

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, Hironaka & Nelson, 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	14,275,904	13,395,499	9,174,465	8,729,732	23,441,203	22,125,231
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	4,902,906	4,065,217	2,373,666	2,465,873	7,267,406	6,531,090
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	\$ 9,372,998	\$ 9,330,282	\$ 6,800,799	\$ 6,263,859	\$ 16,173,797	\$ 15,594,141

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**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Primary Government</u>	
	<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		Business-Type		Totals	
	2012 Activities	2011	2012 Activities	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	3,443,595	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	<u>\$ 10,050,970</u>	<u>\$ 10,262,462</u>	<u>\$ 6,636,998</u>	<u>\$ 6,491,815</u>	<u>\$ 16,687,968</u>	<u>\$ 16,754,277</u>
EDA						
Land	\$ 2,456,839	\$ 2,456,839	-	-	\$ 2,456,839	\$ 2,456,839
Construction in progress	<u>3,461,717</u>	<u>3,461,717</u>	-	-	<u>3,461,717</u>	<u>3,461,717</u>
Totals	<u>\$ 5,918,556</u>	<u>\$ 5,918,556</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,918,556</u>	<u>\$ 5,918,556</u>

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				
Capital Grants and Contributions	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	EDA
\$ 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)	
713,660	(3,080,631)	-	(3,080,631)	
-	-	179,815	179,815	
-	-	27,725	27,725	
-	-	(136,177)	(136,177)	
-	-	(15,698)	(15,698)	
-	-	(23,064)	(23,064)	
-	-	32,601	32,601	
\$ 713,660	(3,080,631)	32,601	(3,048,030)	
\$ -				(117,827)
	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	-	-
	3,123,347	504,339	3,627,686	66,109
	42,716	536,940	579,656	(51,718)
	9,330,282	6,263,859	15,594,141	3,171,696
\$ 9,372,998	\$ 6,800,799	\$ 16,173,797	\$ 3,119,978	

CITY OF MOUNTAIN IRON, MINNESOTA

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

	General Fund	Debt Service Fund	City Projects Capital Projects Fund	Other Governmental Fund - Charitable Gambling Special Revenue Fund	Total Governmental Funds
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	<u>3,745,482</u>	<u>59,135</u>	<u>709,901</u>	<u>3,124</u>	<u>4,517,642</u>
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	<u>2,773,402</u>	<u>384,216</u>	<u>1,097,057</u>	<u>4,435</u>	<u>4,259,110</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>972,080</u>	<u>(325,081)</u>	<u>(387,156)</u>	<u>(1,311)</u>	<u>258,532</u>
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)	<u>(777,315)</u>	<u>1,187,562</u>	<u>436,386</u>	<u>-</u>	<u>846,633</u>
NET CHANGE IN FUND BALANCES	194,765	862,481	49,230	(1,311)	1,105,165
FUND BALANCES - JANUARY 1	<u>1,451,742</u>	<u>988,722</u>	<u>315,552</u>	<u>8,225</u>	<u>2,764,241</u>
FUND BALANCES - DECEMBER 31	<u>\$ 1,646,507</u>	<u>\$ 1,851,203</u>	<u>\$ 364,782</u>	<u>\$ 6,914</u>	<u>\$ 3,869,406</u>

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	-	-	-	-	-	-
Insurance recovery - hail damage	-	-	-	-	60,171	60,171
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.

CITY OF MOUNTAIN IRON, MINNESOTA

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended December 31, 2011

	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
CASH FLOWS FROM OPERATING ACTIVITIES						
Cash received from customers	\$ 2,207,557	\$ 335,136	\$ 400,603	\$ 391,232	\$ 200,402	\$ 3,534,930
Cash paid to suppliers	(1,752,880)	(176,807)	(290,266)	(248,125)	(107,219)	(2,575,297)
Cash paid to employees	(340,000)	(44,694)	(78,541)	(118,870)	(43,093)	(625,198)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>114,677</u>	<u>113,635</u>	<u>31,796</u>	<u>24,237</u>	<u>50,090</u>	<u>334,435</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Transfers in from other funds	-	68,838	-	-	-	68,838
Transfers out to other funds	(15,000)	(26,400)	-	(10,000)	-	(51,400)
Miscellaneous	-	-	-	-	5,942	5,942
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	<u>(15,000)</u>	<u>42,438</u>	<u>-</u>	<u>(10,000)</u>	<u>5,942</u>	<u>23,380</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Purchase or construction of capital assets	(78,251)	-	-	-	(26,770)	(105,021)
Insurance recovery - hail damage	-	-	-	-	74,136	74,136
Principal paid on long-term debt	-	(50,000)	(25,000)	-	(10,744)	(85,744)
Interest paid on long-term debt	-	(19,600)	(12,364)	-	(17,962)	(49,926)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(78,251)</u>	<u>(69,600)</u>	<u>(37,364)</u>	<u>-</u>	<u>18,660</u>	<u>(166,555)</u>
CASH FLOWS FROM INVESTING ACTIVITIES						
Interest and dividends received	<u>4,880</u>	<u>7,628</u>	<u>2,837</u>	<u>4,241</u>	<u>252</u>	<u>19,838</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	26,306	94,101	(2,731)	18,478	74,944	211,098
CASH AND CASH EQUIVALENTS, JANUARY 1 (including \$121,597 in restricted accounts)	<u>335,867</u>	<u>235,349</u>	<u>486,616</u>	<u>339,615</u>	<u>169,955</u>	<u>1,567,402</u>
CASH AND CASH EQUIVALENTS, DECEMBER 31 (including \$211,542 in restricted accounts)	<u>\$ 362,173</u>	<u>\$ 329,450</u>	<u>\$ 483,885</u>	<u>\$ 358,093</u>	<u>\$ 244,899</u>	<u>\$ 1,778,500</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES						
Operating income (loss)	\$ 179,815	\$ 47,263	\$ (124,000)	\$ (15,698)	\$ (5,198)	\$ 82,182
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:						
Depreciation	47,831	57,353	140,699	47,080	53,859	346,822
Changes in assets and liabilities						
(Increase) decrease in:						
Accounts receivable	(41,485)	(3,308)	(3,742)	(3,486)	(339)	(52,360)
Inventories	(37,448)	1,408	-	-	-	(36,040)
Prepaid items	-	-	-	-	(52)	(52)
Increase (decrease) in:						
Accounts payable	14,485	(7,401)	1,296	3,880	2,951	15,211
Salaries payable	3,025	(657)	877	(1,867)	-	1,378
Customer deposits	3,694	280	-	-	(1,131)	2,843
Severance payable	(4,524)	(898)	(911)	(1,821)	-	(8,154)
Other postemployment benefit obligation	(50,716)	19,595	17,577	(3,851)	-	(17,395)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 114,677</u>	<u>\$ 113,635</u>	<u>\$ 31,796</u>	<u>\$ 24,237</u>	<u>\$ 50,090</u>	<u>\$ 334,435</u>

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

NOTES TO FINANCIAL STATEMENTS

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Mountain Iron, Minnesota, a political subdivision of the State of Minnesota, is a statutory city, governed by an elected city council which consists of one mayor and four council members.

The accounting and reporting framework and the more significant accounting policies and practices are discussed in subsequent sections of this Note. The remainder of the Notes are organized to provide explanations, including required disclosures, of the City's financial activities for the fiscal year ended December 31, 2012.

A. Financial Reporting Entity

Accounting principles generally accepted in the United States of America require that the reporting entity include (1) the City, (2) organizations for which the City is financially accountable and (3) other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Based on the application of these criteria, the following component units are included within the City's reporting entity:

Blended Component Units

Blended component units are separate legal entities that meet the component unit criteria described above and whose governing body is the same or substantially the same as the City Council or the component unit provides services entirely to the City. These component units' funds are blended into those of the City's by appropriate activity type to compose the primary government presentation.

The component unit that is blended into the reporting activity type of the City's report is presented below:

<u>Component Unit</u>	<u>Brief Description/Inclusion Criteria</u>	<u>Reporting</u>
Mountain Iron Housing and Redevelopment Authority (HRA)	Created by the City to assume primary responsibility for housing and redevelopment services in the local area	Mountain Manor Apartments Enterprise Fund

Separate, complete financial statements for Mountain Manor Apartments can be obtained by contacting the City Administrator's office, 8586 Enterprise Drive South, Mountain Iron, Minnesota 55768.

Discretely Presented Component Units

Discretely presented component units are separate legal entities that meet the component unit criteria described above but do not meet the criteria for blending.

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS December 31, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The discretely presented component unit is as follows:

<u>Component Unit</u>	<u>Brief Description/Inclusion Criteria</u>	<u>Reporting</u>
Mountain Iron Economic Development Authority (EDA)	Created by the City to assume primary responsibility for development activities within the City	EDA - General Fund - governmental fund EDA - Special Revenue Fund - governmental fund EDA - Capital Projects Fund - governmental fund

Financial statements for the Mountain Iron EDA may be obtained by contacting the City Administrator's office, 8586 Enterprise Drive South, Mountain Iron, Minnesota 55768.

