

CITY OF MOUNTAIN IRON, MINNESOTA

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
Year Ended December 31, 2012**

CITY OF MOUNTAIN IRON, MINNESOTA

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CITY OF MOUNTAIN IRON, MINNESOTA

**ORGANIZATION
December 31, 2012**

CITY COUNCIL

Mayor

Gary Skalko

Council Members

**Joe Prebeg, Jr.
Ed Roskoski
Susan Tuomela
Anthony Zupancich**

ADMINISTRATION

Administrator

Craig J. Wainio

FINANCIAL SECTION



CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

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INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Mountain Iron, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the remaining fund information of the City of Mountain Iron, Minnesota, as of and for the year ended December 31, 2012, 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 did not audit the financial statements of Mountain Manor Apartments Enterprise Fund which is both a major fund and 8 percent, 2 percent, and 6 percent, respectively, of the assets, net position, and revenues of the business-type activities. Those statements were audited by other auditors whose report has been furnished to us and our opinion, insofar as it relates to the amounts for Mountain Manor Apartments Enterprise Fund, is based solely on the report of the other auditors. 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 from 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 entity'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 entity'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 presentation of the financial statements.

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, based on our audit and the report of other auditors, 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 aggregate discretely presented component unit, each major fund, and the remaining fund information of the City of Mountain Iron, Minnesota, as of December 31, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and schedule of funding progress for postemployment benefit plan, as listed in the table of contents, 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 and other auditors 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 of Mountain Iron, Minnesota's basic financial statements. The individual fund financial statement and schedules of sources and uses of public funds for Mountain Iron tax increment districts listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The individual fund financial statement and schedules of sources and uses of public funds for Mountain Iron tax increment districts 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 or to the basic financial statements themselves, 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 by us and other auditors. In our opinion, based on our audit, the individual fund financial statements and schedules of sources and uses of public funds for Mountain Iron are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 10, 2013, on our consideration of City of Mountain Iron, Minnesota'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 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 City of Mountain Iron, Minnesota's internal control over financial reporting and compliance.

Walker, Hirose + Nakne, Ltd

Virginia, Minnesota
June 10, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF MOUNTAIN IRON, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2012

The City of Mountain Iron, Minnesota's management's discussion and analysis provides an overview of the City's financial activities for the year ended December 31, 2012. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the City of Mountain Iron, Minnesota's financial statements.

FINANCIAL HIGHLIGHTS

- Governmental activities' total net position is \$9,372,998, of which \$7,688,970 represents net investment in capital assets.
- Business-type activities have total net position of \$6,800,799. Net investment in capital assets represents \$4,953,370 of the total.
- The Mountain Iron Economic Development Authority (EDA) has total net position of \$3,119,978, of which \$2,511,912 represents net investment in capital assets.
- The City of Mountain Iron's primary government's net position increased by \$579,656 for the year ended December 31, 2012. Of the increase \$42,716 was an increase in the governmental activities' net position and \$536,940 represented the increase in business-type activities' net position.
- The EDA's net position decreased by \$51,718.
- The net cost of governmental activities was \$3,080,631 for the current fiscal year. The net cost was funded by general revenues and other items totaling \$3,123,347.
- Governmental funds' fund balances increased by \$1,105,165.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the basic financial statements. The City of Mountain Iron, Minnesota's basic financial statements consist of three parts: government-wide financial statements, fund financial statements, and notes to the financial statements. The management's discussion and analysis (this section) is required to accompany the basic financial statements, and therefore, is included as required supplementary information.

There are two government-wide financial statements. The statement of net position and the statement of activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. The fund financial statements explain how governmental activities were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds.

Government-wide Financial Statements

The statement of net position and the statement of activities report information about the City as a whole and about its activities in a way that helps the reader determine whether the City's financial condition has improved or declined as a result of the year's activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

CITY OF MOUNTAIN IRON, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2012

These government-wide statements report the City's net position and how they have changed. You can think of the City's net position — the difference between assets and liabilities—as one way to measure the City's financial health or financial position. Increases or decreases in the City's net position is one indicator of whether its financial health is improving or deteriorating. However, other nonfinancial factors, such as changes in the City's property tax base and state aid and the condition of City buildings also need to be considered in assessing the overall health of the City.

In the statement of net position and the statement of activities, all activities are shown in the governmental activities, business-type activities or the Mountain Iron EDA component unit:

- **Governmental activities**—Most of the City's basic services are reported here, including general government, public safety, streets, culture and recreation, and economic development. Property taxes and state and federal grants finance most of these activities.
- **Business-type activities**—The City charges a fee to customers to help it cover all or most of the cost of services it provides. The City's electric, water treatment, wastewater treatment, refuse removal and recycling sales and services, and the Mountain Manor Apartments rental fees are reported here.
- **Component unit**—The Mountain Iron Economic Development Authority (EDA) is reported here.

Fund Financial Statements

The fund financial statements provide detailed information about the significant funds—not the City as a whole. Some funds are required to be established by State law and by bond covenants. However, the City establishes some funds to help it control and manage money for a particular purpose or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The City's two kinds of funds—governmental and proprietary—use different accounting methods.

