

CITY OF MOUNTAIN IRON, MINNESOTA

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
Year Ended December 31, 2013**

CITY OF MOUNTAIN IRON, MINNESOTA

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CITY OF MOUNTAIN IRON, MINNESOTA

**ORGANIZATION
December 31, 2013**

CITY COUNCIL

Mayor

Gary Skalko

Council Members

Joe Prebeg, Jr.
Alan Stanaway
Susan Tuomela
Anthony Zupancich

ADMINISTRATION

Administrator

Craig J. Wainio

FINANCIAL SECTION

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Mountain Manor Apartments Enterprise Fund which is both a major fund and 9 percent, 4 percent, and 5 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, 2013, 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 schedule of sources and uses of public funds for the Mountain Iron tax increment district 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 schedule of sources and uses of public funds for the Mountain Iron tax increment district No. 14 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements

themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and other auditors. In our opinion, based on our audit, the procedures performed as described above, and the report of the other auditors, the individual fund financial statement and schedule of sources and uses of public funds for Mountain Iron tax increment district No. 14 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 4, 2014, 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, Miray & Helne, LLC

Virginia, Minnesota
June 4, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF MOUNTAIN IRON, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2013

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, 2013. 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 \$9,501,803, of which \$7,739,151 represents net investment in capital assets.
- Business-type activities have total net position of \$7,710,116. Net investment in capital assets represents \$6,092,847 of the total.
- The Mountain Iron Economic Development Authority (EDA) has total net position of \$2,856,337, of which \$2,558,857 represents net investment in capital assets.
- The City of Mountain Iron's primary government's net position increased by \$1,108,575 for the year ended December 31, 2013. Of the increase \$50,717 was an increase in the governmental activities' net position and \$1,057,858 represented the increase in business-type activities' net position.
- The EDA's net position decreased by \$263,641.
- The net cost of governmental activities was \$2,824,398 for the current fiscal year. The net cost was funded by general revenues and other items totaling \$2,875,115.
- Governmental funds' fund balances decreased by \$674,009.

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, 2013

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, 2013

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 \$17,211,919, an increase from the prior year.

Table 1
Net Assets

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2013	2012	2013	2012	2013	2012
Current and other assets	\$ 5,211,641	\$ 4,224,934	\$ 2,511,297	\$ 2,537,467	\$ 7,722,938	\$ 6,753,235
Capital assets	<u>9,839,151</u>	<u>10,050,970</u>	<u>7,688,518</u>	<u>6,636,998</u>	<u>17,527,669</u>	<u>16,687,968</u>
Total assets	<u>15,050,792</u>	<u>14,275,904</u>	<u>10,199,815</u>	<u>9,174,465</u>	<u>25,250,607</u>	<u>23,441,203</u>
Long-term liabilities	3,659,879	4,684,677	2,087,595	2,005,931	5,747,474	6,690,608
Other liabilities	<u>1,889,110</u>	<u>218,229</u>	<u>402,104</u>	<u>367,735</u>	<u>2,291,214</u>	<u>576,798</u>
Total liabilities	<u>5,548,989</u>	<u>4,902,906</u>	<u>2,489,699</u>	<u>2,373,666</u>	<u>8,038,688</u>	<u>7,267,406</u>
Net position						
Net investment in capital assets	7,739,151	7,688,970	6,092,847	4,953,370	13,831,998	12,642,340
Restricted	1,032,239	1,082,005	97,927	201,235	1,130,166	1,283,240
Unrestricted	<u>730,413</u>	<u>602,023</u>	<u>1,519,342</u>	<u>1,646,194</u>	<u>2,249,755</u>	<u>2,248,217</u>
Total net position	<u>\$ 9,501,803</u>	<u>\$ 9,372,998</u>	<u>\$ 7,710,116</u>	<u>\$ 6,800,799</u>	<u>\$ 17,211,919</u>	<u>\$ 16,173,797</u>

Net position of the City's governmental activities increased by 1.4 percent (\$9,501,803 compared to \$9,372,998). 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 \$602,023 surplus at December 31, 2012 to a \$730,413 surplus at the end of this year.

Net position of the City's business-type activities increased by 13.4 percent (\$7,710,116 compared to \$6,800,799).

CITY OF MOUNTAIN IRON, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2013

Table 2
Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total Primary Government	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Revenues						
Program revenues:						
Fees, fines, charges and other charges for services	\$ 353,737	\$ 233,048	\$ 3,697,169	\$ 3,584,447	\$ 4,050,906	\$ 3,817,495
Operating grants and contributions	5,246	5,931	-	-	5,246	5,931
Capital grants and contributions	991,373	713,660	45,000	-	1,036,373	713,660
General revenues:						
Property and other taxes	1,351,180	1,340,114	-	-	1,351,180	1,340,114
Grants and contributions not restricted to specific programs	2,344,556	2,155,223	-	-	2,344,556	2,155,223
Other general revenues	<u>63,012</u>	<u>46,398</u>	<u>(9,215)</u>	<u>25,780</u>	<u>53,797</u>	<u>72,178</u>
Total revenues	<u>5,109,104</u>	<u>4,494,374</u>	<u>3,732,954</u>	<u>3,610,227</u>	<u>8,842,058</u>	<u>8,104,601</u>
Program expenses:						
General government	1,341,707	1,296,502	-	-	1,341,707	1,296,502
Public safety	764,920	706,945	-	-	764,920	706,945
Streets	1,168,418	1,171,899	-	-	1,168,418	1,171,899
Culture and recreation	604,978	511,789	-	-	604,978	511,789
Economic development	224,157	250,000	-	-	224,157	250,000
Interest	70,574	96,135	-	-	70,574	96,135
Electric utility	-	-	2,403,862	2,065,533	2,403,862	2,065,533
Water treatment	-	-	312,515	310,439	312,515	310,439
Wastewater treatment	-	-	499,488	540,522	499,488	540,522
Refuse removal and recycling	-	-	418,477	410,416	418,477	410,416
Mountain Manor Apartments	-	-	224,287	224,936	224,287	224,936
Total program expenses	<u>4,174,754</u>	<u>4,033,270</u>	<u>3,858,629</u>	<u>3,551,846</u>	<u>8,033,383</u>	<u>7,585,116</u>
Excess (deficiency) before extraordinary item and transfers	934,350	461,104	(125,675)	58,381	808,675	519,485
Extraordinary item -- insurance recovery	-	-	132,766	60,171	132,766	60,171
Transfers	<u>(883,633)</u>	<u>(418,388)</u>	<u>1,050,767</u>	<u>418,388</u>	<u>167,134</u>	<u>-</u>
Increase in net position	50,717	42,716	1,057,858	536,940	1,108,575	579,656
Net position, January 1	9,372,998	9,330,282	6,800,799	6,263,859	16,173,797	15,594,141
Prior period adjustment	<u>78,088</u>	<u>-</u>	<u>(148,541)</u>	<u>-</u>	<u>(70,453)</u>	<u>-</u>
Net position, December 31	<u>\$ 9,501,803</u>	<u>\$ 9,372,998</u>	<u>\$ 7,710,116</u>	<u>\$ 6,800,799</u>	<u>17,211,919</u>	<u>\$ 16,173,797</u>

CITY OF MOUNTAIN IRON, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2013

Governmental Activities

The most significant revenues of the governmental activities are grants and contributions not restricted to specific programs at 46% of revenues. Capital grants and contributions, 19% of revenues, include grants for major projects or purchases of equipment. Property taxes levied for general purposes amount to \$1,351,180, 27% of revenues.

General government expense is the most significant (32%), followed by streets (28%), public safety (18%) and culture and recreation (15%).

Governmental revenues increased during 2013 because the City received additional special legislation taconite production funding and increased building permits issued and lot sales. Our taxpayers paid \$1,351,180 in property and other taxes during the current year, which is an increase of \$11,066.

Governmental expenses increased by \$141,484 in the current year. The most significant increase occurred in the City's culture and recreation program due to campground and park repairs and improvements. The cost of all governmental activities this year was \$4,174,754 compared to \$4,033,270 last year.

Business-Type Activities

Revenues, an extraordinary item, and transfers in of the City's business-type activities were \$3,732,954 and expenses were \$3,858,629, (see Table 2). There was an increase in net position of \$1,057,858 during the year ended December 31, 2013, which compares to an increase in net position of \$536,940 for the year ended December 31, 2012. Factors driving this result include:

Operations produced a loss of \$114,449 for the year ended December 31, 2013. The wastewater treatment enterprise fund recorded operating income of \$36,452. The water treatment enterprise fund recorded the most significant operating loss of \$90,234. The electric utility fund recorded an operating loss of \$30,981, the refuse removal and recycling fund and Mountain Manor Apartments enterprise fund each recorded an operating loss of \$23,382 and \$6,304, respectively.