B. Basic Financial Statements

Government-wide 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 activities of the primary government 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 primary government 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. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by the given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements

The City segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Separate statements are presented for governmental and proprietary activities.

The description of the funds included in this report are as follows:

Governmental Funds

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses and balance of current financial resources. The City has presented the following governmental funds:

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Major Governmental Funds:

The General Fund is used to account for and report all financial resources not accounted for and reported in another fund.

The Debt Service Fund is used to account for and report financial resources that are restricted to expenditure for principal and interest.

The City Projects Capital Projects Fund is used to account for and report financial resources that are committed to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. Capital projects funds exclude those types of capital-related outflows financed by proprietary funds.

Nonmajor Governmental Funds:

The Charitable Gambling Special Revenue Fund is used to account for and report the proceeds from lawful gambling contributions.

Proprietary Funds

Proprietary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determinations of net income, financial position and cash flow. All assets and liabilities are included on the statement of net position. The City has presented the following proprietary funds:

Major Proprietary Funds:

The Electric Utility Enterprise Fund is used to account for the revenues generated from the charges of electric services to the residential and commercial users of the City.

The Water Treatment Enterprise Fund is used to account for revenues generated from the charges of water services to the residential and commercial users of the City.

The Wastewater Treatment Enterprise Fund is used to account for revenues generated from the charges for wastewater treatment services provided to the residential and commercial users of the City.

The Refuse Removal and Recycling Enterprise Fund is used to account for revenues generated from the charges for refuse removal and recycling services provided to the residential and commercial users of the City.

The Mountain Manor Apartments Enterprise Fund is used to account for the revenues generated from rent charges to tenants.

CITY OF MOUNTAIN IRON, MINNESOTA

**NOTES TO FINANCIAL STATEMENTS
December 31, 2012**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide statements and fund financial statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net position and the operating statements present increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized at the time the liability is incurred. Property taxes are generally recognized as revenues in the fiscal year for which they are levied. Grants and similar items are recognized when all requirements imposed by the provider have been met.

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. Depreciation expense can be specifically identified by program and is included in the direct expenses of each program. Interest on long-term debt is considered an indirect expense and is reported separately on the statement of activities. Generally, the effect of material interfund activity has been removed from the government-wide financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both "measurable and available"). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers property taxes as available if they are collected within 60 days after year end. Grant revenue is recorded in the year in which the related expenditure is made. Other revenue is considered available if collected within one year. Expenditures are generally recorded when a liability is incurred. However, expenditures are recorded as prepaid for approved disbursements incurred in advance of the year in which the item or service is to be used and debt service expenditures, as well as expenditures related to severance payable and claims and judgments, are recorded only when payment is due.

Property taxes, special assessments, and loan repayments are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS December 31, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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's enterprise funds are charges to customers. Operating expenses for proprietary 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.

D. Cash and Cash Equivalents

For the purpose of the statement of cash flows, cash and cash equivalents are defined as cash on hand, demand deposits and short-term investments purchased with a maturity of three months or less.

E. Assets, Liabilities and Fund Balances

- 1) Cash balances for all funds of the City are maintained on a combined basis and invested to the extent possible, in allowable short-term investments. All investments are stated at fair value.
- 2) Receivables from and payables to external parties are reported separately and are not offset in the proprietary fund financial statements and business-type activities of the government-wide financial statements, unless a right of offset exists.
- 3) The enterprise funds report accounts receivable net of uncollectible accounts. The allowance amounts of \$1,500 in the water enterprise fund, \$2,500 in the wastewater enterprise fund; \$5,000 in the refuse removal and recycling enterprise fund, and \$15,000 in the electric enterprise fund were estimated using an average of prior years' accounts written off.
- 4) The City has no significant inventories in the General Fund and records supplies and materials as expenditures when purchased. Enterprise funds' inventories are valued at cost, on a first-in, first-out (FIFO) basis, and the cost of these inventories are recorded as expenditures when consumed rather than when purchased.
- 5) Restricted assets are cash and cash equivalents whose use is limited by legal requirements. Restricted assets are reported only in the government-wide and proprietary fund financial statements.
- 6) Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances". Outstanding balances between funds are reported as "due to/from other funds".

Legally authorized transfers are treated as interfund transfers and are included in the results of operations of both Governmental and Proprietary Funds.

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- 7) 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.
- 8) Capital assets, which include land, construction in progress, land improvements, buildings, infrastructure, machinery and equipment, and licensed vehicles, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements, proprietary fund financial statements, and the component unit.

Capital assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. General infrastructure assets acquired prior to January 1, 2004 are not reported in the basic financial statements. The City maintains a threshold level of \$2,500 or more for capitalizing machinery and equipment and \$10,000 or more for capitalizing land, land improvements, buildings, infrastructure and vehicles. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are depreciated using the straight-line method over their estimated useful lives. When assets are no longer needed by the City, such assets are either disposed of if it is determined there is no value, or sold for an immaterial amount. Useful lives vary from 20 to 50 years for land improvements and buildings, 20 years for infrastructure, and 5 to 30 years for machinery, equipment and vehicles. Capital assets not being depreciated include land and construction in progress.

- 9) Government-wide financial statements report unearned revenue in connection with resources that have been received, but not yet earned. Governmental funds defer revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period and resources that have been received, but not yet earned.

Delinquent property taxes receivable, less any delinquent taxes that are to be received within 60 days, are recorded as a deferred revenue in the fund financial statements because they are not available to finance the current year operations of the City. Deferred revenue reported in the debt service fund represents special assessments receivable.

- 10) In the government-wide financial statements and proprietary fund-type 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. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs, if material, are reported as deferred charges and amortized over the term of the related debt. The long-term debt consists primarily of general obligation bonds payable, revenue bonds, a general obligation revenue note, notes payable, severance payable, and other postemployment benefit obligation.

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In the fund financial statements, governmental fund types recognize 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. Severance pay and postemployment benefit expenditures are recognized when paid.

- 11) Net position represents the difference between assets and liabilities in the government-wide financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net position is reported as restricted in the government-wide financial statement when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

In the fund financial statements, proprietary fund equity is classified the same as in the government-wide financial statements. Fund balances of the governmental funds are classified as follows:

Nonspendable—amounts that cannot be spent either because they are in nonspendable form, such as inventory and prepaid items, or because they are legally or contractually required to be maintained intact.

Restricted—amounts that can be spent only for specific purposes because of enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed—amounts that can be used only for specific purposes determined by a formal action of the City Council. The City Council is the highest level of decision making authority for the City. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the City Council.

Assigned—amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. The City Council or an individual or committee authorized by the City Council may assign amounts for specific purposes.

Unassigned—all other spendable amounts.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the City Council has provided otherwise in its commitment or assignment actions.

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Revenues and Expenditures

- 1) The property tax calendar in Minnesota follows the calendar year. Property tax levies are certified to the County Auditor in December of each year for collection from taxpayers in May and October of the following calendar year. In Minnesota, counties act as collection agents for all property taxes. The County spreads all levies over taxable property. Property taxes become a lien on the property the following January 1. The County generally remits taxes to the City at periodic intervals as they are collected. A portion of property taxes levied is paid by the State of Minnesota through various tax credits, which are included in revenue from state sources in the financial statements.

Federal, state, and other revenues are reported under the legal and contractual requirements of the individual programs and are classified into essentially two types of revenues. In one, monies must be expended for the specific purpose before any amounts will be paid to the City; therefore, revenues are recognized based on expenditures recorded. In the other, monies are virtually unrestricted as to purpose of expenditure, and the resources are recorded as revenue at the time of receipt or earlier if they are available.

- 2) City employees earn vacation and sick leave based on years of service and union and employment contracts. Vacation time must be used annually. A liability for unused vacation is recognized in the government-wide and fund financial statements. A percentage of accumulated unused sick leave will be paid as severance pay upon retirement and is accrued in the government-wide financial statements and proprietary fund statements.

NOTE 2 - CASH AND CASH EQUIVALENTS AND INVESTMENTS

The City's funds are combined (pooled) and invested to the extent available in various investments authorized by Minnesota statutes. This pool functions essentially as a demand account for all participating funds. Each fund's portion of this pool is displayed on the financial statements as "cash and cash equivalents and investments" and "restricted cash and cash equivalents". Several funds hold cash separate from the cash pool.

"Cash and cash equivalents and investments" and "restricted cash and cash equivalents" recorded are comprised of:

	Primary Government	Component Unit EDA
Petty Cash	\$ 500	\$ -
Cash	4,787,480	417,402
Certificates of Deposit	928,147	-
Investments	50,000	-
Total	<u>\$ 5,766,127</u>	<u>\$ 417,402</u>

Deposits

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of the failure of a depository financial institution, the City will not be able to recover its deposits. The City has a formal deposit policy for custodial credit risk, which requires the City to obtain collateral for all uninsured amounts of deposit.

