investments	\$ 451,263	\$ 33,892	\$ 485,155
Receivables			
Accounts, net	326	-	326
Loans	399,366	-	399,366
Prepaid items	1,082	-	1,082
	<u>1,082</u>	<u>-</u>	<u>1,082</u>
TOTAL ASSETS	<u><u>\$ 852,037</u></u>	<u><u>\$ 33,892</u></u>	<u><u>\$ 885,929</u></u>
LIABILITIES			
Accounts payable	\$ 2,257	\$ 33,892	\$ 36,149
Due to other funds	51,963	-	51,963
	<u>51,963</u>	<u>-</u>	<u>51,963</u>
TOTAL LIABILITIES	<u>54,220</u>	<u>33,892</u>	<u>88,112</u>
FUND BALANCES			
Nonspendable			
Prepaid items	1,082	-	1,082
Loans receivable	399,366	-	399,366
Restricted for			
Partners in action activities	248	-	248
Committed to			
Fire equipment	152,981	-	152,981
Revolving loans	183,002	-	183,002
Assigned	77,954	-	77,954
Unassigned	(16,816)	-	(16,816)
	<u>(16,816)</u>	<u>-</u>	<u>(16,816)</u>
TOTAL FUND BALANCES	<u>797,817</u>	<u>-</u>	<u>797,817</u>
TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$ 852,037</u></u>	<u><u>\$ 33,892</u></u>	<u><u>\$ 885,929</u></u>

CITY OF MELROSE, MINNESOTA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2013

	Special Revenue	Capital Projects Tax Increment Projects	Total Nonmajor Governmental Funds
REVENUES			
Tax increments	\$ -	\$ 86,400	\$ 86,400
Intergovernmental	5,653	-	5,653
Charges for services	89,199	-	89,199
Interest on investments	25,524	-	25,524
Miscellaneous	19,674	-	19,674
TOTAL REVENUES	140,050	86,400	226,450
EXPENDITURES			
Current			
Public safety	126,566	-	126,566
Culture and recreation	4,400	-	4,400
Economic development	15,234	86,400	101,634
Miscellaneous	534	-	534
Debt service			
Interest and other charges	2,947	-	2,947
TOTAL EXPENDITURES	149,681	86,400	236,081
DEFICIENCY OF REVENUES UNDER EXPENDITURES	(9,631)	-	(9,631)
OTHER FINANCING SOURCES			
Transfers in	89,959	-	89,959
NET CHANGE IN FUND BALANCES	80,328	-	80,328
FUND BALANCES, JANUARY 1	717,489	-	717,489
FUND BALANCES, DECEMBER 31	<u>\$ 797,817</u>	<u>\$ -</u>	<u>\$ 797,817</u>

CITY OF MELROSE, MINNESOTA
NONMAJOR SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
DECEMBER 31, 2013

	Melrose Area Development Authority (MADA)	MADA Revolving Loan	Senior Activity Center
ASSETS			
Cash and temporary investments	\$ 35,147	\$ 183,002	\$ 3,118
Receivable			
Accounts, net	-	-	-
Loans	-	399,366	-
Prepaid items	-	-	-
	<u>\$ 35,147</u>	<u>\$ 582,368</u>	<u>\$ 3,118</u>
TOTAL ASSETS			
	<u>\$ 35,147</u>	<u>\$ 582,368</u>	<u>\$ 3,118</u>
LIABILITIES			
Accounts payable	\$ -	\$ -	\$ 243
Due to other funds	51,963	-	-
	<u>51,963</u>	<u>-</u>	<u>243</u>
TOTAL LIABILITIES			
	<u>51,963</u>	<u>-</u>	<u>243</u>
FUND BALANCES			
Nonspendable			
Prepaid items	-	-	-
Loans receivable	-	399,366	-
Restricted for			
Partners in action activities	-	-	-
Committed to			
Fire equipment	-	-	-
Revolving loans	-	183,002	-
Assigned	-	-	2,875
Unassigned	(16,816)	-	-
	<u>(16,816)</u>	<u>-</u>	<u>-</u>
TOTAL FUND BALANCES			
	<u>(16,816)</u>	<u>582,368</u>	<u>2,875</u>
TOTAL LIABILITIES AND FUND BALANCES			
	<u>\$ 35,147</u>	<u>\$ 582,368</u>	<u>\$ 3,118</u>

