

CITY OF MOUNTAIN IRON, MINNESOTA

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
Year Ended December 31, 2005**

CITY OF MOUNTAIN IRON, MINNESOTA

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CITY OF MOUNTAIN IRON, MINNESOTA

**ORGANIZATION
December 31, 2005**

CITY COUNCIL

Mayor	Gary Skalko
Council Members	Dale Irish Allen Nelson Joe Prebeg, Jr. Ed Roskoski

ADMINISTRATION

Administrator	Craig J. Wainio
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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, the aggregate discretely presented component unit, 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, 2005, which collectively comprise the basic financial statements, 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 did not audit the financial statements of Mountain Manor Apartments Enterprise Fund which represents 8 percent, (3) percent, and 5 percent, respectively, of the assets, net assets, and revenues of the business-type activities. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for Mountain Manor Apartments Enterprise Fund, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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.

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Mountain Iron, Minnesota, as of December 31, 2005, and the respective changes in financial position and, where applicable, cash flows 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 March 8, 2006 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 assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 4 through 10 and pages 44 and 45 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 City of Mountain Iron, Minnesota's basic financial statements. The combining and individual 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

Walther, Group & Hahn, Ltd.

March 8, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF MOUNTAIN IRON, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2005

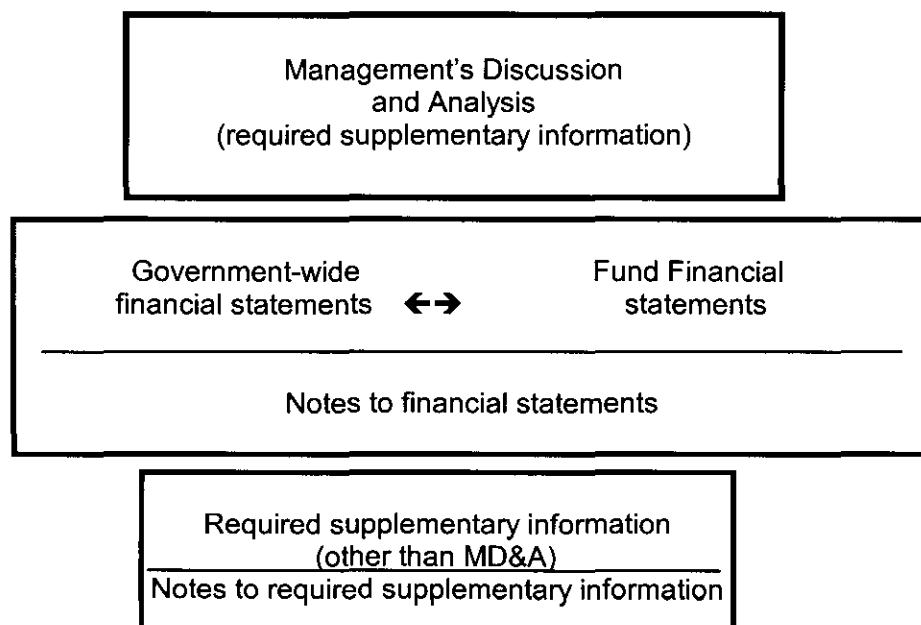
The City of Mountain Iron, Minnesota's management's discussion and analysis provides an overview of the City's financial activities for the year ended December 31, 2005. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the City of Mountain Iron, Minnesota's financial statements.

FINANCIAL HIGHLIGHTS

- Governmental activities' total net assets are \$6,317,356, of which \$3,644,891 is invested in capital assets, net of related debt.
- Business-type activities has total net assets of \$4,869,506. Invested in capital assets, net of related debt represents \$3,985,832 of the total.
- The Mountain Iron Economic Development Authority (EDA) has total net assets of \$2,677,420, of which \$2,289,868 is invested in capital assets, net of related debt.
- The City of Mountain Iron's primary government's net assets increased by \$8,329 for the year ended December 31, 2005. Of the increase \$133,463 was a decrease in the governmental activities' net assets and \$141,792 represented the increase in business-type activities' net assets.
- The EDA's net assets increased by \$2,677,420.
- The net cost of governmental activities was \$2,935,005 for the current fiscal year. The net cost was funded by general revenues and other items totaling \$2,801,542.
- Governmental funds' fund balances increased by \$1,622,459.

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, 2005

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, business-type activities or the Mountain Iron EDA component unit:

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

Fund Financial Statements

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

- Governmental funds—Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using the modified accrual basis of accounting. This method measures cash and all other financial assets that can be readily converted to cash. The governmental fund

CITY OF MOUNTAIN IRON, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2005

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 government-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 \$10,819,491 to \$11,186,862. 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	
	2005	2004	2005	2004	2005	2004
Current and other assets	\$ 4,736,367	\$ 2,661,975	\$ 1,222,894	\$ 988,708	\$ 5,959,261	\$ 3,650,683
Capital assets	<u>5,719,309</u>	<u>5,492,363</u>	<u>5,430,271</u>	<u>4,929,617</u>	<u>11,149,580</u>	<u>10,421,980</u>
Total assets	<u>10,455,676</u>	<u>8,154,338</u>	<u>6,653,165</u>	<u>5,918,325</u>	<u>17,108,841</u>	<u>14,072,663</u>
Long-term debt outstanding	3,910,971	2,067,551	1,482,554	842,734	5,393,525	2,910,285
Other liabilities	<u>227,349</u>	<u>118,612</u>	<u>301,105</u>	<u>224,275</u>	<u>528,454</u>	<u>342,887</u>
Total liabilities	<u>4,138,320</u>	<u>2,186,163</u>	<u>1,783,659</u>	<u>1,067,009</u>	<u>5,921,979</u>	<u>3,253,172</u>
Net assets						
Invested in capital assets, net of debt	3,644,891	3,423,912	3,985,832	4,124,617	7,630,723	7,548,529
Unrestricted	<u>2,672,465</u>	<u>2,544,263</u>	<u>883,674</u>	<u>726,699</u>	<u>3,556,139</u>	<u>3,270,962</u>
Total net assets	<u>\$ 6,317,356</u>	<u>\$ 5,968,175</u>	<u>\$ 4,869,506</u>	<u>\$ 4,851,316</u>	<u>\$11,186,862</u>	<u>\$10,819,491</u>

Net assets of the City's governmental activities increased by 5.8 percent (\$6,317,356 compared to \$5,968,175).

Net assets of the City's business-type activities increased by .01 percent (\$4,869,506 compared to \$4,851,316).

CITY OF MOUNTAIN IRON, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2005

**Table 2
Changes in Net Assets**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Revenues						
Program revenues:						
Fees, fines, charges and other charges for services	\$ 158,693	\$ 205,794	\$ 2,490,576	\$ 2,206,056	\$ 2,649,269	\$ 2,411,850
Operating grants and contributions	28,009	6,094	15,799	-	43,808	6,094
Capital grants and contributions	368,426	227,409	-	-	368,426	227,409
General revenues:						
Property and other taxes	1,223,573	1,103,600	-	-	1,223,573	1,103,600
Intergovernmental	1,729,178	1,563,616	-	-	1,729,178	1,563,616
Other general revenues	<u>38,704</u>	<u>75,796</u>	<u>25,613</u>	<u>21,829</u>	<u>64,317</u>	<u>97,625</u>
Total revenues	<u>3,546,583</u>	<u>\$ 3,182,309</u>	<u>\$ 2,531,988</u>	<u>\$ 2,227,885</u>	<u>\$ 6,078,571</u>	<u>\$ 5,410,194</u>
Program expenses:						
General government	943,043	1,139,319	-	-	943,043	1,139,319
Public safety	630,794	535,029	-	-	630,794	535,029
Streets	894,799	839,655	-	-	894,799	839,655
Culture and recreation	408,219	342,630	-	-	408,219	342,630
Economic development	450,613	-	-	-	450,613	-
Interest	162,665	106,435	-	-	162,665	106,435
Electric	-	-	1,345,181	1,362,085	1,345,181	1,362,085
Water	-	-	301,297	319,163	301,297	319,163
Wastewater	-	-	390,650	329,526	390,650	329,526
Refuse removal	-	-	380,368	370,196	380,368	370,196
Mountain Manor Apartments	-	-	162,613	-	162,613	-
Total expenses	<u>3,490,133</u>	<u>2,963,068</u>	<u>2,580,109</u>	<u>2,380,970</u>	<u>6,070,242</u>	<u>5,344,038</u>
Increase (decrease) in net assets before transfers	56,450	219,241	(48,121)	(153,085)	8,329	66,156
Transfers	<u>(189,913)</u>	<u>(37,996)</u>	<u>189,913</u>	<u>37,996</u>	<u>-</u>	<u>-</u>
Increase (decrease) in net assets	<u>\$ (133,463)</u>	<u>\$ 181,245</u>	<u>\$ 141,792</u>	<u>\$ (115,089)</u>	<u>\$ 8,329</u>	<u>\$ 66,156</u>

CITY OF MOUNTAIN IRON, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2005

Governmental Activities

The cost of all governmental activities this year was \$3,490,133. As shown in the Statement of Activities, some of the cost was paid by those who directly benefited from the programs (\$158,693) or by other governments and organizations that subsidized certain programs with grants and contributions (\$2,125,613). Our taxpayers financed \$1,223,573 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>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
General government	\$ 943,043	\$1,139,319	\$ 432,732	\$ 702,280
Streets	894,799	839,655	894,799	839,655
Public safety	630,794	535,029	630,319	535,029
Economic development	450,613	-	450,613	-
Culture and recreation	408,219	342,630	363,877	340,372
Others	<u>162,665</u>	<u>106,435</u>	<u>162,665</u>	<u>106,435</u>
Totals	<u>\$3,490,133</u>	<u>\$2,963,068</u>	<u>\$2,935,005</u>	<u>\$2,523,771</u>

Business-Type Activities

Revenues and transfers in of the City's business-type activities were \$2,721,901 and expenses were \$2,580,109, (see Table 2). There was a change in net assets of \$141,792 during the year ended December 31, 2005, which compares to a change in net assets of \$(115,089) for the year ended December 31, 2004. Operations produced a \$27,829 loss for the year ended December 31, 2005 driving these results.

