

**CITY OF MOUNTAIN IRON, MINNESOTA**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
Year Ended December 31, 2009**

**CITY OF MOUNTAIN IRON, MINNESOTA**

**TABLE OF CONTENTS**  
**December 31, 2009**

	<u>Page</u>
<b>ORGANIZATION</b> .....	1
<b>FINANCIAL SECTION</b>	
<b>Independent Auditor's Report</b> .....	2
<b>Management's Discussion and Analysis</b> .....	4
<b>Basic Financial Statements</b>	
Government-wide Financial Statements	
Statement of Net Assets.....	11
Statement of Activities.....	12
Fund Financial Statements	
Governmental Funds	
Balance Sheet.....	14
Reconciliation of the Balance Sheet of Governmental	
Funds to the Statement of Net Assets.....	15
Statement of Revenues, Expenditures,	
and Changes in Fund Balances.....	16
Reconciliation of the Statement of Revenues,	
Expenditures, and Changes in Fund Balances of	
Governmental Funds to the Statement of Activities.....	17
Proprietary Funds	
Statement of Net Assets.....	18
Statement of Revenues, Expenses, and Changes	
in Fund Net Assets.....	19
Statement of Cash Flows.....	20
Notes to Financial Statements.....	21
<b>Required Supplementary Information</b>	
Schedule of Funding Progress for Postemployment Benefit Plan.....	45
General Fund - Schedule of Revenues, Expenditures,	
and Changes in Fund Balance - Budget and Actual.....	46
Notes to Required Supplementary Information.....	47
<b>Other Supplementary Information</b>	
General Fund – Statement of Revenues, Expenditures,	
and Changes in Fund Balance.....	48
Schedule of Sources and Uses of Public Funds for Mountain Iron	
Tax Increment District No. 1.....	50
Tax Increment District No. 2.....	51
Tax Increment District No. 11.....	52
Tax Increment District No. 13.....	53
Tax Increment District No. 14.....	54
<b>SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS</b> .....	55

**CITY OF MOUNTAIN IRON, MINNESOTA**

**TABLE OF CONTENTS (CONTINUED)**  
**December 31, 2009**

	<u>Page</u>
<b>REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>.....</b>	<b>56</b>
<b>REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133.....</b>	<b>58</b>
<b>SCHEDULE OF FINDINGS AND QUESTIONED COSTS .....</b>	<b>60</b>
<b>MANAGEMENT LETTER.....</b>	<b>63</b>

**CITY OF MOUNTAIN IRON, MINNESOTA**

**ORGANIZATION  
December 31, 2009**

**CITY COUNCIL**

Mayor

Gary Skalko

Council Members

Joe Prebeg, Jr.  
Ed Roskoski  
Alan Stanaway  
Anthony Zupancich

**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 remaining fund information of the City of Mountain Iron, Minnesota, as of and for the year ended December 31, 2009, which collectively comprise the City's 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 is both a major fund and 9 percent, (2) percent, and 7 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 and the report of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund and the remaining fund information of the City of Mountain Iron, Minnesota, as of December 31, 2009, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in the notes to the basic financial statements, the City of Mountain Iron, Minnesota, adopted the provisions of Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as of and for the year ended December 31, 2009. This statement results in the City reporting a liability for postemployment benefits other than pensions that the City provides to its employees and retirees.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 15, 2010 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, schedule of funding process for postemployment benefit plan, 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 and the other auditors 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 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. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the City of Mountain Iron, Minnesota. The individual fund financial statements and schedules and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Walker Hironaka & Nakano, Ltd.*

June 15, 2010

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



**CITY OF MOUNTAIN IRON, MINNESOTA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**December 31, 2009**

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, 2009. 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 \$8,398,152, of which \$5,942,045 is invested in capital assets, net of related debt.
- Business-type activities have total net assets of \$5,374,984. Invested in capital assets, net of related debt represents \$5,032,068 of the total.
- The Mountain Iron Economic Development Authority (EDA) has total net assets of \$3,378,792, of which \$2,430,339 is invested in capital assets, net of related debt.
- The City of Mountain Iron's primary government's net assets increased by \$812,349 for the year ended December 31, 2009. Of the increase \$709,441 was an increase in the governmental activities' net assets and \$102,908 represented the increase in business-type activities' net assets.
- The EDA's net assets increased by \$152,143.
- The net cost of governmental activities was \$(2,244,047) for the current fiscal year. The net cost was funded by general revenues and other items totaling \$2,953,488.
- Governmental funds' fund balances decreased by \$82,032.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the basic financial statements. The City of Mountain Iron, Minnesota's basic financial statements consist of three parts: government-wide financial statements, fund financial statements, and notes to the financial statements. The management's discussion and analysis (this section) is required to accompany the basic financial statements, and therefore, is included as required supplementary information.

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

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

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

**December 31, 2009**

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 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 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.

**CITY OF MOUNTAIN IRON, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**December 31, 2009**

**FINANCIAL ANALYSIS OF THE CITY AS A WHOLE**

The City's combined net assets increased from \$13,475,334 to \$13,773,136. 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**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Primary Government</u>	
	2009	2008	2009	2008	2009	2008
Current and other assets	\$ 3,124,322	\$ 3,228,284	\$ 1,984,447	\$ 1,740,341	\$ 5,108,769	\$ 4,968,625
Capital assets	<u>9,164,661</u>	<u>8,932,270</u>	<u>6,319,767</u>	<u>5,126,729</u>	<u>15,484,428</u>	<u>14,058,999</u>
Total assets	<u>12,288,983</u>	<u>12,160,554</u>	<u>8,304,214</u>	<u>6,867,070</u>	<u>20,593,197</u>	<u>19,027,624</u>
Long-term debt outstanding	3,567,155	3,587,601	2,180,320	1,356,282	5,747,475	4,943,883
Other liabilities	<u>323,676</u>	<u>369,695</u>	<u>748,910</u>	<u>238,712</u>	<u>1,072,586</u>	<u>608,407</u>
Total liabilities	<u>3,890,831</u>	<u>3,957,296</u>	<u>2,929,230</u>	<u>1,594,994</u>	<u>6,820,061</u>	<u>5,552,290</u>
Net assets						
Invested in capital assets, net of debt	5,942,045	5,391,281	5,032,068	3,796,237	10,974,113	6,052,207
Restricted	-	-	731,937	49,170	731,937	49,170
Unrestricted	<u>2,456,107</u>	<u>2,811,977</u>	<u>(389,021)</u>	<u>1,426,669</u>	<u>2,067,086</u>	<u>7,373,957</u>
Total net assets	<u>\$ 8,398,152</u>	<u>\$ 8,203,258</u>	<u>\$ 5,374,984</u>	<u>\$ 5,272,076</u>	<u>\$ 13,773,136</u>	<u>\$ 13,475,334</u>

Net assets of the City's governmental activities increased by 2.4 percent (\$8,398,152 compared to \$8,203,258). Unrestricted net assets-the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements-decreased from a \$2,811,088 surplus at December 31, 2008 to a \$2,456,107 surplus at the end of this year.

Net assets of the City's business-type activities increased by 2.0 percent (\$5,374,984 compared to \$5,272,076).

**CITY OF MOUNTAIN IRON, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2009**

**Table 2  
Changes in Net Assets**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Primary Government</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Revenues						
Program revenues:						
Fees, fines, charges and other charges for services	\$ 190,287	\$ 273,749	\$ 2,858,357	\$ 2,864,420	\$ 3,048,644	\$ 3,138,169
Operating grants and contributions	35,261	2,557	-	2,377	35,261	4,934
Capital grants and contributions	1,121,585	112,144	41,719	-	1,163,304	112,144
General revenues:						
Property and other taxes	942,987	998,170	-	-	942,987	998,170
Intergovernmental	2,456,568	1,936,538	-	-	2,456,568	1,936,538
Other general revenues	<u>106,356</u>	<u>207,596</u>	<u>51,676</u>	<u>51,551</u>	<u>158,032</u>	<u>259,147</u>
Total revenues	<u>4,853,044</u>	<u>3,530,754</u>	<u>2,951,752</u>	<u>2,918,348</u>	<u>7,804,796</u>	<u>6,449,102</u>
Program expenses:						
General government	1,165,471	1,224,234	-	-	1,165,471	1,224,234
Public safety	687,313	668,344	-	-	687,313	668,344
Streets	1,161,733	982,177	-	-	1,161,733	982,177
Culture and recreation	439,714	396,843	-	-	439,714	396,843
Interest	136,949	128,839	-	-	136,949	128,839
Electric	-	-	1,992,045	1,721,743	1,992,045	1,721,743
Water	-	-	381,684	318,071	381,684	318,071
Wastewater	-	-	387,540	384,121	387,540	384,121
Refuse removal	-	-	405,437	357,451	405,437	357,451
Mountain Manor Apartments	-	-	189,561	179,197	189,561	179,197
Total program expenses	<u>3,591,180</u>	<u>3,400,437</u>	<u>3,356,267</u>	<u>2,960,583</u>	<u>6,947,447</u>	<u>6,361,020</u>
Increase (decrease) in net assets before transfers	1,261,864	130,317	(404,515)	(42,235)	857,349	88,082
Transfers	<u>(552,423)</u>	<u>(74,653)</u>	<u>507,423</u>	<u>74,653</u>	<u>(45,000)</u>	<u>-</u>
Increase in net assets	\$ <u>709,441</u>	\$ <u>55,664</u>	\$ <u>102,908</u>	\$ <u>32,418</u>	\$ <u>812,349</u>	\$ <u>88,082</u>

## CITY OF MOUNTAIN IRON, MINNESOTA

### MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2009

#### Governmental Activities

The cost of all governmental activities this year was \$2,244,047. As shown in the Statement of Activities, some of the cost was paid by those who directly benefited from the programs in the amount of \$190,287 or by other governments and organizations that subsidized certain programs with grants and contributions in the amount of \$3,613,414. Property and other tax revenue in 2009 was \$942,987.

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>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
General government	\$1,165,471	\$1,224,234	\$ 72,942	\$ 889,572
Streets	1,161,733	982,177	961,698	982,177
Public Safety	687,313	668,344	687,313	668,344
Culture and recreation	439,714	396,843	385,145	343,055
Interest on long-term debt	<u>136,949</u>	<u>128,839</u>	<u>136,949</u>	<u>128,839</u>
<b>Totals</b>	<b><u>\$3,591,180</u></b>	<b><u>\$3,400,437</u></b>	<b><u>\$2,244,047</u></b>	<b><u>\$3,011,987</u></b>

#### Business-Type Activities

Revenues and transfers in of the City's business-type activities were \$3,459,175 and expenses were \$3,356,267, (see Table 2). There was an increase in net assets of \$102,908 during the year ended December 31, 2009, which compares to an increase in net assets of \$32,418 for the year ended December 31, 2008. Operations produced a loss of \$431,911 for the year ended December 31, 2009. Transfers in from the general fund in the amount of \$507,423 were for water and sewer infrastructure assets, buildings, and for a portion of the water debt payment.

