CITY OF MOUNTAIN IRON, MINNESOTA

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

Year Ended December 31, 2011

CITY OF MOUNTAIN IRON, MINNESOTA

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CITY OF MOUNTAIN IRON, MINNESOTA

ORGANIZATION
December 31, 2011

CITY COUNCIL

Mayor	Gary Skalko
Council Members	Joe Prebeg, Jr. Ed Roskoski Susan Tuomela Anthony Zupancich

ADMINISTRATION

Administrator	Craig J. Wainio

[redacted]

Walker, Giroux, Hahne LTD

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INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Mountain Iron, Minnesota

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the remaining fund information of the City of Mountain Iron, Minnesota, as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the City of Mountain Iron, Minnesota's, management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Mountain Manor Apartments Enterprise Fund which is both a major fund and 8 percent, 1 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund and the remaining fund information of the City of Mountain Iron, Minnesota, as of December 31, 2011, 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.

As descripted in Note 1 to the financial statements, the City of Mountain Iron, Minnesota adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions,* in 2011.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 26, 2012 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and schedule of funding process for postemployment benefit plan, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Mountain Iron, Minnesota's basic financial statements. The individual fund financial statement and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Walker, Hirsch & Nelson, Ltd.

June 26, 2012

[redacted]

CITY OF MOUNTAIN IRON, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2011

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, 2011. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the City of Mountain Iron, Minnesota's financial statements.

FINANCIAL HIGHLIGHTS

- Governmental activities' total net assets are $9,330,282, of which $7,644,462 is invested in capital assets, net of related debt.
- Business-type activities have total net assets of $6,263,859. Invested in capital assets, net of related debt represents $4,722,443 of the total.
- The Mountain Iron Economic Development Authority (EDA) has total net assets of $3,171,696, of which $2,511,912 is invested in capital assets, net of related debt.
- The City of Mountain Iron's primary government's net assets increased by $264,869 for the year ended December 31, 2011. Of the increase $285,644 was a decrease in the governmental activities' net assets and $550,513 represented the increase in business-type activities' net assets.
- The EDA's net assets increased by $1,101.
- The net cost of governmental activities was $3,377,289 for the current fiscal year. The net cost was funded by general revenues and other items totaling $3,091,645.
- Governmental funds' fund balances increased by $148,139.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

Government-wide Financial Statements

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

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.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents the required supplementary information for funding progress for postemployment benefit plan and budgetary comparison schedule. Individual fund financial statements and schedules of sources and uses of public funds for Mountain Iron's tax increment districts are presented as supplementary information.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a City's financial position. The following tables show that in the case of the City of Mountain Iron, assets exceeded liabilities by $15,594,141, an increase from the prior year.

Table 1
Net Assets

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2011	2010	2011	2010	2011	2010
Current and other assets	$ 3,133,037	$ 2,842,602	$ 2,237,917	$ 2,137,422	$ 5,370,954	$ 4,980,024
Capital assets	10,262,462	10,461,846	6,491,815	6,178,976	16,754,277	16,640,822
Total assets	13,395,499	13,304,448	8,729,732	8,316,398	22,125,231	21,620,846
Long-term debt outstanding	3,852,268	3,665,549	2,117,224	2,154,339	5,969,492	5,819,888
Other liabilities	212,949	222,973	348,649	448,713	561,598	671,686
Total liabilities	4,065,217	3,888,522	2,465,873	2,603,052	6,531,090	6,491,574
Net assets						
Invested in capital assets, net of debt	7,644,462	7,587,855	4,722,443	4,324,951	12,366,905	11,912,806
Restricted	988,722	-	121,597	117,233	1,110,319	117,233
Unrestricted	697,098	1,828,071	1,419,819	1,271,162	2,116,917	3,099,233
Total net assets	$ 9,330,282	$ 9,415,926	$ 6,263,859	$ 5,713,346	$ 15,594,141	$ 15,129,272

Net assets of the City's governmental activities decreased by 0.9 percent ($9,330,282 compared to $9,415,926). Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements - decreased from a $1,828,071 surplus at December 31, 2010 to a $697,098 surplus at the end of this year.

Net assets of the City's business-type activities increased by 9.6 percent ($6,263,859 compared to $5,713,346).

Table 2
Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2011	2010	2011	2010	2011	2010
Revenues						
Program revenues:						
Fees, fines, charges and other charges for services	$ 212,729	$ 255,674	$ 3,561,212	$ 3,517,280	$ 3,773,941	$ 3,772,954
Operating grants and contributions	7,831	4,426	-	-	7,831	4,426
Capital grants and contributions	610,366	1,173,404	262,044	146,237	872,410	1,319,641
General revenues:						
Property and other taxes	1,232,051	1,283,458	-	-	1,232,051	1,283,458
Grants and contributions not restricted to specific programs	2,075,863	2,126,010	-	-	2,075,863	2,126,010
Other general revenues	58,926	132,590	31,184	28,243	90,110	160,833
Total revenues	4,197,766	4,975,562	3,854,440	3,691,760	8,052,206	8,667,322
Program expenses:						
General government	1,564,838	1,160,299	-	-	1,564,838	1,160,299
Public safety	676,187	756,306	-	-	676,187	756,306
Streets	1,364,678	1,382,686	-	-	1,364,678	1,382,686
Culture and recreation	478,947	495,305	-	-	478,947	495,305
Interest	123,565	124,813	-	-	123,565	124,813
Electric utility	-	-	2,139,991	2,035,900	2,139,991	2,035,900
Water treatment	-	-	380,656	358,708	380,656	358,708
Wastewater treatment	-	-	448,310	407,336	448,310	407,336
Refuse removal and recycling	-	-	378,708	384,245	378,708	384,245
Mountain Manor Apartments	-	-	231,457	205,588	231,457	205,588
Total program expenses	4,208,215	3,919,409	3,579,122	3,391,777	7,787,337	7,311,186
Increase (decrease) in net assets before transfers	(10,449)	1,056,153	275,318	299,983	264,869	1,356,136
Transfers	(275,195)	(38,379)	275,195	38,379	-	-
Increase (decrease) in net assets	(285,644)	1,017,774	550,513	338,362	264,869	1,356,136
Net assets, January 1	9,415,926	8,398,152	5,713,346	5,374,984	15,129,272	13,773,136
Prior period adjustment	200,000	-	-	-	200,000	-
Net assets, December 31	$ 9,330,282	$ 9,415,926	$ 6,263,859	$ 5,713,346	$ 15,594,141	$ 15,129,272

Governmental Activities

The most significant revenues of the governmental activities are grants and contributions not restricted to specific programs at 49% of revenues. Capital grants and contributions, 15% of revenues, include grants for major projects or purchases of equipment. Property taxes levied for general purposes amount to $1,232,051, 29% of revenues.

General government expense is the most significant (37%), followed by streets (32%), public safety (16%) and culture and recreation (11%).

Governmental revenues decreased during 2011 because special legislation taconite production funding was received in the prior year for capital projects. The City sold land and lots in the previous year. Our taxpayers paid $1,232,051 in property taxes during the current year, which is a decrease of $51,407.

Governmental expenses increased by $288,806 in the current year. There were no significant or unusual changes in any of the City's programs; however, general government expense increased due to a pass through capital grant in the amount of $248,795 to Laurentian Energy Authority. The cost of all governmental activities this year was $4,208,215 compared to $3,919,409 last year. Most of the increase in cost is also attributed to the pass-through capital grant to Laurentian Energy Authority.

Business-Type Activities

Revenues and transfers in of the City's business-type activities were $4,129,635 and expenses were $3,579,122, (see Table 2). There was an increase in net assets of $550,513 during the year ended December 31, 2011, which compares to an increase in net assets of $338,362 for the year ended December 31, 2010. Factors driving this result include:

> Operations produced income of $33,672 for the year ended December 31, 2011. The electric utility enterprise fund recorded the most significant operating income of $164,007. The water treatment enterprise fund recorded the most significant operating loss of $96,718. The refuse removal and recycling enterprise fund recorded operating income of $10,466, while the wastewater treatment fund and Mountain Manor Apartments enterprise fund each recorded an operating loss of $25,394 and $18,689, respectively.
>
> Capital grants in the amount of $262,044 were received for wastewater treatment plant facility improvements. The water treatment enterprise fund and wastewater treatment enterprise fund received capital contributions, $87,700 and $180,957 respectively, from the City for South Forest Grove infrastructure capitalized during the current year.

Mountain Iron EDA Component Unit Activity

The Mountain Iron EDA had an increase in net assets of $1,101 for the year ended December 31, 2011. Net program revenues over expenses were $(105,932). General revenues of taxes and interest earnings were $107,033.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Governmental Funds

The focus of the City's governmental funds is to provide information on near term inflows, outflows and balances of spendable resources. In particular, the unassigned fund balance may serve as a useful measure of the City's net resources available for spending at the end of the year.

