

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]

[REDACTED]

[REDACTED]



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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 described 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, Hironaka & Nelson, LLP

June 26, 2012

CONFIDENTIAL - SECURITY INFORMATION

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.

CITY OF MOUNTAIN IRON, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2011

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

In the statement of net assets and the statement of activities, all activities are shown in the governmental activities, business-type activities or the Mountain Iron EDA component unit:

- **Governmental activities**—Most of the City's basic services are reported here, including general government, public safety, streets, culture and recreation, and economic development. Property taxes and state and federal grants finance most of these activities.
- **Business-type activities**—The City charges a fee to customers to help it cover all or most of the cost of services it provides. The City's electric, water treatment, wastewater treatment, refuse removal and recycling sales and services, and the Mountain Manor Apartments rental fees are reported here.
- **Component unit**—The Mountain Iron Economic Development Authority (EDA) is reported here.

Fund Financial Statements

The fund financial statements provide detailed information about the significant funds—not the City as a whole. Some funds are required to be established by State law and by bond covenants. However, the City establishes some funds to help it control and manage money for a particular purpose or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The City's two kinds of funds—governmental and proprietary—use different accounting methods.

- **Governmental funds**—Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using the modified accrual basis of accounting. This method measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation statement following each governmental fund financial statement.
- **Proprietary funds**—When the City charges customers for the services it provides—whether to outside customers or to other units of the City—these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the City's enterprise funds (a component of proprietary funds) are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows.

CITY OF MOUNTAIN IRON, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2011

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 | |
|--|----------------------------|---------------------|-----------------------------|---------------------|-----------------------------|----------------------|
| | <u>2011</u> | <u>2010</u> | <u>2011</u> | <u>2010</u> | <u>2011</u> | <u>2010</u> |
| Current and other assets | \$ 3,133,037 | \$ 2,842,602 | \$ 2,237,917 | \$ 2,137,422 | \$ 5,370,954 | \$ 4,980,024 |
| Capital assets | <u>10,262,462</u> | <u>10,461,846</u> | <u>6,491,815</u> | <u>6,178,976</u> | <u>16,754,277</u> | <u>16,640,822</u> |
| Total assets | <u>13,395,499</u> | <u>13,304,448</u> | <u>8,729,732</u> | <u>8,316,398</u> | <u>22,125,231</u> | <u>21,620,846</u> |
| Long-term debt outstanding | 3,852,268 | 3,665,549 | 2,117,224 | 2,154,339 | 5,969,492 | 5,819,888 |
| Other liabilities | <u>212,949</u> | <u>222,973</u> | <u>348,649</u> | <u>448,713</u> | <u>561,598</u> | <u>671,686</u> |
| Total liabilities | <u>4,065,217</u> | <u>3,888,522</u> | <u>2,465,873</u> | <u>2,603,052</u> | <u>6,531,090</u> | <u>6,491,574</u> |
| 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 | <u>697,098</u> | <u>1,828,071</u> | <u>1,419,819</u> | <u>1,271,162</u> | <u>2,116,917</u> | <u>3,099,233</u> |
| Total net assets | <u>\$ 9,330,282</u> | <u>\$ 9,415,926</u> | <u>\$ 6,263,859</u> | <u>\$ 5,713,346</u> | <u>\$ 15,594,141</u> | <u>\$ 15,129,272</u> |

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).

CITY OF MOUNTAIN IRON, MINNESOTA

**MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2011**

**Table 2
Changes in Net Assets**

| | Governmental Activities | | Business-Type Activities | | Total Primary Government | |
|---|----------------------------|---------------------|-----------------------------|---------------------|-----------------------------|----------------------|
| | <u>2011</u> | <u>2010</u> | <u>2011</u> | <u>2010</u> | <u>2011</u> | <u>2010</u> |
| 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 | <u>58,926</u> | <u>132,590</u> | <u>31,184</u> | <u>28,243</u> | <u>90,110</u> | <u>160,833</u> |
| Total revenues | <u>4,197,766</u> | <u>4,975,562</u> | <u>3,854,440</u> | <u>3,691,760</u> | <u>8,052,206</u> | <u>8,667,322</u> |
| 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 | <u>4,208,215</u> | <u>3,919,409</u> | <u>3,579,122</u> | <u>3,391,777</u> | <u>7,787,337</u> | <u>7,311,186</u> |
| Increase (decrease) in net assets before transfers | (10,449) | 1,056,153 | 275,318 | 299,983 | 264,869 | 1,356,136 |
| Transfers | <u>(275,195)</u> | <u>(38,379)</u> | <u>275,195</u> | <u>38,379</u> | <u>-</u> | <u>-</u> |
| 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 | <u>200,000</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>200,000</u> | <u>-</u> |
| Net assets, December 31 | <u>\$ 9,330,282</u> | <u>\$ 9,415,926</u> | <u>\$ 6,263,859</u> | <u>\$ 5,713,346</u> | <u>\$ 15,594,141</u> | <u>\$ 15,129,272</u> |

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.

CITY OF MOUNTAIN IRON, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2011

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.

CITY OF MOUNTAIN IRON, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2011

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.

CITY OF MOUNTAIN IRON, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2011

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 | <u>\$ 10,262,462</u> | <u>\$ 10,461,846</u> | <u>\$ 6,491,815</u> | <u>\$ 6,178,976</u> | <u>\$ 16,754,277</u> | <u>\$ 16,640,822</u> |
| 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 | <u>\$ 5,918,556</u> | <u>\$ 2,577,447</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 5,918,556</u> | <u>\$ 2,577,447</u> |

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.

CITY OF MOUNTAIN IRON, MINNESOTA

**MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2011**

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

| | Governmental Activities | | Business-Type Activities | | Totals | |
|--|----------------------------|----------------------------|-----------------------------|----------------------------|----------------------------|----------------------------|
| | <u>2011</u> | <u>2010</u> | <u>2011</u> | <u>2010</u> | <u>2011</u> | <u>2010</u> |
| 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 | <u>1,158,499</u> | <u>722,585</u> | <u>327,763</u> | <u>284,474</u> | <u>1,486,262</u> | <u>1,007,059</u> |
| Total | \$ <u>3,852,268</u> | \$ <u>3,665,549</u> | \$ <u>2,117,224</u> | \$ <u>2,154,339</u> | \$ <u>5,969,492</u> | \$ <u>5,819,888</u> |
| | Component Unit EDA | | | | | |
| | <u>2011</u> | <u>2010</u> | | | | |
| State loan | \$ <u>3,406,644</u> | \$ _____ | | | | |

The State limits the amount of net debt that the City can issue to 3 percent of the market value of all taxable property in the City. The City's outstanding qualifying net debt of \$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.

