

CITY OF MOUNTAIN IRON, MINNESOTA

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
Year Ended December 31, 2014**

CITY OF MOUNTAIN IRON, MINNESOTA

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December 31, 2014

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CITY OF MOUNTAIN IRON, MINNESOTA

**ORGANIZATION
December 31, 2014**

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 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, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Mountain Manor Apartments Enterprise Fund which is both a major fund and 8 percent, 3 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 included 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 discretely presented component unit, each major fund, and the remaining fund information of the City of Mountain Iron, Minnesota, as of December 31, 2014, 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 No. 14 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 May 27, 2015 on our consideration of the 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, Gray & Helne, LLC

Virginia, Minnesota
May 27, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF MOUNTAIN IRON, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2014

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, 2014. 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 \$10,822,034 of which \$8,631,640 represents net investment in capital assets.
- Business-type activities have total net position of \$7,970,304. Net investment in capital assets represents \$6,450,119 of the total.
- The Mountain Iron Economic Development Authority (EDA) has total net position of \$3,214,436, of which \$2,486,697 represents net investment in capital assets.
- The City of Mountain Iron's primary government's net position increased by \$1,580,419 for the year ended December 31, 2014. Of the increase \$1,320,231 was an increase in the governmental activities' net position and \$260,188 represented the increase in business-type activities' net position.
- The EDA's net position increased by \$358,099.
- The net cost of governmental activities was \$2,229,680 for the current fiscal year. The net cost was funded by general revenues and other items totaling \$3,549,911.
- Governmental funds' fund balances increased by \$701,040.

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, 2014

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, 2014

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 budgetary comparison schedule and funding progress for postemployment benefit plan. Individual fund financial statements and schedule of sources and uses of public funds for Mountain Iron's tax increment district 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 \$18,792,338, an increase from the prior year.

Table 1
Net Assets

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2014	2013	2014	2013	2014	2013
Current and other assets	\$ 4,722,681	\$ 5,211,641	\$ 2,417,857	\$ 2,511,297	\$ 7,140,538	\$ 7,722,938
Capital assets	10,434,640	9,839,151	7,956,482	7,688,518	18,391,122	17,527,669
Total assets	<u>15,157,321</u>	<u>15,050,792</u>	<u>10,374,339</u>	<u>10,199,815</u>	<u>25,531,660</u>	<u>25,250,607</u>
Long-term liabilities	3,614,173	3,659,879	2,027,917	2,087,595	5,642,090	5,747,474
Other liabilities	721,114	1,889,110	376,118	402,104	1,097,232	2,291,214
Total liabilities	<u>4,335,287</u>	<u>5,548,989</u>	<u>2,404,035</u>	<u>2,489,699</u>	<u>6,739,322</u>	<u>8,038,688</u>
Net position						
Net investment in capital assets	8,631,640	7,739,151	6,450,119	6,092,847	15,081,759	13,831,998
Restricted	1,166,963	1,032,239	110,946	97,927	1,277,909	1,130,166
Unrestricted	<u>1,023,431</u>	<u>730,413</u>	<u>1,409,239</u>	<u>1,519,342</u>	<u>2,432,670</u>	<u>2,249,755</u>
Total net position	<u>\$ 10,822,034</u>	<u>\$ 9,501,803</u>	<u>\$ 7,970,304</u>	<u>\$ 7,710,116</u>	<u>\$ 18,792,338</u>	<u>\$ 17,211,919</u>

Net position of the City's governmental activities increased by 13.9 percent (\$10,822,034 compared to \$9,501,803). 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 \$730,413 surplus at December 31, 2013 to a \$1,023,431 surplus at the end of this year.

Net position of the City's business-type activities increased by 3.4 percent (\$7,970,304 compared to \$7,710,116).

CITY OF MOUNTAIN IRON, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2014

Table 2
Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total Primary Government	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Revenues						
Program revenues:						
Fees, fines, charges and other charges for services	\$ 341,041	\$ 353,737	\$ 3,912,250	\$ 3,697,169	\$ 4,253,291	\$ 4,050,906
Operating grants and contributions	6,231	5,246	-	-	6,231	5,246
Capital grants and contributions	1,162,920	991,373	-	45,000	1,162,920	1,036,373
General revenues:						
Property and other taxes	1,527,866	1,351,180	-	-	1,527,866	1,351,180
Grants and contributions not restricted to specific programs	2,378,363	2,344,556	-	-	2,378,363	2,344,556
Other general revenues	32,900	63,012	57,476	(9,215)	90,376	53,797
Total revenues	<u>5,449,321</u>	<u>5,109,104</u>	<u>3,969,726</u>	<u>3,732,954</u>	<u>9,419,047</u>	<u>8,842,058</u>
Program expenses:						
General government	1,169,511	1,341,707	-	-	1,169,511	1,341,707
Public safety	747,554	764,920	-	-	747,554	764,920
Streets	1,150,222	1,168,418	-	-	1,150,222	1,168,418
Culture and recreation	614,836	604,978	-	-	614,836	604,978
Economic development	-	224,157	-	-	-	224,157
Interest	57,749	70,574	-	-	57,749	70,574
Electric utility	-	-	2,524,359	2,403,862	2,524,359	2,403,862
Water treatment	-	-	349,409	312,515	349,409	312,515
Wastewater treatment	-	-	545,646	499,488	545,646	499,488
Refuse removal and recycling	-	-	433,602	418,477	433,602	418,477
Mountain Manor Apartments	-	-	245,740	224,287	245,740	224,287
Total program expenses	<u>3,739,872</u>	<u>4,174,754</u>	<u>4,098,756</u>	<u>3,858,629</u>	<u>7,838,628</u>	<u>8,033,383</u>
Excess (deficiency) before extraordinary item and transfers	1,709,449	934,350	(129,030)	(125,675)	1,580,419	808,675
Extraordinary item – insurance recovery	-	-	-	132,766	-	132,766
Transfers	(389,218)	(883,633)	389,218	1,050,767	-	167,134
Increase in net position	1,320,231	50,717	260,188	1,057,858	1,580,419	1,108,575
Net position, January 1	9,501,803	9,372,998	7,710,116	6,800,799	17,211,919	16,173,797
Prior period adjustment	-	78,088	-	(148,541)	-	(70,453)
Net position, December 31	<u>\$10,822,034</u>	<u>\$ 9,501,803</u>	<u>\$ 7,970,304</u>	<u>\$ 7,710,116</u>	<u>\$ 18,792,338</u>	<u>\$ 17,211,919</u>

CITY OF MOUNTAIN IRON, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2014

Governmental Activities

The most significant revenues of the governmental activities are grants and contributions not restricted to specific programs at 44% of revenues. Capital grants and contributions, 21% of revenues, include grants for major projects or purchases of equipment. Property taxes levied for general purposes amount to \$1,482,381, 27% of revenues.

General government expense is the most significant (31%), followed by streets (31%), public safety (20%) and culture and recreation (16%).

Governmental revenues increased during 2014 because the City recognized a portion of the special legislation taconite production funding received, but not earned, in 2013. Our taxpayers paid \$1,527,866 in property and other taxes during the current year, which is an increase of \$176,686.

The cost of all governmental activities this year was \$3,739,872 compared to \$4,174,754 last year. Governmental expenses decreased by \$434,882 in the current year. The most significant decrease occurred in the City's economic development program due to projects completed last year. The most significant increase occurred in the City's culture and recreation program due to campground and park repairs and improvements.