#### Mountain Iron EDA Component Unit Activity

The Mountain Iron EDA had a net increase in net assets of \$152,143 for the year ended December 31, 2009. Net program revenues over expenses were \$(36,567). General revenues of taxes, interest earnings, sale of capital assets and transfers from the primary government were \$188,710.

#### FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As the City completed the year, its governmental funds reported a combined fund balance of \$2,573,688 which is below last year's total of \$2,655,720. Included in this year's total fund balance is a surplus of \$1,160,333 in the City's general fund. The General Fund had an increase of \$33,339 due to increased state aids and grants for the city projects capital projects fund. The Debt Service Fund recorded an increase of \$161,735 in fund balance due to special assessments collected in 2009. The City Projects Capital Projects Fund's fund balance decreased by \$217,942 and the Unity Second Addition/Street Construction Capital Projects Fund's fund balance decreased by \$61,222 due to the completion of several capital projects.

**CITY OF MOUNTAIN IRON, MINNESOTA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**December 31, 2009**

**GENERAL FUND BUDGETARY HIGHLIGHTS**

Over the course of the year, the City did not revise the general fund budget. The actual expenditures were \$56,482 over the final budget amounts. The most significant negative variance in the amount of (\$59,175) occurred in the City public safety program. Resources available for appropriation were above the final budgeted amounts. The City received more intergovernmental aids and miscellaneous reimbursements than expected.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

At the end of 2009, the City's primary government had \$15,484,428 invested in a broad range of capital assets (net of accumulated depreciation), including land, construction in progress, land improvements, infrastructure, buildings, machinery and equipment and licensed vehicles. (See Table 4 below.) This amount represents a net increase (including additions and deductions) of \$1,425,429 over last year. The Mountain Iron Economic Development Authority component unit had \$2,430,339 invested in capital assets, which consisted of land. The City's primary government transferred land to Mountain Iron Economic Development Authority, which was subsequently sold during 2009.

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

	Governmental Activities		Business-Type Activities		Totals	
	2009	2008	2009	2008	2009	2008
Land	\$ 419,590	\$ 472,735	\$ 26,370	\$ 26,370	\$ 445,960	\$ 499,105
Construction in progress	778,415	1,486,793	640,969	-	1,419,384	1,486,793
Land improvements	416,364	981,616	-	-	416,364	981,616
Buildings	2,251,189	2,312,285	3,857,929	3,913,559	6,109,118	6,229,489
Infrastructure	4,343,268	2,752,827	1,274,181	850,253	5,617,449	3,603,080
Machinery and equipment	537,853	558,356	82,925	69,433	620,778	624,144
Licensed vehicles	417,982	367,658	437,393	267,114	855,375	634,772
Totals	<u>\$ 9,164,661</u>	<u>\$ 8,932,270</u>	<u>\$ 6,319,767</u>	<u>\$ 5,126,729</u>	<u>\$15,484,428</u>	<u>\$ 14,058,999</u>
EDA Land	<u>\$ 2,430,339</u>	<u>\$ 2,430,339</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,430,339</u>	<u>\$ 2,430,339</u>

This year's major additions included completion of Unity Second Addition, Forest Grove Addition, Renewable Energy Park, street construction and overlay, streetscape lighting, infield groomer, phone system, crew cab truck equipped with wildfire fighting unit, and two pickup trucks.

**Debt**

At year-end, the City had \$5,747,475 in long-term debt outstanding for the primary government versus \$4,943,883 last year—as shown in Table 5. The Mountain Iron EDA component unit had no long-term debt outstanding.

# CITY OF MOUNTAIN IRON, MINNESOTA

## MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2009

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

	Governmental Activities		Business-Type Activities		Totals	
	2009	2008	2009	2008	2009	2008
General obligation bonds (backed by the City)	\$ 1,675,000	\$ 1,745,000	\$ -	\$ -	\$ 1,675,000	\$ 1,745,000
Refunding bonds	1,450,000	1,595,000	-	-	1,450,000	1,595,000
Notes payable	-	-	637,699	645,492	637,699	645,492
Lease purchase	97,616	190,744	-	-	97,616	190,744
Water revenue bonds	-	-	1,300,000	685,000	1,300,000	685,000
Severance payable	54,977	56,857	22,413	25,790	77,390	82,647
Other post employment benefit obligation	289,562	-	220,208	-	509,770	-
Total	<u>\$ 3,567,155</u>	<u>\$ 3,587,601</u>	<u>\$ 2,180,320</u>	<u>\$ 1,356,282</u>	<u>\$ 5,747,475</u>	<u>\$ 4,943,883</u>

The State limits the amount of net debt that the City can issue to 3 percent of the market value of all taxable property in the City. The City's outstanding qualifying net debt of \$1,080,000 is significantly below this \$5,437,794 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 2010 budget, tax rates, and fees that will be charged for the business-type activities.

- City General Fund expenditures decreased \$129,943 over 2009.
- City's property taxes increased \$37,577 over 2009.
- The development of Perkins, South Forest Grove, and Unity Second Addition will have a great impact on property tax revenues for the City.

The City's 2010 capital budget calls for it to spend another \$1,683,409.

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](mailto:cwainio@ci.mountain-iron.mn.us).

## **BASIC FINANCIAL STATEMENTS**



## CITY OF MOUNTAIN IRON, MINNESOTA

STATEMENT OF NET ASSETS  
December 31, 2009

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	EDA
<b>ASSETS</b>				
Cash and cash equivalents	\$ 2,391,223	\$ 688,491	\$ 3,079,714	\$ 950,311
Taxes receivable	21,622	-	21,622	-
Special assessments receivable	258,573	-	258,573	-
Accounts receivable	-	391,688	391,688	-
Interest receivable	418	315	733	-
Grants receivable	363,189	-	363,189	-
Due from primary government	-	-	-	323
Due from other governments	25,617	-	25,617	-
Loans receivable	-	-	-	109,462
Inventories	-	171,357	171,357	-
Prepaid items	-	659	659	-
Deferred debt issue and marketing costs	63,680	-	63,680	-
Restricted assets:				
Temporarily restricted cash and cash equivalents	-	731,937	731,937	-
Capital assets not being depreciated:				
Land	419,590	26,370	445,960	2,430,339
Construction in progress	778,415	640,969	1,419,384	-
Capital assets net of accumulated depreciation:				
Land improvements	416,364	-	416,364	-
Buildings	2,251,189	3,857,929	6,109,118	-
Infrastructure	4,343,268	1,274,181	5,617,449	-
Machinery and equipment	537,853	82,925	620,778	-
Licensed vehicles	417,982	437,393	855,375	-
<b>TOTAL ASSETS</b>	<u>12,288,983</u>	<u>8,304,214</u>	<u>20,593,197</u>	<u>3,490,435</u>
<b>LIABILITIES</b>				
Accounts payable	215,649	381,357	597,006	111,643
Salaries payable	49,574	22,488	72,062	-
Accrued interest payable	48,234	7,033	55,267	-
Due to component unit	323	-	323	-
Customer deposits	9,896	79,751	89,647	-
Unearned revenues	-	258,281	258,281	-
Noncurrent liabilities				
Due within one year	348,616	658,358	1,006,974	-
Due in more than one year	3,218,539	1,521,962	4,740,501	-
<b>TOTAL LIABILITIES</b>	<u>3,890,831</u>	<u>2,929,230</u>	<u>6,820,061</u>	<u>111,643</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	5,942,045	5,032,068	10,974,113	2,430,339
Restricted for:				
Other purposes	-	731,937	731,937	-
Unrestricted	2,456,107	(389,021)	2,067,086	948,453
<b>TOTAL NET ASSETS</b>	<u>\$ 8,398,152</u>	<u>\$ 5,374,984</u>	<u>\$ 13,773,136</u>	<u>\$ 3,378,792</u>

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

CITY OF MOUNTAIN IRON, MINNESOTA

STATEMENT OF ACTIVITIES  
Year Ended December 31, 2009

Functions/Programs	Expenses	Charges for Services	Program Revenues
			Operating Grants and Contributions
<b>PRIMARY GOVERNMENT</b>			
<b>Governmental Activities</b>			
General government	\$ 1,165,471	\$ 135,683	\$ 35,261
Public safety	687,313	-	-
Streets	1,161,733	35	-
Culture and recreation	439,714	54,569	-
Interest on long-term debt	136,949	-	-
<b>Total Governmental Activities</b>	<u>3,591,180</u>	<u>190,287</u>	<u>35,261</u>
<b>Business-type Activities</b>			
Electric	1,992,045	1,712,387	-
Water treatment	381,684	243,485	-
Wastewater treatment	387,540	321,678	-
Refuse removal and recycling	405,437	384,645	-
Mountain Manor Apartments	189,561	196,162	-
<b>Total Business-type Activities</b>	<u>3,356,267</u>	<u>2,858,357</u>	<u>-</u>
<b>TOTAL PRIMARY GOVERNMENT</b>	<u>\$ 6,947,447</u>	<u>\$ 3,048,644</u>	<u>\$ 35,261</u>
<b>COMPONENT UNIT</b>			
EDA	<u>\$ 464,330</u>	<u>\$ 501</u>	<u>\$ 427,262</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**

**Prior period adjustment**

**NET ASSETS - DECEMBER 31**

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

Net (Expense) Revenue and Changes in Net Assets				
Capital Grants and Contributions	Primary Government			Component Unit
	Governmental	Business-type	Total	EDA
	Activities	Activities		
\$ 921,585	\$ (72,942)	\$ -	\$ (72,942)	
-	(687,313)	-	(687,313)	
200,000	(961,698)	-	(961,698)	
-	(385,145)	-	(385,145)	
-	(136,949)	-	(136,949)	
<u>1,121,585</u>	<u>(2,244,047)</u>	<u>-</u>	<u>(2,244,047)</u>	
-	-	(279,658)	(279,658)	
-	-	(138,199)	(138,199)	
41,719	-	(24,143)	(24,143)	
-	-	(20,792)	(20,792)	
-	-	6,601	6,601	
<u>41,719</u>	<u>-</u>	<u>(456,191)</u>	<u>(456,191)</u>	
<u>\$ 1,163,304</u>	<u>(2,244,047)</u>	<u>(456,191)</u>	<u>(2,700,238)</u>	
<u>\$ -</u>				<u>(36,567)</u>
	908,295	-	908,295	26,407
	-	-	-	68,580
	23,028	-	23,028	-
	11,664	-	11,664	-
	2,456,568	-	2,456,568	-
	93,759	46,065	139,824	18,723
	-	5,611	5,611	-
	12,597	-	12,597	30,000
	<u>(552,423)</u>	<u>507,423</u>	<u>(45,000)</u>	<u>45,000</u>
	<u>2,953,488</u>	<u>559,099</u>	<u>3,512,587</u>	<u>188,710</u>
	709,441	102,908	812,349	152,143
	8,203,258	5,272,076	13,475,334	3,226,649
	<u>(514,547)</u>	<u>-</u>	<u>(514,547)</u>	<u>-</u>
	<u>\$ 8,398,152</u>	<u>\$ 5,374,984</u>	<u>\$ 13,773,136</u>	<u>\$ 3,378,792</u>

