CITY OF MOUNTAIN IRON, MINNESOTA

FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
Year Ended December 31, 2007

CITY OF MOUNTAIN IRON, MINNESOTA

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CITY OF MOUNTAIN IRON, MINNESOTA

ORGANIZATION
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CITY COUNCIL

Mayor	Gary Skalko
Council Members	Anthony Zupancich Alan Stanaway Joe Prebeg, Jr. Ed Roskoski

ADMINISTRATION

Administrator	Craig J. Wainio

FINANCIAL SECTION

Walker, Giroux, Hahne

CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

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INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Mountain Iron, Minnesota

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Mountain Iron, Minnesota, as of and for the year ended December 31, 2007, which collectively comprise the basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the City of Mountain Iron, Minnesota's, management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Mountain Manor Apartments Enterprise Fund which represents 8 percent, (3) percent, and 5 percent, respectively, of the assets, net assets, and revenues of the business-type activities. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for Mountain Manor Apartments Enterprise Fund, is based on the report of the other auditors.

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

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Mountain Iron, Minnesota, as of December 31, 2007, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 19, 2008 on our consideration of City of Mountain Iron, Minnesota's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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

Walker, Giroux & Hahne, Ltd.

May 19, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF MOUNTAIN IRON, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2007

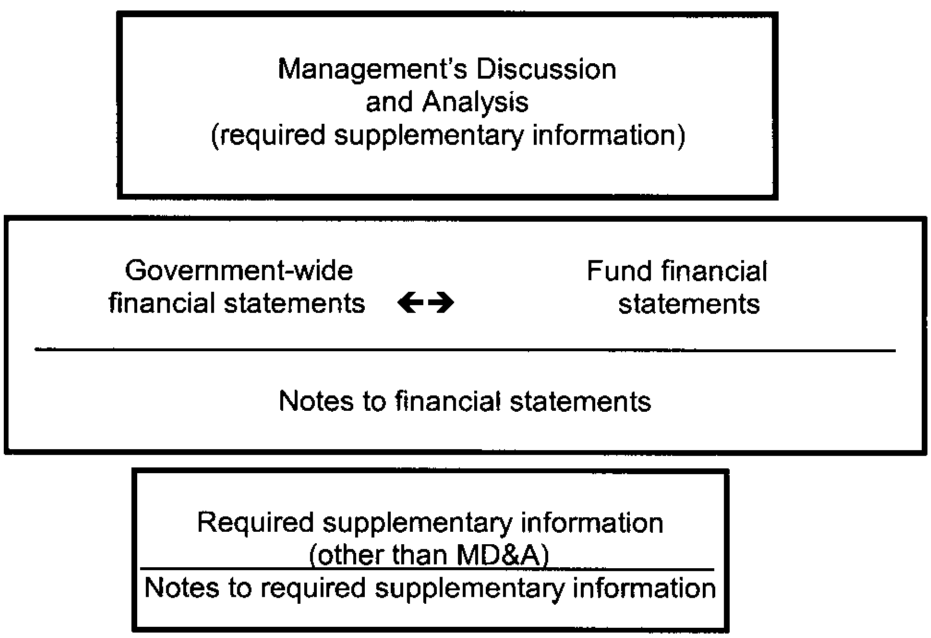
The City of Mountain Iron, Minnesota's management's discussion and analysis provides an overview of the City's financial activities for the year ended December 31, 2007. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the City of Mountain Iron, Minnesota's financial statements.

FINANCIAL HIGHLIGHTS

- Governmental activities' total net assets are $8,191,256, of which $4,062,861 is invested in capital assets, net of related debt.
- Business-type activities has total net assets of $5,239,658. Invested in capital assets, net of related debt represents $3,899,361 of the total.
- The Mountain Iron Economic Development Authority (EDA) has total net assets of $3,138,664, of which $2,447,940 is invested in capital assets, net of related debt.
- The City of Mountain Iron's primary government's net assets increased by $1,345,578 for the year ended December 31, 2007. Of the increase $1,094,852 was an increase in the governmental activities' net assets and $250,726 represented the increase in business-type activities' net assets.
- The EDA's net assets increased by $413,154.
- The net cost of governmental activities was $(2,369,639) for the current fiscal year. The net cost was funded by general revenues and other items totaling $3,464,491.
- Governmental funds' fund balances increased by $369,640.

OVERVIEW OF THE FINANCIAL STATEMENTS

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



There are two government-wide financial statements. The statement of net assets and the statement of activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. The fund financial statements explain how governmental activities were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds.

Government-wide Financial Statements

The statement of net assets and the statement of activities report information about the City as a whole and about its activities in a way that helps the reader determine whether the City's financial condition has improved or declined as a result of the year's activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These government-wide statements report the City's net assets and how they have changed. You can think of the City's net assets — the difference between assets and liabilities—as one way to measure the City's financial health or financial position. Increases or decreases in the City's net assets are one indicator of whether its financial health is improving or deteriorating. However, other nonfinancial factors, such as changes in the City's property tax base and state aid and the condition of City 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.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

The City's combined net assets increased from $12,085,336 to $13,430,914. Looking at the net assets and net expenses of governmental and business-type activities separately, however, two very different stories emerge. Our analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the City's governmental and business-type activities.

Table 1
Net Assets

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2007	2006	2007	2006	2007	2006
Current and other assets	$ 5,105,506	$ 4,728,429	$ 1,750,064	$ 1,373,699	$ 6,855,570	$ 6,102,128
Capital assets	7,657,493	6,350,146	5,271,855	5,299,423	12,929,348	11,649,569
Total assets	12,762,999	11,078,575	7,021,919	6,673,122	19,784,918	17,751,697
Long-term debt outstanding	4,348,158	3,772,683	388,035	1,431,645	4,736,193	5,204,328
Other liabilities	223,585	209,488	1,394,226	252,545	1,617,811	462,033
Total liabilities	4,571,743	3,982,171	1,782,261	1,684,190	6,354,004	5,666,361
Net assets						
Invested in capital assets, net of debt	4,062,861	4,385,727	3,899,361	3,890,638	7,962,222	8,276,365
Restricted	-	-	33,315	29,014	33,315	29,014
Unrestricted	4,128,395	2,710,677	1,306,982	1,069,280	5,435,377	3,779,957
Total net assets	$ 8,191,256	$ 7,096,404	$ 5,239,658	$ 4,988,932	$13,430,914	$12,085,336

Net assets of the City's governmental activities increased by 15.4 percent ($8,191,256 compared to $7,096,404).

Net assets of the City's business-type activities increased by 5.0 percent ($5,239,658 compared to $4,988,932).

CITY OF MOUNTAIN IRON, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2007

Table 2
Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2007	2006	2007	2006	2007	2006
Revenues						
Program revenues:						
Fees, fines, charges and other charges for services	$ 191,369	$ 185,220	$ 2,885,835	$ 2,535,134	$ 3,077,204	$ 2,720,354
Operating grants and contributions	1,226	2,761	17,303	15,567	18,529	18,328
Capital grants and contributions	754,710	369,554	-	-	754,710	369,554
General revenues:						
Property and other taxes	1,143,729	1,203,839	-	-	1,143,729	1,203,839
Intergovernmental	2,008,641	1,986,482	-	-	2,008,641	1,986,482
Other general revenues	347,605	180,993	52,016	39,189	399,621	220,182
Total revenues	4,447,280	3,928,849	2,955,154	2,589,890	7,402,434	6,518,739
Program expenses:						
General government	1,087,469	949,405	-	-	1,087,469	949,405
Public safety	674,813	593,961	-	-	674,813	593,961
Streets	881,716	843,326	-	-	881,716	843,326
Culture and recreation	373,778	407,129	-	-	373,778	407,129
Economic development	146,238	150,605	-	-	146,238	150,605
Interest	152,930	165,076	-	-	152,930	165,076
Electric	-	-	1,613,600	1,362,445	1,613,600	1,362,445
Water	-	-	301,758	327,285	301,758	327,285
Wastewater	-	-	354,531	324,034	354,531	324,034
Refuse removal	-	-	374,373	341,756	374,373	341,756
Mountain Manor Apartments	-	-	167,795	155,243	167,795	155,243
Total program expenses	3,316,944	3,109,502	2,812,057	2,510,763	6,129,001	5,620,265
Increase in net assets before extraordinary item and transfers	1,130,336	819,347	143,097	79,127	1,273,433	898,474
Extraordinary item – Fire damage	-	-	72,145	-	72,145	-
Transfers	(35,484)	(40,298)	35,484	40,298	-	-
Increase in net assets	$ 1,094,852	$ 779,049	$ 250,726	$ 119,425	$ 1,345,578	$ 898,474

Governmental Activities

The cost of all governmental activities this year was $3,136,944. As shown in the Statement of Activities, some of the cost was paid by those who directly benefited from the programs ($191,369) or by other governments and organizations that subsidized certain programs with grants and contributions ($2,955,946). Our taxpayers financed $1,143,729 of the cost through property and other taxes.

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

Table 3
Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2007	2006	2007	2006
General government	$1,087,469	$ 949,405	$ 190,858	$ 437,064
Streets	881,716	843,326	881,207	843,326
Public Safety	674,813	593,961	673,657	593,961
Culture and recreation	373,778	407,129	324,749	361,935
Economic development	146,238	150,605	146,238	150,605
Others	152,930	165,076	152,930	165,076
Totals	$3,136,944	$3,109,502	$2,369,639	$2,551,967

Business-Type Activities

Revenues and transfers in of the City's business-type activities were $2,921,319 and expenses were $2,812,057, (see Table 2). There was a change in net assets of $250,726 during the year ended December 31, 2007, which compares to a change in net assets of $119,425 for the year ended December 31, 2006. Operations produced a $132,330 increase for the year ended December 31, 2007 driving these results.