Mountain Iron EDA Component Unit Activity

The Mountain Iron EDA had a net increase in net assets of \$2,677,420 for the year ended December 31, 2005. Net program revenues over expenses were \$2,670,384. General revenues of interest earnings were \$7,036.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As the City completed the year, its governmental funds reported a combined fund balance of \$4,269,911 which is above last year's total of \$2,621,283. Included in this year's total fund balance is a surplus of \$1,158,955 in the City's general fund. The general fund had an increase of \$61,846 due to revenues exceeding expenditures and a prior period adjustment. The Debt Service Fund recorded an increase of \$1,686,403 in fund balance due to transfers from the general fund and the issuance of \$1,645,000 refunding bonds to advance refund the 1998 Community Center and 2000 Improvement Bonds. The City Projects Capital Projects Fund's fund balance increased by \$206,139 due to the issuance of \$300,000 general obligation bonds for Library upgrades and transfers from the general fund for major capital additions exceeding revenues.

CITY OF MOUNTAIN IRON, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2005

GENERAL FUND BUDGETARY HIGHLIGHTS

The original budget was not amended in 2005; 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 \$333,026 over the final budget amounts. The most significant negative variance (\$150,236) occurred in the City streets program. On the other hand, resources available for appropriation were \$330,787 above the final budgeted amounts. The City received more intergovernmental aids than expected.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2005, the City's primary government had \$11,149,580 invested in a broad range of capital assets (net of accumulated depreciation), including land, land improvements, infrastructure, buildings, equipment and vehicles. (See Table 4 below.) This amount represents a net increase (including additions and deductions) of \$727,600 over last year. The Mountain Iron Economic Development Authority component unit had \$2,544,868 invested in capital assets, which consisted of land.

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

	Governmental Activities		Business-Type Activities		Totals	
	2005	2004	2005	2004	2005	2004
Land	\$ 448,675	\$ 298,505	\$ 8,336	\$ -	\$ 457,011	\$ 298,505
Construction in progress	483,678	961,059	-	-	483,678	961,059
Land improvements	147,877	158,034	-	-	147,877	158,034
Buildings	1,725,100	1,770,910	4,203,210	3,986,937	5,928,310	5,757,847
Infrastructure	2,151,824	1,523,022	1,044,236	91,618	3,196,060	1,614,640
Machinery and equipment	288,568	234,222	50,943	781,135	339,511	1,015,357
Licensed vehicles	473,587	546,611	123,546	69,927	597,133	616,538
Totals	<u>\$ 5,719,309</u>	<u>\$ 5,492,363</u>	<u>\$ 5,430,271</u>	<u>\$ 4,929,617</u>	<u>\$11,149,580</u>	<u>\$ 10,421,980</u>

This year's major additions include library renovations, street overlay and purchases of fire fighting equipment, a public works truck and a garbage packer.

The City's 2006 capital budget calls for it to spend another \$927,300 for dump cleanup, street improvements, campground improvements, Library renovation and various vehicles.

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, 2005

Debt

At year-end, the City had \$5,393,524 in long-term debt outstanding for the primary government versus \$2,910,285 last year—as shown in Table 5. In 2005, the City issued a \$1,645,000 Refunding Bond to advance refund the 1998 Community Center and 2000 Improvement Bonds. The City also issued \$300,000 general obligation bonds for Library upgrades. The Mountain Iron EDA component unit had \$255,000 in long-term debt outstanding in tax increment refunding bonds.

Table 5
Outstanding Debt, at Year-end

	Governmental Activities		Business-Type Activities		Totals	
	2005	2004	2005	2004	2005	2004
General obligation bonds (backed by the City)	\$ 2,190,000	\$ 1,990,000	\$ -	\$ -	\$ 2,190,000	\$ 1,990,000
Refunding bonds	1,645,000	-	-	-	1,645,000	-
Notes payable	-	-	664,439	-	664,439	-
Water revenue bonds	-	-	780,000	805,000	780,000	805,000
Severance payable	75,971	77,551	38,114	37,734	114,085	115,285
Total	<u>\$ 3,910,971</u>	<u>\$ 2,067,551</u>	<u>\$ 1,482,553</u>	<u>\$ 842,734</u>	<u>\$ 5,393,524</u>	<u>\$ 2,910,285</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 \$1,145,000 is significantly below this \$2,440,586 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 2006 budget, tax rates, and fees that will be charged for the business-type activities.

- City General Fund expenditures increased 6.9% or \$179,976 over 2005.
- City's property taxes increased 4.7% or \$43,000 over 2005.
- The development of building lots around Maskenode Lake will have a great impact on property tax revenues for the City.
- In 2005 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, or for the separate financial statements for the Mountain Iron EDA and Mountain Manor Apartments, 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, 2005

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	EDA
ASSETS				
Cash and cash equivalents	\$ 2,011,591	\$ 811,730	\$ 2,823,321	\$ 287,306
Investments	2,097,097	-	2,097,097	-
Taxes receivable	28,836	-	28,836	-
Special assessments receivable	293,830	-	293,830	-
Accounts receivable	-	320,743	320,743	51
Interest receivable	5,230	3,070	8,300	-
Grants receivable	107,554	-	107,554	-
Due from component unit	7,558	-	7,558	-
Due from other governments	23,107	-	23,107	-
Loans receivable	-	-	-	111,699
Inventories	-	66,379	66,379	-
Prepaid items	-	2,171	2,171	-
Deferred debt issue and marketing costs	44,440	-	44,440	-
Restricted assets:				
Temporarily restricted cash and cash equivalents	117,124	18,801	135,925	-
Capital assets not being depreciated:				
Land	448,675	8,336	457,011	2,544,868
Construction in progress	483,678	-	483,678	-
Capital assets net of accumulated depreciation:				
Land improvements	147,877	-	147,877	-
Buildings	1,725,100	4,203,210	5,928,310	-
Infrastructure	2,151,824	1,044,236	3,196,060	-
Machinery and equipment	288,568	50,943	339,511	-
Licensed vehicles	473,587	123,546	597,133	-
TOTAL ASSETS	10,455,676	6,653,165	17,108,841	2,943,924
LIABILITIES				
Accounts payable	117,618	220,238	337,856	-
Salaries payable	38,360	18,332	56,692	-
Due to primary government	-	-	-	7,558
Customer deposits	-	57,419	57,419	-
Accrued interest payable	71,371	5,117	76,488	3,946
Noncurrent liabilities				
Due within one year	110,000	34,747	144,747	115,000
Due in more than one year	3,800,971	1,447,806	5,248,777	140,000
TOTAL LIABILITIES	4,138,320	1,783,659	5,921,979	266,504
NET ASSETS				
Invested in capital assets, net of related debt	3,644,891	3,985,832	7,630,723	2,289,868
Restricted for:				
Other purposes	-	13,714	13,714	-
Unrestricted	2,672,465	869,960	3,542,425	387,552
TOTAL NET ASSETS	\$ 6,317,356	\$ 4,869,506	\$ 11,186,862	\$ 2,677,420

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

CITY OF MOUNTAIN IRON, MINNESOTA

**STATEMENT OF ACTIVITIES
Year Ended December 31, 2005**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Charges for Services</u>	<u>Program Revenues Operating Grants and Contributions</u>
PRIMARY GOVERNMENT			
Governmental Activities			
General government	\$ 943,043	\$ 113,876	\$ 28,009
Public safety	630,794	475	-
Streets	894,799	-	-
Culture and recreation	408,219	44,342	-
Economic development	450,613	-	-
Interest on long-term debt	162,665	-	-
Total Governmental Activities	<u>3,490,133</u>	<u>158,693</u>	<u>28,009</u>
Business-type Activities			
Electric	1,345,181	1,483,895	-
Water Treatment	301,297	244,059	-
Wastewater Treatment	390,650	267,620	-
Refuse Removal and Recycling	380,368	360,592	-
Mountain Manor Apartments	162,613	134,410	15,799
Total Business-type Activities	<u>2,580,109</u>	<u>2,490,576</u>	<u>15,799</u>
TOTAL PRIMARY GOVERNMENT	<u>\$ 6,070,242</u>	<u>\$ 2,649,269</u>	<u>\$ 43,808</u>
Component Unit			
EDA	\$ 101,209	\$ 500	\$ 2,771,093

General Revenues:

Taxes:

Property taxes, levied for general purposes

Property taxes, levied for specific purposes

Franchise taxes

Mineral rents and royalties

Grants and contributions not restricted to specific programs

Unrestricted investment earnings

Miscellaneous

Loss 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				
Capital Grants and Contributions	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	EDA
\$ 368,426	\$ (432,732)	\$ -	\$ (432,732)	
-	(630,319)	-	(630,319)	
-	(894,799)	-	(894,799)	
-	(363,877)	-	(363,877)	
-	(450,613)	-	(450,613)	
-	(162,665)	-	(162,665)	
368,426	(2,935,005)	-	(2,935,005)	
-	-	138,714	138,714	
-	-	(57,238)	(57,238)	
-	-	(123,030)	(123,030)	
-	-	(19,776)	(19,776)	
-	-	(12,404)	(12,404)	
-	-	(73,734)	(73,734)	
\$ 368,426	(2,935,005)	(73,734)	(3,008,739)	
\$ -				2,670,384
	920,406	-	920,406	-
	159,961	-	159,961	-
	21,855	-	21,855	-
	121,351	-	121,351	-
	1,729,178	-	1,729,178	-
	45,318	22,055	67,373	7,036
	-	3,558	3,558	-
	(6,614)	-	(6,614)	-
	(189,913)	189,913	-	-
	2,801,542	215,526	3,017,068	7,036
	(133,463)	141,792	8,329	2,677,420
	6,257,057	4,691,433	10,948,490	-
	193,762	36,281	230,043	-
\$ 6,317,356	\$ 4,869,506	\$ 11,186,862	\$ 2,677,420	

CITY OF MOUNTAIN IRON, MINNESOTA

**BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2005**

	General Fund	Debt Service Fund	City Projects Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 680,446	\$ 508,258	\$ 399,810	\$ 423,077	\$ 2,011,591
Investments	547,034	1,550,063	-	-	2,097,097
Taxes receivable	28,836	-	-	-	28,836
Special assessments receivable	2,162	273,735	17,933	-	293,830
Interest receivable	1,998	941	918	1,373	5,230
Due from component unit	5,225	2,333	-	-	7,558
Due from other governments	23,107	-	-	-	23,107
Grants receivable	-	-	107,554	-	107,554
Cash - restricted	\$ -	\$ -	\$ 117,124	-	117,124
TOTAL ASSETS	\$ 1,288,808	\$ 2,335,330	\$ 643,339	\$ 424,450	\$ 4,691,927
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ 60,495	\$ -	\$ 38,763	\$ 18,360	\$ 117,618
Salaries payable	38,360	-	-	-	38,360
Deferred revenue	30,998	220,948	14,092	-	266,038
TOTAL LIABILITIES	129,853	220,948	52,855	18,360	422,016
FUND BALANCES					
Unreserved, designated	1,016,196	-	1,904	-	1,018,100
Unreserved, undesignated, reported in					
General Fund	142,759	-	-	-	142,759
Special revenue funds	-	-	-	6,714	6,714
Debt service fund	-	2,114,382	-	-	2,114,382
Capital projects funds	-	-	588,580	399,376	987,956
TOTAL FUND BALANCES	1,158,955	2,114,382	590,484	406,090	4,269,911
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,288,808	\$ 2,335,330	\$ 643,339	\$ 424,450	\$ 4,691,927

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, 2005

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

TOTAL FUND BALANCES, GOVERNMENTAL FUNDS	\$ 4,269,911
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.	5,719,309
Deferred revenue in governmental funds is susceptible to full accrual on the government-wide statements.	266,038
Interest payable on long-term debt is susceptible to full accrual on the government-wide statements.	(71,371)
Unamortized bond issuance costs are susceptible to full accrual on the government-wide statements.	44,440
Long-term liabilities, including bonds payable are not due and payable in the current period and therefore not reported in the governmental funds.	(3,910,971)
NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 6,317,356</u>

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

CITY OF MOUNTAIN IRON, MINNESOTA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

Year Ended December 31, 2005

	General Fund	Debt Service Fund	City Projects Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
REVENUES					
Taxes	\$ 1,224,731	\$ -	\$ -	\$ -	\$ 1,224,731
Special assessments	-	136,798	2,203	-	139,001
Licenses and permits	17,744	-	-	-	17,744
Intergovernmental	1,729,178	-	204,372	-	1,933,550
Charges for services	127,135	-	-	-	127,135
Fines	13,815	-	-	-	13,815
Gifts and contributions	34,901	-	-	2,608	37,509
Investment earnings	25,057	(7,895)	11,497	16,658	45,317
TOTAL REVENUES	<u>3,172,561</u>	<u>128,903</u>	<u>218,072</u>	<u>19,266</u>	<u>3,538,802</u>
EXPENDITURES					
Current					
General government	888,143	-	-	1,407	889,550
Public safety	552,330	-	-	-	552,330
Streets	670,236	-	-	-	670,236
Culture and recreation	373,196	-	-	-	373,196
Economic development	161,731	-	-	288,882	450,613
Debt Service					
Principal	-	100,000	-	-	100,000
Interest and other charges	-	132,820	-	-	132,820
Bond issuance costs	-	47,044	-	-	47,044
Capital Outlay					
General government	-	-	198,207	-	198,207
Public safety	-	-	104,757	-	104,757
Streets	-	-	-	34,377	34,377
Culture and recreation	-	-	282,198	-	282,198
TOTAL EXPENDITURES	<u>2,645,636</u>	<u>279,864</u>	<u>585,162</u>	<u>324,666</u>	<u>3,835,328</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>526,925</u>	<u>(150,961)</u>	<u>(367,090)</u>	<u>(305,400)</u>	<u>(296,526)</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	-	192,004	292,164	-	484,168
Transfers out	(522,164)	-	(18,935)	-	(541,099)
Refunding bonds issued	-	1,645,000	-	-	1,645,000
Loan issued	-	-	300,000	-	300,000
Sale of capital assets	30,916	-	-	-	30,916
TOTAL OTHER FINANCING SOURCES (USES)	<u>(491,248)</u>	<u>1,837,004</u>	<u>573,229</u>	<u>-</u>	<u>1,918,985</u>
NET CHANGE IN FUND BALANCES	35,677	1,686,043	206,139	(305,400)	1,622,459
FUND BALANCES - JANUARY 1	1,097,109	428,339	384,345	711,490	2,621,283
Prior period adjustment	<u>26,169</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>26,169</u>
FUND BALANCES - DECEMBER 31	<u>\$ 1,158,955</u>	<u>\$ 2,114,382</u>	<u>\$ 590,484</u>	<u>\$ 406,090</u>	<u>\$ 4,269,911</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, 2005**

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

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ 1,622,459
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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	415,229	
Less current year depreciation	<u>(344,047)</u>	
Net capital assets		71,182

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	(1,156)	
Change in deferred revenue - special assessments	12,104	
Change in deferred revenue - land	<u>(11,830)</u>	
		(882)

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.

(1,845,000)

Governmental funds report bond discounts and issuance costs as expenditures; however, in the statement of activities, these costs are amortized over the life of the corresponding debt.

44,441

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	(27,242)	
Change in long-term compensated absences	<u>1,579</u>	
		<u>(25,663)</u>

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$ <u>(133,463)</u>
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The accompanying notes are an integral part of these financial statements.

CITY OF MOUNTAIN IRON, MINNESOTA

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
December 31, 2005

Business-type Activities - Enterprise Funds

	Electric Enterprise Fund	Water Treatment Enterprise Fund	Wastewater Treatment Enterprise Fund	Refuse Removal and Recycling Enterprise Fund	Mountain Manor Apartments Enterprise Fund	Totals
ASSETS						
CURRENT ASSETS						
Cash and cash equivalents	\$ 336,252	\$ 126,953	\$ 60,221	\$ 279,091	\$ 9,213	\$ 811,730
Accounts receivable	216,972	32,177	26,952	44,457	185	320,743
Interest receivable	1,216	405	67	1,382	-	3,070
Inventories	43,294	23,085	-	-	-	66,379
Prepaid items	-	-	-	-	2,171	2,171
TOTAL CURRENT ASSETS	597,734	182,620	87,240	324,930	11,569	1,204,093
NONCURRENT ASSETS						
Restricted cash and cash equivalents						
Reserve account	-	-	-	-	13,714	13,714
Tenant security deposits	-	-	-	-	5,087	5,087
Total restricted cash and cash equivalents	-	-	-	-	18,801	18,801
Capital assets						
Land	-	-	-	-	8,336	8,336
Buildings	308,167	2,190,764	2,718,281	12,761	1,208,226	6,438,199
Infrastructure	546,603	2,340,805	2,556,009	-	-	5,443,417
Machinery and equipment	-	103,249	360,808	-	212,675	676,732
Licensed vehicles	200,760	-	-	353,151	-	553,911
Less accumulated depreciation	(689,252)	(2,560,528)	(3,260,638)	(246,329)	(933,577)	(7,690,324)
Total capital assets (net of accumulated depreciation)	366,278	2,074,290	2,374,460	119,583	495,660	5,430,271
TOTAL NONCURRENT ASSETS	366,278	2,074,290	2,374,460	119,583	514,461	5,449,072
TOTAL ASSETS	964,012	2,256,910	2,461,700	444,513	526,030	6,653,165
LIABILITIES						
CURRENT LIABILITIES						
Accounts payable	185,665	9,088	9,588	10,626	5,271	220,238
Salaries payable	11,913	2,946	3,021	452	-	18,332
Accrued interest payable	-	3,173	-	-	1,944	5,117
Customer deposits payable	53,150	195	-	-	4,074	57,419
Bonds and notes payable - current	-	30,000	-	-	4,747	34,747
TOTAL CURRENT LIABILITIES	250,728	45,402	12,609	11,078	16,036	335,853
NONCURRENT LIABILITIES						
Severance payable	27,478	927	8,402	1,307	-	38,114
Bonds and notes payable	-	750,000	-	-	659,692	1,409,692
TOTAL NONCURRENT LIABILITIES	27,478	750,927	8,402	1,307	659,692	1,447,806
TOTAL LIABILITIES	278,206	796,329	21,011	12,385	675,728	1,783,659
NET ASSETS						
Invested in capital assets, net of related debt	366,278	1,294,290	2,374,460	119,583	(168,779)	3,985,832
Restricted for other purposes	-	-	-	-	13,714	13,714
Unrestricted	319,528	166,291	66,229	312,545	5,367	869,960
TOTAL NET ASSETS	\$ 685,806	\$ 1,460,581	\$ 2,440,689	\$ 432,128	\$ (149,698)	\$ 4,869,506

