

CITY OF MOUNTAIN IRON, MINNESOTA

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
Year Ended December 31, 2006**

CITY OF MOUNTAIN IRON, MINNESOTA

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CITY OF MOUNTAIN IRON, MINNESOTA

ORGANIZATION
December 31, 2006

CITY COUNCIL

Mayor

Gary Skalko

Council Members

Dale Irish
Allen Nelson
Joe Prebeg, Jr.
Ed Roskoski

ADMINISTRATION

Administrator

Craig J. Wainio

FINANCIAL SECTION



CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

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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, 2006, 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, 2006, 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 April 27, 2007 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 as listed in the table of contents 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.

Walker, Hironaka & Hironaka, Ltd.

April 27, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF MOUNTAIN IRON, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2006

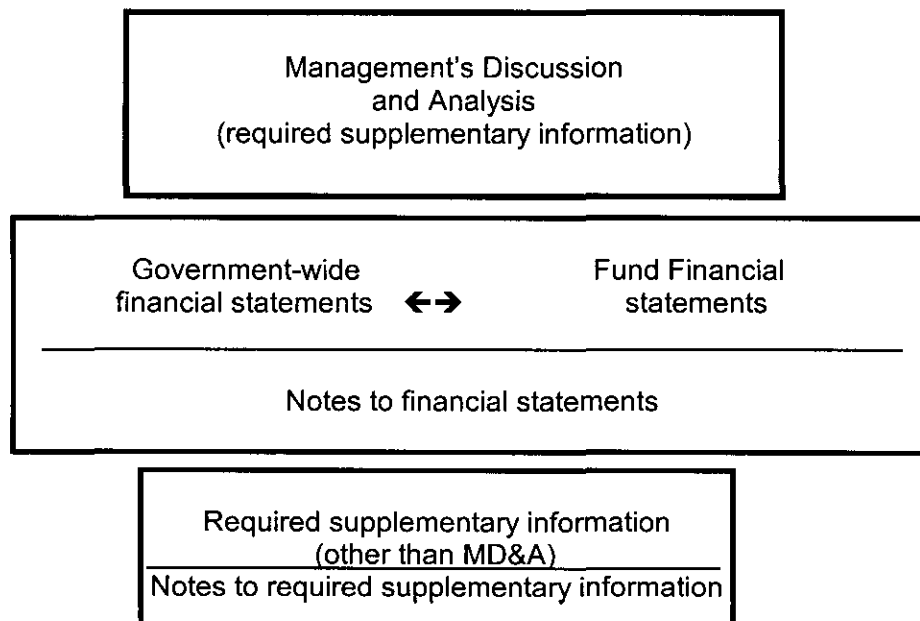
The City of Mountain Iron, Minnesota's management's discussion and analysis provides an overview of the City's financial activities for the year ended December 31, 2006. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the City of Mountain Iron, Minnesota's financial statements.

FINANCIAL HIGHLIGHTS

- Governmental activities' total net assets are \$7,096,404, of which \$4,385,727 is invested in capital assets, net of related debt.
- Business-type activities has total net assets of \$4,988,932. Invested in capital assets, net of related debt represents \$3,890,638 of the total.
- The Mountain Iron Economic Development Authority (EDA) has total net assets of \$2,725,510, of which \$2,337,940 is invested in capital assets, net of related debt.
- The City of Mountain Iron's primary government's net assets increased by \$898,474 for the year ended December 31, 2006. Of the increase \$779,049 was an increase in the governmental activities' net assets and \$119,425 represented the increase in business-type activities' net assets.
- The EDA's net assets increased by \$48,090.
- The net cost of governmental activities was \$(2,551,967) for the current fiscal year. The net cost was funded by general revenues and other items totaling \$3,331,016.
- Governmental funds' fund balances increased by \$71,395.

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, 2006

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, 2006

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 \$11,186,862 to \$12,085,336. 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	
	2006	2005	2006	2005	2006	2005
Current and other assets	\$ 4,728,429	\$ 4,736,367	\$ 1,373,699	\$ 1,222,894	\$ 6,102,128	\$ 5,959,261
Capital assets	6,350,146	5,719,309	5,299,423	5,430,271	11,649,569	11,149,580
Total assets	11,078,575	10,455,676	6,673,122	6,653,165	17,751,697	17,108,841
Long-term debt outstanding	3,772,683	3,910,971	1,431,645	1,482,554	5,204,328	5,393,525
Other liabilities	209,488	227,349	252,545	301,105	462,033	528,454
Total liabilities	3,982,171	4,138,320	1,684,190	1,783,659	5,666,361	5,921,979
Net assets						
Invested in capital assets, net of debt	4,385,727	3,644,891	3,890,638	3,985,832	8,276,365	7,630,723
Restricted	-	-	29,014	13,714	29,014	13,714
Unrestricted	2,710,677	2,672,465	1,069,280	869,960	3,779,957	3,542,425
Total net assets	\$ 7,096,404	\$ 6,317,356	\$ 4,988,932	\$ 4,869,506	\$12,085,336	\$11,186,862

Net assets of the City's governmental activities increased by 12.3 percent (\$7,096,404 compared to \$6,317,356).

Net assets of the City's business-type activities increased by 2.3 percent (\$4,988,932 compared to \$4,869,506).

CITY OF MOUNTAIN IRON, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2006

Table 2
Changes in Net Assets

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Primary Government</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Revenues						
Program revenues:						
Fees, fines, charges and other charges for services	\$ 185,220	\$ 158,693	\$ 2,535,134	\$ 2,490,576	\$ 2,720,354	\$ 2,649,269
Operating grants and contributions	2,761	28,009	15,567	15,799	18,328	43,808
Capital grants and contributions	369,554	368,426	-	-	369,554	368,426
General revenues:						
Property and other taxes	1,203,839	1,223,573	-	-	1,203,839	1,223,573
Intergovernmental	1,986,482	1,729,178	-	-	1,986,482	1,729,178
Other general revenues	<u>180,993</u>	<u>38,704</u>	<u>39,189</u>	<u>25,613</u>	<u>220,182</u>	<u>64,317</u>
Total revenues	<u>3,928,849</u>	<u>3,546,583</u>	<u>2,589,890</u>	<u>2,531,988</u>	<u>6,518,739</u>	<u>6,078,571</u>
Program expenses:						
General government	949,405	943,043	-	-	949,405	943,043
Public safety	593,961	630,794	-	-	593,961	630,794
Streets	843,326	894,799	-	-	843,326	894,799
Culture and recreation	407,129	408,219	-	-	407,129	408,219
Economic development	150,605	450,613	-	-	150,605	450,613
Interest	165,076	162,665	-	-	165,076	162,665
Electric	-	-	1,362,445	1,345,181	1,362,445	1,345,181
Water	-	-	327,285	301,297	327,285	301,297
Wastewater	-	-	324,034	390,650	324,034	390,650
Refuse removal	-	-	341,756	380,368	341,756	380,368
Mountain Manor Apartments	-	-	155,243	162,613	155,243	162,613
Total program expenses	<u>3,109,502</u>	<u>3,490,133</u>	<u>2,510,763</u>	<u>2,580,109</u>	<u>5,620,265</u>	<u>6,070,242</u>
 Increase (decrease) in net assets before transfers	 819,347	 56,450	 79,127	 (48,121)	 898,474	 8,329
Transfers	<u>(40,298)</u>	<u>(189,913)</u>	<u>40,298</u>	<u>189,913</u>	<u>-</u>	<u>-</u>
 Increase (decrease) in net assets	 <u>\$ 779,049</u>	 <u>\$ (133,463)</u>	 <u>\$ 119,425</u>	 <u>\$ 141,792</u>	 <u>\$ 898,474</u>	 <u>\$ 8,329</u>

CITY OF MOUNTAIN IRON, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2006

Governmental Activities

The cost of all governmental activities this year was \$3,109,502. As shown in the Statement of Activities, some of the cost was paid by those who directly benefited from the programs (\$185,220) or by other governments and organizations that subsidized certain programs with grants and contributions (\$2,358,797). Our taxpayers financed \$1,203,839 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>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
General government	\$ 949,405	\$ 943,043	\$ 437,064	\$ 432,732
Streets	593,961	894,799	593,961	894,799
Public safety	843,326	630,794	843,326	630,319
Economic development	407,129	450,613	361,935	450,613
Culture and recreation	150,605	408,219	150,605	363,877
Others	<u>165,076</u>	<u>162,665</u>	<u>165,076</u>	<u>162,665</u>
Totals	<u>\$3,109,502</u>	<u>\$3,490,133</u>	<u>\$2,551,967</u>	<u>\$2,935,005</u>

Business-Type Activities

Revenues and transfers in of the City's business-type activities were \$2,575,432 and expenses were \$2,510,763, (see Table 2). There was a change in net assets of \$119,425 during the year ended December 31, 2006, which compares to a change in net assets of \$141,792 for the year ended December 31, 2005. Operations produced an \$84,546 increase for the year ended December 31, 2006 driving these results.