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS December 31, 2012

NOTE 2 - CASH AND CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)

The City maintains deposits at financial institutions authorized by the City Council. 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. State statutes authorize the types of securities which may be pledged as collateral and require that those securities be held in safekeeping by the City or in a financial institution other than that furnishing the collateral. At year-end, the carrying amount of the City's deposits, which includes certificates of deposit, was \$5,715,627; the bank balance was \$5,721,627. At year end, the City's bank balances were entirely insured or collateralized with securities held by the pledging financial institution's agent in the City's name. At year-end, the carrying amount of the Mountain Iron EDA's deposits, which includes cash, was \$417,402; the bank balance was \$419,402. At year-end, the Mountain Iron EDA's bank balances were entirely insured or collateralized with securities held by the pledging financial institution's agent in the Mountain Iron EDA's name.

Investments

Custodial Credit Risk – Investments

For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or securities that are in the possession of an outside party. The City has a formal investment policy for custodial credit risk, which permits brokers to hold City investments only to the extent of SIPC coverage. Securities purchased for the City that exceed SIPC coverage shall be transferred to the City's custodian.

Credit Risk and Concentration of Credit Risk

The City has a formal investment policy for credit risk or concentration of credit risk. State statutes authorize the City to invest in qualified repurchase agreements, obligations of the U.S. government, obligations of the State of Minnesota or its municipalities, shares of certain investment companies, banker's acceptance notes, commercial paper and guaranteed investment contracts. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The City places no limit on the amount the City may invest in any one issuer and, as of December 31, 2012, had no investments in any issuer (other than U.S. government or U.S. government guaranteed obligations) that exceeded five percent of total investments. The City has invested \$50,000 in Federal Home Loan Banks STEP coupons. At December 31, 2012, the coupons were rated as AAA by Moody's and AA+ by S & P.

Interest Rate Risk

The City has a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

NOTE 3 - LOANS RECEIVABLE

The Mountain Iron EDA is involved in economic development projects. Several businesses received revolving loans from Mountain Iron EDA in 2012 and prior years. The unpaid principal balance on these loans at December 31, 2012 was \$156,394 and is recorded as loans receivable in the Mountain Iron EDA general fund.

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2012

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2012, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Ending Balance</u>
Governmental activities					
Capital assets, not being depreciated:					
Land	\$ 412,730	\$ -	\$ (1,715)	\$ -	\$ 411,015
Construction in progress	1,454,786	496,696	-	(386,337)	1,565,145
Total capital assets not being depreciated	<u>1,867,516</u>	<u>496,696</u>	<u>(1,715)</u>	<u>(386,337)</u>	<u>1,976,160</u>
Capital assets, being depreciated:					
Land improvements	1,030,406	38,591	-	-	1,068,997
Buildings	3,497,243	-	-	-	3,497,243
Infrastructure	7,939,249	29,818	-	-	7,969,067
Machinery and equipment	818,169	169,451	-	-	987,620
Licensed vehicles	2,037,473	-	(8,000)	(24,202)	2,005,271
Total capital assets, being depreciated	<u>15,322,540</u>	<u>237,860</u>	<u>(8,000)</u>	<u>(24,202)</u>	<u>15,528,198</u>
Less accumulated depreciation for:					
Land improvements	(237,236)	(47,454)	-	-	(284,690)
Buildings	(929,472)	(69,613)	-	-	(999,085)
Infrastructure	(3,601,698)	(292,554)	-	-	(3,894,252)
Machinery and equipment	(374,258)	(52,898)	-	-	(427,156)
Licensed vehicles	(1,784,930)	(80,864)	8,000	9,589	(1,848,205)
Total accumulated depreciation	<u>(6,927,594)</u>	<u>(543,383)</u>	<u>8,000</u>	<u>9,589</u>	<u>(7,453,388)</u>
Total capital assets, being depreciated, net	<u>8,394,946</u>	<u>(305,523)</u>	<u>-</u>	<u>(14,613)</u>	<u>8,074,810</u>
Governmental activities capital assets, net	<u>\$ 10,262,462</u>	<u>\$ 191,173</u>	<u>\$ (1,715)</u>	<u>\$ (400,950)</u>	<u>\$ 10,050,970</u>
Business-type activities					
Capital assets, not being depreciated:					
Land	\$ 26,370	\$ -	\$ -	\$ -	\$ 26,370
Capital assets, being depreciated:					
Building	6,671,666	13,978	(63,841)	-	6,621,803
Infrastructure	7,413,302	78,251	-	386,337	7,877,890
Machinery and equipment	622,271	12,792	(2,805)	-	632,258
Licensed vehicles	863,287	-	-	24,202	887,489
Total capital assets, being depreciated	<u>15,570,526</u>	<u>105,021</u>	<u>(66,646)</u>	<u>410,539</u>	<u>16,019,440</u>
Less accumulated depreciation for:					
Building	(3,082,791)	(145,292)	49,875	-	(3,178,208)
Infrastructure	(4,948,872)	(106,325)	-	-	(5,055,197)
Machinery and equipment	(557,526)	(19,666)	2,805	-	(574,387)
Licensed vehicles	(515,892)	(75,539)	-	(9,589)	(601,020)
Total accumulated depreciation	<u>(9,105,081)</u>	<u>(346,822)</u>	<u>52,680</u>	<u>(9,589)</u>	<u>(9,408,812)</u>
Total capital assets, being depreciated, net	<u>6,465,445</u>	<u>(241,801)</u>	<u>(13,966)</u>	<u>400,950</u>	<u>6,610,628</u>
Business-type activities capital assets, net	<u>\$ 6,491,815</u>	<u>\$ (241,801)</u>	<u>\$ (13,966)</u>	<u>\$ 400,950</u>	<u>\$ 6,636,998</u>

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2012

NOTE 4 - CAPITAL ASSETS (CONTINUED)

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

Governmental activities

General government	\$ 52,581
Public safety	54,380
Streets	363,029
Culture and recreation	<u>73,393</u>
Total depreciation expense- governmental activities	<u>\$ 543,383</u>

Business-type activities

Electric utility	\$ 47,831
Water treatment	57,353
Wastewater treatment	140,699
Refuse removal and recycling	47,080
Mountain Manor Apartments	<u>53,859</u>
Total depreciation expense - business-type activities	<u>\$ 346,822</u>

Discretely presented component unit:

Mountain Iron EDA capital asset activity for the year ended December 31, 2012, is as follows:

	Balance 01/01/12	Additions	Deletions	Balance 12/31/12
Governmental activities				
Capital assets, not being depreciated:				
Land	\$ 2,456,839	\$ -	\$ -	\$ 2,456,839
Construction in progress	<u>3,461,717</u>	<u>-</u>	<u>-</u>	<u>3,461,717</u>
Total capital assets, not being depreciated	<u>\$ 5,918,556</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,918,556</u>

NOTE 5 - LONG-TERM DEBT

The City issued general obligation bonds to finance the purchase of major capital items and the acquisition or construction of major capital facilities or improvements. Bonded indebtedness has also been entered into to advance refund general obligation bonds and water revenue bonds. General obligation notes have been issued for business-type activities and are being repaid from the applicable resources. The water revenue refunding bonds are payable solely from the net revenues of the Water Treatment Enterprise Fund. The Mountain Iron Housing and Redevelopment Authority entered into a mortgage note for the construction of a housing facility. This note is guaranteed by the City of Mountain Iron, Minnesota. For governmental activities, claims and judgments and severance payable are generally liquidated by the general fund.

CITY OF MOUNTAIN IRON, MINNESOTA

**NOTES TO FINANCIAL STATEMENTS
December 31, 2012**

NOTE 5 - LONG-TERM DEBT (CONTINUED)

Components of long-term debt are as follows:

	<u>Issue Date</u>	<u>Interest Rates</u>	<u>Original Issue</u>	<u>Final Maturity</u>	<u>Principal Outstanding</u>
Governmental activities					
General Obligation Bonds					
2012 Refunding	11/01/2012	1.0-1.35%	\$ 840,000	02/01/2020	\$ 840,000
2005 Refunding	03/08/2005	2.70-4.30%	\$1,645,000	02/01/2020	985,000
2005 Library Upgrade	08/01/2005	4.125%	\$ 300,000	08/01/2035	267,000
2007 Improvements	09/11/2007	4.0-4.65%	\$1,455,000	02/01/2028	<u>1,105,000</u>
Governmental activities long-term debt					<u>3,197,000</u>
Business-type activities					
Revenue Bonds					
2009 Water Revenue					
Refunding Bonds	09/01/2009	1.5-4.0%	\$ 650,000	12/01/2022	<u>550,000</u>
General Obligation Revenue Notes					
2009 PFA Wastewater					
Revenue Notes	10/20/2009	2.25%	\$ 599,250	08/20/2029	<u>525,000</u>
Notes Payable					
1980 Rural Development	09/04/1980	3.61%	\$ 819,370	09/01/2030	437,210
1981 Rural Development	01/16/1981	3.61%	\$ 320,630	01/01/2031	<u>171,418</u>
Total Notes Payable					<u>608,628</u>
Business-type activities long-term debt					<u>1,683,628</u>
Total primary government long-term debt					<u>4,880,628</u>
Discretely presented component unit					
EDA					
State Loan					
2010 IRRRB					<u>3,406,644</u>
Total reporting entity					<u>\$ 8,287,272</u>