At December 31, 2011, the City's governmental funds reported total ending fund balances of $2,756,922, an increase of $148,139 in comparison with the prior year. Assigned fund balance, which is intended to be used for cash flow, insurance and buildings, made up nearly 64% or $1,768,200 of the total ending fund balance. The restricted fund balance of $988,722 is considered unavailable for appropriation for general operations. More detailed information about the City's fund balances is presented in Note 7 to the financial statements.

The city projects capital projects fund recorded an increase in fund balance of $247,216 compared to decrease in fund balance of $400,155 last year. Other financing sources included a $636,288 transfer from the general fund and $20,000 from the enterprise funds to fund the prior year projects.

Proprietary Funds

The proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

The electric utility enterprise fund accounts for the electric operations of the City. In 2011, operating revenues increased by $7,684 compared to the prior year. Operating expenses also increased by $104,091. The electric operations produced operating income of $164,007 in 2011. A transfer out of $20,074 was made to governmental funds. These transactions resulted in an increase of $146,512 in net assets in the current year.

The water treatment enterprise fund accounts for the water operations of the City. In 2011, operating revenues increased by $27,134 compared to the prior year due to a rate increase on October 1, 2011. Operating expenses decreased by $50,438. In 2011, an operating loss of $96,718 was recorded compared to $73,414 in the prior year. Interest expense charged to the water operations was $20,287. Net transfers from the debt service governmental fund were made in the amount of $37,012 during 2011. A capital contribution from the City was recorded for the water infrastructure portion of the South Forest Grove project, which was completed in 2011. These transactions resulted in an increase of $17,582 in net assets in the current year.

The wastewater treatment enterprise fund accounts for the wastewater treatment operations of the City. In 2011, operating revenues increased by $7,972 compared to the prior year. Operating expenses also increased by $39,949 due to a significant increase in depreciation in the current year for additions in capital assets for infrastructure updates. In 2011, an operating loss of $25,394 was recorded compared to operating income of $6,583 in the prior year. Interest expense charged to the wastewater treatment operations was $12,329. Capital grants in the amount of $262,044 were received for wastewater treatment aeration system updates. A capital contribution from the City was recorded for the wastewater infrastructure portion of the South Forest Grove project, which was completed in 2011. These transactions resulted in an increase of $408,195 in net assets in the current year.

The refuse removal and recycling enterprise fund accounts for the refuse removal and recycling operations of the City. In 2011, operating revenues increased $2,628 compared to the prior year. Operating expenses decreased by $5,537 due to a reduction in repairs and maintenance compared to the prior year. In 2011, operating income of $10,466 was recorded compared to operating income of $2,301 in the prior year. A transfer out of $10,000 to the city projects capital projects fund was recorded for its portion of funding for the City garage addition. These transactions resulted in an increase of $10,305 in net assets in the current year.

The Mountain Manor Apartments enterprise fund accounts for the operations of the Mountain Manor Apartments. In 2011, operating revenues decreased by $1,486 compared to the prior year. Operating expenses increased by $26,858 due to an increase in repairs and maintenance compared to the prior year. In 2011, an operating loss of $18,689 was recorded compared to operating income of $9,655 in the prior year. Interest expense charged to the Mountain Manor Apartments operations was $18,966. These transactions resulted in a decrease of $32,081 in net assets in the current year.

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the City did not revise the general fund budget. The actual expenditures were $55,121 under the final budget amounts. The most significant negative variance in the amount of ($65,035) occurred in the City streets department. Resources available for appropriation were above the final budgeted amounts. The City received more intergovernmental aids and charges for services than expected.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2011, the City's primary government had $16,754,277 invested in a broad range of capital assets (net of accumulated depreciation), including land, construction in progress, land improvements, infrastructure, buildings, machinery and equipment and licensed vehicles. (See Table 4 below.) This amount represents a net increase (including additions and deductions) of $113,455 over last year. The Mountain Iron Economic Development Authority component unit had $5,918,556 invested in capital assets, which consisted of land and construction in progress.

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

	Governmental Activities		Business-Type Activities		Totals	
	2011	2010	2011	2010	2011	2010
Land	$ 412,730	$ 414,445	$ 26,370	$ 26,370	$ 439,100	$ 440,815
Construction in progress	1,454,786	2,039,726	-	-	1,454,786	2,039,726
Land improvements	793,170	823,456	-	-	793,170	823,456
Buildings	2,567,771	2,176,615	3,588,875	3,720,110	6,156,646	5,896,725
Infrastructure	4,337,551	4,195,940	2,464,430	1,984,141	6,801,981	6,180,081
Machinery and equipment	443,911	488,949	64,745	77,447	508,656	566,396
Licensed vehicles	252,543	322,715	347,395	370,908	599,938	693,623
Totals	$ 10,262,462	$10,461,846	$ 6,491,815	$ 6,178,976	$ 16,754,277	$ 16,640,822
EDA						
Land	$ 2,456,839	$ 2,456,839	-	$ -	$ 2,456,839	$ 2,456,839
Construction in progress	3,461,717	120,608	-	-	3,461,717	120,608
Totals	$ 5,918,556	$ 2,577,447	$ -	$ -	$ 5,918,556	$ 2,577,447

This year's major additions included completion of the City garage addition, Slate Street improvements, South Forest Grove addition, Energy Park, wastewater treatment updates, garbage truck and police vehicle.

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

Debt

At year-end, the City had $5,969,492 in long-term debt outstanding for the primary government versus $5,819,888 last year—as shown in Table 5. The Mountain Iron EDA component unit had $3,406,644 in long-term debt outstanding.

Table 5
Outstanding Debt, at Year-end

	Governmental Activities		Business-Type Activities		Totals	
	2011	2010	2011	2010	2011	2010
General obligation bonds (backed by the City)	$ 1,473,000	$ 1,574,000	$ -	$ -	$ 1,473,000	$ 1,574,000
Refunding bonds	1,145,000	1,300,000	-	-	1,145,000	1,300,000
Notes payable	-	-	619,372	629,025	619,372	629,025
Water revenue refunding bonds	-	-	600,000	650,000	600,000	650,000
Wastewater general obligation revenue note	-	-	550,000	575,000	550,000	575,000
Severance payable	75,769	68,964	20,089	15,840	95,858	84,804
Other post-employment benefit obligation	1,158,499	722,585	327,763	284,474	1,486,262	1,007,059
Total	$ 3,852,268	$ 3,665,549	$ 2,117,224	$ 2,154,339	$ 5,969,492	$ 5,819,888

	Component Unit EDA	
	2011	2010
State loan	$ 3,406,644	$ -

The State limits the amount of net debt that the City can issue to 3 percent of the market value of all taxable property in the City. The City's outstanding qualifying net debt of $863,000 is significantly below this $5,402,280 State-imposed limit.

Additional information on the City's long-term debt can be found in Note 5 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials considered many factors when setting the 2011 budget, tax rates, and fees that will be charged for the business-type activities.

- City General Fund expenditures decreased $92,162 over 2011.
- City property taxes did not increase in 2012.
- The continued development of Rock Ridge, South Forest Grove and Unity Second Addition will have a great impact on property tax revenues for the City.

The City's 2012 capital budget calls for it to spend another $1,168,757.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information, or for the separate financial statements for the Mountain Iron EDA and Mountain Manor Apartments, should be addressed to 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.

CITY OF MOUNTAIN IRON, MINNESOTA

STATEMENT OF NET ASSETS
December 31, 2011

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	EDA
ASSETS				
Cash and cash equivalents	$ 2,655,054	$ 1,445,805	$ 4,100,859	$ 642,719
Taxes receivable	23,095	-	23,095	-
Special assessments receivable	167,740	-	167,740	-
Accounts receivable	-	463,681	463,681	-
Due from component unit	207,618	-	207,618	-
Due from other governments	25,824	-	25,824	-
Loans receivable	-	-	-	227,006
Inventories	-	205,990	205,990	-
Prepaid items	-	844	844	-
Deferred debt issue costs	53,706	-	53,706	-
Restricted assets:				
Temporarily restricted cash and cash equivalents	-	121,597	121,597	-
Capital assets not being depreciated:				
Land	412,730	26,370	439,100	2,456,839
Construction in progress	1,454,786	-	1,454,786	3,461,717
Capital assets net of accumulated depreciation:				
Land improvements	793,170	-	793,170	-
Buildings	2,567,771	3,588,875	6,156,646	-
Infrastructure	4,337,551	2,464,430	6,801,981	-
Machinery and equipment	443,911	64,745	508,656	-
Licensed vehicles	252,543	347,395	599,938	-
TOTAL ASSETS	13,395,499	8,729,732	22,125,231	6,788,281
LIABILITIES				
Accounts payable	96,847	231,208	328,055	2,323
Salaries payable	56,981	22,186	79,167	-
Accrued interest payable	50,421	7,294	57,715	-
Due to primary government	-	-	-	207,618
Customer deposits	8,700	87,961	96,661	-
Noncurrent liabilities				
Due within one year	261,000	83,923	344,923	-
Due in more than one year	3,591,268	2,033,301	5,624,569	3,406,644
TOTAL LIABILITIES	4,065,217	2,465,873	6,531,090	3,616,585
NET ASSETS				
Invested in capital assets, net of related debt	7,644,462	4,722,443	12,366,905	2,511,912
Restricted for:				
Debt service	1,118,189	-	1,118,189	-
Other purposes	-	121,597	121,597	-
Unrestricted	567,631	1,419,819	1,987,450	659,784
TOTAL NET ASSETS	$ 9,330,282	$ 6,263,859	$ 15,594,141	$ 3,171,696

