

**CITY OF MOUNTAIN IRON, MINNESOTA**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
Year Ended December 31, 2004**

CITY OF MOUNTAIN IRON, MINNESOTA

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**CITY OF MOUNTAIN IRON, MINNESOTA**

**ORGANIZATION**  
**December 31, 2004**

**CITY COUNCIL**

Mayor

Gary Skalko

Council Members

Dale Irish  
Allen Nelson  
Joe Prebeg, Jr.  
Ed Roskoski

**ADMINISTRATION**

Administrator

Craig J. Wainio

## FINANCIAL SECTION



CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

P.O. Box 960 • 225 1st Street North, Suite 2400 • Virginia, Minnesota 55792  
218-749-4880 • FAX 218-749-8528

**INDEPENDENT AUDITOR'S REPORT**

To the City Council  
City of Mountain Iron, Minnesota

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Mountain Iron, Minnesota, as of and for the year ended December 31, 2004, which collectively comprise the basic financial statements of the City's primary government, as listed in the table of contents. These financial statements are the responsibility of the City of Mountain Iron, Minnesota's, management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

The financial statements referred to above include only the primary government of the City of Mountain Iron, Minnesota, which consists of all funds, organizations, institutions, agencies, departments, and offices that comprise the City's legal entity. The financial statements do not include financial data for the City's legally separate component unit, which accounting principles generally accepted in the United States of America require to be reported with the financial data of the City's primary government. As a result, the primary government financial statements do not purport to, and do not, present fairly the financial position of the reporting entity of the City of Mountain Iron, Minnesota, as of December 31, 2004, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information for the primary government of the City of Mountain Iron, Minnesota, as of December 31, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 6, 2005 on our consideration of City of Mountain Iron, Minnesota's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 4 through 10 and page 42 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the primary government of the City of Mountain Iron, Minnesota. The combining nonmajor fund financial statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the primary government of the City of Mountain Iron, Minnesota. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements of the primary government and, in our opinion, are fairly presented in all material respects in relation to the basic financial statements taken as a whole.

*Wacker, Strong & Helms, LLP.*

May 6, 2005

## MANAGEMENT'S DISCUSSION AND ANALYSIS



## CITY OF MOUNTAIN IRON, MINNESOTA

### MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2004

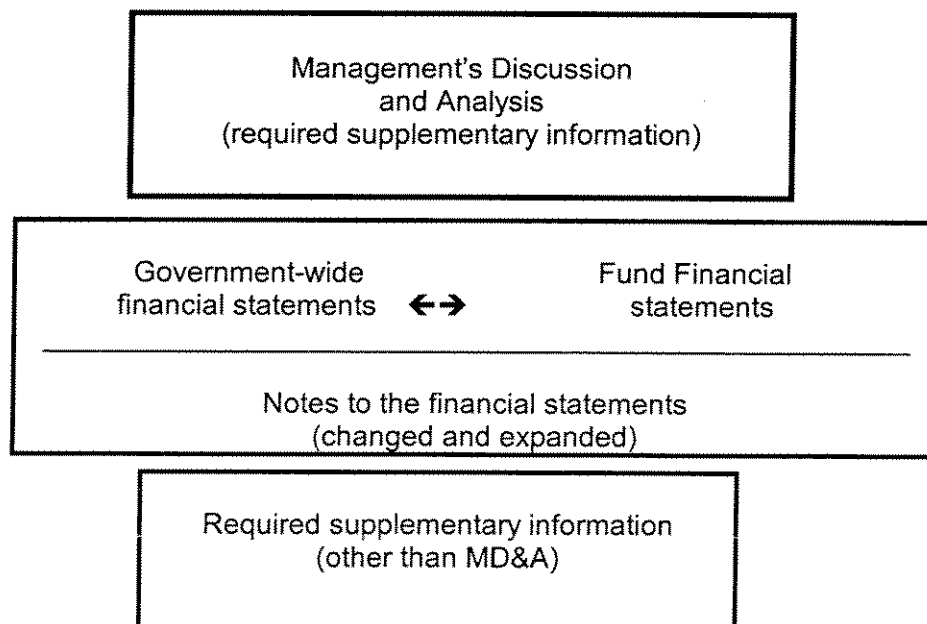
The City of Mountain Iron, Minnesota's management discussion and analysis provides an overview of the City's financial activities for the year ended December 31, 2004. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the City of Mountain Iron, Minnesota's financial statements.

#### FINANCIAL HIGHLIGHTS

- Governmental activities' total net assets are \$5,968,175, of which \$3,423,912 is invested in capital assets, net of related debt.
- Business-type activities has total net assets of \$4,851,316. Invested in capital assets, net of related debt represents \$4,124,617 of the total.
- The City of Mountain Iron's net assets increased by \$53,439 for the year ended December 31, 2004. Of the increase \$168,528 was in the governmental activities' net assets and \$115,089 represented the decrease in business-type activities' net assets.
- The net cost of governmental activities was \$2,523,771 for the current fiscal year. The net cost was funded by general revenues and other items totaling \$2,705,016.
- Governmental funds' fund balances decreased by \$276,025.

#### 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. The following chart demonstrates how the different pieces are interrelated.



## **CITY OF MOUNTAIN IRON, MINNESOTA**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**December 31, 2004**

There are two government-wide financial statements. The statement of net assets 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 assets 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.

These government-wide statements report the City's net assets and how they have changed. You can think of the City's net assets — 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 assets are 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's buildings also need to be considered in assessing the overall health of the City.

In the statement of net assets and the statement of activities, all activities are shown in the governmental activities and business-type activities:

- **Governmental activities**—Most of the City's basic services are reported here, including general government, public safety, streets, culture and recreation. 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 are 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 the 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

# CITY OF MOUNTAIN IRON, MINNESOTA

## MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2004

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 Assets 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 Assets 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 governmental-wide statements but provide more detail and additional information, such as cash flows.

### FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

The City's combined net assets increased from \$10,766,052 to \$10,819,491. Looking at the net assets and net expenses of governmental and business-type activities separately, however, two very different stories emerge. Our analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the City's governmental and business-type activities.

**Table 1**  
**Net Assets**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2004	2003	2004	2003	2004	2003
Current and other assets	\$ 2,661,975	\$ 3,078,396	\$ 988,708	\$ 982,010	\$ 3,650,683	\$ 4,060,406
Capital assets	<u>5,492,363</u>	<u>5,082,433</u>	<u>4,929,617</u>	<u>5,079,861</u>	<u>10,421,980</u>	<u>10,162,294</u>
Total assets	<u>8,154,338</u>	<u>8,160,829</u>	<u>5,918,325</u>	<u>6,061,871</u>	<u>14,072,663</u>	<u>14,222,700</u>
Long-term debt outstanding	2,067,551	2,157,679	842,734	227,534	2,910,285	2,385,213
Other liabilities	<u>118,612</u>	<u>203,503</u>	<u>224,275</u>	<u>867,932</u>	<u>342,887</u>	<u>1,071,435</u>
Total liabilities	<u>2,186,163</u>	<u>2,361,182</u>	<u>1,067,009</u>	<u>1,095,466</u>	<u>3,253,172</u>	<u>3,456,648</u>
Net assets						
Invested in capital assets, net of debt	3,423,912	3,113,673	4,124,617	4,249,861	7,548,529	7,363,534
Unrestricted	<u>2,544,263</u>	<u>2,685,974</u>	<u>726,699</u>	<u>716,544</u>	<u>3,270,962</u>	<u>3,402,518</u>
Total net assets	<u>\$ 5,968,175</u>	<u>\$ 5,799,647</u>	<u>\$ 4,851,316</u>	<u>\$ 4,966,405</u>	<u>\$10,819,491</u>	<u>\$10,766,052</u>

Net assets of the City's governmental activities increased by 2.9 percent (\$5,799,647 compared to \$5,968,175) in 2004.

Net assets of the City's business-type activities decreased by 2.3 percent (\$4,966,405 compared to \$4,851,316) in 2004.

**CITY OF MOUNTAIN IRON, MINNESOTA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**December 31, 2004**

**Table 2**  
**Changes in Net Assets**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Revenues						
Program revenues:						
Fees, fines, charges and other charges for services	\$ 205,794	\$ 222,830	\$2,206,056	\$2,041,948	\$ 2,411,850	\$2,264,778
Operating grants and contributions	6,094	3,189	-	-	6,094	3,189
Capital grants and contributions	227,409	364,512	-	-	227,409	364,512
General revenues:						
Property and other taxes	1,103,600	1,169,275	-	-	1,103,600	1,169,275
Intergovernmental	1,563,616	1,557,571	-	-	1,563,616	1,557,571
Other general revenues	<u>75,796</u>	<u>118,413</u>	<u>21,829</u>	<u>31,936</u>	<u>97,625</u>	<u>150,349</u>
Total revenues	<u>\$3,182,309</u>	<u>\$ 3,435,790</u>	<u>\$2,227,885</u>	<u>\$2,073,884</u>	<u>\$ 5,410,194</u>	<u>\$5,509,674</u>
Program expenses:						
General government	1,139,319	1,278,588	-	-	1,139,319	1,278,588
Public safety	535,029	534,114	-	-	535,029	534,114
Streets	839,655	929,409	-	-	839,655	929,409
Culture and recreation	342,630	290,311	-	-	342,630	290,311
Interest	106,435	111,230	-	-	106,435	111,230
Electric	-	-	1,362,085	1,249,654	1,362,085	1,249,654
Water	-	-	319,163	268,926	319,163	268,926
Wastewater	-	-	329,526	341,828	329,526	341,828
Refuse removal	-	-	370,196	351,294	370,196	351,294
Total expenses	<u>2,963,068</u>	<u>3,143,652</u>	<u>2,380,970</u>	<u>2,211,702</u>	<u>5,344,038</u>	<u>5,355,354</u>
Increase (decrease) in net assets before transfers	219,241	292,138	(153,085)	(137,818)	66,156	154,320
Transfers	<u>(37,996)</u>	<u>(38,469)</u>	<u>37,996</u>	<u>38,469</u>	<u>-</u>	<u>-</u>
Increase (decrease) in net assets	181,245	253,669	(115,089)	(99,349)	66,156	154,320
Prior period adjustment	<u>(12,717)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(12,717)</u>	<u>-</u>
Net change in net assets	<u>\$ 168,528</u>	<u>\$ 253,669</u>	<u>\$ (115,089)</u>	<u>\$ (99,349)</u>	<u>\$ 53,439</u>	<u>\$ 154,320</u>

# CITY OF MOUNTAIN IRON, MINNESOTA

## MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2004

### Governmental Activities

The cost of all governmental activities this year was \$2,963,068. As shown in the Statement of Activities, some of the cost was paid by those who directly benefited from the programs (\$205,794) or by other government's and organizations that subsidized certain programs with grants and contributions (\$1,797,119). Our taxpayers financed \$960,155 of the cost through property and other taxes.