Mountain Iron EDA Component Unit Activity

The Mountain Iron EDA had a net increase in net assets of \$48,090 for the year ended December 31, 2006. Net program revenues over expenses were \$40,465. General revenues of interest earnings were \$7,625.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As the City completed the year, its governmental funds reported a combined fund balance of \$4,341,306 which is above last year's total of \$4,269,911. Included in this year's total fund balance is a surplus of \$1,428,799 in the City's general fund. The general fund had an increase of \$269,844 due to revenues exceeding expenditures. The Debt Service Fund recorded an increase of \$87,651 in fund balance due to transfers from the general fund. The City Projects Capital Projects Fund's fund balance decreased by \$266,613 due to major capital additions exceeding revenues.

CITY OF MOUNTAIN IRON, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2006

GENERAL FUND BUDGETARY HIGHLIGHTS

The original budget was not amended in 2006; 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 \$134,153 over the final budget amounts. The most significant negative variance (\$111,964) occurred in the City streets program. On the other hand, resources available for appropriation were \$388,886 above the final budgeted amounts. The City received more intergovernmental aids than expected.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2006, the City's primary government had \$11,649,569 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 \$499,989 over last year. The Mountain Iron Economic Development Authority component unit had \$2,477,940 invested in capital assets, which consisted of land. This amount represents a decrease of \$66,928 over last year.

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

	Governmental Activities		Business-Type Activities		Totals	
	2006	2005	2006	2005	2006	2005
Land	\$ 508,675	\$ 448,675	\$ 26,370	\$ 8,336	\$ 535,045	\$ 457,011
Construction in progress	1,196,604	483,678	-	-	1,196,604	483,678
Land improvements	177,687	147,877	-	-	177,687	147,877
Buildings	1,679,290	1,725,100	4,076,087	4,203,210	5,755,377	5,928,310
Infrastructure	2,033,211	2,151,824	958,716	1,044,236	2,991,927	3,196,060
Machinery and equipment	274,612	288,568	72,043	50,943	346,655	339,511
Licensed vehicles	480,067	473,587	166,207	123,546	646,274	597,133
Totals	<u>\$ 6,350,146</u>	<u>\$ 5,719,309</u>	<u>\$ 5,299,423</u>	<u>\$ 5,430,271</u>	<u>\$11,649,569</u>	<u>\$ 11,149,580</u>
EDA Land	<u>\$ 2,447,940</u>	<u>\$ 2,544,868</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,477,940</u>	<u>\$ 2,544,868</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.

Debt

At year-end, the City had \$5,204,328 in long-term debt outstanding for the primary government versus \$5,393,524 last year—as shown in Table 5. The Mountain Iron EDA component unit had \$140,000 in long-term debt outstanding in tax increment refunding bonds versus \$255,000 last year—as shown in Table 5.

CITY OF MOUNTAIN IRON, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2006

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

	Governmental Activities		Business-Type Activities		Totals	
	2006	2005	2006	2005	2006	2005
General obligation bonds (backed by the City)	\$ 2,080,000	\$ 2,190,000	\$ -	\$ -	\$ 2,080,000	\$ 2,190,000
Refunding bonds	1,645,000	1,645,000	-	-	1,645,000	1,645,000
Notes payable	-	-	658,785	664,439	658,785	664,439
Water revenue bonds	-	-	750,000	780,000	750,000	780,000
Severance payable	47,683	75,971	22,860	38,114	70,543	114,085
Total	<u>\$ 3,772,683</u>	<u>\$ 3,910,971</u>	<u>\$ 1,431,645</u>	<u>\$ 1,482,553</u>	<u>\$ 5,204,328</u>	<u>\$ 5,393,524</u>
EDA	<u>\$ 140,000</u>	<u>\$ 255,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 140,000</u>	<u>\$ 255,000</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 \$1,105,000 is significantly below this \$2,696,394 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 2007 budget, tax rates, and fees that will be charged for the business-type activities.

- City General Fund expenditures increased 6.8% or \$191,828 over 2006.
- City's property taxes increased 2.0% or \$18,857 over 2006.
- The development of Unity Second Addition and Park Ridge Development will have a great impact on property tax revenues for the City.
- In 2006 the City raised water rates and electric rates; in 2006 the City raised wastewater rates to assist with the stabilization of these business activities.

The City's 2007 capital budget calls for it to spend another \$2,418,600 for Unity Second Addition various street upgrades, library and City Hall upgrades.

More detailed information about the City's capital assets is presented in Note 3 to the financial statements.

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, or e-mail cwainio@ci.mountain-iron.mn.us.

BASIC FINANCIAL STATEMENTS

CITY OF MOUNTAIN IRON, MINNESOTA

STATEMENT OF NET ASSETS

December 31, 2006

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	EDA
ASSETS				
Cash and cash equivalents	\$ 4,014,158	\$ 919,296	\$ 4,933,454	\$ 290,108
Taxes receivable	25,797	-	25,797	-
Special assessments receivable	254,300	-	254,300	-
Accounts receivable	8,576	316,220	324,796	-
Interest receivable	2,812	2,496	5,308	-
Grants receivable	140,664	-	140,664	-
Due from component unit	9,829	-	9,829	-
Due from other governments	24,197	-	24,197	-
Loans receivable	-	-	-	109,528
Inventories	-	98,427	98,427	-
Prepaid items	85,245	662	85,907	-
Deferred debt issue and marketing costs	41,304	-	41,304	-
Restricted assets:				
Temporarily restricted cash and cash equivalents	121,547	36,598	158,145	-
Capital assets not being depreciated:				
Land	508,675	26,370	535,045	2,477,940
Construction in progress	1,196,604	-	1,196,604	-
Capital assets net of accumulated depreciation:				
Land improvements	177,687	-	177,687	-
Buildings	1,679,290	4,076,087	5,755,377	-
Infrastructure	2,033,211	958,716	2,991,927	-
Machinery and equipment	274,612	72,043	346,655	-
Licensed vehicles	480,067	166,207	646,274	-
TOTAL ASSETS	<u>11,078,575</u>	<u>6,673,122</u>	<u>17,751,697</u>	<u>2,877,576</u>
LIABILITIES				
Accounts payable	53,886	167,853	221,739	-
Salaries payable	35,561	14,867	50,428	-
Accrued interest payable	76,418	4,912	81,330	2,237
Due to primary government	-	-	-	9,829
Customer deposits	43,623	64,913	108,536	-
Noncurrent liabilities				
Due within one year	120,000	34,922	154,922	140,000
Bonds, capital leases and contracts	-	-	-	-
Due in more than one year	3,652,683	1,396,723	5,049,406	-
TOTAL LIABILITIES	<u>3,982,171</u>	<u>1,684,190</u>	<u>5,666,361</u>	<u>152,066</u>
NET ASSETS				
Invested in capital assets, net of related debt	4,385,727	3,890,638	8,276,365	2,337,940
Restricted for:				
Other purposes	-	29,014	29,014	-
Unrestricted	2,710,677	1,069,280	3,779,957	387,570
TOTAL NET ASSETS	<u>\$ 7,096,404</u>	<u>\$ 4,988,932</u>	<u>\$ 12,085,336</u>	<u>\$ 2,725,510</u>