The water treatment enterprise fund and wastewater treatment enterprise fund received capital contributions in the amount of \$573,923 each, from the City for the Energy Park Infrastructure capitalized during the current year.

Mountain Iron EDA Component Unit Activity

The Mountain Iron EDA had a decrease in net position of \$263,641 for the year ended December 31, 2013. Net program revenues over expenses were \$(207,470). General revenues of taxes, interest earnings and miscellaneous revenues were \$110,963.

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, 2013

At December 31, 2013, the City's governmental funds reported total ending fund balances of \$3,195,397, a decrease of \$674,009 in comparison with the prior year. Assigned fund balance, which is intended to be used for cash flow, insurance and buildings, made up nearly 66% or \$2,121,379 of the total ending fund balance. The restricted fund balance of \$1,166,963 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 a decrease in fund balance of \$684,240 compared to the increase in fund balance of \$862,481 last year. Other financing uses included the 2005 G.O. Refunding bonds called for redemption in 2013.

The capital projects fund recorded a decrease in fund balance of \$457,727, resulting in a negative unassigned fund balance of \$92,945.

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 2013, operating revenues increased by \$127,533 compared to the prior year. Operating expenses also increased by \$338,329. The electric operations produced an operating loss of \$30,981 in 2013. A transfer out of \$15,000 was made to governmental funds. A capital asset with book value of \$44,929 was transferred to the City. These transactions resulted in a decrease of \$97,338 in net position in the current year. A prior period adjustment in the amount of \$237,178 was recorded to increase the postemployment benefit obligation and reduce net position.

The water treatment enterprise fund accounts for the water operations of the City. In 2013, operating revenues decreased by \$7,959 compared to the prior year. Operating expenses increased by \$2,853. In 2013, operating income of \$36,452 was recorded compared to an operating income of \$47,264 in the prior year. Interest expense charged to the water operations was \$18,762. Transfers to the debt service governmental fund were made in the amount of \$27,150 during 2013. A capital contribution of \$573,923 from the City was recorded for the Energy Park Infrastructure capitalized in 2013. These transactions resulted in an increase of \$563,477 in net position in the current year. A prior period adjustment in the amount of \$62,417 was recorded to reduce the other postemployment benefit obligation and increase net position.

The wastewater treatment enterprise fund accounts for the wastewater treatment operations of the City. In 2013, operating revenues decreased by \$6,698 compared to the prior year. Operating expenses decreased by \$40,464 due to a decrease in repairs and maintenance in the current year. In 2013, an operating loss of \$90,234 was recorded compared to an operating loss of \$124,000 in the prior year. Interest expense charged to the wastewater treatment operations was \$11,607. A capital contribution of \$573,923 from the City was recorded for the Energy Park Infrastructure capitalized in 2013. These transactions resulted in an increase of \$468,400 in net position in the current year. A prior period adjustment in the amount of \$17,250 was recorded to reduce the other postemployment benefit obligation and increase net position.

The refuse removal and recycling enterprise fund accounts for the refuse removal and recycling operations of the City. In 2013, operating revenues increased \$377 compared to the prior year. Operating expenses increased by \$8,061. In 2013, an operating loss of \$23,382 was recorded compared to an operating loss of \$15,698 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 \$36,823 in net position in the current year. A prior period adjustment for \$43,470 was recorded to reduce the other postemployment benefit liability and increase net position.

CITY OF MOUNTAIN IRON, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2013

The Mountain Manor Apartments enterprise fund accounts for the operations of the Mountain Manor Apartments. In 2013, operating revenues decreased by \$531 compared to the prior year. Operating expenses increased by \$575 compared to the prior year. In 2013, an operating loss of \$6,304 was recorded compared to an operating loss of \$5,198 in the prior year. Interest expense charged to the Mountain Manor Apartments operations was \$16,642. A CDBG grant for \$45,000 was also received for capital improvements. These transactions resulted in an increase of \$160,142 in net position in the current year.

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the City did not revise the general fund budget. The actual expenditures were \$64,703 over the final budget amounts. The most significant negative variance in the amount of (\$83,129) occurred in the City public safety department. Resources available for appropriation were above the final budgeted amounts. The City received more intergovernmental aids, licenses and permits, and charges for services than expected, and less interest than expected.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2013, the City's primary government had \$17,527,669 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 increase (including additions and deductions) of \$839,701 over last year. The Mountain Iron Economic Development Authority component unit had \$6,105,518 invested in capital assets, which consisted of land, construction in progress, and infrastructure.

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

	Governmental Activities		Business-Type Activities		Totals	
	2013	2012	2013	2012	2013	2012
Land	\$ 409,300	\$ 411,015	\$ 26,370	\$ 26,370	\$ 435,670	\$ 437,385
Construction in progress	1,124,149	1,565,145	-	-	1,124,149	1,565,145
Land improvements	747,880	784,307	-	-	747,880	784,307
Buildings	2,428,545	2,498,158	3,584,926	3,443,595	6,013,471	5,941,753
Infrastructure	4,226,994	4,074,815	3,842,941	2,822,693	8,069,935	6,897,508
Machinery and equipment	539,968	560,464	64,504	57,871	604,472	618,335
Licensed vehicles	362,315	157,066	169,777	286,469	532,092	443,535
Totals	<u>\$ 9,839,151</u>	<u>\$10,050,970</u>	<u>\$ 7,688,518</u>	<u>\$ 6,636,998</u>	<u>\$ 17,527,669</u>	<u>\$ 16,687,968</u>
EDA						
Land	\$ 2,533,256	\$ 2,456,839	\$ -	\$ -	\$ 2,533,256	\$ 2,456,839
Construction in progress	-	3,461,717	-	-	-	3,461,717
Infrastructure	3,572,262	-	-	-	3,572,262	-
Totals	<u>\$ 6,105,518</u>	<u>\$ 5,918,556</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,105,518</u>	<u>\$ 5,918,556</u>

CITY OF MOUNTAIN IRON, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2013

This year's major additions included costs to begin relocation of County Road 102 water and sewer lines, Unity Drive extension, Main street sidewalks, completion of Bluebell and Daffodil street improvements, a squad car, a 1994 fire truck, a 2005 International truck, the civil defense alarm system, a sewer camera, fencing and a Cat excavator, hammer and trailer.

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

Debt

At year-end, the City had \$3,695,671 in long-term debt outstanding for the primary government versus \$4,880,628 last year—as shown in Table 4. The Mountain Iron EDA component unit had \$3,546,661 in long-term debt outstanding, which was \$3,406,644 last year.

Table 4
Outstanding Debt, at Year-end

	Governmental Activities		Business-Type Activities		Totals	
	2013	2012	2013	2012	2013	2012
General obligation bonds (backed by the City)	\$ 1,260,000	\$ 1,372,000	\$ -	\$ -	\$ 1,260,000	\$ 1,372,000
Refunding bonds	840,000	1,825,000	-	-	840,000	1,825,000
Notes payable	-	-	596,671	608,628	596,671	608,628
Water revenue refunding bonds	-	-	500,000	550,000	500,000	550,000
Wastewater general obligation revenue note	-	-	499,000	525,000	499,000	525,000
Total	<u>\$ 2,100,000</u>	<u>\$ 3,197,000</u>	<u>\$ 1,595,671</u>	<u>\$ 1,683,628</u>	<u>\$ 3,695,671</u>	<u>\$ 4,880,628</u>
	Component Unit EDA					
	2013	2012				
State loan	<u>\$ 3,546,661</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 \$750,000 is significantly below this \$4,967,940 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 2014 budget, tax rates, and fees that will be charged for the business-type activities.

- City General Fund expenditures increased \$162,322 over 2013.
- City property taxes did not increase in 2014.

CITY OF MOUNTAIN IRON, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 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 2014 capital budget calls for it to spend another \$2,500,000.