Business-Type Activities

Revenues and transfers in of the City's business-type activities were \$4,358,944 and expenses were \$4,098,756, (see Table 2). There was an increase in net position of \$260,188 during the year ended December 31, 2014, which compares to an increase in net position of \$1,057,858 for the year ended December 31, 2013. Factors driving this result include:

Operations produced a loss of \$163,297 for the year ended December 31, 2014. The wastewater treatment enterprise fund recorded the most significant operating loss of \$143,179. The electric utility enterprise fund recorded an operating loss of \$3,493 and Mountain Manor Apartments enterprise fund recorded an operating loss of \$21,384. The water treatment enterprise fund and the refuse removal and recycling fund each recorded operating income of \$907 and \$3,852 respectively.

The electric utility enterprise fund received capital contributions in the amount of \$442,418 from the City for a used vehicle and the electric substation capitalized during the current year. This is a significant decrease from the prior year when the water treatment enterprise fund and wastewater treatment enterprise fund received capital contributions from the City in the amount of \$573,923 each.

Mountain Iron EDA Component Unit Activity

The Mountain Iron EDA had an increase in net position of \$358,099 for the year ended December 31, 2014. Net program revenues over expenses were \$(239,087). General revenues of taxes, interest earnings, miscellaneous revenues and gain on sale of capital assets were \$597,186.

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, 2014

At December 31, 2014, the City's governmental funds reported total ending fund balances of \$3,896,437, an increase of \$701,040 in comparison with the prior year. Assigned fund balance, which is intended to be used for cash flow, insurance and buildings, made up nearly 67% or \$2,636,814 of the total ending fund balance. The restricted fund balance of \$1,259,623 is considered unavailable for appropriation for general operations. More detailed information about the City's fund balances is presented in Note 7 to the financial statements.

The debt service fund recorded an increase in fund balance of \$92,660 compared to the decrease in fund balance of \$684,240 last year. Other financing sources included a \$350,000 transfer from the general fund and \$53,200 transfer from the enterprise funds for debt principal and interest payments.

The capital projects fund recorded an increase in fund balance of \$115,553, resulting in an assigned fund balance of \$22,608. Other financing sources included a \$497,079 transfer from the general fund for capital projects.

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 2014, operating revenues increased by \$147,985 compared to the prior year. Operating expenses also increased by \$120,497. The electric operations produced an operating loss of \$3,493 in 2014. A transfer out of \$15,000 was made to governmental funds. A capital contribution of \$433,820 from the City was recorded for an electric substation capitalized in 2014. A capital asset with book value of \$8,598 was also transferred from the City. These transactions resulted in an increase of \$446,544 in net position in the current year.

The water treatment enterprise fund accounts for the water operations of the City. In 2014, operating revenues increased by \$2,398 compared to the prior year. Operating expenses increased by \$37,943. In 2014, operating income of \$907 was recorded compared to an operating income of \$36,452 in the prior year. Interest expense charged to the water operations was \$17,713. Transfers to the debt service governmental fund were made in the amount of \$28,200 during 2014. These transactions resulted in a decrease of \$43,842 in net position in the current year.

The wastewater treatment enterprise fund accounts for the wastewater treatment operations of the City. In 2014, operating revenues decreased by \$6,203 compared to the prior year. Operating expenses increased by \$46,742 in the current year. In 2014, an operating loss of \$143,179 was recorded compared to an operating loss of \$90,234 in the prior year. Interest expense charged to the wastewater treatment operations was \$11,023. These transactions resulted in a decrease of \$130,031 in net position in the current year.

The refuse removal and recycling enterprise fund accounts for the refuse removal and recycling operations of the City. In 2014, operating revenues increased \$42,359 compared to the prior year. Operating expenses increased by \$15,125. In 2014, operating income of \$3,852 was recorded compared to an operating loss of \$23,382 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 an increase of \$16,885 in net position in the current year.

The Mountain Manor Apartments enterprise fund accounts for the operations of the Mountain Manor Apartments. In 2014, operating revenues increased by \$7,736 compared to the prior year. Operating expenses increased by \$22,816 compared to the prior year. In 2014, an operating loss of \$21,384 was recorded compared to an operating loss of \$6,304 in the prior year. Interest expense charged to the Mountain Manor Apartments operations was \$15,279. These transactions resulted in a decrease of \$29,368 in net position in the current year.

CITY OF MOUNTAIN IRON, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2014

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the City did not revise the general fund budget. The actual expenditures were \$115,606 under the final budget amounts. The most significant negative variance in the amount of (\$27,489) occurred in the City public safety department. Resources available for appropriation were above the final budgeted amounts. The City received more taxes, intergovernmental aids, licenses and permits, charges for services, and interest than expected.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2014, the City's primary government had \$18,391,122 invested in a broad range of capital assets (net of accumulated depreciation), including land, construction in progress, land improvements, buildings, infrastructure, machinery and equipment and licensed vehicles. (See Table 3 below.) This amount represents a net increase (including additions and deductions) of \$863,453 over last year. The Mountain Iron Economic Development Authority component unit had \$6,033,351 invested in capital assets, which consisted of land and infrastructure.

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

	Governmental Activities		Business-Type Activities		Totals	
	2014	2013	2014	2013	2014	2013
Land	\$ 409,300	\$ 409,300	\$ 26,370	\$ 26,370	\$ 435,670	\$ 435,670
Construction in progress	1,214,372	1,124,149	-	-	1,214,372	1,124,149
Land improvements	698,144	747,880	-	-	698,144	747,880
Buildings	2,371,329	2,428,545	3,872,287	3,584,926	6,243,616	6,013,471
Infrastructure	4,837,010	4,226,994	3,700,721	3,842,941	8,537,731	8,069,935
Machinery and equipment	527,282	539,968	35,548	64,504	562,830	604,472
Licensed vehicles	377,203	362,315	321,556	169,777	698,759	532,092
Totals	<u>\$ 10,434,640</u>	<u>\$ 9,839,151</u>	<u>\$ 7,956,482</u>	<u>\$ 7,688,518</u>	<u>\$ 18,391,122</u>	<u>\$ 17,527,669</u>
EDA						
Land	\$ 2,533,256	\$ 2,533,256	\$ -	\$ -	\$ 2,533,256	\$ 2,533,256
Infrastructure	3,500,095	3,572,262	-	-	3,500,095	3,572,262
Totals	<u>\$ 6,033,351</u>	<u>\$ 6,105,518</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,033,351</u>	<u>\$ 6,105,518</u>

This year's major additions included costs for relocation of County Road 102 water and sewer lines, Unity Drive extension and bike lane, 2014 street and sidewalk projects, two Ford trucks, a garbage truck and packer, replacement of the electric substation, and completion of the civil defense alarm system.

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

CITY OF MOUNTAIN IRON, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2014

Debt

At year-end, the City had \$3,309,363 in long-term debt outstanding for the primary government versus \$3,695,671 last year—as shown in Table 4. The Mountain Iron EDA component unit had \$3,546,654 in long-term debt outstanding, which was \$3,546,661 last year.

Table 4
Outstanding Debt, at Year-end

	Governmental Activities		Business-Type Activities		Totals	
	2014	2013	2014	2013	2014	2013
General obligation bonds (backed by the City)	\$ 1,148,000	\$ 1,260,000	\$ -	\$ -	\$ 1,148,000	\$ 1,260,000
Refunding bonds	655,000	840,000	-	-	655,000	840,000
Notes payable	-	-	583,363	596,671	583,363	596,671
Water revenue refunding bonds	-	-	450,000	500,000	450,000	500,000
Wastewater general obligation revenue note	-	-	473,000	499,000	473,000	499,000
Total	<u>\$ 1,803,000</u>	<u>\$ 2,100,000</u>	<u>\$ 1,506,363</u>	<u>\$ 1,595,671</u>	<u>\$ 3,309,363</u>	<u>\$ 3,695,671</u>
	Component Unit EDA					
	2014	2013				
State loan	<u>\$ 3,546,654</u>	<u>\$ 3,546,661</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 \$635,127 is significantly below this \$5,122,995 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 2015 budget, tax rates, and fees that will be charged for the business-type activities.