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

CITY OF MOUNTAIN IRON, MINNESOTA

STATEMENT OF ACTIVITIES
Year Ended December 31, 2006

Functions/Programs	Expenses	Charges for Services	Program Revenues
			Operating Grants and Contributions
PRIMARY GOVERNMENT			
Governmental Activities			
General government	\$ 949,405	\$ 140,026	\$ 2,761
Public safety	593,961	-	-
Streets	843,326	-	-
Culture and recreation	407,129	45,194	-
Economic development	150,605	-	-
Interest on long-term debt	165,076	-	-
Total Governmental Activities	<u>3,109,502</u>	<u>185,220</u>	<u>2,761</u>
Business-type Activities			
Electric	1,362,445	1,485,323	-
Water Treatment	327,285	248,312	-
Wastewater Treatment	324,034	311,511	-
Refuse Removal and Recycling	341,756	364,242	-
Mountain Manor Apartments	155,243	125,746	15,567
Total Business-type Activities	<u>2,510,763</u>	<u>2,535,134</u>	<u>15,567</u>
TOTAL PRIMARY GOVERNMENT	<u>\$ 5,620,265</u>	<u>\$ 2,720,354</u>	<u>\$ 18,328</u>
Component Unit			
EDA	<u>\$ 175,217</u>	<u>\$ 3,001</u>	<u>\$ 212,681</u>

General Revenues

Taxes:

Property taxes, levied for general purposes

Property taxes, levied for specific purposes

Franchise taxes

Mineral rents and royalties

Grants and contributions not restricted to specific programs

Unrestricted investment earnings

Miscellaneous

Gain on sale of capital assets

Transfers**Total General Revenues and Transfers****CHANGE IN NET ASSETS****NET ASSETS - JANUARY 1****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
\$ 369,554	\$ (437,064)	\$ -	\$ (437,064)	
-	(593,961)	-	(593,961)	
-	(843,326)	-	(843,326)	
-	(361,935)	-	(361,935)	
-	(150,605)	-	(150,605)	
-	(165,076)	-	(165,076)	
<u>369,554</u>	<u>(2,551,967)</u>	<u>-</u>	<u>(2,551,967)</u>	
-	-	122,878	122,878	
-	-	(78,973)	(78,973)	
-	-	(12,523)	(12,523)	
-	-	22,486	22,486	
-	-	(13,930)	(13,930)	
-	-	39,938	39,938	
<u>\$ 369,554</u>	<u>(2,551,967)</u>	<u>39,938</u>	<u>(2,512,029)</u>	
<u>\$ -</u>				<u>40,465</u>
	834,553	-	834,553	-
	150,605	-	150,605	-
	21,310	-	21,310	-
	197,371	-	197,371	-
	1,986,482	-	1,986,482	-
	166,062	34,639	200,701	7,625
	-	3,451	3,451	-
	14,931	1,099	16,030	-
	(40,298)	40,298	-	-
	<u>3,331,016</u>	<u>79,487</u>	<u>3,410,503</u>	<u>7,625</u>
	779,049	119,425	898,474	48,090
	<u>6,317,355</u>	<u>4,869,507</u>	<u>11,186,862</u>	<u>2,677,420</u>
<u>\$ 7,096,404</u>	<u>\$ 4,988,932</u>	<u>\$ 12,085,336</u>	<u>\$ 2,725,510</u>	

CITY OF MOUNTAIN IRON, MINNESOTA

**BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2006**

	General Fund	Debt Service Fund	City Projects Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 1,423,532	\$ 2,137,349	\$ 67,974	\$ 385,303	\$ 4,014,158
Taxes receivable	25,797	-	-	-	25,797
Special assessments receivable	2,020	235,340	16,940	-	254,300
Accounts receivable	8,576	-	-	-	8,576
Interest receivable	1,512	-	-	1,300	2,812
Grants receivable	-	-	140,664	-	140,664
Due from component unit	6,634	3,195	-	-	9,829
Due from other governments	24,197	-	-	-	24,197
Prepaid items	85,245	-	-	-	85,245
Cash - restricted	-	-	121,547	-	121,547
TOTAL ASSETS	\$ 1,577,513	\$ 2,375,884	\$ 347,125	\$ 386,603	\$ 4,687,125
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ 85,335	\$ -	\$ 12,173	\$ -	\$ 97,508
Salaries payable	35,561	-	-	-	35,561
Deferred revenue	27,818	173,851	11,081	-	212,750
TOTAL LIABILITIES	148,714	173,851	23,254	-	345,819
FUND BALANCES					
Unreserved, designated	1,158,955	-	1,904	-	1,160,859
Unreserved, undesignated, reported in					
General Fund	269,844	-	-	-	269,844
Special revenue funds	-	-	-	6,758	6,758
Debt service fund	-	2,202,033	-	-	2,202,033
Capital projects funds	-	-	321,967	379,845	701,812
TOTAL FUND BALANCES	1,428,799	2,202,033	323,871	386,603	4,341,306
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,577,513	\$ 2,375,884	\$ 347,125	\$ 386,603	\$ 4,687,125

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, 2006

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

TOTAL FUND BALANCES, GOVERNMENTAL FUNDS	\$ 4,341,306
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.	6,350,146
Deferred revenue in governmental funds is susceptible to full accrual on the government-wide statements.	212,750
Interest payable on long-term debt is susceptible to full accrual on the government-wide statements.	(76,418)
Unamortized bond issuance costs are susceptible to full accrual on the government-wide statements.	41,303
Long-term liabilities, including bonds payable are not due and payable in the current period and therefore not reported in the governmental funds.	<u>(3,772,683)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 7,096,404</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, 2006

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>City Projects Capital Projects Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES					
Taxes	\$ 1,207,020	\$ -	\$ -	\$ -	\$ 1,207,020
Special assessments	-	68,446	5,816	-	74,262
Licenses and permits	36,720	-	-	-	36,720
Intergovernmental	1,986,482	-	342,211	-	2,328,693
Charges for services	135,689	-	-	-	135,689
Fines	12,811	-	-	-	12,811
Gifts and contributions	-	-	-	2,761	2,761
Investment earnings	38,914	91,396	19,388	16,364	166,062
TOTAL REVENUES	<u>3,417,636</u>	<u>159,842</u>	<u>367,415</u>	<u>19,125</u>	<u>3,964,018</u>
EXPENDITURES					
Current					
General government	882,584	-	-	2,935	885,519
Public safety	524,399	-	-	-	524,399
Streets	661,964	-	-	-	661,964
Culture and recreation	357,321	-	-	-	357,321
Economic development	150,605	-	-	-	150,605
Debt Service					
Principal	-	110,000	-	-	110,000
Interest and other charges	-	156,893	-	-	156,893
Capital Outlay					
General government	-	-	667,160	-	667,160
Public safety	-	-	21,485	-	21,485
Streets	-	-	114,274	35,677	149,951
Culture and recreation	-	-	182,139	-	182,139
TOTAL EXPENDITURES	<u>2,576,873</u>	<u>266,893</u>	<u>985,058</u>	<u>38,612</u>	<u>3,867,436</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>840,763</u>	<u>(107,051)</u>	<u>(617,643)</u>	<u>(19,487)</u>	<u>96,582</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	-	194,702	351,030	-	545,732
Transfers out	(586,030)	-	-	-	(586,030)
Sale of capital assets	15,111	-	-	-	15,111
TOTAL OTHER FINANCING SOURCES (USES)	<u>(570,919)</u>	<u>194,702</u>	<u>351,030</u>	<u>-</u>	<u>(25,187)</u>
NET CHANGE IN FUND BALANCES	269,844	87,651	(266,613)	(19,487)	71,395
FUND BALANCES - JANUARY 1	<u>1,158,955</u>	<u>2,114,382</u>	<u>590,484</u>	<u>406,090</u>	<u>4,269,911</u>
FUND BALANCES - DECEMBER 31	<u>\$ 1,428,799</u>	<u>\$ 2,202,033</u>	<u>\$ 323,871</u>	<u>\$ 386,603</u>	<u>\$ 4,341,306</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, 2006**

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

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS		\$ 71,395
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	958,550	
Less current year depreciation	<u>(327,534)</u>	
Net capital assets		631,016
Governmental funds report the entire net sales price (proceeds) from sale of an asset as revenue because it provides current financial resources. In contrast, the statement of activities reports only the gain on the sale of the assets. Thus, the change in net assets differs from the change in fund balance by the net book value of the asset sold.		
		(180)
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	(3,181)	
Change in deferred revenue - special assessments	<u>(50,107)</u>	
		(53,288)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		
		110,000
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.		
		(3,135)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Change in accrued interest payable on long-term debt	(5,047)	
Change in long-term compensated absences	<u>28,288</u>	
		<u>23,241</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES		\$ <u>779,049</u>