- **Governmental funds**—Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using the modified accrual basis of accounting. This method measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net position and the statement of activities) and governmental funds in a reconciliation statement following each governmental fund financial statement.
- **Proprietary funds**—When the City charges customers for the services it provides—whether to outside customers or to other units 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 activities. In fact, the City's enterprise funds (a component of proprietary funds) are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows.

CITY OF MOUNTAIN IRON, MINNESOTA

**MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2012**

Notes to the Financial Statements

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

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents the required supplementary information for funding progress for postemployment benefit plan and budgetary comparison schedule. Individual fund financial statements and schedules of sources and uses of public funds for Mountain Iron's tax increment districts are presented as supplementary information.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a City's financial position. The following tables show that in the case of the City of Mountain Iron, assets exceeded liabilities by \$16,173,797, an increase from the prior year.

**Table 1
Net Assets**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 4,224,934	\$ 3,133,037	\$ 2,537,467	\$ 2,237,917	\$ 6,753,235	\$ 5,370,954
Capital assets	10,050,970	10,262,462	6,636,998	6,491,815	16,687,968	16,754,277
Total assets	<u>14,275,904</u>	<u>13,395,499</u>	<u>9,174,465</u>	<u>8,729,732</u>	<u>23,441,203</u>	<u>22,125,231</u>
Long-term liabilities	4,684,677	3,852,268	2,005,931	2,117,224	6,690,608	5,969,492
Other liabilities	218,229	212,949	367,735	348,649	576,798	561,598
Total liabilities	<u>4,902,906</u>	<u>4,065,217</u>	<u>2,373,666</u>	<u>2,465,873</u>	<u>7,267,406</u>	<u>6,531,090</u>
Net position						
Net investment in capital assets	7,688,970	7,644,462	4,953,370	4,722,443	12,642,340	12,366,905
Restricted	1,082,005	1,118,189	201,235	121,597	1,283,240	1,239,786
Unrestricted	602,023	567,631	1,646,194	1,419,819	2,248,217	1,987,450
Total net position	<u>\$ 9,372,998</u>	<u>\$ 9,330,282</u>	<u>\$ 6,800,799</u>	<u>\$ 6,263,859</u>	<u>\$ 16,173,797</u>	<u>\$ 15,594,141</u>

Net position of the City's governmental activities increased by .01 percent (\$9,372,998 compared to \$9,330,282). Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements - increased from a \$567,631 surplus at December 31, 2011 to a \$602,023 surplus at the end of this year.

Net position of the City's business-type activities increased by 8.6 percent (\$6,800,799 compared to \$6,263,859).

CITY OF MOUNTAIN IRON, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2012

Table 2
Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total Primary Government	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Revenues						
Program revenues:						
Fees, fines, charges and other charges for services	\$ 233,048	\$ 212,729	\$ 3,584,447	\$ 3,561,212	\$ 3,817,495	\$ 3,773,941
Operating grants and contributions	5,931	7,831	-	-	5,931	7,831
Capital grants and contributions	713,660	610,366	-	262,044	713,660	872,410
General revenues:						
Property and other taxes	1,340,114	1,232,051	-	-	1,340,114	1,232,051
Grants and contributions not restricted to specific programs	2,155,223	2,075,863	-	-	2,155,223	2,075,863
Other general revenues	<u>46,398</u>	<u>58,926</u>	<u>25,780</u>	<u>31,184</u>	<u>72,178</u>	<u>90,110</u>
Total revenues	<u>4,494,374</u>	<u>4,197,766</u>	<u>3,610,227</u>	<u>3,854,440</u>	<u>8,104,601</u>	<u>8,052,206</u>
Program expenses:						
General government	1,296,502	1,564,838	-	-	1,296,502	1,564,838
Public safety	706,945	676,187	-	-	706,945	676,187
Streets	1,171,899	1,364,678	-	-	1,171,899	1,364,678
Culture and recreation	511,789	478,947	-	-	511,789	478,947
Economic development	250,000	-	-	-	250,000	-
Interest	96,135	123,565	-	-	96,135	123,565
Electric utility	-	-	2,065,533	2,139,991	2,065,533	2,139,991
Water treatment	-	-	310,439	380,656	310,439	380,656
Wastewater treatment	-	-	540,522	448,310	540,522	448,310
Refuse removal and recycling	-	-	410,416	378,708	410,416	378,708
Mountain Manor Apartments	-	-	224,936	231,457	224,936	231,457
Total program expenses	<u>4,033,270</u>	<u>4,208,215</u>	<u>3,551,846</u>	<u>3,579,122</u>	<u>7,585,116</u>	<u>7,787,337</u>
Excess (deficiency) before extraordinary item and transfers	461,104	(10,449)	58,381	275,318	519,485	264,869
Extraordinary item – insurance recovery	-	-	60,171	-	60,171	-
Transfers	<u>(418,388)</u>	<u>(275,195)</u>	<u>418,388</u>	<u>275,195</u>	<u>-</u>	<u>-</u>
Increase (decrease) in net position	42,716	(285,644)	536,940	550,513	579,656	264,869
Net position, January 1	9,330,282	9,415,926	6,263,859	5,713,346	15,594,141	15,129,272
Prior period adjustment	<u>-</u>	<u>200,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>200,000</u>
Net position, December 31	<u>\$ 9,372,998</u>	<u>\$ 9,330,282</u>	<u>\$ 6,800,799</u>	<u>\$ 6,263,859</u>	<u>\$ 16,173,797</u>	<u>\$ 15,594,141</u>

CITY OF MOUNTAIN IRON, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2012

Governmental Activities

The most significant revenues of the governmental activities are grants and contributions not restricted to specific programs at 48% of revenues. Capital grants and contributions, 16% of revenues, include grants for major projects or purchases of equipment. Property taxes levied for general purposes amount to \$1,340,114, 30% of revenues.