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, 2013

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	EDA
ASSETS				
Cash and cash equivalents	\$ 3,564,494	\$ 680,283	\$ 4,244,777	\$ 254,949
Investments	1,220,720	812,631	2,033,351	-
Taxes receivable	32,052	-	32,052	-
Special assessments receivable	154,901	-	154,901	-
Accounts receivable	-	591,044	591,044	-
Grants receivable	205,000	-	205,000	-
Other receivable	-	14,325	14,325	-
Due from component unit	7,854	-	7,854	-
Due from other governments	26,620	-	26,620	-
Loans receivable	-	-	-	122,822
Inventories	-	294,227	294,227	-
Prepaid items	-	1,234	1,234	-
Restricted assets:				
Temporarily restricted cash and cash equivalents	-	117,553	117,553	-
Capital assets not being depreciated:				
Land	409,300	26,370	435,670	2,533,256
Construction in progress	1,124,149	-	1,124,149	-
Capital assets net of accumulated depreciation:				
Land improvements	747,880	-	747,880	-
Buildings	2,428,545	3,584,926	6,013,471	3,572,262
Infrastructure	4,226,994	3,842,941	8,069,935	-
Machinery and equipment	539,968	64,504	604,472	-
Licensed vehicles	362,315	169,777	532,092	-
TOTAL ASSETS	<u>15,050,792</u>	<u>10,199,815</u>	<u>25,250,607</u>	<u>6,483,289</u>
LIABILITIES				
Accounts payable	288,316	280,021	568,337	72,437
Salaries payable	69,462	25,583	95,045	-
Accrued interest payable	28,639	6,559	35,198	-
Due to primary government	-	-	-	7,854
Customer deposits	8,100	89,941	98,041	-
Unearned revenues	1,494,593	-	1,494,593	-
Noncurrent liabilities				
Due within one year	297,000	85,512	382,512	-
Due in more than one year				
Bonds and notes payable	1,803,000	1,510,159	3,313,159	3,546,661
Other postemployment benefits	1,496,549	475,148	1,971,697	-
Severance payable	63,330	16,776	80,106	-
TOTAL LIABILITIES	<u>5,548,989</u>	<u>2,489,699</u>	<u>8,038,688</u>	<u>3,626,952</u>
NET POSITION				
Net investment in capital assets	7,739,151	6,092,847	13,831,998	2,558,857
Restricted for:				
Debt service	1,032,239	97,927	1,130,166	-
Unrestricted	730,413	1,519,342	2,249,755	297,480
TOTAL NET POSITION	<u>\$ 9,501,803</u>	<u>\$ 7,710,116</u>	<u>\$ 17,211,919</u>	<u>\$ 2,856,337</u>

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

CITY OF MOUNTAIN IRON, MINNESOTA

STATEMENT OF ACTIVITIES
Year Ended December 31, 2013

Functions/Programs	Expenses	Charges for Services	Program Revenues
			Operating Grants and Contributions
PRIMARY GOVERNMENT			
Governmental Activities			
General government	\$ 1,341,707	\$ 233,450	\$ 3,845
Public safety	764,920	4,120	1,401
Streets	1,168,418	5,790	-
Culture and recreation	604,978	60,320	-
Economic development	224,157	50,057	-
Interest on long-term debt	70,574	-	-
Total Governmental Activities	4,174,754	353,737	5,246
Business-type Activities			
Electric utility	2,403,862	2,372,881	-
Water treatment	312,515	330,205	-
Wastewater treatment	499,488	397,647	-
Refuse removal and recycling	418,477	395,095	-
Mountain Manor Apartments	224,287	201,341	-
Total Business-type Activities	3,858,629	3,697,169	-
TOTAL PRIMARY GOVERNMENT	\$ 8,033,383	\$ 4,050,906	\$ 5,246
COMPONENT UNIT			
EDA	\$ 232,970	\$ 25,500	\$ -

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 (loss)

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****Prior period adjustment****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
\$ 178,621	\$ (925,791)	\$ -	\$ (925,791)	
-	(759,399)	-	(759,399)	
652,752	(509,876)	-	(509,876)	
-	(544,658)	-	(544,658)	
160,000	(14,100)	-	(14,100)	
-	(70,574)	-	(70,574)	
991,373	(2,824,398)	-	(2,824,398)	
-	-	(30,981)	(30,981)	
-	-	17,690	17,690	
-	-	(101,841)	(101,841)	
-	-	(23,382)	(23,382)	
45,000	-	22,054	22,054	
45,000	-	(116,460)	(116,460)	
\$ 1,036,373	(2,824,398)	(116,460)	(2,940,858)	
\$ -				(207,470)
	1,284,015	-	1,284,015	29,091
	-	-	-	78,819
	24,256	-	24,256	-
	42,909	-	42,909	-
	2,344,556	-	2,344,556	-
	(13,427)	(13,954)	(27,381)	2,803
	-	4,739	4,739	250
	76,439	-	76,439	-
	-	132,766	132,766	-
	(883,633)	1,050,767	167,134	(167,134)
	2,875,115	1,174,318	4,049,433	(56,171)
	50,717	1,057,858	1,108,575	(263,641)
	9,372,998	6,800,799	16,173,797	3,119,978
	78,088	(148,541)	(70,453)	-
\$ 9,501,803	\$ 7,710,116	\$ 17,211,919	\$ 2,856,337	

CITY OF MOUNTAIN IRON, MINNESOTA

BALANCE SHEET
GOVERNMENTAL FUNDS
 December 31, 2013

	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	\$ 1,802,797	\$ 421,657	\$ 1,332,975	\$ 7,065	\$ 3,564,494
Investments	506,594	714,126	-	-	1,220,720
Taxes receivable	32,052	-	-	-	32,052
Special assessments receivable	-	154,901	-	-	154,901
Grants receivable	-	-	205,000	-	205,000
Due from component unit	7,854	-	-	-	7,854
Due from other governments	26,620	-	-	-	26,620
TOTAL ASSETS	\$ 2,375,917	\$ 1,290,684	\$ 1,537,975	\$ 7,065	\$ 5,211,641
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ 151,889	\$ -	\$ 136,327	\$ 100	\$ 288,316
Salaries payable	69,462	-	-	-	69,462
Customer deposits	8,100	-	-	-	8,100
Unearned revenue	-	-	1,494,593	-	1,494,593
TOTAL LIABILITIES	229,451	-	1,630,920	100	1,860,471
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue - property taxes	32,052	-	-	-	32,052
Unavailable revenue - special assessments	-	123,721	-	-	123,721
DEFERRED INFLOWS OF RESOURCES	32,052	123,721	-	-	155,773
FUND BALANCES					
Restricted	-	1,166,963	-	-	1,166,963
Assigned	2,114,414	-	-	6,965	2,121,379
Unassigned	-	-	(92,945)	-	(92,945)
TOTAL FUND BALANCES	2,114,414	1,166,963	(92,945)	6,965	3,195,397
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 2,375,917	\$ 1,290,684	\$ 1,537,975	\$ 7,065	\$ 5,211,641

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, 2013**

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

TOTAL FUND BALANCES, GOVERNMENTAL FUNDS	\$ 3,195,397
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.	9,839,151
Deferred inflows of resources in governmental funds are susceptible to full accrual on the government-wide statements.	155,773
Interest payable on long-term debt is susceptible to full accrual on the government-wide statements.	(28,639)
Long-term liabilities, including bonds payable are not due and payable in the current period and therefore not reported in the governmental funds.	<u>(3,659,879)</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ 9,501,803</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, 2013

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>City Projects Capital Projects Fund</u>	<u>Other Governmental Fund - Charitable Gambling Special Revenue Fund</u>	<u>Total Governmental Funds</u>
REVENUES					
Taxes	\$ 1,332,928	\$ -	\$ -	\$ -	\$ 1,332,928
Special assessments	-	83,075	-	-	83,075
Licenses and permits	91,372	-	-	-	91,372
Intergovernmental	2,344,556	-	877,712	-	3,222,268
Charges for services	196,315	-	26,057	-	222,372
Fines	17,394	-	-	-	17,394
Gifts and contributions	-	-	-	3,845	3,845
Investment earnings (loss)	(8,032)	(5,439)	43	1	(13,427)
Miscellaneous	-	-	24,000	-	24,000
TOTAL REVENUES	<u>3,974,533</u>	<u>77,636</u>	<u>927,812</u>	<u>3,846</u>	<u>4,983,827</u>
EXPENDITURES					
Current					
General government	1,050,069	-	224,902	3,795	1,278,766
Public safety	722,629	-	-	-	722,629
Streets	724,245	-	1,853	-	726,098
Culture and recreation	412,060	-	56,613	-	468,673
Economic development	-	-	198,100	-	198,100
Debt Service					
Principal	-	1,097,000	-	-	1,097,000
Interest and other charges	-	82,026	-	-	82,026
Capital Outlay					
Public safety	-	-	104,125	-	104,125
Streets	-	-	1,265,007	-	1,265,007
Culture and recreation	-	-	12,850	-	12,850
TOTAL EXPENDITURES	<u>2,909,003</u>	<u>1,179,026</u>	<u>1,863,450</u>	<u>3,795</u>	<u>5,955,274</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>1,065,530</u>	<u>(1,101,390)</u>	<u>(935,638)</u>	<u>51</u>	<u>(971,447)</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	167,134	417,150	399,757	-	984,041
Transfers out	(764,757)	-	-	-	(764,757)
Sale of capital assets	-	-	78,154	-	78,154
TOTAL OTHER FINANCING SOURCES (USES)	<u>(597,623)</u>	<u>417,150</u>	<u>477,911</u>	<u>-</u>	<u>297,438</u>
NET CHANGE IN FUND BALANCES	467,907	(684,240)	(457,727)	51	(674,009)
FUND BALANCES - JANUARY 1	<u>1,646,507</u>	<u>1,851,203</u>	<u>364,782</u>	<u>6,914</u>	<u>3,869,406</u>
FUND BALANCES - DECEMBER 31	<u>\$ 2,114,414</u>	<u>\$ 1,166,963</u>	<u>\$ (92,945)</u>	<u>\$ 6,965</u>	<u>\$ 3,195,397</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, 2013