## CITY OF MOUNTAIN IRON, MINNESOTA

**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**December 31, 2009**

	<b>General Fund</b>	<b>Debt Service Fund</b>	<b>City Projects Capital Projects Fund</b>	<b>Unity 2nd Addition/Street Construction Capital Projects Fund</b>	<b>Other-Charitable Gambling Special Revenue Fund</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>						
Cash and cash equivalents	\$ 1,330,624	\$ 872,814	\$ 181,719	\$ -	\$ 6,066	\$ 2,391,223
Taxes receivable	21,622	-	-	-	-	21,622
Special assessments receivable	-	249,001	9,572	-	-	258,573
Interest receivable	418	-	-	-	-	418
Grants receivable	-	-	363,189	-	-	363,189
Due from other governments	25,617	-	-	-	-	25,617
<b>TOTAL ASSETS</b>	<b>\$ 1,378,281</b>	<b>\$ 1,121,815</b>	<b>\$ 554,480</b>	<b>\$ -</b>	<b>\$ 6,066</b>	<b>\$ 3,060,642</b>
<b>LIABILITIES AND FUND BALANCES</b>						
<b>LIABILITIES</b>						
Accounts payable	\$ 136,533	\$ 87	\$ 78,354	\$ -	\$ 675	\$ 215,649
Salaries payable	49,574	-	-	-	-	49,574
Due to component unit	323	-	-	-	-	323
Deferred revenue	21,622	182,255	7,635	-	-	211,512
Customer deposits	9,896	-	-	-	-	9,896
<b>TOTAL LIABILITIES</b>	<b>217,948</b>	<b>182,342</b>	<b>85,989</b>	<b>-</b>	<b>675</b>	<b>486,954</b>
<b>FUND BALANCES</b>						
Unreserved, designated	1,126,994	-	1,904	-	-	1,128,898
Unreserved, undesignated, reported in:						
General Fund	33,339	-	-	-	-	33,339
Special revenue fund	-	-	-	-	5,391	5,391
Debt service fund	-	939,473	-	-	-	939,473
Capital projects funds	-	-	466,587	-	-	466,587
<b>TOTAL FUND BALANCES</b>	<b>1,160,333</b>	<b>939,473</b>	<b>468,491</b>	<b>-</b>	<b>5,391</b>	<b>2,573,688</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 1,378,281</b>	<b>\$ 1,121,815</b>	<b>\$ 554,480</b>	<b>\$ -</b>	<b>\$ 6,066</b>	<b>\$ 3,060,642</b>

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

**CITY OF MOUNTAIN IRON, MINNESOTA**

**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE  
STATEMENT OF NET ASSETS  
December 31, 2009**

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

<b>TOTAL FUND BALANCES, GOVERNMENTAL FUNDS</b>	<b>\$ 2,573,688</b>
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.	9,164,661
Deferred revenue in governmental funds is susceptible to full accrual on the government-wide statements.	211,512
Interest payable on long-term debt is susceptible to full accrual on the government-wide statements.	(48,234)
Unamortized bond issuance costs are susceptible to full accrual on the government-wide statements.	63,680
Long-term liabilities, including bonds payable are not due and payable in the current period and therefore not reported in the governmental funds.	<u>(3,567,155)</u>
<b>NET ASSETS OF GOVERNMENTAL ACTIVITIES</b>	<b><u>\$ 8,398,152</u></b>

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

## CITY OF MOUNTAIN IRON, MINNESOTA

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**Year Ended December 31, 2009**

	General Fund	Debt Service Fund	City Projects Capital Projects Fund	Unity 2nd Addition/Street Construction Capital Projects Fund	Other-Charitable Gambling Special Revenue Fund	Total Governmental Funds
<b>REVENUES</b>						
Taxes	\$ 962,107	\$ -	\$ -	\$ -	\$ -	\$ 962,107
Special assessments	-	112,177	786	-	-	112,963
Licenses and permits	38,491	-	-	-	-	38,491
Intergovernmental	2,456,568	-	765,079	-	-	3,221,647
Charges for services	135,618	-	-	-	-	135,618
Fines	16,178	-	-	-	-	16,178
Gifts and contributions	-	-	-	-	4,595	4,595
Investment earnings	27,028	43,250	22,288	1,107	88	93,761
Miscellaneous	30,666	-	-	-	-	30,666
<b>TOTAL REVENUES</b>	<b>3,666,656</b>	<b>155,427</b>	<b>788,153</b>	<b>1,107</b>	<b>4,683</b>	<b>4,616,026</b>
<b>EXPENDITURES</b>						
Current						
General government	1,011,139	-	-	-	2,625	1,013,764
Public safety	614,375	-	-	-	-	614,375
Streets	700,314	-	-	-	-	700,314
Culture and recreation	337,654	-	-	-	-	337,654
Debt Service						
Principal	-	215,000	93,128	-	-	308,128
Interest and other charges	-	127,415	9,205	-	-	136,620
Capital Outlay						
General government	-	-	1,003,765	-	-	1,003,765
Public safety	-	-	126,596	-	-	126,596
Streets	-	-	381,037	62,330	-	443,367
Culture and recreation	-	-	45,364	-	-	45,364
<b>TOTAL EXPENDITURES</b>	<b>2,663,482</b>	<b>342,415</b>	<b>1,659,095</b>	<b>62,330</b>	<b>2,625</b>	<b>4,729,947</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>1,003,174</b>	<b>(186,988)</b>	<b>(870,942)</b>	<b>(61,223)</b>	<b>2,058</b>	<b>(113,921)</b>
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfers in	-	348,723	653,000	-	-	1,001,723
Transfers out	(1,003,000)	-	-	-	-	(1,003,000)
Sale of capital assets	33,165	-	-	-	-	33,165
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(969,835)</b>	<b>348,723</b>	<b>653,000</b>	<b>-</b>	<b>-</b>	<b>31,888</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>33,339</b>	<b>161,735</b>	<b>(217,942)</b>	<b>(61,223)</b>	<b>2,058</b>	<b>(82,033)</b>
<b>FUND BALANCES - JANUARY 1</b>	<b>1,126,994</b>	<b>777,738</b>	<b>686,433</b>	<b>61,223</b>	<b>3,333</b>	<b>2,655,721</b>
<b>FUND BALANCES - DECEMBER 31</b>	<b>\$ 1,160,333</b>	<b>\$ 939,473</b>	<b>\$ 468,491</b>	<b>\$ -</b>	<b>\$ 5,391</b>	<b>\$ 2,573,688</b>

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, 2009

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

**NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS** **\$ (82,033)**

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.

Donated capital assets	200,000	
Expenditures for capital assets	1,493,414	
Less current year depreciation	(462,031)	
Less capital assets transferred to enterprise funds	(418,878)	
Less capital assets transferred to component unit	<u>(45,000)</u>	
Net capital assets		767,505

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. (20,568)

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	(19,120)	
Change in deferred revenue - special assessments	<u>43,542</u>	
Net change		24,422

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 308,128

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. (4,988)

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	4,656	
Change in severance payable	1,881	
Change in other postemployment benefits payable	<u>(289,562)</u>	
Net change		<u>(283,025)</u>

**CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES** **\$ 709,441**

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

## CITY OF MOUNTAIN IRON, MINNESOTA

STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS

December 31, 2009

## 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
<b>ASSETS</b>						
<b>CURRENT ASSETS</b>						
Cash and cash equivalents	\$ 40,789	\$ 233,921	\$ 78,293	\$ 270,808	\$ 64,680	\$ 688,491
Accounts receivable	271,116	32,333	34,900	53,074	265	391,688
Interest receivable	-	315	-	-	-	315
Inventories	160,144	11,213	-	-	-	171,357
Prepaid items	-	-	-	-	659	659
<b>TOTAL CURRENT ASSETS</b>	<b>472,049</b>	<b>277,782</b>	<b>113,193</b>	<b>323,882</b>	<b>65,604</b>	<b>1,252,510</b>
<b>NONCURRENT ASSETS</b>						
Restricted cash and cash equivalents						
Reserve account	-	635,270	-	-	85,157	720,427
Tenant security deposits	-	-	-	-	11,510	11,510
Total restricted cash and cash equivalents	-	635,270	-	-	96,667	731,937
Capital assets						
Land	18,034	-	-	-	8,336	26,370
Construction in progress	-	-	640,969	-	-	640,969
Buildings	308,167	2,190,764	2,718,281	12,761	1,421,016	6,650,989
Infrastructure	667,093	2,579,835	2,790,187	-	-	6,037,115
Machinery and equipment	-	103,249	299,924	-	274,435	677,608
Licensed vehicles	394,557	-	20,546	421,260	-	836,363
Less accumulated depreciation	(780,412)	(2,887,446)	(3,603,178)	(185,745)	(1,092,866)	(8,549,647)
Total capital assets (net of accumulated depreciation)	607,439	1,986,402	2,866,729	248,276	610,921	6,319,767
<b>TOTAL NONCURRENT ASSETS</b>	<b>607,439</b>	<b>2,621,672</b>	<b>2,866,729</b>	<b>248,276</b>	<b>707,588</b>	<b>7,051,704</b>
<b>TOTAL ASSETS</b>	<b>1,079,488</b>	<b>2,899,454</b>	<b>2,979,922</b>	<b>572,158</b>	<b>773,192</b>	<b>8,304,214</b>
<b>LIABILITIES</b>						
<b>CURRENT LIABILITIES</b>						
Accounts payable	279,529	6,394	72,852	10,785	11,797	381,357
Salaries payable	14,473	4,838	1,492	1,685	-	22,488
Accrued interest payable	-	5,329	-	-	1,704	7,033
Deferred revenue	-	-	258,281	-	-	258,281
Customer deposits payable	69,200	500	-	-	10,051	79,751
Bonds and notes payable - current	-	650,000	-	-	8,358	658,358
<b>TOTAL CURRENT LIABILITIES</b>	<b>363,202</b>	<b>667,061</b>	<b>332,625</b>	<b>12,470</b>	<b>31,910</b>	<b>1,407,268</b>
<b>NONCURRENT LIABILITIES</b>						
Severance payable	18,939	1,332	714	1,428	-	22,413
Other postemployment benefit obligation	92,730	45,325	30,699	51,454	-	220,208
Bonds and notes payable	-	650,000	-	-	629,341	1,279,341
<b>TOTAL NONCURRENT LIABILITIES</b>	<b>111,669</b>	<b>696,657</b>	<b>31,413</b>	<b>52,882</b>	<b>629,341</b>	<b>1,521,962</b>
<b>TOTAL LIABILITIES</b>	<b>474,871</b>	<b>1,363,718</b>	<b>364,038</b>	<b>65,352</b>	<b>661,251</b>	<b>2,929,230</b>
<b>NET ASSETS</b>						
Invested in capital assets, net of related debt	607,439	1,336,402	2,866,729	248,276	(26,778)	5,032,068
Restricted for other purposes	-	635,270	-	-	96,667	731,937
Unrestricted	(2,822)	(435,936)	(250,845)	258,530	42,052	(389,021)
<b>TOTAL NET ASSETS</b>	<b>\$ 604,617</b>	<b>\$ 1,535,736</b>	<b>\$ 2,615,884</b>	<b>\$ 506,806</b>	<b>\$ 111,941</b>	<b>\$ 5,374,984</b>

