

Comprehensive Annual Financial Report



City of Melrose

Melrose, Minnesota

For the Year Ended
December 31, 2017

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CITY OF MELROSE, MINNESOTA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2017

MICHAEL BRETHERST - CITY ADMINISTRATOR
TESSA BEUNING, CPA - FINANCE DIRECTOR

PREPARED BY
DEPARTMENT OF FINANCE

Member of the Government Finance Officers' Association
Of the United States and Canada

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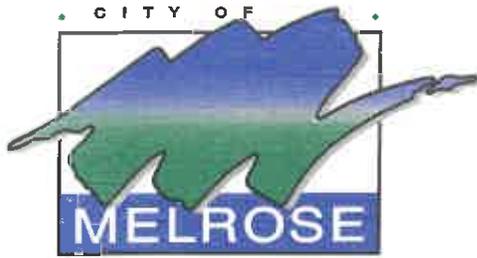
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INTRODUCTORY SECTION

CITY OF MELROSE
MELROSE, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2017

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April 6, 2018

Honorable Mayor, Member of the City Council,
Members of the Public Utilities Commission,
and Citizens of Melrose

The Comprehensive Annual Financial Report (CAFR) for the City of Melrose for the fiscal year ended December 31, 2017 is hereby submitted. Minnesota State Statutes and the City's ordinance require an annual audit of the City's accounts by the State Auditor's Office or by independent certified public accountants. The firm of Abdo, Eick, and Meyers, LLP was selected to perform the City's audit and their unmodified opinion has been included in this report. The Independent auditor's report is included in the financial section of this report.

This report was prepared by the City's Finance Department and responsibility for both the completeness and accuracy of this data, as well as the fairness of this presentation including all enclosures, rests with the City. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are recorded in a manner designed to present fairly the financial position and the results of operations of the various funds of the City. To provide a reasonable basis for making these representations, management of the City has established a comprehensive internal control framework that is designed to both protect the City's assets from loss, theft, or misuse, and to compile sufficient reliable information for the preparation for these financial statements in accordance with generally accepted accounting principles (GAAP). Internal accounting controls are designed to provide reasonable but not absolute assurance regarding the safeguarding of the City's assets against loss, theft, or misuse, and ensuring that adequate financial records are maintained for preparing financial statements, and maintaining accountability for assets. The development of an appropriate internal control system requires estimates and judgments by management to ensure that the costs do not exceed the benefits if the system. The City of Melrose's internal control structure is designed so that the estimated costs of control do not exceed the benefits.

Generally accepted accounting principles require that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of a Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City of Melrose's MD&A immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements.

Profile of the Government

The City of Melrose was originally incorporated in 1897, is located adjacent to I-94 in central Minnesota, approximately 35 miles west of St. Cloud, Minnesota. Melrose is located in Stearns County Minnesota. Melrose, a community of 3,602 has grown approximately 47% since 1980. The Sauk River flows through the City limits and feeds Melrose Lake also located in the City Limits which is a 72.21 acre lake. The City's bench mark elevation is 1208 feet.

Melrose operates under the "Plan A" form of government as defined in the State of Minnesota statutes. Under this plan, the government of the City is directed by a Council composed of an elected Mayor and four elected Council Members. The Council exercises legislative authority and determines all matters of policy. The Council appoints personnel responsible for the proper administration of all affairs relating to the City. The Council members are elected at-large to four-year terms staffed with an election every two years.

Melrose provides the full range of municipal services authorized by State Law and City Ordinance. This includes police, fire protection, street system, sanitation system, library, which is provided by Great River Regional Library, parks and recreation, planning and zoning and code enforcement, and general administrative services to serve the citizens of the Community. It has a Public Utilities Commission which has been in operation since 1907.

The Public Utilities provides three (3) primary services of Electric, Water and Waste Water Services. They service 2,475 total meters. The Utility's peak electric load is 19.5 megawatts and we have 8.5 megawatts of stand by generation. The Utility is permitted to operate a Class "A" Mechanical Waste Water Plant with a 3 million gallon per day NPDES wet weather rating permitted limit. It has two (2) one million gallon above ground storage tanks.

The annual budget serves as the foundation for the City of Melrose's financial planning and control. Budget requests are submitted by departments to the Finance Department each May. The Finance Department compiles these requests into a proposed budget. The Finance Department and city administrator review the information and present a draft budget to the Council and Public Utilities in July and August respectively for consideration. Following discussion and public input, the final tax levy and budget are approved in November and December.

The City's Financial Management Policies allow department heads to make administrative budget amendments (excluding personal service and capital outlay) throughout the year as long as the total department budget does not change and the amendment is approved by the city administrator and finance director. The Council and Utility Commission approve additional budget amendments as needed. Budget to actual comparisons are provided in this report for each individual governmental and enterprise fund for which an appropriated annual budget has been adopted. For the general fund this comparison is presented on page 45 as part of the basic financial statements for the governmental funds. For other governmental funds with appropriated annual budgets this comparison is presented in the governmental fund subsection of this report.

Local Economy

The local economy has continued to grow by the increase in building permits with a construction value of \$700,400 being issued in 2017. Commercial and industrial new construction permits valued at \$34,238,210 were issued in 2017. The value of residential maintenance permits amounted to \$596,710, and commercial and industrial maintenance permits accounted for \$2,893,205 in permit revenues. The number of new housing units have decreased from 6 in 2008 to 3 in 2017.

Many of Melrose's largest employers reported stable or growing employment levels between 2013 and 2017. This is largely due to the upward trend in manufacturing activity in the region. Many larger Melrose employers are experiencing modest growth. There has been continual interest in both affordable and market rate multi-family housing projects.

The Melrose Public Utilities has completed some significant infrastructure improvement in 2017. The Melrose Waste Water Plant has improved its Levee protection by increasing the height of the Levee by over two feet and added additional sheet pilings to protect the facility. In addition to the levee improvements, they upgraded the facility to operate more efficiently under peak loading. Also started during 2017 was the design and engineering for a new Electric substation plant to improve service reliability.

Long-term Financial Planning

As part of a yearly budget process, the City Council reviews and updates the five (5) year capital plan. The Plan provides a long-range forecast that brings together future expenditures, revenues, and development of the City. The Council has been diligent in maintaining a general level tax rate. This plan provides the information needed to develop in a manner that will sustain or expand City services while keeping the property taxes stable. Department heads and Supervisors take part in this process to estimate staff additions, service levels, and capital needs for the next ten years.

In addition, the City Council and Public Utilities Commission continually reviews cash flow analysis and long-term planning. The CIP is a 5-year planning tool that forecasts the City's capital needs based on the City's long-range plans, goals, and policies.

Relevant Financial Policies

The City Council and Utilities Commission have adopted several Financial Management Policies and continually monitors and updates the policies. The Financial Management Policies include: revenues, property taxes, investments, purchasing, financial reporting, reserves, fund balance, capital investment, and debt policies. The City's policy on fund balance states that the City will maintain an unassigned fund balance of not less than 35-50% of the next year's budgeted general fund operating expenditures. The percentage of unassigned fund balance at December 31, 2017 is 93%. Since property tax payments are received by the City in two installments in July and December, the City needs adequate cash reserves for cash flow in order to avoid short-term borrowing to finance operations.

The current balance reflects the City's goal to create a fund balance that is able to fund with cash Capital Improvement Funds. Within the next five (5) years, the Council and Utilities will be buying down their cash reserves with the intent to again, let them increase to a point a project can be paid for in cash or substantial buy down of the project.

Changes in state law over the past several years have resulted in funding changes for both schools and local governments. Due to the uncertainty in receiving the aid from the state, the LGA and MVHC revenues, that full amount of the pledged funds are not budgeted for. The same is true for the Public Utilities, their revenues are based on commodity sales, therefore, they increase and decrease based on the current market. Revenues are primarily based on a three year average while expenses are reviewed annually.

Major Initiatives

The City has assisted multiple Commercial and Industrial properties expand. This includes a 42 acre expansion of Jennie-O Turkey Store, expansion of Rahn One Stop and new construction of Arce Auto.

These strategic growth initiatives will provide direction about future growth and land use of the city. The Utility has seen an unprecedented update to its Electric Distribution network that included three new feeder lines and a new Substation which is planned to be completed in 2018. The Waste Water Plant completed a state of the art Levee protection system to prevent flooding to the Waste Water Plant.

Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Melrose for its Comprehensive Annual Financial Report for the fiscal year ended December 31, 2016. This was the 2nd year that the City has received this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized Comprehensive Annual Financial Report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current Comprehensive Annual Financial Report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

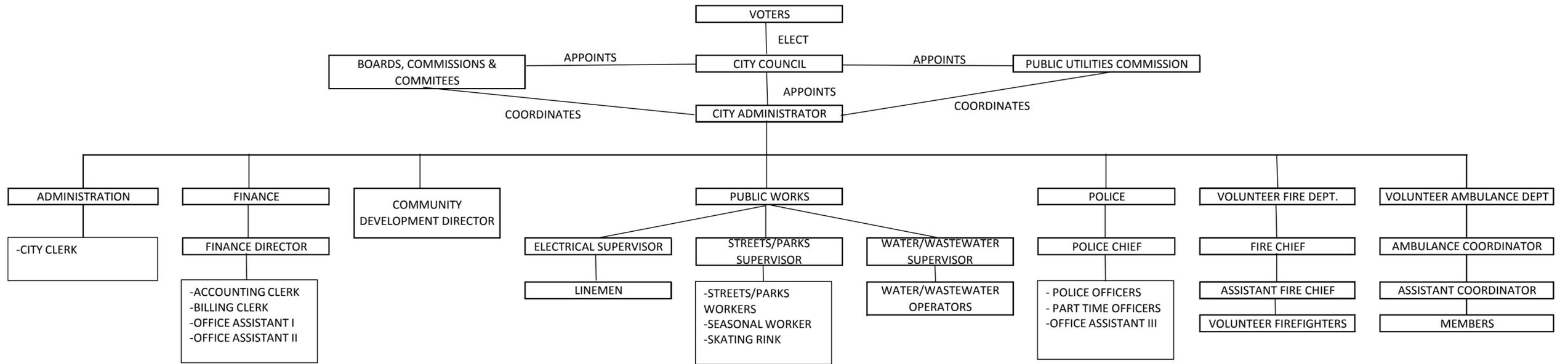
The preparation of this report is made possible by the efficient and dedicated services of the entire staff of the city administrator's office and Finance Department. The Mayor and City Council, and the Public Utilities Commission, are to be commended for their diligence and resolve in keeping the City in sound and stable financial condition. The Council and Commission's commitment to continually plan for the City's future and dedication to maintain high financial standards has helped the City maintain its strong financial condition.

Respectfully submitted,



Tessa Beuning, C.P.A.
Finance Director

CITY OF MELROSE
ORGANIZATIONAL CHART





Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**City of Melrose
Minnesota**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

December 31, 2016

Christopher P. Morill

Executive Director/CEO

City of Melrose, Minnesota
 Elected and Appointed Officials
 For the Year Ended December 31, 2017

ELECTED

Name	Title	Term Expires
Joe Finken	Mayor	12/31/2018
Dick Christenson	Council Member	12/31/2018
Josh Thieschafer	Council Member	12/31/2018
Tony Klasen	Council Member	12/31/2020
Justin Frieler	Council Member	12/31/2020

PUBLIC UTILITIES COMMISSION - APPOINTED

Jeremy Kraemer	Chair	1/1/2019
Eric Seanger	Vice Chair	1/1/2020
Dick Christenson	Secretary	1/1/2018

CITY OFFICIALS - APPOINTED

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

FINANCIAL SECTION
CITY OF MELROSE
MELROSE, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2017

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council
City of Melrose, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Melrose, Minnesota (the City), as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City as of December 31, 2017, 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 23 and the Schedules of Employer's Share of the Net Pension Liability, the Schedules of Employer's Contributions, the Schedule of Changes in Net Pension Liability (Asset) and Related Ratios and the Schedule of Funding Progress for Other Post-Employment Benefit Plan starting on page 90 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

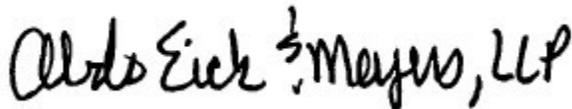
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual fund financial statements and schedules and statistical section are presented for purposes of additional 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 section have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 6, 2018, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



ABDO, EICK & MEYERS, LLP
Minneapolis, Minnesota
April 6, 2018

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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, 2017.

Financial Highlights

- The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by \$56,956,666 (net position). Of this amount, \$19,840,375 (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 \$2,587,670. The majority of this increase is attributed to the City's business-type funds with increasing charges for services.
- At the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$8,473,378, an increase of \$701,266 in comparison with the prior year. This increase was primarily a result of expenditures coming in less than anticipated, as well as the City's fiscal planning to build up fund balances to pay for future projects. Approximately 92 percent of this total amount, \$7,805,504, is unrestricted and is available for spending at the City's discretion; \$6,235,043 of the unrestricted amount has been committed (\$6,163,703) or assigned (\$71,340) for specific purposes.
- At the end of the current fiscal year, unrestricted fund balance for the General fund was \$1,698,997 or 78 percent of total General fund expenditures. \$181,246 is nonspendable because the funds were either prepaid items or due from other funds. Of the unrestricted balance, \$50,799 was committed and \$1,648,198 was unassigned and available for spending at the City's discretion.
- The City's total debt decreased by \$719,284 or 22.9 percent during the current fiscal year. This decrease was a result of 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.

Government-wide Financial Statements

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

The statement of position presents information on all of the City of Melrose's assets and deferred outflows of resources, and liabilities and deferred inflows of resources, 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 of Melrose 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 of Melrose that are principally supported by taxes and intergovernmental revenues (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 of Melrose include general government, public safety, streets and highways, sanitation, culture and recreation, economic development and miscellaneous. The business-type activities of the City of Melrose include water, wastewater, electric and ambulance.

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

The government-wide financial statements can be found on starting on page 35 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 of Melrose, 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 of Melrose 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 financial 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 of Melrose maintains twenty-one individual governmental funds, two of which are Debt Service funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General, Debt Service and Capital Improvement 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 elsewhere in this report.

The City of Melrose adopts an annual appropriated budget for its funds. A budgetary comparison statement has been provided for those funds to demonstrate compliance with this budget.

- The basic governmental fund financial statements can be found on starting on page 40 of this report.

Proprietary Funds. When the City of Melrose charges customers for services it provides - whether to outside customers or to other departments of the city - these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the statement of net position and the statement of revenues, expenses and changes in net position. The enterprise funds are the same as the business-type activities reported in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds. The City of Melrose uses enterprise funds to account for its water, wastewater, electric and ambulance operations.

The basic proprietary fund financial statements can be found on starting on page 46 of this report.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City of Melrose's own program. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on page 52 of this report.

Notes to Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found starting on page 53 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City of Melrose's progress in funding its obligation to provide pension and other postemployment benefits to its employees. Required supplementary information can be found starting on page 90 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found starting on page 98 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 and deferred inflows of resources by \$56,956,666 at the close of the most recent fiscal year.

By far, the largest portion of the City's net position (64 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		
	2017	2016	Increase (Decrease)	2017	2016	Increase (Decrease)
Assets						
Current and other assets	\$ 10,015,557	\$ 9,346,427	\$ 669,130	\$ 13,701,861	\$ 12,137,028	\$ 1,564,833
Capital assets	13,185,422	13,581,321	(395,899)	25,762,982	25,826,566	(63,584)
Total Assets	23,200,979	22,927,748	273,231	39,464,843	37,963,594	1,501,249
Deferred outflow of resources	713,998	1,107,134	(393,136)	205,439	392,808	(187,369)
Liabilities						
Long-term liabilities						
outstanding	3,393,931	4,738,981	(1,345,050)	1,207,394	1,773,900	(566,506)
Other liabilities	241,674	112,948	128,726	815,660	1,039,687	(224,027)
Total Liabilities	3,635,605	4,851,929	(1,216,324)	2,023,054	2,813,587	(790,533)
Deferred Inflow of Resources	755,896	236,257	519,639	214,038	120,515	93,523
Net Position						
Net investment in						
capital assets	10,972,305	10,937,790	34,515	25,660,629	25,446,660	213,969
Restricted	483,357	421,831	61,526	-	-	-
Unrestricted	8,067,814	7,587,075	480,739	11,772,561	9,975,640	1,796,921
Total Net Position	\$ 19,523,476	\$ 18,946,696	\$ 576,780	\$ 37,433,190	\$ 35,422,300	\$ 2,010,890

Net investment in capital assets (\$36,632,934) represents the largest portion of the City's net position. An additional portion of the City's net position (\$483,357, which equals roughly 1 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position (\$19,840,375) may be used to meet the City's ongoing obligations to citizens and creditors.

The decrease in the governmental activities long-term liabilities is primarily the result of the decreases in bonds payable, as well as the net pension liability. Capital assets decreased due to the annual depreciation of assets. However, current assets have an increase. The City was focused on building up cash balances to plan for future projects. The result of these variances is shown in the increase of the net position of governmental funds.

The enterprise funds show a decrease in liabilities, which is the result of a decrease in the bonds payable as well as the net pension liability.

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 \$2,587,670 during the current fiscal year. About 78 percent of this increase is attributed the positive operations of the enterprise funds.

Governmental Activities. Governmental activities increased the City's net position by \$576,780. Key elements to this increase are as follows:

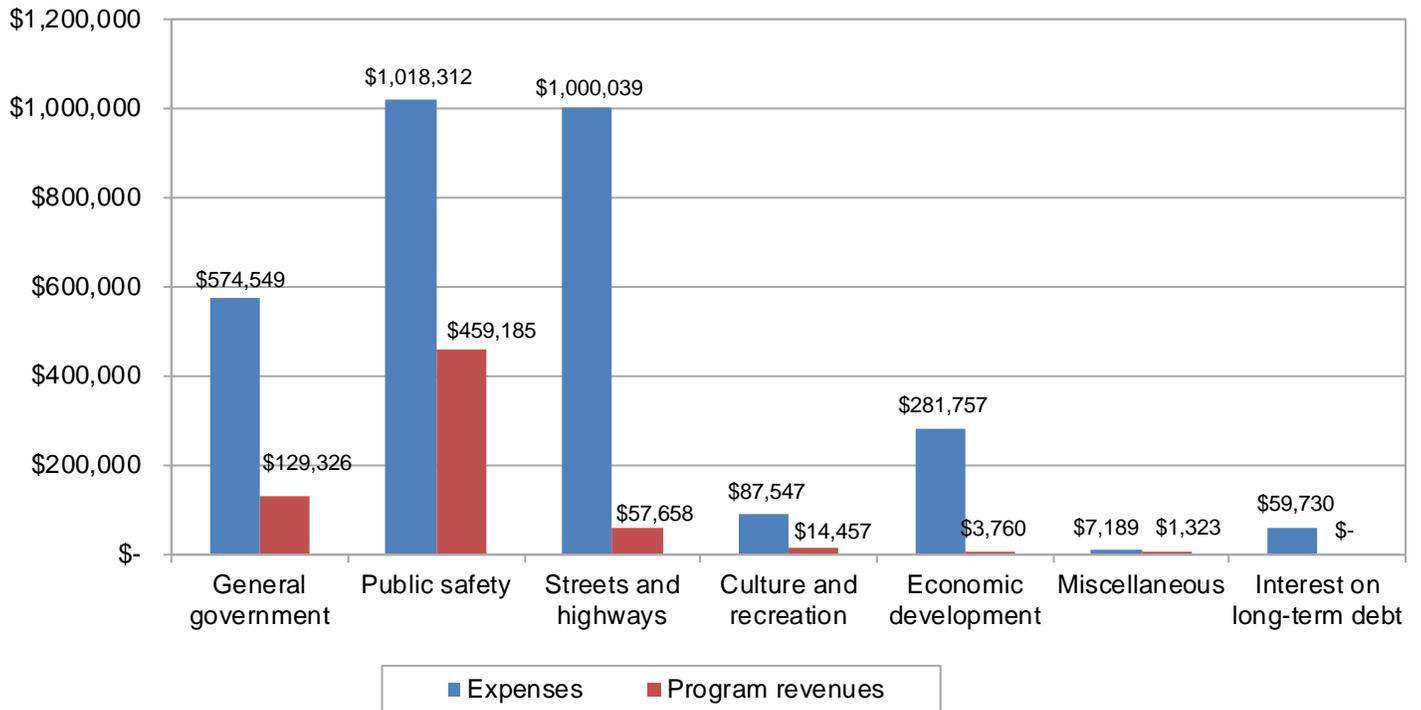
- An increase in building permit revenues.
- An increase in the property taxes and tax increments received.
- An increase in the amount of Local Government Aid (LGA) allocated to the City.
- An increase in investment earnings

City of Melrose's Changes in Net Position

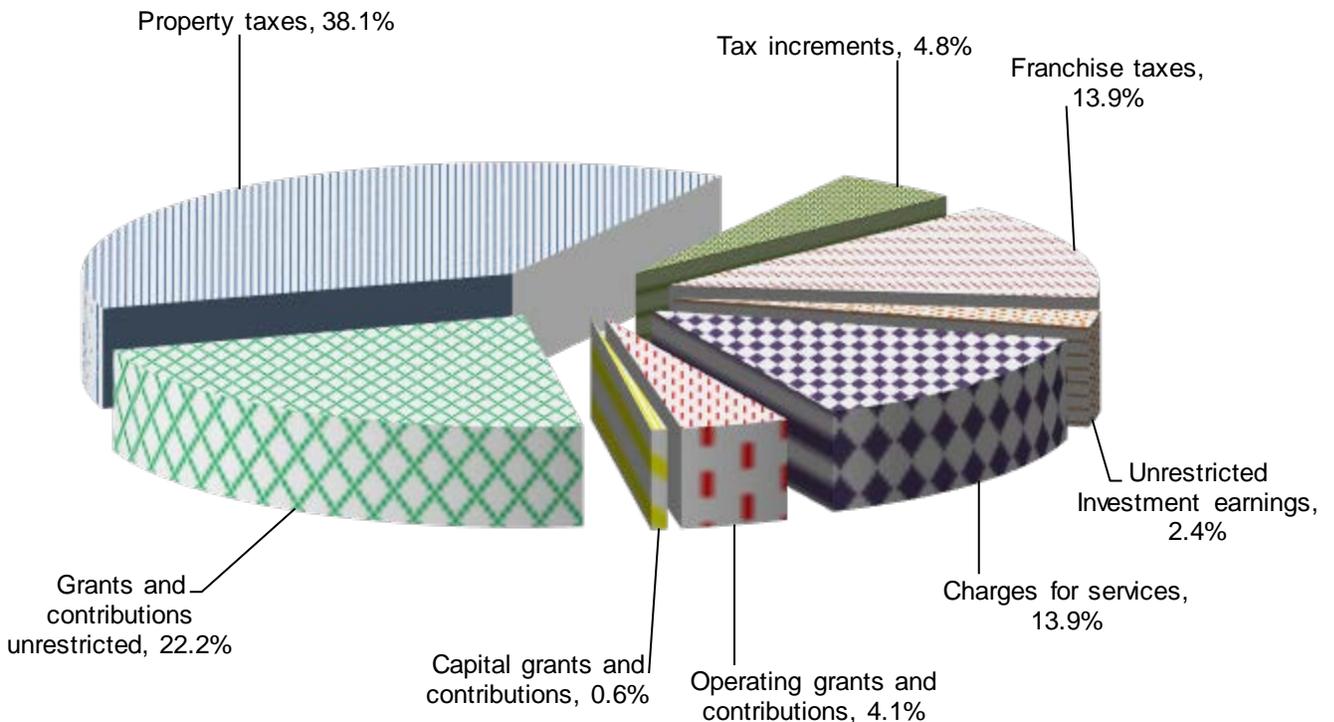
	Governmental Activities			Business-type Activities		
	2017	2016	Increase (Decrease)	2017	2016	Increase (Decrease)
Revenues						
Program Revenues						
Charges for services	\$ 493,988	\$ 325,127	\$ 168,861	\$ 12,776,681	\$ 12,353,286	\$ 423,395
Operating grants and contributions	149,306	136,368	12,938	21,509	162,684	(141,175)
Capital grants and contributions	22,415	8,762	13,653	505,284	713,916	(208,632)
General Revenues						
Property taxes/tax increments	1,549,310	1,510,670	38,640	-	-	-
Franchise taxes	501,400	493,092	8,308	-	-	-
Grants and contributions not restricted to specific programs	802,056	797,892	4,164	-	-	-
Unrestricted investment earnings	87,428	47,112	40,316	87,461	108,505	(21,044)
Gain on sale of capital assets	-	1,705	(1,705)	14,568	-	14,568
Total Revenues	3,605,903	3,320,728	285,175	13,405,503	13,338,391	67,112
Expenses						
General government	574,549	544,553	29,996	-	-	-
Public safety	1,018,312	941,667	76,645	-	-	-
Streets and highways	1,000,039	1,081,632	(81,593)	-	-	-
Culture and recreation	87,547	119,831	(32,284)	-	-	-
Economic development	281,757	214,128	67,629	-	-	-
Miscellaneous	7,189	-	7,189	-	-	-
Interest on long-term debt	59,730	74,045	(14,315)	-	-	-
Water	-	-	-	792,867	746,754	46,113
Wastewater	-	-	-	1,833,645	1,645,964	187,681
Electric	-	-	-	8,130,664	8,520,719	(390,055)
Ambulance	-	-	-	637,437	595,662	41,775
Total Expenses	3,029,123	2,975,856	53,267	11,394,613	11,509,099	(114,486)
Increase in Net Position						
Before Transfers	576,780	344,872	231,908	2,010,890	1,829,292	181,598
Transfers	-	844	(844)	-	(844)	844
Change in Net Position	576,780	345,716	231,064	2,010,890	1,828,448	182,442
Net Position, January 1	18,946,696	18,600,980	345,716	35,422,300	33,593,852	1,828,448
Net Position, December 31	<u>\$ 19,523,476</u>	<u>\$ 18,946,696</u>	<u>\$ 576,780</u>	<u>\$ 37,433,190</u>	<u>\$ 35,422,300</u>	<u>\$ 2,010,890</u>