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

CITY OF MOUNTAIN IRON, MINNESOTA

STATEMENT OF ACTIVITIES
Year Ended December 31, 2011

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions
PRIMARY GOVERNMENT			
Governmental Activities			
General government	$ 1,564,838	$ 157,179	$ 3,528
Public safety	676,187	-	4,303
Streets	1,364,678	-	-
Culture and recreation	478,947	55,550	-
Interest on long-term debt	123,565	-	-
Total Governmental Activities	4,208,215	212,729	7,831
Business-type Activities			
Electric utility	2,139,991	2,303,998	-
Water treatment	380,656	263,651	-
Wastewater treatment	448,310	410,587	-
Refuse removal and recycling	378,708	389,174	-
Mountain Manor Apartments	231,457	193,802	-
Total Business-type Activities	3,579,122	3,561,212	-
TOTAL PRIMARY GOVERNMENT	$ 7,787,337	$ 3,773,941	$ 7,831
COMPONENT UNIT			
EDA	$ 109,932	$ 500	$ 3,500

General Revenues
- Taxes:
  - Property taxes, levied for general purposes
  - Property taxes, levied for specific purposes
  - Franchise taxes
  - Mineral rents and royalties
- Grants and contributions not restricted to specific programs
- Unrestricted investment earnings
- Miscellaneous
- Gain (loss) on disposal of capital assets

Transfers

Total General Revenues and Transfers

CHANGE IN NET ASSETS

NET ASSETS - JANUARY 1

Prior period adjustment

NET ASSETS - DECEMBER 31

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

Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets Primary Government Governmental Activities	Business-type Activities	Total	Component Unit EDA
$ 369,366	$ (1,034,765)	$ -	$ (1,034,765)	
-	(671,884)	-	(671,884)	
241,000	(1,123,678)	-	(1,123,678)	
-	(423,397)	-	(423,397)	
-	(123,565)	-	(123,565)	
610,366	(3,377,289)	-	(3,377,289)	
-	-	164,007	164,007	
-	-	(117,005)	(117,005)	
262,044	-	224,321	224,321	
-	-	10,466	10,466	
-	-	(37,655)	(37,655)	
262,044	-	244,134	244,134	
$ 872,410	(3,377,289)	244,134	(3,133,155)	
$ -				(105,932)
	1,188,343	-	1,188,343	31,497
	-	-	-	70,089
	24,851	-	24,851	-
	18,857	-	18,857	-
	2,075,863	-	2,075,863	-
	34,832	25,843	60,675	5,447
	-	5,419	5,419	-
	24,094	(78)	24,016	-
	(275,195)	275,195	-	-
	3,091,645	306,379	3,398,024	107,033
	(285,644)	550,513	264,869	1,101
	9,415,926	5,713,346	15,129,272	3,249,987
	200,000	-	200,000	(79,392)
	$ 9,330,282	$ 6,263,859	$ 15,594,141	$ 3,171,696

CITY OF MOUNTAIN IRON, MINNESOTA

BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2011

	General Fund	Debt Service Fund	City Projects Capital Projects Fund	Other Governmental Fund - Charitable Gambling Special Revenue Fund	Total Governmental Funds
ASSETS					
Cash and cash equivalents	$ 1,374,077	$ 951,608	$ 321,144	$ 8,225	$ 2,655,054
Taxes receivable	23,095	-	-	-	23,095
Special assessments receivable	310	166,581	849	-	167,740
Due from component unit	207,618	-	-	-	207,618
Due from other governments	25,824	-	-	-	25,824
TOTAL ASSETS	$ 1,630,924	$ 1,118,189	$ 321,993	$ 8,225	$ 3,079,331
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	$ 90,406	$ -	$ 6,441	$ -	$ 96,847
Salaries payable	56,981	-	-	-	56,981
Deferred revenue	23,095	129,467	-	-	152,562
Customer deposits	8,700	-	-	-	8,700
TOTAL LIABILITIES	179,182	129,467	6,441	-	315,090
FUND BALANCES					
Restricted	-	988,722	-	-	988,722
Assigned	1,451,742	-	315,552	8,225	1,775,519
TOTAL FUND BALANCES	1,451,742	988,722	315,552	8,225	2,764,241
TOTAL LIABILITIES AND FUND BALANCES	$ 1,630,924	$ 1,118,189	$ 321,993	$ 8,225	$ 3,079,331

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, 2011

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

TOTAL FUND BALANCES, GOVERNMENTAL FUNDS	$	2,764,241
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.		10,262,462
Deferred revenue in governmental funds is susceptible to full accrual on the government-wide statements.		152,562
Interest payable on long-term debt is susceptible to full accrual on the government-wide statements.		(50,421)
Unamortized bond issuance costs are susceptible to full accrual on the government-wide statements.		53,706
Long-term liabilities, including bonds payable are not due and payable in the current period and therefore not reported in the governmental funds.		(3,852,268)
NET ASSETS OF GOVERNMENTAL ACTIVITIES	$	9,330,282

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, 2011

	General Fund	Debt Service Fund	City Projects Capital Projects Fund	Other Governmental Fund - Charitable Gambling Special Revenue Fund	Total Governmental Funds
REVENUES					
Taxes	$ 1,258,278	$ -	$ -	$ -	$ 1,258,278
Special assessments	310	52,389	154	-	52,853
Licenses and permits	24,826	-	-	-	24,826
Intergovernmental	2,075,863	-	566,897	-	2,642,760
Charges for services	164,599	-	-	-	164,599
Fines	17,296	-	-	-	17,296
Gifts and contributions	-	-	-	3,528	3,528
Investment earnings	9,438	24,393	973	28	34,832
Miscellaneous	-	-	10,000	-	10,000
TOTAL REVENUES	3,550,610	76,782	578,024	3,556	4,208,972
EXPENDITURES					
Current					
General government	958,759	-	370,570	2,650	1,331,979
Public safety	610,790	-	-	-	610,790
Streets	770,035	-	14,990	-	785,025
Culture and recreation	358,103	-	34,267	-	392,370
Debt Service					
Principal	-	256,000	-	-	256,000
Interest and other charges	-	111,181	-	-	111,181
Capital Outlay					
General government	-	-	324,175	-	324,175
Public safety	-	-	77,958	-	77,958
Streets	-	-	174,150	-	174,150
Culture and recreation	-	-	16,076	-	16,076
TOTAL EXPENDITURES	2,697,687	367,181	1,012,186	2,650	4,079,704
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	852,923	(290,399)	(434,162)	906	129,268
OTHER FINANCING SOURCES (USES)					
Transfers in	-	388,412	656,288	-	1,044,700
Transfers out	(981,288)	(70,350)	-	-	(1,051,638)
Sale of capital assets	719	-	25,090	-	25,809
TOTAL OTHER FINANCING SOURCES (USES)	(980,569)	318,062	681,378	-	18,871
NET CHANGE IN FUND BALANCES	(127,646)	27,663	247,216	906	148,139
FUND BALANCES - JANUARY 1	1,379,388	961,059	68,336	7,319	2,416,102
Prior period adjustment	200,000	-	-	-	200,000
FUND BALANCES - DECEMBER 31	$ 1,451,742	$ 988,722	$ 315,552	$ 8,225	$ 2,764,241

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, 2011

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

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS		$ 148,139
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	592,359	
Less current year depreciation	(521,780)	
Less capital assets transferred to enterprise funds	(268,257)	
Net capital assets		(197,678)
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.		(1,715)
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	(26,227)	
Change in deferred revenue - special assessments	(9,073)	
Net change		(35,300)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		256,000
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.		(4,986)
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	(7,384)	
Change in severance payable	(6,805)	
Change in other postemployment benefits payable	(435,915)	
Net change		(450,104)
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES		$ (285,644)