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, 2009

	<b>Business-type Activities - Enterprise Funds</b>					
	<b>Electric Enterprise Fund</b>	<b>Water Treatment Enterprise Fund</b>	<b>Wastewater Treatment Enterprise Fund</b>	<b>Refuse Removal and Recycling Enterprise Fund</b>	<b>Mountain Manor Apartments Enterprise Fund</b>	<b>Totals</b>
<b>REVENUES</b>						
Charges for sales and services	\$ 1,712,387	\$ 243,485	\$ 321,678	\$ 384,645	\$ 196,162	\$ 2,858,357
<b>OPERATING EXPENSES</b>						
Cost of sales	1,312,100	-	-	-	-	1,312,100
Salaries	244,995	84,226	76,644	94,579	42,900	543,344
Employee benefits	115,705	37,336	31,456	45,188	3,281	232,966
Contract services	-	-	31,917	-	35,824	67,741
Insurance	18,530	6,795	4,091	8,412	7,797	45,625
Miscellaneous	31,595	18,146	15,809	12,174	2,594	80,318
Other postemployment benefits	130,658	45,730	39,198	52,263	-	267,849
Repairs and maintenance	59,056	18,430	15,025	9,649	7,696	109,856
Solid waste management and tipping fees	-	-	-	129,241	-	129,241
Supplies	35,991	13,695	7,840	18,974	1,410	77,910
Telephone	4,046	816	2,166	892	2,510	10,430
Utilities	-	22,945	50,634	-	18,996	92,575
Depreciation	39,369	88,409	112,760	34,065	45,710	320,313
<b>TOTAL OPERATING EXPENSES</b>	<b>1,992,045</b>	<b>336,528</b>	<b>387,540</b>	<b>405,437</b>	<b>168,718</b>	<b>3,290,268</b>
<b>OPERATING INCOME (LOSS)</b>	<b>(279,658)</b>	<b>(93,043)</b>	<b>(65,862)</b>	<b>(20,792)</b>	<b>27,444</b>	<b>(431,911)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>						
Intergovernmental grant	-	-	41,719	-	-	41,719
Interest income	6,976	9,336	11,903	16,519	1,331	46,065
Miscellaneous	-	-	-	-	5,611	5,611
Interest expense	-	(45,156)	-	-	(20,843)	(65,999)
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<b>6,976</b>	<b>(35,820)</b>	<b>53,622</b>	<b>16,519</b>	<b>(13,901)</b>	<b>27,396</b>
<b>INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS</b>	<b>(272,682)</b>	<b>(128,863)</b>	<b>(12,240)</b>	<b>(4,273)</b>	<b>13,543</b>	<b>(404,515)</b>
Capital contributions	-	184,700	234,178	-	87,268	506,146
Transfers in	-	36,104	-	-	-	36,104
Transfers out	(22,327)	-	-	(12,500)	-	(34,827)
<b>CHANGE IN NET ASSETS</b>	<b>(295,009)</b>	<b>91,941</b>	<b>221,938</b>	<b>(16,773)</b>	<b>100,811</b>	<b>102,908</b>
<b>TOTAL NET ASSETS - JANUARY 1</b>	<b>899,626</b>	<b>1,443,795</b>	<b>2,393,946</b>	<b>523,579</b>	<b>11,130</b>	<b>5,272,076</b>
<b>TOTAL NET ASSETS - DECEMBER 31</b>	<b>\$ 604,617</b>	<b>\$ 1,535,736</b>	<b>\$ 2,615,884</b>	<b>\$ 506,806</b>	<b>\$ 111,941</b>	<b>\$ 5,374,984</b>

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

**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
Year Ended December 31, 2008

	Business-type Activities - Enterprise Funds					Totals
	Electric Enterprise Fund	Water Treatment Enterprise Fund	Wastewater Treatment Enterprise Fund	Refuse Removal and Recycling Enterprise Fund	Mountain Manor Apartments Enterprise Fund	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>						
Cash received from customers	\$ 1,691,498	\$ 241,492	\$ 321,708	\$ 380,913	\$ 198,203	\$ 2,833,814
Cash paid to suppliers	(1,590,425)	(166,090)	(132,301)	(277,433)	(73,277)	(2,239,526)
Cash paid to employees	(157,231)	(38,378)	(46,220)	(42,667)	(42,900)	(327,396)
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<u>(56,158)</u>	<u>37,024</u>	<u>143,187</u>	<u>60,813</u>	<u>82,026</u>	<u>266,892</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>						
Transfers in from other funds	-	36,104	-	-	-	36,104
Transfers out to other funds	(22,327)	-	-	(12,500)	-	(34,827)
Miscellaneous	-	-	-	-	5,611	5,611
<b>NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES</b>	<u>(22,327)</u>	<u>36,104</u>	<u>-</u>	<u>(12,500)</u>	<u>5,611</u>	<u>6,888</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>						
Purchase or construction of fixed assets	(113,697)	(54,331)	(640,969)	(170,766)	(27,443)	(1,007,206)
Principal paid on long-term debt	-	(35,000)	-	-	(7,793)	(42,793)
Interest paid on long-term debt	-	(42,685)	-	-	(20,913)	(63,598)
Capital grants	-	-	300,000	-	-	300,000
Proceeds from refunding bonds	-	650,000	-	-	-	650,000
<b>NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<u>(113,697)</u>	<u>517,984</u>	<u>(340,969)</u>	<u>(170,766)</u>	<u>(56,149)</u>	<u>(163,597)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>						
Interest and dividends received	6,976	9,614	11,903	16,519	1,331	46,343
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<u>(185,206)</u>	<u>600,726</u>	<u>(185,879)</u>	<u>(105,934)</u>	<u>32,819</u>	<u>156,526</u>
<b>CASH AND CASH EQUIVALENTS, JANUARY 1</b> (including \$59,522 in restricted accounts)	<u>225,995</u>	<u>268,465</u>	<u>264,172</u>	<u>376,742</u>	<u>128,528</u>	<u>1,263,902</u>
<b>CASH AND CASH EQUIVALENTS, DECEMBER 31</b> (including \$731,937 in restricted accounts)	<u>\$ 40,789</u>	<u>\$ 869,191</u>	<u>\$ 78,293</u>	<u>\$ 270,808</u>	<u>\$ 161,347</u>	<u>\$ 1,420,428</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>						
Operating income (loss)	\$ (279,658)	\$ (93,043)	\$ (65,862)	\$ (20,792)	\$ 27,444	\$ (431,911)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation	39,369	88,409	112,760	34,065	45,710	320,313
Changes in assets and liabilities						
(Increase) decrease in:						
Accounts receivable	(20,840)	(1,963)	30	(3,732)	1,040	(25,465)
Inventories	(61,878)	(668)	-	-	-	(62,546)
Prepaid items	-	-	-	-	154	154
Increase (decrease) in:						
Accounts payable	179,134	(1,529)	65,835	(640)	6,677	249,477
Salaries payable	(1,396)	330	(275)	458	-	(883)
Customer deposits	(49)	(30)	-	-	1,001	922
Severance payable	(3,570)	193	-	-	-	(3,377)
Other postemployment benefit obligation	92,730	45,325	30,699	51,454	-	220,208
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<u>\$ (56,158)</u>	<u>\$ 37,024</u>	<u>\$ 143,187</u>	<u>\$ 60,813</u>	<u>\$ 82,026</u>	<u>\$ 266,892</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, 2009

#### 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, 2009.

#### 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:

<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	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.

## CITY OF MOUNTAIN IRON, MINNESOTA

### NOTES TO FINANCIAL STATEMENTS

December 31, 2009

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

##### 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.

##### 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.

**CITY OF MOUNTAIN IRON, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2009**

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

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.

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

**Nonmajor Governmental Funds:**

The Charitable Gambling Special Revenue Fund is 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.

**Proprietary Funds**

Proprietary Funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determinations of net income, financial position and cash flow. All assets and liabilities are included on the Statement of Net Assets. The City has presented the following proprietary funds:

**Major Proprietary Funds:**

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

The Water Treatment Enterprise Fund is used to account for revenues generated from the charges for distribution of water to the residential and commercial users of the City.

**CITY OF MOUNTAIN IRON, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2009**

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

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 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

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

### **NOTES TO FINANCIAL STATEMENTS**

**December 31, 2009**

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

liability is incurred. However, expenditures are recorded as prepaid for approved disbursements incurred in advance of the year in which the item or service is to be used and debt service expenditures, as well as expenditures related to severance payable and claims and judgments, are recorded only when payment is due.

Property taxes, special assessments, and loan repayments are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

#### **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.
- 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.



**CITY OF MOUNTAIN IRON, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2009**

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

- 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 licensed vehicles, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements, proprietary fund financial statements, and the component unit.

Capital assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. General infrastructure assets acquired prior to January 1, 2004 are not reported in the basic financial statements. The City maintains a threshold level of \$2,500 or more for capitalizing machinery and equipment and \$10,000 or more for capitalizing land, land improvements, buildings, infrastructure and vehicles. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are depreciated using the straight-line method over their estimated useful lives. When assets are no longer needed by the City, such assets are either disposed of if it is determined there is no value, or sold for an immaterial amount. Useful lives vary from 20 to 50 years for land improvements and buildings, 20 years for infrastructure, and 5 to 30 years for machinery, equipment and vehicles. Capital assets not being depreciated include land and construction in progress.