Table 3 presents the cost of each of the City's five largest programs, as well as each program's net cost (total cost less revenues generated by the activities). The net cost shows the financial burden that was placed on the City's taxpayers by each of these programs.

**Table 3**  
**Governmental Activities**

	<u>Total Cost of Services</u>		<u>Net Cost of Services</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
General government	\$1,139,319	\$1,278,588	\$ 702,280	\$ 714,717
Streets	839,655	929,409	839,655	929,409
Public safety	535,029	534,114	535,029	534,114
Culture and recreation	342,630	290,311	340,372	290,311
Interest on long-term debt	<u>106,435</u>	<u>111,230</u>	<u>106,435</u>	<u>111,230</u>
<b>Totals</b>	<b><u>\$2,963,068</u></b>	<b><u>\$3,143,652</u></b>	<b><u>\$2,523,771</u></b>	<b><u>\$2,579,781</u></b>

### Business-Type Activities

Revenues and transfers in of the City's business-type activities were \$2,265,881 and expenses were \$2,380,970, (see Table 2). There was a change in net assets of \$(115,089) during the year ended December 31, 2004, which compares to a change in net assets of \$(99,349) for the year ended December 31, 2003. Operations produced a \$136,157 loss for the year ended December 31, 2004 driving these results.

### FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As the City completed the year, its governmental funds reported a combined fund balance of \$2,332,401 which is below last year's total of \$2,608,426. Included in this year's total fund balance is a surplus of \$1,097,109 in the City's general fund. The general fund had an increase of \$34,812. The Debt Service Fund recorded an increase in net assets due to transfers from the general fund. The City Projects Capital Projects Fund's fund balance decreased by \$161,545 due to expenditures for major capital additions exceeding revenues.

**CITY OF MOUNTAIN IRON, MINNESOTA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**December 31, 2004**

**GENERAL FUND BUDGETARY HIGHLIGHTS**

The original budget was not amended in 2004; therefore, there is no change in the final budget presented in the schedule of revenues, expenditures and changes in fund balance - budget and actual for the general fund. The actual charges to appropriations (expenditures) were \$59,675 over the final budget amounts. The most significant negative variance (\$112,838) occurred in the City streets program. On the other hand, resources available for appropriation were above the final budgeted amounts.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

At the end of 2004, the City had \$10,421,980 invested in a broad range of capital assets, including land, land improvements, infrastructure, buildings, equipment and vehicles. (See Table 4 below.) This amount represents a net increase (including additions and deductions) of \$259,686 over last year.

**Table 4**  
**Capital Assets at Year-end**  
**(Net of Depreciation)**

	Governmental Activities		Business-Type Activities		Totals	
	2004	2003	2004	2003	2004	2003
Land	\$ 298,505	\$ 286,675	\$ -	\$ -	\$ 298,505	\$ 286,675
Land improvements	158,034	106,532	-	-	158,034	106,532
Buildings	1,770,910	1,816,720	3,986,937	3,965,704	5,757,847	5,782,424
Infrastructure	1,523,022	1,656,761	91,618	102,912	1,614,640	1,759,673
Machinery and equipment	234,222	263,611	781,135	903,366	1,015,357	1,166,977
Licensed vehicles	546,611	327,120	69,927	107,879	616,538	434,999
Construction in progress	961,059	625,014	-	-	961,059	625,014
Totals	<u>\$5,492,363</u>	<u>\$ 5,082,433</u>	<u>\$4,929,617</u>	<u>\$5,079,861</u>	<u>\$10,421,980</u>	<u>\$10,162,294</u>

This year's major additions include library renovations, street overlay, purchase of a fire truck, and rebuilding the substation.

The City's 2005 capital budget calls for it to spend another \$1,476,799 for capital projects, principally for street improvements, library ADA compliance, fire fighting equipment and dump site cleanup.

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, 2004**

**Debt**

At year-end, the City had \$2,910,285 in long-term debt outstanding versus \$3,025,611 last year—as shown in Table 5.

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

	Governmental Activities		Business-Type Activities		Totals	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
General obligation bonds (backed by the City)	\$1,990,000	\$ 2,090,000	\$ -	\$ -	\$ 1,990,000	\$2,090,000
Water revenue bonds	-	-	805,000	830,000	805,000	830,000
Severance and separation payable	<u>77,551</u>	<u>67,679</u>	<u>37,734</u>	<u>37,932</u>	<u>115,285</u>	<u>105,611</u>
Total	<u>\$2,067,551</u>	<u>\$ 2,157,679</u>	<u>\$ 842,734</u>	<u>\$ 867,932</u>	<u>\$ 2,910,285</u>	<u>\$3,025,611</u>

The State limits the amount of net debt that the City can issue to 2 percent of the market value of all taxable property in the City. The City's outstanding qualifying net debt of \$1,990,000 is significantly below this \$2,332,620 State-imposed limit.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The City's elected and appointed officials considered many factors when setting the 2005 budget, tax rates, and fees that will be charged for the business-type activities.

- City General Fund expenditures increased 3.4% or \$87,554 over 2004.
- City's property taxes increased 5.0% or \$43,590 over 2004.
- The development of building lots around Maskenode Lake will have a great impact on property tax revenues for the City.
- In 2004 the City raised water rates and electric rates; in 2005 the City raised wastewater rates to assist with the stabilization of these business activities.

**CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City's Administrator, Craig J. Wainio, City of Mountain Iron, 8586 Enterprise Drive South, Mountain Iron, Minnesota 55768.

## BASIC FINANCIAL STATEMENTS



## CITY OF MOUNTAIN IRON, MINNESOTA

## STATEMENT OF NET ASSETS

December 31, 2004

	Primary Government		
	Governmental	Business-type	Total
	Activities	Activities	
<b>ASSETS</b>			
Cash and cash equivalents	\$ 2,225,404	\$ 586,802	\$ 2,812,206
Taxes receivable	32,155	-	32,155
Special assessments receivable	279,799	-	279,799
Accounts receivable	-	310,481	310,481
Interest receivable	5,460	3,509	8,969
Grants receivable	3,607	-	3,607
Due from component unit	92,337	-	92,337
Due from other governments	23,213	-	23,213
Inventories	-	87,916	87,916
Capital assets			
Land	298,505	-	298,505
Construction in progress	961,059	-	961,059
Land improvements	260,466	-	260,466
Buildings	2,344,127	5,393,880	7,738,007
Infrastructure	3,857,120	480,285	4,337,405
Machinery and equipment	435,863	5,111,511	5,547,374
Licensed vehicles	2,137,538	303,610	2,441,148
Less: accumulated depreciation	(4,802,315)	(6,359,669)	(11,161,984)
<b>TOTAL ASSETS</b>	<b>8,154,338</b>	<b>5,918,325</b>	<b>14,072,663</b>
<b>LIABILITIES</b>			
Accounts payable	36,553	156,253	192,806
Salaries payable	37,931	17,552	55,483
Customer deposits	-	47,293	47,293
Accrued interest payable	44,128	3,177	47,305
Noncurrent liabilities			
Due within one year	100,000	25,000	125,000
Due in more than one year	1,967,551	817,734	2,785,285
<b>TOTAL LIABILITIES</b>	<b>2,186,163</b>	<b>1,067,009</b>	<b>3,253,172</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	3,423,912	4,124,617	7,548,529
Unrestricted	2,544,263	726,699	3,270,962
<b>TOTAL NET ASSETS</b>	<b>\$ 5,968,175</b>	<b>\$ 4,851,316</b>	<b>\$ 10,819,491</b>

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

CITY OF MOUNTAIN IRON, MINNESOTA

STATEMENT OF ACTIVITIES  
Year Ended December 31, 2004

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
<b>PRIMARY GOVERNMENT</b>			
<b>Governmental Activities</b>			
General government	\$ 1,139,319	\$ 205,794	\$ 3,836
Public safety	535,029	-	-
Streets	839,655	-	-
Culture and recreation	342,630	-	2,258
Interest on long-term debt	106,435	-	-
<b>Total Governmental Activities</b>	<u>2,963,068</u>	<u>205,794</u>	<u>6,094</u>
<b>Business-type Activities</b>			
Electric	1,362,085	1,410,612	-
Water Treatment	319,163	230,180	-
Wastewater Treatment	329,526	206,975	-
Refuse Removal and Recycling	370,196	358,289	-
<b>Total Business-type Activities</b>	<u>2,380,970</u>	<u>2,206,056</u>	<u>-</u>
<b>TOTAL PRIMARY GOVERNMENT</b>	<u>\$ 5,344,038</u>	<u>\$ 2,411,850</u>	<u>\$ 6,094</u>

**General Revenues:**

Taxes:

Property taxes, levied for general purposes  
Property taxes, levied for specific purposes  
Franchise taxes

Grants and contributions not restricted to specific programs  
Unrestricted investment earnings  
Gain on sale of capital assets

**Transfers**

**Total General Revenues and Transfers**

**CHANGE IN NET ASSETS**

**NET ASSETS - JANUARY 1**

Prior period adjustment

**NET ASSETS - DECEMBER 31**

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

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
\$ 227,409	\$ (702,280)	\$ -	\$ (702,280)
-	(535,029)	-	(535,029)
-	(839,655)	-	(839,655)
-	(340,372)	-	(340,372)
-	(106,435)	-	(106,435)
<u>227,409</u>	<u>(2,523,771)</u>	<u>-</u>	<u>(2,523,771)</u>
-	-	48,527	48,527
-	-	(88,983)	(88,983)
-	-	(122,551)	(122,551)
-	-	(11,907)	(11,907)
-	-	(174,914)	(174,914)
<u>\$ 227,409</u>	<u>(2,523,771)</u>	<u>(174,914)</u>	<u>(2,698,685)</u>
	914,129	-	914,129
	166,570	-	166,570
	22,901	-	22,901
	1,563,616	-	1,563,616
	72,296	21,829	94,125
	3,500	-	3,500
	<u>(37,996)</u>	<u>37,996</u>	<u>-</u>
	<u>2,705,016</u>	<u>59,825</u>	<u>2,764,841</u>
	181,245	(115,089)	66,156
	5,799,647	4,966,405	10,766,052
	<u>(12,717)</u>	<u>-</u>	<u>(12,717)</u>
	<u>\$ 5,968,175</u>	<u>\$ 4,851,316</u>	<u>\$ 10,819,491</u>