General government expense is the most significant (32%), followed by streets (29%), public safety (18%) and culture and recreation (13%).

Governmental revenues increased during 2012 because the City received a \$250,000 Greater Minnesota Public Infrastructure grant from the State for the Northeast Service Cooperative's Industrial Park project. Our taxpayers paid \$1,340,114 in property and other taxes during the current year, which is an increase of \$108,063.

Governmental expenses decreased by \$174,945 in the current year. There were no significant or unusual changes in any of the City's programs; however, general government and streets expense decreased due to the completion of the City garage and South Forest Grove infrastructure during the prior year. The cost of all governmental activities this year was \$4,033,270 compared to \$4,208,215 last year.

Business-Type Activities

Revenues, an extraordinary item, and transfers in of the City's business-type activities were \$4,088,786 and expenses were \$3,551,846, (see Table 2). There was an increase in net position of \$536,940 during the year ended December 31, 2012, which compares to an increase in net position of \$550,513 for the year ended December 31, 2011. Factors driving this result include:

Operations produced income of \$82,182 for the year ended December 31, 2012. The electric utility enterprise fund recorded the most significant operating income of \$179,815. The waste water treatment enterprise fund recorded the most significant operating loss of \$124,000. The water treatment fund recorded operating income of \$47,263, while the refuse removal and recycling fund and Mountain Manor Apartments enterprise fund each recorded an operating loss of \$15,698 and \$5,198, respectively.

The electric utility enterprise fund and water treatment enterprise fund received capital contributions, \$14,613 and \$386,337 respectively, from the City for a 2009 vehicle and water system improvements capitalized during the current year.

Mountain Iron EDA Component Unit Activity

The Mountain Iron EDA had a decrease in net position of \$51,718 for the year ended December 31, 2012. Net program revenues over expenses were \$117,827. General revenues of taxes and interest earnings were \$66,109.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Governmental Funds

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

CITY OF MOUNTAIN IRON, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2012

At December 31, 2012, the City's governmental funds reported total ending fund balances of \$3,869,406, an increase of \$1,105,165 in comparison with the prior year. Assigned fund balance, which is intended to be used for cash flow, insurance and buildings, made up nearly 14% or \$2,018,203 of the total ending fund balance. The restricted fund balance of \$1,851,203 is considered unavailable for appropriation for general operations. More detailed information about the City's fund balances is presented in Note 7 to the financial statements.

The debt service fund recorded an increase in fund balance of \$862,481 compared to the increase in fund balance of \$27,663 last year. Other financing sources included \$840,000 for refunding bonds issued, a \$365,000 transfer from the general fund and \$51,400 transfer from the enterprise funds to fund the prior year projects. The debt service fund also made a \$68,838 transfer to the water treatment enterprise fund.

Proprietary Funds

The proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

The electric utility enterprise fund accounts for the electric operations of the City. In 2012, operating revenues decreased by \$58,650 compared to the prior year. Operating expenses also decreased by \$74,458. The electric operations produced operating income of \$179,815 in 2012. A transfer out of \$15,000 was made to governmental funds. A capital contribution of \$14,613 from the City was recorded for a vehicle. These transactions resulted in an increase of \$184,308 in net position in the current year.

The water treatment enterprise fund accounts for the water operations of the City. In 2012, operating revenues increased by \$74,513 compared to the prior year due to a rate increase on October 1, 2011. Operating expenses decreased by \$69,468. In 2012, operating income of \$47,263 was recorded compared to an operating loss of \$96,718 in the prior year. Interest expense charged to the water operations was \$19,538. Net transfers from the debt service governmental fund were made in the amount of \$68,838 during 2012. A capital contribution of \$386,337 from the City was recorded for water system improvements which were completed in 2012. These transactions resulted in an increase of \$464,128 in net position in the current year.

The wastewater treatment enterprise fund accounts for the wastewater treatment operations of the City. In 2012, operating revenues decreased by \$6,242 compared to the prior year. Operating expenses increased by \$92,364 due to a significant increase in repairs and maintenance in the current year. In 2012, an operating loss of \$124,000 was recorded compared to an operating loss of \$25,394 in the prior year. Interest expense charged to the wastewater treatment operations was \$12,177. These transactions resulted in a decrease of \$133,340 in net position in the current year.