- 7) Government-wide financial statements report unearned revenue in connection with resources that have been received, but not yet earned. Governmental funds defer revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period and resources that have been received, but not yet earned.

Delinquent property taxes receivable, less any delinquent taxes that are to be received within 60 days, are recorded as a deferred revenue in the General Fund 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, a capital lease purchase agreement, an installment sale agreement, severance payable, and other postemployment benefit obligation.

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

### **NOTES TO FINANCIAL STATEMENTS**

**December 31, 2009**

#### **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 postemployment 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, 2009

#### NOTE 2 - CASH AND CASH EQUIVALENTS

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

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

	Primary Government	Component Unit EDA
Petty Cash	\$ 500	\$ -
Cash	1,208,132	843,054
Certificates of Deposit	1,967,749	107,257
Investments	635,270	-
Total	<u>\$ 3,811,651</u>	<u>\$ 950,311</u>

#### Deposits

##### *Custodial Credit Risk – Deposits*

Custodial credit risk is the risk that in the event of the failure of a depository financial institution, the City will not be able to recover its deposits. The City has a formal deposit policy for custodial credit risk, which requires the City to obtain collateral for all uninsured amounts of deposit.

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 \$3,175,881; the bank balance was \$3,197,020. At year end, the City's bank balances were entirely insured or collateralized with securities held by the pledging financial institution's agent in the City's name. At year-end, the carrying amount of the Mountain Iron EDA's deposits, which includes cash, was \$950,311; the bank balance was \$957,728. At year-end, the Mountain Iron EDA's bank balances were entirely insured or collateralized with securities held by the pledging financial institution's agent in the Mountain Iron EDA's name.

#### Investments

##### *Custodial Credit Risk – Investments*

For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or securities that are in the possession of an outside party. The City has a formal investment policy for custodial credit risk, which permits brokers to hold City investments only to the extent of SIPC coverage. Securities purchased for the City that exceed SIPC coverage shall be transferred to the City's custodian.

**CITY OF MOUNTAIN IRON, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2009**

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

*Credit Risk and Concentration of Credit Risk*

The City has a formal investment policy for credit risk or concentration of credit risk. State statutes authorize the City to invest in qualified repurchase agreements, obligations of the U.S. government, obligations of the State of Minnesota or its municipalities, shares of certain investment companies, banker's acceptance notes, commercial paper and guaranteed investment contracts. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The City places no limit on the amount the City may invest in any one issuer. During this fiscal year, the City invested \$635,270 in State and Local Government Securities (SLGS) with refunding bond proceeds. These securities are being held in the name of the City in an escrow account to pay the City's refunded debt obligation due in 2010. The SLGS are not rated.

*Interest Rate Risk*

The City has a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**CITY OF MOUNTAIN IRON, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2009**

**NOTE 3 - CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2009, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
<b>Governmental activities</b>				
<b>Capital assets, not being depreciated:</b>				
Land	\$ 472,735	\$ -	\$ (53,145)	\$ 419,590
Construction in progress	1,486,793	831,808	(1,540,186)	778,415
<b>Total capital assets not being depreciated</b>	<u>1,959,528</u>	<u>831,808</u>	<u>(1,593,331)</u>	<u>1,198,005</u>
<b>Capital assets, being depreciated:</b>				
Land improvements	1,161,217	-	(568,472)	592,745
Buildings	3,071,402	-	-	3,071,402
Infrastructure	5,626,525	1,781,582	-	7,408,107
Machinery and equipment	873,656	36,759	(68,543)	841,872
Licensed vehicles	<u>2,020,942</u>	<u>152,277</u>	<u>-</u>	<u>2,173,219</u>
<b>Total capital assets, being depreciated</b>	<u>12,753,742</u>	<u>1,970,618</u>	<u>(637,015)</u>	<u>14,087,345</u>
<b>Less accumulated depreciation for:</b>				
Land improvements	(179,601)	(53,705)	56,925	(176,381)
Buildings	(759,117)	(61,096)	-	(820,213)
Infrastructure	(2,873,698)	(191,141)	-	(3,064,839)
Machinery and equipment	(315,300)	(54,136)	65,417	(304,019)
Licensed vehicles	<u>(1,653,284)</u>	<u>(101,953)</u>	<u>-</u>	<u>(1,755,237)</u>
<b>Total accumulated depreciation</b>	<u>(5,781,000)</u>	<u>(462,031)</u>	<u>122,342</u>	<u>(6,120,689)</u>
<b>Total capital assets, being depreciated, net</b>	<u>6,972,742</u>	<u>1,508,587</u>	<u>(514,673)</u>	<u>7,966,656</u>
<b>Governmental activities capital assets, net</b>	<u>\$ 8,932,270</u>	<u>\$ 2,340,395</u>	<u>\$ (2,108,004)</u>	<u>\$ 9,164,661</u>
<b>Business-type activities</b>				
<b>Capital assets, not being depreciated:</b>				
Land	\$ 26,370	\$ -	\$ -	\$ 26,370
Construction in progress	<u>-</u>	<u>640,969</u>	<u>-</u>	<u>640,969</u>
<b>Total capital assets not being depreciated</b>	<u>26,370</u>	<u>640,969</u>	<u>-</u>	<u>667,339</u>
<b>Capital assets, being depreciated:</b>				
Building	6,563,721	87,268	-	6,650,989
Infrastructure	5,506,849	530,266	-	6,037,115
Machinery and equipment	718,553	27,443	(68,388)	677,608
Licensed vehicles	<u>738,279</u>	<u>228,084</u>	<u>(130,000)</u>	<u>836,363</u>
<b>Total capital assets, being depreciated</b>	<u>13,527,402</u>	<u>873,061</u>	<u>(198,388)</u>	<u>14,202,075</u>
<b>Less accumulated depreciation for:</b>				
Building	(2,650,162)	(142,899)	-	(2,793,061)
Infrastructure	(4,656,596)	(106,339)	-	(4,762,935)
Machinery and equipment	(649,120)	(13,951)	68,388	(594,683)
Licensed vehicles	<u>(471,165)</u>	<u>(57,124)</u>	<u>129,321</u>	<u>(398,968)</u>
<b>Total accumulated depreciation</b>	<u>(8,427,043)</u>	<u>(320,313)</u>	<u>197,709</u>	<u>(8,549,647)</u>
<b>Total capital assets, being depreciated, net</b>	<u>5,100,359</u>	<u>552,748</u>	<u>(679)</u>	<u>5,652,428</u>
<b>Business-type activities capital assets, net</b>	<u>\$ 5,126,729</u>	<u>\$ 1,193,717</u>	<u>\$ (679)</u>	<u>\$ 6,319,767</u>

# CITY OF MOUNTAIN IRON, MINNESOTA

## NOTES TO FINANCIAL STATEMENTS

December 31, 2009

### NOTE 3 - CAPITAL ASSETS (CONTINUED)

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

#### Governmental activities

General government	\$ 77,697
Public safety	72,938
Streets	262,903
Culture and recreation	<u>48,493</u>
Total depreciation expense- governmental activities	\$ <u>462,031</u>

#### Business-type activities

Electric	\$ 39,369
Water treatment	88,409
Wastewater treatment	112,760
Refuse removal and recycling	34,065
Mountain Manor Apartments	<u>45,710</u>
Total depreciation expense - business-type activities	\$ <u>320,313</u>

#### Discretely presented component unit:

Mountain Iron EDA capital asset activity for the year ended December 31, 2009, is as follows:

	Balance 01/01/09	Additions	Deletions	Balance 12/31/09
<b>Governmental activities</b>				
<b>Capital assets, not being depreciated:</b>				
Land	\$ <u>2,430,339</u>	\$ <u>45,000</u>	\$ <u>(45,000)</u>	\$ <u>2,430,339</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. Bonded indebtedness has also been entered into to advance refund general obligation bonds. The bonds have been issued for both governmental and business-type activities and are being repaid from the applicable resources. The City is also liable for a lease purchase agreement that was entered into for the purchase of equipment. The lease purchase agreement is considered an obligation of the general government and is being repaid with general governmental revenue sources. The City also entered into an installment sale agreement for the purchase of equipment. The installment sale agreement is considered an obligation of the general government and is being repaid with general governmental revenue sources. In 2009, the City issued General Obligation Water Revenue Refunding Bonds to refund the 2002 General Obligation Water Revenue Bonds. This refunding will reduce the City's total debt service payments by approximately \$28,850 and result

**CITY OF MOUNTAIN IRON, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2009**

**NOTE 4 - LONG-TERM LIABILITIES (CONTINUED)**

in a present value savings of approximately \$20,472. The City also entered into a \$599,250 General Obligation Revenue Note with Minnesota Public Facilities Authority dated October 30, 2009 for rehabilitation of various components of the wastewater treatment plant project. The project was completed in 2009 and the note proceeds will be received in 2010. 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.

Components of long-term liabilities are as follows:

	<u>Issue Date</u>	<u>Interest Rates</u>	<u>Original Issue</u>	<u>Final Maturity</u>	<u>Principal Outstanding</u>
<b>Governmental activities</b>					
General Obligation Bonds					
2005 Refunding	03/08/2005	2.70-4.30%	\$1,645,000	02/01/2020	\$1,450,000
2005 Library Upgrade	08/01/2005	4.125%	\$ 300,000	08/01/2035	285,000
2007 Improvements	09/11/2008	4.0-4.65%	\$1,455,000	02/01/2028	<u>1,390,000</u>
Total General Obligation Bonds					3,125,000
2008 Lease Purchase	03/12/2008	3.75%	\$ 148,970	03/12/2010	49,634
2008 Installment Sale	10/01/2008	5.95%	\$ 144,107	10/01/2010	47,982
Severance Payable					54,977
Other postemployment benefit obligation					<u>289,562</u>
<b>Governmental activities long-term liabilities</b>					<u>3,567,155</u>
<b>Business-type activities</b>					
Revenue Bonds					
2009 Water Revenue					
Refunding Bonds	09/01/2009	1.5-4.0%	\$ 650,000	12/01/2022	650,000
2002 Water Revenue Bonds	08/01/2002	2.50-5.15%	\$ 855,000	12/01/2022	<u>650,000</u>
Total Revenue Bonds					1,300,000
Notes Payable					
1980 Rural Development	09/04/1980	3.61%	\$ 819,370	09/01/2030	458,337
1981 Rural Development	01/16/1981	3.61%	\$ 320,630	01/01/2031	<u>179,362</u>
Total Notes Payable					637,699
Severance Payable					22,413
Other postemployment benefit obligation					<u>220,208</u>
<b>Business-type activities long-term liabilities</b>					<u>2,180,320</u>
<b>Total Long-Term Liabilities</b>					<u>\$5,747,475</u>