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2012

NOTE 5 - LONG-TERM DEBT (CONTINUED)

Long-term debt activity for the year ended December 31, 2012 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Governmental activities					
Bonds Payable					
2012 GO Refunding	\$ -	\$ 840,000	\$ -	\$ 840,000	\$ -
2005 GO Refunding	1,145,000	-	160,000	985,000	985,000
2005 GO Library Upgrade	273,000	-	6,000	267,000	7,000
2007 GO Improvement	<u>1,200,000</u>	<u>-</u>	<u>95,000</u>	<u>1,105,000</u>	<u>105,000</u>
Governmental activities - long-term debt	<u>2,618,000</u>	<u>840,000</u>	<u>261,000</u>	<u>3,197,000</u>	<u>1,097,000</u>
Business-type activities					
Bonds Payable					
2009 Water Revenue Refunding Bonds	600,000	-	50,000	550,000	50,000
Revenue Notes					
2009 GO PFA Wastewater	550,000	-	25,000	525,000	26,000
Notes Payable					
1980 Rural Development	445,018	-	7,808	437,210	6,705
1981 Rural Development	<u>174,354</u>	<u>-</u>	<u>2,936</u>	<u>171,418</u>	<u>2,508</u>
Total Notes Payable	619,372	-	10,744	608,628	9,213
Business-type activities - long-term debt	<u>1,769,372</u>	<u>-</u>	<u>85,744</u>	<u>1,683,628</u>	<u>85,213</u>
Total primary government	<u>4,387,372</u>	<u>840,000</u>	<u>346,744</u>	<u>4,880,628</u>	<u>1,182,213</u>
Discretely presented component unit					
EDA					
State loan					
2010 IRRRB	<u>3,406,644</u>	<u>-</u>	<u>-</u>	<u>3,406,644</u>	<u>-</u>
Total reporting entity	<u>\$ 7,794,016</u>	<u>\$ 840,000</u>	<u>\$ 346,744</u>	<u>\$ 8,287,272</u>	<u>\$ 1,182,213</u>

Minimum annual principal and interest payments required to retire long-term debt are as follows:

<u>Year Ending December 31</u>	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Government-wide</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 1,097,000	\$ 81,373	\$ 85,213	\$ 50,145	\$ 1,182,213	\$ 131,518
2014	297,000	59,217	85,512	48,211	382,512	107,428
2015	303,000	52,779	86,823	46,266	389,823	99,045
2016	303,000	46,171	87,143	43,964	390,143	90,135
2017	199,000	39,879	93,473	41,652	292,473	81,531
2018-2022	534,000	135,551	502,712	159,557	1,036,712	295,108
2023-2027	289,000	72,814	235,745	95,478	524,745	168,292
2028-2032	126,000	20,377	507,007	36,069	633,007	56,446
2033-2036	<u>49,000</u>	<u>4,084</u>	<u>-</u>	<u>-</u>	<u>49,000</u>	<u>4,084</u>
Total	<u>\$ 3,197,000</u>	<u>\$ 512,245</u>	<u>\$ 1,683,628</u>	<u>\$ 521,342</u>	<u>\$ 4,880,628</u>	<u>\$ 1,033,587</u>

No interest was capitalized during 2012; interest incurred and charged to expense totaled \$139,878.

CITY OF MOUNTAIN IRON, MINNESOTA

**NOTES TO FINANCIAL STATEMENTS
December 31, 2012**

NOTE 5 - LONG-TERM LIABILITIES (CONTINUED)

Pledged Revenue

Governmental Funds

In 2012, the City issued \$840,000 GO refunding bonds of which the proceeds will be used to prepay the outstanding principal of the City's \$1,645,000 GO crossover refunding bonds of 2005. No principal or interest was paid during the current year. Principal and interest to maturity in 2020 to be paid from a combination of special assessments levied upon the benefited property and ad valorem property taxes total \$872,317.

The City issued \$1,455,000 GO improvement bonds to finance a portion of the costs of local public improvements within the City in 2007. Principal and interest paid for the current year was \$143,710. At December 31, 2012 principal and interest on the bonds to be paid to maturity in 2028 from special assessments levied upon the benefitted property and ad valorem taxes totaled \$1,415,397.

In 2005, the City issued \$1,645,000 GO refunding bonds of which the proceeds were used to effect a crossover refunding of \$765,000 of the outstanding GO community center bonds of 1998 issued to finance the cost of the community center building and \$820,000 of the outstanding GO improvement bonds of 2000 issued to finance various municipal improvements within the City. Principal and interest paid for the current year was \$200,657. These bonds will be called for redemption in 2013 and the amount to be paid from a combination of the 2012 GO refunding bonds, special assessments levied upon benefited property and ad valorem property taxes totals \$1,003,969.

Enterprise Funds

The City has pledged net revenues of the Water Treatment Enterprise Fund to pay principal and interest on the \$650,000 general obligation water revenue refunding bonds issued in 2009. Proceeds from these bonds were used to refund the \$650,000 general obligation water revenue bonds issued in 2002, which were used to update the water treatment plant. Principal and interest paid for the current year was \$69,600. At December 31, 2012, principal and interest to maturity in 2022 to be paid from pledged future revenues totaled \$669,175.

The City has pledged net revenues of the Wastewater Treatment Enterprise Fund to pay principal and interest on the \$599,250 general obligation revenue note issued in 2009. Proceeds from this note were used to update the wastewater treatment plant. Principal and interest paid for the current year was \$37,364. At December 31, 2012, principal and interest to maturity in 2029 to be paid from pledged future revenues totaled \$637,602.

EDA

Component Unit

Mountain Iron EDA entered into a State loan agreement for the construction of a manufacturing facility on June 18, 2010. The loan settlement occurred on February 15, 2011. The maturity date of the \$3,600,000 loan is January 15, 2037. Mountain Iron EDA shall pay to the State by January 15th of each calendar year until the maturity date, payments in the full amount of net lease revenue of the preceding calendar year. At December 31, 2012, \$193,356 remains to be drawn from the loan amount issued.

CITY OF MOUNTAIN IRON, MINNESOTA

**NOTES TO FINANCIAL STATEMENTS
December 31, 2012**

NOTE 5 - LONG-TERM LIABILITIES (CONTINUED)

Conduit Debt

In 1999 the Mountain Iron Housing and Redevelopment Authority in and for the City of Mountain Iron issued \$1,450,000 lease revenue bonds to finance construction of a building by Northeast Service Cooperative and approved the financing plan for the project. The project is located on HRA property. The bonds are special limited obligations of the Authority, payable solely from the amounts payable under the lease. The bonds do not constitute a debt of the Authority or the City within the meaning of any constitutional or statutory limitation. The outstanding balance on these bonds at December 31, 2012 is \$705,000. Northeast Service Cooperative plans to exercise its option to prepay the outstanding principal of these bonds on May 28, 2013.

In 2004 the City of Mountain Iron, Minnesota (Issuer) issued limited obligation notes (\$648,800 Health Care Facilities Revenue Notes Series 2003A, \$244,900 Health Care Facilities Revenue Notes Series 2003B and \$635,700 Health Care Facilities Revenue Notes Series 2003C) to finance the cost of acquisition of a new facility, refinance debt, and finance real property improvements for the Duluth Regional Care Center, Inc. The City of Mountain Iron and the City of Hermantown, Minnesota, and the Duluth Economic Development Authority (Host Municipalities) entered into a joint powers agreement to cooperatively finance the project since portions of the project are located within the jurisdictional limits of each of the Host Municipalities. These notes and interest are limited obligations of the Issuer and shall not be payable from nor charged against any funds of the City other than revenue pledged for the payment thereof and does not constitute a debt of the City and is not reported as a liability in the financial statements of the City. The outstanding balance of these notes was paid off during 2012.

NOTE 6 - INTERFUND BALANCES AND ACTIVITY

The composition of interfund balances as of December 31, 2012 is as follows:

Due to/from primary government and component unit -

<u>Receivable entity</u>	<u>Payable entity</u>	<u>Amount</u>
Component Unit:	Primary government:	
Mountain Iron Economic Development Authority	General Fund	\$ <u>34,790</u>

Interfund transfers for the year ended December 31, 2012 consisted of the following:

	<u>Transfers in</u>			
	<u>Debt Service Fund</u>	<u>City Projects Capital Projects Fund</u>	<u>Water Treatment Enterprise Fund</u>	<u>Total</u>
Transfers out				
General Fund	\$ 365,000	\$ 413,891	\$ -	\$ 778,891
Debt Service Fund	-	-	68,838	68,838
Electric Utility Enterprise Fund	15,000	-	-	15,000
Water Treatment Enterprise Fund	26,400	-	-	26,400
Refuse Removal and Recycling Enterprise Fund	10,000	-	-	10,000
	<u>\$ 416,400</u>	<u>\$ 413,891</u>	<u>\$ 68,838</u>	<u>\$ 899,129</u>

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS December 31, 2012

NOTE 6 - INTERFUND BALANCES AND ACTIVITY (CONTINUED)

Transfers are used to: 1) move revenues from the General Fund to the City Projects Capital Projects Fund for authorized projects, and 2) move receipts from funds collecting receipts to the Debt Service Fund and Water Treatment Enterprise Fund as the debt service payments come due.