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, 2005

	Business-type Activities - Enterprise Funds					
	Electric Enterprise Fund	Water Treatment Enterprise Fund	Wastewater Treatment Enterprise Fund	Refuse Removal and Recycling Enterprise Fund	Mountain Manor Apartments Enterprise Fund	Totals
REVENUES						
Charges for sales and services	\$ 1,483,895	\$ 244,059	\$ 267,620	\$ 360,592	\$ 134,410	\$ 2,490,576
OPERATING EXPENSES						
Cost of sales	891,831	-	-	-	-	891,831
Salaries	189,385	61,700	70,285	101,137	34,417	456,924
Employee benefits	89,254	22,172	25,941	54,842	2,633	194,842
Contract services	-	-	25,844	-	29,785	55,629
Insurance	16,260	5,933	4,145	7,885	8,102	42,325
Miscellaneous	23,812	22,491	32,885	17,041	5,938	102,167
Repairs and maintenance	64,649	36,681	37,405	21,067	6,624	166,426
Solid waste management and tipping fees	-	-	-	133,396	-	133,396
Supplies	33,698	7,275	16,429	24,563	2,609	84,574
Telephone	3,917	346	2,365	680	2,282	9,590
Utilities	-	27,530	72,058	-	15,187	114,775
Depreciation	32,375	79,046	103,293	19,757	31,455	265,926
TOTAL OPERATING EXPENSES	1,345,181	263,174	390,650	380,368	139,032	2,518,405
OPERATING INCOME (LOSS)	138,714	(19,115)	(123,030)	(19,776)	(4,622)	(27,829)
NONOPERATING REVENUES (EXPENSES)						
Interest income	5,740	3,365	1,572	11,282	96	22,055
Contributions from EDA	-	-	-	-	15,799	15,799
Miscellaneous	-	-	-	-	3,558	3,558
Interest expense	-	(38,123)	-	-	(23,581)	(61,704)
TOTAL NONOPERATING REVENUES (EXPENSES)	5,740	(34,758)	1,572	11,282	(4,128)	(20,292)
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	144,454	(53,873)	(121,458)	(8,494)	(8,750)	(48,121)
Capital contributions	-	46,380	86,602	-	-	132,982
Transfers in	-	46,331	-	-	18,935	65,266
Transfers out	(8,335)	-	-	-	-	(8,335)
CHANGE IN NET ASSETS	136,119	38,838	(34,856)	(8,494)	10,185	141,792
TOTAL NET ASSETS - JANUARY 1	537,685	1,421,362	2,451,707	440,562	(159,883)	4,691,433
Prior period adjustment	12,002	381	23,838	60	-	36,281
TOTAL NET ASSETS - DECEMBER 31	\$ 685,806	\$ 1,460,581	\$ 2,440,689	\$ 432,128	\$ (149,698)	\$ 4,869,506

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

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

Year Ended December 31, 2005

Business-type Activities - Enterprise Funds

	Electric Enterprise Fund	Water Treatment Enterprise Fund	Wastewater Treatment Enterprise Fund	Refuse Removal and Recycling Enterprise Fund	Mountain Manor Apartments Enterprise Fund	Totals
CASH FLOWS FROM OPERATING ACTIVITIES						
Cash received from customers	\$ 1,484,340	\$ 244,095	\$ 264,113	\$ 359,593	\$ 127,272	\$ 2,479,413
Cash paid to suppliers	(1,015,611)	(117,069)	(214,510)	(294,955)	(74,004)	(1,716,149)
Cash paid to employees	(189,160)	(61,319)	(69,782)	(101,086)	(34,417)	(455,764)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>279,569</u>	<u>65,707</u>	<u>(20,179)</u>	<u>(36,448)</u>	<u>18,851</u>	<u>307,500</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Transfers in from other funds	-	46,330	-	-	18,935	65,265
Transfers out to other funds	(8,335)	-	-	-	-	(8,335)
Contributions	-	-	-	-	15,799	15,799
Miscellaneous	-	-	-	-	3,558	3,558
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	<u>(8,335)</u>	<u>46,330</u>	<u>-</u>	<u>-</u>	<u>38,292</u>	<u>76,287</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Purchase or construction of fixed assets	-	-	-	(70,201)	(23,395)	(93,596)
Principal paid on long-term debt	-	(25,000)	-	-	(5,079)	(30,079)
Interest paid on long-term debt	-	(38,127)	-	-	(23,626)	(61,753)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>-</u>	<u>(63,127)</u>	<u>-</u>	<u>(70,201)</u>	<u>(52,100)</u>	<u>(185,428)</u>
CASH FLOWS FROM INVESTING ACTIVITIES						
Interest and dividends received	<u>4,524</u>	<u>3,645</u>	<u>1,795</u>	<u>12,435</u>	<u>96</u>	<u>22,495</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>275,758</u>	<u>52,555</u>	<u>(18,384)</u>	<u>(94,214)</u>	<u>5,139</u>	<u>220,854</u>
CASH AND CASH EQUIVALENTS, JANUARY 1	<u>60,494</u>	<u>74,398</u>	<u>78,605</u>	<u>373,305</u>	<u>4,074</u>	<u>590,876</u>
CASH AND CASH EQUIVALENTS, DECEMBER 31	<u>\$ 336,252</u>	<u>\$ 126,953</u>	<u>\$ 60,221</u>	<u>\$ 279,091</u>	<u>\$ 9,213</u>	<u>\$ 811,730</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES						
Operating income (loss)	\$ 138,714	\$ (19,115)	\$ (123,030)	\$ (19,776)	\$ (4,622)	\$ (27,829)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation	32,375	79,046	103,293	19,757	31,455	265,926
Changes in assets and liabilities (Increase) decrease in:						
Accounts receivable	(5,548)	(24)	(3,507)	(999)	6,492	(3,586)
Inventories	21,560	(23)	-	-	-	21,537
Reserve account	-	-	-	-	(13,607)	(13,607)
Tenant security deposits	-	-	-	-	1,641	1,641
Increase (decrease) in:						
Accounts payable	86,251	5,382	2,562	(35,481)	(844)	57,870
Salaries payable	375	168	224	13	-	780
Severance payable	(150)	213	279	38	-	380
Customer deposits	5,992	60	-	-	(1,664)	4,388
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 279,569</u>	<u>\$ 65,707</u>	<u>\$ (20,179)</u>	<u>\$ (36,448)</u>	<u>\$ 18,851</u>	<u>\$ 307,500</u>

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

NOTES TO FINANCIAL STATEMENTS

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

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 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, 2005.

A. Financial Reporting Entity

The City's financial reporting entity is comprised of the following:

Primary Government:	City of Mountain Iron
Blended Component Unit:	Mountain Iron Housing and Redevelopment Authority (HRA)
Discretely Presented Component Unit:	Mountain Iron Economic Development Authority (EDA)

In determining the financial reporting entity, the City complies with the provisions of Governmental Accounting Standards Board Statement No. 14, "The Financial Reporting Entity," and includes all component units of which the City appointed a voting majority of the units' board; the City is either able to impose its will on the unit or a financial benefit or burden relationship exists.

Blended Component Units

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

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

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

Discretely Presented Component Units

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

The component unit that is discretely presented is as follows:

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

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

B. Basic Financial Statements

Government-wide Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by the given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Financial Statements

The City segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Separate statements are presented for governmental and proprietary activities. These statements present each major fund as a separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column.

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

GOVERNMENTAL FUNDS

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

Major Governmental Funds:

The General Fund is 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 Funds:

Special Revenue Funds, including the HRA Special Revenue Fund and the Charitable Gambling Special Revenue Fund, are used to account for the proceeds of specific resources (other than expendable trust or major capital projects) that are legally restricted to expenditures for specified purposes.

Capital Projects Funds, including the Street Construction Capital Projects Fund, are used to account for financial resources to be used for the acquisition or construction of major capital assets (other than those financed by proprietary funds).

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:

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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

C. Measurement Focus and Basis of Accounting

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

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.

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

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. Cash and Cash Equivalents

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

E. Assets, Liabilities and Fund Balances

- 1) Cash balances for all funds of the City are maintained on a combined basis and invested to the extent possible, in allowable short-term investments. All investments are stated at fair value.
- 2) 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.

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- 4) Restricted assets are cash and cash equivalents whose use is limited by legal requirements. Restricted assets are reported only in the government-wide and proprietary fund financial statements.
- 5) Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-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 elected not to report general infrastructure assets acquired prior to January 1, 2004; therefore, general infrastructure assets include only those acquired subsequent to January 1, 2004. 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.

