

CITY OF MOUNTAIN IRON, MINNESOTA

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

Year Ended December 31, 2010

CITY OF MOUNTAIN IRON, MINNESOTA

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CITY OF MOUNTAIN IRON, MINNESOTA

**ORGANIZATION
December 31, 2010**

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, 2010, 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 6 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 previously 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, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 16, 2011 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 individual fund financial statements and schedules 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, Hiron & Nelson, Ltd.

June 16, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF MOUNTAIN IRON, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2010

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, 2010. 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 \$9,415,926, of which \$7,587,855 is invested in capital assets, net of related debt.
- Business-type activities have total net assets of \$5,713,346. Invested in capital assets, net of related debt represents \$4,324,951 of the total.
- The Mountain Iron Economic Development Authority (EDA) has total net assets of \$3,249,987, of which \$2,456,839 is invested in capital assets, net of related debt.
- The City of Mountain Iron's primary government's net assets increased by \$1,356,136 for the year ended December 31, 2010. Of the increase \$1,017,774 was an increase in the governmental activities' net assets and \$338,362 represented the increase in business-type activities' net assets.
- The EDA's net assets decreased by \$128,805.
- The net cost of governmental activities was \$2,485,905 for the current fiscal year. The net cost was funded by general revenues and other items totaling \$3,503,679.
- Governmental funds' fund balances decreased by \$157,586.

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, 2010

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, 2010

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

The City's combined net assets increased from \$13,773,136 to \$15,129,272. During 2010, both the governmental and the business-type activities had an increase in net assets. Our analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the City's governmental and business-type activities.

**Table 1
Net Assets**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Current and other assets	\$ 2,842,602	\$ 3,124,322	\$ 2,137,422	\$ 1,984,447	\$ 4,980,024	\$ 5,108,769
Capital assets	<u>10,461,846</u>	<u>9,164,661</u>	<u>6,178,976</u>	<u>6,319,767</u>	<u>16,640,822</u>	<u>15,484,428</u>
Total assets	<u>13,304,448</u>	<u>12,288,983</u>	<u>8,316,398</u>	<u>8,304,214</u>	<u>21,620,846</u>	<u>20,593,197</u>
Long-term debt						
outstanding	3,665,549	3,567,155	2,154,339	2,180,320	5,819,888	5,747,475
Other liabilities	<u>222,973</u>	<u>323,676</u>	<u>448,713</u>	<u>748,910</u>	<u>671,686</u>	<u>1,072,586</u>
Total liabilities	<u>3,888,522</u>	<u>3,890,831</u>	<u>2,603,052</u>	<u>2,929,230</u>	<u>6,491,574</u>	<u>6,820,061</u>
Net assets						
Invested in capital assets,						
net of debt	7,587,855	5,942,045	4,324,951	5,032,068	11,912,806	10,974,113
Restricted	-	-	117,233	731,937	117,233	731,937
Unrestricted	<u>1,828,071</u>	<u>2,456,107</u>	<u>1,271,162</u>	<u>(389,021)</u>	<u>3,099,233</u>	<u>2,067,086</u>
Total net assets	<u>\$ 9,415,926</u>	<u>\$ 8,398,152</u>	<u>\$ 5,713,346</u>	<u>\$ 5,374,984</u>	<u>\$ 15,129,272</u>	<u>\$ 13,773,136</u>

Net assets of the City's governmental activities increased by 12.1 percent (\$9,415,926 compared to \$8,398,152).

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 \$2,456,107 surplus at December 31, 2009 to a \$1,828,071 surplus at the end of this year.

Net assets of the City's business-type activities increased by 6.3 percent (\$5,713,346 compared to \$5,374,984).

CITY OF MOUNTAIN IRON, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2010

Table 2
Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total Primary Government	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Revenues						
Program revenues:						
Fees, fines, charges and other charges for services	\$ 255,674	\$ 190,287	\$ 3,517,280	\$ 2,858,357	\$ 3,772,954	\$ 3,048,644
Operating grants and contributions	4,426	35,261	-	-	4,426	35,261
Capital grants and contributions	1,173,404	1,121,585	146,237	41,719	1,319,641	1,163,304
General revenues:						
Property and other taxes	1,283,458	942,987	-	-	1,283,458	942,987
Intergovernmental	2,126,010	2,456,568	-	-	2,126,010	2,456,568
Other general revenues	<u>132,590</u>	<u>106,356</u>	<u>28,243</u>	<u>51,676</u>	<u>160,833</u>	<u>158,032</u>
Total revenues	<u>4,975,562</u>	<u>4,853,044</u>	<u>3,691,760</u>	<u>2,951,752</u>	<u>8,667,322</u>	<u>7,804,796</u>
Program expenses:						
General government	1,160,299	1,165,471	-	-	1,160,299	1,165,471
Public safety	756,306	687,313	-	-	756,306	687,313
Streets	1,382,686	1,161,733	-	-	1,382,686	1,161,733
Culture and recreation	495,305	439,714	-	-	495,305	439,714
Interest	124,813	136,949	-	-	124,813	136,949
Electric	-	-	2,035,900	1,992,045	2,035,900	1,992,045
Water	-	-	358,708	381,684	358,708	381,684
Wastewater	-	-	407,336	387,540	407,336	387,540
Refuse removal	-	-	384,245	405,437	384,245	405,437
Mountain Manor Apartments	-	-	205,588	189,561	205,588	189,561
Total program expenses	<u>3,919,409</u>	<u>3,591,180</u>	<u>3,391,777</u>	<u>3,356,267</u>	<u>7,311,186</u>	<u>6,947,447</u>
Increase (decrease) in net assets before transfers	1,056,153	1,261,864	299,983	(404,515)	1,356,136	857,349
Transfers	<u>(38,379)</u>	<u>(552,423)</u>	<u>38,379</u>	<u>507,423</u>	<u>-</u>	<u>(45,000)</u>
Increase in net assets	<u>\$ 1,017,774</u>	<u>\$ 709,441</u>	<u>\$ 338,362</u>	<u>\$ 102,908</u>	<u>\$ 1,356,136</u>	<u>\$ 812,349</u>

CITY OF MOUNTAIN IRON, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2010

Governmental Activities

The cost of all governmental activities this year was \$3,919,409. 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 \$255,674 or by other governments and organizations that subsidized certain programs with grants and contributions in the amount of \$3,303,840. Property and other tax revenue in 2010 was \$1,283,458.

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

	Total Cost of Services		Net Cost of Services	
	2010	2009	2010	2009
Streets	\$ 1,382,686	\$ 1,161,733	\$ 445,813	\$ 961,698
General government	1,160,299	1,165,471	921,354	72,942
Public safety	756,306	687,313	704,897	687,313
Culture and recreation	495,305	439,714	289,028	385,145
Interest on long-term debt	124,813	136,949	124,813	136,949
Totals	\$ 3,919,409	\$ 3,591,180	\$ 2,485,905	\$ 2,244,047

Business-Type Activities

Revenues and transfers in of the City's business-type activities were \$3,730,139 and expenses were \$3,391,777, (see Table 2). There was an increase in net assets of \$338,362 during the year ended December 31, 2010, which compares to an increase in net assets of \$102,908 for the year ended December 31, 2009. Operations produced income of \$205,539 for the year ended December 31, 2010. Transfers in from the debt service fund in the amount of \$38,379 were for a portion of the water debt payment.

Mountain Iron EDA Component Unit Activity

The Mountain Iron EDA had a net decrease in net assets of \$128,805 for the year ended December 31, 2010. Net program revenues over expenses were \$(235,258). General revenues of taxes and interest earnings were \$106,453.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As the City completed the year, its governmental funds reported a combined fund balance of \$2,416,102 which is below last year's total of \$2,573,688. Included in this year's total fund balance is a surplus of \$1,379,388 in the City's general fund. The General Fund had an increase of \$219,055 due to increased state aids and grants for the City Projects Capital Projects Fund. The Debt Service Fund recorded an increase of \$21,586 in fund balance due to special assessments collected in 2010. The City Projects Capital Projects Fund's fund balance decreased by \$400,155 due to the completion of several capital projects.