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

Expenses and Program Revenues - Governmental Activities

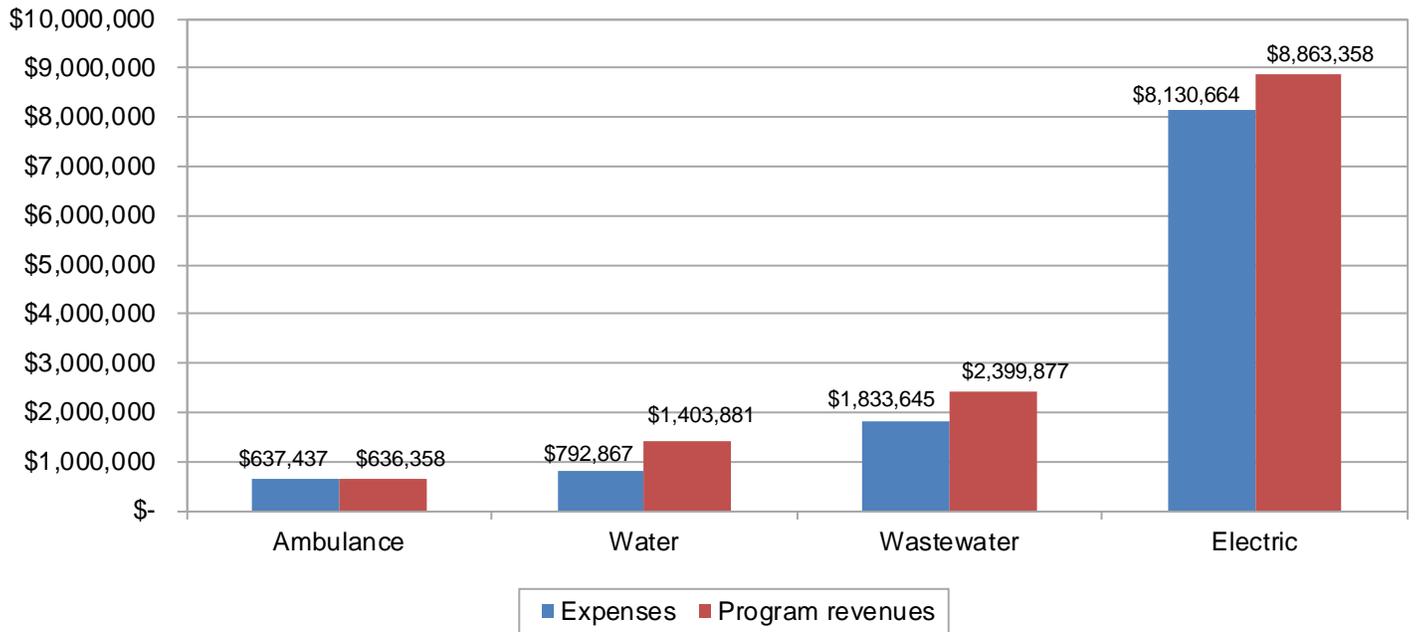


Revenues by Source - Governmental Activities

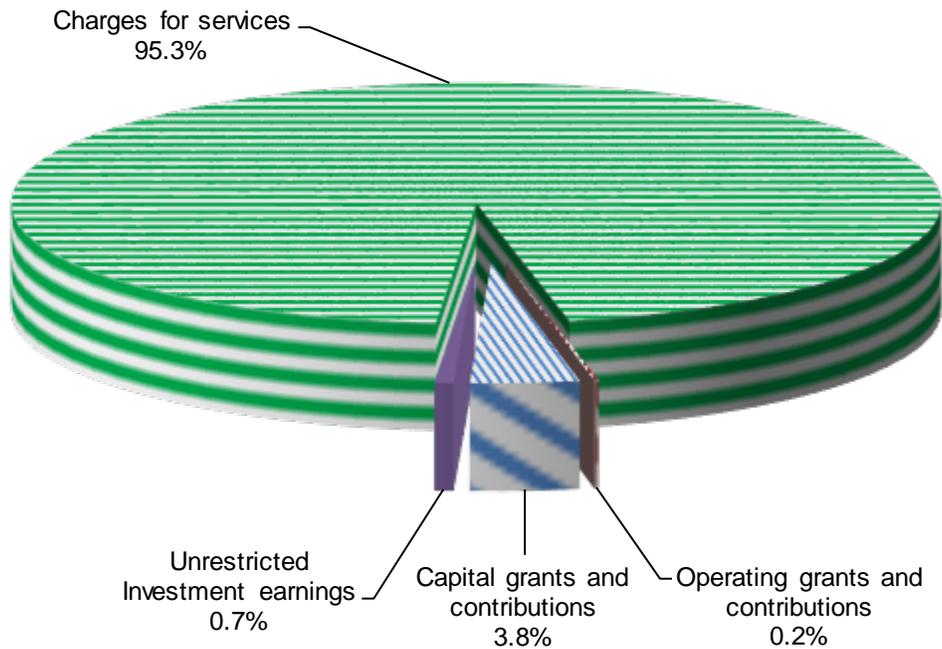


Business-type Activities. There was an increase of \$2,010,890 in net position reported in connection with the City's business-type activities.

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 \$8,473,378, an increase of \$701,266 in comparison with the prior year, primarily as a result of expenditures coming in less than anticipated, as well as the City's fiscal planning to build up fund balances to pay for future projects. Approximately 92 percent of this total amount, \$7,805,504, constitutes unrestricted fund balance, which is available for spending at the City's discretion. Portions of unrestricted fund balance have been committed (\$6,163,703) or assigned (\$71,340) for specific purposes by the City. The remainder of fund balance (\$1,570,461) is not available for new spending because it is either in nonspendable form (\$181,757) or restricted by a third party (\$486,117).

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 \$1,880,243. 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 78 and 68 percent of current year expenditures and transfers out, respectively.

The fund balance of the City's General fund increased \$236,048 during the current fiscal year. This was mainly due to increased revenues relating to building permits and many expenditures coming in under budget.

The Debt Service fund has a total fund balance of \$366,945, all of which is restricted for the payment of Debt Service. The net increase in fund balance during the current year in the Debt Service fund was \$12,537. The increase was mainly a result of the property taxes and charges for services being sufficient to cover the principal and interest charges, due to the debt service structuring in place.

The Capital Improvements fund has a fund balance of \$5,499,246, all of which is committed for capital improvements. The fund balance increased by \$409,907 during the year due to transfers in to fund future capital projects. The City is consciously building up the cash balances in this fund to fund upcoming capital projects, and reduce the need for bonding.

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

Unrestricted net position of the enterprise funds at the end of the year amounted to \$11,772,561. The total increase in net position for the funds was \$2,010,890. The wastewater fund received grant revenues to cost share an improvement project that is being capitalized, resulting in a large increase in net position, as well as overall positive operations of the funds. Decreases in personnel costs and energy purchases also led to the increases in net position.

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 \$585,917, before other financing sources and uses. Both budgets called for a budget surplus of \$2,629, after other financing sources and uses. Spending was over budget, primarily in the public safety function, relating to building inspections. However, this over spending was offset by the nonbusiness license and permit revenue which exceeded budgeted amounts. The General fund transferred out an additional \$10,986 than originally budgeted to set aside funds for future building maintenance. This led to the overall positive variance of \$233,419 from the final budget.

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, 2017, amounts to \$38,948,404 (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		
	2017	2016	Increase (Decrease)	2017	2016	Increase (Decrease)
Land	\$ 3,224,910	\$ 3,224,910	\$ -	\$ 360,644	\$ 380,444	\$ (19,800)
Buildings	2,477,037	2,590,691	(113,654)	661,220	723,672	(62,452)
Machinery and Equipment	1,157,299	1,294,421	(137,122)	596,186	489,421	106,765
Infrastructure	6,245,968	6,412,484	(166,516)	22,912,405	20,566,784	2,345,621
Construction in Progress	80,208	58,815	21,393	1,232,527	3,666,245	(2,433,718)
Total	\$ 13,185,422	\$ 13,581,321	\$ (395,899)	\$ 25,762,982	\$ 25,826,566	\$ (63,584)

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

- Completed work on the levee and wastewater treatment plant improvement projects.
- Started work on utility expansions.
- Started work on the East substation project.
- Street projects completed.

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

Long-term Debt. At the end of the current fiscal year, the City had total bonded debt outstanding of \$2,420,000. Of this amount, \$2,320,000 is governmental-related debt and \$100,000 is enterprise-related debt. They are all backed by the full faith and credit of the City.

City of Melrose's Outstanding Debt

	Governmental Activities			Business-type Activities		
	2017	2016	Increase (Decrease)	2017	2016	Increase (Decrease)
Bonds Payable						
General obligation bonds	\$ 1,500,000	\$ 1,625,000	\$ (125,000)	\$ -	\$ -	\$ -
General obligation improvement bonds	820,000	1,135,000	(315,000)	-	-	-
General obligation revenue bonds	-	-	-	100,000	375,000	(275,000)
Unamortized premium on bonds	3,624	5,355	(1,731)	2,353	4,906	(2,553)
Total Bonds Payable, Net	<u>\$ 2,323,624</u>	<u>\$ 2,765,355</u>	<u>\$ (441,731)</u>	<u>\$ 102,353</u>	<u>\$ 379,906</u>	<u>\$ (277,553)</u>

The City's total bonded debt decreased by \$719,284 or 22.9 percent during the current fiscal year. This decrease was a result 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 \$5,079,309. There was \$1,959,439 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 68 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 Electric funds in 2017 for the years 2018 through 2021. A rate study will be completed in 2018 for water and wastewater rates. The rates are reviewed and updated, if necessary, on an annual basis.

All of these factors were considered in preparing the City's budget for the 2018 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 Finance Director, City of Melrose, 225 1st Street Northeast, Melrose, Minnesota 56352.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF MELROSE
MELROSE, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2017

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City of Melrose, Minnesota
Statement of Net Position
December 31, 2017

	Primary Government			Component Unit Melrose Area Development Authority
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and temporary investments	\$ 8,469,773	\$ 11,303,656	\$ 19,773,429	\$ 405,083
Receivables				
Accrued interest	17,082	13,396	30,478	-
Delinquent taxes	20,645	-	20,645	-
Accounts, net of allowance	81,732	1,456,692	1,538,424	1,012
Loans	-	-	-	291,155
Special assessments	368,466	-	368,466	-
Internal balances	111,393	(111,393)	-	-
Due from other governments	7,903	305,517	313,420	-
Due from CentraCare	763,831	-	763,831	-
Inventories	-	728,618	728,618	-
Prepaid items	6,076	5,375	11,451	12
Net pension asset	168,656	-	168,656	-
Capital assets				
Land and construction in progress	3,305,118	1,593,171	4,898,289	-
Depreciable assets (net of accumulated depreciation)	9,880,304	24,169,811	34,050,115	-
Total Assets	23,200,979	39,464,843	62,665,822	697,262
Deferred Outflows of Resources				
Deferred charge on refunding	110,507	-	110,507	-
Deferred pension resources	603,491	205,439	808,930	-
Total Deferred Outflows of Resources	713,998	205,439	919,437	-
Liabilities				
Accounts payable	210,581	769,531	980,112	5,328
Accrued salaries payable	-	13,241	13,241	-
Accrued interest payable	21,093	204	21,297	-
Customer deposits payable	10,000	32,684	42,684	-
Noncurrent liabilities				
Due within one year	486,566	166,493	653,059	-
Due in more than one year	2,907,365	1,040,901	3,948,266	-
Total Liabilities	3,635,605	2,023,054	5,658,659	5,328
Deferred Inflows of Resources				
Deferred pension resources	755,896	214,038	969,934	-
Net Position				
Net investment in capital assets	10,972,305	25,660,629	36,632,934	-
Restricted for				
Debt service	364,185	-	364,185	-
TIF districts	119,172	-	119,172	-
Unrestricted	8,067,814	11,772,561	19,840,375	691,934
Total Net Position	\$ 19,523,476	\$ 37,433,190	\$ 56,956,666	\$ 691,934

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, 2017

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities				
General government	\$ 574,549	\$ 115,105	\$ 11,809	\$ 2,412
Public safety	1,018,312	339,905	119,280	-
Streets and highways	1,000,039	37,655	-	20,003
Culture and recreation	87,547	-	14,457	-
Economic development	281,757	-	3,760	-
Miscellaneous	7,189	1,323	-	-
Interest on long-term debt	59,730	-	-	-
Total Governmental Activities	<u>3,029,123</u>	<u>493,988</u>	<u>149,306</u>	<u>22,415</u>
Business-type Activities				
Water	792,867	1,096,354	456	307,071
Wastewater	1,833,645	2,200,707	957	198,213
Electric	8,130,664	8,859,781	3,577	-
Ambulance	637,437	619,839	16,519	-
Total Business-type Activities	<u>11,394,613</u>	<u>12,776,681</u>	<u>21,509</u>	<u>505,284</u>
Total Primary Government	<u>\$ 14,423,736</u>	<u>\$ 13,270,669</u>	<u>\$ 170,815</u>	<u>\$ 527,699</u>
Component Unit				
Melrose Area Development Authority	<u>\$ 18,116</u>	<u>\$ -</u>	<u>\$ 26,464</u>	<u>\$ -</u>

General Revenues

Taxes

Property taxes, levied for general purposes

Property taxes, levied for debt service

Tax increments

Franchise taxes

State grants and contributions not restricted to specific programs

Unrestricted investment earnings

Gain on sale of capital assets

Total General Revenues

Change in Net Position

Net Position, January 1

Net Position, December 31

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

Net (Expenses) Revenues and Changes in Net Position

Primary Government			Component Unit
Governmental Activities	Business-type Activities	Total	Economic Development Authority
\$ (445,223)	\$ -	\$ (445,223)	\$ -
(559,127)	-	(559,127)	-
(942,381)	-	(942,381)	-
(73,090)	-	(73,090)	-
(277,997)	-	(277,997)	-
(5,866)	-	(5,866)	-
(59,730)	-	(59,730)	-
<u>(2,363,414)</u>	<u>-</u>	<u>(2,363,414)</u>	<u>-</u>
-	611,014	611,014	-
-	566,232	566,232	-
-	732,694	732,694	-
-	(1,079)	(1,079)	-
<u>-</u>	<u>1,908,861</u>	<u>1,908,861</u>	<u>-</u>
<u>(2,363,414)</u>	<u>1,908,861</u>	<u>(454,553)</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>8,348</u>
929,663	-	929,663	-
445,000	-	445,000	-
174,647	-	174,647	-
501,400	-	501,400	-
802,056	-	802,056	-
87,428	87,461	174,889	13,565
-	14,568	14,568	-
<u>2,940,194</u>	<u>102,029</u>	<u>3,042,223</u>	<u>13,565</u>
576,780	2,010,890	2,587,670	21,913
<u>18,946,696</u>	<u>35,422,300</u>	<u>54,368,996</u>	<u>670,021</u>
<u>\$ 19,523,476</u>	<u>\$ 37,433,190</u>	<u>\$ 56,956,666</u>	<u>\$ 691,934</u>

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

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FUND FINANCIAL STATEMENTS

CITY OF MELROSE
MELROSE, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2017

City of Melrose, Minnesota

Balance Sheet
Governmental Funds
December 31, 2017

	General	Debt Service	Capital Improvements	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and temporary investments	\$ 1,843,854	\$ 365,716	\$ 5,414,870	\$ 845,333	\$ 8,469,773
Receivables					
Accrued interest	-	-	17,082	-	17,082
Delinquent taxes	20,645	-	-	-	20,645
Accounts, net of allowance	5,074	-	73,675	2,983	81,732
Special assessments	-	18,333	350,133	-	368,466
Due from other governments	6,659	1,229	15	-	7,903
Due from other funds	175,681	-	-	9,874	185,555
Due from CentraCare	-	-	763,831	-	763,831
Prepaid items	5,565	-	-	511	6,076
Total Assets	\$ 2,057,478	\$ 385,278	\$ 6,619,606	\$ 858,701	\$ 9,921,063
Liabilities					
Accounts payable	\$ 146,590	\$ -	\$ 6,396	\$ 57,595	\$ 210,581
Customer deposits payable	10,000	-	-	-	10,000
Due to other funds	-	-	-	74,162	74,162
Total Liabilities	156,590	-	6,396	131,757	294,743
Deferred Inflows of Resources					
Unavailable revenue - property taxes	20,645	-	-	-	20,645
Unavailable revenue - special assessments	-	18,333	350,133	-	368,466
Unavailable revenue - due from CentraCare	-	-	763,831	-	763,831
Total Deferred Inflows of Resources	20,645	18,333	1,113,964	-	1,152,942
Fund Balances					
Nonspendable	181,246	-	-	511	181,757
Restricted	-	366,945	-	119,172	486,117
Committed	50,799	-	5,499,246	613,658	6,163,703
Assigned	-	-	-	71,340	71,340
Unassigned	1,648,198	-	-	(77,737)	1,570,461
Total Fund Balances	1,880,243	366,945	5,499,246	726,944	8,473,378
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 2,057,478	\$ 385,278	\$ 6,619,606	\$ 858,701	\$ 9,921,063

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

City of Melrose, Minnesota
 Reconciliation of the Balance Sheet
 to the Statement of Net Position
 Governmental Funds
 December 31, 2017

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

Total Fund Balances - Governmental Funds	\$ 8,473,378
Long-term assets for pensions reported in governmental activities are not financial resources and therefore are not reported as assets in the funds.	
Net pension asset	168,656
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.	
Cost of capital assets	22,507,773
Less accumulated depreciation	(9,322,351)
Noncurrent liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds.	
Noncurrent liabilities at year-end consist of	
Bonds payable	(2,320,000)
Plus unamortized bond premium	(3,624)
Deferred charge on refunding	110,507
Compensated absences payable	(73,507)
Other postemployment benefits payable	(146,938)
Pension liability	(849,862)
Some receivables are not available soon enough to pay for the current period's expenditures, and therefore are unavailable in the funds.	
Property taxes receivable	20,645
Special assessments receivable	368,466
Due from CentraCare	763,831
Governmental funds do not report long-term amounts related to pensions.	
Deferred outflows of pension resources	603,491
Deferred inflows of pension resources	(755,896)
Governmental funds do not report a liability for accrued interest until due and payable.	(21,093)
Total Net Position - Governmental Activities	<u>\$ 19,523,476</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, 2017

	General	Debt Service	Capital Improvements	Other Governmental Funds	Total Governmental Funds
Revenues					
Taxes	\$ 1,401,669	\$ 445,000	\$ 63,370	\$ 164,816	\$ 2,074,855
Licenses and permits	240,388	-	-	-	240,388
Intergovernmental	842,145	-	-	44,531	886,676
Charges for services	137,167	52,257	-	89,056	278,480
Fines and forfeitures	14,910	-	-	-	14,910
Special assessments	-	7,937	34,148	-	42,085
Interest on investments	13,992	141	68,225	5,070	87,428
Miscellaneous	11,809	-	140,425	28,302	180,536
Total Revenues	<u>2,662,080</u>	<u>505,335</u>	<u>306,168</u>	<u>331,775</u>	<u>3,805,358</u>
Expenditures					
Current					
General government	465,188	-	-	-	465,188
Public safety	748,340	-	-	129,181	877,521
Streets and highways	465,075	-	-	-	465,075
Sanitation	3,947	-	-	-	3,947
Culture and recreation	59,181	-	-	532	59,713
Economic development	82,608	-	-	190,475	273,083
Miscellaneous	-	-	-	7,189	7,189
Capital outlay					
General government	-	-	74,450	-	74,450
Public safety	-	-	7,878	20,344	28,222
Streets and highways	-	-	312,419	37,068	349,487
Economic development	6,495	-	-	-	6,495
Debt service					
Principal	-	440,000	-	-	440,000
Interest and other charges	924	52,798	-	-	53,722
Total Expenditures	<u>1,831,758</u>	<u>492,798</u>	<u>394,747</u>	<u>384,789</u>	<u>3,104,092</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>830,322</u>	<u>12,537</u>	<u>(88,579)</u>	<u>(53,014)</u>	<u>701,266</u>
Other Financing Sources (Uses)					
Transfers in	-	-	498,486	95,788	594,274
Transfers out	(594,274)	-	-	-	(594,274)
Total Other Financing Sources (Uses)	<u>(594,274)</u>	<u>-</u>	<u>498,486</u>	<u>95,788</u>	<u>-</u>
Net Change in Fund Balances	236,048	12,537	409,907	42,774	701,266
Fund Balances, January 1	<u>1,644,195</u>	<u>354,408</u>	<u>5,089,339</u>	<u>684,170</u>	<u>7,772,112</u>
Fund Balances, December 31	<u>\$ 1,880,243</u>	<u>\$ 366,945</u>	<u>\$ 5,499,246</u>	<u>\$ 726,944</u>	<u>\$ 8,473,378</u>

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

City of Melrose, Minnesota
 Reconciliation of the Statement of
 Revenues, Expenditures, and Changes in Fund Balances
 to the Statement of Activities
 Governmental Funds
 For the Year Ended December 31, 2017

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

Total Net Change in Fund Balances - Governmental Funds	\$ 701,266
<p>Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense.</p>	
Capital outlay	243,442
Depreciation expense	(639,341)
<p>The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas the effect of these amounts are amortized in the statement of activities. The amounts below are the effects of these differences in the treatment of long-term debt and related items.</p>	
Principal repayments	440,000
Amortization of bond premium	1,731
Amortization of deferred charge on refunding	(11,317)
<p>Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.</p>	
	3,578
<p>Long-term pension activity is not reported in governmental funds.</p>	
Pension expense	1,601
Pension revenues	2,160
<p>Revenue recognized due to issuance of long term note receivable. Under the modified accrual basis of accounting in governmental funds certain revenues cannot be recognized until they are available to liquidate liabilities of the current period.</p>	
	(130,118)
<p>Certain revenues are recognized as soon as they are earned. Under the modified accrual basis of accounting certain revenues cannot be recognized until they are available to liquidate liabilities of the current period.</p>	
Property taxes	(24,145)
Special assessments	(47,352)
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.</p>	
Compensated absences	12,249
Other postemployment benefits	23,026
	576,780
Change in Net Position - Governmental Activities	\$ 576,780