NOTE 7 - FUND EQUITY

As of December 31, 2012, fund balances are comprised of the following:

	General Fund	Debt Service Fund	City Projects Capital Projects Fund	Other Governmental Fund - Charitable Gambling Special Revenue Fund	Total
Restricted:					
Debt service	\$ -	\$ 1,851,203	\$ -	\$ -	\$ 1,851,203
Assigned:					
Cash flow	250,000	-	-	-	250,000
Insurance	465,503	-	-	-	465,503
Buildings	465,502	-	-	-	465,502
Rate stabilization	465,502	-	-	-	465,502
Capital projects	-	-	364,782	-	364,782
Community contributions	-	-	-	6,914	6,914
Total 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>

NOTE 8 - RISK MANAGEMENT

The City and the Mountain Iron EDA are 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. To cover these risks of loss, except for faithful performance of employee duties, the City and Mountain Iron EDA, as allowed under state statutes, joined the League of Minnesota Cities Insurance Trust, a public entity risk pool currently operating as a common risk management and insurance program for its member cities. The City and Mountain Iron EDA pay annual premiums to the Trust for insurance coverage and retains the risk for the deductible portions of the insurance. The League of Minnesota Cities Insurance Trust is self-sustaining through member premiums and reinsures through commercial companies for claims in excess of the limits set by the Trustees. The City and Mountain Iron EDA carry commercial insurance for faithful performance of employee duties. There were no significant increases or reductions in insurance from the previous year. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS December 31, 2012

NOTE 9 - TAX INCREMENT FINANCING DISTRICTS

The Mountain Iron Economic Development Authority is the administering authority for the following tax increment financing districts:

<u>Tax Increment Financing Districts</u>	<u>No. 1</u>	<u>No. 2</u>	<u>No. 13</u>	<u>No. 14</u>
Redevelopment project district established in:	1983	1986	-	-
Economic development district established in:	-	-	2002	2008
Anticipated last tax increment year:	2011	2012	2012	2017
Original net tax capacity:	\$ <u>3,485</u>	\$ <u>1,998</u>	\$ <u>756</u>	\$ <u>-</u>
Current net tax capacity:	\$ <u>54,273</u>	\$ <u>14,937</u>	\$ <u>3,404</u>	\$ <u>-</u>
Fiscal disparity deduction	\$ <u>-</u>	\$ <u>-</u>	\$ <u>611</u>	\$ <u>-</u>
Captured net tax capacity retained by Authority:	\$ <u>50,788</u>	\$ <u>12,939</u>	\$ <u>2,037</u>	\$ <u>-</u>
Total bonds issued				
Tax increment bonds	\$ 440,000	\$ 60,000	\$ -	\$ -
Amounts redeemed	<u>440,000</u>	<u>60,000</u>	<u>-</u>	<u>-</u>
Outstanding bonds at 12/31/12	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>

NOTE 10 - OTHER COMMITMENTS AND CONTINGENCIES

Grants

The City participates in grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable at December 31, 2012, may be impaired. In the opinion of the City, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

Electric Utility Commitment

The City entered into an agreement with Minnesota Power to supply the City with a portion of its total electric requirements. This agreement is in effect until December 31, 2019. Contract prices for this electric supply are adjusted throughout the contract period as set forth in the agreement.

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS December 31, 2012

NOTE 10 - OTHER COMMITMENTS AND CONTINGENCIES (CONTINUED)

The City of Mountain Iron, Minnesota exercised its right under a 1987 order by the Minnesota Public Utilities Commission, to service and maintain their territory which the City of Virginia Department of Public Utilities had been servicing and maintaining. In exchange for the service territory, the City of Mountain Iron paid the City of Virginia Department of Public Utilities \$100,000 at December 31, 2002, and entered into a long-term contract for electric service from the City of Virginia Department of Public Utilities effective January 2, 2003. This agreement is in effect until December 31, 2020.

Construction Projects

The City had three outstanding construction projects as of December 31, 2012. The projects are evidenced by contractual commitments with contractors and engineers and include:

<u>Project</u>	<u>Spent to Date</u>	<u>Commitments Remaining</u>
2011 Street Improvements – overlay	\$ <u>98,318</u>	\$ <u>5,175</u>

The project is a commitment of the general fund and is being funded by general fund revenues and assessments to property owners.

NOTE 11 - JOINT VENTURES

Tri-Cities Biosolids Disposal Authority

The City is a member in a joint authority agreement with the Cities of Eveleth and Gilbert for the operation of the Tri-Cities Biosolids Disposal Authority, which owns and operates a biosolids truck for the member cities. Each city appoints one member to the Tri-Cities Biosolids Disposal Authority which oversees the daily operations.

Upon termination, if the expenses and liabilities of the authority exceed the proceeds received from the sale, the loss shall be divided between the members on the same basis as member contributions to capital and operation cost. If upon termination the assets of the authority exceed its liabilities, the net proceeds from the sale thereof shall be divided between the members on the same basis as the contributions to capital and operation cost.

Each member city contributes to the budget of the Authority based on actual loads hauled during the previous year. The City of Mountain Iron's contribution to the Authority's budget during 2012 was \$24,710. Complete financial information can be obtained from the Tri-Cities Biosolids Disposal Authority, Eveleth, Minnesota 55734.

Biosolids Disposal Authority

The City is also a member in a joint authority agreement with the Cities of Eveleth, Gilbert, and Virginia for the operation of the Biosolids Disposal Site Authority, which owns and manages the Biosolids Site property. Each city appoints one member to the Biosolids Disposal Site Authority which oversees the operations.

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2012

NOTE 11 - JOINT VENTURES (CONTINUED)

Upon termination, if the expenses and liabilities of the authority exceed the proceeds received from the sale, the loss shall be divided between the members on the same basis as member contributions to capital and operation cost. If upon termination the assets of the authority exceed its liabilities, the net proceeds from the sale thereof shall be divided between the members on the same basis as the contributions to capital and operation cost.

Each member city contributes to the budget of the Authority based on the per capita reported in the 2000 Census. The City of Mountain Iron's contribution to the Authority's budget during 2012 was \$5,940. Complete financial information can be obtained from the Biosolids Disposal Site Authority, Eveleth, Minnesota 55734.

Quad Cities Joint Recreational Authority

The City is a member in a joint powers agreement with the Cities of Eveleth, Gilbert, and Virginia to cooperatively acquire property, construct a building, maintain the property and building and operate the Quad Cities Joint Recreational Authority. The Authority is governed by nine commissioners; two commissioners are appointed by each member city. One at-large commissioner is appointed by the governing board.

In the event of dissolution and following the payment of all outstanding obligations, assets of the Authority will be distributed between the members in direct proportion to their cumulative annual membership contributions. If those obligations exceed the assets of the Authority, the net deficit of the Authority will be charged to and paid by the then existing members in direct proportion to their cumulative annual membership contributions.

The City of Mountain Iron's contribution to the Authority's budget during 2012 was \$6,577. Complete financial information can be obtained from the Quad Cities Recreation Center, Eveleth, Minnesota 55734.

NOTE 12 - SEVERANCE BENEFITS

Upon retirement, the City provides most retirees a severance amount based on accumulated unused sick leave hours and rate of pay at the date of retirement, as established by contracts with bargaining units and other employment agreements. The agreements establish the terms for this severance amount, which may vary between bargaining units or employee groups. During 2012, the City did not have any expenditures for this benefit.

All other employees, who have accumulated sick leave days to their credit at the time of retirement or death, or at such time that they become totally permanently disabled, shall be credited with an amount of sick leave equivalent to the current value of their unused sick leave accumulation based on the contracts with bargaining units and other employment agreements. The monetary amount shall be placed in a separate and special fund for each such affected employee for the sole purpose of providing continuation of the retiree's, disabled employee's, or deceased employee's and their dependents' hospitalization and medical insurance coverage until each such employee's separate fund is exhausted. Severance activity for the year ended December 31, 2012 was as follows:

CITY OF MOUNTAIN IRON, MINNESOTA

**NOTES TO FINANCIAL STATEMENTS
December 31, 2012**

NOTE 12 - SEVERANCE BENEFITS (CONITNUED)

	<u>Balance 12/31/11</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/12</u>
Governmental activities	\$ 75,769	\$ 6,085	\$ (12,166)	\$ 69,688
Business-type activities	<u>20,089</u>	<u>2,849</u>	<u>(11,003)</u>	<u>11,935</u>
Total Primary Government	\$ <u>95,858</u>	\$ <u>8,934</u>	\$ <u>(23,169)</u>	\$ <u>81,623</u>

NOTE 13 - OTHER POSTEMPLOYMENT BENEFITS

The Governmental Accounting Standards Board (GASB) Statement No. 45 requires governments to account for and report the annual cost of other postemployment benefits (OPEB) and outstanding obligations and commitments related to OPEB based on actuarial valuations performed in accordance with parameters established by GASB. GASB Statement No. 45 requires the City to obtain an actuarial valuation once every three years because their plan has membership of 100 or less. The City had an actuarial valuation performed for January 1, 2012, the information in this note is based on that actuarial valuation.