**CITY OF MOUNTAIN IRON, MINNESOTA**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
December 31, 2004**

	<b>General Fund</b>	<b>Debt Service Fund</b>	<b>City Projects Capital Projects Fund</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>					
Cash and cash equivalents	\$ 1,133,892	\$ 293,791	\$ 376,439	\$ 421,282	\$ 2,225,404
Taxes receivable	32,155	-	-	-	32,155
Special assessments receivable	2,651	252,315	24,833	-	279,799
Interest receivable	1,985	661	1,446	1,368	5,460
Due from component unit	7,223	85,114	-	-	92,337
Due from other governments	23,213	-	-	-	23,213
Grants receivable	-	-	3,607	-	3,607
Asset held for resale	11,830	-	-	-	11,830
<b>TOTAL ASSETS</b>	<b>\$ 1,212,949</b>	<b>\$ 631,881</b>	<b>\$ 406,325</b>	<b>\$ 422,650</b>	<b>\$ 2,673,805</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>LIABILITIES</b>					
Accounts payable	\$ 33,924	\$ -	\$ 2,587	\$ 42	\$ 36,553
Salaries payable	37,931	-	-	-	37,931
Deferred revenue	43,985	203,542	19,393	-	266,920
<b>TOTAL LIABILITIES</b>	<b>115,840</b>	<b>203,542</b>	<b>21,980</b>	<b>42</b>	<b>341,404</b>
<b>FUND BALANCES</b>					
Unreserved, designated	1,062,297	-	1,904	-	1,064,201
Unreserved, undesignated, reported in					
General Fund	34,812	-	-	-	34,812
Special revenue funds	-	-	-	5,360	5,360
Debt service fund	-	428,339	-	-	428,339
Capital projects funds	-	-	382,441	417,248	799,689
<b>TOTAL FUND BALANCES</b>	<b>1,097,109</b>	<b>428,339</b>	<b>384,345</b>	<b>422,608</b>	<b>2,332,401</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 1,212,949</b>	<b>\$ 631,881</b>	<b>\$ 406,325</b>	<b>\$ 422,650</b>	<b>\$ 2,673,805</b>

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 ASSETS

December 31, 2004

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

<b>TOTAL FUND BALANCES, GOVERNMENTAL FUNDS</b>	<b>\$ 2,332,401</b>
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.	5,480,533
Deferred revenue in governmental funds is susceptible to full accrual on the government-wide statements.	266,920
Interest payable on long-term debt is susceptible to full accrual on the government-wide statements.	(44,128)
Long-term liabilities, including bonds payable are not due and payable in the current period and therefore not reported in the governmental funds.	<u>(2,067,551)</u>
<b>NET ASSETS OF GOVERNMENTAL ACTIVITIES</b>	<b><u>\$ 5,968,175</u></b>

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, 2004**

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>City Projects Capital Projects Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>					
Taxes	\$ 1,100,685	\$ -	\$ -	\$ -	\$ 1,100,685
Special assessments	2,651	54,207	3,948	-	60,806
Licenses and permits	15,771	-	-	-	15,771
Intergovernmental	1,563,616	-	226,801	-	1,790,417
Charges for services	169,457	-	-	-	169,457
Fines	9,585	-	-	-	9,585
Gifts and contributions	2,258	-	-	3,836	6,094
Interest	28,401	7,299	19,551	19,928	75,179
<b>TOTAL REVENUES</b>	<u>2,892,424</u>	<u>61,506</u>	<u>250,300</u>	<u>23,764</u>	<u>3,227,994</u>
<b>EXPENDITURES</b>					
Current					
General government	1,015,341	-	-	4,754	1,020,095
Public safety	488,528	-	-	-	488,528
Streets	602,838	-	-	-	602,838
Culture and recreation	321,268	-	-	-	321,268
Debt Service					
Principal	-	100,000	-	-	100,000
Interest and other charges	-	108,445	-	-	108,445
Capital Outlay					
General government	-	-	70,540	-	70,540
Public safety	-	-	323,936	-	323,936
Streets	-	-	21,931	213,367	235,298
Culture and recreation	-	-	182,358	-	182,358
<b>TOTAL EXPENDITURES</b>	<u>2,427,975</u>	<u>208,445</u>	<u>598,765</u>	<u>218,121</u>	<u>3,453,306</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>464,449</u>	<u>(146,939)</u>	<u>(348,465)</u>	<u>(194,357)</u>	<u>(225,312)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	-	192,004	186,920	-	378,924
Transfers out	(416,920)	-	-	-	(416,920)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>(416,920)</u>	<u>192,004</u>	<u>186,920</u>	<u>-</u>	<u>(37,996)</u>
<b>NET CHANGE IN FUND BALANCES</b>	47,529	45,065	(161,545)	(194,357)	(263,308)
<b>FUND BALANCES - JANUARY 1</b>	1,062,297	383,274	545,890	616,965	2,608,426
<b>Prior period adjustment</b>	<u>(12,717)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(12,717)</u>
<b>FUND BALANCES - DECEMBER 31</b>	<u>\$ 1,097,109</u>	<u>\$ 428,339</u>	<u>\$ 384,345</u>	<u>\$ 422,608</u>	<u>\$ 2,332,401</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, 2004**

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

**NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS** \$ (263,308)

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	739,910	
Less current year depreciation	<u>(341,810)</u>	
Net capital assets		398,100

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

Change in deferred revenue - delinquent property taxes	2,916	
Change in deferred revenue - delinquent special assessments	(60,432)	
Change in deferred revenue - land	<u>11,830</u>	
		(45,686)

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

100,000

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

Change in accrued interest payable on long-term debt	2,010	
Change in long-term compensated absences	<u>(9,871)</u>	
		<u>(7,861)</u>

**CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES**

\$ 181,245

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

## CITY OF MOUNTAIN IRON, MINNESOTA

## STATEMENT OF NET ASSETS

## PROPRIETARY FUNDS

December 31, 2004

Business-type Activities - Enterprise Funds

	<u>Electric Enterprise Fund</u>	<u>Water Treatment Enterprise Fund</u>	<u>Wastewater Treatment Enterprise Fund</u>	<u>Refuse Removal and Recycling Enterprise Fund</u>	<u>Totals</u>
<b>ASSETS</b>					
<b>CURRENT ASSETS</b>					
Cash and cash equivalents	\$ 60,494	\$ 74,398	\$ 78,605	\$ 373,305	\$ 586,802
Accounts receivable	211,425	32,153	23,445	43,458	310,481
Interest receivable	-	685	289	2,535	3,509
Inventories	64,854	23,062	-	-	87,916
<b>TOTAL CURRENT ASSETS</b>	<u>336,773</u>	<u>130,298</u>	<u>102,339</u>	<u>419,298</u>	<u>988,708</u>
<b>NONCURRENT ASSETS</b>					
Capital assets					
Buildings	379,765	2,263,200	2,738,154	12,761	5,393,880
Infrastructure	480,285	-	-	-	480,285
Machinery and equipment	-	2,325,237	2,786,274	-	5,111,511
Licensed vehicles	150,660	-	-	152,950	303,610
Less accumulated depreciation	(624,060)	(2,481,863)	(3,157,114)	(96,632)	(6,359,669)
<b>TOTAL NONCURRENT ASSETS</b>	<u>386,650</u>	<u>2,106,574</u>	<u>2,367,314</u>	<u>69,079</u>	<u>4,929,617</u>
<b>TOTAL ASSETS</b>	<u>723,423</u>	<u>2,236,872</u>	<u>2,469,653</u>	<u>488,377</u>	<u>5,918,325</u>
<b>LIABILITIES</b>					
<b>CURRENT LIABILITIES</b>					
Accounts payable	99,414	3,706	7,026	46,107	156,253
Salaries payable	11,538	2,778	2,797	439	17,552
Accrued interest payable	-	3,177	-	-	3,177
Customer deposits payable	47,158	135	-	-	47,293
Bonds payable - current	-	25,000	-	-	25,000
<b>TOTAL CURRENT LIABILITIES</b>	<u>158,110</u>	<u>34,796</u>	<u>9,823</u>	<u>46,546</u>	<u>249,275</u>
<b>NONCURRENT LIABILITIES</b>					
Severance payable	27,628	714	8,123	1,269	37,734
Bonds payable	-	780,000	-	-	780,000
<b>TOTAL NONCURRENT LIABILITIES</b>	<u>27,628</u>	<u>780,714</u>	<u>8,123</u>	<u>1,269</u>	<u>817,734</u>
<b>TOTAL LIABILITIES</b>	<u>185,738</u>	<u>815,510</u>	<u>17,946</u>	<u>47,815</u>	<u>1,067,009</u>
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt	386,650	1,301,574	2,367,314	69,079	4,124,617
Unrestricted	151,035	119,788	84,393	371,483	726,699
<b>TOTAL NET ASSETS</b>	<u>\$ 537,685</u>	<u>\$ 1,421,362</u>	<u>\$ 2,451,707</u>	<u>\$ 440,562</u>	<u>\$ 4,851,316</u>

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 ASSETS**  
**PROPRIETARY FUNDS**  
**Year Ended December 31, 2004**

	<b>Business-type Activities - Enterprise Funds</b>				
	<b>Electric Enterprise Fund</b>	<b>Water Treatment Enterprise Fund</b>	<b>Wastewater Treatment Enterprise Fund</b>	<b>Refuse Removal and Recycling Enterprise Fund</b>	<b>Totals</b>
<b>REVENUES</b>					
Charges for sales and services	\$ 1,410,612	\$ 230,180	\$ 206,975	\$ 358,289	\$ 2,206,056
<b>OPERATING EXPENSES</b>					
Cost of sales	859,027	-	-	-	859,027
Salaries	201,457	65,834	66,681	105,102	439,074
Employee benefits	85,546	21,507	24,584	51,461	183,098
Contract services	-	-	25,560	-	25,560
Insurance	15,381	5,771	3,872	7,752	32,776
Miscellaneous	32,344	26,012	11,896	12,539	82,791
Repairs and maintenance	98,214	39,119	7,371	16,199	160,903
Solid waste management and tipping fees	-	-	-	138,801	138,801
Supplies	27,823	6,885	12,970	18,009	65,687
Telephone	4,571	289	2,574	895	8,329
Utilities	-	29,125	61,727	-	90,852
Depreciation	37,722	85,864	112,291	19,438	255,315
<b>TOTAL OPERATING EXPENSES</b>	<b>1,362,085</b>	<b>280,406</b>	<b>329,526</b>	<b>370,196</b>	<b>2,342,213</b>
<b>OPERATING INCOME (LOSS)</b>	<b>48,527</b>	<b>(50,226)</b>	<b>(122,551)</b>	<b>(11,907)</b>	<b>(136,157)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>					
Interest income	529	4,243	3,757	13,300	21,829
Interest expense	-	(38,757)	-	-	(38,757)
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<b>529</b>	<b>(34,514)</b>	<b>3,757</b>	<b>13,300</b>	<b>(16,928)</b>
<b>INCOME (LOSS) BEFORE TRANSFERS</b>	<b>49,056</b>	<b>(84,740)</b>	<b>(118,794)</b>	<b>1,393</b>	<b>(153,085)</b>
Transfers in	-	46,021	-	-	46,021
Transfers out	(8,025)	-	-	-	(8,025)
<b>CHANGE IN NET ASSETS</b>	<b>41,031</b>	<b>(38,719)</b>	<b>(118,794)</b>	<b>1,393</b>	<b>(115,089)</b>
<b>TOTAL NET ASSETS - JANUARY 1</b>	<b>496,654</b>	<b>1,460,081</b>	<b>2,570,501</b>	<b>439,169</b>	<b>4,966,405</b>
<b>TOTAL NET ASSETS - DECEMBER 31</b>	<b>\$ 537,685</b>	<b>\$ 1,421,362</b>	<b>\$ 2,451,707</b>	<b>\$ 440,562</b>	<b>\$ 4,851,316</b>