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

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City of Melrose, Minnesota
Statement of Revenues, Expenditures and Changes in Fund Balances -
Budget and Actual
General Fund
For the Year Ended December 31, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 1,394,000	\$ 1,394,000	\$ 1,401,669	\$ 7,669
Licenses and permits	69,850	69,850	240,388	170,538
Intergovernmental	831,382	831,382	842,145	10,763
Charges for services	80,050	80,050	137,167	57,117
Fines and forfeitures	15,000	15,000	14,910	(90)
Interest on investments	18,000	18,000	13,992	(4,008)
Miscellaneous	4,500	4,500	11,809	7,309
Total Revenues	<u>2,412,782</u>	<u>2,412,782</u>	<u>2,662,080</u>	<u>249,298</u>
Expenditures				
Current				
General government	511,624	511,624	465,188	46,436
Public safety	619,199	619,199	748,340	(129,141)
Streets and highways	493,835	493,835	465,075	28,760
Sanitation	4,750	4,750	3,947	803
Culture and recreation	101,895	101,895	59,181	42,714
Economic development	94,162	94,162	82,608	11,554
Capital outlay	-	-	6,495	(6,495)
Debt service				
Interest and other charges	1,400	1,400	924	476
Total Expenditures	<u>1,826,865</u>	<u>1,826,865</u>	<u>1,831,758</u>	<u>(4,893)</u>
Excess of Revenues Over Expenditures	585,917	585,917	830,322	244,405
Other Financing Uses				
Transfers out	<u>(583,288)</u>	<u>(583,288)</u>	<u>(594,274)</u>	<u>(10,986)</u>
Net Change in Fund Balances	2,629	2,629	236,048	233,419
Fund Balances, January 1	<u>1,644,195</u>	<u>1,644,195</u>	<u>1,644,195</u>	<u>-</u>
Fund Balances, December 31	<u>\$ 1,646,824</u>	<u>\$ 1,646,824</u>	<u>\$ 1,880,243</u>	<u>\$ 233,419</u>

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

City of Melrose, Minnesota
Statement of Net Position
Proprietary Funds
December 31, 2017

Business-type Activities - Enterprise funds

	601 Water	602 Wastewater	604 Electric	Nonmajor 216 Ambulance	Totals
Assets					
Current Assets					
Cash and temporary investments	\$ 1,507,751	\$ 2,989,625	\$ 3,079,934	\$ 726,346	\$ 8,303,656
Receivables					
Accrued interest	-	-	13,396	-	13,396
Accounts, net	232,479	232,256	856,577	135,380	1,456,692
Due from other governments	155,802	149,715	-	-	305,517
Inventories	26,980	35,632	666,006	-	728,618
Prepaid items	372	1,817	2,942	244	5,375
Total Current Assets	1,923,384	3,409,045	4,618,855	861,970	10,813,254
Noncurrent Assets					
Appropriated funds	-	-	3,000,000	-	3,000,000
Capital assets					
Land	41,123	63,878	255,643	-	360,644
Structures and improvements	8,431,445	23,946,228	-	-	32,377,673
Distribution/collection system	-	-	16,451,917	-	16,451,917
Plant equipment	100,717	336,129	-	523,088	959,934
Construction in progress	337,283	232,116	663,128	-	1,232,527
Less accumulated depreciation	(5,237,926)	(11,518,394)	(8,692,389)	(171,004)	(25,619,713)
Total Capital Assets (Net of Accumulated Depreciation)	3,672,642	13,059,957	8,678,299	352,084	25,762,982
Total Noncurrent Assets	3,672,642	13,059,957	11,678,299	352,084	28,762,982
Total Assets	5,596,026	16,469,002	16,297,154	1,214,054	39,576,236
Deferred Outflows of Resources					
Deferred pension resources	16,424	70,389	105,022	13,604	205,439

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

City of Melrose, Minnesota
Statement of Net Position (Continued)
Proprietary Funds
December 31, 2017

Business-type Activities - Enterprise funds

	601 Water	602 Wastewater	604 Electric	Nonmajor 216 Ambulance	Totals
Liabilities					
Current Liabilities					
Accounts payable	\$ 15,836	\$ 37,446	\$ 708,343	\$ 7,906	\$ 769,531
Salaries payable	672	5,784	6,511	274	13,241
Due to other funds	9,874	-	101,519	-	111,393
Accrued interest payable	-	204	-	-	204
Customer deposits payable	-	-	32,684	-	32,684
Compensated absences payable - current	9,759	21,794	34,940	-	66,493
Bonds payable - current	-	100,000	-	-	100,000
Total Current Liabilities	36,141	165,228	883,997	8,180	1,093,546
Noncurrent Liabilities					
Compensated absences payable	493	3,831	10,029	-	14,353
Bonds payable, net	-	2,353	-	-	2,353
Pension liability	67,014	289,805	478,328	49,866	885,013
Other postemployment benefits payable	14,065	27,210	97,907	-	139,182
Total Noncurrent Liabilities	81,572	323,199	586,264	49,866	1,040,901
Total Liabilities	117,713	488,427	1,470,261	58,046	2,134,447
Deferred Inflows of Resources					
Deferred pension resources	16,814	72,270	111,474	13,480	214,038
Net Position					
Net investment in capital assets	3,672,642	12,957,604	8,678,299	352,084	25,660,629
Unrestricted	1,805,281	3,021,090	6,142,142	804,048	11,772,561
Total Net Position	\$ 5,477,923	\$ 15,978,694	\$ 14,820,441	\$ 1,156,132	\$ 37,433,190

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

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City of Melrose, Minnesota
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Funds
For the Year Ended December 31, 2017

	Business-type Activities - Enterprise funds				Totals
	601 Water	602 Wastewater	604 Electric	Nonmajor 216 Ambulance	
Operating Revenues					
Charges for services	\$ 1,096,354	\$ 2,200,697	\$ 8,848,329	\$ 619,839	\$ 12,765,219
Operating Expenses					
Production, collection, and purchased power	193,962	32,806	6,781,646	-	7,008,414
Distribution	222,380	926,898	434,897	-	1,584,175
General and administrative	106,163	156,232	438,369	601,448	1,302,212
Depreciation	270,362	712,266	475,752	35,989	1,494,369
Total Operating Expenses	<u>792,867</u>	<u>1,828,202</u>	<u>8,130,664</u>	<u>637,437</u>	<u>11,389,170</u>
Operating Income (Loss)	<u>303,487</u>	<u>372,495</u>	<u>717,665</u>	<u>(17,598)</u>	<u>1,376,049</u>
Nonoperating Revenues (Expenses)					
Intergovernmental	345	862	1,953	-	3,160
Interest on investments	11,074	22,274	47,609	6,504	87,461
Miscellaneous	111	105	13,076	16,519	29,811
Gain on sale of fixed assets	-	5,097	6,471	3,000	14,568
Interest expense and other	-	(5,443)	-	-	(5,443)
Total Nonoperating Revenues (Expenses)	<u>11,530</u>	<u>22,895</u>	<u>69,109</u>	<u>26,023</u>	<u>129,557</u>
Income Before Capital Grants and Contributions	315,017	395,390	786,774	8,425	1,505,606
Capital Grants and Contributions	<u>307,071</u>	<u>198,213</u>	<u>-</u>	<u>-</u>	<u>505,284</u>
Change in Net Position	622,088	593,603	786,774	8,425	2,010,890
Net Position, January 1	<u>4,855,835</u>	<u>15,385,091</u>	<u>14,033,667</u>	<u>1,147,707</u>	<u>35,422,300</u>
Net Position, December 31	<u>\$ 5,477,923</u>	<u>\$ 15,978,694</u>	<u>\$ 14,820,441</u>	<u>\$ 1,156,132</u>	<u>\$ 37,433,190</u>

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

City of Melrose, Minnesota
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2017

	Business-type Activities - Enterprise funds				Totals
	601 Water	602 Wastewater	604 Electric	Nonmajor 216 Ambulance	
Cash Flows from Operating Activities					
Receipts from customers and users	\$ 940,284	\$ 2,142,942	\$ 8,764,892	\$ 592,704	\$ 12,440,822
Payments to suppliers	(495,010)	(736,988)	(7,407,511)	(342,968)	(8,982,477)
Payments to employees	(57,098)	(360,552)	(286,044)	(235,745)	(939,439)
Net Cash Provided by Operating Activities	<u>388,176</u>	<u>1,045,402</u>	<u>1,071,337</u>	<u>13,991</u>	<u>2,518,906</u>
Cash Flows from Noncapital Financing Activities					
Increase (Decrease) in due to other funds	<u>9,874</u>	<u>-</u>	<u>(90,892)</u>	<u>-</u>	<u>(81,018)</u>
Cash Flows from Capital Financing Activities					
Acquisition of capital assets	(337,108)	(328,423)	(845,886)	(144,700)	(1,656,117)
Intergovernmental	151,269	48,498	-	-	199,767
Capital reimbursement	-	-	80,260	-	80,260
Interest paid on bonds	-	(8,500)	-	-	(8,500)
Principal paid on bonds	-	(275,000)	-	-	(275,000)
Net Cash Used by Capital Financing Activities	<u>(185,839)</u>	<u>(563,425)</u>	<u>(765,626)</u>	<u>(144,700)</u>	<u>(1,659,590)</u>
Cash Flows from Investing Activities					
Interest received on investments	<u>11,074</u>	<u>22,274</u>	<u>53,072</u>	<u>6,504</u>	<u>92,924</u>
Net Increase (Decrease) in Cash and Cash Equivalents	223,285	504,251	267,891	(124,205)	871,222
Cash and Cash Equivalents, January 1	<u>1,284,466</u>	<u>2,485,374</u>	<u>2,812,043</u>	<u>850,551</u>	<u>7,432,434</u>
Cash and Cash Equivalents, December 31	<u>\$ 1,507,751</u>	<u>\$ 2,989,625</u>	<u>\$ 3,079,934</u>	<u>\$ 726,346</u>	<u>\$ 8,303,656</u>

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

City of Melrose, Minnesota
Statement of Cash Flows (Continued)
Proprietary Funds
For the Year Ended December 31, 2017

	Business-type Activities - Enterprise funds				Totals
	601 Water	602 Wastewater	604 Electric	Nonmajor 216 Ambulance	
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities					
Operating income (loss)	\$ 303,487	\$ 372,495	\$ 717,665	\$ (17,598)	\$ 1,376,049
Adjustments to reconcile operating income (loss) to net cash provided by operating activities					
Other income related to operations	456	6,064	21,500	19,519	47,539
Depreciation	270,362	712,266	475,752	35,989	1,494,369
(Increase) decrease in assets/deferred outflows					
Accounts receivable	(156,526)	(63,819)	(104,937)	(46,654)	(371,936)
Inventories	(4,459)	(6,969)	(9,438)	-	(20,866)
Prepaid items	-	1	2	-	3
Deferred pension resources	18,132	59,267	103,915	6,055	187,369
Increase (decrease) in liabilities/deferred inflows					
Accounts payable	(19,775)	(4,365)	6,875	1,899	(15,366)
Salaries payables	672	5,784	6,511	274	13,241
Compensated absences, OPEB payable, and pension liability	(31,325)	(71,035)	(191,584)	4,991	(288,953)
Customer deposits payable	-	-	3,934	-	3,934
Deferred pension resources	7,152	35,713	41,142	9,516	93,523
Net Cash Provided by Operating Activities	<u>\$ 388,176</u>	<u>\$ 1,045,402</u>	<u>\$ 1,071,337</u>	<u>\$ 13,991</u>	<u>\$ 2,518,906</u>
Schedule of Noncash					
Capital and Financing Activities					
Assets acquired on short-term account	<u>\$ -</u>	<u>\$ 1,380</u>	<u>\$ 25,593</u>	<u>\$ -</u>	<u>\$ 26,973</u>
Amortization of bond premium	<u>\$ -</u>	<u>\$ 2,553</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,553</u>
Disposal of capital assets	<u>\$ -</u>	<u>\$ 26,568</u>	<u>\$ 21,000</u>	<u>\$ 99,786</u>	<u>\$ 147,354</u>
Gain on disposal of fixed assets	<u>\$ -</u>	<u>\$ 5,097</u>	<u>\$ 6,471</u>	<u>\$ 3,000</u>	<u>\$ 14,568</u>
Change in fair value of investments	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 18,733</u>	<u>\$ -</u>	<u>\$ 18,733</u>

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

City of Melrose, Minnesota
Statement of Fiduciary Net Position
Agency Fund
December 31, 2017

	<u>Agency</u>
Assets	
Cash and temporary investments	<u>\$ 272</u>
Liabilities	
Accounts payable	<u>\$ 272</u>

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

Note 1: Summary of Significant Accounting Policies

A. Reporting Entity

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

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

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

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

Discretely presented component unit. The Melrose Area Development Authority (MADA) was created pursuant to Minnesota statutes 469.090 through 469.108 to carry out economic and industrial development and redevelopment within the City in accordance with policies established by the City Council. The MADA can exercise any of the powers enumerated by the authorizing statutes without prior approval of the City Council; however the City has operational responsibility, can remove appointed officials, and modify and approve the budget. The MADA is governed by seven board members consisting of four appointed community members, the Mayor, a council member, and the City Administrator. The criterion that results in the MADA being a discretely presented component unit include 1) the ability of the Council to appoint four members of the board and 2) the ability of the City to impose its will on the MADA by approving the MADA's budget. The MADA does not prepare separate financial statements and are included in the financial section of this report as a separate column in the government-wide statement of net position and statement of activities as well as supporting financial statements starting on page 118.

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

Note 1: Summary of Significant Accounting Policies (Continued)

B. Government-wide and Fund Financial Statements

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

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.

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.

Note 1: Summary of Significant Accounting Policies (Continued)

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

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

The City reports the following major governmental funds:

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

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

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

The City reports the following major proprietary funds:

The *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. The City accounts for resources received and payments of expenses related to medical and healthcare costs on behalf of employees.

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 water, electric and wastewater 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.

Note 1: Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, Deferred Inflows/Outflows of Resources and Net Position/Fund Balance

Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. The proprietary fund's portion in the government-wide cash and temporary investment pool is considered to be cash and cash equivalents for purposes of the statement of cash flows.

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

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

1. Direct obligations or obligations guaranteed by the United States or its agencies.
2. Shares of investment companies registered under the Federal Investment Company Act of 1940 and received the highest credit rating, rated in one of the two highest rating categories by a statistical rating agency, and have a final maturity of thirteen months or less.
3. General obligations of a state or local government with taxing powers rated "A" or better; revenue obligations rated "AA" or better.
4. General obligations of the Minnesota Housing Finance Agency rated "A" or better.
5. Obligation of a school district with an original maturity not exceeding 13 months and (i) rated in the highest category by a national bond rating service or (ii) enrolled in the credit enhancement program pursuant to statute section 126C.55.
6. Bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System.
7. 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.
8. 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.
9. 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.

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The City has the following recurring fair value measurements as of December 31, 2017:

- US Treasury Securities of \$3,309,508 are valued using quoted market prices.
- Corporate bonds of \$3,777,605 are values using a matrix pricing model.

City of Melrose, Minnesota
Notes to the Financial Statements
December 31, 2017

Note 1: Summary of Significant Accounting Policies (Continued)

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 December each year.

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

Accounts Receivable

Accounts receivable include amounts billed for services provided before year end. The Ambulance and Electric enterprise funds and Fire Department nonmajor governmental fund have allowances for uncollectible accounts totaling \$15,000, \$2,000 and \$500, respectively, at December 31, 2017.

Special Assessments

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

Interfund Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." Advances between funds, as reported in the fund financial statements, are offset by a fund balance nonspendable account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Inventories and Prepaid Items

All inventory is stated at cost on the first-in, first-out (FIFO) method and consists only of inventories of supplies. 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 statement of net position.

Future Plant Expansion	<u>\$ 3,000,000</u>
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City of Melrose, Minnesota
Notes to the Financial Statements
December 31, 2017

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. Donated capital assets, donated works of art and other similar items, and capital items received in a service concession agreement are reported at acquisition value. The City reports infrastructure assets on a network and subsystem basis. Accordingly, the amounts spent for the construction or acquisition on infrastructure assets are capitalized and reported in the government-wide financial statements regardless of their amount.

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

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

Property, plant and equipment are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Useful Lives in Years</u>
Buildings and Building Improvements	7 - 40
Machinery and Equipment	5 - 20
Infrastructure	20 - 50

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, 2015. The General fund is typically used to liquidate postemployment benefits other than pensions.

Deferred Outflows 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 has two items that qualify for reporting in this category. 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. Deferred pension resources are reported only in the statement of net position. This item results from actuarial calculations and current year pension contributions made subsequent to the measurement date.

Note 1: Summary of Significant Accounting Policies (Continued)

Pensions

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA except that PERA's fiscal year is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. The General fund is typically used to liquidate the pension liability.

For purposes of measuring the net pension liability (asset), deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the defined benefit plan administered by Melrose Fire Relief Association and additions to and deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the plan. Investments are reported at fair value.

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.

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 Inflows of Resources

In addition to liabilities, the governmental funds balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City 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.

The City has an additional item which qualifies for reporting in this category. The item, deferred pension resources, is reported only in the statements of net position and results from actuarial calculations.

Note 1: Summary of Significant Accounting Policies (Continued)

Net Position

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

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

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.

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.

City of Melrose, Minnesota
Notes to the Financial Statements
December 31, 2017

Note 2: Stewardship, Compliance and Accountability

A. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are legally adopted for the General fund, the Senior Activity Center, Tri-Cap Bus and Fire Department nonmajor special revenue funds, and debt service fund. Project length financial plans are adopted for all capital projects funds. All annual appropriations lapse at fiscal yearend. The City does not use encumbrance accounting.

In August of each year, all departments of the City submit requests for appropriations to Finance Director so that a budget may be prepared. Before September 30th, 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.

B. Excess of Expenditures Over Appropriations

The following funds reported excess spending over appropriations:

Fund	Final Budget	Actual Expenditures	Excess of Expenditures over Appropriations
Tri-Cap Bus	\$ 6,300	\$ 7,189	\$ 889

The excess was funded with available fund balances.

City of Melrose, Minnesota
Notes to the Financial Statements
December 31, 2017

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, with the exception of irrevocable standby letters of credit issued by Federal Home Loan Banks as this type of collateral only requires collateral pledged equal to 100 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 with 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 \$12,839,149 and the bank balance was \$13,003,356. 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, 2017

Note 3: Detailed Notes on All Funds (Continued)

Investments

As of December 31, 2017 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)	12/31/17	Fair Value Measurement Using		
				Level 1	Level 2	Level 3
Non-pooled Investments at Amortized Costs						
Money Market Mutual funds	N/A	Less than 6 months	\$ 251,837			
Non-pooled Investments at Fair Value						
Government Bonds	AAA	6 months to 1 year	102,432	\$ 102,432	\$ -	\$ -
Government Bonds	AAA	1 to 3 years	396,554	396,554	-	-
Government Bonds	AA	Less than 6 months	290,069	290,069	-	-
Government Bonds	AA	6 months to 1 year	237,802	237,802	-	-
Government Bonds	AA	1 to 3 years	936,660	936,660	-	-
Government Bonds	AA	More than 3 years	1,245,590	1,245,590	-	-
Government Bonds	A	More than 3 years	100,401	100,401	-	-
Brokered CD's	N/A	Less than 6 months	947,185	-	947,185	-
Brokered CD's	N/A	6 months to 1 year	539,291	-	539,291	-
Brokered CD's	N/A	1 to 3 years	1,558,318	-	1,558,318	-
Brokered CD's	N/A	More than 3 years	732,811	-	732,811	-
Total Investments			<u>\$7,338,950</u>	<u>\$3,309,508</u>	<u>\$3,777,605</u>	<u>\$ -</u>

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

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

N/A Indicates not applicable or available

- *Credit Risk.* Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Ratings are provided by various credit rating agencies and where applicable, indicate associated credit risk. Minnesota statutes limit the City's investments.
- *Custodial Credit Risk.* The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. In accordance with its investment policy, the City limits its exposure by purchasing insured or registered investments.
- *Concentration of Credit Risk.* The concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. In accordance with its investment policy, the City manages its exposure by diversifying investments according to type and maturity. The City had invested 5 percent or more of its total investment portfolio in the following issuers as of December 31, 2017: Federal Home Loan Banks 6.73 percent, and Federal Home Loan Mortgage Corp 5.93 percent.
- *Interest Rate Risk.* The interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. In accordance with its investment policy, the City manages its exposure to declines in fair values by limiting long term investments to 30 percent of the portfolio. The maturity of the long term investments cannot exceed ten years.

City of Melrose, Minnesota
Notes to the Financial Statements
December 31, 2017

Note 3: Detailed Notes on All Funds (Continued)

Cash on Hand

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

Cash Summary

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

Carrying Amount of Deposits	\$ 12,839,149
Investments	7,338,950
Cash on Hand	<u>685</u>
Total	<u><u>\$ 20,178,784</u></u>
Cash and Temporary Investments	
Primary government	\$ 19,773,429
Agency	272
Component unit - MADA	<u>405,083</u>
Total	<u><u>\$ 20,178,784</u></u>

B. Loans and Notes Receivable

Primary Government

The City issued a \$1,329,500 non-negotiable note receivable to CentraCare. The note consists of semi-annual payments of \$73,675 that commenced on January 1, 2014 and go through July 1, 2023 with an interest rate of 2 percent. At December 31, 2017 the amount outstanding on the note receivable is \$763,831.

Discretely Presented Component Unit - MADA

The MADA has funds available for loans to local businesses. At December 31, 2017 the MADA has loans outstanding totaling \$291,155. The terms and interest varies and all are secured by the assets of the business.

City of Melrose, Minnesota
Notes to the Financial Statements
December 31, 2017

Note 3: Detailed Notes on All Funds (Continued)

C. Capital Assets

Capital asset activity for the year ended December 31, 2017 as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital Assets, not being Depreciated				
Land	\$ 3,224,910	\$ -	\$ -	\$ 3,224,910
Construction in progress	58,815	21,393	-	80,208
Total Capital Assets, not being Depreciated	<u>3,283,725</u>	<u>21,393</u>	<u>-</u>	<u>3,305,118</u>
Capital Assets, being Depreciated				
Buildings and building improvements	4,435,625	-	-	4,435,625
Machinery and equipment	2,939,847	7,755	(18,643)	2,928,959
Infrastructure	11,623,777	214,294	-	11,838,071
Total Capital Assets being Depreciated	<u>18,999,249</u>	<u>222,049</u>	<u>(18,643)</u>	<u>19,202,655</u>
Less Accumulated Depreciation for				
Buildings and building improvements	(1,844,934)	(113,654)	-	(1,958,588)
Machinery and equipment	(1,645,426)	(144,877)	18,643	(1,771,660)
Infrastructure	(5,211,293)	(380,810)	-	(5,592,103)
Total Accumulated Depreciation	<u>(8,701,653)</u>	<u>(639,341)</u>	<u>18,643</u>	<u>(9,322,351)</u>
Total Capital Assets, being Depreciated, Net	<u>10,297,596</u>	<u>(417,292)</u>	<u>-</u>	<u>9,880,304</u>
Governmental Activities Capital Assets, Net	<u>\$ 13,581,321</u>	<u>\$ (395,899)</u>	<u>\$ -</u>	<u>\$ 13,185,422</u>

City of Melrose, Minnesota
Notes to the Financial Statements
December 31, 2017

Note 3: Detailed Notes on All Funds (Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type Activities				
Capital Assets, not being Depreciated				
Land	\$ 380,444	\$ 1,200	\$ (21,000)	\$ 360,644
Construction in progress	3,666,245	1,216,447	(3,650,165)	1,232,527
Total Capital Assets, not being Depreciated	<u>4,046,689</u>	<u>1,217,647</u>	<u>(3,671,165)</u>	<u>1,593,171</u>
Capital Assets, being Depreciated				
Buildings and building improvements	3,066,990	-	-	3,066,990
Machinery and equipment	1,729,625	185,450	(126,354)	1,788,721
Infrastructure	41,234,960	3,698,853	-	44,933,813
Total Capital Assets, being Depreciated	<u>46,031,575</u>	<u>3,884,303</u>	<u>(126,354)</u>	<u>49,789,524</u>
Less Accumulated Depreciation for				
Buildings and building improvements	(2,343,318)	(62,452)	-	(2,405,770)
Machinery and equipment	(1,240,204)	(78,685)	126,354	(1,192,535)
Infrastructure	(20,668,176)	(1,353,232)	-	(22,021,408)
Total Accumulated Depreciation	<u>(24,251,698)</u>	<u>(1,494,369)</u>	<u>126,354</u>	<u>(25,619,713)</u>
Total Capital Assets, being Depreciated, Net	<u>21,779,877</u>	<u>2,389,934</u>	<u>-</u>	<u>24,169,811</u>
Business-type Activities Capital Assets, Net	<u>\$ 25,826,566</u>	<u>\$ 3,607,581</u>	<u>\$ (3,671,165)</u>	<u>\$ 25,762,982</u>

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

Governmental Activities		
General government		\$ 65,562
Public safety		122,489
Streets and highways		421,768
Culture and recreation		27,205
Economic development		<u>2,317</u>
Total Depreciation Expense - Governmental Activities		<u>\$ 639,341</u>
Business-type Activities		
Water		\$ 270,362
Wastewater		712,266
Electric		475,752
Ambulance		<u>35,989</u>
Total Depreciation Expense - Business-type Activities		<u>\$ 1,494,369</u>

City of Melrose, Minnesota
Notes to the Financial Statements
December 31, 2017

Note 3: Detailed Notes on All Funds (Continued)

D. Interfund Receivables, Payables and Transfers

Interfund Balances

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	<u>Purpose</u>
General	Electric	\$ 101,519	Franchise fees
General	Other Governmental Funds	74,162	Cover deficit cash balances
Fire	Water	<u>9,874</u>	Reimbursing grant proceeds
Total		<u>\$ 185,555</u>	

Interfund Transfers

<u>Fund</u>	<u>Transfer Out</u>		
	<u>Capital Improvements</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Transfer out General	<u>\$ 498,486</u>	<u>\$ 95,788</u>	<u>\$ 594,274</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.