CITY OF MOUNTAIN IRON, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2010

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the City did not revise the general fund budget. The actual expenditures were \$76,563 over the final budget amounts. The most significant negative variance in the amount of (\$106,451) occurred in the City public safety program. Resources available for appropriation were above the final budgeted amounts. The City received more intergovernmental aids and charges for services than expected.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2010, the City's primary government had \$16,640,822 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 \$1,156,394 over last year. The Mountain Iron Economic Development Authority component unit had \$2,456,839 invested in capital assets, which consisted of land.

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

	Governmental Activities		Business-Type Activities		Totals	
	2010	2009	2010	2009	2010	2009
Land	\$ 414,445	\$ 419,590	\$ 26,370	\$ 26,370	\$ 440,815	\$ 445,960
Construction in progress	2,039,726	778,415	-	640,969	2,039,726	1,419,384
Land improvements	823,456	416,364	-	-	823,456	416,364
Buildings	2,176,615	2,251,189	3,720,110	3,857,929	5,896,725	6,109,118
Infrastructure	4,195,940	4,343,268	1,984,141	1,274,181	6,180,081	5,617,449
Machinery and equipment	488,949	537,853	77,447	82,925	566,396	620,778
Licensed vehicles	322,715	417,982	370,908	437,393	693,623	855,375
Totals	<u>\$ 10,461,846</u>	<u>\$ 9,164,661</u>	<u>\$ 6,178,976</u>	<u>\$ 6,319,767</u>	<u>\$ 16,640,822</u>	<u>\$ 15,484,428</u>
EDA Land	<u>\$ 2,456,839</u>	<u>\$ 2,430,339</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,456,839</u>	<u>\$ 2,430,339</u>

This year's major additions included relocation and upgrades to four parks, street construction and overlay, additional streetscape lighting, City garage addition, Renewable Energy Park, and South Forest Grove addition.

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

Debt

At year-end, the City had \$5,819,888 in long-term debt outstanding for the primary government versus \$5,747,475 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, 2010

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

	Governmental Activities		Business-Type Activities		Totals	
	2010	2009	2010	2009	2010	2009
General obligation bonds (backed by the City)	\$ 1,574,000	\$ 1,675,000	\$ -	\$ -	\$ 1,574,000	\$ 1,675,000
Refunding bonds	1,300,000	1,450,000	-	-	1,300,000	1,450,000
Notes payable	-	-	629,025	637,699	629,025	637,699
Lease purchase	-	97,616	-	-	-	97,616
Water revenue bonds	-	-	650,000	1,300,000	650,000	1,300,000
Wastewater general obligation revenue note	-	-	575,000	-	575,000	-
Severance payable	68,964	54,977	15,840	22,413	84,804	77,390
Other post-employment benefit obligation	<u>722,585</u>	<u>289,562</u>	<u>284,474</u>	<u>220,208</u>	<u>1,007,059</u>	<u>509,770</u>
Total	<u>\$ 3,665,549</u>	<u>\$ 3,567,155</u>	<u>\$ 2,154,339</u>	<u>\$ 2,180,320</u>	<u>\$ 5,819,888</u>	<u>\$ 5,747,475</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 \$1,074,000 is significantly below this \$5,427,411 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 2011 budget, tax rates, and fees that will be charged for the business-type activities.

- City General Fund expenditures increased \$198,162 over 2010.
- City property taxes did not increase in 2011.
- The continued development of South Forest Grove and Unity Second Addition will have a great impact on property tax revenues for the City.

The City's 2011 capital budget calls for it to spend another \$560,000.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, or for the separate financial statements for the Mountain Iron EDA and Mountain Manor Apartments, contact the City's Administrator, Craig J. Wainio, City of Mountain Iron, 8586 Enterprise Drive South, Mountain Iron, Minnesota 55768, or e-mail cwainio@ci.mountain-iron.mn.us.

BASIC FINANCIAL STATEMENTS

CITY OF MOUNTAIN IRON, MINNESOTA

STATEMENT OF NET ASSETS
December 31, 2010

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	EDA
ASSETS				
Cash and cash equivalents	\$ 2,412,450	\$ 1,205,410	\$ 3,617,860	\$ 755,358
Taxes receivable	49,322	-	49,322	-
Special assessments receivable	206,117	-	206,117	-
Accounts receivable	-	640,940	640,940	-
Grants receivable	14,300	-	14,300	-
Due from component unit	67,202	-	67,202	-
Due from other governments	34,519	-	34,519	-
Loans receivable	-	-	-	136,993
Inventories	-	173,192	173,192	-
Prepaid items	-	647	647	-
Deferred debt issue costs	58,692	-	58,692	-
Restricted assets:				
Temporarily restricted cash and cash equivalents	-	117,233	117,233	-
Capital assets not being depreciated:				
Land	414,445	26,370	440,815	2,456,839
Construction in progress	2,039,726	-	2,039,726	-
Capital assets net of accumulated depreciation:				
Land improvements	823,456	-	823,456	-
Buildings	2,176,615	3,720,110	5,896,725	-
Infrastructure	4,195,940	1,984,141	6,180,081	-
Machinery and equipment	488,949	77,447	566,396	-
Licensed vehicles	322,715	370,908	693,623	-
TOTAL ASSETS	13,304,448	8,316,398	21,620,846	3,349,190
LIABILITIES				
Accounts payable	114,140	223,101	337,241	32,001
Salaries payable	57,822	23,765	81,587	-
Accrued interest payable	43,027	8,041	51,068	-
Due to primary government	-	-	-	67,202
Customer deposits	7,984	81,762	89,746	-
Unearned revenues	-	112,044	112,044	-
Noncurrent liabilities				
Due within one year	256,000	83,641	339,641	-
Due in more than one year	3,409,549	2,070,698	5,480,247	-
TOTAL LIABILITIES	3,888,522	2,603,052	6,491,574	99,203
NET ASSETS				
Invested in capital assets, net of related debt	7,587,855	4,324,951	11,912,806	2,456,839
Restricted for:				
Other purposes	-	117,233	117,233	-
Unrestricted	1,828,071	1,271,162	3,099,233	793,148
TOTAL NET ASSETS	\$ 9,415,926	\$ 5,713,346	\$ 15,129,272	\$ 3,249,987

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

CITY OF MOUNTAIN IRON, MINNESOTA

**STATEMENT OF ACTIVITIES
Year Ended December 31, 2010**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Charges for Services</u>	<u>Program Revenues Operating Grants and Contributions</u>
PRIMARY GOVERNMENT			
Governmental Activities			
General government	\$ 1,160,299	\$ 207,897	\$ 4,426
Public safety	756,306	-	-
Streets	1,382,686	-	-
Culture and recreation	495,305	47,777	-
Interest on long-term debt	124,813	-	-
Total Governmental Activities	<u>3,919,409</u>	<u>255,674</u>	<u>4,426</u>
Business-type Activities			
Electric	2,035,900	2,296,314	-
Water treatment	358,708	236,517	-
Wastewater treatment	407,336	402,615	-
Refuse removal and recycling	384,245	386,546	-
Mountain Manor Apartments	205,588	195,288	-
Total Business-type Activities	<u>3,391,777</u>	<u>3,517,280</u>	<u>-</u>
TOTAL PRIMARY GOVERNMENT	<u>\$ 7,311,186</u>	<u>\$ 3,772,954</u>	<u>\$ 4,426</u>
COMPONENT UNIT			
EDA	<u>\$ 436,077</u>	<u>\$ 819</u>	<u>\$ 200,000</u>

General Revenues

Taxes:

Property taxes, levied for general purposes

Property taxes, levied for specific purposes

Franchise taxes

Mineral rents and royalties

Grants and contributions not restricted to specific programs

Unrestricted investment earnings

Miscellaneous

Gain on sale of capital assets

Transfers

Total General Revenues and Transfers

CHANGE IN NET ASSETS

NET ASSETS - JANUARY 1

NET ASSETS - DECEMBER 31

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

Net (Expense) Revenue and Changes in Net Assets				
Capital Grants and Contributions	Primary Government			Component Unit
	Governmental	Business-type	Total	EDA
	Activities	Activities		
\$ 26,622	\$ (921,354)	\$ -	\$ (921,354)	
51,409	(704,897)	-	(704,897)	
936,873	(445,813)	-	(445,813)	
158,500	(289,028)	-	(289,028)	
-	(124,813)	-	(124,813)	
1,173,404	(2,485,905)	-	(2,485,905)	
-	-	260,414	260,414	
-	-	(122,191)	(122,191)	
146,237	-	141,516	141,516	
-	-	2,301	2,301	
-	-	(10,300)	(10,300)	
146,237	-	271,740	271,740	
\$ 1,319,641	(2,485,905)	271,740	(2,214,165)	
\$ -				(235,258)
	1,216,891	-	1,216,891	27,162
	-	-	-	68,442
	24,050	-	24,050	-
	42,517	-	42,517	-
	2,126,010	-	2,126,010	-
	55,738	23,226	78,964	10,849
	-	4,604	4,604	-
	76,852	413	77,265	-
	(38,379)	38,379	-	-
	3,503,679	66,622	3,570,301	106,453
	1,017,774	338,362	1,356,136	(128,805)
	8,398,152	5,374,984	13,773,136	3,378,792
\$ 9,415,926	\$ 5,713,346	\$ 15,129,272	\$ 3,249,987	

CITY OF MOUNTAIN IRON, MINNESOTA

**BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2010**

	General Fund	Debt Service Fund	City Projects Capital Projects Fund	Other Governmental Fund - Charitable Gambling Special Revenue Fund	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 1,455,405	\$ 895,873	\$ 53,853	\$ 7,319	\$ 2,412,450
Taxes receivable	49,322	-	-	-	49,322
Special assessments receivable	-	197,394	8,723	-	206,117
Grants receivable	-	-	14,300	-	14,300
Due from component unit	67,202	-	-	-	67,202
Due from other governments	34,519	-	-	-	34,519
TOTAL ASSETS	\$ 1,606,448	\$ 1,093,267	\$ 76,876	\$ 7,319	\$ 2,783,910
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ 111,932	\$ 693	\$ 1,515	\$ -	\$ 114,140
Salaries payable	57,822	-	-	-	57,822
Deferred revenue	49,322	131,515	7,025	-	187,862
Customer deposits	7,984	-	-	-	7,984
TOTAL LIABILITIES	227,060	132,208	8,540	-	367,808
FUND BALANCES					
Unreserved, designated	1,160,333	-	1,904	-	1,162,237
Unreserved, undesignated, reported in					
General Fund	219,055	-	-	-	219,055
Special revenue fund	-	-	-	7,319	7,319
Debt service fund	-	961,059	-	-	961,059
Capital projects funds	-	-	66,432	-	66,432
TOTAL FUND BALANCES	1,379,388	961,059	68,336	7,319	2,416,102
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,606,448	\$ 1,093,267	\$ 76,876	\$ 7,319	\$ 2,783,910

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, 2010

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

TOTAL FUND BALANCES, GOVERNMENTAL FUNDS	\$ 2,416,102
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.	10,461,846
Deferred revenue in governmental funds is susceptible to full accrual on the government-wide statements.	187,862
Interest payable on long-term debt is susceptible to full accrual on the government-wide statements.	(43,027)
Unamortized bond issuance costs are susceptible to full accrual on the government-wide statements.	58,692
Long-term liabilities, including bonds payable are not due and payable in the current period and therefore not reported in the governmental funds.	<u>(3,665,549)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 9,415,926</u>

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

CITY OF MOUNTAIN IRON, MINNESOTA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended December 31, 2010

	General Fund	Debt Service Fund	City Projects Capital Projects Fund	Other Governmental Fund - Charitable Gambling Special Revenue Fund	Total Governmental Funds
REVENUES					
Taxes	\$ 1,255,757	\$ -	\$ -	\$ -	\$ 1,255,757
Special assessments	-	61,363	610	-	61,973
Licenses and permits	40,671	-	-	-	40,671
Intergovernmental	2,126,010	-	1,110,373	-	3,236,383
Charges for services	199,564	-	-	-	199,564
Fines	14,847	-	-	-	14,847
Gifts and contributions	-	-	1,000	4,426	5,426
Investment earnings	21,773	19,914	13,998	52	55,737
Miscellaneous	-	-	52,000	-	52,000
TOTAL REVENUES	3,658,622	81,277	1,177,981	4,478	4,922,358
EXPENDITURES					
Current					
General government	975,496	-	-	2,550	978,046
Public safety	686,951	-	-	-	686,951
Streets	719,761	-	-	-	719,761
Culture and recreation	386,003	-	-	-	386,003
Debt Service					
Principal	-	251,000	97,616	-	348,616
Interest and other charges	-	120,312	4,717	-	125,029
Capital Outlay					
General government	-	-	1,296,024	-	1,296,024
Public safety	-	-	5,649	-	5,649
Streets	-	-	136,705	-	136,705
Culture and recreation	-	-	472,024	-	472,024
TOTAL EXPENDITURES	2,768,211	371,312	2,012,735	2,550	5,154,808
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	890,411	(290,035)	(834,754)	1,928	(232,450)
OTHER FINANCING SOURCES (USES)					
Transfers in	-	378,761	434,599	-	813,360
Transfers out	(784,599)	(67,140)	-	-	(851,739)
Sale of capital assets	113,243	-	-	-	113,243
TOTAL OTHER FINANCING SOURCES (USES)	(671,356)	311,621	434,599	-	74,864
NET CHANGE IN FUND BALANCES	219,055	21,586	(400,155)	1,928	(157,586)
FUND BALANCES - JANUARY 1	1,160,333	939,473	468,491	5,391	2,573,688
FUND BALANCES - DECEMBER 31	\$ 1,379,388	\$ 961,059	\$ 68,336	\$ 7,319	\$ 2,416,102

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, 2010**

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

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS **\$ (157,586)**

Governmental funds report outlays for capital assets as expenditures; however, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives.

Expenditures for capital assets	1,830,929	
Less current year depreciation	<u>(497,353)</u>	
Net capital assets		1,333,576

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. (36,391)

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	27,700	
Change in deferred revenue - special assessments	<u>(51,350)</u>	
Net change		(23,650)

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 348,616

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	5,207	
Change in severance payable	(13,987)	
Change in other postemployment benefits payable	<u>(433,023)</u>	
Net change		<u>(441,803)</u>