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

CITY OF MOUNTAIN IRON, MINNESOTA

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
December 31, 2011

	Business-type Activities - Enterprise Funds					
	Electric Utility 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	$ 335,867	$ 235,349	$ 486,616	$ 339,615	$ 48,358	$ 1,445,805
Accounts receivable	315,175	46,158	45,621	54,126	2,601	463,681
Inventories	192,935	13,055	-	-	-	205,990
Prepaid items	-	-	-	-	844	844
TOTAL CURRENT ASSETS	843,977	294,562	532,237	393,741	51,803	2,116,320
NONCURRENT ASSETS						
Restricted cash and cash equivalents						
Reserve account	-	-	-	-	110,077	110,077
Tenant security deposits	-	-	-	-	11,520	11,520
Total restricted cash and cash equivalents	-	-	-	-	121,597	121,597
Capital assets						
Land	18,034	-	-	-	8,336	26,370
Buildings	308,167	2,190,764	2,718,281	12,761	1,441,693	6,671,666
Infrastructure	667,093	2,667,535	4,078,674	-	-	7,413,302
Machinery and equipment	-	60,271	269,149	-	292,851	622,271
Licensed vehicles	373,257	-	20,546	469,484	-	863,287
Less accumulated depreciation	(847,144)	(2,993,825)	(3,794,097)	(273,101)	(1,196,914)	(9,105,081)
Total capital assets (net of accumulated depreciation)	519,407	1,924,745	3,292,553	209,144	545,966	6,491,815
TOTAL NONCURRENT ASSETS	519,407	1,924,745	3,292,553	209,144	667,563	6,613,412
TOTAL ASSETS	1,363,384	2,219,307	3,824,790	602,885	719,366	8,729,732
LIABILITIES						
CURRENT LIABILITIES						
Accounts payable	184,811	14,431	7,647	11,095	13,224	231,208
Salaries payable	12,795	4,947	2,577	1,867	-	22,186
Accrued interest payable	-	1,633	4,121	-	1,540	7,294
Customer deposits payable	76,583	1,205	-	-	10,173	87,961
Bonds and notes payable - current	-	50,000	25,000	-	8,923	83,923
TOTAL CURRENT LIABILITIES	274,189	72,216	39,345	12,962	33,860	432,572
NONCURRENT LIABILITIES						
Severance payable	15,251	2,106	911	1,821	-	20,089
Other postemployment benefit obligation	69,812	108,380	90,330	59,241	-	327,763
Bonds and notes payable	-	550,000	525,000	-	610,449	1,685,449
TOTAL NONCURRENT LIABILITIES	85,063	660,486	616,241	61,062	610,449	2,033,301
TOTAL LIABILITIES	359,252	732,702	655,586	74,024	644,309	2,465,873
NET ASSETS						
Invested in capital assets, net of related debt	519,406	1,324,745	2,742,554	209,144	(73,406)	4,722,443
Restricted for other purposes	-	-	-	-	121,597	121,597
Unrestricted	484,726	161,860	426,650	319,717	26,866	1,419,819
TOTAL NET ASSETS	$ 1,004,132	$ 1,486,605	$ 3,169,204	$ 528,861	$ 75,057	$ 6,263,859

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, 2011

	Business-type Activities - Enterprise Funds					
	Electric Utility Enterprise Fund	Water Treatment Enterprise Fund	Wastewater Treatment Enterprise Fund	Refuse Removal and Recycling Enterprise Fund	Mountain Manor Apartments Enterprise Fund	Totals
REVENUES						
Charges for sales and services	$ 2,303,998	$ 263,651	$ 410,587	$ 389,174	$ 193,802	$ 3,561,212
OPERATING EXPENSES						
Cost of sales	1,472,063	-	-	-	-	1,472,063
Salaries	279,406	80,815	76,703	99,834	42,934	579,692
Employee benefits	123,360	33,650	30,717	46,388	3,284	237,399
Contract services	-	-	29,944	-	42,461	72,405
Insurance	16,511	6,010	4,295	8,261	10,086	45,163
Miscellaneous	61,843	42,356	15,553	11,822	5,351	136,925
Other postemployment benefits	40,135	32,677	38,071	3,294	-	114,177
Repairs and maintenance	64,635	43,376	26,048	9,939	23,493	167,491
Solid waste management and tipping fees	-	-	-	127,165	-	127,165
Supplies	32,975	7,285	14,175	24,943	2,226	81,604
Telephone	5,047	614	1,923	758	2,416	10,758
Utilities	-	38,906	71,984	-	26,749	137,639
Depreciation	44,016	74,680	126,568	46,304	53,491	345,059
TOTAL OPERATING EXPENSES	2,139,991	360,369	435,981	378,708	212,491	3,527,540
OPERATING INCOME (LOSS)	164,007	(96,718)	(25,394)	10,466	(18,689)	33,672
NONOPERATING REVENUES (EXPENSES)						
Interest income	2,579	9,875	3,317	9,839	233	25,843
Miscellaneous	-	-	-	-	5,419	5,419
Interest expense	-	(20,287)	(12,329)	-	(18,966)	(51,582)
Loss on disposal of capital assets	-	-	-	-	(78)	(78)
TOTAL NONOPERATING REVENUES (EXPENSES)	2,579	(10,412)	(9,012)	9,839	(13,392)	(20,398)
INCOME (LOSS) BEFORE CAPITAL GRANT AND CONTRIBUTIONS AND TRANSFERS	166,586	(107,130)	(34,406)	20,305	(32,081)	13,274
Capital grant	-	-	262,044	-	-	262,044
Capital contributions	-	87,700	180,557	-	-	268,257
Transfers in	-	70,350	-	-	-	70,350
Transfers out	(20,074)	(33,338)	-	(10,000)	-	(63,412)
CHANGE IN NET ASSETS	146,512	17,582	408,195	10,305	(32,081)	550,513
TOTAL NET ASSETS - JANUARY 1	857,620	1,469,023	2,761,009	518,556	107,138	5,713,346
TOTAL NET ASSETS - DECEMBER 31	$ 1,004,132	$ 1,486,605	$ 3,169,204	$ 528,861	$ 75,057	$ 6,263,859

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

CITY OF MOUNTAIN IRON, MINNESOTA

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended December 31, 2011

	Business-type Activities - Enterprise Funds					
	Electric Utility 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	$ 2,493,065	$ 251,687	$ 415,587	$ 391,267	$ 193,064	$ 3,744,670
Cash paid to suppliers	(1,849,450)	(199,721)	(232,454)	(232,265)	(113,789)	(2,627,679)
Cash paid to employees	(297,915)	(48,688)	(46,898)	(97,298)	(42,934)	(533,733)
NET CASH PROVIDED BY OPERATING ACTIVITIES	345,700	3,278	136,235	61,704	36,341	583,258
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Transfers in from other funds	-	70,350	-	-	-	70,350
Transfers out to other funds	(20,074)	(33,338)	-	(10,000)	-	(63,412)
Miscellaneous	-	-	-	-	5,419	5,419
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	(20,074)	37,012	-	(10,000)	5,419	12,357
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Purchase or construction of fixed assets	-	-	(320,723)	(48,224)	(20,770)	(389,717)
Principal paid on long-term debt	-	(50,000)	(25,000)	-	(9,653)	(84,653)
Interest paid on long-term debt	-	(20,350)	(12,926)	-	(19,053)	(52,329)
Capital grants	-	-	150,000	-	-	150,000
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	-	(70,350)	(208,649)	(48,224)	(49,476)	(376,699)
CASH FLOWS FROM INVESTING ACTIVITIES						
Interest and dividends received	2,579	9,875	3,317	9,839	233	25,843
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	328,205	(20,185)	(69,097)	13,319	(7,483)	244,759
CASH AND CASH EQUIVALENTS, JANUARY 1 (including $117,233 in restricted accounts)	7,662	255,534	555,713	326,296	177,438	1,322,643
CASH AND CASH EQUIVALENTS, DECEMBER 31 (including $121,597 in restricted accounts)	$ 335,867	$ 235,349	$ 486,616	$ 339,615	$ 169,955	$ 1,567,402
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES						
Operating income (loss)	$ 164,007	$ (96,718)	$ (25,394)	$ 10,466	$ (18,689)	$ 33,672
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:						
Depreciation	44,016	74,680	126,568	46,304	53,491	345,059
Changes in assets and liabilities						
(Increase) decrease in:						
Accounts receivable	184,308	(12,309)	5,000	2,093	(1,833)	177,259
Inventories	(30,634)	(2,164)	-	-	-	(32,798)
Prepaid items	-	-	-	-	(197)	(197)
Increase (decrease) in:						
Accounts payable	(2,247)	7,317	256	305	2,474	8,105
Salaries payable	(385)	(822)	(50)	(322)	-	(1,579)
Customer deposits	4,759	345	-	-	1,095	6,199
Severance payable	3,031	672	182	364	-	4,249
Other postemployment benefit obligation	(21,155)	32,277	29,673	2,494	-	43,289
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 345,700	$ 3,278	$ 136,235	$ 61,704	$ 36,341	$ 583,258
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES						
Contributions of capital assets from government	$ -	$ 87,700	$ 180,557	$ -	$ -	$ 268,257

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

[redacted]

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, 2011.