Mountain Iron EDA Component Unit Activity

The Mountain Iron EDA had a net increase in net assets of $413,154 for the year ended December 31, 2007. Net program revenues over expenses were $15,415. General revenues of interest earnings and sales of capital assets were $397,739.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As the City completed the year, its governmental funds reported a combined fund balance of $4,710,946 which is above last year's total of $4,341,306. Included in this year's total fund balance is a surplus of $1,451,334 in the City's general fund. The general fund had an increase of $22,535 due to revenues exceeding expenditures. The Debt Service Fund recorded a decrease of $692,787 in fund balance due to bonds paid off in 2007. The City Projects Capital Projects Fund's fund balance increased by $541,790 due to transfers from the general fund for capital projects.

GENERAL FUND BUDGETARY HIGHLIGHTS

The original budget was not amended in 2007; therefore, there is no change in the final budget presented in the schedule of revenues, expenditures and changes in fund balance - budget and actual for the general fund. The actual charges to appropriations (expenditures) were $254,924 over the final budget amounts. The most significant negative variance ($141,359) occurred in the City general government program. On the other hand, resources available for appropriation were $208,753 above the final budgeted amounts. The City received more intergovernmental aids than expected.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2007, the City's primary government had $12,929,348 invested in a broad range of capital assets (net of accumulated depreciation), including land, land improvements, infrastructure, buildings, equipment and vehicles. (See Table 4 below.) This amount represents a net increase (including additions and deductions) of $1,279,779 over last year. The Mountain Iron Economic Development Authority component unit had $2,447,940 invested in capital assets, which consisted of land. There was no change in capital assets for Mountain Iron Economic Development Authority.

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

	Governmental Activities		Business-Type Activities		Totals	
	2007	2006	2007	2006	2007	2006
Land	$ 472,735	$ 508,675	$ 26,370	$ 26,370	$ 499,105	$ 535,045
Construction in progress	1,718,899	1,196,604	30,378	-	1,749,277	1,196,604
Land improvements	733,309	177,687	-	-	733,309	177,687
Buildings	1,668,482	1,679,290	4,035,285	4,076,087	5,703,767	5,755,377
Infrastructure	2,369,906	2,033,211	873,196	958,716	3,243,102	2,991,927
Machinery and equipment	243,761	274,612	79,286	72,043	323,047	346,655
Licensed vehicles	450,401	480,067	227,340	166,207	677,741	646,274
Totals	$ 7,657,493	$ 6,350,146	$ 5,271,855	$ 5,299,423	$ 12,929,348	$ 11,649,569
EDA Land	$ 2,447,940	$ 2,447,940	$ -	$ -	$ 2,447,940	$ 2,477,940

This year's major additions included Unity Second Addition, street construction and overlay, library renovations, and five licensed vehicles.

Debt

At year-end, the City had $5,742,384 in long-term debt outstanding for the primary government versus $5,204,328 last year—as shown in Table 5. The Mountain Iron EDA component unit had no long-term debt outstanding in tax increment refunding bonds versus $140,000 last year--as shown in Table 5.

Table 5
Outstanding Debt, at Year-end

	Governmental Activities		Business-Type Activities		Totals	
	2007	2006	2007	2006	2007	2006
General obligation bonds (backed by the City)	$ 2,650,000	$ 2,080,000	$ -	$ -	$ 2,650,000	$ 2,080,000
Refunding bonds	1,645,000	1,645,000	-	-	1,645,000	1,645,000
Notes payable	-	-	652,494	658,785	652,494	658,785
Water revenue bonds	-	-	720,000	750,000	720,000	750,000
Severance payable	53,158	47,683	21,732	22,860	74,890	70,543
Total	$ 4,348,158	$ 3,772,683	$ 1,394,226	$ 1,431,645	$ 5,742,384	$ 5,204,328
EDA	$ -	$ 140,000	$ -	$ -	$ -	$ 140,000

The State limits the amount of net debt that the City can issue to 2 percent of the market value of all taxable property in the City. The City's outstanding qualifying net debt of $1,090,000 is significantly below this $2,838,350 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 2008 budget, tax rates, and fees that will be charged for the business-type activities.

- City General Fund expenditures increased 6.3% or $189,629 over 2007.
- City's property taxes increased 2.0% or $19,235 over 2007.
- The development of Unity Second Addition and Park Ridge Development will have a great impact on property tax revenues for the City.

The City's 2008 capital budget calls for it to spend another $1,739,100 for Unity Second Addition various street upgrades, park upgrades and new equipment.

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

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

BASIC FINANCIAL STATEMENTS

CITY OF MOUNTAIN IRON, MINNESOTA

STATEMENT OF NET ASSETS
December 31, 2007

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	EDA
ASSETS				
Cash and cash equivalents	$ 3,822,230	$ 1,223,270	$ 5,045,500	$ 610,789
Taxes receivable	36,062	-	36,062	-
Special assessments receivable	201,928	-	201,928	-
Accounts receivable	-	386,968	386,968	-
Interest receivable	2,045	-	2,045	-
Grants receivable	148,670	-	148,670	-
Due from component unit	11,021	-	11,021	-
Due from other governments	24,470	-	24,470	-
Loans receivable	-	-	-	90,956
Inventories	-	93,980	93,980	-
Prepaid items	85,055	2,196	87,251	-
Deferred debt issue and marketing costs	73,657	-	73,657	-
Restricted assets:				
Temporarily restricted cash and cash equivalents	700,368	43,650	744,018	-
Capital assets not being depreciated:				
Land	472,735	26,370	499,105	2,447,940
Construction in progress	1,718,899	30,378	1,749,277	-
Capital assets net of accumulated depreciation:				
Land improvements	733,309	-	733,309	-
Buildings	1,668,482	4,035,285	5,703,767	-
Infrastructure	2,369,906	873,196	3,243,102	-
Machinery and equipment	243,761	79,286	323,047	-
Licensed vehicles	450,401	227,340	677,741	-
TOTAL ASSETS	12,762,999	7,021,919	19,784,918	3,149,685
LIABILITIES				
Accounts payable	100,359	290,742	391,101	-
Salaries payable	35,691	17,361	53,052	-
Accrued interest payable	80,635	4,817	85,452	-
Due to primary government	-	-	-	11,021
Customer deposits	6,900	75,115	82,015	-
Noncurrent liabilities				
Due within one year	130,000	40,103	170,103	-
Due in more than one year	4,218,158	1,354,123	5,572,281	-
TOTAL LIABILITIES	4,571,743	1,782,261	6,354,004	11,021
NET ASSETS				
Invested in capital assets, net of related debt	4,062,861	3,899,361	7,962,222	2,447,940
Restricted for:				
Other purposes	-	33,315	33,315	-
Unrestricted	4,128,395	1,306,982	5,435,377	690,724
TOTAL NET ASSETS	$ 8,191,256	$ 5,239,658	$ 13,430,914	$ 3,138,664

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

CITY OF MOUNTAIN IRON, MINNESOTA

STATEMENT OF ACTIVITIES
Year Ended December 31, 2007

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions
PRIMARY GOVERNMENT			
Governmental Activities			
General government	$ 1,087,469	$ 140,675	$ 1,226
Public safety	674,813	1,156	-
Streets	881,716	509	-
Culture and recreation	373,778	49,029	-
Economic development	146,238	-	-
Interest on long-term debt	152,930	-	-
Total Governmental Activities	3,316,944	191,369	1,226
Business-type Activities			
Electric	1,613,600	1,756,326	-
Water treatment	301,758	251,548	-
Wastewater treatment	354,531	342,082	-
Refuse removal and recycling	374,373	373,943	-
Mountain Manor Apartments	167,795	161,936	17,303
Total Business-type Activities	2,812,057	2,885,835	17,303
TOTAL PRIMARY GOVERNMENT	$ 6,129,001	$ 3,077,204	$ 18,529
Component Unit			
EDA	$ 171,680	$ 500	$ 186,595

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
Special Items
Gain on sale of capital assets
Extraordinary item - fire damage
Transfers

Total General Revenues, Special Items, 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			
	Primary Government			Component Unit
Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	EDA
$ 754,710	$ (190,858)	$ -	$ (190,858)	
-	(673,657)	-	(673,657)	
-	(881,207)	-	(881,207)	
-	(324,749)	-	(324,749)	
-	(146,238)	-	(146,238)	
-	(152,930)	-	(152,930)	
754,710	(2,369,639)	-	(2,369,639)	
-	-	142,726	142,726	
-	-	(50,210)	(50,210)	
-	-	(12,449)	(12,449)	
-	-	(430)	(430)	
-	-	11,444	11,444	
-	-	91,081	91,081	
$ 754,710	(2,369,639)	91,081	(2,278,558)	
$ -				15,415
	957,530	-	957,530	-
	146,238	-	146,238	-
	23,207	-	23,207	-
	16,754	-	16,754	-
	2,008,641	-	2,008,641	-
	173,207	47,722	220,929	9,739
	-	4,294	4,294	-
	174,398	-	174,398	388,000
	-	72,145	72,145	-
	(35,484)	35,484	-	-
	3,464,491	159,645	3,624,136	397,739
	1,094,852	250,726	1,345,578	413,154
	7,096,404	4,988,932	12,085,336	2,725,510
	$ 8,191,256	$ 5,239,658	$ 13,430,914	$ 3,138,664