<u>PIA Asset Building</u>	<u>Tri-Cap Bus</u>	<u>Yellow Bike Program</u>	<u>Fire Department</u>	<u>Total</u>
\$ 248	\$ 6,238	\$ 1,899	\$ 221,611	\$ 451,263
-	-	-	326	326
-	-	-	-	399,366
-	-	-	1,082	1,082
<u>\$ 248</u>	<u>\$ 6,238</u>	<u>\$ 1,899</u>	<u>\$ 223,019</u>	<u>\$ 852,037</u>
\$ -	\$ 400	\$ -	\$ 1,614	\$ 2,257
-	-	-	-	51,963
-	400	-	1,614	54,220
-	-	-	1,082	1,082
-	-	-	-	399,366
248	-	-	-	248
-	-	-	152,981	152,981
-	-	-	-	183,002
-	5,838	1,899	67,342	77,954
-	-	-	-	(16,816)
<u>248</u>	<u>5,838</u>	<u>1,899</u>	<u>221,405</u>	<u>797,817</u>
<u>\$ 248</u>	<u>\$ 6,238</u>	<u>\$ 1,899</u>	<u>\$ 223,019</u>	<u>\$ 852,037</u>

CITY OF MELROSE, MINNESOTA
NONMAJOR SPECIAL REVENUE FUNDS
COMBINING SCHEDULE OF REVENUE, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2013

	Melrose Area Development Authority (MADA)	MADA Revolving Loan	Senior Activity Center
	<u> </u>	<u> </u>	<u> </u>
REVENUES			
Intergovernmental	\$ -	\$ -	\$ -
Charges for services	-	-	-
Interest on investments	3,673	18,592	-
Miscellaneous			
Contributions and donations	-	-	1,021
Other	9,304	-	3,190
	<u> </u>	<u> </u>	<u> </u>
TOTAL REVENUES	12,977	18,592	4,211
	<u> </u>	<u> </u>	<u> </u>
EXPENDITURES			
Current			
Public safety			
Personal services	-	-	-
Supplies	-	-	-
Other services and charges	-	-	-
Culture and recreation			
Other services and charges	-	-	4,400
Economic development			
Personal services	1,537	-	-
Supplies	64	-	-
Other services and charges	7,709	-	-
Miscellaneous	-	-	-
Debt service			
Interest and other	2,947	-	-
	<u> </u>	<u> </u>	<u> </u>
TOTAL EXPENDITURES	12,257	-	4,400
	<u> </u>	<u> </u>	<u> </u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	720	18,592	(189)
OTHER FINANCING SOURCES			
Transfers in	-	-	-
	<u> </u>	<u> </u>	<u> </u>
NET CHANGE IN FUND BALANCES	720	18,592	(189)
FUND BALANCES, JANUARY 1	(17,536)	563,776	3,064
	<u> </u>	<u> </u>	<u> </u>
FUND BALANCES, DECEMBER 31	<u>\$ (16,816)</u>	<u>\$ 582,368</u>	<u>\$ 2,875</u>

<u>PIA Asset Building</u>	<u>Tri-Cap Bus</u>	<u>Yellow Bike Program</u>	<u>Fire Department</u>	<u>Total</u>
\$ -	\$ -	\$ 2,433	\$ 3,220	\$ 5,653
-	1,292	-	87,907	89,199
-	-	-	3,259	25,524
-	3,955	-	-	4,976
-	-	-	2,204	14,698
-	5,247	2,433	96,590	140,050
-	-	-	41,991	41,991
-	-	-	14,847	14,847
-	-	-	69,728	69,728
-	-	-	-	4,400
-	-	-	-	1,537
-	-	-	-	64
274	5,650	-	-	13,633
-	-	534	-	534
-	-	-	-	2,947
274	5,650	534	126,566	149,681
(274)	(403)	1,899	(29,976)	(9,631)
-	2,500	-	87,459	89,959
(274)	2,097	1,899	57,483	80,328
522	3,741	-	163,922	717,489
<u>\$ 248</u>	<u>\$ 5,838</u>	<u>\$ 1,899</u>	<u>\$ 221,405</u>	<u>\$ 797,817</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, 2013
(With comparative actual amounts for the year ended December 31, 2012)