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

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS **\$ (674,009)**

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	1,425,674	
Less current year depreciation	(532,861)	
Plus capital assets transferred from enterprise funds	44,929	
Less capital assets transferred to enterprise funds	<u>(1,147,846)</u>	
Net capital assets		(210,104)

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 unavailable revenue - delinquent property taxes	18,251	
Change in unavailable revenue - special assessments	<u>30,585</u>	
Net change		48,836

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

1,097,000

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	11,452	
Change in severance payable	6,358	
Change in other postemployment benefits payable	<u>(227,101)</u>	
Net change		<u>(209,291)</u>

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES **\$ 50,717**

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

CITY OF MOUNTAIN IRON, MINNESOTA

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
December 31, 2013

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	\$ 2,634	\$ 272,785	\$ 277,346	\$ 125,598	\$ 1,920	\$ 680,283
Investments	268,680	70,155	234,950	238,846	-	812,631
Accounts receivable	439,569	46,764	46,370	53,606	4,735	591,044
Other receivables	-	-	-	-	14,325	14,325
Inventories	282,370	11,857	-	-	-	294,227
Prepaid items	-	-	-	-	1,234	1,234
TOTAL CURRENT ASSETS	993,253	401,561	558,666	418,050	22,214	2,393,744
NONCURRENT ASSETS						
Restricted cash and cash equivalents	-	-	-	-	97,927	97,927
Reserve account	-	-	-	-	11,000	11,000
Escrow deposits	-	-	-	-	8,626	8,626
Tenant security deposits	-	-	-	-	-	-
Total restricted cash and cash equivalents	-	-	-	-	117,553	117,553
Capital assets	-	-	-	-	-	-
Land	18,034	-	-	-	8,336	26,370
Buildings	308,167	2,190,764	2,718,281	12,761	1,678,859	6,908,832
Infrastructure	745,343	3,627,795	4,652,598	-	-	9,025,736
Machinery and equipment	-	60,271	281,059	-	313,998	655,328
Licensed vehicles	340,819	-	20,546	469,484	-	830,849
Less accumulated depreciation	(939,250)	(3,127,005)	(4,075,523)	(367,261)	(1,249,558)	(9,758,597)
Total capital assets (net of accumulated depreciation)	473,113	2,751,825	3,596,961	114,984	751,635	7,688,518
TOTAL NONCURRENT ASSETS	473,113	2,751,825	3,596,961	114,984	869,188	7,806,071
TOTAL ASSETS	1,466,366	3,153,386	4,155,627	533,034	891,402	10,199,815
LIABILITIES						
CURRENT LIABILITIES						
Accounts payable	243,091	10,481	12,974	6,174	7,321	280,021
Salaries payable	19,691	-	5,448	444	-	25,583
Accrued interest payable	-	1,483	3,739	-	1,337	6,559
Customer deposits payable	80,803	1,565	-	-	7,573	89,941
Bonds and notes payable - current	-	50,000	26,000	-	9,512	85,512
TOTAL CURRENT LIABILITIES	343,585	63,509	48,161	6,618	25,743	487,616
NONCURRENT LIABILITIES						
Bonds and notes payable	-	450,000	473,000	-	587,159	1,510,159
Other postemployment benefit obligation	252,081	63,250	147,452	12,365	-	475,148
Severance payable	16,776	-	-	-	-	16,776
TOTAL NONCURRENT LIABILITIES	268,857	513,250	620,452	12,365	587,159	2,002,083
TOTAL LIABILITIES	612,442	576,759	668,613	18,983	612,902	2,489,699
NET POSITION						
Net investment in capital assets	473,113	2,251,825	3,097,961	114,984	154,964	6,092,847
Restricted for other purposes	-	-	-	-	97,927	97,927
Unrestricted	380,811	324,802	389,053	399,067	25,609	1,519,342
TOTAL NET POSITION	\$ 853,924	\$ 2,576,627	\$ 3,487,014	\$ 514,051	\$ 278,500	\$ 7,710,116

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, 2013

	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	\$ 2,372,881	\$ 330,205	\$ 397,647	\$ 395,095	\$ 201,341	\$ 3,697,169
OPERATING EXPENSES						
Cost of sales	1,575,361	-	-	-	-	1,575,361
Salaries	296,470	60,777	94,212	116,757	38,608	606,824
Employee benefits	130,981	21,117	39,386	57,126	2,953	251,563
Contract services	-	-	26,183	-	42,928	69,111
Insurance	12,357	7,217	10,464	6,945	14,358	51,341
Miscellaneous	46,476	8,589	22,705	12,265	3,725	93,760
Other postemployment benefits	64,898	16,602	31,694	3,019	-	116,213
Repairs and maintenance	205,196	48,674	38,523	21,022	19,818	333,233
Solid waste management and tipping fees	-	-	-	127,647	-	127,647
Supplies	22,478	10,579	20,484	25,793	2,736	82,070
Telephone	3,249	62	1,837	823	1,647	7,618
Utilities	-	44,309	61,666	-	27,474	133,449
Depreciation	46,396	75,827	140,727	47,080	53,398	363,428
TOTAL OPERATING EXPENSES	2,403,862	293,753	487,881	418,477	207,645	3,811,618
OPERATING INCOME (LOSS)	(30,981)	36,452	(90,234)	(23,382)	(6,304)	(114,449)
NONOPERATING REVENUES (EXPENSES)						
CDBG grant	-	-	-	-	45,000	45,000
Investment income (loss)	(6,428)	(986)	(3,682)	(3,441)	583	(13,954)
Miscellaneous	-	-	-	-	4,739	4,739
Capital asset transferred to governmental fund	(44,929)	-	-	-	-	(44,929)
Interest expense	-	(18,762)	(11,607)	-	(16,642)	(47,011)
TOTAL NONOPERATING REVENUES (EXPENSES)	(51,357)	(19,748)	(15,289)	(3,441)	33,680	(56,155)
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS, EXTRAORDINARY ITEM, AND TRANSFERS	(82,338)	16,704	(105,523)	(26,823)	27,376	(170,604)
Capital contributions	-	573,923	573,923	-	-	1,147,846
Extraordinary item	-	-	-	-	132,766	132,766
Insurance recovery - hail damage	-	-	-	-	-	-
Transfers out	(15,000)	(27,150)	-	(10,000)	-	(52,150)
TOTAL CAPITAL CONTRIBUTIONS, EXTRAORDINARY ITEM, AND TRANSFERS	(15,000)	546,773	573,923	(10,000)	132,766	1,228,462
CHANGE IN NET POSITION	(97,338)	563,477	468,400	(36,823)	160,142	1,057,858
TOTAL NET POSITION - JANUARY 1	1,188,440	1,950,733	3,035,864	507,404	118,358	6,800,799
Prior period adjustment	(237,178)	62,417	(17,250)	43,470	-	(148,541)
TOTAL NET POSITION - DECEMBER 31	\$ 853,924	\$ 2,576,627	\$ 3,487,014	\$ 514,051	\$ 278,500	\$ 7,710,116