The refuse removal and recycling enterprise fund accounts for the refuse removal and recycling operations of the City. In 2012, operating revenues increased \$5,544 compared to the prior year. Operating expenses increased by \$31,708. In 2012, an operating loss of \$15,698 was recorded compared to operating income of \$10,466 in the prior year. A transfer out of \$10,000 to the debt service fund was recorded for its portion of funding for the debt payments. These transactions resulted in a decrease of \$21,457 in net position in the current year.

The Mountain Manor Apartments enterprise fund accounts for the operations of the Mountain Manor Apartments. In 2012, operating revenues increased by \$8,070 compared to the prior year. Operating expenses decreased by \$5,421 compared to the prior year. In 2012, an operating loss of \$5,198 was recorded compared to an operating loss of \$18,689 in the prior year. Interest expense charged to the Mountain Manor Apartments operations was \$17,866. An extraordinary item was recorded in the current year for insurance proceeds received for hail damage to the building project. These transactions resulted in an increase of \$43,301 in net position in the current year.

CITY OF MOUNTAIN IRON, MINNESOTA

**MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2012**

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the City did not revise the general fund budget. The actual expenditures were \$28,898 under the final budget amounts. The most significant negative variance in the amount of (\$28,065) occurred in the City public safety department. Resources available for appropriation were above the final budgeted amounts. The City received more intergovernmental aids and charges for services than expected, and less interest than expected.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2012, the City's primary government had \$16,687,968 invested in a broad range of capital assets (net of accumulated depreciation), including land, construction in progress, land improvements, infrastructure, buildings, machinery and equipment and licensed vehicles. (See Table 3 below.) This amount represents a net decrease (including additions and deductions) of \$66,309 over last year. The Mountain Iron Economic Development Authority component unit had \$5,918,556 invested in capital assets, which consisted of land and construction in progress.

**Table 3
Capital Assets at Year-end
(Net of Depreciation)**

	Governmental Activities		Business-Type Activities		Totals	
	2012	2011	2012	2011	2012	2011
Land	\$ 411,015	\$ 412,730	\$ 26,370	\$ 26,370	\$ 437,385	\$ 439,100
Construction in progress	1,565,145	1,454,786	-	-	1,565,145	1,454,786
Land improvements	784,307	793,170	-	-	784,307	793,170
Buildings	2,498,158	2,567,771	-	3,588,875	5,941,753	6,156,646
Infrastructure	4,074,815	4,337,551	2,822,693	2,464,430	6,897,508	6,801,981
Machinery and equipment	560,464	443,911	57,871	64,745	618,335	508,656
Licensed vehicles	157,066	252,543	286,469	347,395	443,535	599,938
Totals	\$ 10,050,970	\$ 10,262,462	\$ 6,636,998	\$ 6,491,815	\$ 16,687,968	\$ 16,754,277
EDA						
Land	\$ 2,456,839	\$ 2,456,839	\$ -	\$ -	\$ 2,456,839	\$ 2,456,839
Construction in progress	3,461,717	3,461,717	-	-	3,461,717	3,461,717
Totals	\$ 5,918,556	\$ 5,918,556	\$ -	\$ -	\$ 5,918,556	\$ 5,918,556

This year's major additions included installation of solar panels at the City Hall complex, Bluebell and Daftodil street improvements, completion of Phase II at Locomotive Park, electric primary upgrade, and waterline connection to Virginia Public Utilities.

More detailed information about the City's capital assets is presented in Note 4 to the financial statements.

CITY OF MOUNTAIN IRON, MINNESOTA

**MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2012**

Debt

At year-end, the City had \$6,690,608 in long-term debt outstanding for the primary government versus \$5,969,492 last year—as shown in Table 4. The Mountain Iron EDA component unit had \$3,406,644 in long-term debt outstanding, which was the same amount as last year.

**Table 5
Outstanding Debt, at Year-end**

	Governmental Activities		Business-Type Activities		Totals	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
General obligation bonds (backed by the City)	\$ 1,372,000	\$ 1,473,000	\$ -	\$ -	\$ 1,372,000	\$ 1,473,000
Refunding bonds	1,825,000	1,145,000	-	-	1,825,000	1,145,000
Notes payable	-	-	608,628	619,372	608,628	619,372
Water revenue refunding bonds	-	-	550,000	600,000	550,000	600,000
Wastewater general obligation revenue note	-	-	525,000	550,000	525,000	550,000
Total	<u>\$ 3,197,000</u>	<u>\$ 2,618,000</u>	<u>\$ 1,683,628</u>	<u>\$ 1,769,372</u>	<u>\$ 4,880,628</u>	<u>\$ 4,387,372</u>
	Component Unit EDA					
	<u>2012</u>	<u>2011</u>				
State loan	<u>\$ 3,406,644</u>	<u>\$ 3,406,644</u>				

The State limits the amount of net debt that the City can issue to 3 percent of the market value of all taxable property in the City. The City's outstanding qualifying net debt of \$817,000 is significantly below this \$4,856,628 State-imposed limit.

Additional information on the City's long-term debt can be found in Note 5 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials considered many factors when setting the 2013 budget, tax rates, and fees that will be charged for the business-type activities.

- City General Fund expenditures increased \$23,000 over 2012.
- City property taxes did not increase in 2013.
- The continued development of Rock Ridge, South Forest Grove and Unity Second Addition will have a great impact on property tax revenues for the City.