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

**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
Year Ended December 31, 2004

	Electric Enterprise Fund	Water Treatment Enterprise Fund	Waste Water Treatment Enterprise Fund	Refuse Removal and Recycling Enterprise Fund	Totals
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Cash received from customers	\$ 1,428,822	\$ 225,702	\$ 209,450	\$ 360,596	\$ 2,224,570
Cash paid to suppliers	(1,117,615)	(68,149)	(153,220)	(220,688)	(1,559,672)
Cash paid to employees	(206,613)	(132,284)	(67,869)	(107,184)	(513,950)
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<u>104,594</u>	<u>25,269</u>	<u>(11,639)</u>	<u>32,724</u>	<u>150,948</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>					
Transfers in from other funds	-	46,021	-	-	46,021
Transfers out to other funds	(8,025)	-	-	-	(8,025)
Advances from other funds	(36,604)	-	-	-	(36,604)
<b>NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES</b>	<u>(44,629)</u>	<u>46,021</u>	<u>-</u>	<u>-</u>	<u>1,392</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>					
Purchase or construction of fixed assets	-	(72,436)	(19,873)	(12,761)	(105,070)
Principal paid on long-term debt	-	(25,000)	-	-	(25,000)
Interest paid on long-term debt	-	(38,815)	-	-	(38,815)
<b>NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<u>-</u>	<u>(136,251)</u>	<u>(19,873)</u>	<u>(12,761)</u>	<u>(168,885)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Interest and dividends received	<u>529</u>	<u>4,197</u>	<u>3,468</u>	<u>12,972</u>	<u>21,166</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	60,494	(60,764)	(28,044)	32,935	4,621
<b>CASH AND CASH EQUIVALENTS, JANUARY 1</b>	<u>-</u>	<u>135,162</u>	<u>106,649</u>	<u>340,370</u>	<u>582,181</u>
<b>CASH AND CASH EQUIVALENTS, DECEMBER 31</b>	<u>\$ 60,494</u>	<u>\$ 74,398</u>	<u>\$ 78,605</u>	<u>\$ 373,305</u>	<u>\$ 586,802</u>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>					
Operating income (loss)	\$ 48,527	\$ (50,226)	\$ (122,551)	\$ (11,907)	\$ (136,157)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation	37,722	85,864	112,291	19,438	255,315
Changes in assets and liabilities (Increase) decrease in:					
Accounts receivable	955	(4,493)	2,476	2,308	1,246
Inventories	(591)	(2,069)	-	-	(2,660)
Increase (decrease) in:					
Accounts payable	5,883	(1,507)	(2,667)	24,967	26,676
Salaries payable	(4,611)	(2,111)	(1,657)	(2,165)	(10,544)
Severance payable	(546)	(204)	469	83	(198)
Customer deposits	17,255	15	-	-	17,270
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<u>\$ 104,594</u>	<u>\$ 25,269</u>	<u>\$ (11,639)</u>	<u>\$ 32,724</u>	<u>150,948</u>

The accompanying notes are an integral part of these statements.

## NOTES TO FINANCIAL STATEMENTS

# CITY OF MOUNTAIN IRON, MINNESOTA

## NOTES TO FINANCIAL STATEMENTS

December 31, 2004

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The accounting policies of the primary government of the City of Mountain Iron, Minnesota, comply with Generally Accepted Accounting Principles (GAAP). The City applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. Proprietary funds apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

The accounting and reporting framework and the more significant accounting principles and practices are discussed in subsequent sections of this Note. The remainder of the Notes are organized to provide explanations, including required disclosures, of the City's financial activities for the fiscal year ended December 31, 2004.

#### A. Financial Reporting Entity

The City's financial reporting entity is comprised of the primary government of the City of Mountain Iron.

#### Component Unit

The Mountain Iron Housing and Redevelopment Authority (HRA) is a component unit of the City of Mountain Iron, created by the City to carry out land development within the City limits. The City has not included the Mountain Iron Housing and Redevelopment Authority in its financial statements. The complete financial records for the HRA may be obtained from the City of Mountain Iron, 8586 Enterprise Drive South, Mountain Iron, Minnesota 55768.

#### Government-wide Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of changes in net assets) report information on all of the activities of the primary government. 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.

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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 government funds:

**Major Governmental Funds:**

The General Fund is the primary operating fund of the City and is used to account for all financial resources relating to the general government, except those required to be accounted for in another fund.

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, long-term debt principal, interest and related costs.

The City Projects Capital Projects Fund accounts for the acquisition of fixed assets or construction of capital projects not being financed by proprietary funds.

**Nonmajor Governmental Fund:**

The Charitable Gambling Special Revenue Fund accounts for revenues and expenditures from charitable gambling contributions.

The Street Construction Capital Projects Fund accounts for the construction of major street capital projects not being financed by proprietary funds.

# CITY OF MOUNTAIN IRON, MINNESOTA

## NOTES TO FINANCIAL STATEMENTS

December 31, 2004

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 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 Assets. The City has presented the following proprietary funds:

#### Major Proprietary Funds:

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

The Water Treatment Enterprise Fund is used to account for revenues generated from the charges for distribution of water 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.

#### C. Measurement Focus and Basis of Accounting

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

The government-wide statements and fund financial statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net assets and the operating statements present increases (revenues) and decreases (expenses) in net total assets. 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.

# CITY OF MOUNTAIN IRON, MINNESOTA

## NOTES TO FINANCIAL STATEMENTS

December 31, 2004

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 and special assessments 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.

#### D. 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.

#### E. Cash and Cash Equivalents

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

**CITY OF MOUNTAIN IRON, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2004**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**F. Assets, Liabilities and Fund Balances**

- 1) Cash balances for all funds of the City are maintained on a combined basis and invested to the extent possible, in allowable short-term investments. All investments are stated at fair value.
- 2) The enterprise funds report accounts receivable net of uncollectible accounts. The allowance amounts of \$1,500 in the water enterprise fund, \$2,000 in the wastewater enterprise fund; \$5,000 in the refuse removal and recycling enterprise fund, and \$10,000 in the electric enterprise fund were estimated using an average of prior years accounts written off.
- 3) 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.
- 4) Restricted assets are cash and cash equivalents whose use is limited by legal requirements. Restricted assets are reported only in the government-wide financial statements.
- 5) Any residual balances outstanding between the governmental activities and business-type activities are reported in the governmental-wide financial statements as "internal balances".

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

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

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. 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.



**CITY OF MOUNTAIN IRON, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2004**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

- 7) Delinquent property taxes receivable, less any delinquent taxes that are to be received within 60 days, are recorded as a deferred revenue in the fund financial statements because they are not available to finance the current year operations of the City. Deferred revenue reported in the debt service fund and city projects capital projects fund represents special assessments receivable.
- 8) 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 assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs, if material, are reported as deferred charges and amortized over the term of the related debt. The long-term debt consists primarily of general obligation bonds payable and severance payable.

Long-term debt for governmental funds is not reported as a liability in the fund financial statements. Debt proceeds are reported as other financing sources and payment of principal and interest are reported as expenditures. Severance pay and post-employment benefit expenditures are recognized when paid.

- 9) Net assets represent the difference between assets and liabilities in the government-wide financial statements. Net assets invested in capital assets, net of related debt 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 assets are 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, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**G. Revenues and Expenditures**

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

# CITY OF MOUNTAIN IRON, MINNESOTA

## NOTES TO FINANCIAL STATEMENTS

December 31, 2004

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

#### Excess of Expenditures Over Budget

Expenditures exceeded appropriations in the following funds for the year ended December 31, 2004:

General Fund	\$ 59,675
Special Revenue Fund	\$ 2,754

The excess expenditures were funded by available fund balances in the fund.

### NOTE 3 - CASH AND CASH EQUIVALENTS

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". Several funds hold cash and investments separate from the cash and investment pool.

"Cash and cash equivalents" recorded are comprised of:

Petty Cash	\$ 542
Cash	887,864
Certificates of Deposit	1,246,179
Investments	<u>677,621</u>
Total	<u>\$ 2,812,206</u>

**CITY OF MOUNTAIN IRON, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2004**

**NOTE 3 - CASH AND CASH EQUIVALENTS (CONTINUED)**

**Deposits:** The City maintains deposits at financial institutions authorized by the City Council. Minnesota statutes require that all City deposits be protected by insurance, surety bond or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance or bonds. State statutes authorize the types of securities which may be pledged as collateral and require that those securities be held in safekeeping by the City or in a financial institution other than that furnishing the collateral. At year-end, the carrying amount of the City's deposits, which includes certificates of deposit, was \$2,134,043; the bank balance was \$2,241,926. 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 as required by Minnesota Statute §118A.03.

**Investments:** 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, commercial paper and guaranteed investment contracts. The City's investments are categorized into three categories of credit risk:

- 1) insured or registered, or securities held by the City or its agent in the City's name;
- 2) uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name;
- 3) uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent, but not in the City's name.