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, 2013

	Business-type Activities - Enterprise Funds					Totals
	Electric Utility Enterprise Fund	Water Treatment Enterprise Fund	Wastewater Treatment Enterprise Fund	Refuse Removal and Recycling Enterprise Fund	Mountain Manor Apartments Enterprise Fund	
CASH FLOWS FROM OPERATING ACTIVITIES						
Cash received from customers	\$ 2,290,498	\$ 332,988	\$ 400,640	\$ 399,101	\$ 183,752	\$ 3,606,979
Cash paid to suppliers	(2,069,187)	(153,929)	(248,911)	(263,441)	(124,831)	(2,860,299)
Cash paid to employees	(290,743)	(68,583)	(69,923)	(115,868)	(38,608)	(583,725)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>(69,432)</u>	<u>110,478</u>	<u>81,806</u>	<u>19,792</u>	<u>20,313</u>	<u>162,955</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Transfers out to other funds	(15,000)	(27,150)	-	(10,000)	-	(52,150)
Miscellaneous	-	-	-	-	4,739	4,739
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	<u>(15,000)</u>	<u>(27,150)</u>	<u>-</u>	<u>(10,000)</u>	<u>4,739</u>	<u>(47,411)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Purchase or construction of capital assets	-	-	(11,910)	-	(300,121)	(312,031)
Insurance recovery - hail damage	-	-	-	-	132,766	132,766
Principal paid on long-term debt	-	(50,000)	(26,000)	-	(11,957)	(87,957)
Interest paid on long-term debt	-	(18,850)	(11,802)	-	(16,749)	(47,401)
Capital grants	-	-	-	-	45,000	45,000
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>-</u>	<u>(68,850)</u>	<u>(49,712)</u>	<u>-</u>	<u>(151,061)</u>	<u>(269,623)</u>
CASH FLOWS FROM INVESTING ACTIVITIES						
Purchase of investments	(123,350)	(72,333)	(156,558)	(132,325)	-	(484,566)
Interest and dividends received	4,450	1,191	4,052	2,969	583	13,245
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>(118,900)</u>	<u>(71,142)</u>	<u>(152,506)</u>	<u>(129,356)</u>	<u>583</u>	<u>(471,321)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(203,332)</u>	<u>(56,666)</u>	<u>(120,412)</u>	<u>(119,564)</u>	<u>(125,426)</u>	<u>(625,400)</u>
CASH AND CASH EQUIVALENTS, JANUARY 1 (including \$211,542 in restricted accounts)	<u>205,966</u>	<u>329,451</u>	<u>397,758</u>	<u>245,162</u>	<u>244,899</u>	<u>1,423,236</u>
CASH AND CASH EQUIVALENTS, DECEMBER 31 (including \$117,553 in restricted accounts)	<u>\$ 2,634</u>	<u>\$ 272,785</u>	<u>\$ 277,346</u>	<u>\$ 125,598</u>	<u>\$ 119,473</u>	<u>\$ 797,836</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES						
Operating income (loss)	\$ (30,981)	\$ 36,452	\$ (90,234)	\$ (23,382)	\$ (6,304)	\$ (114,449)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation	46,396	75,827	140,727	47,080	53,398	363,428
Changes in assets and liabilities (Increase) decrease in:						
Accounts receivable	(82,909)	2,703	2,993	4,006	(1,795)	(75,002)
Other receivables	-	-	-	-	(14,325)	(14,325)
Inventories	(51,988)	(210)	-	-	-	(52,198)
Prepaid items	-	-	-	-	(338)	(338)
Increase (decrease) in:						
Accounts payable	43,797	3,430	4,031	(8,801)	(8,854)	33,603
Salaries payable	3,871	(4,290)	1,994	444	-	2,019
Customer deposits	526	80	-	-	(1,469)	(863)
Severance payable	6,049	(1,208)	-	-	-	4,841
Other postemployment benefit obligation	(4,193)	(2,308)	22,295	445	-	16,239
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ (69,432)</u>	<u>\$ 110,478</u>	<u>\$ 81,806</u>	<u>\$ 19,792</u>	<u>\$ 20,313</u>	<u>\$ 162,955</u>
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES						
Contributions of capital assets from primary government	\$ -	\$ 573,923	\$ 573,923	\$ -	\$ -	\$ 1,147,846

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, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. The accounting and reporting framework and the more significant accounting policies and practices are discussed in subsequent sections of this Note.

A. Financial Reporting Entity

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 councilors.

The City complies with GAAP and includes all component units for which the City appointed a voting majority of the organization's board; and the City is either able to impose its will on the organization or a financial benefit or burden relationship exists. As a result of applying these component unit criteria, the Mountain Iron Housing and Redevelopment Authority (HRA) is considered a component unit and is presented in the City's financial statements as a blended component unit; meaning it is reported as if it were a part of the City. The Mountain Iron Economic Development Authority (EDA) is considered a component unit of the City and operates as a separate legal entity, and meets the component unit criteria to be discretely presented in the City's government-wide financial statements. Each component unit prepares separate financial statements, which can be obtained by contacting the City Administrator's office, 8586 Enterprise Drive South, Mountain Iron, Minnesota 55768.

Blended Component Unit

The HRA was created in 1974 by the City to assume primary responsibility for housing and redevelopment services in the local area. In 1980 and 1981, the HRA entered into two promissory notes with Rural Development (a division of the United States Department of Agriculture) for the construction of a 39-unit non-profit housing development, Mountain Manor Apartments (the Project), located in the City of Mountain Iron, Minnesota. The Project has a rental agreement with Rural Development for interest credit and rental assistance; and, is regulated by Rural Development as to rent charges and operating methods. Mountain Manor Apartments accounts for all Project reporting for the City. The HRA governing board consists of City Council members.

Discretely Presented Component Unit

The EDA was created in 2004 to assume primary responsibility for development activities within the City. The EDA entered into a State loan for the construction of a manufacturing facility. The EDA accounts for the building lease revenues from the manufacturing facility and revolving loan funds. The EDA governing board is appointed by the City Council.

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. These statements present each major fund as a separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column.

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:

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.

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 for 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 for 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.

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.

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Changes in Accounting Principles

For the year ending December 31, 2013, the City implemented Governmental Accounting Standards Board (GASB) Statements Nos. 63 and 65. Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, provides financial reporting guidance for deferred outflows and inflows of resources, originally introduced and defined in GASB Concepts Statement No. 4, *Elements of Financial Statements*, as a consumption of net assets applicable to a future reporting period and an acquisition of net assets applicable to a future reporting period, respectively. Further, Concepts Statement No. 4 also identifies net position as the residual of all other elements presented in a statement of financial position.

Statement No. 65, *Items Previously Reported as Assets and Liabilities* reclassifies and recognizes certain items that were formerly reported as assets and liabilities as one of four financial statement elements:

- Deferred outflows of resources
- Outflows of resources
- Deferred inflows of resources
- Inflows of resources

Concepts Statement No. 4 requires that deferred outflows and deferred inflows be recognized only in those instances specifically identified in GASB pronouncements. Statement No. 65 provides that guidance.

E. 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.

F. Assets, Liabilities, Deferred Inflows of Resources, and Net Position or 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.

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- 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.

- 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 report unearned 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.

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Delinquent property taxes receivable, less any delinquent taxes that are to be received within 60 days, are recorded as deferred inflows of resources in the fund financial statements because they are not available to finance the current year operations of the City. Deferred inflows of resources 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. Debt premiums and discounts are netted against debt payable and debt issuance costs are recognized as an outflow of resources in the period incurred. On the government-wide and proprietary fund type statement of activities, unamortized debt premiums and discounts are deferred and amortized over the life of the debt. The governmental fund financial statements report debt premiums and discounts as other financing sources and uses, separately from the face amount of the debt issued. Debt issuance costs are reported as debt service expenditures. 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.
- 11) Deferred inflows of resources represent an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The City has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources; property taxes, which are reported in the general fund and special assessments, which are reported in the debt service fund. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.
- 12) Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. 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 represent the difference between the current assets and deferred outflows of resources, and current liabilities and deferred inflows of resources. 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.

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. The General Fund should be the only fund that reports a positive unassigned fund balance amount.

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.

- 13) The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

G. 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.

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- 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 - STEWARDSHIP AND ACCOUNTABILITY

Fund Deficit

The following fund had a deficit fund balance at December 31, 2013:

City Projects Capital Projects Fund	\$ 92,945
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This deficit occurred because expenditures exceeded revenues. The City plans to eliminate this deficit through future transfers.

NOTE 3 - 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	4,156,830	254,949
Certificates of Deposit	205,000	-
Investments	2,033,351	-
Total	<u>\$ 6,395,681</u>	<u>\$ 254,949</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, 2013

NOTE 3 - 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 \$4,361,830; the bank balance was \$4,368,642. 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 \$254,949; the bank balance was \$255,169. 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, 2013, 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 \$379,770 in Federal Home Loan Banks Fixed Rate Bonds. At December 31, 2013, the bonds were rated as AAA by Moody's and AA+ by S & P. The City has \$862,813 invested in certificates of deposit at Morgan Stanley and \$790,768 invested in certificates of deposit at Northland Securities.

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.