- 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. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs, if material, are reported as deferred charges and amortized over the term of the related debt. The long-term debt consists primarily of general obligation bonds payable, revenue bonds, notes payable, and severance payable.

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures. Severance pay and 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.

F. Revenues and Expenditures

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

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

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

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE 2 - CASH, CASH EQUIVALENTS AND INVESTMENTS

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

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

	<u>Primary Government</u>	<u>Component Unit EDA</u>
Petty Cash	\$ 542	\$ -
Cash	748,779	132,356
Certificates of Deposit	2,209,925	154,950
Investments	<u>2,097,097</u>	<u>-</u>
Total	<u>\$ 5,056,343</u>	<u>\$ 287,306</u>

Deposits

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure the City's deposits may not be returned to it. The City does not have a formal deposit policy for custodial credit risk.

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 \$2,958,704; the bank balance was \$3,085,031. 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. At year-end, the carrying amount of the Mountain Iron EDA's deposits, which includes certificates of deposit, was \$287,306; the bank balance was \$287,599. At year-end, the Mountain Iron EDA's bank balances were entirely insured or collateralized with securities held by the pledging financial institution's agent in the Mountain Iron EDA's name as required by Minnesota Statute §118A.03.

Investments

Custodial Credit Risk – Investments

For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or securities that are in the possession of an outside party. The City does not have a formal investment policy for custodial credit risk.

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

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

Credit Risk and Concentration of Credit Risk

The City does not have a formal investment policy for credit risk or concentration of credit risk. State statutes authorize the City to invest in qualified repurchase agreements, obligations of the U.S. government, obligations of the State of Minnesota or its municipalities, shares of certain investment companies, banker's acceptance notes, commercial paper and guaranteed investment contracts. The City places no limit on the amount the City may invest in any one issuer. During this fiscal year, the City did not invest in securities.

The City's investments as of December 31, 2005, consist of:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Rating</u>
FNMA Government Securities	\$ 1,550,063	AAA (Moody's/S&P)
Federal Home Loan Bank Consolidated Bonds	\$ 299,502	AAA (Moody's/S&P)
Federal Farm Credit Banks Consolidated Systemwide Bonds	\$ 149,078	AAA (Moody's/S&P)
Federal Home Loan Mortgage Corp. Medium Term Notes	\$ 98,454	AAA (Moody's/S&P)

Interest Rate Risk

The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE 3 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2005, was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental activities				
Capital assets, not being depreciated:				
Land	\$ 417,931	\$ 68,274	\$ (37,530)	\$ 448,675
Construction in progress	994,419	308,285	(819,026)	483,678
Total capital assets not being depreciated	<u>1,412,350</u>	<u>376,559</u>	<u>(856,556)</u>	<u>932,353</u>
Capital assets, being depreciated:				
Land improvements	260,466	-	-	260,466
Buildings	2,344,127	-	-	2,344,127
Infrastructure	3,857,120	756,988	-	4,614,108
Machinery and equipment	417,898	102,677	-	520,575
Licensed vehicles	1,986,758	24,487	-	2,011,245
Total capital assets, being depreciated	<u>8,866,369</u>	<u>884,152</u>	<u>-</u>	<u>9,750,521</u>
Less accumulated depreciation for:				
Land improvements	(101,921)	(10,668)	-	(112,589)
Buildings	(573,217)	(45,810)	-	(619,027)
Infrastructure	(2,332,915)	(129,369)	-	(2,462,284)
Machinery and equipment	(200,179)	(31,828)	-	(232,007)
Licensed vehicles	(1,411,286)	(126,372)	-	(1,537,658)
Total accumulated depreciation	<u>(4,619,518)</u>	<u>(344,047)</u>	<u>-</u>	<u>(4,963,565)</u>
Total capital assets, being depreciated, net	<u>4,246,851</u>	<u>540,105</u>	<u>-</u>	<u>4,786,956</u>
Governmental activities capital assets, net	<u>\$ 5,659,201</u>	<u>\$ 916,664</u>	<u>\$ (856,556)</u>	<u>\$ 5,719,309</u>
Business-type activities				
Capital assets, not being depreciated:				
Land	\$ -	\$ 8,336	\$ -	\$ 8,336
Total capital assets not being depreciated	<u>-</u>	<u>8,336</u>	<u>-</u>	<u>8,336</u>
Capital assets, being depreciated:				
Building	5,229,973	1,208,226	-	6,438,199
Infrastructure	5,310,435	132,982	-	5,443,417
Machinery and equipment	464,057	212,675	-	676,732
Licensed vehicles	483,710	70,201	-	553,911
Total capital assets, being depreciated	<u>11,488,175</u>	<u>1,624,084</u>	<u>-</u>	<u>13,112,259</u>
Less accumulated depreciation for:				
Building	(1,402,801)	(832,188)	-	(2,234,989)
Infrastructure	(4,314,972)	(84,209)	-	(4,399,181)
Machinery and equipment	(409,937)	(215,852)	-	(625,789)
Licensed vehicles	(394,566)	(35,799)	-	(430,365)
Total accumulated depreciation	<u>(6,522,276)</u>	<u>(1,168,048)</u>	<u>-</u>	<u>(7,690,324)</u>
Total capital assets, being depreciated, net	<u>4,965,899</u>	<u>456,036</u>	<u>-</u>	<u>5,421,935</u>
Business-type activities capital assets, net	<u>\$ 4,965,899</u>	<u>\$ 464,372</u>	<u>\$ -</u>	<u>\$ 5,430,271</u>

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE 3 - CAPITAL ASSETS (CONTINUED)

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

Governmental activities

General government	\$ 52,531
Public safety	66,936
Streets	204,832
Culture and recreation	<u>19,748</u>
Total depreciation expense- governmental activities	<u>\$ 344,047</u>

Business-type activities

Electric	\$ 32,375
Water treatment	79,046
Wastewater treatment	103,293
Refuse removal and recycling	19,757
Mountain Manor Apartments	<u>31,455</u>
Total depreciation expense - business-type activities	<u>\$ 265,926</u>

Discretely presented component unit:

Mountain Iron EDA capital asset activity for the year ended December 31, 2005, is as follows:

	Balance 01/01/05	Additions	Deletions	Balance 12/31/05
Governmental activities				
Capital assets, not being depreciated:				
Land	\$ _____	\$ <u>2,544,868</u>	\$ _____	\$ <u>2,544,868</u>

NOTE 4 - 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. The City of Mountain Iron issued general obligation tax increment refunding bonds to finance development in tax increment districts recorded in the Mountain Iron EDA financial statements. These bonds are considered obligations of the primary government and are being repaid with tax increment revenues. 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. In 2005, the City refunded the 1998 Community Center and the 2000 Improvements general obligation bonds with the 2005 General Obligation Refunding Bonds. This refunding reduced the City's total debt service payments by approximately \$70,441 and resulted in a present value savings of approximately \$71,643. For governmental activities, claims and judgments and severance payable are generally liquidated by the general fund.

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE 4 - LONG-TERM LIABILITIES (CONTINUED)

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>
Governmental activities					
General obligation bonds					
1998 Community Center	4/1/1998	4.50-5.30%	\$1,015,000	02/1/2020	\$ 845,000
2000 Improvements	9/1/2000	4.75-5.75%	\$1,280,000	02/1/2016	1,045,000
2005 Refunding	3/8/2005	2.70-4.30%	\$1,645,000	02/1/2020	1,645,000
2005 Library upgrade	8/1/2005	4.125%	\$ 300,000	08/1/2035	<u>300,000</u>
Total general obligation bonds					<u>3,835,000</u>
Severance payable					<u>75,971</u>
Governmental activities long-term liabilities					<u>3,910,971</u>
Business-type activities					
Revenue bonds					
2002 Water revenue bonds	8/1/2002	2.50-5.15%	\$ 855,000	12/1/2022	\$ 780,000
Notes payable					
1980 Rural Development	9/4/1980	3.61%	\$ 819,370	09/1/2030	477,770
1981 Rural Development	1/16/1981	3.61%	\$ 320,630	01/1/2031	<u>186,669</u>
Total notes payable					<u>664,439</u>
Severance payable					<u>38,114</u>
Business-type activities long-term liabilities					<u>1,482,553</u>
Total Long-Term Liabilities					<u>\$5,393,524</u>
Discretely presented component unit:					
Mountain Iron EDA					
General obligation bonds					
1996 Tax Increment Refunding	2/1/1996	3.90-4.70%	\$ 365,000	09/1/2007	\$ 80,000
2002 Tax Increment Refunding	3/1/2002	2.50-3.85%	\$ 335,000	02/1/2007	<u>175,000</u>
Total component unit					<u>\$ 255,000</u>

Long-term liability activity for the year ended December 31, 2005 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Governmental activities					
Bonds payable					
1998 GO Community Center bonds	\$ 880,000	\$ -	\$ (35,000)	\$ 845,000	\$ 40,000
2000 GO Improvement bonds	1,110,000	-	(65,000)	1,045,000	70,000
2005 GO Refunding bonds	-	1,645,000	-	1,645,000	-
2005 GO Library Upgrade bonds	-	<u>300,000</u>	-	<u>300,000</u>	-
Total bonds payable	<u>1,990,000</u>	<u>1,945,000</u>	<u>(100,000)</u>	<u>3,835,000</u>	<u>110,000</u>
Severance payable	<u>77,551</u>	<u>4,773</u>	<u>(6,353)</u>	<u>75,971</u>	-
Governmental activities - long-term liabilities	<u>\$ 2,067,551</u>	<u>\$ 1,949,773</u>	<u>\$ (106,353)</u>	<u>\$ 3,910,971</u>	<u>\$ 110,000</u>