	2013			Variance with Final Budget	2012
	Budgeted Amounts		Actual		Actual
	Original	Final	Amounts		Amounts
REVENUES					
Taxes					
Property taxes	\$ 936,000	\$ 936,000	\$ 981,096	\$ 45,096	\$ 945,524
Franchise fees	440,000	440,000	436,914	(3,086)	375,252
Total	<u>1,376,000</u>	<u>1,376,000</u>	<u>1,418,010</u>	<u>42,010</u>	<u>1,320,776</u>
Licenses and permits					
Business	17,750	17,750	20,551	2,801	19,230
Nonbusiness	30,500	30,500	23,870	(6,630)	28,987
Total	<u>48,250</u>	<u>48,250</u>	<u>44,421</u>	<u>(3,829)</u>	<u>48,217</u>
Intergovernmental					
Federal					
FEMA grant	-	-	-	-	750
State					
Local government aid	591,115	591,115	614,850	23,735	614,850
Property tax credits	-	-	571	571	399
Police state aid	33,261	33,261	29,557	(3,704)	32,363
Other	4,585	4,585	5,791	1,206	6,897
Total	<u>628,961</u>	<u>628,961</u>	<u>650,769</u>	<u>21,808</u>	<u>655,259</u>
Charges for services					
General government	29,850	29,850	30,699	849	30,634
Public safety	1,350	1,350	497	(853)	1,399
Streets and highways	19,200	19,200	19,656	456	19,758
Culture and recreation	12,450	12,450	11,392	(1,058)	11,228
Total	<u>62,850</u>	<u>62,850</u>	<u>62,244</u>	<u>(606)</u>	<u>63,019</u>
Fines and forfeitures	<u>25,750</u>	<u>25,750</u>	<u>18,545</u>	<u>(7,205)</u>	<u>18,825</u>
Interest on investments	<u>12,000</u>	<u>12,000</u>	<u>19,203</u>	<u>7,203</u>	<u>29,544</u>
Miscellaneous					
Contributions and donations	-	-	6,450	6,450	3,235
Other	10,000	10,000	10,221	221	8,516
Total	<u>10,000</u>	<u>10,000</u>	<u>16,671</u>	<u>6,671</u>	<u>11,751</u>
TOTAL REVENUES	<u>2,163,811</u>	<u>2,163,811</u>	<u>2,229,863</u>	<u>66,052</u>	<u>2,147,391</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, 2013
(With comparative actual amounts for the year ended December 31, 2012)

	2013			Variance with Final Budget	2012
	Budgeted Amounts		Actual		Actual
	Original	Final	Amounts		Amounts
EXPENDITURES					
Current					
General government					
Legislative					
Personal services	\$ 15,092	\$ 15,092	\$ 15,074	\$ 18	\$ 15,029
Other services and charges	6,700	6,700	5,069	1,631	5,725
Total	<u>21,792</u>	<u>21,792</u>	<u>20,143</u>	<u>1,649</u>	<u>20,754</u>
Executive					
Personal services	4,983	4,983	4,996	(13)	4,971
Other services and charges	1,550	1,550	730	820	1,813
Total	<u>6,533</u>	<u>6,533</u>	<u>5,726</u>	<u>807</u>	<u>6,784</u>
City administrator					
Personal services	52,203	52,203	53,841	(1,638)	51,677
Supplies	-	-	489	(489)	460
Other services and charges	4,580	4,580	5,114	(534)	3,182
Total	<u>56,783</u>	<u>56,783</u>	<u>59,444</u>	<u>(2,661)</u>	<u>55,319</u>
Financial administration					
Personal services	230,651	230,651	188,399	42,252	195,679
Supplies	5,250	5,250	4,467	783	4,236
Other services and charges	110,843	110,843	115,425	(4,582)	98,551
Total	<u>346,744</u>	<u>346,744</u>	<u>308,291</u>	<u>38,453</u>	<u>298,466</u>
Assessing					
Other services and charges	17,750	17,750	16,894	856	16,450
Cable communications					
Other services and charges	3,370	3,370	2,834	536	3,096
City attorney					
Other services and charges	35,050	35,050	31,258	3,792	39,081
Planning and zoning					
Personal services	2,191	2,191	2,352	(161)	2,121
Other services and charges	750	750	1,311	(561)	1,674
Total	<u>2,941</u>	<u>2,941</u>	<u>3,663</u>	<u>(722)</u>	<u>3,795</u>
Total general government	<u>490,963</u>	<u>490,963</u>	<u>448,253</u>	<u>42,710</u>	<u>443,745</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, 2013
(With comparative actual amounts for the year ended December 31, 2012)