At December 31, 2004, the City's investment balances were as follows:

<u>Description</u>	<u>Category</u>			<u>Carrying Amount</u>
	<u>1</u>	<u>2</u>	<u>3</u>	
U.S. Government Bonds	\$202,475	\$ -	\$ -	\$ 202,475
Repurchase agreements	-	-	475,000	475,000
	<u>\$202,475</u>	<u>\$ -</u>	<u>\$475,000</u>	

Investments not subject to categorization:

Miller Johnson Steichen Kinnard Money Market Funds 146

Total Investments \$ 677,621

## CITY OF MOUNTAIN IRON, MINNESOTA

## NOTES TO FINANCIAL STATEMENTS

December 31, 2004

## NOTE 4 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2004, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
<b>Governmental activities</b>				
<b>Capital assets, not being depreciated:</b>				
Land	\$ 286,675	\$ 11,830	\$ -	\$ 298,505
Construction in progress	<u>625,014</u>	<u>336,045</u>	<u>-</u>	<u>961,059</u>
<b>Total capital assets not being depreciated</b>	<u>911,689</u>	<u>347,875</u>	<u>-</u>	<u>1,259,564</u>
<b>Capital assets, being depreciated:</b>				
Land improvements	199,812	60,654	-	260,466
Buildings	2,344,127	-	-	2,344,127
Infrastructure	3,857,120	-	-	3,857,120
Machinery and equipment	435,863	-	-	435,863
Licensed vehicles	<u>1,826,327</u>	<u>343,211</u>	<u>(32,000)</u>	<u>2,137,538</u>
<b>Total capital assets, being depreciated</b>	<u>8,663,249</u>	<u>403,865</u>	<u>(32,000)</u>	<u>9,035,114</u>
<b>Less accumulated depreciation for:</b>				
Land improvements	(93,279)	(9,152)	-	(102,431)
Buildings	(527,407)	(45,810)	-	(573,217)
Infrastructure	(2,200,359)	(133,739)	-	(2,334,098)
Machinery and equipment	(172,253)	(29,389)	-	(201,642)
Licensed vehicles	<u>(1,499,207)</u>	<u>(123,720)</u>	<u>32,000</u>	<u>(1,590,927)</u>
<b>Total accumulated depreciation</b>	<u>(4,492,505)</u>	<u>(341,810)</u>	<u>32,000</u>	<u>(4,802,315)</u>
<b>Total capital assets, being depreciated, net</b>	<u>4,170,744</u>	<u>62,055</u>	<u>-</u>	<u>4,232,799</u>
<b>Governmental activities capital assets, net</b>	<u>\$ 5,082,433</u>	<u>\$ 409,930</u>	<u>\$ -</u>	<u>\$ 5,492,363</u>
<b>Business-type activities</b>				
<b>Capital assets, being depreciated:</b>				
Building	\$ 5,288,810	\$ 105,070	\$ -	\$ 5,393,880
Infrastructure	480,285	-	-	480,285
Machinery and equipment	5,111,511	-	-	5,111,511
Licensed vehicles	<u>303,610</u>	<u>-</u>	<u>-</u>	<u>303,610</u>
<b>Total capital assets, being depreciated</b>	<u>11,184,216</u>	<u>105,070</u>	<u>-</u>	<u>11,289,286</u>
<b>Less accumulated depreciation for:</b>				
Building	(1,298,261)	(108,682)	-	(1,406,943)
Infrastructure	(377,373)	(11,294)	-	(388,667)
Machinery and equipment	(4,232,988)	(97,388)	-	(4,330,376)
Licensed vehicles	<u>(195,732)</u>	<u>(37,951)</u>	<u>-</u>	<u>(233,683)</u>
<b>Total accumulated depreciation</b>	<u>(6,104,354)</u>	<u>(255,315)</u>	<u>-</u>	<u>(6,359,669)</u>
<b>Total capital assets, being depreciated, net</b>	<u>5,079,862</u>	<u>(150,245)</u>	<u>-</u>	<u>4,929,617</u>
<b>Business-type activities capital assets, net</b>	<u>\$ 5,079,862</u>	<u>\$ (150,245)</u>	<u>\$ -</u>	<u>\$ 4,929,617</u>

# CITY OF MOUNTAIN IRON, MINNESOTA

## NOTES TO FINANCIAL STATEMENTS

December 31, 2004

### NOTE 4 - CAPITAL ASSETS (CONTINUED)

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

#### Governmental activities

General government	\$ 49,354
Public safety	43,845
Streets	230,296
Culture and recreation	<u>18,315</u>
Total depreciation expense- governmental activities	<u>\$ 341,810</u>

#### Business-type activities

Electric	\$ 37,722
Water treatment	85,864
Wastewater treatment	112,291
Refuse removal and recycling	<u>19,438</u>
Total depreciation expense - business-type activities	<u>\$ 255,315</u>

### NOTE 5 - LONG-TERM LIABILITIES

The City issued general obligation bonds and general obligation revenue bonds to finance the construction of major capital facilities and improvements. The bonds have been issued for the general government and are being repaid from the applicable resources. For governmental activities, claims and judgments and severance payable are generally liquidated by the general fund.

Components of long-term liabilities are as follows:

	<u>Issue Date</u>	<u>Interest Rates</u>	<u>Original Issue</u>	<u>Final Maturity</u>	<u>Principal Outstanding</u>
<b>Governmental activities</b>					
General obligation bonds					
1998 Community Center	4/1/1998	4.50-5.30%	\$1,015,000	2/1/2020	\$ 880,000
2000 Improvements	9/1/2000	4.75-5.75%	\$1,280,000	2/1/2016	<u>1,110,000</u>
Total general obligation bonds					1,990,000
Severance payable					<u>77,551</u>
<b>Governmental activities long-term liabilities</b>					<u>2,067,551</u>
<b>Business-type activities</b>					
2002 Water revenue bonds	8/1/2002	2.5-5.15%	\$ 855,000	12/1/2022	805,000
Severance payable					<u>37,734</u>
<b>Business-type activities long-term liabilities</b>					<u>842,734</u>
<b>Total Long-Term Liabilities</b>					<u>\$2,910,285</u>

# CITY OF MOUNTAIN IRON, MINNESOTA

## NOTES TO FINANCIAL STATEMENTS December 31, 2004

### NOTE 5 - LONG-TERM LIABILITIES (CONTINUED)

Long-term liability activity for the year ended December 31, 2004 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
<b>Governmental activities</b>					
Bonds payable					
1998 GO Community Center bonds	\$ 915,000	\$ -	\$ (35,000)	\$ 880,000	\$ 35,000
2000 GO Improvement bonds	1,175,000	-	(65,000)	1,110,000	65,000
Total bonds payable	2,090,000	-	(100,000)	1,990,000	100,000
Severance payable	67,679	9,872	-	77,351	-
<b>Governmental activities - long-term liabilities</b>	<b>\$ 2,157,679</b>	<b>\$ 9,872</b>	<b>\$ (100,000)</b>	<b>\$ 2,067,551</b>	<b>\$ 100,000</b>
<b>Business-type activities</b>					
2002 Water revenue bonds	\$ 830,000	\$ -	\$ (25,000)	\$ 805,000	\$ 25,000
Severance payable	37,932	-	(199)	37,734	-
<b>Business-type activities - long-term liabilities</b>	<b>\$ 867,932</b>	<b>\$ -</b>	<b>\$ (25,199)</b>	<b>\$ 842,734</b>	<b>\$ 25,000</b>

Minimum annual principal and interest payments required to retire long-term liabilities, excluding severance payable are as follows:

Year Ending December 31	Governmental Activities		Business-Type Activities		Government-wide	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 100,000	\$ 103,419	\$ 25,000	\$ 38,127	\$ 125,000	\$ 141,546
2006	110,000	98,160	30,000	37,328	140,000	135,488
2007	115,000	92,471	30,000	36,232	145,000	128,703
2008	125,000	86,364	35,000	35,063	160,000	121,427
2009	130,000	79,776	35,000	33,627	165,000	113,403
2010-2014	760,000	284,619	200,000	143,710	960,000	428,329
2015-2019	570,000	80,925	260,000	90,455	830,000	171,380
2020-2022	80,000	2,120	190,000	19,828	270,000	21,948
Total	\$ 1,990,000	\$ 827,854	\$ 805,000	\$ 434,370	\$ 2,795,000	\$ 1,262,224

### Other Obligations

General obligation tax increment financing bonds bearing the City's name were issued to finance redevelopment and economic development projects. These bonds are included in the financial statements of the Mountain Iron Housing and Redevelopment Authority. As of December 31, 2004, \$375,000 of these bonds were outstanding.

The Mountain Iron Housing and Redevelopment Authority entered into a mortgage note with Rural Development (a division of the U.S. Department of Agriculture) for the Mountain Iron Housing for the Elderly project. This note is guaranteed by the City of Mountain Iron, Minnesota. As of December 31, 2004, \$669,518 of this mortgage was outstanding.

# **CITY OF MOUNTAIN IRON, MINNESOTA**

## **NOTES TO FINANCIAL STATEMENTS**

**December 31, 2004**

### **NOTE 5 - LONG-TERM LIABILITIES (CONTINUED)**

#### **Conduit Debt**

In 1999 the City of Two Harbors, Minnesota (Issuer) issued limited obligation notes (City of Two Harbors, Minnesota \$1,786,433 Health Care Facilities Revenue Note, Series 1999A and \$136,734 Health Care Facilities Revenue Note, Series 1999B, Duluth Regional Care Center Project) for purposes of financing the cost of acquisition of a new facility, refinancing debt, and financing real property improvements for the Duluth Regional Care Center, Inc. The City of Mountain Iron and the cities of Duluth, Aurora, Two Harbors, and Virginia, Minnesota (Parties) entered into a joint powers agreement to cooperatively finance the project since portions of the project are located within the jurisdictional limits of each of the Parties. These notes and interest are limited obligations of the Issuer and shall not be payable from nor charged against any funds of the City other than revenue pledged for the payment thereof and does not constitute a debt of the City and is not reported as a liability in the financial statements of the City. The outstanding balance of these notes at December 31, 2004 is \$932,795 and \$78,236, respectively. Duluth Regional Care Center, Inc. is not a component unit of the City.

In 1999 the Mountain Iron Housing and Redevelopment Authority in and for the City of Mountain Iron issued \$1,450,000 lease revenue bonds to finance construction of a building by Northeast Service Cooperative and approved the financing plan for the project. The project is located on HRA property. The bonds are special limited obligations of the Authority, payable solely from the amounts payable under the lease. The bonds do not constitute a debt of the Authority or the City within the meaning of any constitutional or statutory limitation. The outstanding balance on these bonds at December 31, 2004 is \$1,225,000.

In 2002 the Mountain Iron Housing and Redevelopment Authority in and for the City of Mountain Iron issued \$2,075,000 lease revenue bonds to finance construction of a building by Arrowhead Library System and approved the financing plan for the project. The project is located on HRA property. The bonds are special limited obligations of the Authority payable solely from the amounts payable under the lease. The bonds do not constitute a debt of the Authority or the City within the meaning of any constitutional or statutory limitation. The outstanding balance of these bonds at December 31, 2004 is \$1,935,000.

In 2004 the City of Mountain Iron, Minnesota (Issuer) issued limited obligation notes (\$648,800 Health Care Facilities Revenue Notes Series 2004A, \$244,900 Health Care Facilities Revenue Notes Series 2004B and \$635,700 Health Care Facilities Revenue Notes Series 2004C) to finance the cost of acquisition of a new facility, refinance debt, and finance real property improvements for the Duluth Regional Care Center, Inc. The City of Mountain Iron and the City of Hermantown, Minnesota, and the Duluth Economic Development Authority (Host Municipalities) entered into a joint powers agreement to cooperatively finance the project since portions of the project are located within the jurisdictional limits of each of the Host Municipalities. These notes and interest are limited obligations of the Issuer and shall not be payable from nor charged against any funds of the City other than revenue pledged for the payment thereof and does not constitute a debt of the City and is not reported as a liability in the financial statements of the City. The outstanding balance of these notes at December 31, 2004 is \$514,466; \$204,256; and \$595,923, respectively.