City of Melrose, Minnesota
Notes to the Financial Statements
December 31, 2017

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>\$ 1,500,000</u>

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

Year Ending December 31,	Governmental Activities		
	Principal	Interest	Total
2018	\$ 125,000	\$ 25,950	\$ 150,950
2019	125,000	24,544	149,544
2020	130,000	22,788	152,788
2021	130,000	20,838	150,838
2022	135,000	18,681	153,681
2023-2027	705,000	54,088	759,088
2028	150,000	1,686	151,686
Total	<u>\$ 1,500,000</u>	<u>\$ 168,575</u>	<u>\$ 1,668,575</u>

General Obligation Improvement Bonds

The following bonds were issued to finance various improvements and will be repaid from special assessments levied on the properties benefiting from the improvements and ad valorem tax levies. All special assessment debt is backed by the full faith and credit of the City. Each year the City relies on combined assessment, tax levy and cash balances from prepayments to cover debt payments.

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
G.O. Improvement Crossover Refunding Bonds, Series 2011A	\$ 2,155,000	2.00 - 2.85 %	04/13/12	02/01/20	<u>\$ 820,000</u>

City of Melrose, Minnesota
Notes to the Financial Statements
December 31, 2017

Note 3: Detailed Notes on All Funds (Continued)

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

<u>Year Ending December 31,</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 315,000	\$ 17,779	\$ 332,779
2019	315,000	9,668	324,668
2020	190,000	2,707	192,707
Total	<u>\$ 820,000</u>	<u>\$ 30,154</u>	<u>\$ 850,154</u>

General Obligation Revenue Bonds

The following bonds were issued to finance capital improvements to the enterprise funds. They will be repaid from future net revenues pledged from the Wastewater fund and are backed by the taxing power of the City. Annual principal and interest payments on the bonds are expected to require less than 15 percent of the net revenues from the Wastewater funds. Principal and interest paid for the current year and total customer net revenues for the Wastewater fund were \$283,500 and \$2,200,697, respectively.

<u>Description</u>	<u>Authorized and Issued</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Balance at Year End</u>
G.O. Sewer Revenue Crossover Refunding Bonds, Series 2010A	\$ 1,415,000	2.00 - 2.45 %	11/01/10	12/01/18	<u>\$ 100,000</u>

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

<u>Year Ending December 31,</u>	<u>Business-type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	<u>\$ 100,000</u>	<u>\$ 2,450</u>	<u>\$ 102,450</u>

City of Melrose, Minnesota
Notes to the Financial Statements
December 31, 2017

Note 3: Detailed Notes on All Funds (Continued)

Changes in Long-term Liabilities

Long-term liability activity for the year ended December 31, 2017 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities					
Bonds Payable					
General obligation bonds	\$ 1,625,000	\$ -	\$ (125,000)	\$ 1,500,000	\$ 125,000
General obligation improvement bonds	1,135,000	-	(315,000)	820,000	315,000
Unamortized Premium on Bonds	5,355	-	(1,731)	3,624	-
Total Bonds Payable	<u>2,765,355</u>	<u>-</u>	<u>(441,731)</u>	<u>2,323,624</u>	<u>440,000</u>
Compensated Absences	85,756	34,318	(46,567)	73,507	46,566
Pension Liability					
GERF	714,612	3	(188,782)	525,833	-
PEPFF	1,003,294	-	(679,265)	324,029	-
Other Postemployment Benefits Payable	<u>169,964</u>	<u>7,905</u>	<u>(30,931)</u>	<u>146,938</u>	<u>-</u>
Governmental Activity Long-term Liabilities	<u>\$ 4,738,981</u>	<u>\$ 42,226</u>	<u>\$(1,387,276)</u>	<u>\$ 3,393,931</u>	<u>\$ 486,566</u>
Business-type Activities					
Bonds Payable					
General obligation revenue bonds	\$ 375,000	\$ -	\$ (275,000)	\$ 100,000	\$ 100,000
Unamortized Premium on Bonds	4,906	-	(2,553)	2,353	-
Total Bonds Payable	<u>379,906</u>	<u>-</u>	<u>(277,553)</u>	<u>102,353</u>	<u>100,000</u>
Compensated Absences	109,643	37,696	(66,493)	80,846	66,493
Pension Liability					
GERF	1,120,396	41,425	(276,808)	885,013	-
Other Postemployment Benefits Payable	<u>163,955</u>	<u>8,504</u>	<u>(33,277)</u>	<u>139,182</u>	<u>-</u>
Business-type Activity Long-term Liabilities	<u>\$ 1,773,900</u>	<u>\$ 87,625</u>	<u>\$ (654,131)</u>	<u>\$ 1,207,394</u>	<u>\$ 166,493</u>

City of Melrose, Minnesota
Notes to the Financial Statements
December 31, 2017

Note 3: Detailed Notes on All Funds (Continued)

F. Components of Fund Balance

At December 31, 2017 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	\$ 5,565	\$ -	\$ -	\$ 511	\$ 6,076
Due from other funds	175,681	-	-	-	175,681
Total Nonspendable	\$ 181,246	\$ -	\$ -	\$ 511	\$ 181,757
Restricted for					
Debt service	\$ -	\$ 366,945	\$ -	\$ -	\$ 366,945
TIF districts	-	-	-	119,172	119,172
Total Restricted	\$ -	\$ 366,945	\$ -	\$ 119,172	\$ 486,117
Committed to					
Insurance reserve	\$ 10,331	\$ -	\$ -	\$ -	\$ 10,331
Compensated absences	40,468	-	-	-	40,468
Public works equipment	-	-	273,529	-	273,529
Street improvements	-	-	2,285,013	-	2,285,013
Park and recreation	-	-	350,152	-	350,152
City center maintenance	-	-	94,844	-	94,844
Sidewalk program	-	-	64,911	-	64,911
Police car replacement	-	-	50,024	-	50,024
Future land development	-	-	223,645	-	223,645
Planning and zoning	-	-	10,590	-	10,590
Police equipment	-	-	9,729	-	9,729
Fire equipment	-	-	-	254,060	254,060
Office equipment	-	-	23,933	-	23,933
CentraCare	-	-	732,620	-	732,620
Dam maintenance/improvements	-	-	76,002	-	76,002
Capital improvements	-	-	1,304,254	-	1,304,254
Bridge improvements	-	-	-	359,598	359,598
Total Committed	\$ 50,799	\$ -	\$ 5,499,246	\$ 613,658	\$ 6,163,703
Assigned to					
Senior activity center	\$ -	\$ -	\$ -	\$ 2,148	\$ 2,148
Tri-cap bus	-	-	-	4,414	4,414
Yellow bike program	-	-	-	1,293	1,293
Melrose area relief fund	-	-	-	13,837	13,837
Fire department	-	-	-	49,648	49,648
Total Assigned	\$ -	\$ -	\$ -	\$ 71,340	\$ 71,340

Note 4: Defined Benefit Pension Plans - Statewide

A. Plan Description

The City participates in the following cost-sharing multiple-employer defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA's defined benefit pension plans are established and administered in accordance with Minnesota statutes, chapters 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code.

General Employees Retirement Fund (GERF)

All full-time and certain part-time employees of the City, other than teachers, are covered by the General Employees Retirement Fund (GERF). 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. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

Public Employees Police and Fire Fund (PEPFF)

The PEPFF, originally established for police officers and firefighters not covered by a local relief association, now covers all police officers and firefighters hired since 1980. Effective July 1, 1999, the PEPFF also covers police officers and firefighters belonging to a local relief association that elected to merge with and transfer assets and administration to PERA.

B. Benefits Provided

PERA provides retirement, disability and death benefits. Benefit provisions are established by Minnesota statute and can only be modified by the state legislature.

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90 percent funded for two consecutive years are given 2.5 percent increases. Members in plans that have not exceeded 90 percent funded, or have fallen below 80 percent, are given 1.0 percent increases.

The benefit provisions stated in the following 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.

GERF Benefits

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 a 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 member is 2.2 percent of average salary for each of the first ten 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 ten 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 members for each year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

Note 4: Defined Benefit Pension Plans - Statewide (Continued)

PEPFF Benefits

Benefits for the PEPFF members first hired after June 30, 2010 but before July 1, 2014 vest on a prorated basis from 50 percent after five years up to 100 percent after ten years of credited service. Benefits for PEPFF members first hired after June 30, 2014 vest on a prorated basis from 50 percent after ten years up to 100 percent after twenty years of credited service. The annuity accrual rate is 3 percent of average salary for each year of service.

For PEPFF members who were first hired prior to July 1, 1989, a full annuity is available when age plus years of service equal at least 90.

C. Contributions

Minnesota statutes, chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state legislature.

GERF

Basic Plan members and Coordinated Plan members were required to contribute 9.10 percent and 6.25 percent, respectively, of their annual covered salary in calendar year 2017. The City was required to contribute 11.78 percent of pay for Basic Plan members and 7.50 percent for Coordinated Plan members in calendar year 2017. The City's contributions to the GERF for the years ending December 31, 2017, 2016 and 2015 were \$107,186, \$105,082 and \$102,791, respectively. The City's contributions were equal to the contractually required contributions for each year as set by Minnesota statute.

PEPFF Contributions

Plan members were required to contribute 10.8 percent of their annual covered salary in calendar year 2017. The City was required to contribute 16.20 percent of pay for PEPFF members in calendar year 2017. The City's contributions to the PEPFF for the years ending December 31, 2017, 2016 and 2015 were \$37,608, \$40,398 and \$36,856, respectively. The City's contributions were equal to the contractually required contributions for each year as set by Minnesota statute.

D. Pension Costs

GERF Pension Costs

At December 31, 2017, the City reported a liability of \$1,410,846 for its proportionate share of the GERF's net pension liability. The City's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$6 million to the fund in 2017. The State of Minnesota is considered a non-employer contributing entity and the State's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the City totaled \$17,769. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's contributions received by PERA during the measurement period for the employer payroll paid dates from July 1, 2016 through June 30, 2017 relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the City's proportion was 0.0221 percent which was a .0005 percent decrease from its proportion measured as June 30, 2016.

For the year ended December 31, 2017, the City recognized pension expense of \$46,692 for its proportionate share of GERF's pension expense. In addition, the City recognized an additional \$1,326 pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$6 million to the GERF.

City of Melrose, Minnesota
Notes to the Financial Statements
December 31, 2017

Note 4: Defined Benefit Pension Plans - Statewide (Continued)

At December 31, 2017, the City reported its proportionate share of GERF's deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between Expected and Actual Experience	\$ 46,290	\$ 88,861
Changes in Actuarial Assumptions	232,833	141,440
Net Difference between Projected and Actual Earnings on Plan Investments	-	61,775
Changes in Proportion	-	53,118
Contributions to GERF Subsequent to the Measurement Date	<u>54,065</u>	<u>-</u>
Total	<u><u>\$ 333,188</u></u>	<u><u>\$ 345,194</u></u>

Deferred outflows of resources totaling \$54,065 related to pensions resulting from the City's contributions to GERF subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. Other amounts reported as deferred outflows and inflows of resources related to GERF pensions will be recognized in pension expense as follows:

2018		\$ (36,704)
2019		64,496
2020		(33,975)
2021		(59,888)

PEPFF Pension Costs

At December 31, 2017, the City reported a liability of \$324,029 for its proportionate share of the PEPFF's net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2016 through June 30, 2017 relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the City's proportion was 0.0270 percent which was a decrease of .0010 percent from June 30, 2016.

For the year ended December 31, 2017, the City recognized pension expense of \$8,277 for its proportionate share of PEPFF's pension expense. The City also recognized \$2,160 for the year ended December 31, 2017 as pension expense (and offsetting reduction of net pension liability) for its proportionate share of the State of Minnesota's on-behalf contributions to the plan. Legislature passed in 2013 required the State of Minnesota to begin contributing \$9 million to the PEPFF each year, starting in fiscal year 2014.

City of Melrose, Minnesota
Notes to the Financial Statements
December 31, 2017

Note 4: Defined Benefit Pension Plans - Statewide (Continued)

At December 31, 2017, the City reported its proportionate share of PEPFF's deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between Expected and Actual Experience	\$ 7,611	\$ 85,518
Changes in Actuarial Assumptions	449,314	460,040
Net Difference between Projected and Actual Earnings on Plan Investments	-	26,351
Changes in Proportion	-	45,452
Contributions to PEPFF Subsequent to the Measurement Date	<u>18,817</u>	<u>-</u>
Total	<u>\$ 475,742</u>	<u>\$ 617,361</u>

Deferred outflows of resources totaling \$18,817 related to pensions resulting from the City's contributions to PEPFF subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. Other amounts reported as deferred outflows and inflows of resources related to PEPFF pensions will be recognized in pension expense as follows:

2018	\$ (26,019)
2019	9,953
2020	(18,000)
2021	(32,926)
2022	(93,444)

Note 4: Defined Benefit Pension Plans - Statewide (Continued)

E. Actuarial Assumptions

The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50% per year
Active Member Payroll Growth	3.25% per year
Investment Rate of Return	7.50%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2014 tables for all plans for males or females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increases for retirees are assumed to be: 1 percent per year for the GERF through 2044 and PEPFF through 2064 and then 2.5 percent thereafter for both plans.

Actuarial assumptions used in the June 30, 2017 valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the GERF was completed in 2015. The most recent five-year experience study for PEPFF was completed in 2016.

The following changes in actuarial assumptions occurred in 2017:

GERF

- The Combined Service Annuity (CSA) loads were changed from 0.8 percent for active members and 60 percent for vested and non-vested deferred members. The revised CSA loads are now 0.0 percent for active member liability, 15.0 percent for vested deferred member liability and 3.0 percent for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year for all years to 1.0 percent per year through 2044 and 2.5 percent per year thereafter.

PEPFF

- Assumed salary increases were changed as recommended in the June 30, 2016 experience study. The net effect is proposed rates that average 0.34 percent lower than the previous rates.
- Assumed rates of retirement were changed, resulting in fewer retirements.
- The Combined Service Annuity (CSA) load was 30 percent for vested and non-vested deferred members. The CSA has been changed to 33 percent for vested members and 2 percent for non-vested members.
- The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the mortality tables assumed for healthy retirees.
- Assumed termination rates were decreased to 3.0 percent for the first three years of service. Rates beyond the select period of three years were adjusted, resulting in more expected terminations overall.
- Assumed percentage of married female members was decreased from 65 percent to 60 percent.
- Assumed age difference was changed from separate assumptions for male members (wives assumed to be three years younger) and female members (husbands assumed to be four years older) to the assumption that males are two years older than females.

City of Melrose, Minnesota
Notes to the Financial Statements
December 31, 2017

Note 4: Defined Benefit Pension Plans - Statewide (Continued)

- The assumed percentage of female members electing joint and survivor annuities was increased.
- The assumed post-retirement benefit increase rate was changed from 1.00 percent for all years to 1.00 percent per year through 2064 and 2.50 percent thereafter.
- The single discount rate was changed from 5.6 percent to 7.5 percent.

The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness on a regular basis of the long-term expected rate of return using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Domestic Stocks	45.00 %	5.50 %
International Stocks	15.00	6.00
Bonds	18.00	1.45
Alternative Assets	20.00	6.40
Cash	2.00	0.50
Total	100.00 %	

F. Discount Rate

The discount rate used to measure the total pension liability in 2017 was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota statutes. Based on these assumptions, the fiduciary net position of the GERF and PEPFF was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

City of Melrose, Minnesota
Notes to the Financial Statements
December 31, 2017

Note 4: Defined Benefit Pension Plans - Statewide (Continued)

G. Pension Liability Sensitivity

The following presents the City's proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate disclosed in the preceding paragraph, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate 1 percentage point lower or 1 percentage point higher than the current discount rate:

	City Proportionate Share of NPL		
	1 Percent Decrease (6.50%)	Current (7.50%)	1 Percent Increase (8.50%)
	GERF	\$ 2,188,332	\$ 1,410,846

	City Proportionate Share of NPL		
	1 Percent Decrease (4.60%)	Current (5.60%)	1 Percent Increase (6.60%)
	PEPFF	\$ 610,240	\$ 324,029

H. Pension Plan Fiduciary Net Position

The following presents the City's proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate disclosed in

Note 5: Defined Contribution Plan

City council members and ambulance service personnel are covered by the Public Employees Defined Contribution Plan (PEDCP), a multiple-employer deferred compensation plan administered by 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 time of withdrawal.

The defined contribution plan consists of individual accounts paying a lump-sum benefit. Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses, therefore, there is no future liability to the employer. Minnesota statutes, chapter 353d.03, specifies plan provisions, including the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes 5 percent of salary which is matched by the elected official's employer. Employees who are paid for their services may elect to make member contributions in an amount not to exceed the employer share. Employer and employee contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2 percent of employer contributions and twenty-five hundredths of 1 percent (.0025) of the assets in each member's account annually.

The City's contributions to PEDCP for the years ended December 31, 2017, 2016 and 2015 were \$4,677, \$3,403 and \$3,375, respectively. The City's contributions were equal to the contractually required contributions for each year as set by Minnesota statute.

Contribution Amount		Percentage of Covered Payroll		Required Rate
Employee	Employer	Employee	Employer	
\$ 4,677	\$ 4,677	5.00%	5.00%	5.00%

City of Melrose, Minnesota
Notes to the Financial Statements
December 31, 2017

Note 6: Defined Benefit Pension Plan - Statewide Volunteer Firefighter Retirement Plan

A. Plan Description

The Melrose Fire Department participates in the Statewide Volunteer Firefighter Retirement Plan (SVF), an agent multiple-employer lump-sum defined benefit pension plan administered by the Public Employees Retirement Association of Minnesota (PERA). The SVF plan covers volunteer firefighters of municipal fire departments or independent nonprofit firefighting corporations that have elected to join the plan. As of December 31, 2016, the plan covered 30 active firefighters and 7 vested terminated firefighters whose pension benefits are deferred. The plan is established and administered in accordance with Minnesota statutes, Chapter 353 G.

B. Benefits Provided

The SVF provides lump-sum retirement, death, and supplemental benefits to covered firefighters and survivors. Benefits are paid based on the number of years of service multiplied by a benefit level per year of service approved by the City. The benefit is selected from 71 possible levels in \$100 increments ranging from \$500 to \$7,500 per year of service. Members are eligible for a lump-sum retirement benefit at 50 years of age with five years of service. Plan provisions include a pro-rated vesting schedule that increases from 5 years at 40 percent through 20 years at 100 percent.

C. Contributions

The SVF is funded by fire state aid, investment earnings and, if necessary, employer contributions as specified in Minnesota statutes, and voluntary City contributions. The State of Minnesota contributed \$33,493 in fire state aid to the plan on behalf of the Melrose Fire Department for the year ended December 31, 2017, which was recorded as a revenue. Required employer contributions are calculated annually based on statutory provisions. The City's statutorily-required contributions to the SVF plan for the year ended December 31, 2017, were \$33,493. The City's contributions were equal to the required contributions as set by Minnesota statute, if applicable. In addition, the City made voluntary contributions of \$8,200 to the plan.

D. Pension Costs

At December 31, 2017, the City reported a net pension asset of \$168,656 for the SVF plan. The net pension asset was measured as of December 31, 2016. The total pension liability used to calculate the net pension asset in accordance with GASB 68 was determined by PERA applying an actuarial formula to specific census data certified by the fire department as of December 31, 2016.

For the year ended December 31, 2017, the Fire Department recognized pension expense (revenue) of (\$20,961).

At December 31, 2017, the Fire Department reported deferred inflows of resources related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between Expected and Actual Experience	\$ -	\$ 3,585
Net Difference Between Projected And Actual Earnings on Plan Investments	-	3,794
Total	\$ -	\$ 7,379

City of Melrose, Minnesota
Notes to the Financial Statements
December 31, 2017

**Note 6: Defined Benefit Pension Plan - Statewide Volunteer Firefighter Retirement Plan
(Continued)**

Amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

2018	\$	(1,845)
2019		(1,845)
2020		(1,845)
2021		(1,844)

E. Actuarial Assumptions

The total pension liability at December 31, 2016 was determined using the entry age normal actuarial cost method and the following actuarial assumptions:

- Retirement eligibility at the later of age 50 or 20 years of service
- Investment rate of return of 6.0 percent
- Inflation rate of 3.0 percent

There were no changes in actuarial assumptions in 2016.

F. Discount Rate

The discount rate used to measure the total pension liability was 6.0 percent. The projection of cash flows used to determine the discount rate assumed that contributions to the SVF plan will be made as specified in statute. Based on that assumption and considering the funding ratio of the plan, the fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

G. Pension Liability (Asset) Sensitivity

The following presents the City's net pension asset for the SVF plan, calculated using the discount rate disclosed in the preceding paragraph, as well as what the City's net pension asset would be if it were calculated using a discount rate 1 percent lower or 1 percent higher than the current discount rate:

	City Proportionate Share of NPA		
	1 Percent Decrease (5.0%)	Current (6.0%)	1 Percent Increase (7.0%)
	Net Pension Asset	\$ (154,486)	\$ (168,656)

City of Melrose, Minnesota
Notes to the Financial Statements
December 31, 2017

**Note 6: Defined Benefit Pension Plan - Statewide Volunteer Firefighter Retirement Plan
(Continued)**

The following presents the City's schedule of changes in the SVF plan net pension asset:

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a-b)
Beginning Balance, December 31, 2015	\$ 324,810	\$ 456,291	\$ (131,481)
Changes for the Year			
Service cost	16,996	-	16,996
Interest on pension liability	20,509	-	20,509
Actuarial experience (gains)/losses	(4,481)	-	(4,481)
Projected investment earnings	-	27,378	(27,378)
Contributions (state)	-	39,193	(39,193)
Asset (gain)/loss	-	4,743	(4,743)
PERA administrative fee	-	(1,115)	1,115
Net Changes	<u>33,024</u>	<u>70,199</u>	<u>(37,175)</u>
Ending Balance, December 31, 2016	<u>\$ 357,834</u>	<u>\$ 526,490</u>	<u>\$ (168,656)</u>

H. Plan Investments

Investment Policy

The Minnesota State Board of Investments (SBI) is established by Article XI of the Minnesota Constitution to invest all state funds. Its membership as specified in the Constitution is comprised of the Governor (who is designated chair of the Board), State Auditor, Secretary of State and State Attorney General.

All investments undertaken by the SBI are governed by the prudent person rule and other standards codified in *Minnesota statutes*, chapter 11A and chapter 356A.