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2005

NOTE 4 - LONG-TERM LIABILITIES (CONTINUED)

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Business-type activities					
2002 Water revenue bonds	\$ 805,000	\$ -	\$ (25,000)	\$ 780,000	\$ 30,000
1980 Rural Development notes	-	481,461	(3,691)	477,770	3,418
1981 Rural Development notes	-	188,057	(1,388)	186,669	1,329
Severance payable	37,734	380	-	38,114	-
Business-type activities - long-term liabilities	<u>\$ 842,734</u>	<u>\$ 669,898</u>	<u>\$ (30,079)</u>	<u>\$ 1,482,553</u>	<u>\$ 34,747</u>

Discretely presented component unit:

Mountain Iron EDA

Bonds payable					
1996 GO Tax Increment Refunding	\$ -	\$ 120,000	\$ (40,000)	\$ 80,000	\$ 40,000
2002 GO Tax Increment Refunding	-	255,000	(80,000)	175,000	75,000
Component unit - long-term liabilities	<u>\$ -</u>	<u>\$ 375,000</u>	<u>\$ (120,000)</u>	<u>\$ 255,000</u>	<u>\$ 115,000</u>

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
2006	\$ 110,000	\$ 161,892	\$ 34,747	\$ 59,250	\$ 144,747	\$ 221,142
2007	120,000	163,391	34,625	59,977	154,625	223,368
2008	180,000	156,402	40,152	58,627	220,152	215,029
2009	280,000	146,830	40,342	57,001	320,342	203,831
2010	291,000	135,259	40,538	55,318	331,538	190,577
2011-2015	1,669,000	469,640	240,892	247,215	1,909,892	716,855
2016-2020	986,000	139,606	311,993	183,825	1,297,993	323,431
2021-2025	54,000	36,795	174,299	109,323	228,299	146,118
2026-2030	66,000	24,669	391,178	88,491	457,178	113,160
2031-2035	79,000	9,982	135,673	408	214,673	10,390
Total	<u>\$ 3,835,000</u>	<u>\$ 1,444,466</u>	<u>\$ 1,444,439</u>	<u>\$ 919,435</u>	<u>\$ 5,279,439</u>	<u>\$ 2,363,901</u>

Year Ending December 31	Component Unit Mountain Iron EDA	
	Principal	Interest
2006	\$ 115,000	\$ 7,983
2007	140,000	2,865
Total	<u>\$ 255,000</u>	<u>\$ 10,848</u>

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE 4 - 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, 2005 is \$747,518 and \$64,417, 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, 2005 is \$1,170,000.

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 EDA 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, 2005 is \$1,860,000.

In 2004 the City of Mountain Iron, Minnesota (Issuer) issued limited obligation notes (\$648,800 Health Care Facilities Revenue Notes Series 2003A, \$244,900 Health Care Facilities Revenue Notes Series 2003B and \$635,700 Health Care Facilities Revenue Notes Series 2003C) to finance the cost of acquisition of a new facility, refinance debt, and finance real property improvements for the Duluth Regional Care Center, Inc. The City of Mountain Iron and the City of Hermantown, Minnesota, and the Duluth Economic Development Authority (Host Municipalities) entered into a joint powers agreement to cooperatively finance the project since portions of the project are located within the jurisdictional limits of each of the Host Municipalities. These notes and interest are limited obligations of the Issuer and shall not be payable from nor charged against any funds of the City other than revenue pledged for the payment thereof and does not constitute a debt of the City and is not reported as a liability in the financial statements of the City. The outstanding balance of these notes at December 31, 2005 is \$434,231; \$183,319; and \$542,513, respectively.

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE 5 - 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 Economic Development Authority	\$ 5,225
Debt Service Fund	Mountain Iron Economic Development Authority	2,333
		<u>\$ 7,558</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, 2005 consisted of the following:

	<u>Transfers in</u>				
	<u>HRA Special Revenue Fund</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	\$ 292,164	\$ 37,996	\$ 522,164
City Projects Capital Projects Fund	18,935	-	-	-	18,935
Electric Enterprise Fund	-	-	-	8,335	8,335
Total	<u>\$ 18,935</u>	<u>\$ 192,004</u>	<u>\$ 292,164</u>	<u>\$ 46,331</u>	<u>\$ 549,434</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 6 - 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	\$ 766,196
Designated for cash flow	250,000
Total Designated – General Fund	<u>\$ 1,016,196</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, 2005

NOTE 7 - 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	
Accounts receivable not recorded in prior year	\$ <u>26,169</u>

Adjustments to net assets of enterprise funds for increase in capital assets to correct errors in carrying value of assets at the end of the year to the financial statements:

Electric Fund	\$ 12,002
Water Treatment Fund	381
Wastewater Treatment Fund	23,838
Refuse Removal and Recycling Fund	<u>60</u>
Total Enterprise Fund	\$ <u>36,281</u>

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

Accounts receivable not recorded in prior year	\$ 26,169
Increase in capital assets to correct errors in carrying value of assets at the end of the year	<u>167,593</u>
Total Governmental Activities	\$ <u>193,762</u>

NOTE 8 - RISK MANAGEMENT

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

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2005

NOTE 9 - TAX INCREMENT FINANCING DISTRICTS

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

<u>Tax Increment Financing Districts</u>	<u>No. 1</u>	<u>No. 2</u>	<u>No. 3</u>	<u>No. 7</u>
Redevelopment project district established in:	1983	1986	1987	-
Economic development district established in:	-	-	-	-
Soils district established in:	-	-	-	1994
Anticipated last tax increment year:	2009	2011	2012	2008
Original net tax capacity:	\$ <u>3,485</u>	\$ <u>1,828</u>	\$ <u>20</u>	\$ <u>1,914</u>
Current net tax capacity:	\$ <u>54,047</u>	\$ <u>11,515</u>	\$ <u>3,260</u>	\$ <u>29,397</u>
Fiscal disparity deduction:	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
Captured net tax capacity retained by Authority:	\$ <u>50,562</u>	\$ <u>9,687</u>	\$ <u>3,240</u>	\$ <u>27,483</u>
Total bonds issued				
Tax increment bonds	\$ 440,000	\$ 60,000	\$ -	\$ 635,000
Amounts redeemed	<u>369,600</u>	<u>50,400</u>	<u>-</u>	<u>460,000</u>
Outstanding bonds at 12/31/05	\$ <u>70,400</u>	\$ <u>9,600</u>	\$ <u>-</u>	\$ <u>175,000</u>

<u>No. 8</u>	<u>No. 9</u>	<u>No.10</u>	<u>No.11</u>	<u>No. 13</u>
-	-	-	-	-
1995	1997	1999	1999	2002
-	-	-	-	-
2005	2007	2009	2009	2011
\$ <u>1,666</u>	\$ <u>644</u>	\$ <u>-</u>	\$ <u>1,017</u>	\$ <u>756</u>
\$ <u>16,373</u>	\$ <u>8,088</u>	\$ <u>574</u>	\$ <u>11,890</u>	\$ <u>3,202</u>
\$ <u>-</u>	\$ <u>-</u>	\$ <u>34</u>	\$ <u>644</u>	\$ <u>146</u>
\$ <u>14,707</u>	\$ <u>7,444</u>	\$ <u>540</u>	\$ <u>10,229</u>	\$ <u>2,300</u>
\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-
\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE 10 - OTHER COMMITMENTS AND CONTINGENCIES

Grants

The City participates in grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable at December 31, 2005, 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, 2005. 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>
Mountain Iron Drive storm drainage improvements	\$ <u>23,469</u>	\$ <u>38,553</u>
Library upgrades	\$ <u>257,081</u>	\$ <u>81,995</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, 2005

NOTE 11 - JOINT VENTURES

Tri-Cities Biosolids Disposal Authority

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

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

Each member city contributes to the budget of the Authority based on actual loads hauled during the previous year. The City of Mountain Iron's contribution to the Authority's budget during 2005 was \$20,833. 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 2005 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, 2005

NOTE 11 - JOINT VENTURES (CONTINUED)

The City of Mountain Iron's contribution to the Authority's budget during 2005 was \$6,720. Complete financial information can be obtained from the Quad Cities Recreation Center, Eveleth, Minnesota 55734.

NOTE 12 - 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, 2005, there were seven employees who were receiving the premium coverage benefit. The City recognized \$78,755 of expenditures incurred for this benefit during 2005.

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 2005, the City expended \$6,353 for this benefit.