CITY OF MOUNTAIN IRON, MINNESOTA

BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2007

	General Fund	Debt Service Fund	City Projects Capital Projects Fund	Unity 2nd Addition/Street Construction Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash and cash equivalents	$ 1,430,985	$ 1,452,075	$ 754,833	$ 179,235	$ 5,102	$ 3,822,230
Taxes receivable	36,062	-	-	-	-	36,062
Special assessments receivable	140	187,967	13,821	-	-	201,928
Interest receivable	1,309	-	736	-	-	2,045
Grants receivable	-	-	148,670	-	-	148,670
Due from component unit	9,829	1,192	-	-	-	11,021
Due from other governments	24,470	-	-	-	-	24,470
Prepaid items	85,055	-	-	-	-	85,055
Cash - restricted	-	-	-	700,368	-	700,368
TOTAL ASSETS	$ 1,587,850	$ 1,641,234	$ 918,060	$ 879,603	$ 5,102	$ 5,031,849
LIABILITIES AND FUND BALANCES						
LIABILITIES						
Accounts payable	$ 64,623	$ -	$ 42,636	$ -	$ -	$ 107,259
Salaries payable	35,691	-	-	-	-	35,691
Deferred revenue	36,202	131,988	9,763	-	-	177,953
TOTAL LIABILITIES	136,516	131,988	52,399	-	-	320,903
FUND BALANCES						
Unreserved, designated	1,428,799	-	1,904	-	-	1,430,703
Unreserved, undesignated, reported in						
General Fund	22,535	-	-		-	22,535
Special revenue funds	-	-	-	-	5,102	5,102
Debt service fund	-	1,509,246	-			1,509,246
Capital projects funds	-	-	863,757	879,603	-	1,743,360
TOTAL FUND BALANCES	1,451,334	1,509,246	865,661	879,603	5,102	4,710,946
TOTAL LIABILITIES AND FUND BALANCES	$ 1,587,850	$ 1,641,234	$ 918,060	$ 879,603	$ 5,102	$ 5,031,849

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, 2007

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

TOTAL FUND BALANCES, GOVERNMENTAL FUNDS	$ 4,710,946
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.	7,657,493
Deferred revenue in governmental funds is susceptible to full accrual on the government-wide statements.	177,953
Interest payable on long-term debt is susceptible to full accrual on the government-wide statements.	(80,635)
Unamortized bond issuance costs are susceptible to full accrual on the government-wide statements.	73,657
Long-term liabilities, including bonds payable are not due and payable in the current period and therefore not reported in the governmental funds.	(4,348,158)
NET ASSETS OF GOVERNMENTAL ACTIVITIES	$ 8,191,256

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, 2007

	General Fund	Debt Service Fund	City Projects Capital Projects Fund	Unity 2nd Addition/Street Construction Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
REVENUES						
Taxes	$ 1,135,345	$ -	$ -	$ -	$ -	$ 1,135,345
Special assessments	-	55,364	1,318	-	-	56,682
Licenses and permits	27,842	-	-	-	-	27,842
Intergovernmental	2,008,641	-	741,209	-	-	2,749,850
Charges for services	149,661	-	-	-	-	149,661
Fines	13,865	-	-	-	-	13,865
Gifts and contributions	-	-	-	-	1,226	1,226
Investment earnings	49,977	89,486	10,509	11,870	11,365	173,207
TOTAL REVENUES	3,385,331	144,850	753,036	11,870	12,591	4,307,678
EXPENDITURES						
Current						
General government	990,579	-	-	-	3,033	993,612
Public safety	555,461	-	-	-	-	555,461
Streets	698,724	-	-	-	-	698,724
Culture and recreation	347,142	-	-	-	-	347,142
Economic development	146,238	-	-	-	-	146,238
Debt Service						
Principal	-	885,000	-	-	-	885,000
Interest and other charges	-	144,027	-	1,023	-	145,050
Bond issuance costs	-	-	-	36,014	-	36,014
Capital Outlay						
General government	-	-	43,384	-	-	43,384
Public safety	-	-	90,203	-	-	90,203
Streets	-	-	305,413	717,595	391,059	1,414,067
Culture and recreation	-	-	212,997	-	-	212,997
TOTAL EXPENDITURES	2,738,144	1,029,027	651,997	754,632	394,092	5,567,892
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	647,187	(884,177)	101,039	(742,762)	(381,501)	(1,260,214)
OTHER FINANCING SOURCES (USES)						
Transfers in	-	191,390	461,871	-	-	653,261
Transfers out	(667,625)	-	(21,120)	-	-	(688,745)
Improvement bonds issued	-	-	-	1,455,000	-	1,455,000
Sale of capital assets	42,973	-	-	167,365	-	210,338
TOTAL OTHER FINANCING SOURCES (USES)	(624,652)	191,390	440,751	1,622,365	-	1,629,854
NET CHANGE IN FUND BALANCES	22,535	(692,787)	541,790	879,603	(381,501)	369,640
FUND BALANCES - JANUARY 1	1,428,799	2,202,033	323,871	-	386,603	4,341,306
FUND BALANCES - DECEMBER 31	$ 1,451,334	$ 1,509,246	$ 865,661	$ 879,603	$ 5,102	$ 4,710,946

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, 2007

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

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS		$ 369,640
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	1,667,896	
Less current year depreciation	(324,609)	
Net capital assets		1,343,287
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.		(35,940)
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	8,384	
Change in deferred revenue - special assessments	(43,181)	
		(34,797)
Governmental funds report bond proceeds as current financial resources; in contrast, the statement of activities treats such issuance of debt as a liability. Govermental funds report repayment of bond principal as an expenditure; in contrast, the statement of activities treats such repayments as a reduction in long-term liabilities. This is the amount by which proceeds exceeded the repayments.		(570,000)
Governmental funds report bond discounts and issuance costs as expenditures; however, in the statement of activities, these costs are amortized over the life of the corresponding debt.		32,353
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Change in accrued interest payable on long-term debt	(4,217)	
Change in long-term compensated absences	(5,474)	
		(9,691)
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES		$ 1,094,852

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

CITY OF MOUNTAIN IRON, MINNESOTA

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
December 31, 2007

	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	$ 469,310	$ 216,374	$ 191,499	$ 310,919	$ 35,168	$ 1,223,270
Accounts receivable	262,533	33,633	39,487	51,301	14	386,968
Inventories	86,736	7,244	-	-	-	93,980
Prepaid items	-	-	-	-	2,196	2,196
TOTAL CURRENT ASSETS	818,579	257,251	230,986	362,220	37,378	1,706,414
NONCURRENT ASSETS						
Restricted cash and cash equivalents						
Reserve account	-	-	-	-	33,315	33,315
Tenant security deposits	-	-	-	-	10,335	10,335
Total restricted cash and cash equivalents	-	-	-	-	43,650	43,650
Capital assets						
Land	18,034	-	-	-	8,336	26,370
Construction in progress	30,378	-	-	-	-	30,378
Buildings	308,167	2,190,764	2,718,281	12,761	1,314,978	6,544,951
Infrastructure	546,603	2,340,805	2,556,009	-	-	5,443,417
Machinery and equipment	-	103,249	368,312	-	239,412	710,973
Licensed vehicles	260,547	-	20,546	379,816	-	660,909
Less accumulated depreciation	(711,833)	(2,719,534)	(3,451,069)	(257,997)	(1,004,710)	(8,145,143)
Total capital assets (net of accumulated depreciation)	451,896	1,915,284	2,212,079	134,580	558,016	5,271,855
TOTAL NONCURRENT ASSETS	451,896	1,915,284	2,212,079	134,580	601,666	5,315,505
TOTAL ASSETS	1,270,475	2,172,535	2,443,065	496,800	639,044	7,021,919
LIABILITIES						
CURRENT LIABILITIES						
Accounts payable	249,820	4,004	13,404	13,863	9,651	290,742
Salaries payable	12,457	3,260	997	647	-	17,361
Accrued interest payable	-	2,980	-	-	1,837	4,817
Customer deposits payable	65,841	300	-	-	8,974	75,115
Bonds and notes payable - current	-	35,000	-	-	5,103	40,103
TOTAL CURRENT LIABILITIES	328,118	45,544	14,401	14,510	25,565	428,138
NONCURRENT LIABILITIES						
Severance payable	17,901	1,752	693	1,386	-	21,732
Bonds and notes payable	-	685,000	-	-	647,391	1,332,391
TOTAL NONCURRENT LIABILITIES	17,901	686,752	693	1,386	647,391	1,354,123
TOTAL LIABILITIES	346,019	732,296	15,094	15,896	672,956	1,782,261
NET ASSETS						
Invested in capital assets, net of related debt	451,896	1,195,284	2,212,079	134,580	(94,478)	3,899,361
Restricted for other purposes	-	-	-	-	33,315	33,315
Unrestricted	472,560	244,955	215,892	346,324	27,251	1,306,982
TOTAL NET ASSETS	$ 924,456	$ 1,440,239	$ 2,427,971	$ 480,904	$ (33,912)	$ 5,239,658