- City General Fund expenditures increased \$6,376 over 2014.
- City property taxes did not increase in 2015
- Development of the renewable sustainable energy park, County Road 102 development, Unity Second Addition, and South Forest Grove will have a great impact on property tax revenues for the City.

The City's 2015 capital budget calls for it to spend another \$982,155.

CITY OF MOUNTAIN IRON, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2014

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, 2014

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	EDA
ASSETS				
Cash and cash equivalents	\$ 2,852,638	\$ 681,396	\$ 3,534,034	\$ 707,077
Investments	1,515,233	625,415	2,140,648	-
Taxes receivable	42,056	-	42,056	-
Special assessments receivable	128,216	-	128,216	-
Accounts receivable	134,017	547,259	681,276	-
Grants receivable	12,672	-	12,672	-
Other receivable	-	6,004	6,004	-
Due from component unit	10,472	-	10,472	-
Due from other governments	27,377	-	27,377	-
Loans receivable	-	-	-	105,821
Inventories	-	411,539	411,539	-
Prepaid items	-	1,287	1,287	-
Restricted assets:				
Temporarily restricted cash and cash equivalents	-	144,957	144,957	-
Capital assets not being depreciated:				
Land	409,300	26,370	435,670	2,533,256
Construction in progress	1,214,372	-	1,214,372	-
Capital assets net of accumulated depreciation:				
Land improvements	698,144	-	698,144	-
Buildings	2,371,329	3,872,287	6,243,616	3,500,095
Infrastructure	4,837,010	3,700,721	8,537,731	-
Machinery and equipment	527,282	35,548	562,830	-
Licensed vehicles	377,203	321,556	698,759	-
TOTAL ASSETS	15,157,321	10,374,339	25,531,660	6,846,249
LIABILITIES				
Accounts payable	121,016	256,151	377,167	74,687
Salaries payable	74,618	28,101	102,719	-
Accrued interest payable	26,181	6,158	32,339	-
Due to primary government	-	-	-	10,472
Customer deposits	8,600	85,708	94,308	-
Unearned revenues	490,699	-	490,699	-
Noncurrent liabilities:				
Due within one year				
Bonds and notes payable	303,000	90,762	393,762	-
Severance payable	-	8,316	8,316	-
Due in more than one year				
Bonds and notes payable	1,500,000	1,415,601	2,915,601	3,546,654
Other postemployment benefits	1,753,146	498,940	2,252,086	-
Severance payable	58,027	14,298	72,325	-
TOTAL LIABILITIES	4,335,287	2,404,035	6,739,322	3,631,813
NET POSITION				
Net investment in capital assets	8,631,640	6,450,119	15,081,759	2,486,697
Restricted for:				
Debt service	1,166,963	110,946	1,277,909	-
Unrestricted	1,023,431	1,409,239	2,432,670	727,739
TOTAL NET POSITION	\$ 10,822,034	\$ 7,970,304	\$ 18,792,338	\$ 3,214,436

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

CITY OF MOUNTAIN IRON, MINNESOTA

**STATEMENT OF ACTIVITIES
Year Ended December 31, 2014**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Charges for Services</u>	<u>Program Revenues Operating Grants and Contributions</u>
PRIMARY GOVERNMENT			
Governmental Activities			
General government	\$ 1,169,511	\$ 164,678	\$ 4,956
Public safety	747,554	-	1,275
Streets	1,150,222	116,430	-
Culture and recreation	614,836	59,933	-
Interest on long-term debt	57,749	-	-
Total Governmental Activities	<u>3,739,872</u>	<u>341,041</u>	<u>6,231</u>
Business-type Activities			
Electric utility	2,524,359	2,541,672	-
Water treatment	349,409	332,603	-
Wastewater treatment	545,646	391,444	-
Refuse removal and recycling	433,602	437,454	-
Mountain Manor Apartments	245,740	209,077	-
Total Business-type Activities	<u>4,098,756</u>	<u>3,912,250</u>	<u>-</u>
TOTAL PRIMARY GOVERNMENT	<u>\$ 7,838,628</u>	<u>\$ 4,253,291</u>	<u>\$ 6,231</u>
COMPONENT UNIT			
EDA	<u>\$ 314,087</u>	<u>\$ 75,000</u>	<u>\$ -</u>

General Revenues

Taxes:

Property taxes, levied for general purposes

Property taxes, levied for specific purposes

Franchise taxes

Mineral rents and royalties

Grants and contributions not restricted to specific programs

Unrestricted investment earnings

Miscellaneous

Gain on sale of capital assets

Transfers

Total General Revenues and Transfers

CHANGE IN NET POSITION

NET POSITION - JANUARY 1

NET POSITION - DECEMBER 31

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

Net (Expense) Revenue and Changes in Net Position				
Capital Grants and Contributions	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	EDA
\$ 15,403	\$ (984,474)	\$ -	\$ (984,474)	
-	(746,279)	-	(746,279)	
1,147,517	113,725	-	113,725	
-	(554,903)	-	(554,903)	
-	(57,749)	-	(57,749)	
1,162,920	(2,229,680)	-	(2,229,680)	
-	-	17,313	17,313	
-	-	(16,806)	(16,806)	
-	-	(154,202)	(154,202)	
-	-	3,852	3,852	
-	-	(36,663)	(36,663)	
-	-	(186,506)	(186,506)	
\$ 1,162,920	(2,229,680)	(186,506)	(2,416,186)	
\$ -				(239,087)
	1,482,381	-	1,482,381	30,615
	-	-	-	81,319
	23,710	-	23,710	-
	21,775	-	21,775	-
	2,378,363	-	2,378,363	-
	27,091	36,219	63,310	2,657
	-	7,000	7,000	500
	5,809	14,257	20,066	482,095
	(389,218)	389,218	-	-
	3,549,911	446,694	3,996,605	597,186
	1,320,231	260,188	1,580,419	358,099
	9,501,803	7,710,116	17,211,919	2,856,337
\$ 10,822,034	\$ 7,970,304	\$ 18,792,338	\$ 3,214,436	

CITY OF MOUNTAIN IRON, MINNESOTA

BALANCE SHEET
GOVERNMENTAL FUNDS
 December 31, 2014

	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	\$ 1,939,934	\$ 472,897	\$ 432,326	\$ 7,481	\$ 2,852,638
Investments	760,248	754,985	-	-	1,515,233
Taxes receivable	42,056	-	-	-	42,056
Special assessments receivable	-	128,216	-	-	128,216
Accounts receivable	17,587	-	116,430	-	134,017
Grants receivable	-	-	12,672	-	12,672
Due from component unit	10,472	-	-	-	10,472
Due from other governments	27,377	-	-	-	27,377
TOTAL ASSETS	\$ 2,797,674	\$ 1,356,098	\$ 561,428	\$ 7,481	\$ 4,722,681
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ 72,895	\$ -	\$ 48,121	\$ -	\$ 121,016
Salaries payable	74,618	-	-	-	74,618
Customer deposits	8,600	-	-	-	8,600
Unearned revenue	-	-	490,699	-	490,699
TOTAL LIABILITIES	156,113	-	538,820	-	694,933
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue - property taxes	34,836	-	-	-	34,836
Unavailable revenue - special assessments	-	96,475	-	-	96,475
DEFERRED INFLOWS OF RESOURCES	34,836	96,475	-	-	131,311
FUND BALANCES					
Restricted	-	1,259,623	-	-	1,259,623
Assigned	2,606,725	-	22,608	7,481	2,636,814
TOTAL FUND BALANCES	2,606,725	1,259,623	22,608	7,481	3,896,437
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 2,797,674	\$ 1,356,098	\$ 561,428	\$ 7,481	\$ 4,722,681