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

CITY OF MOUNTAIN IRON, MINNESOTA

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
December 31, 2006

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	\$ 380,858	\$ 158,092	\$ 110,788	\$ 260,599	\$ 8,959	\$ 919,296
Accounts receivable	201,031	31,783	37,323	45,922	161	316,220
Interest receivable	772	1,275	-	449	-	2,496
Inventories	83,607	14,820	-	-	-	98,427
Prepaid items	-	-	-	-	662	662
TOTAL CURRENT ASSETS	<u>666,268</u>	<u>205,970</u>	<u>148,111</u>	<u>306,970</u>	<u>9,782</u>	<u>1,337,101</u>
NONCURRENT ASSETS						
Restricted cash and cash equivalents						
Reserve account	-	-	-	-	29,014	29,014
Tenant security deposits	-	-	-	-	7,584	7,584
Total restricted cash and cash equivalents	-	-	-	-	36,598	36,598
Capital assets						
Land	18,034	-	-	-	8,336	26,370
Buildings	308,167	2,190,764	2,718,281	12,761	1,218,928	6,448,901
Infrastructure	546,603	2,340,805	2,556,009	-	-	5,443,417
Machinery and equipment	-	103,249	362,703	-	223,212	689,164
Licensed vehicles	180,100	-	-	379,816	-	559,916
Less accumulated depreciation	(693,131)	(2,640,031)	(3,344,398)	(222,126)	(968,659)	(7,868,345)
Total capital assets (net of accumulated depreciation)	<u>359,773</u>	<u>1,994,787</u>	<u>2,292,595</u>	<u>170,451</u>	<u>481,817</u>	<u>5,299,423</u>
TOTAL NONCURRENT ASSETS	<u>359,773</u>	<u>1,994,787</u>	<u>2,292,595</u>	<u>170,451</u>	<u>518,415</u>	<u>5,336,021</u>
TOTAL ASSETS	<u>1,026,041</u>	<u>2,200,757</u>	<u>2,440,706</u>	<u>477,421</u>	<u>528,197</u>	<u>6,673,122</u>
LIABILITIES						
CURRENT LIABILITIES						
Accounts payable	138,969	4,998	7,716	10,531	5,639	167,853
Salaries payable	10,927	3,144	265	531	-	14,867
Accrued interest payable	-	3,019	-	-	1,893	4,912
Customer deposits payable	58,198	195	-	-	6,520	64,913
Bonds and notes payable - current	-	30,000	-	-	4,922	34,922
TOTAL CURRENT LIABILITIES	<u>208,094</u>	<u>41,356</u>	<u>7,981</u>	<u>11,062</u>	<u>18,974</u>	<u>287,467</u>
NONCURRENT LIABILITIES						
Severance payable	19,522	1,319	673	1,346	-	22,860
Bonds and notes payable	-	720,000	-	-	653,863	1,373,863
TOTAL NONCURRENT LIABILITIES	<u>19,522</u>	<u>721,319</u>	<u>673</u>	<u>1,346</u>	<u>653,863</u>	<u>1,396,723</u>
TOTAL LIABILITIES	<u>227,616</u>	<u>762,675</u>	<u>8,654</u>	<u>12,408</u>	<u>672,837</u>	<u>1,684,190</u>
NET ASSETS						
Invested in capital assets, net of related debt	359,773	1,244,787	2,292,595	170,451	(176,968)	3,890,638
Restricted for other purposes	-	-	-	-	29,014	29,014
Unrestricted	<u>438,652</u>	<u>193,295</u>	<u>139,457</u>	<u>294,562</u>	<u>3,314</u>	<u>1,069,280</u>
TOTAL NET ASSETS	<u>\$ 798,425</u>	<u>\$ 1,438,082</u>	<u>\$ 2,432,052</u>	<u>\$ 465,013</u>	<u>\$ (144,640)</u>	<u>\$ 4,988,932</u>

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

CITY OF MOUNTAIN IRON, MINNESOTA

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
Year Ended December 31, 2006

	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	\$ 1,485,323	\$ 248,312	\$ 311,511	\$ 364,242	\$ 125,746	\$ 2,535,134
OPERATING EXPENSES						
Cost of sales	915,715	-	-	-	-	915,715
Salaries	210,062	76,089	51,370	90,872	31,202	459,595
Employee benefits	87,507	28,696	19,678	45,399	2,387	183,667
Contract services	-	-	24,338	-	28,045	52,383
Insurance	7,260	3,615	5,909	1,629	8,131	26,544
Miscellaneous	27,889	8,793	14,583	13,278	2,750	67,293
Repairs and maintenance	40,121	55,775	19,580	6,449	7,005	128,930
Solid waste management and tipping fees	-	-	-	129,665	-	129,665
Supplies	46,955	9,076	14,804	22,690	1,656	95,181
Telephone	2,998	236	2,654	977	2,287	9,152
Utilities	-	28,328	66,286	-	13,697	108,311
Depreciation	23,938	79,503	104,832	30,797	35,082	274,152
TOTAL OPERATING EXPENSES	1,362,445	290,111	324,034	341,756	132,242	2,450,588
OPERATING INCOME (LOSS)	122,878	(41,799)	(12,523)	22,486	(6,496)	84,546
NONOPERATING REVENUES (EXPENSES)						
Interest income	12,421	7,726	3,886	10,399	207	34,639
Contributions from EDA	-	-	-	-	15,567	15,567
Miscellaneous	-	-	-	-	3,451	3,451
Interest expense	-	(37,174)	-	-	(23,001)	(60,175)
Gain on sale of capital assets	1,099	-	-	-	-	1,099
TOTAL NONOPERATING REVENUES (EXPENSES)	13,520	(29,448)	3,886	10,399	(3,776)	(5,419)
INCOME (LOSS) BEFORE TRANSFERS	136,398	(71,247)	(8,637)	32,885	(10,272)	79,127
Transfers in	-	48,748	-	-	15,329	64,077
Transfers out	(23,779)	-	-	-	-	(23,779)
CHANGE IN NET ASSETS	112,619	(22,499)	(8,637)	32,885	5,057	119,425
TOTAL NET ASSETS - JANUARY 1	685,806	1,460,581	2,440,689	432,128	(149,697)	4,869,507
TOTAL NET ASSETS - DECEMBER 31	\$ 798,425	\$ 1,438,082	\$ 2,432,052	\$ 465,013	\$ (144,640)	\$ 4,988,932