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, 2007

	Business-type Activities - Enterprise Funds					
	Electric Enterprise Fund	Water Treatment Enterprise Fund	Wastewater Treatment Enterprise Fund	Refuse Removal and Recycling Enterprise Fund	Mountain Manor Apartments Enterprise Fund	Totals
REVENUES						
Charges for sales and services	$ 1,756,326	$ 251,548	$ 342,082	$ 373,943	$ 161,936	$ 2,885,835
OPERATING EXPENSES						
Cost of sales	1,108,965	-	-	-	-	1,108,965
Salaries	234,584	76,211	63,365	94,052	30,180	498,392
Employee benefits	96,036	27,556	22,068	43,216	2,309	191,185
Contract services	-	-	34,188	-	33,587	67,775
Insurance	14,728	6,872	4,315	8,156	8,564	42,635
Miscellaneous	24,420	8,557	17,868	13,323	2,398	66,566
Repairs and maintenance	91,943	28,990	13,586	24,148	13,122	171,789
Solid waste management and tipping fees	-	-	-	130,122	-	130,122
Supplies	21,195	8,367	15,748	24,394	1,730	71,434
Telephone	3,027	321	2,650	1,091	2,482	9,571
Utilities	-	29,187	74,072	-	15,015	118,274
Depreciation	18,702	79,503	106,671	35,871	36,050	276,797
TOTAL OPERATING EXPENSES	1,613,600	265,564	354,531	374,373	145,437	2,753,505
OPERATING INCOME (LOSS)	142,726	(14,016)	(12,449)	(430)	16,499	132,330
NONOPERATING REVENUES (EXPENSES)						
Contributions from EDA	-	-	-	-	17,303	17,303
Interest income	15,668	5,640	8,368	16,321	1,725	47,722
Miscellaneous	-	-	-	-	4,294	4,294
Interest expense	-	(36,194)	-	-	(22,358)	(58,552)
TOTAL NONOPERATING REVENUES (EXPENSES)	15,668	(30,554)	8,368	16,321	964	10,767
INCOME (LOSS) BEFORE TRANSFERS AND EXTRAORDINARY GAIN	158,394	(44,570)	(4,081)	15,891	17,463	143,097
Transfers in	-	46,727	-	-	21,120	67,847
Transfers out	(32,363)	-	-	-	-	(32,363)
Extraordinary gain - fire damage	-	-	-	-	72,145	72,145
CHANGE IN NET ASSETS	126,031	2,157	(4,081)	15,891	110,728	250,726
TOTAL NET ASSETS - JANUARY 1	798,425	1,438,082	2,432,052	465,013	(144,640)	4,988,932
TOTAL NET ASSETS - DECEMBER 31	$ 924,456	$ 1,440,239	$ 2,427,971	$ 480,904	$ (33,912)	$ 5,239,658

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

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended December 31, 2007

	Business-type Activities - Enterprise Funds					
	Electric Enterprise Fund	Water Treatment Enterprise Fund	Wastewater Treatment Enterprise Fund	Refuse Removal and Recycling Enterprise Fund	Mountain Manor Apartments Enterprise Fund	Totals
CASH FLOWS FROM OPERATING ACTIVITIES						
Cash received from customers	$ 1,702,467	$ 249,803	$ 339,918	$ 368,564	$ 164,537	$ 2,825,289
Cash paid to suppliers	(1,252,592)	(103,268)	(178,807)	(241,118)	(76,729)	(1,852,514)
Cash paid to employees	(234,675)	(75,662)	(62,613)	(93,896)	(30,180)	(497,026)
NET CASH PROVIDED BY OPERATING ACTIVITIES	215,200	70,873	98,498	33,550	57,628	475,749
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Transfers in from other funds	-	46,727	-	-	21,120	67,847
Transfers out to other funds	(32,363)	-	-	-	-	(32,363)
Contributions	-	-	-		17,303	17,303
Miscellaneous	-	-	-	-	4,294	4,294
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	(32,363)	46,727	-	-	42,717	57,081
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Purchase or construction of fixed assets	(110,825)	-	(26,155)	-	(112,250)	(249,230)
Insurance recovery - fire damage	-	-	-	-	72,145	72,145
Principal paid on long-term debt	-	(30,000)	-	-	(6,290)	(36,290)
Interest paid on long-term debt	-	(36,233)	-	-	(22,414)	(58,647)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(110,825)	(66,233)	(26,155)	-	(68,809)	(272,022)
CASH FLOWS FROM INVESTING ACTIVITIES						
Interest and dividends received	16,440	6,915	8,368	16,770	1,725	50,218
NET INCREASE IN CASH AND CASH EQUIVALENTS	88,452	58,282	80,711	50,320	33,261	311,026
CASH AND CASH EQUIVALENTS, JANUARY 1 (including $36,598 in restricted accounts)	380,858	158,092	110,788	260,599	45,557	955,894
CASH AND CASH EQUIVALENTS, DECEMBER 31 (including $43,650 in restricted accounts)	$ 469,310	$ 216,374	$ 191,499	$ 310,919	$ 78,818	$ 1,266,920
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES						
Operating income (loss)	$ 142,726	$ (14,016)	$ (12,449)	$ (430)	$ 16,499	$ 132,330
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:						
Depreciation	18,702	79,503	106,671	35,871	36,050	276,797
Changes in assets and liabilities						
(Increase) decrease in:						
Accounts receivable	(61,502)	(1,850)	(2,164)	(5,379)	147	(70,748)
Inventories	(3,129)	7,576	-	-	-	4,447
Prepaid items	-	-	-	-	(1,534)	(1,534)
Increase (decrease) in:						
Accounts payable	110,851	(994)	5,688	3,332	4,012	122,889
Salaries payable	1,530	116	732	116	-	2,494
Customer deposits	7,643	105	-	-	2,454	10,202
Severance payable	(1,621)	433	20	40	-	(1,128)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	$ 215,200	$ 70,873	$ 98,498	$ 33,550	$ 57,628	$ 475,749

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

NOTES TO FINANCIAL STATEMENTS

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, 2007.

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:

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

Discretely Presented Component Units

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

The component unit that is discretely presented is as follows:

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

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

B. Basic Financial Statements

Government-wide Financial Statements

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

Governmental Funds

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

Major Governmental Funds:

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

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

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

Nonmajor Governmental Funds:

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

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

Proprietary Funds

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Major Proprietary Funds:

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

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

The Wastewater Treatment Enterprise Fund is used to account for revenues generated from the charges for wastewater treatment services provided to the residential and commercial users of the City.

The Refuse Removal and Recycling Enterprise Fund is used to account for revenues generated from the charges for refuse removal and recycling services provided to the residential and commercial users of the City.

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

C. Measurement Focus and Basis of Accounting

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

The government-wide statements and fund financial statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net assets and the operating statements present increases (revenues) and decreases (expenses) in net total assets. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized at the time the liability is incurred. Property taxes are generally recognized as revenues in the fiscal year for which they are levied. Grants and similar items are recognized when all requirements imposed by the provider have been met.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed. Depreciation expense can be specifically identified by program and is included in the direct expenses of each program. Interest on long-term debt is considered an indirect expense and is reported separately on the Statement of Activities. Generally, the effect of material interfund activity has been removed from the government-wide financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

accrual (i.e., when they become both "measurable and available"). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers property taxes as available if they are collected within 60 days after year end. Grant revenue is recorded in the year in which the related expenditure is made. Other revenue is considered available if collected within one year. Expenditures are generally recorded when a liability is incurred. However, expenditures are recorded as prepaid for approved disbursements incurred in advance of the year in which the item or service is to be used and debt service expenditures, as well as expenditures related to severance payable and claims and judgments, are recorded only when payment is due.

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

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

D. Cash and Cash Equivalents

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

E. Assets, Liabilities and Fund Balances

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

2) The enterprise funds report accounts receivable net of uncollectible accounts. The allowance amounts of $1,500 in the water enterprise fund, $2,000 in the wastewater enterprise fund; $5,000 in the refuse removal and recycling enterprise fund, and $10,000 in the electric enterprise fund were estimated using an average of prior years accounts written off.

3) The City has no significant inventories in the General Fund and records supplies and materials as expenditures when purchased. Enterprise Funds' inventories are valued at cost, on a first-in, first-out (FIFO) basis, and the cost of these inventories are recorded as expenditures when consumed rather than when purchased.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4) Restricted assets are cash and cash equivalents whose use is limited by legal requirements. Restricted assets are reported only in the government-wide and proprietary fund financial statements.

5) Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances”.

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

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

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

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

7) Delinquent property taxes receivable, less any delinquent taxes that are to be received within 60 days, are recorded as a deferred revenue in the fund financial statements because they are not available to finance the current year operations of the City. Deferred revenue reported in the debt service fund and city projects capital projects fund represents special assessments receivable.

8) In the government-wide financial statements and proprietary fund-type financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs, if material, are reported as deferred charges and amortized over the term of the related debt. The long-term debt consists primarily of general obligation bonds payable, revenue bonds, notes payable, and severance payable.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

9) Net assets represent the difference between assets and liabilities in the government-wide financial statements. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net assets are reported as restricted in the government-wide financial statement when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

   In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

F. Revenues and Expenditures

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

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

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

NOTE 2 - CASH, CASH EQUIVALENTS AND INVESTMENTS

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

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

	Primary Government	Component Unit EDA
Petty Cash	$ 500	$ -
Cash	2,460,979	610,789
Certificates of Deposit	2,356,651	-
Investments	971,388	-
Total	$ 5,789,518	$ 610,789

Deposits

Custodial Credit Risk – Deposits

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

The City maintains deposits at financial institutions authorized by the City Council. Minnesota statutes require that all City deposits be protected by insurance, surety bond or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance or bonds. State statutes authorize the types of securities which may be pledged as collateral and require that those securities be held in safekeeping by the City or in a financial institution other than that furnishing the collateral. At year-end, the carrying amount of the City's deposits, which includes certificates of deposit, was $4,817,630; the bank balance was $4,948,249. At year end, the City's bank balances were entirely insured, or collateralized with securities held by the pledging financial institution's agent in the City's name as required by Minnesota Statute §118A.03. At year-end, the carrying amount of the Mountain Iron EDA's deposits, which includes cash, was $610,789; the bank balance was $640,919. At year-end, the Mountain Iron EDA's bank balances were entirely insured or collateralized with securities held by the pledging financial institution's agent in the Mountain Iron EDA's name as required by Minnesota Statute §118A.03.