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES **\$ 1,017,774**

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

CITY OF MOUNTAIN IRON, MINNESOTA

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
December 31, 2010

Business-type Activities - Enterprise Funds

	Electric Enterprise Fund	Water Treatment Enterprise Fund	Wastewater Treatment Enterprise Fund	Refuse Removal and Recycling Enterprise Fund	Mountain Manor Apartments Enterprise Fund	Totals
ASSETS						
CURRENT ASSETS						
Cash and cash equivalents	\$ 7,662	\$ 255,534	\$ 555,713	\$ 326,296	\$ 60,205	\$ 1,205,410
Accounts receivable	499,483	33,849	50,621	56,219	768	640,940
Inventories	162,301	10,891	-	-	-	173,192
Prepaid items	-	-	-	-	647	647
TOTAL CURRENT ASSETS	669,446	300,274	606,334	382,515	61,620	2,020,189
NONCURRENT ASSETS						
Restricted cash and cash equivalents						
Reserve account	-	-	-	-	106,732	106,732
Tenant security deposits	-	-	-	-	10,501	10,501
Total restricted cash and cash equivalents	-	-	-	-	117,233	117,233
Capital assets						
Land	18,034	-	-	-	8,336	26,370
Buildings	308,167	2,190,764	2,718,281	12,761	1,427,816	6,657,789
Infrastructure	667,093	2,579,835	3,577,392	-	-	6,824,320
Machinery and equipment	-	60,271	299,923	-	288,295	648,489
Licensed vehicles	373,256	-	20,547	421,260	-	815,063
Less accumulated depreciation	(803,128)	(2,919,145)	(3,698,302)	(226,798)	(1,145,682)	(8,793,055)
Total capital assets (net of accumulated depreciation)	563,422	1,911,725	2,917,841	207,223	578,765	6,178,976
TOTAL NONCURRENT ASSETS	563,422	1,911,725	2,917,841	207,223	695,998	6,296,209
TOTAL ASSETS	1,232,868	2,211,999	3,524,175	589,738	757,618	8,316,398
LIABILITIES						
CURRENT LIABILITIES						
Accounts payable	187,057	7,114	7,391	10,789	10,750	223,101
Salaries payable	13,180	5,769	2,627	2,189	-	23,765
Accrued interest payable	-	1,696	4,718	-	1,627	8,041
Deferred revenue	-	-	112,044	-	-	112,044
Customer deposits payable	71,824	860	-	-	9,078	81,762
Bonds and notes payable - current	-	50,000	25,000	-	8,641	83,641
TOTAL CURRENT LIABILITIES	272,061	65,439	151,780	12,978	30,096	532,354
NONCURRENT LIABILITIES						
Severance payable	12,220	1,434	729	1,457	-	15,840
Other postemployment benefit obligation	90,967	76,103	60,657	56,747	-	284,474
Bonds and notes payable	-	600,000	550,000	-	620,384	1,770,384
TOTAL NONCURRENT LIABILITIES	103,187	677,537	611,386	58,204	620,384	2,070,698
TOTAL LIABILITIES	375,248	742,976	763,166	71,182	650,480	2,603,052
NET ASSETS						
Invested in capital assets, net of related debt	563,422	1,261,725	2,342,841	207,223	(50,260)	4,324,951
Restricted for other purposes	-	-	-	-	117,233	117,233
Unrestricted	294,198	207,298	418,168	311,333	40,165	1,271,162
TOTAL NET ASSETS	\$ 857,620	\$ 1,469,023	\$ 2,761,009	\$ 518,556	\$ 107,138	\$ 5,713,346

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, 2010

	Business-type Activities - Enterprise Funds					
	Electric Enterprise Fund	Water Treatment Enterprise Fund	Wastewater Treatment Enterprise Fund	Refuse Removal and Recycling Enterprise Fund	Mountain Manor Apartments Enterprise Fund	Totals
REVENUES						
Charges for sales and services	\$ 2,296,314	\$ 236,517	\$ 402,615	\$ 386,546	\$ 195,288	\$ 3,517,280
OPERATING EXPENSES						
Cost of sales	1,423,943	-	-	-	-	1,423,943
Salaries	254,926	74,232	82,383	97,380	43,026	551,947
Employee benefits	116,444	32,937	34,312	46,712	3,292	233,697
Contract services	-	-	30,766	-	38,310	69,076
Insurance	15,933	6,581	4,610	7,258	7,933	42,315
Miscellaneous	40,320	15,812	14,788	11,556	3,361	85,837
Other postemployment benefits	46,603	31,190	38,627	6,118	-	122,538
Repairs and maintenance	60,857	28,400	10,056	18,038	8,803	126,154
Solid waste management and tipping fees	-	-	-	131,686	-	131,686
Supplies	29,092	8,848	7,089	23,755	1,775	70,559
Telephone	3,765	673	1,648	690	2,491	9,267
Utilities	-	36,582	76,628	-	23,826	137,036
Depreciation	44,017	74,676	95,125	41,052	52,816	307,686
TOTAL OPERATING EXPENSES	2,035,900	309,931	396,032	384,245	185,633	3,311,741
OPERATING INCOME (LOSS)	260,414	(73,414)	6,583	2,301	9,655	205,539
NONOPERATING REVENUES (EXPENSES)						
Interest income	1,149	8,126	3,609	9,449	893	23,226
Miscellaneous	-	-	-	-	4,604	4,604
Interest expense	-	(48,777)	(11,304)	-	(19,955)	(80,036)
Sale of capital assets	413	-	-	-	-	413
TOTAL NONOPERATING REVENUES (EXPENSES)	1,562	(40,651)	(7,695)	9,449	(14,458)	(51,793)
INCOME (LOSS) BEFORE CAPITAL GRANT AND TRANSFERS	261,976	(114,065)	(1,112)	11,750	(4,803)	153,746
Capital grant	-	-	146,237	-	-	146,237
Transfers in	-	111,501	-	-	-	111,501
Transfers out	(8,973)	(64,149)	-	-	-	(73,122)
CHANGE IN NET ASSETS	253,003	(66,713)	145,125	11,750	(4,803)	338,362
TOTAL NET ASSETS - JANUARY 1	604,617	1,535,736	2,615,884	506,806	111,941	5,374,984
TOTAL NET ASSETS - DECEMBER 31	\$ 857,620	\$ 1,469,023	\$ 2,761,009	\$ 518,556	\$ 107,138	\$ 5,713,346

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

CITY OF MOUNTAIN IRON, MINNESOTA

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended December 31, 2010

	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	
CASH FLOWS FROM OPERATING ACTIVITIES						
Cash received from customers	\$ 2,070,571	\$ 235,361	\$ 386,894	\$ 383,401	\$ 193,812	\$ 3,270,039
Cash paid to suppliers	(1,831,586)	(159,980)	(283,985)	(245,809)	(90,826)	(2,612,186)
Cash paid to employees	(264,701)	(42,421)	(51,275)	(91,553)	(43,026)	(492,976)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>(25,716)</u>	<u>32,960</u>	<u>51,634</u>	<u>46,039</u>	<u>59,960</u>	<u>164,877</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Transfers in from other funds	-	111,501	-	-	-	111,501
Transfers out to other funds	(8,973)	(64,149)	-	-	-	(73,122)
Miscellaneous	-	-	-	-	4,604	4,604
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	<u>(8,973)</u>	<u>47,352</u>	<u>-</u>	<u>-</u>	<u>4,604</u>	<u>42,983</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Purchase or construction of fixed assets	-	-	(146,237)	-	(20,660)	(166,897)
Principal paid on long-term debt	-	(650,000)	(24,250)	-	(8,674)	(682,924)
Interest paid on long-term debt	-	(52,410)	(6,586)	-	(20,032)	(79,028)
Sale of capital assets	413	-	-	-	-	413
Proceeds from MPFA revenue note	-	-	599,250	-	-	599,250
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>413</u>	<u>(702,410)</u>	<u>422,177</u>	<u>-</u>	<u>(49,366)</u>	<u>(329,186)</u>
CASH FLOWS FROM INVESTING ACTIVITIES						
Interest and dividends received	<u>1,149</u>	<u>8,441</u>	<u>3,609</u>	<u>9,449</u>	<u>893</u>	<u>23,541</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(33,127)</u>	<u>(613,657)</u>	<u>477,420</u>	<u>55,488</u>	<u>16,091</u>	<u>(97,785)</u>
CASH AND CASH EQUIVALENTS, JANUARY 1 (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>
CASH AND CASH EQUIVALENTS, DECEMBER 31 (including \$117,233 in restricted accounts)	<u>\$ 7,662</u>	<u>\$ 255,534</u>	<u>\$ 555,713</u>	<u>\$ 326,296</u>	<u>\$ 177,438</u>	<u>\$ 1,322,643</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES						
Operating income (loss)	\$ 260,414	\$ (73,414)	\$ 6,583	\$ 2,301	\$ 9,655	\$ 205,539
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation	44,017	74,677	95,125	41,052	52,816	307,687
Changes in assets and liabilities						
(Increase) decrease in:						
Accounts receivable	(228,367)	(1,516)	(15,721)	(3,145)	(503)	(249,252)
Inventories	(2,157)	322	-	-	-	(1,835)
Prepaid items	-	-	-	-	12	12
Increase (decrease) in:						
Accounts payable	(92,472)	720	(65,461)	4	(1,047)	(158,256)
Salaries payable	(1,293)	931	1,135	504	-	1,277
Customer deposits	2,624	360	-	-	(973)	2,011
Severance payable	(6,719)	102	15	29	-	(6,573)
Other postemployment benefit obligation	(1,763)	30,778	29,958	5,294	-	64,267
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ (25,716)</u>	<u>\$ 32,960</u>	<u>\$ 51,634</u>	<u>\$ 46,039</u>	<u>\$ 59,960</u>	<u>\$ 164,877</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, 2010

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, 2010.