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

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended December 31, 2006

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	\$ 1,506,312	\$ 248,706	\$ 301,140	\$ 362,777	\$ 128,216	\$ 2,547,151
Cash paid to suppliers	(1,215,454)	(130,344)	(169,704)	(220,182)	(64,081)	(1,799,765)
Cash paid to employees	(219,004)	(75,499)	(61,855)	(90,754)	(31,202)	(478,314)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>71,854</u>	<u>42,863</u>	<u>69,581</u>	<u>51,841</u>	<u>32,933</u>	<u>269,072</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Transfers in from other funds	-	48,748	-	-	15,329	64,077
Transfers out to other funds	(23,779)	-	-	-	-	(23,779)
Contributions	-	-	-	-	15,567	15,567
Miscellaneous	-	-	-	-	3,451	3,451
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	<u>(23,779)</u>	<u>48,748</u>	<u>-</u>	<u>-</u>	<u>34,347</u>	<u>59,316</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Purchase or construction of fixed assets	(18,034)	-	(22,967)	(81,665)	(21,239)	(143,905)
Proceeds from sale of capital assets	1,700	-	-	-	-	1,700
Principal paid on long-term debt	-	(30,000)	-	-	(5,654)	(35,654)
Interest paid on long-term debt	-	(37,327)	-	-	(23,051)	(60,378)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(16,334)</u>	<u>(67,327)</u>	<u>(22,967)</u>	<u>(81,665)</u>	<u>(49,944)</u>	<u>(238,237)</u>
CASH FLOWS FROM INVESTING ACTIVITIES						
Interest and dividends received	<u>12,865</u>	<u>6,855</u>	<u>3,953</u>	<u>11,332</u>	<u>207</u>	<u>35,212</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>44,606</u>	<u>31,139</u>	<u>50,567</u>	<u>(18,492)</u>	<u>17,543</u>	<u>125,363</u>
CASH AND CASH EQUIVALENTS, JANUARY 1 (including \$18,801 in restricted accounts)	<u>336,252</u>	<u>126,953</u>	<u>60,221</u>	<u>279,091</u>	<u>28,014</u>	<u>830,531</u>
CASH AND CASH EQUIVALENTS, DECEMBER 31 (including \$36,598 in restricted accounts)	<u>\$ 380,858</u>	<u>\$ 158,092</u>	<u>\$ 110,788</u>	<u>\$ 260,599</u>	<u>\$ 45,557</u>	<u>\$ 955,894</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES						
Operating income (loss)	\$ 122,878	\$ (41,799)	\$ (12,523)	\$ 22,486	\$ (6,496)	\$ 84,546
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:						
Depreciation	23,938	79,503	104,832	30,797	35,082	274,152
Changes in assets and liabilities						
(Increase) decrease in:						
Accounts receivable	15,941	394	(10,371)	(1,465)	24	4,523
Inventories	(40,313)	8,265	-	-	-	(32,048)
Prepaid items	-	-	-	-	1,509	1,509
Increase (decrease) in:						
Accounts payable	(46,696)	(4,090)	(1,872)	(95)	368	(52,385)
Salaries payable	(986)	198	(2,756)	79	-	(3,465)
Customer deposits	5,048	-	-	-	2,446	7,494
Severance payable	(7,956)	392	(7,729)	39	-	(15,254)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 71,854</u>	<u>\$ 42,863</u>	<u>\$ 69,581</u>	<u>\$ 51,841</u>	<u>\$ 32,933</u>	<u>\$ 269,072</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, 2006

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 policies and practices are discussed in subsequent sections of this Note. The remainder of the Notes are organized to provide explanations, including required disclosures, of the City's financial activities for the fiscal year ended December 31, 2006.

A. Financial Reporting Entity

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

Blended Component Units

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

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

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

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, 2006

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, 2006

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, 2006

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, 2006

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, 2006

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, 2006

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	\$ 541	\$ -
Cash	1,259,813	290,108
Certificates of Deposit	1,929,171	-
Investments	<u>1,902,074</u>	<u>-</u>
Total	<u>\$ 5,091,599</u>	<u>\$ 290,108</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 \$3,188,984; the bank balance was \$3,251,866. 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 cash, was \$290,108; the bank balance was \$316,853. 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, 2006

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. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The City's investments in government securities, bonds and notes have credit quality ratings of AAA. 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, 2006, consist of:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity</u>		
		<u>Less than 2 years</u>	<u>2 – 5 Years</u>	<u>More than 5 Years</u>
FNMA Government Securities	\$1,556,097	\$1,556,097	\$ -	\$ -
Federal Home Loan Bank Consolidated Bonds	99,688	-	99,688	-
Federal Farm Credit Banks Consolidated Systemwide Bonds	148,672	-	-	148,672
Federal Home Loan Mortgage Corp. Medium Term Notes	97,617	-	-	97,617
Total investments	<u>\$1,902,074</u>	<u>\$1,556,097</u>	<u>\$ 99,688</u>	<u>\$ 246,289</u>

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, 2006

NOTE 3 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2006, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets, not being depreciated:				
Land	\$ 448,675	\$ 60,000	\$ -	\$ 508,675
Construction in progress	483,678	712,926	-	1,196,604
Total capital assets not being depreciated	<u>932,353</u>	<u>772,926</u>	<u>-</u>	<u>1,705,279</u>
Capital assets, being depreciated:				
Land improvements	260,466	42,111	-	302,577
Buildings	2,344,127	-	-	2,344,127
Infrastructure	4,614,108	12,134	-	4,626,242
Machinery and equipment	520,575	15,804	-	536,379
Licensed vehicles	2,011,245	115,575	(70,730)	2,056,090
Total capital assets, being depreciated	<u>9,750,521</u>	<u>185,624</u>	<u>(70,730)</u>	<u>9,865,415</u>
Less accumulated depreciation for:				
Land improvements	(112,589)	(12,301)	-	(124,890)
Buildings	(619,027)	(45,810)	-	(664,837)
Infrastructure	(2,462,284)	(130,747)	-	(2,593,031)
Machinery and equipment	(232,007)	(29,760)	-	(261,767)
Licensed vehicles	(1,537,658)	(108,915)	70,550	(1,576,023)
Total accumulated depreciation	<u>(4,963,565)</u>	<u>(327,533)</u>	<u>70,550</u>	<u>(5,220,548)</u>
Total capital assets, being depreciated, net	<u>4,786,956</u>	<u>(141,909)</u>	<u>(180)</u>	<u>4,644,867</u>
Governmental activities capital assets, net	<u>\$ 5,719,309</u>	<u>\$ 631,017</u>	<u>\$ (180)</u>	<u>\$ 6,350,146</u>
Business-type activities				
Capital assets, not being depreciated:				
Land	\$ 8,336	\$ 18,034	\$ -	\$ 26,370
Total capital assets not being depreciated	<u>8,336</u>	<u>18,034</u>	<u>-</u>	<u>26,370</u>
Capital assets, being depreciated:				
Building	6,438,199	10,702	-	6,448,901
Infrastructure	5,443,417	-	-	5,443,417
Machinery and equipment	676,732	33,504	(21,072)	689,164
Licensed vehicles	553,911	81,665	(75,660)	559,916
Total capital assets, being depreciated	<u>13,112,259</u>	<u>125,871</u>	<u>(96,732)</u>	<u>13,141,398</u>
Less accumulated depreciation for:				
Building	(2,234,989)	(137,825)	-	(2,372,814)
Infrastructure	(4,399,181)	(85,520)	-	(4,484,701)
Machinery and equipment	(625,789)	(12,404)	21,072	(617,121)
Licensed vehicles	(430,365)	(38,403)	75,059	(393,709)
Total accumulated depreciation	<u>(7,690,324)</u>	<u>(274,152)</u>	<u>96,131</u>	<u>(7,868,345)</u>
Total capital assets, being depreciated, net	<u>5,421,935</u>	<u>(148,281)</u>	<u>(601)</u>	<u>5,273,053</u>
Business-type activities capital assets, net	<u>\$ 5,430,271</u>	<u>\$ (130,247)</u>	<u>\$ (601)</u>	<u>\$ 5,299,423</u>

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE 3 - CAPITAL ASSETS (CONTINUED)

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

Governmental activities

General government	\$ 46,762
Public safety	68,763
Streets	190,754
Culture and recreation	<u>21,254</u>
Total depreciation expense - governmental activities	<u>\$ 327,533</u>

Business-type activities

Electric	\$ 23,938
Water treatment	79,503
Wastewater treatment	104,832
Refuse removal and recycling	30,797
Mountain Manor Apartments	<u>35,082</u>
Total depreciation expense - business-type activities	<u>\$ 274,152</u>

Discretely presented component unit:

Mountain Iron EDA capital asset activity for the year ended December 31, 2006, is as follows:

	Balance 01/01/06	Additions	Deletions	Balance 12/31/06
Governmental activities				
Capital assets, not being depreciated:				
Land	<u>\$ 2,544,868</u>	<u>\$ -</u>	<u>\$ (66,928)</u>	<u>\$ 2,477,940</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 both governmental and business-type activities 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. 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, 2006

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	\$ 805,000
2000 Improvements	9/1/2000	4.75-5.75%	\$1,280,000	02/1/2016	975,000
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					3,725,000
Severance payable					<u>47,683</u>
Governmental activities long-term liabilities					<u>3,772,683</u>
Business-type activities					
Revenue bonds					
2002 Water revenue bonds	8/1/2002	2.50-5.15%	\$ 855,000	12/1/2022	\$ 750,000
Notes payable					
1980 Rural Development	9/4/1980	3.61%	\$ 819,370	09/1/2030	473,661
1981 Rural Development	1/16/1981	3.61%	\$ 320,630	01/1/2031	<u>185,124</u>
Total notes payable					1,408,785
Severance payable					<u>22,860</u>
Business-type activities long-term liabilities					<u>1,431,645</u>
Total Long-Term Liabilities					<u>\$5,204,328</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	\$ 40,000
2002 Tax Increment Refunding	3/1/2002	2.50-3.85%	\$ 335,000	02/1/2007	<u>100,000</u>
Total component unit					<u>\$ 140,000</u>