Investments

Custodial Credit Risk – Investments

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

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

Credit Risk and Concentration of Credit Risk

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

The City's investments as of December 31, 2007, consist of:

		Maturity		
Investment Type	Fair Value	Less than 2 years	2 – 5 Years	More than 5 Years
FNMA Government Securities	$ 820,865	$ 820,865	$ -	$ -
Federal Farm Credit Banks Consolidated Systemwide Bonds	50,515	-	50,515	-
Federal Home Loan Mortgage Corp. Medium Term Notes	100,008	-	100,008	-
Total investments	$ 971,388	$ 820,865	$ 150,523	$ -

Interest Rate Risk

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

NOTE 3 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2007, was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental activities				
Capital assets, not being depreciated:				
Land	$ 508,675	$ -	$ (35,940)	$ 472,735
Construction in progress	1,196,604	1,135,287	(612,992)	1,718,899
Total capital assets not being depreciated	1,705,279	1,135,287	(648,932)	2,191,634
Capital assets, being depreciated:				
Land improvements	302,577	568,472	-	871,049
Buildings	2,344,127	35,007	-	2,379,134
Infrastructure	4,626,242	466,476	-	5,092,718
Machinery and equipment	536,379	-	-	536,379
Licensed vehicles	2,056,090	75,646	(74,996)	2,056,740
Total capital assets, being depreciated	9,865,415	1,145,601	(74,996)	10,936,020
Less accumulated depreciation for:				
Land improvements	(124,890)	(12,850)	-	(137,740)
Buildings	(664,837)	(45,815)	-	(710,652)
Infrastructure	(2,593,031)	(129,781)	-	(2,722,812)
Machinery and equipment	(261,767)	(30,851)	-	(292,618)
Licensed vehicles	(1,576,023)	(105,312)	74,996	(1,606,339)
Total accumulated depreciation	(5,220,548)	(324,609)	74,996	(5,470,161)
Total capital assets, being depreciated, net	4,644,867	820,992	-	5,465,859
Governmental activities capital assets, net	$ 6,350,146	$ 1,956,279	$ (648,932)	$ 7,657,493
Business-type activities				
Capital assets, not being depreciated:				
Land	$ 26,370	$ -	$ -	$ 26,370
Construction in progress	-	30,378	-	30,378
Total capital assets not being depreciated	26,370	30,378	-	56,748
Capital assets, being depreciated:				
Building	6,448,901	96,050	-	6,544,951
Infrastructure	5,443,417	-	-	5,443,417
Machinery and equipment	689,164	21,809	-	710,973
Licensed vehicles	559,916	100,993	-	660,909
Total capital assets, being depreciated	13,141,398	218,852	-	13,360,250
Less accumulated depreciation for:				
Building	(2,372,814)	(136,852)	-	(2,509,666)
Infrastructure	(4,484,701)	(85,520)	-	(4,570,221)
Machinery and equipment	(617,121)	(14,566)	-	(631,687)
Licensed vehicles	(393,709)	(39,860)	-	(433,569)
Total accumulated depreciation	(7,868,345)	(276,798)	-	(8,145,143)
Total capital assets, being depreciated, net	5,273,053	(57,946)	-	5,215,107
Business-type activities capital assets, net	$ 5,299,423	$ (27,568)	$ -	$ 5,271,855

NOTE 3 - CAPITAL ASSETS (CONTINUED)

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

Governmental activities	
General government	$ 48,064
Public safety	78,645
Streets	179,240
Culture and recreation	18,660
Total depreciation expense-governmental activities	$ 324,609
Business-type activities	
Electric	$ 18,702
Water treatment	79,503
Wastewater treatment	106,671
Refuse removal and recycling	35,872
Mountain Manor Apartments	36,050
Total depreciation expense - business-type activities	$ 276,798

Discretely presented component unit:
Mountain Iron EDA capital asset activity for the year ended December 31, 2007, is as follows:

	Balance 01/01/07	Additions	Deletions	Balance 12/31/07
Governmental activities				
Capital assets, not being depreciated:				
Land	$ 2,477,940	$ -	$ (30,000)	$ 2,447,940

NOTE 4 - LONG-TERM LIABILITIES

The City issued general obligation bonds and general obligation revenue bonds to finance the construction of major capital facilities and improvements. The bonds have been issued for both governmental and business-type activities and are being repaid from the applicable resources. The City of Mountain Iron issued general obligation tax increment refunding bonds to finance development in tax increment districts recorded in the Mountain Iron EDA financial statements. These bonds are considered obligations of the primary government and are being repaid with tax increment revenues. The Mountain Iron Housing and Redevelopment Authority entered into a mortgage note with Rural Development (a division of the U.S. Department of Agriculture) for the Mountain Iron Housing for the Elderly project. This note is guaranteed by the City of Mountain Iron, Minnesota. For governmental activities, claims and judgments and severance payable are generally liquidated by the general fund.

NOTE 4 - LONG-TERM LIABILITIES (CONTINUED)

Components of long-term liabilities are as follows:

	Issue Date	Interest Rates	Original Issue	Final Maturity	Principal Outstanding
Governmental activities					
General obligation bonds					
1998 Community Center	4/1/1998	4.50-5.30%	$1,015,000	02/1/2020	$ -
2000 Improvements	9/1/2000	4.75-5.75%	$1,280,000	02/1/2016	900,000
2005 Refunding	3/8/2005	2.70-4.30%	$1,645,000	02/1/2020	1,645,000
2005 Library upgrade	8/1/2005	4.125%	$ 300,000	08/1/2035	295,000
2007 Improvements	9/11/2007	4.0-4.65%	$1,455,000	02/1/2028	1,455,000
Total general obligation bonds					4,295,000
Severance payable					53,158
Governmental activities long-term liabilities					4,348,158
Business-type activities					
Revenue bonds					
2002 Water revenue bonds	8/1/2002	2.50-5.15%	$ 855,000	12/1/2022	720,000
Notes payable					
1980 Rural Development	9/4/1980	3.61%	$ 819,370	09/1/2030	469,089
1981 Rural Development	1/16/1981	3.61%	$ 320,630	01/1/2031	183,405
Total notes payable					1,372,494
Severance payable					21,732
Business-type activities long-term liabilities					1,394,226
Total Long-Term Liabilities					$5,742,384
Discretely presented component unit:					
Mountain Iron EDA					
General obligation bonds					
1996 Tax Increment Refunding	2/1/1996	3.90-4.70%	$ 365,000	09/1/2007	$ -
2002 Tax Increment Refunding	3/1/2002	2.50-3.85%	$ 335,000	02/1/2007	-
Total component unit					$ -

Long-term liability activity for the year ended December 31, 2007 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Governmental activities					
Bonds payable					
1998 GO Community Center bonds	$ 805,000	$ -	$ (805,000)	$ -	$ -
2000 GO Improvement bonds	975,000	-	(75,000)	900,000	75,000
2005 GO Refunding bonds	1,645,000	-	-	1,645,000	50,000
2005 GO Library Upgrade bonds	300,000	-	(5,000)	295,000	5,000
2007 GO Improvement bonds	-	1,455,000	-	1,455,000	-
Total bonds payable	3,725,000	1,455,000	(885,000)	4,295,000	130,000
Severance payable	47,683	15,075	(9,600)	53,158	-
Governmental activities - long-term liabilities	$ 3,772,683	$ 1,470,075	$ (894,600)	$ 4,348,158	$ 130,000

NOTE 4 - LONG-TERM LIABILITIES (CONTINUED)

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Business-type activities					
2002 Water revenue bonds	$ 750,000	$ -	$ (30,000)	$ 720,000	$ 35,000
1980 Rural Development notes	473,661	-	(4,572)	469,089	3,623
1981 Rural Development notes	185,124	-	(1,719)	183,405	1,480
Severance payable	22,860	494	(1,622)	21,732	-
Business-type activities - long-term liabilities	$ 1,431,645	$ 494	$ (37,913)	$ 1,394,226	$ 40,103

Discretely presented component unit:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Mountain Iron EDA					
Bonds payable					
1996 GO Tax Increment Refunding	$ 40,000	$ -	$ (40,000)	$ -	$ -
2002 GO Tax Increment Refunding	100,000	-	(100,000)	-	-
Component unit – long-term liabilities	$ 140,000	$ -	$ (140,000)	$ -	$ -

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

Year Ending	Governmental Activities		Business-Type Activities		Government-wide	
December 31	Principal	Interest	Principal	Interest	Principal	Interest
2008	$ 135,000	$ 173,679	$ 40,102	$ 58,665	$ 175,102	$ 232,344
2009	300,000	170,069	40,290	57,044	340,290	227,113
2010	341,000	157,546	40,484	55,362	381,484	212,908
2011	351,000	143,627	45,686	53,638	396,686	197,265
2012	361,000	128,954	45,895	51,648	406,895	180,602
2013-2017	1,804,000	396,884	262,888	224,630	2,066,888	621,514
2018-2022	539,000	145,542	344,391	152,550	883,391	298,092
2023-2027	289,000	72,814	47,180	96,350	336,180	169,164
2028-2032	126,000	20,377	505,578	49,122	631,578	69,499
2033-2036	49,000	4,084	-	-	49,000	4,084
Total	$ 4,295,000	$ 1,413,576	$ 1,372,494	$ 799,009	$ 5,667,494	$ 2,212,585

NOTE 4 - LONG-TERM LIABILITIES (CONTINUED)

Conduit Debt

In 1999 the City of Two Harbors, Minnesota (Issuer) issued limited obligation notes (City of Two Harbors, Minnesota $1,786,433 Health Care Facilities Revenue Note, Series 1999A and $136,734 Health Care Facilities Revenue Note, Series 1999B, Duluth Regional Care Center Project) for purposes of financing the cost of acquisition of a new facility, refinancing debt, and financing real property improvements for the Duluth Regional Care Center, Inc. The City of Mountain Iron and the cities of Duluth, Aurora, Two Harbors, and Virginia, Minnesota (Parties) entered into a joint powers agreement to cooperatively finance the project since portions of the project are located within the jurisdictional limits of each of the Parties. These notes and interest are limited obligations of the Issuer and shall not be payable from nor charged against any funds of the City other than revenue pledged for the payment thereof and does not constitute a debt of the City and is not reported as a liability in the financial statements of the City. The outstanding balance of these notes at December 31, 2007 is $347,035 and $34,593, respectively. Duluth Regional Care Center, Inc. is not a component unit of the City.