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, 2010

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

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.

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

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 capital assets or construction of 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.

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.

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 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.

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS December 31, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, \$2,500 in the wastewater enterprise fund; \$5,000 in the refuse removal and recycling enterprise fund, and \$15,000 in the electric enterprise fund were estimated using an average of prior years' accounts written off.
- 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.
- 5) Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances". Outstanding balances between funds are reported as "due to/from other funds".

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

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- 6) Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.
- 7) 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.

- 8) 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.

- 9) 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, a general obligation revenue note, notes payable, severance payable, and other postemployment benefit obligation.

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2010

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.

Long-term debt for governmental funds is not reported as a liability in the fund financial statements. Debt proceeds are reported as other financing sources and payment of principal and interest are reported as expenditures.

- 10) 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, 2010

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	1,747,130	648,101
Certificates of Deposit	1,762,463	107,257
Investments	225,000	-
Total	<u>\$ 3,735,093</u>	<u>\$ 755,358</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 \$3,509,593; the bank balance was \$3,531,152. 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 \$755,358; the bank balance was \$775,358. 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, 2010

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 \$225,000 in Federal Home Loan Banks STEP coupons rated as AAA by Moody's and S & P.

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.

NOTE 3 - LOANS RECEIVABLE

The Mountain Iron EDA is involved in economic development projects. Several businesses were issued revolving loans. The unpaid principal balance on these loans at December 31, 2010 was \$136,993.

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS December 31, 2010

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2010, was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental activities				
Capital assets, not being depreciated:				
Land	\$ 419,590	\$ -	\$ (5,145)	\$ 414,445
Construction in progress	778,415	1,261,311	-	2,039,726
Total capital assets not being depreciated	<u>1,198,005</u>	<u>1,261,311</u>	<u>(5,145)</u>	<u>2,454,171</u>
Capital assets, being depreciated:				
Land improvements	592,745	451,584	(30,000)	1,014,329
Buildings	3,071,402	-	(25,918)	3,045,484
Infrastructure	7,408,107	118,034	-	7,526,141
Machinery and equipment	841,872	-	(27,906)	813,966
Licensed vehicles	2,173,219	-	(133,650)	2,039,569
Total capital assets, being depreciated	<u>14,087,345</u>	<u>569,618</u>	<u>(217,474)</u>	<u>14,439,489</u>
Less accumulated depreciation for:				
Land improvements	(176,381)	(27,242)	12,750	(190,873)
Buildings	(820,213)	(60,578)	11,922	(868,869)
Infrastructure	(3,064,839)	(265,362)	-	(3,330,201)
Machinery and equipment	(304,019)	(48,904)	27,906	(325,017)
Licensed vehicles	(1,755,237)	(95,267)	133,650	(1,716,854)
Total accumulated depreciation	<u>(6,120,689)</u>	<u>(497,353)</u>	<u>186,228</u>	<u>(6,431,814)</u>
Total capital assets, being depreciated, net	<u>7,966,656</u>	<u>72,265</u>	<u>(31,246)</u>	<u>8,007,675</u>
Governmental activities capital assets, net	<u>\$ 9,164,661</u>	<u>\$ 1,333,576</u>	<u>\$ (36,391)</u>	<u>\$ 10,461,846</u>
Business-type activities				
Capital assets, not being depreciated:				
Land	\$ 26,370	\$ -	\$ -	\$ 26,370
Construction in progress	640,969	-	(640,969)	-
Total capital assets not being depreciated	<u>667,339</u>	<u>-</u>	<u>(640,969)</u>	<u>26,370</u>
Capital assets, being depreciated:				
Building	6,650,989	6,800	-	6,657,789
Infrastructure	6,037,115	787,205	-	6,824,320
Machinery and equipment	677,608	13,859	(42,978)	648,489
Licensed vehicles	836,363	-	(21,300)	815,063
Total capital assets, being depreciated	<u>14,202,075</u>	<u>807,864</u>	<u>(64,278)</u>	<u>14,945,661</u>
Less accumulated depreciation for:				
Building	(2,793,061)	(144,618)	-	(2,937,679)
Infrastructure	(4,762,935)	(77,244)	-	(4,840,179)
Machinery and equipment	(594,683)	(19,337)	42,978	(571,042)
Licensed vehicles	(398,968)	(66,487)	21,300	(444,155)
Total accumulated depreciation	<u>(8,549,647)</u>	<u>(307,686)</u>	<u>64,278</u>	<u>(8,793,055)</u>
Total capital assets, being depreciated, net	<u>5,652,428</u>	<u>500,178</u>	<u>-</u>	<u>6,152,606</u>
Business-type activities capital assets, net	<u>\$ 6,319,767</u>	<u>\$ 500,178</u>	<u>\$ (640,969)</u>	<u>\$ 6,178,976</u>

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2010

NOTE 4 - CAPITAL ASSETS (CONTINUED)

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

Governmental activities	
General government	\$ 44,564
Public safety	63,706
Streets	336,029
Culture and recreation	<u>53,054</u>
Total depreciation expense- governmental activities	<u>\$ 497,353</u>
Business-type activities	
Electric	\$ 44,017
Water treatment	74,676
Wastewater treatment	95,125
Refuse removal and recycling	41,052
Mountain Manor Apartments	<u>52,816</u>
Total depreciation expense - business-type activities	<u>\$ 307,686</u>

Discretely presented component unit:

Mountain Iron EDA capital asset activity for the year ended December 31, 2010, is as follows:

	Balance 01/01/10	Additions	Deletions	Balance 12/31/10
Governmental activities				
Capital assets, not being depreciated:				
Land	\$ 2,430,339	\$ 26,500	\$ -	\$ 2,456,839

NOTE 5 - LONG-TERM LIABILITIES

The City issued general obligation bonds and general obligation revenue bonds to finance the construction of major capital facilities and improvements. 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 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 Mountain Iron Housing and Redevelopment Authority entered into a mortgage note with Rural Development (a division of the U.S. Department of Agriculture) for the Mountain Iron Housing for the Elderly project. This note is guaranteed by the City of Mountain Iron, Minnesota. For governmental activities, claims and judgments and severance payable are generally liquidated by the general fund.

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2010

NOTE 5 - LONG-TERM LIABILITIES (CONTINUED)

On October 22, 2010, the \$650,000 General Obligation Water Revenue Bonds of 2002, were repaid with the proceeds of the \$650,000 General Obligation Water Revenue Refunding Bonds, Series 2009A.