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, 2014

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

TOTAL FUND BALANCES, GOVERNMENTAL FUNDS	\$ 3,896,437
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.	10,434,640
Deferred inflows of resources in governmental funds are susceptible to full accrual on the government-wide statements.	131,311
Interest payable on long-term debt is susceptible to full accrual on the government-wide statements.	(26,181)
Long-term liabilities, including bonds and notes payable, other post employment benefits and severance payable are not due and payable in the current period and therefore not reported in the governmental funds.	<u>(3,614,173)</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ 10,822,034</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, 2014

	General Fund	Debt Service Fund	City Projects Capital Projects Fund	Other Governmental Fund - Charitable Gambling Special Revenue Fund	Total Governmental Funds
REVENUES					
Taxes	\$ 1,525,082	\$ -	\$ -	\$ -	\$ 1,525,082
Special assessments	-	32,654	-	-	32,654
Licenses and permits	38,835	-	-	-	38,835
Intergovernmental	2,378,363	-	1,157,512	-	3,535,875
Charges for services	173,521	-	116,430	-	289,951
Fines	13,531	-	-	-	13,531
Gifts and contributions	-	-	-	4,956	4,956
Investment earnings	12,943	14,014	134	-	27,091
TOTAL REVENUES	<u>4,142,275</u>	<u>46,668</u>	<u>1,274,076</u>	<u>4,956</u>	<u>5,467,975</u>
EXPENDITURES					
Current					
General government	983,904	-	30,382	4,440	1,018,726
Public safety	638,989	-	-	-	638,989
Streets	675,939	-	893	-	676,832
Culture and recreation	459,862	-	22,718	-	482,580
Debt Service					
Principal	-	297,000	-	-	297,000
Interest and other charges	-	60,208	-	-	60,208
Capital Outlay					
General government	-	-	442,652	-	442,652
Public safety	-	-	29,645	-	29,645
Streets	-	-	1,118,562	-	1,118,562
Culture and recreation	-	-	10,750	-	10,750
TOTAL EXPENDITURES	<u>2,808,694</u>	<u>357,208</u>	<u>1,655,602</u>	<u>4,440</u>	<u>4,825,944</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>1,333,581</u>	<u>(310,540)</u>	<u>(381,526)</u>	<u>516</u>	<u>642,031</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	-	403,200	497,079	-	900,279
Transfers out	(847,079)	-	-	-	(847,079)
Sale of capital assets	5,809	-	-	-	5,809
TOTAL OTHER FINANCING SOURCES (USES)	<u>(841,270)</u>	<u>403,200</u>	<u>497,079</u>	<u>-</u>	<u>59,009</u>
NET CHANGE IN FUND BALANCES	492,311	92,660	115,553	516	701,040
FUND BALANCES - JANUARY 1	<u>2,114,414</u>	<u>1,166,963</u>	<u>(92,945)</u>	<u>6,965</u>	<u>3,195,397</u>
FUND BALANCES - DECEMBER 31	<u>\$ 2,606,725</u>	<u>\$ 1,259,623</u>	<u>\$ 22,608</u>	<u>\$ 7,481</u>	<u>\$ 3,896,437</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, 2014

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

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS		\$ 701,040
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	1,593,002	
Less current year depreciation	<u>(555,095)</u>	
Net capital assets		1,037,907
Capital assets were contributed to the Electric Utility Enterprise Fund		(442,418)
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	2,784	
Change in unavailable revenue - special assessments	<u>(27,246)</u>	
Net change		(24,462)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		
		297,000
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	2,458	
Change in severance payable	5,303	
Change in other postemployment benefits payable	<u>(256,597)</u>	
Net change		<u>(248,836)</u>
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES		\$ 1,320,231

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

CITY OF MOUNTAIN IRON, MINNESOTA

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
December 31, 2014

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	\$ 125,198	\$ 201,708	\$ 241,876	\$ 107,144	\$ 5,470	\$ 681,396
Investments	169,569	69,924	282,736	103,186	-	625,415
Accounts receivable	389,353	45,382	47,225	61,288	4,011	547,259
Other receivables	-	-	-	-	6,004	6,004
Inventories	345,369	66,170	-	-	-	411,539
Prepaid items	-	-	-	-	1,287	1,287
TOTAL CURRENT ASSETS	1,029,489	383,184	571,837	271,618	16,772	2,272,900
NONCURRENT ASSETS						
Restricted cash and cash equivalents	-	-	-	-	110,946	110,946
Reserve account	-	-	-	-	27,000	27,000
Escrow deposits	-	-	-	-	7,011	7,011
Tenant security deposits	-	-	-	-	-	-
Total restricted cash and cash equivalents	-	-	-	-	144,957	144,957
Capital assets	-	-	-	-	8,336	26,370
Land	18,034	-	-	-	-	-
Buildings	741,987	2,190,764	2,718,281	12,761	1,678,859	7,342,652
Infrastructure	745,343	3,627,796	4,652,597	-	-	9,025,736
Machinery and equipment	-	60,270	281,060	-	316,087	657,417
Licensed vehicles	325,214	-	20,546	530,665	-	876,425
Less accumulated depreciation	(967,744)	(3,210,310)	(4,223,253)	(255,038)	(1,315,773)	(9,972,118)
Total capital assets (net of accumulated depreciation)	862,834	2,668,520	3,449,231	288,388	687,509	7,956,482
TOTAL NONCURRENT ASSETS	862,834	2,668,520	3,449,231	288,388	832,466	8,101,439
TOTAL ASSETS	1,892,323	3,051,704	4,021,068	560,006	849,238	10,374,339
LIABILITIES						
CURRENT LIABILITIES						
Accounts payable	224,629	5,470	8,540	7,842	9,670	256,151
Salaries payable	21,745	-	6,356	-	-	28,101
Accrued interest payable	-	1,396	3,544	-	1,218	6,158
Customer deposits payable	78,448	1,405	-	-	5,855	85,708
Bonds and notes payable - current	-	50,000	27,000	-	13,762	90,762
Severance payable - current	-	-	-	8,316	-	8,316
TOTAL CURRENT LIABILITIES	324,822	58,271	45,440	16,158	30,505	475,196
NONCURRENT LIABILITIES						
Bonds and notes payable	-	400,000	446,000	-	569,601	1,415,601
Other postemployment benefit obligation	252,735	60,648	172,645	12,912	-	498,940
Severance payable	14,298	-	-	-	-	14,298
TOTAL NONCURRENT LIABILITIES	267,033	460,648	618,645	12,912	569,601	1,928,839
TOTAL LIABILITIES	591,855	518,919	664,085	29,070	600,106	2,404,035
NET POSITION						
Net investment in capital assets	862,834	2,218,520	2,976,231	288,388	104,146	6,450,119
Restricted for other purposes	-	-	-	-	110,946	110,946
Unrestricted	437,634	314,265	380,752	242,548	34,040	1,409,239
TOTAL NET POSITION	\$ 1,300,468	\$ 2,532,785	\$ 3,356,983	\$ 530,936	\$ 249,132	\$ 7,970,304