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

NOTE 13 - 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, 2005

NOTE 13 - 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 65 for Basic and Coordinated members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for Coordinated members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

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

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

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

B. Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The City makes annual contributions to the pension plans equal to the amount required by state statutes. PERF Basic Plan members and Coordinated Plan members are required to contribute 9.10% and 5.10%, respectively, of their annual covered salary in 2005. Contribution rates in the Coordinated Plan will increase in 2006 to 5.5%. 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. Employer contribution rates for the Coordinated Plan will increase to 6.0% effective January 1, 2006. The City's contributions to the Public Employees Retirement Fund for the years ending December 31, 2005, 2004, and 2003 were \$62,823, \$62,778, and \$59,170, 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, 2005

NOTE 14 - 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 2005 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

General Fund

Year Ended December 31, 2005

	Budgeted Amounts		Actual Amounts, Budgetary Basis	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 1,224,527	\$ 1,224,527	\$ 1,224,731	\$ 204
Licenses and permits	21,500	21,500	17,744	(3,756)
Intergovernmental	1,388,747	1,388,747	1,729,178	340,431
Charges for services	158,000	158,000	127,135	(30,865)
Fines	9,000	9,000	13,815	4,815
Gifts and contributions	-	-	34,901	34,901
Interest	40,000	40,000	25,057	(14,943)
TOTAL REVENUES	<u>2,841,774</u>	<u>2,841,774</u>	<u>3,172,561</u>	<u>330,787</u>
EXPENDITURES				
Current				
General government	759,730	759,730	888,143	(128,413)
Public safety	494,300	494,300	552,330	(58,030)
Streets	520,000	520,000	670,236	(150,236)
Culture and recreation	343,080	343,080	373,196	(30,116)
Economic development	195,500	195,500	161,731	33,769
TOTAL EXPENDITURES	<u>2,312,610</u>	<u>2,312,610</u>	<u>2,645,636</u>	<u>(333,026)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>529,164</u>	<u>529,164</u>	<u>526,925</u>	<u>(2,239)</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	(529,164)	(529,164)	(522,164)	7,000
Sale of capital assets	-	-	30,916	30,916
TOTAL OTHER FINANCING SOURCES (USES)	<u>(529,164)</u>	<u>(529,164)</u>	<u>(491,248)</u>	<u>37,916</u>
NET CHANGE IN FUND BALANCE	-	-	35,677	35,677
FUND BALANCE - JANUARY 1	1,097,109	1,097,109	1,097,109	-
Prior period adjustment	-	-	26,169	26,169
FUND BALANCE - DECEMBER 31	<u>\$ 1,097,109</u>	<u>\$ 1,097,109</u>	<u>\$ 1,158,955</u>	<u>\$ 61,846</u>

CITY OF MOUNTAIN IRON, MINNESOTA

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
December 31, 2005**

NOTE 1 - BUDGETING

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

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

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

NOTE 2 - EXCESS OF EXPENDITURES OVER BUDGET

Expenditures exceeded appropriations in the following fund for the year ended December 31, 2005:

General Fund	\$ 333,026
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The excess expenditures were funded by available fund balances in the fund.

OTHER SUPPLEMENTARY INFORMATION

NONMAJOR GOVERNMENTAL FUND

Special Revenue Funds

Special revenue funds are used to account for specific revenues that are legally restricted to expenditure for particular purposes.

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

The HRA Special Revenue Fund is used to account for housing and redevelopment activities within the City.

Capital Projects Fund

Capital projects funds are used to account for the acquisition and construction of major capital facilities other than those financed by proprietary funds.

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

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
December 31, 2005**

	Charitable Gambling Special Revenue Fund	HRA Special Revenue Fund	Street Construction Capital Projects Fund	Total Nonmajor Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 6,714	\$ -	\$ 416,363	\$ 423,077
Interest receivable	-	-	1,373	1,373
TOTAL ASSETS	<u>\$ 6,714</u>	<u>\$ -</u>	<u>\$ 417,736</u>	<u>\$ 424,450</u>
 LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ -	\$ -	\$ 18,360	\$ 18,360
 FUND BALANCES				
Unreserved, undesignated	<u>6,714</u>	<u>-</u>	<u>399,376</u>	<u>406,090</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 6,714</u>	<u>\$ -</u>	<u>\$ 417,736</u>	<u>\$ 424,450</u>

CITY OF MOUNTAIN IRON, MINNESOTA

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
Year Ended December 31, 2005**

	Charitable Gambling Special Revenue Fund	HRA Special Revenue Fund	Street Construction Capital Projects Fund	Total Nonmajor Governmental Funds
REVENUES				
Gifts and contributions	\$ 2,608	\$ -	\$ -	\$ 2,608
Investment earnings	153	-	16,505	16,658
TOTAL REVENUES	<u>2,761</u>	<u>-</u>	<u>16,505</u>	<u>19,266</u>
EXPENDITURES				
Current				
General government	1,407	-	-	1,407
Economic development	-	288,882	-	288,882
Capital Outlay	-	-	34,377	34,377
TOTAL EXPENDITURES	<u>1,407</u>	<u>288,882</u>	<u>34,377</u>	<u>324,666</u>
NET CHANGE IN FUND BALANCES	1,354	(288,882)	(17,872)	(305,400)
FUND BALANCES - JANUARY 1	<u>5,360</u>	<u>288,882</u>	<u>417,248</u>	<u>711,490</u>
FUND BALANCES - DECEMBER 31	<u>\$ 6,714</u>	<u>\$ -</u>	<u>\$ 399,376</u>	<u>\$ 406,090</u>

CITY OF MOUNTAIN IRON, MINNESOTA

**GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
Year Ended December 31, 2005**

REVENUES

TAXES

General property	\$ 921,564
Mineral rents and royalties	121,351
Franchise	21,855
Tax increment financing	159,961
TOTAL TAXES	<u>1,224,731</u>

LICENSES AND PERMITS

17,744

INTERGOVERNMENTAL

State

Local government aid	526,247
Market value credit	93,631
Taconite production	593,515
Taconite municipal aid	355,561
Mining effects	115,549
PERA aid	4,529
Police aid	26,614
Fire aid	13,532

TOTAL INTERGOVERNMENTAL

1,729,178

CHARGES FOR SERVICES

General government

Rent	9,238
Refunds and reimbursements	70,954
Miscellaneous	11,839
Culture and recreation	
Recreation fees	5,106
Campground fees	29,998

TOTAL CHARGES FOR SERVICES

127,135

FINES

13,815

GIFTS AND CONTRIBUTIONS

34,901

INTEREST

25,057

TOTAL REVENUES

3,172,561

CITY OF MOUNTAIN IRON, MINNESOTA

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

Year Ended December 31, 2005

EXPENDITURES

CURRENT

GENERAL GOVERNMENT

Mayor and council	\$ 27,218
City clerk-treasurer	468,194
Elections	660
Assessor	28,783
Retiree's insurance	78,131
Donations and contributions	9,220
Other	106,002
Buildings	154,254
Planning and zoning	15,681

TOTAL GENERAL GOVERNMENT	<u>888,143</u>
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PUBLIC SAFETY

Police	429,240
Fire	112,697
Animal control	10,368
Civil defense	25

TOTAL PUBLIC SAFETY	<u>552,330</u>
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STREETS	<u>670,236</u>
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CULTURE AND RECREATION

Library	111,992
Recreation	202,440
Campgrounds	58,764

TOTAL CULTURE AND RECREATION	<u>373,196</u>
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ECONOMIC DEVELOPMENT

EDA	161,731
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TOTAL EXPENDITURES	<u>2,645,636</u>
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**EXCESS OF REVENUES OVER
EXPENDITURES**

<u>526,925</u>

OTHER FINANCING SOURCES (USES)

Transfers out	(522,164)
Sale of capital assets	30,916

TOTAL OTHER FINANCING SOURCES (USES)	<u>(491,248)</u>
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NET CHANGE IN FUND BALANCE	35,677
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FUND BALANCE - JANUARY 1	1,097,109
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Prior period adjustment	<u>26,169</u>
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FUND BALANCE - DECEMBER 31	<u>\$ 1,158,955</u>
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CITY OF MOUNTAIN IRON, MINNESOTA

**SCHEDULE OF SOURCES AND USES OF PUBLIC FUNDS
FOR MOUNTAIN IRON TAX INCREMENT DISTRICT NO. 1
Year Ended December 31, 2005**

	<u>Budget</u>	<u>Accounted for in Prior Years</u>	<u>Current Year</u>
SOURCES OF FUNDS			
Tax increment revenue	\$ 2,000,000	\$ 1,231,241	\$ 61,810
Bond proceeds	2,000,000	440,000	-
Loan proceeds EDA General Fund	-	174,885	-
Real estate sales	<u>2,000</u>	<u>1,726</u>	<u>-</u>
TOTAL SOURCES OF FUNDS	<u>4,002,000</u>	<u>1,847,852</u>	<u>61,810</u>
USES OF FUNDS			
Land acquisition	100,000	58,616	-
Site improvements and preparation costs	750,000	713,627	-
Installation of public utilities	150,000	-	-
Streets and sidewalks	100,000	-	-
Bond principal payments	2,000,000	330,900	35,200
Bond interest payments	400,000	368,003	4,136
Loan principal payments	-	174,885	-
Administrative costs	200,000	53,756	2,522
Pooled for debt	<u>302,000</u>	<u>148,065</u>	<u>19,952</u>
TOTAL USES OF FUNDS	<u>4,002,000</u>	<u>1,847,852</u>	<u>61,810</u>
DISTRICT BALANCE	\$ <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, 2005**