Components of long-term liabilities are as follows:

	<u>Issue Date</u>	<u>Interest Rates</u>	<u>Original Issue</u>	<u>Final Maturity</u>	<u>Principal Outstanding</u>
Governmental activities					
General Obligation Bonds					
2005 Refunding	03/08/2005	2.70-4.30%	\$1,645,000	02/01/2020	\$1,300,000
2005 Library Upgrade	08/01/2005	4.125%	\$ 300,000	08/01/2035	279,000
2007 Improvements	09/11/2007	4.0-4.65%	\$1,455,000	02/01/2028	<u>1,295,000</u>
Total General Obligation Bonds					<u>2,874,000</u>
Severance Payable					68,964
Other Postemployment Benefit Obligation					<u>722,585</u>
Governmental activities long-term liabilities					<u>3,665,549</u>
Business-type activities					
Revenue Bonds					
2009 Water Revenue Refunding Bonds	09/01/2009	1.5-4.0%	\$ 650,000	12/01/2022	<u>650,000</u>
Revenue Notes					
2009 PFA Wastewater Revenue Notes	10/20/2009	2.25%	\$ 599,250	08/20/2029	<u>575,000</u>
Notes Payable					
1980 Rural Development	09/04/1980	3.61%	\$ 819,370	090/1/2030	452,033
1981 Rural Development	01/16/1981	3.61%	\$ 320,630	010/1/2031	<u>176,992</u>
Total Notes Payable					<u>629,025</u>
Severance Payable					<u>15,840</u>
Other Postemployment Benefit Obligation					<u>284,474</u>
Business-type activities long-term liabilities					<u>2,154,339</u>
Total Long-Term Liabilities					<u>\$5,819,888</u>

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2010

NOTE 5 - LONG-TERM LIABILITIES (CONTINUED)

Long-term liability activity for the year ended December 31, 2010 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Governmental activities					
Bonds Payable					
2005 GO Refunding	\$ 1,450,000	\$ -	\$ (150,000)	\$ 1,300,000	\$ 155,000
2005 GO Library Upgrade	285,000	-	(6,000)	279,000	6,000
2007 GO Improvement	<u>1,390,000</u>	<u>-</u>	<u>(95,000)</u>	<u>1,295,000</u>	<u>95,000</u>
Total Bonds Payable	3,125,000	-	(251,000)	2,874,000	256,000
2008 Lease Purchase	49,634	-	(49,634)	-	-
2008 Installment Sale	47,982	-	(47,982)	-	-
Severance Payable	54,977	14,157	(170)	68,964	-
Other Postemployment Benefit Obligation	<u>289,562</u>	<u>521,940</u>	<u>(88,917)</u>	<u>722,585</u>	<u>-</u>
Governmental activities - long-term liabilities	<u>\$ 3,567,155</u>	<u>\$ 536,097</u>	<u>\$ (437,703)</u>	<u>\$ 3,665,549</u>	<u>\$ 256,000</u>
Business-type activities					
2009 PFA Wastewater Revenue Notes	\$ -	\$ 599,250	\$ (24,250)	\$ 575,000	\$ 25,000
2009 Water Revenue Refunding Bonds	650,000	-	-	650,000	50,000
2002 Water Revenue Bonds	650,000	-	(650,000)	-	-
1980 Rural Development Notes	458,337	-	(6,304)	452,033	3,623
1981 Rural Development Notes	179,362	-	(2,370)	176,992	1,480
Severance Payable	22,413	1,621	(8,194)	15,840	-
Other Postemployment Benefit Obligation	<u>220,208</u>	<u>122,539</u>	<u>(58,273)</u>	<u>284,474</u>	<u>-</u>
Business-type activities - long-term liabilities	<u>\$ 2,180,320</u>	<u>\$ 723,410</u>	<u>\$ (749,391)</u>	<u>\$ 2,154,339</u>	<u>\$ 80,103</u>

Minimum annual principal and interest payments required to retire long-term liabilities, excluding severance and other postemployment benefit obligation payables 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>
2011	\$ 256,000	\$ 109,915	\$ 83,641	\$ 56,296	\$ 339,641	\$ 166,211
2012	261,000	100,629	83,923	54,775	344,923	155,404
2013	282,000	90,644	85,213	53,247	367,213	143,891
2014	287,000	79,944	85,512	51,387	372,512	131,331
2015	293,000	68,836	86,823	49,520	379,823	118,356
2016-2020	931,000	204,387	454,648	208,916	1,385,648	413,303
2021-2025	264,000	97,396	329,895	134,234	593,895	231,630
2026-2030	221,000	35,711	533,926	93,907	754,926	129,618
2031-2035	<u>79,000</u>	<u>9,983</u>	<u>110,444</u>	<u>821</u>	<u>189,444</u>	<u>10,804</u>
Total	<u>\$ 2,874,000</u>	<u>\$ 797,445</u>	<u>\$ 1,854,025</u>	<u>\$ 703,103</u>	<u>\$ 4,728,025</u>	<u>\$ 1,500,548</u>

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2010

NOTE 5 - LONG-TERM LIABILITIES (CONTINUED)

Conduit Debt

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, 2010 is \$860,000.

In 2002 the Mountain Iron Housing and Redevelopment Authority in and for the City of Mountain Iron issued \$2,075,000 lease revenue bonds to finance construction of a building by Arrowhead Library System and approved the financing plan for the project. The project is located on HRA property. The bonds are special limited obligations of the Authority payable solely from the amounts payable under the lease. The bonds do not constitute a debt of the Authority or the City within the meaning of any constitutional or statutory limitation. The outstanding balance of these bonds at December 31, 2010 is \$1,435,000.

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, 2010 is \$0; \$62,359; and \$233,200, respectively.

NOTE 6 - INTERFUND BALANCES AND ACTIVITY

Due to/from primary government and component unit:

<u>Receivable entity</u>	<u>Payable entity</u>	<u>Amount</u>
Primary government:	Component Unit:	
General Fund	Mountain Iron Economic Development Authority	\$ 67,202

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

CITY OF MOUNTAIN IRON, MINNESOTA

**NOTES TO FINANCIAL STATEMENTS
December 31, 2010**

NOTE 6 - INTERFUND BALANCES AND ACTIVITY (CONTINUED)

Interfund transfers for the year ended December 31, 2010 consisted of the following:

	<u>Transfers in</u>			
	<u>City Projects Capital Projects Fund</u>	<u>Debt Service Fund</u>	<u>Water Treatment Enterprise Fund</u>	<u>Total</u>
Transfers out				
General Fund	\$ 434,599	\$ 350,000	\$ -	\$ 784,599
Debt Service Fund	-	-	67,140	67,140
Electric Utility Enterprise Fund	-	8,973	-	8,973
Water Treatment Enterprise Fund	-	19,788	44,361	64,149
	<u>\$ 434,599</u>	<u>\$ 378,761</u>	<u>\$ 111,501</u>	<u>\$ 924,861</u>

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

NOTE 7 - 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>Mountain Manor Apartments Enterprise Fund</u>	
Restricted by terms of mortgage loan	\$ 106,732
Restricted for tenant security deposits	<u>10,501</u>
Total Restricted	<u>\$ 117,233</u>

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	\$ 910,333
Designated for cash flow	<u>250,000</u>
Total Designated – General Fund	<u>\$ 1,160,333</u>
 <u>Capital Projects Fund</u>	
Designated for capital outlay	<u>\$ 1,904</u>

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS December 31, 2010

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.

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. 13</u>	<u>No. 14</u>
Redevelopment project district established in:	1983	1986	-	-
Economic development district established in:	-	-	2002	2008
Soils district established in:	-	-	-	-
Anticipated last tax increment year:	2010	2011	2011	2017
Original net tax capacity:	\$ <u>3,485</u>	\$ <u>1,828</u>	\$ <u>756</u>	\$ <u>390</u>
Current net tax capacity:	\$ <u>54,273</u>	\$ <u>14,141</u>	\$ <u>3,738</u>	\$ <u>-</u>
Fiscal disparity deduction	\$ <u>-</u>	\$ <u>-</u>	\$ <u>480</u>	\$ <u>-</u>
Captured net tax capacity retained by Authority:	\$ <u>50,788</u>	\$ <u>12,313</u>	\$ <u>2,502</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>
Outstanding bonds at 12/31/10	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2010

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, 2010, 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, 2010. 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 Phase II and III	\$ 676,382	\$ 35,599
Railroad Access Road	\$ 29,533	\$ 88,131
City Garage Addition	\$ 185,490	\$ 123,510

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

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2010

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 2010 was \$24,824. Complete financial information can be obtained from the Tri-Cities Biosolids Disposal Authority, Eveleth, Minnesota 55734.