**CITY OF MOUNTAIN IRON, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2004**

**NOTE 6 - INTERFUND BALANCES AND ACTIVITY**

Due to/from primary government and component unit:

<u>Receivable entity</u>	<u>Payable entity</u>	<u>Amount</u>
Primary government:	Component unit:	
General Fund	Mountain Iron Housing and Redevelopment Authority	\$ 7,223
Debt Service Fund	Mountain Iron Housing And Redevelopment Authority	\$ 85,114
		<u>\$ 92,337</u>

The balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Interfund transfers for the year ended December 31, 2004 consisted of the following:

	<u>Transfers in</u>			
	<u>Debt Service Fund</u>	<u>City Projects Capital Projects Fund</u>	<u>Water Treatment Enterprise Fund</u>	<u>Total</u>
Transfer out				
General Fund	\$ 192,004	\$ 186,920	\$ 37,996	\$ 416,920
Electric Enterprise Fund	-	-	8,025	8,025
Total	<u>\$ 192,004</u>	<u>\$ 186,920</u>	<u>\$ 46,021</u>	<u>\$ 424,945</u>

Transfers are used to: 1) to 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 Debt Service Fund and Water Treatment Enterprise Fund as the debt service payments come due.

**NOTE 7 - FUND EQUITY**

**Fund Balances**

The amount reported as fund balances unreserved, designated on the Balance Sheet is comprised of the following:

<u>General Fund</u>	
Designated for capital outlay	\$ 812,297
Designated for cash flow	250,000
Total Designated – General Fund	<u>\$ 1,062,297</u>
<u>Capital Projects Fund</u>	
Designated for capital outlay	<u>\$ 1,904</u>



**CITY OF MOUNTAIN IRON, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2004**

**NOTE 8 - PRIOR PERIOD ADJUSTMENT**

A prior period adjustment has been made in the financial statements, which is reported as an adjustment to beginning fund balance or net assets.

Adjustment to fund balance of governmental fund in fund financial statement:

General Fund

Special assessment previously recorded  
decrease in fund balance

\$ 12,717

Adjustment to net assets of governmental activities in government-wide  
financial statements:

Decrease in special assessments receivable \$ 12,717

**NOTE 9 - RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets, errors and omissions; injuries to employees; and natural disasters. To cover these risks of loss, except for faithful performance of employee duties, the City, 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 pays annual premiums to the Trust for its insurance coverage. 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 carries 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, 2004**

**NOTE 10 - TAX INCREMENT FINANCING DISTRICTS**

The Mountain Iron Housing and Redevelopment Authority is the administering authority for the following tax increment financing districts:

<u>Tax Increment Financing Districts</u>	<u>No. 1</u>	<u>No. 2</u>	<u>No. 3</u>	<u>No. 6</u>
Redevelopment project district established in:	1983	1986	1987	-
Economic development district established in:	-	-	-	1990
Soils district established in:	-	-	-	-
Anticipated last tax increment year:	2009	2011	2012	2004
Original net tax capacity:	\$ <u>4,262</u>	\$ <u>1,828</u>	\$ <u>20</u>	\$ <u>5,967</u>
Current net tax capacity:	\$ <u>49,609</u>	\$ <u>10,444</u>	\$ <u>2,652</u>	\$ <u>9,048</u>
Fiscal disparity deduction:	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
Captured net tax capacity retained by Authority:	\$ <u>45,347</u>	\$ <u>8,616</u>	\$ <u>2,632</u>	\$ <u>3,081</u>
Total bonds issued				
Tax increment bonds	\$ 440,000	\$ 60,000	\$ -	\$ -
Amounts redeemed	<u>334,400</u>	<u>45,600</u>	<u>-</u>	<u>-</u>
Outstanding bonds at 12/31/04	\$ <u>105,600</u>	\$ <u>14,400</u>	\$ <u>-</u>	\$ <u>-</u>

<u>No. 7</u>	<u>No. 8</u>	<u>No. 9</u>	<u>No.10</u>	<u>No.11</u>	<u>No. 12</u>	<u>No. 13</u>
-	-	-	-	-	-	-
-	1995	1997	1999	1999	2002	2002
1994	-	-	-	-	-	-
2008	2004	2007	2009	2009	2011	2011
\$ <u>1,914</u>	\$ <u>1,722</u>	\$ <u>644</u>	\$ <u>459</u>	\$ <u>1,017</u>	\$ <u>315</u>	\$ <u>-</u>
\$ <u>27,069</u>	\$ <u>15,308</u>	\$ <u>7,514</u>	\$ <u>674</u>	\$ <u>11,376</u>	\$ <u>420</u>	\$ <u>-</u>
\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>12</u>	\$ <u>550</u>	\$ <u>5</u>	\$ <u>-</u>
\$ <u>25,155</u>	\$ <u>13,586</u>	\$ <u>6,870</u>	\$ <u>203</u>	\$ <u>9,809</u>	\$ <u>100</u>	\$ <u>-</u>
\$ 635,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<u>380,000</u>	-	-	-	-	-	-
\$ <u>255,000</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>

# CITY OF MOUNTAIN IRON, MINNESOTA

## NOTES TO FINANCIAL STATEMENTS

December 31, 2004

### NOTE 11- SUBSEQUENT EVENT

On February 2, 2005, the City issued \$1,645,000 of General Obligation Crossover Refunding Bonds to be used to refund the City's 1998 Community Center Bonds and 2000 Improvement Bonds. The interest rate on the bonds range from 2.7 – 4.3 percent and the maturity date is February 1, 2020.

### NOTE 12 - OTHER COMMITMENTS AND CONTINGENCIES

#### Grants

The City participates in grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable at December 31, 2004, 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 has entered into an agreement with Minnesota Power to supply the City with its total electric requirements. This agreement is in effect until December 31, 2007. 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 four outstanding construction projects as of December 31, 2004. The projects are evidenced by contractual commitments with contractors and engineers and include:

<u>Project</u>	<u>Spent to Date</u>	<u>Commitments Remaining</u>
Library reroofing project	\$ <u>46,380</u>	\$ <u>10,783</u>
Commercial Forty project	\$ <u>547,967</u>	\$ <u>52,028</u>
Street overlay project	\$ <u>182,796</u>	\$ <u>9,760</u>
Water backwash storage reservoir	\$ <u>72,437</u>	\$ <u>163,055</u>

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

## CITY OF MOUNTAIN IRON, MINNESOTA

### NOTES TO FINANCIAL STATEMENTS

December 31, 2004

#### NOTE 13 - JOINT VENTURES

##### **Tri-Cities Biosolids Disposal Authority**

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

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

Each member city contributes to the budget of the Authority based on actual loads hauled during the previous year. The City of Mountain Iron's contribution to the Authority's budget during 2004 was \$18,992. Complete financial information can be obtained from the Tri-Cities Biosolids Disposal Authority, Virginia, Minnesota 55792.

##### **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 1990 Census. The City of Mountain Iron's contribution to the Authority's budget during 2004 was \$5,010. Complete financial information can be obtained from the Biosolids Disposal Site Authority, Virginia, Minnesota 55792.

##### **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.

## **CITY OF MOUNTAIN IRON, MINNESOTA**

### **NOTES TO FINANCIAL STATEMENTS**

**December 31, 2004**

#### **NOTE 13 - JOINT VENTURES (CONTINUED)**

The City of Mountain Iron's contribution to the Authority's budget during 2004 was \$7,560. Complete financial information can be obtained from the Quad Cities Recreation Center, Eveleth, Minnesota 55734.

#### **NOTE 14 - POSTEMPLOYMENT BENEFITS/SEVERANCE**

The City of Mountain Iron provides postretirement health benefits as established by contracts with bargaining units and other employment agreements. The City pays 100 percent of the health premiums for employees who meet the retirement guidelines per the agreements. As of December 31, 2004, there were seven employees who were receiving the premium coverage benefit. The City recognized \$68,692 of expenditures incurred for this benefit during 2004.

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 2004, the City did not expend any funds on this benefit.

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

#### **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 Public Employees Retirement Fund (PERF) which is a cost-sharing multiple-employer retirement plan. This plan is established and administered in accordance with *Minnesota Statutes*, Chapters 353 and 356.

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

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

## CITY OF MOUNTAIN IRON, MINNESOTA

### NOTES TO FINANCIAL STATEMENTS

December 31, 2004

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

Two methods are used to compute benefits for PERF'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 PERF 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 the age for unreduced Social Security benefits capped at 66 for Coordinated members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

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

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

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

#### **B. Funding Policy**

*Minnesota Statutes* Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The City makes annual contributions to the pension plans equal to the amount required by state statutes. PERF Basic Plan members and Coordinated Plan members are required to contribute 9.10% and 5.10%, respectively, of their annual covered salary. The City of Mountain Iron, Minnesota, is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan PERF members and 5.53% for Coordinated Plan PERF members. The City's contributions to the Public Employees Retirement Fund for the years ending December 31, 2004, 2003, and 2002 were \$62,778, \$59,170, and \$57,950, respectively. The City's contributions were equal to the contractually required contributions for each year as set by state statute.

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE 16 - DEFINED CONTRIBUTION PLAN

Three council members of the City of Mountain Iron, Minnesota 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 the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes 5 percent of salary which is matched by the elected official's employer. Employer and employee contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2 percent of employer contributions and four-tenths of one percent of the assets in each member's account annually.

Total contributions made by the City of Mountain Iron, Minnesota during fiscal year 2004 were:

<u>Amount</u>		<u>Percentage of Covered Payroll</u>		<u>Required Rates</u>
<u>Employees</u>	<u>Employer</u>	<u>Employees</u>	<u>Employer</u>	
<u>\$ 315</u>	<u>\$ 315</u>	<u>5.00%</u>	<u>5.00%</u>	<u>5.00%</u>



**REQUIRED SUPPLEMENTARY INFORMATION**

## CITY OF MOUNTAIN IRON, MINNESOTA

**GENERAL FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**  
**Year Ended December 31, 2004**

	<b>Budgeted Amounts</b>		<b>Actual Amounts, Budgetary Basis</b>	<b>Variance with Final Budget - Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Taxes	\$ 1,213,636	\$ 1,213,636	\$ 1,100,685	\$ (112,951)
Special assessments	-	-	2,651	2,651
Licenses and permits	21,500	21,500	15,771	(5,729)
Intergovernmental	1,293,084	1,293,084	1,563,616	270,532
Charges for services	208,000	208,000	169,457	(38,543)
Fines	9,000	9,000	9,585	585
Gifts and contributions	-	-	2,258	2,258
Interest	40,000	40,000	28,401	(11,599)
<b>TOTAL REVENUES</b>	<u>2,785,220</u>	<u>2,785,220</u>	<u>2,892,424</u>	<u>107,204</u>
<b>EXPENDITURES</b>				
Current				
General government	1,066,070	1,066,070	1,015,341	50,729
Public safety	483,300	483,300	488,528	(5,228)
Streets	490,000	490,000	602,838	(112,838)
Culture and recreation	328,930	328,930	321,268	7,662
<b>TOTAL EXPENDITURES</b>	<u>2,368,300</u>	<u>2,368,300</u>	<u>2,427,975</u>	<u>(59,675)</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<u>416,920</u>	<u>416,920</u>	<u>464,449</u>	<u>47,529</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out	(416,920)	(416,920)	(416,920)	-
<b>NET CHANGE IN FUND BALANCE</b>	-	-	47,529	47,529
<b>FUND BALANCE - JANUARY 1</b>	1,062,297	1,062,297	1,062,297	-
<b>Prior period adjustment</b>	-	-	(12,717)	(12,717)
<b>FUND BALANCE - DECEMBER 31</b>	<u>\$ 1,062,297</u>	<u>\$ 1,062,297</u>	<u>\$ 1,097,109</u>	<u>\$ 34,812</u>