	<u>Budget</u>	<u>Accounted for in Prior Years</u>	<u>Current Year</u>
SOURCES OF FUNDS			
Tax increment revenue	\$ 5,566,225	\$ 205,574	\$ 12,269
Bond proceeds	1,905,000	60,000	-
Loan proceeds EDA General Fund	<u>-</u>	<u>172,987</u>	<u>-</u>
TOTAL SOURCES OF FUNDS	<u>7,471,225</u>	<u>438,561</u>	<u>12,269</u>
USES OF FUNDS			
Land acquisition	324,500	264,070	-
Site improvement	466,500	-	-
Bond principal payments	1,905,000	49,100	4,800
Bond interest payments	2,721,725	52,233	564
Loan principal payments	-	64,409	6,648
Administrative costs	134,020	8,749	257
Debt service reserve	<u>500,000</u>	<u>-</u>	<u>-</u>
TOTAL USES OF FUNDS	<u>6,051,745</u>	<u>438,561</u>	<u>12,269</u>
DISTRICT BALANCE	<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, 2005**

	<u>Budget</u>	<u>Accounted for in Prior Years</u>	<u>Current Year</u>
SOURCES OF FUNDS			
Tax increment revenue	\$ 105,000	\$ 63,411	\$ 3,858
Bond proceeds	100,000	-	-
Loan proceeds EDA General Fund	<u>-</u>	<u>10,235</u>	<u>-</u>
TOTAL SOURCES OF FUNDS	<u>205,000</u>	<u>73,646</u>	<u>3,858</u>
USES OF FUNDS			
Site improvements and preparation costs	35,000	34,623	-
Bond principal payments	100,000	-	-
Bond interest payments	10,000	-	-
Loan principal payments	-	10,235	-
Administrative costs	10,500	6,650	1,991
Pooled for debt	<u>49,500</u>	<u>22,138</u>	<u>1,867</u>
TOTAL USES OF FUNDS	<u>205,000</u>	<u>73,646</u>	<u>3,858</u>
DISTRICT BALANCE (DEFICIENCY)	\$ <u><u>-</u></u>	\$ <u><u>-</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, 2005**

	<u>Budget</u>	<u>Accounted for in Prior Years</u>	<u>Current Year</u>
SOURCES OF FUNDS			
Tax increment revenue	\$ 764,348	\$ 419,611	\$ 39,152
Interest on invested funds	-	5,823	-
Bond proceeds	635,000	635,000	-
Real estate sales	-	24,000	-
Loan proceeds EDA General Fund	-	133,829	27,139
Pooled for debt	<u>-</u>	<u>260,453</u>	<u>21,943</u>
TOTAL SOURCES OF FUNDS	<u>1,399,348</u>	<u>1,478,716</u>	<u>88,234</u>
USES OF FUNDS			
Site improvements and preparation costs	604,360	550,986	-
Bond principal payments	635,000	395,000	80,000
Bond interest payments	129,348	430,526	7,675
Administrative costs	30,640	46,780	559
Underwriters discount/bond	-	25,370	-
Loan principal payments	<u>-</u>	<u>30,054</u>	<u>-</u>
TOTAL USES OF FUNDS	<u>1,399,348</u>	<u>1,478,716</u>	<u>88,234</u>
DISTRICT BALANCE	\$ <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, 2005**

	<u>Budget</u>	<u>Accounted for in Prior Years</u>	<u>Current Year</u>
SOURCES OF FUNDS			
Tax increment revenue	\$ 288,300	\$ 189,121	\$ 18,177
Bond proceeds	190,000	-	-
Loan proceeds EDA General Fund	-	231,076	-
IRRRB Grant	<u>-</u>	<u>240,000</u>	<u>-</u>
TOTAL SOURCES OF FUNDS	<u>478,300</u>	<u>660,197</u>	<u>18,177</u>
USES OF FUNDS			
Site improvements and preparation costs	242,300	461,411	-
Streets and sidewalks	128,700	-	-
Bond principal payments	190,000	-	-
Bond interest payments	161,300	-	-
Administrative costs	28,700	21,499	185
Loan principal payments	<u>-</u>	<u>177,287</u>	<u>17,992</u>
TOTAL USES OF FUNDS	<u>751,000</u>	<u>660,197</u>	<u>18,177</u>
DISTRICT BALANCE (DEFICIENCY)	\$ <u>(272,700)</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, 2005**

	<u>Budget</u>	<u>Accounted for in Prior Years</u>	<u>Current Year</u>
SOURCES OF FUNDS			
Tax increment revenue	\$ 205,000	\$ 64,733	\$ 8,523
Local contribution	20,000	3,111	-
Loan proceeds EDA General Fund	-	8,664	2,576
Pooled debt	<u>-</u>	<u>137</u>	<u>-</u>
TOTAL SOURCES OF FUNDS	<u>225,000</u>	<u>76,645</u>	<u>11,099</u>
USES OF FUNDS			
Land acquisition	35,000	12,952	-
Site improvements and preparation costs	65,000	18,346	10,914
Installation of public utilities	18,000	-	-
Parking facilities	30,000	-	-
Administrative costs	17,000	17,429	185
Public improvements	40,000	-	-
Costs of local contribution	20,000	-	-
Loan principal payments	-	8,664	-
Pooled for debt	<u>-</u>	<u>19,254</u>	<u>-</u>
TOTAL USES OF FUNDS	<u>225,000</u>	<u>76,645</u>	<u>11,099</u>
DISTRICT BALANCE	\$ <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, 2005**

	<u>Budget</u>	<u>Accounted for in Prior Years</u>	<u>Current Year</u>
SOURCES OF FUNDS			
Tax increment revenue	\$ 331,056	\$ 3,395	\$ -
Local contribution	25,830	-	-
Interest	2,000	-	-
Loan proceeds EDA General Fund	<u>165,000</u>	<u>93,934</u>	<u>185</u>
TOTAL SOURCES OF FUNDS	<u>523,886</u>	<u>97,329</u>	<u>185</u>
USES OF FUNDS			
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	16,708	185
Cost of local contribution	25,830	-	-
Loan principal payments	<u>165,662</u>	<u>1,920</u>	<u>-</u>
TOTAL USES OF FUNDS	<u>523,886</u>	<u>97,329</u>	<u>185</u>
DISTRICT BALANCE	\$ <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, 2005**

	<u>Budget</u>	<u>Accounted for in Prior Years</u>	<u>Current Year</u>
SOURCES OF FUNDS			
Tax increment revenue	\$ 196,474	\$ 60,671	\$ 12,734
Interest	2,000	-	-
Loan proceeds EDA General Fund	15,000	26,412	3,830
Land sale	<u>-</u>	<u>1,000</u>	<u>-</u>
TOTAL SOURCES OF FUNDS	<u>213,474</u>	<u>88,083</u>	<u>16,564</u>
USES OF FUNDS			
Site improvements and preparation costs	95,500	40,140	16,379
Installation of public utilities	20,000	-	-
Interest	63,868	-	-
Administrative costs	19,106	9,524	185
Loan principal payments	15,000	5,767	-
Pooled for debt	<u>-</u>	<u>32,652</u>	<u>-</u>
TOTAL USES OF FUNDS	<u>213,474</u>	<u>88,083</u>	<u>16,564</u>
DISTRICT BALANCE	<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, 2005**

	<u>Budget</u>	<u>Accounted for in Prior Years</u>	<u>Current Year</u>
SOURCES OF FUNDS			
Tax increment revenue	\$ 120,900	\$ 958	\$ 3,438
Interest	2,000	-	-
Loan proceeds EDA General Fund	<u>-</u>	<u>6,543</u>	<u>-</u>
TOTAL SOURCES OF FUNDS	<u>122,900</u>	<u>7,501</u>	<u>3,438</u>
USES OF FUNDS			
Site improvements and preparation costs	83,000	2,500	2,840
Installation of public utilities	27,800	-	-
Administrative costs	12,100	5,001	134
Loan principal payments	<u>-</u>	<u>-</u>	<u>464</u>
TOTAL USES OF FUNDS	<u>122,900</u>	<u>7,501</u>	<u>3,438</u>
DISTRICT BALANCE	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>



CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

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

**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 accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, 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, 2005, which collectively comprise the City of Mountain Iron, Minnesota's basic financial statements and have issued our report thereon dated March 8, 2006. We did not audit the financial statements of the Mountain Manor Apartments Enterprise Fund. Those financial statements were audited by other auditors whose report thereon has been furnished to us. 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 opinions 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 initiate, record, process, 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

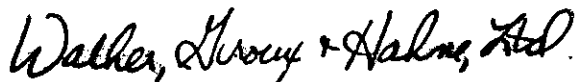
As part of obtaining reasonable assurance about whether City of Mountain Iron, Minnesota's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a 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 also conducted our audit in accordance with 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 seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions and tax increment financing. Our 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 March 8, 2006, 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.



March 8, 2006

CITY OF MOUNTAIN IRON, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended December 31, 2005

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 Council and management of the City of Mountain Iron 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.



CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

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

MANAGEMENT LETTER

To the City Council
City of Mountain Iron, Minnesota

In planning and performing our audit of the financial statements of the City of Mountain Iron, Minnesota, for the year ended December 31, 2005, 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 March 8, 2006, contains our report on reportable conditions in the City's internal control. This letter does not affect our report dated March 8, 2006, 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 City Council did make revisions to the utility fees during 2005; however, the Water Treatment, Wastewater Treatment and Refuse Removal and Recycling Enterprise Funds reported net operating losses for the year ended December 31, 2005. We suggest that the City Council review these changes and implement a plan to make the funds 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. We recommend that the City Council adopt an investment policy for custodial, credit, concentration, and interest rate risks. This information is required for GASB 40 reporting requirements.

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, Shroy & Hahn, Ltd.

March 8, 2006