Biosolids Disposal Authority

The City is also a member in a joint authority agreement with the Cities of Eveleth, Gilbert, and Virginia for the operation of the Biosolids Disposal Site Authority, which owns and manages the Biosolids Site property. Each city appoints one member to the Biosolids Disposal Site Authority which oversees the operations.

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

Each member city contributes to the budget of the Authority based on the per capita reported in the 2000 Census. The City of Mountain Iron's contribution to the Authority's budget during 2010 was \$5,942. Complete financial information can be obtained from the Biosolids Disposal Site Authority, Eveleth, Minnesota 55734.

Quad Cities Joint Recreational Authority

The City is a member in a joint powers agreement with the Cities of Eveleth, Gilbert, and Virginia to cooperatively acquire property, construct a building, maintain the property and building and operate the Quad Cities Joint Recreational Authority. The Authority is governed by nine commissioners; two commissioners are appointed by each member city. One at-large commissioner is appointed by the governing board.

In the event of dissolution and following the payment of all outstanding obligations, assets of the Authority will be distributed between the members in direct proportion to their cumulative annual membership contributions. If those obligations exceed the assets of the Authority, the net deficit of the Authority will be charged to and paid by the then existing members in direct proportion to their cumulative annual membership contributions.

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2010

NOTE 11 - JOINT VENTURES (CONTINUED)

The City of Mountain Iron's contribution to the Authority's budget during 2010 was \$8,148. 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 2010, the City expended \$17,958 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 \$848 for the year ended December 31, 2010.

NOTE 13 - OTHER POSTEMPLOYMENT BENEFITS

The City implemented GASB Statement #45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which 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, 2010

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 contributed to 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>44,894</u>
Annual required contribution	673,057
Adjustment to ARC	<u>(28,578)</u>
Annual OPEB cost (expense)	644,479
Contributions made including implicit rate subsidy	<u>147,191</u>
Increase in net OPEB obligation	497,288
Net OPEB obligation, beginning of year	<u>509,770</u>
Net OPEB obligation, end of year	<u>\$ 1,007,058</u>

Trend Information

The City's annual OPEB cost, the percentage of the annual OPEB cost contributed to the plan, and the net OPEB obligation is as follows:

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2010

NOTE 13 - OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

<u>Year Ended</u>	<u>OPEB Cost</u>	<u>Contribution (ARC)</u>	<u>OPEB Cost Contributed</u>	<u>% of ARC Contributed</u>	<u>OPEB Obligation</u>
12/31/2009	\$ 509,770	\$ 653,290	\$ 143,520	21.2%	\$ 509,770
12/31/2010	\$ 497,288	\$ 644,479	\$ 147,191	22.8%	\$1,007,058

Funded Status and Funding Progress

As of January 1, 2009, the most recent actuarial valuation date, for the period of January 1, 2010 through December 31, 2010, 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, 2010 was \$1,045,883 for a ratio of the UAAL to covered payroll of 740.67%.

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, 2010 is 28 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 General Employees Retirement Fund (GERF) which is a cost-sharing multiple-employer retirement plan. This plan is established and administered in accordance with *Minnesota Statutes*, Chapters 353 and 356.

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2010

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

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

PERA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by state statute, and vest after 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 GERF members hired prior to July 1, 1989 whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 65 for Basic and Coordinated members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for Coordinated members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

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

The benefit provisions stated in the previous paragraphs of this section are current provisions and apply to active plan participants. 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 GERF. That report may be obtained on the Internet at www.mnpera.org, by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088 or by calling 1-651-296-7460 or 1-800-652-9026.

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2010

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. GERS Basic Plan members and Coordinated Plan members were required to contribute 9.10% and 6.0%, respectively, of their annual covered salary in 2010. The City of Mountain Iron, Minnesota, is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan members and 7.0% for Coordinated Plan members. The City's contributions to the Public Employees Retirement Fund for the years ending December 31, 2010, 2009, and 2008 were \$84,117, \$79,895, and \$80,322, 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 plan provisions, including the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes 5 percent of salary which is matched by the elected official's employer. 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 2010 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, 2010**

<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%

CITY OF MOUNTAIN IRON, MINNESOTA

**GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
Year Ended December 31, 2010**

	Budgeted Amounts		Actual Amounts, Budgetary Basis	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 1,335,789	\$ 1,335,789	\$ 1,255,757	\$ (80,032)
Licenses and permits	25,000	25,000	40,671	15,671
Intergovernmental	2,031,268	2,031,268	2,126,010	94,742
Charges for services	145,000	145,000	199,564	54,564
Fines	11,000	11,000	14,847	3,847
Interest	32,000	32,000	21,773	(10,227)
TOTAL REVENUES	<u>3,580,057</u>	<u>3,580,057</u>	<u>3,658,622</u>	<u>78,565</u>
EXPENDITURES				
Current				
General government	1,025,648	1,025,648	975,496	50,152
Public safety	580,500	580,500	686,951	(106,451)
Streets	685,000	685,000	719,761	(34,761)
Culture and recreation	400,500	400,500	386,003	14,497
TOTAL EXPENDITURES	<u>2,691,648</u>	<u>2,691,648</u>	<u>2,768,211</u>	<u>(76,563)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>888,409</u>	<u>888,409</u>	<u>890,411</u>	<u>2,002</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	(788,409)	(788,409)	(784,599)	3,810
Sale of capital assets	-	-	113,243	113,243
TOTAL OTHER FINANCING SOURCES (USES)	<u>(788,409)</u>	<u>(788,409)</u>	<u>(671,356)</u>	<u>117,053</u>
NET CHANGE IN FUND BALANCE	100,000	100,000	219,055	119,055
FUND BALANCE - JANUARY 1	<u>1,160,333</u>	<u>1,160,333</u>	<u>1,160,333</u>	<u>-</u>
FUND BALANCE - DECEMBER 31	<u>\$ 1,260,333</u>	<u>\$ 1,260,333</u>	<u>\$ 1,379,388</u>	<u>\$ 119,055</u>

See notes to required supplementary information.

CITY OF MOUNTAIN IRON, MINNESOTA

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
December 31, 2010**

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, 2010:

General Fund	\$ <u>76,563</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, 2010**

REVENUES

TAXES

General property	\$ 1,189,190
Mineral rents and royalties	42,517
Franchise	<u>24,050</u>
TOTAL TAXES	<u>1,255,757</u>

LICENSES AND PERMITS	<u>40,671</u>
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INTERGOVERNMENTAL

State	
Local government aid	1,156,268
Market value credit	29,948
Taconite production	474,622
Taconite municipal aid	325,252
Mining effects	92,380
PERA aid	4,529
Police aid	33,225
Fire aid	<u>9,786</u>
TOTAL INTERGOVERNMENTAL	<u>2,126,010</u>

CHARGES FOR SERVICES

General government	
Rent	12,992
Other reimbursements	151,788
Culture and recreation	
Recreation fees	5,210
Campground fees	<u>29,574</u>
TOTAL CHARGES FOR SERVICES	<u>199,564</u>

FINES	<u>14,847</u>
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INTEREST	<u>21,773</u>
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TOTAL REVENUES	<u>3,658,622</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, 2010

EXPENDITURES

CURRENT

GENERAL GOVERNMENT

Mayor and council	\$ 24,828
Administration	467,157
Elections	4,254
Assessor	31,470
Retiree's insurance	88,389
Donations and contributions	8,148
Other	117,132
Buildings	205,459
Planning and zoning	28,659

TOTAL GENERAL GOVERNMENT

975,496

PUBLIC SAFETY

Sheriff	500,162
Fire	168,583
Animal control	18,181
Civil defense	25

TOTAL PUBLIC SAFETY

686,951

STREETS

719,761

CULTURE AND RECREATION

Library	139,465
Recreation	204,191
Campgrounds	42,347

TOTAL CULTURE AND RECREATION

386,003

TOTAL EXPENDITURES

2,768,211

**EXCESS OF REVENUES OVER
EXPENDITURES**

890,411

OTHER FINANCING SOURCES (USES)