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

NOTE 4 - LOANS RECEIVABLE

The Mountain Iron EDA is involved in economic development projects. Several businesses received revolving loans from Mountain Iron EDA in 2013 and prior years. The unpaid principal balance on these loans at December 31, 2013 was \$122,822 and is recorded as loans receivable in the Mountain Iron EDA general fund.

NOTE 5 - CAPITAL ASSETS

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

	Beginning Balance	Additions	Deletions	Transfers	Ending Balance
Governmental activities					
Capital assets, not being depreciated:					
Land	\$ 411,015	\$ -	\$ (1,715)	\$ -	\$ 409,300
Construction in progress	1,565,145	1,124,149	(417,299)	(1,147,846)	1,124,149
Total capital assets, not being depreciated	<u>1,976,160</u>	<u>1,124,149</u>	<u>(419,014)</u>	<u>(1,147,846)</u>	<u>1,533,449</u>
Capital assets, being depreciated:					
Land improvements	1,068,997	12,850	-	-	1,081,847
Buildings	3,497,243	-	-	-	3,497,243
Infrastructure	7,969,067	432,706	-	-	8,401,773
Machinery and equipment	987,620	38,776	-	-	1,026,396
Licensed vehicles	2,005,271	234,492	(90,000)	44,929	2,194,692
Total capital assets, being depreciated	<u>15,528,198</u>	<u>718,824</u>	<u>(90,000)</u>	<u>44,929</u>	<u>16,201,951</u>
Less accumulated depreciation for:					
Land improvements	(284,690)	(49,277)	-	-	(333,967)
Buildings	(999,085)	(69,613)	-	-	(1,068,698)
Infrastructure	(3,894,252)	(280,527)	-	-	(4,174,779)
Machinery and equipment	(427,156)	(59,272)	-	-	(486,428)
Licensed vehicles	(1,848,205)	(74,172)	90,000	-	(1,832,377)
Total accumulated depreciation	<u>(7,453,388)</u>	<u>(532,861)</u>	<u>90,000</u>	<u>-</u>	<u>(7,896,249)</u>
Total capital assets, being depreciated, net	<u>8,074,810</u>	<u>185,963</u>	<u>-</u>	<u>44,929</u>	<u>8,305,702</u>
Governmental activities capital assets, net	<u>\$ 10,050,970</u>	<u>\$ 1,310,112</u>	<u>\$ (419,014)</u>	<u>\$ (1,102,917)</u>	<u>\$ 9,839,151</u>
Business-type activities					
Capital assets, not being depreciated:					
Land	\$ 26,370	\$ -	\$ -	\$ -	\$ 26,370
Construction in progress	-	-	-	-	-
Total capital assets not being depreciated	<u>26,370</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>26,370</u>
Capital assets, being depreciated:					
Building	6,621,803	287,028	-	-	6,908,832
Infrastructure	7,877,890	-	-	1,147,846	9,025,736
Machinery and equipment	632,258	25,003	(1,933)	-	655,328
Licensed vehicles	887,489	-	(11,711)	(44,929)	830,849
Total capital assets, being depreciated	<u>16,019,440</u>	<u>312,031</u>	<u>(13,644)</u>	<u>1,102,917</u>	<u>17,420,745</u>
Less accumulated depreciation for:					
Building	(3,178,208)	(145,697)	-	-	(3,323,906)
Infrastructure	(5,055,197)	(127,598)	-	-	(5,182,795)
Machinery and equipment	(574,387)	(18,370)	1,933	-	(590,824)
Licensed vehicles	(601,020)	(71,763)	11,711	-	(661,072)
Total accumulated depreciation	<u>(9,408,812)</u>	<u>(363,428)</u>	<u>13,644</u>	<u>-</u>	<u>(9,758,597)</u>
Total capital assets, being depreciated, net	<u>6,610,628</u>	<u>(51,397)</u>	<u>-</u>	<u>1,102,917</u>	<u>7,662,148</u>
Business-type activities capital assets, net	<u>\$ 6,636,998</u>	<u>\$ (51,397)</u>	<u>\$ -</u>	<u>\$ 1,102,917</u>	<u>\$ 7,688,518</u>

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

NOTE 5 - CAPITAL ASSETS (CONTINUED)

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

Governmental activities

General government	\$ 57,845
Public safety	42,291
Streets	357,012
Culture and recreation	<u>75,713</u>
Total depreciation expense - governmental activities	<u>\$ 532,861</u>

Business-type activities

Electric utility	\$ 46,396
Water treatment	75,827
Wastewater treatment	140,727
Refuse removal and recycling	47,080
Mountain Manor Apartments	<u>53,398</u>
Total depreciation expense - business-type activities	<u>\$ 363,428</u>

Discretely presented component unit:

Mountain Iron EDA capital asset activity for the year ended December 31, 2013, is as follows:

	Balance 01/01/13	Additions	Deletions	Balance 12/31/13
Governmental activities				
Capital assets, not being depreciated:				
Land	\$ 2,456,839	\$ 76,417	\$ -	\$ 2,533,256
Construction in progress	<u>3,461,717</u>	-	<u>(3,461,717)</u>	-
Total capital assets, not being depreciated	<u>\$ 5,918,556</u>	<u>\$ 76,417</u>	<u>\$ (3,461,717)</u>	<u>2,533,256</u>
Capital assets, being depreciated:				
Buildings	-	<u>3,608,345</u>	-	<u>3,608,345</u>
Less accumulated depreciation for:				
Buildings	-	<u>(36,083)</u>	-	<u>(36,083)</u>
Total capital assets, being depreciated, net	-	<u>3,572,262</u>	-	<u>3,572,262</u>
Governmental activities capital assets, net	<u>\$ 5,918,556</u>	<u>\$ 3,648,679</u>	<u>\$ (3,461,717)</u>	<u>\$ 6,105,518</u>

NOTE 6 - 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, 2013

NOTE 6 - LONG-TERM DEBT (CONTINUED)

The Mountain Iron EDA entered into a state loan for the construction of a manufacturing facility. This loan is considered an obligation of the Mountain Iron EDA and will be repaid with net rent revenues.

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 Library Upgrade	08/01/2005	4.125%	\$ 300,000	08/01/2035	260,000
2007 Improvements	09/11/2007	4.0-4.65%	\$1,455,000	02/01/2028	<u>1,000,000</u>
Governmental activities long-term debt					<u>\$2,100,000</u>
Business-type activities					
Revenue Bonds					
2009 Water Revenue					
Refunding Bonds	09/01/2009	1.5-4.0%	\$ 650,000	12/01/2022	<u>500,000</u>
General Obligation Revenue Notes					
2009 PFA Wastewater					
Revenue Notes	10/20/2009	2.25%	\$ 599,250	08/20/2029	<u>499,000</u>
Notes Payable					
1980 Rural Development	09/04/1980	3.61%	\$ 819,370	090/1/2030	428,521
1981 Rural Development	01/16/1981	3.61%	\$ 320,630	010/1/2031	<u>168,150</u>
Total Notes Payable					<u>596,671</u>
Business-type activities long-term debt					<u>1,595,671</u>
Total primary government long-term debt					<u>3,695,671</u>
Discretely presented component unit					
EDA					
State Loan					
2010 IRRRB					<u>3,546,661</u>
Total reporting entity					<u>\$ 7,242,332</u>

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

NOTE 6 - LONG-TERM DEBT (CONTINUED)

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

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Governmental activities					
Bonds Payable					
2012 GO Refunding	\$ 840,000	\$ -	\$ -	\$ 840,000	\$ 185,000
2005 GO Refunding	985,000	-	985,000	-	-
2005 GO Library Upgrade	267,000	-	7,000	260,000	7,000
2007 GO Improvement	1,105,000	-	105,000	1,000,000	105,000
Governmental activities - long-term debt	<u>3,197,000</u>	<u>-</u>	<u>1,097,000</u>	<u>2,100,000</u>	<u>297,000</u>
Business-type activities					
Bonds Payable					
2009 Water Revenue Refunding Bonds	550,000	-	50,000	500,000	50,000
Revenue Notes					
2009 GO PFA Wastewater	525,000	-	26,000	499,000	26,000
Notes Payable					
1980 Rural Development	437,210	-	8,689	428,521	6,944
1981 Rural Development	171,418	-	3,268	168,150	2,568
Total Notes Payable	608,628	-	11,957	596,671	9,512
Business-type activities - long-term debt	<u>1,683,628</u>	<u>-</u>	<u>87,957</u>	<u>1,595,671</u>	<u>85,512</u>
Total primary government	<u>4,880,628</u>	<u>-</u>	<u>1,184,957</u>	<u>3,695,671</u>	<u>382,512</u>
Discretely presented component unit					
EDA					
State loan					
2010 IRRRB	3,406,644	140,017	-	3,546,661	-
Total reporting entity	<u>\$ 8,287,272</u>	<u>\$ 140,017</u>	<u>\$ 1,184,957</u>	<u>\$ 7,242,332</u>	<u>\$ 382,512</u>