**OTHER SUPPLEMENTARY INFORMATION**

CITY OF MOUNTAIN IRON, MINNESOTA

COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
December 31, 2004

	Charitable Gambling Special Revenue Fund	Street Construction Capital Projects Fund	Total Nonmajor Governmental Funds
<b>ASSETS</b>			
Cash and cash equivalents	\$ 5,402	\$ 415,880	\$ 421,282
Interest receivable	-	1,368	1,368
<b>TOTAL ASSETS</b>	<u>\$ 5,402</u>	<u>\$ 417,248</u>	<u>\$ 422,650</u>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Accounts payable	\$ 42	\$ -	\$ 42
<b>FUND BALANCES</b>			
Unreserved, undesignated	<u>5,360</u>	<u>417,248</u>	<u>422,608</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 5,402</u>	<u>\$ 417,248</u>	<u>\$ 422,650</u>

**CITY OF MOUNTAIN IRON, MINNESOTA**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
Year Ended December 31, 2004**

	<b>Charitable Gambling Special Revenue Fund</b>	<b>Street Construction Capital Projects Fund</b>	<b>Total Nonmajor Governmental Funds</b>
<b>REVENUES</b>			
Taxes	\$ -	\$ -	\$ -
Gifts and contributions	3,836	-	3,836
Interest	<u>341</u>	<u>19,587</u>	<u>19,928</u>
<b>TOTAL REVENUES</b>	<u>4,177</u>	<u>19,587</u>	<u>23,764</u>
<b>EXPENDITURES</b>			
Current			
General government	4,754	-	4,754
Capital Outlay	<u>-</u>	<u>213,367</u>	<u>213,367</u>
<b>TOTAL EXPENDITURES</b>	<u>4,754</u>	<u>213,367</u>	<u>218,121</u>
<b>DEFICIENCY OF REVENUES OVER EXPENDITURES</b>	<u>(577)</u>	<u>(193,780)</u>	<u>(194,357)</u>
<b>NET CHANGE IN FUND BALANCES</b>	(577)	(193,780)	(194,357)
<b>FUND BALANCES - JANUARY 1</b>	<u>5,937</u>	<u>611,028</u>	<u>616,965</u>
<b>FUND BALANCES - DECEMBER 31</b>	<u>\$ 5,360</u>	<u>\$ 417,248</u>	<u>\$ 422,608</u>

**CITY OF MOUNTAIN IRON, MINNESOTA**

**SCHEDULE OF SOURCES AND USES OF PUBLIC FUNDS  
FOR MOUNTAIN IRON TAX INCREMENT DISTRICT NO. 1  
Year Ended December 31, 2004**

	<u>Budget</u>	<u>Accounted for in Prior Years</u>	<u>Current Year</u>
<b>SOURCES OF FUNDS</b>			
Tax increment revenue	\$ 1,614,050	\$ 1,161,511	\$ 69,730
Bond proceeds	1,930,000	440,000	-
Loan proceeds HRA General Fund	-	174,885	-
Real estate sales	-	1,726	-
IRRRB Grant	<u>800,000</u>	<u>-</u>	<u>-</u>
<b>TOTAL SOURCES OF FUNDS</b>	<u>4,344,050</u>	<u>1,778,122</u>	<u>69,730</u>
<b>USES OF FUNDS</b>			
Land acquisition	100,000	58,616	-
Site improvements and preparation costs	1,129,810	713,627	-
Installation of public utilities	134,920	-	-
Streets and sidewalks	370,670	-	-
Bond principal payments	1,930,000	300,100	30,800
Bond interest payments	587,450	362,316	5,687
Loan principal payments	-	174,885	-
Administrative costs	91,200	44,984	8,772
Pooled for debt	<u>-</u>	<u>123,594</u>	<u>24,471</u>
<b>TOTAL USES OF FUNDS</b>	<u>4,344,050</u>	<u>1,778,122</u>	<u>69,730</u>
<b>DISTRICT BALANCE</b>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>

**CITY OF MOUNTAIN IRON, MINNESOTA**

**SCHEDULE OF SOURCES AND USES OF PUBLIC FUNDS  
FOR MOUNTAIN IRON TAX INCREMENT DISTRICT NO. 2  
Year Ended December 31, 2004**

	<u>Budget</u>	<u>Accounted for in Prior Years</u>	<u>Current Year</u>
<b>SOURCES OF FUNDS</b>			
Tax increment revenue	\$ 5,566,225	\$ 192,723	\$ 12,851
Bond proceeds	1,905,000	60,000	-
Loan proceeds HRA General Fund	<u>-</u>	<u>172,987</u>	<u>-</u>
<b>TOTAL SOURCES OF FUNDS</b>	<u>7,471,225</u>	<u>425,710</u>	<u>12,851</u>
<b>USES OF FUNDS</b>			
Land acquisition	324,500	264,070	-
Site improvement	466,500	-	-
Bond principal payments	1,905,000	44,900	4,200
Bond interest payments	2,721,725	51,458	775
Loan principal payments	-	57,826	6,583
Administrative costs	134,020	7,456	1,293
Debt service reserve	<u>500,000</u>	<u>-</u>	<u>-</u>
<b>TOTAL USES OF FUNDS</b>	<u>6,051,745</u>	<u>425,710</u>	<u>12,851</u>
<b>DISTRICT BALANCE</b>	<u>\$ 1,419,480</u>	<u>\$ -</u>	<u>\$ -</u>

**CITY OF MOUNTAIN IRON, MINNESOTA**

**SCHEDULE OF SOURCES AND USES OF PUBLIC FUNDS  
FOR MOUNTAIN IRON TAX INCREMENT DISTRICT NO. 3**

**Year Ended December 31, 2004**

	<u>Budget</u>	<u>Accounted for in Prior Years</u>	<u>Current Year</u>
<b>SOURCES OF FUNDS</b>			
Tax increment revenue	\$ 57,989	\$ 59,694	\$ 3,717
Bond proceeds	75,000	-	-
Loan proceeds HRA General Fund	<u>-</u>	<u>10,235</u>	<u>-</u>
<b>TOTAL SOURCES OF FUNDS</b>	<u>132,989</u>	<u>69,929</u>	<u>3,717</u>
<b>USES OF FUNDS</b>			
Site improvements and preparation costs	65,500	34,623	-
Bond principal payments	75,000	-	-
Bond interest payments	9,500	-	-
Loan principal payments	-	10,235	-
Administrative costs	7,500	6,539	111
Pooled for debt	<u>-</u>	<u>18,532</u>	<u>3,606</u>
<b>TOTAL USES OF FUNDS</b>	<u>157,500</u>	<u>69,929</u>	<u>3,717</u>
<b>DISTRICT BALANCE (DEFICIENCY)</b>	\$ <u>(24,511)</u>	\$ <u>-</u>	\$ <u>-</u>



**CITY OF MOUNTAIN IRON, MINNESOTA**

**SCHEDULE OF SOURCES AND USES OF PUBLIC FUNDS  
FOR MOUNTAIN IRON TAX INCREMENT DISTRICT NO. 6  
Year Ended December 31, 2004**

	<u>Budget</u>	<u>Accounted for in Prior Years</u>	<u>Current Year</u>
<b>SOURCES OF FUNDS</b>			
Tax increment revenue	\$ 281,662	\$ 62,578	\$ 4,594
Bond proceeds	250,000	-	-
Loan proceeds HRA General Fund	-	5,412	-
IRRRB Grant	96,000	-	-
Pooled debt	<u>-</u>	<u>4,161</u>	<u>7,276</u>
<b>TOTAL SOURCES OF FUNDS</b>	<u>627,662</u>	<u>72,151</u>	<u>11,870</u>
<b>USES OF FUNDS</b>			
Land acquisition	191,000	-	-
Site improvements and preparation costs	82,500	20,596	11,759
Bond principal payments	250,000	-	-
Bond interest payments	59,162	-	-
Loan principal payments	-	5,412	-
Administrative costs	45,000	19,521	111
Pooled for debt	<u>-</u>	<u>26,622</u>	<u>-</u>
<b>TOTAL USES OF FUNDS</b>	<u>627,662</u>	<u>72,151</u>	<u>11,870</u>
<b>DISTRICT BALANCE</b>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>

**CITY OF MOUNTAIN IRON, MINNESOTA**

**SCHEDULE OF SOURCES AND USES OF PUBLIC FUNDS  
FOR MOUNTAIN IRON TAX INCREMENT DISTRICT NO. 7  
Year Ended December 31, 2004**

	<u>Budget</u>	<u>Accounted for in Prior Years</u>	<u>Current Year</u>
<b>SOURCES OF FUNDS</b>			
Tax increment revenue	\$ 764,348	\$ 390,221	\$ 29,390
Interest on invested funds	-	5,823	-
Bond proceeds	635,000	635,000	-
Real estate sales	-	24,000	-
Loan proceeds HRA General Fund	-	133,829	-
Pooled for debt	<u>-</u>	<u>199,483</u>	<u>60,970</u>
<b>TOTAL SOURCES OF FUNDS</b>	<u>1,399,348</u>	<u>1,388,356</u>	<u>90,360</u>
<b>USES OF FUNDS</b>			
Site improvements and preparation costs	604,360	550,986	-
Bond principal payments	635,000	315,000	80,000
Bond interest payments	129,348	420,651	9,875
Administrative costs	30,640	46,295	485
Underwriters discount/bond	-	25,370	-
Loan principal payments	<u>-</u>	<u>30,054</u>	<u>-</u>
<b>TOTAL USES OF FUNDS</b>	<u>1,399,348</u>	<u>1,388,356</u>	<u>90,360</u>
<b>DISTRICT BALANCE</b>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>

**CITY OF MOUNTAIN IRON, MINNESOTA**

**SCHEDULE OF SOURCES AND USES OF PUBLIC FUNDS  
FOR MOUNTAIN IRON TAX INCREMENT DISTRICT NO. 8  
Year Ended December 31, 2004**