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, 2014

	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	\$ 2,520,866	\$ 332,603	\$ 391,444	\$ 437,454	\$ 209,077	\$ 3,891,444
OPERATING EXPENSES						
Cost of sales	1,770,052	-	-	-	-	1,770,052
Salaries	292,074	85,148	116,767	124,386	39,795	658,170
Employee benefits	141,209	37,577	54,491	54,466	3,044	290,787
Contract services	-	-	26,570	-	40,836	67,406
Insurance	12,516	6,230	14,664	7,221	15,550	56,181
Miscellaneous	50,824	7,820	31,755	13,516	6,862	110,777
Other postemployment benefits	71,274	18,233	34,808	3,315	-	127,630
Repairs and maintenance	110,263	40,477	25,853	25,500	23,907	226,000
Solid waste management and tipping fees	-	-	-	139,138	-	139,138
Supplies	25,068	12,153	15,524	25,728	2,422	81,895
Telephone	2,937	32	1,632	689	1,670	6,960
Utilities	-	40,721	64,829	-	28,077	133,627
Depreciation	47,142	83,305	147,730	39,643	68,298	386,118
TOTAL OPERATING EXPENSES	2,524,359	331,696	534,623	433,602	230,461	4,054,741
OPERATING INCOME (LOSS)	(3,493)	907	(143,179)	3,852	(21,384)	(163,297)
NONOPERATING REVENUES (EXPENSES)						
Investment income	5,556	1,164	24,171	5,033	295	36,219
Miscellaneous income	20,806	-	-	-	7,000	27,806
Interest expense	-	(17,713)	(11,023)	-	(15,279)	(44,015)
Gain (loss) on sale of capital assets	(3,743)	-	-	18,000	-	14,257
TOTAL NONOPERATING REVENUES (EXPENSES)	22,619	(16,549)	13,148	23,033	(7,984)	34,267
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	19,126	(15,642)	(130,031)	26,885	(29,368)	(129,030)
Capital contributions	442,418	-	-	-	-	442,418
Transfers out	(15,000)	(28,200)	-	(10,000)	-	(53,200)
CHANGE IN NET POSITION	446,544	(43,842)	(130,031)	16,885	(29,368)	260,188
TOTAL NET POSITION - JANUARY 1	853,924	2,576,627	3,487,014	514,051	278,500	7,710,116
TOTAL NET POSITION - DECEMBER 31	\$ 1,300,468	\$ 2,532,785	\$ 3,356,983	\$ 530,936	\$ 249,132	\$ 7,970,304

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, 2014

	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	\$ 2,568,727	\$ 333,825	\$ 390,589	\$ 429,772	\$ 216,404	\$ 3,939,317
Cash paid to suppliers	(2,266,604)	(222,547)	(274,560)	(267,905)	(120,072)	(3,151,688)
Cash paid to employees	(291,844)	(87,750)	(90,666)	(115,967)	(39,795)	(626,022)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>10,279</u>	<u>23,528</u>	<u>25,363</u>	<u>45,900</u>	<u>56,537</u>	<u>161,607</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Transfers out to other funds	(15,000)	(28,200)	-	(10,000)	-	(53,200)
Miscellaneous income	20,806	-	-	-	7,000	27,806
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	<u>5,806</u>	<u>(28,200)</u>	<u>-</u>	<u>(10,000)</u>	<u>7,000</u>	<u>(25,394)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Purchase or construction of capital assets	-	-	-	(213,046)	(4,172)	(217,218)
Principal paid on long-term debt	-	(50,000)	(26,000)	-	(13,308)	(89,308)
Interest paid on long-term debt	-	(17,800)	(11,218)	-	(15,398)	(44,416)
Proceeds from sale of assets	1,811	-	-	18,000	-	19,811
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>1,811</u>	<u>(67,800)</u>	<u>(37,218)</u>	<u>(195,046)</u>	<u>(32,878)</u>	<u>(331,131)</u>
CASH FLOWS FROM INVESTING ACTIVITIES						
Proceeds from sales and maturities of investments	100,000	-	15,000	137,000	-	252,000
Purchase of investments	-	-	(62,000)	-	-	(62,000)
Interest and dividends received	4,668	1,395	23,385	3,692	295	33,435
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>104,668</u>	<u>1,395</u>	<u>(23,615)</u>	<u>140,692</u>	<u>295</u>	<u>223,435</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>122,564</u>	<u>(71,077)</u>	<u>(35,470)</u>	<u>(18,454)</u>	<u>30,954</u>	<u>28,517</u>
CASH AND CASH EQUIVALENTS, JANUARY 1 (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>
CASH AND CASH EQUIVALENTS, DECEMBER 31 (including \$144,957 in restricted accounts)	<u>\$ 125,198</u>	<u>\$ 201,708</u>	<u>\$ 241,876</u>	<u>\$ 107,144</u>	<u>\$ 150,427</u>	<u>\$ 826,353</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES						
Operating income (loss)	\$ (3,493)	\$ 907	\$ (143,179)	\$ 3,852	\$ (21,384)	\$ (163,297)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:						
Depreciation	47,142	83,305	147,730	39,643	68,298	386,118
Changes in assets and liabilities (Increase) decrease in:						
Accounts receivable	50,216	1,382	(855)	(7,682)	724	43,785
Other receivables	-	-	-	-	8,321	8,321
Inventories	(62,999)	(54,313)	-	-	-	(117,312)
Prepaid items	-	-	-	-	(53)	(53)
Increase (decrease) in:						
Accounts payable	(18,462)	(4,991)	(4,434)	1,668	2,349	(23,870)
Salaries payable	2,054	-	908	(444)	-	2,518
Customer deposits	(2,355)	(160)	-	-	(1,718)	(4,233)
Severance payable	(2,478)	-	-	8,316	-	5,838
Other postemployment benefit obligation	654	(2,602)	25,193	547	-	23,792
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 10,279</u>	<u>\$ 23,528</u>	<u>\$ 25,363</u>	<u>\$ 45,900</u>	<u>\$ 56,537</u>	<u>\$ 161,607</u>
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES						
Contributions of capital assets from primary government	\$ 442,418	\$ -	\$ -	\$ -	\$ -	\$ 442,418

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, 2014

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, 2014

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, 2014

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, 2014

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, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Cash and Cash Equivalents

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

E. Assets, Liabilities, 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.
- 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.

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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, State loan, 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

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- 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.

F. Revenues and Expenditures

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

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

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

NOTE 2 - CASH AND CASH EQUIVALENTS AND INVESTMENTS

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

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

	Primary Government	Component Unit EDA
Petty Cash	\$ 500	\$ -
Cash	3,678,491	707,077
Investments	2,140,648	-
Total	<u>\$ 5,819,639</u>	<u>\$ 707,077</u>

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2014

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

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.

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 was \$3,678,491; the bank balance was \$3,695,102. 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 \$707,077; the bank balance was \$707,077. 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, 2014, 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 \$390,372 in Federal Home Loan Banks Fixed Rate Bonds. At December 31, 2014, the bonds were rated as AAA by Moody's and AA+ by S & P. The City has \$1,057,078 invested in certificates of deposit at Morgan Stanley and \$691,552 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, 2014

NOTE 3 - LOANS RECEIVABLE

The Mountain Iron EDA is involved in economic development projects. Several businesses received revolving loans from Mountain Iron EDA in 2014 and prior years. The unpaid principal balance on these loans at December 31, 2014 was \$105,821 and is recorded as loans receivable in the Mountain Iron EDA general fund.