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

Year Ending December 31	Governmental Activities		Business-Type Activities		Government-wide	
	Principal	Interest	Principal	Interest	Principal	Interest
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	199,000	33,857	94,814	38,481	293,814	72,338
2019-2023	386,000	121,303	452,592	142,505	838,592	263,808
2024-2028	306,000	59,434	241,952	89,494	547,952	148,928
2029-2033	74,000	16,170	453,362	20,624	527,362	36,794
2034-2037	33,000	2,062	-	-	33,000	2,062
Total	<u>\$ 2,100,000</u>	<u>\$ 430,872</u>	<u>\$ 1,595,671</u>	<u>\$ 471,197</u>	<u>\$ 3,695,671</u>	<u>\$ 902,069</u>

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

NOTE 6- LONG-TERM LIABILITIES (CONTINUED)

No interest was capitalized during 2013 for the City or the EDA. Interest incurred and charged to expense totaled \$116,932 for the City and \$25,000 for the EDA.

Pledged Revenue

Governmental Funds

The City issued \$840,000 GO refunding bonds of which the proceeds were used to prepay the outstanding principal of the City's \$1,645,000 GO crossover refunding bonds of 2005. No principal was paid during the current year. Interest paid in the current year was \$6,682. 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 \$865,636.

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 \$149,710. At December 31, 2013 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 \$1,265,687.

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. These bonds were called for redemption in 2013 and the principal and interest paid in the current year was \$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 \$68,850. At December 31, 2013, principal and interest to maturity in 2022 to be paid from pledged future revenues totaled \$600,325.

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 \$37,802. At December 31, 2013, principal and interest to maturity in 2029 to be paid from pledged future revenues totaled \$599,800.

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. In 2013, Mountain Iron EDA received the final loan proceeds to be drawn from the loan for a total amount of \$3,546,661.

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

NOTE 6 - 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. Northeast Service Cooperative exercised its option to prepay the \$705,000 outstanding principal balance of these bonds in 2013.

NOTE 7 - INTERFUND BALANCES AND ACTIVITY

The composition of interfund balances as of December 31, 2013 is as follows:

Due to/from primary government and component unit -

<u>Receivable entity</u>	<u>Payable entity</u>	<u>Amount</u>
Component Unit: Mountain Iron Economic Development Authority	Primary government: General Fund	\$ <u>7,854</u>

Interfund transfers for the year ended December 31, 2013 consisted of the following:

	<u>Transfers in</u>			
	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>City Projects Capital Projects Fund</u>	<u>Total</u>
Transfers out				
General Fund	\$ -	\$ 365,000	\$ 399,757	\$ 764,757
Electric Utility Enterprise Fund	-	15,000	-	15,000
Water Treatment Enterprise Fund	-	27,150	-	27,150
Refuse Removal and Recycling Enterprise Fund	-	10,000	-	10,000
Component Unit: Mountain Iron Economic Development Authority	<u>167,134</u>	<u>-</u>	<u>-</u>	<u>167,134</u>
	<u>\$ 167,134</u>	<u>\$ 417,150</u>	<u>\$ 399,757</u>	<u>\$ 984,041</u>

Transfers are used to: 1) move revenues from the General Fund to the City Projects Capital Projects Fund for authorized projects, 2) move receipts from funds collecting receipts to the Debt Service Fund as the debt service payments come due and 3) to move monies from the component unit to the primary government to cover project costs.

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

NOTE 8 - FUND EQUITY

As of December 31, 2013, 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	\$ -	\$ 1,166,963	\$ -	\$ -	\$ 1,166,963
Assigned:					
Cash flow	250,000	-	-	-	250,000
Insurance	621,472	-	-	-	621,472
Buildings	621,471	-	-	-	621,471
Rate stabilization	621,471	-	-	-	621,471
Community contributions	-	-	-	6,965	6,965
Total assigned	<u>2,114,414</u>	<u>-</u>	<u>-</u>	<u>6,965</u>	<u>2,121,379</u>
Unassigned	-	-	(92,945)	-	(92,945)
Total fund balances	\$ <u>2,114,414</u>	\$ <u>1,166,963</u>	\$ <u>(92,945)</u>	\$ <u>6,965</u>	\$ <u>3,195,397</u>

NOTE 9 - PRIOR PERIOD ADJUSTMENT

Prior period adjustments have been made in the financial statements, which are reported as adjustments to beginning net position.

Adjustment to net position of governmental activities in government-wide financial statements of primary government

Decrease to other postemployment benefits \$ 148,541

Due to the changes in accounting principles described in Note 1, beginning net position has been decreased for bond issue costs amortized under the prior standards, but expensed in the period incurred under the new standards (70,453)

Total adjustment to governmental activities in the government-wide financial statements \$ 78,088

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

NOTE 9 - PRIOR PERIOD ADJUSTMENT (CONTINUED)

Adjustment to net position of the business-type activities
in the proprietary fund financial statements:

Electric Utility Enterprise Fund	
Increase to other postemployment benefits	\$ (237,178)
Water Treatment Enterprise fund	
Decrease to other postemployment benefits	62,417
Wastewater Treatment Enterprise fund	
Increase to other postemployment benefits	(17,250)
Refuse Removal and Recycling Enterprise fund	
Decrease to other postemployment benefits	<u>43,470</u>
Total adjustment to business-type activities in the proprietary fund financial statements	<u>\$ (148,541)</u>

NOTE 10 - 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 retain 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.

NOTE 11 - TAX INCREMENT FINANCING DISTRICT

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

<u>Tax Increment Financing District</u>	<u>No. 14</u>
Redevelopment project district established in:	-
Economic development district established in:	2008
Anticipated last tax increment year:	2017

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

NOTE 11 - TAX INCREMENT FINANCING DISTRICT (CONTINUED)

Original net tax capacity:	\$ <u>1,062</u>
Current net tax capacity:	\$ <u>94,450</u>
Fiscal disparity deduction	\$ <u>-</u>
Captured net tax capacity retained by Authority:	\$ <u>93,388</u>
Total bonds issued	
Tax increment bonds	\$ -
Amounts redeemed	<u>-</u>
Outstanding bonds at 12/31/13	\$ <u>-</u>

NOTE 12 - 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, 2013, 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.

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.

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

NOTE 12 - OTHER COMMITMENTS AND CONTINGENCIES (CONTINUED)

Construction Projects

The City had three outstanding construction projects as of December 31, 2013. The projects are evidenced by contractual commitments with contractors and include:

<u>Project</u>	<u>Spent to Date</u>	<u>Commitments Remaining</u>
County Road 102 Improvements	\$ 328,997	\$ 296,000
Unity Drive Extension	\$ 438,491	\$ 170,000
Sidewalk Improvements	\$ 106,827	\$ 7,000

The projects are commitments of the general fund and are being funded by grants and general fund revenues.

NOTE 13 - 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 2013 was \$20,243. 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.

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.

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

NOTE 13 - JOINT VENTURES (CONTINUED)

Each member city contributes to the budget of the Authority based on the per capita reported in the 2010 Census. The City of Mountain Iron's contribution to the Authority's budget during 2013 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 2013 was \$6,577. Complete financial information can be obtained from the Quad Cities Recreation Center, Eveleth, Minnesota 55734.

NOTE 14 - SEVERANCE BENEFITS AND OTHER EMPLOYEE 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 2013, the City expended \$1,288 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, 2013 was as follows:

	Balance 12/31/12	Additions	Reductions	Balance 12/31/13
Governmental activities	\$ 69,688	\$ 1,059	\$ (7,417)	\$ 63,330
Business-type activities	<u>11,935</u>	<u>6,426</u>	<u>(1,585)</u>	<u>16,776</u>
Total Primary Government	\$ <u>81,623</u>	\$ <u>7,485</u>	\$ <u>(9,002)</u>	\$ <u>80,106</u>

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

NOTE 14 - SEVERANCE BENEFITS (CONITNUED)

The City offers a Health Care Savings Plan (HCSP) to all eligible employees. HCSP is an employer-sponsored program that allows employees to save money, tax-free, to use upon termination of employment to pay for eligible health care expenses. Amounts to be put into the accounts must be negotiated or agreed to by both the bargaining unit and employer and written into the collective bargaining agreement or included in an individual contract for those employees not covered by a bargaining unit. Employer contributions into eligible employee's accounts were \$4,341 for the year ended December 31, 2013.