Within the requirements defined by state law, the SBI, with assistance of the SBI staff and the Investment Advisory Council, establishes investment policy for all funds under its control. These investment policies are tailored to the particular needs of each fund and specify investment objectives, risk tolerance, asset allocation, investment management structure and specific performance standards. Studies guide the on-going management of the funds and are updated periodically.

**Note 6: Defined Benefit Pension Plan - Statewide Volunteer Firefighter Retirement Plan
(Continued)**

Asset Allocation

To match the long-term nature of the pension obligations, the SBI manages a strategic asset allocation for the Statewide Volunteer Firefighter Retirement Plan (VOLP) that includes allocations to domestic equity, international equity, bonds and cash equivalents. The long-term target asset allocation and long-term expected real rate of return is the following:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Domestic Stocks	35.00 %	5.50 %
International Stocks	15.00	6.00
Bonds	45.00	1.45
Cash	5.00	0.50
Total	100.00 %	

The 6 percent long-term expected rate of return on pension plan investments was determined using a building-block method. Best estimates for expected future real rates of return (expected returns, net of inflation) were developed for each asset class using both long-term historical returns and long-term capital market expectations. The asset class estimates and the target allocations were then combined to produce a geometric, long-term expected real rate of return for the portfolio. Inflation expectations were applied to derive the nominal rate of return for the portfolio.

The SBI made no significant changes to their investment policy during fiscal year 2017 for the Statewide Volunteer Firefighter Retirement Plan.

I. Pension Plan Fiduciary Net Position

Detailed information about the SVF plan’s fiduciary net position as of June 30, 2017, is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the Internet at www.mnpera.org; by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota 55103-2088; or by calling (651) 296-7460 or 1-800-652-9026.

Note 7: 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.

Note 7: Other Information (Continued)

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 2017 taxable market value of property was \$169,310,300 and the debt limit was \$5,079,309. There was \$1,959,439 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.

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, 2017, there were two series of revenue bonds outstanding, with balances of \$5,250,000 for Proliant Dairy Inc. and \$648,439 for Oak Ridge Manor Apartments of Melrose Limited Partnership.

E. Contingencies and Concentrations

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 2017 was \$797,390 for LGA. This accounted for 30 percent of General fund revenue.

Note 8: 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 23 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.

City of Melrose, Minnesota
Notes to the Financial Statements
December 31, 2017

Note 8: Postemployment Benefits Other Than Pensions (Continued)

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 know 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 2017 the City contributed \$64,208 to the plan. Retired plan members receiving benefits contribute 100 percent of their premium costs. As of January 1, 2015 there were five retirees and beneficiaries receiving health benefits from the plan.

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	\$ 18,631
Interest on Net OPEB Obligation	10,018
Adjustment to Annual Required Contribution	<u>(12,240)</u>
Annual OPEB Cost (Expense)	16,409
Contributions Made	<u>(64,208)</u>
Increase (Decrease) in Net OPEB Obligation	(47,799)
Net OPEB Obligation - Beginning of Year	<u>333,919</u>
Net OPEB Obligation - End of Year	<u><u>\$ 286,120</u></u>

City of Melrose, Minnesota
Notes to the Financial Statements
December 31, 2017

Note 8: Postemployment Benefits Other Than Pensions (Continued)

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for fiscal years 2017, 2016 and 2015, follows:

Year Ending	Trend Information		
	Annual OPEB Cost	Percentage Annual OPEB Contributed	Net OPEB Obligation
12/31/17	\$ 16,409	391.3 %	\$ 286,120
12/31/16	16,330	141.6	333,919
12/31/15	80,713	80.6	345,675

D. Funded Status and Funding Progress

As of January 1, 2017, the actuarial accrued liability for benefits was \$310,762, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$1,538,672, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 20.2 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.

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 2010 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.

Note 8: Postemployment Benefits Other Than Pensions (Continued)

Healthcare cost trend rate - The expected rate of increase in healthcare insurance premiums was based on actual rate changes for 2015 and 2016 along with projections of the Office of the Actuary at the Centers for Medicare & Medicaid Services. A rate increase of 4.99 percent initially in 2015, reduced to an ultimate average rate increase of 5.6 percent after six years, was used.

Health insurance premiums - 2015 and 2016 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 2.36 percent was based on projected changes in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) in *The 2041 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 2.36 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, 2017 was thirty years.

Note 9: Transactions between the Primary Government and its Component Unit

The City conducts routine transactions with its component unit for services provided. The City provides administrative and financial services for MADA activities.

City of Melrose, Minnesota
Notes to the Financial Statements
December 31, 2017

Note 10: Tax Abatement

As of December 31, 2017, the City has eleven agreements entered into by the City listed below that abate city property taxes. Below is information specific to each agreement.

The City entered into a tax abatement agreement on 6/20/1993 with a developer in which the developer incurs costs for construction of an industrial plant. In return, the City will reimburse the developer for some costs as the City collects future increment for the increased property value and tax capacity related to the economic development. The agreement has a maximum return to the developer of \$721,800 over the life of the agreement. The agreement was negotiated under state law (Minnesota Statute 469.1812-469.1815) and has a maximum duration of 10/26/2017. The calculation of taxes abated during the fiscal year is noted in the chart below.

The City entered into a tax abatement agreement on 8/27/2004 with a developer in which the developer incurs costs for construction of an apartment complex. In return, the City will reimburse the developer for some costs as the City collects future increment for the increased property value and tax capacity related to the economic development. The agreement has a maximum return to the developer of \$378,000 over the life of the agreement. The agreement was negotiated under state law (Minnesota Statute 469.1812-469.1815) and has a maximum duration of 12/31/2030. The calculation of taxes abated during the fiscal year is noted in the chart below.

The City entered into a tax abatement agreement on 8/8/2006 with a developer in which the developer incurs costs for construction of a financial building. In return, the City will reimburse the developer for some costs as the City collects future increment for the increased property value and tax capacity related to the economic development. The agreement has a maximum return to the developer of \$725,000 over the life of the agreement. The agreement was negotiated under state law (Minnesota Statute 469.1812-469.1815) and has a maximum duration of 12/31/2032. The calculation of taxes abated during the fiscal year is noted in the chart below.

The City entered into a tax abatement agreement on 3/27/2012 with a developer in which the developer incurs costs for construction of a commercial building. In return, the City will reimburse the developer for some costs as the City collects future increment for the increased property value and tax capacity related to the economic development. The agreement has a maximum return to the developer of \$1,331,458 over the life of the agreement. The agreement was negotiated under state law (Minnesota Statute 469.1812-469.1815) and has a maximum duration of 12/31/2021. The calculation of taxes abated during the fiscal year is noted in the chart below.

The City entered into a tax abatement agreement on 3/28/2013 with a developer in which the developer incurs costs for construction of a commercial building. In return, the City will reimburse the developer for some costs as the City collects future increment for the increased property value and tax capacity related to the economic development. The agreement has a maximum return to the developer of \$280,738 over the life of the agreement. The agreement was negotiated under state law (Minnesota Statute 469.1812-469.1815) and has a maximum duration of 12/31/2022. The calculation of taxes abated during the fiscal year is noted in the chart below.

The City entered into a tax abatement agreement on 3/28/2013 with a developer in which the developer incurs costs for construction of a commercial building. In return, the City will reimburse the developer for some costs as the City collects future increment for the increased property value and tax capacity related to the economic development. The agreement has a maximum return to the developer of \$250,137 over the life of the agreement. The agreement was negotiated under state law (Minnesota Statute 469.1812-469.1815) and has a maximum duration of 12/31/2022. The calculation of taxes abated during the fiscal year is noted in the chart below.

The City entered into a tax abatement agreement on 6/16/2016 with a developer in which the developer incurs costs for construction of a commercial building. In return, the City will reimburse the developer for some costs as the City collects future increment for the increased property value and tax capacity related to the economic development. The agreement has a maximum return to the developer of \$115,624 over the life of the agreement. The agreement was negotiated under state law (Minnesota Statute 469.1812-469.1815) and has a maximum duration of 12/31/2026. There were no taxes abated during the fiscal year.

City of Melrose, Minnesota
Notes to the Financial Statements
December 31, 2017

Note 10: Tax Abatement (Continued)

The City entered into a tax abatement agreement on 03/16/2017 with a developer in which the developer incurs costs for construction of a commercial building. In return, the City will reimburse the developer for some costs as the City collects future increment for the increased property value and tax capacity related to the economic development. The agreement has a maximum return to the developer of \$5,347,786 over the life of the agreement. The agreement was negotiated under state law (Minnesota Statute 469.174-469.1799) and has a maximum duration of 12/31/2027. There were no taxes abated during the fiscal year

The City entered into a tax abatement agreement on 07/20/2017 with a developer in which the developer incurs costs for construction of a commercial building. In return, the City will reimburse the developer for some costs as the City collects future increment for the increased property value and tax capacity related to the economic development. The agreement has a maximum return to the developer of \$963,084 over the life of the agreement. The agreement was negotiated under state law (Minnesota Statute 469.124-469.134 and 469.174-469.1799) and has a maximum duration of 12/31/2027. There were no taxes abated during the fiscal year.

The City entered into a tax abatement agreement on 07/20/2017 with a developer in which the developer incurs costs for construction of a commercial building. In return, the City will reimburse the developer for some costs as the City collects future increment for the increased property value and tax capacity related to the economic development. The agreement has a maximum return to the developer of \$61,020 over the life of the agreement. The agreement was negotiated under state law (Minnesota Statute 469.124-469.133) and has a maximum duration of 12/31/2027. There were no taxes abated during the fiscal year.

The City entered into a tax abatement agreement on 11/16/2017 with a developer in which the developer incurs costs for construction of a commercial building. In return, the City will reimburse the developer for some costs as the City collects future increment for the increased property value and tax capacity related to the economic development. The agreement has a maximum return to the developer of \$3,493,185 over the life of the agreement. The agreement was negotiated under state law (Minnesota Statute 469.174) and has a maximum duration of 12/31/2027. There were no taxes abated during the fiscal year.

Lost revenue as it relates to tax abatements for the year ended December 31, 2017, was as follows:

	<u>Amount of Taxes Abated the Fiscal Year</u>
Tax Increment Districts (PAYGO)	
TIF #2-3 - Jennie-O	\$ 1,845
TIF #5 - Melrose Meadowlark	17,081
TIF #6-1 - CMCU	53,942
TIF #7-1 - Warrior	18,852
TIF #7-2 - Carstens	28,546
TIF #8-1 - Danzl/Cornerstone	<u>44,550</u>
Total	<u><u>\$ 164,816</u></u>

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.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF MELROSE
MELROSE, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2017

City of Melrose, Minnesota
Required Supplementary Information
December 31, 2017

Schedule Of Employer's Share of PERA Net Pension Liability - General Employees Retirement Fund

Required Supplementary Information							
Fiscal Year Ending	City's Proportion of the Net Pension Liability	City's Proportionate Share of the Net Pension Liability (a)	State's Proportionate Share of the Net Pension Liability Associated with the City (b)	Total (a+b)	City's Covered Payroll (c)	City's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll (a/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
7/30/17	0.0221 %	\$ 1,410,846	\$ 17,769	\$ 1,428,615	\$ 1,414,080	99.8 %	75.9 %
06/30/16	0.0226	1,835,008	7,148	1,842,156	1,389,195	132.1 %	68.9
06/30/15	0.0234	1,212,709	-	1,212,709	1,374,133	88.3	78.2

Note: Schedule is intended to show 10-year trend. Additional years will be reported as they become available.

Schedule of Employer's PERA Contributions - General Employees Retirement Fund

Required Supplementary Information					
Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	City's Covered Payroll (c)	Contributions as a Percentage of Covered Payroll (b/c)
12/31/17	\$ 107,186	\$ 107,186	\$ -	\$ 1,429,147	7.5 %
12/31/16	105,082	105,082	-	1,401,093	7.5
12/31/15	102,791	102,791	-	1,370,547	7.5

Note: Schedule is intended to show 10-year trend. Additional years will be reported as they become available.

City of Melrose, Minnesota
Required Supplementary Information (Continued)
December 31, 2017

Notes to the Required Supplementary Information - General Employee Retirement Fund

Changes in Actuarial Assumptions

2017 - The Combined Service Annuity (CSA) loads were changed from 0.8 percent for active members and 60 percent for vested and non-vested deferred members. The revised CSA loads are now 0.0 percent for active member liability, 15.0 percent for vested deferred member liability and 3.0 percent for non-vested deferred member liability. The assumed post-retirement benefit increase rate was changed from 1.0 percent per year for all years to 1.0 percent per year through 2044 and 2.5 percent per year thereafter.

2016 - The assumed post-retirement benefit increase rate was changed from 1.0 percent per year through 2035 and 2.5 percent per year thereafter to 1.0 percent per year for all future years. The assumed investment return was changed from 7.9 percent to 7.5 percent. The single discount rate was changed from 7.9 percent to 7.5 percent. Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth and inflation were decreased by 0.25 percent to 3.25 percent for payroll growth and 2.50 percent for inflation.

2015 - The assumed post-retirement benefit increase rate was changed from 1.0 percent per year through 2030 and 2.5 percent per year thereafter to 1.0 percent per year through 2035 and 2.5 percent per year thereafter.

Changes in Plan Provisions

2015 - On January 1, 2015, the Minneapolis Employees Retirement Fund was merged into the General Employees Fund, which increased the total pension liability by \$1.1 billion and increased the fiduciary plan net position by \$892 million. Upon consolidation, state and employer contributions were revised.

City of Melrose, Minnesota
 Required Supplementary Information (Continued)
 December 31, 2017

Schedule of Employer's Share of PERA Net Pension Liability - Public Employees Police and Fire Fund

Required Supplementary Information							
Fiscal Year Ending	City's Proportion of the Net Pension Liability	City's Proportionate Share of the Net Pension Liability (a)	State's Proportionate Share of the Net Pension Liability (b)	Total (a+b)	City's Covered Payroll (c)	City's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll (a/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
06/30/17	0.0240 %	\$ 324,029	\$ -	\$ 324,029	\$ 243,299	133.2 %	85.4 %
06/30/16	0.0250	1,003,294	-	1,003,294	229,690	436.8	63.9
06/30/15	0.0270	306,783	-	306,783	246,463	124.5	86.6

Note: Schedule is intended to show 10-year trend. Additional years will be reported as they become available.

Schedule of Employer's PERA Contributions - Public Employees Police and Fire Fund

Required Supplementary Information					
Year Ending	Statutorily Required Contribution (a)	Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	City's Covered Payroll (c)	Contributions as a Percentage of Covered Payroll (b/c)
12/31/17	\$ 37,608	\$ 37,608	\$ -	\$ 232,148	16.2 %
12/31/16	40,398	40,398	-	249,370	16.2
12/31/15	36,856	36,856	-	227,506	16.2

Note: Schedule is intended to show 10-year trend. Additional years will be reported as they become available.

City of Melrose, Minnesota
Required Supplementary Information (Continued)
December 31, 2017

Notes to the Required Supplementary Information - Public Employees Police and Fire Fund

Changes in Actuarial Assumptions

2017 - Assumed salary increases were changed as recommended in the June 30, 2016 experience study. The net effect is proposed rates that average 0.34 percent lower than the previous rates. Assumed rates of retirement were changed, resulting in fewer retirements. The Combined Service Annuity (CSA) load was 30 percent for vested and non-vested deferred members. The CSA has been changed to 33 percent for vested members and 2 percent for non-vested members. The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the mortality tables assumed for healthy retirees. Assumed termination rates were decreased to 3.0 percent for the first three years of service. Rates beyond the select period of three years were adjusted, resulting in more expected terminations overall. Assumed percentage of married female members was decreased from 65 percent to 60 percent. Assumed age difference was changed from separate assumptions for male members (wives assumed to be three years younger) and female members (husbands assumed to be four years older) to the assumption that males are two years older than females. The assumed percentage of female members electing joint and survivor annuities was increased. The assumed post-retirement benefit increase rate was changed from 1.00 percent for all years to 1.00 percent per year through 2064 and 2.50 percent thereafter. The single discount rate was changed from 5.6 percent to 7.5 percent.

2016 - The assumed post-retirement benefit increase rate was changed from 1.0 percent per year through 2037 and 2.5 percent per year thereafter to 1.0 percent per year for all future years. The assumed investment return was changed from 7.9 percent to 7.5 percent. The single discount rate was changed from 7.9 percent to 5.6 percent. The assumed future salary increases, payroll growth and inflation were decreased by 0.25 percent to 3.25 percent for payroll growth and 2.50 percent for inflation.

2015 - The assumed post-retirement benefit increase rate was changed from 1.0 percent per year through 2030 and 2.5 percent per year thereafter to 1.0 percent per year through 2037 and 2.5 percent per year thereafter.

Changes in Plan Provisions

2015 - The post-retirement benefit increase to be paid after attainment of the 90 percent funding threshold was changed, from inflation up to 2.5 percent, to a fixed rate of 2.5 percent.

City of Melrose, Minnesota
Required Supplementary Information (Continued)
December 31, 2017

Schedule of Changes in the Fire Relief Association's Net Pension Liability (Asset) and Related Ratios

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a-b)
Beginning Balance, December 31, 2015	\$ 324,810	\$ 456,291	\$ (131,481)
Changes for the Year			
Service cost	16,996	-	16,996
Interest on pension liability	20,509	-	20,509
Actuarial experience (gains)/losses	(4,481)	-	(4,481)
Projected investment earnings	-	27,378	(27,378)
Contributions (state)	-	39,193	(39,193)
Asset (gain)/loss	-	4,743	(4,743)
PERA administrative fee	-	(1,115)	1,115
Net Changes	<u>33,024</u>	<u>70,199</u>	<u>(37,175)</u>
Ending Balance, December 31, 2016	<u>\$ 357,834</u>	<u>\$ 526,490</u>	<u>\$ (168,656)</u>

Schedule of employer's Fire Relief Association Contributions

Year Ending	Required Supplementary Information		
	Actuarial Required Contribution (a)	Actual Contributions Paid (b)	Contribution Deficiency (Excess) (a-b)
12/31/16	\$ 33,493	\$ 41,693	\$ 8,200
12/31/15	32,454	42,854	10,400
12/31/14	33,595	33,595	-

Note: Schedule is intended to show 10-year trend. Additional years will be reported as they become available.

Schedule of Employer's funding progress for the other post-employment 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
01/01/15	\$ -	\$ 310,762	310,762	- %	\$ 1,538,672	20.2 %
01/01/12	-	1,005,011	1,005,011	-	1,290,509	77.9
01/01/09	-	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, 2017

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NONMAJOR GOVERNMENTAL FUNDS

CITY OF MELROSE
MELROSE, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2017

City of Melrose, Minnesota
 Nonmajor Governmental Funds
 Combining Balance Sheet
 December 31, 2017

	Special Revenue Funds	Capital Projects Funds	Total Nonmajor Governmental Funds
Assets			
Cash and temporary investments	\$ 313,813	\$ 531,520	\$ 845,333
Accounts receivable, net of allowance	2,983	-	2,983
Due from other funds	9,874	-	9,874
Prepaid items	511	-	511
	<u>511</u>	<u>-</u>	<u>511</u>
Total Assets	<u>\$ 327,181</u>	<u>\$ 531,520</u>	<u>\$ 858,701</u>
Liabilities			
Accounts payable	\$ 1,270	\$ 56,325	\$ 57,595
Due to other funds	-	74,162	74,162
Total Liabilities	<u>1,270</u>	<u>130,487</u>	<u>131,757</u>
Fund Balances			
Nonspendable	511	-	511
Restricted	-	119,172	119,172
Committed	254,060	359,598	613,658
Assigned	71,340	-	71,340
Unassigned	-	(77,737)	(77,737)
Total Fund Balances	<u>325,911</u>	<u>401,033</u>	<u>726,944</u>
Total Liabilities and Fund Balances	<u>\$ 327,181</u>	<u>\$ 531,520</u>	<u>\$ 858,701</u>

City of Melrose, Minnesota
 Nonmajor Governmental Funds
 Combining Statement of Revenues, Expenditures
 and Changes in Fund Balances
 For the Year Ended December 31, 2017

	Special Revenue Funds	Capital Projects Funds	Total Nonmajor Governmental Funds
Revenues			
Taxes	\$ -	\$ 164,816	\$ 164,816
Intergovernmental	16,849	27,682	44,531
Charges for services	89,056	-	89,056
Interest on investments	1,867	3,203	5,070
Miscellaneous	28,302	-	28,302
Total Revenues	<u>136,074</u>	<u>195,701</u>	<u>331,775</u>
Expenditures			
Current			
Public safety	129,181	-	129,181
Culture and recreation	532	-	532
Economic development	-	190,475	190,475
Miscellaneous	7,189	-	7,189
Capital outlay			
Public safety	20,344	-	20,344
Streets and highways	-	37,068	37,068
Total Expenditures	<u>157,246</u>	<u>227,543</u>	<u>384,789</u>
Deficiency of Revenues Under Expenditures	(21,172)	(31,842)	(53,014)
Other Financing Sources			
Transfers in	<u>95,788</u>	-	<u>95,788</u>
Net Change in Fund Balances	74,616	(31,842)	42,774
Fund Balances, January 1	<u>251,295</u>	<u>432,875</u>	<u>684,170</u>
Fund Balances, December 31	<u>\$ 325,911</u>	<u>\$ 401,033</u>	<u>\$ 726,944</u>

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NONMAJOR SPECIAL REVENUE FUNDS

Senior Activity Center - This fund accounts for the operations of the Senior Activity Center.

Tri-Cap Bus - This fund accounts for the operation and maintenance of the Tri-Cap bus program.

Yellow Bike Program - This fund was established to account for the operations relating to the yellow bike program.

Melrose Area Relief - This fund was established to account for the operations relating to the disaster relief activities.

Fire Department - This fund accounts for the operations of the municipal fire department, which is funded by contract and service fees.