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2014, was as follows:

	Beginning Balance	Additions	Deletions	Transfers	Ending Balance
Governmental activities					
Capital assets, not being depreciated:					
Land	\$ 409,300	\$ -	\$ -	\$ -	\$ 409,300
Construction in progress	1,124,149	1,449,931	(925,888)	(433,820)	1,214,372
Total capital assets, not being depreciated	1,533,449	1,449,931	(925,888)	(433,820)	1,623,672
Capital assets, being depreciated:					
Land improvements	1,081,847	-	-	-	1,081,847
Buildings	3,497,243	12,718	-	-	3,509,961
Infrastructure	8,401,773	899,692	-	-	9,301,465
Machinery and equipment	1,026,396	46,454	(5,323)	-	1,067,527
Licensed vehicles	2,194,692	110,095	(65,326)	(8,598)	2,230,863
Total capital assets, being depreciated	16,201,951	1,068,959	(70,649)	(8,598)	17,191,663
Less accumulated depreciation for:					
Land improvements	(333,967)	(49,736)	-	-	(383,703)
Buildings	(1,068,698)	(69,934)	-	-	(1,138,632)
Infrastructure	(4,174,779)	(289,676)	-	-	(4,464,455)
Machinery and equipment	(486,428)	(59,140)	5,323	-	(540,245)
Licensed vehicles	(1,832,377)	(86,609)	65,326	-	(1,853,660)
Total accumulated depreciation	(7,896,249)	(555,095)	70,649	-	(8,380,695)
Total capital assets, being depreciated, net	8,305,702	513,864	-	(8,598)	8,810,968
Governmental activities capital assets, net	\$ 9,839,151	\$ 1,963,795	\$ (925,888)	\$ (442,418)	\$ 10,434,640
Business-type activities					
Capital assets, not being depreciated:					
Land	\$ 26,370	\$ -	\$ -	\$ -	\$ 26,370
Capital assets, being depreciated:					
Building	6,908,832	-	-	433,820	7,342,652
Infrastructure	9,025,736	-	-	-	9,025,736
Machinery and equipment	655,328	4,172	(2,083)	-	657,417
Licensed vehicles	830,849	213,046	(176,068)	8,598	876,425
Total capital assets, being depreciated	17,420,745	217,218	(178,151)	442,418	17,902,230
Less accumulated depreciation for:					
Building	(3,323,906)	(146,459)	-	-	(3,470,365)
Infrastructure	(5,182,795)	(142,220)	-	-	(5,325,015)
Machinery and equipment	(590,824)	(33,128)	2,083	-	(621,869)
Licensed vehicles	(661,072)	(64,311)	170,514	-	(554,869)
Total accumulated depreciation	(9,758,597)	(386,118)	172,597	-	(9,972,118)
Total capital assets, being depreciated, net	7,662,148	(168,900)	(5,554)	442,418	7,930,112
Business-type activities capital assets, net	\$ 7,688,518	\$ (168,900)	\$ (5,554)	\$ 442,418	\$ 7,956,482

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS December 31, 2014

NOTE 4 - CAPITAL ASSETS (CONTINUED)

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

Governmental activities	
General government	\$ 57,420
Public safety	45,930
Streets	375,252
Culture and recreation	<u>76,493</u>
Total depreciation expense - governmental activities	\$ <u>555,095</u>
Business-type activities	
Electric utility	\$ 47,142
Water treatment	83,305
Wastewater treatment	147,730
Refuse removal and recycling	39,643
Mountain Manor Apartments	<u>68,298</u>
Total depreciation expense - business-type activities	\$ <u>386,118</u>

Discretely presented component unit:

Mountain Iron EDA capital asset activity for the year ended December 31, 2014, is as follows:

	Balance 01/01/14	Additions	Deletions	Balance 12/31/14
Governmental activities				
Capital assets, not being depreciated:				
Land	\$ 2,533,256	\$ -	\$ -	\$ 2,533,256
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>(72,167)</u>	-	<u>(108,250)</u>
Total capital assets, being depreciated, net	<u>3,572,262</u>	<u>(72,167)</u>	-	<u>3,500,095</u>
Governmental activities capital assets, net	\$ <u>6,105,518</u>	\$ <u>(72,167)</u>	\$ -	\$ <u>6,033,351</u>

NOTE 5 - LONG-TERM DEBT

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

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS December 31, 2014

NOTE 5 - 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	\$ 655,000
2005 Library Upgrade	08/01/2005	4.125%	\$ 300,000	08/01/2035	253,000
2007 Improvements	09/11/2007	4.0-4.65%	\$1,455,000	02/01/2028	<u>895,000</u>
					<u>1,803,000</u>
Governmental activities long-term debt					
Business-type activities					
Revenue Bonds					
2009 Water Revenue					
Refunding Bonds	09/01/2009	1.5-4.0%	\$ 650,000	12/01/2022	<u>450,000</u>
General Obligation Revenue Notes					
2009 PFA Wastewater					
Revenue Notes	10/20/2009	2.25%	\$ 599,250	08/20/2029	<u>473,000</u>
Notes Payable					
1980 Rural Development	09/04/1980	3.61%	\$ 819,370	09/01/2030	418,849
1981 Rural Development	01/16/1981	3.61%	\$ 320,630	01/01/2031	<u>164,514</u>
Total Notes Payable					<u>583,363</u>
					<u>1,506,363</u>
Business-type activities long-term debt					
Total primary government long-term debt					
					<u>3,309,363</u>
Discretely presented component unit					
EDA					
State Loan					
2010 IRRRB					<u>3,546,654</u>
					<u>\$ 6,856,017</u>
Total reporting entity					

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE 5 - LONG-TERM DEBT (CONTINUED)

Long-term debt activity for the year ended December 31, 2014 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Governmental activities					
Bonds Payable					
2012 GO Refunding	\$ 840,000	\$ -	\$ 185,000	\$ 655,000	\$ 185,000
2005 GO Library Upgrade	260,000	-	7,000	253,000	8,000
2007 GO Improvement	1,000,000	-	105,000	895,000	110,000
Governmental activities - long-term debt	<u>2,100,000</u>	<u>-</u>	<u>297,000</u>	<u>1,803,000</u>	<u>303,000</u>
Business-type activities					
Bonds Payable					
2009 Water Revenue Refunding Bonds	500,000	-	50,000	450,000	50,000
Revenue Notes					
2009 GO PFA Wastewater	499,000	-	26,000	473,000	27,000
Notes Payable					
1980 Rural Development	428,521	-	9,672	418,849	9,909
1981 Rural Development	168,150	-	3,636	164,514	3,853
Total Notes Payable	596,671	-	13,308	583,363	13,762
Business-type activities - long-term debt	<u>1,595,671</u>	<u>-</u>	<u>89,308</u>	<u>1,506,363</u>	<u>90,762</u>
Total primary government	<u>3,695,671</u>	<u>-</u>	<u>386,308</u>	<u>3,309,363</u>	<u>393,762</u>
Discretely presented component unit					
EDA					
State loan					
2010 IRRRB	3,546,661	-	7	3,546,654	-
Total reporting entity	<u>\$ 7,242,332</u>	<u>\$ -</u>	<u>\$ 386,315</u>	<u>\$ 6,856,017</u>	<u>\$ 393,762</u>

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

<u>Year Ending December 31</u>	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Government-wide</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 303,000	\$ 52,779	\$ 90,762	\$ 46,266	\$ 393,762	\$ 99,045
2016	303,000	46,171	91,123	43,964	394,123	90,135
2017	199,000	39,879	97,493	41,652	296,493	81,531
2018	199,000	33,857	98,873	38,481	297,873	72,338
2019	120,000	29,387	99,262	35,277	219,262	64,664
2020-2024	322,000	109,158	403,533	127,525	725,533	236,683
2025-2029	264,000	46,028	248,231	83,349	512,231	129,377
2030-2034	76,000	16,170	377,086	6,473	453,086	22,643
2035-2038	17,000	701	-	-	17,000	701
Total	<u>\$ 1,803,000</u>	<u>\$ 374,130</u>	<u>\$ 1,506,363</u>	<u>\$ 422,987</u>	<u>\$ 3,309,363</u>	<u>\$ 797,117</u>

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE 5 - LONG-TERM LIABILITIES (CONTINUED)

No interest was capitalized during 2014 for the City or Mountain Iron EDA. Interest incurred and charged to expense totaled \$100,774 for the City and \$74,993 for Mountain Iron 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. Principal and interest paid in the current year was \$192,983. 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 \$672,354.

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 \$145,510. At December 31, 2014 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 \$1,120,177.

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 \$67,800. At December 31, 2014, principal and interest to maturity in 2022 to be paid from pledged future revenues totaled \$532,525.

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 \$37,218. At December 31, 2014, principal and interest to maturity in 2029 to be paid from pledged future revenues totaled \$562,583.