NOTE 15 - 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 20 active and 13 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, 2013

NOTE 15 - OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

	12/31/13
Normal cost	\$ 110,829
Amortization of unfunded actuarial accrued liability	340,154
Interest to the end of the year	18,039
Annual required contribution	469,022
Adjustment to ARC	(31,338)
Annual OPEB cost (expense)	437,684
Contributions made including implicit rate subsidy	(194,344)
Increase in net OPEB obligation	243,340
Net OPEB obligation, beginning of year	1,728,357
Net OPEB obligation, end of year	\$ 1,971,697

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, 2013 and the two preceding years were as follows:

Year Ended	OPEB Cost	Contribution (ARC)	OPEB Cost Contributed	% of ARC Contributed	OPEB Obligation
12/31/2013	\$ 243,340	\$ 437,684	\$ 194,344	44.4%	\$1,971,697
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

Funded Status and Funding Progress

The funding status of the plan as of January 1, 2013, the date of the latest actuarial valuation, was as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
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, 2013

NOTE 15 - 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, 2013 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 16 - 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 five years of credited service. The defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of 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, 2013

NOTE 16 - DEFINED BENEFIT PENSION PLANS – STATEWIDE (CONTINUED)

members and 1.7 percent for Coordinated Plan members for each year of service. For all GERP 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 GERP. 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. GERP Basic Plan members and Coordinated Plan members were required to contribute 9.10% and 6.25%, respectively, of their annual covered salary in 2013. In 2013, 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, 2013, 2012, and 2011 were \$89,337, \$90,686, and \$89,522, respectively. The City's contributions were equal to the contractually required contributions for each year as set by state statute.

NOTE 17 - 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, 2013

NOTE 17 - 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 2013 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>585</u>	\$ <u>585</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, 2013

	Budgeted Amounts		Actual Amounts, Budgetary Basis	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 1,330,789	\$ 1,330,789	\$ 1,332,928	\$ 2,139
Licenses and permits	25,000	25,000	91,372	66,372
Intergovernmental	2,081,268	2,081,268	2,344,556	263,288
Charges for services	150,000	150,000	196,315	46,315
Fines	12,000	12,000	17,394	5,394
Investment income (loss)	10,000	10,000	(8,032)	(18,032)
TOTAL REVENUES	<u>3,609,057</u>	<u>3,609,057</u>	<u>3,974,533</u>	<u>365,476</u>
EXPENDITURES				
Current				
General government	1,062,300	1,062,300	1,050,069	12,231
Public safety	639,500	639,500	722,629	(83,129)
Streets	725,000	725,000	724,245	755
Culture and recreation	417,500	417,500	412,060	5,440
TOTAL EXPENDITURES	<u>2,844,300</u>	<u>2,844,300</u>	<u>2,909,003</u>	<u>(64,703)</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>764,757</u>	<u>764,757</u>	<u>1,065,530</u>	<u>300,773</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	167,134	167,134
Transfers out	(764,757)	(764,757)	(764,757)	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>(764,757)</u>	<u>(764,757)</u>	<u>(597,623)</u>	<u>167,134</u>
NET CHANGE IN FUND BALANCE	-	-	467,907	467,907
FUND BALANCE - JANUARY 1	<u>1,646,507</u>	<u>1,646,507</u>	<u>1,646,507</u>	-
FUND BALANCE - DECEMBER 31	<u>\$ 1,646,507</u>	<u>\$ 1,646,507</u>	<u>\$ 2,114,414</u>	<u>\$ 467,907</u>

See notes to required supplementary information.

CITY OF MOUNTAIN IRON, MINNESOTA

**SCHEDULE OF FUNDING PROGRESS FOR POSTEMPLOYMENT BENEFIT PLAN
Year Ended December 31, 2013**

<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%

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, 2013**

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.

NOTE 2 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Expenditures exceeded appropriations in the following funds for the year ended December 31, 2013:

	<u>Excess</u>
General Fund	<u>\$ 64,703</u>

This overexpenditure was funded by the available fund balance.

OTHER SUPPLEMENTARY INFORMATION

CITY OF MOUNTAIN IRON, MINNESOTA

**GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
Year Ended December 31, 2013**

REVENUES

TAXES

General property	\$ 1,265,763
Mineral rents and royalties	42,909
Franchise	<u>24,256</u>
TOTAL TAXES	<u>1,332,928</u>

LICENSES AND PERMITS

91,372

INTERGOVERNMENTAL

State

Local government aid	1,156,268
Market value credit	1,086
Taconite production	642,095
Taconite municipal aid	381,755
Mining effects	106,885
PERA aid	4,529
Police aid	38,006
Fire aid	<u>13,932</u>
TOTAL INTERGOVERNMENTAL	<u>2,344,556</u>

CHARGES FOR SERVICES

General government	
Rent	14,414
Other reimbursements	136,040
Culture and recreation	
Recreation fees	5,940
Campground fees	<u>39,921</u>
TOTAL CHARGES FOR SERVICES	<u>196,315</u>

FINES

Fines and forfeits	16,564
Administrative fines	<u>830</u>
TOTAL FINES	<u>17,394</u>

INVESTMENT LOSS

(8,032)

TOTAL REVENUES

3,974,533

CITY OF MOUNTAIN IRON, MINNESOTA

GENERAL FUND

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

Year Ended December 31, 2013

EXPENDITURES

CURRENT

GENERAL GOVERNMENT

Mayor and council	\$ 24,133
Administration	474,199
Assessor	31,812
Retiree's insurance	94,370
Donations and contributions	6,577
Other	133,219
Buildings	233,023
Planning and zoning	52,736

TOTAL GENERAL GOVERNMENT	<u>1,050,069</u>
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PUBLIC SAFETY

Sheriff	535,972
Fire	139,188
Animal control	18,000
Civil defense	29,469

TOTAL PUBLIC SAFETY	<u>722,629</u>
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STREETS

	<u>724,245</u>
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CULTURE AND RECREATION

Library	167,405
Recreation	185,484
Campgrounds	59,171

TOTAL CULTURE AND RECREATION	<u>412,060</u>
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TOTAL EXPENDITURES	<u>2,909,003</u>
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EXCESS OF REVENUES OVER
EXPENDITURES

	<u>1,065,530</u>
--	------------------

OTHER FINANCING SOURCES (USES)

Transfers in	167,134
Transfers out	(764,757)

TOTAL OTHER FINANCING SOURCES (USES)	<u>(597,623)</u>
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NET CHANGE IN FUND BALANCE	467,907
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FUND BALANCE - JANUARY 1	<u>1,646,507</u>
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FUND BALANCE - DECEMBER 31	<u>\$ 2,114,414</u>
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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, 2013**

	<u>Budget</u>	<u>Accounted for in Prior Years Restated</u>	<u>Current Year</u>
SOURCES OF FUNDS			
Tax increment revenue	\$ 1,025,590	\$ -	\$ 78,819
Transfers from EDA General Fund	-	6,022	-
Developer deposit	<u>7,500</u>	<u>-</u>	<u>-</u>
TOTAL SOURCES OF FUNDS	<u>1,033,090</u>	<u>6,022</u>	<u>78,819</u>
USES OF FUNDS			
Payments to developer – pay as you go	923,040	-	70,937
Administrative costs	102,550	6,022	5,746
Transfers to EDA General Fund	-	-	6,022
Developers paid administrative costs	<u>7,500</u>	<u>-</u>	<u>-</u>
TOTAL USES OF FUNDS	<u>1,033,090</u>	<u>6,022</u>	<u>82,705</u>
DISTRICT BALANCE	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (3,886)</u>

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.

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

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, 2013, 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 4, 2014. 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 certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 2013-002 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 2013-001 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 4, 2014, 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 results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Walker, Giroux & Helne, LLC

Virginia, Minnesota
June 4, 2014

CITY OF MOUNTAIN IRON, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended December 31, 2013

2013-001. 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, 2013

2013-002. 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.

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, 2013, 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 other 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 Electric Utility Enterprise Fund, 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, 2013. We suggest that the City Council review these losses and implement a plan to make the funds profitable and self-sufficient.
2. 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.

3. 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 disclosures to the financial statements.
4. The City invested excess cash in several long-term certificates of deposit through two investment firms during 2013. These investments accounts are carried at market value; which resulted in a large investment loss at December 31, 2013. To recover the loss, the investments must be held to maturity.

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

Walker, Miray & Helne, LLC

Virginia, Minnesota
June 4, 2014