	2013			Variance with Final Budget	2012
	Budgeted Amounts		Actual		Actual
	Original	Final	Amounts		Amounts
EXPENDITURES - CONTINUED					
Current - continued					
Public safety					
Police					
Personal services	\$ 428,111	\$ 428,111	\$ 424,141	\$ 3,970	\$ 414,727
Supplies	24,000	24,000	23,973	27	20,446
Other services and charges	37,850	37,850	40,049	(2,199)	28,401
Total	489,961	489,961	488,163	1,798	463,574
Building inspection					
Other services and charges	23,250	23,250	34,499	(11,249)	27,439
Total public safety	513,211	513,211	522,662	(9,451)	491,013
Streets and highways					
Streets					
Personal services	238,970	238,970	212,892	26,078	231,922
Supplies	57,000	57,000	53,816	3,184	52,432
Other services and charges	42,700	42,700	34,817	7,883	40,409
Total	338,670	338,670	301,525	37,145	324,763
Snow and ice removal					
Personal services	53,043	53,043	69,606	(16,563)	23,540
Supplies	32,000	32,000	34,779	(2,779)	16,624
Other services and charges	100	100	615	(515)	2,755
Total	85,143	85,143	105,000	(19,857)	42,919
Street lighting					
Other services and charges	45,000	45,000	46,593	(1,593)	46,361
Total streets and highways	468,813	468,813	453,118	15,695	414,043
Sanitation					
Supplies	1,600	1,600	1,399	201	1,730
Other services and charges	3,000	3,000	2,720	280	3,525
Total sanitation	4,600	4,600	4,119	481	5,255

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, 2013
(With comparative actual amounts for the year ended December 31, 2012)

	2013				2012
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
EXPENDITURES - CONTINUED					
Current - continued					
Culture and recreation					
Personal services	\$ 25,994	\$ 25,994	\$ 34,391	\$ (8,397)	\$ 27,109
Supplies	4,000	4,000	3,251	749	2,879
Other services and charges	25,250	25,250	21,642	3,608	21,297
Total culture and recreation	55,244	55,244	59,284	(4,040)	51,285
Economic development					
Industrial/commercial development					
Personal services	88,031	88,031	90,654	(2,623)	84,481
Other services and charges	-	-	-	-	8
Total economic development	88,031	88,031	90,654	(2,623)	84,489
Total current expenditures	1,620,862	1,620,862	1,578,090	42,772	1,489,830
Capital outlay					
Economic development	-	-	23,174	(23,174)	-
Debt service					
Interest and other charges	1,000	1,000	1,218	(218)	1,468
TOTAL EXPENDITURES	1,621,862	1,621,862	1,602,482	19,380	1,491,298
EXCESS OF REVENUES OVER EXPENDITURES					
	541,949	541,949	627,381	85,432	656,093
OTHER FINANCING SOURCES (USES)					
Sale of capital assets	-	-	-	-	1,502
Transfers in	40,000	40,000	-	(40,000)	-
Transfers out	(576,959)	(576,959)	(571,129)	5,830	(475,519)
TOTAL OTHER FINANCING SOURCES (USES)	(536,959)	(536,959)	(571,129)	(34,170)	(474,017)
NET CHANGE IN FUND BALANCES	4,990	4,990	56,252	51,262	182,076
FUND BALANCES, JANUARY 1	1,304,882	1,304,882	1,304,882	-	1,122,806
FUND BALANCES, DECEMBER 31	\$ 1,309,872	\$ 1,309,872	\$ 1,361,134	\$ 51,262	\$ 1,304,882