City of Melrose, Minnesota
 Nonmajor Special Revenue Funds
 Combining Balance Sheet
 December 31, 2017

	Senior Activity Center	Tri-Cap Bus	Yellow Bike Program	Melrose Area Relief Fund	Fire Department	Total
Assets						
Cash and temporary investments	\$ 2,148	\$ 4,414	\$ 1,293	\$ 13,837	\$ 292,121	\$ 313,813
Accounts receivable, net of allowance	-	-	-	-	2,983	2,983
Due from other funds	-	-	-	-	9,874	9,874
Prepaid items	-	-	-	-	511	511
Total Assets	<u>\$ 2,148</u>	<u>\$ 4,414</u>	<u>\$ 1,293</u>	<u>\$ 13,837</u>	<u>\$ 305,489</u>	<u>\$ 327,181</u>
Liabilities						
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ 1,270	\$ 1,270
Fund Balances						
Nonspendable	-	-	-	-	511	511
Committed to fire equipment	-	-	-	-	254,060	254,060
Assigned	2,148	4,414	1,293	13,837	49,648	71,340
Total Fund Balances	<u>2,148</u>	<u>4,414</u>	<u>1,293</u>	<u>13,837</u>	<u>304,219</u>	<u>325,911</u>
Total Liabilities and Fund Balances	<u>\$ 2,148</u>	<u>\$ 4,414</u>	<u>\$ 1,293</u>	<u>\$ 13,837</u>	<u>\$ 305,489</u>	<u>\$ 327,181</u>

City of Melrose, Minnesota
 Nonmajor Special Revenue Funds
 Combining Statement of Revenues, Expenditures
 and Changes in Fund Balances
 For the Year Ended December 31, 2017

	Senior Activity Center	Tri-Cap Bus	Yellow Bike Program	Melrose Area Relief Fund	Fire Department	Total
Revenues						
Intergovernmental	\$ -	\$ -	\$ -	\$ -	\$ 16,849	\$ 16,849
Charges for services	-	1,323	-	-	87,733	89,056
Interest on investments	-	-	-	-	1,867	1,867
Miscellaneous						
Contributions and donations	-	3,760	-	13,837	1,917	19,514
Other	620	-	-	-	8,168	8,788
Total Revenues	<u>620</u>	<u>5,083</u>	<u>-</u>	<u>13,837</u>	<u>116,534</u>	<u>136,074</u>
Expenditures						
Current						
Public safety						
Personal services	-	-	-	-	43,812	43,812
Supplies	-	-	-	-	12,945	12,945
Other services and charges	-	-	-	-	72,424	72,424
Culture and recreation						
Other services and charges	355	-	177	-	-	532
Miscellaneous	-	7,189	-	-	-	7,189
Capital outlay						
Public safety	-	-	-	-	20,344	20,344
Total Expenditures	<u>355</u>	<u>7,189</u>	<u>177</u>	<u>-</u>	<u>149,525</u>	<u>157,246</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	265	(2,106)	(177)	13,837	(32,991)	(21,172)
Other Financing Sources						
Transfers in	-	3,500	-	-	92,288	95,788
Net Change in Fund Balances	265	1,394	(177)	13,837	59,297	74,616
Fund Balances, January 1	1,883	3,020	1,470	-	244,922	251,295
Fund Balances, December 31	<u>\$ 2,148</u>	<u>\$ 4,414</u>	<u>\$ 1,293</u>	<u>\$ 13,837</u>	<u>\$ 304,219</u>	<u>\$ 325,911</u>

City of Melrose, Minnesota
 Senior Activity Center Fund
 Schedule of Revenues, Expenditures and Changes in Fund Balances -
 Budget and Actual
 For the Year Ended December 31, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Miscellaneous	\$ 1,500	\$ 1,500	\$ 620	\$ (880)
Expenditures				
Current				
Culture and recreation	2,250	2,250	355	1,895
Net Change in Fund Balances	(750)	(750)	265	1,015
Fund Balances, January 1	1,883	1,883	1,883	-
Fund Balances, December 31	<u>\$ 1,133</u>	<u>\$ 1,133</u>	<u>\$ 2,148</u>	<u>\$ 1,015</u>

City of Melrose, Minnesota
Tri-Cap Bus Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances -
Budget and Actual
For the Year Ended December 31, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Charges for services	\$ 900	\$ 900	\$ 1,323	\$ 423
Miscellaneous	2,000	2,000	3,760	1,760
Total Revenues	<u>2,900</u>	<u>2,900</u>	<u>5,083</u>	<u>2,183</u>
Expenditures				
Current				
Economic development				
Other services and charges	6,300	6,300	7,189	(889)
Deficiency of Revenues Under Expenditures	(3,400)	(3,400)	(2,106)	1,294
Other Financing Sources				
Transfers in	2,500	2,500	3,500	1,000
Net Change in Fund Balances	(900)	(900)	1,394	2,294
Fund Balances, January 1	3,020	3,020	3,020	-
Fund Balances, December 31	<u>\$ 2,120</u>	<u>\$ 2,120</u>	<u>\$ 4,414</u>	<u>\$ 2,294</u>

City of Melrose, Minnesota
 Fire Department Fund
 Schedule of Revenues, Expenditures and Changes in Fund Balances -
 Budget and Actual
 For the Year Ended December 31, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Intergovernmental	\$ 31,849	\$ 31,849	\$ 16,849	\$ (15,000)
Charges for services	92,508	92,508	87,733	(4,775)
Interest on investments	-	-	1,867	1,867
Miscellaneous	-	-	10,085	10,085
Total Revenues	<u>124,357</u>	<u>124,357</u>	<u>116,534</u>	<u>(7,823)</u>
Expenditures				
Public safety				
Current				
Personal services	70,089	70,089	43,812	26,277
Supplies	18,800	18,800	12,945	5,855
Other services and charges	67,079	67,079	72,424	(5,345)
Capital outlay	51,110	51,110	20,344	30,766
Total Expenditures	<u>207,078</u>	<u>207,078</u>	<u>149,525</u>	<u>57,553</u>
Deficiency of Revenues Under Expenditures	(82,721)	(82,721)	(32,991)	49,730
Other Financing Sources				
Transfers in	92,288	92,288	92,288	-
Net Change in Fund Balances	9,567	9,567	59,297	49,730
Fund Balances, January 1	<u>244,922</u>	<u>244,922</u>	<u>244,922</u>	<u>-</u>
Fund Balances, December 31	<u>\$ 254,489</u>	<u>\$ 254,489</u>	<u>\$ 304,219</u>	<u>\$ 49,730</u>

NONMAJOR CAPITAL PROJECTS FUNDS

5th Ave. Bridge Improvements - This fund was established to account for the grant proceeds received for the bridge replacement, as well as the construction costs.

Jennie-O Tax Increment Project - This fund accounts for the resources and expenditures for the City's tax increment financing district.

Meadowlark Melrose Tax Increment Project - This fund accounts for the resources and expenditures for the City's tax increment financing district.

CMCU Tax Increment Project - This fund accounts for the resources and expenditures for the City's tax increment financing district.

Warrior Tax Increment Project - This fund accounts for the resources and expenditures for the City's tax increment financing district.

Danzl/Cornerstone Tax Increment Project - This fund accounts for the resources and expenditures for the City's tax increment financing district.

Carstens Tax Increment Project - This fund accounts for the resources and expenditures for the City's tax increment financing district.

JOTS Tax Increment Project - This fund accounts for the resources and expenditures for the City's tax increment financing district.

Leedstone Tax Increment Project - This fund accounts for the resources and expenditures for the City's tax increment financing district.

Arce Auto Tax Increment Project - This fund accounts for the resources and expenditures for the City's tax increment financing district.

400 Block/Kraft Lot Tax Increment Project - This fund accounts for the resources and expenditures for the City's tax increment financing district.

City of Melrose, Minnesota
 Nonmajor Capital Projects Funds
 Combining Balance Sheet
 December 31, 2017

	5th Ave. Bridge Improvements	Jennie-O Tax Increment Project	Meadowlark Melrose Tax Increment Project	CMCU Tax Increment Project	Warrior Tax Increment Project	Danzl/ Cornerstone Tax Increment Project
Assets						
Cash and temporary investments	<u>\$ 382,471</u>	<u>\$ -</u>	<u>\$ 8,115</u>	<u>\$ 12,056</u>	<u>\$ 4,022</u>	<u>\$ 55,398</u>
Liabilities						
Accounts payable	\$ 22,873	\$ -	\$ 8,115	\$ 6,275	\$ 4,022	\$ 7,124
Due to other funds	-	-	-	-	-	-
Total Liabilities	<u>22,873</u>	<u>-</u>	<u>8,115</u>	<u>6,275</u>	<u>4,022</u>	<u>7,124</u>
Fund Balances						
Restricted	-	-	-	5,781	-	48,274
Committed	359,598	-	-	-	-	-
Unassigned	-	-	-	-	-	-
Total Fund Balances	<u>359,598</u>	<u>-</u>	<u>-</u>	<u>5,781</u>	<u>-</u>	<u>48,274</u>
Total Liabilities and Fund Balances	<u>\$ 382,471</u>	<u>\$ -</u>	<u>\$ 8,115</u>	<u>\$ 12,056</u>	<u>\$ 4,022</u>	<u>\$ 55,398</u>

Carstens Tax Increment Project	JOTS Tax Increment Project	Leedstone Tax Increment Project	Arce Auto Tax Increment Project	400 Block/Kraft Lot Tax Increment Project	Tax Increment Projects Total	Total
<u>\$ 69,458</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 149,049</u>	<u>\$ 531,520</u>
\$ 4,341	\$ -	\$ -	\$ -	\$ 3,575	\$ 33,452	\$ 56,325
-	43,678	308	285	29,891	74,162	74,162
<u>4,341</u>	<u>43,678</u>	<u>308</u>	<u>285</u>	<u>33,466</u>	<u>107,614</u>	<u>130,487</u>
65,117	-	-	-	-	119,172	119,172
-	-	-	-	-	-	359,598
-	(43,678)	(308)	(285)	(33,466)	(77,737)	(77,737)
<u>65,117</u>	<u>(43,678)</u>	<u>(308)</u>	<u>(285)</u>	<u>(33,466)</u>	<u>41,435</u>	<u>401,033</u>
<u>\$ 69,458</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 149,049</u>	<u>\$ 531,520</u>

City of Melrose, Minnesota
 Nonmajor Capital Projects Funds
 Combining Statement of Revenues, Expenditures
 and Changes in Fund Balances
 For the Year Ended December 31, 2017

	5th Ave. Bridge Improvements	Jennie-O Tax Increment Project	Meadowlark Melrose Tax Increment Project	CMCU Tax Increment Project	Warrior Tax Increment Project	Danzl/ Cornerstone Tax Increment Project
Revenues						
Taxes						
Tax increments	\$ -	\$ 1,845	\$ 17,081	\$ 53,942	\$ 18,852	\$ 28,546
Intergovernmental	27,682	-	-	-	-	-
Interest on investments	3,203	-	-	-	-	-
Total Revenues	<u>30,885</u>	<u>1,845</u>	<u>17,081</u>	<u>53,942</u>	<u>18,852</u>	<u>28,546</u>
Expenditures						
Current						
Economic development						
Other services and charges	-	1,845	17,081	48,161	18,852	15,857
Capital outlay						
Streets and highways	37,068	-	-	-	-	-
Total Expenditures	<u>37,068</u>	<u>1,845</u>	<u>17,081</u>	<u>48,161</u>	<u>18,852</u>	<u>15,857</u>
Net Change in Fund Balances	(6,183)	-	-	5,781	-	12,689
Fund Balances, January 1	<u>365,781</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>35,585</u>
Fund Balances, December 31	<u>\$ 359,598</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,781</u>	<u>\$ -</u>	<u>\$ 48,274</u>

<u>Carstens Tax Increment Project</u>	<u>JOTS Tax Increment Project</u>	<u>Leedstone Tax Increment Project</u>	<u>Arce Auto Tax Increment Project</u>	<u>400 Block/Kraft Lot Tax Increment Project</u>	<u>Tax Increment Projects Total</u>	<u>Total</u>
\$ 44,550	\$ -	\$ -	\$ -	\$ -	\$ 164,816	\$ 164,816
-	-	-	-	-	-	27,682
-	-	-	-	-	-	3,203
<u>44,550</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>164,816</u>	<u>195,701</u>
10,942	43,678	308	285	33,466	190,475	190,475
-	-	-	-	-	-	37,068
<u>10,942</u>	<u>43,678</u>	<u>308</u>	<u>285</u>	<u>33,466</u>	<u>190,475</u>	<u>227,543</u>
33,608	(43,678)	(308)	(285)	(33,466)	(25,659)	(31,842)
<u>31,509</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>67,094</u>	<u>432,875</u>
<u>\$ 65,117</u>	<u>\$ (43,678)</u>	<u>\$ (308)</u>	<u>\$ (285)</u>	<u>\$ (33,466)</u>	<u>\$ 41,435</u>	<u>\$ 401,033</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, 2017
(With Comparative Actual Amounts for the Year Ended December 31, 2016)

	2017				2016
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
Revenues					
Taxes					
Property taxes	\$ 940,000	\$ 940,000	\$ 953,808	\$ 13,808	\$ 956,879
Franchise fees	454,000	454,000	447,861	(6,139)	437,971
Total Taxes	<u>1,394,000</u>	<u>1,394,000</u>	<u>1,401,669</u>	<u>7,669</u>	<u>1,394,850</u>
Licenses and permits					
Business	16,850	16,850	16,642	(208)	16,535
Nonbusiness	53,000	53,000	223,746	170,746	87,479
Total Licenses and permits	<u>69,850</u>	<u>69,850</u>	<u>240,388</u>	<u>170,538</u>	<u>104,014</u>
Intergovernmental					
Federal					
FEMA grant	-	-	1,608	1,608	401
State					
Local government aid	797,397	797,397	797,390	(7)	794,419
Property tax credits	-	-	473	473	487
Police state aid	30,000	30,000	33,589	3,589	30,129
Other	3,985	3,985	9,085	5,100	4,148
Total federal and state	<u>831,382</u>	<u>831,382</u>	<u>842,145</u>	<u>10,763</u>	<u>829,584</u>
Charges for services					
General government	39,500	39,500	81,620	42,120	49,515
Public safety	1,400	1,400	2,244	844	7,769
Streets and highways	23,050	23,050	31,282	8,232	29,606
Culture and recreation	16,100	16,100	22,021	5,921	19,319
Total Charges for services	<u>80,050</u>	<u>80,050</u>	<u>137,167</u>	<u>57,117</u>	<u>106,209</u>
Fines and forfeitures	15,000	15,000	14,910	(90)	18,704
Interest on investments	18,000	18,000	13,992	(4,008)	20,151
Miscellaneous					
Contributions and donations	-	-	5,800	5,800	2,810
Other	4,500	4,500	6,009	1,509	8,320
Total Miscellaneous	<u>4,500</u>	<u>4,500</u>	<u>11,809</u>	<u>7,309</u>	<u>11,130</u>
Total Revenues	<u>2,412,782</u>	<u>2,412,782</u>	<u>2,662,080</u>	<u>249,298</u>	<u>2,484,642</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, 2017
(With Comparative Actual Amounts for the Year Ended December 31, 2016)

	2017				2016
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
Expenditures					
Current					
General government					
Legislative					
Personal services	\$ 15,085	\$ 15,085	\$ 14,818	\$ 267	\$ 14,999
Other services and charges	7,700	7,700	3,155	4,545	8,736
Total Legislative	<u>22,785</u>	<u>22,785</u>	<u>17,973</u>	<u>4,812</u>	<u>23,735</u>
Executive					
Personal services	5,255	5,255	4,939	316	4,998
Other services and charges	2,000	2,000	30	1,970	986
Total Executive	<u>7,255</u>	<u>7,255</u>	<u>4,969</u>	<u>2,286</u>	<u>5,984</u>
City Administrator					
Personal services	73,771	73,771	59,928	13,843	61,477
Supplies	600	600	436	164	593
Other services and charges	4,780	4,780	2,187	2,593	1,143
Total City Administrator	<u>79,151</u>	<u>79,151</u>	<u>62,551</u>	<u>16,600</u>	<u>63,213</u>
Financial administration					
Personal services	210,610	210,610	214,170	(3,560)	211,038
Supplies	5,500	5,500	3,107	2,393	4,262
Other services and charges	128,832	128,832	112,455	16,377	117,095
Total Financial administration	<u>344,942</u>	<u>344,942</u>	<u>329,732</u>	<u>15,210</u>	<u>332,395</u>
Assessing					
Other services and charges	17,000	17,000	16,619	381	16,204
Cable communications					
Other services and charges	3,100	3,100	3,065	35	3,066
City attorney					
Other services and charges	34,000	34,000	28,710	5,290	29,970
Planning and zoning					
Personal services	2,691	2,691	1,470	1,221	2,056
Other services and changes	700	700	99	601	355
Total Planning and zoning	<u>3,391</u>	<u>3,391</u>	<u>1,569</u>	<u>1,822</u>	<u>2,411</u>
Total general government	<u>511,624</u>	<u>511,624</u>	<u>465,188</u>	<u>46,436</u>	<u>476,978</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, 2017
 (With Comparative Actual Amounts for the Year Ended December 31, 2016)

	2017				2016
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
Expenditures (Continued)					
Current (continued)					
Public safety					
Police					
Personal services	\$ 503,021	\$ 503,021	\$ 423,034	\$ 79,987	\$ 436,730
Supplies	24,500	24,500	19,042	5,458	16,909
Other services and charges	49,178	49,178	81,659	(32,481)	31,528
Total Police	<u>576,699</u>	<u>576,699</u>	<u>523,735</u>	<u>52,964</u>	<u>485,167</u>
Building inspection					
Other services and charges	<u>42,500</u>	<u>42,500</u>	<u>224,605</u>	<u>(182,105)</u>	<u>88,684</u>
Total public safety	<u>619,199</u>	<u>619,199</u>	<u>748,340</u>	<u>(129,141)</u>	<u>573,851</u>
Streets and highways					
Streets					
Personal services	246,142	246,142	282,850	(36,708)	239,647
Supplies	64,000	64,000	45,712	18,288	55,552
Other services and charges	42,575	42,575	30,937	11,638	36,488
Total Streets and highways	<u>352,717</u>	<u>352,717</u>	<u>359,499</u>	<u>(6,782)</u>	<u>331,687</u>
Snow and ice removal					
Personal services	55,118	55,118	43,280	11,838	39,912
Supplies	35,000	35,000	16,268	18,732	10,873
Other services and charges	2,000	2,000	-	2,000	-
Total Snow and ice removal	<u>92,118</u>	<u>92,118</u>	<u>59,548</u>	<u>32,570</u>	<u>50,785</u>
Street lighting					
Other services and charges	<u>49,000</u>	<u>49,000</u>	<u>46,028</u>	<u>2,972</u>	<u>50,626</u>
Total streets and highways	<u>493,835</u>	<u>493,835</u>	<u>465,075</u>	<u>28,760</u>	<u>433,098</u>
Sanitation					
Supplies	1,500	1,500	354	1,146	408
Other services and charges	<u>3,250</u>	<u>3,250</u>	<u>3,593</u>	<u>(343)</u>	<u>3,120</u>
Total Sanitation	<u>4,750</u>	<u>4,750</u>	<u>3,947</u>	<u>803</u>	<u>3,528</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, 2017
 (With Comparative Actual Amounts for the Year Ended December 31, 2016)

	2017				2016
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
Expenditures (Continued)					
Current (continued)					
Culture and recreation					
Personal services	\$ 70,552	\$ 70,552	\$ 31,520	\$ 39,032	\$ 53,755
Supplies	4,000	4,000	4,396	(396)	2,882
Other services and charges	<u>27,343</u>	<u>27,343</u>	<u>23,265</u>	<u>4,078</u>	<u>27,789</u>
Total Culture and recreation	<u>101,895</u>	<u>101,895</u>	<u>59,181</u>	<u>42,714</u>	<u>84,426</u>
Economic development					
Industrial/commercial development					
Personal services	84,742	84,742	72,240	12,502	91,917
Other services and charges	<u>9,420</u>	<u>9,420</u>	<u>10,368</u>	<u>(948)</u>	<u>560</u>
Total Economic development	<u>94,162</u>	<u>94,162</u>	<u>82,608</u>	<u>11,554</u>	<u>92,477</u>
Total current expenditures	<u>1,825,465</u>	<u>1,825,465</u>	<u>1,824,339</u>	<u>1,126</u>	<u>1,664,358</u>
Capital outlay					
Economic development	-	-	6,495	(6,495)	-
Debt service					
Interest and other charges	<u>1,400</u>	<u>1,400</u>	<u>924</u>	<u>476</u>	<u>1,390</u>
Total Expenditures	<u>1,826,865</u>	<u>1,826,865</u>	<u>1,831,758</u>	<u>(4,893)</u>	<u>1,665,748</u>
Excess of Revenues Over Expenditures	<u>585,917</u>	<u>585,917</u>	<u>830,322</u>	<u>244,405</u>	<u>818,894</u>
Other Financing Sources (Uses)					
Sale of general capital assets	-	-	-	-	1,705
Transfers out	<u>(583,288)</u>	<u>(583,288)</u>	<u>(594,274)</u>	<u>(10,986)</u>	<u>(841,459)</u>
Total Other Financing Sources (Uses)	<u>(583,288)</u>	<u>(583,288)</u>	<u>(594,274)</u>	<u>(10,986)</u>	<u>(839,754)</u>
Net Change in Fund Balances	2,629	2,629	236,048	233,419	(20,860)
Fund Balances, January 1	<u>1,644,195</u>	<u>1,644,195</u>	<u>1,644,195</u>	-	<u>1,665,055</u>
Fund Balances, December 31	<u>\$ 1,646,824</u>	<u>\$ 1,646,824</u>	<u>\$ 1,880,243</u>	<u>\$ 233,419</u>	<u>\$ 1,644,195</u>

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DEBT SERVICE FUNDS

G.O. Refunding Bonds of 2011 - This fund is used to account for the accumulation of resources and payment of principal and interest on long-term general obligation improvement debt used to refund debt to finance various City improvements.

Improvement Bonds of 2013 - This fund is used to account for the accumulation of resources and payment of principal and interest used to provide for the acquisition and construction of the Fire and Ambulance Station.

City of Melrose, Minnesota
Debt Service Fund
Combining Balance Sheet
December 31, 2017

	<u>G.O. Refunding Bonds of 2011</u>	<u>Improvement Bonds of 2013</u>	<u>Total</u>
Assets			
Cash and temporary investments	\$ 224,181	\$ 141,535	\$ 365,716
Due from other governments	323	906	1,229
Special assessments receivable	<u>18,333</u>	<u>-</u>	<u>18,333</u>
Total Assets	<u><u>\$ 242,837</u></u>	<u><u>\$ 142,441</u></u>	<u><u>\$ 385,278</u></u>
Deferred Inflows of Resources			
Unavailable revenue - special assessments	\$ 18,333	\$ -	\$ 18,333
Fund Balances			
Restricted for debt service	<u>224,504</u>	<u>142,441</u>	<u>366,945</u>
Total Deferred Inflows of Resources and Fund Balances	<u><u>\$ 242,837</u></u>	<u><u>\$ 142,441</u></u>	<u><u>\$ 385,278</u></u>

City of Melrose, Minnesota
Debt Service Fund
Combining Schedule of Revenues, Expenditures
and Changes in Fund Balances
For the Year Ended December 31, 2017

	G.O. Refunding Bonds of 2011	Improvement Bonds of 2013	Total
Revenues			
Property taxes	\$ 339,417	\$ 105,583	\$ 445,000
Charges for services	-	52,257	52,257
Special assessments	7,937	-	7,937
Interest on investments	(58)	199	141
Total Revenues	<u>347,296</u>	<u>158,039</u>	<u>505,335</u>
Expenditures			
Debt service			
Principal	315,000	125,000	440,000
Interest and other charges	25,598	27,200	52,798
Total Expenditures	<u>340,598</u>	<u>152,200</u>	<u>492,798</u>
Net Change in Fund Balances	6,698	5,839	12,537
Fund Balances, January 1	<u>217,806</u>	<u>136,602</u>	<u>354,408</u>
Fund Balances, December 31	<u>\$ 224,504</u>	<u>\$ 142,441</u>	<u>\$ 366,945</u>

City of Melrose, Minnesota
G.O. Refunding Bonds of 2011 Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances -
Budget and Actual
For the Year Ended December 31, 2017

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Property taxes	\$ 340,000	\$ 340,000	\$ 339,417	\$ (583)
Special assessments	7,937	7,937	7,937	-
Interest on investments	-	-	(58)	(58)
Total Revenues	<u>347,937</u>	<u>347,937</u>	<u>347,296</u>	<u>(641)</u>
Expenditures				
Debt service				
Principal	315,000	315,000	315,000	-
Interest and other charges	<u>25,600</u>	<u>25,600</u>	<u>25,598</u>	<u>2</u>
Total Expenditures	<u>340,600</u>	<u>340,600</u>	<u>340,598</u>	<u>2</u>
Net Change in Fund Balances	7,337	7,337	6,698	(639)
Fund Balances, January 1	<u>217,806</u>	<u>217,806</u>	<u>217,806</u>	<u>-</u>
Fund Balances, December 31	<u>\$ 225,143</u>	<u>\$ 225,143</u>	<u>\$ 224,504</u>	<u>\$ (639)</u>

City of Melrose, Minnesota
Improvement Bonds of 2013 Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances -
Budget and Actual
For the Year Ended December 31, 2017

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Property taxes	\$ 105,000	\$ 105,000	\$ 105,583	\$ 583
Charges for services	52,257	52,257	52,257	-
Interest on investments	-	-	199	199
Total Revenues	<u>157,257</u>	<u>157,257</u>	<u>158,039</u>	<u>782</u>
Expenditures				
Debt service				
Principal	125,000	125,000	125,000	-
Interest and other charges	27,200	27,200	27,200	-
Total Expenditures	<u>152,200</u>	<u>152,200</u>	<u>152,200</u>	<u>-</u>
Net Change in Fund Balances	5,057	5,057	5,839	782
Fund Balances, January 1	<u>136,602</u>	<u>136,602</u>	<u>136,602</u>	<u>-</u>
Fund Balances, December 31	<u>\$ 141,659</u>	<u>\$ 141,659</u>	<u>\$ 142,441</u>	<u>\$ 782</u>

City of Melrose, Minnesota
 Agency Funds
 Combining Statement of Changes in Assets and Liabilities
 For the Year Ended December 31, 2017

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
Assets				
Cash and temporary investments	<u>\$ 843</u>	<u>\$ 37,960</u>	<u>\$ (38,531)</u>	<u>\$ 272</u>
Liabilities				
Accounts payable	<u>\$ 843</u>	<u>\$ 37,960</u>	<u>\$ (38,531)</u>	<u>\$ 272</u>

COMPONENT UNIT FINANCIAL STATEMENTS

The Melrose Area Development Authority is a component unit of the City. Its operations are presented as a separate column on the Government-wide financial statements.