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, 2014**

NOTE 6 - INTERFUND BALANCES AND ACTIVITY

The composition of interfund balances as of December 31, 2014 is as follows:

Due to/from primary government and component unit -

<u>Receivable entity</u>	<u>Payable entity</u>	<u>Amount</u>
Primary government: General Fund	Component unit: Mountain Iron Economic Development Authority	\$ <u>10,472</u>

Interfund transfers for the year ended December 31, 2014 consisted of the following:

	<u>Transfers in</u>		
	<u>Debt Service Fund</u>	<u>City Projects Capital Projects Fund</u>	<u>Total</u>
Transfers out			
General Fund	\$ 350,000	\$ 497,079	\$ 847,079
Electric Utility Enterprise Fund	15,000	-	15,000
Water Treatment Enterprise Fund	28,200	-	28,200
Refuse Removal and Recycling Enterprise Fund	<u>10,000</u>	<u>-</u>	<u>10,000</u>
	<u>\$ 403,200</u>	<u>\$ 497,079</u>	<u>\$ 900,279</u>

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

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2014

NOTE 7 - FUND EQUITY

As of December 31, 2014, 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	\$ -	\$ 1,259,623	\$ -	\$ -	\$ 1,259,623
Assigned:					
Cash flow	250,000	-	-	-	250,000
Insurance	785,575	-	-	-	785,575
Buildings	785,575	-	-	-	785,575
Rate stabilization	785,575	-	-	-	785,575
Capital projects	-	-	22,608	-	22,608
Community contributions	-	-	-	7,481	7,481
Total assigned	<u>2,606,725</u>	<u>-</u>	<u>22,608</u>	<u>7,481</u>	<u>2,636,814</u>
Total fund balances	\$ <u>2,606,725</u>	\$ <u>1,259,623</u>	\$ <u>22,608</u>	\$ <u>7,481</u>	\$ <u>3,896,437</u>

NOTE 8 - RISK MANAGEMENT

The City and the Mountain Iron EDA are exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets, errors and omissions; injuries to employees; and natural disasters. To cover these risks of loss, except for faithful performance of employee duties, the City and Mountain Iron EDA, as allowed under state statutes, joined the League of Minnesota Cities Insurance Trust, a public entity risk pool currently operating as a common risk management and insurance program for its member cities. The City and Mountain Iron EDA pay annual premiums to the Trust for insurance coverage and 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.

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2014

NOTE 9 - 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:	2021
Original net tax capacity:	\$ <u>1,062</u>
Current net tax capacity:	\$ <u>94,450</u>
Fiscal disparity deduction	\$ <u>(24,032)</u>
Captured net tax capacity retained by Authority:	\$ <u>69,356</u>
Total bonds issued	
Tax increment bonds	\$ -
Amounts redeemed	-
Outstanding bonds at 12/31/14	\$ <u>-</u>

NOTE 10 - REFUND OF TAX INCREMENT DISTRICT NO. 13

In 2014, the Mountain Iron EDA refunded St. Louis County \$6,074 of Tax Increment Financing District No. 13 revenue received and recorded in prior years. The refund is mostly due to administrative costs exceeding the maximum allowed by the District's plan. Because Tax Increment Financing District No. 13 was not presented in the prior year, the refund of tax increment financing is presented as an expenditure of the Mountain Iron EDA General Fund. The result is the same net effect as if Tax Increment Financing District No. 13 received a transfer from the General Fund and a tax increment financing refund was recorded as an expenditure from the District.

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS December 31, 2014

NOTE 11 - 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, 2014, 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.

Construction Projects

The City had two outstanding construction projects as of December 31, 2014. 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 Utilities	\$ 592,627	\$ 31,191
2014 Street Improvements	\$ 301,347	\$ 15,860

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

NOTE 12 - 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.

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2014

NOTE 12 - JOINT VENTURES (CONTINUED)

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

Each member city contributes to the budget of the Authority based on actual loads hauled during the previous year. The City of Mountain Iron's contribution to the Authority's budget during 2014 was \$20,412. 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.

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 2014 was \$6,158. 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 2014 was \$6,577. Complete financial information can be obtained from the Quad Cities Recreation Center, Eveleth, Minnesota 55734.

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS December 31, 2014

NOTE 13 - 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 2014, the City did not have any expenditures for this benefit.

All 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 less the amount paid as outlined in the above paragraph. 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, 2014 was as follows:

	Balance 12/31/13	Additions	Reductions	Balance 12/31/14
Governmental activities	\$ 63,330	\$ 3,903	\$ (9,206)	\$ 58,027
Business-type activities	<u>16,776</u>	<u>8,316</u>	<u>(2,478)</u>	<u>22,614</u>
Total Primary Government	<u>\$ 80,106</u>	<u>\$ 12,219</u>	<u>\$ (11,684)</u>	<u>\$ 80,641</u>

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 \$19,811 for the year ended December 31, 2014.

NOTE 14 - 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

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS December 31, 2014

NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

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.

	<u>12/31/14</u>
Normal cost	\$ 110,829
Amortization of unfunded actuarial accrued liability	351,371
Interest to the end of the year	<u>18,488</u>
Annual required contribution	480,688
Adjustment to ARC	<u>(36,377)</u>
Annual OPEB cost (expense)	444,311
Contributions made including implicit rate subsidy	<u>(200,299)</u>
Increase in net OPEB obligation	244,012
Net OPEB obligation, beginning of year	<u>1,971,697</u>
Net OPEB obligation, end of year	\$ <u>2,215,709</u>

The City's annual OPEB cost, the percentage of the annual OPEB cost contributed to the plan, and the net OPEB obligation as of December 31, 2014 and the two preceding years were as follows:

Year Ended	OPEB Cost	Contribution (ARC)	OPEB Cost Contributed	% of ARC Contributed	OPEB Obligation
12/31/2014	\$ 244,012	\$ 444,311	\$ 200,299	45.1%	\$2,215,709
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

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS December 31, 2014

NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Funded Status and Funding Progress

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

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 trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. Projections of benefits for financial reporting purposes are based on the substantive plan provisions, as understood by the employer and participating members, and include the type of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and participating members. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2012 actuarial valuation, the projected unit credit actuarial 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.

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2014

NOTE 15 - 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 members and 1.7 percent for Coordinated Plan members for each year of service. For all GERF members hired prior to July 1, 1989 whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 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.

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE 15 - DEFINED BENEFIT PENSION PLANS – STATEWIDE (CONTINUED)

PERA issues a publicly available financial report that includes financial statements and required supplementary information for GERS. That report may be obtained on the Internet at www.mnpera.org, by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088 or by calling (651) 296-7460 or 1-800-652-9026.

B. Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The City makes annual contributions to the pension plans equal to the amount required by state statutes. GERS Basic Plan members and Coordinated Plan members were required to contribute 9.10% and 6.25%, respectively, of their annual covered salary in 2014. In 2014, 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, 2014, 2013, and 2012 were \$93,655, \$89,337, and \$90,686, respectively. The City's contributions were equal to the contractually required contributions for each year as set by state statute. Contribution rates will increase on January 1, 2015 in the Coordinated Plan (6.5% for members and 7.5% for employers).

NOTE 16 - 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.

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. Employees who are paid for their services may elect to make member contributions in an amount not to exceed the employer share. Employer and employee contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2 percent of employer contributions and twenty-five hundredths of one percent of the assets in each member's account annually.

Total contributions made by the City of Mountain Iron during fiscal year 2014 were:

Amount		Percentage of Covered Payroll		Required Rates
Employees	Employer	Employees	Employer	
\$ 585	\$ 585	5.00%	5.00%	5.00%

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2014

NOTE 17 - SUBSEQUENT EVENT

On January 21, 2015, the City paid off the USDA Rural Development general obligation bonds of 2005 in the amount of \$245,858. The proceeds from these bonds were used for library upgrades and had an interest rate of 4.125 percent and the maturity date was August 1, 2035.