CITY OF MELROSE, MINNESOTA
DEBT SERVICE FUNDS
COMBINING BALANCE SHEET
DECEMBER 31, 2013

	Improvement Bonds of 2005	Lease Revenue Bonds of 2008	G.O. Refunding Bonds of 2011	Improvement Bonds of 2013	Total
ASSETS					
Cash and temporary investments	\$ -	\$ -	\$ 404,780	\$ 148,311	\$ 553,091
Special assessments receivable	-	-	187,417	-	187,417
TOTAL ASSETS	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 592,197</u>	<u>\$ 148,311</u>	<u>\$ 740,508</u>
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue - special assessments	\$ -	\$ -	\$ 187,417	\$ -	\$ 187,417
FUND BALANCES					
Restricted for debt service	-	-	404,780	148,311	553,091
TOTAL DEFERRED INFLOWS AND FUND BALANCES	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 592,197</u>	<u>\$ 148,311</u>	<u>\$ 740,508</u>

CITY OF MELROSE, MINNESOTA
DEBT SERVICE FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2013

	Improvement Bonds of 2005	Lease Revenue Bonds of 2008	G.O Refunding Bonds of 2011	Improvement Bonds of 2013	Total
REVENUES					
Property taxes	\$ -	\$ -	\$ 220,000	\$ 75,000	\$ 295,000
Charges for services	-	-	-	52,257	52,257
Special assessments	-	-	12,844	-	12,844
Interest on investments	4,702	804	5,422	3,937	14,865
TOTAL REVENUES	4,702	804	238,266	131,194	374,966
EXPENDITURES					
Debt service					
Principal	175,000	90,000	90,000	-	355,000
Interest and other charges	52,999	45,761	32,144	-	130,904
Bond issuance costs	-	43,796	-	-	43,796
TOTAL EXPENDITURES	227,999	179,557	122,144	-	529,700
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(223,297)	(178,753)	116,122	131,194	(154,734)
OTHER FINANCING SOURCES (USES)					
Transfers in	-	-	2,701	14,424	17,125
Principal paid on refunded bonds	(1,610,000)	-	-	-	(1,610,000)
Payment to bond escrow	-	(2,187,092)	-	-	(2,187,092)
Refunding bonds issued	-	1,962,307	-	2,693	1,965,000
Transfers out	(2,701)	(14,424)	-	-	(17,125)
TOTAL OTHER FINANCING SOURCES (USES)	(1,612,701)	(239,209)	2,701	17,117	(1,832,092)
NET CHANGE IN FUND BALANCES	(1,835,998)	(417,962)	118,823	148,311	(1,986,826)
FUND BALANCES, JANUARY 1	1,835,998	417,962	285,957	-	2,539,917
FUND BALANCES, DECEMBER 31	\$ -	\$ -	\$ 404,780	\$ 148,311	\$ 553,091