Long-term liability activity for the year ended December 31, 2006 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	\$ 845,000	\$ -	\$ (40,000)	\$ 805,000	\$ 40,000
2000 GO Improvement bonds	1,045,000	-	(70,000)	975,000	75,000
2005 GO Refunding bonds	1,645,000	-	-	1,645,000	-
2005 GO Library Upgrade bonds	<u>300,000</u>	-	-	<u>300,000</u>	<u>5,000</u>
Total bonds payable	3,835,000	-	(110,000)	3,725,000	120,000
Severance payable	<u>75,971</u>	<u>9,137</u>	<u>(37,425)</u>	<u>47,683</u>	-
Governmental activities - long-term liabilities	<u>\$ 3,910,971</u>	<u>\$ 9,137</u>	<u>\$ (147,425)</u>	<u>\$ 3,772,683</u>	<u>\$ 120,000</u>

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE 4 - LONG-TERM LIABILITIES (CONTINUED)

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Business-type activities					
2002 Water revenue bonds	\$ 780,000	\$ -	\$ (30,000)	\$ 750,000	\$ 30,000
1980 Rural Development notes	477,770	-	(4,109)	473,661	3,610
1981 Rural Development notes	186,669	-	(1,545)	185,124	1,312
Severance payable	<u>38,114</u>	<u>431</u>	<u>(15,685)</u>	<u>22,860</u>	<u>-</u>
Business-type activities - long-term liabilities	\$ <u>1,482,553</u>	\$ <u>431</u>	\$ <u>(51,339)</u>	\$ <u>1,431,645</u>	\$ <u>34,922</u>

Discretely presented component unit:

Mountain Iron EDA

Bonds payable

1996 GO Tax Increment Refunding	\$ 80,000	\$ -	\$ (40,000)	\$ 40,000	\$ 40,000
2002 GO Tax Increment Refunding	<u>175,000</u>	<u>-</u>	<u>(75,000)</u>	<u>100,000</u>	<u>100,000</u>

Component unit -

long-term liabilities	\$ <u>255,000</u>	\$ <u>-</u>	\$ <u>(115,000)</u>	\$ <u>140,000</u>	\$ <u>140,000</u>
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Minimum annual principal and interest payments required to retire long-term liabilities, excluding severance payable are as follows:

<u>Year Ending December 31</u>	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Government-wide</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 120,000	\$ 163,391	\$ 34,921	\$ 60,196	\$ 154,921	\$ 223,587
2008	180,000	156,402	40,102	58,665	220,102	215,067
2009	280,000	146,830	40,290	57,044	320,290	203,874
2010	291,000	135,259	40,484	55,362	331,484	190,621
2011	306,000	122,765	45,686	53,638	351,686	176,403
2012-2016	1,736,000	392,829	251,722	236,426	1,987,722	629,255
2017-2021	623,000	101,861	327,995	168,806	950,995	270,667
2022-2026	56,000	34,567	110,507	101,370	166,507	135,937
2027-2031	69,000	21,945	517,078	67,700	586,078	89,645
2032-2036	<u>64,000</u>	<u>6,724</u>	<u>-</u>	<u>-</u>	<u>64,000</u>	<u>6,724</u>
Total	\$ <u>3,725,000</u>	\$ <u>1,282,573</u>	\$ <u>1,408,785</u>	\$ <u>859,207</u>	\$ <u>5,133,785</u>	\$ <u>2,141,780</u>

<u>Year Ending December 31</u>	<u>Component Unit Mountain Iron EDA</u>	
	<u>Principal</u>	<u>Interest</u>
2007	\$ <u>140,000</u>	\$ <u>2,865</u>

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

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, 2006 is \$552,385 and \$49,861, 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, 2006 is \$1,115,000.

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, 2006 is \$1,785,000.

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, 2006 is \$350,337; \$161,428; and \$486,669, respectively.

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

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	\$ 6,634
Debt Service Fund	Mountain Iron Economic Development Authority	3,195
		<u>\$ 9,829</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, 2006 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	\$ -	\$ 235,000	\$ 351,030	\$ -	\$ 586,030
Electric Enterprise Fund	<u>15,329</u>	<u>-</u>	<u>-</u>	<u>8,450</u>	<u>23,779</u>
Total	<u>\$ 15,329</u>	<u>\$ 235,000</u>	<u>\$ 351,030</u>	<u>\$ 8,450</u>	<u>\$ 609,809</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>Mountain Manor Apartments Enterprise Fund</u>	
Restricted by terms of mortgage loan	<u>\$ 29,014</u>
<u>General Fund</u>	
Designated for capital outlay	\$ 908,955
Designated for cash flow	<u>250,000</u>
Total Designated – General Fund	<u>\$ 1,158,955</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, 2006

NOTE 7 - 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, 2006

NOTE 8 - 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>13,328</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>11,500</u>	\$ <u>3,240</u>	\$ <u>27,483</u>
Total bonds issued				
Tax increment bonds	\$ 440,000	\$ 60,000	\$ -	\$ 635,000
Amounts redeemed	<u>404,800</u>	<u>55,200</u>	<u>-</u>	<u>535,000</u>
Outstanding bonds at 12/31/06	\$ <u>35,200</u>	\$ <u>4,800</u>	\$ <u>-</u>	\$ <u>100,000</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
-	-	-	-	-
2006	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>43</u>	\$ <u>814</u>	\$ <u>183</u>
\$ <u>14,707</u>	\$ <u>7,444</u>	\$ <u>531</u>	\$ <u>10,059</u>	\$ <u>2,263</u>
\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-
\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE 9 - 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, 2006, 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 a portion of 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, 2006. 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>
Mountain Iron Drive storm drainage improvements	\$ <u>50,762</u>	\$ <u>11,260</u>
Library upgrades	\$ <u>316,444</u>	\$ <u>22,917</u>
Dumpsite contamination cleanup	\$ <u>448,314</u>	\$ <u>57,858</u>
Unity Drive	\$ <u>5,497</u>	\$ <u>314,662</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, 2006

NOTE 10 - 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 2006 was \$21,565. 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 2006 was \$5,094. 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, 2006

NOTE 10 - JOINT VENTURES (CONTINUED)

The City of Mountain Iron's contribution to the Authority's budget during 2006 was \$6,720. Complete financial information can be obtained from the Quad Cities Recreation Center, Eveleth, Minnesota 55734.

NOTE 11 - 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, 2006, there were 11 employees who were receiving the premium coverage benefit. The City recognized \$117,931 of expenditures incurred for this benefit during 2006.

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 2006, the City expended \$31,532 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 12 - 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, 2006

NOTE 12 - DEFINED BENEFIT PENSION PLANS – STATEWIDE (CONTINUED)

Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first 10 years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first 10 years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For all 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 were required to contribute 9.10% and 5.5%, respectively, of their annual covered salary in 2006. Contribution rates in the Coordinated Plan will increase in 2007 to 5.75%. 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 6.0% for Coordinated Plan PERF members. Employer contribution rates for the Coordinated Plan will increase to 6.25% effective January 1, 2007. The City's contributions to the Public Employees Retirement Fund for the years ending December 31, 2006, 2005, and 2004 were \$66,910, \$62,823, and \$62,778, 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, 2006

NOTE 13 - 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 twenty-five hundredths 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 2006 were:

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

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF MOUNTAIN IRON, MINNESOTA

GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
Year Ended December 31, 2006