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 units are 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:

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	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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Discretely Presented Component Units

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

The discretely presented component unit 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 - Capital Projects Fund - governmental fund

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

B. Basic Financial Statements

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

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

Fund Financial Statements
The City segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Separate statements are presented for governmental and proprietary activities.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Governmental Funds

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

Major Governmental Funds:

The General Fund is used to account for and report all financial resources not accounted for and reported in another fund.

The Debt Service Fund is used to account for and report financial resources that are restricted to expenditure for principal and interest.

The City Projects Capital Projects Fund is used to account for and report financial resources that are committed to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. Capital projects funds exclude those types of capital-related outflows financed by proprietary funds.

Nonmajor Governmental Funds:

The Charitable Gambling Special Revenue Fund is used to account for and report the proceeds from lawful gambling contributions.

Proprietary Funds

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

Major Proprietary Funds:

The Electric Utility Enterprise Fund is used to account for the revenues generated from the charges 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 of water services 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

D. Implementation of New Accounting Principles

For the year ending December 31, 2011, the City implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* issued by the Governmental Accounting Standards Board. GASB Statement No. 54 establishes standards for fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Additionally, the definitions of the general fund, special revenue fund type, capital projects fund type, debt service fund type, and permanent fund type are clarified by the provisions in this Statement. Interpretations of certain terms within the definition of the special revenue fund type have been provided and, for some governments, those interpretations may affect the activities they choose to report in those funds. The capital projects fund type definition also was clarified for better alignment with the needs of preparers and users. Definitions of other governmental fund types also have been modified for clarity and consistency.

E. 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.

F. Assets, Liabilities and Fund Balances

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

2) The enterprise funds report accounts receivable net of uncollectible accounts. The allowance amounts of $1,500 in the water enterprise fund, $2,500 in the wastewater enterprise fund; $5,000 in the refuse removal and recycling enterprise fund, and $15,000 in the electric enterprise fund were estimated using an average of prior years' accounts written off.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

5) Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances". Outstanding balances between funds are reported as "due to/from other funds".

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

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

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

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

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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

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

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

In the fund financial statements, fund balances of the governmental funds are classified as follows:

Nonspendable—amounts that cannot be spent either because they are in nonspendable form, such as inventory and prepaid items, or because they are legally or contractually required to be maintained intact, such as the principal balance of scholarship endowments.

Restricted—amounts that can be spent only for specific purposes because of enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed—amounts that can be used only for specific purposes determined by a formal action of the City Council. The City Council is the highest level of decision making authority for the City. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the City Council.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assigned—amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. The City Council or an individual or committee authorized by the City Council may assign amounts for specific purposes.

Unassigned—all other spendable amounts.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the City Council has provided otherwise in its commitment or assignment actions.

G. 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 AND CASH EQUIVALENTS

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

NOTE 2 - CASH AND CASH EQUIVALENTS (CONTINUED)

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

	Primary Government	Component Unit EDA
Petty Cash	$ 500	$ -
Cash	2,659,914	642,719
Certificates of Deposit	1,512,042	-
Investments	50,000	-
Total	$ 4,222,456	$ 642,719

Deposits

Custodial Credit Risk – Deposits

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

The City maintains deposits at financial institutions authorized by the City Council. Minnesota statutes require that all City deposits be protected by insurance, surety bond or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance or bonds. State statutes authorize the types of securities which may be pledged as collateral and require that those securities be held in safekeeping by the City or in a financial institution other than that furnishing the collateral. At year-end, the carrying amount of the City's deposits, which includes certificates of deposit, was $4,171,956; the bank balance was $4,210,876. At year end, the City's bank balances were entirely insured or collateralized with securities held by the pledging financial institution's agent in the City's name. At year-end, the carrying amount of the Mountain Iron EDA's deposits, which includes cash, was $642,719; the bank balance was $642,719. At year-end, the Mountain Iron EDA's bank balances were entirely insured or collateralized with securities held by the pledging financial institution's agent in the Mountain Iron EDA's name.

Investments

Custodial Credit Risk – Investments

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

Credit Risk and Concentration of Credit Risk

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

NOTE 2 - CASH AND CASH EQUIVALENTS (CONTINUED)

issuer and, as of December 31, 2011, had no investments in any issuer that exceeded five percent of net assets. During this fiscal year, the City made a partial call of $175,000, reducing the investment in Federal Home Loan Banks STEP coupons to $50,000. At December 31, 2011, the coupons were rated as AAA by Moody's and AA+ by S & P.

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

NOTE 3 - LOANS RECEIVABLE

The Mountain Iron EDA is involved in economic development projects. Several businesses received revolving loans from Mountain Iron EDA in 2011 and prior years. The unpaid principal balance on these loans at December 31, 2011 was $227,006 and is recorded as loans receivable in the Mountain Iron EDA general fund.

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2011, was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental activities				
Capital assets, not being depreciated:				
Land	$ 414,445	$ -	$ (1,715)	$ 412,730
Construction in progress	2,039,726	144,210	(729,150)	1,454,786
Total capital assets not being depreciated	2,454,171	144,210	(730,865)	1,867,516
Capital assets, being depreciated:				
Land improvements	1,014,329	16,077	-	1,030,406
Buildings	3,045,484	451,759	-	3,497,243
Infrastructure	7,526,150	413,099	-	7,939,249
Machinery and equipment	813,966	4,203	-	818,169
Licensed vehicles	2,039,569	23,904	(26,000)	2,037,473
Total capital assets, being depreciated	14,439,498	909,042	(26,000)	15,322,540
Less accumulated depreciation for:				
Land improvements	(190,873)	(46,363)	-	(237,236)
Buildings	(868,869)	(60,603)	-	(929,472)
Infrastructure	(3,330,201)	(271,497)	-	(3,601,698)
Machinery and equipment	(325,017)	(49,241)	-	(374,258)
Licensed vehicles	(1,716,854)	(94,076)	26,000	(1,784,930)
Total accumulated depreciation	(6,431,814)	(521,780)	26,000	(6,927,594)
Total capital assets, being depreciated, net	8,007,684	387,262	-	8,394,946
Governmental activities capital assets, net	$ 10,461,855	$ 531,472	$ (730,865)	$ 10,262,462
Business-type activities				
Capital assets, not being depreciated:				
Land	$ 26,370	$ -	$ -	$ 26,370
Capital assets, being depreciated:				
Building	6,657,789	13,877	-	6,671,666
Infrastructure	6,824,320	588,982	-	7,413,302
Machinery and equipment	648,489	6,893	(33,111)	622,271
Licensed vehicles	815,063	48,224	-	863,287
Total capital assets, being depreciated	14,945,661	657,976	(33,111)	15,570,526
Less accumulated depreciation for:				
Building	(2,937,679)	(145,112)	-	(3,082,791)
Infrastructure	(4,840,179)	(108,693)	-	(4,948,872)
Machinery and equipment	(571,042)	(19,517)	33,033	(557,526)
Licensed vehicles	(444,155)	(71,737)	-	(515,892)
Total accumulated depreciation	(8,793,055)	(345,059)	33,033	(9,105,081)
Total capital assets, being depreciated, net	6,152,606	312,917	(78)	6,465,445
Business-type activities capital assets, net	$ 6,178,976	$ 312,917	$ (78)	$ 6,491,815

NOTE 4 - CAPITAL ASSETS (CONTINUED)

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

Governmental activities	
General government	$ 42,042
Public safety	65,399
Streets	342,165
Culture and recreation	72,174
Total depreciation expense-governmental activities	$ 521,780
Business-type activities	
Electric utility	$ 44,016
Water treatment	74,680
Wastewater treatment	126,569
Refuse removal and recycling	46,303
Mountain Manor Apartments	53,491
Total depreciation expense - business-type activities	$ 345,059

Discretely presented component unit:
Mountain Iron EDA capital asset activity for the year ended December 31, 2011, is as follows:

	Balance 01/01/11	Additions	Deletions	Balance 12/31/11
Governmental activities				
Capital assets, not being depreciated:				
Land	$ 2,456,839	$ -	$ -	$ 2,456,839
Construction in progress	120,608	3,341,109	-	3,461,717
Total capital assets, not being depreciated	$ 2,577,447	$ 3,341,109	$ -	$ 5,918,556