CITY OF MELROSE, MINNESOTA
SUMMARY FINANCIAL REPORT
REVENUES AND EXPENDITURES FOR GENERAL OPERATIONS
GOVERNMENTAL FUNDS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	Totals		Percent Increase (Decrease)
	2013	2012	
REVENUES			
Taxes	\$ 1,802,462	\$ 1,695,358	6.32 %
Licenses and permits	44,421	48,217	(7.87)
Intergovernmental	703,617	686,696	2.46
Charges for services	203,700	207,135	(1.66)
Fines and forfeits	18,545	18,825	(1.49)
Special assessments	56,442	102,025	(44.68)
Interest on investments	(85,202)	199,904	(142.62)
Miscellaneous	43,923	44,105	(0.41)
TOTAL REVENUES	\$ 2,787,908	\$ 3,002,265	(7.14) %
Per Capita	\$ 768	\$ 829	(7.40) %
EXPENDITURES			
Current			
General government	\$ 448,253	\$ 443,745	1.02 %
Public safety	649,228	636,916	1.93
Streets and highways	453,118	414,043	9.44
Sanitation	4,119	5,255	(21.62)
Culture and recreation	63,684	54,314	17.25
Economic development	192,288	194,217	(0.99)
Miscellaneous	534	-	100.00
Capital outlay			
General government	11,137	16,134	(30.97)
Public safety	47,771	391,849	(87.81)
Streets and highways	541,382	225,621	139.95
Culture and recreation	102,071	9,979	922.86
Economic development	23,174	-	100.00
Debt service			
Principal	355,000	325,000	9.23
Interest and other charges	135,069	254,436	(46.91)
Bond issuance costs	43,796	-	100.00
TOTAL EXPENDITURES	\$ 3,070,624	\$ 2,971,509	3.34 %
Per Capita	\$ 845	\$ 820	3.05 %
Total Long-term Indebtedness	\$ 4,030,000	\$ 6,050,000	(33.39) %
Per Capita	1,110	1,670	(33.57)
General Fund Balance - December 31	\$ 1,361,134	\$ 1,304,882	4.31 %
Per Capita	375	360	4.02

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

STATISTICAL SCHEDULES AND EXHIBITS (UNAUDITED)

CITY OF MELROSE
MELROSE, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2013

CITY OF MELROSE, MINNESOTA
MELROSE ELECTRIC UTILITIES
ELECTRIC UTILITY OPERATING STATISTICS (UNAUDITED)
FOR THE YEARS ENDED DECEMBER 31, 2013, 2012, 2011, AND 2010

	<u>2010</u>	<u>2011 Peer Group</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
<u>Financial Ratios</u>					
Revenue per KWH					
Residential Customers	\$ 0.083	\$ 0.118	\$ 0.081	\$ 0.082	\$ 0.0810
Commercial Customers	\$ 0.083	\$ 0.076	\$ 0.080	\$ 0.079	\$ 0.0800
Industrial Customers	\$ 0.064	\$ 0.080	\$ 0.063	\$ 0.063	\$ 0.0630
Times Interest Earned	N/A	N/A	N/A	N/A	N/A
Debt Service Coverage	N/A	N/A	N/A	N/A	N/A
Uncollectible Accounts per Revenue Dollar	\$ 0.0002	\$ 0.0015	\$ 0.0010	\$ 0.0001	\$ 0.0002
<u>Operating Ratios</u>					
Total O&M Expense per KWH Sold	\$ 0.072	\$ 0.059	\$ 0.069	\$ 0.070	\$ 0.069
Total Distribution and O&M Expense (Excluding Power Supply Exp.) per retail customer	\$ 404	N/A	\$ 397	\$ 375	\$ 302
Purchased Power per KWH	\$ 0.055	\$ 0.044	\$ 0.053	\$ 0.058	\$ 0.056
Distribution O&M Expense per Retail Customer	\$ 220	\$ 301	\$ 217	\$ 212	\$ 150
Distribution O&M Expense per Circuit Mile	\$ 7,580	\$ 12,883	\$ 7,492 *	\$ 7,319 *	\$ 5,175
Customer Accounting, Service, and Sales, Administrative and General Expense per Retail Customer	\$ 192	\$ 401	\$ 206	\$ 229	\$ 224
<u>Other Ratios</u>					
Labor Expense per Worker- Hour	\$ 26.75	\$ 34.68	\$ 27.85	\$ 27.85	\$ 27.90
Energy Loss Percentage	4.30%	N/A	1.90%	-4.60%	1.70%
System Load Factor	77.05%	N/A	75.40%	75.60%	75.60%

Represents the Melrose Electric Utility
APPA peer group ratio

The peer group data was derived from a report issued by the American Public Power Association (APPA) titled, "Selected Financial and Operating Ratios of Public Power Systems, 2010". The report presented data of financial and operating ratios for 188 of the largest publicly owned electric utilities in the United States and averaged the ratios based on number of customers. The ratios presented are those for utilities with 2,000 to 5,000 customers. The ratios can be a useful tool in assessing electric utility performance. However, as it stated in the report, these ratios do not provide definitive information and the level of any indicator should not be taken as the "correct" performance.