In 1999 the Mountain Iron Housing and Redevelopment Authority in and for the City of Mountain Iron issued $1,450,000 lease revenue bonds to finance construction of a building by Northeast Service Cooperative and approved the financing plan for the project. The project is located on HRA property. The bonds are special limited obligations of the Authority, payable solely from the amounts payable under the lease. The bonds do not constitute a debt of the Authority or the City within the meaning of any constitutional or statutory limitation. The outstanding balance on these bonds at December 31, 2007 is $1,055,000.

In 2002 the Mountain Iron Housing and Redevelopment Authority in and for the City of Mountain Iron issued $2,075,000 lease revenue bonds to finance construction of a building by Arrowhead Library System and approved the financing plan for the project. The project is located on EDA property. The bonds are special limited obligations of the Authority payable solely from the amounts payable under the lease. The bonds do not constitute a debt of the Authority or the City within the meaning of any constitutional or statutory limitation. The outstanding balance of these bonds at December 31, 2007 is $1,705,000.

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, 2007 is $262,708; $138,589; and $428,434, respectively.

NOTE 5 - INTERFUND BALANCES AND ACTIVITY

Due to/from primary government and component unit:

Receivable entity	Payable entity	Amount
Primary government:	Component unit:	
General Fund	Mountain Iron Economic Development Authority	$ 9,829
Debt Service Fund	Mountain Iron Economic Development Authority	1,192
		$ 11,021

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

Interfund transfers for the year ended December 31, 2007 consisted of the following:

	Transfers in				
	Debt Service Fund	City Projects Capital Projects Fund	Water Treatment Enterprise Fund	Mountain Manor Apartments Enterprise Fund	Total
Transfer out					
General Fund	$ 191,390	$ 438,358	$ 37,877	$ -	$ 667,625
City Projects Capital Projects Fund	-	-	-	21,120	21,120
Electric Enterprise Fund	-	23,513	8,850	-	32,363
Total	$ 191,390	$ 461,871	$ 46,727	$ 21,120	$ 721,108

Transfers are used to: 1) move revenues from the General Fund to the City Projects Capital Projects Fund for authorized projects, 2) move receipts from funds collecting receipts to Debt Service Fund and Water Treatment Enterprise Fund as the debt service payments come due, and 3) move capital additions from the City Projects Capital Projects Fund to the Mountain Manor Apartments Enterprise Fund.

NOTE 6 - FUND EQUITY

Fund Balances

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

Mountain Manor Apartments Enterprise Fund	
Restricted by terms of mortgage loan	$ 33,315

NOTE 6 - FUND EQUITY (CONTINUED)

General Fund	
Designated for capital outlay	$ 1,178,799
Designated for cash flow	250,000
Total Designated – General Fund	$ 1,428,799
Capital Projects Fund	
Designated for capital outlay	$ 1,904

NOTE 7 - RISK MANAGEMENT

The City and the Mountain Iron EDA are exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets, errors and omissions; injuries to employees; and natural disasters. To cover these risks of loss, except for faithful performance of employee duties, the City and Mountain Iron EDA, as allowed under state statutes, joined the League of Minnesota Cities Insurance Trust, a public entity risk pool currently operating as a common risk management and insurance program for its member cities. The City and Mountain Iron EDA pay annual premiums to the Trust for insurance coverage 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 8 - TAX INCREMENT FINANCING DISTRICTS

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

Tax Increment Financing Districts	No. 1	No. 2	No. 3	No. 7
Redevelopment project district established in:	1983	1986	1987	-
Economic development district established in:	-	-	-	-
Soils district established in:	-	-	-	1994
Anticipated last tax increment year:	2009	2011	2012	2008
Original net tax capacity:	$ 3,485	$ 1,828	$ 20	$ 1,914
Current net tax capacity:	$ 54,273	$ 14,141	$ 3,260	$ 29,397
Fiscal disparity deduction	$ -	$ -	$ -	$ -
Captured net tax capacity retained by Authority:	$ 50,788	$ 12,313	$ 3,240	$ 27,483
Total bonds issued				
Tax increment bonds	$ 440,000	$ 60,000	$ -	$ 635,000
Amounts redeemed	440,000	60,000	-	635,000
Outstanding bonds at 12/31/07	$ -	$ -	$ -	$ -

No. 8	No. 9	No. 10	No. 11	No. 13
-	-	-	-	-
1995	1997	1999	1999	2002
-	-	-	-	-
2007	2007	2009	2009	2011
$ 1,666	$ 644	$ -	$ 1,017	$ 756
$ 16,373	$ 8,088	$ 602	$ 11,890	$ 3,738
$ -	$ -	$ 62	$ 1,115	$ 306
$ 14,707	$ 7,444	$ 540	$ 9,758	$ 2,676
$ -	$ -	$ -	$ -	$ -
-	-	-	-	-
$ -	$ -	$ -	$ -	$ -

NOTE 9 - OTHER COMMITMENTS AND CONTINGENCIES

Grants
The City participates in grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable at December 31, 2007, 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 had entered into an agreement with Minnesota Power to supply the City with a portion of its total electric requirements. This agreement was in effect until December 31, 2007. Contract prices for this electric supply are adjusted throughout the contract period as set forth in the agreement. A new contract was being negotiated at December 31, 2007, and had not been finalized as of the date of the audit report.

The City of Mountain Iron, Minnesota exercised its right under a 1987 order by the Minnesota Public Utilities Commission, to service and maintain their territory which the City of Virginia Department of Public Utilities had been servicing and maintaining. In exchange for the service territory, the City of Mountain Iron paid the City of Virginia Department of Public Utilities $100,000 at December 31, 2002, and entered into a long-term contract for electric service from the City of Virginia Department of Public Utilities effective January 2, 2003. This agreement is in effect until December 31, 2020.

Construction Projects
The City had four outstanding construction projects as of December 31, 2007. The projects are evidenced by contractual commitments with contractors and engineers and include:

Project	Spent to Date	Commitments Remaining
South Grove Warming House	$ 23,513	$ 1,237
Industrial Park Road Extension	$ 202,065	$ 17,030
Street Improvements	$ 317,310	$ 16,700
Unity Addition Phase II Residential Development	$ 533,984	$ 390,094

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

NOTE 10 - JOINT VENTURES

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

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

Each member city contributes to the budget of the Authority based on actual loads hauled during the previous year. The City of Mountain Iron's contribution to the Authority's budget during 2007 was $28,540. Complete financial information can be obtained from the Tri-Cities Biosolids Disposal Authority, Virginia, Minnesota 55792.

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

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

Each member city contributes to the budget of the Authority based on the per capita reported in the 1990 Census. The City of Mountain Iron's contribution to the Authority's budget during 2007 was $5,648. Complete financial information can be obtained from the Biosolids Disposal Site Authority, Virginia, Minnesota 55792.

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

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

NOTE 10 - JOINT VENTURES (CONTINUED)

The City of Mountain Iron's contribution to the Authority's budget during 2007 was $6,720. Complete financial information can be obtained from the Quad Cities Recreation Center, Eveleth, Minnesota 55734.

NOTE 11 - POSTEMPLOYMENT BENEFITS/SEVERANCE

The City of Mountain Iron provides postretirement health benefits as established by contracts with bargaining units and other employment agreements. The City pays 100 percent of the health premiums for employees who meet the retirement guidelines per the agreements. As of December 31, 2007, there were 11 employees who were receiving the premium coverage benefit. The City recognized $120,190 of expenditures incurred for this benefit during 2007.

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 2007, the City did not expend any funds for this benefit.

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

NOTE 12 - DEFINED BENEFIT PENSION PLANS – STATEWIDE

A. Plan Description

All full-time and certain part-time employees of the City of Mountain Iron, Minnesota, are covered by defined benefit plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the Public Employees Retirement Fund (PERF) which is a cost-sharing multiple-employer retirement plan. This plan is established and administered in accordance with *Minnesota Statutes*, Chapters 353 and 356.

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

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

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

Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first 10 years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first 10 years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For all PERF members hired prior to July 1, 1989 whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 65 for Basic and Coordinated members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for Coordinated members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

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

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

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

B. Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The City makes annual contributions to the pension plans equal to the amount required by state statutes. PERF Basic Plan members and Coordinated Plan members were required to contribute 9.10% and 5.5%, respectively, of their annual covered salary in 2007. Contribution rates in the Coordinated Plan will increase in 2008 to 6.0%. The City of Mountain Iron, Minnesota, is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan PERF members and 6.25% for Coordinated Plan PERF members. Employer contribution rates for the Coordinated Plan will increase to 6.5% effective January 1, 2008. The City's contributions to the Public Employees Retirement Fund for the years ending December 31, 2007, 2006, and 2005 were $74,202, $66,910, and $62,823, respectively. The City's contributions were equal to the contractually required contributions for each year as set by state statute.