The City's 2013 capital budget calls for it to spend another \$2,500,000.

CITY OF MOUNTAIN IRON, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2012

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information, or for the separate financial statements for the Mountain Iron EDA and Mountain Manor Apartments, should be addressed to the City's Administrator, Craig J. Wainio, City of Mountain Iron, 8586 Enterprise Drive South, Mountain Iron, Minnesota 55768, or e-mail cwainio@ci.mountain-iron.mn.us.

BASIC FINANCIAL STATEMENTS

CITY OF MOUNTAIN IRON, MINNESOTA

STATEMENT OF NET POSITION
December 31, 2012

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	EDA
ASSETS				
Cash and cash equivalents and investments	\$ 3,168,516	\$ 1,566,958	\$ 4,735,474	\$ 417,402
Taxes receivable	13,801	-	13,801	-
Special assessments receivable	126,970	-	126,970	-
Accounts receivable	218	516,041	516,259	-
Due from primary government	-	-	-	34,790
Due from other governments	25,865	-	25,865	-
Loans receivable	-	-	-	156,394
Inventories	-	242,030	242,030	-
Prepaid items	-	896	896	-
Deferred debt issue costs	70,453	-	70,453	-
Restricted assets:				
Temporarily restricted cash and cash equivalents	819,111	211,542	1,030,653	-
Capital assets not being depreciated:				
Land	411,015	26,370	437,385	2,456,839
Construction in progress	1,565,145	-	1,565,145	3,461,717
Capital assets net of accumulated depreciation:				
Land improvements	784,307	-	784,307	-
Buildings	2,498,158	3,443,595	5,941,753	-
Infrastructure	4,074,815	2,822,693	6,897,508	-
Machinery and equipment	560,464	57,871	618,335	-
Licensed vehicles	157,066	286,469	443,535	-
TOTAL ASSETS	14,275,904	9,174,465	23,450,369	6,527,142
LIABILITIES				
Accounts payable	81,114	246,418	327,532	520
Salaries payable	56,327	23,564	79,891	-
Accrued interest payable	40,091	6,949	47,040	-
Due to component unit	34,790	-	34,790	-
Customer deposits	5,907	90,804	96,711	-
Noncurrent liabilities				
Due within one year	1,097,000	85,213	1,182,213	-
Due in more than one year				
Bonds and notes payable	2,100,000	1,598,415	3,698,415	3,406,644
Other postemployment benefits	1,417,989	310,368	1,728,357	-
Severance payable	69,688	11,935	81,623	-
TOTAL LIABILITIES	4,902,906	2,373,666	7,276,572	3,407,164
NET POSITION				
Net investment in capital assets	7,688,970	4,953,370	12,642,340	2,511,912
Restricted for:				
Debt service	1,082,005	201,235	1,283,240	-
Unrestricted	602,023	1,646,194	2,248,217	608,066
TOTAL NET POSITION	\$ 9,372,998	\$ 6,800,799	\$ 16,173,797	\$ 3,119,978

The accompanying notes are an integral part of these financial statements.

CITY OF MOUNTAIN IRON, MINNESOTA

**STATEMENT OF ACTIVITIES
Year Ended December 31, 2012**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Charges for Services</u>	<u>Program Revenues Operating Grants and Contributions</u>
PRIMARY GOVERNMENT			
Governmental Activities			
General government	\$ 1,296,502	\$ 175,074	\$ 3,113
Public safety	706,945	-	2,818
Streets	1,171,899	300	-
Culture and recreation	511,789	57,674	-
Economic development	250,000	-	-
Interest on long-term debt	96,135	-	-
Total Governmental Activities	<u>4,033,270</u>	<u>233,048</u>	<u>5,931</u>
Business-type Activities			
Electric utility	2,065,533	2,245,348	-
Water treatment	310,439	338,164	-
Wastewater treatment	540,522	404,345	-
Refuse removal and recycling	410,416	394,718	-
Mountain Manor Apartments	224,936	201,872	-
Total Business-type Activities	<u>3,551,846</u>	<u>3,584,447</u>	<u>-</u>
TOTAL PRIMARY GOVERNMENT	<u>\$ 7,585,116</u>	<u>\$ 3,817,495</u>	<u>\$ 5,931</u>
COMPONENT UNIT			
EDA	<u>\$ 118,327</u>	<u>\$ 500</u>	<u>\$ -</u>

General Revenues

Taxes:

- Property taxes, levied for general purposes
- Property taxes, levied for specific purposes
- Franchise taxes
- Mineral rents and royalties

Grants and contributions not restricted to specific programs

Unrestricted investment earnings

Miscellaneous

Gain on sale of capital assets

Extraordinary item -

Insurance recovery - hail damage

Transfers

Total General Revenues, Extraordinary item and Transfers

CHANGE IN NET POSITION

NET POSITION - JANUARY 1

NET POSITION - DECEMBER 31

The accompanying notes are an integral part of these financial statements.