	Budgeted Amounts		Actual Amounts, Budgetary Basis	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 1,260,868	\$ 1,260,868	\$ 1,207,020	\$ (53,848)
Licenses and permits	21,500	21,500	36,720	15,220
Intergovernmental	1,536,882	1,536,882	1,986,482	449,600
Charges for services	165,000	165,000	135,689	(29,311)
Fines	9,500	9,500	12,811	3,311
Interest	35,000	35,000	38,914	3,914
TOTAL REVENUES	<u>3,028,750</u>	<u>3,028,750</u>	<u>3,417,636</u>	<u>388,886</u>
EXPENDITURES				
Current				
General government	813,720	813,720	882,584	(68,864)
Public safety	512,500	512,500	524,399	(11,899)
Streets	550,000	550,000	661,964	(111,964)
Culture and recreation	366,000	366,000	357,321	8,679
Economic development	200,500	200,500	150,605	49,895
TOTAL EXPENDITURES	<u>2,442,720</u>	<u>2,442,720</u>	<u>2,576,873</u>	<u>(134,153)</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>586,030</u>	<u>586,030</u>	<u>840,763</u>	<u>254,733</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	(586,030)	(586,030)	(586,030)	-
Sale of capital assets	-	-	15,111	15,111
TOTAL OTHER FINANCING SOURCES (USES)	<u>(586,030)</u>	<u>(586,030)</u>	<u>(570,919)</u>	<u>15,111</u>
NET CHANGE IN FUND BALANCE	-	-	269,844	269,844
FUND BALANCE - JANUARY 1	<u>1,158,955</u>	<u>1,158,955</u>	<u>1,158,955</u>	-
FUND BALANCE - DECEMBER 31	<u>\$ 1,158,955</u>	<u>\$ 1,158,955</u>	<u>\$ 1,428,799</u>	<u>\$ 269,844</u>

CITY OF MOUNTAIN IRON, MINNESOTA

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
December 31, 2006**

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, 2006:

General Fund	\$ 134,153
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The excess expenditures were funded by excess revenues in the fund.

OTHER SUPPLEMENTARY INFORMATION

NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Fund

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.

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, 2006**

	Charitable Gambling Special Revenue Fund	Street Construction Capital Projects Fund	Total Nonmajor Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 6,758	\$ 378,545	\$ 385,303
Interest receivable	<u>-</u>	<u>1,300</u>	<u>1,300</u>
TOTAL ASSETS	<u>\$ 6,758</u>	<u>\$ 379,845</u>	<u>\$ 386,603</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
FUND BALANCES			
Unreserved, undesignated	<u>6,758</u>	<u>379,845</u>	<u>386,603</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 6,758</u>	<u>\$ 379,845</u>	<u>\$ 386,603</u>

CITY OF MOUNTAIN IRON, MINNESOTA

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
Year Ended December 31, 2006**

	Charitable Gambling Special Revenue Fund	Street Construction Capital Projects Fund	Total Nonmajor Governmental Funds
REVENUES			
Gifts and contributions	\$ 2,761	\$ -	\$ 2,761
Investment earnings	<u>218</u>	<u>16,146</u>	<u>16,364</u>
TOTAL REVENUES	<u>2,979</u>	<u>16,146</u>	<u>19,125</u>
EXPENDITURES			
Current			
General government	2,935	-	2,935
Capital Outlay	<u>-</u>	<u>35,677</u>	<u>35,677</u>
TOTAL EXPENDITURES	<u>2,935</u>	<u>35,677</u>	<u>38,612</u>
NET CHANGE IN FUND BALANCES	44	(19,531)	(19,487)
FUND BALANCES - JANUARY 1	<u>6,714</u>	<u>399,376</u>	<u>406,090</u>
FUND BALANCES - DECEMBER 31	<u>\$ 6,758</u>	<u>\$ 379,845</u>	<u>\$ 386,603</u>

CITY OF MOUNTAIN IRON, MINNESOTA

**GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
Year Ended December 31, 2006**

REVENUES

TAXES

General property	\$ 837,734
Mineral rents and royalties	197,371
Franchise	21,310
Tax increment financing	150,605
TOTAL TAXES	<u>1,207,020</u>

LICENSES AND PERMITS	<u>36,720</u>
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INTERGOVERNMENTAL

State	
Local government aid	623,882
Market value credit	107,127
Taconite production	705,538
Taconite municipal aid	380,628
Mining effects	116,157
PERA aid	4,529
Police aid	33,094
Fire aid	15,527
TOTAL INTERGOVERNMENTAL	<u>1,986,482</u>

CHARGES FOR SERVICES

General government	
Rent	9,055
Refunds and reimbursements	85,865
Miscellaneous	4,629
Culture and recreation	
Recreation fees	4,726
Campground fees	31,414
TOTAL CHARGES FOR SERVICES	<u>135,689</u>

FINES	<u>12,811</u>
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INTEREST	<u>38,914</u>
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TOTAL REVENUES	<u>3,417,636</u>
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CITY OF MOUNTAIN IRON, MINNESOTA

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

Year Ended December 31, 2006

EXPENDITURES

CURRENT

GENERAL GOVERNMENT

Mayor and council	\$ 17,243
Administration	445,073
Elections	3,610
Assessor	28,074
Retiree's insurance	105,723
Donations and contributions	9,220
Other	69,824
Buildings	176,272
Planning and zoning	27,545

TOTAL GENERAL GOVERNMENT 882,584

PUBLIC SAFETY

Sheriff	422,337
Fire	89,649
Animal control	12,238
Civil defense	175

TOTAL PUBLIC SAFETY 524,399

STREETS 661,964

CULTURE AND RECREATION

Library	115,320
Recreation	179,412
Campgrounds	62,589

TOTAL CULTURE AND RECREATION 357,321

ECONOMIC DEVELOPMENT

EDA	<u>150,605</u>
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TOTAL EXPENDITURES 2,576,873

**EXCESS OF REVENUES OVER
EXPENDITURES** 840,763

OTHER FINANCING SOURCES (USES)

Transfers out	(586,030)
Sale of capital assets	<u>15,111</u>

TOTAL OTHER FINANCING SOURCES (USES) (570,919)

NET CHANGE IN FUND BALANCE 269,844

FUND BALANCE - JANUARY 1 1,158,955

FUND BALANCE - DECEMBER 31 \$ 1,428,799

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, 2006**

	<u>Budget</u>	<u>Accounted for in Prior Years</u>	<u>Current Year</u>
SOURCES OF FUNDS			
Tax increment revenue	\$ 2,000,000	\$ 1,293,051	\$ 58,020
Bond proceeds	2,000,000	440,000	-
Loan proceeds EDA General Fund	-	178,385	-
Real estate sales	<u>2,000</u>	<u>1,726</u>	<u>-</u>
TOTAL SOURCES OF FUNDS	<u>4,002,000</u>	<u>1,913,162</u>	<u>58,020</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	369,600	35,200
Bond interest payments	400,000	372,139	2,482
Loan principal payments	-	174,885	-
Administrative costs	200,000	56,278	2,042
Pooled for debt	<u>302,000</u>	<u>168,017</u>	<u>18,296</u>
TOTAL USES OF FUNDS	<u>4,002,000</u>	<u>1,913,162</u>	<u>58,020</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, 2006**

	<u>Budget</u>	<u>Accounted for in Prior Years</u>	<u>Current Year</u>
SOURCES OF FUNDS			
Tax increment revenue	\$ 5,566,225	\$ 217,843	\$ 14,312
Bond proceeds	1,905,000	60,000	-
Loan proceeds EDA General Fund	<u>-</u>	<u>169,487</u>	<u>-</u>
TOTAL SOURCES OF FUNDS	<u>7,471,225</u>	<u>447,330</u>	<u>14,312</u>
USES OF FUNDS			
Land acquisition	324,500	264,070	-
Site improvement	466,500	-	-
Bond principal payments	1,905,000	50,400	4,800
Bond interest payments	2,721,725	52,797	338
Loan principal payments	-	71,057	8,895
Administrative costs	134,020	9,006	279
Debt service reserve	<u>500,000</u>	<u>-</u>	<u>-</u>
TOTAL USES OF FUNDS	<u>6,051,745</u>	<u>447,330</u>	<u>14,312</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, 2006**

	<u>Budget</u>	<u>Accounted for in Prior Years</u>	<u>Current Year</u>
SOURCES OF FUNDS			
Tax increment revenue	\$ 105,000	\$ 67,269	\$ 3,728
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>77,504</u>	<u>3,728</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	8,641	-
Pooled for debt	<u>49,500</u>	<u>24,005</u>	<u>3,728</u>
TOTAL USES OF FUNDS	<u>205,000</u>	<u>77,504</u>	<u>3,728</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. 7
Year Ended December 31, 2006**