	<u>Budget</u>	<u>Accounted for in Prior Years</u>	<u>Current Year</u>
<b>SOURCES OF FUNDS</b>			
Tax increment revenue	\$ 259,470	\$ 164,263	\$ 24,858
Bond proceeds	561,000	-	-
Loan proceeds HRA General Fund	-	231,076	-
IRRRB Grant	<u>-</u>	<u>240,000</u>	<u>-</u>
<b>TOTAL SOURCES OF FUNDS</b>	<u>820,470</u>	<u>635,339</u>	<u>24,858</u>
<b>USES OF FUNDS</b>			
Site improvements and preparation costs	242,300	461,411	-
Streets and sidewalks	128,700	-	-
Bond principal payments	561,000	-	-
Bond interest payments	161,300	-	-
Administrative costs	25,000	21,388	111
Loan principal payments	<u>-</u>	<u>152,540</u>	<u>24,747</u>
<b>TOTAL USES OF FUNDS</b>	<u>1,118,300</u>	<u>635,339</u>	<u>24,858</u>
<b>DISTRICT BALANCE (DEFICIENCY)</b>	\$ <u>(297,830)</u>	\$ <u>-</u>	\$ <u>-</u>

**CITY OF MOUNTAIN IRON, MINNESOTA**

**SCHEDULE OF SOURCES AND USES OF PUBLIC FUNDS  
FOR MOUNTAIN IRON TAX INCREMENT DISTRICT NO. 9  
Year Ended December 31, 2004**

	<u>Budget</u>	<u>Accounted for in Prior Years</u>	<u>Current Year</u>
<b>SOURCES OF FUNDS</b>			
Tax increment revenue	\$ 205,000	\$ 56,866	\$ 7,867
Local contribution	20,000	3,111	-
Loan proceeds HRA General Fund	-	8,664	-
Pooled debt	<u>-</u>	<u>137</u>	<u>-</u>
<b>TOTAL SOURCES OF FUNDS</b>	<u>225,000</u>	<u>68,778</u>	<u>7,867</u>
<b>USES OF FUNDS</b>			
Land acquisition	35,000	12,952	-
Site improvements and preparation costs	65,000	15,364	2,982
Installation of public utilities	18,000	-	-
Parking facilities	30,000	-	-
Administrative costs	17,000	17,317	112
Public improvements	40,000	-	-
Costs of local contribution	20,000	-	-
Loan principal payments	-	8,664	-
Pooled for debt	<u>-</u>	<u>14,481</u>	<u>4,773</u>
<b>TOTAL USES OF FUNDS</b>	<u>225,000</u>	<u>68,778</u>	<u>7,867</u>
<b>DISTRICT BALANCE</b>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>

**CITY OF MOUNTAIN IRON, MINNESOTA**

**SCHEDULE OF SOURCES AND USES OF PUBLIC FUNDS  
FOR MOUNTAIN IRON TAX INCREMENT DISTRICT NO. 10  
Year Ended December 31, 2004**

	<u>Budget</u>	<u>Accounted for in Prior Years</u>	<u>Current Year</u>
<b>SOURCES OF FUNDS</b>			
Tax increment revenue	\$ 331,056	\$ 3,142	\$ 253
Local contribution	25,830	-	-
Interest	2,000	-	-
Loan proceeds HRA General Fund	<u>165,000</u>	<u>93,934</u>	<u>-</u>
<b>TOTAL SOURCES OF FUNDS</b>	<u>523,886</u>	<u>97,076</u>	<u>253</u>
<b>USES OF FUNDS</b>			
Land acquisition	50,000	-	-
Site improvements and preparation costs	129,360	68,701	-
Installation of public utilities	10,000	10,000	-
Interest	117,204	-	-
Administrative costs	25,830	16,597	111
Cost of local contribution	25,830	-	-
Loan principal payments	<u>165,662</u>	<u>1,778</u>	<u>142</u>
<b>TOTAL USES OF FUNDS</b>	<u>523,886</u>	<u>97,076</u>	<u>253</u>
<b>DISTRICT BALANCE</b>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>

**CITY OF MOUNTAIN IRON, MINNESOTA**

**SCHEDULE OF SOURCES AND USES OF PUBLIC FUNDS  
FOR MOUNTAIN IRON TAX INCREMENT DISTRICT NO. 11  
Year Ended December 31, 2004**

	<u>Budget</u>	<u>Accounted for in Prior Years</u>	<u>Current Year</u>
<b>SOURCES OF FUNDS</b>			
Tax increment revenue	\$ 196,474	\$ 48,460	\$ 12,211
Interest	2,000	-	-
Loan proceeds HRA General Fund	15,000	26,412	-
Land sale	<u>-</u>	<u>1,000</u>	<u>-</u>
<b>TOTAL SOURCES OF FUNDS</b>	<u>213,474</u>	<u>75,872</u>	<u>12,211</u>
<b>USES OF FUNDS</b>			
Site improvements and preparation costs	95,500	40,140	-
Installation of public utilities	20,000	-	-
Interest	63,868	-	-
Administrative costs	19,106	9,413	111
Loan principal payments	15,000	5,767	-
Pooled for debt	<u>-</u>	<u>20,552</u>	<u>12,100</u>
<b>TOTAL USES OF FUNDS</b>	<u>213,474</u>	<u>75,872</u>	<u>12,211</u>
<b>DISTRICT BALANCE</b>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>

**CITY OF MOUNTAIN IRON, MINNESOTA**

**SCHEDULE OF SOURCES AND USES OF PUBLIC FUNDS  
FOR MOUNTAIN IRON TAX INCREMENT DISTRICT NO. 12  
Year Ended December 31, 2004**

	<u>Budget</u>	<u>Accounted for in Prior Years</u>	<u>Current Year</u>
<b>SOURCES OF FUNDS</b>			
Tax increment revenue	\$ 117,500	\$ 255	\$ 142
Other developer funds	23,500	-	-
Loan proceeds HRA General Fund	117,468	5,911	262
Bond proceeds	<u>130,000</u>	<u>-</u>	<u>-</u>
<b>TOTAL SOURCES OF FUNDS</b>	<u>388,468</u>	<u>6,166</u>	<u>404</u>
<b>USES OF FUNDS</b>			
Site improvements and preparation costs	105,000	-	-
Installation of public utilities	25,000	-	-
Bond payments	130,000	-	-
Administrative costs	11,000	6,166	404
Loan principal payments	<u>117,468</u>	<u>-</u>	<u>-</u>
<b>TOTAL USES OF FUNDS</b>	<u>388,468</u>	<u>6,166</u>	<u>404</u>
<b>DISTRICT BALANCE</b>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>

**CITY OF MOUNTAIN IRON, MINNESOTA**

**SCHEDULE OF SOURCES AND USES OF PUBLIC FUNDS  
FOR MOUNTAIN IRON TAX INCREMENT DISTRICT NO. 13  
Year Ended December 31, 2004**

	<u>Budget</u>	<u>Accounted for in Prior Years</u>	<u>Current Year</u>
<b>SOURCES OF FUNDS</b>			
Tax increment revenue	\$ 120,900	\$ -	\$ 958
Interest	2,000	-	-
Loan proceeds HRA General Fund	<u>-</u>	<u>4,654</u>	<u>1,889</u>
<b>TOTAL SOURCES OF FUNDS</b>	<u>122,900</u>	<u>4,654</u>	<u>2,847</u>
<b>USES OF FUNDS</b>			
Site improvements and preparation costs	83,000	-	2,500
Installation of public utilities	27,800	-	-
Administrative costs	<u>12,100</u>	<u>4,654</u>	<u>347</u>
<b>TOTAL USES OF FUNDS</b>	<u>122,900</u>	<u>4,654</u>	<u>2,847</u>
<b>DISTRICT BALANCE</b>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>





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

To the City Council  
City of Mountain Iron, Minnesota

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Mountain Iron, Minnesota, as of and for the year ended December 31, 2004, which collectively comprise the City of Mountain Iron, Minnesota's basic financial statements of the City's primary government and have issued our report thereon dated May 6, 2005. 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.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered City of Mountain Iron, Minnesota's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect City of Mountain Iron, Minnesota's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings and responses.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether City of Mountain Iron, Minnesota's financial statements are free of 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 that are required to be reported under *Government Auditing Standards*.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government*, promulgated by the State Auditor pursuant to Minnesota Statute §6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Local Government* contains six main categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements and miscellaneous provisions. Our study included all of the listed categories. The results of our tests indicate that for the items tested, the City of Mountain Iron, Minnesota, complied with the material terms and conditions of applicable legal provisions.

We also noted certain additional matters that we reported to management of City of Mountain Iron, Minnesota in a separate letter dated May 6, 2005, included under this cover.

This report 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.



May 6, 2005

**CITY OF MOUNTAIN IRON, MINNESOTA**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**Year Ended December 31, 2004**

**SEGREGATION OF DUTIES**

**Condition**

Due to the limited number of personnel within the City's business 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 over its transactions.

**Cause**

This occurred because of staffing limitations caused by fiscal constraints.

**Recommendations**

The Board 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 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  
The Administrator is the official responsible for ensuring this plan.
4. Planned Completion Date for CAP  
The 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.



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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, for the year ended December 31, 2004, we considered the City's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. A separate report dated May 6, 2005, contains our report on reportable conditions in the City's internal control. This letter does not affect our report dated May 6, 2005, on the financial statements of the City of Mountain Iron, Minnesota.

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

**Internal Control and Operating Efficiency**

1. The Water Treatment, Wastewater Treatment and Recycling Enterprise Funds reported net operating losses for the year ended December 31, 2004. The City should review these funds and implement a plan to make them profitable and self-sufficient.
2. We recommend that the capital projects fund 301 be used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds). The Governmental Accounting Standards Board does not recommend that routine purchases of equipment be accounted for in a capital projects fund unless the government is legally required to do so.
3. We are enclosing a copy of "City Expenditures and the Public Purpose Doctrine" from the State Auditor's Office for review by the City Council and City administration. Please use this information as guidance before authorizing expenditures including donations.

4. Credit card and Internet purchases should also have proper documentation and authorization attached to the billing to substantiate the charges. We noted several instances where the documentation was missing, or it did not state: "who?, what?, why? or when?". We recommend that this documentation be attached to the bill prior to submitting to City personnel for payment.
5. The City Fire Department requested and was awarded a FEMA grant to purchase a fire truck. The Fire Relief general checking account was used as a flow-through for these funds. All City business should be originated in City funds and bank accounts.
6. GASB 34 reporting requires that revenues be matched against the expenditures where possible. We recommend that the Charge for Services code 101-36-6200-010 be reviewed and that those charges collected that apply to specific departments be coded accordingly. This would also apply to the expenditures coded to miscellaneous in 49-1000. These expenditures should be coded to specific departments if applicable.
7. The Civic Systems capital asset module should be up and functioning to capture all capital additions and deletions and to calculate depreciation by category and function. This module should be reconciled to the financial statements.

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

*Walker, Strong & Helms, LLP.*

May 6, 2005