NOTE 5 - LONG-TERM LIABILITIES

The City issued general obligation bonds to finance the purchase of major capital items and the acquisition or construction of major capital facilities or improvements. Bonded indebtedness has also been entered into to advance refund general obligation bonds and water revenue bonds. General obligation notes have been issued for business-type activities and are being repaid from the applicable resources. The water revenue refunding bonds are payable solely from the net revenues of the Water Treatment Enterprise Fund. The Mountain Iron Housing and Redevelopment Authority entered into a mortgage note for the construction of a housing facility. 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 5 - 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					
2005 Refunding	03/08/2005	2.70-4.30%	$1,645,000	02/01/2020	$1,145,000
2005 Library Upgrade	08/01/2005	4.125%	$ 300,000	08/01/2035	273,000
2007 Improvements	09/11/2007	4.0-4.65%	$1,455,000	02/01/2028	1,200,000
Total General Obligation Bonds					2,618,000
Severance Payable					75,769
Other Postemployment Benefit Obligation					1,158,499
Governmental activities long-term liabilities					3,852,268
Business-type activities					
Revenue Bonds					
2009 Water Revenue Refunding Bonds	09/01/2009	1.5-4.0%	$ 650,000	12/01/2022	600,000
General Obligation Revenue Notes					
2009 PFA Wastewater Revenue Notes	10/20/2009	2.25%	$ 599,250	08/20/2029	550,000
Notes Payable					
1980 Rural Development	09/04/1980	3.61%	$ 819,370	090/1/2030	445,018
1981 Rural Development	01/16/1981	3.61%	$ 320,630	010/1/2031	174,354
Total Notes Payable					619,372
Severance Payable					20,089
Other Postemployment Benefit Obligation					327,763
Business-type activities long-term liabilities					2,117,224
Total primary government long-term liabilities					5,969,492
Discretely presented component unit					
EDA					
State Loan					
2011 IRRR					3,406,644
Total reporting entity					$9,376,136

NOTE 5 - LONG-TERM LIABILITIES (CONTINUED)

Long-term liability activity for the year ended December 31, 2011 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Governmental activities					
Bonds Payable					
2005 GO Refunding	$ 1,300,000	$ -	$ 155,000	$ 1,145,000	$ 160,000
2005 GO Library Upgrade	279,000	-	6,000	273,000	6,000
2007 GO Improvement	1,295,000	-	95,000	1,200,000	95,000
Total Bonds Payable	2,874,000	-	256,000	2,618,000	261,000
Severance Payable	68,964	8,388	1,583	75,769	-
Other Postemployment Benefit Obligation	722,585	522,020	86,106	1,158,499	-
Governmental activities - long-term liabilities	3,665,549	530,408	343,689	3,852,268	261,000
Business-type activities					
2009 Water Revenue Refunding Bonds	650,000	-	50,000	600,000	50,000
2009 GO PFA Wastewater Revenue Notes	575,000	-	25,000	550,000	25,000
1980 Rural Development Notes	452,033	-	7,015	445,018	6,494
1981 Rural Development Notes	176,992	-	2,638	174,354	2,429
Severance Payable	15,840	4,287	38	20,089	-
Other Postemployment Benefit Obligation	284,474	114,178	70,889	327,763	-
Business-type activities - long-term liabilities	2,154,339	118,465	155,580	2,117,224	83,923
Total primary government	5,819,888	648,873	499,269	5,969,492	344,923
Discretely presented component unit					
EDA					
2001 IRRR	-	3,406,644	-	3,406,644	-
Total reporting entity	$ 5,819,888	$ 4,055,517	$ 499,269	$ 9,376,136	$ 344,923

Minimum annual principal and interest payments required to retire long-term liabilities, excluding severance and other postemployment benefit obligation payables are as follows:

Year Ending	Governmental Activities		Business-Type Activities		Government-wide	
December 31	Principal	Interest	Principal	Interest	Principal	Interest
2012	$ 261,000	$ 100,629	$ 83,923	$ 51,748	$ 344,923	$ 152,377
2013	282,000	90,644	85,213	50,145	367,213	140,789
2014	287,000	79,944	85,512	48,211	372,512	128,155
2015	293,000	68,836	86,823	46,266	379,823	115,102
2016	298,000	57,244	87,143	43,964	385,143	101,208
2017-2021	683,000	171,137	487,891	176,083	1,170,891	347,220
2022-2026	276,000	85,429	294,608	103,902	570,608	189,331
2027-2031	174,000	26,944	558,259	52,772	732,259	79,716
2032-2035	64,000	6,723	-	-	64,000	6,723
Total	$ 2,618,000	$ 687,530	$ 1,769,372	$ 573,091	$ 4,387,372	$ 1,260,621

NOTE 5 - LONG-TERM LIABILITIES (CONTINUED)

EDA

Component Unit

Mountain Iron EDA entered into a State loan agreement for the construction of a manufacturing facility on June 18, 2010. The loan settlement occurred on February 15, 2011. The maturity date of the $3,600,000 loan is January 15, 2037. Mountain Iron EDA shall pay to the State by January 15th of each calendar year until the maturity date, payments in the full amount of net lease revenue of the preceding calendar year. At December 31, 2011, $193,356 remains to be drawn from the loan amount issued.

Pledged Revenue

Government Funds

The City issued $1,455,000 GO improvement bonds to finance a portion of the costs of local public improvements within the City in 2007. Principal and interest paid for the current year was $147,510. At December 31, 2011 principal and interest on the bonds to be paid to maturity in 2028 from special assessments levied upon the benefitted property and ad valorem taxes totaled $1,559,108.

In 2005, the City issued $1,645,000 GO refunding bonds of which the proceeds were used to effect a crossover refunding of $765,000 of the outstanding GO community center bonds of 1998 issued to finance the cost of the community center building and $820,000 of the outstanding GO improvement bonds of 2000 issued to finance various municipal improvements within the City. Principal and interest paid for the current year was $200,896. Principal and interest to maturity in 2020 to be paid from a combination of special assessments levied upon benefited proper and ad valorem property taxes totaled $1,311,599.

Enterprise Funds

The City has pledged net revenues of the Water Treatment Enterprise Fund to pay principal and interest on the $650,000 general obligation water revenue refunding bonds issued in 2009. Proceeds from these bonds were used to refund the $650,000 general obligation water revenue bonds issued in 2002, which were used to update the water treatment plant. Principal and interest paid for the current year was $70,350. At December 31, 2011, principal and interest to maturity in 2022 to be paid from pledged future revenues totaled $731,775.

The City has pledged net revenues of the Wastewater Treatment Enterprise Fund to pay principal and interest on the $599,250 general obligation revenue note issued in 2009. Proceeds from this note were used to update the wastewater treatment plant. Principal and interest paid for the current year was $37,926. At December 31, 2011, principal and interest to maturity in 2029 to be paid from pledged future revenues totaled $674,966.

Conduit Debt

In 1999 the Mountain Iron Housing and Redevelopment Authority in and for the City of Mountain Iron issued $1,450,000 lease revenue bonds to finance construction of a building by Northeast Service Cooperative and approved the financing plan for the project. The project is located on HRA property. The bonds are special limited obligations of the Authority, payable solely from the amounts payable under the lease. The bonds do not constitute a debt of the Authority or the City within the meaning of any constitutional or statutory limitation. The outstanding balance on these bonds at December 31, 2011 is $785,000.

NOTE 5 - LONG-TERM LIABILITIES (CONTINUED)

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, 2011 is $0; $0; and $78,855, respectively.

NOTE 6 - INTERFUND BALANCES AND ACTIVITY

The composition of interfund balances as of December 31, 2011 is as follows:

Due to/from primary government and component unit -

Receivable entity	Payable entity	Amount
Primary government:	Component Unit:	
General Fund	Mountain Iron Economic Development Authority	$ 207,618

A prior period adjustment was reported for a $200,000 grant revenue adjustment, and the remaining balance resulted from the time lag between the dates that payments between funds are made.

Interfund transfers for the year ended December 31, 2011 consisted of the following:

	Transfers in			
	Debt Service Fund	City Projects Capital Projects Fund	Water Treatment Enterprise Fund	Total
Transfers out				
General Fund	$ 345,000	$ 636,288	$ -	$ 981,288
Debt Service Fund	-	-	70,350	70,350
Electric Utility Enterprise Fund	10,074	10,000	-	20,074
Water Treatment Enterprise Fund	33,338	-	-	33,338
Refuse Removal and Recycling Enterprise Fund	-	10,000	-	10,000
	$ 388,412	$ 656,288	$ 70,350	$ 1,115,050

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

NOTE 7 - FUND EQUITY

As of December 31, 2011, fund balances are comprised of the following:

	General Fund	Debt Service Fund	City Projects Capital Projects Fund	Other Governmental Charitable Gambling Special Revenue Fund	Total
Restricted:					
Debt service	$ -	$ 988,722	$ -	$ -	$ 988,722
Assigned:					
Cash flow	250,000	-	-	-	250,000
Insurance	400,581	-	-	-	400,581
Buildings	400,581	-	-	-	400,581
Rate stabilization	400,580	-	-	-	400,580
Capital projects	-	-	315,552	-	315,552
Community contributions	-	-	-	8,225	8,225
Total assigned	1,451,741	-	315,552	8,225	1,775,519
Total fund balances	$ 1,451,742	$ 988,722	$ 315,552	$ 8,225	$2,764,241