NOTE 13 - DEFINED CONTRIBUTION PLAN

Four council members of the City of Mountain Iron, Minnesota are covered by the Public Employees Defined Contribution Plan (PEDCP), a multiple-employer deferred compensation plan administered by the Public Employees Retirement Association of Minnesota (PERA). The PEDCP is a tax qualified plan under Section 401(a) of the Internal Revenue Code and all contributions by or on behalf of employees are tax deferred until time of withdrawal.

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. Minnesota Statutes, Chapter 353D.03, specifies the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes 5 percent of salary which is matched by the elected official's employer. Employer and employee contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2 percent of employer contributions and twenty-five hundredths of one percent of the assets in each member's account annually.

Total contributions made by the City of Mountain Iron, Minnesota during fiscal year 2007 were:

Amount		Percentage of Covered Payroll		
Employees	Employer	Employees	Employer	Required Rates
$ 540	$ 540	5.00%	5.00%	5.00%

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF MOUNTAIN IRON, MINNESOTA

GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
Year Ended December 31, 2007

	Budgeted Amounts		Actual Amounts, Budgetary Basis	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Taxes	$ 1,238,728	$ 1,238,728	$ 1,135,345	$ (103,383)
Licenses and permits	20,000	20,000	27,842	7,842
Intergovernmental	1,713,350	1,713,350	2,008,641	295,291
Charges for services	165,000	165,000	149,661	(15,339)
Fines	9,500	9,500	13,865	4,365
Interest	30,000	30,000	49,977	19,977
TOTAL REVENUES	3,176,578	3,176,578	3,385,331	208,753
EXPENDITURES				
Current				
General government	849,220	849,220	990,579	(141,359)
Public safety	525,500	525,500	555,461	(29,961)
Streets	575,000	575,000	698,724	(123,724)
Culture and recreation	377,000	377,000	347,142	29,858
Economic development	156,500	156,500	146,238	10,262
TOTAL EXPENDITURES	2,483,220	2,483,220	2,738,144	(254,924)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	693,358	693,358	647,187	(46,171)
OTHER FINANCING SOURCES (USES)				
Transfers out	(693,358)	(693,358)	(667,625)	25,733
Sale of capital assets	-	-	42,973	42,973
TOTAL OTHER FINANCING SOURCES (USES)	(693,358)	(693,358)	(624,652)	68,706
NET CHANGE IN FUND BALANCE	-	-	22,535	22,535
FUND BALANCE - JANUARY 1	1,428,799	1,428,799	1,428,799	-
FUND BALANCE - DECEMBER 31	$ 1,428,799	$ 1,428,799	$ 1,451,334	$ 22,535

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
December 31, 2007

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, 2007:

General Fund	$ 254,924

The excess expenditures were funded by excess revenues in the fund.

OTHER SUPPLEMENTARY INFORMATION

NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Fund

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

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

Capital Projects Fund

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

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

CITY OF MOUNTAIN IRON, MINNESOTA

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
December 31, 2007

	Charitable Gambling Special Revenue Fund	Street Construction Capital Projects Fund	Total Nonmajor Governmental Funds
ASSETS			
Cash and cash equivalents	$ 5,102	$ -	$ 5,102
LIABILITIES AND FUND BALANCES			
LIABILITIES	$ -	$ -	$ -
FUND BALANCES			
Unreserved, undesignated	5,102	-	5,102
TOTAL LIABILITIES AND FUND BALANCES	$ 5,102	$ -	$ 5,102

CITY OF MOUNTAIN IRON, MINNESOTA

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
Year Ended December 31, 2007

	Charitable Gambling Special Revenue Fund	Street Construction Capital Projects Fund	Total Nonmajor Governmental Funds
REVENUES			
Gifts and contributions	$ 1,226	$ -	$ 1,226
Investment earnings	151	11,214	11,365
TOTAL REVENUES	1,377	11,214	12,591
EXPENDITURES			
Current			
General government	3,033	-	3,033
Capital Outlay	-	391,059	391,059
TOTAL EXPENDITURES	3,033	391,059	394,092
NET CHANGE IN FUND BALANCES	(1,656)	(379,845)	(381,501)
FUND BALANCES - JANUARY 1	6,758	379,845	386,603
FUND BALANCES - DECEMBER 31	$ 5,102	$ -	$ 5,102

CITY OF MOUNTAIN IRON, MINNESOTA

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
Year Ended December 31, 2007

REVENUES	
TAXES	
General property	$ 949,146
Mineral rents and royalties	16,754
Franchise	23,207
Tax increment financing	146,238
TOTAL TAXES	1,135,345
LICENSES AND PERMITS	27,842
INTERGOVERNMENTAL	
State	
Local government aid	718,350
Market value credit	113,422
Taconite production	603,196
Taconite municipal aid	391,189
Mining effects	117,333
PERA aid	4,529
Police aid	40,441
Fire aid	20,181
TOTAL INTERGOVERNMENTAL	2,008,641
CHARGES FOR SERVICES	
General government	
Rent	14,467
Refunds and reimbursements	22,067
Miscellaneous	79,260
Culture and recreation	
Recreation fees	4,328
Campground fees	29,539
TOTAL CHARGES FOR SERVICES	149,661
FINES	13,865
INTEREST	49,977
TOTAL REVENUES	3,385,331

CITY OF MOUNTAIN IRON, MINNESOTA

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

Year Ended December 31, 2007

EXPENDITURES	
CURRENT	
GENERAL GOVERNMENT	
Mayor and council	$ 22,585
Administration	482,122
Assessor	30,050
Retiree's insurance	110,515
Donations and contributions	8,720
Other	106,364
Buildings	209,168
Planning and zoning	21,055
TOTAL GENERAL GOVERNMENT	990,579
PUBLIC SAFETY	
Sheriff	444,242
Fire	98,907
Animal control	12,212
Civil defense	100
TOTAL PUBLIC SAFETY	555,461
STREETS	698,724
CULTURE AND RECREATION	
Library	116,268
Recreation	171,111
Campgrounds	59,763
TOTAL CULTURE AND RECREATION	347,142
ECONOMIC DEVELOPMENT	
EDA	146,238
TOTAL EXPENDITURES	2,738,144
EXCESS OF REVENUES OVER EXPENDITURES	647,187
OTHER FINANCING SOURCES (USES)	
Transfers out	(667,625)
Sale of capital assets	42,973
TOTAL OTHER FINANCING SOURCES (USES)	(624,652)
NET CHANGE IN FUND BALANCE	22,535
FUND BALANCE - JANUARY 1	1,428,799
FUND BALANCE - DECEMBER 31	$ 1,451,334

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, 2007

	Budget	Accounted for in Prior Years	Current Year
SOURCES OF FUNDS			
Tax increment revenue	$ 2,000,000	$ 1,351,071	$ 58,138
Bond proceeds	2,000,000	440,000	-
Loan proceeds EDA General Fund	-	178,385	-
Real estate sales	2,000	1,726	-
TOTAL SOURCES OF FUNDS	4,002,000	1,971,182	58,138
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	404,800	35,200
Bond interest payments	400,000	374,621	827
Loan principal payments	-	174,885	-
Administrative costs	200,000	58,320	569
Pooled for debt	302,000	186,313	21,542
TOTAL USES OF FUNDS	4,002,000	1,971,182	58,138
DISTRICT BALANCE	$ -	$ -	$ -

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, 2007

	Budget	Accounted for in Prior Years	Current Year
SOURCES OF FUNDS			
Tax increment revenue	$ 5,566,225	$ 232,155	$ 15,789
Bond proceeds	1,905,000	60,000	-
Loan proceeds EDA General Fund	-	169,487	-
TOTAL SOURCES OF FUNDS	7,471,225	461,642	15,789
USES OF FUNDS			
Land acquisition	324,500	264,070	-
Site improvement	466,500	-	-
Bond principal payments	1,905,000	55,200	4,800
Bond interest payments	2,721,725	53,135	113
Loan principal payments	-	79,952	10,798
Administrative costs	134,020	9,285	78
Debt service reserve	500,000	-	-
TOTAL USES OF FUNDS	6,051,745	461,642	15,789
DISTRICT BALANCE	$ 1,419,480	$ -	$ -

CITY OF MOUNTAIN IRON, MINNESOTA

SCHEDULE OF SOURCES AND USES OF PUBLIC FUNDS
FOR MOUNTAIN IRON TAX INCREMENT DISTRICT NO. 3
Year Ended December 31, 2007

	Budget	Accounted for in Prior Years	Current Year
SOURCES OF FUNDS			
Tax increment revenue	$ 105,000	$ 70,997	$ 3,725
Bond proceeds	100,000	-	-
Loan proceeds EDA General Fund	-	10,235	-
TOTAL SOURCES OF FUNDS	205,000	81,232	3,725
USES OF FUNDS			
Site improvements and preparation costs	35,000	34,623	-
Bond principal payments	100,000	-	-
Bond interest payments	10,000	-	-
Loan principal payments	-	10,235	-
Administrative costs	10,500	8,641	-
Pooled for debt	49,500	27,733	3,725
TOTAL USES OF FUNDS	205,000	81,232	3,725
DISTRICT BALANCE	$ -	$ -	$ -