Governmental Fund

Melrose Area Development Authority (MADA) - This fund is used to account for economic and industrial development and redevelopment activities.

MADA Revolving Loan – This fund is used to account for the resources and payments associated with development revolving loans.

City of Melrose, Minnesota
Melrose Area Development Authority
Combining Balance Sheet
December 31, 2017

	<u>Melrose Area Development Authority (MADA)</u>	<u>MADA Revolving Loan</u>	<u>Total</u>
Assets			
Cash and temporary investments	\$ 15,458	\$ 389,625	\$ 405,083
Accounts receivable	-	1,012	1,012
Loans receivable	40,668	250,487	291,155
Prepaid items	12	-	12
	<u>12</u>	<u>-</u>	<u>12</u>
Total Assets	<u>\$ 56,138</u>	<u>\$ 641,124</u>	<u>\$ 697,262</u>
Liabilities			
Accounts payable	<u>\$ 5,328</u>	<u>\$ -</u>	<u>\$ 5,328</u>
Fund Balances			
Nonspendable prepaid items	12	-	12
Committed to revolving loans	-	641,124	641,124
Assigned for future economic development	50,798	-	50,798
Total Fund Balances	<u>50,810</u>	<u>641,124</u>	<u>691,934</u>
Total Liabilities and Fund Balances	<u>\$ 56,138</u>	<u>\$ 641,124</u>	<u>\$ 697,262</u>

City of Melrose, Minnesota
 Melrose Area Development Authority
 Combining Statement of Revenue, Expenditures
 and Changes in Fund Balances
 For the Year Ended December 31, 2017

	Melrose Area Development Authority (MADA)	MADA Revolving Loan	Total
Revenues			
Interest on investments	\$ 87	\$ 13,478	\$ 13,565
Miscellaneous	26,464	-	26,464
Total Revenues	<u>26,551</u>	<u>13,478</u>	<u>40,029</u>
Expenditures			
Current			
Economic development	18,116	-	18,116
Excess of Revenues Over Expenditures	<u>8,435</u>	<u>13,478</u>	<u>21,913</u>
Net Change in Fund Balances	8,435	13,478	21,913
Fund Balances, January 1	<u>42,375</u>	<u>627,646</u>	<u>670,021</u>
Fund Balances, December 31	<u>\$ 50,810</u>	<u>\$ 641,124</u>	<u>\$ 691,934</u>

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STATISTICAL SECTION (UNAUDITED)

CITY OF MELROSE
MELROSE, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2017

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STATISTICAL SECTION (UNAUDITED)

This part of the City of Melrose's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the government's overall financial health.

Financial Trends

These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.

Revenue Capacity

These schedules contain information to help the reader assess the City's most significant local revenue sources; electric sales and property taxes.

Debt Capacity

These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.

Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.

Operating Information

These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs.

City of Melrose, Minnesota
Statistical Section (Unaudited)
Net Position by Component
Last Ten Fiscal Years
(Accrual Basis of Accounting)

	Fiscal Year			
	2008	2009	2010	2011
Governmental Activities				
Net investment in capital assets	\$ 9,547,712	\$ 9,493,356	\$ 9,746,922	\$ 7,445,186
Restricted	1,704,978	1,723,074	1,505,299	3,552,690
Unrestricted	4,434,666	4,866,195	5,099,922	5,726,569
Total Governmental Activities Net Position	<u>\$ 15,687,356</u>	<u>\$ 16,082,625</u>	<u>\$ 16,352,143</u>	<u>\$ 16,724,445</u>
Business-type Activities				
Net investment in capital assets	\$ 16,093,480	\$ 16,938,723	\$ 16,262,869	\$ 14,625,472
Unrestricted	10,326,553	10,936,840	12,458,282	14,744,939
Total Business-type Activities Net Position	<u>\$ 26,420,033</u>	<u>\$ 27,875,563</u>	<u>\$ 28,721,151</u>	<u>\$ 29,370,411</u>
Total Primary Government				
Net investment in capital assets	\$ 25,641,192	\$ 26,432,079	\$ 26,009,791	\$ 22,070,658
Restricted	1,704,978	1,723,074	1,505,299	3,552,690
Unrestricted	14,761,219	15,803,035	17,558,204	20,471,508
Total Primary Government	<u>\$ 42,107,389</u>	<u>\$ 43,958,188</u>	<u>\$ 45,073,294</u>	<u>\$ 46,094,856</u>

Table 1

Fiscal Year					
2012	2013	2014	2015	2016	2017
\$ 9,920,543	\$ 10,569,743	\$ 10,552,095	\$ 10,789,455	\$ 10,937,790	\$ 10,972,305
2,673,581	700,612	502,133	437,834	421,831	483,357
4,297,167	7,589,184	7,615,977	7,373,691	7,587,075	8,067,814
<u>\$ 16,891,291</u>	<u>\$ 18,859,539</u>	<u>\$ 18,670,205</u>	<u>\$ 18,600,980</u>	<u>\$ 18,946,696</u>	<u>\$ 19,523,476</u>
\$ 16,859,256	\$ 18,584,937	\$ 20,314,107	\$ 24,156,406	\$ 25,446,660	\$ 25,660,629
13,431,134	12,499,907	11,862,918	9,437,446	9,975,640	11,772,561
<u>\$ 30,290,390</u>	<u>\$ 31,084,844</u>	<u>\$ 32,177,025</u>	<u>\$ 33,593,852</u>	<u>\$ 35,422,300</u>	<u>\$ 37,433,190</u>
\$ 26,779,799	\$ 29,154,680	\$ 30,866,202	\$ 34,945,861	\$ 36,384,450	\$ 36,632,934
2,673,581	700,612	502,133	437,834	421,831	483,357
17,728,301	20,089,091	19,478,895	16,811,137	17,562,715	19,840,375
<u>\$ 47,181,681</u>	<u>\$ 49,944,383</u>	<u>\$ 50,847,230</u>	<u>\$ 52,194,832</u>	<u>\$ 54,368,996</u>	<u>\$ 56,956,666</u>

City of Melrose, Minnesota
Statistical Section (Unaudited)
Changes in Net Position (Continued on the Following Pages)
Last Ten Fiscal Years
(Accrual Basis of Accounting)

	Fiscal Year			
	2008	2009	2010	2011
Expenses				
Governmental Activities				
General government	\$ 725,576	\$ 649,706	\$ 543,119	\$ 625,379
Public safety	794,637	825,952	790,505	810,985
Streets and highways	859,076	746,552	728,814	864,600
Sanitation	5,049	3,818	3,831	4,515
Culture and recreation	94,456	91,893	101,751	87,438
Economic development	167,256	580,164	437,406	227,129
Miscellaneous	-	-	-	-
Interest on long-term debt	248,602	263,763	245,375	260,687
Total Governmental Activities Expenses	<u>2,894,652</u>	<u>3,161,848</u>	<u>2,850,801</u>	<u>2,880,733</u>
Business-type Activities				
Water	788,729	785,483	711,457	695,747
Wastewater	1,718,318	1,713,743	1,826,465	2,079,154
Electric	6,407,182	7,530,506	7,665,405	7,525,919
Ambulance	398,344	414,125	423,274	452,404
Total Business-type Activities Expenses	<u>9,312,573</u>	<u>10,443,857</u>	<u>10,626,601</u>	<u>10,753,224</u>
Total Expenses	<u>\$ 12,207,225</u>	<u>\$ 13,605,705</u>	<u>\$ 13,477,402</u>	<u>\$ 13,633,957</u>
Program Revenues				
Governmental Activities				
Charges for services				
General government	\$ 90,775	\$ 61,291	\$ 62,153	\$ 61,521
Public safety	187,198	224,128	233,197	216,568
Streets and highways	20,567	22,343	22,518	32,704
Culture and recreation	6,950	5,665	-	-
Economic development	1,269	617	1,193	1,575
Miscellaneous	-	-	-	-
Operating grants and contributions	233,697	512,853	304,100	217,589
Capital grants and contributions	114,444	125,260	49,921	47,505
Total Governmental Activities Program Revenues	<u>654,900</u>	<u>952,157</u>	<u>673,082</u>	<u>577,462</u>
Business-type Activities				
Charges for services				
Water utility	1,004,684	1,020,789	981,434	949,882
Wastewater	1,600,322	1,747,440	1,660,923	1,658,708
Electric	6,245,076	8,465,140	7,915,624	7,902,334
Ambulance	376,660	401,789	451,436	445,868
Operating grants and contributions	19,507	19,647	184,656	187,472
Capital grants and contributions	-	-	-	-
Total Business-type Activities Program Revenues	<u>9,246,249</u>	<u>11,654,805</u>	<u>11,194,073</u>	<u>11,144,264</u>
Total Program Revenues	<u>\$ 9,901,149</u>	<u>\$ 12,606,962</u>	<u>\$ 11,867,155</u>	<u>\$ 11,721,726</u>

Table 2

		Fiscal Year									
		2012	2013	2014	2015	2016	2017				
\$	531,665	\$	528,899	\$	497,288	\$	476,771	\$	544,553	\$	574,549
	796,873		801,708		761,121		750,781		941,667		1,018,312
	790,435		906,299		1,033,679		917,583		1,081,632		1,000,039
	5,255		4,119		3,679		4,083		-		-
	82,618		89,429		97,783		118,389		119,831		87,547
	199,720		198,438		259,758		227,898		214,128		281,757
	-		-		-		-		-		7,189
	221,876		138,012		84,403		75,695		74,045		59,730
	<u>2,628,442</u>		<u>2,666,904</u>		<u>2,737,711</u>		<u>2,571,200</u>		<u>2,975,856</u>		<u>3,029,123</u>
	674,293		727,398		673,039		628,010		746,754		792,867
	1,790,203		1,708,964		1,654,047		1,578,850		1,645,964		1,833,645
	7,475,761		7,832,282		8,077,041		8,286,299		8,520,719		8,130,664
	459,706		463,671		472,302		525,131		595,662		637,437
	<u>10,399,963</u>		<u>10,732,315</u>		<u>10,876,429</u>		<u>11,018,290</u>		<u>11,509,099</u>		<u>11,394,613</u>
\$	<u>13,028,405</u>	\$	<u>13,399,219</u>	\$	<u>13,614,140</u>	\$	<u>13,589,490</u>	\$	<u>14,484,955</u>	\$	<u>14,423,736</u>
\$	58,769	\$	58,844	\$	69,204	\$	65,837	\$	78,881	\$	115,105
	197,741		137,093		138,553		141,241		209,655		339,905
	20,859		19,507		20,808		29,452		35,832		37,655
	-		-		-		-		-		-
	1,744		1,292		819		980		759		-
	-		-		-		-		-		1,323
	102,281		131,735		114,136		145,710		136,368		149,306
	20,510		53,587		17,671		54,102		8,762		22,415
	<u>401,904</u>		<u>402,058</u>		<u>361,191</u>		<u>437,322</u>		<u>470,257</u>		<u>665,709</u>
	951,674		942,353		1,057,442		1,036,279		1,095,974		1,096,354
	1,722,742		1,759,596		1,886,175		1,885,350		2,077,110		2,200,707
	7,792,002		8,211,536		8,125,248		8,175,091		8,627,664		8,859,781
	435,805		476,814		474,534		592,901		552,538		619,839
	204,362		54,640		39,386		28,261		162,684		21,509
	-		66,810		128,313		1,302,972		713,916		505,284
	<u>11,106,585</u>		<u>11,511,749</u>		<u>11,711,098</u>		<u>13,020,854</u>		<u>13,229,886</u>		<u>13,303,474</u>
\$	<u>11,508,489</u>	\$	<u>11,913,807</u>	\$	<u>12,072,289</u>	\$	<u>13,458,176</u>	\$	<u>13,700,143</u>	\$	<u>13,969,183</u>

City of Melrose, Minnesota
Statistical Section (Unaudited)
Changes in Net Position (Continued)
Last Ten Fiscal Years
(Accrual Basis of Accounting)

	Fiscal Year			
	2008	2009	2010	2011
Net Revenues (Expenses)				
Governmental activities	\$ (2,239,752)	\$ (2,209,691)	\$ (2,177,719)	\$ (2,303,271)
Business-type activities	(66,324)	1,210,948	567,472	391,040
Total Primary Government Revenues (Expenses)	<u>\$ (2,306,076)</u>	<u>\$ (998,743)</u>	<u>\$ (1,610,247)</u>	<u>\$ (1,912,231)</u>
General Revenues and Other Changes in Net Position				
General Revenues				
Governmental Activities				
Taxes				
Property taxes, levied for general purpose	\$ 793,396	\$ 837,942	\$ 1,006,038	\$ 1,200,660
Property taxes, levied for debt service	320,716	325,077	160,524	1,217
Tax increments	49,784	88,179	83,792	81,061
Franchise taxes	297,977	363,160	413,643	380,754
Grants and contributions not restricted to specific programs	764,305	799,582	653,711	657,347
Unrestricted investment earnings	206,543	150,972	118,175	209,972
Gain on sale of capital assets	65,000	-	-	-
Transfers of capital assets	(193,255)	(66,647)	-	(11,330)
Transfers	103,040	106,695	11,354	155,892
Special item-Sale of CentraCare facility	-	-	-	-
Total Governmental Activities General Revenues	<u>2,407,506</u>	<u>2,604,960</u>	<u>2,447,237</u>	<u>2,675,573</u>
Business-type Activities				
Unrestricted investment earnings	439,050	284,630	289,470	402,782
Gain on sale of capital assets	6,163	-	-	-
Transfers of capital assets	193,255	66,647	-	11,354
Transfers	(103,040)	(106,695)	(11,354)	(155,892)
Total Business-type Activities General Revenues	<u>535,428</u>	<u>244,582</u>	<u>278,116</u>	<u>258,244</u>
Total Primary Government	<u>\$ 2,942,934</u>	<u>\$ 2,849,542</u>	<u>\$ 2,725,353</u>	<u>\$ 2,933,817</u>
Change in Net Position				
Governmental activities	\$ 167,754	\$ 395,269	\$ 269,518	\$ 372,302
Business-type activities	469,104	1,455,530	845,588	649,284
Total Primary Government	<u>\$ 636,858</u>	<u>\$ 1,850,799</u>	<u>\$ 1,115,106</u>	<u>\$ 1,021,586</u>

Table 2

Fiscal Year					
2012	2013	2014	2015	2016	2017
\$ (2,226,538)	\$ (2,264,846)	\$ (2,376,520)	\$ (2,133,878)	\$ (2,505,599)	\$ (2,363,414)
706,622	779,434	834,669	2,002,564	1,720,787	1,908,861
<u>\$ (1,519,916)</u>	<u>\$ (1,485,412)</u>	<u>\$ (1,541,851)</u>	<u>\$ (131,314)</u>	<u>\$ (784,812)</u>	<u>\$ (454,553)</u>
\$ 951,173	\$ 955,725	\$ 922,279	\$ 945,222	\$ 952,179	\$ 929,663
294,030	295,000	310,000	365,000	410,000	445,000
80,552	89,452	144,129	147,329	148,491	174,647
375,252	436,914	477,470	477,058	493,092	501,400
618,584	618,006	769,250	790,975	797,892	802,056
199,904	(85,202)	127,386	90,403	47,112	87,428
607	585,750	-	53,437	1,705	-
-	-	-	-	-	-
6,477	7,949	2,224	-	844	-
-	1,329,500	-	-	-	-
<u>2,526,579</u>	<u>4,233,094</u>	<u>2,752,738</u>	<u>2,869,424</u>	<u>2,851,315</u>	<u>2,940,194</u>
332,003	17,853	259,736	150,383	108,505	87,461
3,000	5,116	-	-	-	14,568
-	-	-	-	-	-
(6,477)	(7,949)	(2,224)	-	(844)	-
<u>328,526</u>	<u>15,020</u>	<u>257,512</u>	<u>150,383</u>	<u>107,661</u>	<u>102,029</u>
<u>\$ 2,855,105</u>	<u>\$ 4,248,114</u>	<u>\$ 3,010,250</u>	<u>\$ 3,019,807</u>	<u>\$ 2,958,976</u>	<u>\$ 3,042,223</u>
\$ 300,041	\$ 1,968,248	\$ 376,218	\$ 735,546	\$ 345,716	\$ 576,780
1,035,148	794,454	1,092,181	2,152,947	1,828,448	2,010,890
<u>\$ 1,335,189</u>	<u>\$ 2,762,702</u>	<u>\$ 1,468,399</u>	<u>\$ 2,888,493</u>	<u>\$ 2,174,164</u>	<u>\$ 2,587,670</u>

City of Melrose, Minnesota
Statistical Section (Unaudited)
Fund Balances of Governmental Funds
Last Ten Fiscal Years

	Fiscal Year			
	2008	2009	2010	2011
General Fund				
Nonspendable	\$ -	\$ -	\$ -	\$ 87,036
Restricted (Reserved 2007-2010)	4,793	8,672	106,535	-
Committed	-	-	-	45,977
Unassigned (Unreserved 2007-2010)	<u>736,701</u>	<u>1,080,686</u>	<u>1,037,087</u>	<u>989,793</u>
Total General Fund	<u>\$ 741,494</u>	<u>\$ 1,089,358</u>	<u>\$ 1,143,622</u>	<u>\$ 1,122,806</u>
All Other Governmental Funds				
Nonspendable				
Other	\$ -	\$ -	\$ -	\$ 225,764
Restricted (Reserved 2007-2010)				
Debt Service	1,280,769	1,280,460	1,270,469	3,414,580
Other	466,695	320,327	375,651	775
Committed				
Special Revenue Funds	-	-	-	664,787
Capital Improvements	-	-	-	3,049,418
Assigned (Designated 2007-2010)				
Special Revenue Funds	87,290	272,544	343,988	116,891
Capital Improvements	2,660,333	2,511,005	2,586,995	-
Unassigned (Unreserved 2007-2010)				
Special Revenue Funds (Deficits)	(370,645)	39,028	147,387	(5,917)
Capital Project Funds (Deficiets)	<u>294,066</u>	<u>151,675</u>	<u>-</u>	<u>-</u>
Total All Other Governmental Funds	<u>\$ 4,418,508</u>	<u>\$ 4,575,039</u>	<u>\$ 4,724,490</u>	<u>\$ 7,466,298</u>

Note: The requirements of GASB 54 were implemented in 2011.

Table 3

Fiscal Year					
2012	2013	2014	2015	2016	2017
\$ 123,964	\$ 93,698	\$ 106,309	\$ 100,037	\$ 197,194	\$ 181,246
-	-	-	-	-	-
48,222	52,607	51,262	48,729	53,729	50,799
<u>1,132,696</u>	<u>1,214,829</u>	<u>1,409,888</u>	<u>1,516,289</u>	<u>1,393,272</u>	<u>1,648,198</u>
<u>\$ 1,304,882</u>	<u>\$ 1,361,134</u>	<u>\$ 1,567,459</u>	<u>\$ 1,665,055</u>	<u>\$ 1,644,195</u>	<u>\$ 1,880,243</u>
\$ 459,420	\$ 400,448	\$ 574	\$ 549	\$ 1,356	\$ 511
2,539,917	553,091	467,663	394,860	354,408	366,945
522	248	14,773	39,327	67,094	119,172
210,464	335,983	179,795	229,352	201,895	254,060
<u>3,372,323</u>	<u>3,701,460</u>	<u>4,294,871</u>	<u>4,827,348</u>	<u>5,454,276</u>	<u>5,858,844</u>
64,643	77,954	82,067	187,508	48,888	71,340
-	-	-	-	-	-
(17,560)	(16,816)	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(77,737)</u>
<u>\$ 6,629,729</u>	<u>\$ 5,052,368</u>	<u>\$ 5,039,743</u>	<u>\$ 5,678,944</u>	<u>\$ 6,127,917</u>	<u>\$ 6,593,135</u>

City of Melrose, Minnesota
Statistical Section (Unaudited)
Changes in Fund Balances of Governmental Funds
Last Ten Fiscal Years

	Fiscal Year			
	2008	2009	2010	2011
Revenues				
Taxes	\$ 1,449,099	\$ 1,620,046	\$ 1,653,839	\$ 1,644,180
Licenses and permits	64,454	66,591	67,062	50,592
Intergovernmental	819,815	1,293,370	897,114	827,184
Charges for services	219,111	217,518	216,431	216,753
Fines and forfeitures	18,625	24,153	30,963	27,774
Special assessments	191,154	120,320	212,161	153,977
Interest on investments	206,543	150,972	118,175	209,972
Miscellaneous	182,756	74,545	69,302	65,001
Total Revenues	<u>3,151,557</u>	<u>3,567,515</u>	<u>3,265,047</u>	<u>3,195,433</u>
Expenditures				
General government	613,840	501,650	463,853	494,674
Public safety	649,889	664,966	662,273	671,057
Streets and highways	436,539	412,401	395,110	499,404
Sanitation	5,049	3,818	3,831	4,515
Culture and recreation	75,556	72,450	81,335	54,358
Economic development	167,395	576,279	432,146	216,250
Miscellaneous	-	-	-	-
Capital outlay				
General government	66,772	166,066	3,216	47,820
Public Works	-	-	-	-
Public safety	2,385,170	33,816	29,181	70,629
Streets and highways	108,578	255,221	146,238	39,488
Culture and recreation	-	30,537	-	14,338
Economic development	-	-	-	-
Debt service				
Principal	224,767	265,900	710,000	315,000
Interest and other charges	169,382	291,050	243,366	213,528
Bond issuance costs	-	-	-	52,990
Total Expenditures	<u>4,902,937</u>	<u>3,274,154</u>	<u>3,170,549</u>	<u>2,694,051</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(1,751,380)</u>	<u>293,361</u>	<u>94,498</u>	<u>501,382</u>
Other Financing Sources (Uses)				
Sale of capital assets	65,000	100,460	-	-
Transfers in	1,027,673	1,826,388	1,199,172	1,141,803
Premium/(discount) on bond issued	-	-	-	15,253
Principal paid on refunded bonds	-	-	-	-
Payment to bond escrow	-	-	-	-
Refunding bonds issued	-	-	-	2,155,000
Bonds issued	2,360,000	-	-	-
Transfers out	(924,633)	(1,719,693)	(1,187,818)	(985,911)
Total Other Financing Sources (Uses)	<u>2,528,040</u>	<u>207,155</u>	<u>11,354</u>	<u>2,326,145</u>
Net Change in Fund Balances	<u>\$ 776,660</u>	<u>\$ 500,516</u>	<u>\$ 105,852</u>	<u>\$ 2,827,527</u>
Debt Service as a Percentage of Noncapital Expenditures	15.6%	19.8%	31.7%	20.2%

Table 4

Fiscal Year					
2012	2013	2014	2015	2016	2017
\$ 1,695,358	\$ 1,802,462	\$ 1,867,293	\$ 1,919,244	\$ 2,008,462	\$ 2,074,855
48,217	44,421	49,535	46,688	104,014	240,388
686,696	703,617	804,784	867,619	833,384	886,676
207,135	203,700	215,101	215,047	245,253	278,480
18,825	18,545	15,131	18,703	18,704	14,910
102,025	56,442	46,140	53,576	46,778	42,085
199,904	(85,202)	127,386	90,403	47,112	87,428
44,105	43,923	211,175	158,526	26,287	180,536
<u>3,002,265</u>	<u>2,787,908</u>	<u>3,336,545</u>	<u>3,369,806</u>	<u>3,329,994</u>	<u>3,805,358</u>
443,745	448,253	436,645	421,571	476,978	465,188
636,916	649,228	622,123	619,545	711,838	877,521
414,043	453,118	483,943	472,735	433,098	465,075
5,255	4,119	3,679	4,083	3,528	3,947
54,314	63,684	68,215	90,191	85,133	59,713
194,217	192,288	217,835	214,170	209,765	273,083
-	534	-	-	-	7,189
16,134	11,137	5,718	20,392	16,151	74,450
-	-	-	16,046	272,003	28,222
391,849	47,771	63,483	356,345	168,561	349,487
225,621	541,382	186,502	12,778	14,567	-
9,979	102,071	4,892	11,465	-	6,495
-	23,174	38,068	-	-	-
325,000	355,000	380,000	445,000	445,000	440,000
254,436	135,069	83,594	69,456	67,808	53,722
-	43,796	-	-	-	-
<u>2,971,509</u>	<u>3,070,624</u>	<u>2,594,697</u>	<u>2,753,777</u>	<u>2,904,430</u>	<u>3,104,092</u>
<u>30,756</u>	<u>(282,716)</u>	<u>741,848</u>	<u>616,029</u>	<u>425,564</u>	<u>701,266</u>
3,274	585,750	15,180	120,768	1,705	-
481,996	579,078	974,390	668,581	842,303	594,274
-	-	-	-	-	-
-	(1,610,000)	-	-	-	-
-	(2,187,092)	-	-	-	-
(695,000)	1,965,000	-	-	-	-
-	-	-	-	-	-
<u>(475,519)</u>	<u>(571,129)</u>	<u>(972,166)</u>	<u>(668,581)</u>	<u>(841,459)</u>	<u>(594,274)</u>
<u>(685,249)</u>	<u>(1,238,393)</u>	<u>17,404</u>	<u>120,768</u>	<u>2,549</u>	<u>-</u>
<u>\$ (654,493)</u>	<u>\$ (1,521,109)</u>	<u>\$ 759,252</u>	<u>\$ 736,797</u>	<u>\$ 428,113</u>	<u>\$ 701,266</u>
24.0%	20.1%	19.7%	21.4%	20.0%	17.3%