**CITY OF MOUNTAIN IRON, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2009**

**NOTE 4 - LONG-TERM LIABILITIES (CONTINUED)**

Long-term liability activity for the year ended December 31, 2009 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
<b>Governmental activities</b>					
Bonds Payable					
2005 GO Refunding	\$ 1,595,000	\$ -	\$ (145,000)	\$ 1,450,000	\$ 150,000
2005 GO Library Upgrade	290,000	-	(5,000)	285,000	6,000
2007 GO Improvement	<u>1,455,000</u>	<u>-</u>	<u>(65,000)</u>	<u>1,390,000</u>	<u>95,000</u>
Total Bonds Payable	3,340,000	-	(215,000)	3,125,000	251,000
2008 Lease Purchase	97,474	-	(47,840)	49,634	49,634
2008 Installment Sale	93,270	-	(45,288)	47,982	47,982
Severance Payable	56,857	-	(1,880)	54,977	-
Other postemployment benefit obligation	<u>-</u>	<u>385,441</u>	<u>(95,879)</u>	<u>289,562</u>	<u>-</u>
<b>Governmental activities - long-term liabilities</b>	<u>\$ 3,587,601</u>	<u>\$ 385,441</u>	<u>\$ (405,887)</u>	<u>\$ 3,567,155</u>	<u>\$ 348,616</u>
<b>Business-type activities</b>					
2009 Water Revenue					
Refunding Bonds	\$ -	\$ 650,000	\$ -	\$ 650,000	\$ -
2002 Water Revenue Bonds	685,000	-	(35,000)	650,000	650,000
1980 Rural Development Notes	464,001	-	(5,664)	458,337	6,007
1981 Rural Development Notes	181,491	-	(2,129)	179,362	2,351
Severance Payable	25,790	2,421	(5,798)	22,413	-
Other postemployment benefit obligation	<u>-</u>	<u>267,849</u>	<u>(47,641)</u>	<u>220,208</u>	<u>-</u>
<b>Business-type activities - long-term liabilities</b>	<u>\$ 1,356,282</u>	<u>\$ 920,270</u>	<u>\$ (96,232)</u>	<u>\$ 2,180,320</u>	<u>\$ 658,358</u>

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>
2010	\$ 348,616	\$ 123,505	\$ 658,358	\$ 80,799	\$ 1,006,974	\$ 204,304
2011	256,000	109,915	58,630	43,370	314,630	153,285
2012	261,000	100,629	58,911	42,411	319,911	143,040
2013	282,000	90,644	59,201	41,444	341,201	132,088
2014	287,000	79,944	59,501	40,170	346,501	120,114
2015-2019	1,104,000	245,592	300,349	175,706	1,404,349	421,298
2020-2024	327,000	110,297	232,339	116,191	559,339	226,488
2025-2029	264,000	46,028	45,711	92,820	309,711	138,848
2030-2034	76,000	13,695	464,699	13,099	540,699	26,794
2035	17,000	701	-	-	17,000	701
Total	<u>\$ 3,222,616</u>	<u>\$ 920,950</u>	<u>\$ 1,937,699</u>	<u>\$ 646,010</u>	<u>\$ 5,160,315</u>	<u>\$ 1,566,960</u>



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

### **NOTES TO FINANCIAL STATEMENTS**

**December 31, 2009**

#### **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, 2009 is \$0 and \$1,462, 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, 2009 is \$930,000.

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, 2009 is \$1,530,000.

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, 2009 is \$73,912; \$114,314; and \$366,312, respectively.

**CITY OF MOUNTAIN IRON, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2009**

**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>
Component unit:	Primary government:	
Mountain Iron Economic Development Authority	General Fund	\$ 323

The balance resulted from the time lag between the dates that payments between funds are made.

Interfund transfers for the year ended December 31, 2009 consisted of the following:

	<u>Transfers in</u>			
	<u>Debt Service Fund</u>	<u>City Projects Capital Projects Fund</u>	<u>Water Treatment Enterprise Fund</u>	<u>Total</u>
Transfers out				
General Fund	\$ 348,723	\$ 628,000	\$ 26,277	\$ 1,003,000
Electric Enterprise Fund	-	12,500	9,827	22,327
Refuse Removal and Recycling Enterprise Fund	-	12,500	-	12,500
	<u>\$ 348,723</u>	<u>\$ 653,000</u>	<u>\$ 36,104</u>	<u>\$ 1,037,827</u>

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

**NOTE 6 - FUND EQUITY**

**Restricted Net Assets**

The amount reported as net assets restricted for other purposes on the Statement of Net Assets is comprised of the following:

<u>Water Treatment Enterprise Fund</u>	
Restricted for debt service	\$ <u>635,270</u>
<u>Mountain Manor Apartments Enterprise Fund</u>	
Restricted by terms of mortgage loan	\$ 85,157
Restricted for tenant security deposits	<u>11,510</u>
Total Restricted	\$ <u>96,667</u>

**CITY OF MOUNTAIN IRON, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2009**

**NOTE 6 - FUND EQUITY (CONTINUED)**

**Fund Balances**

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

<u>General Fund</u>	
Designated for capital outlay	\$ 876,994
Designated for cash flow	<u>250,000</u>
Total Designated – General Fund	\$ <u>1,126,994</u>
 <u>Capital Projects Fund</u>	
Designated for capital outlay	\$ <u>1,904</u>

**NOTE 7 - PRIOR PERIOD ADJUSTMENT**

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

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

Capitalized cleanup cost not removed from capital asset list at time of sale	\$ <u>514,547</u>
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**NOTE 8 - RISK MANAGEMENT**

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

**CITY OF MOUNTAIN IRON, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2009**

**NOTE 9 - TAX INCREMENT FINANCING DISTRICTS**

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

<u>Tax Increment Financing Districts</u>	<u>No. 1</u>	<u>No. 2</u>	<u>No. 11</u>	<u>No. 13</u>	<u>No. 14</u>
Redevelopment project district established in:	1983	1986	-	-	-
Economic development district established in:	-	-	1999	2002	2008
Soils district established in:	-	-	-	-	-
Anticipated last tax increment year:	2009	2011	2009	2011	2017
Original net tax capacity:	\$ <u>3,485</u>	\$ <u>1,828</u>	\$ <u>1,017</u>	\$ <u>756</u>	\$ <u>390</u>
Current net tax capacity:	\$ <u>54,273</u>	\$ <u>14,141</u>	\$ <u>11,890</u>	\$ <u>3,738</u>	\$ <u>395</u>
Fiscal disparity deduction	\$ <u>-</u>	\$ <u>-</u>	\$ <u>1,824</u>	\$ <u>500</u>	\$ <u>5</u>
Captured net tax capacity retained by Authority:	\$ <u>50,788</u>	\$ <u>12,313</u>	\$ <u>9,049</u>	\$ <u>2,482</u>	\$ <u>-</u>
Total bonds issued					
Tax increment bonds	\$ 440,000	\$ 60,000	\$ -	\$ -	\$ -
Amounts redeemed	<u>440,000</u>	<u>60,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Outstanding bonds at 12/31/09	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>

# **CITY OF MOUNTAIN IRON, MINNESOTA**

## **NOTES TO FINANCIAL STATEMENTS**

**December 31, 2009**

### **NOTE 10 - OTHER COMMITMENTS AND CONTINGENCIES**

#### **Grants**

The City participates in grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable at December 31, 2009, may be impaired. In the opinion of the City, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

#### **Electric Utility Commitment**

The City entered into an agreement with Minnesota Power to supply the City with a portion of its total electric requirements. This agreement is in effect until December 31, 2013. 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 three outstanding construction projects as of December 31, 2009. 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>
Energy Park Utility Extension	\$ 275,460	\$ 14,498
Forest Grove Addition	\$ 375,642	\$ 19,770
Wastewater Treatment Facility Improvements	\$ 526,804	\$ 260,686

The projects are commitments of the general fund and wastewater treatment enterprise fund and are being funded by grants, general fund revenues, and revenue note proceeds.

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

### **NOTES TO FINANCIAL STATEMENTS**

**December 31, 2009**

#### **NOTE 11 - JOINT VENTURES**

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

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

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

Each member city contributes to the budget of the Authority based on actual loads hauled during the previous year. The City of Mountain Iron's contribution to the Authority's budget during 2009 was \$25,975. 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 2000 Census. The City of Mountain Iron's contribution to the Authority's budget during 2009 was \$5,942. 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, 2009**

#### **NOTE 11 - JOINT VENTURES (CONTINUED)**

The City of Mountain Iron's contribution to the Authority's budget during 2009 was \$10,080. Complete financial information can be obtained from the Quad Cities Recreation Center, Eveleth, Minnesota 55734.

#### **NOTE 12 - SEVERANCE AND OTHER EMPLOYEE BENEFITS**

Upon retirement, the City provides most retirees a severance amount based on accumulated unused sick leave hours and rate of pay at the date of retirement, as established by contracts with bargaining units and other employment agreements. The agreements establish the terms for this severance amount, which may vary between bargaining units or employee groups. During 2009, the City expended \$16,276 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.

The City offers a Health Care Savings Plan (HCSP) to all eligible employees. HCSP is an employer-sponsored program that allows employees to save money, tax-free, to use upon termination of employment to pay for eligible health care expenses. Amounts to be put into the accounts must be negotiated or agreed to by both the bargaining unit and employer and written into the collective bargaining agreement or included in an individual contract for those employees not covered by a bargaining unit. Employer contributions to eligible employees were \$528 for the year ended December 31, 2009.

#### **NOTE 13 - OTHER POSTEMPLOYMENT BENEFITS**

The City implemented GASB Statement #45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for the year ended December 31, 2009. This implementation allows the City to report its liability for other postemployment benefits consistent with newly established generally accepted accounting principles and to reflect an actuarially determined liability for the present value of projected future benefits for active employees on the financial statements. The requirements of this Statement are being implemented prospectively, with the actuarially accrued liability of \$7,746,539 at January 1, 2009, date of transition, amortized over 30 years. Accordingly, for financial reporting purposes, no liability is reported for postemployment benefits liability at the date of transition.

**CITY OF MOUNTAIN IRON, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS  
December 31, 2009**

**NOTE 13 - OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)**

**Plan Description**

The City operates a single-employer retiree benefit plan that provides postemployment health insurance benefits to eligible employees and their spouses. There are 20 active and 13 retired members in the plan as of January 1, 2009. Benefits and eligibility are established and amended through contracts with bargaining units or other employment contracts. The City subsidizes the premium rates of the retirees by allowing them to participate in the plan at reduced or blended (implicitly subsidized) premium rates for both active and retired employees. These rates provided an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the plan on average than those of active employees. Additionally, certain retirees receive insurance at a lower (explicitly subsidized) premium rate than active employees.