Net (Expense) Revenue and Changes in Net Position

<u>Capital Grants and Contributions</u>	<u>Primary Government</u>			<u>Component Unit</u>
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>	<u>EDA</u>
\$ 213,660	\$ (904,655)	\$ -	\$ (904,655)	
-	(704,127)	-	(704,127)	
250,000	(921,599)	-	(921,599)	
-	(454,115)	-	(454,115)	
250,000	-	-	-	
-	(96,135)	-	(96,135)	
<u>713,660</u>	<u>(3,080,631)</u>	<u>-</u>	<u>(3,080,631)</u>	
-	-	179,815	179,815	
-	-	27,725	27,725	
-	-	(136,177)	(136,177)	
-	-	(15,698)	(15,698)	
-	-	(23,064)	(23,064)	
-	-	<u>32,601</u>	<u>32,601</u>	
<u>\$ 713,660</u>	<u>(3,080,631)</u>	<u>32,601</u>	<u>(3,048,030)</u>	
<u>\$ -</u>				<u>(117,827)</u>
	1,284,119	-	1,284,119	32,770
	-	-	-	28,135
	24,443	-	24,443	-
	31,552	-	31,552	-
	2,155,223	-	2,155,223	-
	24,042	19,838	43,880	5,204
	-	5,942	5,942	-
	22,356	-	22,356	-
	-	60,171	60,171	-
	(418,388)	418,388	-	-
	<u>3,123,347</u>	<u>504,339</u>	<u>3,627,686</u>	<u>66,109</u>
	42,716	536,940	579,656	(51,718)
	<u>9,330,282</u>	<u>6,263,859</u>	<u>15,594,141</u>	<u>3,171,696</u>
	<u>\$ 9,372,998</u>	<u>\$ 6,800,799</u>	<u>\$ 16,173,797</u>	<u>\$ 3,119,978</u>

CITY OF MOUNTAIN IRON, MINNESOTA

**BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2012**

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>City Projects Capital Projects Fund</u>	<u>Other Governmental Fund - Charitable Gambling Special Revenue Fund</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash and cash equivalents and investments	\$ 1,797,995	\$ 1,817,516	\$ 365,202	\$ 6,914	\$ 3,987,627
Taxes receivable	13,801	-	-	-	13,801
Special assessments receivable	-	126,970	-	-	126,970
Accounts receivable	218	-	-	-	218
Due from other governments	<u>25,865</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>25,865</u>
TOTAL ASSETS	<u>\$ 1,837,879</u>	<u>\$ 1,944,486</u>	<u>\$ 365,202</u>	<u>\$ 6,914</u>	<u>\$ 4,154,481</u>
 LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ 80,547	\$ 147	\$ 420	\$ -	\$ 81,114
Salaries payable	56,327	-	-	-	56,327
Due to component unit	34,790	-	-	-	34,790
Deferred revenue	13,801	93,136	-	-	106,937
Customer deposits	<u>5,907</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,907</u>
TOTAL LIABILITIES	<u>191,372</u>	<u>93,283</u>	<u>420</u>	<u>-</u>	<u>285,075</u>
 FUND BALANCES					
Restricted	-	1,851,203	-	-	1,851,203
Assigned	<u>1,646,507</u>	<u>-</u>	<u>364,782</u>	<u>6,914</u>	<u>2,018,203</u>
TOTAL FUND BALANCES	<u>1,646,507</u>	<u>1,851,203</u>	<u>364,782</u>	<u>6,914</u>	<u>3,869,406</u>
 TOTAL LIABILITIES AND FUND BALANCES	 <u>\$ 1,837,879</u>	 <u>\$ 1,944,486</u>	 <u>\$ 365,202</u>	 <u>\$ 6,914</u>	 <u>\$ 4,154,481</u>

The accompanying notes are an integral part of these financial statements.

CITY OF MOUNTAIN IRON, MINNESOTA

**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT
OF NET POSITION
December 31, 2012**

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

TOTAL FUND BALANCES, GOVERNMENTAL FUNDS	\$ 3,869,406
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.	10,050,970
Deferred revenue in governmental funds is susceptible to full accrual on the government-wide statements.	106,937
Interest payable on long-term debt is susceptible to full accrual on the government-wide statements.	(40,091)
Unamortized bond issuance costs are susceptible to full accrual on the government-wide statements.	70,453
Long-term liabilities, including bonds payable are not due and payable in the current period and therefore not reported in the governmental funds.	<u>(4,684,677)</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ 9,372,998</u>

The accompanying notes are an integral part of these financial statements.

CITY OF MOUNTAIN IRON, MINNESOTA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended December 31, 2012