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

CITY OF MELROSE, MINNESOTA
MELROSE ELECTRIC UTILITIES
ELECTRIC UTILITY LINE LOSS (UNAUDITED)
FOR THE YEARS ENDED DECEMBER 31, 2013, 2012, AND 2011

Source of Energy, Disposition of Energy and Percentage Relations	2011		2012		2013	
	KWH	Percent	KWH	Percent	KWH	Percent
Purchased energy	\$ 112,046,940	100.2 %	\$ 103,004,346	100.2 %	\$ 115,570,464	100.2 %
Energy consumed by station	(255,480)	(0.2)	(254,240)	(0.2)	(186,800)	(0.2)
Total net energy outgoing feeders	111,791,460	100.0	102,750,106	100.0	115,383,664	100.0
Net distributed energy	(109,658,153)	(98.1)	(107,518,002)	(104.6)	(113,383,016)	(98.3)
Energy lost in distribution system	<u>\$ 2,133,307</u>	<u>1.9%</u>	<u>\$ (4,767,896)</u>	<u>-4.6% *</u>	<u>\$ 2,000,648</u>	<u>1.7%</u>

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

CITY OF MELROSE, MINNESOTA
MELROSE WATER UTILITIES
SUMMARY OF OPERATIONS AND UNAUDITED STATISTICS
FOR THE YEARS ENDED DECEMBER 31, 2013, 2012, AND 2011

SUMMARY OF OPERATIONS

	<u>2011</u>	<u>2012</u>	<u>2013</u>
OPERATING REVENUES			
Sales of water	\$ 926,127	\$ 926,071	\$ 903,970
Miscellaneous	<u>23,755</u>	<u>25,603</u>	<u>38,383</u>
TOTAL OPERATING REVENUES	<u>949,882</u>	<u>951,674</u>	<u>942,353</u>
OPERATING EXPENSES			
Operating expenses less depreciation	343,325	345,475	407,799
Depreciation	<u>257,976</u>	<u>260,395</u>	<u>260,264</u>
TOTAL OPERATING EXPENSES	<u>601,301</u>	<u>605,870</u>	<u>668,063</u>
TOTAL OPERATING INCOME	<u>\$ 348,581</u>	<u>\$ 345,804</u>	<u>\$ 274,290</u>
PERCENT OF CHANGE			
Sales of water	-2.94%	-0.01%	-2.39%

**UNAUDITED STATISTICS
MISCELLANEOUS**

	<u>2011</u>	<u>2012</u>	<u>2013</u>
WATER PUMPED (gallons)	631,748,846	635,918,999	607,912,000
WATER SOLD (gallons)	651,122,273	610,940,915	590,339,532
Percent of line loss	-3.07%	3.93%	2.89%
Revenues per 1,000 gallons pumped	\$ 1.50	\$ 1.50	\$ 1.55
Revenues per 1,000 gallons sold	\$ 1.46	\$ 1.56	\$ 1.60
Labor cost per customer	\$ 124.60	\$ 121.97	\$ 120.62
O&M per customer	\$ 176.59	\$ 180.38	\$ 234.25
Number of customers	1,139	1,141	1,148