City of Melrose, Minnesota
 Statistical Section (Unaudited)
 Assessed Value and Estimated Actual Value of Taxable Property
 Last Ten Fiscal Years

Table 5

Fiscal Year	Net Tax Capacity			Less: Captured Tax Increment Tax Capacity	Taxable Net Tax Capacity	Tax Capacity Rate	Taxable Market Value	Tax Capacity as a Percentage of Market Value
	Real Property		Personal Property					
	Residential	Commercial						
2008	\$ 1,379,209	\$ 609,646	\$ 14,000	\$ (39,504)	\$ 1,963,351	61.876 %	\$ 171,466,500	1.15 %
2009	1,371,673	729,043	15,028	(68,203)	2,047,541	61.900	177,917,800	1.15
2010	1,362,456	749,146	14,119	(110,277)	2,015,444	61.403	177,460,300	1.14
2011	1,378,330	819,867	17,349	(62,235)	2,153,311	69.742	179,544,300	1.20
2012	1,170,490	775,886	19,182	(61,559)	1,903,999	65.702	156,584,900	1.22
2013	1,066,098	776,975	19,718	(65,624)	1,797,167	69.694	146,229,800	1.23
2014	1,098,112	769,987	21,739	(103,949)	1,785,889	69.353	151,267,200	1.18
2015	1,098,376	761,468	44,263	(97,927)	1,806,180	71.535	151,946,100	1.19
2016	1,140,219	776,653	63,953	(102,592)	1,878,233	71.199	157,637,600	1.19
2017	1,208,699	867,089	65,836	(51,646)	2,089,978	70.992	169,310,300	1.23

Source: Stearns County Auditor

City of Melrose, Minnesota
 Statistical Section (Unaudited)
 Property Tax Capacity Rates - Direct and Overlapping Governments
 (Per \$1,000 of Tax Capacity)
 Last Ten Fiscal Years

Table 6

Year Taxes Payable	Overlapping Rates					Total
	City	County	School District 740	Special Districts		
2008	61.876 %	47.516 %	21.572 %	1.042 %		132.006 %
2009	61.900	48.253	21.983	0.970		133.106
2010	61.404	48.929	19.681	0.934		130.948
2011	60.800	52.026	21.070	1.038		134.934
2012	65.703	55.570	24.521	1.179		146.972
2013	69.695	55.951	18.480	1.278		145.404
2014	69.353	54.976	16.529	1.331		142.188
2015	71.535	53.368	15.536	1.445		141.884
2016	71.199	51.839	14.436	1.183		138.657
2017	70.992	52.337	15.624	1.193		140.146

Source: Stearns County Auditor/Treasurer Department

Overlapping rates are those of local and county governments that apply to property owners within the City. Not all overlapping rates apply to all City property owners (e.g. the rates for school districts apply only to the proportion of the government's property owners whose property is located within the geographic boundaries of the school districts).

City of Melrose, Minnesota
 Statistical Section (Unaudited)
 Principal Taxpayers
 Current Year and Nine Years Ago

Table 7

Taxpayer	Classification	2017			2008		
		Tax Capacity	Rank	Percent of Total Tax Capacity	Tax Capacity	Rank	Percent of Total Tax Capacity
CentraCare Health System - Melrose	Commercial	\$ 80,971	1	3.87 %	\$ -		- %
Melrose Dairy Proteins, LLC	Industrial	79,903	2	3.82	81,134	1	4.13
Central Minnesota Credit Union	Commercial	73,562	3	3.52	29,018	3	1.48
Arvig Enterprises	Commercial	40,006	4	1.91	-		-
Proliant Dairy Inc	Commercial	30,890	5	1.48	-		-
Coborns Inc.	Commercial	28,774	6	1.38	-		-
EKA LLC	Commercial	28,202	7	1.35	-		-
Stearns Coop Electric Assn	Apartments	25,590	8	1.22	22,089	4	1.13
Melrose Townhomes LLC	Commercial	20,665	9	0.99	-		-
Little Falls Courtyard LLC	Commercial	20,283	10	0.97	18,401	7	0.94
Blue Coyote Lmt. Part.	Commercial	-		-	40,862	2	2.08
Jennie-O Foods, Inc.	Industrial	-		-	18,416	6	0.94
City of Melrose	Commercial	-		-	19,062	5	0.97
Kociemba's Inc.	Commercial	-		-	17,174	8	0.87
Melrose State Bank	Commercial	-		-	15,500	9	0.79
Dynamic Investments of St. Cloud	Apartments	-		-	13,351	10	0.81
Totals		<u>\$ 428,846</u>		<u>20.52 %</u>	<u>\$ 275,007</u>		<u>14.13 %</u>

Source: Stearns County Auditor/Treasurer Department

City of Melrose, Minnesota
 Statistical Section (Unaudited)
 Property Tax Levies and Collections
 Last Ten Fiscal Years

Table 8

Fiscal Year	Total Levy	(1) Collection Within Fiscal Year of Levy	Percentage of Levy Collected	Collections in subsequent years	Total Collections	Percent of Total Collections to Levy	Total Uncollected	
							Amount	Percent
2008	\$ 1,208,817	1,079,783	89.33 %	27,345	\$ 1,107,128	91.59 %	\$ 101,689	8.41 %
2009	1,261,237	1,132,034	89.76	21,386	1,153,420	91.45	107,817	8.55
2010	1,265,480	1,139,961	90.08	21,868	1,161,829	91.81	103,651	8.19
2011	1,282,264	1,158,054	90.31	25,801	1,183,855	92.33	98,409	7.67
2012	1,230,714	1,206,909	98.07	12,215	1,219,124	99.06	11,590	0.94
2013	1,231,000	1,218,753	99.01	4,593	1,223,346	99.38	7,654	0.62
2014	1,246,000	1,231,947	98.87	7,003	1,238,950	99.43	7,050	0.57
2015	1,301,000	1,286,692	98.90	11,666	1,298,358	99.80	2,642	0.20
2016	1,346,000	1,286,198	95.56	6,629	1,292,827	96.05	53,173	3.95
2017	1,385,000	1,382,349	99.81	-	1,382,349	99.81	2,651	0.19

Source: Stearns County Auditor/Treasurer Department

(1) Includes state paid property tax credits.

City of Melrose, Minnesota
Statistical Section (Unaudited)
Ratios of Outstanding Debt by Type
Last Ten Fiscal Years

Table 9

Fiscal Year	Governmental Activities				Business-type Activities	Total Primary Government	Percentage of Personal Income	Per Capita
	General Obligation Bonds	Loans Payable	Lease Revenue	Capital Leases	General Obligation Revenue Bonds			
2008	\$ 3,830,000	\$ 15,900	\$ 2,360,000	\$ -	\$ 6,563,700	\$ 12,769,600	0.25	\$ 367
2009	3,580,000	-	2,360,000	-	5,829,700	11,769,700	0.24	356
2010	2,950,000	-	2,280,000	-	6,880,924	12,110,924	0.24	354
2011	4,889,010	-	2,195,000	-	6,113,371	13,197,381	0.24	359
2012	3,952,279	-	2,110,000	-	3,089,818	9,152,097	0.16	241
2013	4,040,548	-	-	-	2,571,265	6,611,813	0.11	172
2014	3,658,817	-	-	-	915,012	4,573,829	0.07	114
2015	3,212,086	-	-	-	647,459	3,859,545	0.06	92
2016	2,765,355	-	-	-	379,906	3,145,261	0.05	74
2017	2,323,624	-	-	-	102,353	2,425,977	*	*

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements.
See the Demographic and Economic Statistics Table on page 151 for personal income and population data.

* Information not available at time of publication

City of Melrose, Minnesota
 Statistical Section (Unaudited)
 Ratios of General Bonded Debt Outstanding
 Last Ten Fiscal Years

Table 10

Fiscal Year	General Obligation Bonds	Less Amounts Available in Debt Service Funds	Net Bonded Debt	Percentage of Estimated Actual Value of Taxable Property	Per Capita
2008	\$ 10,393,700	\$ 1,704,978	\$ 8,688,722	5.07 %	\$ 250
2009	9,409,700	1,723,074	7,686,626	4.32	233
2010	9,830,924	1,505,299	8,325,625	4.69	244
2011	11,002,381	3,551,915	7,450,466	4.15	203
2012	7,042,097	2,673,059	4,369,038	2.79	115
2013	6,611,813	700,364	5,911,449	4.04	154
2014	4,573,829	487,360	4,086,469	2.70	102
2015	3,859,545	398,507	3,461,038	2.28	82
2016	3,145,261	354,737	2,790,524	1.77	66
2017	2,425,977	364,185	2,061,792	1.22	*

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

See the Demographic and Economic Statistics Table on page 151 for personal income and population data.

See the Schedule of Assess'ed Value and Estimated Actual Value of Taxable Property for property value data.

* Information not available at time of publication

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City of Melrose, Minnesota
 Statistical Section (Unaudited)
 Computation of Direct and Overlapping Debt
 December 31, 2017

Table 11

	Debt Outstanding	Percentage Applicable to City	Amount of Net Debt Applicable to City
Direct Debt			
City of Melrose	\$ 2,425,977	100.00 %	\$ 2,425,977
School District #740	9,525,000	22.23	2,117,408
Stearns County HRA	1,260,000	2.01	25,326
Stearns County	14,590,000	1.43	208,637
Total Overlapping Debt	25,375,000	9.27	2,351,371
Total Direct and Overlapping Debt	\$ 27,800,977	17.18 %	\$ 4,777,348

Source : Percentages applicable to the City were obtained from the most recent Continuing Disclosure Document prepared by Northland Securities, Inc. for the reporting date of December 31, 2014.

Note: Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the City. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of the City. This process recognized that, when considering the government's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident, and therefore responsible for repaying the debt, of each overlapping government.

* The percentage of overlapping debt applicable is estimated using taxable market property values. Applicable percentages were estimated by determining the portion of the entity's taxable market value that is within the City's boundaries and dividing it by the entity's total taxable market value.

City of Melrose, Minnesota
 Statistical Section (Unaudited)
 Legal Debt Margin Information
 Last Ten Fiscal Years

	Fiscal Year			
	2008	2009	2010	2011
Debt Limit	\$ 5,143,995	\$ 5,386,329	\$ 5,323,809	\$ 5,386,329
Total Net Debt Applicable to Limit at Year End	<u>8,688,722</u>	<u>7,686,626</u>	<u>8,325,625</u>	<u>7,450,466</u>
Legal Debt Margin	<u>\$ (3,544,727)</u>	<u>\$ (2,300,297)</u>	<u>\$ (3,001,816)</u>	<u>\$ (2,064,137)</u>
Total Net Debt Applicable to the Limit as a Percentage of Debt Limit	<u>168.91 %</u>	<u>142.71 %</u>	<u>156.38 %</u>	<u>138.32 %</u>

Note: Under state law, the City's outstanding general obligation debt should not exceed 3 percent of the market value of taxable property. Prior to 2008, state law provided that general obligation debt should not exceed 2 percent. By law, the general obligation debt subject to the limitation may be offset by amounts set aside for the extinguishment of those obligations. The City's current outstanding debt includes improvement bonds, capital improvement plan bonds and certificates of indebtedness. As stated above, none of this general obligation debt is subject to the City's debt limit.

Table 12

Fiscal Year					
2012	2013	2014	2015	2016	2017
\$ 4,697,547	\$ 4,386,894	\$ 4,538,016	\$ 4,558,383	\$ 4,729,128	\$ 5,079,309
<u>4,369,038</u>	<u>5,911,449</u>	<u>4,086,469</u>	<u>3,461,038</u>	<u>2,790,524</u>	<u>2,061,792</u>
<u>\$ 328,509</u>	<u>\$ (1,524,555)</u>	<u>\$ 451,547</u>	<u>\$ 1,097,345</u>	<u>\$ 1,938,604</u>	<u>\$ 3,017,517</u>
<u>93.01 %</u>	<u>134.75 %</u>	<u>90.05 %</u>	<u>75.93 %</u>	<u>59.01 %</u>	<u>40.59 %</u>

Legal Debt Margin Calculation for Fiscal Year 2017

Taxable Market Value	<u>\$169,310,300</u>
Debt Limit (3% of Market Value)	\$ 5,079,309
Debt Applicable to Limit	
General obligation bonds	2,323,624
Less: amount available in debt service funds	<u>(364,185)</u>
Total Net Debt Applicable to Limit	<u>1,959,439</u>
Legal Debt Margin	<u>\$ 3,119,870</u>

City of Melrose, Minnesota
 Statistical Section (Unaudited)
 Pledged-Revenue Coverage
 Last Ten Fiscal Years

Table 13

Fiscal Year	General Obligation Revenue Bonds					
	(1) Gross Revenue	(2) Expenses	Net Revenue Available	Debt Service		Coverage
				Principal	Interest	
2008	\$ 2,798,786	\$ 1,303,050	\$ 1,495,736	\$ 396,000 *	\$ 187,617 *	2.56
2009	2,874,485	1,381,513	1,492,972	370,000	244,634	2.43
2010	2,715,342	1,398,864	1,316,478	384,000	232,370	2.14
2011	2,696,627	1,307,119	1,389,508	765,000	219,310 *	1.41
2012	2,763,482	1,378,612	1,384,870	421,000 *	192,740 *	2.26
2013	2,797,897	1,471,033	1,326,864	516,000	92,185	2.18
2014	2,993,835	1,396,563	1,597,272	1,653,700	61,145	0.93
2015	1,909,055	946,927	962,128	265,000	19,100	3.39
2016	2,113,707	1,020,397	1,093,310	265,000	13,800	3.92
2017	2,223,076	1,115,936	1,107,140	265,000	13,800	3.97

(1) Includes charges for services, investment earnings and miscellaneous revenues for the Water and Wastewater Fund (2008-2014) and the Wastewater Fund for 2015-2017

(2) Excluding depreciation and interest on bonds

* Excludes principal and interest paid on refunding bonds from escrow

Fiscal Year	Lease Revenue Bonds				Coverage
	Revenue from Property Taxes	Debt Service			
		Principal	Interest		
2008	\$ -	\$ -	\$ -	-	
2009	132,490	-	132,490	1.00	
2010	178,208	80,000	98,208	1.00	
2011	180,688	85,000	95,688	1.00	
2012	177,925	85,000	92,925	1.00	
2013	179,948	90,000	89,948	1.00	
2014	-	-	-	-	
2015	-	-	-	-	
2016	-	-	-	-	
2017	-	-	-	-	

Note: Details regarding the government's outstanding debt can be found in the notes to the financial statements.

City of Melrose, Minnesota
Demographic and Economic Statistics
Last Ten Fiscal Years

Table 14

Fiscal Year	City of Melrose			Total Personal Income (2)	Stearns County	ISD 740	Stearns County
	Population (1)	Number of Households (1)	Persons per Household (1)		Personal Income Per Capita (2)	School Enrollment (3)	County Unemployment Rate (4)
2008	3,310	1,269	2.55	\$ 5,156,379,000	\$ 34,768	1,398	5.6 %
2009	3,401	1,315	2.53	4,947,332,000	33,049	1,389	7.8
2010	3,598	1,309	2.69	5,151,321,000	34,175	1,371	7.2
2011	3,622	1,317	2.69	5,553,011,000	36,714	1,346	6.3
2012	3,632	1,319	2.69	5,762,560,000	38,000	1,342	5.4
2013	3,636	1,322	2.69	5,853,391,000	38,484	1,355	4.9
2014	3,659	1,324	2.70	6,151,162,000	40,227	1,353	4.0
2015	3,676	1,326	2.71	6,511,920,000	42,092	1,375	3.6
2016	3,677	1,326	2.71	6,626,384,000	42,572	1,365	3.7
2017	3,602	1,329	2.71	*	*	1,377	3.4

Data Sources:

- (1) Minnesota Office of the State Demographer (2007-2016); Estimated (2017)
- (2) US Bureau of Economic Analysis for Stearns County
- (3) Total ADMs served per Minnesota Department of Education.
- (4) Minnesota Department of Employment and Economic Development - not seasonally adjusted.
The unemployment rate is for Stearns County, the County of which the City is located. Unemployment data was not available for the City.

* Information not available at time of publication

City of Melrose, Minnesota
Principal Employers
Current Year and Nine Years Ago

Table 15

Employer	2017		
	Employees	Rank	Percentage of Total City Employment
Jennie-O Turkey Store	770	1	38.41 %
Melrose Area Hospital & CentraCare Clinic	325	2	16.21
ISD No. 740, Melrose	188	3	9.38
Land O' Lakes, LLC	125	4	6.24
Leedstone	110	5	5.49
Central Minnesota Credit Union	85	6	4.24
Melrose Electric	50	7	2.49
Stearns Electric Association	42	8	2.10
Melrose Metalworks, Inc.	35	9	1.75
Proliant	27	10	1.35
Total	<u>1,757</u>		<u>87.65 %</u>
	2008		
Employer	Employees	Rank	Percentage of Total City Employment
Jennie-O Turkey Store	800	1	45.55 %
Melrose Area Hospital - CentraCare	198	2	11.27
ISD No. 740, Melrose	170	3	9.68
Melrose Dairy Proteins	119	4	6.78
Central Minnesota Federal Credit Union - Melrose Branch	3	5	0.17
DiversiCOM/Melrose Telephone Co.	61	6	3.47
Stearns Electric Association	60	7	3.42
Melrose Electric	54	8	3.07
Ernie's Jubilee Foods	50	9	2.85
CentraCare Clinic Inc.	35	10	1.99
Total	<u>1,550</u>		<u>88.25 %</u>

Source: City of Melrose and Continuing Disclosure Documents.

City of Melrose, Minnesota
Full-Time Equivalent City Government Employees by Function
Last Ten Fiscal Years

Table 16

Function	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
General government	3.49	2.80	2.69	3.02	3.16	2.99	2.65	2.65	2.88	2.95
Public Safety										
Police	5.84	6.11	6.13	6.19	5.82	5.51	6.02	5.83	5.07	5.07
Public Works and Parks										
Streets	3.75	3.68	3.68	3.76	3.81	3.92	3.85	4.00	3.45	3.45
Snow and ice	0.62	0.59	0.59	0.61	0.62	0.64	0.67	0.69	0.46	0.46
Parks	0.62	0.55	0.55	0.56	0.57	0.59	0.62	0.64	0.69	0.69
Economic Development	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Water	1.68	1.49	1.35	1.42	1.47	1.40	1.10	1.10	1.52	1.54
Wastewater	6.52	6.23	5.31	5.28	5.43	8.10	4.22	4.22	3.92	3.94
Electric	<u>8.01</u>	<u>7.23</u>	<u>7.12</u>	<u>7.45</u>	<u>7.59</u>	<u>7.42</u>	<u>6.66</u>	<u>6.65</u>	<u>6.88</u>	<u>6.95</u>
Total	<u><u>31.53</u></u>	<u><u>29.68</u></u>	<u><u>28.42</u></u>	<u><u>29.29</u></u>	<u><u>29.47</u></u>	<u><u>31.57</u></u>	<u><u>26.79</u></u>	<u><u>26.78</u></u>	<u><u>25.87</u></u>	<u><u>26.05</u></u>

Source: City of Melrose

City of Melrose, Minnesota
 Operating Indicators by Function
 Last Ten Fiscal Years

Table 17

Function	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Fire										
Fire calls	53	68	61	70	68	70	66	73	68	48
Police										
Total Offenses	^	^	^	2,766	2,682	2,642	2,715	3,219	4,028	3,515
Water										
Meters	1,133	1,130	1,139	1,139	1,136	1,148	1,138	1,162	1,138	1,157
Gallons Sold	692,492,622	605,424,957	634,181,771	615,164,982	610,983,334	590,339,532	587,059,401	564,343,075	604,976,292	594,971,562
Electric										
Meters	1,734	1,733	1,742	1,744	1,711	1,717	1,696	1,688	1,337	1,719
kwh Sold	109,911,907	105,050,568	106,996,468	109,658,153	107,518,002	113,383,016	114,943,051	112,908,537	113,795,342	112,387,148

Sources: City of Melrose

Note: Indicators are not available for the general government function.

^ Due to a change of systems for the police department, the information on total offenses was not able to be pulled for years 2008-2010.

City of Melrose, Minnesota
Capital Asset Statistics by Function
Last Ten Fiscal Years

Table 18

Function	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Public Safety										
Fire and ambulance										
Stations	1	1	1	1	1	1	1	1	1	1
Fire vehicles	9	8	8	8	9	9	8	8	8	8
Road rescue vehicles	3	3	3	3	3	3	3	3	3	3
Public Works										
Highways and streets										
Streets paved (miles)	27	27	27	27	27	27	27	27	27	27
Streets gravel (miles)	2	2	2	2	2	2	2	2	2	2
Streets no road bed (miles)	1	1	1	1	1	1	1	1	1	1
Street lights	*	*	395	396	409	409	409	413	411	411
Sidewalks maintained (miles)	*	*	10	10	10	10	10	10	10	10
Culture and Recreation										
Parks division										
Parks	3	3	3	3	3	3	3	3	3	3
Utilities										
Water										
Feet of water main	131,306	131,788	140,899	140,899	140,899	140,899	140,899	140,899	140,899	143,899
Consumers	1,133	1,130	1,139	1,139	1,141	1,148	1,141	1,148	1,148	1,157
Maximum daily capacity (gallons)	4,500,000	4,500,000	4,500,000	4,500,000	4,500,000	4,500,000	4,500,000	4,500,000	4,500,000	4,500,000
Wastewater										
Feet of sanitary sewer	*	*	*	107,494	107,494	107,494	107,494	107,494	107,494	108,394
Lift stations	6	6	6	6	6	6	6	6	6	6
Maximum daily treatment capacity (gallons)	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000
Electrical										
Electrical lines (circuit miles)	62	62	62	62	62	62	62	62	62	62

Source: City of Melrose

Note: No capital asset indicators are available for the general government function.

* Information not available.

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City of Melrose, Minnesota
Building Permits
Last Ten Fiscal Years

Table 19

Year Ended	All Permits				Total Building Permits Issued	Total Permit Valuation
	Commercial/ Industrial Buildings (1)	Commercial/ Industrial Other (2)	New Residential Homes	New Residential Construction (3)		
2008	9	27	6	5	151	\$ 11,314,433
2009	1	18	3	13	135	10,688,848
2010	1	15	5	12	105	9,402,060
2011	3	24	1	9	150	3,724,081
2012	3	21	3	9	148	3,408,154
2013	4	22	1	12	134	5,512,414
2014	3	13	1	7	93	3,047,112
2015	5	22	2	11	131	2,728,173
2016	6	32	-	20	129	21,666,911
2017	1	36	3	89	129	38,428,525

Source: City records

- (1) Commercial/Industrial Stand Alone Structures
- (2) Commercial/Industrial Other permits include additions and storage facilities.
- (3) New Residential Construction includes garages, additions, storage sheds and decks.