NOTE 8 - PRIOR PERIOD ADJUSTMENT

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

Adjustment to fund balance of governmental fund in fund financial statement of primary government:

General Fund	
Grant revenue adjustment in prior year	$ 200,000

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

Grant revenue adjustment in prior year	$ 200,000

Adjustments to the net assets of governmental activities in the government-wide financial statements of the component unit:

Grant revenue adjustment in prior year	$ (200,000)
Capital addition in prior year	120,608
	$ (79,392)

NOTE 9 - 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 10 - 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. 13	No. 14
Redevelopment project district established in:	1983	1986	-	-
Economic development district established in:	-	-	2002	2008
Anticipated last tax increment year:	2011	2011	2011	2017
Original net tax capacity:	$ 3,485	$ 1,828	$ 756	$ 390
Current net tax capacity:	$ 54,273	$ 14,335	$ 3,738	$ 395
Fiscal disparity deduction	$ -	$ -	$ 656	$ 5
Captured net tax capacity retained by Authority:	$ 50,788	$ 12,507	$ 2,326	$ -
Total bonds issued Tax increment bonds	$ 440,000	$ 60,000	$ -	$ -
Amounts redeemed	440,000	60,000	-	-
Outstanding bonds at 12/31/11	$ -	$ -	$ -	$ -

NOTE 11 - 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, 2011, may be impaired. In the opinion of the City, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

Electric Utility Commitment

The City entered into an agreement with Minnesota Power to supply the City with a portion of its total electric requirements. This agreement is in effect until December 31, 2013. Contract prices for this electric supply are adjusted throughout the contract period as set forth in the agreement.

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

Construction Projects

The City had three outstanding construction projects as of December 31, 2011. The projects are evidenced by contractual commitments with contractors and engineers and include:

Project	Spent to Date	Commitments Remaining
2011 Street Improvements – overlay	$ 19,978	$ 103,990

The project is a commitment of the general fund and is being funded by general fund revenues and assessments to property owners.

NOTE 12 - 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.

NOTE 12 - JOINT VENTURES (CONTINUED)

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 2011 was $24,002. Complete financial information can be obtained from the Tri-Cities Biosolids Disposal Authority, Eveleth, Minnesota 55734.

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

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

Each member city contributes to the budget of the Authority based on the per capita reported in the 2000 Census. The City of Mountain Iron's contribution to the Authority's budget during 2011 was $5,942. Complete financial information can be obtained from the Biosolids Disposal Site Authority, Eveleth, Minnesota 55734.

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

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

The City of Mountain Iron's contribution to the Authority's budget during 2011 was $7,308. Complete financial information can be obtained from the Quad Cities Recreation Center, Eveleth, Minnesota 55734.

NOTE 13 - SEVERANCE AND OTHER EMPLOYEE BENEFITS

Upon retirement, the City provides most retirees a severance amount based on accumulated unused sick leave hours and rate of pay at the date of retirement, as established by contracts with bargaining units and other employment agreements. The agreements establish the terms for this severance amount, which may vary between bargaining units or employee groups. During 2011, the City did not have any expenditures for this benefit.

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

The City offers a Health Care Savings Plan (HCSP) to all eligible employees. HCSP is an employer-sponsored program that allows employees to save money, tax-free, to use upon termination of employment to pay for eligible health care expenses. Amounts to be put into the accounts must be negotiated or agreed to by both the bargaining unit and employer and written into the collective bargaining agreement or included in an individual contract for those employees not covered by a bargaining unit. Employer contributions to eligible employees were $1,090 for the year ended December 31, 2011.

NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS

Plan Description

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

Funding Policy

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

NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Annual OPEB Cost and Net OPEB Obligation

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

Normal cost	$ 197,410
Amortization of unfunded actuarial accrued liability	430,753
Interest to the end of the year	63,473
Annual required contribution	691,636
Adjustment to ARC	(55,438)
Annual OPEB cost (expense)	636,198
Contributions made including implicit rate subsidy	(156,994)
Increase in net OPEB obligation	479,204
Net OPEB obligation, beginning of year	1,007,058
Net OPEB obligation, end of year	$ 1,486,262

The City's annual OPEB cost, the percentage of the annual OPEB cost contributed to the plan, and the net OPEB obligation as of December 31, 2011 and the two preceding years were as follows:

Year Ended	OPEB Cost	Contribution (ARC)	OPEB Cost Contributed	% of ARC Contributed	OPEB Obligation
12/31/2009	$ 509,770	$ 653,290	$ 143,520	22.0%	$ 509,770
12/31/2010	$ 497,288	$ 644,479	$ 147,191	22.8%	$1,007,058
12/31/2011	$ 479,204	$ 636,198	$ 156,994	24.7%	$1,486,262

Funded Status and Funding Progress

The funding status of the plan as of January 1, 2009, the date of the latest actuarial valuation, was as follows:

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

NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

The required schedule of funding progress immediately following the notes to the financial statements presents trend information for one year. The City will have the actuarial valuation updated as of January 1, 2012.

Actuarial Methods and Assumptions

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future, such as assumptions about future employment and termination, mortality, and the healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. Projections of benefits for financial reporting purposes are based on the substantive plan provisions, as understood by the employer and participating members, and include the type of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and participating members. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The City's OPEB valuation as of January 1, 2009 used the projected unit credit cost method to estimate both the unfunded actuarial liability as of December 31, 2011 and to estimate the City's annual required contributions. This method was selected because it produced the best estimate of the OPEB liability and annual cost. The actuarial assumptions include a 4.0 percent discount rate and an initial annual healthcare cost trend rate of 10 percent initially for 2009 reduced by .5 percent per year, to an ultimate rate of 5 percent after 10 years. Mortality rates are from the 2000 United States Life Tables for Males and United States Life Tables for Females. The unfunded actuarial accrued liability is being amortized using the level dollar amount over 30 years on an open basis.

NOTE 15 - DEFINED BENEFIT PENSION PLANS – STATEWIDE

A. Plan Description

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

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

NOTE 15 - DEFINED BENEFIT PENSION PLANS – STATEWIDE (CONTINUED)

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

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

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

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

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

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. GERF Basic Plan members and Coordinated Plan members were required to contribute 9.10% and 6.25%, respectively, of their annual covered salary in 2011. In 2011, the City of Mountain Iron was

NOTE 15 - DEFINED BENEFIT PENSION PLANS – STATEWIDE (CONTINUED)

required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan members and 7.25% for Coordinated Plan members. The City's contributions to the Public Employees Retirement Fund for the years ending December 31, 2011, 2010, and 2009 were $89,522, $84,117, and $79,895, respectively. The City's contributions were equal to the contractually required contributions for each year as set by state statute.

NOTE 16 - DEFINED CONTRIBUTION PLAN

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

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

Total contributions made by the City of Mountain Iron during fiscal year 2011 were:

Amount		Percentage of Covered Payroll		Required
Employees	Employer	Employees	Employer	Rates
$ 585	$ 585	5.00%	5.00%	5.00%

[redacted]

CITY OF MOUNTAIN IRON, MINNESOTA

SCHEDULE OF FUNDING PROGRESS FOR POSTEMPLOYMENT BENEFIT PLAN
Year Ended December 31, 2011

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

NOTE 1 - ACTUARIAL VALUATION DATE

The City of Mountain Iron is a GASB 45 Phase 3 employer, with required implementation as of January 1, 2009. Therefore, the required schedule of funding progress for postemployment benefit plan presents one actuarial valuation. The City will have the actuarial valuation updated as of January 1, 2012.

CITY OF MOUNTAIN IRON, MINNESOTA

GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
Year Ended December 31, 2011

	Budgeted Amounts		Actual Amounts, Budgetary Basis	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Taxes	$ 1,335,789	$ 1,335,789	$ 1,258,278	$ (77,511)
Special assessments	-	-	310	310
Licenses and permits	25,000	25,000	24,826	(174)
Intergovernmental	2,129,430	2,129,430	2,075,863	(53,567)
Charges for services	145,000	145,000	164,599	19,599
Fines	11,000	11,000	17,296	6,296
Interest	32,000	32,000	9,438	(22,562)
TOTAL REVENUES	3,678,219	3,678,219	3,550,610	(127,609)
EXPENDITURES				
Current				
General government	1,033,808	1,033,808	958,759	75,049
Public safety	609,500	609,500	610,790	(1,290)
Streets	705,000	705,000	770,035	(65,035)
Culture and recreation	404,500	404,500	358,103	46,397
TOTAL EXPENDITURES	2,752,808	2,752,808	2,697,687	55,121
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	925,411	925,411	852,923	(72,488)
OTHER FINANCING SOURCES (USES)				
Transfers out	(925,411)	(925,411)	(981,288)	(55,877)
Sale of capital assets	-	-	719	719
TOTAL OTHER FINANCING SOURCES (USES)	(925,411)	(925,411)	(980,569)	(55,158)
NET CHANGE IN FUND BALANCE	-	-	(127,646)	(127,646)
FUND BALANCE - JANUARY 1	1,379,388	1,379,388	1,379,388	-
Prior period adjustment	-	-	200,000	200,000
FUND BALANCE - DECEMBER 31	$ 1,379,388	$ 1,379,388	$ 1,451,742	$ 72,354

See notes to required supplementary information.