	<u>Budget</u>	<u>Accounted for in Prior Years</u>	<u>Current Year</u>
SOURCES OF FUNDS			
Tax increment revenue	\$ 764,348	\$ 458,763	\$ 32,198
Interest on invested funds	-	5,823	-
Bond proceeds	635,000	635,000	-
Real estate sales	-	24,000	-
Loan proceeds EDA General Fund	-	145,968	26,373
Pooled for debt	<u>-</u>	<u>282,396</u>	<u>22,023</u>
TOTAL SOURCES OF FUNDS	<u>1,399,348</u>	<u>1,551,950</u>	<u>80,594</u>
USES OF FUNDS			
Site improvements and preparation costs	604,360	550,986	-
Bond principal payments	635,000	460,000	75,000
Bond interest payments	129,348	438,201	5,163
Administrative costs	30,640	47,339	431
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>1,551,950</u>	<u>80,594</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, 2006**

	<u>Budget</u>	<u>Accounted for in Prior Years</u>	<u>Current Year</u>
SOURCES OF FUNDS			
Tax increment revenue	\$ 288,300	\$ 207,298	\$ 18,176
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>678,374</u>	<u>18,176</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	21,684	-
Loan principal payments	<u>-</u>	<u>195,279</u>	<u>18,176</u>
TOTAL USES OF FUNDS	<u>751,000</u>	<u>678,374</u>	<u>18,176</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, 2006**

	<u>Budget</u>	<u>Accounted for in Prior Years</u>	<u>Current Year</u>
SOURCES OF FUNDS			
Tax increment revenue	\$ 205,000	\$ 73,256	\$ 8,524
Local contribution	20,000	3,111	-
Loan proceeds EDA General Fund	-	11,240	2,984
Pooled debt	<u>-</u>	<u>137</u>	<u>-</u>
TOTAL SOURCES OF FUNDS	<u>225,000</u>	<u>87,744</u>	<u>11,508</u>
USES OF FUNDS			
Land acquisition	35,000	12,952	-
Site improvements and preparation costs	65,000	29,260	11,508
Installation of public utilities	18,000	-	-
Parking facilities	30,000	-	-
Administrative costs	17,000	17,614	-
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>87,744</u>	<u>11,508</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, 2006**

	<u>Budget</u>	<u>Accounted for in Prior Years</u>	<u>Current Year</u>
SOURCES OF FUNDS			
Tax increment revenue	\$ 331,056	\$ 3,395	\$ 689
Local contribution	25,830	-	-
Interest	2,000	-	-
Loan proceeds EDA General Fund	<u>165,000</u>	<u>94,119</u>	<u>2,552</u>
TOTAL SOURCES OF FUNDS	<u>523,886</u>	<u>97,514</u>	<u>3,241</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	16,893	3,241
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>97,514</u>	<u>3,241</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, 2006**

	<u>Budget</u>	<u>Accounted for in Prior Years</u>	<u>Current Year</u>
SOURCES OF FUNDS			
Tax increment revenue	\$ 196,474	\$ 73,405	\$ 12,519
Interest	2,000	-	-
Loan proceeds EDA General Fund	15,000	30,242	4,182
Land sale	<u>-</u>	<u>1,000</u>	<u>-</u>
TOTAL SOURCES OF FUNDS	<u>213,474</u>	<u>104,647</u>	<u>16,701</u>
USES OF FUNDS			
Site improvements and preparation costs	95,500	56,519	16,994
Installation of public utilities	20,000	-	-
Interest	63,868	-	-
Administrative costs	19,106	9,709	(293)
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>104,647</u>	<u>16,701</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, 2006**

	<u>Budget</u>	<u>Accounted for in Prior Years</u>	<u>Current Year</u>
SOURCES OF FUNDS			
Tax increment revenue	\$ 120,900	\$ 4,396	\$ 2,440
Interest	2,000	-	-
Loan proceeds EDA General Fund	<u>-</u>	<u>6,543</u>	<u>22,134</u>
TOTAL SOURCES OF FUNDS	<u>122,900</u>	<u>10,939</u>	<u>24,574</u>
USES OF FUNDS			
Site improvements and preparation costs	83,000	5,340	24,574
Installation of public utilities	27,800	-	-
Administrative costs	12,100	5,135	-
Loan principal payments	<u>-</u>	<u>464</u>	<u>-</u>
TOTAL USES OF FUNDS	<u>122,900</u>	<u>10,939</u>	<u>24,574</u>
DISTRICT BALANCE	\$ <u><u>-</u></u>	\$ <u><u>-</u></u>	\$ <u><u>-</u></u>



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

To the City Council
City of Mountain Iron, Minnesota

We have audited the 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, 2006, which collectively comprise the City of Mountain Iron, Minnesota's basic financial statements and have issued our report thereon dated April 27, 2007. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally

accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2006-1 and 2006-2 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider item 2006-2 to be 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 noted certain matters that we reported to management of City of Mountain Iron, Minnesota in a separate letter dated April 27, 2007, included under this cover.

City of Mountain Iron, Minnesota's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit City of Mountain Iron, Minnesota's response and, accordingly, we express no opinion on it.

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.

Walker, Hironaka & Hironaka, Ltd.

April 27, 2007

CITY OF MOUNTAIN IRON, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended December 31, 2006

SIGNIFICANT DEFICIENCIES

2006-1. 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.

CITY OF MOUNTAIN IRON, MINNESOTA

SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
Year Ended December 31, 2006

2006-2. LACK OF CONTROL OVER FINANCIAL REPORTING PROCESS

Condition and Criteria

As part of the audit, management requested us to prepare a draft of your financial statements, including the related notes to financial statements. Management reviewed, approved, and accepted responsibility for those financial statements prior to their issuance; however, management did not perform a detailed review of the financial statements.

Effect

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

Cause

This occurred because of staffing limitations caused by fiscal constraints.

Recommendations

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

Corrective Action Plan (CAP)

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



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MANAGEMENT LETTER

To the City Council
City of Mountain Iron, Minnesota

In planning and performing our audit of the financial statements of the City of Mountain Iron, Minnesota, as of and for the year ended December 31, 2006, in accordance with auditing standards generally accepted in the United States of America, we considered the City of Mountain Iron, Minnesota's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's 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 April 27, 2007, contains our report on significant deficiencies in the City's internal control. This letter does not affect our report dated April 27, 2007, 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:

Prior Year Comment

1. The City Council did make some revisions to the utility fees during 2006; however, the Water Treatment and Wastewater Treatment Enterprise Funds reported net operating losses for the year ended December 31, 2006. We suggest that the City Council review these losses 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.

Internal Control and Operating Efficiency

The Mountain Iron Economic Development Authority (EDA) is a discretely presented component unit on the government-wide audited financial statements. We recommend that the City administration review the current manual accounting system for the EDA financial information and set up the EDA accounting records in a separate fund on the City's Civic Systems accounting software.

There are numerous transactions between the City's general fund and the EDA throughout the year. During the audit some of these transactions must be eliminated and a due to/from may have to be recorded to be in compliance with GAAP. Including the EDA on Civic Systems would enhance the EDA financial reporting and increase efficiency in the government-wide financial statement preparation.

New Accounting Standards

GASB Statement No. 45

The Governmental Accounting Standards Board (GASB) issued Statement No. 45 *Accounting and Financial Reporting By Employers for Post-Employment Benefits Other Than Pensions* (OPEB), which will significantly change the reporting of post-employment benefits. The statement requires actuarial valuations for OPEB at least every two years for plans with 200 or more members, and every three years for plans with fewer than 200 members. Plans with fewer than 100 members have the option to apply a simplified alternative measure to eliminate the need for outside actuarial valuations. This statement is effective in three phases based on the same criteria as those defined for the implementation of GASB No. 34. City of Mountain Iron, Minnesota, will be required to implement the standard in the fiscal year beginning January 1, 2009, if applicable.

The City should review the requirements of the new statement if considering offering post-employment benefits other than pension in the future.

Statements on Auditing Standards

The Auditing Standards Board of the American Institute of CPA's has issued new statements on auditing standards that significantly impact: 1) the required level of audit documentation and risk assessment; 2) the manner of reporting audit findings to audit committees, or their equivalents; and 3) the amount of time spent on audits by financial auditors, for periods beginning on or after December 15, 2006.

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.

Walker, Hironaka & Hironaka, LLP

April 27, 2007