Plan Description

The City operates a single-employer retiree benefit plan that provides postemployment health insurance benefits to eligible employees and their spouses. There are 21 active and 12 retired members in the plan as of January 1, 2012. Benefits and eligibility are established and amended through contracts with bargaining units or other employment contracts. The City subsidizes the premium rates of the retirees by allowing them to participate in the plan at reduced or blended (implicitly subsidized) premium rates for both active and retired employees. These rates provided an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the plan on average than those of active employees. Additionally, certain retirees receive insurance at a lower (explicitly subsidized) premium rate than active employees.

Funding Policy

The City has not advance-funded or established a funding methodology.

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 (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The following table shows the components for 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.

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS December 31, 2012

NOTE 13 - OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

	<u>12/31/12</u>
Normal cost	\$ 110,829
Amortization of unfunded actuarial accrued liability	329,646
Interest to the end of the year	<u>17,619</u>
Annual required contribution	458,094
Adjustment to ARC	<u>(26,501)</u>
 Annual OPEB cost (expense)	 431,593
 Contributions made including implicit rate subsidy	 <u>(189,498)</u>
Increase in net OPEB obligation	242,095
 Net OPEB obligation, beginning of year	 <u>1,486,262</u>
 Net OPEB obligation, end of year	 <u>\$ 1,728,357</u>

The City's annual OPEB cost, the percentage of the annual OPEB cost contributed to the plan, and the net OPEB obligation as of December 31, 2012 and the two preceding years were as follows:

<u>Year Ended</u>	<u>OPEB Cost</u>	<u>Contribution (ARC)</u>	<u>OPEB Cost Contributed</u>	<u>% of ARC Contributed</u>	<u>OPEB Obligation</u>
12/31/2012	\$ 242,095	\$ 431,593	\$ 189,498	43.9%	\$1,728,357
12/31/2011	\$ 479,204	\$ 636,198	\$ 156,994	24.7%	\$1,486,262
12/31/2010	\$ 497,288	\$ 644,479	\$ 147,191	22.8%	\$1,007,058

Funded Status and Funding Progress

The funding status of the plan as of January 1, 2012, the date of the latest actuarial valuation, was as follows:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Unfunded AAL (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
1/1/2012	\$ -	\$ 5,928,255	\$ 5,928,255	0.0%	\$1,289,749	459.6%

The required schedule of funding progress immediately 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 liability for benefits.

Actuarial Methods and Assumptions

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future, such as assumptions about future employment and terminations, mortality, and the healthcare cost

CITY OF MOUNTAIN IRON, MINNESOTA

**NOTES TO FINANCIAL STATEMENTS
December 31, 2012**

NOTE 13 - OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

trends. 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. Projections of benefits for financial reporting purposes are based on the substantive plan provisions, as understood by the employer and participating members, and include the type of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and participating members. The actuarial 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.

In the January 1, 2012 actuarial valuation, the projected unit credit cost method was used. The medical plan was changed to provide age-based premiums and post-Medicare coverage is provided through a Medicare Supplement. The actuarial assumptions include a rate of 4% to discount expected liabilities to the valuation date. The initial healthcare trend rate was 10% reduced by .5% per year to an ultimate rate of 5% after 10 years. The 2000 United States Life Tables for Males and United States Life Tables for Females was used. The UAAL is being amortized using the level dollar amount over a 30 year open period.

NOTE 14 - DEFINED BENEFIT PENSION PLANS – STATEWIDE

A. Plan Description

All full-time and certain part-time employees of the City of Mountain Iron, Minnesota, are covered by defined benefit plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Fund (GERF) which is a cost-sharing multiple-employer retirement plan. This plan is established and administered in accordance with *Minnesota Statutes*, Chapters 353 and 356.

GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan.

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

Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of 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 10 years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first 10 years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2012

NOTE 14 - DEFINED BENEFIT PENSION PLANS – STATEWIDE (CONTINUED)

members and 1.7 percent for Coordinated Plan members for each year of service. For all GERS members hired prior to July 1, 1989 whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 65 for Basic and Coordinated members hired prior to July 1, 1989. Normal retirement age is the age for unreduced social security benefits capped at 66 for Coordinated members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

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

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

PERA issues a publicly available financial report that includes financial statements and required supplementary information for GERS. 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 1-651-296-7460 or 1-800-652-9026.

B. Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The City makes annual contributions to the pension plans equal to the amount required by state statutes. GERS Basic Plan members and Coordinated Plan members were required to contribute 9.10% and 6.25%, respectively, of their annual covered salary in 2012. In 2012, the City of Mountain Iron was required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan members and 7.25% for Coordinated Plan members. The City's contributions to the Public Employees Retirement Fund for the years ending December 31, 2012, 2011, and 2010 were \$90,686, \$89,522, and \$84,117, respectively. The City's contributions were equal to the contractually required contributions for each year as set by state statute.

NOTE 15 - DEFINED CONTRIBUTION PLAN

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

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2012

NOTE 15 - DEFINED CONTRIBUTION PLAN (CONTINUED)

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. 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. 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 one percent of the assets in each member's account annually.

Total contributions made by the City of Mountain Iron during fiscal year 2012 were:

<u>Amount</u>		<u>Percentage of Covered Payroll</u>		<u>Required Rates</u>
<u>Employees</u>	<u>Employer</u>	<u>Employees</u>	<u>Employer</u>	
<u>\$11,700</u>	<u>\$11,700</u>	<u>5.00%</u>	<u>5.00%</u>	<u>5.00%</u>

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF MOUNTAIN IRON, MINNESOTA

GENERAL FUND

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
Year Ended December 31, 2012**

	Budgeted Amounts		Actual Amounts, Budgetary Basis	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 1,335,789	\$ 1,335,789	\$ 1,349,407	\$ 13,618
Licenses and permits	25,000	25,000	35,281	10,281
Intergovernmental	2,031,268	2,031,268	2,155,223	123,955
Charges for services	150,000	150,000	188,093	38,093
Fines	12,000	12,000	12,492	492
Interest	32,000	32,000	4,986	(27,014)
TOTAL REVENUES	3,586,057	3,586,057	3,745,482	159,425
EXPENDITURES				
Current				
General government	1,060,300	1,060,300	1,009,220	51,080
Public safety	624,500	624,500	652,565	(28,065)
Streets	705,000	705,000	711,809	(6,809)
Culture and recreation	412,500	412,500	399,808	12,692
TOTAL EXPENDITURES	2,802,300	2,802,300	2,773,402	28,898
EXCESS OF REVENUES OVER EXPENDITURES	783,757	783,757	972,080	188,323
OTHER FINANCING SOURCES (USES)				
Transfers out	(783,757)	(783,757)	(778,891)	4,866
Sale of capital assets	-	-	1,576	1,576
TOTAL OTHER FINANCING SOURCES (USES)	(783,757)	(783,757)	(777,315)	6,442
NET CHANGE IN FUND BALANCE	-	-	194,765	194,765
FUND BALANCE - JANUARY 1	1,451,742	1,451,742	1,451,742	-
FUND BALANCE - DECEMBER 31	\$ 1,451,742	\$ 1,451,742	\$ 1,646,507	\$ 194,765

See notes to required supplementary information.

CITY OF MOUNTAIN IRON, MINNESOTA

**SCHEDULE OF FUNDING PROGRESS FOR POSTEMPLOYMENT BENEFIT PLAN
Year Ended December 31, 2012**

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Unfunded AAL (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll (b-a)/(c)</u>
1/1/2012	\$ -	\$ 5,928,255	\$ 5,928,255	0.0%	\$ 1,289,749	459.60%
1/1/2009	\$ -	\$ 7,746,539	\$ 7,746,539	0.0%	\$ 944,685	820.01%

**NOTE TO THE SCHEDULE OF FUNDING PROGRESS
FOR POSTEMPLOYMENT BENEFIT PLAN**

NOTE 1 - VALUATIONS

The City has only presented two valuations because only two have been performed since the City adopted GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

CITY OF MOUNTAIN IRON, MINNESOTA

**NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
December 31, 2012**

NOTE 1 - BUDGETING

The City Administrator prepares a proposed budget for the City's funds on the same basis as the fund financial statements. The City Council adopts an annual budget for the fiscal year for all of the City's funds.

Legal budgetary control is at the fund account level; management control is exercised at line-item levels. Budget appropriations lapse at year end, if unexpended.

Budgeted amounts are as originally adopted or as amended by the City Council. The Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund presents a comparison of budgetary data to actual results.