	General Fund	Debt Service Fund	City Projects Capital Projects Fund	Other Governmental Fund - Charitable Gambling Special Revenue Fund	Total Governmental Funds
REVENUES					
Taxes	\$ 1,349,407	\$ -	\$ -	\$ -	\$ 1,349,407
Special assessments	-	40,663	1,414	-	42,077
Licenses and permits	35,281	-	-	-	35,281
Intergovernmental	2,155,223	-	707,914	-	2,863,137
Charges for services	188,093	-	-	-	188,093
Fines	12,492	-	-	-	12,492
Gifts and contributions	-	-	-	3,113	3,113
Investment earnings	4,986	18,472	573	11	24,042
TOTAL REVENUES	3,745,482	59,135	709,901	3,124	4,517,642
EXPENDITURES					
Current					
General government	1,009,220	-	85,086	4,435	1,098,741
Public safety	652,565	-	-	-	652,565
Streets	711,809	-	-	-	711,809
Culture and recreation	399,808	-	-	-	399,808
Debt Service					
Principal	-	261,000	-	-	261,000
Interest and other charges	-	101,479	-	-	101,479
Bond issuance costs	-	21,737	-	-	21,737
Capital Outlay					
General government	-	-	577,522	-	577,522
Streets	-	-	140,336	-	140,336
Culture and recreation	-	-	44,113	-	44,113
Economic development	-	-	250,000	-	250,000
TOTAL EXPENDITURES	2,773,402	384,216	1,097,057	4,435	4,259,110
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	972,080	(325,081)	(387,156)	(1,311)	258,532
OTHER FINANCING SOURCES (USES)					
Transfers in	-	416,400	413,891	-	830,291
Transfers out	(778,891)	(68,838)	-	-	(847,729)
Refunding bonds issued	-	840,000	-	-	840,000
Sale of capital assets	1,576	-	22,495	-	24,071
TOTAL OTHER FINANCING SOURCES (USES)	(777,315)	1,187,562	436,386	-	846,633
NET CHANGE IN FUND BALANCES	194,765	862,481	49,230	(1,311)	1,105,165
FUND BALANCES - JANUARY 1	1,451,742	988,722	315,552	8,225	2,764,241
FUND BALANCES - DECEMBER 31	\$ 1,646,507	\$ 1,851,203	\$ 364,782	\$ 6,914	\$ 3,869,406

The accompanying notes are an integral part of these financial statements.

CITY OF MOUNTAIN IRON, MINNESOTA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended December 31, 2012

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

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS **\$ 1,105,165**

Governmental funds report outlays for capital assets as expenditures; however, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives.

Expenditures for capital assets	734,556	
Less current year depreciation	(543,383)	
Less capital assets transferred to enterprise funds	<u>(400,950)</u>	
Net capital assets		(209,777)

Governmental funds report the entire net sales price (proceeds) from sale of an asset as revenue because it provides current financial resources. In contrast, the statement of activities reports only the gain on the sale of the assets. Thus, the change in net assets differs from the change in fund balance by the net book value of the asset sold.

(1,715)

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

Change in deferred revenue - delinquent property taxes	(9,294)	
Change in deferred revenue - special assessments	<u>(36,331)</u>	
Net change		(45,625)

Governmental funds report bond proceeds as current financial resources; in contrast, the statement of activities treats such issuance of debt as a liability. Governmental funds report repayment of bond principal as an expenditure; in contrast, the statement of activities treats such repayments as a reduction in long-term liabilities. This is the amount by which proceeds exceeded the repayments.

(579,000)

Governmental funds report bond discounts and issuance costs as expenditures. In contrast, the statement of activities treats such costs as deferred to be amortized over the life of the debt issue.

Deferred costs for new bond issuance	21,737	
Amount amortized	<u>(4,988)</u>	
Net change		16,749

Net change in bond discounts and issuance costs

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.

Change in accrued interest payable on long-term debt	10,330	
Change in severance payable	6,081	
Change in other postemployment benefits payable	<u>(259,492)</u>	
Net change		<u>(243,081)</u>

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES **\$ 42,716**

The accompanying notes are an integral part of these financial statements.