**Funding Policy**

The City has not advance-funded or established a funding methodology.

**Annual OPEB Cost and Net OPEB Obligation**

The City's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The following table shows the components for the City's annual OPEB cost for the year, the amount actually paid from the plan, and changes in the City's net OPEB obligation.

Normal cost	\$ 197,410
Amortization of unfunded actuarial accrued liability	430,753
Interest to the end of the year	<u>25,127</u>
Annual required contribution	653,290
Adjustment to ARC	<u>-</u>
Annual OPEB cost (expense)	653,290
Contributions made including implicit rate subsidy	<u>143,520</u>
Increase in net OPEB obligation	509,770
Net OPEB obligation, beginning of year	<u>-</u>
Net OPEB obligation, end of year	<u>\$ 509,770</u>
Percentage of annual OPEB cost contributed	<u>21.2%</u>



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

### **NOTES TO FINANCIAL STATEMENTS December 31, 2009**

#### **NOTE 13 - OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)**

##### **Funded Status and Funding Progress**

As of January 1, 2009, the most recent actuarial valuation date, for the period of January 1, 2009 through December 31, 2009, the City's unfunded actuarial accrued liability (UAAL) was \$7,746,539. The annual payroll for active employees covered by the plan in the actuarial valuation for the fiscal year ended December 31, 2009 was \$944,685 for a ratio of the UAAL to covered payroll of 820.01%.

##### **Actuarial Methods and Assumptions**

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future, such as assumptions about future terminations, mortality, and healthcare cost trends. Actuarially determined amounts are subject to continual revision as actuarial results are compared with past experience and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents information about the actuarial value of plan assets and the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effect of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2009 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a rate of 4% to discount expected liabilities to the valuation date. The initial healthcare trend rate was 10% reduced by .5% per year to an ultimate rate of 5% after 10 years. The 2000 United States Life Tables for Males and United States Life Tables for Females was used. The UAAL is being amortized using the level dollar method. The remaining amortization period at December 31, 2009 is 29 years.

#### **NOTE 14 - 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.

**CITY OF MOUNTAIN IRON, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2009**

**NOTE 14 - DEFINED BENEFIT PENSION PLANS – STATEWIDE (CONTINUED)**

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.

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](http://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.

**CITY OF MOUNTAIN IRON, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2009**

**NOTE 14 - DEFINED BENEFIT PENSION PLANS – STATEWIDE (CONTINUED)**

**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 6.0%, respectively, of their annual covered salary in 2009. 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 6.75% for Coordinated Plan PERF members. The City's contributions to the Public Employees Retirement Fund for the years ending December 31, 2009, 2008, and 2007 were \$79,895, \$80,322, and \$74,202, respectively. The City's contributions were equal to the contractually required contributions for each year as set by state statute.

**NOTE 15 - DEFINED CONTRIBUTION PLAN**

Four 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 2009 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>780</u>	\$ <u>780</u>	<u>5.00%</u>	<u>5.00%</u>	<u>5.00%</u>

## **REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF MOUNTAIN IRON, MINNESOTA**

**SCHEDULE OF FUNDING PROGRESS FOR POSTEMPLOYMENT BENEFIT PLAN  
Year Ended December 31, 2009**

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

The City implemented GASB 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, during the year ended December 31, 2009. The first actuarial valuation for the City's other postemployment benefits (OPEB) plan was obtained as of January 1, 2009.

**CITY OF MOUNTAIN IRON, MINNESOTA**

**GENERAL FUND**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
Year Ended December 31, 2009**

	<b>Budgeted Amounts</b>		<b>Actual Amounts, Budgetary Basis</b>	<b>Variance with Final Budget - Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Taxes	\$ 1,080,238	\$ 1,080,238	\$ 962,107	\$ (118,131)
Licenses and permits	25,000	25,000	38,491	13,491
Intergovernmental	2,316,762	2,316,762	2,456,568	139,806
Charges for services	145,000	145,000	135,618	(9,382)
Fines	11,000	11,000	16,178	5,178
Interest	32,000	32,000	27,028	(4,972)
Miscellaneous	-	-	30,666	30,666
<b>TOTAL REVENUES</b>	<u>3,610,000</u>	<u>3,610,000</u>	<u>3,666,656</u>	<u>56,656</u>
<b>EXPENDITURES</b>				
Current				
General government	990,300	990,300	1,011,139	(20,839)
Public safety	555,200	555,200	614,375	(59,175)
Streets	665,000	665,000	700,314	(35,314)
Culture and recreation	396,500	396,500	337,654	58,846
<b>TOTAL EXPENDITURES</b>	<u>2,607,000</u>	<u>2,607,000</u>	<u>2,663,482</u>	<u>(56,482)</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	1,003,000	1,003,000	1,003,174	174
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out	(1,003,000)	(1,003,000)	(1,003,000)	-
Sale of capital assets	-	-	33,165	33,165
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>(1,003,000)</u>	<u>(1,003,000)</u>	<u>(969,835)</u>	<u>33,165</u>
<b>NET CHANGE IN FUND BALANCE</b>	-	-	33,339	33,339
<b>FUND BALANCE - JANUARY 1</b>	<u>1,126,994</u>	<u>1,126,994</u>	<u>1,126,994</u>	<u>-</u>
<b>FUND BALANCE - DECEMBER 31</b>	<u>\$ 1,126,994</u>	<u>\$ 1,126,994</u>	<u>\$ 1,160,333</u>	<u>\$ 33,339</u>

**CITY OF MOUNTAIN IRON, MINNESOTA**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

**December 31, 2009**

**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, 2009:

General Fund	\$ <u>56,482</u>
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The excess expenditures were funded by excess revenues in the fund.

## **OTHER SUPPLEMENTARY INFORMATION**



**CITY OF MOUNTAIN IRON, MINNESOTA**

**GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
Year Ended December 31, 2009**

**REVENUES**

**TAXES**

General property	\$ 927,415
Mineral rents and royalties	11,664
Franchise	23,028
<b>TOTAL TAXES</b>	<u>962,107</u>

<b>LICENSES AND PERMITS</b>	<u>38,491</u>
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**INTERGOVERNMENTAL**

State	
Local government aid	1,146,172
Market value credit	104,834
Taconite production	666,601
Taconite municipal aid	378,973
Mining effects	110,677
PERA aid	4,529
Police aid	33,648
Fire aid	11,134
<b>TOTAL INTERGOVERNMENTAL</b>	<u>2,456,568</u>

**CHARGES FOR SERVICES**

General government	
Rent	16,027
Other reimbursements	81,126
Culture and recreation	
Recreation fees	9,350
Campground fees	29,115
<b>TOTAL CHARGES FOR SERVICES</b>	<u>135,618</u>

<b>FINES</b>	<u>16,178</u>
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<b>INTEREST</b>	<u>27,028</u>
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<b>MISCELLANEOUS</b>	<u>30,666</u>
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<b>TOTAL REVENUES</b>	<u>3,666,656</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, 2009

EXPENDITURES

CURRENT

GENERAL GOVERNMENT

Mayor and council	\$ 25,407
Administration	524,198
Assessor	31,656
Retiree's insurance	95,878
Donations and contributions	9,072
Other	108,965
Buildings	187,091
Planning and zoning	28,872

**TOTAL GENERAL GOVERNMENT** 1,011,139

PUBLIC SAFETY

Sheriff	510,839
Fire	85,104
Animal control	18,257
Civil defense	175

**TOTAL PUBLIC SAFETY** 614,375

STREETS

700,314

CULTURE AND RECREATION

Library	118,379
Recreation	173,837
Campgrounds	45,438

**TOTAL CULTURE AND RECREATION** 337,654

TOTAL EXPENDITURES

2,663,482

EXCESS OF REVENUES OVER  
EXPENDITURES

1,003,174

OTHER FINANCING SOURCES (USES)

Transfers out	(1,003,000)
Sale of capital assets	33,165

**TOTAL OTHER FINANCING SOURCES (USES)** (969,835)

NET CHANGE IN FUND BALANCE

33,339

FUND BALANCE - JANUARY 1

1,126,994

FUND BALANCE - DECEMBER 31

\$ 1,160,333

**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, 2009**

	<u>Budget</u>	<u>Accounted for in Prior Years</u>	<u>Current Year</u>
<b>SOURCES OF FUNDS</b>			
Tax increment revenue	\$ 2,000,000	\$ 1,461,135	\$ 45,276
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>
<b>TOTAL SOURCES OF FUNDS</b>	<u>4,002,000</u>	<u>2,081,246</u>	<u>45,276</u>
<b>USES OF FUNDS</b>			
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	440,000	-
Bond interest payments	400,000	375,448	-
Loan principal payments	-	178,385	-
Administrative costs	200,000	58,889	30
Pooled for debt	<u>302,000</u>	<u>256,281</u>	<u>45,246</u>
<b>TOTAL USES OF FUNDS</b>	<u>4,002,000</u>	<u>2,081,246</u>	<u>45,276</u>
<b>DISTRICT BALANCE</b>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>

**CITY OF MOUNTAIN IRON, MINNESOTA**

**SCHEDULE OF SOURCES AND USES OF PUBLIC FUNDS  
FOR MOUNTAIN IRON TAX INCREMENT DISTRICT NO. 2  
Year Ended December 31, 2009**

	<u>Budget</u>	<u>Accounted for in Prior Years</u>	<u>Current Year</u>
<b>SOURCES OF FUNDS</b>			
Tax increment revenue	\$ 5,566,225	\$ 262,379	\$ 10,799
Bond proceeds	1,905,000	60,000	-
Loan proceeds EDA General Fund	<u>-</u>	<u>169,487</u>	<u>-</u>
<b>TOTAL SOURCES OF FUNDS</b>	<u>7,471,225</u>	<u>491,866</u>	<u>10,799</u>
<b>USES OF FUNDS</b>			
Land acquisition	324,500	264,070	-
Site improvement	466,500	-	-
Bond principal payments	1,905,000	60,000	-
Bond interest payments	2,721,725	53,248	-
Loan principal payments	-	105,185	10,769
Administrative costs	134,020	9,363	30
Debt service reserve	<u>500,000</u>	<u>-</u>	<u>-</u>
<b>TOTAL USES OF FUNDS</b>	<u>6,051,745</u>	<u>491,866</u>	<u>10,799</u>
<b>DISTRICT BALANCE</b>	<u>\$ 1,419,480</u>	<u>\$ -</u>	<u>\$ -</u>

**CITY OF MOUNTAIN IRON, MINNESOTA**

**SCHEDULE OF SOURCES AND USES OF PUBLIC FUNDS  
FOR MOUNTAIN IRON TAX INCREMENT DISTRICT NO. 11  
Year Ended December 31, 2009**