OTHER SUPPLEMENTARY INFORMATION

CITY OF MOUNTAIN IRON, MINNESOTA

**GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
Year Ended December 31, 2012**

REVENUES

TAXES

General property	\$ 1,293,412
Mineral rents and royalties	31,552
Franchise	<u>24,443</u>
TOTAL TAXES	<u>1,349,407</u>

LICENSES AND PERMITS

35,281

INTERGOVERNMENTAL

State

Local government aid	1,156,268
Market value credit	1,488
Taconite production	459,527
Taconite municipal aid	381,420
Mining effects	90,268
PERA aid	4,529
Fire aid	<u>9,493</u>

TOTAL INTERGOVERNMENTAL

2,155,223

CHARGES FOR SERVICES

General government

Rent	14,545
Other reimbursements	130,419

Culture and recreation

Recreation fees	5,984
Campground fees	<u>37,145</u>

TOTAL CHARGES FOR SERVICES

188,093

FINES

12,492

INTEREST

4,986

TOTAL REVENUES

3,745,482

CITY OF MOUNTAIN IRON, MINNESOTA

GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE (CONTINUED)

Year Ended December 31, 2012

EXPENDITURES

CURRENT

GENERAL GOVERNMENT

Mayor and council	\$ 25,582
Administration	479,631
Elections	4,007
Assessor	32,239
Retiree's insurance	99,521
Donations and contributions	6,577
Other	112,512
Buildings	216,868
Planning and zoning	32,283

TOTAL GENERAL GOVERNMENT 1,009,220

PUBLIC SAFETY

Sheriff	513,926
Fire	119,451
Animal control	19,163
Civil defense	25

TOTAL PUBLIC SAFETY 652,565

STREETS

711,809

CULTURE AND RECREATION

Library	148,422
Recreation	194,975
Campgrounds	56,411

TOTAL CULTURE AND RECREATION 399,808

TOTAL EXPENDITURES

2,773,402

**EXCESS OF REVENUES OVER
EXPENDITURES**

972,080

OTHER FINANCING SOURCES (USES)

Transfers out	(778,891)
Sale of capital assets	1,576

TOTAL OTHER FINANCING SOURCES (USES) (777,315)

NET CHANGE IN FUND BALANCE

194,765

FUND BALANCE - JANUARY 1

1,451,742

FUND BALANCE - DECEMBER 31

\$ 1,646,507

CITY OF MOUNTAIN IRON, MINNESOTA

**SCHEDULE OF SOURCES AND USES OF PUBLIC FUNDS
FOR MOUNTAIN IRON TAX INCREMENT DISTRICT NO. 1
Year Ended December 31, 2012**

	<u>Budget</u>	Accounted for in Prior Years <u>Restated</u>	<u>Current Year</u>
SOURCES OF FUNDS			
Tax increment revenue	\$ 2,000,000	\$ 1,614,163	\$ 7,262
Bond proceeds	2,000,000	440,000	-
Real estate sales	<u>2,000</u>	<u>1,726</u>	<u>-</u>
TOTAL SOURCES OF FUNDS	<u>4,002,000</u>	<u>2,055,889</u>	<u>7,262</u>
USES OF FUNDS			
Land acquisition	100,000	58,616	-
Site improvements and preparation costs	750,000	713,627	-
Installation of public utilities	150,000	-	-
Streets and sidewalks	100,000	160,879	-
Bond principal payments	2,000,000	440,000	-
Bond interest payments	400,000	375,448	-
Administrative costs	200,000	58,919	-
Transfers to other districts	<u>302,000</u>	<u>248,400</u>	<u>7,262</u>
TOTAL USES OF FUNDS	<u>4,002,000</u>	<u>2,055,889</u>	<u>7,262</u>
DISTRICT BALANCE	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>

NOTE 1 - RESTATEMENT

Certain amounts accounted for in prior years in the schedule of sources and uses of public funds have been restated to be consistent with the presentation in the annual reporting form.

CITY OF MOUNTAIN IRON, MINNESOTA

**SCHEDULE OF SOURCES AND USES OF PUBLIC FUNDS
FOR MOUNTAIN IRON TAX INCREMENT DISTRICT NO. 2
Year Ended December 31, 2012**

	<u>Budget</u>	<u>Accounted for in Prior Years Restated</u>	<u>Current Year</u>
SOURCES OF FUNDS			
Tax increment revenue	\$ 5,566,225	\$ 298,750	\$ 18,676
Bond proceeds	1,905,000	60,000	-
Transfers from TIF 1	-	-	7,262
Transfers from EDA General Fund	<u>-</u>	<u>-</u>	<u>3,343</u>
TOTAL SOURCES OF FUNDS	<u>7,471,225</u>	<u>358,750</u>	<u>29,281</u>
USES OF FUNDS			
Land acquisition	324,500	264,070	-
Site improvement	466,500	-	-
Bond principal payments	1,905,000	60,000	-
Bond interest payments	2,721,725	53,248	-
Administrative costs	134,020	9,393	1,320
Debt service reserve	<u>500,000</u>	<u>-</u>	<u>-</u>
TOTAL USES OF FUNDS	<u>6,051,745</u>	<u>386,711</u>	<u>1,320</u>
DISTRICT BALANCE	<u>\$ 1,419,480</u>	<u>\$ (27,961)</u>	<u>\$ 27,961</u>

NOTE 1 - RESTATEMENT

Certain amounts accounted for in prior years in the schedule of sources and uses of public funds have been restated to be consistent with the presentation in the annual reporting form.

CITY OF MOUNTAIN IRON, MINNESOTA

**SCHEDULE OF SOURCES AND USES OF PUBLIC FUNDS
FOR MOUNTAIN IRON TAX INCREMENT DISTRICT NO. 13
Year Ended December 31, 2012**

	<u>Budget</u>	<u>Accounted for in Prior Years Restated</u>	<u>Current Year</u>
SOURCES OF FUNDS			
Tax increment revenue	\$ 120,900	\$ 20,438	\$ 2,197
Interest	2,000	-	-
Transfers from EDA General Fund	<u>-</u>	<u>21,110</u>	<u>-</u>
TOTAL SOURCES OF FUNDS	<u>122,900</u>	<u>41,548</u>	<u>2,197</u>
USES OF FUNDS			
Site improvements and preparation costs	83,000	35,378	-
Installation of public utilities	27,800	-	-
Administrative costs	12,100	6,170	1,320
Transfers to EDA General Fund	<u>-</u>	<u>-</u>	<u>877</u>
TOTAL USES OF FUNDS	<u>122,900</u>	<u>41,548</u>	<u>2,197</u>
DISTRICT BALANCE	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>

NOTE 1 - RESTATEMENT

Certain amounts accounted for in prior years in the schedule of sources and uses of public funds have been restated to be consistent with the presentation in the annual reporting form.

CITY OF MOUNTAIN IRON, MINNESOTA

**SCHEDULE OF SOURCES AND USES OF PUBLIC FUNDS
FOR MOUNTAIN IRON TAX INCREMENT DISTRICT NO. 14
Year Ended December 31, 2012**

	<u>Budget</u>	Accounted for in Prior Years <u>Restated</u>	<u>Current Year</u>
SOURCES OF FUNDS			
Tax increment revenue	\$ 1,025,590	\$ -	\$ -
Transfers from EDA General Fund	<u>-</u>	<u>-</u>	<u>1,320</u>
TOTAL SOURCES OF FUNDS	<u>1,025,590</u>	<u>-</u>	<u>1,320</u>
USES OF FUNDS			
Site improvements and preparation costs	1,025,590	-	-
Administrative costs	<u>-</u>	<u>-</u>	<u>1,320</u>
TOTAL USES OF FUNDS	<u>1,025,590</u>	<u>-</u>	<u>1,320</u>
DISTRICT BALANCE	\$ <u><u>-</u></u>	\$ <u><u>-</u></u>	\$ <u><u>-</u></u>

NOTE 1 - RESTATEMENT

Certain amounts accounted for in prior years in the schedule of sources and uses of public funds have been restated to be consistent with the presentation in the annual reporting form.



CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

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

Independent Auditor's Report

To the City Council
City of Mountain Iron, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the 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 of Mountain Iron, Minnesota's basic financial statements and have issued our report thereon dated June 10, 2013. Our report includes a reference to other auditors who audited the financial statements of Mountain Manor Apartments Enterprise Fund, as described in our report on City of Mountain Iron, Minnesota's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified a certain deficiency in internal control that we consider to be a material weakness and another deficiency that we consider to be a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses as item 2012-2 to be a material weakness.

A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and responses as item 2012-1 to be a significant deficiency.

Compliance

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

Minnesota Legal Compliance

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

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

Other Matters

We noted certain matters that we reported to management of City of Mountain Iron, Minnesota in a separate letter dated June 10, 2013, included under this cover.

City of Mountain Iron, Minnesota's Response to Findings

City of Mountain Iron, Minnesota's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. City of Mountain Iron, Minnesota's response was not subjected to the auditing procedures applied in the audit of the financial statements, and, accordingly, we express no opinion on it.

Purpose of this Report

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

Walker, Hiron & Nelson, Ltd

Virginia, Minnesota
June 10, 2013

CITY OF MOUNTAIN IRON, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended December 31, 2012

2012-1. SEGREGATION OF DUTIES

Condition

Due to the limited number of personnel within the City's administration office, the segregation of accounting functions necessary to ensure adequate internal accounting control is not possible.