CITY OF MELROSE, MINNESOTA
BONDS PAYABLE
DECEMBER 31, 2013

Bond Issue	Date Issued	Final Maturity Date	Interest Dates	Interest Rate	Annual Serial Payments		Bonds		
					Amount	Year	Authorized and Issued	Retired	Outstanding
Governmental Fund Debt									
General Obligation Improvement Bonds of 2011	04/13/2011	02/01/2020	2-1;8-1	2.00 %	\$ 290,000	2014	\$ 2,155,000	\$ 90,000	\$ 2,065,000
				2.00	320,000	2015			
				2.00	320,000	2016			
				2.20	315,000	2017			
				2.45	315,000	2018			
				2.70	315,000	2019			
				2.85	190,000	2020			
General Obligation Capital Improvement Plan Bonds of 2013	05/01/2013	02/01/2028	2-1;8-1	1.00 %	\$ 90,000	2014	\$ 1,965,000	\$ -	\$ 1,965,000
				1.00	125,000	2015			
				1.00	125,000	2016			
				1.00	125,000	2017			
				1.00	125,000	2018			
				1.25	125,000	2019			
				1.50	130,000	2020			
				1.50	130,000	2021			
				1.75	135,000	2022			
				1.75	135,000	2023			
				2.00	140,000	2024			
				2.00	140,000	2025			
				2.00	145,000	2026			
				2.25	145,000	2027			
				2.25	150,000	2028			
Total Governmental Fund Bonded Debt							<u>\$ 4,120,000</u>	<u>\$ 90,000</u>	<u>\$ 4,030,000</u>
Enterprise Fund Debt									
1999 G.O. Water Revenue Notes (Water Tower)	04/13/1999	08/20/2019	2-20;8-20	3.48 %	\$ 162,000	2014	\$ 2,500,000	\$ 1,921,300	\$ 578,700
				3.48	167,000	2015			
				3.48	173,000	2016			
				3.48	76,700	2017			
General Obligation Refunding Bonds of 2005	09/20/2005	08/01/2020	2-1;8-1	4.00 %	\$ 815,000	2014	\$ 1,330,000	\$ 515,000	\$ 815,000
General Obligation Crossover Refunding Bonds of 2010	11/01/2010	12/01/2018	6-1;12-1	2.00 %	\$ 260,000	2014	\$ 1,415,000	\$ 250,000	\$ 1,165,000
				2.00	265,000	2015			
				2.00	265,000	2016			
				2.00	275,000	2017			
				2.45	100,000	2018			

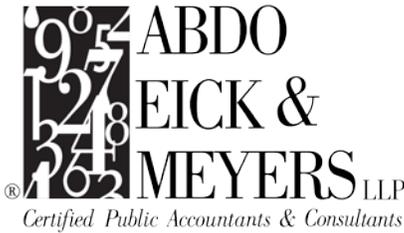
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OTHER SCHEDULES AND REQUIRED REPORTS

CITY OF MELROSE
MELROSE, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2013

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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, 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, 2013, and the related notes to the financial statements, and have issued our report thereon dated March 27, 2014.

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
March 27, 2014



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

Honorable Mayor and City Council
City of Melrose, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Melrose, Minnesota (the City), as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 27, 2014.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We identified certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as items 2013-001 and 2013-002 that we consider to be significant deficiencies.

Compliance and Other Matters

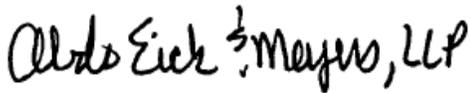
As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect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

The City's Responses to Findings

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

Purpose of this Report

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



ABDO, EICK & MEYERS, LLP
Minneapolis, Minnesota
March 27, 2014

CITY OF MELROSE, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2013

Finding Description

2013-001 **Preparation of financial statements**

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

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

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

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

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

Management response:

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

CITY OF MELROSE, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2013

Finding Description

2013-002 Reconciliation of investments

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

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

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

Effect: As a result there was unrecorded activity including the market value adjustment at year end.

Recommendation: We recommend that the City put controls in place to ensure investments are reconciled to the finance system each month and that all investment activity is recorded. Implementing this recommendation will not result in any additional cost and will ensure that finance system data is complete.

Management response:

The City has developed stream lined tracking and reconciliation procedures and an investment schedule that will allow for complete reconciliation to the finance system. The City will complete procedures to ensure timely investment reconciliations are completed.