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, 2014

	Budgeted Amounts		Actual Amounts, Budgetary Basis	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 1,332,789	\$ 1,332,789	\$ 1,525,082	\$ 192,293
Licenses and permits	30,000	30,000	38,835	8,835
Intergovernmental	2,236,590	2,236,590	2,378,363	141,773
Charges for services	155,000	155,000	173,521	18,521
Fines	12,000	12,000	13,531	1,531
Investment income	5,000	5,000	12,943	7,943
TOTAL REVENUES	<u>3,771,379</u>	<u>3,771,379</u>	<u>4,142,275</u>	<u>370,896</u>
EXPENDITURES				
Current				
General government	1,085,800	1,085,800	983,904	101,896
Public safety	661,500	661,500	688,989	(27,489)
Streets	735,000	735,000	675,939	59,061
Culture and recreation	442,000	442,000	459,862	(17,862)
TOTAL EXPENDITURES	<u>2,924,300</u>	<u>2,924,300</u>	<u>2,808,694</u>	<u>115,606</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>847,079</u>	<u>847,079</u>	<u>1,333,581</u>	<u>486,502</u>
OTHER FINANCING USES				
Transfers out	(847,079)	(847,079)	(847,079)	-
Sale of capital assets	-	-	5,809	5,809
TOTAL OTHER FINANCING SOURCES (USES)	<u>(847,079)</u>	<u>(847,079)</u>	<u>(841,270)</u>	<u>5,809</u>
NET CHANGE IN FUND BALANCE	-	-	492,311	492,311
FUND BALANCE - JANUARY 1	<u>2,114,414</u>	<u>2,114,414</u>	<u>2,114,414</u>	<u>-</u>
FUND BALANCE - DECEMBER 31	<u>\$ 2,114,414</u>	<u>\$ 2,114,414</u>	<u>\$ 2,606,725</u>	<u>\$ 492,311</u>

See notes to required supplementary information.

CITY OF MOUNTAIN IRON, MINNESOTA

SCHEDULE OF FUNDING PROGRESS FOR POSTEMPLOYMENT BENEFIT PLAN
Year Ended December 31, 2014

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

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

NOTE 1 - VALUATIONS

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

CITY OF MOUNTAIN IRON, MINNESOTA

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
December 31, 2014

NOTE 1 - BUDGETING

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

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

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

OTHER SUPPLEMENTARY INFORMATION

CITY OF MOUNTAIN IRON, MINNESOTA

GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

Year Ended December 31, 2014

REVENUES

TAXES

General property	\$ 1,479,597
Mineral rents and royalties	21,775
Franchise	23,710
TOTAL TAXES	<u>1,525,082</u>

LICENSES AND PERMITS

38,835

INTERGOVERNMENTAL

State

Local government aid	1,281,590
Market value credit	964
Taconite production	561,626
Taconite municipal aid	382,158
Mining effects	110,677
PERA aid	4,529
Police aid	36,819

TOTAL INTERGOVERNMENTAL

2,378,363

CHARGES FOR SERVICES

General government

Rent	15,127
Other reimbursements	114,962

Culture and recreation

Recreation fees	6,094
Campground fees	37,338

TOTAL CHARGES FOR SERVICES

173,521

FINES

Fines and forfeits

12,796

Administrative fines

735

TOTAL FINES

13,531

INVESTMENT INCOME

12,943

TOTAL REVENUES

4,142,275

CITY OF MOUNTAIN IRON, MINNESOTA

GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE (CONTINUED)
Year Ended December 31, 2014

EXPENDITURES

CURRENT

GENERAL GOVERNMENT

Mayor and council	\$ 22,435
Administration	503,728
Elections	4,206
Assessor	16,198
Retiree's insurance	96,799
Donations and contributions	9,077
Other	97,429
Buildings	201,771
Planning and zoning	32,261
TOTAL GENERAL GOVERNMENT	<u>983,904</u>

PUBLIC SAFETY

Sheriff	538,935
Fire	104,807
Animal control	18,212
Civil defense	27,035
TOTAL PUBLIC SAFETY	<u>688,989</u>

STREETS

675,939

CULTURE AND RECREATION

Library	195,390
Recreation	197,297
Campgrounds	67,175
TOTAL CULTURE AND RECREATION	<u>459,862</u>

TOTAL EXPENDITURES

2,808,694EXCESS OF REVENUES OVER
EXPENDITURES1,333,581

OTHER FINANCING SOURCES (USES)

Transfers out	(847,079)
Sale of capital assets	5,809
TOTAL OTHER FINANCING SOURCES (USES)	<u>(841,270)</u>

NET CHANGE IN FUND BALANCE

492,311

FUND BALANCE - JANUARY 1

2,114,414

FUND BALANCE - DECEMBER 31

\$ 2,606,725

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, 2014**

	<u>Budget</u>	Accounted for in <u>Prior Years</u> <u>Restated</u>	<u>Current</u> <u>Year</u>
SOURCES OF FUNDS			
Tax increment revenue	\$ 1,025,590	\$ 78,819	\$ 81,319
Transfers from EDA General Fund	<u>-</u>	<u>6,022</u>	<u>-</u>
TOTAL SOURCES OF FUNDS	<u>1,025,590</u>	<u>84,841</u>	<u>81,319</u>
USES OF FUNDS			
Site improvements and preparation costs	1,025,590	70,937	73,187
Administrative costs	-	11,768	1,521
Transfers to EDA General Fund	<u>-</u>	<u>6,022</u>	<u>-</u>
TOTAL USES OF FUNDS	<u>1,025,590</u>	<u>88,727</u>	<u>74,708</u>
DISTRICT BALANCE	<u>\$ -</u>	<u>\$ (3,886)</u>	<u>\$ 6,611</u>

**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, 2014, 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 May 27, 2015. 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 the 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 2014-002 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 2014-001 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 May 27, 2015, 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
May 27, 2015

CITY OF MOUNTAIN IRON, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended December 31, 2014

2014-001. 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, 2014

2014-002. 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, 2014, 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 auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

However, during our audit we became aware of deficiencies in internal control other than significant deficiencies and material weaknesses and matters that are opportunities for strengthening internal controls and operating efficiency. A separate letter dated May 27, 2015 included under this cover, contains our communication of significant deficiencies or material weaknesses in the City's internal control. This letter does not affect our report dated May 27, 2015, 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 are summarized as follows:

1. The Electric Utility Enterprise Fund, Wastewater Treatment Enterprise Fund, and Mountain Manor Apartments Enterprise Fund each reported an operating loss for the year ended December 31, 2014. We suggest that the City Council review these losses and implement a plan to make the funds profitable and self-sufficient.
2. During the inventory observation it was noted that major electric utility items are stored in an unfenced area outside of the warehouse. We recommend that the administration consider fencing this area to provide adequate security over the physical inventory and deter theft, damage, loss or improper use of City assets.

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. The General Fund "transfers" are listed as separate line items with the expenditures on the budget summary report; however, the Enterprise Funds "transfers" appear to be included with "capital outlay" and are not listed as separate line items with the expenditures on the budget summary report. We recommend that the Enterprise Fund transfers be listed as separate line items with the expenses to be consistent with the General Fund transfer presentation, and to aid in the preparation of the note disclosures to the financial statements.
4. The City has invested in long-term certificates of deposit with two investment firms. These investment accounts are carried at market value which may result in an investment loss if not held to maturity. We recommend that the administration monitor the market value gain or loss and hold the investments to maturity to avoid an investment loss.

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, Giroux & Helne, LLC

Virginia, Minnesota
May 27, 2015