Criteria

The concentration of duties and responsibilities in a limited number of individuals is not desirable from an internal accounting control point of view.

Effect

Because of the weakness in segregation of duties, the City has not provided adequate internal control.

Cause

This occurred because of staffing limitations caused by fiscal constraints.

Recommendations

Officials and management of the City should constantly be aware of this condition, attempt to segregate duties as much as possible and provide oversight to partially compensate for this deficiency.

Corrective Action Plan (CAP)

1. Explanation of Disagreement with Audit Finding
There is no disagreement with the audit finding.
2. Actions Planned in Response to Finding
The City Administrator will attempt to monitor transactions and structure the duties of office personnel to help ensure as much segregation of duties as possible within the City's staffing limitations and funding constraints.
3. Official Responsible for Ensuring CAP
Craig Wainio, City Administrator, is the official responsible for ensuring this plan.
4. Planned Completion Date for CAP
The City's Administrator has been monitoring transactions and reviewing the duties of office personnel on an ongoing basis.
5. Plan to Monitor Completion of CAP
The City Council recognizes the weakness in segregation of duties and has continually provided oversight to partially compensate for this deficiency.

CITY OF MOUNTAIN IRON, MINNESOTA

SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
Year Ended December 31, 2012

2012-2. LACK OF CONTROL OVER FINANCIAL REPORTING PROCESS

Condition and Criteria

As part of the audit, management requested that the auditor prepare a draft of the City's financial statements, including the related notes to financial statements. Management reviewed, approved, and accepted responsibility for those financial statements prior to their issuance; however, management does not possess the technical expertise to comply with governmental accounting standards.

Effect

The potential exists that a material misstatement of the financial statements could occur and not be prevented or detected by the City's internal control.

Cause

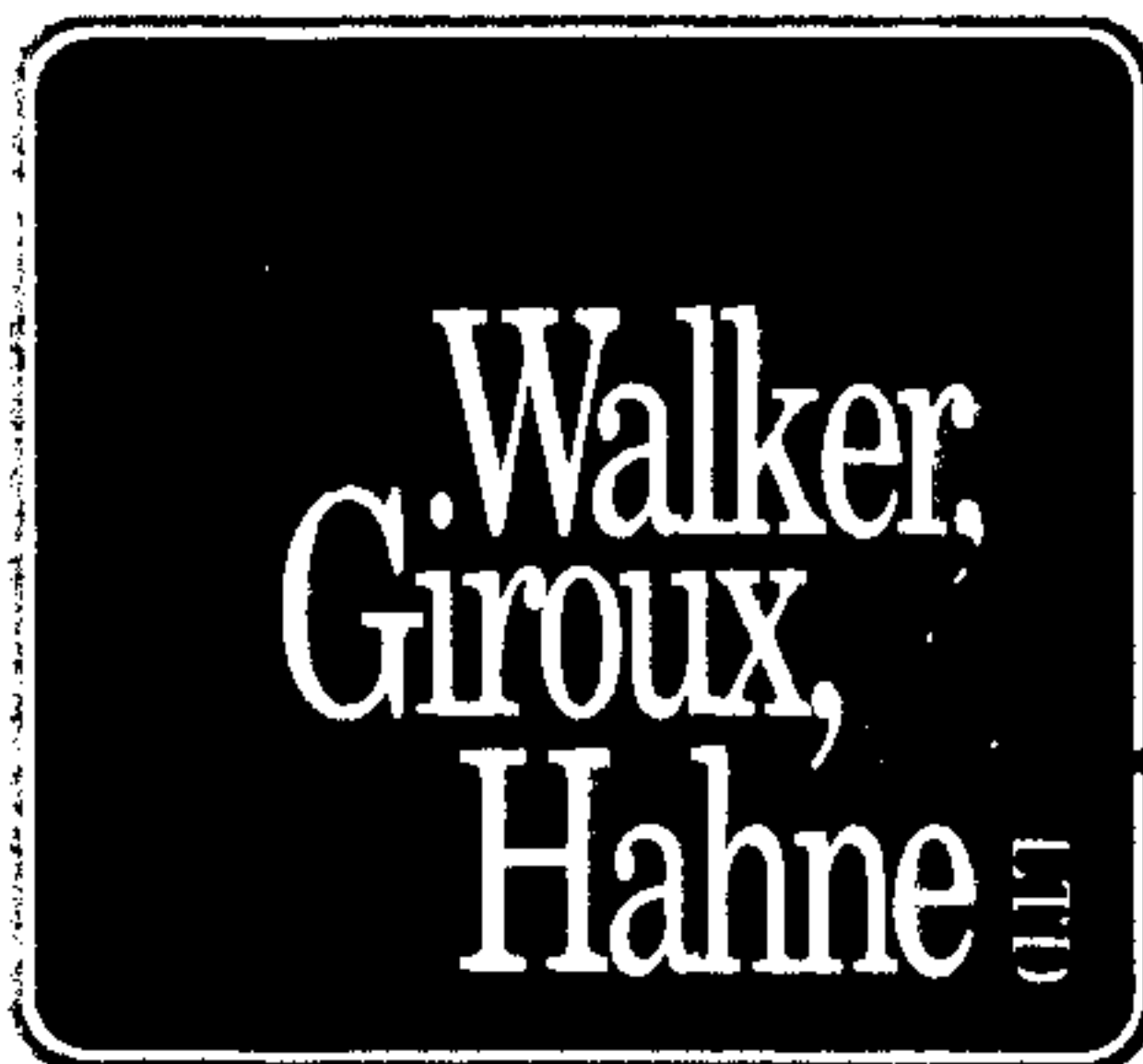
This occurred because of staffing limitations caused by fiscal constraints.

Recommendations

In order to provide controls over the financial statement preparation services at an appropriate level, we suggest management establish effective review policies and procedures.

Corrective Action Plan (CAP)

1. Explanation of Disagreement with Audit Finding
There is no disagreement with the audit finding.
2. Actions Planned in Response to Finding
Management has determined that the cost and training involved to review or prepare the City's financial statements exceeds the benefit that would result.
3. Official Responsible for Ensuring CAP
None – see number 2 above.
4. Planned Completion Date for CAP
None – see number 2 above.
5. Plan to Monitor Completion of CAP
None – see number 2 above.



CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

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MANAGEMENT LETTER

To the City Council
City of Mountain Iron, Minnesota

In planning and performing our audit of the financial statements of the City of Mountain Iron, Minnesota, as of and for the year ended December 31, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

However, during our audit we became aware of deficiencies in internal control other than significant deficiencies and material weaknesses and matters that are opportunities for strengthening internal controls and operating efficiency. A separate report dated June 10, 2013, included under this cover, contains our report on significant deficiencies or material weaknesses in the City's internal control. This letter does not affect our report dated June 10, 2013, on the financial statements of the City of Mountain Iron, Minnesota.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various City personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations. Our comments and suggestions are summarized as follows:

1. The Wastewater Treatment Enterprise Fund, Refuse Removal and Recycling Enterprise Fund, and Mountain Manor Apartments Enterprise Fund each reported an operating loss for the year ended December 31, 2012. We suggest that the City Council review these losses and implement a plan to make the funds profitable and self-sufficient.
2. During our review of credit card transactions, we noted several credit card purchases did not have proper supporting documentation attached. We also noted one personal purchase charged to a credit card and reimbursed to the City. We recommend that supporting documentation be attached to credit card statements prior to payment, and that each cardholder review and adhere to the City's "credit card policy".

3. During our analytical review of expenditure account detail, we noted an expenditure that exceeded the \$5,000 amount allowed as authorized in the "Purchasing Policy Resolution" on file. We noted that the policy has not been updated since 1994, with the exception of the authorized dollar amount. We recommend that the policy be updated to clarify the purchase allowed as to: per invoice, per vendor, or per item.
4. The physical count for electric inventory was missing current cost amounts for several transformers and transformer pad mounts. We recommend that the pricing of the physical quantities counted be consistent and well documented. Persons responsible for pricing should indicate whether the prices are from sources other than the most recent invoice. Physical inventories should provide a basis for updating inventory balances and aid in detecting significant inventory shortages.
5. The City budgets transfers between funds for debt service payments, capital projects and capital asset additions. We recommend that the administration also provide an explanation for each transfer, identifying the debt issue being paid, the capital asset being purchased, etc., to aid in preparation of the note disclosure to the financial statements.
6. During 2012 one financial institution changed the bank statement quarter-end to February, May, August, and November for several of the City's savings accounts. We recommend that City personnel request that the bank provide quarterly statements ending in March, June, September, and December to coincide with the City's reporting year.
7. During the audit it was noted that several EDA revenue items received by the City were not transferred to the EDA before year-end. We recommend that the activity between the EDA and the City be reconciled on a quarterly basis to ensure that all interfund activity has been recorded on the general ledger by each entity.

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

Waller, Hiron & Hiron, Ltd

June 10, 2013