CITY OF MOUNTAIN IRON, MINNESOTA

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
December 31, 2011

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.

[redacted]

CITY OF MOUNTAIN IRON, MINNESOTA

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
Year Ended December 31, 2011

REVENUES	
TAXES	
General property	$ 1,214,570
Mineral rents and royalties	18,857
Franchise	24,851
TOTAL TAXES	1,258,278
SPECIAL ASSESSMENTS	
Principal	310
LICENSES AND PERMITS	24,826
INTERGOVERNMENTAL	
State	
Local government aid	1,156,268
Market value credit	30,291
Taconite production	467,173
Taconite municipal aid	314,618
Mining effects	91,753
PERA aid	4,529
Fire aid	11,231
TOTAL INTERGOVERNMENTAL	2,075,863
CHARGES FOR SERVICES	
General government	
Rent	17,056
Other reimbursements	109,057
Culture and recreation	
Recreation fees	5,006
Campground fees	33,480
TOTAL CHARGES FOR SERVICES	164,599
FINES	17,296
INTEREST	9,438
TOTAL REVENUES	3,550,610

CITY OF MOUNTAIN IRON, MINNESOTA

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

Year Ended December 31, 2011

EXPENDITURES		
CURRENT		
GENERAL GOVERNMENT		
Mayor and council	$	22,780
Administration		473,850
Elections		269
Assessor		31,898
Retiree's insurance		86,329
Donations and contributions		7,308
Other		109,342
Buildings		205,157
Planning and zoning		21,826
TOTAL GENERAL GOVERNMENT		958,759
PUBLIC SAFETY		
Sheriff		511,407
Fire		80,287
Animal control		19,071
Civil defense		25
TOTAL PUBLIC SAFETY		610,790
STREETS		770,035
CULTURE AND RECREATION		
Library		150,939
Recreation		169,713
Campgrounds		37,451
TOTAL CULTURE AND RECREATION		358,103
TOTAL EXPENDITURES		2,697,687
EXCESS OF REVENUES OVER EXPENDITURES		852,923
OTHER FINANCING SOURCES (USES)		
Transfers out		(981,288)
Sale of capital assets		719
TOTAL OTHER FINANCING SOURCES (USES)		(980,569)
NET CHANGE IN FUND BALANCE		(127,646)
FUND BALANCE - JANUARY 1		1,379,388
Prior period adjustment		200,000
FUND BALANCE - DECEMBER 31	$	1,451,742

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, 2011

	Budget	Accounted for in Prior Years	Current Year
SOURCES OF FUNDS			
Tax increment revenue	$ 2,000,000	$ 1,559,831	$ 54,332
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	2,179,942	54,332
USES OF FUNDS			
Land acquisition	100,000	58,616	-
Site improvements and preparation costs	750,000	713,627	-
Installation of public utilities	150,000	-	-
Streets and sidewalks	100,000	-	-
Bond principal payments	2,000,000	440,000	-
Bond interest payments	400,000	375,448	-
Loan principal payments	-	178,385	-
Administrative costs	200,000	58,919	-
Pooled for debt	302,000	354,947	54,332
TOTAL USES OF FUNDS	4,002,000	2,179,942	54,332
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, 2011

	Budget	Accounted for in Prior Years	Current Year
SOURCES OF FUNDS			
Tax increment revenue	$ 5,566,225	$ 285,501	$ 13,249
Bond proceeds	1,905,000	60,000	-
Loan proceeds EDA General Fund	-	169,487	-
TOTAL SOURCES OF FUNDS	7,471,225	514,988	13,249
USES OF FUNDS			
Land acquisition	324,500	264,070	-
Site improvement	466,500	-	-
Bond principal payments	1,905,000	60,000	-
Bond interest payments	2,721,725	53,248	-
Loan principal payments	-	128,277	13,249
Administrative costs	134,020	9,393	-
Debt service reserve	500,000	-	-
TOTAL USES OF FUNDS	6,051,745	514,988	13,249
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. 13
Year Ended December 31, 2011

	Budget	Accounted for in Prior Years	Current Year
SOURCES OF FUNDS			
Tax increment revenue	$ 120,900	$ 17,929	$ 2,509
Interest	2,000	-	-
Loan proceeds EDA General Fund	-	30,062	-
TOTAL SOURCES OF FUNDS	122,900	47,991	2,509
USES OF FUNDS			
Site improvements and preparation costs	83,000	35,378	-
Installation of public utilities	27,800	-	-
Administrative costs	12,100	6,170	-
Loan principal payments	-	6,443	2,509
TOTAL USES OF FUNDS	122,900	47,991	2,509
DISTRICT BALANCE	$ -	$ -	$ -

CITY OF MOUNTAIN IRON, MINNESOTA

SCHEDULE OF SOURCES AND USES OF PUBLIC FUNDS
FOR MOUNTAIN IRON TAX INCREMENT DISTRICT NO. 14
Year Ended December 31, 2011

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

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

To the City Council
City of Mountain Iron, Minnesota

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund and the remaining fund information of the City of Mountain Iron, Minnesota, as of and for the year ended December 31, 2011, which collectively comprise the City of Mountain Iron, Minnesota's basic financial statements and have issued our report thereon dated June 26, 2012. Our report includes a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of Mountain Manor Apartments Enterprise Fund, as described in our report on City of Mountain Iron, Minnesota's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness and another deficiency that we consider to be a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses as item 2011-2 to be a material weakness.

A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and responses as item 2011-1 to be a significant deficiency.

Compliance and Other Matters

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

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

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions* contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions and tax increment financing. Our study included all of the listed categories.

The results of our tests indicate that for the items tested, the City of Mountain Iron, Minnesota, complied with the material terms and conditions of applicable legal provisions.

We noted certain matters that we reported to management of City of Mountain Iron, Minnesota in a separate letter dated June 26, 2012, 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 the response.

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

Walker, Hirsch & Nelson, Ltd.

June 26, 2012

CITY OF MOUNTAIN IRON, MINNESOTA

SCHEDULE OF FINDINGS AND RESPONSES
Year Ended December 31, 2011

2011-1. SEGREGATION OF DUTIES

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

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

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

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

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

Corrective Action Plan (CAP)

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

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

3. Official Responsible for Ensuring CAP
   Craig Wainio, City Administrator, is the official responsible for ensuring this plan.

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

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

2011-2. LACK OF CONTROL OVER FINANCIAL REPORTING PROCESS

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

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

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

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

Corrective Action Plan (CAP)

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

2. Actions Planned in Response to Finding
   Management has determined that the cost and training involved to review or prepare the City's financial statements exceeds the benefit that would result.

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

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

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

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MANAGEMENT LETTER

To the City Council
City of Mountain Iron, Minnesota

In planning and performing our audit of the financial statements of the City of Mountain Iron, Minnesota, as of and for the year ended December 31, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) 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. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. A separate report dated June 26, 2012, contains our report on significant deficiencies or material weaknesses in the City's internal control. This letter does not affect our report dated June 26, 2012, on the financial statements of the City of Mountain Iron, Minnesota.

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

1. The Water Treatment Enterprise Fund, Wastewater Treatment Enterprise Fund, and Mountain Manor Apartments Enterprise Fund each reported an operating loss for the year ended December 31, 2011. We suggest that the City Council review these losses and implement a plan to make the funds profitable and self-sufficient.

2. During our review of credit card transactions, we noted several credit card purchases did not have proper supporting documentation attached. We recommend that supporting documentation be attached to credit card statements prior to payment.

3. Payroll information for salaried employees lists the number of hours of comp time earned and the number of hours used for comp time, sick leave, vacation, personal and holiday time. We recommend that the date the leave was taken also be included with the hours. This information will provide proper documentation of leave taken. We also suggest that the Council review this documentation periodically throughout the year.

4. The City and EDA are involved in several projects that have required funding and payments from each entity. As the projects are approved and revised, we recommend that management communicate and clearly outline the accounting details of the projects—funding sources, contracts, City responsibility, EDA responsibility, etc., to provide required accounting information and to properly match revenues and expenditures. We also recommend that a spreadsheet be set up to track the activity by entity in each project file to properly segregate the accounting activity for each entity.

5. Volunteers collect cash receipts at some City sponsored special events. Cash collections are not counted at some events, and the cash is retained by volunteers, until it is turned in to the City during business hours. We recommend that the cash be counted by at least two volunteers and a cash count sheet be prepared and signed at the time of the event.

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

Walker, Hirons & Nelson, Ltd.

June 26, 2012