CITY OF MOUNTAIN IRON, MINNESOTA

SCHEDULE OF SOURCES AND USES OF PUBLIC FUNDS
FOR MOUNTAIN IRON TAX INCREMENT DISTRICT NO. 7
Year Ended December 31, 2007

	Budget	Accounted for in Prior Years	Current Year
SOURCES OF FUNDS			
Tax increment revenue	$ 764,348	$ 490,961	$ 28,541
Interest on invested funds	-	5,823	-
Bond proceeds	635,000	635,000	-
Real estate sales	-	24,000	-
Loan proceeds EDA General Fund	-	172,341	46,964
Pooled for debt	-	304,419	27,282
TOTAL SOURCES OF FUNDS	1,399,348	1,632,544	102,787
USES OF FUNDS			
Site improvements and preparation costs	604,360	550,986	-
Bond principal payments	635,000	535,000	100,000
Bond interest payments	129,348	443,364	1,925
Administrative costs	30,640	47,770	862
Underwriters discount/bond	-	25,370	-
Loan principal payments	-	30,054	-
TOTAL USES OF FUNDS	1,399,348	1,632,544	102,787
DISTRICT BALANCE	$ -	$ -	$ -

CITY OF MOUNTAIN IRON, MINNESOTA

SCHEDULE OF SOURCES AND USES OF PUBLIC FUNDS
FOR MOUNTAIN IRON TAX INCREMENT DISTRICT NO. 8
Year Ended December 31, 2007

	Budget	Accounted for in Prior Years	Current Year
SOURCES OF FUNDS			
Tax increment revenue	$ 288,300	$ 225,474	$ 16,101
Bond proceeds	190,000	-	-
Loan proceeds EDA General Fund	-	231,076	-
IRRRB Grant	-	240,000	-
TOTAL SOURCES OF FUNDS	478,300	696,550	16,101
USES OF FUNDS			
Site improvements and preparation costs	242,300	461,411	-
Streets and sidewalks	128,700	-	-
Bond principal payments	190,000	-	-
Bond interest payments	161,300	-	-
Administrative costs	28,700	21,684	-
Loan principal payments	-	213,455	16,101
TOTAL USES OF FUNDS	751,000	696,550	16,101
DISTRICT BALANCE (DEFICIENCY)	$ (272,700)	$ -	$ -

CITY OF MOUNTAIN IRON, MINNESOTA

SCHEDULE OF SOURCES AND USES OF PUBLIC FUNDS
FOR MOUNTAIN IRON TAX INCREMENT DISTRICT NO. 9
Year Ended December 31, 2007

	Budget	Accounted for in Prior Years	Current Year
SOURCES OF FUNDS			
Tax increment revenue	$ 205,000	$ 81,780	$ 7,575
Local contribution	20,000	3,111	-
Loan proceeds EDA General Fund	-	14,224	-
Pooled debt	-	137	-
TOTAL SOURCES OF FUNDS	225,000	99,252	7,575
USES OF FUNDS			
Land acquisition	35,000	12,952	-
Site improvements and preparation costs	65,000	40,768	-
Installation of public utilities	18,000	-	-
Parking facilities	30,000	-	-
Administrative costs	17,000	17,614	-
Public improvements	40,000	-	-
Costs of local contribution	20,000	-	-
Loan principal payments	-	8,664	5,560
Pooled for debt	-	19,254	2,015
TOTAL USES OF FUNDS	225,000	99,252	7,575
DISTRICT BALANCE	$ -	$ -	$ -

CITY OF MOUNTAIN IRON, MINNESOTA

SCHEDULE OF SOURCES AND USES OF PUBLIC FUNDS
FOR MOUNTAIN IRON TAX INCREMENT DISTRICT NO. 10
Year Ended December 31, 2007

	Budget	Accounted for in Prior Years	Current Year
SOURCES OF FUNDS			
Tax increment revenue	$ 331,056	$ 4,084	$ 1,333
Local contribution	25,830	-	-
Interest	2,000	-	-
Loan proceeds EDA General Fund	165,000	96,671	-
TOTAL SOURCES OF FUNDS	523,886	100,755	1,333
USES OF FUNDS			
Land acquisition	50,000	-	-
Site improvements and preparation costs	129,360	68,701	-
Installation of public utilities	10,000	10,000	-
Interest	117,204	-	-
Administrative costs	25,830	20,134	-
Cost of local contribution	25,830	-	-
Loan principal payments	165,662	1,920	1,333
TOTAL USES OF FUNDS	523,886	100,755	1,333
DISTRICT BALANCE	$ -	$ -	$ -

CITY OF MOUNTAIN IRON, MINNESOTA

SCHEDULE OF SOURCES AND USES OF PUBLIC FUNDS FOR MOUNTAIN IRON TAX INCREMENT DISTRICT NO. 11
Year Ended December 31, 2007

	Budget	Accounted for in Prior Years	Current Year
SOURCES OF FUNDS			
Tax increment revenue	$ 196,474	$ 85,924	$ 12,149
Interest	2,000	-	-
Loan proceeds EDA General Fund	15,000	34,424	-
Land sale	-	1,000	-
TOTAL SOURCES OF FUNDS	213,474	121,348	12,149
USES OF FUNDS			
Site improvements and preparation costs	95,500	73,513	-
Installation of public utilities	20,000	-	-
Interest	63,868	-	-
Administrative costs	19,106	9,416	-
Loan principal payments	15,000	5,767	12,149
Pooled for debt	-	32,652	-
TOTAL USES OF FUNDS	213,474	121,348	12,149
DISTRICT BALANCE	$ -	$ -	$ -

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, 2007

	Budget	Accounted for in Prior Years	Current Year
SOURCES OF FUNDS			
Tax increment revenue	$ 120,900	$ 6,836	$ 2,886
Interest	2,000	-	-
Loan proceeds EDA General Fund	-	28,677	-
TOTAL SOURCES OF FUNDS	122,900	35,513	2,886
USES OF FUNDS			
Site improvements and preparation costs	83,000	29,914	-
Installation of public utilities	27,800	-	-
Administrative costs	12,100	5,135	-
Loan principal payments	-	464	2,886
TOTAL USES OF FUNDS	122,900	35,513	2,886
DISTRICT BALANCE	$ -	$ -	$ -

Walker, Giroux, Hahne

CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

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

To the City Council
City of Mountain Iron, Minnesota

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Mountain Iron, Minnesota, as of and for the year ended December 31, 2007, which collectively comprise the City of Mountain Iron, Minnesota's basic financial statements and have issued our report thereon dated May 19, 2008. We did not audit the financial statements of the Mountain Manor Apartments Enterprise Fund. Those financial statements were audited by other auditors whose report thereon has been furnished to us. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting
In planning and performing our audit, we considered City of Mountain Iron, Minnesota's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Mountain Iron's financial statements that is more than inconsequential will not be prevented or detected by the City of Mountain Iron's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2007-1 and 2007-2 to be significant deficiencies in internal control over financial reporting.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider item 2007-2 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Mountain Iron, Minnesota's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Minnesota Legal Compliance

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

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

We noted certain matters that we reported to management of City of Mountain Iron, Minnesota in a separate letter dated May 19, 2008, 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, and the State of Minnesota and is not intended to be and should not be used by anyone other than these specified parties.

Walker, Giroux & Hahne, Ltd.

May 19, 2008

CITY OF MOUNTAIN IRON, MINNESOTA

SCHEDULE OF FINDINGS AND RESPONSES
Year Ended December 31, 2007

SIGNIFICANT DEFICIENCIES

2007-1. SEGREGATION OF DUTIES

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

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

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

Cause
This occurred because of staffing limitations caused by fiscal constraints.

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

Corrective Action Plan (CAP)

1. Explanation of Disagreement with Audit Finding.
   There is no disagreement with the audit finding.

2. Actions Planned in Response to Finding.
   The Administrator will attempt to monitor transactions and structure the duties of office personnel to help ensure as much segregation of duties as possible within the City's staffing limitations and funding constraints.

3. Official Responsible for Ensuring CAP
   The Administrator is the official responsible for ensuring this plan.

4. Planned Completion Date for CAP
   The Administrator has been monitoring transactions and reviewing the duties of office personnel on an ongoing basis.

5. Plan to Monitor Completion of CAP
   The City Council recognizes the weakness in segregation of duties and has continually provided oversight to partially compensate for this deficiency.

CITY OF MOUNTAIN IRON, MINNESOTA

SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
Year Ended December 31, 2007

2007-2. LACK OF CONTROL OVER FINANCIAL REPORTING PROCESS

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

Effect
The potential exists that a material misstatement of the financial statements could occur and not be prevented or detected by the 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
   The City has determined that the cost and training involved to review or prepare their own financial statements exceeds the benefit that would result.

3. Official Responsible for Ensuring CAP
   None – see number 2 above.

4. Planned Completion Date for CAP
   None – see number 2 above.

5. Plan to Monitor Completion of CAP
   None – see number 2 above.

Walker, Giroux, Hahne

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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, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the City of Mountain Iron, Minnesota's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. A separate report dated May 19, 2008, contains our report on significant deficiencies in the City's internal control. This letter does not affect our report dated May 19, 2008, on the financial statements of the City of Mountain Iron, Minnesota.

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

Prior Year Comment

1. The Water Treatment, Wastewater Treatment, and Refuse Removal and Recycling Enterprise Funds reported operating losses for the year ended December 31, 2007. We suggest that the City Council review these losses and implement a plan to make the funds profitable and self-sufficient.

2. We recommend that the capital projects fund 301 be used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds). The Governmental Accounting Standards Board does not recommend that routine purchases of equipment be accounted for in a capital projects fund unless the government is legally required to do so.

Internal Control and Operating Efficiency

1. During our testing of bid requirements, we noted that original bid documents were not on file for all bidders. In most cases the bid tabulation from the architecture's firm was on file. We recommend that City personnel retain all original bid documents on file.

2. The City has been informed by the State Auditor's Office that the donations to local cemeteries exceeded the amount allowed by the State of Minnesota. We recommend that the amount budgeted for cemetery donations not exceed the amount allowed by the State.

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

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

New Accounting Standards

GASB Statement No. 45

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

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

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

Walker, Giroux & Hahne, Ltd.

May 19, 2008