CITY OF MOUNTAIN IRON, MINNESOTA

STATEMENT OF NET POSITION
 PROPRIETARY FUNDS
 December 31, 2012

Business-type Activities - Enterprise Funds

	Electric Utility Enterprise Fund	Water Treatment Enterprise Fund	Wastewater Treatment Enterprise Fund	Refuse Removal and Recycling Enterprise Fund	Mountain Manor Apartments Enterprise Fund	Totals
ASSETS						
CURRENT ASSETS						
Cash and cash equivalents and investments	\$ 362,173	\$ 329,451	\$ 483,884	\$ 358,093	\$ 33,357	\$ 1,566,958
Accounts receivable	356,660	49,466	49,363	57,612	2,940	516,041
Inventories	230,383	11,647	-	-	-	242,030
Prepaid items	-	-	-	-	896	896
TOTAL CURRENT ASSETS	949,216	390,564	533,247	415,705	37,193	2,325,925
NONCURRENT ASSETS						
Restricted cash and cash equivalents						
Reserve account	-	-	-	-	201,235	201,235
Tenant security deposits	-	-	-	-	10,307	10,307
Total restricted cash and cash equivalents	-	-	-	-	211,542	211,542
Capital assets						
Land	18,034	-	-	-	8,336	26,370
Buildings	308,167	2,190,763	2,718,281	12,761	1,391,831	6,621,803
Infrastructure	745,343	3,053,873	4,078,674	-	-	7,877,890
Machinery and equipment	-	60,271	269,149	-	302,838	632,258
Licensed vehicles	397,459	-	20,546	469,484	-	887,489
Less accumulated depreciation	(904,565)	(3,051,178)	(3,934,795)	(320,181)	(1,198,093)	(9,408,812)
Total capital assets (net of accumulated depreciation)	564,438	2,253,729	3,151,855	162,064	504,912	6,636,998
TOTAL NONCURRENT ASSETS	564,438	2,253,729	3,151,855	162,064	716,454	6,848,540
TOTAL ASSETS	1,513,654	2,644,293	3,685,102	577,769	753,647	9,174,465
LIABILITIES						
CURRENT LIABILITIES						
Accounts payable	199,294	7,031	8,943	14,975	16,175	246,418
Salaries payable	15,820	4,290	3,454	-	-	23,564
Accrued interest payable	-	1,571	3,934	-	1,444	6,949
Customer deposits payable	80,277	1,485	-	-	9,042	90,804
Bonds and notes payable - current	-	50,000	26,000	-	9,213	85,213
TOTAL CURRENT LIABILITIES	295,391	64,377	42,331	14,975	35,874	452,948
NONCURRENT LIABILITIES						
Bonds and notes payable	-	500,000	499,000	-	599,415	1,598,415
Other postemployment benefit obligation	19,096	127,975	107,907	55,390	-	310,368
Severance payable	10,727	1,208	-	-	-	11,935
TOTAL NONCURRENT LIABILITIES	29,823	629,183	606,907	55,390	599,415	1,920,718
TOTAL LIABILITIES	325,214	693,560	649,238	70,365	635,289	2,373,666
NET POSITION						
Net investment in capital assets	564,438	1,703,729	2,626,855	162,064	(103,716)	4,953,370
Restricted for other purposes	-	-	-	-	201,235	201,235
Unrestricted	624,002	247,004	409,009	345,340	20,839	1,646,194
TOTAL NET POSITION	\$ 1,188,440	\$ 1,950,733	\$ 3,035,864	\$ 507,404	\$ 118,358	\$ 6,800,799

The accompanying notes are an integral part of these financial statements.

CITY OF MOUNTAIN IRON, MINNESOTA

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
 PROPRIETARY FUNDS
 Year Ended December 31, 2012

Business-type Activities - Enterprise Funds

	Electric Utility Enterprise Fund	Water Treatment Enterprise Fund	Wastewater Treatment Enterprise Fund	Refuse Removal and Recycling Enterprise Fund	Mountain Manor Apartments Enterprise Fund	Totals
REVENUES						
Charges for sales and services	\$ 2,245,348	\$ 338,164	\$ 404,345	\$ 394,718	\$ 201,872	\$ 3,584,447
OPERATING EXPENSES						
Cost of sales	1,472,485	-	-	-	-	1,472,485
Salaries	287,785	62,733	96,084	111,331	43,093	601,026
Employee benefits	129,085	32,519	38,434	55,875	3,284	259,197
Contract services	-	-	30,650	-	38,914	69,564
Insurance	12,389	7,437	4,701	7,184	10,864	42,575
Miscellaneous	48,153	14,209	13,265	10,292	2,916	88,835
Other postemployment benefits	23,487	21,521	27,615	-	-	72,623
Repairs and maintenance	15,744	45,727	99,735	17,390	25,226	203,822
Solid waste management and tipping fees	-	-	-	133,742	-	133,742
Supplies	25,833	10,335	15,563	26,820	2,463	81,014
Telephone	2,741	206	1,506	702	2,178	7,333
Utilities	-	38,860	60,093	-	24,273	123,226
Depreciation	47,831	57,353	140,699	47,080	53,859	346,822
TOTAL OPERATING EXPENSES	2,065,533	290,900	528,345	410,416	207,070	3,502,264
OPERATING INCOME (LOSS)	179,815	47,264	(124,000)	(15,698)	(5,198)	82,183
NONOPERATING REVENUES (EXPENSES)						
Interest income	4,880	7,628	2,837	4,241	252	19,838
Miscellaneous	-	-	-	-	5,942	5,942
Interest expense	-	(19,538)	(12,177)	-	(17,866)	(49,581)
TOTAL NONOPERATING REVENUES (EXPENSES)	4,880	(11,910)	(9,340)	4,241	(11,672)	(23,801)
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS, EXTRAORDINARY ITEM, AND TRANSFERS	184,695	35,354	(133,340)	(11,457)	(16,870)	58,382
Capital contributions	14,613	386,337	-	-	-	400,950
Extraordinary item	-	-	-	-	60,171	60,171
Insurance recovery - hail damage	-	-	-	-	-	-
Transfers in	-	68,838	-	-	-	68,838
Transfers out	(15,000)	(26,400)	-	(10,000)	-	(51,400)
TOTAL CAPITAL CONTRIBUTIONS, EXTRAORDINARY ITEM, AND TRANSFERS	(387)	428,775	-	(10,000)	60,171	478,559
CHANGE IN NET POSITION	184,308	464,129	(133,340)	(21,457)	43,301	536,941
TOTAL NET POSITION - JANUARY 1	1,004,132	1,486,604	3,169,204	528,861	75,057	6,263,858
TOTAL NET POSITION - DECEMBER 31	\$ 1,188,440	\$ 1,950,733	\$ 3,035,864	\$ 507,404	\$ 118,358	\$ 6,800,799

The accompanying notes are an integral part of these financial statements.