	<u>Budget</u>	<u>Accounted for in Prior Years</u>	<u>Current Year</u>
<b>SOURCES OF FUNDS</b>			
Tax increment revenue	\$ 196,474	\$ 109,295	\$ 9,828
Interest	2,000	-	-
Loan proceeds EDA General Fund	15,000	34,424	14,824
Land sale	<u>-</u>	<u>1,000</u>	<u>-</u>
<b>TOTAL SOURCES OF FUNDS</b>	<u>213,474</u>	<u>144,719</u>	<u>24,652</u>
<b>USES OF FUNDS</b>			
Site improvements and preparation costs	95,500	84,447	24,622
Installation of public utilities	20,000	-	-
Interest	63,868	-	-
Administrative costs	19,106	9,416	30
Loan principal payments	15,000	18,204	-
Pooled for debt	<u>-</u>	<u>32,652</u>	<u>-</u>
<b>TOTAL USES OF FUNDS</b>	<u>213,474</u>	<u>144,719</u>	<u>24,652</u>
<b>DISTRICT BALANCE</b>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>

**CITY OF MOUNTAIN IRON, MINNESOTA**

**SCHEDULE OF SOURCES AND USES OF PUBLIC FUNDS  
FOR MOUNTAIN IRON TAX INCREMENT DISTRICT NO. 13  
Year Ended December 31, 2009**

	<u>Budget</u>	<u>Accounted for in Prior Years</u>	<u>Current Year</u>
<b>SOURCES OF FUNDS</b>			
Tax increment revenue	\$ 120,900	\$ 12,553	\$ 2,677
Interest	2,000	-	-
Loan proceeds EDA General Fund	<u>-</u>	<u>28,677</u>	<u>1,385</u>
<b>TOTAL SOURCES OF FUNDS</b>	<u>122,900</u>	<u>41,230</u>	<u>4,062</u>
<b>USES OF FUNDS</b>			
Site improvements and preparation costs	83,000	31,346	4,032
Installation of public utilities	27,800	-	-
Administrative costs	12,100	5,135	30
Loan principal payments	<u>-</u>	<u>4,749</u>	<u>-</u>
<b>TOTAL USES OF FUNDS</b>	<u>122,900</u>	<u>41,230</u>	<u>4,062</u>
<b>DISTRICT BALANCE</b>	\$ <u><u>-</u></u>	\$ <u><u>-</u></u>	\$ <u><u>-</u></u>

**CITY OF MOUNTAIN IRON, MINNESOTA**

**SCHEDULE OF SOURCES AND USES OF PUBLIC FUNDS  
FOR MOUNTAIN IRON TAX INCREMENT DISTRICT NO. 14  
Year Ended December 31, 2009**

	<u>Budget</u>	<u>Accounted for in Prior Years</u>	<u>Current Year</u>
<b>SOURCES OF FUNDS</b>			
Tax increment revenue	\$ 1,025,590	\$ -	\$ -
Loan proceeds EDA General Fund	<u>-</u>	<u>4,669</u>	<u>33</u>
<b>TOTAL SOURCES OF FUNDS</b>	<u>1,025,590</u>	<u>4,669</u>	<u>33</u>
<b>USES OF FUNDS</b>			
Site improvements and preparation costs	1,025,590	-	-
Administrative costs	<u>-</u>	<u>4,669</u>	<u>33</u>
<b>TOTAL USES OF FUNDS</b>	<u>1,025,590</u>	<u>4,699</u>	<u>33</u>
<b>DISTRICT BALANCE</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**CITY OF MOUNTAIN IRON, MINNESOTA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year Ended December 31, 2009**

<b><u>Federal Grantor/ Pass Through Grantor/ Program or Cluster Title</u></b>	<b><u>Federal CFDA Number</u></b>	<b><u>Pass Through Entity Identifying Number</u></b>	<b><u>Federal Expenditures</u></b>
<b>ENVIRONMENTAL PROTECTION AGENCY</b>			
Passed through Minnesota Public Facilities Authority: Capitalization Grant for Drinking Water	66.458	MPFA-09- 0012-R-FY10	\$ 599,250
<b>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>			
Passed through St. Louis County, Minnesota: Community Development Block Grant	14.218	-	<u>69,890</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<b>\$ <u>669,140</u></b>

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

The schedule of expenditures of federal awards includes the federal grant activity of the City of Mountain Iron, Minnesota, and is prepared on the modified accrual basis of accounting.

**NOTE B - LOAN PROCEEDS**

Minnesota Public Facilities Authority loan proceeds in the amount of \$599,250 were received on February 24, 2010.





CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

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

To the City Council  
City of Mountain Iron, Minnesota

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund and the remaining fund information of the City of Mountain Iron, Minnesota, as of and for the year ended December 31, 2009, which collectively comprise the City of Mountain Iron, Minnesota's basic financial statements and have issued our report thereon dated June 15, 2010. Our report includes a reference to 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. Other auditors audited the financial statements of Mountain Manor Apartments Enterprise Fund, as described in our report on City of Mountain Iron, Minnesota's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

**Internal Control Over Financial Reporting**

In planning and performing our audit, 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 of Mountain Iron, Minnesota's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Mountain Iron, Minnesota'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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness and another deficiency that we consider to be a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as 2009-2 to be a material weakness.

A *significant deficiency* is a deficiency or a combination of significant deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs as 2009-1 to be a significant deficiency.

### **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 or other matters 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 June 15, 2010, 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 questioned costs. We did not audit City of Mountain Iron, Minnesota's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the City Council, management, the State of Minnesota, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Walker, Hironaka & Nelson, Ltd.*

June 15, 2010



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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE  
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the City Council  
City of Mountain Iron, Minnesota

**Compliance**

We have audited the compliance of the City of Mountain Iron, Minnesota with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2009. The City of Mountain Iron, Minnesota's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the City of Mountain Iron, Minnesota's management. Our responsibility is to express an opinion on the City of Mountain Iron, Minnesota's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Mountain Iron, Minnesota's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City of Mountain Iron, Minnesota's compliance with those requirements.

In our opinion, City of Mountain Iron, Minnesota complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2009.

**Internal Control Over Compliance**

Management of City of Mountain Iron, Minnesota is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to the federal programs. In planning and performing our audit, we

considered City of Mountain Iron, Minnesota's internal control over compliance with the requirements that could have a direct and material effect on the major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Mountain Iron, Minnesota's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of the federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of the federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying schedule of findings and questioned costs as item 2009-1. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

This report is intended solely for the information and use of management, City Council, State of Minnesota, and federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Walker, Hirose & Nakano, LLC*

June 15, 2010

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

### **SCHEDULE OF FINDINGS AND QUESTIONED COSTS Year Ended December 31, 2009**

#### **A. SUMMARY OF AUDITOR'S RESULTS**

1. The auditor's report expresses an unqualified opinion on the financial statements of City of Mountain Iron, Minnesota.
2. Two deficiencies disclosed during the audit of the financial statements are reported in the 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*. One of the deficiencies is reported as a material weakness.
3. No instances of noncompliance material to the financial statements of City of Mountain Iron, Minnesota, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. One significant deficiency in internal control over the major federal award program disclosed during the audit is reported in the Report on Compliance with Requirements Applicable to each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133. The deficiency is not reported as a material weakness.
5. The auditor's report on compliance for the major federal award program for City of Mountain Iron, Minnesota expresses an unqualified opinion on the major federal program.
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this Schedule.
7. The program tested as a major program was Capitalization Grant for Drinking Water.
8. The threshold used for distinguishing between Types A and B programs was \$300,000.
9. City of Mountain Iron, Minnesota did not qualify as a low-risk auditee.

#### **B. FINDINGS – FINANCIAL STATEMENTS AUDIT**

##### **SIGNIFICANT DEFICIENCIES**

##### **2009-1. SEGREGATION OF DUTIES**

###### **Condition**

Due to the limited number of personnel within the City's administration office, the segregation of accounting functions necessary to ensure adequate internal accounting control is not possible.

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

### **SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED) Year Ended December 31, 2009**

#### **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 limitation caused by fiscal constraints.

#### **Recommendations**

Officials and management of the City should constantly be aware of this condition, attempt to segregate duties as much as possible and provide oversight to partially compensate for this deficiency.

#### **Corrective Action Plan (CAP)**

1. Explanation of Disagreement with Audit Finding  
There is no disagreement with the audit finding.
2. Actions Planned in Response to Finding  
The City Administrator will attempt to monitor transactions and structure the duties of office personnel to help ensure as much segregation of duties as possible within the City's staffing limitations and funding constraints.
3. Official Responsible for Ensuring CAP  
Craig Wainio, City Administrator, is the official responsible for ensuring this plan.
4. Planned Completion Date for CAP  
The City 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.

#### **2009-2. LACK OF CONTROL OVER FINANCIAL REPORTING PROCESS**

##### **Condition and Criteria**

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

**CITY OF MOUNTAIN IRON, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
Year Ended December 31, 2009**

**Effect**

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

**Cause**

This occurred because of staffing limitations caused by fiscal constraints.

**Recommendations**

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

**Corrective Action Plan (CAP)**

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

**C. FINDING AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT**

**ENVIRONMENTAL PROTECTION AGENCY**

Capitalization Grant for Drinking Water – CFDA No. 66.458 – Grant Period – Year ended December 31, 2009 – Passed through State of Minnesota.

The significant deficiency of lack of segregation of duties as discussed at B. 2009-1, also applies to this grant.



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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, 2009, 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 of Mountain Iron, Minnesota's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. A separate report dated June 15, 2010, contains our report on significant deficiencies in the City's internal control. This letter does not affect our report dated June 15, 2010, 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 Water Treatment, Wastewater Treatment, Refuse Removal and Recycling, and Electric Enterprise Funds reported operating losses for the year ended December 31, 2009. 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

1. Payroll information for salaried employees lists the number of hours of comp time earned and the number of hours used for comp time, sick leave, vacation, personal and holiday time. We recommend that the date the leave was taken also be included with the hours. This information will provide proper documentation of leave taken. We also suggest that the Council review this documentation periodically throughout the year.
2. The Internal Revenue Service requires that miscellaneous income of \$600 or more be reported on Form 1099-MISC for vendors who are not incorporated. All attorney payments are required to be reported regardless of amount or incorporation. The City did not issue any Forms 1099-MISC for 2009.

To comply with these requirements, we recommend that the City obtain a completed Form W-9 Request for Taxpayer Identification Number and Certification from the vendor prior to payment and that City personnel review the Form 1099-MISC and Form 1096 transmittal reporting requirements.

This report is intended for the information and use of the City Council, management, State of Minnesota, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Walker, Hirose & Nakano, Ltd.*

June 15, 2010