Transfers out	(784,599)
Sale of capital assets	113,243

TOTAL OTHER FINANCING SOURCES (USES)

(671,356)

NET CHANGE IN FUND BALANCE

219,055

FUND BALANCE - JANUARY 1

1,160,333

FUND BALANCE - DECEMBER 31

\$ 1,379,388

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, 2010**

	<u>Budget</u>	<u>Accounted for in Prior Years</u>	<u>Current Year</u>
SOURCES OF FUNDS			
Tax increment revenue	\$ 2,000,000	\$ 1,506,411	\$ 53,420
Bond proceeds	2,000,000	440,000	-
Loan proceeds EDA General Fund	-	178,385	-
Real estate sales	<u>2,000</u>	<u>1,726</u>	<u>-</u>
TOTAL SOURCES OF FUNDS	<u>4,002,000</u>	<u>2,126,522</u>	<u>53,420</u>
USES OF FUNDS			
Land acquisition	100,000	58,616	-
Site improvements and preparation costs	750,000	713,627	-
Installation of public utilities	150,000	-	-
Streets and sidewalks	100,000	-	-
Bond principal payments	2,000,000	440,000	-
Bond interest payments	400,000	375,448	-
Loan principal payments	-	178,385	-
Administrative costs	200,000	58,919	-
Pooled for debt	<u>302,000</u>	<u>301,527</u>	<u>53,420</u>
TOTAL USES OF FUNDS	<u>4,002,000</u>	<u>2,126,522</u>	<u>53,420</u>
DISTRICT BALANCE	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>

CITY OF MOUNTAIN IRON, MINNESOTA

**SCHEDULE OF SOURCES AND USES OF PUBLIC FUNDS
FOR MOUNTAIN IRON TAX INCREMENT DISTRICT NO. 2
Year Ended December 31, 2010**

	<u>Budget</u>	<u>Accounted for in Prior Years</u>	<u>Current Year</u>
SOURCES OF FUNDS			
Tax increment revenue	\$ 5,566,225	\$ 273,178	\$ 12,323
Bond proceeds	1,905,000	60,000	-
Loan proceeds EDA General Fund	<u>-</u>	<u>169,487</u>	<u>-</u>
TOTAL SOURCES OF FUNDS	<u>7,471,225</u>	<u>502,665</u>	<u>12,323</u>
USES OF FUNDS			
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	-	115,954	12,323
Administrative costs	134,020	9,393	-
Debt service reserve	<u>500,000</u>	<u>-</u>	<u>-</u>
TOTAL USES OF FUNDS	<u>6,051,745</u>	<u>502,665</u>	<u>12,323</u>
DISTRICT BALANCE	<u>\$ 1,419,480</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF MOUNTAIN IRON, MINNESOTA

**SCHEDULE OF SOURCES AND USES OF PUBLIC FUNDS
FOR MOUNTAIN IRON TAX INCREMENT DISTRICT NO. 13
Year Ended December 31, 2010**

	<u>Budget</u>	<u>Accounted for in Prior Years</u>	<u>Current Year</u>
SOURCES OF FUNDS			
Tax increment revenue	\$ 120,900	\$ 15,230	\$ 2,699
Interest	2,000	-	-
Loan proceeds EDA General Fund	<u>-</u>	<u>30,062</u>	<u>-</u>
TOTAL SOURCES OF FUNDS	<u>122,900</u>	<u>45,292</u>	<u>2,699</u>
USES OF FUNDS			
Site improvements and preparation costs	83,000	35,378	-
Installation of public utilities	27,800	-	-
Administrative costs	12,100	5,165	1,005
Loan principal payments	<u>-</u>	<u>4,749</u>	<u>1,694</u>
TOTAL USES OF FUNDS	<u>122,900</u>	<u>45,292</u>	<u>2,699</u>
DISTRICT BALANCE	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF MOUNTAIN IRON, MINNESOTA

**SCHEDULE OF SOURCES AND USES OF PUBLIC FUNDS
FOR MOUNTAIN IRON TAX INCREMENT DISTRICT NO. 14
Year Ended December 31, 2010**

	<u>Budget</u>	<u>Accounted for in Prior Years</u>	<u>Current Year</u>
SOURCES OF FUNDS			
Tax increment revenue	\$ 1,025,590	\$ -	\$ -
Loan proceeds EDA General Fund	<u>-</u>	<u>4,702</u>	<u>-</u>
TOTAL SOURCES OF FUNDS	<u>1,025,590</u>	<u>4,702</u>	<u>-</u>
USES OF FUNDS			
Site improvements and preparation costs	1,025,590	-	-
Administrative costs	<u>-</u>	<u>4,702</u>	<u>-</u>
TOTAL USES OF FUNDS	<u>1,025,590</u>	<u>4,702</u>	<u>-</u>
DISTRICT BALANCE	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>



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

To the City Council
City of Mountain Iron, Minnesota

We have audited the financial statements of the governmental activities, the business-type activities, 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, 2010, which collectively comprise the City of Mountain Iron, Minnesota's basic financial statements and have issued our report thereon dated June 16, 2011. 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 responses, 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 responses as item 2010-2 to be a material weakness.

A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and responses as item 2010-1 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 Political Subdivisions*, 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.

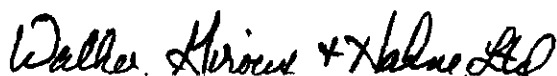
The *Minnesota Legal Compliance Audit Guide for Political Subdivisions* contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions and tax increment financing. 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 16, 2011, included under this cover.

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

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



June 16, 2011

CITY OF MOUNTAIN IRON, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended December 31, 2010

2010-1. 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.

Criteria

The concentration of duties and responsibilities in a limited number of individuals is not desirable from an internal accounting control point of view.

Effect

Because of the weakness in segregation of duties, the City has not provided adequate internal control over its transactions.

Cause

This occurred because of staffing limitations caused by fiscal constraints.

Recommendations

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.

CITY OF MOUNTAIN IRON, MINNESOTA

SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
Year Ended December 31, 2010

2010-2. LACK OF CONTROL OVER FINANCIAL REPORTING PROCESS

Condition and Criteria

As part of the audit, management requested that the auditor prepare a draft of the City's financial statements, including the related notes to financial statements. Management reviewed, approved, and accepted responsibility for those financial statements prior to their issuance; however, management does not possess the technical expertise to comply with governmental accounting standards.

Effect

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

Cause

This occurred because of staffing limitations caused by fiscal constraints.

Recommendations

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

Corrective Action Plan (CAP)

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



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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, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered the City of Mountain Iron, Minnesota's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. 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 16, 2011, contains our report on significant deficiencies or material weaknesses in the City's internal control. This letter does not affect our report dated June 16, 2011, 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:

1. The Water Treatment Enterprise Fund reported an operating loss for the year ended December 31, 2010. We suggest that the City Council review this loss and implement a plan to make the fund profitable and self-sufficient.
2. We recommend that the capital projects fund 301 be used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds). The Governmental Accounting Standards Board does not recommend that routine purchases of equipment be accounted for in a capital projects fund unless the government is legally required to do so.

3. 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.
4. Governmental Accounting Standards Board Statement Number 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, is effective for reporting periods beginning after June 15, 2010. We recommend that the City administration review the new reporting requirements and establish the necessary policies and procedures to comply with the new fund balance classifications.
5. The City and EDA are involved in several projects that have required funding and payments from each entity. As the projects are approved and revised, we recommend that management communicate and clearly outline the accounting details of the projects—funding sources, contracts, City responsibility, EDA responsibility, etc., to provide required accounting information and to properly match revenues and expenditures. We also recommend that a spreadsheet be set up to track the activity by entity in each project file to properly segregate the accounting activity for each entity.

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

Walker, Hirose & Nakne, Ltd

June 16, 2011